

## **2014 LEAGUE OF WOMEN VOTERS OF KANSAS E-REPORT #16**

Paul Johnson – May 9, 2014

### **2014 LEGISLATIVE HIGHLIGHTS AND LOWLIGHTS**

The 2014 Kansas Legislative session is now over except for a ceremonial closing that will occur on May 30. Let the political battles begin and hopefully the Kansas' electorate will play a decisive role in evaluating this session. After May 30, the political fundraising will kick into high gear as lobbyists and political action committees can contribute to specific candidates. To this point 95 of the 125 incumbent Kansas House members have filed for re-election. From this session, 99 bills have been signed by the Governor so far. In this report, I will cover several topics that were discussed or not discussed this session. Budgetary and revenue issues are the most fundamental decisions made by the Legislature and Governor. A disturbing trend this year was to pair budgets and public policy in one piece of legislation affecting the Judicial Branch and public schools.

### **2015 KANSAS BUDGET**

In the 2013 Legislative session, a two year state budget for both 2014 and 2015 was passed. This two year budget process had not been done for several decades. The reasoning was that departments could do better planning and administering with two years of budget certainty. My hope was that in this legislative session, sub-committees could spend more time analyzing the funded programs and discerning if the staffing and level of spending was adequate. There seemed to be little of this analysis. The two overriding political priorities were to continue to downsize government and to live with reduced revenues. In essence, tax cutting was always priority one and government would have to survive on what was left. To increase staff for processing child abuse complaints and to increase staffing at state hospitals would necessitate more funding. For the last five years, state departments were underfunded and unable to hire adequate staffing so the Legislature eliminated any position that had gone unfilled for several months. The budget picture tightens for 2016. The revenue picture is uncertain at best. The 2015 budget was balanced by taking \$305 million out of the 2014 ending balance of \$695 million leaving an ending balance of \$390 million for 2015. This ending balance does not reflect the loss of \$92 million in April revenues.

## **REVENUE UNCERTAINTY**

Loss of revenue (in April \$92 million) may be a trend for a few months. Kansas entered uncharted waters when income taxes for 191,991 business entities were completely eliminated. When this tax law passed two years ago, the best data available from the Kansas Department of Revenue was for 2009 federal filings. In 2009, 1.31 million Kansas residents filed federal returns and 14.7% of these filings (191,991) had business income. These returns were broken down by federal business income brackets of - under \$50,000, \$50,000 to \$75,000, \$75,000 to \$100,000, \$100,000 to \$200,000 and \$200,000 & over. The total business income tax revenue was \$2.034 Billion.

Those filing returns with business income under \$100,000 accounted for 83% of the returns and \$1 Billion in business income taxes. Those with business income over \$100,000 accounted for 18% of the returns totaling \$1 Billion in business income. 8,604 returns of the 191,991 had business income of over \$200,000 and they accounted for \$537 million in business income (26% of the total business income) and their average business income tax was \$62,506. Press reports have characterized these business entities as just small businesses. Complete elimination of income taxes from sole proprietorships, limited liability corporations (LLC's) and sub-chapter S corporations passed.

To make these incorporation changes, a form must be filed with the Kansas Secretary of State. What cannot be discerned from this form is whether the filer has just moved to Kansas or whether the filer is already a Kansas resident? The best guess was that this elimination of business income taxes would cost \$160-\$180 million annually. The hope and promise was that this change would be a magnet for new businesses coming to Kansas resulting in more employment and greater sales tax revenue. Right now Kansas has slower economic growth than the nation and personal income tax growth is less than the national rate. Revenue receipts for May, June and July will help frame the political debate for the fall.

