



Kansas State Council of SHRM, Inc.
825 S. Kansas, Suite 502 • Topeka, KS 66612
(888) 332-6248 • office@ksshrm.com



May 12, 2017 Legislative Update

It was a rather slow week with no significant movement on any big policy items facing the Kansas Legislature this year. Aside from the “big three,” there were a few conference committee reports approved and bills signed into law this week.

Senators gaveled in briefly at 8:00 a.m. this morning but headed home for the Mother’s Day weekend shortly after. However, a few House committees met today and spent over three hours debating a handful of bills on General Orders including a sales tax bill they amended to add an additional \$57 million to the tax rolls by taxing certain services. See below.

Today marks the 88th day of the 100 days authorized for the 2017 Kansas Legislative Session.

Taxes

The Senate took another shot at taxes this week when they debated and ultimately defeated the Conference Committee Report on **House Bill 2067** on Wednesday by a vote of 18-22.

The income tax bill would have increased rates on joint filers to 3% on income under \$30,000 (currently 2.7%), 5.25% on income under \$100,000 (currently 4.6%), and established a top, third bracket of 5.6% on income over \$100,000. The new rates would have gone into effect in tax year 2018, with partial retroactivity in 2017. The bill also eliminated the small business tax exemption and trigger mechanism toward zero future income taxes.

Most Democrats opposed the bill, because while it raised enough revenue to fill the budget shortfall for the next two years, it did not cover the anticipated increase for K-12 schools. Lawmakers in both chambers continue to disagree on whether the funding source for the new school finance formula should be considered in the income tax package or a separate bill. HB 2067 was expected to raise \$514 million in FY18 and \$548 million in FY19.

As progress on major tax policy stalled this week, the House Tax Committee turned their attention to a few smaller tax bills still on the table. **Senate Bill 146** and **House Bill 2424** both passed out of Committee yesterday and are awaiting consideration by the full House hopefully next week.

SB 146 extends the 20-mill statewide property tax levy for schools, which is set to expire at the end of this fiscal year. Before passing out the bill, however, a Senate floor amendment was stripped that removed an exemption to the mill levy for new economic development projects approved after May 1, 2017. The League of Kansas Municipalities, Kansas Economic Development Alliance, and several local chambers of



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commerce and cities testified in opposition to the Senate's provision. The 20-mill statewide levy raises more than \$600 million/year for public schools.

HB 2424 adds certain employee benefits – social security, worker's compensation, unemployment insurance, pensions, and healthcare – to the list of exemptions from the local property tax lid law passed in 2015. Currently, cities and counties are prohibited from increasing property taxes over the rate of inflation without a public vote unless the increases are paid toward law enforcement, fire protection, and emergency medical services.

The House this afternoon amended and approved a bill that would repeal seven sales tax exemptions, saving the state roughly \$58 million in FY18 and FY19. That money would then be used to buy down the sales tax on food from 6.5% to 5.5% effective in FY2020.

The repealed sales tax exemptions are on the following personal services: towing, detective services, security guards and patrol services, non-residential cleaning, pet daycare, mini and self-storage and collection agencies. Non-profit, public gym memberships (to include YMCAs) were included in the original amendment and later removed.

Kansas currently has \$6 billion worth of sales tax exemptions on the books.

House Bill 2380, which originally extended the half cent sales tax in Marion County, was amended on the House floor and debated for several hours. A final action vote on HB 2380 will be on Monday.

What's next? House Tax Committee Chairman Steve Johnson (R-Assaria) introduced a conceptual bill yesterday – similar to House Bill 2178 vetoed by the Governor – but this time includes a surcharge for education funding. What the media is calling a "tax on tax" would be applied to base income tax rates and dependent upon what revenue is needed to fund the new K-12 school finance formula each year.

The Chairman has also advised his committee to come back on Monday with a focus on big tax policy issues and how to raise revenue. From repealing sales tax exemptions on services to increasing taxes on cigarettes and motor fuels, it's all back on the table.

School Finance

The House K-12 Budget Committee met every day this week to continue their work on **House Bill 2041**, the new school finance formula that will replace the current two-year block grant expiring June 30. Much of this week's work centered on how to apportion state and local aid to low-performing students and track



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accountability for schools. Chairman Larry Campbell (R-Olathe) told his committee members yesterday that he'd like to wrap up amendments and pass out the bill today.

The Senate's Select Committee on Education Finance has also been meeting this week but took no action on a bill. Both committees have heard from Jeff King, the state's hired legal counsel, on what provisions he believes will meet "adequacy" for the Kansas Supreme Court.

Expanded Gaming

The House Appropriations Committee voted to not advance expanded gaming legislation this year on Wednesday. Specifically, **House Bill 2173** would have allowed a public petition in Sedgwick County to approve slot machines at the now-closed Wichita Greyhound Park. The bill also outlined procedure for expected litigation as a result.

Managers of the four state-owned casinos have argued that allowing slot machines at racetracks would breach the Kansas Expanded Lottery and Gaming Act established in 2007, and that they'd be entitled to between \$125-\$145 million in privilege fees and interest repaid by the state.

While the bill was voted down by a voice vote this week, Chairman Troy Waymaster (R-Bunker Hill) supports reviving the horse and dog racing industry and strongly advised interested parties to work through the interim and come back in 2018 with a compromise bill that would not put the state at risk.

Looking Ahead

Lawmakers will enjoy their last weekend off before returning to Topeka again on Monday. Senate Majority Leader Jim Denning (R-Overland Park) warned his members yesterday to plan to work seven days/week until their work is completed for the year. That means passing tax reform (or cutting spending) to fill the nearly \$900 million budget deficit, adopting a new school finance formula that's found constitutional by the Kansas Supreme Court and finding millions of dollars to fund it, and approving the state's operating budget for fiscal years 2018 and 2019. Could be a long Spring...