

Kansas Budget Presentation

Shawn Sullivan, Budget Director



Agenda

Historical Perspective on the Economy and Budget

Revenue and Caseloads

FY 2015 Allotment Plan

FY 2016 and FY 2017 Budget

Tax Plan



A Look Back

Four Years Ago:

- 100,000 Kansans were actively looking for work and could not find it.
- Kansas ranked near the bottom among States in private sector job growth.
- Personal income growth was stagnant



A Look Back

It took almost 120 years for the State General Fund to reach \$1.0 billion for the first time.

In less than 30 years, it grew to \$6 billion.

State General Fund Spending grew by more than a third during the previous decade.

The State General Fund ended with a negative balance in Fiscal Year 2010.



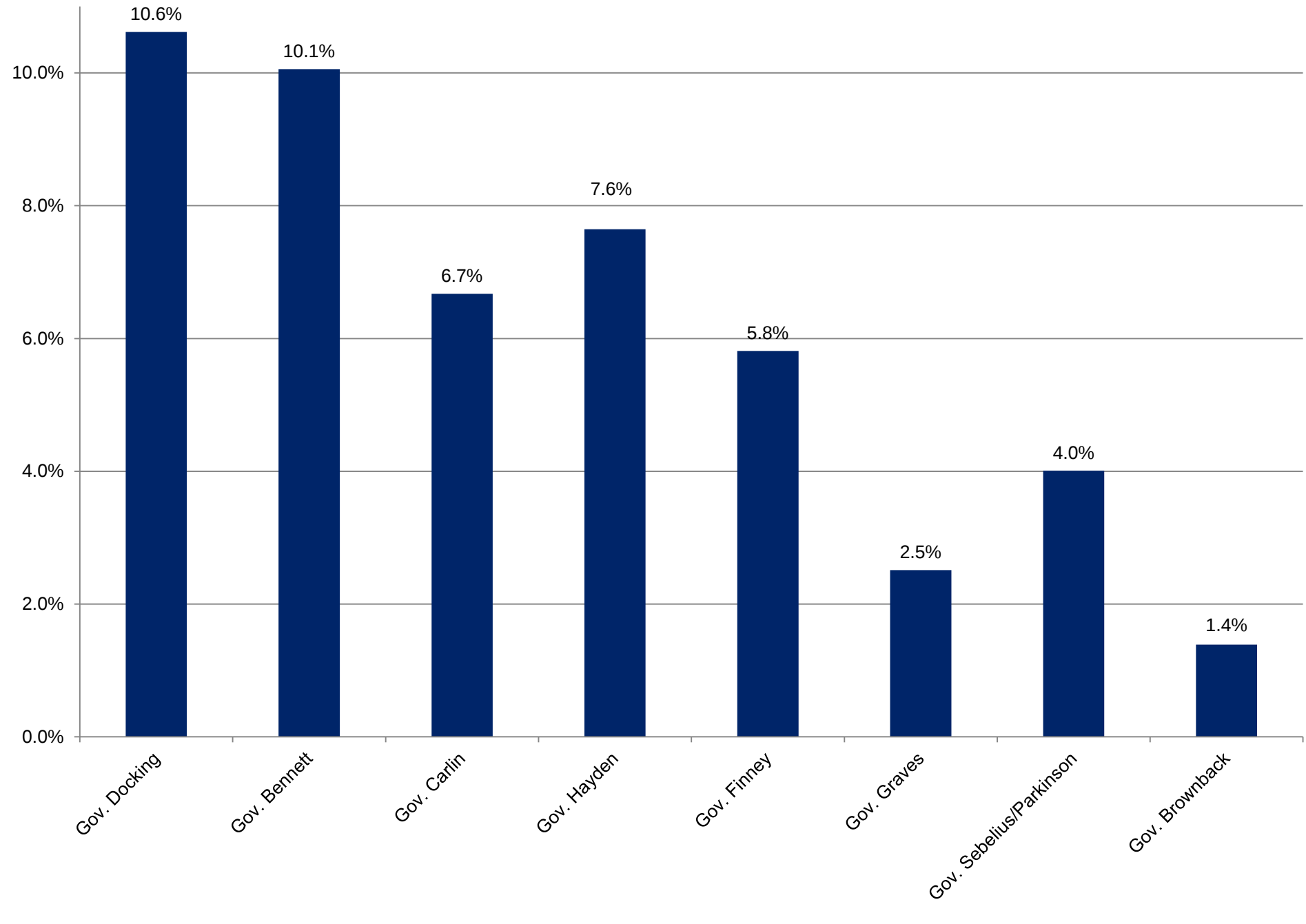
A Look Back

The Last Four Years:

- Eliminated, consolidated or privatized the work of many state agencies
- State public sector workforce was reduced by more than 3,000 positions
- The average State General Fund growth per year was 1.4%, less than each of the previous nine Governors.



