

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE.

The meeting was called to order by Chairperson Melvin Neufeld at 9:00 a.m. on January 16, 2003, in Room 514-S of the Capitol.

All members were present.

Committee staff present: Alan Conroy, Legislative Research
J.G. Scott, Legislative Research
Becky Krahl, Legislative Research
Amy Deckard, Legislative Research
Julian Efird, Legislative Research
Jim Wilson, Revisor of Statutes
Mike Corrigan, Revisor of Statutes
Nikki Feuerborn, Administrative Assistant
Sue Fowler, Committee Secretary

Conferees appearing before the committee: Duane Goossen, Director of the Budget

Others attending: See attached.

Chairman Neufeld referred the following bills: **HB 2010** to the Education Budget Committee, **HB 2012** and **HB 2013** to Tax, Transportation, Judiciary and Retirement Budget Committees, **HB 2020** to Human Resources Budget Committee, and **HB 2021** to Education Budget Committee

Duane Goossen, Director of the Budget, presented an overview of the Governor's FY 2004 Budget Report (Attachment 1). For the first time budget will be available through a website with the hope of printing 500 fewer copies than in past years.

During Committee discussion on the budget, members requested the following information:

- Kansas Department of Health and Environment provide detailed history and information on requirements regarding underground and above ground storage tanks and the impact of sweeping \$10 million from their funds.
- Department of Revenue report on their current efforts and the success of collection of back taxes and the proposed amnesty program. According to Mr. Goossen, the Department of Revenue can implement a tax amnesty program without authorization from the Legislature. The specifics of the proposed amnesty program are yet undefined, including the starting dates, however, the spring of 2003 appears to be an optimal date.
- Department of Corrections report on the need and availability for maximum, medium and minimum security beds within the system. What is the exact number of beds being "bought" in other states? It was acknowledged that there is federal funding for bed purchases out of state.

During committee discussion on the Department of Corrections, Duane Goossen reported that in order to meet the current year allotment reductions fully, the Department of Corrections would have had to close certain minimum security correctional facilities. However, the proposed budget would provide adequate funding for FY 2003 and FY 2004 to avoid closure of the following facilities at this time:

- Stockton Unit
- Osawatomie Unit
- Toronto Unit
- El Dorado North
- Labette Conservation Camps
- Adult Residential Centers in Johnson and Sedgwick Counties

CONTINUATION SHEET

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE at 9:00 a.m. on January 16, 2003, in Room 514-S of the Capitol.

J. G. Scott presented the staff memo on the Appropriations Update dated January 15, 2003 (Attachment 2).

Representative Schultz, Vice Chair, moved to introduce the Governor's Supplemental Appropriation Bill for FY 2003. Motion was seconded by Representative Ballard. Motion carried.

Representative Schultz, Vice Chair, moved to introduce the Governor's Budget Recommendation for FY 2003 and the Bill for Capital Improvements, when they become available. Motion was seconded by Representative Nichols. Motion carried.

The meeting was adjourned at 10:30 a.m. The next meeting is scheduled for Wednesday, January 22, 2003.



Melvin Neufeld, Chair

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: 1/16/03

NAME	REPRESENTING
Kenn Barone	Horn Law Firm
Mitch Huettler	Ks. Governmental Consulting
Josie Torres	KACIK
Shannon Jones	S/LCK
Mike Hammond	Assoc. of CMHCs
Don M. Rezac	S.E.A.K.
Don Myers	Leg.
Dan Lewien	SRS
Bill Watts	KDOT
Lindy D'Ercole	Kansas Action for Children
Jim Conant	KDOR
Mary Kauffman	Legislature
Dennis Williams	DOC

State of Kansas

Overview Presentation
of the
Governor's FY 2004
Budget Report

January 2003

HOUSE APPROPRIATIONS

DATE 1/16/03
ATTACHMENT 1

FY 2004

July 1, 2003 – June 30, 2004

Kansas, like most states, faces a very difficult Fiscal Year 2004 budget. The difficulties are caused by an unprecedented drop in tax receipts and rapidly rising entitlement expenditures, both of which are results of current economic conditions.

