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March 17, 2017 Legislative Update

It was a pivotal week in the 2017 Kansas Legislative Session, getting the state one step closer to filling the \$1 billion expected budget shortfall over the next few years. The Senate passed their rescission bill last night, which makes adjustments to the FY17 budget and fills the \$281 million hole. Lawmakers now have the green light to turn their attention toward the next biennial budget for FY18 and FY19.

FY17 Budget Rescission Bill

The Senate passed their rescission package at 9:15 p.m. last night, **Senate Substitute for House Bill 2052**, by a vote of 27-13. The bill leaves the state \$50 million in the black on June 30.

Key to last night's debate was the Senate's rejection to again cut spending. In an attempt to reduce impending tax increases, Senate President Susan Wagle (R-Wichita) proposed a 2%, or \$104 million, across-the-board cut to all state agencies retroactive to January 1, 2017. K-12 education would have seen a \$65 million cut, and Senators showed little interest in light of the Kansas Supreme Court's recent ruling that Kansas is not funding schools adequately. Wagle's proposal – and subsequent spending cut amendments – failed by large margins.

The Senate's rescission bill does the following:

- Borrows from the state's long-term investments at the end of the fiscal year to leave a \$50 million ending balance. The remaining funds in the Pooled Money Investment Board are saved for FY18.
- Delays and layers \$150 million in FY17 payments to KPERS. The reamortized repayment will begin in FY18 to still meet actuarial target dates.
- Repays the \$115 million eliminated KPERS payment from FY16 back with interest in FY18.
- Delays a \$75 million payment to K-12 education by one day, into the next fiscal year.
- Deletes \$40 million for Medicaid waiver services. The funds are expected to be included in the FY18-19 mega budget bill.

- Transfers 10% of the State General Fund ending balance to the Budget Stabilization Fund on August 15, 2019.

The House passed their rescission bill last month, and a conference committee is expected to meet as early as next week to negotiate a final package.

HMO Privilege Fee Increase

The full Senate yesterday passed **Senate Bill 94** by a vote of 27-13. The bill increases the annual privilege fees assessed on health maintenance organizations from 3.31% to 5.77% beginning July 1, 2017 and ending December 31, 2020. Under current law, the privilege fee is set to reduce to 2% starting January 1, 2018.

The House Appropriations Committee passed their version of the bill, **House Bill 2180**, on Tuesday. It was amended to extend the increase to December 31, 2020. HB 2180 now heads to the full House for consideration.

As originally written, the effective date was retroactive to January 1, 2017. To lessen the burden on insurance companies, the rate increase was amended to begin on July 1. As premiums have already been billed for this calendar year, insurance companies testified that they'd be unable to recoup costs and would experience a loss.

The legislation is an effort to restore the 4% cut made last year to Medicaid reimbursement rates, which have caused significant strain on health care providers in Kansas. It's expected to generate \$103 million in FY18 and \$114.5 million in FY19.

Ad Astra Rural Jobs Act

Tuesday the House advanced **HB 2168**, the Ad Astra Jobs Act, which authorizes nonrefundable tax credits applicable to income, premiums, or privilege taxes for taxpayers who contribute capital to an "approved investment company" to fund a "rural business concern" in a "rural area," as those terms would be defined in the bill.

Beginning in tax year 2020, 20% of the tax credit could be claimed annually over a five-year period. The amount of tax credits claimed in any one fiscal year would not exceed \$20 million, exclusive of the tax credit amounts carried forward. Tax credits would not be transferable except to an "affiliate," as that term would be defined in the bill and would sunset after 6 years.

The bill passed the House 97-22 and has been referred to Senate Commerce Committee.

Juvenile Justice Reform Cleanup

House Substitute for Senate Bill 42 passed the full House by a vote of 125-0. The bill serves as a trailer to last year's comprehensive juvenile justice reform package and addresses a number of concerns raised by stakeholders and lawmakers during initial implementation.

Cleanup items touch on the following issues: sentencing rule for felony firearm use, absconding from supervision, intervention program database, case length limits, limits on sex offenses, intervention programs, composition of the Juvenile Justice Oversight Committee, required findings when a juvenile is removed from the home, and program funding.

The bill has already passed the Senate, and a conference committee has been appointed to iron out differences between House and Senate versions

Property Tax Lid Repeal Hearings

The Senate Assessment and Taxation Committee yesterday held a hearing on **Senate Bill 167**, which would repeal 2015 legislation requiring a public vote before cities and counties can raise property taxes higher than the rate of inflation. Opponents argue that an election mandate is costly for municipalities and stifles local control.

A similar bill was heard on Thursday in the House Taxation Committee. **House Bill 2376** would allow for a protest petition signed by 10% of the voters before requiring the election, reducing the potential costs on local governments.

Budget Stabilization Fund Implementation

The House Appropriations Committee heard testimony Thursday on Kansas' newly-formed Budget Stabilization Fund. **House Bill 2340** would authorize the transfer of State General Fund revenue in excess of the most recent consensus revenue estimates at the end of each fiscal year into this rainy day account. The bill also restricts fund expenditures to KPERS unfunded liability and debt service payments only.

The House has already included a trigger rule in their rescission bill that 10% of the State General Fund's ending balance – after KPERS repayments are made – be transferred into the Budget Stabilization Fund starting in FY17. The Senate passed the same provision, except to not start until FY19.

Looking Ahead

With the passage of the FY17 budget fix, things are finally starting to speed up. Today and next week are already packed with a number of hearings or expected committee action on key bills. Here are a few we're watching closely:

- Mega Budget for FY18 and FY19 – Senate Ways and Means is beginning work on **SB 189** today and expected to finish up on Monday. **HB 2364** will be worked in House Appropriations on Tuesday and Wednesday.
- Medicaid Expansion – Senate Public Health and Welfare will begin hearings on **HB 2044** on Monday.
- Flat Income Tax – House Taxation will hold hearings on **HB 2385** (3.9%) and **HB 2395** (5%) on Monday.

- Motor Fuel Tax Increase – Senate Assessment and Taxation heard **SB 224** (five cent increase) this morning. House Taxation will hear **HB 2382** (eleven cent increase) on Thursday.