

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Stephen Morris at 10:30 a.m. on March 12, 2003, in Room 123-S of the Capitol.

All members were present except: Senator David Adkins - excused
Senator Paul Feleciano, Jr. - excused

Committee staff present:

Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Martha Dorsey, Kansas Legislative Research Department
Melissa Calderwood, Kansas Legislative Research Department
Debra Hollon, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Assistant Revisor of Statutes
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Jeremy Anderson, Director of Governmental Affairs, Office of the Governor
Jim Conant, Director, Resource Management, Kansas Department of Revenue
Sheila Walker, Director of Vehicles, Kansas Department of Revenue
Walter Darling, Chief Finance Officer, Kansas Highway Patrol

Others attending: See attached list

Copies of the Kansas Legislative Research Department Budget Analysis Report for FY 2003 and FY 2004 were distributed to the committee.

Subcommittee reports on:

Kansas Department on Commerce and Housing (Attachment 1)

Subcommittee Chairman Kerr reported that the Subcommittee concurs with the recommendation of the Governor for FY 2003.

Subcommittee Chairman Kerr reported that the Subcommittee concurs with the recommendation of the Governor with adjustments and notations for FY 2004.

Senator Downey moved, with a second by Senator Kerr, to amend the subcommittee report in FY 2004 regarding Item No. 3, line 3, following the wording State General Fund, "for vocational and technical schools." Motion carried on a voice vote.

Senator Kerr moved, with a second by Senator Jackson, to adopt the subcommittee budget report on the Kansas Department of Commerce and Housing for the FY 2003 and FY 2004 budget as amended. Motion carried on a voice vote.

Kansas, Inc. (Attachment 2)

Subcommittee Chairman Kerr reported that the Subcommittee concurs with the recommendation of the Governor with adjustment for FY 2003.

CONTINUATION SHEET

Subcommittee Chairman Kerr reported that the Subcommittee concurs with the recommendation of the Governor with adjustments and notations for FY 2004.

Senator Kerr moved, with a second by Senator Jackson, to adopt the subcommittee budget report on the Kansas Inc. for the FY 2003 and FY 2004 budget. Motion carried on a voice vote.

Copies were distributed of the Scope Statement for the Information Network of Kansas: Reviewing Its Revenues, Expenditures, and Administrative Structure (Attachment 3).

Kansas Technology Enterprise Corporation (Attachment 4)

Subcommittee Chairman Kerr reported that the Subcommittee concurs with the recommendation of the Governor with adjustment for FY 2003.

Subcommittee Chairman Kerr reported that the Subcommittee concurs with the recommendation of the Governor with adjustments and notations for FY 2004.

Senator Kerr moved, with a second by Senator Jackson, to adopt the subcommittee budget report on the Kansas Technology Enterprise Corporation for the FY 2003 and FY 2004 budget. Motion carried on a voice vote.

Staff distributed copies of an update on the Economic Development Initiatives Fund (Attachment 5).

Kansas Board of Tax Appeals (Attachment 6)

Subcommittee Chairwoman Schodorf reported that the Subcommittee concurs with the recommendation of the Governor with changes and notations for FY 2003.

Subcommittee Chairwoman Schodorf reported that the Subcommittee concurs with the recommendation of the Governor with notations for FY 2004.

Senator Schodorf moved, with a second by Senator Jackson, to adopt the subcommittee budget report on the Kansas Board of Tax Appeals for the FY 2003 and FY 2004 budget. Motion carried on a voice vote.

Kansas Department of Revenue (Attachment 7)

Subcommittee Chairman Morris reported that the Subcommittee concurs with the recommendation of the Governor with recommended adjustments for FY 2003.

Subcommittee Chairman Morris reported that the Subcommittee concurs with the recommendation of the Governor with adjustments and comments for FY 2004.

Senator Downey moved, with a second by Senator Schodorf, to amend the subcommittee report in FY 2004 regarding Item No. 8, to include an item to have this Committee send a letter to the Congressional delegation expressing concerns about the recently passed Congressional tax legislation and pending legislation that reduces Kansas income tax collections because of linkage. Motion carried on a voice vote.

Senator Schodorf moved, with a second by Senator Downey, to adopt the subcommittee budget report on the Kansas Department of Revenue for the FY 2003 and FY 2004 budget as amended. Motion carried on a voice vote.

Chairman Morris opened the public hearings on:

HB 2192--Increasing fees for drivers' licenses and identification cards

HB 2193--Increasing fees for certificates of title

Staff briefed the committee on the bills.

CONTINUATION SHEET

Jeremy Anderson, Director of Government Affairs, Office of the Governor, testified in support of **HB 2192** and **HB 2193** (Attachment 8). Mr. Anderson explained that both of the bills are necessary parts of the Governor's FY 2004 budget recommendation. Details regarding both bills are found in the written testimony.

Jim Conant, Director of Resource Management, Kansas Department of Revenue, testified in support of **HB 2192** and **HB 2193** (Attachment 9). Mr. Conant mentioned that these bills implement certain fee increases in support of the Governor's budget proposal for funding the Kansas Department of Revenue operations.

Sheila Walker, Director of Vehicles, Kansas Department of Revenue, testified in support of **HB 2192** (Attachment 10) and **HB 2193** (Attachment 11). Ms. Walker explained that **HB 2192** increases the fees to obtain a driver's license or identification card and creates a "photo fee fund" in which photo fees are to be deposited with the Kansas Department of Revenue. She mentioned that **HB 2193** increases the title fee \$2 (from \$8 to \$10) and lifts the sunset on the Kansas Department of Revenue's VIPS/CAMA fee fund as well as the Kansas Highway Patrol's vehicle fee fund.

Mr. Walter Darling, Chief Finance Officer for the Kansas Highway Patrol, testified in support of **HB 2193** (Attachment 12). Mr. Darling mentioned that **HB 2193** makes one change to the financing for the Highway Patrol Fleet Program. He explained that it eliminates the sunset attached to the title fee financing for the program and thus allows the program to continue as established by the 1993 Legislature.

Committee questions and discussion followed. There being no further conferees to come before the meeting, the Chairman closed the public hearings on **HB 2192** and **HB 2193**.

Senator Schodorf moved, with a second by Senator Barone, to recommend **SB 2192** favorable for passage. Motion carried on a roll call vote.

Senator Schodorf moved, with a second by Senator Barone, to recommend favorable **SB 2193** for passage. Motion carried on a roll call vote.

The meeting adjourned at 12:00 noon. The next meeting is scheduled for March 13, 2003.

SENATE WAYS AND MEANS COMMITTEE

GUEST LIST

DATE March 12, 2003

NAME	REPRESENTING
Leo Hafner	Legislative Post Audit
Barb Hinton	" " "
Deby [unclear]	Parsons Inc
[unclear]	R.T.F.S
Kevin Carr	"
Mike Maddox	" "
Tom Whitaker	Ks Motor Carriers Association
Kevin Berane	Hein Law Firm
Nicole Romine	GBBA
Stea Compton	KSBOC
Wally Kearns	KSBOC
Rae Anne Davis	KDOGH
Don Brownlee	KHP
WALT DARLING	KHP
Blm Holroyd	KS DMV
Ann Anderson	KDOR - DMV
Joni Roberts	KDOR - DMV
Diane Albert	KDOR "
Sheila Walker	KDOR - DMV
Lanny McMoran	KDOR
Pete Bodyk	KDOR/ABC
Jim Conant	KDOR

SENATE WAYS AND MEANS COMMITTEE

GUEST LIST

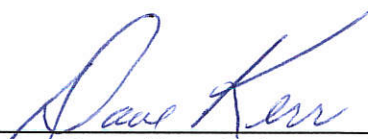
DATE March 12, 2003

NAME	REPRESENTING
Tony Folsom	BOTA
Jeremy Anderson	Governors Office
Aaron Dunkel	Div of the Budget
Kyle Kessler	DOB
Julia Thomas	DOB
Stephanie Buchanan	DOB