In FY 2002, which ended last summer, State General Fund revenues were \$306 million or 6.9 percent below the previous year. In the last 30 years, year-to-year revenue drops have only occurred twice before. In FY 1986 revenue dropped 1.0 percent as a result of economic conditions, but very quickly recovered. In FY 1999 revenue dropped 1.1 percent, mostly as a result of tax cuts enacted by the 1998 Legislature. The revenue drops of FY 2002 are the deepest Kansas has seen in modern times. In FY 2003, revenue is expected to grow by only \$43.0 million, and that growth only occurs because of \$252.0 million in tax increases passed by the 2002 Legislature.

At the same time, the cost of entitlement Medicaid programs rises rapidly. Kansas has no choice but to pay the bills as they come in. Nationwide, Medicaid costs go up about 12 percent a year. Kansas is very close to the national average and in FY 2004 must add \$62.0 million of new State General Fund spending to cover the increases.

Historical State General Fund Receipts

(In Millions)

Fiscal Year	Actual Receipts	Year to Year % Change
1975	\$627.6	N/A
1976	701.2	11.7 %
1977	776.5	10.7
1978	854.6	10.1
1979	1,006.8	17.8
1980	1,097.8	9.0
1981	1,226.5	11.7
1982	1,273.0	3.8
1983	1,363.6	7.1
1984	1,546.9	13.4
1985	1,658.5	7.2
1986	1,641.4	(1.0)
1987	1,778.5	8.4
1988	2,113.1	18.8
1989	2,228.3	5.5
1990	2,300.5	3.2
1991	2,382.3	3.6
1992	2,465.8	3.5
1993	2,932.0	18.9
1994	3,175.7	8.3
1995	3,218.8	1.4
1996	3,448.3	7.1
1997	3,683.8	6.8
1998	4,023.7	9.2
1999	3,978.4	(1.1)
2000	4,203.1	5.6
2001	4,415.0	5.0
2002	4,108.9	(6.9)

Medicaid Expenditures

(Dollars in Millions)

Fiscal Year	Medical Assistance	Nursing Facilities	Total Medicaid	Percent Change
1997	484.4	228.0	712.4	6.5%
1998	470.3	237.3	707.7	-0.7%
1999	544.0	249.9	793.9	12.2%
2000	608.2	305.1	913.3	15.0%
2001	686.3	291.3	977.6	7.0%
2002	824.6	298.2	1,122.8	14.9%
2003	919.2	301.8	1,220.9	8.7%
2004	1,041.1	322.0	1,363.1	11.6%

Budget Totals

Dollars in Millions

	<u>SGF</u>	<u>Percent Change</u>	<u>All Funds</u>	<u>Percent Change</u>
FY 2002 Actual	\$ 4,466.1	--	\$ 9,802.6	--
FY 2003 Approved	\$ 4,459.4	(0.1%)	\$ 9,879.9	0.8%
FY 2003 After Allotments	\$ 4,341.5	(2.6%)		
FY 2003 Gov. Est.	\$ 4,358.3	0.4%	\$ 10,187.2	3.1%
FY 2004 Gov. Rec.	\$ 4,493.4 *	3.1%	\$ 10,154.8	(0.4%)

