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January 13, 2017 Legislative Update

The 2017 Kansas Legislative Session commenced on Monday, January 9. Opening day was brief with each Chamber gaveling in at 2:00 p.m. to officially swear in members and approve their leadership slate.

Attention quickly turned to Governor Brownback's annual State of the State address, which he delivered on Tuesday evening. Focusing on new initiatives for K-12 and higher education, he left much of the details to Budget Director Shawn Sullivan to present to the budget committees on Wednesday. Sullivan proposed the Governor's rescission bill to fill the \$350 million shortfall for fiscal year 2017 as well as his balanced biennial budget for fiscal years 2018 and 2019.

Governor's FY17 Rescission Bill

Budget Director Shawn Sullivan presented the Governor's rescission bill to close the \$350 million budget gap for this fiscal year ending on June 30 to the House Appropriations, House Tax and Senate Ways and Means committees on Wednesday morning.

The "one-time money" that many are criticizing comes from the liquidation of a state's long-term, unclaimed property investment fund worth \$317 million, to be paid back to the state over seven years. The rest of the backfill will mostly come from interest earnings off the idle fund, delaying a school finance appropriation into the next fiscal year, sales tax transfer from the State Highway Fund, and elimination of the 4th quarter FY16 repayment to the Kansas Public Employees Retirement System (KPERs). The Governor's 2017 revised budget proposal leaves an ending balance of about \$99 million.

Both budget committees have officially introduced the Governor's rescission bill and are expected to start working them next week. During his State of the State address, the Legislature was charged with getting him a rescission bill by the end of the month, which did not sit well with many Legislators.

Biennial Budget

Sullivan proposed a balanced biennial budget to the Legislature on Wednesday for FY18 and FY19. Many lawmakers are dissatisfied with the Governor's ideas on how to fundamentally fix the state's financial downturn and are continuing to sort out the specifics. The full report can be found at www.budget.ks.gov, but below is a good breakdown:

Tobacco Settlement Securitization – The state would receive a lump sum in exchange for future settlement payments, in the estimated amount of \$265 million per year. Depending on financial market rates, it could yield up to \$775 million over the two years. Sullivan assured lawmakers that the Children’s Cabinet and Children’s Initiative Fund (CIF) – which typically receives the tobacco settlement dollars – would see no changes. Children’s programs would now be funded by the State General Fund (SGF).

Tax Increases – The Governor’s total tax plan is expected to raise \$377 million over the two-year budget period. As expected, but not well-received by a growing number of Legislators, the proposal leaves the small business tax cuts from 2012 in place. It does, however, restore the tax on “passive income” to include rents and royalties, worth about \$40 million per year. LLC and other for-profit entities’ annual filing fees would increase from \$40/year to \$200/year, expected to bring in \$33.6 million per year. The lower income tax bracket for joint income under \$30k/year would be frozen at the current rate of 2.7% (scheduled to drop to 2.6% in 2018), bringing in \$4.8 million in FY18 and \$16.1 million in FY19. The cigarette tax would increase by \$1/pack, raising \$42.1 million in FY18 and \$46.4 million in FY19. Tax on tobacco products would go from 10% to 20%, worth \$6.2 million in FY18 and \$7.8 in FY19. The liquor enforcement tax would double from 8% to 16%, bringing in \$52.3 million in FY18 and \$54.7 million in FY19.

K-12 and Higher Education – Two Alvarez and Marsal (A&M) Efficiency Report recommendations were included. First is the consolidation of K-12 health benefits into one single state insurance plan. The second is joint procurement of select purchases on a statewide basis. This is expected to save \$47.2 million in FY18 and \$89 million in FY19. On the spending side, Brownback proposes spending \$3 million in FY18 and \$6 million in FY19 on teacher scholarships and recruitment to rural areas. For higher education, he proposed spending \$1 million per year on the development of a \$15k bachelor’s degree program, and \$800k on the state’s first dental school at the University of Kansas. Higher education operating grants remain flat for the two years.

Medicaid – The controversial 4% cut to KanCare providers approved last year would be restored by increasing the MCO privilege fee from 3.31% to 5.77% and hospital provider assessment from 1.83% to 4.65%. Those dollars will increase reimbursement rates to Medicaid providers, with targeted investment in rural hospitals.

Transportation – Sales taxes would continue to be transferred from the State Highway Fund to the SGF, worth \$288.3 million in FY18 and \$293.1 in FY19. The 23 out of the 24 T-WORKS projects delayed from last year would continue to be postponed. Maintenance and preservation projects would continue as planned.

KPERS – The proposal would freeze SGF contributions at the FY16 levels and extend the amortization period by another ten years, at a combined estimated savings of \$140.2 million in FY18 and \$198.6 million in FY19. This would raise KPERS’ unfunded liability by \$1.3 billion.

School Finance

Senate Bill 7 – the 2-year school finance block grant passed in 2015 – expires on June 30 of this year, leaving the Legislature with the hefty job of crafting a new school finance formula that will meet constitutional muster. A newly formed committee was tasked with the undertaking as lawmakers wait for the Kansas Supreme Court’s decision on adequate funding for K-12 schools.

The House K-12 Budget Committee, chaired by Representative Larry Campbell (R-Olathe) met on Wednesday and Thursday, receiving briefs from Kansas Department of Education and Legislative Research staff on details of the last formula approved by the courts in 2008, as well as a history of the Gannon lawsuit. The committee will continue informational hearings next week on the Governor's budget and A&M education-related recommendations.

The Legislature is Pro Forma today, only gaveling in to introduce bills before heading home for the weekend and Martin Luther King holiday on Monday. Next week, expect to see mostly bill introductions and informational presentations by agencies, with a few bill hearings in select committees. Something new to note this year, is that many committee rooms are now being live streamed. You can see which committees are available and access the audio from the legislative website, www.kslegislature.org.