Legislative Update
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Veto session begins; budget hole increases
The Legislature returned for the Veto Session on Wednesday, April 29. Legislators returned to what is an all-too-familiar refrain in recent times: revenue estimates are again falling short of predictions.

Essentially, the problem is summed up by the fact that about $1 billion has been removed from the state's coffers, largely as a result of the corporate income tax cuts that began in 2013, through FY 2016. At the same time, other areas, such severance, oil and gas taxes have been under-performing. And, Medicaid caseloads, education costs, and replenishing KPERS have increased the financial demand.

As budget and tax committees met this past week, the news delivered from budget and revenue experts was that to fund the budget they've tentatively agreed to, they need an additional $800 million for FY 16 and FY 17.

Finding revenues
The State has nearly exhausted its one-time transfer accounts, such as those from the Highway Fund, and the Legislature has cut spending to a critical tipping point.

Governor Brownback recommended a tax package at the beginning of the year that would raise an estimated $211.1 million in FY 16 and $212.6 million in FY 17 – about half of what is needed, even if legislators adopt his proposal and that's currently a big IF!

Included in the Governor's proposal is a cigarette and tobacco products tax increase that would net the state an additional $80.8 million in FY 16 and $76.2 million in FY 17. While many legislators are resistive to the tax, there is a strong rationale for doing so: it's a stable tax source; it has increased health benefits, especially impacting the teen population; and there's an argument that the state has a particular stake in tobacco usage, given the associated costs tied to Medicaid.

There are a number of other measures under consideration by the House and Senate tax committees. One of the most talked about is modifying the "passive income" tax deduction, from places like rent and royalties, which could net about $60 million per year.

There is also a bill (Sub HB 2281) that would increase "privilege fees" on the managed care organizations doing business in Kansas, which would add about $80 million to the State General Fund in FY 16, if it passes.

Some of the other items under discussion include:

- Cutting back the Earned Income Tax Credit from 17% to around 8% and making it non-refundable. This, of course, has great impact on low-income Kansans;
- Applying sales tax on residential utilities. SB 261, if passed, would bring in an additional $183 million; however, there is intense opposition to this, and it would have a disproportionate impact on lower-income Kansans;
- Increasing the state sales tax. Raising it from 6.15% to 6.3% would bring in an estimated $150 million over the next two years.

The House and Senate tax committees will take up the revenue shortfall discussion in earnest this next week.

Rally at the Capitol
By the time this newsletter goes out, a rally in support of the Governor's proposed cigarette/tobacco tax increase will have been held at the Kansas Statehouse. The rally is scheduled for Monday, May 4, in the Capitol rotunda.

During the rally, **Dr. Roy Jensen,** Director of the University of Kansas Cancer Center, highlighted the health benefits of a tobacco tax increase. The Chair of the Greater Kansas City Chamber of Commerce, **Terry Dunn** spoke as well. KAFP Executive Director, **Carolyn Gaughan** participated in the rally as a supporter.