Approved: February 20, 1996
Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on February 16, 1996 in Room 123-S of the Capitol.

All members were present except: Senator Vancrum, who was excused

Committee staff present: Fiscal analysts from the Legislative Research Department assigned to agency budgets addressed in SB 478
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list

Senator Salisbury moved, Senator Burke seconded, that bill draft 5 RS 2386 as requested by Senator Salisbury be introduced. The motion carried on a voice vote.

A motion was made by Senator Burke and seconded by Senator Salisbury to introduce bill draft 5 RS 2217 as requested by the Board of Regents. The motion carried on a voice vote.

It was moved by Senator Lawrence and seconded by Senator Morris that bill draft 5 RS 2389 be introduced as requested by the Medical Society. The motion carried on a voice vote.

The Chairman announced that a legal response to the Committee's request through the Kansas Development Finance Authority on the Regents bonding proposal for capital improvements had been distributed (Attachment 1). He stated that the letter addresses the issue of local authority and the issue of constitutionality. Senator Petty stated that she would submit her questions to the subcommittee in the form of a letter.

SB 478: **Appropriations for FY 97, state board of tax appeals, department of revenue, Kansas lottery, Kansas racing commission, department of commerce and housing, Kansas, Inc., Kansas technology enterprise corporation**

Department of Revenue
Senator Salisbury reviewed the FY 96 and FY 97 subcommittee reports for the Department of Revenue (Attachment 2). Senator Rock noted that subcommittees in the past two years have added FTE positions to address concerns about property valuation and inquired if there were no longer problems in this area (item 5 of the FY 97 report). Secretary of Revenue, John LaFaver, told members that it is important to segregate the controversies that are inherent with property tax from how well property tax is administered. He told members that there is a constitutional requirement that property values reflect the market, and a thorough review conducted annually by experts on the national level indicates that 99% of the residential properties in Kansas are in counties that meet state standards (which are that values on tax roles is plus or minus 10% of market value). He added that efforts to train and educate staff is an ongoing effort.

It was moved by Senator Salisbury and seconded by Senator Karr that the FY 96 and FY 97 subcommittee reports be adopted. The motion carried on a voice vote.

Board of Tax Appeals
Senator Lawrence reviewed the FY 96 and FY 97 subcommittee reports for the Board of Tax Appeals (Attachment 3). In answer to a question, staff stated that there are no training requirements for procedural issues. It was moved by Senator Lawrence and seconded by Senator Brady that the subcommittee reports for

the Board of Tax Appeals be adopted. The motion carried on a voice vote.

Kansas Lottery
The FY 96 and FY 97 subcommittee reports were presented by Senator Burke (Attachment 4). It was moved by Senator Morris and seconded by Senator Burke that the FY 97 report be amended by an additional recommendation that the JCCT review the proposed expenditure for the back-up computer system (see Attachment 4-4). The motion carried on a voice vote.

It was moved by Senator Burke and seconded by Senator Morris that the FY 96 subcommittee report and the FY 97 subcommittee report as amended be adopted. The motion carried on a voice vote.

Department of Commerce and Housing
Senator Moran presented the FY 96 and FY 97 subcommittee reports for the Department of Commerce and Housing (Attachment 5). The Chairman advised members that a Governor's Budget Amendment recommends the transfer of 4 FTE positions and $263,599 from the Department of Agriculture to the Department of Commerce and Housing (Attachment 6) and requested that the GBA be amended into the subcommittee report. Senator Morris addressed a measure coming out of the Senate Agriculture Committee which would reorganize KVAC in a way that is different from the Governor's recommendation. Members discussed three elements of the Governor's budget:

-the transfer KVAC monies to the Department of Commerce & Housing

-the transfer of 4 FTE positions and associated costs of $302,653 in the Market Development Program to the Department of Commerce & Housing

-the recommended transfer of 4 FTE positions and associated costs of $263,599 from the Market Development Program to the Department of Commerce & Housing (Attachment 6)

There was some question as to how many FTE positions were in the Marketing Division and what those positions were. Concern was expressed about the budgeting process and structure of the Industrial Agriculture Grant program and the Kansas Value Added Center if placed within the Department of Commerce and Housing.

It was moved by Senator Burke and seconded by Senator Salisbury that the Governor's Budget Amendment be amended into the FY 97 subcommittee report. The motion carried on a voice vote.

Mr.Steve Kelly, responding to a question from the Chairman, stated that $100,000 of the microloan money has been spent and that there will probably be some unencumbered monies in FY 96. It was moved by Senator Salisbury and seconded by Senator Morris that the FY 96 subcommittee report be amended by the deletion of $500,000 from the microloan program. It was noted that the effect of the motion would be to carry forward available balances in the EDIF to FY 97. The motion carried on a voice vote.

It was moved by Senator Rock and seconded by Senator Moran that the FY 96 and FY 97 subcommittee reports for the Department of Commerce and Housing be adopted as amended. The motion carried on a voice vote.

Kansas Technology Enterprise Corporation
Senator Salisbury reviewed the FY 96 and FY 97 subcommittee reports for KTEC (Attachment 7). Concern was expressed that the 1.5% SGF reduction has not been lapsed out of every agency budget. Research staff enumerated reasons that this has been difficult.

Senator Karr moved, Senator Morris seconded, that the FY 97 subcommittee report be amended by transferring $309,000 and 2 FTE positions for the Industrial Agriculture Grant program from KTEC to the Department of Commerce. There was lengthy discussion about which agency would be the appropriate "umbrella" for the Industrial Agriculture Grant program and about the development and management of the program. The Chairman stated that he would hold the motion on the floor and the Committee would discuss the issue at the next meeting.

The Chairman adjourned the meeting at 12:27 P.M.

The next meeting is scheduled for February 19, 1996.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: February 16, 1996

NAME	REPRESENTING
Ken Bahr	Ks. Governmental Consulting
Bernie Koch	Wichita Area Chamber of Commerce
Greg Ziemak	KA Lottery
Kevin Scott	Kansas Lottery
GARY SAVILLE	KANSAS LOTTERY
Susan Duffy	Dept. of Revenue
JOHN LAFAVER	KDOR
RICH BENDIS	KTEC
Dan Hermes	Division of the Budget
Sherry Schoonover	KVAC - Ind. Ag.
Cindy Diehl	KTEC
Lori Rost	KTEC
Kevin Carr	KTEC
Sherry Brown	KDOC&H
Steve Kelly	KDOC&H
Myron E. Hale	Racing Commission
France Snell	RACING COMMISSION
Ken HARJO	RACING COMMISSION
Charles Warren	Kansas Inc.

KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Bill Graves
Governor

Wm. F. Caton
President

February 15, 1996

Senator Dave Kerr, Chairman Ways and Means Committee
State Capitol, Room 120-S
Topeka, Kansas 66612-1504

RE: Proposed Financing for Kansas Board of Regents pursuant to Senate Bill 552 as introduced into the Committee on Ways and Means of the Kansas Senate on January 29, 1996

Dear Senator Kerr:

Enclosed please find a copy of the opinion delivered by the law firm of Kutak Rock with regard to the constitutionality of the above captioned matter. During the past several days, we have had an opportunity to work closely with attorneys of Kutak Rock to develop suggested changes to SB 552 which we believe further clarifies the language supporting the constitutionality of SB 552. Kansas Development Finance Authority concurs with the recommended changes to SB 552, included as *Exhibit A* to Kutak Rock's opinion, and is available to work with the Office of the Revisor of Statutes on these proposed changes to SB 552 and corresponding provisions of HB 2970.

Also enclosed is a separate letter from Kutak Rock with regard to another question that you expressed in your letter to me dated February 9, 1996. Because the answer provided by Kutak Rock to this question is very direct, they did not feel it was necessary to review all the statutes, case law, and other information relating to the local issuance of debt.

Please contact me or Rich Shermoen of our office if you have any questions regarding these matters.

Sincerely,

Wm. F. Caton
President

WFC:tmg

Enclosures

cc: Representative Robin Jennison, Chairman House Appropriations Committee
Gloria Timmer, Director, Division of the Budget
Elaine Frisbie, Division of the Budget
Ted D. Ayres, Kansas Board of Regents
Rebecca Floyd, Office of the Attorney General

Senate Ways & Means
February 16, 1996
Attachment 1

700 S.W. JACKSON, SUITE 1000 / TOPEKA, KANSAS 66603-3758 / (913) 296-6747 FAX (913) 296-6810

KUTAK ROCK
A PARTNERSHIP
INCLUDING PROFESSIONAL CORPORATIONS
THIRD FLOOR
UNITED MISSOURI BANK BUILDING
9201 WARD PARKWAY
KANSAS CITY, MISSOURI 64114-3309
816-361-3363
FACSIMILE 816-361-8397

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PHOENIX
PITTSBURGH
WASHINGTON

February 15, 1996

Mr. William F. Caton
Kansas Development Finance Authority
Jayhawk Tower, Suite 1000
700 Southwest Jackson
Topeka, KS 66603

Re: Proposed Financing Structure for Kansas Board of Regents (the "Proposed Financing") pursuant to Senate Bill No. 552 as introduced into the Committee on Ways and Means of the Kansas Senate on January 29, 1996 ("SB 552")

Dear Mr. Caton:

In connection with SB 552 referred to above, we have been asked to address the following question raised in Senator Dave Kerr's letter dated February 9, 1996: "If the bond financing method proposed for the Kansas Board of Regents Capital Improvement Project (the "Proposed Financing" referred to above) is determined to be constitutional, would cities and counties have the authority to define ad valorem property tax as revenue to characterize a general obligation as a revenue bond?"