State General Fund Cost Adjusted Growth Rate by Governor



A Look Back

The Last Four Years:

- State's economic development strategy was overhauled
- Taxes were significantly reduced
- Rural opportunity zones were established



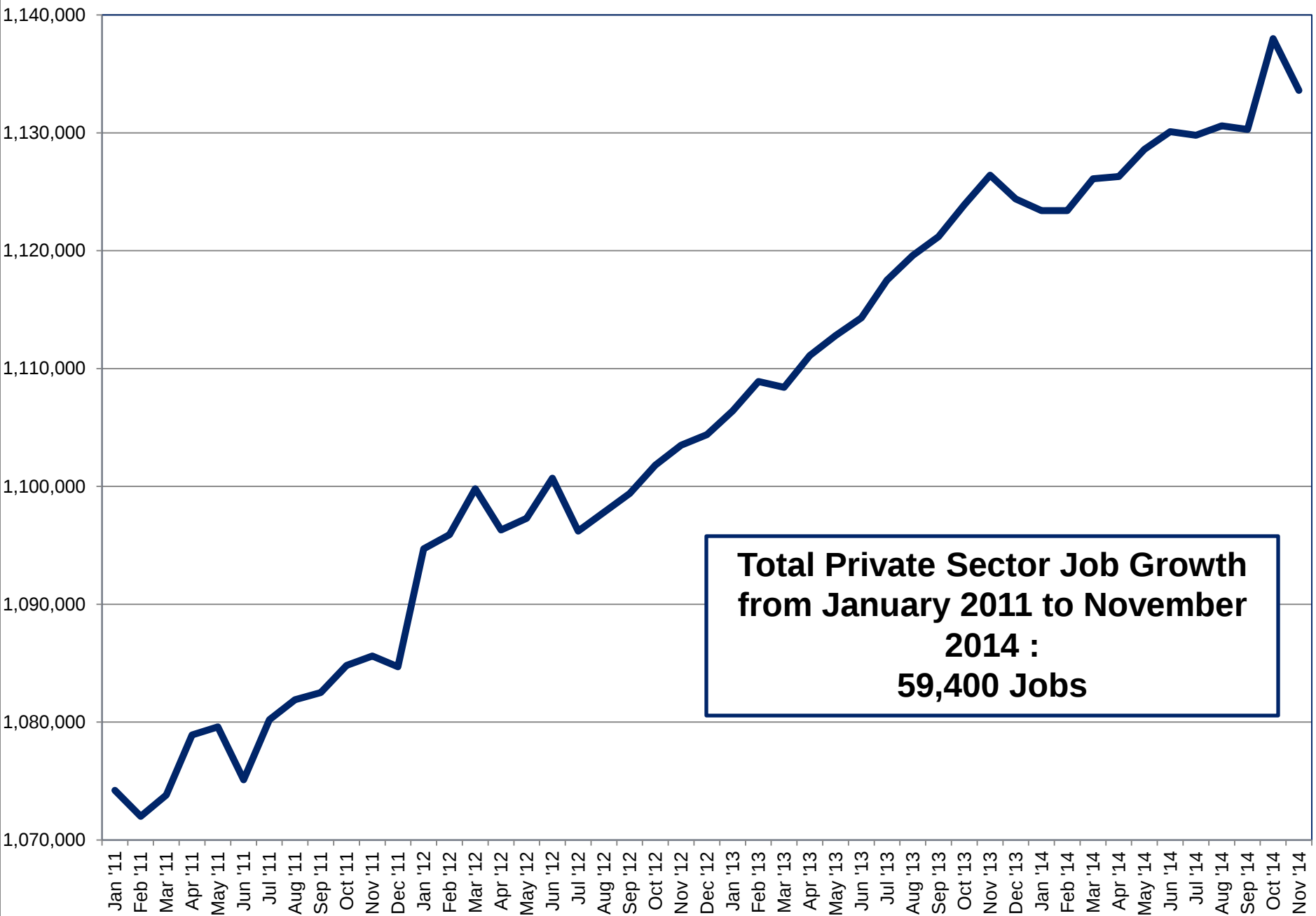
A Look Back

The Results:

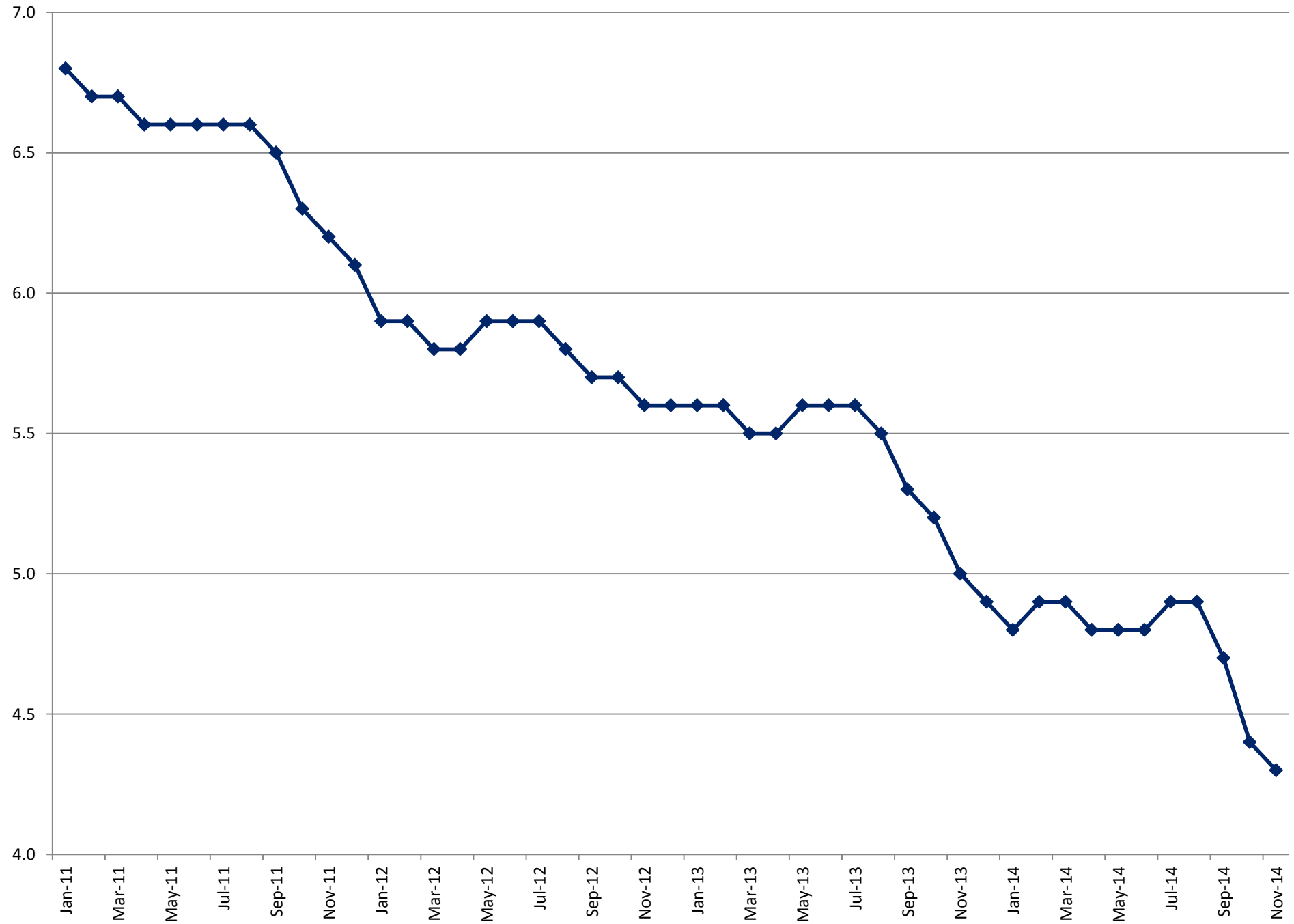
- 59,400 new private sector jobs
- 4.3 percent unemployment rate- 10th lowest in the nation
- More Kansans are working than ever before
- Personal income is rising