Senate Subcommittee Report

FY 2003 and FY 2004

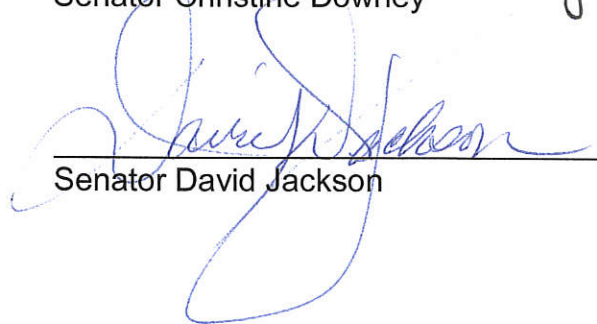
**Kansas Department on Commerce and Housing
KTEC
Kansas, Inc.**



Senator Dave Kerr, Subcommittee Chair



Senator Christine Downey



Senator David Jackson

House Budget Committee Report

Agency: Department of Commerce and Housing

Bill No. HB 2026

Bill Sec. 18

Analyst: Hollon

Analysis Pg. No. Vol. II, p. 1414

Budget Page No. 87

<u>Expenditure Summary</u>	<u>Agency Est. FY 03</u>	<u>Gov. Rec. FY 03</u>	<u>House Budget Committee Adjustments</u>
All Funds:			
State Operations	\$ 18,615,550	\$ 18,615,550	\$ 0
Aid to Local Units	47,642,107	47,642,107	0
Other Assistance	48,876,360	48,868,685	0
TOTAL	<u>\$ 115,134,017</u>	<u>\$ 115,126,342</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	196,000	188,325	0
TOTAL	<u>\$ 196,000</u>	<u>\$ 188,325</u>	<u>\$ 0</u>
Economic Development Initiatives Fund	\$ 16,142,107	\$ 16,142,107	\$ 0
FTE Positions	148.0	148.0	0.0
Non-FTE Uncl. Perm. Positions	3.0	3.0	0.0
TOTAL	<u>151.0</u>	<u>151.0</u>	<u>0.0</u>

Agency Estimate/Governor's Recommendation

The agency's estimate for FY 2003 operating expenditures of \$115,134,017 is a net decrease of \$7,439,716 (6.1 percent) from the approved budget. The decrease is due mainly to lower than expected expenditures for federal housing grants partially offset by the proceeds from the sale of the Olathe Travel Information Center. The estimate includes \$196,000 from the State General Fund which is equal to the approved budget when adjusted for the Governor's November, 2002, State General Fund allotment against executive branch agencies. The estimated expenditures from the Economic Development Initiatives Fund total \$16,142,107 which is equal to the approved budget.

The Governor concurs with the agency's estimate when adjusted for the Governor's November allotment.

The Governor's recommendation reflects the August 2002 allotment which reduced Economic Development Initiatives Fund expenditures for this agency by \$387,699 and reduced State General Fund expenditures by \$4,000. The November 2002 allotment against executive branch agencies reduced State General Fund expenditures by \$7,675.

House Budget Committee Recommendations

The House Budget Committee concurs with the Governor's recommendation.

House Committee Recommendations

The House Committee concurs with the House Budget Committee's recommendation.

Senate Subcommittee Report

Agency: Department of Commerce
and Housing

Bill No. SB 30

Bill Sec. 18

Analyst: Hollon

Analysis Pg. No. Vol. II, p. 1414

Budget Page No. 87

Expenditure Summary	Agency Est. FY 03	Gov. Rec. FY 03	Senate Subcommittee Adjustments
All Funds:			
State Operations	\$ 18,615,550	\$ 18,615,550	\$ 0
Aid to Local Units	47,642,107	47,642,107	0
Other Assistance	48,876,360	48,868,685	0
TOTAL	<u>\$ 115,134,017</u>	<u>\$ 115,126,342</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	196,000	188,325	0
TOTAL	<u>\$ 196,000</u>	<u>\$ 188,325</u>	<u>\$ 0</u>
Economic Development Initiatives Fund	\$ 16,142,107	\$ 16,142,107	\$ 0
FTE Positions	148.0	148.0	0.0
Non-FTE Unclass. Perm. Positions	3.0	3.0	0.0
TOTAL	<u>151.0</u>	<u>151.0</u>	<u>0.0</u>

Agency Estimate/Governor's Recommendation

The agency's estimate for FY 2003 operating expenditures of \$115,134,017 is a net decrease of \$7,439,716 (6.1 percent) from the approved budget. The decrease is due mainly to lower than expected expenditures for federal housing grants partially offset by the proceeds from the sale of the Olathe Travel Information Center. The estimate includes \$196,000 from the State General Fund which is equal to the approved budget when adjusted for the Governor's November, 2002, State

General Fund allotment against executive branch agencies. The estimated expenditures from the Economic Development Initiatives Fund total \$16,142,107 which is equal to the approved budget.

The Governor concurs with the agency's estimate when adjusted for the Governor's November allotment.

The Governor's recommendation reflects the August 2002 allotment which reduced Economic Development Initiatives Fund expenditures for this agency by \$387,699 and reduced State General Fund expenditures by \$4,000. The November 2002 allotment against executive branch agencies reduced State General Fund expenditures by \$7,675.

Senate Subcommittee Recommendations

The Senate Subcommittee concurs with the Governor's recommendation.

House Budget Committee Report

Agency: Department of Commerce and Housing **Bill No. ----** **Bill Sec. ----**
Analyst: Hollon **Analysis Pg. No.** **Budget Page No. 87**

Expenditure Summary	Agency Req. FY 04	Gov. Rec. FY 04	House Budget Committee Adjustments
All Funds:			
State Operations	\$ 16,357,126	\$ 16,346,834	\$ 0
Aid to Local Units	46,220,034	46,045,948	0
Other Assistance	50,325,405	49,744,523	0
TOTAL	<u>\$ 112,902,565</u>	<u>\$ 112,137,305</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Economic Development Initiatives Fund	\$ 14,782,465	\$ 14,026,980	\$ 0
FTE Positions	148.0	147.5	0.0
Non-FTE Uncl. Perm. Positions	2.0	4.0	0.0
TOTAL	<u>150.0</u>	<u>151.5</u>	<u>0.0</u>

Agency Request/Governor's Recommendation

The agency request for FY 2004 operating expenditures of \$112,902,565 is a decrease of \$2,231,452 (1.9 percent) from the FY 2003 estimate. The agency requests \$14,782,465 from the Economic Development Initiatives Fund which is a decrease of \$1,359,642 (8.4 percent) from the FY 2003 estimate. The agency's budget submission included no enhancement requests.

The Governor's recommendation for FY 2004 operating expenditures of \$112,137,305 is a decrease of \$2,989,037 (2.6 percent) from the FY 2003 recommendation. The recommendation includes \$14,026,980 from the Economic Development Initiatives Fund which is a decrease of \$2,115,127 (13.1 percent) from the FY 2003 recommendation. In addition to a 5.1 percent reduction package, the Governor's recommendation includes the following:

- Transfer of the duties and responsibilities of Kansas, Inc. to the Department of Commerce and Housing. This transfer includes \$169,350 (\$55,328 EDIF) and 1.0 FTE Research Analyst position. This proposal requires statutory changes.
- Transfer of the ending balance of \$824,164 from the Export Loan Guarantee Fund to the Economic Development Initiatives Fund.

House Budget Committee Recommendations

The House Budget Committee concurs with the Governor's recommendation with the following notation:

1. The House Budget Committee notes Executive Reorganization Order No. 30 which transfers the Division of Housing within the Department of Commerce and Housing to the Kansas Development Finance Authority. However, the Budget Committee does not feel comfortable adjusting the agency's budget at this time due to the short amount of time between the issuance of the ERO and the reporting date for the budget. The House Economic Development Committee has scheduled a hearing on the ERO for the same day that this budget is being heard. In addition, the two agencies are in continued discussions regarding the amounts and funds to be transferred including whether any state funds will be involved in that transfer. The Budget Committee would like further information on the funds being transferred when the Appropriations Committee works the full FY 2004 appropriations bill beginning on March 17.