In our separate letter of even date herewith, we provided an analysis regarding the constitutionality under Article 11, Sections 6 and 7 of the Kansas Constitution of certain provisions of SB 552 described in that letter (the "Proposed Bill"). Article 11, Sections 6 and 7 of the Constitution and the interpretation thereof by the Supreme Court of Kansas apply to the State and not to local governmental subdivisions. In addition, the Proposed Bill is specific to a plan of financing by KDFA and the Board of Regents, and is not sufficiently broad to include such local governmental subdivisions. Therefore, the determination of the constitutionality of the Proposed Financing would not constitute authorization for cities and counties to employ any

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particular plan of financing. Cities and counties would continue to be subject to existing constitutional, home rule charter and statutory restrictions.

Please contact us if you wish to discuss these matters further.

Very truly yours,

G. Mark Sappington

G. Mark Sappington

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01/194044.3

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February 15, 1996

Mr. William F. Caton
Kansas Development Finance Authority
Jayhawk Tower, Suite 1000
700 Southwest Jackson
Topeka, KS 66603

Re: Proposed Financing Structure for Kansas Board of Regents pursuant to Senate Bill No. 552 as introduced into the Committee on Ways and Means of the Kansas Senate on January 29, 1996 ("SB 552")

Dear Mr. Caton:

We have been asked to deliver an opinion regarding the constitutionality of SB 552 under Article 11, Sections 6 and 7 of the Kansas Constitution, which constitutional provisions impose limits upon debts which the State of Kansas (the "State") may incur for certain purposes, including for public improvements.

For purposes of this opinion, we have assumed that the amendments set forth on Exhibit A to this letter would be made to Sections 5 and 26 of SB 552. Sections 5 and 26 of SB 552, with such amendments, are hereafter referred to in this letter as the "Proposed Bill."

The proposed financing structure contemplated by the Proposed Bill involves revenue bonds (the "Revenue Bonds") to be issued by the Kansas Development Finance Authority ("KDFA") for the benefit of the Kansas Board of Regents (the "Board of Regents") pursuant to existing statutory authorization provided by K.S.A. § 74-8901 et seq. The proceeds of the Revenue Bonds would be deposited in the Comprehensive Rehabilitation and Repair Fund of the Board of Regents (the "Rehabilitation Fund") pursuant to Section 5(c) of the Proposed Bill. The Board of Regents would agree pursuant to a Financing Agreement (described below) to make annual payments to KDFA equal to the amount of principal and interest on the Revenue Bonds, and to pledge as security for those payments the funds authorized to be pledged under Section 26 of the Proposed Bill and actually transferred annually into the Rehabilitation Fund. Payment of debt service on the Revenue Bonds would be secured solely by moneys on deposit in the Rehabilitation Fund and pledged under the terms of the Financing Agreement.

We have assumed for purposes of this opinion that the Financing Agreement between the Board of Regents and KDFA (the "Financing Agreement") to be executed in connection with the issuance of Revenue Bonds by KDFA would be consistent with the Proposed Bill and would include substantially the following terms: that the Board of Regents would be obligated to make payments equal to debt service on the Revenue Bonds only to the extent that a specific appropriation is made by the Legislature and money is transferred to the Rehabilitation Fund; that the Board of Regents would be obligated to use its best efforts to include a request that such amounts be appropriated in its annual budget submitted to the Governor; that the moneys appropriated by the Legislature for such purposes and annually transferred to the Rehabilitation Fund would be pledged to the payment of the Revenue Bonds; that in no event would the Financing Agreement be a pledge of the faith and credit or taxing power of the State; and that in the event appropriations sufficient to make payments equal to debt service on the Revenue Bonds are not made and moneys transferred in a given year, no other moneys would be pledged for debt service payments under the Financing Agreement.

In *State ex rel. Fatzer, Attorney General, v. Board of Regents of State of Kansas*, 167 Kan. 587, 207 P.2d 373 (Kan. 1949), the Supreme Court of Kansas reviewed a plan by the Board of Regents to finance the construction of dormitories by the issuance of revenue bonds payable solely from revenues derived from the facilities financed. The court reviewed the relevant statutory language limiting liability of the state with respect to the bonds and the terms of the bonds themselves and concluded:

> In view of the act itself and the plain terms of the bonds, a contract between the board and bond purchaser, we think no bondholder could logically contend the state, the college, the board, or any official member or employee of the board becomes obligated to pay the indebtedness represented by the bond. The legislature by this act, as previously indicated, prohibited the state from incurring a debt under the act. The contract between the board and the bond purchaser is in express harmony with that statutory prohibition. Such an agreement between a creditor and debtor violates no rule of constitutional law. *State ex rel. Boynton v. Kansas City*, 140 Kan. 471, 477, 37 P.2d 18.

276 P.2d at 376. The State argued that the revenues from the dormitories might prove insufficient to pay the bonds and in that event a judgment against the State would be the only means of satisfying the unpaid portion of the debt. The court replied that the contention was without merit and held that the bonds were not and could not become a valid indebtedness of the State, citing its holding in *State ex rel. Beck v. Kansas City*, 148 Kan. 623, 625, 84 P.2d 409 (Kan. 1938) and *State ex rel. Beck v. Kansas City*, 149 Kan. 252, 257-258, 86 P.2d 476 (Kan. 1939) that the statutory and contractual language limiting any liability of the general credit of

the governmental entity issuing revenue bonds would be effective in protecting against such a judgment. 276 P.2d 377.

The Supreme Court in *State ex rel. Fatzer, Atty. Gen., v. Armory Board et al.*, 174 Kan. 369, 256 P.2d 143 (Kan. 1953) extended *Board of Regents* and held that bonds to be issued by the newly created Kansas Armory Board, which bonds were secured and payable solely by the rents and profits of the buildings to be built with the bond proceeds, did not violate Article 11, Sections 6 and 7 of the Constitution. The stated source of rental income and revenues from such buildings was to be a lease from the State which provided for annual payment of rent contingent upon and subject to appropriation of necessary funds by the Legislature for the purpose of armory building rentals during the same annual period. The court gave emphasis to the statute in question which stated that the bonds would never be an obligation of the State and to the corresponding limitation language in the bonds themselves. The court stated at 256 P.2d 151:

> As we remarked in State ex rel. Fatzer v. Board of Regents, supra: These bonds do not pledge the faith and credit of the state. They do precisely the contrary. The bondholder knows he may look only to the revenue and income from the building, or buildings, for payment.

The *Armory Board* court repeated the rule stated in earlier cases, that debts within the meaning of the present Article 11, Sections 6 and 7 of the Constitution are those "to be paid by a general property tax and not from funds to be raised in some other manner." 256 P.2d at 151. However, we believe it is significant that the court did not question the source of the funds from which the State would obtain funds to make rental payments.

> It is true the revenue from the dormitory buildings [referring to the court's decision in *Board of Regents*] was to come from the rent paid by students who used the buildings while the income from the armories is to come from rent to be paid by the state; we see no distinction, however, as far as the application of Article 11, §§ 6 and 7 are concerned. Under neither statute is the faith and credit of the state involved. These bonds, just as the dormitory bonds, are to be paid by other than a tax on any property.

256 P.2d at 151. Implicit in the court's determination that the *Armory Board* bonds were to be paid by other than a tax on property was approval of the apparent use of the State's general funds to make payments. This approval by the court suggests that a debt within the meaning of Article 11, Sections 6 and 7 of the Constitution is one required to be paid by a general property tax, rather than an obligation for which moneys originally derived by the State from property tax revenues may be used upon appropriation by the Legislature.

A financing by KDFA under the terms of the Proposed Bill incorporating the terms of a Financing Agreement as discussed above (the "Proposed Financing") would include significant similarities to the financings approved in *Board of Regents* and *Armory Board*. As in *Board of Regents* and *Armory Board*, the terms of the Revenue Bonds and the Financing Agreement would expressly provide that the faith and credit and taxing power of the State shall not be pledged. The State would have no obligation to levy a specific general property tax to pay debt service. In *Armory Board*, bonds were issued by the Kansas Armory Board, a separate body politic and corporate, though also designated an agency of the State. In the Proposed Financing, bonds would be issued by KDFA, a separate body politic and corporate, and an independent instrumentality of the State. In *Armory Board*, the only payments bondholders would be entitled to receive from the State were from funds appropriated by the Legislature and paid to the Kansas Armory Board as rent. The same is true in the Proposed Financing, except that rather than paying rent, the State would annually transfer appropriated moneys to the Rehabilitation Fund, following which transfer such moneys would be pledged to payment of the Proposed Bonds.

