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April 7, 2017 Legislative Update

The Kansas Legislature adjourned the regular session before noon today and will return on May 1 for the veto session. This final week was spent mostly in conference committees, where negotiators ironed out House and Senate positions on many bills. We also saw floor action on a few major issues...here are the highlights.

Rescission Bill to the Governor

Senate Substitute for Substitute for House Bill 2052 is on its way to the Governor's desk. The bill makes several adjustments to the FY17 budget based on actual revenues to ensure the state closes its books in the black on June 30. After March revenues came in \$12.8 million less than estimated, the projected shortfall for this fiscal year is \$290 million.

The meat of S Sub for Sub for HB 2052 is the authorization for Budget Director Shawn Sullivan to borrow from idle state funds to ensure a \$50 million ending balance. An initial agreement between the House and Senate returned to conference committee yesterday over the fourth quarter \$85.9 million payment to the Kansas Public Retirement Savings (KPERs) program. Senate negotiators quickly accepted the House's position to appropriate the funds.

The Senate approved the final rescission bill 30-10 yesterday. The House voted 108-15.

Senate Kills Flat Tax Plan

The Senate essentially squashed any "flat" income tax idea for this year when they overwhelmingly killed **Senate Bill 214** by a vote of 37-3 yesterday. The bill proposed a single bracket, 4.6% income tax rate effective January 1, 2018. The ever-popular repeal of the 2012 small business tax cuts was not enough to make Senators vote for a tax increase on low income Kansans. The current rate for filers making under \$30,000 is 2.6%.

Earlier in the week Governor Brownback announced that he would sign SB 214, or something similar, so the nearly unanimous rejection of the bill carried a strong message with it. It appears that most lawmakers in both Chambers are holding firm on a multi-tier tax bracket plan like the one the Governor vetoed earlier this year.

Medicaid Expansion Veto Sustained

On Monday, the House failed to override last week's Governor veto of **House Bill 2044** by a vote of 81-44. They needed 84 votes to obtain a two-thirds majority. The House tabled the vote last Thursday to give time for Medicaid expansion supporters to lobby legislators over the weekend.

While HB 2044 is dead for the year, some are speculating the issue could arise again during the veto session.

Uncork Compromise Bill Passes Legislature

After a decade-long effort to update the state's liquor laws, a compromise bill has passed the Legislature and is heading to the Governor's desk for his signature into law. **House Substitute for Senate Bill 13** will allow convenience, grocery and drug stores that are licensed to sell cereal malt beverages (CMB) to sell full-strength beer up to 6% alcohol by volume. The bill also permits liquor retailers to sell other goods up to 20% of their total sales, excluding lottery tickets and tobacco products. The effective date is April 1, 2019, to allow time for a trailer bill to address the loss of sales tax revenue from 3.2% beer to cities and counties.

H Sub for SB 13 passed the House yesterday by a vote of 80-45. The Senate approved the measure this morning 27-11.

House Passes HMO Privilege Fee Increase

The House passed **House Bill 2180** yesterday by a vote of 103-21. The bill increases the privilege fee on HMOs and KanCare managed care organizations from 3.31% to 5.77%. The increase would restore last year's 4% cuts to Medicaid providers, leveraging more federal dollars drawn in to Kansas. The rate increase goes into effect July 1, 2017 and sunsets on December 31, 2022.

The Senate passed a similar bill, **Senate Bill 94**, last month 27-13. The Senate's version sunsets the rate increase on December 31, 2020.

New Budget Stabilization Bill Heard

The House Appropriations Committee held a hearing on **House Bill 2419** on Wednesday. This new bill establishes the framework and guidelines around the newly-formed Budget Stabilization Fund. PEW Charitable Trusts testified during the hearing that states should save above-average collections of estimated payments on personal income tax rather than relying on this volatile and unreliable revenue to fund the general budget.

The FY17 rescission bill includes a provision that instructs the Budget Director to transfer 10% of any remaining balance in the State General Fund from the previous fiscal year into a rainy-day fund beginning in FY2020.

School Finance Formula Ready for Review

The K-12 Budget Committee has finished their work on **House Bill 2410**, which is the new school finance formula bill to replace the expiring two-year block grant funding system that's been found

unconstitutional by the Kansas Supreme Court. The bill closely resembles the old formula and increases funding by \$750 million over the next five years.

The Legislative Coordinating Council is meeting this afternoon to approve hiring an attorney to review the bill during the April break and before the committee kicks it out for floor debate during the veto session.

Looking Ahead

The FY17 rescission bill was the key to adjourning the main portion of the 2017 Legislative Session. The Senate has passed their FY18-FY19 mega budget, but the House's measure has yet to be considered by the full body. The House Appropriations and Senate Ways and Means Committees have scheduled joint meetings on April 27 and 28 to review the consensus revenue estimates to be released on April 20 and begin discussions on the "omnibus" budget bill.

Now that Legislators have generally taken a position on where they stand on taxes, we expect that to be the first issue taken up when they return on May 1.