



Community Bankers Association of Kansas Legislative Update

May 14, 2018

Overview

The Legislature convened on April 26th and wrapped up the veto session by Friday, May 4th. The 4th is also “sine die,” the official conclusion of the 2018 session. Because of the resolution passed at the end of the regular session, there will be no opportunity to override any gubernatorial vetoes. The final issues to be resolved were a school finance plan to fix the flawed school bill, the budget, a revenue plan, and a few other outstanding issues. If the Supreme Court rejects the school finance plan we will be back in a special session this summer. This report will attempt to summarize the issues resolved in this last week. It will be incomplete and will be updated as necessary.

Eventually, this summer there may be some interim legislative activity on key topics. However, because all members of the House, all state-wide elected officers, and one Senator are seeking election or re-election, there likely will be little interim activity until after the November election.

Big Picture Issues

During the break before the wrap up session the state was made aware of an \$80 million impact in the school finance bill passed on the last day of the regular session. The problem was not in the appropriation of funding, but in the expenditure authority for those funds. The fix, however, was relatively straightforward. Numerous legislators introduced bills to “fix” the issue in their own way but the final resolution fixed it with few other changes. They rejected efforts to add any additional funding. Because the Legislature needed time to fix the error, the Court granted the request from both sides to delay filing briefs until May 7th. Oral arguments in the case will still begin May 22 and a decision will be reached by June 30th.

House and Senate budget committees spent the week formulating a final budget. Both committees received the latest consensus revenue estimates that predict an additional \$217 million in new revenue for the remainder of Fiscal Year 2018 and \$316 million in new revenue for Fiscal Year 2019. The estimates were quickly increased another \$66 million when April revenue collections soared. The Governor also submitted a number of amendments to use some of the new-found revenue to expedite repayment of money the state borrowed from the KPERS—the public employee’s retirement system. Both funding committees added funding to their respective bills for various state services and programs including social services and highways. The House and Senate passed budget bills early in the wrap up session, negotiated a final agreement, and sent the bill to the Governor with a firm majority.

Revenue, the Almost Tax Bill and Almost Economic Development Bill

Some legislators believed the optimistic budget projections left enough room in the ending balance to finance a tax cut. Others believed Kansas is just bouncing back from years of budget problems and the estimates should be treated cautiously. The Senate passed a multi-year \$500 million tax cut bill, but the House didn’t debate it. Many House members are interested in a

chance to vote for tax relief as all 125 seats are up for re-election this fall but there is uncertainty about the exact nature and impact of the changes to federal tax law. Very late in the session, the Senate proposed a tax package that the conference committee report on Senate Sub. for House Bill 2228. The bill would partially decouple state law regarding itemized deductions from the new federal tax policy and allow Kansans to claim state but not federal deductions, and would accelerate some itemized deductions restoration (medical, mortgage, and property tax). Additionally, the plan continued the tax deferred foreign income repatriated under new federal tax law, as well as some small income tax credits and exemptions. The bill would allow Kansans to take advantage of changes in federal tax policy, but the bill reduced state income by as much as \$500 million over five years and the actual impact was unclear. Combined with the potential impact of an impending trade war on crop prices and unresolved school finance issues, the Senate passed the bill, but the House faltered. A summary of the tax bill Senate Sub. for House Bill 2228 that did not pass can be found at:

http://www.kslegislature.org/li/b2017_18/measures/documents/ccrb_hb2228_01_may3.pdf

The tax bill failure in the House also doomed passage of an economic development bill, Senate Bill 296, that would have limited future STAR bond projects with state approval and forced local governments to contribute more, extend High Performance Incentive Program, and implement a rural economic development known as Ad Astra. The bill was perceived as adding restrictions and limitations on economic development and making it more difficult for smaller projects to provide the local match. The bill did not run in the Senate after the tax bill failed in the House. A summary of the economic development bill Senate Bill 296 that did not pass can be found here:

http://www.kslegislature.org/li/b2017_18/measures/documents/ccrb_sb296_01_0000.pdf

Now, the Kansas Supreme Court will hold oral arguments on the funding bill and make a decision and the Legislature may have to convene for a special session.

Financial Institution Issues

Bills that have been published and the bill history can be found on the Legislature's official website: http://www.kslegislature.org/li/b2017_18/measures/bills/

The conference committee reports that include the final contents of agreements between the House and Senate, whether passed or not, can be found in two locations:

<http://www.kslegresearch.org/KLRD-web/CCRB.html>

http://www.kslegislature.org/li/b2017_18/committees/conference/?page=1

All bills that did not pass are dead. The 2019 legislative session will begin a new biennium, or two-year bill cycle.

A variety of technical changes to financial institutions policy made their way through the process this session and most of them are resolved.

Conference committee on Senate Bill 335 includes Senate Bill 335 and Senate Bill 284.

- Passed House 116-4 and Senate 39-0 and Governor signed 5/8/18.
- Full summary of the bill can be found at:
http://www.kslegislature.org/li/b2017_18/measures/documents/ccrb_sb335_01_financial_institutions.pdf

Senate Bill 335. Including savings and loan associations and savings banks in the state banking code and repealing the savings and loan code.

- The bill would specify the activities in which a mutual state bank may engage. The bill would authorize a mutual state bank, subject to the terms of its articles of incorporation (articles) and bylaws, and rules and regulations of the State Bank Commissioner (Commissioner), to raise funds through deposit, share, or other accounts, including demand deposit accounts (referred to as “accounts”) and issue passbooks, certificates, or other evidence of accounts.
- Bill and Summary: http://www.kslegislature.org/li/b2017_18/measures/sb335/
- Passed Senate 39-0, passed House 122-1.
- Conference committee reached agreement, included the contents of Senate Bill 284 and passed the House.

Senate Bill 284 (added to Senate Bill 335). Amending the Kansas money transmitter act. Contents now in Senate Bill 335. (As passed Senate Bill 284 no longer relates to financial institutions.)

- The bill would specify the State Bank Commissioner is allowed to issue an order, after notice and an opportunity for hearing, to address any violation of rules and regulations adopted pursuant to the Kansas Money Transmitter Act.
- Office of the State Bank Commissioner requested the bill.
- Bill and Summary: http://www.kslegislature.org/li/b2017_18/measures/sb284/
- Passed Senate 34-5.
- Included in conference committee on Senate Bill 335.

Senate Bill 283. Pertaining to trust companies and the office of the state bank commissioner

- Change the terminology from “common trust” funds to “collective investment” funds; update the notice requirements for acquiring control and change of control provided to the State Bank Commissioner; a bank or trust company undertaking a merger transaction, submit an application 60 days prior to the proposed change of control or merger transaction; Deputy Commissioner qualifications.
- Bill and Summary: http://www.kslegislature.org/li/b2017_18/measures/sb283/
- Passed Senate 39-0, House 122-0. Governor signed March 1.

Upcoming Activities

The legislature’s work has concluded. The Governor has a number of bills to sign or veto and everyone awaits a ruling from the Supreme Court on resolution of the Gannon school finance lawsuit.

Wrap Up

Please let us know if you have questions.

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