A particular difference between the facts in the *Armory Board* decision and the Proposed Financing is that there is no stated source of revenue other than State appropriations to pay debt service in the Proposed Financing. In *Armory Board*, the statute provided the Kansas Armory Board the authority to lease the facilities to another party if the State failed to make lease payments. However, in our view this distinction is not critical.

We interpret the *Armory Board* ruling and earlier decisions to prohibit the State from promising to levy a general property tax in order to pay indebtedness, except in compliance with Article 11, Sections 6 and 7 of the Constitution, but to allow the State to incur obligations payable solely from annual appropriations of the general funds of the State, which general funds may include moneys derived from the State's power to tax property. As in *Armory Board*, the obligation of the Board of Regents in the Proposed Financing could be satisfied with an appropriation of moneys from any source so long as the faith and credit and taxing power of the State are not pledged. Under this interpretation, the fact that the Proposed Bill provides that the source of payment of the obligation of the Board of Regents under a Financing Agreement is an appropriation of moneys originally received by the State from property taxes need not be determinative on the issue of compliance with Article 11, Sections 6 and 7 of the Constitution. Moneys for payment of the Board of Regent's obligations under the Financing Agreement in future years could be drawn from any source designated by the Legislature. The Proposed Bill and the Proposed Financing would not prohibit a future Legislature from appropriating moneys derived from a different source, from rescinding the appropriation for any future year, or from declining to make any further appropriation.

The Supreme Court of Kansas has not directly addressed the issue of the constitutionality of provisions such as the Proposed Bill and the Proposed Financing does have distinctions from the situations previously considered by the Supreme Court. However, we believe it would be reasonable for the Supreme Court of Kansas to extend the particular reasoning discussed above to the Proposed Financing and conclude that the Proposed Financing would not be a debt of the State under Article 11, Sections 6 and 7. If the issue of the constitutionality of the Proposed Financing was presented to the Supreme Court in a properly argued case and the Supreme Court extended the reasoning of *Board of Regents* and *Armory Board* as discussed above, we are of the opinion that the Proposed Financing would be determined not to violate Article 11, Sections 6 and 7 of the Constitution.

Please contact us if you wish to discuss these matters further.

Very truly yours,

G. Mark Sappington

G. Mark Sappington

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Exhibit A
Proposed Amendments to Senate Bill No. 552
as Introduced into the Committee on Ways and Means
of the Kansas Senate on January 29, 1996

1. Delete subsection 5(e) and replace with the following:

"(e) On the first day of each fiscal year, moneys in the educational building fund which are appropriated for such fiscal year for debt service for capital improvement projects pursuant to subsection (d) or pursuant to future appropriation acts shall be transferred by the director of accounts and reports to the comprehensive rehabilitation and repair fund of the state board of regents established pursuant to subsection (c)."

2. Revise section 26 as follows (revisions from S.B. 552 are shown by strikeout or underline):

"On July 1, 1996 K.S.A. 76-6b02 is hereby amended to read as follows: 76-6b02. (a) All moneys received by the state treasurer under K.S.A. 76-6b01, and amendments thereto, shall be credited to the Kansas educational building fund to be ~~appropriated by the legislature as needed~~ <u>used</u> for the construction, reconstruction, equipment and repair of buildings and grounds at the state educational institutions under the control and supervision of the state board of regents and for payment of debt service on revenue bonds issued to finance such projects<u>, all subject to appropriation by the legislature</u>.

(b) Subject to any restrictions imposed by appropriation acts, the state board of regents is authorized to pledge funds appropriated to it from the Kansas educational building fund <u>or from any other source and transferred to a special revenue fund of the state board of regents specified by statute</u> for the payment of debt service on revenue bonds issued for the purposes set forth in subsection (a). Subject to any restrictions imposed by appropriation acts, the state board of regents is also authorized to pledge any funds appropriated to it from the Kansas educational building fund <u>or from any other source and transferred to a special revenue fund of the state board of regents specified by statute</u> as a priority for the payment of debt service on such revenue bonds. <u>The state board of regents shall not have the power to pledge the faith and credit or taxing power of the state of Kansas for such purposes and any payment by the state board of regents for such purposes shall be subject to and dependent upon appropriations being made from time to time by the legislature.</u> <u>Any obligation of the state board of regents for payment of debt service on revenue bonds and any such</u> revenue bonds issued for the purposes set forth in subsection (a) shall not be considered a debt or obligation of the state for the purpose of section 6 of article 11 of the constitution of the state of Kansas."

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Exhibit A
(continued)

3. Revise subsection 5(c) as follows:

On page 5, in line 27, preceding "That" by inserting "That the state board of regents may make expenditures from this fund for payment of debt service on revenue bonds issued to finance such projects: *And provided further*,";

SUBCOMMITTEE REPORT

Agency: Department of Revenue **Bill No.** 488 **Bill Sec.** 14

Analyst: Cawby **Analysis Pg. No.** 872 **Budget Page No.** 433

Expenditure Summary	Agency Request FY 96	Gov. Rec. FY 96	Senate Subcommittee Adjustments
All Funds:			
State Operations	$ 59,034,602	$ 58,085,963	$ 0
Aid, Assistance, Claims	11,575,000	8,825,000	0
Total – Operating	$ 70,609,602	$ 66,910,963	$ 0
State Operations:			
General Fund	$ 28,950,807	$ 28,270,566	$ 0
DOV Oper. Fund	28,715,523	28,453,236	0
FTE Positions	1,233.0	1,233.0	0.0
Unclassified Temp. Positions	5.0	5.0	0.0
TOTAL	1,238.0	1,238.0	0.0

Agency Request/Governor's Recommendation

The agency's revised estimate of $70,609,602 for current year operating expenditures is a net increase of $2,492,454 over the amount approved by the 1995 Legislature, ($68,117,148), as adjusted for State Finance Council action. Of the total agency estimate $59,034,602 is for state operations, $9,075,000 is for aid to locals, and $2,500,000 is for other assistance.

Of the total FY 1996 estimate for operating expenditures, $28,950,807 is from the State General Fund (all in state operations) and $41,658,795 is from special revenue funds. The estimate for spending from special revenue funds is $2,492,454 more than the amount approved by the 1995 legislature. The agency requests supplemental funding of $2,750,000 from the Economic Development Initiatives Fund (EDIF) for aid to counties for reappraisal. Excluding the supplemental request, the agency estimates a net reduction of $257,546 in FY 1996 for all other expenditures.

The current year revised estimate is a net reduction of $9,139,458 from FY 1995 actual expenditures. The reduction reflects:

- $9,540,207 from the Automated Tax Systems Fund which was encumbered or spent in FY 1995 for the Kansas Tax 2000 (KT 2000) project contract and related capital outlay expenditures; and
- $400,749 for a net increase in other FY 1996 expenditures. (**Staff Note:** See **Budget Year – 1997** below for further information on KT 2000.)

Senate Ways & Means
February 16, 1996
Attachment 2

The Governor recommends current year operating expenditures of $66,910,963, a net reduction of $3,698,639 from the agency estimate. The Governor's recommended change from the agency estimate reflects the following: a $525,005 reduction for health insurance rate adjustments, reductions of $175,204 for retirement adjustments, a reduction of $2,750,000 for the supplemental request for reappraisal aid to counties which was not recommended, a reduction of $348,430 for data processing services, and an offsetting increase of a State General Fund supplemental appropriation of $100,000 for additional fees which will be required in the litigation of the single income tax filer court case, *Peden v. State of Kansas*.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendation.

Division of Vehicles Operating Fund

	Actual FY 95	Gov. Rec. FY 96
Balance Forward	$ 1,694,908	$ 2,721,260
Net Receipts:		
Charges, Fines, etc.	2,084,695	1,982,452
Transfer In - Hwy. Fund	25,654,518	24,069,288
Total Funds Available	$ 29,434,121	$ 28,773,000
Less: Expenditures	26,706,011	28,453,236
Non-Reportable Expnd.	6,850	0
Ending Balance	$ 2,721,260	$ 319,764
Ending Balance as a Percentage of Expenditures	10.2%	1.1%

Senator Alicia Salisbury
Subcommittee Chairperson

Senator Gerald Karr

Senator Stephen Morris

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SUBCOMMITTEE REPORT

Agency: Department of Revenue **Bill No.** 478 **Bill Sec.** 3

Analyst: Cawby **Analysis Pg. No.** 872 **Budget Page No.** 433

Expenditure Summary	Agency Request FY 97	Gov. Rec. FY 97*	Senate Subcommittee Adjustments
All Funds:			
State Operations	$ 59,483,740	$ 57,471,475	$ (710,029)
Aid, Assistance, Claims	11,025,000	8,275,000	0
Total -- Operating	$ 70,508,740	$ 65,746,475	$ (710,029)
State Operations:			
General Fund	$ 28,799,481	$ 27,460,466	$ (405,882)
DOV Oper. Fund	29,401,878	28,748,106	(297,321)
FTE Positions	1,224.0	1,213.0	0.0
Unclassified Temp. Positions	2.0	1.0	0.0
TOTAL	1,226.0	1,214.0	0.0

* Includes Governor's Budget Amendment No. 1

Agency Request/Governor's Recommendation

The agency requests FY 1997 funding of $70,508,740, a reduction of $100,862, or 0.1 percent, from the FY 1996 estimate. Of the total agency request, $59,483,740 is for state operations, $8,525,000 is for aid to locals, and $2,500,000 is for other assistance. The request reflects a net increase in state operations of $449,138 and a reduction of $550,000 in aid to locals from the FY 1996 estimate.