House Committee Recommendations

The House Committee concurs with the House Budget Committee's recommendation.

Senate Subcommittee Report

Agency: Department of Commerce and Housing

Bill No. ----

Bill Sec. ----

Analyst: Hollon

Analysis Pg. No. Vol. II, p. 1414

Budget Page No. 87

Expenditure Summary	Agency Req. FY 04	Gov. Rec. FY 04	Senate Subcommittee Adjustments
All Funds:			
State Operations	\$ 16,357,126	\$ 16,346,834	\$ (169,350)
Aid to Local Units	46,220,034	46,045,948	(469,992)
Other Assistance	50,325,405	49,744,523	0
TOTAL	<u><u>\$ 112,902,565</u></u>	<u><u>\$ 112,137,305</u></u>	<u><u>\$ (639,342)</u></u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
Economic Development Initiatives Fund	\$ 14,782,465	\$ 14,026,980	\$ (525,320)
FTE Positions	148.0	147.5	(1.0)
Non-FTE Unclass. Perm. Positions	2.0	4.0	0.0
TOTAL	<u><u>150.0</u></u>	<u><u>151.5</u></u>	<u><u>(1.0)</u></u>

Agency Request/Governor's Recommendation

The agency request for FY 2004 operating expenditures of \$112,902,565 is a decrease of \$2,231,452 (1.9 percent) from the FY 2003 estimate. The agency requests \$14,782,465 from the Economic Development Initiatives Fund which is a decrease of \$1,359,642 (8.4 percent) from the FY 2003 estimate. The agency's budget submission included no enhancement requests.

The Governor's recommendation for FY 2004 operating expenditures of \$112,137,305 is a decrease of \$2,989,037 (2.6 percent) from the FY 2003 recommendation. The recommendation includes \$14,026,980 from the Economic Development Initiatives Fund which is a decrease of \$2,115,127 (13.1 percent) from the FY 2003 recommendation. In addition to a 5.1 percent reduction package, the Governor's recommendation includes the following:

- Transfer of the duties and responsibilities of Kansas, Inc. to the Department of Commerce and Housing. This transfer includes \$169,350 (\$55,328 EDIF) and 1.0 FTE Research Analyst position. This proposal requires statutory changes.
- Transfer of the ending balance of \$824,164 from the Export Loan Guarantee Fund to the Economic Development Initiatives Fund.

Senate Subcommittee Recommendations

The Senate Subcommittee concurs with the Governor's recommendation with the following adjustments and notations:

1. Delete \$469,992 Economic Development Initiatives Fund in connection with Executive Reorganization Order No. 30 which transfers the Division of Housing to the Kansas Development Finance Authority. Information was presented to the Subcommittee which indicated that the Economic Development Initiatives Fund monies appropriated for housing programs will not be included in the transfer. The Subcommittee recommends that this funding be disbursed among the other two economic development agencies for use on various programs. The Subcommittee's intent is that \$144,672 be transferred to Kansas, Inc., and that \$325,320 be transferred to the Kansas Technology Enterprise Corporation.
2. Delete \$169,350 (\$55,328 EDIF) and 1.0 FTE position in connection with the decision not to merge Kansas, Inc., with the Department of Commerce and Housing. The Governor's FY 2004 budget recommendation included these funds as a part of the merger. The Subcommittee believes that Kansas, Inc., should remain an independent agency and recommends that the funding be returned.
3. The Subcommittee expresses concern regarding the approximately \$5,000,000 shifted in the Governor's FY 2004 recommendation from economic development to the Board of Regents to supplant funding from the State General Fund. The overall effect of this shift is to reduce available economic development funding by over 10.0 percent in the space of one year. The following table outlines the Governor's FY 2003 and FY 2004 recommended expenditures and transfers from the EDIF (does not include reappropriations).

Agency	Governor's Revised Recommendation FY 2003	Governor's Recommendation FY 2004	Difference from FY 2003	Percent Change from FY 2003
Department of Commerce and Housing*	\$ 18,047,455	\$ 17,425,226	\$ (622,229)	(3.4)%
KTEC	11,232,420	10,604,188	(628,232)	(5.6)%
Kansas, Inc.	291,674	0	(291,674)	(100.0)%
Board of Regents**	9,142,619	14,076,750	4,934,131	54.0%
State Water Plan Fund	1,900,000	1,900,000	0	0.0%
State General Fund	2,377,062	0	(2,377,062)	(100.0)%
Miscellaneous	125,469	0	(125,469)	(100.0)%
TOTAL	\$ 43,116,699	\$ 44,006,164	\$ 889,465	2.1%

* Includes KEOIF and KEIEP transfers

** FY 2004 includes \$750,000 for Comprehensive Grant Program. FY 2003 and FY 2004 include funding for National Guard Educational Assistance.

4. The Subcommittee expresses grave concern over the adequacy of funding for the functions performed by this agency such as rural development, job recruitment and retention, and business development. Programs such as the Kansas Industrial Training/Kansas Industrial Retraining, Agricultural Product Development, and Enterprise Facilitation are vital to maintaining and strengthening the Kansas economy by recruiting new businesses to Kansas, expanding or retaining businesses currently operating in Kansas, and growing new businesses within the state.
5. The Subcommittee notes that the agency is currently using \$368,500 of Economic Development Initiatives Fund monies to supply the state match for funding for the Small Business Development Centers. It was brought to the Subcommittee's attention that federal Community Development Block Grant funding could be used for this purpose, thereby freeing EDIF dollars for other uses. The Subcommittee recommends that the agency devote \$400,000 in CDBG monies for the state match for Small Business Development Centers and that the EDIF be utilized for other programs.
6. The Subcommittee expresses concern over several pieces of introduced legislation which would expand gaming in the state. This expansion has the potential to reduce Lottery revenues and, as a result, reduce receipts to the Economic Development Initiatives Fund. A reduction in the EDIF would seriously limit funding for economic development in the state.

House Budget Committee Report

Agency: Kansas, Inc.

Bill No. ----

Bill Sec. ----

Analyst: Hollon

Analysis Pg. No.

Budget Page No. 283

Expenditure Summary	Agency Est. FY 03	Gov. Rec. FY 03	House Budget Committee Adjustments
All Funds:			
State Operations	\$ 441,414	\$ 441,414	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 441,414</u>	<u>\$ 441,414</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Economic Development Initiatives Fund	\$ 291,674	\$ 291,674	\$ 0
FTE Positions	4.0	4.0	0.0
Non-FTE Uncl. Perm. Positions	1.0	1.0	0.0
TOTAL	<u>5.0</u>	<u>5.0</u>	<u>0.0</u>

Agency Estimate/Governor's Recommendation

The agency's estimate for FY 2003 operating expenditures of \$441,414 is an increase of \$108,588 (32.6 percent) from the approved budget. The increase is due mainly to the hiring of 1.0 Non-FTE Unclassified Permanent Position as the Executive Director of the Information Network of Kansas (INK). Funding for the position is reimbursed by INK. The estimate includes \$291,674 from the Economic Development Initiatives Fund which is equal to the approved budget.

The Governor concurs with the agency's estimate.

The Governor's recommendation reflects the August 2002 allotment which reduced Economic Development Initiatives Fund expenditures for this agency by \$5,953.

House Budget Committee Recommendations

The House Budget Committee concurs with the Governor's recommendation.

*Senate Ways and Means
3-12-03
Attachment 2*

House Committee Recommendations

The House Committee concurs with the House Budget Committee's recommendation.

Senate Subcommittee Report

Agency: Kansas, Inc.

