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1) House Votes Down Conference Committee Report Concerning Annexation

On Wednesday, the House on a 57 – 65 vote, voted down the Conference Committee Report on HB 2165. The League opposed the conference committee report because it severely limited unilateral annexation. On Thursday, a motion in the House to reconsider the conference committee report was made. The motion failed on a vote of 58 - 59. Although the House killed the conference committee report, [HB 2003](#), with the Senate amendments limiting unilateral annexation, is still alive. The bill can be placed into another conference committee report at any time.

Please take the time to thank your Representative(s) that voted against the conference committee report and encourage them to work to return the bill to the version passed by the House without the Senate amendments. You can see how your Representative voted [here](#). You may find more information and talking points about the annexation bill [here](#).

2) Committee Schedules Hearing on KPERs Bill Affecting

Accrued Vacation Leave and Pre-1993 Employees Final Average Salaries

On Monday, the House Commerce, Labor and Economic Development Committee will hold a hearing on [HB 2426](#). [HB 2426](#) makes several changes to the accrual of leave time and the KPERS final average salary calculation for pre-1993 employees. Under the bill, starting July 1, 2015:

- KPERS employees will not be able to accrue more than 240 hours of vacation time. Employees with more than 240 hours of vacation time as of July 1, 2015, will be able to use the time toward vacation, but will not accrue additional vacation time as long as their balance remains above 240 hours.
- KPERS employees will continue accruing sick leave, but additional sick leave earned after July 1, 2015, will not be counted in the KPERS final average salary calculation for pre-1993 employees.
- A pre-1993 KPERS and KP&F employee's final average salary will include only the accrued sick and vacation leave earned, but not paid, from the previous four years of employment before retirement. The final average salary calculation for this type of compensation will be based on the employee's salary as of July 1, 2015.

The League is testifying in opposition to this bill. If you are concerned about the bill, please contact the members of the House Committee listed here:

House Commerce, Labor and Economic Development Committee:

Rep. Marvin Kleeb (R-48), marvin.kleeb@house.ks.gov, (785) 296-7680

Rep. Gene Suellentrop (R-91), gene.suellentrop@house.ks.gov, (785) 296-7681

Rep. Stan Frownfelter (D-37), Ranking Minority Member, stan.frownfelter@house.ks.gov, (785) 296-7691

Rep. Steve Brunk (R-85), steve.brunk@house.ks.gov, (785) 296-7645

Rep. Les Mason (R-73), Vice Chair, les.mason@house.ks.gov, (785) 296-7640

Rep. Rick Billinger (R-120), rick.billinger@house.ks.gov, (785) 296-7676

Rep. J. R. Claeys (R-69), jrclaeys@house.ks.gov, (785) 296-7670

Rep. Ken Corbet (R-54), ken.corbet@house.ks.gov, (785) 296-7679

Rep. Travis Couture-Lovelady (R-110), travis.couture-lovelady@house.ks.gov, (785) 296-4683

Rep. Basil Dannebohm (R-113), basil.dannebohm@house.ks.gov, (785) 296-7682

Rep. Mark Hutton (R-105), Chair, mark.hutton@house.ks.gov, (785) 296-7488

Rep. Erin Davis (R-15), erin.davis@house.ks.gov, (785) 296-3971

Rep. Lane Hemsley (R-56), lane.hemsley@house.ks.gov, (785) 296-7460

Rep. Louis Ruiz (D-31), louis.ruiz@house.ks.gov, (785) 296-7630

Rep. Fred Patton (R-50), fred.patton@house.ks.gov, (785) 296-7460

Rep. Annie Tietze (D-53), annie.tietze@house.ks.gov, (785) 296-7668

Rep. Brandon Whipple (D-96), brandon.whipple@house.ks.gov, (785) 296-7366

3) Senate Passes New Working After Retirement Rules

On Tuesday, the Senate, on a vote of 40 – 0, passed S Sub for [HB 2095](#). Under the bill, retired employees returning to work for a KPERS employer will not receive KPERS benefits once they earn more than \$25,000 in a calendar year. A city may apply for a hardship exemption to this rule if an unexpected emergency occurs or the city is not able to fill the position. The exemption would apply for one year. This bill does not

apply to KP&F members, elected officials, or employees who retired and returned to work or accepted a job for a KPERS employer before May 1, 2015. In addition, the changes will not go into effect until July 1, 2017. Click [here](#) to access a flow chart created by KPERS that further explains the changes.

4) Legislature Delays Action on Moving Elections

The legislature did not take action this week on the Conference Committee Report on [HB 2104](#), which contains the language from [Sub SB 171](#). This bill would move city elections to the fall of even years and on to the same ballot as state and federal races. The League opposes efforts to end 154 years of stand-alone city elections. Although not currently part of the bill, there has also been discussion about prohibiting cities from holding bond or sales tax question elections on any date other than an August or November election. Restricting bond elections will have a negative impact upon cities and counties because it significantly impedes the flexibility and timing on city projects and municipal finances. We encourage you to contact your legislators and ask that they oppose the CCR for [HB 2104](#) and the aforementioned restriction on bond and sales tax question elections. [Here](#) are some talking points on this issue. We anticipate debate on the CCR for [HB 2104](#) next week.

