This Week in Topeka

Overland Park Chamber

Business, Economic Development & Local Government News
from the Legislative Session Week of May 15-19, 2017

Another week has gone by without much to report as most of what work was done occurred informally with little apparent movement toward resolution of the big three – a new tax plan, the budget for FY2018 and FY2019, and a new school finance formula (including determining how much "new money" is needed to be put into K-12 funding in order to satisfy the Supreme Court in *Gannon.*

One of the big debates is what to do first. Some, mostly members of the Democrat minority along with a few moderate Republicans, believe school finance should be done before a tax plan is run, taking the position that until knowing how much money will be put into funding schools, it is premature to consider a tax increase. The other side, consisting of most of the Republican majority, is ready to try to get the comprehensive tax plan out of the way, believing that issue is farther along at this point of the Veto Session.

Income Taxes. Late last week, the Tax Conference Committee met with the House offering a plan that essentially would take the state back to the tax structure that existed prior to the enactment of the 2012 tax cuts. The catch was that the House offer included the suggestion that the plan run concurrently in the House and Senate. The Senate rejected the idea of a concurrent vote, accepting the House offer only if the plan were to run in the House first. This proved to be unacceptable to the House where members remained a bit skeptical of the Senate's ability to produce enough votes to pass a veto-proof tax bill.

However, although the legislature adjourned on Friday without voting on a tax plan, much talk about taxes continued, and it seems likely the Tax Conference Committee will meet again as early as Monday, with the possibility of sending a new plan (or, probably more accurately, a resurrected bill, very similar to what previously was proposed by the Committee) to the House for its consideration. The hope is that more Democrats will be willing to support a plan they previously had refused to consider, preferring to "fix" school funding first and believing more money than would be raised was necessary to do so. The bill likely would contain three tax brackets, possibly phasing in the increased rates in 2017 (previously, that would have meant rates of 2.85%, 4.9% and 5.1%), then increasing to 3.0%, 5.25% and 5.6% in 2018; repeal of the pass-through business non-wage income exemption (the so-called LLC loophole); repeal of the march to zero income tax; restoration of the individual itemized medical expense deduction at 100%; and possibly some other bits and pieces in hopes of garnering a few additional votes, again with the goal of passing a veto-proof bill. It is estimated such a plan would raise just over $1 billion over the next two years. The biggest question with this plan is whether it produces enough additional revenue to adequately fund K-12 schools under *Gannon.*

K-12 School Finance. On Monday, the K-12 Budget Committee collectively threw up its hands and sent HB2410 to the full House, without recommendation, in a form that it appeared no one on the Committee really liked. The main change in the bill from what previously has been reported is a reduction in the amount of money it puts into the funding formula. Previously, the bill called for an additional $150 million in each of the next five years; however, as it now sits on General Orders in the House, HB2410 adds a total of $279 million over the next two years, with an increase according to the CPI in the third year. It appears now that consideration of the bill will await passage of the tax plan by the House.

On the other side of the Capitol, the Senate Select Committee on Education Finance met on Wednesday to discuss what was expected to be included in its newly introduced, but as then unavailable, school finance bill, SB251. The Committee held 7-8 hours of hearings on the bill on Thursday afternoon and Friday morning as conferees rushed to prepare testimony, the task for those appearing on Thursday being complicated by not having the benefit of actually seeing the 124-page bill. The Committee will begin working the bill today (Monday) with the intent of getting it on the Senate floor early in the week.

A couple of provisions in this bill are worth noting; a more detailed description of SB251 will follow as it is worked into final form. The bill would provide funding for the formula with a fee allocated to water, gas and electric utility users. Basically, the fee would be $2.25 for each of the three utilities on a residential basis and $10.00 per utility for commercial users, raising an estimated $150 million annually. As with many things, while the concept seems simple, the devil is in the details, as many questions were raised about the program's application to different categories of utility users and just exactly how the program would be administered, not to mention the objections generated by its regressive nature. The underlying theory is that this would be a predictable and steady source of revenue from year to year, something the Supreme Court's opinion in *Gannon* seems to emphasize.

The other provision is one that was in the original version of SB146, the bill that would renew the 20-mill statewide property tax levy for K-12 funding, but was stripped out by the House. That provision would prohibit the abatement of any portion of the 20 mills (as well as the capital outlay levy) for economic development purposes. Beth Johnson, Senior Vice President of Economic Development for the Chamber, provided testimony on behalf of the Chamber and our Economic Development Council in opposition to this provision, noting that it is a valuable tool used for competitive purposes in attracting and retaining businesses to Overland Park as well as the entire state of Kansas, with a very positive return on the investment, bringing jobs, tax revenues and other economic gains.

Guns. The Senate took up HB2278, what is now the concealed carry bill. The bill would allow state and municipal owned medical care facilities and adult care homes, community mental health centers, indigent health care clinics and the KU Medical Center to prohibit the carrying of concealed handguns in buildings and public areas of their institutions after the pending July 1, 2017 sunset of current law without requiring them to provide "adequate security measures." Earlier testimony stated that such security measures (metal detectors and trained and armed security personnel) would cost an estimated $11 million annually at just the four state hospitals; no estimate was given for KUMC, although securing a campus with more than 100 entry points would be prohibitive.

An amendment on the floor of the Senate was passed that specified that these institutions could not prohibit concealed carry license holders from carrying concealed weapons at these facilities. During discussion of a second proposed amendment that would have permitted colleges and universities to prohibit the carrying of concealed weapons on campus, a motion was made and passed to send the bill back to the Ways and Means Committee for further discussion.