Of the request for state operations $28,799,481, or 48.4 percent, is financed from the State General Fund, $29,401,878, or 49.4 percent, from the Division of Vehicles Operating Fund and $1,282,381, or 2.2 percent from other special revenue funds. The requested increase in state operations over FY 1996 reflects an increase of $686,355 from the Division of Vehicles Operating Fund and a reduction of $151,326 from the State General Fund and $85,891 from all other funds.

The Governor recommends FY 1997 operating expenditures of $65,746,475 (including Governor's Budget Amendment, No. 1), a reduction of $4,762,265 from the agency request. Recommended reductions from the agency request total $2,012,265 for state operations, and $2,750,000 in aid to counties for reappraisal which was not recommended. Of the reductions for state operations, $1,275,306 is in salaries and wages to reflect the Governor's pay plan, health insurance rate adjustments, the reduction of an additional 11.0 FTE positions and 1.0 Unclassified Temporary Position from the agency request, and turnover rate adjustments. The remainder of the reductions for state operations from the agency request totals $736,959: $686,517 in contractual services, $24,557 in commodities, and $25,885 in capital outlay.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendation, with the following observations, recommendations, and adjustments:

1. Make **technical adjustments to the bill** to reflect the Governor's recommendations.

2. Add $205,656 in all funds, $53,881 from the State General Fund and $151,775 from the Division of Vehicles Operating Fund, to reflect the Governor's Budget Amendment, No. 1, which is a **technical adjustment for classified step movement** in Motor Vehicles and Collections divisions.

3. Delete $710,029, including $405,882 from the State General Fund and $297,321 from the Division of Vehicles Operating Fund, based upon the recommendation to delete funding for the six month 2.5 percent unclassified merit pool ($18,841); classified step movement ($579,594); and the longevity bonus ($111,594) from the individual agency budgets.

4. **The Subcommittee notes** that the agency requested a funding source be established to fund future improvements for the **Vehicle Information Processing System (VIPS) and the Computer Assisted Mass Appraisal (CAMA) system**. Most of the requested improvements are for upgrades to the VIPS system. However, most counties currently run VIPS and CAMA on the same processor and the agency argues that it would be most efficient to make the requested upgrades which are needed for the CAMA system at the same time.

   The Subcommittee notes the agency's testimony on the current computer hardware limitations which exist in the system and limits software upgrades to the system. The agency also testified that some of the existing computer hardware in the counties (the System 36) is becoming obsolete and that the contractors for the system and the hardware manufactures are not supporting the out-of-date portions of the systems. Furthermore, the agency noted that as technology increases and the demands by the counties and the department for a more efficient and accessible system increase that the need to fund a system upgrade is rapidly approaching. Some counties have already migrated to the more updated computer system (AS 400) and the department proposes reimbursing counties for some of the costs of upgrading when a state-wide upgrade to the systems occurs.

   The Subcommittee notes the agency's estimated cost of the upgrade at $6 million over three years. The agency's estimate includes the cost of upgrading all counties to an AS 400 and reimbursing those counties who have already upgraded to the AS 400 system. The estimate reflects $5.6 million for upgrades to the VIPS system and approximately $373,000 for upgrades to the CAMA hardware and software to accommodate new agricultural-use valuation methodologies and other needed technical changes in CAMA. The Subcommittee notes the agency's current efforts to survey counties and assess the actual needs. The agency believes the revised estimate will be available March 1, 1996 and may be less than the original estimate. **The agency requested no expenditures in either FY 1996 or FY 1997 for these upgrades.**

The Subcommittee observes that reappraisal aid to counties was not funded for FY 1996, and that the Governor did not recommend reappraisal aid in FY 1996 or FY 1997. The Subcommittee also recognizes the agency's request for $2.75 million from the EDIF for county reappraisal aid in FY 1996 and FY 1997, and that the estimated expenditures for the system upgrade over a three year period is approximately $500,000 greater than two years of county reappraisal aid as requested by the agency.

The Subcommittee notes the agency's budget request, which targeted $2.50 from title application fees as a revenue stream for the system upgrades. **The Subcommittee recommends that the agency consider a plan which would require the counties to share 10 percent of the system upgrade to an AS 400 system.** The Subcommittee also urges the agency to examine the rates which they charge for bulk data, such as vehicle records and drivers' records, as a possible revenue source for the VIPS and CAMA upgrades. The Subcommittee observes that **some bulk purchasers of drivers' records and vehicle records pay approximately $.02 per record, while others are charged $3.50 per record for the same information.** Information provided to the Subcommittee suggests that other states in the region charge from $2.00 per driver record to $10.00 per driver record and most provide no discount for a bulk purchase of information.

5. The Subcommittee notes the agency's shifted focus to more general oversight and assistance for the Property Valuation Division in response to the 1995 Legislature's current year reduction of 22.0 FTE positions in the division by January 1, 1996. **The agency made a total reduction of 25.0 FTE positions in PVD** in complying with the Governor's requested 2.0 percent FTE position reduction in the current year. **The agency's reorganization after the reductions will reduce the County Appraised Property staff by 19.0 FTE positions, mainly Property Appraiser positions.** Other position reductions include: 3.0 FTE positions in the Compliance Section, 2.0 FTE positions in the State Appraised Property staff, and 1.0 FTE positions in PVD Administration. The agency indicates that the County Appraised Property Section will refocus on providing education, materials, information and general oversight for counties, but will provide only limited "hands-on" assistance to counties in their reappraisal efforts. The agency also states the reduction in the PVD Compliance Section will limit the number of temporary county appraisers which will be available from the division. The agency estimates one or two counties will be provided with temporary appraisers under the Governor's recommendations.

6. **The Subcommittee commends the agency for their "customer" perspective** and improving customer services through the Kansas Tax 2000 Project. **The Subcommittee also commends the agency for their efforts to become a world class financial services organization** and in their dedication and perseverance in seeking out and utilizing new technologies to seek efficiencies in their organization.

The Subcommittee notes the agency's Kansas Tax 2000 project (a.k.a. Project 2000) which aims to change the business of revenue administration by improving customer services, redesigning processes from the taxpayer's point of view, creating a team-based work environment, and benchmarking performance against world class financial institutions. In an effort to reshape the agency's organization the agency states that the department and the project contractor, American Management Systems (AMS), are taking a comprehensive approach that includes implementing new technology as an enabler to the needs of the business process. The Subcommittee observes the agency's efforts to develop an agency-wide technology management plan to ensure a smooth and efficient transition to the new technologies in the department.

7. **The Subcommittee recognizes** the change in overtime policy, associated with the conversion to the SHARP system, which has negatively impacted officers in the Alcoholic Beverage Control (ABC) division, as well as other state law enforcement officers. The Subcommittee recognizes that the issue has not been resolved, but notes that a dialogue continues between state law enforcement officers, the Department of Administration, and the Legislature, in an attempt to alleviate this problem.

Division of Vehicles Operating Fund

	Actual FY 95	Gov. Rec. FY 96	Gov. Rec. FY 97*
Balance Forward	$ 1,694,908	$ 2,721,260	$ 319,764
Net Receipts:			
Charges, Fines, etc.	2,084,695	1,982,452	1,982,500
Transfer In - Hwy. Fund	25,654,518	24,069,288	27,100,000
Total Funds Available	$ 29,434,121	$ 28,773,000	$ 29,402,264
Less: Expenditures	26,706,011	28,453,236	28,450,785
Non-Reportable Expnd.	6,850	0	0
Ending Balance	$ 2,721,260	$ 319,764	$ 951,479
Ending Balance as a Percentage of Expenditures	10.2%	1.1%	3.3%

* Includes Governor's Budget Amendment No. 1

Alicia Salisbury
Senator Alicia Salisbury
Subcommittee Chairperson

Gerald Karr
Senator Gerald Karr

Stephen R Morris
Senator Stephen Morris

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SUBCOMMITTEE REPORT

Agency: Board of Tax Appeals **Bill No.** – **Bill Sec.** –

Analyst: Mah **Analysis Pg. No.** 892 **Budget Page No.** 497

Expenditure Summary	Agency Estimate FY 96	Gov. Rec. FY 96	Senate Subcommittee Adjustments
State Operations:			
State General Fund	$ 1,624,801	$ 1,784,791	–
Other Funds	17,000	17,000	–
TOTAL	$ 1,641,801	$ 1,801,791	–
FTE Positions	35.0	35.0	–
Unclassified Temp. Positions	0.0	0.0	–
TOTAL	35.0	35.0	–

Agency Estimate/Governor's Recommendation

The Board's current year estimate of $1,641,801 is the same as authorized by the Legislature last year. Salary expenses total $1,367,269 while other operating expenses total $274,532. Included in the Board's salary expense estimate are moneys to finance only 34.0 of the Board's 35.0 approved FTE positions. The Board does not budget for an Attorney position which the 1995 Legislature chose to not fund for FY 1996. The position was vacant, prompting the Legislature to deleted the moneys. However, the Legislature did not reduce the position from the Board's authorized number of FTE positions in order to give the Board flexibility to hire someone if necessary. The Board indicated that in FY 1996 it could have a significant rise in caseload due to property valuation appeals. Now the Board indicates that it does not plan to fill the position in order to comply with the Governor's request for state agencies to reduce FTE positions.