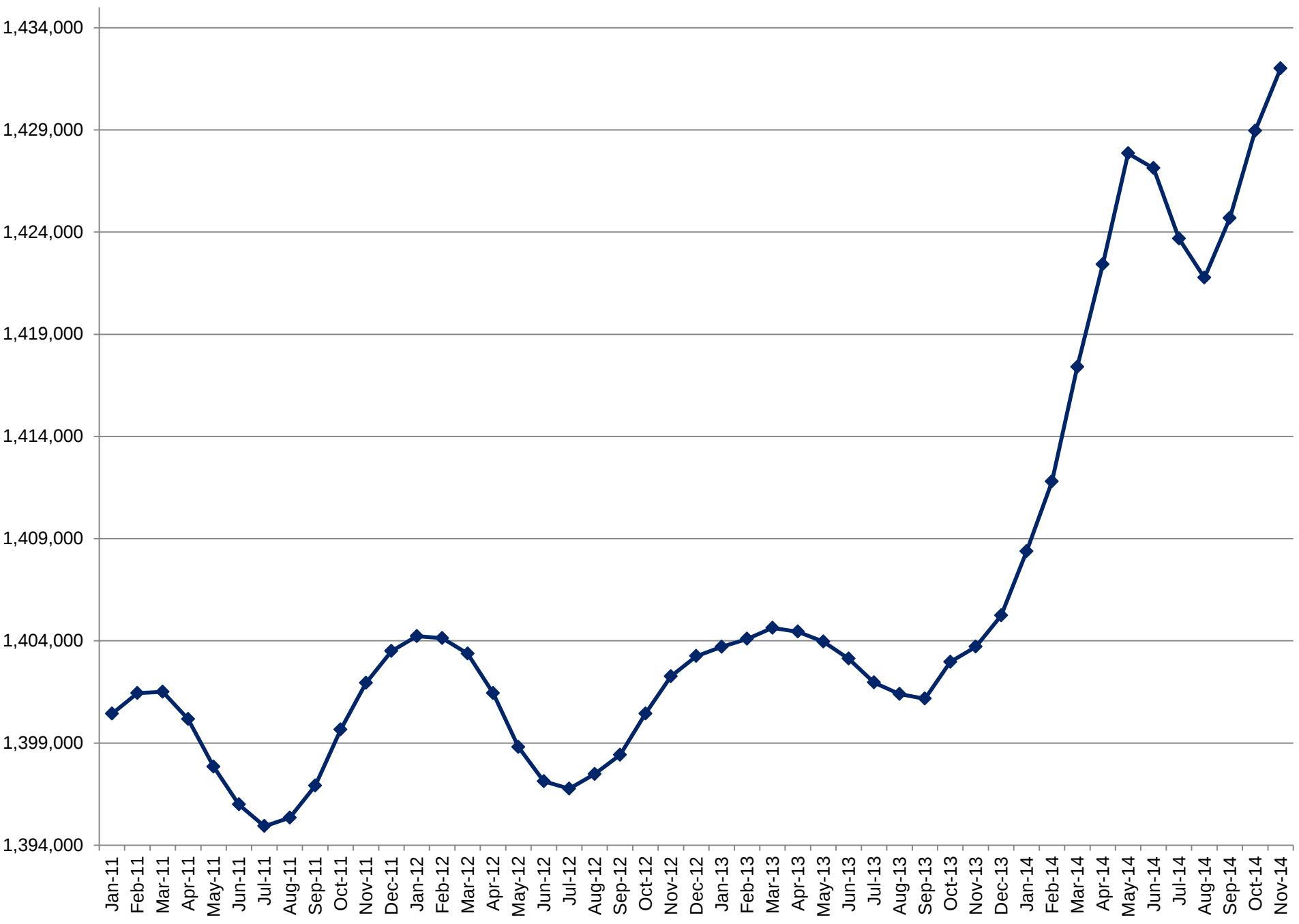
Brownback Administration Job Growth



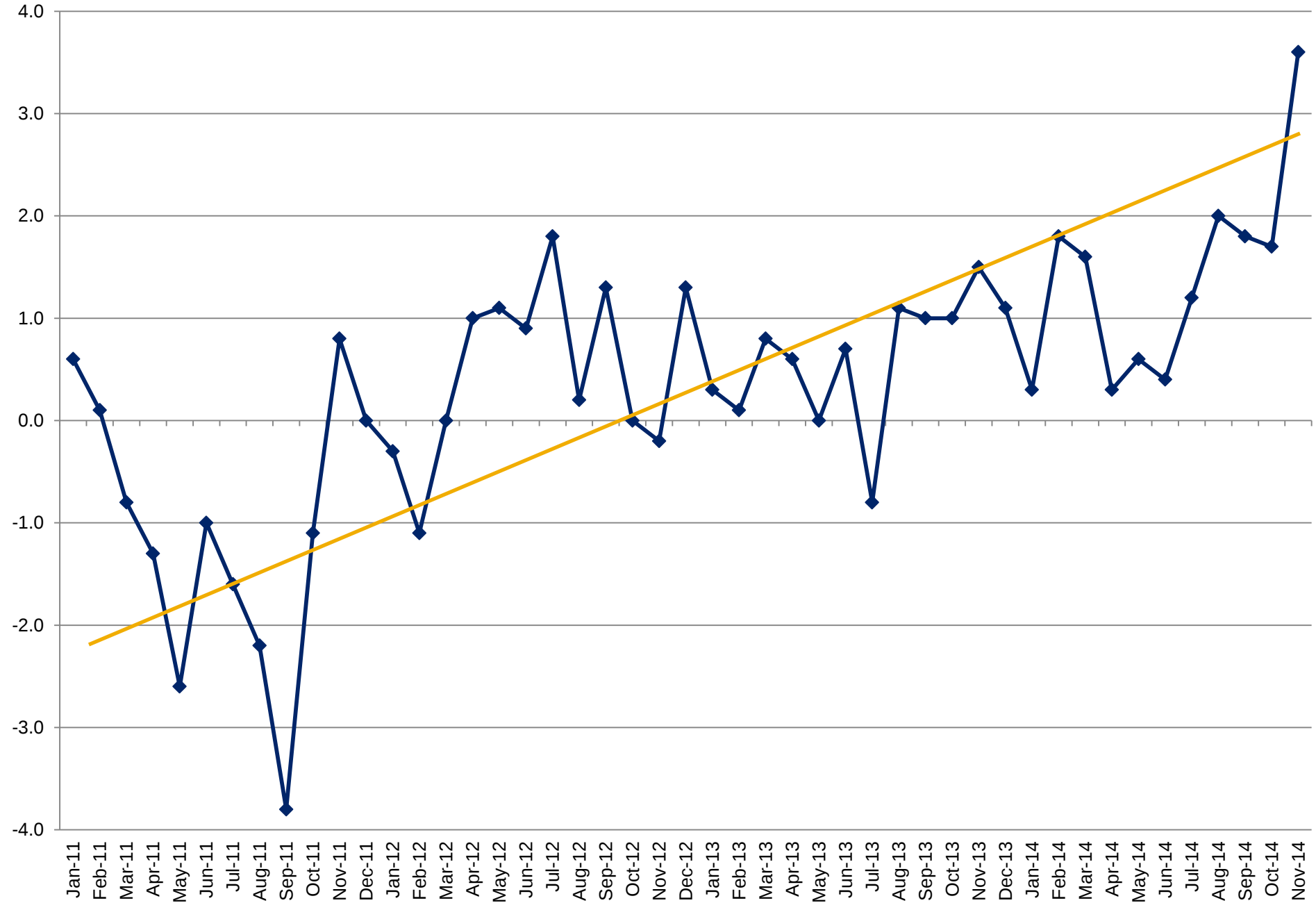
Kansas Unemployment Rate



Kansas Statewide Employment



Average Hourly Pay 12-Month Percent Growth



Revenue Picture

FY 2014: SGF receipts were \$5.653 billion as compared to the \$5.986 billion in the approved budget, which is a \$333 million dollar decrease.

FY 2015: SGF receipts were lowered to \$5.769 billion, a decrease of \$205.9 million.

