

TOM SLOAN
REPRESENTATIVE, 45TH DISTRICT
DOUGLAS COUNTY

STATE CAPITOL, 55-S
300 SW 10TH AVENUE
TOPEKA, KANSAS 66612
(785) 298-7654
1-800-432-3924

772 HWY 40
LAWRENCE, KANSAS 66049-4174
(785) 841-1528
tom.sloan@house.ks.gov

STATE OF KANSAS



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REPRESENTATIVES

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GOVERNMENT EFFICIENCY
AND FISCAL OVERSIGHT
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AND ENVIRONMENT

Newsletter: March 2010

Friends: This is my second legislative newsletter of the 2010 session. I hope that you find the information in this and the previous edition useful as you talk with family and friends about the State's economic condition and policy choice options.

State Revenues Continue to Decline: February tax collections were approximately \$70 million below projections. These results put even more pressures on Legislators, the Governor, and citizens to identify programs that should not be funded, new or expanded revenue sources, and other ways by which essential state services can be funded.

Taxation: There is much discussion at the Capitol and across the state about tax policies and rates. As noted in the media and my previous Newsletter, an approximate \$500 million gap exists between state revenues and the proposed FY 2011 state budget. You may recall from my previous Newsletter that the Legislature and Governor have reduced the state's expenditures by approximately \$1 billion between the end of fiscal year 2008 (June 30, 2008) and the current year's budget that ends on June 30, 2010.

The Governor proposed a 1 cent increase in the state sales tax rate as the primary means of funding the state budget. Remember that about 65% of the budget is for aid to education and 23% for social safety net programs. Following are examples of options to increase state revenues:

Increase sales/use tax by 1% -	\$386.4 million
Increase sales/use tax by .5% -	193.2
Individual income tax surcharge of 5% -	134.5
Corporate income tax surcharge of 5% -	10.5
Individual income tax new bracket of 7.5% above \$100,000 single person -	80.4
Property tax of one mill per \$1,000 assessed valuation on all properties -	30.2
Cigarette tax increase 60 cents per pack -	62.4
Liquor enforcement tax increase from 8-12% -	23.0
Liquor retail drink tax increase from 10-14% -	11.4
Liquor gallonage tax doubled (beer 18-36 cents; wine 30-60 cents; hard liquor \$2.50-\$5.00)	21.9
Remove sales tax exemption from electric, gas, water utility bills -	135.0

My previous Newsletter contained information about possible further state budget reductions. You may also go on line and look at the Governor's proposed budget to identify additional possible budget reductions. With the information available to you on budget reduction and revenue enhancement options, you can participate in the budget-making exercise with the Legislature. We will not make final decisions until the first week of May – after the Consensus Revenue Estimating Group meets in April to assess the state's economy during the remainder of fiscal year 2010 and for fiscal year 2011. Those numbers will provide legislators with the final indicators of how much budget cutting/revenue enhancing will be necessary to achieve balanced budgets.

Previous Tax Reductions: Following are a few examples of tax reductions that the Legislature has passed since 1995. The numbers reflect the *value to taxpayers in 2010* (not the cumulative savings).

Vehicle Property Taxes -	\$125.9 million
General Property Taxes -	497.9
Single Person Income Tax -	64.1
Increase Personal Income Exemption -	39.1
Earned Income Tax Credit -	66.2
Food Sales Tax Rebate -	43.7
Business Franchise Tax Phase Out -	26.5
Sales Tax Exemption New Construction -	27.9
Exemption Residential Remodeling -	21.9
Utilities Consumed During Production -	19.6
Health Clinic Exemption -	.3
Historic Preservation Tax Credits -	.6
Military Recruitment Bonus Exemption -	.7
Total of all Tax Reductions/Credits -	\$1,164.4 million

Many of the communications that I have received from individuals and organizations have recognized the State's fiscal challenges, but then stated that program benefits or tax exemptions they receive should not be eliminated. That is not an indictment of such persons/groups, as I understand that organizations with tax exemptions provide very beneficial services to citizens and state programs provide benefits. However, recognition that additional state revenues are necessary and "please do not threaten my program" means that the concept of shared pain and shared benefits is being lost.

Impact of Vision 2020 Committee: The Speaker of the House created the Vision 2020 Committee in 2009 as our "long-range planning committee" and appointed me Chairman. Last Session we held extensive hearings on water supply sustainability, state economic development agency roles, and impediments to telemedicine/telehealth monitoring.

State water agencies brought to the Committee this spring a "Road Map" to sustain the state's drinking water supply lakes and reservoirs. This represents the first comprehensive, long-term approach to addressing our drinking water supply sources for 65% of the state's population. While legislators are resisting the proposed 3 cents per 1,000 gallons of treated water sold at retail by municipalities and rural water districts to fund the development of a water data bank involving 2 federal agencies and at least 6 state agencies, the conceptual plan exists because of the Committee's 2009 hearings.

State economic development agencies similarly brought a proposed restructuring of the agencies' responsibilities and an alternative focus. Currently, agencies seek to recruit individual businesses to expand or relocate to Kansas.

A study conducted by a KU faculty member suggests that an enhanced system of helping existing businesses add one additional employee would create more jobs and economic growth. As you can imagine, this is a controversial proposal and challenges the on-going value of economic development programs and agency operations. This is a discussion that will carry-over to the next Governor's Administration, but it is a direct result of the Vision 2020's efforts to address systemic performance by state agencies and the value that taxpayers receive.

