



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 #7

REVENUE ROULETTE

February 24, 2017

Kansas lawmakers had a prime opportunity to start the fix on the State's structurally imbalanced budget by reinstating a portion of the lost income tax revenue. Predictably, the Governor – through his [veto of HB 2178](#) - sided with his wealthiest supporters who have received hundreds of millions in tax breaks on the backs of most working Kansans. The Kansas House responded to the challenge by voting 85 to 40 to override the Governor's veto. A majority of the Kansas Senate – 24 of 40 – also voted to override but the President and Majority leader of the Senate failed to provide their support thus dooming the override. Kansas is back to square one on finding a revenue package to fund essential governmental services. The 2017 Kansas Legislative session could now drag on for several extra weeks to find some solution.

The Kansas House met the challenge by debating the override for 90 minutes and finally voting 85 to 40 to override. The debate was solid and informative while the Speaker of the House sat quietly, slumped in his chair offering no guidance or leadership as he voted against the override.

The truth is that reinstating the individual income taxes in HB 2178 brings these income taxes to 60-70% of what income taxes were in 2012 before the first round of income tax cuts. Households with an income of \$50,000 would have paid \$1,362.50 in 2012 and will now pay \$993.80 – a difference of \$368.80. Households with an income of \$100,000

would have paid \$4,537.50 in 2012 and will now pay \$3,618.80 – a difference of \$918.80.

HB 2178 does reinstate income taxes on the business income of 333,000 filers. While retroactive to January 1, 2017, it gives filers the time through April 15, 2018 to pay any shortfall without any penalty. For thousands of these filers that have business losses, those losses can now be used as deductions. The fairness is that when a business makes money it pays appropriate income taxes as do all regular employees. It should not be forgotten that 5% of the wealthiest businesses (LLC's) garnered 85% of the tax benefits that costs Kansas around \$300 million annually.

Most importantly HB 2178 terminated the 'path to zero' where any annual increase in state revenues over 2.5% must be used to further reduce individual or corporate income taxes rather than be used to fix the debilitating cuts to most public safety, social and health services.

The Kansas Senate simply dropped the ball. The lame excuse from the President and Majority Leader of the Senate was that HB 2178 was not a perfect tax bill. But it would have been the first meaningful step to rebalancing the inequitable tax system that has evolved in Kansas where progressive income taxes are replaced by regressive sales and property taxes.

The leadership of the Kansas Senate has not offered their detailed tax plan. The leadership complains of the structurally imbalanced budget from the Governor. The Kansas Senate is stalemated. The leadership wants a blend of budget cuts to go along with tax increases.

The clock keeps ticking on the 2017 budget that ends on June 30, 2017 so any meaningful budget cuts would have to occur in the final three months. Developing budgets for 2018 and 2019 are impossible without some certainty on revenues.

The Senate Majority Leader calls the Governor's budget and tax plans insulting, citing the internal borrowing and cuts to the highway plan. HB 2178 would have been the first

step to fixing the structural imbalance but other tax increases would be necessary to find a sustainable budget that has an adequate ending balance.

The month of March will be tax debate month. First up will be the Governor's consumption taxes (liquor, tobacco, passive income, business filing fees) that probably stand little chance of passing either chamber. As the Governor becomes more irrelevant in trying to find a consensus, the leadership of the Senate and House has to provide some concrete guidance. Clear majorities in the House and Senate are waiting.

KANCARE (MEDICAID) EXPANSION

After well-attended committee hearings and political maneuvering to block any floor debate on Medicaid expansion, the political support for expansion forced the House leadership to allow the debate. While supporters had the votes (70) to force the bill from the House Health and Human Services committee, House leadership capitulated and moved another bill (HB 2044) up on General Orders. HB 2044 dealt with certain Medicaid services so it was an appropriate bill to amend on Medicaid expansion. This expansion could provide medical services to as many as 180,000 Kansans.

The fiscal note for 2018 is \$26 million in state funds to draw down \$517 million in federal funds. For 2019, the fiscal note is \$57 million in state funds to draw down more than \$1 billion in federal funds. These fiscal notes clearly state the upfront cost to the Kansas budget but do not consider the new employees hired or the extra income to health care providers that will generate more income and sales tax for Kansas. Testimony was given on the floor that as many as one-third of all Kansas hospitals are in financial jeopardy due to the responsibility to provide care for the uninsured. [HB 2044](#) passed 81 to 44 on final action.

