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Issue No. 4

February 1, 2013

(See several items at the end of this report)

2013 LEAGUE OF WOMEN VOTERS OF KANSAS E-REPORT #4

February 1, 2013 – Paul Johnson

TAX BATTLES – PART II

The Governor's tax package has been introduced as Senate Bill 78. Hearings were held before the Senate Assessment and Taxation committee on Tuesday, Wednesday and Thursday. The proponents presented their case on Wednesday while the opponents gave their testimony on Thursday. The plan is for the committee to debate and work SB 78 next week on Tuesday through Thursday. There will be many amendments offered. There will be great debate over the actual cost and projected revenues with this bill.

Kansas Secretary of Revenue Nick Jordan has been the primary point person in explaining the philosophy and purpose behind SB 78. The overall plan is to eliminate the individual income tax over several years. Since the Governor did not sign the perfect tax cut bill last year with appropriate set offs for the lower income tax revenue, SB 78 raises revenue through retaining the present 6.3% state sales tax (\$262 million) and eliminating the deductions for mortgage interest and home property taxes (\$200 million). Secretary Jordan cites studies from the Tax Foundation that of the four major tax sources – sales, property, individual income & corporate income – the key to economic growth is to lower/eliminate individual income taxes first and corporate income taxes secondly. Last year's income tax law lowered the individual income tax in Kansas to the 2nd lowest in the region. SB 78 continues this lowering of individual income taxes through 2017. Additionally, if revenues to Kansas grow over 4% annually, this additional revenue accelerates the reduction of individual income taxes to zero and begins the elimination of corporate income taxes.

Secretary Jordan argues that sales tax and property tax have the least impact on economic growth although he recognizes that property tax is by far the most unpopular tax. Secretary Jordan cited the fact that only 30% of Kansas tax filers itemize to take advantage of the mortgage interest and property tax deductions. The Secretary provided charts to show that average tax filer who itemizes in Johnson and Sedgwick County will have a positive \$700 benefit from

lower income taxes even with the loss of the mortgage & property tax deductions. Secretary Jordan pleaded with the committee to see these tax changes as a package that benefits the vast majority of Kansans. In order to fund the essential governmental services of education, social services and public safety while having a 7.5% ending balance, the revenue increases are absolutely essential. If this committee or any legislator has a better plan to fund an adequate budget and continue the elimination of income taxes, the Governor's office is open to all ideas. Proponents from the Kansas Association of School Boards (KASB) to the National Federation of Independent Businesses (NFIB) to the Kansas Chamber of Commerce offered their reasons for support. KASB understands that without SB 78 and the increased revenues, public school funding will be in jeopardy. For NFIB and the Kansas Chamber, their members favor cuts to income taxes over the sales tax and that the competitiveness of the Kansas economy is hurt by the existing income tax rates.

Bernie Koch from the Kansas Economic Progress Council led off for the opponents. While tax policy is important, other factors such as investments in infrastructure or quality educational programs are as important for economic development. Citing a study on business taxes in Kansas, property tax accounts for 44% and sales tax accounts for 24% of business taxes paid while income taxes account for only 6%. The Tax Foundation ranks Kansas the 48th of the 50 states in property and sales tax for businesses. Will SB 78 shift the tax burden via property tax to manufacturing companies and away from the service economy? The American Association of Retired Persons (AARP) testified that many fixed income retirees were concerned about the loss of the food sales tax rebate program and the future of the homestead property tax refunds. AARP favors a sunset date on the state sales tax instead of making the 6.3% rate permanent. The Kansas Realtors support the elimination of the income tax but not with the immediate elimination of the mortgage interest and property tax deductions. They want the committee to consider a plan to phase down all deductions and tax credits (that number over 100) to obtain the necessary revenues to fund Kansas government.

The cost of SB 78 will be vigorously debated over the next several weeks. The latest projection by the Kansas Legislative Research Department shows that by 2018 the ending balance for Kansas government will be a deficit of \$782 million thus creating our own self-inflicted 'fiscal cliff'. The Senate Ways & Means Chairman – Ty Masterson – commented that five year projections are always inaccurate – just a question of how inaccurate. The Governor's office is convinced that lowering income taxes will generate enough economic development through more jobs and new residents to Kansas to increase sales and property tax revenues. This is often called 'dynamic scoring' of economic forecasts. Time will tell but we are all participants in this grand experiment!