Bill No. ----

Bill Sec. ----

Analyst: Hollon

Analysis Pg. No. Vol. II, p. 1453

Budget Page No. 283

Expenditure Summary	Agency Est. FY 03	Gov. Rec. FY 03	Senate Subcommittee Adjustments
All Funds:			
State Operations	\$ 441,414	\$ 441,414	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 441,414</u>	<u>\$ 441,414</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Economic Development Initiatives Fund	\$ 291,674	\$ 291,674	\$ 0
FTE Positions	4.0	4.0	0.0
Non-FTE Unclass. Perm. Positions	1.0	1.0	0.0
TOTAL	<u>5.0</u>	<u>5.0</u>	<u>0.0</u>

Agency Estimate/Governor's Recommendation

The agency's estimate for FY 2003 operating expenditures of \$441,414 is an increase of \$108,588 (32.6 percent) from the approved budget. The increase is due mainly to the hiring of 1.0 Non-FTE Unclassified Permanent Position as the Executive Director of the Information Network of Kansas (INK). Funding for the position is reimbursed by INK. The estimate includes \$291,674 from the Economic Development Initiatives Fund which is equal to the approved budget.

The Governor concurs with the agency's estimate.

The Governor's recommendation reflects the August 2002 allotment which reduced Economic Development Initiatives Fund expenditures for this agency by \$5,953.

Senate Subcommittee Recommendations

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

1. Exempt the agency from the provisions of 2002 House Substitute for Senate Bill 363 (the Omnibus Appropriations bill) which requires that the agency's EDIF ending balance be transferred to the State General Fund. The Subcommittee further recommends that any remaining balances be reappropriated to FY 2004. The legislative intent with the bill last year was to transfer only the ending balance of the main Economic Development Initiatives Fund. However, the Department of Administration is interpreting the provision to include the individual funds in each agency. The Governor's revised FY 2003 recommendation exempted the Department of Commerce and Housing, but not this agency. The Subcommittee believes that, as any potential ending balances are not utilized elsewhere within the Governor's budget, the agencies should be treated similarly.

37394(3/11/3(5:13PM))

House Budget Committee Report

Agency: Kansas, Inc.

Bill No. ----

Bill Sec. ----

Analyst: Hollon

Analysis Pg. No.

Budget Page No. 283

Expenditure Summary	Agency Req. FY 04	Gov. Rec. FY 04	House Budget Committee Adjustments
All Funds:			
State Operations	\$ 812,587	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 812,587</u>	<u>\$ 0</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Economic Development Initiatives Fund			
	\$ 660,832	\$ 0	\$ 0
FTE Positions			
	6.0	0.0	0.0
Non-FTE Uncl. Perm. Positions			
	1.0	0.0	0.0
TOTAL	<u>7.0</u>	<u>0.0</u>	<u>0.0</u>

Agency Request/Governor's Recommendation

The agency request for FY 2004 operating expenditures of \$812,587 is an increase of \$371,173 (84.1 percent) from the FY 2003 estimate. The requested funding from the Economic Development Initiatives Fund of \$660,832 is an increase of \$369,158 (126.6 percent) from the FY 2003 estimate. The request includes enhancements totaling \$366,002 from the Economic Development Initiatives Fund.

The Governor's recommendation includes the proposal to transfer the duties and responsibilities of Kansas, Inc. to the Department of Commerce and Housing and abolish the agency. The recommended budget of the Department of Commerce and Housing includes \$169,350 (\$55,328 EDIF) and 1.0 Research Analyst position resulting from this transfer.

House Budget Committee Recommendations

The House Budget Committee concurs with the Governor's recommendation with the following notation:

1. The House Budget Committee notes the communication from the Secretary of Commerce and Housing stating his decision to no longer support the merger of Kansas, Inc. with the Department of Commerce and Housing. If Kansas, Inc. is to remain an independent agency, funding must be found from some source. Given that the elimination of Kansas, Inc. was a part of the FY 2004 Governor's Budget Recommendation, the Budget Committee seeks direction from the administration concerning the funding for this agency and requests a Governor's Budget Amendment on this issue.

House Committee Recommendations

The House Committee concurs with the House Budget Committee's recommendation.

Senate Subcommittee Report

Agency: Kansas, Inc.

Bill No. ----

Bill Sec. ----

Analyst: Hollon

Analysis Pg. No. Vol. II, p. 1453

Budget Page No. 283

Expenditure Summary	Agency Req. FY 04	Gov. Rec. FY 04	Senate Subcommittee Adjustments
All Funds:			
State Operations	\$ 812,587	\$ 0	\$ 451,755
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 812,587</u>	<u>\$ 0</u>	<u>\$ 451,755</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Economic Development Initiatives Fund	\$ 660,832	\$ 0	\$ 200,000
FTE Positions	6.0	0.0	4.0
Non-FTE Unclass. Perm. Positions	1.0	0.0	1.0
TOTAL	<u>7.0</u>	<u>0.0</u>	<u>5.0</u>

Agency Request/Governor's Recommendation

The agency request for FY 2004 operating expenditures of \$812,587 is an increase of \$371,173 (84.1 percent) from the FY 2003 estimate. The requested funding from the Economic Development Initiatives Fund of \$660,832 is an increase of \$369,158 (126.6 percent) from the FY 2003 estimate. The request includes enhancements totaling \$366,002 from the Economic Development Initiatives Fund.

The Governor's recommendation includes the proposal to transfer the duties and responsibilities of Kansas, Inc. to the Department of Commerce and Housing and abolish the agency. The recommended budget of the Department of Commerce and Housing includes \$169,350 (\$55,328 EDIF) and 1.0 Research Analyst position resulting from this transfer.

Senate Subcommittee Recommendations

The Senate Subcommittee concurs with the Governor's recommendation with the following adjustments and notations:

1. The Senate Subcommittee notes that the Governor's recommendation includes the merger of this agency into the Department of Commerce and Housing in FY 2004. The Subcommittee strongly believes that this agency should remain an independent agency and notes that the Secretary of Commerce and Housing has said he would not oppose this restoration. To that end, the Subcommittee recommends the following mechanism to fund the agency for FY 2004:
 - a. Reverse the transfer of \$169,350 (\$55,328 EDIF) and 1.0 FTE position which was a part of the recommended budget for the Department of Commerce and Housing in connection with the merger of the two agencies.
 - b. Add \$144,672 from the Economic Development Initiatives Fund. This funding is a portion of the EDIF monies reduced in the Department of Commerce and Housing due to the transfer of the Housing Division to the Kansas Development Finance Authority.
 - c. Add \$100,000 from the agency's Private Account. These funds are located within an off-budget fund and have accumulated over several years.
 - d. Add \$37,733 from the agency's Matching Fund. This fund is a pass-through fund for payment for services provided to the Information Network of Kansas.
 - e. Add 3.0 FTE positions and 1.0 Non-FTE Unclassified Permanent position to return the agency's staffing to the current level.
2. The Subcommittee notes that the President of Kansas, Inc., serves on the Information Network of Kansas Board of Directors. Also, the Kansas, Inc. Director of Operations provides accounting services for INK. As a result of analyzing the budget for Kansas, Inc., the Subcommittee became aware of

questions regarding the appropriateness of the INK structure. Because the Information Network of Kansas was created by the Legislature in KSA 74-9301 *et seq.*, but INK is not an entity whose budget is reviewed by the Legislature, the Subcommittee requests an 100 Hour Audit be performed by Legislative Post Audit concerning funding and expenditures of the Information Network of Kansas. INK currently has over \$1,100,000 in assets and approximately \$530,000 in annual receipts. The audit would entail:

- a. Determination of how INK's funding is generated;
 - b. Expenditures of those funds;
 - c. Consistency of the funding and expenditures with the statutes governing the Information Network of Kansas; and
 - d. Evaluation to determine whether the tasks allotted to the Information Network of Kansas might be more efficiently undertaken by another agency such as Kansas, Inc.
3. The Subcommittee expresses concern over several pieces of introduced legislation which would expand gaming in the state. This expansion has the potential to reduce Lottery revenues and, as a result, reduce receipts to the Economic Development Initiatives Fund. A reduction in the EDIF would seriously limit funding for economic development in the state.

SCOPE STATEMENT

Information Network of Kansas: Reviewing Its Revenues, Expenditures, and Administrative Structure

The 1990 Legislature created a public instrumentality known as the Information Network of Kansas Inc. (INK) to provide the public with electronic access to non-confidential government information, and to explore ways to expand public access to such information. INK is governed by a 10-member board consisting of the President of Kansas Inc., the Secretary of State, the heads of two executive agencies appointed by the Governor, a member of the Kansas Bar Association, three members from associations that use INK, one member from the Kansas Public Libraries Association, and the director of DISC. In addition to serving in an advisory capacity to the Secretary of Administration and other State agencies, the INK Board is responsible for hiring a network manager whose function is to manage the day-to-day operation and expansion of the gateway and network.