Telemedicine/telehealth is the use of the Internet and telephone lines to monitor and consult on an individual's health. You may have seen the advertisement on the Super Bowl with a physician vacationing in Belgium consulting with a patient back home. This is an example of telemedicine and demonstrates how Kansans can benefit health care-wise from technological advances.

A major problem in improving health care delivery using telecommunications technologies has been the lack of reimbursement by insurance providers. Partially as a result of the Vision 2020 Committee's hearings, a significantly larger number of insurance providers are covering the services. With reimbursement policies in place, an increasing number of hospitals are connecting with each other to access and share health care specialists. These results are very exciting as tele-delivery systems are increasingly a cost-effective means of delivering improved health care to Kansans.

This session the Committee is examining higher education policies. We have heard presentations by Board of Regents' CEO Reggie Robinson, Chancellor Gray-Little, community and technical college presidents, private technical college leaders – including Lawrence's Pinnacle Career Institute, and Larry Isaak from the Midwest Higher Education Compact. We will ask Regents and institutional leaders to examine and report to us in 2011 on the impact of virtual curriculum, tuition rates, and other long-term post-secondary education issues.

Ban on Smoking in Public Places: Several years ago, the Lawrence City Commission passed an ordinance prohibiting smoking in most public places because of public health risks from second-hand smoke. Other Kansas communities are taking similar action, however there has been a call from the American Lung Association and other groups to enact a statewide law to protect non-smokers. The Chairperson of the House Health & Human Services Committee did not bring an acceptable bill to the House Floor for full debate, so the Senate did a "Gut and Go" on a House bill by replacing the entire original language and substituting a smoking ban bill.

The House then had an opportunity to vote to Concur (accept) in the Senate amendments or Non-Concur and have a Conference Committee - 3 House members, 3 Senators - attempt to resolve the issue. Motions to concur do not permit further amendments to the bill, it is accepted "as is" or sent to a Conference Committee for clarifying. As you have probably read, after approximately 2 ½ hours of debate, we concurred in the Senate amendments. The bill will go to the Governor for his signature or veto.

I include this issue in my Newsletter because it illustrates the complexity of legislative issues and procedures. Procedurally, the above description provides a glimpse into the mechanics of the legislative process. Substantively, HB 2221 had problems. The bill provides exceptions from the ban on indoor smoking in public places for casinos, 20% of hotel rooms, veterans and some fraternal organizations, and in nursing home facilities. While I voted to Concur in the Senate amendments because it is a step toward a responsible public policy and does not over rule the more comprehensive Lawrence City Commission's ordinance, my vote was cast very reluctantly because of the exceptions to the ban.

Health Care Constitutional Amendment: House Concurrent Resolution (HCR) 5032 proposes an amendment to the Kansas Constitution that would protect our citizens from any federal requirement that everyone have health insurance. The entire health care debate in Washington, D.C., has tremendous implications for all of us – should health care coverage be mandatory? The more people in the actuarial pool, the lower the cost of insurance because the risk is spread over more people. On the other hand, is it appropriate for the federal government to require such coverage or is this better left to the individual states (e.g., Massachusetts) or individual choice (assuming financial capabilities)?

Serious questions arise regarding the proposed Amendment, including: a) does a federal law mandating insurance coverage negate a provision in the Kansas Constitution, as federal law super cedes state laws? b) is there a U.S. Constitutional protection against being required to have health insurance? c) if the Amendment had been in placed at the time Medicare/Medicaid were created, would Kansans have been excluded from participating? d) if the Amendment passes, what types of health care coverage opportunities might be gained or lost in the future?

One of the issues upon which most people agree is that if insurance companies cannot discriminate because of a person's prior medical conditions/history, then some form of mandatory insurance coverage is necessary. The best analogy that I have heard is if a person could wait to purchase automobile insurance until he or she had an accident, the insurance company would quickly go broke because no one would buy before a need arose. If health care insurance coverage is voluntary, but coverage must be extended to all requesting it, then the pool of persons in the insurance plan will continue to shrink (leaving only those with health concerns) and premiums will escalate at even faster rates. Health insurance rates depend on low risk people and high risk persons "balancing."

To put some of the debate in perspective, I am very healthy, but have health insurance coverage as a state employee and through my wife's insurer. Essentially I never had need of the coverage --- until last August when I tore my rotator cuff and dislocated my shoulder playing competitive softball (as I have done for 40+ years). While the insurance premiums were paid for many years without my needing the coverage, those premium dollars supported others in need. My premium dollars and those of others paid for the surgeons, other medical staff, hospital, physical therapy, etc. as I recover from the injury. That is the basis for home insurance (most of us will not have a fire/theft), auto insurance (most of us will not have an accident this year), and other forms of insurance. The risk is spread to as many people as possible in order to keep the premiums as low as possible, but with sufficient premiums to pay legitimate claims when we need help.

We can debate whether any of the health care reform plans being discussed in Congress will really save us money, but for me as a Kansas Legislator and you as a citizen, one of the issues we do need to discuss is will a Constitutional Amendment prevent us from participating in programs in the future that might benefit us financially or through improved health care services?

Closing Comments: Please contact me if you have questions about any state issue, wish to spend a day with me at the Capitol, or have an idea on how State government can better serve the long term best interests of our community and state. If you are receiving a printed copy and would prefer to receive this newsletter electronically, please contact my assistant at mary.koles@house.ks.gov or call 785-296-7654. Please share this newsletter with your family and friends and encourage them to contact me also whenever they have information that will better enable me to represent our citizens.

*Best Wishes,
Tom*