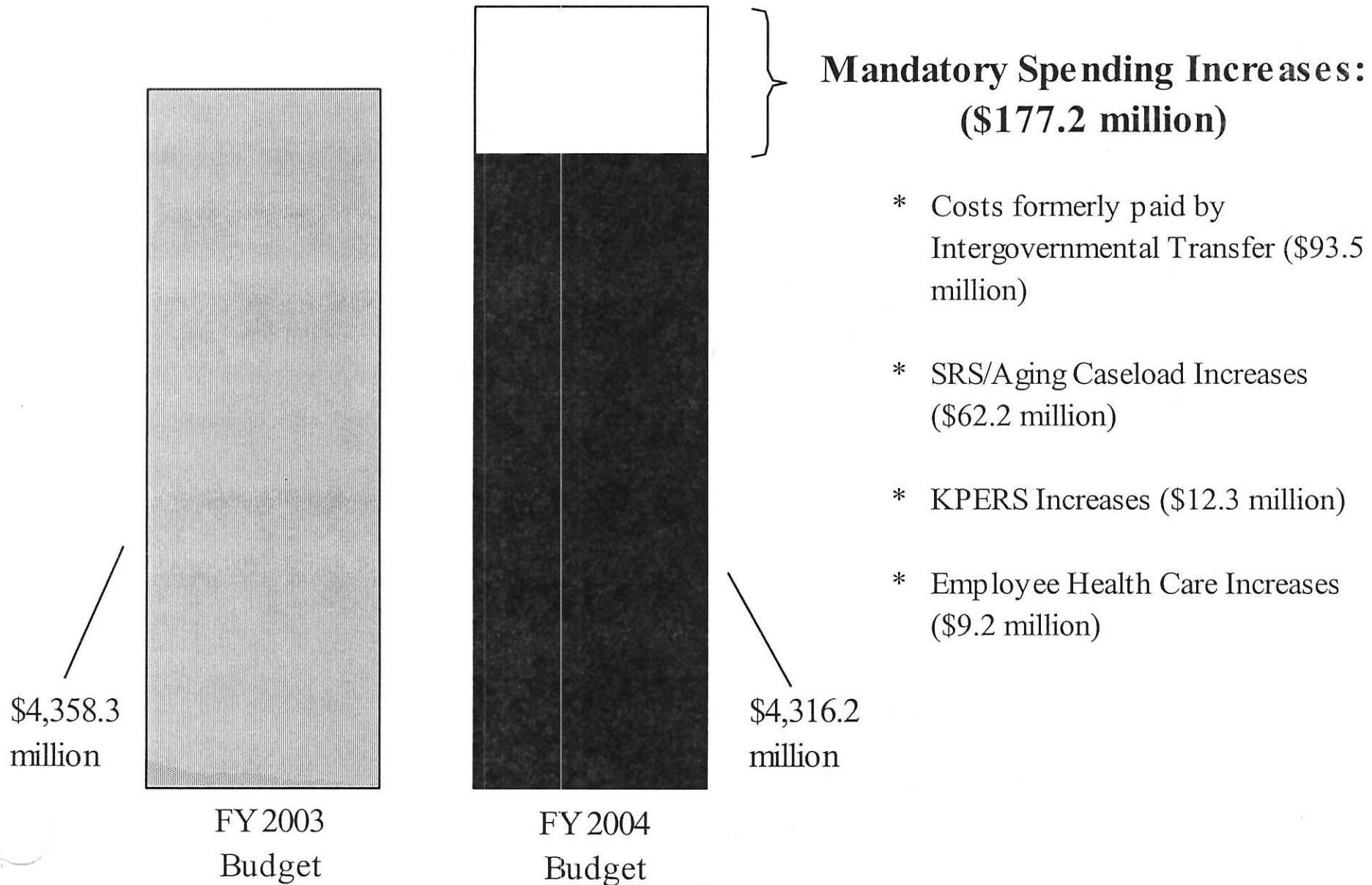
* FY 2004 State General Fund spending would be \$4,316.2 million if not for required spending increases and replacement of one-time federal funds. The FY 2004 total includes the following increases:

- Costs Formerly Paid by Intergovernmental Transfer (\$93.5 million)
- SRS/Aging Caseload Increases (\$62.2 million)
- KPERs Increases (\$12.3 million)
- Employee Health Care Increases (\$9.2 million)

State General Fund Expenditures

FY 2003 to FY 2004

7-1



7-1

Key Components of the Budget

No Tax Increases. The funding for this budget is based on the Consensus Revenue Estimate of November 5, 2002. No additional tax sources have been incorporated.

State General Fund Balance at Zero Percent. The budget recommendations leave a balance at the end of FY 2004 of zero percent. Under the current extraordinary circumstances, building a realistic budget that contains a 7.5 percent ending balance but no tax increases is impossible. A budget that meets the requirements of a 7.5 percent ending balance, in accordance with state statutes, is provided in Volume 1 of the budget. The Governor plans to work with the Legislature to identify other resources that can be used to begin rebuilding the balances.