Medicaid expansion now moves on to the Senate. This bill will probably be referred to the Senate Public Health and Welfare committee for a set of hearings. There seems to be more than adequate support for Medicaid expansion to pass the committee and the full Senate. If amendments are made to HB 2044, it would have to go back to the House

for further consideration. A consensus on any amendments will be found and this bill will make its way to the Governor's desk.

Most observers speculate that the Governor may well veto this expansion. Getting the 27 votes needed in the Senate to override will be the primary battle. There is debate that Congress will repeal the Affordable Care Act which includes the extra federal funding for Medicaid expansion - although 31 states have approved Medicaid expansion. It is very unlikely Congress can move on repeal this year. Medicaid expansion may well get caught up in some end of the session agreement over taxes and the State budget.

SCHOOL FINANCE

The school finance debate is coming into full view. There are three [bills now in the House](#) – **House Bill 2270**, **House Bill 2324**, **House Bill 2347**. The Senate Education committee continues to hold informational hearings but has not yet produced a final bill from the committee. The two-year public school block grant - that has essentially frozen funding for school districts - ends on June 30.

The Kansas Legislature has to act in some fashion by creating a new funding formula or possibly extending the existing block grant one more year. In the Governor's proposed 2018 and 2019 budgets, there is no new funding formula and no additional operating funds per pupil. The Governor is proposing cuts to the block grant by forcing school employees into a combined health plan and pooling certain purchases of supplies and services by school districts.

Mark Tallman from the Kansas Association of School Boards (KASB) has developed a [comparison chart of the three House Bills](#) alongside [KASB's 'Putting Students First' plan](#).

LEGISLATIVE NOTES

Senate Concurrent Resolution (SCR) 1604 is a constitutional amendment to lower the sales tax on food and food ingredients from the current rate of 6.5% to 2% over a couple years. Kansas is one of only seven states with a full sales tax on food and in fact our rate is second highest in the country only behind Mississippi. Senator Tom Holland sponsored this SCR before the Senate Assessment and Tax committee. Nebraska and Colorado have zero sales tax on food while the reduced rate in Missouri is 1.25%. Of the 105 counties in Kansas, 40 of them are across from a neighboring state. The disparity between Missouri and Kansas is particularly relevant economically for Johnson County with \$93 million in lost food sales. The definition of food and food ingredients excludes candy, soft drinks and vending machine sales. The fiscal note for 2020 is a loss of \$136 million in State General Funds and \$224 million in 2021 once the 2% rate is fully in force.

The Kansas Department of Corrections made a proposal to bid out a plan to tear down the existing Lansing Prison and build a new facility. The new facility would be a lease arrangement for 20 years before Kansas would re-own the facility. The estimated project cost is \$130-140 million and take two years for construction. Lansing inmates would be transferred and double bunked in other correctional facilities. Lansing began housing inmates in 1863 with President Lincoln in office. Lansing has a turnover rate for uniformed employees of 37%. The Kansas Department of Corrections would still operate this prison as opposed to a private company. Staffing would decrease from 686 to 392. Estimated savings over a 20-year lease would be \$21.3 million. This proposal was rushed to the House Appropriations committee without full review by other key committees. The House Appropriations committee voted down this proposal for now but it will still be debated.

Senate Bill 46 and Senate Bill 48 are water bills that have now passed the Senate. [SB 46](#) would amend law that relates to water conservation areas (WCAs). The Kansas

Department of Agriculture (KDA) is required to post all complete applications and orders issued by the Division of Water Resources regarding WCAs on its official website.

[SB 48](#) would require any person with a valid water right to first exhaust the administrative remedies available before seeking a court-ordered injunction to stop the impairment.

The Kansas Legislature is now on break until Monday March 6. The Legislature will have from March 6 to April 7 to finish the regular portion of this 2017 session. The veto session will begin May 1. 100 days have been allocated for this 2017 legislative session and that would end on May 26.

The next Policy Watch issue will be March 10, 2017.



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