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## **February 6, 2015 Legislative Update**

Governor Brownback welcomed entrepreneurs from around the state at the annual Small Business Day event at the Capitol on Tuesday. The event was organized by the Wichita Independent Business Association and National Federation of Independent Businesses. In addition to Small Business Day, much of the legislative week was dominated by work to fill a budget shortfall of over \$300 million in the current fiscal year. The rescission bill worked its way through the House and concurred in the Senate on Thursday.

### **January revenue receipts**

Last Friday, the Kansas Department of Revenue announced January revenue receipts were \$47 million short of estimates. The administration pointed to weak sales tax numbers. In addition, the rescission bill will then be approximately \$800,000 short of covering the deficit. The state is constitutionally prohibited from operating with a deficit.

### **Rescission bill**

February 13 is the day in which the state was to have major problems paying its bills if a rescission bill was not sent to the Governor's desk by today. This made passage of the rescission bill a priority for both chambers.

On Monday, the House Appropriations Committee sent to the House floor a rescission bill that fills the \$250 million of a \$300 million hole in the budget for the current fiscal year, ending June 30. The bill includes \$158.5 million from the State Highway Fund, delays \$7.9 million in investments to the Kansas Employee Retirement System (KPERs), sweeps \$12 million from the Kansas Endowment for Youth (KEY) Fund, and cuts \$7.1 million from the Job Creation Program Fund. An amendment by Rep. Amanda Grosserode was included in the bill that maintained about half of the school district capital state aid equalization payments that the Governor originally sought to delay until late June.

On Tuesday, during debate on the House floor, while very few amendments were offered, much of the debate focused on the three key issues—those who wanted to keep the state from bouncing checks and believe the fault of the shortfall lies on the income tax cuts in 2012; those who voted to cut back funding for specific agencies; and those who voted because they want the size of state government pared next fiscal year. It passed the House on a Final Action vote of 88-34 on Wednesday.

Because the House bill was placed in a Senate bill as a substitute bill, the Senate had the option to concur or nonconcur the rescission bill on Thursday. After a short debate, the Senate, 24-13, concurred in the House's FY 2015 rescission bill, sending it to the Governor.

There will be a mega appropriations bill late in the session which can be used as a final touch-up to the budget after the April Consensus Revenue Estimating Group report is made to the Legislature. A bill was introduced on Thursday in Senate Ways and Means Committee to move the Consensus Revenue Estimating Group report from April to May 4 (after Veto Session begins) to allow for a more accurate revenue picture.

## **More allotments**

Thirty minutes before the Senate concurred with the House's rescission bill on Thursday, Governor Brownback used executive authority to order \$44.5 million in budget cuts in state appropriations to public universities and K-12 schools in response to an unanticipated drop in tax revenue. He cut about \$16.2 million from the Regents budget, which is a 2% cut, and about \$28.3 million from K-12, a 1.5% cut. The cuts would be effective March 7. In his press release, the Governor called on the Legislature to reform the school finance formula during the next 30 days to prevent an increase of \$54 million in state aid driven by a law requiring equalization of local option budgets and capital outlay budgets of K-12 districts statewide. By reforming those two pieces, it would restore the 1.5% reallocation.

## **Education**

The Senate Ways & Means Committee held a hearing this week on SB 71 which would create a new way of calculating supplemental state aid for districts. The goal is to make sure poorer districts receive the greatest degree of support, though it would reduce this school year's overall funding by \$39 million. The committee Chairman Ty Masterson said the \$39 million decrease for FY 2015 is a reduction to an increase authorized by the 2014 Legislature. School administrators said they already have these funds committed and it would create major panic in the middle of a budget and school year.

In addition, a bill was introduced in the same committee that provides block grant school funding from the state instead of through a finance formula. This is the keystone of Governor Brownback's school finance plan for the next two years.

