



Community Bankers Association of Kansas

Kansas Legislative and Policy Report

April 6, 2022

Overview

The 2022 Regular Session has ended, with both chambers abruptly adjourning just after 1:00 AM on Saturday. Up to that point, both chambers were moving with momentum to pass bills back and forth, but once the House concluded the contentious sports wagering debate, things began to fall apart. When the House very narrowly passed sports wagering (SB 84), by the exact votes needed for a majority, the chamber adjourned, effectively shutting down any more work until Veto Session. The Senate adjourned shortly thereafter, leaving several significant issues on the table, including education funding, the elimination of the state sales tax on food, two significant tax bills, and controversial legislation that would prevent any changes to the Medicaid MCO contracts until January 2023. While education funding will be dealt with during Veto Session, both chambers did pass the transgender sports bill and parents bill of rights legislation before adjourning.

The Legislature now takes a three-week Spring Break before reconvening on Monday, April 25th, for Veto Session. In recent years, Veto Session has tended to last about one week. Whether that trend continues remains to be seen, but is doubtful, as it seems the Legislature has more outstanding issues than usual. Add in the pending APEX economic development incentive passed early in the session and there is even more potential uncertainty in the mix when it comes to wrapping things up in late April and early May.

There will be some significant activity over the three-week break, namely awaiting the APEX decision, the release of the consensus revenue estimates, and the two-day meetings of the Senate Ways and Means and House Appropriations committees to discuss any revisions to the budget. Additionally, it is expected that the SPARK Advisory Panels and Executive Committee will continue meeting to appropriate the remaining federal ARPA dollars and the Legislature may intervene.

Big Picture Issues

Here is where several issues stand now that the Regular Session has concluded:

- Both chambers approved the state budget, and it is on its way to the Governor for approval, though the education funding bill will be taken up during Veto Session.
- State Food Sales Tax Exemption. The Tax Conference Committee late Thursday night approved a proposal to gradually reduce the state sales tax on food to 0% by January 1st, 2025. The first cut takes effect January 1st, 2023, when the state rate is to be reduced to

4.0%, and then to 2.0% on January 1st, 2024, with the full elimination by January 2025. The issue will be handled during Veto Session.

- Medical Marijuana. There was no discussion whatsoever this week on medical marijuana, though the issue may see action during Veto Session.
- Redistricting. Both chambers have now passed all their maps, including maps for state school board districts.

Latest on Tax Policy

- The Tax Conference Committee this week advanced three major bills dealing with income, property, and sales taxes, in addition to brokering an agreement on a gradual elimination of the state sales tax on food.
- Only one of those bills, HB 2239, which mainly deals with property taxes, passed both chambers, but the other two will wait until Veto Session.

Financial Institutions Related Issues

The Governor signed three financial institutions-related bills into law this week: SB 483 (increasing penalties for ATM theft/damage), SB 400 (Uniform Trust Code) and SB 335 (KBA health plan premium tax exemption). The other activity of note this week took place primarily in the Tax Conference Committee, which negotiated three primary tax relief bills that are detailed below.

Tax Policy

The Tax Conference Committee assembled three significant bills addressing tax reform: HB 2239, HB 2597, and HB 2106 (reduction of the food sales tax). HB 2239 and HB 2597 both contain a variety of sales, income, and property tax provisions. Included with our report is a Tax Conference Agreements summary page giving an overview of the measures and the estimated fiscal note associated with each provision. Only one of the three tax bills (HB 2239) passed both chambers before the Legislature adjourned. HB 2597 and HB 2106 will be addressed during Veto Session. Highlights of each of the major tax conference bills are detailed as follows:

HB 2239

Passed both chambers overwhelmingly and awaits the Governor's approval.

- Residential Property Tax Exemption. Raises the exemption from 20 mills school levy from \$20,000 to \$40,000 and provides for a formulaic increase to \$65,000 in future years.
- Language from SB 87 regarding countywide sales tax that requires ballot language clarifying the distribution of revenues. It no longer includes the provision that would have sunset a local tax.
- Optional property tax abatement on property destroyed in natural disasters. County commissions would have the option to abate property taxes on property destroyed by a natural disaster.
- Homestead Property Tax Refund Option.
- \$250 Teacher Classroom Supplies Tax Credit.
- Shipping and Handling Sales Tax Exemption. This would exclude delivery charges that are separately stated on an invoice or similar document from the sales price for purposes of retail sales and compensating use tax. The bill language is overly broad, and it is unclear what all exactly "delivery charges" encompasses.

