2014 LEAGUE OF WOMEN VOTERS OF KANSAS E-REPORT #14

Paul Johnson – April 25, 2014

THE KANSAS REVENUE RIDDLE

The Governor promised and believed that eliminating the income tax in Kansas would spur significant new economic growth to counter the lost income tax revenue. The income tax in Kansas is headed for complete elimination but so far after two years the expanded economic growth has not materialized. The loss of revenue has resulted in significant budget cuts to most state programs and has negated any meaningful effort to fund public schools adequately. This glide path to the complete elimination of individual and corporate income taxes has several more years to play out. State spending will be frozen at a 2% increase so the draconian cuts already made are set in stone. Kansas will be ill prepared for emergencies such as severe weather events. The full impact of eliminating the income tax for 191,000 limited liability corporations (LLC's), sole proprietorships and sub-chapter S corporations is still unknown but may well exceed the first guesstimate of $180 million annually.

The consensus revenue estimators met on April 17 to devise new revenue projections for 2015. The State General Fund (SGF) revised growth from 2014 to 2015 is .5% - $5.96 Billion to $5.99 Billion. In 2013, the actual SGF revenue was $6.34 Billion so Kansas is down $350 million. Individual income taxes have fallen from $2.93 Billion in 2013 to $2.52 Billion in 2015 – a loss of $410 million. Sales taxes were expected to increase to offset some of the loss. In fact, sales tax was $2.184 Billion in 2013 and for 2015 the revised estimate is $2.170 Billion – down $14 million. (Sales tax and individual income taxes comprise 85% of the State General Fund so other sources cannot compensate for these losses.) The revenue experts used a 4.9% economic growth rate for the United States in 2014 but just a 3.9% economic growth rate for Kansas. In 2015, the experts projected personal income growth rate for the United States at 5% while for Kansas this same growth rate was 4.2%. The Kansas unemployment rate is projected at 4.8% in 2015 – a good 2% lower than the national rate. For the 2015 Kansas' budget, SGF expenditures of $6.274 Billion will be $291 million over the receipts of $5.983 Billion. This is possible with one time ending balance spending as the 2014 ending balance of $675 million is reduced to $384 million in 2015.

The tax cutting frenzy is never over with this Legislature. The latest tax cut Christmas tree contained nine different tax measures. From adoption tax credits to agricultural projects sales tax exemptions to livestock net gain deductions to dwelling & accessibility credits were neatly tied into one package that could not be amended on the floor of the House or the Senate. The agricultural projects sales tax exemption was a bill never debated in the Kansas House. This bill picks special animal production industries and exempts them from paying sales tax for projects over $50,000 on the purchase of materials, machinery and equipment for the purpose constructing, reconstructing, enlarging or remodeling the business. These special winners are cattle feedlots, dairies, hog farms, poultry production plus sheep and goat farming. The fiscal cost guesstimate for this bill is $2 million annually but there is no cap on the revenues lost with this bill. This tax tool will be used to recruit more mega-dairies to relocate to Kansas further threatening the survival of the remaining family farm dairies. Mega-corporate Seaboard will be most appreciative as Kansas' taxpayers subsidize the expansion of their Ladder Creek hog farm in Greeley County from 180,000 animals to 360,000 animals – the largest hog operation in the country. This is our future agricultural aristocracy.

NEW KANSAS LAW

House Bill 2578 – firearms transfer; concealed carry; open carry; regulation by local government; forfeiture, return, and buyback of firearms; criminal use; criminal possession – This bill prohibits cities and counties from regulating the open carry of guns or knives. This bill prohibits local government taxes from being used for a firearms buyback program. This bill adds new posting requirements for buildings where the open carrying of firearms can be prohibited as authorized in this legislation.

Senate Sub. for House Bill 2506 – Appropriations for Higher Education and K-12; Adoption of Rose Standards; Student Performance and Efficiency Commission; Alternative Teacher Licensure; Due Process Rights of Teachers; Tax Credit for Low Income Students Scholarship Program Act – This bill has $25 million in bonding authority for a new KU Medical Center health education building. This bill eliminates non-proficient pupil weighting and changes the definition of at-risk pupil. This bill expands local option budget authority by local election. This bill increases the maximum percentage of school districts that may operate as Public Innovative Districts from 10 to 20%. This bill amends the law concerning due process procedures for the termination of a teacher contract.

Senate Sub. for House Bill 2101 – amends the Net Metering and Easy Connection Act and law regarding parallel generation. For customers connected after July 1, 2014, this bill establishes regulations for customers who generate their own electricity and are connected to the electric grid. This bill places a 15 kilowatt limit for residential customers, 100 kilowatt limit for commercial customers and 150 kilowatt for schools.