5) House and Senate Bills would Impact Motor Vehicle Valuation and Assessments

[SB 259](#) would make significant changes in the assessment, valuation, and taxation of motor vehicles. The bill increases the minimum property tax on motorcycles to \$18 and on motor vehicles to \$36, both beginning in 2016. Additionally, the bill adjusts the depreciation schedule for calculating motor vehicle taxes (15% for the first three years, 12% for the following three years, and 10% for years thereafter). Most significantly, the bill phases in application of the 20 mill property tax levy for schools starting in November 2015, beginning with 25% of the statewide property tax for education and increasing to 100% of state taxes levied for education by November 2018. The changes made by [SB 259](#) would result in a substantial increase in property tax dollars available to schools and a significant decrease in property tax revenues available to local governments, including cities. Fiscal Year (FY)16 losses to local government are estimated to be about \$39 million.

It is noted by the Department of Revenue that [SB 259](#) has the potential to increase retail sales tax collections from additional motor vehicle sales by approximately \$10 million per year, including \$6,526,000 to the State General Fund, \$1,474,000 to the State Highway Fund, and \$2 million to local government. Thus, [SB 259](#) would result in an estimated statewide net loss to local government units that assess property taxes of approximately \$37 million in FY 16. Because the bill would reduce the overall assessed valuation of motor vehicle property in the state, it is anticipated that the property tax revenue collected by local governments would continue to be reduced in the out years.

The House has introduced a similar bill, [HB 2431](#). A formal fiscal note has not yet been prepared on it. It is anticipated that [HB 2431](#) will have a similar impact upon local governments as does [SB 259](#).

When SB 259 was heard by the Senate Tax Committee, the League, the Kansas Association of Counties, and Johnson County presented testimony in opposition. The League will oppose HB 2431 if it is heard in the House Tax Committee.

ACTION REQUESTED: SB 259 has been amended into HB 2109 by the Senate Tax Committee (see Tax Committee article) in an early attempt to establish a Senate tax package. When visiting with your legislators, tell them that SB 259 will cost cities and counties more than \$35 million per year in lost motor vehicle property taxes – money that will have to be made up by the levying of additional local ad valorem taxes. Ask them to vote against SB 259 (HB 2109) and HB 2431 or any bill that has adjustments to motor vehicle taxation that would result in a lower tax base for local government.

6) Tax Committees Attempt to Formulate Tax Packages

In their attempt to fill the \$400 million, give or take, hole in the budget process, the House and Senate Tax Committee Chairmen lead off a week of meetings by giving charges to their committees that there is a need to formulate tax packages by working with bills now in their committees and to consider other concepts. Although striving for similar goals of a tax package from their respective committees, each chairman approached the goal in a different fashion.

House Tax held a series of hearings on bills that would result in tax increases. These include:

HB 2427 – Temporarily adds 5 cents per gallon to the current motor fuel tax for three years and establishes a permanent 5 cents per gallon tax on dyed diesel fuel. It is estimated that the 5 cent increase would result in additional FY 16 revenue of \$98 million, with \$16 million of that from the dyed diesel fuel. Of importance to cities and counties, all new dollars raised by the fuel tax increase would go to the state highway fund and none would go to the special city county highway fund. HB 2427 would not generate extra money for KDOT because it provides that a like amount of sales tax revenue now received by KDOT would be transferred to the state general fund.

HB 2429 – Increase the state sales and compensating use tax rate from 6.15% to 6.5%. It is estimated that the increase would result in an additional \$164 million in FY 16 and \$186 million in FY 17. All of the increase would go to the state general fund.

HB 2430 – Addresses the “pass-through tax” exemptions that were created in the 2012 tax bills. It would set up a system to tax the now exempt non-wage income at the lowest state tax rates. The bill, as currently written, is a place to start discussion on the matter and not, necessarily, as the real fix to the problem. There are some acknowledged problems with some of the technical portions of the bill that would need to be addressed before it could go to the floor for debate and action. However, the bill in its current conceptual form, did have interest from those who opposed the 2012 exemptions. In its current form, the bill is estimated to raise \$232 million in FY 16 and \$176 million in FY 17. The difference in revenue raised between FY 16 and 17 has to do with the timing and implementation of the tax.