- Provisions of SB 542 which requires a roll call vote if exceeding the RNR and provides for the RNR complaint process.
- Provisions of HB 2724 which excludes the required 20 mills for schools from the notice and public hearing requirements to exceed the RNR.

The Kansas Legislative Research Department (KLRD) summary of HB 2239 can be found here: http://kslegislature.org/li/b2021_22/measures/documents/ccrb_hb2239_01_033122pmrev.pdf

HB 2597

To be addressed during Veto Session.

- HB 2597 contains mostly income tax provisions. It also includes some provisions of HB 2416, or the “COVID-19 Retail Storefront Property Tax” act. A couple of major changes were made to the provisions:
- Local governments are no longer responsible for the property tax rebates. The 33% local government obligation was removed, and the state is solely responsible for the rebates. The maximum rebate amount was reduced from \$7,500 to \$5,000. Further, \$50 million in state ARPA funds was set aside to fund the rebate program.
- HB 2597 would also increase the standard deduction amounts annually by the cost-of-living adjustment, expand the child day care services tax credit, and provide for a social security cliff phaseout and retirement income subtraction modification.

The KLRD summary of HB 2597 can be found here:

http://kslegislature.org/li/b2021_22/measures/documents/ccrb_hb2597_01_033122pm.pdf

HB 2106 Food Sales Tax Reduction

To be addressed during Veto Session.

- Just before midnight on Thursday, the Tax Conference Committee came to an agreement on a proposal to gradually reduce the state sales tax on food to 0%. The proposal has no impact on local governments’ sales tax.
- An initial rate cut will take effect January 1st, 2023, from the current 6.5% to 4.0%. The rate will then be cut to 2.0% on January 1st, 2024, and the rate would be eliminated on January 1st, 2025.

The KLRD summary of HB 2106 can be found here:

http://kslegislature.org/li/b2021_22/measures/documents/ccrb_hb2106_01_033122pm.pdf

Housing

- Many of the different housing initiatives and housing tax credits remain unresolved. The Senate Federal and State Affairs and House Financial Institutions and Rural Development Conference Committee had bundled many of the bills together, but the Legislature adjourned before the conference committee concluded its work.
- However, the budget conference committee ultimately approved \$20 million in ARPA funds for the Moderate-Income Housing Program and \$20 million SGF for the Rural Housing Revolving Loan Program that is included in the budget bill.

Active Bills

- SB 400 (now Sub for SB 400): Updating certain requirements and conditions relating to the creation, modification, and termination of trusts in the Kansas uniform trust code and updating the definition of resident trust for tax purposes.
 - Signed by the Governor Tuesday, March 29th.

- SB 483: Increasing criminal penalties for theft and criminal damage to property involving remote service units such as automated cash dispensing machines and automated teller machines.
 - Signed by the Governor Friday, April 1st.
- SB 335 KBA health plan bill: Exempting certain business entities that provide health insurance in the state but are not subject to the jurisdiction of the commissioner of insurance from payment of the annual premium tax.
 - Signed by the Governor Tuesday, March 29th.
- HB 2568 KMBA bill from the 2021 Session: Amending the Kansas mortgage business act by providing for mortgage business work at remote locations, license and registration renewal or reinstatement procedures, surety bond requirements and evidence of solvency and net worth and requiring notice when adding or closing branch offices.
 - Awaits Governor's approval.

TEFFI Bills

- SB 337: Converting the conditional charter issued for the pilot program under the TEFFI Act to a full TEFFI charter.
 - Signed by the Governor on 2/25.
- HB 2489: Companion bill to SB 334.
 - House concurred with amendments in conference committee, 117-0.
- HB 2547: Authorizing TEFFI insurance companies within the captive insurance act and providing for the requirements and operations thereof.
 - Passed the House 120-1 and the Senate 36-1. Headed to the Governor.

Upcoming Activities

The legislative schedule of hearings is updated regularly throughout the week can be found in the House and Senate calendars on the Legislature website at: http://kslegislature.org/li/b2021_22/chamber/calendars/

Additionally, all hearings are now available online live and archived by the end of each day. You can find those hearings on the Legislature website at: <http://sg001-harmony.sliq.net/00287/Harmony/en/View/Calendar/>

Wednesday, April 20th.

Consensus Revenue Estimating Group meets to review and revise the fall revenue estimates.

Thursday-Friday, April 21st-22nd.

Omnibus budget meetings.

Monday, April 25th.

Legislature returns for Veto Session.

Wrap Up

Let us know if you have any questions.

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