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STATE BUDGET DEBATE

The Kansas House and the Kansas Senate have passed their respective budgets for 2014 and 2015. There are some differences but not major differences. The Governor submitted a two year budget but most of the major state agencies were not required to submit a detailed budget for 2015. The Governor did make general recommendations for 2015 and the Legislature made some recommendations but the budgets for 2015 are far from the detailed, specific budgets for 2014.

Key decisions will center on an acceptable ending balance and the amount of money that will be redirected from the State Highway Plan to shore up the State General Fund (SGF).

➤ The 2014 House budget came in at **\$14.489 Billion** – a decrease of \$115 million from the Governor’s recommendation. The State General Fund (SGF) portion of the total \$14.489 Billion budget was \$5.959 Billion – a decrease of \$127 million from the Governor’s recommendation. The key decisions made by the House were as follows.

- \$48.1 million of SGF was taken from the Board of Regents and **Regents Institutions by a 4% across the board reduction and salary limitations.**
- A \$43 million transfer from the State Highway Fund for the State Department of Education thus freeing up that amount in SGF.
- \$37 million in savings for the SGF was found **by limiting salaries for state and regents workers** to 2013 levels.
- \$3 million in SGF savings by requiring state agencies to pay for statutory longevity bonuses from existing resources.
- \$14.6 million in savings to the SGF were found by **increasing docket fees** to help fund the **Judicial Branch.**
- \$28.7 million in savings to the SGF were realized by a **transfer from the State Highway Fund for special education programs.**

- **Children’s Initiatives Fund (money from the tobacco co. settlement)** - preventative early childhood programs **declines** from \$57.6 million in 2012 to \$51.5 million in 2014.
 - The **State Water Plan declines** from \$15.2 million in 2012 to \$13.9 million in 2014.
 - **Two amendments about juvenile justice:** Due to the merger of the Juvenile Justice Authority with the Department of Corrections on July 1, funds appropriated for juvenile justice are to be used only for those purposes and not be transferred to other corrections functions AND ensures that the Juvenile Justice Authority has all the educational tools available to it by allowing any accredited institution to receive educational funds from the agency [Does this really guarantee that the juveniles will get adequate education in this merged department?]
- The Kansas **Senate passed a 2014 budget of \$14.57 Billion** which is a decrease of \$34.6 million from the Governor’s recommendation. The State General Fund portion came in at \$6.033 million – a decrease of \$53.6 million from the Governor’s request.
- The Senate took \$15.1 million in State General Fund from the Board of Regents and the **Regents Institutions by a 2% reduction in operating grants.**
 - The Senate **reduced the Judicial branch budget** by \$25.8 million in SGF by assuming an increase in docket fees will cover this shortfall. Legislation will need to pass to implement these increased docket fees.
 - The Senate agreed with the Governor **to freeze state employee salaries** for 2014 while the House reduced salaries.
 - Both chambers agreed with the Governor to **use \$107 million from the State Highway Fund to pay public school transportation costs.**
 - Base State Aid Per Pupil remains at \$3,838 for 2014.
 - A portion of new funds from **casino’s in Kansas - \$37.5 million — will offset SGF funds in paying state retirement** contributions for school employees to the Kansas Public Employer’s Retirement System (KPERS).
 - Full time **state employees decrease 124 positions** to 38,278 with cuts in the Department of Administration, Department of Transportation and the Department for Aging and Disability Services.

The spending differences will now be debated by the House and Senate as they watch the debate over taxes. The consensus revenue estimators will meet on April 15 to establish new 18 month revenue projections that the Legislature will use to finish the State budget during the veto session in early May. [Last year, the state passed the largest tax cut in history by significantly reducing state income tax rates and eliminating income taxes on small and corporate business owners for non-wage revenue.] Of particular importance is the impact of **small businesses changing their incorporation status to avoid paying state income taxes** on non-wage income. This will show up in a decrease of withholding taxes to Kansas. As

the federal government locks in the 'sequester reductions' till at least September 1, what impact will that have on the 2014 State budget?

- There are many subplots and creative fund transfers in a \$14.5 Billion budget.
- Come October 9, the Kansas Supreme Court will hear the lawsuit that might force the State of Kansas to spend up to an additional \$440 million on public schools. The budget debate never ends.

The House and Senate will spend the next two weeks finding a compromise budget. This agreement will depend on the final version of tax policy and the revenue it produces.

