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January 27, 2017 Legislative Update

While budget and tax policy remain the overarching themes, this week also saw major pick-up in bill introductions and committee hearings as the first deadline of the 2017 Kansas Legislative Session nears. February 10 is the last day that bills can be introduced in non-exempt committees. Budget, Tax and Federal & State Affairs committees are exempt from all bill deadlines.

Budget

The House Appropriations committee yesterday held a hearing on **House Bill 2161**, which authorizes the liquidation of the state's long-term investment fund for the purpose of transferring \$317 million from the Pool Money Investment Board (PMIB) to the State General Fund (SGF). The bill requires the state to pay the money back over seven years, \$45 million due June 30 of each year. This one-time money is central to the Governor's budget proposal to fill the \$350 million shortfall in fiscal year 2017. Budget Director Shawn Sullivan was the only proponent and conferee on the bill.

The concept of borrowing more money to temporarily mask the state's financial troubles has been unpopular since its proposal. However, lawmakers on both sides of the isle seem to agree that this may be the most palliative of all the bad choices available to balance this year's budget.

During the hearing, several legislators asked Sullivan if the amount liquidated could be lower than \$317 million, hinting that some are considering a combination of the fund sweep and agency cuts or reducing the Governor's proposed \$99 million ending balance.

The House Appropriations committee also heard **House Bill 2052** yesterday, which is the Governor's FY17 Rescission Bill. The following revisions to the approved budget are proposed:

- Selling a \$362 million long-term investment and transferring \$45 million in capital gains earned. The remaining \$317 in principal would be immediately loaned to the state and repaid over seven years beginning in FY18.
- Permanently delay a \$75 million payment to K-12 Education by one fiscal year.
- Freeze state contributions to KPERS at FY16 levels, resulting in \$85.9 million in savings.
- Increase transfers from various agencies by \$6.8 million.
- Fund the human services consensus caseload estimates by adding \$147 million, including \$1.9 million from the SGF.
- Reduce agency earnings by \$18 million to adjust for the anticipated reduction in proceeds from the sale of the Kansas Bioscience Authority (KBA).

- Reduce the transfer from the State Highway Fund by \$15.4 million.
- Reduce the Extraordinary Needs Fund by \$13 million to cover KBA sale shortage.

The budget subcommittees on Education, Agriculture and Natural Resources, General Government, Social Services, and Transportation and Public Safety presented their FY17 budget reports to the full Appropriations committee this week. There was majority concurrence with the Governor's revisions; however, they all submitted a global recommendation to reject the freezing of KPERS contributions at FY16 levels.

No dates have been set for committee work on either bill.

Taxes

With the "everything is on the table" mindset this year, the House Taxation committee on Tuesday discussed eliminating some sales tax exemptions currently on the books. The committee narrowed down the list to eight exemptions they'd like to explore further:

- 3603(b) – Taxes on telephone and telegraph services, except interstate or international 800 or 900 services or any interstate or international private communications service.
- 3603(p) – Labor services of installing or applying tangible property in conjunction with the original construction of a building or facility; or the construction, reconstruction, restoration, replacement or repair of a residence, bridge or highway.
- 3603(s) – Computer software and services or modifying software for single end use and billed as a separate invoiced item. Custom software is exempt, prewritten only.
- 3606(i) – Lease or rental of films, records and tapes by motion picture exhibitors.
- 3606(t) – Sales of farm or agriculture machinery and equipment, parts and services for repair and replacement including precision farm equipment and work-site utility vehicles.
- 3606(ee) – Lottery tickets and shares made as part of a lottery operated by the State of Kansas.
- 3606(nn) – Services rendered by advertising agencies or broadcast stations.
- 3606(hhhh) – Project Exemption Certificates for specific agricultural industries for construction, reconstruction, enlarging or remodeling a facility, and the sale and installation of machinery and equipment when the project exceeds \$50,000.

The committee will hear presentations on each of the sales tax exemptions starting on Monday.

The first tax bill of the legislative session passed the Senate Assessment and Taxation committee yesterday and was placed on the Consent Calendar. **Senate Bill 28** changes the due date for filing certain annual withholding tax forms from the last day of February to January 31. A hearing on the bill was held last week. The Department of Revenue was the only conferee and proponent, indicating that the bill would bring the Kansas filing dates in line with federal guidelines.

STAR Bonds

House Bill 2184 was introduced in the House Commerce, Labor and Economic Development committee yesterday, which would renew the Sales Tax as Revenue (STAR) bond program through 2022. STAR bonds are used to finance the development of major commercial, entertainment and tourism areas and use the sales tax revenue generated to pay off the bonds. The current program is set to expire at the end of this fiscal year.

No hearing date has been set. A briefing is scheduled for Tuesday – and a similar bill expected to be introduced – in the Senate Commerce committee.

Joint Economic Development Oversight

House Bill 2050 was heard in the House Commerce committee on Wednesday. The bill would bring back the Joint Committee on Economic Development. Dissolved in 2013, the committee would provide oversight for all economic development agencies, programs and initiatives across the state. It would consist of five Senators and eight Representatives and be granted authority to introduce legislation, providing periodic reports to both Commerce committees.

Securities Commission and Insurance Department Merger

The Senate Financial Institutions and Insurance committee heard **Senate Bill 23** on Wednesday, which would merge the Kansas Securities Commission and Kansas Insurance Department. The bill would create the Office of the Securities Commissioner as a division within the Kansas Insurance Department, and the Securities Commissioner would be appointed by the Commissioner of Insurance rather than the Governor.

SB 23 is part of the government efficiency recommendations in the Governor's FY18 and FY19 budget proposal, with an estimated savings of \$250k in FY18 and \$500k in FY19 to the SGF.

Biosimilars

House Bill 2107 received two days of hearings this week in the House Health and Human Services committee. The bill amends the Pharmacy Practice Act to allow biological products to be substituted for FDA-approved interchangeable biosimilars in the same way that name-brand pharmaceutical drugs are substituted for generic drugs. The bill would also require that pharmacists who exercise interchangeability provide notice to the prescribing physician within five days.

Opponents to the bill were the Kansas Board of Pharmacy and several pharmacy groups, citing concern with the burdensome five-day reporting requirement. The committee is scheduled to work the bill on Monday.

Looking Ahead

It's another Pro Forma Friday today as most Legislators traveled home last night for the weekend. Committee agendas are filling up quickly, with many of them meeting every day next week. Something to mark on your calendars...hearings for **House Bill 2184** – the Medicaid expansion bill of the 2017 legislative session – are scheduled for February 6, 8 and 9 in the House Health and Human Services committee.