The Governor recommends expenditures totaling $1,801,791 in the current year, an increase of $159,990 from the Board's estimate. The additional moneys would come from State General Fund moneys totaling $195,348 available to the Board because spending was less than budgeted last fiscal year. (The Board is already authorized to make use of the moneys because last year the Governor recommended and the Legislature agreed to include language in the FY 1996 appropriations bill so that, if the Board had any unanticipated savings in FY 1995, the unbudgeted savings could be expended in FY 1996. The Governor also includes in his recommendation that $27,302 of the available $195,348 be lapsed, which provides for a 1.5 percent State General Fund reduction.) The Governor makes the following adjustments to the Board's current year estimate:

- ✦ Salaries and wages are reduced by $34,181, reflecting lower health insurance rates and higher anticipated turnover savings. The reduction would be greater if the Governor had not also recommended increasing from $12,469 to $20,000 the Board's estimate for the base salary cost of temporary employees. The

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Board's appeal to the Governor indicated that it wanted to hire temporary staff so that regular staff would be free to deal with additional tasks required due to a heavy hearings schedule.

- Contractual services are increased by $33,390 and capital outlay expenditures are increased by $160,781 for costs related to upgrading the Board's existing AS 400 computer and installing a Personal Computer Local Area Network (PC LAN). The Board indicated in its appeal to the Governor that use of the current system has increased greatly and the system is no longer able to provide the support required. Shutdown of the system has been a problem for the Board.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendation.

Barbara Lawrence

Senator Barbara Lawrence, Chairperson

Senator William Brady

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SUBCOMMITTEE REPORT

Agency: Board of Tax Appeals **Bill No.** 478 **Bill Sec.** 2

Analyst: Mah **Analysis Pg. No.** 892 **Budget Page No.** 497

Expenditure Summary	Agency Request FY 97	Gov. Rec. FY 97	Senate Subcommittee Adjustments
State Operations:			
State General Fund	$ 1,815,311	$ 1,741,877	$ (24,696)
Other Funds	17,000	17,000	--
TOTAL	$ 1,832,311	$ 1,758,877	$ (24,696)
FTE Positions	35.0	34.0	--
Unclassified Temp. Positions	0.0	0.0	--
TOTAL	35.0	34.0	--

Agency Request/Governor's Recommendation

The Board's FY 1997 request provides for an increase of $190,510 over the current year estimate. Historically, approximately 80 percent of the Board's budget is for salaries and wages. The requested additional moneys are described in the bullets below:

- $86,037 more for salaries and wages to provide a 1.0 percent cost-of-living adjustment in addition to the usual step-movement for classified employees and an unclassified merit pool of 2.5 percent for unclassified employees (including Board members whose salaries are set by statute).

- $84,122 more for contractual services in order to:

  contract with a computer consultant who would determine equipment necessary to update the Board's computer system;

  bind and microfilm several back years of the Board's orders and case files;

  hire a court reporter on a contractual basis for peak periods of appeal hearings; and

  cover higher communication and travel costs due to scheduling a greater number of hearings to reduce the Board's caseload.

- $5,500 more for commodities to pay for an increase in office supply expenses because of the greater number of cases being heard by the Board.

- $14,851 for capital outlay expenses for a new microfilm reader/printer ($5,997), replacement FAX machine ($811), 13 replacement chairs ($5,460 or $420 each), 9-inch section file racks ($1,521), and 7-inch shelving ($1,062).

The Governor recommends $1,758,877 for FY 1997, a reduction of $42,914 from his current year recommendation. The recommendation makes several adjustments totaling $73,434 in reductions to the Board's request. The adjustments are outlined below.

- Salaries and wages are reduced by $53,848, deleting the requested 1.0 percent cost-of-living adjustment and reflecting lower health insurance rates. Moneys for the base salary pay for temporary employees are reduced from $36,314 to $25,000. In addition, adjustments are made so that unclassified employees (excluding the five Board members) would get a merit increase of 2.5 percent for six months instead of the full year. The five Board members would get a 2.5 percent salary increase for the full year. (The law requires that the salary increase for Board members match increases provided as step movement for classified employees, which would be the 2.5 percent for the full year.)

- Other reductions include $17,586 for contractual services and $2,000 for commodities (supplies). The recommendation provides for $36,646 more in FY 1997 than the recommendation for the current year, which is an increase of 11.9 percent. Because of the Governor's current year recommendation, the Board would no longer need the requested moneys for contractual services to hire a computer consultant for its computer system equipment evaluation.

- The Governor deletes the 1.0 FTE Attorney position that the Board requested no funding for in either the current year or FY 1997.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendation, with the following adjustment and comment:

1. The Senate Subcommittee concurs with the Board's objective to reduce the backlog of cases and commends the Board for the efforts it is making. In particular, the Subcommittee notes that the Board has developed several strategies to meet its objective. They include splitting the work among the five Board members in order to hold hearings on more than one appeal case at the same time ("double dockets") and holding more hearings per day by tightening the hearing schedule ("rocket dockets"). According to the Chairman of the Board of Tax Appeals, these strategies have resulted in a 75 percent increase in the number of hearings held and a 22 percent increase in the number of cases closed since February, 1995. In the Subcommittee's opinion, the Board has become

more responsive to the taxpayers of Kansas by reducing case backlog and expediting the appeal process.

2. Delete $24,696 from the State General Fund based on the recommendation to delete funding from individual budgets for salary enhancements, including classified step movement ($7,249); longevity bonuses ($1,840) and unclassified merit increases ($15,607).

Barbara Lawrence

Senator Barbara Lawrence, Chairperson

Wm. R. Brady

Senator William Brady

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BOARD OF TAX APPEALS
PERFORMANCE MEASURES

OBJECTIVES OF THE BOARD OF TAX APPEALS:

- To reduce our current open caseload by hearing cases as soon as possible after receiving them and deciding the cases and issuing orders as soon as possible once they are submitted for decision; and

- To be more responsive to the people of Kansas by not only ensuring a fair hearing but to decrease the current time lapse from the date an appeal is filed to the date an order is certified to the parties.

STRATEGIES FOR REACHING THESE OBJECTIVES:

- Prehearing process; double dockets; "rocket" dockets
- Monthly review of individual caseload
- Regular review of support staff workload and processes
- Traveling to outlying areas to provide access to the Board
- Utilize computer capabilites to monitor caseload, etc.
- Maintain and utilize our legal research bank

PERFORMANCE MEASURES FOR OBJECTIVES:

OUTCOME MEASURES:
- Percent of reduction of total caseload at end of fiscal year
- Percent of reduction in time a taxpayer must wait for a hearing before the Board
- Percent of reduction in time from date of hearing to date a final order is certified

OUTPUT MEASURES:
- Number of open cases pending at the end of fiscal year
- Number of cases waiting to be scheduled for hearing
- Number of cases pending hearing which were filed prior to current year
- Number of cases pending final order which were filed prior to current year

This Board has had an extreme backlog of cases since the statewide reappraisal of 1989 caught the agency under-staffed and under-equipped, creating morale problems for staff and an extremely long time frame for hearing cases which is unfair to taxpayers. During FY '95 and in FY '96 to date, it has been the goal of the agency to reduce the backlog and bring our caseload under control.

We are extremely pleased with our progress to date, as shown by our Output Measures, and propose to continue in this vein.

SUBCOMMITTEE REPORT

Agency: Kansas Lottery **Bill No.** 488 **Bill Sec.** –

Analyst: Efird **Analysis Pg. No.** 899 **Budget Page No.** 409

Expenditure Summary	Agency Estimate FY 96	Gov. Rec. FY 96	Senate Subcommittee Adjustments
Special Revenue Funds:			
State Operations	$ 20,632,302	$ 20,417,780	$ 0
Aid to Local Units	0	0	0
Other Assistance*	103,252,523	101,837,963	0
Subtotal - Operating	$ 123,884,825	$ 122,255,743	$ 0
Capital Improvements	0	0	0
TOTAL	$ 123,884,825	$ 122,255,743	$ 0
FTE Positions	97.0	97.0	0.0
Unclassified Temp. Positions	0.0	0.0	0.0
TOTAL	97.0	97.0	0.0

* Some transactions for prizes and retailer commissions are never recorded in the State Treasury.