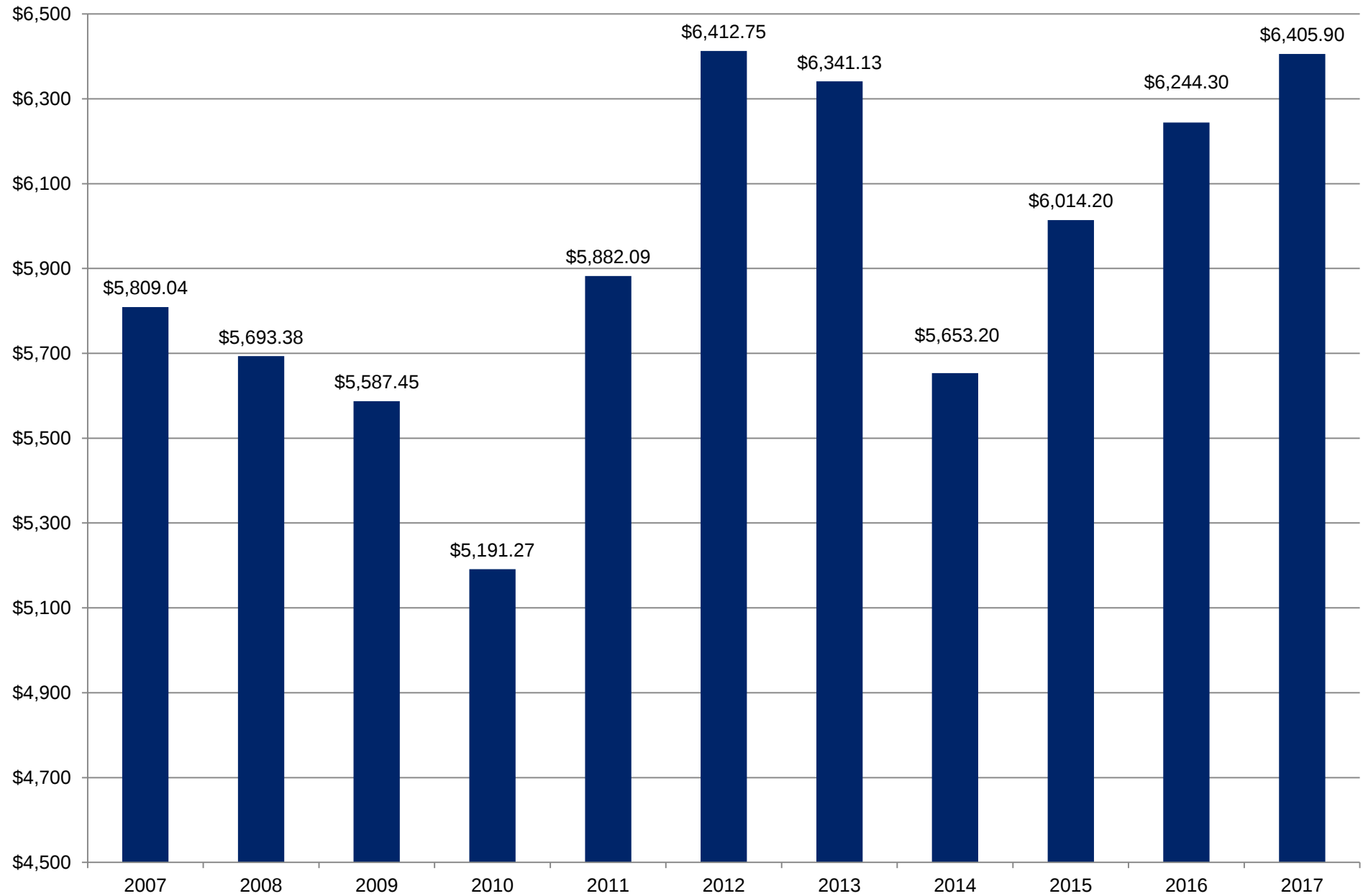
FY 2016: SGF receipts are estimated to be \$5.811 billion, which is 0.7 percent more than the revised FY 2015 forecast. This takes into account the income tax rate cuts that occurred on January 1, 2015.

FY 2017: SGF receipts are estimated to be \$5.877 billion, which is 1.1 percent more than the FY 2016 forecast. This takes into account the income tax rate cuts that are set in current law to occur on January 1, 2016.