JOHN REDMOND DREDGING

John Redmond reservoir in Coffey County was constructed in 1964 and has lost nearly 40% of its original capacity to sedimentation. Today only 43% of the remaining capacity contains water and as a result Kansas has access to only 25% of the reservoir's storage potential. Kansas lawmakers have considered the options of piping water to John Redmond, building a new reservoir or dredging the existing reservoir. Due to cost and politics, piping in water or building a new reservoir are considered unworkable. John Redmond is a federal reservoir owned by the U.S. Army Corps of Engineers. Kansas has filed the first ever Environmental Impact Statement seek-

ing approval by the Corps to modify a Corps facility by procurement of a design-dredge contract team, identification of sediment disposal sites and acquisition of environmental permits. The Kansas Water Office has sent out a request for proposals to dredge John Redmond and many parties have responded. For information on a February 5 meeting:

http://www.kwo.org/projects_programs/JohnRedmondDredging.html

RENEWABLE ENERGY STANDARDS IN KANSAS

Kansas enacted in 2009 a renewable energy standard (RES) for the major Kansas' electric utilities. The RES requirement for 2012 was 10%, 15% by 2016 and 20% by 2020. Today all 6 utilities (Empire, KCP&L, Westar, KEPCo, Midwest, Sunflower) have met the 10% standard and are 90% of the way to the 20% standard. In 2012, Kansas led the nation in wind farm construction adding 1440 megawatts (MW) to the existing 1,279 MW for a total of 2,819 MW. There are now 18 operating wind farms with one under construction representing nearly \$6 Billion in capital investment. Kansas ranked 5th in the U.S. in 2010 for percentage of electricity (7.1%) delivered from wind. 2011 was 10% of delivered electricity and 2012 will be higher still.

There is a debate in the Kansas Legislature as to the real cost of wind power. Senate Bill 82 will be heard before the Senate Utilities committee on Tuesday February 5 at 1:30 pm in 548-S in the Capitol. SB 82 proposes to delay the 20% RES standard. It is possible that the Kansas House will have a similar bill. Opponents of wind energy argue that wind energy is not reliable since no one can control the wind. Proponents argue that wind energy should be part of an energy portfolio and that wind energy through power purchase contracts is cheaper than natural gas powered peaking electricity. Wind power is not subject to fuel cost increases of coal or gas and wind power uses no water thus saving that precious resource for other uses. Wind farms contribute millions to rural landowners and counties. Kansas has the second best wind resource in the nation.

The Kansas Department of Wildlife, Parks and Tourism has developed an online tool to help guide landscape scale development such as wind energy facilities. The Kansas Natural Resource Planner is a dynamic interactive mapping system that includes various GIS layers. Additions and upgrades to this Planner are ongoing. <http://kars.ku.edu/maps/naturalresourceplanner/>

LEGISLATIVE NOTES

The budget process for the Kansas Legislature is now beginning. The Kansas Legislative Research Department has now analyzed the Governor's budget and will assist legislative committees and sub-committees to review department and program budgets. In the Kansas Senate, this work is done by various sub-committees of the Senate Ways & Means committee. In the Kansas House, budget committees have been established that have members from the Kansas House Appropriations committee and other members who do not serve on Appropriations. It will take a few weeks to review these budgets.

The daily calendars for the House and the Senate that come out on Thursday list the schedules for committees for the following week so one can track which bills may be discussed next week. These calendars are always subject to change but they give you some idea of which issues may be debated or worked in committee. Chairpersons have tremendous power to decide which

bills will or will not be heard. Click on calendars on this website:

<http://www.kslegislature.org/li/>

Kansas House committee hearings of note:

Energy and Environment – February 5 at 9 am – Room 582-N – Renewable Energy Standard – <background to RES compliance to rate impacts>

Federal and State Affairs – February 6 at 9 am in Room 346-S – Briefing on Immigration by Secretary of State Kris Kobach

Corrections and Juvenile Justice – February 5 & 6 at 1:30 pm in Room 152-S – Executive Reorganization Order 42 – Reorganization of the Juvenile Justice Authority and the Department of Corrections

General Government Budget – February 5 at 1:30 pm in Room 218-N – Review of Agency Budget: Governmental Ethics Commission & Kansas Human Rights Commission

Taxation – February 6 at 3:30 pm in Room 582-N – HB 2110 – the Governor’s Tax Proposal on sales tax retention, deductions and income tax rates

