League of Women Voters of Kansas

Policy Watch Weekly Update by Paul Johnson

*Members receive **Policy Watch Weekly Update** throughout each Kansas legislative session. Reports may also be found at lwvk.org.*

Week #3

Tax Debate

The tax debate is slowly progressing in the Kansas Legislature. Tax committees are collecting detailed data on changes to the income tax, sales tax exemptions and property tax options. It looks like the House Taxation committee is shooting for the first week of February to develop a tax package that can be voted out of committee. It will be the first of many attempts to find an acceptable consensus. The revenue picture must have more clarity before appropriation committees can decide on State budgets for 2018 and 2019. You can be sure that every special interest group will be pressing lawmakers to exempt their favorite tax cuts.

What is clear from tax data starting in 2013 is that the income tax has been slashed while the sales, tobacco and severance taxes have been raised to partially pay for the income tax reduction. For 2018, the loss of income tax totals $949 million while the sales tax was increased $438 million, the tobacco tax up $38 million and the severance tax up $80 million, which still leaves a deficit of $393 million.

The income tax changes have garnered the closest review but there are disputes over the actual tax loss by the different income tax changes. There is serious debate over the cost of the income tax change to the 333,000 LLC's. What is clear is that this business tax exemption for the LLC's is only one-third of the entire income tax loss and that a third income tax bracket for wealthier Kansans will have to be reinstated.

The sales tax is getting much greater scrutiny. As of July 1, Kansas statutes included 105 specific exemptions to the sales tax on conceptual grounds, definition of retail sales, legal exemptions, federal requirements and public policy. The Kansas Department of Revenue estimates that the reduction in sales tax amounts to $4.614 Billion. Of that amount, $3.508 Billion results from exempting ingredients or services produced or manufactured for ultimate sale at retail. (The flour purchased to make the cake is not taxed but the sale of the cake is taxed.)

Certain services such as professional, scientific, technical, administrative, health care and personal care are not subject to the sales tax and the overall loss of revenue is $674 million. Public policy exemptions accounted for $1.868 billion in lost revenue in 2016. There are just 8 to 10 exemptions of serious tax loss such as sales of animals for food, motor fuels, prescription drugs, residential utilities, sales of farm machinery, property purchased or leased by public schools and machinery directly used to manufacture property for resale.

This review of sales tax exemptions comes up every few years and very little is ever changed. There may finally be a sunset date set for the exemptions so there is a timely review. Kansas has little control over internet sales that keep exploding. It will take action by Congress or court action to bring this commerce into play.

So far property tax has been given the least attention. The property tax is the most disliked tax by the public. It is ironic that counties and cities have the greatest reliance on the property tax while State government is primarily funded by the income and sales tax. Counties and cities get about one-third of their revenue from local use sales tax. The Kansas Legislature has blocked local governments from instituting a local income or earnings tax as exists in Kansas City, Missouri. The property tax for public schools is now 20 mills. It started at 35 mills in 1995 when school finance was rewritten but was reduced by the tax cuts of the late 1990’s. Each one mill increase produces $30 million in revenue so this may be part of a comprehensive tax package.

WATER POLICY

The Kansas Water Authority came before a few committees to present its annual report this past week. In 2013, the Governor called for the development of a 50-year water vision. The Kansas Water Office, the Kansas Water Authority and the Kansas Department of Agriculture came together to write such a vision by January 2015. The state was than divided into 14 regional planning areas. Regional Advisory Committees comprised of many different groups have been meeting the last 18 months to research and draw up specific action plans for water quantity and water quality issues in their areas. In November 2015, the Governor established the Blue Ribbon Task Force for Water Resource Management. The Task Force met seven times to evaluate overall financial needs to implement the Long Term Vision for the Future of Water Supply in Kansas.

The Task Force decided that $55 million worth of projects was needed to successfully implement the vision. For 2018, the State Water Plan (SWP) is slated to spend just $13.5 million. For the long-term, the Task Force wants to keep existing fees into the SWP at current levels, and pass a constitutional amendment to dedicate one-tenth of one cent of the existing sales tax to the SWP. This would produce $45 million annually with another $11 million coming from existing fees. This sales tax dedication to the SWP would be subject to referendum every 10 years. By statute, the State General Fund should transfer $6 million to the SWP along with $2 million from lottery receipts but this has not been done for several years due to budget crises. The Task Force is hoping to reinstate these transfers for 2018 and 2019 until the proposed sales tax could be collected. The Governor put none of these suggestions in his proposed budget. So far no legislation has been introduced on the sales tax constitutional amendment. If and when these extra funds would be available, the top three priorities would be buying water storage in Milford & Perry reservoirs ($50 million), watershed protection ($18 million) and irrigation technology.

Joyce Wolf testified for Audubon of Kansas as did Executive Director Ron Klataske. Joyce worked on the creation of the SWP in 1989 and supports reinstating the two fund transfers. If the sales tax is dedicated to the SWP and since most of the sales tax is collected in the eastern one-third of Kansas, most of that funding should be dedicated to the Eastern Kansas reservoirs. There should be consideration of a fee on irrigation water (that comprises 80-85% of all water use in Kansas) and those funds used to buy back over-appropriated groundwater rights. Joyce did support a fee on bottled water with special attention to recycling plastic bottles. Buffer strips need to be expanded to assist with water quality and wildlife habitat. Of greatest concern from both Joyce and Ron is the fact that excessive water use in the western third of Kansas has dried up almost all streams. There is no statute to protect stream water flows and it is threatening wildlife refuges such as Cheyenne Bottoms and Quivira wetlands. Kansas should consider the establishment of water conservation districts.

