

## **MINUTES**

### **JOINT LEGISLATIVE BUDGET COMMITTEE**

August 3, 2015  
Room 112-N—Statehouse

#### **Members Present**

Representative Ron Ryckman, Jr., Chairperson  
Senator Ty Masterson, Vice-chairperson  
Senator Jim Denning  
Senator Laura Kelly  
Representative Jerry Henry  
Representative Marvin Kleebe

#### **Member Absent**

Representative Sharon Schwartz

#### **Staff Present**

J.G. Scott, Kansas Legislative Research Department  
Bobbi Mariani, Kansas Legislative Research Department  
Dylan Dear, Kansas Legislative Research Department  
Chris Courtwright, Kansas Legislative Research Department  
Jason Long, Office of Revisor of Statutes  
Kathy Holscher, Kansas Legislative Committee Assistant

#### **Conferees**

Julie Thomas, Deputy Director, Division of the Budget

### **Morning Session**

Chairperson Ryckman called the meeting to order and reviewed the agenda.

#### **Legislative Adjustments to Consensus Estimates and State General Fund Receipts for FY 2015**

Chris Courtwright, Kansas Legislative Research Department (KLRD), presented an overview of the Legislative Adjustments to the Consensus Estimates for Fiscal Year (FY) 2015 through FY 2017 ([Attachment 1](#)). The adjustments reflect the fiscal impact of legislation enacted during the 2015 Legislative Session subsequent to the April 20, 2015, Consensus Revenue Estimates. The estimated receipts increased by \$1.3 billion for the combined years FY

2015, FY 2016, and FY 2017. He discussed the revised FY 2015 State General Fund (SGF) receipts, as detailed on Table 2 of the document. Net transfers increased by \$18.7 million attributable to the reduced transfer from SGF for bioscience initiatives and transfers from SGF to the School District Extraordinary Needs Fund. He stated the adjusted baseline for FY 2015 is \$5.9 billion. The FY 2016 adjustments included the combined tax package. A review of the components of the tax package, as detailed in Table 8 of the document, followed. The SGF increase in the tax package for FY 2016 is \$384.4 million. A review of Table 3, which reflects the source-by-source adjustments including the tax package from the April 20, 2015, estimates, followed. The combined tax package for FY 2017 is estimated to increase the SGF receipts by approximately \$404.8 million. A review of Table 8 of the document followed.

Mr. Courtwright responded to questions from Committee members. He stated the low income exclusions begin in FY 2017, which generally eliminates all taxable income for wage earners of \$5,000 or less per year and filing single tax returns, and \$12,500 or less per year and filing joint tax returns. A review of the amnesty on taxes, which would waive penalty and interest on taxes owed, followed. He explained this would not be considered a tax cut or increase. He further explained there will be a \$19.4 million tax reduction in the tax year liability for FY 2016, which will not be reflected until FY 2017, due to the timing for filing tax returns. An explanation of the inventory tax for cigarette sales followed. This inventory tax imposed on the date of a tax increase is a one-time increase in FY 2016.

### **State General Fund Receipts FY 2015**

Mr. Courtwright provided an overview of the SGF Receipts for FY 2015 ([Attachment 2](#)). Total receipts for FY 2015 were \$15.6 million below the adjusted estimate, which included legislation enacted after the April 20 Consensus Revenue Estimate. He noted the attributable factor was lower-than-estimated retail sales and corporate income taxes. Tax sources adjusted above revenue estimates included insurance premiums and the liquor enforcement tax. A review of the revenue estimating process followed. He discussed the timing of tax collections and monthly tracking reports used by revenue estimators. It was noted August will be a key month to watch, regarding the impact of the new tax law that became effective on July 1, 2015. He stated revenue estimators will continue to closely monitor the tax rate increase, base sales, and use tax receipts. Committee members received a copy of the Kansas Department of Revenue Comparison of Fiscal Years 2016 and 2015 Actual General Fund Collections ([Attachment 3](#)). |