The INK board has hired Kansas Information Consortium (KIC) to manage the day-to-day operations of Kansas' network. KIC generates revenues through transaction fees it charges to network users. INK receives a portion of KIC's revenues and net profits. The balance sheet for INK as of January 2003, showed more than \$1.1 million in assets, most of which was cash.

Legislators have raised questions about how much money is being generated by INK's contract with KIC and how that has grown over time, what that money is being used for, and whether there is a better administrative structure for overseeing and operating the State's electronic information network. A performance audit in this area would address the following questions:

- 1. How much money is being generated by the Information Network of Kansas' contract with the Kansas Information Consortium, and is that money being used in accordance with the statutes?** To answer this question, we would review contracts between the INK board and Kansas Information Consortium. We would review the financial reports and accounting records of INK to determine how much money has been received from those contracts. We also would review the statutes to determine what the acceptable uses of moneys received by the INK board are, and review the Board's use of money to determine whether it appears to conform to the statutes. As part of this question we also would look at board minutes to determine whether the Board members are actively participating in oversight through their attendance at board meetings.
- 2. How does the administrative structure Kansas has established for oversight and operation of its electronic information network compare with other states?** To answer this question, we would look at the number and types of employees the INK board has hired, and whether their compensation seems appropriate for the duties they've been assigned. In addition, we would contact a sample of other states that operate electronic information networks and gather information about their staffing and compensation levels, staff duties, and oversight arrangements to compare with Kansas. We also would consider whether there are existing agencies such as DISC that might be able to absorb duties performed by INK's staff without the need to add employees.

Estimated completion time: 100 hours

Senate Ways and Means
3-12-03
Attachment 3

House Budget Committee Report

Agency: Kansas Technology Enterprise Corporation

Bill No. HB 2026

Bill Sec. 19

Analyst: Hollon

Analysis Pg. No.

Budget Page No. 301

Expenditure Summary	Agency Est. FY 03	Gov. Rec. FY 03	House Budget Committee Adjustments
All Funds:			
State Operations	\$ 2,757,587	\$ 2,625,057	\$ 0
Aid to Local Units	0	0	0
Other Assistance	13,361,457	13,361,457	0
TOTAL	\$ 16,119,044	\$ 15,986,514	\$ 0
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	\$ 0	\$ 0	\$ 0
Economic Development Initiatives Fund:			
State Operations	\$ 2,588,380	\$ 2,455,850	\$ 0
Aid to Local Units	0	0	0
Other Assistance	10,492,215	10,492,215	0
TOTAL	\$ 13,080,595	\$ 12,948,065	\$ 0
FTE Positions	30.0	30.0	0.0
Non-FTE Uncl. Perm. Positions	0.0	0.0	0.0
TOTAL	30.0	30.0	0.0

Agency Estimate/Governor's Recommendation

The agency's estimate for FY 2003 operating expenditures of \$16,119,044 is a decrease of \$105,433 (0.6 percent) from the approved budget. The estimate includes \$13,080,595 from the Economic Development Initiatives Fund which is equal to the approved budget.

The Governor's recommendation for FY 2003 operating expenditures of \$15,986,514 is a decrease of \$237,963 (1.5 percent) from the approved budget. The recommendation includes \$12,948,065 from the Economic Development Initiatives Fund which is a decrease of \$132,530 (1.0 percent) from the approved budget to adjust Salaries and Wages due to vacant positions.

The Governor's recommendation reflects the August 2002 allotment which reduced Economic Development Initiatives Fund expenditures for this agency by \$231,938.

*Senate Ways and Means
3-12-03
Attachment 4*

House Budget Committee Recommendations

The House Budget Committee concurs with the Governor's recommendation.

House Committee Recommendations

The House Committee concurs with the House Budget Committee's recommendation.

Senate Subcommittee Report

Agency: Kansas Technology Enterprise Corporation

Bill No. SB 30

Bill Sec. 19

Analyst: Hollon

Analysis Pg. No. Vol. II, p. 1439

Budget Page No. 301

Expenditure Summary	Agency Est. FY 03	Gov. Rec. FY 03	Senate Subcommittee Adjustments
All Funds:			
State Operations	\$ 2,757,587	\$ 2,625,057	\$ 0
Aid to Local Units	0	0	0
Other Assistance	13,361,457	13,361,457	0
TOTAL	<u><u>\$ 16,119,044</u></u>	<u><u>\$ 15,986,514</u></u>	<u><u>\$ 0</u></u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
Economic Development Initiatives Fund:			
State Operations	\$ 2,588,380	\$ 2,455,850	\$ 0
Aid to Local Units	0	0	0
Other Assistance	10,492,215	10,492,215	0
TOTAL	<u><u>\$ 13,080,595</u></u>	<u><u>\$ 12,948,065</u></u>	<u><u>\$ 0</u></u>
FTE Positions	30.0	30.0	0.0
Non-FTE Unclass. Perm. Positions	0.0	0.0	0.0
TOTAL	<u><u>30.0</u></u>	<u><u>30.0</u></u>	<u><u>0.0</u></u>

Agency Estimate/Governor's Recommendation

The agency's estimate for FY 2003 operating expenditures of \$16,119,044 is a decrease of \$105,433 (0.6 percent) from the approved budget. The estimate includes \$13,080,595 from the Economic Development Initiatives Fund which is equal to the approved budget.

The Governor's recommendation for FY 2003 operating expenditures of \$15,986,514 is a decrease of \$237,963 (1.5 percent) from the approved budget. The recommendation includes \$12,948,065 from the Economic Development Initiatives Fund which is a decrease of \$132,530 (1.0 percent) from the approved budget to adjust Salaries and Wages due to vacant positions.

The Governor's recommendation reflects the August 2002 allotment which reduced Economic Development Initiatives Fund expenditures for this agency by \$231,938.

Senate Subcommittee Recommendations

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

1. Exempt the agency from the provisions of 2002 House Substitute for Senate Bill 363 (the Omnibus Appropriations bill) which requires that the agency's EDIF ending balance be transferred to State General Fund. The Subcommittee further recommends that any remaining balances be reappropriated to FY 2004. The legislative intent with the bill last year was to transfer only the ending balance of the main Economic Development Initiatives Fund. However, the Department of Administration is interpreting the provision to include the individual funds in each agency. The Governor's revised FY 2003 recommendation exempted the Department of Commerce and Housing, but not this agency. The Subcommittee believes that, as any potential ending balances are not utilized elsewhere within the Governor's budget, the agencies should be treated similarly.

House Budget Committee Report

Agency: Kansas Technology Enterprise Corporation

Bill No. ----

Bill Sec. ----

Analyst: Hollon

Analysis Pg. No.

Budget Page No. 301

Expenditure Summary	Agency Req. FY 04	Gov. Rec. FY 04	House Budget Committee Adjustments
All Funds:			
State Operations	\$ 2,880,077	\$ 2,384,643	\$ 0
Aid to Local Units	0	0	0
Other Assistance	14,235,003	11,569,177	0
TOTAL	<u>\$ 17,115,080</u>	<u>\$ 13,953,820</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Economic Development Initiatives Fund:			
State Operations	\$ 2,470,926	\$ 1,904,253	\$ 0
Aid to Local Units	0	0	0
Other Assistance	11,365,761	8,699,935	0
TOTAL	<u>\$ 13,836,687</u>	<u>\$ 10,604,188</u>	<u>\$ 0</u>
FTE Positions	27.0	27.0	0.0
Non-FTE Uncl. Perm. Positions	0.0	0.0	0.0
TOTAL	<u>27.0</u>	<u>27.0</u>	<u>0.0</u>

Agency Request/Governor's Recommendation

The agency request for FY 2004 operating expenditures of \$17,115,080 is an increase of \$996,036 (6.2 percent) from the FY 2003 estimate. The requested funding from the Economic Development Initiatives Fund is \$13,836,687 which is an increase of \$756,092 (5.8 percent) from the FY 2003 estimate. The request includes enhancements totaling \$2,454,477 from the Economic Development Initiatives Fund.

