

Approved: 2-13-97
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Phil Kline at 1:39 p.m. on February 11, 1997 in Room 514-S of the Capitol.

All members were present except: Representative Holmes - Excused
Representative McKechnie - Excused
Representative Kejr - Excused
Representative Weber - Excused

Committee staff present: Alan Conroy, Russell Mills, Stuart Little, Legislative Research Department;
Jim Wilson, Mike Corrigan, Revisor of Statutes Office;
Marcia Ayres, Appropriations Secretary; Helen Abramson, Administrative Aide

Conferees appearing before the committee: Jim Reardon, Director of Facilities
Gloria Timmer, Budget Director

Others attending: See attached list

Minutes of the February 6 and 7 meetings were distributed for the members to review. A motion was made by Representative Helgerson, seconded by Representative Farmer, to approve the minutes of February 6 and 7. The motion carried.

Representative Farmer was recognized to explain the subcommittee report on the Regents Systemwide for FY 97 and FY 98. The subcommittee concurred with the recommendations of the Governor with some observations. (Attachment 1) Members had some questions regarding salaries and wages which were explained by the subcommittee.

A motion was made by Representative Farmer, seconded by Representative Wilk, to adopt the subcommittee report for FY 97 and FY 98 for the Regents Systemwide. The motion carried.

Hearing on HB 2046 - State agency requests for buildings and facilities, including by lease-purchase, review by Joint Committee on State Building Construction

Jim Wilson, revisor, gave a synopsis of the bill. It was introduced by the Joint Committee on State Building Construction, and the background is that all capital improvements requests are by statute required to be presented to the joint committee, and as a practice they have also reviewed the leases that state agencies enter into. The issue of lease-purchases is an issue of separation of powers because the joint committee cannot be required to actually approve the leases, but they can be required to seek the presentation of the proposal. This bill sets forth a formal procedure and requirements for capital improvement budget requests.

Chairperson Kline added that a few years ago there was some concern about the appropriateness of some leases entered into by various state agencies. The Joint Building Committee had only reviewed construction requests but decided they were the appropriate unit to also review any leased building over 10,000 square feet. This bill would statutorily require that oversight.

Jim Reardon, director of the division of facilities management for the Department of Administration, testified in regard to HB 2046. The department considers the review of the Joint Committee on State Building Construction to be vital to the process of monitoring the expenditures of state funds. (Attachment 2)

The committee had questions regarding the definition of threshold and the timetable issue, so the chairman recommended no action on the bill until the committee and the department can discuss the definitions in more detail. The hearing on HB 2046 was closed.

Hearing on HB 2012 - State finances, temporary cash flow certificates, property tax reduction fund

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS, Room 514-S Statehouse, at 1:30 P.M. on February 11, 1997.

Jim Wilson, revisor, explained that the bill arose from the Legislative Budget Committee and their study of state finances. The bill changes the definition and references from state certificates of indebtedness to temporary cash flow certificates. The bill also changes the current ending balance requirement of 7 1/2 percent to roughly 4 percent. The amount of money of the ending balance would be transferred on September 1, 1997, to the property tax reduction fund which is established for the purpose of reducing property taxes, and no expenditure shall be made from this fund except upon specific authorization by an act of the legislature.

Gloria Timmer, Director of the Budget, spoke about HB 2012 and explained the reason the Budget Committee recommended changing the name of the certificates of indebtedness to temporary cash flow certificates. The committee then added the 4% ending balance law and the creation of the Property Tax Relief Fund. She felt the temporary cash flow change was fine, but she spoke in opposition to the 4% ending balance law.

Discussion followed by members of the committee, and the budget director was requested to provide some options for amendments to the bill. There being no other conferees, the hearing on HB 2012 was closed.

Chairperson Kline announced there were two bills for introduction. He introduced a bill permitting KSU to convey title to certain real estate located in Clay and Washington counties. Representative Farmer introduced a bill concerning the change of domicile of foreign insurance companies.

A motion was made by Representative Wilk, seconded by Representative Minor, to introduce the bills requested. The motion carried.

Representative Farmer raised the concern of his subcommittee regarding computer costs in the various agency requests. He recommended pulling those dollars out of the budget requests and having some sort of task force review them. There was further discussion about whether the budget requests for this year would be detailed enough to identify the specific computer expenses. It was decided the budget director would provide Representative Farmer with the data the Department of Administration has compiled for the Year 2000 plan which involves future computer purchases for state agencies with the exception of SRS.