Mr. Courtwright responded to questions from Committee members. He stated the actual June 2015 receipts totaled \$5.9 billion and the \$3.0 million was the result of transfers approved in the Omnibus bill. Concern was expressed for the public perception regarding shortfalls within the state budget projections. It was noted revenue estimates are based on current law. The projected revenue shortfall was attributable to lower-than-estimated sales tax and corporate income tax revenue. April estimates were based on then-current law and the sales tax increase was not factored in the revenue estimates. Concern was expressed regarding behavioral changes of the consumer and the impact on state revenue. Monitoring trends through collaborative efforts with the Department of Revenue is instrumental to the estimating process. He stated a 3.75 percent long-term growth rate has been used in projections for a number of years. Consumer internet and out-of-state purchases was discussed. Sales taxes increased 1.0 percent in FY 2010 with a projected revenue of \$320 million. This resulted in an 18.0 percent increase with no slippage. This revenue source allocated funds to SGF and the State Highway Fund. Sales tax receipts were projected to increase by 4.8 percent in FY 2015. To date, sales are at 2.8 percent. Concern was expressed the 4.3 percent increase projected for FY 2017 could result in a \$30.0 million to \$50.0 million shortfall. Discussion on the impact of behavioral

changes when combining state and municipal taxes followed. He stated the Department of Revenue generally tracks sales receipts by county, however, this information may not be specific to food vs. non-food items. Committee members received a copy of the Kansas Department of Revenue Comparison of FY 2016 and FY 2015 Actual General Fund Collections.

J.G. Scott, KLRD, provided an overview of the privilege fee adjustment. The fee was adjusted from 1.0 percent to 3.31 percent, resulting in a SGF savings of \$48 million after adjustments to fund Medicaid, Newborn Screening programs, and the Special Revenue Fund.

Mr. Scott provided an overview of the FY 2015 to FY 2016 SGF reappropriations by agency ([Attachment 4](#)). The total reappropriation for FY 2016 was \$16.3 million, which reflects SGF dollars not spent in FY 2015 and carried over to FY 2016.

Mr. Scott responded to questions from Committee members. He stated this amount reflects additional expenditures in FY 2016. The approved budget is \$6.3 billion, this increases expenditures by \$16.3 million. He noted information on fee sweeps is forthcoming. It was noted the reappropriation amount is less than the amount in past years, due in part to the timing of receipts for payment. The reappropriation of funds does not reflect reduced funding to agencies, as the payments are authorized. Dylan Dear, KLRD, stated the Domestic Violence Prevention budget is \$3.6 million.

Mr. Scott provided an overview of the FY 2016 SGF Expenditure Reduction and Fund Transfer Plan ([Attachment 5](#)). This information reflects the Governor's adjustments to the approved budget with SGF expenditure reductions of \$38.4 million and revenue transfers to the SGF in the amount of \$24.1 million for a total of \$62.6 million.

The meeting recessed at 12:00 p.m.

### **Afternoon Session**

Chairperson Ryckman reconvened the meeting at 1:30 p.m.

Mr. Scott reviewed the FY 2016 SGF Revenue Transfer Plan ([Attachment 5](#)). He noted a total of \$38.0 million in expenditure reductions to the SGF was previously reviewed. Of this amount, \$17.7 million will be revised in the FY 2016 budget to reflect the federal match for the State Children's Health Insurance Program (SCHIP). The revenue transfer of \$1.9 million for the Performance Incentive Grants was line-item vetoed and will not be reduced through allotment authority. This line item was included in the Governor's \$50.0 million reduction plan. The total revenue transfer to the SGF is \$24.1 million. The total reduction and transfer amount to the SGF is \$62.6 million. It was noted legislation passed authorizing additional flexibility for the Governor, but there was no requirement for a reduction of \$50.0 million to the approved budget.

Mr. Scott responded to questions from Committee members. He stated SCHIP premiums are determined by the Medicaid Management Information System, which uses a formula based on income guidelines. It was suggested there may be a financial incentive to move recipients to the exchange. As requested, additional information on the federal government's increased match rate for alignment purposes will be forthcoming.

Julie Thomas, Division of the Budget, responded to a question regarding the Children's Initiative Fund (CIF) and Economic Development Initiative Funds (EDIF) transfers. She stated there are reappropriations of which \$40,000 was for CIF for the Early Childhood Education

Block Grant and the remainder for the EDIF, specifically the Rural Opportunity Zone Program. A review of the fund transfers in the Department of Commerce for EDIF followed. She stated \$6.0 million was appropriated to the Lexia Program for FY 2014, of which unspent dollars were carried over to FY 2015. Ms. Thomas stated the CIF was moved to the Department of Education as was the request for proposal for a Reading Program, the money from FY 2015 will not be carried over.

As requested, Committee members received a copy of the Fee Fund Detail ([Attachment 6](#)).

