This Week in Topeka

Overland Park Chamber

Business, Economic Development & Local Government News
from the Legislative Session Week of March 27-31, 2017

With First Adjournment in sight next Friday, the upcoming week will be largely devoted to meetings of conference committees as well as both the House and Senate meeting in full session to consider several big issues – the possible override of the Governor's veto of the bill to expand Medicaid, comprehensive tax plan proposals, K-12 school finance and budget proposals for FY2018 and FY2019. Following their work next week, the legislature will adjourn for three weeks, reconvening on May 1 for what promises to be a very busy Veto Session.

Medicaid Expansion. On Tuesday, the Senate passed HB2044 that expands Medicaid eligibility to as many as 180,000 low income Kansans on a vote of 25-14. The bill was enrolled and sent to Governor Brownback on Wednesday, and he quickly vetoed it at about 9:00 on Thursday morning. Shortly after 10:00 that same morning, the Governor's veto message was delivered to the House, and a motion to override the veto was promptly introduced. The bill originally passed the House with 81 votes, so at least three more are needed to reach the 84 required to override a veto. With so little time to organize and gain additional support, and noting the absence of one House member who strongly supports expansion, a motion was made to table the override attempt; that motion passed 81-43. Currently a date to consider the override has not been set; however, the vote to override will need to occur next week since the 30 day period that the House has to reconsider will expire during the legislature's April break. If the House is successful in overriding the Governor's veto, the Senate will have an additional 30 days for it to reconsider and will need 27 votes to override the Governor.

Taxes. The legislature continues to struggle with how it will address the state's need for additional revenue, what a comprehensive tax plan will look like and how much additional revenue it will raise.

The Senate Assessment and Taxation Committee remains at the discussion stage, with most of its focus this week on a flat tax proposal from Sen. Jim Denning. Details have not been worked out yet, but it appears the Committee is moving toward a 5% flat tax with increased standard deductions.

The House Taxation Committee is again ahead of the Senate in crafting tax proposals, the latest being Sub for HB2395 passed out of Committee on Thursday afternoon and placed on General Orders in the House, where it will likely be debated sometime next week before First Adjournment. This bill contains a single flat tax at 5% that would become effective on January 1, 2018 (note that it is not retroactive, eliminating a sticking point with many in both the House and Senate). Other key provisions of the bill include:

- Increasing standard deductions from \$3,000 to \$7,500, single filers; from \$7,500 to \$15,000, married filing jointly; and from \$5,500 to \$11,000, head of household filers;
- Repealing of the business pass-through income exemption (the LLC loophole), retroactive to January 1, 2017;
- Repealing of the so-called "march to zero" (the ultimate complete elimination of state income tax);
- Reinstating the itemized deduction for medical expenses;
- Reinstating deduction for certain business income losses; and
- Reducing the state sales tax on food from 6.5% to 5.0%, effective January 1, 2019.

The Department of Revenue estimated this change in tax policy would generate approximately \$374 million in FY2018 and approximately \$473 million in FY2019.

As you would expect with any major tax increase plan, there is not much enthusiasm for this bill, with muted support from the more conservative Republicans, including Speaker Ron Ryckman who encouraged the Committee to move a flat tax proposal to the floor where it could at least be debated by the full House, and opposition from Democrats and most moderate Republicans.

There appear to be two major objections to this bill. One is that it simply does not generate enough additional revenue to balance the budgets moving through both chambers. The other objection was pointed out in committee by Rep. Tom Sawyer; the bill would result in dramatic tax increases for many Kansans, primarily those in lower to mid-range income levels.

What does appear to be certain is that there will be no comprehensive tax bill passed by the legislature before First Adjournment, leaving that as another major issue to be resolved during the Veto Session.

K-12 School Finance. The House K-12 Budget Committee got its first look at the so-called Chairman's Bill, HB2410, last week after three days of hearings. The Committee met on Thursday for nearly eight hours and considered about 22 amendments before recessing until Monday. It seems the more the bill is amended, the more closely it resembles the old SDFQPA formula that was repealed two years ago in favor of the block grants. While the base state aid is increased under HB2410, there remain the myriad weightings, some of which are tweaked while others are left unchanged, thereby largely retaining most of the complex and often confusing formulaic aspect of K-12 funding to which many have objected. And so far, it appears the additional money needed to fund the formula has increased from roughly $76 million to almost $160 million, but it's relatively safe to say no one really knows just how much is needed in order for the Supreme Court to deem K-12 public education adequately funded.

On Monday, they will receive additional fiscal note information regarding one proposed amendment, and that amendment will be resolved. The Committee also will get the Department of Education's projections of the financial impact this bill would have on each of the state's school districts if it were to be passed in its current form as amended. This information will likely generate at least a few additional proposed amendments. The plan is still to finish the Committee's work on the bill and to send it to the full House for debate and, if it passes the House, get it to the Senate before First Adjournment for Senators (especially members of the Senate Select Committee on Education Finance) to contemplate over the April break.

Rescission Bill. The House and Senate conference committee came to an agreement on the remaining differences between their respective versions of Sen Sub for Sub for HB2052, the so-called "rescission bill" that resolves the budget for FY2017 that ends on June 30. The key piece is the use of so much of the otherwise unallocated Pooled Money Investment Board funds to achieve a $50 million ending balance for FY2017. The conference committee report will be voted on next week, first by the Senate and, assuming that it passes there (and it probably will), then by the House, where it should also receive more than the needed 63 votes so that it can be sent on to the Governor.

The FY2018 and FY2019 Budgets. On Thursday, the Senate voted 25-15 to pass Sub for SB189, its two-year mega budget bill. On the same day, the House Appropriations Committee sent its version of the mega budgets for the next two fiscal years, HB2364, to the full House where it should be debated next week.

The problem is that there is not enough expected revenue to fund either version. The Senate version includes deficits of about $268 million in FY2018 and $280 million in FY2019, while the House budgets contain deficits for the two fiscal years of approximately $249 million and $237 million. This is another major issue that will have to be resolved after a new tax plan is passed in the Veto Session in the catch-all Omnibus appropriations bill.

Economic Development. In the economic development area, HB2184 that extends the sunset of the STAR bond program for five years until 2022 sits in the House on General Orders, but it is not currently scheduled to be debated. There is concern with the talk that the Senate might prefer to let the program expire and take a careful and in-depth look at it in an interim committee, possibly then reconsidering it with some changes in the 2018 session. The Chamber believes that this is a bad idea, effectively taking what is a valuable economic development tool out of play for a year in order to study it. If there are program definitions and criteria that need to be tightened (or at least better and more clearly defined), additional oversight put into place for approved projects, or other issues with STAR bonds that need examination, it is disappointing that nothing has been done to address them during this session, so that an improved STAR bond program could continue benefiting the state's economic development efforts. We are well aware that other states with which Kansas competes for business and economic development will not declare a cease fire and wait for us to get our program in order. Again, the Chamber will continue to strongly oppose allowing the program to sunset.

Similarly, and for many of the same reasons, we oppose the imposition of moratoriums on the PEAK and HPIP incentive programs, valuable programs that have documented outstanding returns on investment as economic development tools.

Upcoming events:

Legislative Breakfast Series. The **Johnson County Public Policy Council** will sponsor a **legislative luncheon** on Thursday, April 20, at the Overland Park Marriott Hotel.

Registration information and further details can be found at www.opchamber.org.