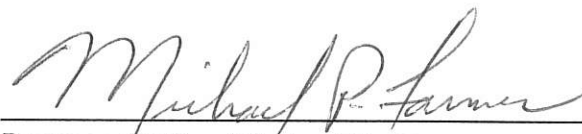
The meeting adjourned at 3:05 p.m.

The next meeting is scheduled for February 12, 1997.

FY 1997-FY 1998

HOUSE SUBCOMMITTEE REPORTS

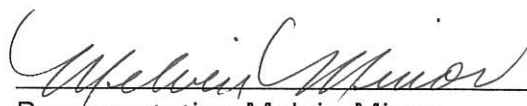
REGENTS SYSTEMWIDE



Representative Michael P. Farmer
Subcommittee Chair



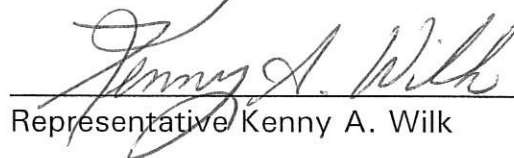
Representative John Edmonds



Representative Melvin Minor



Representative Richard Reinhardt



Representative Kenny A. Wilk

Appropriations
2-11-97
Attachment 1

SUBCOMMITTEE REPORT

Agency: Regents Systemwide Issues

Bill No. --

Bill Sec. --

Analyst: Robinson, Mills, Porter

Analysis Pg. No. 161

Budget Page No. --

Expenditures	Agency Req. FY 97	Gov. Rec. FY 97	Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 460,702,228	\$ 460,388,643	\$ 0
General Fees Fund	172,544,930	171,131,634	0
Federal Land Grant Funds	7,214,334	7,214,334	0
Other Funds	<u>12,700,946</u>	<u>12,700,946</u>	<u>0</u>
Subtotal-General Use	\$ 653,162,438	\$ 651,435,557	\$ 0
Restricted Use Funds	<u>418,740,790</u>	<u>420,777,664</u>	<u>0</u>
TOTAL-Oper. Exp.	<u><u>\$ 1,071,903,228</u></u>	<u><u>\$ 1,072,213,221</u></u>	<u><u>\$ 0</u></u>
Capital Improvements:			
State General Fund	\$ 189,466	\$ 2,189,466	\$ 0
Educational Bldg. Fund	23,128,152	23,231,352	0
Special Cap. Impr. Fund	960,379	1,323,856	0
Other Funds	<u>15,694,141</u>	<u>15,227,494</u>	<u>0</u>
TOTAL- Cap. Impr.	<u><u>\$ 39,972,138</u></u>	<u><u>\$ 41,972,168</u></u>	<u><u>\$ 0</u></u>
 GRAND TOTAL	 <u><u>\$ 1,111,875,366</u></u>	 <u><u>\$ 1,114,185,389</u></u>	 <u><u>\$ 0</u></u>
 FTE Positions	 15,626.9	 15,605.7	 0.0
Unclassified Temp. Pos.	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	<u><u>15,626.9</u></u>	<u><u>15,605.7</u></u>	<u><u>0.0</u></u>

Agency Est./Governor's Recommendation

The revised FY 1997 **general use** budgets submitted by the Regents institutions (excluding the KUMC Hospital) include a reduction of \$4.5 million in general use expenditures from the approved budget. State General Fund expenditures are estimated to increase by \$1.6 million from the approved budget, while expenditures from tuition are estimated to fall by \$1.2 million from the approved level. Supplemental appropriations requested from the State General Fund total \$1.6 million.

The Governor's FY 1997 recommendation for FY 1997 expenditures totals \$651.4 million, a reduction of \$1.8 million from the agency estimate.