Education Protected. Funding is added in FY 2003 and FY 2004 to cover local option budgets and base aid requirements. In FY 2004, the base budget per pupil remains at \$3,863, adequate funding is provided to cover the local option budget formula fully, and special education receives the same State General Fund support. Higher education funding for university operating grants, community college aid, Washburn aid, and technical college funding support remains constant between the two fiscal years.

SRS/Aging Caseloads Fully Funded. In FY 2003, supplemental funding is added to address increased caseload costs. FY 2004 costs are fully funded using November consensus caseload projections.

FY 2003 One-time Funding Replaced. The legislatively approved FY 2003 budget funded \$94.0 million of entitlement expenditures with money from the Intergovernmental Transfer. The transfer money is not available in FY 2004, requiring those same entitlement costs to be funded from the State General Fund.

State Employee Salary Increase. The Governor recommends a 1.5 percent salary increase for state employees at the beginning of FY 2004 at a cost of \$26.9 million from All Funding Sources, of which \$13.5 million is from the State General Fund.

Prisons Kept Open. To meet the current year allotment reductions fully, the Department of Corrections would have had to close prisons. However, enough money is added in FY 2003 and in FY 2004 to avoid closure of the following facilities:

- Stockton Unit
- Osawatomie Unit
- Toronto Unit
- El Dorado North
- Labette Conservation Camps
- Adult Residential Centers in Johnson and Sedgwick Counties

Human Service Restorations. The FY 2004 budget adds funding to restore a portion of the cuts required by the current year allotment reductions. Some of these services are:

- Senior Care Act
- HCBS Waiting Lists
- HealthWave
- Delaying the Start Date for GA/MediKan Time Limit
- Emergency Shelter Case Management
- Child Care Eligibility at 185% FPL
- CMHC Aid
- CDDO Aid

Shifts to Fees. Where possible, current State General Fund costs are shifted to fee-based funding. This occurs most significantly in the Department of Revenue, State Treasurer, Secretary of State, Health and Environment, the Board of Tax Appeals, and the Judicial Council.

Biennial and Fee Agency Budgets Reduced 5.9 Percent. Budgets for fee-based agencies that were not subject to the current year allotment reductions are lowered by 5.9 percent in FY 2004. The money saved from these reductions, is transferred to the State General Fund. This treats these state agencies like other state agencies in regard to budget reductions.

70 New Troopers. The budget restores enough money to the Highway Patrol to hire 70 troopers in positions that are now being held vacant or that are subject to FY 2003 allotment reductions. For half of FY 2003 and all of FY 2004 the Highway Patrol's State General Fund financing is removed and substituted with State Highway Fund dollars.

SGF Transfers Eliminated. For FY 2004, there are no State General Fund revenue transfers to the Highway Fund, the Local Ad Valorem Tax Reduction Fund, the City County Revenue Sharing Fund, and the Special City County Highway Fund. However, full payment to cities and counties from the Special City County Highway Fund will still occur.

Continued Death and Disability Moratorium. The approved FY 2003 budget contains a two-quarter moratorium on payments into the fund. The Governor's recommendations add the last quarter of FY 2003 to the moratorium and all four quarters of FY 2004. The savings from this moratorium are utilized to provide the 1.5 percent salary increase for state employees.

Judiciary/Legislature. Beginning in FY 2004, the Executive Branch will not presume to review or adjust the budgets of the Judiciary and Legislature, but will simply include as a "placeholder" the exact budget passed by the Legislature in the previous year.