The Governor's recommendation for FY 2004 operating expenditures of \$13,953,820 which is a decrease of \$2,032,694 (12.7 percent) from the FY 2003 recommendation. The recommended funding from the Economic Development Initiatives Fund is \$10,604,188 which is a decrease of \$2,343,877 (18.1 percent) from the FY 2003 recommendation. The recommendation includes a 5.1 percent reduction package.

House Budget Committee Recommendations

The House Budget Committee concurs with the Governor's recommendation.

House Committee Recommendations

The House Committee concurs with the House Budget Committee's recommendation.

Senate Subcommittee Report

Agency: Kansas Technology Enterprise Corporation

Bill No. ----

Bill Sec. ----

Analyst: Hollon

Analysis Pg. No. Vol. II, p. 1439

Budget Page No. 301

Expenditure Summary	Agency Req. FY 04	Gov. Rec. FY 04	Senate Subcommittee Adjustments
All Funds:			
State Operations	\$ 2,880,077	\$ 2,384,643	\$ 195,000
Aid to Local Units	0	0	0
Other Assistance	14,235,003	11,569,177	130,320
TOTAL	<u>\$ 17,115,080</u>	<u>\$ 13,953,820</u>	<u>\$ 325,320</u>
State General Fund:			
State Operations	\$ 0	\$ 0	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Economic Development Initiatives Fund:			
State Operations	\$ 2,470,926	\$ 1,904,253	\$ 195,000
Aid to Local Units	0	0	0
Other Assistance	11,365,761	8,699,935	130,320
TOTAL	<u>\$ 13,836,687</u>	<u>\$ 10,604,188</u>	<u>\$ 325,320</u>
FTE Positions	27.0	27.0	0.0
Non-FTE Unclass. Perm. Positions	0.0	0.0	0.0
TOTAL	<u>27.0</u>	<u>27.0</u>	<u>0.0</u>

Agency Request/Governor's Recommendation

The agency request for FY 2004 operating expenditures of \$17,115,080 is an increase of \$996,036 (6.2 percent) from the FY 2003 estimate. The requested funding from the Economic Development Initiatives Fund is \$13,836,687 which is an increase of \$756,092 (5.8 percent) from the FY 2003 estimate. The request includes enhancements totaling \$2,454,477 from the Economic Development Initiatives Fund.

The Governor's recommendation for FY 2004 operating expenditures of \$13,953,820 which is a decrease of \$2,032,694 (12.7 percent) from the FY 2003 recommendation. The recommended funding from the Economic Development Initiatives Fund is \$10,604,188 which is a decrease of \$2,343,877 (18.1 percent) from the FY 2003 recommendation. The recommendation includes a 5.1 percent reduction package.

Senate Subcommittee Recommendations

The Senate Subcommittee concurs with the Governor's recommendation with the following adjustments and notations:

1. Add \$325,320 from the Economic Development Initiatives Fund. This funding is a portion of the EDIF monies reduced in the Department of Commerce and Housing due to the transfer of the Housing Division to the Kansas Development Finance Authority. The Subcommittee's recommendation includes the intent that a portion of this funding be used to fund a vacant FTE position which focuses on obtaining federal and private grants. This position could bring in significant research dollars from the federal government and private foundations.
2. The Subcommittee notes the importance of the Experimental Program to Stimulate Competitive Research (EPSCoR). This federal program helps improve basic research at the university level in 19 states which have historically received a disproportionately low per capita average of federal research dollars. Funding appropriated through the Kansas Technology Enterprise Corporation provides the state match for these federal dollars. The agency estimates that adjustments made by the agency based upon the Governor's FY 2004 recommended funding level could result in the loss of \$8,000,000 in federal research funds. The Subcommittee suggests that the agency use \$130,320 in the new funding in Item 1 above to increase funding for EPSCoR. The Subcommittee notes, however, that the agency's EDIF appropriation is in the form of a block grant for the purpose of maximum flexibility and, as a result, does not specifically direct the agency to use the funds for this purpose.
3. The Subcommittee notes the significant reduction from prior years in funding for this agency from the Economic Development Initiatives Fund. The reduction from the Governor's Revised FY 2003 recommendation to the Governor's FY 2004 recommendation is 5.6 percent which is larger than the other economic development agencies (see the table in the Subcommittee Report for the Department of Commerce and Housing).

4. The Subcommittee expresses concern over several pieces of introduced legislation which would expand gaming in the state. This expansion has the potential to reduce Lottery revenues and, as a result, reduce receipts to the Economic Development Initiatives Fund. A reduction in the EDIF would seriously limit funding for economic development in the state.

Economic Development Initiatives Fund

Agency/Program	Actual FY 2002	Governor's Revised Recommendation FY 2003	Governor's Recommendation FY 2004	Difference from FY 2003
Department of Commerce and Housing				
Operating Grant	\$ 15,275,905	\$ 14,247,455	\$ 14,026,980	\$ (220,475)
Kansas Economic Opportunity Initiative Fund	3,500,000	3,325,000	2,975,000	(350,000)
Kansas Existing Industry Expansion Program	500,000	475,000	423,246	(51,754)
Subtotal - KDCH	<u>\$ 19,275,905</u>	<u>\$ 18,047,455</u>	<u>\$ 17,425,226</u>	<u>\$ (622,229)</u>
Kansas Technology Enterprise Corporation				
Agency Operations	\$ 2,163,413	\$ 2,368,682	\$ 1,233,929	\$ (1,134,753)
Centers of Excellence	3,552,215	3,374,387	3,363,510	(10,877)
Research Matching Grants	748,016	1,649,473	1,354,699	(294,774)
Business Innovative Research Grants	57,000	-	-	-
Special Projects	66,387	-	-	-
Commercialization Grants	1,420,000	1,593,356	1,317,151	(276,205)
Mid-America Manufact. Tech. Center	888,880	900,000	670,324	(229,676)
EPSCoR	2,284,921	3,062,167	2,664,575	(397,592)
Minus unplanned reappropriation	-	(1,715,645)	-	1,715,645
Subtotal - KTEC	<u>\$ 11,180,832</u>	<u>\$ 11,232,420</u>	<u>\$ 10,604,188</u>	<u>\$ (628,232)</u>
Kansas, Inc.	\$ 281,377	\$ 291,674	\$ -	\$ (291,674)
Board of Regents				
Technology Innovation & Internship Program - AVTS	\$ 161,197	\$ 190,000	\$ 180,500	\$ (9,500)
Post-secondary Aid - AVTS	6,882,981	6,144,277	10,331,250	4,186,973
Capital Outlay Aid - AVTS	2,700,000	2,565,000	2,565,000	-
Comprehensive Grants	250,000	-	750,000	750,000
National Guard Educational Assistance	-	243,342	250,000	6,658
Subtotal - Regents	<u>\$ 9,994,178</u>	<u>\$ 9,142,619</u>	<u>\$ 14,076,750</u>	<u>\$ 4,934,131</u>
Adjutant General - National Guard Educational Assist.	\$ 250,000	\$ -	\$ -	\$ -
Dept. of Administration - Public Broadcasting	\$ -	\$ 114,099	\$ -	\$ (114,099)
Death and Disability Transfer	\$ 9,704	\$ 11,370	\$ -	\$ (11,370)
State Water Plan Fund	\$ 2,000,000	\$ 1,900,000	\$ 1,900,000	\$ -
State General Fund	\$ -	\$ 2,377,062	\$ -	\$ (2,377,062)
TOTAL TRANSFERS AND EXPENDITURES	<u>\$ 42,991,996</u>	<u>\$ 43,116,699</u>	<u>\$ 44,006,164</u>	<u>\$ 889,465</u>

Note: FY 2003 and FY 2004 do not include expenditures from prior year EDIF allocations.