Agency Estimate/Governor's Recommendation

An increase in the approved FY 1996 sales estimate of $155.8 million is anticipated by the Lottery. The revised FY 1996 expenditures are based on the agency's September 1995 estimate for FY 1996 sales of $180.0 million. A reduction of 1.0 FTE position in FY 1996 is due to a retirement in which the position was lost as a result of 1994 Supp. K.S.A. 75-6801 that provides most state agencies will lose at least one-fourth of all positions when those positions become vacant due to retirements

The Governor's recommendations assume sales of $177.5 million during the current fiscal year. Accordingly, the Governor's expenditure recommendations reflect additional expenses based on this sales estimate which is higher than the approved FY 1996 projection of $155.8 million. These sales estimates are anticipated to result in the transfer of $53.4 million to the State Gaming Revenues Fund in FY 1996. Transfers in FY 1996 include special transfers of $3.4 million required in the 1995 appropriation bill that would be in addition to the 30.0 percent minimum of net sales required for transfer by statute. The Legislature has required the additional special transfer in each of the last three years. A reduction of 1.0 FTE positions is included in the Governor's recommendations. An FY 1996 expenditure limitation for agency operations of $7,509,939 is not changed by the Governor's recommendations in the supplemental appropriations bill, although recommended expenses include $7,564,565 from this line item, an increase of $54,626 in the approved limitation. Likewise, the staff reduction of 1.0 FTE position in not reflected in the FY 1996 supplemental bill.

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Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommendations and further recommends that additional review be conducted during the Omnibus period concerning revenue and expenditure estimates, compared with actual trends to date, in order to more precisely project cashflow to the State Gaming Revenues Fund.

Paul E. Burke Jr.

Senator Paul "Bud" Burke
Subcommittee Chairperson

Marge Petty

Senator Marge Petty

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SUBCOMMITTEE REPORT

Agency: Kansas Lottery **Bill No.** 478 **Bill Sec.** 4

Analyst: Efird **Analysis Pg. No.** 899 **Budget Page No.** 409

Expenditure Summary	Agency Request FY 97	Gov. Rec. FY 97	Senate Subcommittee Adjustments
Special Revenue Funds:			
State Operations	$ 21,819,573	$ 20,873,057	$ (35,512)
Aid to Local Units	0	0	0
Other Assistance*	109,987,427	107,325,731	0
Subtotal - Operating	$ 131,807,000	$ 128,198,788	$ (35,512)
Capital Improvements	0	0	0
TOTAL	$ 131,807,000	$ 128,198,788	$ (35,512)
FTE Positions	97.0	97.0	0.0
Unclassified Temp. Positions	0.0	0.0	0.0
TOTAL	97.0	97.0	0.0

* Some transactions for prizes and retailer commissions are never recorded in the State Treasury.

Agency Estimate/Governor's Recommendation

The mission of this agency is to oversee and ensure the proper and efficient operation of lottery activities in the state, while maximizing revenue earnings for the State Gaming Revenues Fund. The agency's FY 1997 requested increases in expenditures are based on projected sales of $186.6 million which the Lottery incorporated into its September 1995 budget request. No change in staffing level was requested.

The Governor's expenditure recommendations for next fiscal year are based on a sales estimate of $182.0 million, an increase from the FY 1996 revised estimate. A change in the method of calculating the State Gaming Revenues Fund transfers is recommended by the Governor. The proposed new method is included in the FY 1997 appropriation bill in order to modify the current statutory requirement that at least 30.0 percent of gross sales be transferred. In FY 1997, the Governor recommends that the transfer percentage be increased to 30.75 percent and that no additional amounts be transferred. In previous budget cycles, such as in FY 1996, the Legislature approved the transfer of $3.4 million in addition to the required 30.0 percent of sales.

The FY 1997 sales estimate is anticipated to result in the transfer of $55.7 million to the State Gaming Revenues Fund in FY 1997. For next fiscal year, the Governor recommends that the transfer percent be increased from the minimum statutory level of 30.0 percent to 30.75 percent and that no additional special transfers be made.

The total budget recommended for the Lottery in FY 1997 is $128,198,788. Of this amount, $8,245,961 from the Lottery Operating Fund would be for agency operating expenditures limited by a line item in the appropriation bill, while the remainder of the appropriations would be no limit: $12,627,096 for operating costs (online communications, online service provider, and instant tickets) directly attributed to the cost of sales, and $107,325,731 for prize payments and retailer commissions. The recommended budget finances 97.0 total positions. The Governor's budget recommendation includes $500,000 for a back-up computer to be housed at another site which would allow the Lottery to validate instant ticket sales in the event of failure of the primary system. Staffing is maintained at 97.0 FTE positions.

Expenditure	Actual FY 95	Agency Est. FY 96	Gov. Rec. FY 96	Agency Req. FY 97	Gov. Rec. FY 97
Lottery Operating Fund					
Agency Operations	$ 7,654,804	$ 7,600,552	$ 7,564,565	$ 8,879,323	$ 8,245,961
Other Operations	12,285,310	13,031,750	12,853,215	12,940,250	12,627,096
SGRF Transfers	53,124,694	57,375,788	56,445,772	55,965,000	55,748,809
Prize Transfers	28,900,000	42,000,000	40,958,275	45,859,807	44,748,828
KBI Transfers	122,124	124,008	124,008	0	162,393
TOTAL – LOF	$ 102,086,932	$ 120,132,098	$ 117,945,835	$ 123,644,380	$ 121,533,087
Ending Balance	$ 6,736,412	$ 6,567,368	$ 4,576,316	$ 7,123,838	$ 3,953,837

Performance Measures

	Actual FY 1995	Estimate FY 1996	Gov. Rec. FY 1997
Receipts from the sale of lottery tickets	$ 171,307,329	$ 177,535,463	$ 182,031,118
Receipts transferred to the Gaming Revenues Fund	$ 53,124,700	$ 56,445,772	$ 55,748,809

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommendations and makes the following adjustment:

1. Delete $35,512 based on the Senate Ways and Means Committee recommendation to delete funding for the six month 2.5 percent unclassified merit pool ($17,995), classified step movement ($16,709), and the longevity bonus ($808) from the individual agency budgets and shift the financing to a new salary adjustment bill.

Senator Paul "Bud" Burke
Subcommittee Chairperson

Marge Petty
Senator Marge Petty

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SUBCOMMITTEE REPORT

Agency: Department of Commerce and Housing **Bill No.** -- **Bill Sec.** --

Analyst: Milstead **Analysis Pg. No.** 780 **Budget Page No.** 109

Expenditure Summary	Agency Estimate FY 96	Gov. Rec. FY 96	Senate Subcommittee Adjustments
All Funds:			
State Operations	$ 12,835,257	$ 12,738,372	$ 0
Aid to Local Units	45,784,935	45,784,935	0
Other Assistance	15,137,257	15,137,257	0
Subtotal - Operating	$ 73,757,449	$ 73,660,564	$ 0
Capital Improvements	103,084	103,084	0
TOTAL	$ 73,860,533	$ 73,763,648	$ 0
State General Fund:			
State Operations	$ 1,451,471	$ 1,377,434	$ 0
Aid to Local Units	280,732	280,732	0
Other Assistance	0	0	0
Subtotal - Operating	$ 1,732,203	$ 1,658,166	$ 0
Capital Improvements	0	0	0
TOTAL	$ 1,732,203	$ 1,658,166	$ 0
Economic Development Initiatives Fund:			
State Operations	$ 6,254,853	$ 6,243,094	$ 0
Aid to Local Units	400,000	400,000	0
Other Assistance	9,855,909	9,855,909	0
Subtotal - Operating	$ 16,510,762	$ 16,499,003	$ 0
Capital Improvements	103,084	103,084	0
TOTAL	$ 16,613,846	$ 16,602,087	$ 0
FTE Positions	124.0	123.0	0.0
Unclassified Temp. Positions	10.0	14.0	0.0
TOTAL	134.0	137.0	0.0

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Agency Estimate/Governor's Recommendation

The agency's revised FY 1996 estimate is $73,860,533, or $4,830,452 less than the amount approved by the 1995 Legislature as adjusted by June, 1995 State Finance Council action. Of the total estimate, $12,835,257 is for state operations, $45,784,935 is for aid to local units, $15,137,257 is for other assistance, and $103,084 is for capital improvements.

Of the total FY 1996 estimate for operating expenditures, $1,732,203 is from the State General Fund, $16,510,762 is from the EDIF and, $55,514,484 is from federal and special revenue funds. The estimate for spending from the State General Fund is the same as the amount approved by the 1995 Legislature. The estimate for spending from federal and special revenue funds is $4,830,452 less than the amount approved by the 1995 Legislature. The estimated spending below the amount approved is largely a result of lower than anticipated activity in the State of Kansas Investments in Lifelong Learning (SKILL) program (accounting for over $4 million of the lower than approved amount). The balance is reflected in a variety of other programs.

The Governor recommends a total of $73,763,648 for FY 1996, a reduction of $96,885, or 0.1 percent, compared to the agency's request. The Governor recommends $12,738,372 for state operations ($96,885 less than the agency's estimate), $45,784,935 for aid to local units (the same as the agency's estimate), $15,137,257 for other assistance (the same as the agency's estimate), and $103,084 for capital improvements.

Of the total recommendation for operating expenditures, $1,658,166 is from the State General Fund, a reduction of $74,037, or 4.5 percent, from the agency's estimate. (The Governor's recommendation includes a State General Fund 1.5 percent recision ($25,983).

