



Legislative Affairs News

LEGISLATIVE AFFAIRS NEWS

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As reported by Robert J. Vancrum, Kansas Government Affairs Specialist for the Shawnee Chamber of Commerce

BUDGET

This week the House took its first substantive actions toward meeting the \$400 million plus projected shortfall in the state's budget for 2011 fiscal year. The House Appropriations Committee finalized its "mega" appropriations bill, HB2706, by including \$361 million in spending cuts from the Governor's budget for 2011, with slightly over half from K-12 funding. Other substantial action was also taken cutting all state employees' pay by five percent, freezing contributions to the state retirement plan at 2010 levels, installing a hiring freeze in all executive branch departments with the exception of higher education, and making another one percent across the board General Fund cut to most state agencies, excluding higher education and corrections. Those, together with assumptions about federal funding continuing and moving expenditures within categories, left them showing over \$700 million in net reductions to the Governor's recommendations.

You will recall that the Senate Ways and Means Committee had built in its 2011 budget, SB556, by making \$100 million in reductions, based on the assumption that revenues of \$300 million would have to be raised.

TAX POLICY AND TAXATION

On Tuesday, the House finally had its long-promised debate on HB2549. Leadership carefully orchestrated the removal of the sales tax on utilities. They also had offered an amendment removing the tax on lottery tickets. At that point, 16 Republicans joined the 48 Democrats to pass a motion 64 to 57, tabling the bill until May 3. Republican leadership immediately issued a press release noting that no one offered motions to increase taxes. They concluded that since these 64 would not vote for tax increases, the Appropriations Committee had no choice but to fill the nearly \$400 million expected shortfall in 2011 revenues by spending cuts. Democrats responded that until the House takes action on the budget, there is no reason to vote for raising new revenue.

On Thursday, Senate Tax Chair Les Donovan attempted to work SB516 in Senate Tax and did get a motion to get the Governor's tobacco tax proposal scaled down to a 30 cent a pack increase on cigarettes only, and moved it into Senate Substitute for HB2388. Then no one would make a motion to move it out favorably. He next asked for a motion to reduce the Governor's sales tax increase proposal to 0.7% and got that from Senate Majority Leader Derek Schmidt. However, no

one, including Sen. Schmidt, would even move to put the reduced sales tax portion of SB516 into a House bill. Sen. Jeff Colyer demanded that it be a Democrat to move the Governor's sales tax proposal, and both Senators Holland and Steineger refused. The Chair was also unable to take action on either SB569, raising any type of liquor tax, or on SB567, levying a new tax on soft drinks. It appeared the Chairman only had one ally in favor of raising any revenues. The Governor and Senate Republican leadership will either (1) have to persuade Democrats to join them; (2) find a committee more open to new revenues; or (3) Ways and Means will have to join the House in making \$300 million more in budget reductions.

Senate Commerce Committee made substantial amendments to HB2538 and sent it to the Senate floor. This is the 2010 expansion of the PEAK tax incentives program. Rep. Kleeb, Sen. Brownlee and Secretary of Revenue Joan Wagnon have been negotiating on this bill to reduce or wipe out the fiscal note. We now are told the Senate will pass it, the House will concur and the Governor will sign. Maybe.

The changes are to remove the eligibility of out of state entities who purchase a Kansas business unit, so there is no retention element left in the bill. They also put a cap of no more than \$4.8 million of income tax withholding that may be retained in any year and the Secretary of Commerce now has discretion on to who gets it. Last, businesses in the urban counties of Johnson, Douglas, Leavenworth, Wyandotte, Shawnee and Sedgwick will no longer be eligible for the business and jobs tax credit program. The Kansas Economic Developers Association, which was the coordinating group advocating for this bill, has made a clear choice of which incentives to keep, but there are some losers and some winners.

On Tuesday, the House finally had its debate on removing sales tax exemptions (HB2549). Leadership carefully orchestrated the removal of the sales tax on utilities. They also had offered an amendment removing the tax on lottery tickets. At that point, 16 Republicans joined the 48 Democrats to pass a motion 64 to 57, tabling the bill until May 3. Republican leadership immediately issued a press release noting that no one offered motions to increase taxes. They concluded that this proved what they'd said all along – that the House has no appetite for new taxes, and that the Appropriations Committee had no choice but to fill the nearly \$400 million expected shortfall in 2011 revenues by spending cuts. Democrats responded that until the House takes action on the budget, there is no reason to vote for raising new revenue.

TRANSPORTATION

The Senate Transportation Committee took action Friday on Senate Bills 498 and 515, by moving their contents to two House bills, HB2650 and HB2510. Neither has a sales tax on fuels. HB2516 assumes a 0.2% increase in sales tax transferred to the highway fund, and two cents to six cents fuel tax increase phased in starting two years from now. HB2610 assumes a 0.3% in increased sales tax transferred to the Highway Fund and no additional funds. Neither of the new transportation bills has been voted out of Senate Committee. Meanwhile, House Transportation approved only those provisions broadening the bonding powers of the Department of

Transportation. You may recall that that much was needed just to continue ordinary repairs and maintenance.

HEALTHCARE

House Appropriations in their budget also assumed that the Congress would continue to provide the 70% match on Medicaid for another six months. It also assumed that HB2637, which provides for a new nursing home provider assessment upon all skilled nursing beds, would pass this session and become law. It would allow a draw down the greater federal match for Medicaid nursing homes. This bill has and the identical HB2726 has been heard in two House committees and has yet to pass either one, but obviously leadership thinks it will.

EDUCATION

As mentioned above, the House budget cuts \$170 million from state aid to K-12 education. Furthermore, those cuts are not spread equally, nor even proportionately through the formula through all districts. 85.9% was taken from base state aid per pupil ("BSAPP"), but the additional 85% was taken from supplemental state aid to those districts receiving state aid for their local option budgets (the poorest districts in taxable property).

House Republican leadership did coordinate the passage in the Education Budget Committee on a package of school finance changes, which were incorporated in HB2379. This bill would give school districts the ability to raise 7% more local option budget ("LOB"). It is called an "equity fund budget." This new 7% LOB would be allowed only to those four districts who have already levied the full 31% permitted local option budget and are yet in the bottom 50% of districts in per pupil budget authority (the three large Johnson County districts and Lawrence). In addition to that equity fund, HB2379 would permit a 5% local budget authority called a "Local Activities Budget" which could be used only for support of extracurricular activities or other expenditures that are not specifically mandated by the state constitution. Both of these local budget authorities could be accessed the coming year by the school boards but would have to be submitted to a mandatory election or referendum of the voters to be continued.

Clearly, these amendments to HB2379 and its passage to the House floor are part of an effort by House Republican leaders to entice Johnson County representatives to support a bill reducing state spending on K-12 education. While there's been no word from leadership, the 2011 budget will run as early as Tuesday of next week.

As always, if you have any questions about the report or other issues to come before the legislature, please send me an email, rvancrum@vancrumlaw.com.