State General Fund Receipts

Numbers in Millions



Revenue Picture

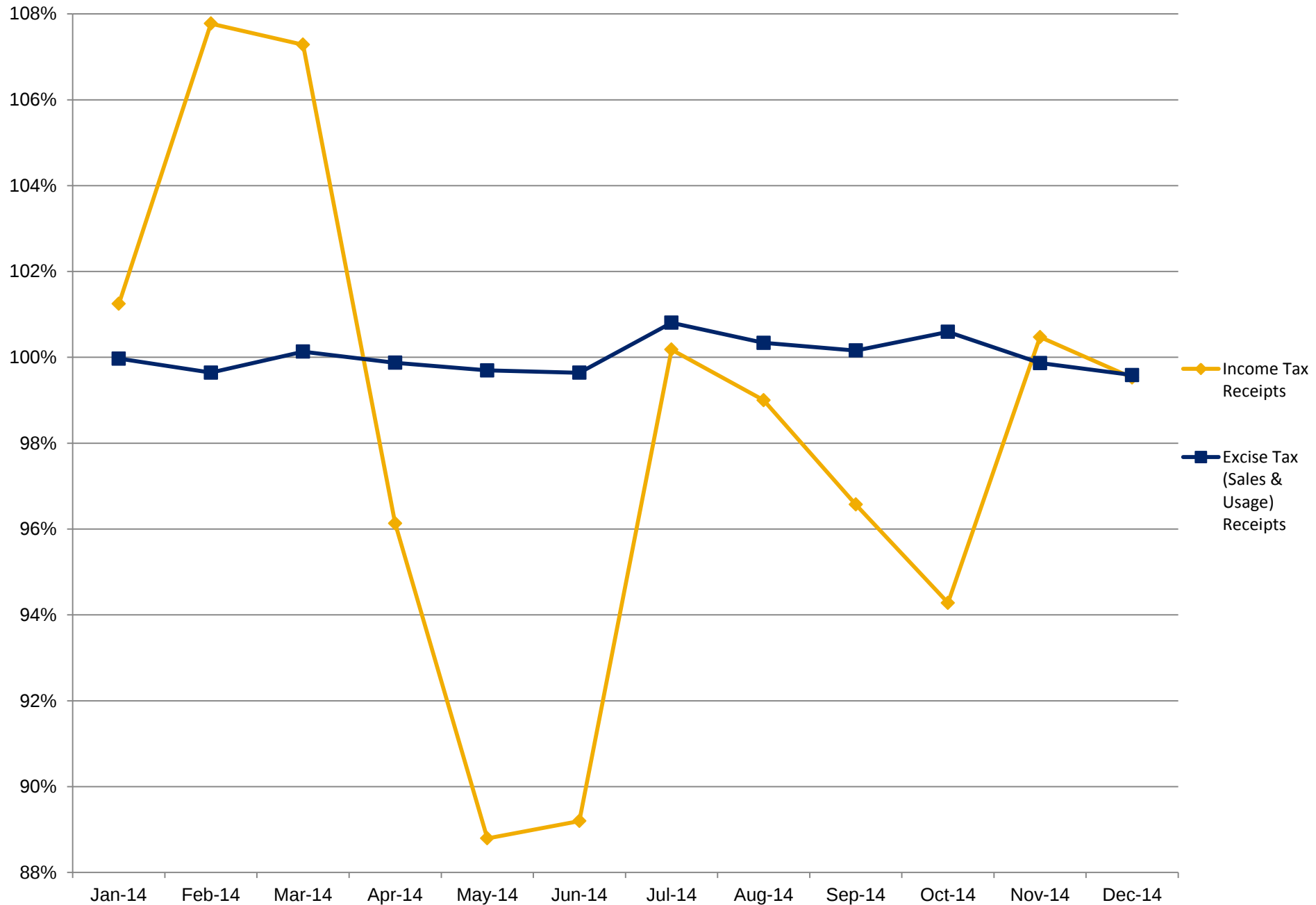
Because of a change in the 2013 federal tax policy concerning capital gains, a majority of states saw an unanticipated drop in revenues in the following years. Federal Adjusted Gross Income is the starting point for determining Kansas taxes and does not factor in state tax policy.