The Governor recommends $16,499,003, in operating expenditures from the EDIF, a decrease of $11,759, or 0.07 percent, compared to the agency's estimate. The balance of the FY 1996 recommendation, $55,503,395, stems from federal and special revenue funds.

The Governor's recommendation includes $5,254,759 for salaries and wages in FY 1996. The recommendation is a reduction of $70,902 from the agency's estimate and reflects health insurance rate adjustments.

Senate Subcommittee Recommendation

FY 1996. The Subcommittee concurs with the Governor's recommendation for FY 1996.

JERRY MORAN

Senator Jerry Moran, Chairman

Dave Kerr

Senator Dave Kerr

Senator Richard Rock

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SUBCOMMITTEE REPORT

Agency: Department of Commerce and Housing **Bill No.** 478 **Bill Sec.** 6

Analyst: Milstead **Analysis Pg. No.** 780 **Budget Page No.** 109

Expenditure Summary	Agency Request FY 97	Gov. Rec. FY 97	Senate Subcommittee Adjustments
All Funds:			
State Operations	$ 13,379,204	$ 13,293,915	$ (101,005)
Aid to Local Units	39,820,271	39,680,784	0
Other Assistance	20,949,324	18,296,580	0
Subtotal - Operating	$ 74,148,799	$ 71,271,279	$ (101,005)
Capital Improvements	35,000	35,000	0
TOTAL	$ 74,183,799	$ 71,306,279	$ (101,005)
State General Fund:			
State Operations	$ 1,327,827	$ 1,491,068	$ (26,387)
Aid to Local Units	1,300,732	1,036,692	0
Other Assistance	0	0	0
Subtotal - Operating	$ 2,628,559	$ 2,527,760	$ (26,387)
Capital Improvements	0	0	0
TOTAL	$ 2,628,559	$ 2,527,760	$ (26,387)
Economic Development Initiatives Fund:			
State Operations	$ 6,674,517	$ 6,624,521	$ (41,856)
Aid to Local Units	400,000	250,000	0
Other Assistance	11,724,600	10,974,600	0
Subtotal - Operating	$ 18,799,117	$ 17,849,121	$ (41,856)
Capital Improvements	35,000	35,000	0
TOTAL	$ 18,834,117	$ 17,884,121	$ (41,856)
FTE Positions	132.0	134.0	0.0
Unclassified Temp. Positions	3.0	3.0	0.0
TOTAL	135.0	137.0	0.0

Agency Request/Governor's Recommendation

The agency requests FY 1997 operating expenditure funding of $74,148,799 an increase of $391,350, or 0.5 percent, above the FY 1996 estimate. Of the total FY 1997 request, $2,628,559, or 3.5 percent, is financed from the State General Fund, $18,834,117 or 25.4 percent is financed from the EDIF, and $52,721,123, or 71.1 percent, is financed from federal and special revenue funds.

Included in the FY 1997 budget is a request to have six special project positions converted to FTE status in recognition of the permanency of the positions' functions. Those positions include 3.0 FTE to staff the Olathe Travel Information Center (this includes 2.0 Tourist Counselor I's and a 1.0 Office Specialist), a 1.0 Business Finance Specialist in the Community Development Division, a 1.0 Economic Development Representative III in Business Finance, and a 1.0 Office Assistant IV in Travel and Tourism.

The agency also requests a funding shift of $306,882 from the Department of Agriculture to reflect the transfer of 4.0 FTEs and associated operating costs. The agency states that this transfer is expected to consolidate the efforts that both agencies had been conducting to promote the sale of Kansas products and enhance their respective marketing programs.

The agency requests an additional $1 million for the Kansas Industrial Training and Kansas Industrial Re-Training programs (KIT/KIR) (FY 1997 request is $4 million - -EDIF - -an increase from $3 million in FY 1996), as well as an increase of $1 million for the Kansas Economic Initiatives Opportunity Fund (KEIOF) (FY 1997 request is $5.0 million – EDIF – funding for FY 1996 is $4,066,309).

The FY 1997 budget eliminates funding for the Kansas Rural Development Council (FY 1996 funding of $47,000–EDIF) and the Mid-America World Trade Center (FY 1996 funding of $65,000–EDIF).

The Governor recommends operating expenditure funding of $71,271,279, a decrease of $2,877,520, or 4.0 percent, compared to the agency's request. Of the recommendation, $2,527,760, or 3.5 percent, is from the State General Fund, $17,849,121, or 25.0 percent, is from the EDIF, and $50,894,398, or 71.4 percent, is from other special revenue and federal funds.

The Governor recommends conversion of the 6.0 Unclassified Temporary Positions (formerly special project appointments) to FTE status as the agency requested.

The Governor also recommends a funding shift from the Department of Agriculture to reflect the transfer of 4.0 FTE positions and associated operating costs ($302,653 EDIF)

The Governor recommends $3,250,000 for the KIT/KIR programs, a decrease of $750,000 compared to the agency's request but an increase of $250,000 compared to the Governor's current year recommendation. The Governor also recommends $4,000,000 for KEIOF, $1,000,000 less than the agency's request.

The Governor does recommend, however, $1,000,000 to create a new program, the Kansas Existing Industry Expansion Program (KEEP). The Governor states this program is designed to assist existing small businesses in Kansas.

The agency requests $138,255 (including fringe benefits) for classified step movement, unclassified merit pay, and longevity pay.

The Governor recommends $101,005 (including fringe benefits) for classified step movement, $86,234, a 2.5 percent unclassified merit pool for six months ($8,803), and longevity pay for employees at the end of their pay range ($5,968).

Senate Subcommittee Recommendations

FY 1997. The Subcommittee concurs with the Governor's recommendation for FY 1997 with the following modifications:

1. Delete $101,005, including $26,387 from the State General Fund, based on the recommendation to delete funding for the six-month 2.5 percent unclassified merit pool ($8,803); classified step movement ($86,234); and the longevity bonus ($5,968) from individual agency budgets.

2. Shift $50,000 (EDIF) from the Kansas Existing Industry Expansion Program (KEEP) to fund the Wichita Mid-America World Trade Center. Funding for the KEEP program will be $950,000 (EDIF). The appropriation to the Mid-America World Trade Center is made with the understanding that the Center will utilize MAMTC assistance to further develop and improve the Center's management skills. The Trade Center should seek MAMTC assistance with the goal of becoming self-sufficient in the near future. The World Trade Center should expect no state funding for FY 1998.

3. Shift $200,000 (EDIF) from the Micro-loan program to the Small Business Development Centers (SBDCs). The Micro-loan program's funding is consequently reduced to $800,000 (EDIF) while the SBDC's funding is increased to $525,000 (EDIF). The Subcommittee supports the Secretary of Commerce and Housing's efforts of accountability in regard to the SBDCs. The Subcommittee suggests that such efforts include comparisons and measures against standards of performance that the SBDC's are to meet or exceed. Those standards should necessarily include job development and other measurable factors impacting the state's economy.

4. The Subcommittee encourages the Department to continue its review and evaluation of the effectiveness of agency programs. The Subcommittee notes that programs should be tailored to meet business and community needs. It is unreasonable and unwarranted to expect businesses and communities to "tailor" needs to fit agency programs.

5. Make technical adjustments as necessary.

JERRY MORAN

Senator Jerry Moran, Chairman

Dave Kerr

Senator Dave Kerr

Senator Richard Rock

FEB 1996

STATE OF KANSAS

BILL GRAVES, *Governor*
State Capitol, 2nd Floor
Topeka, Kansas 66612-1590

(913) 296-3232
1-800-432-2487
TDD: 1-800-992-0152
FAX: (913) 296-7973

OFFICE OF THE GOVERNOR

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February 15, 1996

The Honorable Dave Kerr, Chairperson
Senate Committee on Ways and Means
Room 120-S, Statehouse

and

The Honorable Robin Jennison, Chairperson
House Committee on Appropriations
Room 514-S, Statehouse

Dear Senator Kerr:

I amend my budget for FY 1997 to transfer from the Department of Agriculture to the Department of Commerce and Housing a total of 4.0 FTE positions and $263,599, of which $198,509 is from the State General Fund, $41,491 is from the Economic Development Initiatives Fund, and $23,599 is from fees collected from entities participating in the Market Development Program. With this transfer, the total number of FTE positions transferred from the Agriculture Marketing and Promotion Program in the Department of Agriculture to the Department of Commerce and Housing is 8.0 FTE positions. This will allow the marketing and promotions of the agricultural industry to be served more effectively and efficiently in the future.