TAX DEBATE

The Kansas House and the Kansas Senate have now passed their respective tax bills. Compared to the State budget where there were minor differences, **the tax bills are quite different**. The hope is that these differences can be settled over the next two weeks before the regular legislative session ends on April 6. The Senate's version was much closer to recommendations from the Governor than what was passed by the House. There is still great uncertainty over the out years – 2016 to 2018 – where the present economic projections predict serious deficits without more revenue or more massive spending cuts. **The hope and prayer — that just eliminating income taxes will spur broad economic development — will be tested if Kansas stays on this course.** Politics is about timing and if the nation's economy is truly gaining steam than the Kansas' economy will benefit and Kansas' tax policy will be less important.

The Senate Tax bill — HB 2059 — would retain the state sales tax at 6.3% instead of letting it decline to 5.7% thus generating \$262 million for the SGF. Itemized deductions, with the exception of charitable deductions, would be reduced by 24% in 2013, 41% in 2014-15, 65% in 2016 and 94% in 2017 and thereafter. A new series of individual income tax rate cuts will begin 2014 with the bottom rate of 3% reduced to 2.5% and further reduced to 1.9% in 2016. The current top bracket of 4.9% would be reduced to 3.5% in 2017. Beginning in 2016, if SGF receipts from taxes have grown more than 4% from the previous year, those extra revenues would reduce income tax rates even faster. For 2014, this tax package raises \$316 million in new revenues. By 2017, revenues are only increased by \$27 million as income tax cuts take hold and for 2018 there is a net revenue loss of \$381 million.

The House tax bill — Sub. for SB 84 — follows current law and decreases the state sales tax to 5.7%. As passed from the House Taxation committee, .4% of the 5.7% state sales tax would have been directed to SGF instead of the State Highway Fund for two years. This amounted to \$382 million. On the House floor, this diversion to SGF was deleted so the \$382 million will now go to the Highway fund. All itemized deductions in the House tax bill are reduced 24% to generate \$108 million in 2014 and \$88 million in 2015 for the SGF. **Starting in 2014, if state revenues increase over 2% from one fiscal year to the next, a formula is established to reduce individual income tax rates first and then corporate income tax rates after the complete elimination of the individual income tax.** The reduction of itemized deductions by 24% in 2014 would increase in future tax years based on the reductions in the individual income tax rates. If there is no individual income tax, no need for any deductions.

So now **the Senate and House will have to appoint conference committees to find a compromise** bill that can get 63 votes in the House and 21 votes in the Senate accompanied by the Governor's blessing. The House may agree to a small increase in the sales tax to adequately fund the ending balance and fully fund the State Highway Fund. The Senate may pull back on the speed of reducing the income tax rate brackets. A consensus will have to be found in balancing the budget in light of revenue changes with new tax legislation.

LEGISLATIVE TWILIGHT ZONE

This is the time of a legislative session where it becomes almost impossible to stay up with legislative maneuvers to combine different bills that may or may not have passed one chamber or a committee. The objective is to find an agreed upon bill and see if other measures – that must cover the same topic – can be attached. The House and Senate rules are vague on what legislation can be slipped into popular bills. This week in House Elections, SB 100 - that increases from \$500 to \$1,000 the amount a candidate can spend without filing reports – was amended with HB 2314 that increases what legislators can receive in gifts or meals from lobbyists. HB 2314 had been voted down 118 to 4 on the House floor but this bill is favored by the committee chairman.

Conference committees of three members from each chamber are selected to iron out differences on legislation passed in different forms by the House and Senate. Over the next two weeks, committee meetings virtually stop and all legislative work is done in these conference committees and on the floors of the respective chambers. The schedule for these conference committees are not published anywhere and lobbyists hang out waiting for announcements from the floor. The really important conference committees on the State budget or the tax bills are more visible but the ones on elections or lobbying or voting or many other issues require extra vigilance.

AT&T DREGULATION UPDATE

At last reporting, there were real questions whether this bill – HB 2201 – would be worked this session or held over to next session. The essence of this bill is to establish a legislative study committee to report on state policy involving affordable telecommunication policy. The real reason for this bill –that **was written behind closed doors by AT&T and allies – was to allow AT&T to deregulate from Kansas Corporation Commission authority and stop being required to be the 'carrier of last resort' for thousands of rural and high cost customers.**

The process of writing this bill was opened up and all parties had a chance to offer input on amendments. In the course of one hour, 15 separate amendments were offered and accepted to change this bill. One amendment put a cap on the Kansas Universal Service Fund (KUSF). Another amendment broadened the scope of what the telecommunications study committee will research and report back on. Another amendment gave back some regulatory authority to the Kansas Corporation Commission in regards to consumer protection. The Federal Communications Commission (FCC) has a Federal Universal Service Fund that provides funding in Kansas to keep rates affordable but the purpose of this fund is changing from just landline phone service to broadband. One amendment states that loss of these FCC federal funds cannot be offset by KUSF.