House Tax also has some bills to consider that were heard earlier in the session. The most significant of these are HB 2306, the governor’s proposed bill to raise taxes on liquor and tobacco, and HB 2307, the governor’s bill regarding tax policy, that includes a tax amnesty provision, adjustment of individual income tax rates, established a

budget stabilization fund (“rainy day fund”) and a tax reduction fund (fund establishes to “buy down” tax rates in future years), and eliminates the 7.5% ending balance requirement in the state general fund. It is estimated that the amnesty program would result in an additional \$103 million in FY 16 and \$108 million in FY 17. Neither of these bills received a very warm welcome by the House Tax Committee when they were heard earlier this session. Thus, their fate is uncertain at this time.

The League did not testify on any of the above bills. However, we are watching the House Tax Committee very closely and will continue to report activity as tax plans are explored and developed. It appears that this process is going to be slow and at times contentious.

The Senate Tax Committee took a different track. Rather than looking at new bills and holding hearings, the Chair attempted to get the Committee to fashion a tax package from bills previously heard by the Committee. These bills include:

SB 233 and SB 234 – These bills are identical to the HB 2306 and HB 2307, the governor’s alcohol, tobacco, and tax policy bills, that are discussed above.

SB 258 – Under current law, the first \$20,000 of appraised valuation of residential property is exempted from the statewide 20-mill school property tax levy. SB 258 would remove this exemption. It is estimated that removing the exemption would result in an increase of state revenues by about \$45 million FY 16. This is money that school districts would receive through the state’s uniform mill levy.

SB 259 – Would make changes in the assessment, valuation, and taxation of motor vehicles. The changes made by SB 259 would result in a substantial increase in property tax dollars available to schools and a significant decrease in property tax revenues available to local governments. A full discussion on SB 259 is contained above.

SB 260 – Would remove the exemption from income taxes on passive income established in the 2012 tax bill. Passive income would include certain rents, royalties, and earnings from a business that the taxpayer is not directly involved in the management of the business. HB 2430, see above, also contains a similar feature. SB 260 is estimated to increase state general fund revenues by \$65 million in FY 16 and \$50 million in FY 17.

SB 261 – Removes the current state sales tax exemption on the sale of gas, electricity, and heat for residential and agricultural uses. The bill would also remove the state sales tax exemption for other fuel sources for the production of heat and lighting for residential uses. These sales are currently subject to local option sales tax. Estimated revenue to be gained through the removal of this exemption is \$156 million in FY 16 and \$177 million in FY 17. SB 261 has not been received with much favor by the committee.

SB 302 – Proposes to establish a \$3/acre excise tax to be applied to all real estate in Kansas. Real estate that is exempt from ad valorem tax would also be exempt from the excise tax. All revenues generated by SB 302 would be directed to school finance. A formal fiscal note has not yet been prepared for SB 302. However, some have put it in the area of \$150 million.

In addition to the bills noted above, the Senate Tax Committee also talked about possible sales tax and fuel tax increases, similar to those already in bill form in the House committee. The Senate committee chair posed a “fix” that would temporarily address the 2012 exemption for pass-through income and remove the passive income

exemption. The concept to address the 2012 pass-through income exemption, while giving similar results to the bill heard by the House committee, would result in a partial tax credit being given to the taxpayer rather than a reduced tax rate as posed by the House committee.

The senate tax committee did act upon three bills, sending one on to the Senate for possible floor debate. Action taken early in the week resulted in [SB 258](#) and [SB 259](#) being amended into [HB 2109](#), as a gut and go. The committee took no further action on [HB 2109](#) and it remains in committee. Later in the week, [SB 234](#), the governor's tax policy bill, was heavily amended by removing all provisions except the tax amnesty piece. The heavily amended [SB 234](#) was passed out of committee and sent to the full Senate. The committee's action on [SB 234](#) will allow it to go to the full Senate for debate and amendment, as the full body may desire. More on this as it develops.

So the bottom line on tax packages is that there has been a plethora of action but not much movement. Both tax committees will continue to meet and work on these issues. The League will continue to monitor action on taxes and keep you posted.

7) Last Chance to Register for Governing Body Institute

Tuesday, May 12 is the deadline to register for the Governing Body Institute & Mayors Conference – sign up now before it's too late! Join us May 15th & 16th in Topeka for up-to-date information on municipal operations and networking opportunities this conference offers. All attendees will receive a copy of the recently updated *Governing Body Handbook* with each paid registration. Member cities will be mailed two complimentary copies of the *Governing Body Handbook* after GBI. An order form to order additional books will be included with the copies.

For more information and to register, click [here](#).

8) Grant Opportunities

Kansas Department of Transportation State Rail Service Improvement Fund (SRSIF) Grants for railroad rehabilitation, capacity improvement and construction projects. Deadline is June 5, 2015. Click [here](#) for details.

U.S. Department of Justice FY 2015 Body-Worn Camera Partnership Program Competitive Grant. Deadline is June 16, 2015. Click [here](#) for details.

9) Upcoming Hearings

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Legislative Activities-May 11-15, 2015

Monday, May 11

Time	Committee	Location	Bill No.	Topic	Activi
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