In 2011, the Federal Adjusted Gross Income in Kansas was \$70.6 billion. In 2012, it increased 6.8 percent to \$75.4 billion. In 2013 it decreased by 1.7 percent to \$74.2 billion.

After showing strong growth for the previous two years, the Federal Adjusted Gross income in Kansas not only fell, but failed to achieve the Consensus Revenue Estimating Group's estimated increase of 5.0 percent.



State General Fund Receipts As Percentages of Original Estimates



FY 2015 Shortfall

Revenues lowered \$205.9 million from the FY 2015 approved to the FY 2015 proposed revised budget.

School Finance Caseloads increased by \$63.6 million from the FY 2015 approved to the FY 2015 proposed revised budget.

- LOB- \$34.3 million
- Capital Outlay- \$19.8 million
- Bond/Interest Aid- \$9.5 million

Medicaid Caseloads increased by \$46.2 million from the FY 2015 approved to the FY 2015 proposed revised budget.

Total Impact: \$315.7 million



FY 2015 Allotment Plan

State Statute gives Governor authority to make targeted reductions and develop an allotment plan when a SGF shortfall is projected.

There was a projected shortfall of \$280 million.

Can only get to zero through the allotment plan and not go above.

Rescission bill includes the items included in the allotment plan.



FY 2016 and FY 2017 Budget

In order for the era of ever expanding government to be over, structural changes need to be made to the three major budgetary cost drivers: **K-12 school finance formula, Medicaid, and the the KPERS pension system.**

From the FY 2012 budget to the FY 2015 proposed revised budget, **SGF expenditures for K-12 and Medicaid increased by \$492.2 million.**

All other budget expenditures **decreased by \$242.5 million** during the same time period.



FY 2016/2017 Budget K-12 Funding

Funding for Elementary and Secondary education from state sources has **increased by \$312.2 million from the FY 2012 to the FY 2015 revised proposed budget.**

Proposal:

- Sunset School Finance Formula effective July 1, 2015
- Work with Legislature to comprehensively reform school finance
- Until comprehensive reform takes law, block grant funding to school districts.



FY 2016/2017 Budget K-12 Funding

FY 2016

\$2,609,390	FY 2015 Approved Budget GSA Base
(\$63,000)	FY 2015 Revised Budget Caseload Escalator
(\$44,600)	FY 2016 School KPERS Increase
\$25,201	FY 2015 Approved Budget Capital Outlay
<u>\$482,755</u>	FY 2015 Revised Budget LOB Funding
\$3,009,746	FY 2016 Block Grant Funding



FY 2016/2017 Budget K-12 Funding

FY 2017

\$2,609,390	FY 2015 Approved Budget GSA Base
(\$63,000)	FY 2015 Revised Budget Caseload Escalator
(\$46,762)	FY 2017 School KPERS Increase
\$25,201	FY 2015 Approved Budget Capital Outlay
<u>\$482,755</u>	FY 2015 Revised Budget LOB Funding
\$3,007,584	FY 2017 Block Grant Funding



Elementary & Secondary Education Aid

(in millions)

FY 2014 Actuals (2013-14 School Year)

State General Fund Exenditures	\$	2,951.8
Other State & Federal Funds		<u>1,383.9</u>
Total--FY 2014	\$	4,335.7

FY 2015 Leg. App'd. (2014-15 School Year)

State General Fund Exenditures	\$	3,147.4
Other State & Federal Funds		<u>1,377.1</u>
Total--FY 2015 Leg. App'd.	\$	4,524.5

