

Legislative Update No. 11, May 13, 2017

First, let me wish a Happy Mother's Day to all mothers, and thank you for fulfilling a most important roll of caring for your families. I miss my Mother who was my encourager, and strict disciplinarian. While there were no funds from my parents for my college education, Mom saved change in a jar in the cupboard to pay for one of my text books each year. She was feisty and frugal, and if she were with us today, would have lots of advice for me on revenue and taxes.

The Veto Session began on May 1. Generally, this is the time to finish up the passage of important bills and to finalize the budget. This year has become problematic. The truth is the state has been receiving more revenue this last year from the taxpayers in the form of retail sales and income taxes, but the revenue coming in will not cover the increased spending requested by agencies, departments, and the schools. Revenues are expected to increase from 5.7 billion for FY 2017 to 5.9 billion for FY 2019. We are not bankrupt, as some would have you to think. Kansas has a budget and spending problem, and rather than live within the plenty that us taxpayers have provided, it is easier to whine, complain, and insist that more money be given to fatten their coffers.

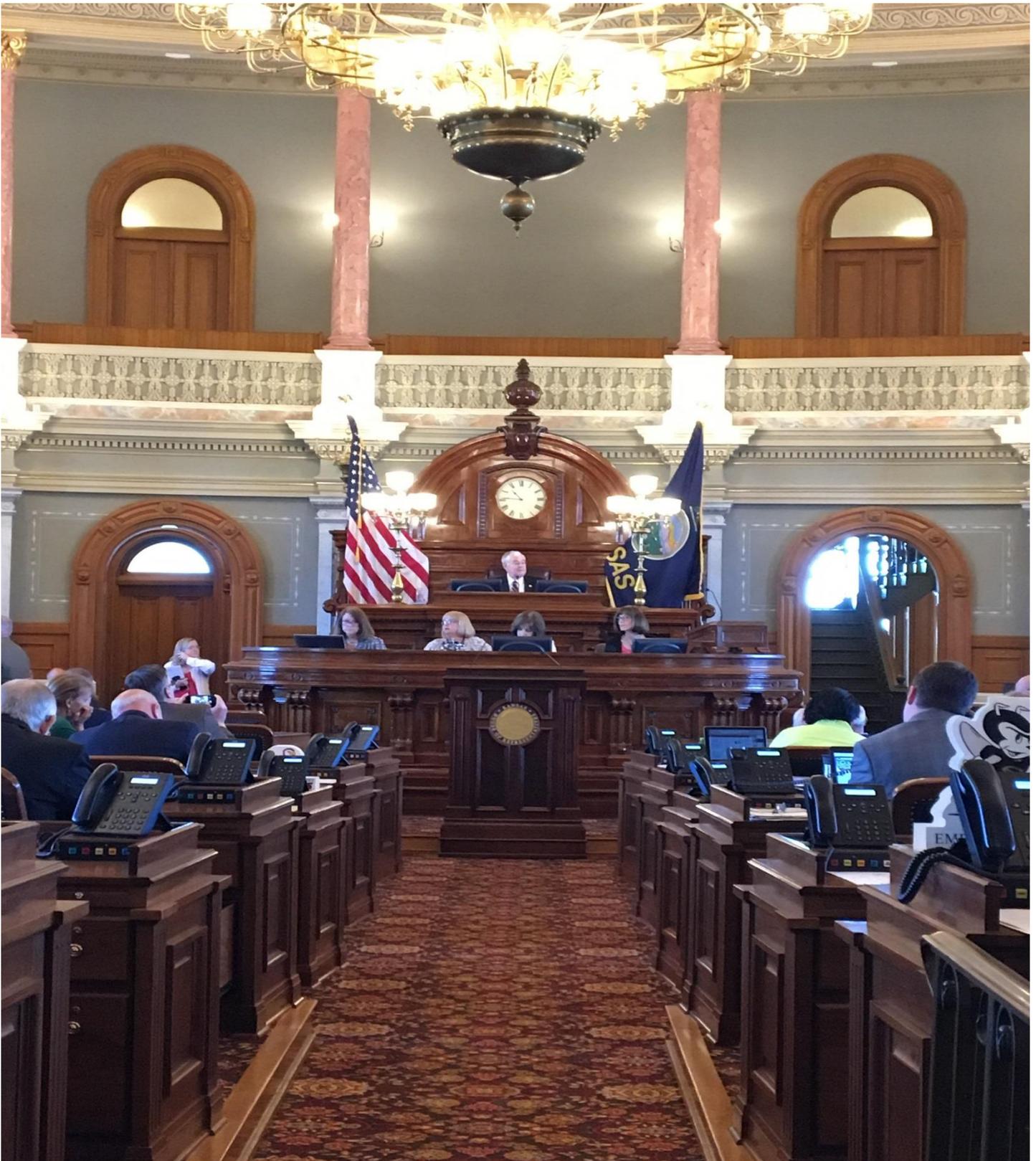
One fact, that has been overlooked by many, is that the Kansas Supreme Court did not say we need to spend more on education nor did they give a dollar amount. They did say that more emphasis must be placed on helping the less fortunate students to achieve in education. This can be done by holding the schools accountable to educate these students.



There were two bill signings that I was invited to attend. Simon's Law, assuring that a do not resuscitate order is used for children only with parental approval, is the first bill of this kind to be passed in a state. It was my honor to help get this legislation through the Fed and State Committee and passed in the House.



The Fifth Axle bill allows farming trucks used on our Kansas highways to be like those currently being used in border states. By adding the fifth axle the weight is more evenly distributed. This bill came through the Transportation Committee, of which I am a member.