FY 2003 Allotments

Department of Commerce and Housing	\$ 387,699
Kansas Technology Enterprise Corporation	231,938
Kansas, Inc.	5,953
TOTAL	<u>\$ 625,590</u>

**FY 2003 and FY 2004
Subcommittee Report**

Board of Tax Appeals



Senator Jean Schodorf, Chair

Senator Paul Feleciano

Senate Ways and Means
3-12-03
Attachment 6

House Budget Committee Report

Agency: Board of Tax Appeals **Bill No.** **Bill Sec.**
Analyst: Deckard **Analysis Pg. No.** Vol. 2 - 1402 **Budget Page No.** 403

<u>Expenditure Summary</u>	<u>Agency Est. FY 03</u>	<u>Governor's Recommendation FY 03</u>	<u>House Budget Committee Adjustments</u>
State General Funds	\$ 1,991,692	\$ 1,823,819	\$ 0
All Other Funds	14,500	14,500	0
TOTAL	<u><u>\$ 2,006,192</u></u>	<u><u>\$ 1,838,319</u></u>	<u><u>\$ 0</u></u>
FTE Positions	28.0	27.0	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	<u><u>28.0</u></u>	<u><u>27.0</u></u>	<u><u>0.0</u></u>

Agency Est./Governor's Recommendation

The agency estimates \$2,006,192 in FY 2003 operating expenditures which includes \$1,991,692 in State General Fund. The estimate includes: \$1,439,622 for salaries and wages; \$370,838 in contractual services; \$23,827 for commodities; and \$171,905 in capital outlay.

The Governor recommends FY 2004 operating expenditures of \$1,838,319. The recommendation includes the deletion of two Board of Tax Appeals members for the second half of the year. This includes the deletion of \$100,000 in salaries and wages. The Governor's recommendation reflects the August 2002 allotment which reduced State General Fund expenditures for this agency by \$42,035, and the November 2002 allotment which reduced State General Fund expenditures by an additional \$78,405.

House Budget Committee Recommendation

The House Budget Committee concurs with the Governor's recommendation with the following changes and notations:

1. The Budget Committee notes that the agency is required to keep the official records of the appeals, but does not currently have the funding to microfilm all of the records. In the long term this may create serious problems. The Committee wishes to review the current contract that the agency has with Norton Correctional Industries for microfilming and review the issue at Omnibus.
2. The Budget Subcommittee notes that until the legislation abolishing the two board member positions take effect, the agency is required to continuing paying their salaries. The legislation to reduce membership may be found in SB 115 which is currently in the Senate Assessment and Taxation Committee and HB 2147 which is currently in the House Taxation Committee. The Budget Subcommittee wishes to review the actual amount of current year salary saving realized at Omnibus to ensure the agency does not have to make up the reductions in other salary reductions.

House Committee Recommendation

The House Committee concurs with the Budget Committee's recommendation.

House Committee of the Whole Recommendation

The House Committee of the Whole has not yet considered this budget.

Senate Subcommittee Report

Agency: Board of Tax Appeals

Bill No.

Bill Sec.

Analyst: Deckard

Analysis Pg. No. Vol. 2 - 1402

Budget Page No. 403

Expenditure Summary	Agency Est. FY 03	Governor's Recommendation FY 03	Senate Subcommittee Adjustments
State General Funds	\$ 1,991,692	\$ 1,823,819	\$ 0
All Other Funds	14,500	14,500	0
TOTAL	\$ 2,006,192	\$ 1,838,319	\$ 0
FTE Positions	28.0	27.0	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	28.0	27.0	0.0

Agency Est./Governor's Recommendation

The agency estimates \$2,006,192 in FY 2003 operating expenditures which includes \$1,991,692 in State General Fund. The estimate includes: \$1,439,622 for salaries and wages; \$370,838 in contractual services; \$23,827 for commodities; and \$171,905 in capital outlay.

The Governor recommends FY 2004 operating expenditures of \$1,838,319. The recommendation includes the deletion of two Board of Tax Appeals members for the second half of the year. This includes the deletion of \$100,000 in salaries and wages. The Governor's recommendation reflects the August 2002 allotment which reduced State General Fund expenditures for this agency by \$42,035, and the November 2002 allotment which reduced State General Fund expenditures by an additional \$78,405.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendation with the following changes and notations:

1. Legislation has been introduced which calls for the reduction of Board of Tax Appeals members from five to three. In light of the inability to get the legislation passed, there is an inverse effect on the agency's ability to retain the \$100,000 of fiscal savings associated with the bill. The Subcommittee shall continue to monitor and review SB 115 and HB 2147 as to the progress to pass a bill and the potential impact on the agency.

The Subcommittee expresses concern regarding the deletion of the qualifications of board members as proposed in SB 115. The Subcommittee suggests that the committee hearing the bill should reconsider the deletion of qualifications of Board of Tax Appeal members to preserve the integrity that must be maintained in this agency.

2. The Subcommittee notes that the agency has engaged in streamlining and cross training and in doing so, they have done a better job for the citizens of the State of Kansas. The Subcommittee notes the number of cases (Attachment A) and selected categories of tax at issue (see chart below) in this agency and notes that status conferencing reduced the number of cases that went to hearings.

Amount of Taxation at Issue

Calendar Year	2000	2001	2002
Single Family Residence	\$ 183,052	\$ 107,493	\$ 117,303
Division of Taxation	64,691,000	101,901,853	84,725,254
Division of Property Valuation	39,000,000	45,500,000	52,000,000

The Subcommittee notes that Sedgwick County has a Hearing Officer Panel that reduces the number of cases that ultimately end up at the Board of Tax Appeals.

3. The Subcommittee notes that the agency contracts with Norton Correctional Facility for microfilming and is only complete through 1996. The average cost per year is \$10,000. Microfilming for the years 1997-2003 creates a problem for the agency, requiring expenditures between \$70,000-\$80,000 that would be needed to bring the records current.

House Budget Committee Report

Agency: Board of Tax Appeals

Bill No.

Bill Sec.

Analyst: Deckard

Analysis Pg. No. Vol. 2 - 1402

Budget Page No. 403

Expenditure Summary	Agency Req. FY 04	Governor's Recommendation FY 04	House Budget Committee Adjustments
State General Fund	\$ 1,878,427	\$ 1,232,493	\$ 0
All Other Funds	14,500	314,500	0
TOTAL	\$ 1,892,927	\$ 1,546,993	\$ 0
FTE Positions	28.0	26.0	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	28.0	26.0	0.0

Agency Req./Governor's Recommendation

The agency requests FY 2004 operating expenditures of \$1,892,927 which includes \$1,878,427 in State General Funds. The request includes: \$1,437,461 in salaries and wages; \$433,212 for contractual services; and \$22,254 for commodities. The agency's requests includes an enhancement request for \$36,000 for rent increases.

The Governor recommends \$1,546,993 for FY 2004 operating expenditures including \$1,232,493 in State General Funds. The recommendation includes shifting \$300,000 from State General Funds to a new fee fund, the Filing Fee Fund. The Governor is recommending the elimination of two board member positions and the reduction of \$200,000 in related salaries and wages. Under the Governor's FY 2004 statutory budget recommendation, the Governor's recommendation for this agency's budget would have to be reduced by an additional \$259,462.

House Budget Committee Recommendation

The House Budget Committee concurs with the Governor's recommendations with the following comment:

1. The House Budget Committee requests further information from the Department of Administration on the basis of the rent increases at the Docking State Office Building for FY 2004. The Budget Committee notes that the FY 2003 square footage was 16,926 and in FY 2004 was 18,685, although in the budget year the agency is not going to occupy any additional square footage. It is the Budget Committee's understanding that the increase is due to a methodology change in how the common areas are accounted for in state office buildings. The cost in FY 2003 for the agency was \$174,338 and in FY 2004 will be \$211,140. This includes a \$1 per square foot increase.
2. Recommend introducing legislation to allow the agency to establish rules and regulations to establish filing fees, if not already done.

House Committee Recommendation

The House Committee concurs with the Budget Committee's recommendation.