The requested expenditure and financing adjustments to the FY 1997 budget are detailed below, along with the Governor's recommendations regarding each item:

- **Shift of \$1.2 million in financing of the FY 1997 budget from the General Fees Funds (tuition revenues) to the State General Fund** based on fall enrollments, decreased tuition estimates and requested supplementation of Midwest Student Exchange Program (MSEP) waivers. The Governor recommends the shift of \$0.5 million for tuition shortfalls. The Governor does not recommend supplementation for MSEP waivers.
- **Addition of \$345,376 from the State General Fund for operating expenditures for the new Technology Center at Pittsburg State University.** The Technology Center is scheduled to open in April 1997, and the supplemental would allow for operating expenditures for three months at the facility. The Governor recommends \$241,313 and 2.8 FTE positions for current year operations of the PSU Technology Center.
- **A reduction of \$5.0 million from the hospital reimbursement fund at the University of Kansas Medical Center (KUMC).** The transfer from the Hospital Revenue Fund to the Hospital Overhead Reimbursement Fund is intended to reflect the Hospital's portion of certain shared facility and administration costs. The FY 1997 transfer is a reduction of \$4.6 million from the FY 1996 transfer and reflects administrative and budgetary realignment of certain departments in the Hospital and the remainder of the Medical Center. The Governor concurs.
- **To offset the impact of the implementation of linear tuition,** the Governor recommends a current year supplemental of \$2.1 million at KU and KSU.
- **The Governor's FY 1997 recommendations reflect the reduction of \$1.0 million from the general use operating budget.** This is based on the Governor's recommendation to shift \$1.0 million from the State General Fund to the restricted use Medical Student Loan Repayment Fund.

House Subcommittee Recommendation

The House Subcommittee concurs with the recommendations of the Governor, with the following observations:

1. The Governor has recommended a current year State General Fund supplemental appropriation totaling \$2.1 million for KU and KSU. The tuition accountability plan approved by the 1996 Legislature was predicated on KU and KSU converting to a pure linear tuition schedule in the Fall of 1996. To avoid a predicted revenue loss at those schools, tuition rates were increased by 6.0 percent rather than the 3.0 percent approved for other institutions. Despite the additional rate increase, student credit hours at KU and KSU decreased by an amount greater than anticipated. To offset the additional revenue loss, the Governor recommends the supplementals at the two schools.

The Subcommittee is troubled by the issue of what should constitute the baseline upon which future years of tuition accountability are based. It was the understanding of the Subcommittee that FY 1996 would constitute the baseline year and that tuition losses accruing from that point forward would be the responsibility of the respective institutions. Under the Governor's recommendation, it would now appear that FY 1997, as supplemented with \$2.1 million in State General Fund expenditures, is the revised baseline year for implementation of tuition accountability.

In addition, the Governor's recommendation does not provide any supplementation of tuition losses at Wichita State University. Although WSU did experience declines in tuition revenue, the Governor apparently determined that there were factors beyond conversion to a pure linear tuition system that are impacting WSU's tuition revenues. Prior to FY 1997, WSU was practicing linear tuition, with a cap at 15 hours. The Governor apparently determined that removal of the 15 hour cap (which was a condition for WSU's participation in tuition accountability) was not a contributing factor to the tuition decline. At this point, the Subcommittee is not satisfied that, should current year supplementation be approved for KU and KSU, that some portion of the tuition loss at WSU should not also be supplemented.

The Subcommittee intends to defer this issue until it considers the budgets of the three affected schools. At this time, the Subcommittee has serious concerns about the current year supplementals recommended, but prefers to allow the individual institutions an opportunity to address this issue during their budget hearings.

2. The Subcommittee will address the reduction in the transfer from the Hospital Revenue Fund to the Hospital Overhead Reimbursement Fund (included in the Education Program) in its recommendations on the University of Kansas Medical Center for both FY 1997 and FY 1998. This transfer is intended to reflect the Hospital's portion of certain shared facility and administration costs. FY 1997 recommended expenditures of \$10.2 million reflect a reduction of \$5.0 million from approved FY 1997 expenditures of \$15.2 million. The agency budget states that the reduction reflects the administrative and budgetary realignment of certain departments in the Hospital and the remainder of the Medical Center. The FY 1998 transfer is set at the FY 1997 level pending a new study of funding relationships between the Hospital and the remainder of the Medical Center.