## **WATER**

The State Water Plan (SWP) funding continues to decline as the ending balance of \$4.4 million in 2013 and is projected to fall to \$12,871 at the end of 2015. Kansas' law states that \$6 million from the State General Fund and \$2 million from the lottery funds could be transferred to SWP. This was not done. The SWP funding is \$15.2 million in 2014 and \$15 million in 2015. The Kansas Water Office will be issuing \$20 million in bonds to start dredging John Redmond Reservoir. \$1.6 million will now come out of the SWP for bond payments. The remaining conservation, environment and cost share programs may be reduced by 10-20%. This comes at a time when the Governor is requesting the

development of a 50-year water vision plan to find more water resources and improve water storage at federal reservoirs. The funding debate for these projects will be central to an actionable water vision plan.

### **HEALTH CARE AND MEDICAID EXPANSION**

The Governor signed the health care compact law (HB 2553) that would allow Kansas to take over the administration of the Medicare and Medicaid programs with no strings attached. HB 2552 enacts new law on contracts between the Kansas Medical Assistance Program and managed care organizations who operate KanCare – the privatized Kansas Medicaid program. This statute prohibits expansion of Medicaid eligibility without the express consent and approval of the Legislature. The Governor signed the bill thereby agreeing to this provision. Several members introduced bills to expand Medicaid eligibility but there were no hearings held. HB 2418 is the Operator Registration Act for assisted living, home plus and adult daycare facilities. This law establishes operator qualification requirements.

### **ENERGY AND UTILITY LEGISLATION**

The battle over repealing the Renewable Energy Portfolio standards was fought six times in the Kansas House. The Kansas Chamber of Commerce and Americans for Prosperity will continue to pursue a repeal.

There was significant debate over utility legislation this year. A net metering bill (Senate Sub. for HB 2101) establishes regulations for customers who generate their own electricity and sell that power back to the major electric utilities. It puts limits on the size of the customer-generator and sets conditions on the payment back to the customer. The Energy Efficiency Investment Act (Senate Sub. for HB 2482) requires the Kansas Corporation Commission to permit programs and cost recovery mechanisms to reduce the consumption of electricity and natural gas by retail customers. HB 2636 allows the Kansas Secretary of Health and Environment to establish separate performance standards for carbon dioxide emissions from coal-fired and natural gas plants. This bill is intended to head off new regulations on existing power plants from the Environmental Protection Agency coming in June.

This is a new era for the Kansas Corporation Commission. After violations of the open meetings law by the former KCC chairperson, the three-member KCC now has a new chairwoman and two new commissioners that both came from the Kansas Senate. Kansas continues to have very few conservation and energy efficiency programs offered by utilities or governmental agencies. By law, regulated public utilities are given a monopoly over certain service areas and are mandated to provide the most 'efficient

and sufficient service'. This regulatory mandate was codified in 1934. It is time for this KCC to update this regulatory mandate for the 21<sup>st</sup> century and define 'efficient and sufficient service' in terms of cost-effective conservation programs. Kansas is far behind Missouri in working with public utilities to offer energy efficiency options.

### **ELECTION LAWS**

Bills were introduced to modify the proof of citizenship requirement to register to vote. No hearings were held. There were many hours of hearings to move local spring elections to the fall. The debate was over whether these elections would remain non-partisan to be held in the fall of odd numbered years or to hold all elections in the fall of even numbered years. In the end, no consensus was found and no legislation passed. HB 2210 prohibits a person from changing party affiliation from June 1 to the date primary election results are certified. HB 2130 removes the requirement that a petition circulator be a resident of Kansas and creates new law concerning ballot language.

### **JUDICIAL BRANCH**

Senate Sub. for HB 2338 blended the budget of the Judicial Branch (increasing docket fees) and policy changes (budgeting, the election of chief judges and allowing for a delay in filling judicial vacancies). The concern is that the new docket fee revenues will be inadequate to fully fund the court system forcing furloughs and shutting down courts statewide.

(Note: The laws passed during the veto session are being summarized by the Kansas Legislative Research Department and will be published in a final summary within the next 10 days. Go to this website: <http://skyways.lib.ks.us/ksleg/KLRD/klrd.html> and click on the Reports and Publications tab.)