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June 12, 2017 Legislative Update

The 2017 Kansas legislative session adjourned at 7:00 p.m. on Saturday, immediately following passage of the state budget bill. Sine Die, the official ending of the session, is scheduled for June 26. At 113 days, this year marks the second longest in Kansas' history, just one day short of the record 114 days in 2015. Next year's legislative session will begin on January 8, 2018.

State Budget, Senate Substitute for House Bill 2002

After two long nights of negotiations in the House Appropriations and Senate Ways and Means Conference Committee, the Legislature passed a two-year budget as their last piece of business before adjourning on Saturday. The bill passed the House by a vote of 88-27 and the Senate 27-11 and spends roughly \$6.3 billion in both FY18 and FY19 from the State General Fund. Below are some of the key spending provisions in the bill:

State Employee Pay Raises – \$12.2 million in FY 18 to provide a 2.5% raise for all state employees with less than five years of service (except Legislators, Highway Patrol, Schools for the Deaf and Blind, Kansas Bureau of Investigation employees part of the recruitment and retention plan, and other statewide elected officials), 5% for all state employees that have not had a pay adjustment in the last five years, and 2.5% for judges and non-judicial staff.

KPERS – \$135.9 million in FY18 to restore employer contributions to the statutory rate. Delays and repays \$194 million in employer contributions in FY19 via layered amortization beginning in FY20.

Transportation – Authorizes the Kansas Department of Transportation to bond an additional \$400 million to be spent on preservation TWORKS projects with a total bonding cap of \$1.7 billion.

Osawatimie State Hospital – \$4.7 million in both years to open an additional 20 patient beds and \$2.3 million in FY18 for operational expenditures.

Juvenile Justice – \$6 million in both years toward evidence-based juvenile justice programs.

State Employee Health Clinic – \$2.7 million (from special revenue funds) to establish an on-site state employee health clinic pilot in Shawnee County.

Universities –\$2.7 million in both years to partially restore cuts to the University of Kansas and Kansas State University. Requires regents' institutions to conduct independent efficiency studies.

Hospitals –\$29.3 million in FY19 to restore the 4% percent Medicaid provider reduction and for other Medicaid expenditures.

Mental Health – \$11 million in FY18 and \$13.2 million in FY19 to Community Mental Health Centers. Creates a mental health task force to study mental health programs statewide.

Taking into consideration new spending on K-12 education and increased revenue from the tax plan, the approved budget leaves an ending balance in the State General Fund of \$157.6 million in FY18 and \$209.7 million in FY19.

Tax Package, Senate Bill 30

The Legislature finally passed an income tax plan on Monday, followed by a successful override of Governor Brownback's veto on Tuesday with 88 votes in the House and 27 votes in the Senate. The bill is expected to raise \$1.2 billion over two years – \$591 million in FY18 and \$633 million in FY19. Below is a summary of the bill:

Non-Wage Business Income – 100% repeal of the non-wage business income tax exemption effective January 1, 2017. Reinstatement of the federal loss carry-forward.

Individual Income Tax Rates – A three-bracket system will be implemented beginning in tax year 2017 of 2.9%, 4.9% and 5.2%. No taxpayer shall be assessed penalties and interest arising from the underpayment of taxes due to changes to the rate that become law on July 1, 2017, so long as such underpayment is rectified on or before April 17, 2018.

2018 Individual Income Tax Rates – Low income exclusion threshold is reduced to \$5,000 for married filers and \$2,500 for single filers. A three-bracket income tax system will be implemented of 3.1%, 5.25% and 5.7%

Itemized Deductions, Credits, Other Provisions – 50% of medical expenses, mortgage interest and property taxes paid in 2018; increased to 75% in 2019 and 100% in 2020 and thereafter. Dependent care tax credit will be set at 12.5% of allowable federal amount in 2018, 18.75% in 2019 and 25% in 2020. Subtraction modification provision relating to net gains from certain livestock and Christmas tree sales is repealed in 2017.