Governor's Human Services Additions/Restorations

	SGF	All Funds
Senior Care Act	6,434,359	6,434,359
HCBS Waiting Lists	3,000,000	9,884,679
Delay Start Date for 24 Month Time Limit GA/MediKan	2,834,400	3,000,000
Restore all of the Emergency Shelter Case Management Funding	1,441,256	1,441,256
Return Child Care Eligibility to 185% FPL	1,686,524	4,262,624
Do not raise Level of Care score from 26 to 30	434,967	1,105,380
Child Welfare Community Service Funding	527,734	681,823
Restore HCBS Protected Income to \$716 each month	738,096	1,875,720
Restore Early Head Start Grants	119,400	--
Restore Incontinence Supplies	393,500	1,000,000
Partially Restore CHMC Aid	1,000,000	1,000,000
Partially Restore CDDO aid	496,500	496,500
Provide Medicaid Coverage for Foster Children Aging Out of Care	64,470	162,500
Restore Social Security Advocacy Contracts for Children	177,150	250,000
Restore Disability Advocacy Contract	296,240	800,000
Restore HealthWave Benefits and Eligibility	2,358,623	8,131,350
*Anticipated HealthWave Caseload		
*Restore Eligibility to 200.0% FPL		
*Restore Benefit Package to FY 2003 Levels		
Fund HealthWave Caseload Estimate	3,091,526	11,025,000
Parental Fee Shortfall	1,234,480	3,520,000
Restore HCBS Rates to Levels Prior to November Allotment	4,489,893	11,410,145
Restore Medicaid Coverage for Adult Vision and Audiology from November Allotment	590,250	1,500,000
Sex Predator Transition Program	100,000	100,000
	31,509,368	68,081,336

**State General Fund
FY 2003**

(Dollars in Millions)

Beginning Balance	\$ 12.1
Revenue:	
November Consensus Revenue Est. (Includes Revenue Transfers)	4,152.0
Local Government Transfer Allotment Reductions (Gov. Graves)	48.0
No KDOT Loan Repayment (Gov. Graves Recommendation)	94.6
Balance Transfers (Gov. Graves Recommendation)	35.1
Underground Storage Tank Fund Balance Transfer	10.0
Tax Amnesty	7.5
Juvenile Facilities Fee Fund Balance Transfer	0.5
Transfer Death & Disability Moratorium Savings from non-SGF Funds	0.9
Increase Insurance Department Transfer	0.1
Adjust School Capital Improvements Revenue Transfer	(2.1)
Total Available	<u>\$ 4,358.7</u>
Expenditures:	
Approved Budget (June 2002)	4,444.5
Expenditure Authority Shifting from FY 2002	15.4
August Allotment Reductions (Gov. Graves)	(39.9)
November Allotment Reductions (Gov. Graves)	(78.1)
School Finance Supplemental	26.4
SRS/Aging Caseload Supplemental	18.8
Dept. of Corrections Restore Funding for Facilities	3.3
Shift Highway Patrol Expenditures to State Highway Fund	(12.6)
Use Ongoing Intergovernmental Transfer Funds	(4.0)
4th Quarter Death & Disability Moratorium Savings	(5.3)
Pend SRS Claims to FY 2004	(6.2)
Net of Other Adjustments	<u>(4.0)</u>
Total Expenditures	\$ 4,358.3
Ending Balance	\$ 0.4

State General Fund

FY 2004

(Dollars in Millions)

Beginning Balance	\$	0.4
Revenue:		
Consensus Revenue Est. (Revenue Transfers not Included)		4,525.7
Highway Fund Revenue Transfer		--
LAVTR Revenue Transfer		--
CCRS Revenue Transfer		--
SCCHF Revenue Transfer		--
State Fair Revenue Transfer		--
School Capital Improvements Revenue Transfer		(55.0)
Water Plan Revenue Transfer		(3.8)
Regents Faculty of Distinction Revenue Transfer		(0.5)
Transfer Savings from KDOT Operations Cuts to SGF		5.0
Transfer Savings from Fee Agency Cuts to SGF		3.5
Transfer Balance from KEY Fund		9.9
Transfer Death & Disability Savings from non-SGF Funds		3.4
Continue Insurance Department Transfer		0.8
Tax Amnesty		4.5
Total Available	\$	4,493.9
Expenditures:		
FY 2003 Base Budget		4,358.3
Replace One-time Intergovernmental Transfer Funds		93.5
SRS/Aging Additional Caseloads		62.2
KPERs Regular Increase		12.3
Health Insurance Increase		9.2
Salary Plan		13.5
Shift Highway Patrol Expenditures to State Highway Fund		(25.2)
Use Ongoing Intergovernmental Transfer Funds		(4.0)
KPERs Death & Disability Moratorium Savings		(5.3)
Net of Other Adjustments		(21.1)
Total Expenditures	\$	4,493.4
Ending Balance	\$	0.5

All FY 2004 budget documents will be available on the Division of the Budget website

www.da.state.ks.us/budget

following the Governor's State of the State speech.