In response to questions from Committee members, Mr. Scott stated the State Historical Society's endowment was approximately \$1.0 million, of which \$800,000 was swept. He stated if this were an allotment, money could not have been swept. However, the expanded authority allowed the transfer of funds to the SGF. To date, no certification has been issued. As requested, KLRD will provide a detailed explanation of the fee fund transfers and the impact on the agencies in the future. It was noted, this information will be provided to the House Appropriations Committee and the Senate Committee on Ways and Means. It also was noted the previous fee fund lawsuit has not been settled.

Committee members received a copy of the SGF Profile ([Attachment 7](#)).

## **Request for Proposal**

Chairperson Ryckman discussed the time frame for the Kansas State Government Efficiency Study. There will be 10 days for communication of interest, 5 days for questions, 5 days for responses, 15 days for proposal presentations, a final approval date of October 1, 2015, and a completion date of January 1, 2016.

Mr. Scott provided an overview of the process for developing the Request for Proposal (RFP) ([Attachment 8](#)). He stated RFPs from Louisiana and North Carolina were reviewed by KLRD staff, Office of Revisor of Statutes staff, and Legislative Post Audit staff, which was instrumental to the development of this proposal. He stated the proviso identified the Joint Legislative Budget Committee (LBC) as the committee that will oversee the RFP, which will be presented to the Legislative Coordinating Council (LCC) to sign the contract for implementation with the liaison.

Chairperson Ryckman stated changes to the RFP will be made upon consensus of the Committee. Points of discussion and corrections are as noted below:

- Page 17, item 4.16
  - Clarification is needed regarding the notices to the agencies.
- Page 9, item 2.9
  - The liaison reports to the LCC, the LBC authorizes the funds to the contractor funding the position.
- Page 17, item 4.15
  - The bidder has a project manager and the LBC has a liaison.
- Page 6, item 2.7
  - Change "bidder" to "the State" throughout the paragraph; and

- After discussion, Committee members agreed to include the time line in the document.
- Page 2, item 1.4
  - Concern was expressed for restrictive language that would not include revenue enhancements.
- Page 3
  - Jason Long, Office of Revisor of Statutes, stated the contractor's depth would target the Executive Branch of the legislature. The vendor would notify the liaison who would then prepare a letter of introduction to be sent to the agency head regarding the scope of work.
- Page 2, item 1.2
  - Add a bullet point to include city and county government; and
  - Discussion followed by Committee members. It was noted the Legislative Post Audit conducts school audits each year, of small, medium, and large districts. It also was noted the study would help identify efficiencies and effectiveness, as well as potential savings to the taxpayer. The vendor would present ideas to the liaison, who would report back to the Committee for members' review. Committee members discussed the impact when determining the implementation of efficiencies.
- Page 2, item 1.2 Objective 1
  - Conduct a comprehensive diagnostic analysis of the State authorized entity budget to identify business processes, spending trends, and outliers. (Technical recommendations will be made by the Office of Revisor of Statutes.)
- Page 3
  - Add a bullet point to exclude cities and counties.
- Page 8, item 2.8.3
  - Strike the first line of the second paragraph.

*Senator Masterson made a motion for the Committee Chairperson to approve the final draft of the RFP, upon review of the recommended revisions by Committee members. Representative Denning seconded the motion.*

Mr. Long stated a revised RFP will be provided to Committee members the next day for their review with the recommended changes noted. Authorization for the RFP will go out this week.

*The motion was renewed. Motion carried.*

Discussion continued by Committee members regarding the process. Mr. Scott stated discussion was ongoing with the Legislative Division of Post Audit and the Division of Purchases regarding eligible contractors and consultants. The RFP will be posted on KLRD's website. Chairperson Ryckman asked if there were any objections by Committee members regarding Mr. Scott being the contact person for the RFP. There were no objections. The LBC will make the recommendation for accepting the proposal. The closing date is September 11, 2015, to comply with the 30-day time frame.

Representative Kleeb recommended the appointment of a subcommittee composed of Representative Henry, Senator Masterson, and Chairperson Ryckman. The subcommittee would be responsible for reviewing proposals and recommendations for review of selected RFPs by the LBC. There were no objections to the recommendation by Committee members. It was noted the Committee will follow the industry standards regarding non-disclosure issues.

The meeting adjourned at 2:55 p.m.

Prepared by Kathy Holscher  
Edited by Bobbi Mariani

Approved by the Committee on:

September 17, 2015  
(Date)