Department of Agriculture:

	FY 1996	FY 1997
State General Fund	$ --	$ (198,509)
All Other Funds	--	(65,090)
All Funds	$ --	$ (263,599)

Senate Ways & Means
February 16, 1996
Attachment 6

Department of Commerce and Housing:

	FY 1996	FY 1997
State General Fund	$ --	$ 198,509
All Other Funds	--	65,090
All Funds	$ --	$ 263,599

Sincerely,

Bill Graves

BILL GRAVES
Governor

GBAAGRI3.KER

SUBCOMMITTEE REPORT

Agency: Kansas Technology Enterprise Corporation **Bill No.** 488 **Bill Sec.** --

Analyst: Milstead **Analysis Pg. No.** 803 **Budget Page No.** 377

Expenditure Summary	Agency Estimate FY 96	Gov. Rec. FY 96	Senate Subcommittee Adjustments
All Funds:			
State Operations	$ 3,712,122	$ 3,295,553	$ (20,000)
Aid to Local Units	0	0	--
Other Assistance	16,353,814	13,187,303	--
Subtotal - Operating	$ 20,065,936	$ 16,482,856	$ (20,000)
Capital Improvements	0	0	--
TOTAL	$ 20,065,936	$ 16,482,856	$ (20,000)
EDIF:			
State Operations	$ 2,825,122	$ 2,408,553	$ (20,000)
Aid to Local Units	0	0	--
Other Assistance	15,128,314	11,561,803	--
Subtotal - Operating	$ 17,953,436	$ 13,970,356	$ (20,000)
Capital Improvements	0	0	--
TOTAL	$ 17,953,436	$ 13,970,356	$ (20,000)
Other Funds:			
State Operations	$ 887,000	$ 887,000	$ --
Aid to Local Units	0	0	--
Other Assistance	1,225,500	1,625,500	--
Subtotal - Operating	$ 2,112,500	$ 2,512,500	$ --
Capital Improvements	0	0	--
TOTAL	$ 2,112,500	$ 2,512,500	$ --
FTE Positions	39.0	19.0	--
Unclassified Temp. Positions	0.0	14.0	--
TOTAL	39.0	33.0	--

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February 16, 1996
Attachment 7

Agency Estimate/Governor's Recommendation

The agency's revised FY 1996 estimate is $20,312,997, or $1,000,069 less than the amount approved by the 1995 Legislature as adjusted by June, 1995 State Finance Council action. The lower estimate is a result of lower than expected special revenue fund expenditures for the Mid-America Manufacturing Technology Center (MAMTC). The agency's estimated FY 1996 expenditures from the EDIF equals that approved by the 1995 Legislature. Of the total FY 1996 estimate, $18,075,368 is from the EDIF and $2,238,439 is from federal and other special revenue funds.

Because of the state's new personnel system, SHARP, for the first time, all KTEC employees will be considered unclassified state employees. This is a change from the past when KTEC employees were considered quasi-state employees.

The agency hired a 1.0 Human Resource Specialist ($28,421) in part because of the implementation of SHARP. For FY 1996 the agency also hired a 1.0 administrative assistant ($30,222) – this position was only partially filled during FY 1995.

The Governor recommends total expenditures of $20,287,062, of which $18,049,433, or 89 percent, is from the EDIF. The Governor's recommendation is a $25,935 reduction compared to the agency's estimate. The reduction stems primarily from reduced healthcare insurance rates.

The Governor concurs with the agency request of 11.0 FTE positions and 26.0 unclassified temporary positions for a total of 37.0 positions in FY 1996.

Senate Subcommittee Recommendations

FY 1996. The Subcommittee concurs with the Governor's recommendation for FY 1996 with the following modifications:

1. Delete $20,000 (EDIF) to reflect anticipated savings from the agency's decision to not fill a position (Chief Financial Officer) for the current year.

Alicia Salisbury

Senator Alicia Salisbury
Subcommittee Chairperson

Senator Robert Vancrum

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SUBCOMMITTEE REPORT

Agency: Kansas Technology Enterprise Corporation **Bill No.** 478 **Bill Sec.** 8

Analyst: Milstead **Analysis Pg. No.** 803 **Budget Page No.** 377

Expenditure Summary	Agency Request FY 97	Gov. Rec. FY 97	Senate Subcommittee Adjustments
All Funds:			
State Operations	$ 3,712,122	$ 3,295,553	$ (102,542)
Aid to Local Units	0	0	--
Other Assistance	16,353,814	13,187,303	--
Subtotal - Operating	$ 20,065,936	$ 16,482,856	$ (102,542)
Capital Improvements	0	0	--
TOTAL	$ 20,065,936	$ 16,482,856	$ (102,542)
EDIF:			
State Operations	$ 2,825,122	$ 2,408,553	$ (102,542)
Aid to Local Units	0	0	--
Other Assistance	15,128,314	11,561,803	--
Subtotal - Operating	$ 17,953,436	$ 13,970,356	$ (102,542)
Capital Improvements	0	0	--
TOTAL	$ 17,953,436	$ 13,970,356	$ (102,542)
Other Funds:			
State Operations	$ 887,000	$ 887,000	$ --
Aid to Local Units	0	0	--
Other Assistance	1,225,500	1,625,500	--
Subtotal - Operating	$ 2,112,500	$ 2,512,500	$ --
Capital Improvements	0	0	--
TOTAL	$ 2,112,500	$ 2,512,500	$ --
FTE Positions	39.0	19.0	--
Unclassified Temp. Positions	0.0	14.0	--
TOTAL	39.0	33.0	--

Agency Request/Governor's Recommendation

For FY 1997, the agency requests $20,065,936 in total operating expenditures, a reduction of $247,061, or 1.2 percent, from the FY 1996 estimate. Of total operating expenditures for the budget year, $17,953,436 is requested from the EDIF, a reduction of $121,932, or 0.7 percent, from the FY 1996 estimate. KTEC's request includes an increase from FY 1996 in all programs except two. The largest of the requested increases include the following: an additional $740,000 (EDIF) is requested for the Applied Research Matching Grant program (FY 1997 total request for the program is $2,000,000); an additional $500,000 (EDIF) is requested for the Innovation and Commercialization Corporations (FY 1997 total request for the program is $1,900,000); and, an additional $1,000,000 (EDIF) is requested for the Centers of Excellence (FY 1997 total request for the program is $5,350,000);
The requested increases are offset by no FY 1997 request for the venture capital program which received $3,300,000 for FY 1996. No additional money was requested for the venture capital program because the agency believes the $3.3 million FY 1995 appropriation sufficient at this time.

The agency requests $97,655 for unclassified merit pay.

The Governor recommends funding of $16,482,856 for FY 1997, including $13,970,356 from the EDIF. The recommendation is a reduction of $3,583,080, or 21.7 percent, compared to the agency's request. The recommended EDIF financing is a $3,983,080 reduction, or 22.2 percent, compared to the agency request.

Of the agency's requested program funding noted above, the Governor recommends: $1,060,000 (EDIF) for applied research matching grants; $1,300,000 (EDIF) for commercialization corporations; and $4,350,000 (EDIF) for the Centers of Excellence.

The Governor recommends $22,014 for a 2.5 percent unclassified merit pool for six months.

Senate Subcommittee Recommendations

FY 1997. The Subcommittee concurs with the Governor's recommendation for FY 1997 with the following modifications and observations:

1. Delete $22,014, based on the recommendation to delete funding for the six-month 2.5 percent unclassified merit pool from individual agency budgets.

2. Delete $80,528 (including fringe benefits) for a CFO position not filled in FY 1996. The Subcommittee learned that KTEC is assessing its staffing structure and agency needs and may seek funding for an additional position if it concludes such a position is justified.

3. The Subcommittee concurs with the Governor's recommendation regarding the placement and funding of the Industrial Agriculture Grant program within KTEC. The Subcommittee emphasizes, however, that this issue is only a small fraction of the larger issue of rural assistance/economic development. The Subcommittee underscores the need for more coordination and streamlining of governmental efforts in regard to rural assistance/economic development. The Subcommittee requests that the state's efforts in rural assistance/economic development, under

a unified state economic development budget, be the subject of a legislative committee.

As an example of effective coordinated efforts in rural economic development, the Subcommittee notes the work of KTEC in regard to the Alternative Agricultural Research and Development Center (AARC) (a U.S. Department of Labor entity) and the Agricultural Utilization Research Institute (AURI) (a Minnesota based nonprofit corporation). The collaboration reflects an effort by public and private organizations to work together to better assist businesses aiming to develop and commercialize new agricultural products.

During its first two years of operation (fiscal years 1993-1994), AARC invested $15.3 million, and leveraged $43 million from private partners, in 37 projects to promote new and innovative uses for farm and forestry materials or animal by-products. AARC requires a 50 percent match from the private sector for pre-commercial activities.

As part of this collaborative effort, KTEC will aid in the facilitation and development of an active networking of technical and business infrastructure. Such linkage should enhance the provision of assistance and information to the growing materials industry. This clearinghouse will maintain an index of program profiles and will establish a "product/technology blueprint" and locate entities and resources available for every stage of development from an entrepreneurial idea to commercialization.

KTEC also assists AARC in identifying broad areas where commercialization of new nonfood/nonfeed, nontraditional fiber products and processes can contribute to economic growth in rural areas. KTEC will aid the AARC Board in the analysis of market/technology trends and the establishment of project focus.

The Subcommittee notes that such collaboration and partnerships result in efficient and effective use of resources and serve to improve and integrate the rural assistance/economic development delivery system.

Alicia L. Salisbury

Senator Alicia Salisbury
Subcommittee Chairperson

Senator Robert Vancrum

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