HB 2201 passed out of the House as written by AT&T. Now this bill has been substantially altered. Many differences will have to be settled between the House version and the amended Senate version.

Consumer advocates are asking why change telecommunication law so fundamentally first and then study the consequences after the fact?

PAUL SAYS: Why not hold up on these regulatory changes, have the telecommunications study committee do its work and write new law after the report? Politics work on influence and money. AT&T has an abundance of both. Might makes right? There is still much to be discussed and understood with this bill.

We won one victory — **SB 82 Would have Amended the Kansas Renewable Standards Act** — the attempt to weaken the renewable energy portfolio standards failed. Current standards stand requiring steadily increased renewable energy mandates like wind and solar from 15% required by 2016 and 20% by 2020 to 15% by 2018 and 20% by 2024. (also would have permitted the building of the 895-watt coal-fired power plant in Holcomb-- which can't go forward without an environmental review.)

Hearing: **Tuesday, March 26, 2013, 1:00 PM Room 144-S — HB 2199 — PROTECT THE 2ND AMENDMENT** Senate Committee on Federal and State Affairs

The following are on the calendar this week for a vote by the full House or Senate.

SB 149 — Drug screening for recipients of cash assistance and unemployment benefits.

SB 232 — would reduce the rate of the Kansas Earned Income Tax Credit (EITC) for working poor from 17 percent of the federal EITC to 9 percent beginning in tax year 2013.

SB 2192 — **take away in-state tuition for Ks. HS graduates who were brought as children as undocumented** (about 600 students in Ks) “An alien who is not lawfully present in the United States is not a domiciliary resident of the state, is not entitled to pay resident fees upon enrollment at any state educational institution”.

SB 63 — Elections; voting crimes, penalties and prosecution. — This would **give the Secretary of State enforcement powers in voting crimes and** raises the criminal penalties for those who “intentionally” vote twice, etc. Interesting phrase: when one of the authorized prosecution entities begins investigation, none of the others can jump in, i.e. when the Secretary of State makes an accusation in a county, neither that local District Attorney nor the Kansas Attorney General can weigh in. The Senate amended the bill by adding the new section **prohibiting the Secretary of State from establishing political committees (PAC)** other than those supporting a candidate for Secretary of State.

However the House Committee on Elections amended the bill by deleting that and reduced the severity level of the crimes, which had been in the introduced version of the bill

SB 61 — Human trafficking; crimes of commercial sexual exploitation of a child, selling sexual relations, promoting the sale of sexual relations and buying sexual relations....

HB 2263 — A state funded voucher “scholarship” for special needs students (any on IEP) to attend any school the parent wants (for-profit ones or non-profit private ones)--voucher money deducted from state dollars normally given to the student’s public school district.

HB 2228 — KPERs changes....

Senate Sub. for HB 2141 — **Trying to prohibit any “public funds” from being used to lobby the legislature. Aimed at school districts particularly.** It would require every municipality to file an annual report

to the Secretary of State regarding public funds used to hire or contract for the services of any lobbyist--defines "municipality" as "any county, township, city, school district or other political or taxing subdivision of the state, or any agency, authority, institution or other instrumentality thereof."

SCR 1601 — *Constitutional Amendment to Eliminate the Judicial Selection Commission* and have governor appoint Sup. Ct. Justices with ratification by Senate and add the law concerning the Court of Appeals to the Kansas Constitution and would provide for vacancies on that Court to be filled in the same method. If approved by two-thirds of the House and Senate, the proposed amendment would be submitted to the electors in August 2014.

SCR 1608 — *Constitutional amendment concerning school finance; suitable provision for finance definition to be determined by the legislature* The constitutional battle is on to define 'a suitable education' and who is responsible for deciding adequate funding for such an education.

HB 2364 — *would eliminate the requirement that proposed amendments to Kansas Constitution be published in one newspaper* in each county and would allow the proposed amendments to be published instead only on the Secretary of State and State of Kansas websites with a press release announcing it. The S.O.S Office estimates the total cost to publish all of the current proposed amendments under existing requirements would be approximately \$2.2 million; however, it is unlikely that all or even most of these would pass in the legislature.

