

2015 LEAGUE OF WOMEN VOTERS OF KANSAS E-REPORT #17

Paul Johnson – May 15, 2015

THE REVENUE RIDDLE

This legislative session will linger on to next week. The \$4 to 500 million budget deficit is real. The quest to find the necessary revenues to fill the deficit is the riddle. The House Taxation committee has passed two tax bills to help solve the budget crisis but only one bill will be brought up for debate on the House floor today. The House voted not to recommend the bill for passage. The Senate Taxation committee is unable to find a consensus between urban and rural members. While the Senate debated and passed the 2016/2017 State budget, the House has not had a floor debate on their State budget but the House may end up assembling the tax package that the Senate will finally discuss. While the State budget languishes till a revenue package is finally passed, conservative legislators want to pass the smallest revenue package possible and make more drastic cuts to the budget to build an ending balance.

The House tax bill that was debated today is H Sub. for SB 270. The original SB 270 was an expansion of tax credits for the low income scholarship program. It was gutted and a revenue package inserted that was sent to the House floor without any committee recommendation. This new bill increases the state sales tax from 6.15% to 6.85%. It lowers the sales tax on groceries to 5.9% but only for certain purchases of food for their taste or nutritional value. Not included in this lower rate is candy, dietary supplements, vending machine food, prepared food and soft drinks. This overall sales tax increase raises \$271 million in 2016 and \$308 million in 2017. Certain itemized deductions are eliminated or reduced to net \$97 million in 2016. The Governor's tax amnesty plan is included that is projected to net \$30 million in 2016. For 2015 only, the lowest individual income tax rate is dropped from 2.7% to 2.55% costing Kansas \$35.3 million. Thus this total tax package nets \$362.7 million in new revenue for 2016 and \$386.8 million in 2017 leaving the 2016 State budget ending balance at just \$16.3 million - .3% of the State General Fund as opposed to the recommended 7.5%.

The Governor's tax package had adjustments and the freezing of individual income tax rates but was not included in this tax bill. Nor are there any new taxes on cigarettes, tobacco or liquor. The House tax bill that did pass – HB 2430 – and was recommended by the House Taxation committee was not debated on the House floor. HB 2430 repealed non-wage exemption for 333,000 limited liability corporations unless employing at least one person for 2,080 hours of pay.

Passive income, rents and royalties are taxed at 4.6% and other business income at 2.7%. Another bill debated but not passed from the House Tax committee would have increased the motor fuel tax from 24 cents to 29 cents a gallon netting \$82 million in new revenue. The House floor debate on H. Sub. for SB 270 will have numerous amendments proposed. The battle will be over increasing consumption taxes versus modifying the income tax changes that have so decimated the revenues to Kansas. This tax debate will probably go on all next week as a workable majority in both chambers finds that consensus. Exhaustion politics will set in late next week as lawmakers are worn down and ready to leave town.

STATE EMPLOYEE CLASSIFICATION CHANGES

HB 2391 allows wide-scale conversion of state jobs covered by civil service protections to unclassified, unprotected jobs. The bill applies to all new-hires and for existing state employees to get a promotion or advancement, they must give up their civil service job protection. Unclassified employees will be at the mercy of their managers with little if any recourse to arbitrary firings. Patronage and political pay-offs will become the norm. The Governor signed this bill on May 14.

RENEWABLE ENERGY PORTFOLIO STANDARD

SB 91 passed the House 105 to 16 and the Senate 35 to 3. It is now headed to the Governor's office. After a four year battle by the fossil fuel industry, Kansas' mandate of 20% renewable energy by 2020 is now just a voluntary goal even though the major electric utilities have reached the goal five years early. The existing 20 wind farms and seven wind farms will keep their property tax exemption forever. New wind farms after January 1, 2017 will receive just a ten year exemption from property taxes. Existing wind farms make payments to counties in lieu of property taxes. Time will tell what this change of policy by Kansas' lawmakers will do to the expansion of wind energy.

LIQUOR LAW CHANGES

House Bill 2331 changes liquor laws for catered events on public property and alters restrictions on the locations of liquor retailers, microbreweries, micro-distilleries and farm wineries. The bill enacts shipping licenses for wineries and permits farm wineries to sell wine at farmers markets (SB 217). An amendment was offered to allow convenience stores and groceries to sell hard liquor but it was voted down. This bill passed the Senate 22 to 13 and is headed back to the House amended. HB 2200 allows - through a county vote - the opportunity for

grocery stores and convenience stores to sell liquor. No House floor action has yet been taken on this bill.

ELECTION LAW UPDATE

House Bill 2104 was amended in the second conference committee to move all local elections from spring to the fall of odd-numbered years and keep elections non-partisan unless a city votes for partisan elections. This bill also contains provisions to fill vacancies on election ballots and cancels the presidential preference primary. This bill passed the Senate 22 to 13. It will be a very close vote in the House next week.