## **Insurance**

In the House Insurance Committee, several bills had hearings. HB 2067 increases the minimum limits for auto insurance. The proponents included a number of people including the Leavenworth County Commission, Kansas Association for Justice and Kansas Association of Insurance Agents. The opponents included several insurance companies.

## **STAR Bonds**

The House Tax Committee held an informational briefing on STAR Bonds by the Kansas Department of Commerce. There are currently 11 projects in Kansas, and most of those projects have been highly successful in attracting over 12 million visitors. There were many questions regarding the process of the bonds and how it works.

## **Unemployment Insurance**

An informational briefing on the Kansas unemployment insurance system was held this week. Employers pay \$386.40 per employee. Currently, unemployed Kansans receive benefits for 16 weeks, and the state has the lowest unemployment rate in years. Other highlights include:

- Kansas has the 6<sup>th</sup> lowest fund reserve ratio showing the UI Trust Fund isn't as healthy as it has been.
- The goal is to equally spread wages across each 51 rate groups.
- The UI Trust Fund has enough money to pay benefits for 12 months at the highest rate paid out of the last 20 years. In November, 2014 there was enough money for four months at the high rate possible. If the fund is not solvent, the FUTA tax credit is taken away. Kansas has never paid the FUTA tax.

## **Ag property values**

There was an informational hearing this week on value appraisal of farmland. Legislators are looking at this as a way to find more money for K-12 education in increasing property taxes on agriculture, although no bill has been introduced. Legislators are looking at the system because the effective property tax rate on ag land is much lower than regular commercial property. The value calculation was designed to protect farmers from volatility, not fair market value, and many states copy Kansas or parts of the Kansas formula. Without the insulation of use value appraisal of farmland, land that abuts or is surrounded by commercial and residential development would likely be driven out of production. Senator Jeff Melcher argued the law was written to create a falsely low valuation to protect agriculture from having to pay the fair value that every other citizen would have to pay.

### **Workers Compensation**

A bill was introduced this week by Secretary of State Kris Kobach that would move Kansas from the AMA 6<sup>th</sup> edition back to the AMA 4<sup>th</sup> edition for workers compensation. The bill is in the Senate Commerce Committee and will likely have a hearing in the next couple weeks. Supporters of the bill believe the 6<sup>th</sup> edition in some cases results in settlements that are too low for certain injuries. They also believe the recent change to use the 6<sup>th</sup> edition will spark a court case contesting the very basis of the exclusive remedy bargain which underpins the workers compensation system. This challenge is being made in several other states, and was successful in Oklahoma. It is worth noting that none of those cases hinge on which edition of the AMA guides are in use. The AMA guides are written by medical experts, without prejudice, and the current version of the 6<sup>th</sup> edition brings the law into the 21<sup>st</sup> century by updating evaluation and treatment of injuries by over 15 years. Please stay tuned for a hearing as we will need individuals to testify to oppose this legislation.

### **House GOP caucus**

In addition, Rep. Willie Dove was elected House Republican Caucus Whip on Thursday after three rounds of voting for a replacement for Rep. Ron Ryckman, Jr., who resigned the post last week to concentrate on being chairman of the House Appropriations Committee. Rep. Dove defeated Rep. Brett Hildabrand, Rep. Erin Davis, and Rep. Bill Sutton on three ballots. The whip generally makes sure that caucus members vote the caucus position on votes in the House, and by near-constant interaction with members helps leadership know where the party's votes are on issues.

### **Rep. Hedke's wife**

Legislators were also saddened to hear Thursday's news that Rep. Dennis Hedke's wife, Annette, died in an accident in Wichita. Rep. Hedke is chairman of the House Energy and Environment Committee. Our thoughts and prayers are with him, his family and friends.

### **Next week**

Legislators ended the fourth week of session as they near the first legislative deadline next week—February 13 is the last day to introduce a bill. Budget committees will begin work on the FY 2016 & 2017 budgets, hearing subcommittee reports. In addition, we are presenting testimony in the House Commerce Committee regarding the sales use tax and the state of Kansas tourism.