SUBCOMMITTEE REPORT

Agency: Regents Systemwide Issues

Bill No. 2160

Bill Sec. --

Analyst: Robinson, Mills, Porter

Analysis Pg. No. 161

Budget Page No. --

<u>Expenditures</u>	<u>Agency Req. FY 98</u>	<u>Gov. Rec. FY 98</u>	<u>Subcommittee Adjustments</u>
Operating Expenditures:			
State General Fund	\$ 485,262,823	\$ 483,024,478	\$ 0
General Fees Fund	179,343,142	176,893,181	0
Federal Land Grant Funds	7,214,334	7,214,334	0
Other Funds	12,439,308	12,336,362	0
Subtotal-General Use	\$ 684,259,607	\$ 679,468,355	\$ 0
Restricted Use Funds	428,144,877	428,527,888	0
TOTAL-Oper. Exp.	<u>\$ 1,112,404,484</u>	<u>\$ 1,107,996,243</u>	<u>\$ 0</u>
Capital Improvements:			
State General Fund	\$ 2,189,466	\$ 189,466	\$ 0
Educational Bldg. Fund	0	0	0
Other Funds	54,743,842	55,049,332	0
TOTAL- Cap. Impr.	<u>\$ 56,933,308</u>	<u>\$ 55,238,798</u>	<u>\$ 0</u>
GRAND TOTAL	<u>\$ 1,169,337,792</u>	<u>\$ 1,163,235,041</u>	<u>\$ 0</u>
FTE Positions	15,642.6	15,614.4	0.0
Unclassified Temp. Pos.	0.0	0.0	0.0
Total	<u>15,642.6</u>	<u>15,614.4</u>	<u>0.0</u>

Agency Req./Governor's Recommendation

The Regents institutions request a total general use budget increase of \$31.4 million, or 4.8 percent in FY 1998. The Governor recommends an increase of \$28.0 million, or 4.3 percent in FY 1998. State General Fund expenditures increase by 4.9 percent in the Governor's FY 1998 recommendation.

The Governor's recommended budget includes:

- **Step movement** for classified employees, a 1.0 percent base salary adjustment for classified employees, and a 3.5 percent unclassified merit pool. The Governor's recommendation for FY 1998 also includes longevity for all eligible classified employees.

- An increase in **other operating expenditures** (OOE) totaling 2.0 percent at each institution (a systemwide total of \$2.3 million).
- A **tuition funded equipment enhancement** totaling \$851,331 at the Regents institutions. The enhancement would be funded through an additional 0.5 percent tuition rate increase.
- \$770,473 and 11.1 FTE positions for **servicing new buildings**. The only new request for servicing in FY 1998 was for the new Technology Center at Pittsburg State University (PSU). PSU had requested \$971,461 and 20.5 FTE positions under the servicing new buildings formula approved by the 1996 Legislature, but the Governor's recommendation assumes that positions from other buildings at PSU would be shifted to the new building.
- A net negative **enrollment adjustment** of \$568,067, including a positive adjustment of \$60,964 at KSU-Salina, and negative adjustments at Emporia State University (\$377,580) and Pittsburg State University (\$251,471).

House Subcommittee Recommendation

The House Subcommittee concurs with the recommendations of the Governor with the following observations:

1. Because the FY 1998 request for servicing new buildings concerns only one institution, Pittsburg State University, the Subcommittee will address that issue in its recommendations on PSU. The Subcommittee would note, however, that the treatment of PSU appears to be different from past practice in that the Governor's recommendations do not appear to follow the formula recommended by the 1996 Legislature. The Governor's recommendation would provide a reduced amount of funding and fewer FTE positions, and would require the transfer of existing positions to provide servicing for the new Technology Center.
2. The House Subcommittee recommends that a final decision on the issue of the negative enrollment adjustments for Emporia State University and Pittsburg State University be delayed until the Subcommittee can receive testimony from the affected schools and the Board of Regents staff. The rationale for this delay is that, in both instances, there are extenuating factors which are in addition to the formula calculations. At Emporia State University, the formula calculation yielded a negative enrollment adjustment of \$527,580; however, the Governor included additional State General Fund financing of \$150,000 to lessen the negative impact on ESU and to recognize projected future enrollment increases. The Governor's recommendation for the negative enrollment adjustment at ESU thus is \$377,580 rather than the formula calculation of \$527,580. Similarly, the staff at Pittsburg State University calculated a negative enrollment adjustment of \$27,660; however, it appears that this calculation included the impact of "contiguous counties students." Prior years' Subcommittee Reports clearly indicate a legislative intent that contiguous counties students are not to be counted as FTE students or included for enrollment adjustment purposes. The Governor's recommendation excluded these students and resulted in a negative enrollment adjustment of \$251,471, or \$223,811 over the amount

calculated by PSU. The Subcommittee believes that additional study on both of these adjustments is needed. Lastly, the Board of Regents, at its October 17, 1996 meeting, voted not to adopt these negative enrollment adjustments, indicating that the overall impact of these reductions would be extremely detrimental to the schools' operations. Because of these unresolved questions, the Subcommittee recommends that this issue be deferred until consideration of the individual institutional budgets.

