

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

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**Overland Park Chamber**

*Business, Economic Development & Local Government News  
from the Legislative Session Week of January 8-12, 2018*

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**2018 Session Opens.** The legislature reconvened on January 8 for a 2018 session that has the real potential to be a much more complex session than a year ago. The 2017 session was dominated by the repeal of the Governor’s 2012 tax cuts and raising money for the new K-12 school funding formula passed by the legislature in SB 19. With the Kansas Supreme Court finding that four elements of the new formula violate the equity test and that the overall level of funding appropriated for K-12 schools also was constitutionally inadequate, the legislature must again address school funding as well as other issues such as state highways and transportation infrastructure, corrections, mental health services, KanCare (Medicaid), higher education, and economic development that are all now one year further along in needing attention. How this will all come together by the end of the 2018 session and how long that will take is anybody’s guess. And, to further complicate matters, this just happens to be an election year for the entire House as well as the Governor with the fall primary on August 7 looming large.

**State of the State Address.** Governor Brownback gave his final State of the State address on Tuesday evening. The tone of the address seemed more fitting for a first address than a last, containing more vision than substance, drawing mixed reviews from legislators. One part of the address that garnered the most attention was the Governor’s statement that “complying with the Supreme Court’s decision [on school finance] is not optional” and that he “will not stand to see schools closed because of inaction on our part.” To support that, the Governor proposed adding an additional \$600 million to K-12 education over the next five years. The key part here is that not only did the Governor not suggest where that new money might be found, he specifically said that it would not require a tax increase. Further, the Governor called for a constitutional amendment to “stop the never-ending cycle of litigation” over school funding. Again, however, he offered no details of what that amendment should contain.

Along with his proposal of adding \$600 million to K-12, the Governor also set out his goals and objectives for the State Board of Education. By the 2022-23 school year, his funding plan goals are:

1. Reach a 95% statewide graduation rate;
2. Have 75% of students continue their education after high school graduation in some formal fashion; and
3. Accelerate the movement of schools to the Kansans Can model for school redesign.

To achieve these goals, the Governor offered the following five strategic objectives:

1. Higher average pay for Kansas teachers than in surrounding neighbor states;
2. Increase the number of school counselors and school psychologists by 150 positions in each of the five upcoming school years;
3. Have at least 50 schools participating in the Kansans Can redesign project;
4. Every high school student should have access to 15 hours of dual credit coursework at no cost to the student (effected through a partnership between Kansas high schools and the state's institutions of higher education); and
5. Every high school student should have the option, at no cost to the student, of taking either the ACT college entrance exam or the Work Keys assessments (for attainment of the National Career Readiness Certificate) while in high school.

Interestingly, the sources of criticism and support of the Governor's proposal represented a reversal of what would be expected. The legislature's Republican leadership and other conservative legislators took issue with the Governor's proposal, from stating that it was an unrealistic amount of money that would require a tax increase by 2020, if not sooner, to claims that it waved a white flag, capitulating to the Supreme Court and what many conservatives see as overreach in its school finance decisions. On the other hand, moderate Republicans and Democrats for the most part supported what they saw as the Governor finally acknowledging what they believe to be a serious under-funding of K-12 as declared by the Court.

At least most conceded, it received a lukewarm reception. For those looking for direction insofar as a long-term budget/revenue solution, it really was not there. Included in the Governor's address were statements that:

- He wants the legislature to send him a bill fixing the \$350 million FY2017 budget shortfall by the end of January;
- The legislature needs to develop a new K-12 school finance plan that will replace the block grants set to expire at the end of June, hopefully a plan that will include merit pay for teachers;

- He still supports 2012 tax cuts, including the now so-called “LLC loophole” that exempted 330,000 business owners and farmers from paying state income taxes to the tune of approximately \$250 million per year; and
- It was fortunate that Kansas has not succumbed to the lure of Medicaid expansion.

**Budget.** A review of, and proposed adjustments to, the Governor’s budget for fiscal years 2018 (which began on July 1, 2017) and 2019 (which begins on July 1, 2018) was presented to the House Appropriations and the Senate Ways and Means Committees on Wednesday morning. It will take some time for the details to be studied, but the general overview is as follows:

FY 18

- Total expected revenue = \$6.9 billion
- Total proposed spending = \$6.65 billion
- Total new spending = \$34.5 million
- Projected ending balance = \$266.6 million (4% of budget)

FY 19

- Total expected revenue = \$7.04 billion (includes \$266.6 million ending balance)
- Total proposed spending = \$6.9 billion
- Total new spending = \$290 million
- Projected ending balance = \$150.3 million (2.2% of budget)

Some of the highlights as presented for the two fiscal years include:

- Adds \$93.2 million in FY 19 for K-12 state foundation aid
- Adds \$6.0 million in FY 19 for K-12 LOB state aid
- An additional \$15 million for career/tech education funding
- An additional \$5 million to the National Institute for Aviation Research program at Wichita State University and \$1.7 million to the National Center for Aviation Training program at the Wichita Area Technical College (responding to Spirit Aerosystems plan to add 1,000 jobs)
- Add \$4.9 million to continue raises for Department of Corrections personnel authorized by the 2017 legislature
- Add \$22 million in FY 19 to increase the Medicaid hospital reimbursement rate
- Adds approximately \$100 million in FY 19 for K-12 funding
- Adds \$49 million for KPERS K-12 employer contributions
- Adds \$66 million for Health/Human Service caseload increases

- Continues to sweep over \$300 million each year from state highway fund
- Does not restore the 2016 cuts to Kansas public universities of \$24 million
- There is no proposal to securitize the state's tobacco settlement payments

It will take some time, however, to study and analyze the budget proposals and determine just what action is possible and required this session and exactly how the tax increases passed in 2017 will impact the revenue stream for the state. The Kansas 2017 tax increase was projected to provide an additional \$590 million in FY18, with total tax receipts through December 2017 of \$83 million more than estimates. However, it's not certain what impact the new federal tax cuts are having, and will continue to have, on the state's tax collection. One conclusion is that much of the excess collected in 2017 is actually due to early payment of state and local taxes to take advantage of the federal deduction that will be limited under the new federal law. And, based on what has happened before following federal tax cuts, the thinking is that Kansas may see, at least to some extent, a bump in tax collections; legislative staff is currently analyzing the federal tax changes to better predict the future.

#### **Other items of interest:**

**Property Tax Lid.** HB2424 is on General Orders in the House, and there is talk it might be moved along and scheduled for debate on the House floor rather quickly. This bill would further soften the effects of the 2015 property tax lid by expanding the exemptions from the lid to include increases in employer contributions for social security, workers compensation, unemployment insurance healthcare costs and certain employee benefit plans.

**State Senate Terms.** HR5017 has been introduced by Rep. Jerry Stogsdill to amend the state constitution to provide for staggering of the four-year terms for state senators. Under this proposal, senators from odd-numbered districts elected at the first general election following enactment of the amendment would be elected for a two-year term; at succeeding general elections, they would be elected for a four-year term. The intent is to make the Kansas Senate more responsive and accountable to the voters.

**Upcoming Events.** The **Johnson County Public Policy Council's legislative breakfast series** is on tap again this year, with the first breakfast, 7:30-9:00 a.m. this Saturday, **January 20** at the DoubleTree by Hilton. Guest legislators on the panel are Senators John Skubal and Dinah Sykes and Representatives Shelee Brim, Joy Koesten and Brett Parker. Other breakfasts will be **February 17, March 24 and May 19.**

**To register for this breakfast** or the 2018 series of four breakfasts, [click here](#).