For further information contact:

Division of the Budget
300 SW 10th Avenue
Statehouse
Room 152-E
Topeka, KS 66612

785.296.2436

Appropriations Update
January 15, 2003

The *Governor's Budget Report for FY 2004* was presented to the 2003 Legislature and discussed by the Governor during her State of the State message on Wednesday, January 15, 2003. The recommendations will be incorporated into appropriations bills for consideration by the Legislature. If you have any questions about any information in this report, please contact Alan Conroy, Director, J.G. Scott, Chief Fiscal Analyst, or Leah Robinson, Principal Fiscal Analyst, at (785) 296-3181.

Overview of FY 2004 Recommendation

The Governor recommends expenditures of **\$10.2 billion** from all funding sources in FY 2004, including expenditures of **\$4.5 billion** from the State General Fund:

- ◆ State General Fund expenditures **increase** by 3.1 percent, or \$135.1 million.
- ◆ Expenditures from all funding sources **decrease** by \$20.8 million, or 0.2 percent.
- ◆ The Governor's budget provides for an **ending balance** totaling 0.0 percent of expenditures (\$0.5 million), \$336.5 million less than the 7.5 percent ending balance required by statute. (Note: The Governor does include a "statutory budget" which complies with the required 7.5 percent ending balance law in Volume 1 of the *Governor's Budget Report*).
- ◆ Recommended State General Fund revenues exceed the expenditures by \$0.1 million.
- ◆ The Governor's recommendation include a **1.5 percent base salary increase** for state employees (estimated to cost \$26.9 million from all funding sources, including \$13.5 million from the State General Fund).
- ◆ The Governor's recommendation provides for a full-year FY 2004 moratorium on payments into the **KPERS Death and Disability Fund**, estimated to save \$26.9 million from all funding sources, including \$17.8 million from the State General Fund. The recommendation also extends the current year moratorium to the last quarter of FY 2003.
- ◆ State General Fund expenditures for the **Department of Education** increase by \$12.8 million or 0.5 percent. General and supplemental state aid expenditures increase by \$242.6 million. Most of the increase in general and supplemental school aid is related to the Governor's recommendation to roll special education aid into Base State Aid Per Pupil (BSAPP) as a per pupil weighting. The Governor's recommendation maintains BSAPP at \$3,863. Funding for KPERS-School employer contributions increase \$16.2 million in FY 2004.
- ◆ State General Fund expenditures for the **Board of Regents and the Regents Institutions** decrease by \$5.1 million or 0.8 percent.