Kansas Senate committee hearings of note:

Assessment and Taxation – February 5, 6 & 7 at 9:30 am in Room 548-S – hearings and working of Governor’s Tax Plan – SB 78

Ethics, Elections and Local Government – February 5 at 9:30 am in Room 159-S –Hearing on: SB 65 Governmental ethics commission; membership expanded

Ways & Means – February 5 at 10:30 am in Room 548-S – Presentation on Kansas Department of Transportation and Kansas Turnpike Authority efficiencies – Mike King Secretary of KDOT

Ways and Means Subcommittee on Social Services – February 4 & 5 at 3:30 pm in Room 548-S – KDHE Health and Health Care Finance – staff overview, agency presentation and possible public testimony

Utilities – February 5 at 1:30 pm in Room 548-S – Hearing on SB 82 – Renewable Energy Portfolio Standards

There have now been 109 Senate bills and 204 House bills introduced.

Additional items from president Ernestine

"School funding is the REAL story behind the governor's push to get rid of merit selection of appellate judges."

Here's KCPT'S reporting with an explanation.

<http://www.youtube.com/watch?v=zaDIYCmm1Aw>

These items are from Bernie Koch's newsletter for the Kansas Economic Progress Council:

Vote on Justices has roots in school finance

A constitutional amendment that changes the way Supreme Court and Appellate justices are chosen passed the Kansas Senate this week 28 to 12. It now goes to the Kansas House of Representatives.

Governor Brownback and conservative legislators, angered by Supreme Court decisions ordering more funding for schools, are attempting to go after the courts by changing the way Supreme Court and Appellate Justices are chosen. Currently, a Supreme Court nominating commission made up of attorneys chooses three nominees to fill a vacancy. Those names are sent to the Governor, who makes a selection.

Brownback and the conservatives want the Governor to be able to pick nominees and submit them to the Kansas Senate for confirmation. The constitutional amendment would be on the ballot in Kansas. A two-thirds vote was required for Senate passage. That's 27 votes. Two-thirds is also required for House passage. It's uncertain if conservatives have the necessary House votes.

Hearing on education constitutional amendment next week

As expected the Kansas Senate's Education Committee has introduced legislation to change the Kansas Constitution. The amendment's purpose is to sidetrack any Supreme Court decision that orders more funding for Kansas education. The Senate Judiciary Committee is expected to hold hearings on the measure next week.

The amendment would say, "the financing of the educational interests of the state is exclusively a legislative power under Article 2 of the Constitution of the State of Kansas and as such shall be established solely by the Legislature."

A lawsuit filed by school districts resulted in a recent decision calling for the legislature to appropriate \$480 million more for education.

If the amendment passes the legislature, supporters say they want the measure on the ballot no later than the August 2014 primary election.

Local taxes? "Not a tax lid" bill has hearing

The House Taxation Committee held a hearing on HB 2047 Tuesday, which was closely watched by local government groups and others. There is fear it could turn into a local government tax lid, but so far, it's merely a requirement to publish a notice under certain circumstances.

HB 2047 would require that if the total taxable real property valuation in any municipality increases as a result of increases in the assessed valuation of existing real property, then the governing body would be required to lower the mill levy rate. However, that requirement would be waived if the government unit published a resolution to increase its budget in the official newspaper of the county where the government is located.

The bill defines municipality as any county, township, city, municipal university, school district, community college, drainage district, and any other taxing district or political subdivision which levies taxes on real property.

Former Speaker of the House Doug Mays, representing the City of Olathe, warned lawmakers of problems by including every taxing jurisdiction. He gave the example of a cemetery district that might have to increase taxes just to pay for the requirement that a budget increase be published in the official newspaper.

Dale Goter of the City of Wichita asked the committee to consider a change that would exempt new valuation that grew at the same rate as the Consumer Price Index. He argued that many local government services involve gasoline (for vehicles) and petroleum products (road maintenance) that are subject to unpredictable inflationary pressures. He said inflation often hits local government harder than local businesses.

Mike Taylor of the Wyandotte County Unified Government made the strongest arguments against the legislation. He reminded lawmakers of the many ways the Legislature has impacted local valuations, such as the exemption of new machinery and equipment from property taxes.

The major sponsor of the bill, Rep. Steve Brunk (R-Wichita) fell on the ice in Topeka this week and has had wrist surgery. The committee is not expected to work the bill until he is present, probably next week sometime.