3. Despite the complexity of the issues raised regarding tuition accountability, the Subcommittee expresses its continued support for tuition accountability plans. During its discussions with the Executive Director of the Board of Regents, the Subcommittee was informed that there are no plans for inclusion of the remaining institutions in tuition accountability. Several barriers to inclusion of the other schools were noted, most specifically, the costs of conversion to pure linear tuition at the smaller schools. Despite the identified barriers, the Subcommittee recommends that the Board of Regents develop a plan, to be considered by the 1998 Legislature, to get all of its institutions on tuition accountability plans. The plan would identify the barriers to implementation of tuition accountability and any additional required funding to assist in the implementation.
4. The Subcommittee also recommends that the provisions contained in 1996 S.B. 402 be reviewed again during the 1997 Session. S.B. 402 dealt primarily with state purchasing laws and would have removed some of the restrictions that currently apply to state agencies, including the Regents institutions, with regard to purchasing supplies and services. S.B. 402 was enacted by the Legislature, but was vetoed by the Governor, largely because of a House amendment which would have exempted Fort Hays State University (as a pilot project) from all state purchasing requirements for two years. During the 1996 interim, the Legislative Educational Planning Committee endorsed the introduction of a bill similar to S.B. 402, without the amendment, for consideration by the 1997 Legislature. That bill has been introduced as 1997 S.B. 5.
5. The Subcommittee also notes that there are additional issues that the Subcommittee intends to consider before the end of the 1997 Session. Among these are a detailed review of the performance measures submitted by the Regents institutions and general policy questions surrounding higher education governance.

THE HOUSE APPROPRIATIONS COMMITTEE

February 11, 1997

Statehouse Room 514-S

Jim Reardon, Director

Department of Administration
Division of Facilities Management

Mr. Chairman; Members of the Committee, thank you for your invitation to appear in regard to **House Bill 2046**. This bill requires all state-owned buildings or facilities to be acquired by lease/purchase agreements be reviewed by the Joint Committee on State Building Construction before being approved by the Secretary of Administration. It also requires budget estimates for major capital improvement projects to be submitted to the Division of the Budget along with a written program statement.

The Division of Facilities Management currently administers over 600 state leases throughout the State of Kansas. The division is aware of only 3 agreements under which an agency is currently purchasing a facility through a lease/purchase agreement, which transfers title to the property from the landlord to the State of Kansas at the end of the lease.

This summer, however, we became aware of similar arrangements, primarily among Board of Regents Schools, that we refer to as "hybrid leases." These are arrangements, not between the State of Kansas and a landlord, but with an intervening party who has purchased the property from the landlord for the sole purpose of delivering it to the Lessee at a future date. Typical of this arrangement might be a University Endowment Association who acquires a building for the purpose of enhancing University operations, renovates the building and leases it to the University at a rate designed to liquidate the debt (or a substantial portion thereof) underwritten by the Endowment Association and to ultimately transfer the facility to the University. This arrangement allows the University to use its state funded operating budget to finance major renovations and campus expansions.

Frequently, these leases are reviewed by other legislative committees. In the past they had escaped the attention of the Joint Committee on State Building Construction. The Division of Facilities Management first brought these leases to the attention of the committee last summer and this bill appears to be an attempt to assure that all such arrangements are given the proper attention by that committee. We consider the review of the committee to be vital to the process of monitoring the expenditures of state funds.

Capital Improvement Projects

We think that prudent planning would require all agencies to properly plan major improvements and to submit them for adequate review. We have learned, however, in years of working with facilities that agencies are not always able to anticipate the full consequences of structural changes or improvements. There is often not enough money in state budgets to obtain all the consultant advice they require prior to a major decision. These agencies do have the ability to move (and often do so) without full knowledge of all the possible consequences. We are concerned that the threshold for determining "major" renovations might be unnecessarily low or the timetables necessitated by these provisions might delay or terminate a project at a critical and imprudent point.

Appropriations
2-11-97