On Friday I chaired the Whole House Committee, and it became a very involved three-hour session working on only two bills.

Facts facing us as we make decisions on upcoming bills relating to taxes, appropriations, and K12 budget.

1. Oil and Gas revenues are down.

2. Average farm income down from \$100,000 to \$4,000 in 2016. Income will become negative for 2017 and possibly for the next two to three years.
3. Retail and Income tax receipts have increased.
4. The number of new businesses in Kansas has increased in recent years.
5. The number of new first time income tax payers has increased in recent years.
6. 35% of Sales tax revenue comes from eight counties bordering Missouri, Leavenworth to Cherokee.
7. Johnson County accounts for 26% of Sales Tax revenue for the state.
8. Oak Park Mall in Johnson County accounts for 29% of Johnson County Sales Tax revenue.
9. Total value of all sales tax exemptions for 2017 equals \$6,395,960,000.
10. Total state indebtedness, as of July 1, 2016 equals \$24,887,227,038.
11. Unfunded liability, the amount owed to bring KPERS fund to total solvency, is approximately \$9,000,000,000.
12. Payments to bring KPERS to solvency on a yearly basis begin at \$480 million this year and escalate to \$1 billion in year 2034.
13. K-12 education budget exceeds 50% of the annual budget.
14. The total unencumbered funds held by school districts across Kansas was 1.87 billion as of July 1, 2016, says the Kansas Department of Education website.
15. In 2016, Kansas ranked second in the country for the percent of state general fund going for K-12 education.
16. Kansas ranks third in the country for the number of government employees per capita, at 670 per 10,000 population.

We all know that our economy is not booming, but it is stabilizing. The agriculture sector in Kansas is still suffering. Ag Economists at KSU give a pretty bleak outlook for the immediate future for our farmers and ranchers. This has occurred because commodity and livestock prices fell dramatically. Will this change? Sure, change will come about, but it is doubtful that it will come back to previous levels any time soon. A recent Wall Street Journal article pointed out that the U.S. is no longer the breadbasket of the world. Russia, Brazil, and Australia are exporting more grains, and that in turn has dropped both the demand and the price that world customers are willing to pay for our products. We will find a way to compete, but that will take time.

The oil and gas sector has also been in a slump. This added to the agriculture slump is putting a strain on our economy. Those workers and business owners related to agriculture, oil, and gas industries are receiving lower incomes resulting in less buying of goods. They are not buying “wants” now, only what is absolutely needed. Car sales taxes account for about 20% of tax revenues in Kansas, and auto and implement dealers are worried about getting through this difficult time.

The state revenues are stabilizing, but are weak. How can this happen when so many sectors of the economy are suffering? I asked myself the same question, and with some research determined that a small portion of our state is doing well. I looked at seven counties that border Missouri and totaled the sales tax and income tax receipts for the last few years (see facts 6 – 8 above). All our neighboring states have lower taxes, and some like Nebraska have no tax on food and sales taxes in the 7% range. Are we losing sales tax revenue to all our bordering states? This becomes a very important question when considering any new tax proposal for Kansas.

Legislative Happenings:

The Education K-12 Budget Committee is continuing to meet and have announced that they hope to have a bill ready for consideration by next week. If the bill leaves the committee as it is currently being discussed, we may be looking at an additional \$150+ million in expenses next year and \$750 million over the next three years.

The Tax Committee has been meeting all week, and early in the session presented to the members a tax plan that raised everyone’s taxes and did away with the LLC tax plan. This did not gain any traction among the members. Some wanted the tax rates to be higher, some want to protect business interests, and some refuse to

vote for a plan until a K-12 budget is determined. We are at a standstill. Added to this is the Governor's office saying they are against the tax increases, thus threatening a veto. If a plan is vetoed, it will take 84 votes in the House and 21 votes in the Senate to override. They are nowhere close to those numbers for votes now.

The Appropriations Committee is also continuing to meet but they are in a waiting game as well. They cannot finalize a budget until they know how much money will be in the system.

The plan is for the legislature to meet every day beginning next week, to include weekends, until done.

Voting Dilemma:

As your Representative, I look at all issues from the viewpoint of what is good for my 51st District. But, there are times when the issues are so large that I must look at them as state wide issues. This is the case for the issues facing us now. Because the Supreme Court did not state that we had to spend more money, I am hesitant to vote for a general increase in the K-12 budget. The tax plan proposed will cause irreparable damage to our state. Those counties along the Missouri border are doing well precisely because of the business tax plan in place. They are growing, hiring, and new businesses are being created. Missouri is working to compete with us by enacting a similar tax plan in their state. If we scuttle ours, some of those businesses will make a business decision and move over the border. Should those single individuals who became LLC's be rewarded? No, they should pay taxes like everyone else, but businesses with a verified work force should be rewarded for growing and hiring new employees who become taxpayers. Do we want to risk losing part of the business, income, and sales tax receipts currently accounted for in our border counties? These are the counties that are funding over a third of the state economy. I truly believe that if a massive tax increase is imposed now, the consequences will be dramatic and recovery will take years.

I must also look at our debt as a state. The tax increases being proposed are not to save for a rainy day or to pay down the debt. Shouldn't we be looking at ways to reduce spending and paying off our debt instead of spending beyond our means?

At my website, www.ronhighland.com, you can find a syllabus that explains in detail how to get the legislative information you need. My contact information is: Rm 561 W, State Capitol, Topeka, Kansas, 66612; ron.highland@house.ks.gov. It is an honor and a privilege to serve you.