



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

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## **May 5, 2017 Legislative Update**

Kansas lawmakers wrapped up the first part of the 2017 legislative session on April 7 and returned to Topeka on Monday after a three-week spring break. Heading into Veto Session, Legislators still faced the same dominant issues since January - budget, taxes and school finance.

With one week down and no still no tax plan, budget, or K-12 formula, there is much speculation about how long this wrap-up session will last. Legislators have already approved extending the statutorily-approved 90-day session by 10 days in anticipation of the hard work in front of them this year.

### **First Item of Business? Taxes**

The Consensus Revenue Estimating Group, made up of university economists and state budget officials, met on April 20 to revise the November 2016 State General Fund (SGF) forecast revenues. They announced at a joint meeting of the House Appropriations and Senate Ways and Means Committees last week that the state is expected to see increased tax revenues of \$156.4 million over November's projections. Receipts are expected to be up \$62.5 million for the remainder of FY17, up \$42.9 million in FY18, and up \$51 million in FY19.

These new estimates bring the expected budget shortfall to \$889 million over the next two years.

After several efforts to pass a "flat" income tax bill during the regular session failed, legislators have spent the week taking a second look at several three-bracket plans that would also repeal the small business tax exemption and eliminate the March to Zero trigger on reducing future income taxes.

On Monday, the House and Senate Tax Conference Committee met and agreed to a plan similar to the bill vetoed by the Governor earlier this year that fell three votes short of an override in the Senate. The new plan phased in the higher rates making them effective July 1, 2017 in hopes that removing full retroactivity back to January 1 could be the key to gaining a veto-proof majority this time around.

Despite the adjustment, opponents argued the bill didn't raise enough money to fill the budget gap and fund schools. Debate was quickly called off Tuesday morning when Senate leaders realized they

did not have enough votes to pass it over to the House. The bill was expected to raise \$425 million in FY18 and \$454 million in FY19.

On Tuesday, tax negotiators met again and agreed to an identical plan to Monday's, only with higher rates for each bracket. Once more, floor debate was called off on Wednesday in the House due to lack of support. Major opposition this time was over passing a tax package before lawmakers know exactly how much money is needed for K-12 schools. Tuesday's tax bill would have raised \$514 million in FY18 and \$548 in FY19.

The latest tax proposal on the table, **House Bill 2228**, was discussed yesterday by the Senate Tax committee. It only has two brackets: joint filers under \$12,600 would be at 0%, everyone else at 4.4% (essentially a flat tax). It closes the LLC loophole but removes all retroactivity making the new rates effective January 1, 2018. The bill also reduces the sales tax on food from 6.5% to 5.5%. The fiscal impact was unknown at the time of this writing, so it's still unclear if this plan raises enough money or has enough support to bring it to the floor for debate. The Committee will continue discussion on the bill on Monday.

### Budget

Once a tax bill passes and appropriators have firm projected revenue numbers, the biennial budgets for FY18 and FY19 should move quickly. The Senate passed their mega spending bill before the April break, while the House's budget is still awaiting debate and vote on the floor.

Meanwhile, this week both the House Appropriations and Senate Ways and Means Committees have assembled their "Omnibus" or catch-all budget bills that typically close out the legislative session.

**House Bill 2002** passed the Senate Ways and Means Committee yesterday. A few key spending items include: restoration of previous cuts to higher education and Medicaid providers, full payments to the Kansas Public Employee Retirement System (KPERS) in both FY18 and FY19, and allowing the Kansas Department of Transportation bonding authority for an additional \$400 million toward preservation and maintenance TWORKS projects.

The House Appropriations Committee is meeting this morning to finish up their Omnibus work.

### School Finance Formula

The House K-12 Budget Committee finished their work on a new school finance formula before first adjournment. **House Bill 2410** is to replace the expiring two-year block grant funding system that's been found unconstitutional by the Kansas Supreme Court. Closely resembling the old formula, the new plan targets more at-risk, low achieving students and increases funding by \$150 million per year over the next five years.

The Legislative Coordinating Council hired attorney and former Senator Jeff King (R-Independence) before leaving for spring break to review the bill and create a record of evidence for the courts as lawmakers finalize the legislation.

King presented his initial report to the K-12 Budget Committee yesterday, advising them to take a second look at targeting funds to the 25% of underperforming students ensuring they've addressed the key part of the Supreme Court's ruling.

HB 2410 may see some tweaks early next week before being debated by the full House.

### Guns at State Hospitals

During a joint meeting of the House Appropriations and Senate Ways and Means Committees last week, Governor Brownback's budget staff presented the Governor's Budget Amendments (GBAs) to his proposed budgets for FY18 and FY19. Included was an amendment requesting \$12.5 million in FY18 and \$11.7 million in FY19 for security enhancements at the four state mental hospitals. The exemption for state hospitals from requiring conceal carry of weapons expires on July 1, 2017 unless adequate security measures are in place.

The Kansas Department for Aging and Disability Services took significant heat from Legislators this week frustrated with the agency's delay in planning for the impending change in law and requesting the needed funds so near the end of the fiscal year.

In response, the Senate Ways and Means Committee yesterday passed out **House Bill 2278**, which would permanently prohibit guns at public hospitals and mental health centers. An amendment was offered but voted down to add college campuses to the bill. As of now, Regents universities are still required to allow conceal carry on campuses beginning this summer.

### STAR Bonds

The House passed **House Bill 2148** by a vote of 112-11 on Wednesday. Set to expire on July 1 of this year, the bill extends the sunset of the Sales Tax As Revenue (STAR) Bond program to July 1, 2022. It also eliminates language allowing a county commission or school board to object to a STAR bond district if it's determined to have an adverse effect on local property taxes, and no longer requires the Secretary of Commerce to approve a city/county option to use transient guest taxes for bond payments.

HB 2148 moves to the Senate Commerce Committee for consideration. However, since it's passed one Chamber the bill can be taken up in a conference committee.

### Rainy Day Fund

The House Appropriations Committee passed **House Bill 2419** yesterday. The bill establishes the framework and guidelines around the newly-formed Budget Stabilization Fund.

HB 2419 authorizes the Budget Director to transfer the amount of actual estimated tax revenue receipts in excess of the average estimated tax revenue receipts for the preceding three fiscal years. It also outlines three criteria required for expenditures out of the rainy-day fund. HB 2419 goes into effect in FY2020 and is awaiting consideration by the full House.

### State Employee Health Clinics

**House Bill 2418** passed the House Appropriations Committee yesterday and appropriates \$2.7 million in FY18 to the Department of Administration (DOA) to establish and operate an on-site state employee health clinic. The state is expected to see savings in health care premiums after five years.

The bill was amended in committee to: give the DOA authority to lease space near the Statehouse should no state-owned building be available, address the RFP and bidding process, and expand definitions to encompass all health care providers allowed to provide services at the clinic. The House is expected to consider HB 2418 sometime during the Veto Session.

### Looking Ahead

Legislators were considering staying in Topeka to work over the weekend but have recently changed plans. With the “big three” issues remaining, we expect at the very least another week or two of the Veto Session. Today marks the 81st day of the legislative session.