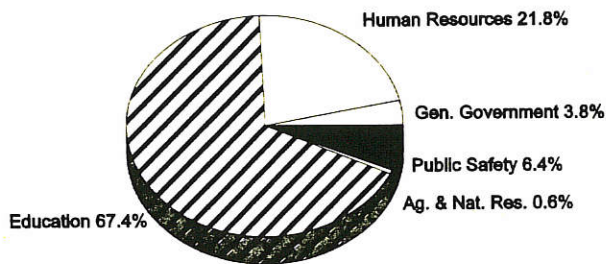
HOUSE APPROPRIATIONS

DATE 1/16/03
ATTACHMENT 2

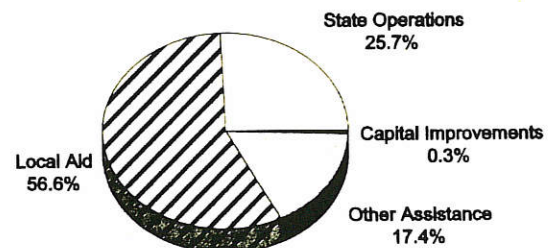
- ◆ State General Fund expenditures for the **Department of Social and Rehabilitation Services** increase \$112.7 million, or 18.0 percent, largely for caseload increases.
- ◆ The recommendation reduces FTE positions by 9.7 from FY 2003 to FY 2004.
- ◆ For FY 2004, there are no **State General Fund transfers** to the State Highway Fund, the Local Ad Valorem Tax Reduction Fund, the City County Revenue Sharing Fund, and the Special City County Highway Fund. The FY 2004 State General Fund transfer to the School District Capital Improvements Fund is estimated at \$55.0 million. Other transfers are recommended to the State Water Plan Fund (\$3.8 million) and the Regents Faculty of Distinction Program (\$0.5 million).
- ◆ The Governor's recommendation shifts portions of the **Kansas Highway Patrol** budget generally funded from the State General Fund to the State Highway Fund. No State General Fund financing is recommended for the Highway Patrol in FY 2004.

The following two charts illustrate the Governor's recommended State General Fund expenditures by function of government and by category of expenditure. Education (including local school aid and Regents universities) receives 67.4 percent of the State General Fund in the Governor's recommendations. Aid to local units comprises the largest category of expenditure in the Governor's budget with over half of the FY 2004 State General Fund budget (56.6 percent) distributed to local units of government, primarily through local school aid.

**SGF Expenditures by Function
FY 2004 Governor's Recommendation**



**SGF Expenditures by Major Purpose
FY 2004 Governor's Recommendation**



Recommended Current Year Budget Changes

The Governor's revised FY 2003 recommendation is an increase of \$335.2 million from all funding sources, and a reduction of \$86.2 million from the State General Fund from the amount approved by the 2002 Legislature. The *Governor's Budget Report* identifies several current year adjustments including:

- \$118.0 million in **State General Fund allotment reductions** made in August 2002 (\$39.9 million) and in November 2002 (\$78.1 million)

2-2

- An increase of \$268.5 million in the budget of the **Kansas Department of Transportation**, largely reflecting capital improvement projects carried over from FY 2002, and bond funding to offset some reportable expenditures.
- A net increase (excluding \$53.5 million in allotments) of \$32.2 million (including \$10.1 million from the State General Fund in the budget of the **Department of Social and Rehabilitation Services**), largely for revised current year caseload estimates.
- An increase of \$99.2 million, including \$0.5 million from the State General Fund in the budget of the **Department of Human Resources**, largely for increased expenditures for unemployment benefits.
- Increases of \$70.1 million from all funding sources in the budgets of the **Board of Regents and the Regents institutions**, largely reflecting capital improvement projects carried over from FY 2002, and increases in restricted use funds.

The status of the State General Fund, based on the recommendations of the Governor, is reflected in the following profile.

State General Fund Profile-Governor's Recommendation			
In Millions			
	Actual FY 02	Gov. Rec. FY 03	Gov. Rec. FY 04
Beginning Balance	\$ 369.8	\$ 12.1	\$ 0.4
Receipts (Nov. 01 Consensus)	4,108.3	4,152.0	4,525.7
(Less Adjustments in Governor's Rec.)	0.0	194.6	(32.2)
Adjusted Receipts	<u>4,108.3</u>	<u>4,346.6</u>	<u>4,493.5</u>
Total Available	4,478.1	4,358.7	4,493.9
Expenditures	<u>4,466.1</u>	<u>4,358.3</u>	<u>4,493.4</u>
Ending Balance	<u>\$ 12.1</u>	<u>\$ 0.4</u>	<u>\$ 0.5</u>
Ending Balance as a % of Expenditures	0.3%	0.0%	0.0%
Adjusted Receipts in Excess of Expenditures	(\$357.8)	(\$11.7)	\$0.1
% Change from Prior Year:			
Adjusted Revenues	(6.9)%	5.8%	3.4%
Expenditures	0.8%	(2.4)%	3.1%

Additional information on the Governor's budget recommendation and the requests made by state agencies will be presented in the Legislative Budget Analysis to be presented to the Legislature after the legislative fiscal staff completes its analysis.