FY 2015 Gov. Rec. (2014-15 School Year)

State General Fund Exenditures	\$	3,159.6
Other State & Federal Funds		<u>1,384.6</u>
Total--FY 2015 Gov. Rec.	\$	4,544.2

FY 2016 Gov. Rec. (2015-16 School Year)

State General Fund Exenditures	\$	3,158.7
Other State & Federal Funds		<u>1,362.9</u>
Total--FY 2016 Gov. Rec.	\$	4,521.6

FY 2017 Gov. Rec. (2016-17 School Year)

State General Fund Exenditures	\$	3,151.9
Other State & Federal Funds		<u>1,424.8</u>
Total--FY 2017 Gov. Rec.	\$	4,576.7

FY 2016/2017 Budget- Medicaid

Funding for Medicaid programs from state sources has **increased by \$182.0 million dollars** from FY 2012 to the FY 2015 revised budget.

While the implementation of KanCare over the last two years has led to slower growth in expenditures as compared to the projected baseline growth of the old fee-for-service system, it is it is time to make additional changes in order to further bend the cost curve of Medicaid.

A mix of KanCare policy and contractual changes are being proposed and implemented by KDHE and KDADS that will achieve \$50.0 million in State General Fund expenditure savings in the proposed FY 2016 and FY 2017 budgets.



FY 2016/2017 Budget- Medicaid

The Governor has made it a priority over the last few years to reduce the number of Kansans with disabilities on the Home and Community Based Services (HCBS) waiting lists for the Physically Disabled and Intellectual and Developmentally Disabled programs.

There is \$5.0 million of additional State General Fund expenditures, \$10.1 million from all funding sources, in FY 2016 and FY 2017 that is proposed to be used for waiting List reduction and behavioral health access for transitional and intermediate levels of care.

There is also \$7.0 million of State General Fund expenditures, \$15.9 million from all funding sources, allocated to the underserved waiting list of the Intellectual and Developmentally Disabled program that was eliminated in 2014.



FY 2016/ 2017 Budget- KPERS

Due to the higher employee contribution rates, **there has been an increased investment of \$445 million made to KPERS** compared to contribution made at pre-recession levels.

In current statute, the KPERS employee contribution rates would increase by \$107.9 million in Fiscal Years 2016 and 2017 as the employer contribution rates continue to increase from 12.12% in FY 2015 to 13.37% in FY 2016 and 14.57% in FY 2017.

Working with the Legislature, the Governor will examine various possibilities to further reform the KPERS system.



FY 2016/ 2017 Budget- KPERS

The Governor's budget for FY 2016 and FY 2017 proposes two initial policy changes to be considered among other future options: **(1) issuing bonds, and (2) extending the current amortization period of payments to KPERS.**

Under the first proposal, total bonds of \$1.5 billion would be issued. The proceeds of the bonds would be used to help reduce the future employer contribution rates of the State/School group.

The second proposal would further reduce the employer contribution rates by extending the amortization period another ten years to FY 2043. The current amortization period goes to FY 2033.

Based on estimates from KPERS, these reforms would **reduce expenditures by \$39.6 million in FY 2016 and \$92.8 million in FY 2017.**



FY 2016/2017 Budget- Efficiencies

There are over \$350 million of State General Fund savings in the FY 2015, FY 2016 and FY 2017 proposed budget from efficiencies.

The savings come from expanding the debt set-off program with the federal government; refinancing bonds to lower rates; consolidating state information technology systems; improved utilization of the state employee health plan and improved utilization of pharmaceutical rebates in KanCare.

The efficiencies also include Medicaid policy changes, Medicaid eligibility determination system change and changes to the KPERS system.



Program Evaluation and Measurement

Working to evaluate programs in agencies to determine if they are designed effectively and are achieving desired results.

Will develop outputs, outcomes and key performance indicators for agency programs.

First step to increasing accountability and transparency. In long-term will have performance indicators and outcomes on a dashboard and available to public.

Also using new Business Intelligence tools to help better manage State programs.



FY 2016/2017 Budget Spending Reductions

Due to the State General Fund shortfall projected for FY 2015, the Governor implemented allotments for the final six months of FY 2015, which includes a 4.0 percent State General Fund expenditure reduction for select agencies.

These spending reductions are being carried forward for the same agencies in the proposed FY 2016 and FY 2017 budgets.

This includes most Cabinet level and elected office agencies, legislative agencies, select agencies receiving state highway funds EDIF transfers to fund operations, the Kansas Department of Education, the Board of Regents, the Department of Corrections Central Office, and the portion of the state highway fund that funds KDOT operations.



FY 2016/2017 Budget Spending Reductions

Agencies and appropriations not affected by the 4.0 percent reduction include Elementary and Secondary education, Medicaid appropriations to KDADS and KDHE, Department of Corrections institutions, State Hospitals, and the Higher Education system.

The total number of State employees, not including the higher education system, has decreased by 11 percent between Fiscal Year 2010 and Fiscal Year 2014. This downward trend will continue through Fiscal Years 2016 and 2017 as agencies continue to re-organize and become more efficient.



FY 2016/2017 Budget

State Highway Fund

The State Highway Fund currently transfers \$262.9 million to other state agencies and the State General Fund. Additional transfers of \$150.7 million have been proposed in the FY 2015 budget and additional transfers of \$100 million have been proposed in the FY 2016 and FY 2017 budgets.

The Kansas Department of Transportation (KDOT) indicates that preservation projects already announced for FY 2015 and FY 2016, as well as expansion and modernization projects announced for the course of T-WORKS, will be let as scheduled.



