

## **2015 LEAGUE OF WOMEN VOTERS OF KANSAS**

### **E-REPORT #2**

Paul Johnson – January 16, 2015

#### **THE GOVERNOR'S BUDGET AND TAX PLAN**

The Governor's budget plan for 2015, 2016 and 2017 is now publicly available at the Kansas Budget Division <http://budget.ks.gov/>. This is the Governor's plan to close a \$280 million deficit in 2015 and a \$648 million deficit for 2016 & 2017. In essence the Governor closes these deficits by a 4% reduction to most state agencies for three years, refinancing bonds to lower rates, transferring \$350 million from the Kansas Department of Transportation, freezing & block granting K-12 school funding for three years, bonding the payments for the state retirement system, freezing income tax rate reductions from 2016 on and increasing consumption taxes on cigarettes, tobacco products and liquor enforcement. For 2016, the tax changes net \$211 million while the transfers, non-tax revenue, reductions and efficiencies net \$615 million. For 2017, the tax changes net \$212 million while the transfers, non-tax revenue, reductions and efficiencies net \$765 million. This is the Governor's proposal and now the Kansas Legislature will have to grapple with accepting this plan or developing their own plan.

In the tax proposal, the income tax rates are frozen in 2016 at 2.66% for the lower bracket and 4.6% for the higher bracket. A 'Tax Reduction Fund (TRF)' is created so if future tax revenues exceed 103% from the previous year, that surplus is placed in the TRF to possibly make further income tax reductions. This change dictates a more sustainable approach so that improving economic conditions will determine income tax reductions. In addition, a 'Budget Stabilization Fund' would be established to act as a rainy day fund and negate the need for a 7.5% ending balance that is now in law. The revenue growth from 102% to 103% above last year's revenue now amounts to \$58 million. The projection over five years has this fund growing to \$341 million. It could be tapped for special emergencies. Implicit in this plan is to cap the growth in state spending at 2% annually. Given the cost of medical inflation and uncertain revenue receipts, most of the reductions in state programs made over the last five years will never be restored with a hard 2% spending cap.

The elimination of income tax on business income for 192,000 LLC's, Sub-chapter S, and sole proprietorships was not changed in this tax proposal. The original cost of this tax break was \$160 million but now the cost is over \$200 million annually. One-half of this \$200 million tax break goes to 33,000 recipients (of the 192,000) with business income over \$100,000 yearly. The cigarette tax will increase from 79 cents a pack to \$2.29 a pack while the tobacco products tax on wholesale prices will increase from 10% to 25%. These two increases will generate \$80 million in 2016 and \$76 million in 2017. The liquor enforcement tax was last raised in 1983 to 8%. The proposed tax will increase this rate to 12% and generate \$27 million in 2016 and 2017. The itemized income tax deductions for mortgages and property tax will be reduced 50% starting in 2015 and generate \$50 million in 2016 and \$22 million in 2017. The good news is that

an increase in the state sales tax was not considered or a reduction in the Earned Income Tax Credit for working families.

### **SCHOOL FUNDING FORMULA**

The Governor is requesting that the existing school funding formula be eliminated by July 1, 2015. The plan is to use the existing formula for 2015 but to freeze funding for 2016 and 2017 thus giving school districts the same amount of money for 2016 and 2017 while the Kansas Legislature is developing a new school funding formula. One change with these block grants is to have the school districts instead of the state fund the \$45 million increased contributions to the Kansas Public Employee Retirement System out of these block grants. The Kansas Legislature will have to pass legislation to implement this plan. There will be many days of hearings as the Legislature sorts out the full impact of this proposal. One can only speculate how the Kansas Supreme Court may react to this frozen funding plan in light of the \$548 million deficit that now exists with the school funding formula. Mark Tallman is the lead lobbyist for the Kansas Association of School Boards. On Fridays at 11:45 am, he hosts a webinar over the internet discussing education issues being debated by the Kansas Legislature. These webinars are open to the public by going to <http://www.kasb.org/> -- click on Advocacy Services at the top of the page and then click on Webinars.

### **WATER SUPPLY VISION**

The Governor's 50 Year Water Supply Vision – Draft II is now publicly available on the Kansas Water Office website at [http://www.kwo.org/50\\_Year\\_Vision/50\\_Year\\_Vision.htm](http://www.kwo.org/50_Year_Vision/50_Year_Vision.htm) . The Kansas Water Office and the Kansas Department of Agriculture have been giving informational briefings to select committees in the Legislature. There are now 92 action items identified for the next year. There are also action items for two years from now and five years from now. One recommendation is to create a Governor's Water Resources Sub-Cabinet with the state's primary water related agencies. A second recommendation is for the Governor to establish a Blue-Ribbon Task Force to develop a balanced, affordable and sustainable method to provide financing for water resource management and protection, including alternatives that utilize public and private partnerships. 14 regional goal teams of stakeholders in watersheds will meet over the next several months and give input to the Kansas Water Authority for their August meeting. By February, the results of a cost study on the Kansas Aqueduct from the Missouri River to Western Kansas will be presented to the Kansas Legislature. In the Governor's budget for 2016 and 2017, the transfer of \$6 million from the State General Fund and \$2 million from lottery funds are not made to the State Water Plan so the plan stays at \$13.1 million in comparison to \$20 to \$24 million spent annually prior to the 2009 Great Recession.

### **TAX FAIRNESS**

The fifth edition of the 'Who Pays?' study from the Institute on Taxation and Economic Policy and the Kansas Center for Economic Growth, says the poorest 20% of people in Kansas will pay, on average, 11.1% of their income in state and local taxes in 2015, compared with a 3.6% tax rate for the wealthiest 1%. Kansas is now 9<sup>th</sup> on the list of the ten most regressive tax states in the country. Kansas has lowered income tax rates while raising the sales tax – the most regressive tax. This report can be seen at the Kansas Center for Economic Growth website that now includes Duane Goossen's blogs - <http://realprosperityks.com/taxes/>

### **ELECTION INFORMATION**

For the 2014 election, there were 1,744,866 registered voters and 51% (887,000) cast a ballot. These are the highest numbers ever in a non-presidential year. There were 570 provisional ballots cast by voters without a photo ID. 267 ended up supplying the photo ID and having their vote count. There were 238 candidates in 2014 not counting the judges/justices on the ballot. In the Kansas House, 106 incumbents were re-elected while 3 lost. There were three races decided by less than 50 votes. 27% of the votes were advanced ballots compared to 31% in 2012. There are now 25,000 incomplete applicants who have not supplied documentation. The Secretary of State's office manages an interstate cross check system to see if voters are casting ballots in two different states. 29 states now participate by sending their voting rolls to Kansas and a cross check is made. This happens in January after the fall elections so double voting can be detected but prosecution by a local county attorney rarely happens. The Secretary of State has proposed legislation to give his office prosecutorial authority over these double voting cases. The Governor has now proposed moving local, spring elections to the fall.

### **LEGISLATIVE INFORMATION**

There have now been 35 Senate and 44 House bills filed. On Thursdays, the schedule for the following week is printed in the House and Senate calendar. For next week, Senate committees will hold hearings and briefings on KanCare, multi-year contracts for school districts, the federal clean air act, wind energy, and the Governor's 2015 Rescission Bill. The House committees will hold hearings and briefings on transportation, KPERS, the K-12 budget, school finance court cases, overview of past election bills, and consensus estimates on state revenues. The bills and the calendars can be viewed at <http://www.kslegislature.org/li/>.