

2012 LEAGUE OF WOMEN VOTERS OF KANSAS E-REPORT #1

Paul Johnson – November 22, 2011

There will be several fundamental economic and political issues debated in the 2012 Kansas Legislative session. Changing tax policy has been high on the Governor's priority list. A reorganization of the Medicaid program and state agencies in Kansas has already begun. The Kansas Public Employee Retirement System (KPERS) is being studied by a select committee and legislation will be proposed to reform the system. Immigration legislation will be proposed by the Secretary of State. Changes in school finance have been proposed in general but the details have not been fully developed. All of this debate will come in the midst of an election year when 125 Kansas House and 40 Kansas Senate seats will be on the ballot. A few conservative Kansas' House Republicans have already filed primary challenges to incumbent moderate Kansas Senators.

STATE BUDGET

The revenue picture has improved slightly for Kansas. On November 4, the consensus revenue experts increased tax receipts by \$200 million for FY 2012 (July 1, 2011 – June 30, 2012) and an additional \$46 million for FY 2013 that begins July 1, 2012. The ending balance for FY 2012 is now increased to \$318 million while the ending balance for FY 2013 is \$389 million. There is some additional spending for schools (\$33 million) and human service caseloads (\$72 million) but no other existing budget cuts are restored. When school finance passed last session, a provision was added that one half of all new revenue estimates would be committed to base aid per pupil. The 2012 Kansas Legislature will have to implement or undo this provision since it is in law. Looking at the total budget picture for 2013, tax receipts are only \$71 million in excess of approved expenditures. 2014 is a much different budgetary picture. The temporary one -cent sales tax of the last two years is reduced to .4 and pledged to the highway program. This leaves a \$200 million dollar hole for the State General Fund. There will also be higher interest payments on state bonds and increased retirement costs for state and public school employees.

SCHOOL FINANCE

The Governor's office has been discussing a fundamental change to school finance. A basic per student amount would be provided for all school districts and a number of state block grants offered for vocational education, academic results, teacher improvements, etc. The promise is that no school district will end up with less money as this new system begins. There has not been enough detail provided to the State Board of Education to compute the actual numbers. For the record, base state aid per pupil has decreased from \$4,400 in 2009 to \$3,780 in 2012. The Governor argues that the state has increased retirement funding for

school employees that does not show up in base state aid per pupil. This new funding formula would allow school districts complete freedom to raise local property taxes if approved by the voters. The new plan would allow counties to raise the sales tax to fund schools. The Kansas Supreme Court would eventually have to rule on the funding disparity this plan would create between the richer and poorer school districts. There is now a lawsuit headed for the Supreme Court arguing that the Legislature has not properly funded the existing school formula.

MEDICAID AND AGENCY REORGANIZATION

The Governor has unveiled a new reorganization plan for Medicaid and state agencies. SRS has now been renamed the Department of Children and Families. Mental health services and Medicaid waiver programs for the disabled have been moved to the Department of Aging and the agency renamed the Department of Aging and Human Services. In an effort to decrease Medicaid costs - especially for the elderly and the disabled -, private managed health care companies will bid on contracts to provide the services. While managed care has been used for Medicaid services for some women and children, Kansas will be in the forefront in trying a statewide-managed care program for the disabled. The hope is that case managers can control the use of medical services and hospital visits. The promise from the Governor's office is that no changes will be made to the eligibility of the existing 330,000 Medicaid recipients and that reductions in payments to Medicaid providers will be a last resort.

(For more and evolving details – Kansas Health Institute -- www.khi.org)

TAX POLICY

With the extra state revenues, there will be more discussion about lowering personal and corporate income taxes. Corporations pay 4% on the first \$50,000 and 3% after that thus generating \$225 million to the state. The individual income tax rate for \$30,000 and up or for couples making \$60,000 and up is 6.45%. The individual income tax generates \$2.7 Billion and comprises 45% of the revenue for the State General Fund (while the sales tax generates \$2.3 Billion – 39% of the \$6 Billion State General Fund). Kansas Secretary of Revenue Nick Jordan is developing a plan for the Governor to lower the income tax while expanding the sales tax by limiting exemptions or covering more services.

The Kansas House passed a tax bill last session that would freeze existing budgets of state agencies and use any future increase in revenues to lower individual and corporate income taxes. There would be a modified cost of living factor computed to allow some increases in existing state budgets. There is not a provision to recover from the existing budget cuts that have been made over the last three years. This bill was not heard by the Kansas Senate but is still alive for

the coming session. It will be a political challenge for the moderate Senators in an election year.

IMMIGRATION

Kansas Secretary of State Kris Kobach has promised there will be immigration legislation proposed for 2012. Some form of the Arizona or Alabama law will be proposed for Kansas. Parts of the Alabama law have been ruled constitutional such as the E-Verify provision. E-Verify is a federal clearinghouse computer system that verifies citizenship for employees. The Kansas House has passed such legislation mandating the use of E-Verify by employers but such legislation has never passed the Kansas Senate. The major farm organizations have fought such changes given Kansas' dependence on undocumented workers at the large packing plants or the mega-dairy and hog 'confined animal feeding operations'. SRS is implementing new rules mandating that citizenship be verified for households receiving food stamps. There are some real questions on the legality of these new rules and its impact on children in these households.

KANSAS PUBLIC EMPLOYEE RETIREMENT SYSTEM (KPERS)

A special legislative committee has been meeting to discuss the funding and future of the KPERS system. Presently KPERS has an un-funded liability of \$8 Billion over the next 30 years. KPERS' investments and stock portfolio has suffered along with the declines in the stock market. The present assumption is that KPERS has a contractual agreement with existing retirees and participants in the system and that cannot be changed. Rhode Island is under tremendous budgetary pressure so they have proposed substantial reductions to their public employee retirees. A court is reviewing this proposal and the nation is watching this court deliberation to see if it sets a precedent.

The Governor supports a 401-K benefit plan for new state and school employees. There may be a hybrid plan offered so that the existing retirement plan applies to a portion of the new employees salary and the new 401-K plan would apply to the rest of the salary. This would guarantee a certain income floor for the lower paid state workers. Kansas has no choice but to increase its contributions to KPERS to make up for some under-payments or no payments made in the last several years. Contributions by the employees will also be increased. There will be many proposals and options on KPERS considered in the 2012 session.