STAR Bonds – Extends the sunset date for the STAR Bonds Financing Act to July 1, 2020. For the first year of the extension, there will be one year moratorium on the approval of new STAR Bond Districts (effective July 1, 2017)

School Finance, Senate Bill 19

A new school finance formula establishing funding for K-12 education in Kansas for the next ten years passed the Legislature on Monday by a vote of 67-55 in the House and 23-17 in the Senate. The measure boosts spending on schools by \$295 million over two years – \$194 million in FY18 and \$100 million in FY19.

The bill is in response to the Kansas Supreme Court's ruling that public education in Kansas is not adequately funded under the current block grant funding structure that expires at the end of this fiscal year. The court gave the Legislature until June 30 to develop a new formula that specifically targets the 25% of students that are underachieving in math and reading. Below are some of the key provisions in the bill:

- Base State Aid Per Pupil of \$4,006 in FY18 and \$4,128 in FY19. Three-year rolling average of consumer price index each following year.
- Fully funded all-day kindergarten.
- Tax credit scholarship expanded to individuals and LLCs toward accredited private schools.
- 20 mill levy reauthorized for two years.
- Property tax abatement allowed for 20 mill statewide levy but not for 8 mill capital outlay levies.
- Capital outlay expenditures expanded to utilities, property and casualty insurance, and maintenance.
- Local Option Budget up to 33% of foundation aid, subject to protest petition.
- At-risk weighting increased from .456 to .484. Funds must be used for best practices identified by the State Board of Education starting in FY19.
- Special education funding of additional \$12 million each year.
- Extraordinary state aid available to districts with declining enrollment since 2014-15.
- Accreditation system requiring students meet Rose capacities.
- State aid prohibited for extracurricular activities.

Some lawmakers argued that the amount of additional dollars is not enough to satisfy the court's adequacy ruling and warned that the Legislature may be called back to Topeka for a special session sometime this summer.

MCO Privilege Fee, House Bill 2079

Last weekend, the Legislature gave final approval to a bill restoring 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). The rate increase will sunset on December 31, 2020 and then drop to 3.31%. After Medicaid providers are made whole, \$3.5 million in FY18 and \$5 million/year beginning in FY19 will go toward community mental health centers. The bill passed the House 101-18 and the Senate 32-5.

Lottery Vending Machines, House Bill 2313

A bill allowing the retail use of lottery ticket and instant bingo vending machines passed the Legislature on Tuesday by a vote of 98-19 in the House and 34-4 in the Senate. Up to \$4 million in

FY18 and \$8 million/year through FY22 from lottery vending machine revenue will go toward community crisis stabilization centers. The bill also establishes the Debt Set-off Program – requiring gaming and racetrack facility managers to check and withhold any outstanding child support payments from winning prizes – as well as extends Kansas Lottery sunset by 20 years.

Amusement Park Ride Regulations, House Substitute for Senate Bill 86

The Legislature approved a clean-up bill on Thursday that delays implementation of a new law regarding amusement park ride inspections until July 1, 2018, giving the Kansas Department of Labor and amusement parks time to comply with the new rules and regulations. Before final passage, an amendment was added on the House floor to move up the implementation date for criminal offenses to January 1, 2018. The bill passed the House with 107 votes and the Senate with 33 votes.

Representative Patsy Terrell Passes Away

The final week was particularly difficult after the death of Representative Patsy Terrell (Hutchison-D), who passed away of natural causes on Wednesday June 7. Democrat officials said she was found dead in her hotel room after failing to show up for afternoon vote. Terrell was in the House late Tuesday and appeared in very good spirits after the veto override vote on the tax bill. Terrell was in her first term in House District 102, having defeated 11-term Rep. Jan Pauls, R-Hutchinson, 55% to 45% in last year's election. It is uncertain when her replacement will be named.

Kris Kobach Announces Run for Governor

Secretary of State Kris Kobach formally announced his run for the 2018 Republican candidate for Governor on Thursday. So far, Kobach will challenge Wichita businessman Wink Hartman and former state representative Ed O'Malley in the GOP primary. Democrat candidates Wichita Mayor Carl Brewer and former Kansas Secretary of Agriculture Josh Svaty have also launched their campaigns. Kansas Republican Party Chairman Kelly Arnold also announced on Thursday that he is exploring a run for Secretary of State to replace Kobach.