

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chairperson Ron Ryckman at 9:00 am on Thursday, January 21, 2016, 112-N of the Capitol.

All members were present except:

Representative Daniel Hawkins – Excused

Committee staff present:

Kathy Holscher, Kansas Legislative Committee Assistant

David Fye, Legislative Research Department

Jennifer Ouellette, Legislative Research Department

Jill Wolters, Office of Revisor of Statutes

Daniel Yoza, Office of Revisor of Statutes

J.G. Scott, Legislative Research Department

Melinda Gaul, Administrative Assistant

Conferees appearing before the Committee:

No conferees present

Others in attendance:

[See Attached List](#)

Possible bill introductions

Chairman Ryckman called the meeting to order.

Representative Kleebe made a motion to introduce proposed legislation regarding the duration of the legislative session. Representative Hutton seconded the motion. Motion carried.

Representative Schwartz made a motion to reconsider **SB 248**. Representatives Grosserode seconded the motion. Motion carried.

Daniel Yoza, Office of the Revisor of Statutes, reviewed the technical amendment needed for **SB 248**, which would strike 2014 and insert 2015.

Representative Grosserode made a motion to strike 2014 and insert 2015 in **SB 248**. Representative Hoffman seconded the motion. Motion carried.

Representative Grosserode made a motion for favorable passage of **SB 248** as amended. Representative Claeys seconded the motion. Motion carried.

Representative Barker made a motion to reconsider **SB 250**. Representative Grosserode seconded the motion. Motion carried.

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Daniel Yoza, Office of the Revisor of Statutes, reviewed the technical amendment to the bill, which would strike 2014 and insert 2015. Once amended, the bill would not go on the consent calendar, he added.

Representative Grosserode made a motion to strike 2014 and insert 2015, for favorable passage of SB 250 as amended. Representative Hoffman seconded the motion. Motion carried.

Representative Ballard made a motion to introduce legislation regarding firearms in postsecondary educational institutional buildings. Representative Henry seconded the motion. Motion carried.

Presentation on:

Kristen Rottinghouse, Senior Auditor, Legislative Post Audit, presented the Performance Audit Report regarding Federal Funds ([Attachment 1](#)). She noted that the reports are also on the Legislative Post Audit website. One question was asked of this audit, which refers to unfunded obligations for state agencies. The audit found that these programs require agencies to spend state money on cost sharing obligations. There were no findings of significant unfunded liability obligations, only restricted use of federal funds, she noted. Approximately \$5 billion has been spent annually in monetary and nonmonetary support from the federal government in recent years. Those funds have primarily supported education, transportation, health care and social services. A review of cost-sharing obligations followed, which included state-match and maintenance of effort requirements. Legislative Research Department estimates that approximately \$2 billion in state funds will be spent on cost-sharing obligations in FY 2016. She stated that typically federally funded programs impose administrative requirements, which for the most part can be paid with program funds. A review of program conditions for spending federal dollars and challenging national policy objectives followed.

Kristen Rottinghaus responded to questions from committee members. It was noted that the federal government can reduce the percentage of payments to states at anytime. The federal match for the Medicaid Fraud Unit is 75% federal and 25% state, and the Medical Assistance program match is a combination of variables at 66% federal and 44% state. J.G. Scott added that the Medicaid Fraud Unit formula for calculation is \$1.4 million spent in total funds multiplied by the 75% federal and 25% state match. It was recommended by a committee member that further research may be needed regarding grant management and penalties. Ms. Rottinghaus stated that there was no comparative data compiled with other states and maintenance of effort requirements. She stated that additional information on federal funds as a percentage of all funds for provider services as compared to other states will be provided, as requested. Chairman Ryckman stated that Scott Frank, Legislative Post Audit, will be in committee to discuss additional audit ideas and suggestions.

Update on:

Kevin Lockett, CEO, Kansas Bioscience Authority (KBA), provided an update on the activities of the KBA ([Attachment 2](#)). He introduced John Perryam, General Counsel, KBA. A review on the status of

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SB 305, which would dissolve the KBA followed. The bill did not come to vote during the last session and remains open for this session. The bill transfers all liabilities and assets to the Kansas Department of Commerce. The KBA did not receive the remainder of appropriated funds last year, which had an impact on the operations and investment strategies. "Realignment efforts included scaling down operations; the appointment of the new Secretary of Commerce, with board approval; the KBA would move to privatization; and alignment both internally and within the administration." Priorities were established to ensure an open, transparent and fair process, as well as solutions for continued support of KBA's mission. He stated that this should not be viewed as a failure for KBA. The KBA funding was to sunset in 2019, at which time the private sector was to assume a heavier role within the bioscience community. This remains the intended outcome, only three years earlier he noted. The privatization strategies of the KBA activities placed in the hands of the private sector would benefit the state from the growth of the bioscience sector.

Mr. Lockett responded to questions from committee members. Committee members thanked Mr. Lockett for the information provided and his leadership of the KBA. It was noted that since 2003, \$240 million has been invested in the KBA, with an estimated sell-off value of \$20 million. Mr. Lockett reviewed the investment strategies that included limited partner positions and venture capital funds that were bioscience related. Venture capital funds have a 10 year life and presently KBA is in the 3rd year, he noted. Creative solutions are being sought when transitioning to the private sector. It was noted that the market will decide the value of the portfolio. Emphasis was placed on Kansas solutions that will involve private sector partners invested in retaining companies and job creation. With the expertise of investment professionals, KBA is hopeful that there will be local and national interest in the portfolio in addition to those companies already investing, he added. A review of the bid process, value assets and oversight of the process followed. Mr. Lockett stated that the goal of KBA is to maximize the return on investments and transfer back as much money possible to the State General Fund. This would be based on the actual value of the private market sell, and addressing outstanding obligations. There is no annual distribution from the fund, revenue is obtained from tenant leases or an IPO event. \$40 million has been invested in the 8 - 10 year strategy and the KBA is in the 3rd year with a return on investment of \$23 million. The impact on privatization will most likely take 2 - 5 years to be realized. Kansas was in a position of recognition as a place to do business as a bioscience sector, hopeful that the KBA will reap benefits from earlier work.

Chairman Ryckman thanked Mr. Lockett for his leadership. An introduction of Antonio Soave, Acting Secretary, Department of Commerce, followed.

Mr. Soave expressed appreciation for Mr. Lockett's work at the KBA, and he stated that the KBA is in very good hands with the team that is in place. In response to questions from the committee, Acting Secretary Soave stated that the process would be fair, open and transparent, which was unanimously agreed upon by the board. A certified licensed investment broker would ensure and enhance the process. Concern were expressed regarding the volatility of the stock market, the private sector and the availability to stop the process if it appears to be a "fire" sale. The intent is that KBA would not ask for state funding in order to meet outstanding obligations. The KBA could continue on through maturity to

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some degree, however it is a concern for KBA that it would be jeopardizing its position without follow-on capital. It was noted that the legislature should weigh in on determining macroeconomic factors, if there are enough people to develop a Kansas based solution, determine what the portfolio value would become without follow-on capital, and the position in each portfolio company. Additional information on the composition of the KBA board will be provided to committee members, it was noted. It was noted that Kansas has received global recognition within the Bioscience industry.

Chairman Ryckman acknowledged the success of the KBA and the enhanced communications. He emphasized the important decisions that are yet to be made regarding KBA, in the private market, private sector, as well as the on-going needs of the state.

Representative Highland made a motion to approve the minutes from the January 13 and January 14 committee meetings. Representative Proehl seconded the motion. Motion carried.

Meeting adjourned at: 10:35 a.m.