Zack Pistora testified for the Kansas Sierra Club. Zack stated that ‘Water is fundamental to all life. Water quality and water quantity are integral to issues such as energy, land use, and maintenance of a healthy environment for plants, wildlife and humanity’. KSU estimates that a third of the Ogallala has been used and that 70% will be gone by 2050 at present use rates. Crop irrigators – that comprise roughly 20% of Kansas’ total farming sector – are using nearly 85% of Kansas total groundwater and surface water. Zack proposes a ‘water depletion trust fund’ be created so that excessive water consumers would financially compensate counties for the property value loss from continued water withdrawal similar to the oil and gas depletion allowance now in use. The ‘Chief Engineer’ at the Kansas Department of Agriculture should have the authority to incorporate ‘long-term viability’ into the criterion of beneficial water use for granting water rights and issue limited tax exemptions for retiring their water rights. Zack proposes an additional charge on businesses that displace water out of the hydrological cycle such as injecting ‘fracking’ water into disposal wells. Kansas needs a voluntary water conservation goal of 20% by 2020. ‘Upgrading our state economy beyond water-intensive agriculture and energy practices will be a tough, but rewarding endeavor.’

UTILITY REGULATION DECISION TIME

The Kansas Corporation Commission (KCC) – that regulates the largest investor-owned electric and natural gas utilities – has three very important dockets open now that will influence energy programs and policy for decades to come. The first docket has to do with the proposed merger of Westar and Kansas City Power & Light (KCP&L) creating the largest electric utility in Kansas. The second docket is a request by KCP&L to initiate certain energy conservation programs for residential and small business customers similar to the programs KCP&L operates in Missouri. The third docket deals with distributed energy produced by homeowners and commercial enterprises via solar panels or wind systems.

The first docket on the merger has taken over all resources at the KCC so the other two dockets must wait. The law mandates that there is a 300-day time limit for the KCC to make a decision on this merger. Two weeks of hearings will begin on January 31 and a final KCC decision must be made by April 24. The KCC staff has already indicated their concern over the extra debt that Great Plains Energy (KCP&L’s parent company) will have to take on to consummate this deal. These hearing should get extensive media coverage and I will offer my thoughts in future Policy Watch issues.

The second docket is an energy efficiency effort by KCP&L to offer energy conservation programs in Kansas. In Missouri, they have on the order of $60 million in energy conservation loans. The time for this is right now. The Kansas Legislature passed a bill authorizing the KCC to allow such programs. Of the 50 states, Kansas is 48th in the 2016 State Energy Efficiency Scorecard Rankings by the American Council on an Energy Efficient Economy (ACEEE). Missouri was 44th in 2015 and has moved to 32 with a state energy plan and making more energy conservation programs available. The results of this docket will hopefully send a signal to the other large energy utilities that energy efficiency programs are integral to providing utility service in Kansas.

The third docket on distributed energy will signal to the country the opportunities and barriers to provide independent power to regulated utility monopolies in Kansas. The first key issue is what should a solar customer pay monthly to the electric utility to be connected to the grid? In essence, the utility provides back-up to the solar system as opposed to the solar customer that goes off the grid with a battery or generator as back-up. The second issue is the payment for extra power that the solar customer sells back to the utility. In many states the kwh cost to buy utility power or sell the utility power is the same. In Kansas, a solar customer buys at a retail rate (around 12 cents/kwh) but sells extra power back for a wholesale rate of 4 to 6 cents/kwh. This rate impacts how long it takes to pay off the solar system. The financing of solar systems are far cheaper today and available from financial institutions so the solar industry will continue to grow in Kansas but the KCC could have quite an impact on that rate of growth.

LEGISLATIVE NOTES

An analysis by the Kansas Development Finance Authority last week showed that the state's overall debt has reached $6.4 billion today, up from $4.4 billion in 2010. The debt amounts to $1,534 per capita compared to $574 in Missouri, $424 in Colorado, $397 in Oklahoma and $8 in Nebraska. Most of this debt has been issued for KPERS, the Kansas Department of Transportation and capitol renovation.

Kansas Secretary of Transportation Richard Carlson said that his agency will sharply reduce highway construction and maintenance over the next two years as the Governor's budget strips the sales tax from the highway fund. KDOT will bid just $43 million – 235 miles of road – for maintenance down from $600 million in recent years. Several hundred million in modernization projects, expansion projects and road preservation will not be bid out over the next two years.

Senate Bill 31 deals with cleaning up abandoned housing in cities. Kansas City, Kansas has identified 3,491 parcels with vacant and abandoned structures and another 1,371 unfit structures. This legislation has been worked on by several groups for a few years. It did pass last year but was vetoed by the Governor. All indications are that it is good to go this year. The hearing yesterday was in Senate Ethics, Elections and Local Government.

The House Health and Human Services committee has set aside February 6, February 8 and February 9 to hold hearings on the expansion of KanCare (Medicaid) – **House Bill 2064**. This committee meets at 1:30 pm in RM 546-S. To testify, you will need to contact the Committee Assistant – Lydia Meiss at (785) 296-7631. February 8 will be for the proponents while February 9 will be for the opponents.

Paul Johnson may be reached at pdjohnson@centurylink.net.

The **League of Women Voters of Kansas** is a grassroots, volunteer, political organization with nine local Leagues across the state. For nearly 100 years, LWVK has encouraged the informed and active participation of citizens in government and has influenced public policy through education and advocacy. The League never endorses candidates or political parties.

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