

# **This Week** **in Topeka**

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**Overland Park Chamber**

*Business, Economic Development & Local Government News  
from the Legislative Session Week of May 8-12, 2017*

There is not a lot of activity to report on for the second week of the 2017 Veto Session. As expected, with little movement on the big issues of taxes, budget and school finance, both the House and Senate took the weekend off to allow members to attend graduations and celebrate Mother's Day. It appears likely, however, that upon their return to the Capitol on Monday, legislators will be working seven days a week until they finish. And for those of you that are counting, Sunday, Mother's Day, was the 90<sup>th</sup> day of the 2017 session, although the legislature has budgeted for a 100-day session.

**Taxes.** In a bit of a surprise, the Senate took up a comprehensive income tax bill, HB2067, on Wednesday. In spite of strong words of support from Senate Vice President Jeff Longbine and Senate Majority Leader Jim Denning, the bill failed on a vote of 18-22. Only two Democrats voted for the bill, with most of those opposing it objecting to the fact that it did not include additional money for school finance, and they do not want a separate bill to provide K-12 funding. Many of the more conservative Republican senators voted against the bill because, in their opinion, the tax increase was too large, particularly since little had been done to control the state's spending.

The bill, in the form of a conference committee report, would have raised an estimated \$514 million in FY2018 and \$548 million in FY2019. It would have replaced the current two tax brackets at 2.7% and 4.6% with three tax brackets, setting the rates for 2017 at 2.85%, 4.9% and 5.1%, increasing in 2018 and all years thereafter to 3.0%, 5.25% and 5.6%. The LLC exemption would have been repealed as would have been the "march to zero."

The Senate did use a procedural maneuver to send the bill back to conference committee where it will remain available to use as a shell for future attempts to put an acceptable tax plan together, one that will probably need to be able to garner 27 Senate votes and 84 House votes in order to overcome an anticipated veto by the Governor.

On Thursday, the House Taxation Committee met to work a couple of tax bills of interest. HB2424 amends the recently enacted law that provides a "property tax lid" for local units of

government by adding an additional exemption from the lid for increased costs of employee benefits. Specifically, the change would exempt increases in employer contributions for social security, workers compensation, unemployment insurance, health care costs, employee benefit plans and employee retirement and pension programs. The Committee sent the bill to the full House with its recommendation that it be passed.

SB146 would extend the statewide 20 mill property tax levy for K-12 funding for two more years, while continuing the exemption of the first \$20,000 of residential homestead valuation from the levy. The Committee also removed a provision added in the Senate that would have prohibited any new property tax exemptions for industrial revenue bond financing or for other economic development purposes as provided in the Kansas Constitution from including the 20 mill levy.

At the end of the Committee meeting, Chairman Steven Johnson introduced a conceptual bill that he explained would be very similar to HB2178 (the comprehensive tax bill that was passed by the legislature, but vetoed by the Governor before the April break), but would include a surcharge that could be imposed by the legislature in order to generate additional funding as needed for K-12 school finance. The bill has not yet been drafted by the Revisor's office and no bill number is available.

**Sales Taxes.** During General Orders in the House on Friday, a tax bill was amended to repeal the sales tax exemption on a number of items, mostly commercial services, including detective services, security services, collection agencies, mini self-storage facility rentals, pet day care, towing services and membership fees for YMCA's and other nonprofit health facilities. A second part of that amendment lowered the state sales tax on groceries from 6.5% to 5.5%, effective July 1, 2020, recognizing that the approximately \$55 million raised by this amendment is needed to help fill the current revenue shortage.

Following adoption of that amendment, a second amendment was offered and passed that preserved the exemption for the YMCA and nonprofit health club facility memberships.

**K-12 School Finance.** The K-12 Budget Committee continued to meet throughout the week, with most of the time devoted to the introduction and consideration of numerous additional amendments to HB2410. The expectation that amendments offered during this Veto Session would primarily be of a technical or clean-up nature; however, many of those offered turned out to be substantive and significant.

With the June 30, 2017 deadline imposed by the Supreme Court in its most recent *Gannon* opinion rapidly approaching, we still do not have a bill offering a new school finance formula

for consideration by the entire legislature. The goal of this Committee was to send a version of HB2410 to the full House on Friday, but that did not happen. Instead, after getting a late start because of the rather lengthy sales tax debate on the floor, the Committee spent more time working to put the bill in a “final” form to be sent to the House, much of the time being spent on language that would require a proportional amount of the funds raised locally to be directed to each district’s at-risk student population in hopes of being seen by the Supreme Court as addressing the lowest performing 25% of students it focused on in its most recent *Gannon* opinion. We should remember that whenever the bill does run on the House floor, it’s likely that at least several additional amendments will be proposed by various members with a long and spirited debate. And assuming that a bill is finally passed out of the House and sent to the Senate, the bill will also be subjected to much discussion and numerous proposed amendments, first in the Senate Select Committee on School Finance and then on the Senate floor. Once a bill gets through both the House and Senate, it still must be signed by the Governor before being submitted to the Supreme Court to be reviewed and a ruling issued as to whether or not the formula and funding are constitutional. While we are all extremely interested and are closely following the work, the nearly 300 school districts across the state are desperate for a resolution as they face deadlines for teacher retention and budget completion for a school year that right now is only about three months away.