Senate Sub. for House Bill 2482 – establishes the Energy Efficiency Investment Act. This bill requires the Kansas Corporation Commission to permit electric and natural gas public utilities to implement approved programs and cost recovery mechanisms to reduce the consumption of electricity and natural gas by retail customers.

Air Quality Standards; House Bill 2636 – allows the Kansas Secretary of Health and Environment to establish performance standards for carbon dioxide emissions from coal-fired and natural gas electric generating units. This bill allows the Secretary to use flexible regulatory mechanisms, including the averaging of emissions, emissions trading, or other alternative implementation measures. This bill is intended to confront and challenge new air emission standards from existing power plants by the Environmental Protection Agency that will be released on June 2.

Health Care Compact; House Bill 2553 – allows Kansas to join the Interstate Health Care Compact. The Compact would allow Compact Member States to regulate health care within their boundaries and to secure federal funding. The U.S. Congress will have to consent to the Compact in order for it to be effective. If approved, the Kansas Legislature would have the primary responsibility to regulate health care so they could suspend all federal laws or regulations regarding Medicaid or Medicare.

Judicial Branch – FY 2015 Appropriation, Docket Fee Revenue, Budgeting, Chief Judge Election, Judicial Vacancies, Longevity Payments; Senate Sub. for House Bill 2338 – appropriates $2 million in SGF funds for the Judicial branch, increases docket fee revenue, modifies statues governing Judicial Branch operations concerning budgeting, the election of chief judges, and allowing for a delay in filling judicial vacancies for up to 120 days. The Judicial Branch is very concerned the new docket fees will be inadequate and furloughs with court closings a real possibility.

Exceptions to the Open Records Act; Senate Sub. for House Bill 2182 – provides that the exceptions found in the listed 30 statutes will not expire.

State Office Buildings; Senate Bill 423 – grants the Kansas Department of Administration the authority to sell the Landon State Office Building, the Curtis State Office Building and parking facility, plus the Van Buren Project. The sale is subject to approval by the Joint Committee on State Building Construction and the State Finance Council. The bill designates the first $15 million from the Landon or Eisenhower Building sale to be deposited in a special revenue fund to fund the demolition of the Docking State Office Building. Legislative approval of the Docking demolition is not contained in this bill but would be dependent on separate legislation.

(Note: These bills along with several others such as autism insurance coverage are listed in the 'Supplement To Preliminary Summary of Legislation 2014 Kansas

Legislature' by the Kansas Legislative Research Department published on April 9, 2014. http://skyways.lib.ks.us/ksleg/KLRD/Summaries.htm)

LABELLING GENETICALLY ENGINEERED FOOD

After close voter initiative losses in California and the state of Washington to mandate the labelling of genetically modified food, Vermont has now passed legislation to mandate labels on genetically engineered foods and a ban on the routine industry practice of labeling GMO-tainted foods as 'natural'. The legislation requires all GMO foods sold in Vermont to be labeled by July 1, 2016. In coordination with the Grocery Manufactures Association (Monsanto, DuPont, Pepsico, Coca-Cola, Kraft, General Mills, Kellogg's, etc.), United States Rep. Mike Pompeo from Wichita introduced in early April a bill to outlaw mandatory GMO labels and allow the continued use of 'natural' or 'all natural' on a wide range of GMO foods and beverages. Early polls indicate that Oregon voters will likely pass a ballot initiative on November 4, 2014 to require mandatory labeling of GMO's in Oregon.

In 1980, the U.S. Supreme Court ruled that an organism – a bacterium whose DNA had been modified through genetic engineering – could be patented. The case opened the door to corporate ownership of not just the techniques by which organisms could be materially altered, but of entire species and varieties of living things. Now what was once part of the public domain – seed and plant varieties – and the ability to grow food itself are being barricaded behind corporate laws. Last year, 93% of soybeans, 85% of field corn and 82% of cotton grown in this country was genetically modified. Today four agricultural firms – Monsanto, Syngenta, Dow and DuPont – control over 60% of the seed industry.

Along with the market share comes the power to dictate who may purchase the seed, how the seed is to be used and who may discuss the safety or efficacy of those seeds and those crops. Now individuals or scientists who buy Monsanto GMO seed must first sign a technology use contract prohibiting them from saving seed for use in a following year and publishing research on either the seeds or the crops without prior consent. *Scientific American* stated on July 20, 2009 that 'It is impossible to verify that genetically modified crops perform as advertised. That is because agritech companies have given themselves veto power over the work independent researchers.' And further stating that 'only studies that the seed companies have approved ever see the light of a peer-reviewed journal'. When scientists are prevented from examining the raw ingredients in our nation's food supply or testing the plant material that covers a large portion of the country's agricultural land, the restrictions on free inquiry become dangerous.

