This Week in Topeka

Overland Park Chamber

Business, Economic Development & Local Government News
from the Legislative Session Week of February 13-17, 2017

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This past week was dominated by tax plans as the legislature approaches Turnaround Day Thursday, February 23, the last day for consideration of bills in the house of origin (other than bills that have been "touched" by one of the exempt committees; i.e., House and State Federal and State Affairs, Senate Ways and Means, Senate Assessment and Taxation, House Appropriations, House Taxation and House Calendar and Printing). There will be few committee meetings next week as both the House and Senate prepare for long days of floor debate on bills Tuesday, Wednesday and Thursday, before taking a break from Friday, February 24 until reconvening on Monday, March 6.

Taxes. As I mentioned last week, the House Taxation Committee sent Sub for HB2178 to the full House where it was placed on General Orders to be considered Wednesday. Somewhat surprisingly, after the bill was introduced, there was no debate at all, and it passed 83-39 on a roll call vote. Several "yes" votes were lost on final action on Thursday as the vote was 76-48, with 40 of the 85 House Republicans and 36 of 40 House Democrats voting in favor of the bill.

After passing the House, the bill was sent to the Senate where it was placed on Friday's calendar and debated for about 90 minutes before being advanced to a voice vote. An emergency was declared under the rules of the Senate, and the bill was immediately brought up on final action. It passed the Senate 22-18 on a roll call vote, 14 of 31 Republicans and 8 of 9 Democrats voting in favor.

The bill now will be prepared and sent to the Governor, likely hitting his desk Wednesday or Thursday, where he has ten days to either sign the bill into law, veto the bill or allow the bill to become law without his signature. Speculation on which of the options he will choose seems to be pretty evenly split between vetoing or not signing the bill, allowing it to become law after the ten-day period expires. The Governor has been adamant he will not sign the bill. If he chooses to veto Sub for HB2178, an attempt to override the veto, almost a certainty, would begin in the House where 84 votes are needed, only one more than the bill received on General Orders but eight more than on final action. It is expected the necessary votes can be found in the House to override a veto and send the bill to the Senate where they will need to find five more “yes” votes to override, what appears to be a more difficult task. My guess – if there is much of any chance at all of the Senate successfully overriding a veto, a rescission bill balancing the current fiscal year’s budget containing at least some additional spending cuts will need to be considered and passed, giving some Senators at least a semblance of balance between raising taxes and cutting spending, enabling them to switch their original votes against Sub for HB2178 to support a veto override. A lot can happen over the next couple of weeks.

As a quick recap, HB2178 is effective retroactively as of January 1, 2017, and is estimated to raise $1 billion or so over the next two years, approximately $590 million in FY2018 and $454 million in FY2019. The bill includes the following provisions:

- Reinstates a third individual income tax bracket, setting rates at 2.7% for income up to $15,000 ($30,000 for married filing jointly), 4.6% for income between $15,000 and $50,000 ($30,000 and $100,000 for joint filers), and 5.45% for income over $50,000 ($100,000 for joint filers);
- Repeals the pass through non-wage business income tax exemption;
- Reinstates the ability to claim certain non-wage business income losses as permitted under federal law;
- Repeals the glide path to zero; and
- Reinstates the individual itemized deduction for medical expenses at 100%.

Balancing the Budget. The activity around balancing the budget for the remainder of the current FY2017 was centered in the House as the Appropriations Committee worked two bills and sent them to the full House for consideration.

HB2161 directs the KPERS Board to liquidate $365 million in the pooled money investment portfolio fund (PMIF) and transfer (loan) $317 million of the fund’s principal (the remainder represents capital gains) to the state general fund (SGF) to fill the deficit in this year’s (FY2017) budget. The PMIF is the long term investment portfolio commonly referred to as the Treasurer’s Unclaimed Property)TUP) Fund and represents idle fund balances equal to the net amount of unclaimed property received by the state each year which have been transferred each year since 2001 to the TUP Fund for investment by KPERS. The bill requires that the amount transferred to the SGF will be repaid in six annual payments of approximately $53 million beginning in FY2019. On final action on Friday, the bill was passed by the House by a vote of 98-25. The bill was sent to the Senate where it was referred to the Ways and Means Committee.

House Appropriations also worked HB2052, the rescission bill containing most of the Governor's recommendations for resolving the FY2017 budget shortfall. Among the major budgetary adjustments contained in this bill are delaying a $75 million payment to K-12 due on June 30 to the first few days of July (i.e., pushing the payment into the next fiscal year) and not making this fiscal year's final payment of $86 million to KPERS (i.e., reducing the state contribution to KPERS to approximately $300 million, the FY2016 level).

The Appropriations Committee added two amendments before sending the bill to the floor on a voice vote. One, 50% of any ending balance in FY2017 would be used to "repay" KPERS up to the full amount of the $85 million reduction in the state contribution. And, two, also if there is an ending balance in FY2017 after repayment of the full $85 million to KPERS, 10% of that balance would be transferred to the budget stabilization fund (the state's rainy day fund).

HB2052 was passed by the House on final action Friday by a vote of 87-36. The bill was sent to the Senate where it also was referred to the Ways and Means Committee.

Very few, if any, House members were enthusiastic about voting to continue to use one-time money to fill the budget hole, but recognized that this option represented the "least bad" of many bad options, such as major cuts to K-12 and higher education, and thus opted to support HB2161 and HB2052.

Guns. The House Federal and State Affairs Committee held hearings on HB2150, the bill that would exempt the KU Medical Center from concealed carry. As a so-called public building (KU Med receives public funding), and unlike other private hospitals throughout the state, the Med Center was faced with the July 1, 2017, sunset after which it could only prohibit concealed carry in its facilities if it provided appropriate security at each entryway into its campus, a requirement that is cost prohibitive for campuses of this size and scope. Unfortunately, in a continuing preemption of local control, the Committee failed to advance the bill to the full House on an 11-11 tie vote with the Committee's chairman declining to cast a deciding vote.

Medicaid Expansion. A quick mention of an issue not included in last week's report. During the week of February 6, the House Health and Human Services Committee devoted most of three meetings to hearing testimony on HB2064, which would expand Medicaid eligibility under KanCare in Kansas. Not surprisingly, the overwhelming majority of the testimony heard by the Committee was in support of expansion for reasons ranging from moral obligation to provide health care to more of the working poor in Kansas to job growth, business enhancement and improved efficiency, reduction in uncompensated care being provided by our hospitals and the state availing itself of federal funds. Although it did not happen last week, the Committee chairman has indicated that he will let the Committee work the bill and vote on whether or not to send it to the full House for debate.

K-12 School Finance. *Gannon* decision? Nope, not yet.

Upcoming events:

Legislative Breakfast Series. The third and final breakfast in the **Johnson County Public Policy Council's series** will be Saturday, **March 25**, at the DoubleTree Hotel. Members of the Johnson County Delegation scheduled to participate on the panel are Sens. Barbara Bollier and Julia Lynn and Reps. Stephanie Clayton, Erin Davis, Nancy Lusk and Brett Parker.

Public Policy and Advocacy Committee Meeting. The next meeting of this committee will be noon-1:30 p.m. on Friday, **March 10**, at the Overland Park Chamber office. For those of you who might wonder, the Big XII agreed to our request not to begin the semi-final games of its post-season tournament until 6:00 p.m. that Friday, so there will be no conflict with our meeting.

Registration information for both events can be found at www.opchamber.org.