



# **Bright and Carpenter Consulting, Inc.**

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## **May 26, 2017 Legislative Update**

The Kansas Legislature celebrated day 100 on Wednesday, which was the last planned day of the 2017 legislative session. While this week saw more movement on school finance; lawmakers continued to hit a wall on taxes, struggling to find a compromise with enough votes for either passage or a veto-override.

### **School Funding Bills Advancing**

The full House finally had the opportunity to consider its K-12 finance measure on Wednesday. After five hours of debate and 14 proposed amendments, **Substitute for House Bill 2410** was approved by a vote of 84-39. The bill appropriates \$280 million in new funding for schools over the next two years, increasing the Base State Aid Per Pupil from \$3,859 to \$4,006 in Fiscal Year 2018 and \$4,128 in FY 2019. After that, funding will be adjusted according to inflation, estimated around 1.5% a year or \$55 million.

While most Legislators agree on the specific provisions in the new formula, opponents argue that the dollar amount will not meet constitutional muster in the courts. An amendment by House Minority Whip Ed Trimmer (D-Winfield) – retired teacher serving on the K-12 Budget Committee – to increase spending by \$600 million over three years was defeated 47-75.

The Senate Select Committee on Education Finance also advanced their similar school funding bill on Wednesday. **House Bill 2186** spends an additional \$165 million on schools in FY 2018 and \$70 million in FY 2019. After that, funding would increase by a rolling three-year inflation average. A previous proposal to increase funding by \$150 million a year from a charge on utilities was removed this week. HB 2186 is expected to be debated by the full Senate next Wednesday.

The Kansas Supreme Court's latest ruling gave the Legislature until June 30 to pass a new school finance formula to replace the expiring two-year block grant.

### **Still No Tax Plan**

The House and Senate Tax Conference Committee met and agreed to a conference committee report (CCR) on Monday, which was defeated by the full House that evening by a vote of 68-53. The three-bracket income tax increase would have raised \$591 million next fiscal year.

Back to the drawing board, negotiators signed a new CCR Tuesday morning. **Senate Bill 30**, a two-tier income tax plan, was scheduled to run on the House floor on Wednesday but pulled last minute as it appeared conservative support was waning. This tax plan is estimated to raise \$488 million on FY 2018 and \$460 million in FY 2019.

As it stands now, SB 30 would increase income taxes on all Kansans at the following rates: joint filers with income under \$30,000 at 3% (currently 2.7%) and 5% on income over \$30,000 (currently 4.6%). The increase would phase in with partial retroactivity for tax year 2017. It also includes a low-income exclusion of \$5,000 for singles and \$12,500 for married filers. The new income tax rates raise \$412 million in FY 2018 and \$384 million in FY 2019.

The bill also increases the alcohol enforcement tax from 8% to 10% effective July 1, 2017, which raises \$15 million. It repeals the sales tax exemption on several personal services: towing, lawn care, detectives, security and guards, non-residential cleaning, personal care (tattoos, piercings, tanning) pet daycare, mini and self-storage, and custom computer software. That raises \$61 million and goes into effect October 1, 2017 or upon renewal of an existing contract.

Other provisions include:

- Repeal of the LLC loophole and glide path to zero on future income taxes.
- 100% deduction on medical expenses.
- Buy-down on food sales tax from 6.5% to 5.5%, effective July 1, 2020.
- Five-year extension of the STAR Bond program, with a 1-year moratorium on new projects beginning September 1, 2017.
- Aviation tax credit, effective July 1, 2017. Estimated to cost \$7.7 million.
- Ad Astra rural jobs tax credit, effective July 1, 2020. Estimated to cost \$10 million.

### **Conservatives Propose Budget Solution**

A group of conservative lawmakers unveiled their “Republican Balanced Budget Solution” during a press conference on Monday. The plan calls for no new taxes, no new spending, and leaves an ending balance of \$54 million for FY 2018.

Conservative lawmakers believe the key to avoiding a tax increase on Kansans is to eliminate any new spending in next year’s budget, other than increases in Medicaid caseloads. Included is a partial securitization of the state’s Tobacco Master Settlement Agreement of \$19 million to pay toward KPERS, while leaving the roughly \$40 million spent on children’s programs intact.

It’s rumored that the group is meeting with House and Senate leadership early next week to consider a hybrid of the Republican plan with a smaller tax increase that could be considered.

### **Hospital Conceal Carry Prohibition Reconsidered**

The Senate Ways and Means Committee met on Tuesday to reconsider **Senate Substitute for House Bill 2278** after the full Senate sent it back to committee last week for more work. The bill exempts state hospitals, community mental health centers and the University of Kansas Medical Center from

allowing concealed handguns starting on July 1, 2017. College campuses are currently not included in the bill.

As of Tuesday, a compromise between the interested parties had not yet been met, so the committee stripped from the bill an amendment made on the Senate floor – allowing conceal carry for licensees only (which would have killed the bill) – and sent it back to the floor for anticipated debate next week. Before kicking the bill out, the committee also added a provision that would not hold public employers liable for any wrongful act with a handgun by their employees outside of their facility.

HB 2278 will save the state at the minimum \$12 million for installing adequate security measures at the four state mental hospitals, which would have otherwise been required by current law.

### **MCO Privilege Fee Bill in Conference**

The House Appropriations and Senate Ways and Means Conference Committee called a meeting on Tuesday regarding **House Bill 2180** and **Senate Bill 94**, which would restore last year's 4% cut to Medicaid provider reimbursement rates by increasing the HMO privilege fee to 5.77%, effective July 1, 2017 (currently 3.31% and scheduled to drop to 2% on January 1, 2018).

House negotiators offered to include the Senate's sunset date of December 31, 2020 for the increase, dropping the rate back to 3.31% thereafter. The House offer also included contents of **Senate Bill 186**, allowing supplemental Medicaid reimbursement for ground emergency medical transportation services.

The Senate is considering the offer, and a follow-up conference committee meeting is anticipated for next week. It will become House Bill 2079.

### **Legislature Approves Common Consumption Areas**

The House concurred with the Senate's amendments to **Substitute for House Bill 2277** and sent the bill to the Governor by a vote of 97-22 on Tuesday. The bill allows adults to carry drinks into public common grounds and sidewalk areas, and authorizes a city or county to designate its boundaries and establish times for alcohol consumption.

Originally introduced by the city of Lenexa as part of their Vision 2030 plan for the construction of the Lenexa Public Market, other proponents argue the bill will spur economic development in their communities as well. Representative John Alcalá (D-Topeka) spoke in support of the bill on the House floor citing the benefits to Topeka's NOTO downtown district.

### **Looking Ahead**

Both the House and Senate broke before Noon yesterday for a four-day, unpaid Memorial Day weekend. Legislators return to Topeka on Tuesday to continue their work.