Once GMO food is labelled in Vermont, it will be impossible to conceal this fact in the other 49 states. The European Union mandated GMO labelling in 1997 and this drove genetically engineered food from the market except for imported animal feed that is genetically modified since meat, dairy and eggs produced with GMO's do not yet have to be labeled in the EU. There is great consumer confusion over the label 'natural' since there are no federal (FDA) standards. Many believe that 'natural' means 'almost organic'. After four decades of hard work, USDA 'certified organic' labeled food has grown to $35 Billion and prohibits the use of genetic engineering, irradiation, toxic pesticides, sewage sludge and chemical fertilizers. Today, $80 Billion is spent by consumers on products marketed as 'natural'. Get rid of fraudulent 'natural' labels on GMO and chemically tainted products and organic sales will skyrocket.

THE DEATH OF THE LIVE CATTLE INDUSTRY FREE MARKET

The monopolization of the entire meat market is almost complete. Starting right after World War II, the poultry industry was the first meat sector to be completely vertically integrated by a handful of corporations. Starting in the 1980's, the pork industry has gone the same route with the loss of 90% of the hog producers. The legal framework that regulated the clear distinction between the live cattle industry and the meatpacking industry was abandoned by the United States Department of Agriculture and the Department of Justice in 1984 allowing the meatpackers to buy feedlots and manipulate future cattle purchases. Today the competition between competing proteins (beef, pork and chicken) is collapsing as the four largest meat packers have controlling interests in all three meats thus manipulating any independent market left in beef. These meat packers now have the economic clout to strategically time live cattle imports from Canada or Brazil to drive down live cattle prices paid to American producers.

With gross receipts averaging $50 Billion annually, the live cattle industry is the single largest segment of American agriculture and critically important to the prosperity of rural America. Of the $14 Billion in annual farm sales in Kansas, $8 Billion comes from the cattle industry. With the loss of any meaningful anti-trust enforcement by 1980, the consolidation of the beef packing industry by four firms was rapid. In 1980, four firms slaughtered 35% of the fed cattle. By 2010, the concentration hit a new record of 85%. 22.3 million of the 33.6 million cattle in 2011 were slaughtered in just 26 beef packing plants owned by the four largest beef packers (Tyson, JBS, Cargill and National). Since 1980, 36,000 feedlots (32% of the total) have exited the industry. In 2011, 88% of all fed cattle marketed by feedlots were fed in 2,120 U.S. feedlots with a capacity of more than 1,000 head. The remaining 12% came from the remaining 75,000 farmer-feeders.

Along with the control of the largest feedlots, the packers have moved the pricing of cattle from the open, independent market to 'captive supplies'. Cattle owned by or committed to a meatpacker more than fourteen days before slaughter, which would include packer-owned cattle and cattle procured by forward contracts, are considered captive supplies. A variation to 'captive supply' is a 'formula' priced contract that guarantees market access to the cattle feeder but does not specify a firm base price at the time the cattle are committed to the meatpacker. The base price is typically tied to the open (cash) market prices paid the week prior to delivery. The problem is that the cash market has declined from 52% of the cattle purchases in 2005 to 26% in 2012. The meatpackers have the ability to use their captive supplies to undercut this cash market. U.S. live cattle producers are defenseless against the monopsony power of the beef packers to shift ever increasing volumes of cattle from the cash market to one or more captive supply procurement options. Not surprisingly, the percentage of the consumer beef dollar paid to cattle farmers and ranchers fell from 63% in 1980 to 43% in 2009.

The beef packers are well on their way to capturing the live cattle supply chain by substituting their corporate command-and-control scheme for the element of the free market system that Americans support – competition. Competition at the interface between the live cattle industry and the beef packing industry is all but destroyed. The remaining vestige of a competitive marketplace – the price-discovery cash market – is far too thin to predict a competitive value for fed cattle. If you are a chicken grower, Tyson owns the bird and the feed and does all the processing. The beef packers now own just 8% of the cattle but have stated that percentage will grow and their purchased Congress will just watch. What will stop the beef packers from demanding that they own at least 50% of a rancher's herd and that only certain select breeds will be slaughtered in the few remaining mega-packing plants? With the on-going drought, the cattle supply in this country is at a 60 year low. Why pay expensive Americans to produce beef when lower priced Mexican or Brazilian beef can be imported and pawned off as USDA inspected beef? As consumers, we still have some options to source local, sustainably raised meat and our fork is the most important political power we have.