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## **March 11, 2016 Legislative Update**

With only two weeks left before first adjournment, committees were busy churning through the myriad of legislation still in front of them. We also started to see bills introduced that tackle some of the recommendations that came out of the government efficiency study, and we expect several more to pop up next week. While committee work continued, the two hot button issues still remain – budget and school finance. Those and other dominant issues from the week are highlighted below.

### **School Finance Sees Movement**

House and Senate budget committee leaders are beginning to work through their next steps to address the Kansas Supreme Court ruling on equitable funding for schools that came down last month. Both sides are currently developing plans and the Legislative Coordinating Council has hired an attorney to defend the state in front of the Court. The Court gave the Legislature until June 30, 2016 to appropriate an estimated \$71 million for FY'16 and \$38 million for FY'17 in additional K-12 education funding.

The Senate Ways and Means Committee Chairman Ty Masterson (R-Andover) has said that his plan would reallocate existing aid to public schools, while House Appropriations Committee Chairman Ron Ryckman Jr.'s (R-Olathe) plan would increase the state's annual school funding by \$37 million starting with the 2016-2017 school year. Under both plans, some districts would see their state aid increase while others would receive fewer appropriated dollars per student.

### **Education Bill Hearing Cancelled**

A controversial education bill, Senate Bill 311, was scheduled to be heard in the Senate Ways and Means Committee yesterday. Chairman Masterson abruptly cancelled it before a packed room of education conferees and media. Masterson opened the meeting with comments of frustration over the contentious debate and untruths he's seen on social media and in newspapers. He held that the bill would only increase transparency and accountability and that there was no hidden agenda. Opponents questioned the intent of the bill, the legislative process leading up the hearing, and argued that the transfer of authority would result in the loss of expertise and institutional memory relating to school funding.

Senate Bill 311 would transfer the administration of school finance from the Kansas Department of Education to the Kansas Department of Administration. The Governor, rather than the State Board of Education, would control the \$2.7 billion in school finance block grants. There is no intent to hear the bill this year.

### **Business Income Tax Back on Table**

Legislation was introduced this week by Senate Vice President Jeff King (R-Independence) that reverses some of the business income tax cuts approved in 2012. The bill would tax 70% of a business' income as wages and the other 30% would remain tax free. The other co-sponsors of the bill are Senator Jim Denning (R-Overland Park), and Senator Greg Smith (R-Overland Park). Bill language is still being finalized, so a hearing has not been set.

A hearing on a related bill, House Bill 2444, is scheduled for Tuesday in the House Tax Committee. Authored by Representative Mark Hutton (R-Wichita), this bill eliminates the business non-wage income tax exemption and instead reduces the sales tax on food to 2.6% effective July 1, 2016.

Governor Sam Brownback has consistently opposed overturning the 2012 business tax cuts and threatened to veto any such legislation that arrives on his desk.

### **Property Tax Hearings Continue**

The Senate Tax Committee held two days of hearings this week on Senate Bill 316, which would modify property tax reform legislation passed last year. Under current law, a public vote is required before local property taxes can increase higher than the rate of inflation beginning in 2018. The bill would move the effective date up to 2016 and removes some of the exemptions in the statute.

A similar measure was also heard this week in the House Tax Committee, House Bill 2609, however it would first require a petition by 10% of the local citizens before it could get put on the ballot. The House bill is a compromise pushed by local governments and would not be effective until 2017.

### **STAR Bond Amendment Passes**

House Bill 474 passed out of the Senate Ways and Means Committee yesterday with an amendment that restricts the Governor's use of Sales Tax as Revenue (STAR) bonds to bring the American Royal over to Kansas from Missouri. The original bill authorizes the sale of Olathe's Kansas Bioscience Authority, which raises a much-needed \$25 million in the Governor's budget.

Senator Jim Denning (R-Overland Park) amended the bill to include a provision that restricts the transfer of sales tax revenues from one STAR bond district to another, which some believe is essential to the viability of the American Royal project. A new hotel and convention center in the existing Village West district is being proposed to help finance the move of the American Royal, and this amendment would stop that assistance. The Village West STAR bonds are scheduled to be paid off at the end of 2016, bringing the district's sales tax revenue back on the rolls in an estimated amount of \$42 million annually. With the current state of the budget, some legislators are troubled with diverting that revenue away from the State General Fund. The amended bill is now headed to the full Senate for debate.

### **Looking Ahead**

As next Friday's deadline for bills to be passed out of non-exempt committees approaches, committee work will be full steam ahead next week. Then both Chambers will spend the following week on the floor and in conference committees negotiating legislation until first adjournment, which is scheduled for March 25 but may be moved up due to Good Friday. While we may see education plans introduced, final decisions will likely be left for the Veto Session after the Consensus Revenue Estimating Group meets on April 20 and revised revenue estimates are announced. This will give the budget committees a realistic picture on the state's financial condition.