FY 2016/2017 Budget State Highway Fund

Yet to be programmed State Highway Fund dollars will be applied to additional preservation projects at a level that allows KDOT to maintain a positive yearly ending balance in the State Highway Fund.

Based on KDOT's most current information and assumptions, the TWORKS program can maintain a commitment to construct all of the announced expansion projects and program preservation projects at a level that achieves the performance targets for road and bridge conditions.



FY 2016/2017 Budget- Tax Policy

During the past several decades, Kansas relied on a tax policy based on property, sales and income taxes that resulted in a static economy, limited growth in private sector jobs, and taxpayers leaving the state. These facts are supported by examining the Federal tax returns of Kansans moving out of state from 1993 through 2011. Kansas lost a net of \$3.1 billion of taxable income during that 18 year period.

In 2012 and 2013, a comprehensive pro-growth tax reform package was passed, compressing three tax brackets into two and significantly reducing the income tax rates, with further statutory reductions set to occur the next several years.

During tax year 2013, the first year reductions, the tax changes saved Kansans \$730 million, giving them the opportunity to spend, save and invest more of their hard earned money.



FY 2016/2017 Budget- Tax Policy

The Governor's FY 2016 and 2017 budget proposal has proposed modifications to the 2013 tax policy to continue income tax reduction and promote further growth of the Kansas economy. The income tax rates were reduced on January 1, 2015 and currently are 4.6% and 2.7%. The lower rate would be proposed to decrease from 2.7% to 2.66% on January 1, 2016, without any further rate reductions in statute.

Current income tax rates set in statutes are:

2015	2016	2017	2018
2.7/4.6%	2.4/4.6%	2.3/4.6%	2.3/3.9%

Proposed :

2.7/4.6%	2.66/4.6%	2.66/4.6%	2.66/4.6%
----------	-----------	-----------	-----------



FY 2016/2017 Budget- Tax Policy

Further income tax rate reductions would come about through the establishment, in statute, of a “Tax Reduction Fund”. In the future, whenever revenues over the previous year exceed 103 percent , the excess amount will be transferred to the TRF. The Governor and/or the legislature may then use the TRF balances to set further reductions in income tax rates dependent on the growth of the economy in the future years. This change moves the tax policy to a much more sustainable long term policy as economic conditions will drive further reductions in income tax rates.

The small business stimulus for LLCs, Sub Chapter S and Sole Proprietorships would remain in effect. Small businesses have been historically the driver of new jobs throughout the country.



FY 2016/2017 Budget- Tax Policy

The tax proposal also includes the addition of a “Budget Stabilization Fund” that would be set in statute and utilize growth in revenues greater than 102.0 percent and less than 103.0 percent. This fund would have statutory limitations on withdrawals and would use the 1.0 percent funding stream until it is maintained at a 5.0 percent cap on expenditures.

The legislature, by a majority vote of the members elected to the House of Representatives and the Senate, may appropriate from the Budget Stabilization Fund such additional sums as may be necessary to fund any anticipated or unanticipated deficit in any given fiscal year. When the legislature is not in session the LCC may make transfers to of the BSF only when there is an unanticipated deficit or in order to execute an allotment ordered by the Governor.



FY 2016/2017 Budget- Tax Policy

The tax proposal also includes accelerating the itemized income tax deduction haircut of 50.0 percent currently set in statute to begin on January 1, 2017 to instead begin on January 1, 2015. This change of date of the haircuts will add additional revenue of \$50.3 million in FY 2016 and \$21.8 million in FY 2017.

The Governor also proposes a tax amnesty program for delinquent taxes due in individual, corporate, privilege, state sales and use, liquor, mineral and local sales taxes accrued from tax periods ending on or before Dec. 31, 2013. The Department of Revenue could eliminate penalties and interest if taxes are paid between Sept 1, 2015 and Oct. 15, 2015 and additional revenues of \$30 million are budgeted.



FY 2016/2017 Budget- Tax Policy

The budget proposal for FY 2016 and FY 2017 includes an increase in consumption taxes, which is consistent with the Governor's original tax policy proposal. The proposed consumption tax increase would apply to cigarettes, tobacco products and liquor enforcement.

The additional tax on cigarettes and tobacco products is estimated to generate additional revenues in FY 2016 of \$80.8 million, and for FY 2017, \$76.2 million.

The liquor tax increase is estimated additional revenues of \$27.1 million in FY 2016 and \$27.9 million in FY 2017.



FY 2016/2017 Budget- Tax Policy

The last increase on cigarette taxes was in 2003, when it increased to 79 cents per pack.

The tobacco products tax has held at 10.0 percent of wholesale price since 1972. The proposed rates would be increased to \$2.29 per pack and 25.0 percent of wholesale price.

The last increase in the liquor enforcement tax was in 1983 when it was increased from 4.0 percent to 8.0 percent. The liquor enforcement tax would be increased to 12.0 percent.



Budget Summary

	FY 2015	FY 2016	FY 2017
Total Revenues	\$6,014.2	\$6,244.3	\$6,405.7
Total Expenditures	\$6,321.7	\$6,228.8	\$6,240.5
Ending Balances	\$71.9	\$87.5	\$252.6

FY 2016 Governor's Budget Proposal

Tax Changes: \$211 million

Transfers, Non-Tax Revenue, Reductions & Efficiencies: \$615.5 million

FY 2017 Governor's Budget Proposal

Tax Changes: \$212 million

Transfers, Non-Tax Revenue, Reductions & Efficiencies: \$765.1 million



Questions?