WHAT KIND OF LEGISLATION SHOULD BE INTRODUCED?

By **Jean Schodorf** published in *OurKansasVoice*

I have been observing the legislative process this session from Wichita. For the last 12 years, I was part of it. So, it is extremely interesting to observe how the process works this year. And it all depends on leadership and philosophy of what government should be and who should it serve.

My philosophy has always been that an elected official at any level should serve the people. He or she should also abide by the constitution and the prescribed duties of the office. For example, the only real responsibility of the legislature is to pass a budget for the next year, and I believe, to oversee how taxpayers' dollars are spent. I also believe that we should work for the common good and try to solve problems or remove obstacles for an efficient government to provide basic services for the people and have a good business climate for jobs.

Many times agencies will come to the legislature with a bill or requests for funding in the budget process with justifications for why the bill is needed. Especially during the last few years, they weren't always to increase spending. Many times they were bills that would make government more efficient to carry out the mission to serve the people or to serve the mission of the agency in order to serve the people. I felt it was the legislator's duty to have an open mind about these requests, study the justifications and if possible, support those agencies. The Board of Regents is a good example because the bills they bring are always those that would expedite and make the process of higher education more efficient. They have had to cut programs and staff, but have

always tried to keep in mind the mission of the higher education institutions. Likewise, many times citizens or groups will come to the legislature with proposed bills because of something that happened or to correct an injustice. Listening and Many times agencies will come to the legislature.

These are all legitimate reasons for legislation. I have always believed that if there is a problem, the closest level of government to the problem is probably the best entity to correct the problem. For instance, if the school board can fix the problem and it doesn't affect the entire state-wide system, then that is the place to fix the problem. It is the same for the city level or county level. If a bill is proposed, it should be because it is a state-wide issue or affects entities in the entire state. Many times there are industry related issues that can only be fixed at the state level, or sometimes there are safety issues, such as speeding or others, that can only be fixed at the state level.

However, the one thing that I am seeing more of this year and believe there is no place for these kind of bills is personal vendettas or disliking and targeting specific groups because of ALEC or a party's philosophy. Legislation should be for the good or to solve problems and not try to suppress or take away individuals rights. Legislators should work for their constituent and the state and not only for the party.

So, I have compiled a list of bills or actions that in my opinion do not meet the goodness test or the solving a problem test, but rather are trying to take away rights of individuals or groups or are personal vendettas.

Here is a list of such bill topics and maybe you can think of others. This is not all-inclusive

Granted, many of these have not passed, but they were introduced. Please send your examples.

1. Taking away the right of a county to hold a vote to consider if an animal facility should be built in that county.
2. Taking away contractual rights for collective bargaining and targeting teachers and unions specifically.
3. Prohibiting the Common Core standards (which were put together voluntarily by educational leaders from many, many states-not the federal government) even though an elected body had approved the curriculum.
4. Forcing an entity to allow concealed carry even though the facility specifically posted their legal right to prohibit weapons in that facility.

5. Taking away all or part of automatic deductions in a pay check even though the employee gave permission for deductions to come from his or her own earned money.
6. Refusing to consider expanding Medicaid to 225,000 people even though it may save money in the long run, especially in hospitals and emergency rooms--particularly urgent for small hospitals.
7. Not honoring the promise of a former legislature to let the sales tax go down.
8. Voter suppression and giving the Secretary of State prosecutorial powers when there is no persuasive evidence of voter fraud or that those cases cannot be handled by present district attorneys.
9. Taking away civil service protections or classified positions so that it makes it easier to fire employees by the administration when privatizing services. (There was a reason, after all, that the Civil Service system replaced political patronage over 100 years ago.)
10. Ejecting journalists from a caucus.
11. Eliminating deductions for thousands of taxpayers for the sake of filling a hole in the budget.
12. Forcing cities that already have fluoride to publish warnings about the use of fluoride in the water.
13. Forcing school districts to give warnings about the teaching of climate change.
14. Drug testing of unemployment and welfare applicants for "suspicious" behavior when there is no evidence that a large number of applicants use drugs or are taking advantage of these programs.
15. Trying to eliminate renewable energy standards because a legislator doesn't like them, even though all utilities are meeting the 10% standard and the standard was implemented so that other renewable energy industry could establish in Kansas and also, pay taxes.

In summary, I am sure there have been some good bills, too. Making the internet safer for students is an example of a positive bill. Please send your examples if you see bills that are positive or are suppressive.

[For more from Jean Schodorf's recent blog, go to <http://ourkansasvoice.com>