House Committee of the Whole Recommendation

The House Committee of the Whole has not yet considered this budget.

Senate Subcommittee Report

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

Analyst: Deckard **Analysis Pg. No.** Vol. 2 - 1402 **Budget Page No.** 403

Expenditure Summary	Agency Req. FY 04	Governor's Recommendation FY 04	Senate Subcommittee Adjustments
State General Fund	\$ 1,878,427	\$ 1,232,493	\$ 0
All Other Funds	14,500	314,500	0
TOTAL	\$ 1,892,927	\$ 1,546,993	\$ 0
FTE Positions	28.0	26.0	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	28.0	26.0	0.0

Agency Req./Governor's Recommendation

The agency requests FY 2004 operating expenditures of \$1,892,927 which includes \$1,878,427 in State General Funds. The request includes: \$1,437,461 in salaries and wages; \$433,212 for contractual services; and \$22,254 for commodities. The agency's requests includes an enhancement request for \$36,000 for rent increases.

The Governor recommends \$1,546,993 for FY 2004 operating expenditures including \$1,232,493 in State General Funds. The recommendation includes shifting \$300,000 from State General Funds to a new fee fund, the Filing Fee Fund. The Governor is recommending the elimination of two board member positions and the reduction of \$200,000 in related salaries and wages. Under the Governor's FY 2004 statutory budget recommendation, the Governor's recommendation for this agency's budget would have to be reduced by an additional \$259,462.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendations with the following notations:

1. The Governor has recommended partial fee funding for this agency. The amounts suggested by the agency for this purposes are filing fees of: \$250 for Economic Development Exemptions, Industrial Revenue Bond Exemptions, Division of Taxation Cases, Division of Property Valuation; \$75 for Equalization and Payment under Protest; \$50 for Tax Exemptions; single-family residential will be exempted from fees.

The agency felt that they have the authority to implement these fees under their own authority. The Attorney General's office is of the opinion that the agency does not currently have the authority to do this (Attachment B). The Subcommittee concurs with the Attorney General's opinion that legislation is required to implement these fees; at the current time no legislation has been introduced to do this.

After passage of any legislation, rules and regulations would have to be developed. The ability to implement these fees may be delayed three to four months, which could negatively impact the amount of fee revenue that the agency could realize in FY 2004.

2. The Subcommittee notes that the agency could be further adversely impacted if the reduction in board members and the ability to assess filing fees are not passed. The combination of the two items could result in the agency being short up to \$560,000 in FY 2004. The Subcommittee wishes to review and analyze both items well before Omnibus as to the impact on the agency.
3. The Subcommittee requests further information from the Department of Administration as to the change in the policy concerning the rent at the Docking State Office Building. The Department of Administration is asked to clarify whether the increase in rent in FY 2004 is due to the methodology change in how the common areas are accounted for in state office buildings (Attachment C).
4. The Subcommittee notes that the Duplicating Fee Fund in the last few years has not collected more than \$5,000 because of how the agency is structured and how the agency provides services.

BTA Workload Measures Report for February 1, 2003

	Fiscal Year											93 to 03	Rcvd	S/C
	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	Total Filings	Not Dcktd	Xsfers BTA
BOTA Regular Division														
Case Type Docketed														
Appeal Filings														
Division of Property Valuation (PV)	17	35	12	10	8	12	9	23	13	11	5	155	0	0
Division of Taxation (DT)	111	130	130	166	142	94	306	76	416	256	188	2,015	0	0
Economic Development Exmpt (EDX)	38	45	73	70	73	63	70	79	65	67	39	682	0	0
Equalization (EQ)	1,524	1,870	1,780	2,352	2,216	1,930	2,571	1,566	1,624	1,670	948	20,051	0	0
Industrial Revenue Bond Exmpt (IRBX)	46	38	38	26	26	41	48	46	54	62	23	448	0	0
No-Fund Warrants (NFW)	21	35	22	15	8	13	14	4	3	12	4	151	0	0
Other (CP,MLD,PVX,RAP,TSC)	16	13	17	7	8	5	7	10	9	8	7	107	0	0
Payment under Protest (MRP,PR,PJR)	6,024	3,695	2,348	1,417	1,027	761	1,040	1,082	778	467	222	18,861	1	0
School District (SC)	0	2	1	2	2	1	2	3	2	2	0	17	0	0
Tax Exemption (TX)	8,897	5,267	5,036	4,119	3,946	3,546	5,229	3,876	3,834	3,939	1,961	49,650	48	0
Tax Grievance (TG)	<u>3,108</u>	<u>2,661</u>	<u>2,396</u>	<u>2,460</u>	<u>2,083</u>	<u>2,056</u>	<u>1,588</u>	<u>994</u>	<u>1,304</u>	<u>1,134</u>	<u>759</u>	20,543	<u>10</u>	<u>0</u>
Sub-total Filings	19,802	13,791	11,853	10,644	9,539	8,522	10,884	7,759	8,102	7,628	4,156	112,680	59	0
Industrial Revenue Bond Filings (IRB)	62	92	84	77	67	107	90	97	90	77	51	894		
Informal Co. Review Filings	8,261	6,887	210	0	0	0	0	0	0	0	0	15,358		
Total All Filings	28,125	20,770	12,147	10,721	9,606	8,629	10,974	7,856	8,192	7,705	4,207	128,932		
Hearings/Conf Set by Filing	4,219	7,288	6,819	5,180	3,403	3,028	8,145	13,227	8,626	12,560	4,245			
Hearing @ BOTA by Filing	3,134	2,878	2,154	2,869	1,951	1,247	1,196	1,348	2,030	943	513			
Oral Arguments by Filing	0	0	0	0	0	23	186	123	204	72	11			
Prehearing by Filing	0	2,103	2,319	1,013	271	17	3	1	0	0	0			
Scheduling Conferences	0	0	0	0	0	1,279	4,987	8,806	4,590	8,461	2,611			
Orders Written/Certified by Filing	21,372	16,530	23,048	13,866	10,663	8,151	11,028	10,812	10,188	10,628	4,261			
Cases Closed by Filing	21,268	14,433	15,696	11,313	8,488	7,481	10,171	8,772	9,209	8,171	3,877	Crt Reviews		
Open Cases by Filing	11,295	10,653	6,810	6,141	7,192	8,233	8,946	7,933	6,826	6,283	6,562	2,632		
												Open Cases		3,930
Crt Case Filings/Pendings to be Certified	488	395	434	212	218	127	176	90	99	355	91	2,685		
Accumulative Cr/Pendings Certified to Co	488	883	1,317	1,529	1,747	1,874	2,050	2,140	2,239	2,594	2,685			

8-9
Attachment A



State of Kansas

Office of the Attorney General

120 S.W. 10TH AVENUE, 2ND FLOOR, TOPEKA, KANSAS 66612-1597

PHILL KLINE
ATTORNEY GENERAL

February 13, 2003

MAIN PHONE: (785) 296-2215
FAX: 296-6296

Tony R. Folsom
Executive Director/General Counsel
State Board of Tax Appeals
915 S.W. Harrison, Suite 451
Topeka, Kansas 66612-1505

Dear Mr. Folsom:

You request our informal opinion regarding the authority of the Board of Tax Appeals to charge filing fees for certain appeals and applications filed with the Board. Your specific question is this: "Does K.S.A. 74-2437(c) grant the Board the authority to promulgate regulations providing for filing fees?"

K.S.A. 74-2437(c) provides as follows:

"The state board of tax appeals shall have the following powers and duties:

....

"(c) to adopt rules and regulations relating to the performance of its duties and particularly with reference to procedure before it on hearings and appeals; . . ."

Kansas case law is clear in holding that the power of an administrative agency to promulgate rules and regulations is administrative, not legislative, in nature and to be valid, administrative regulations must be within the authority conferred.¹ Agencies such as the Board are creations of statute having only such authority as is expressly given or necessarily implied.² We do not believe that K.S.A. 74-

¹*Durrett v. Bryan*, 14 Kan.App.2d 723, 727 (1990) (quoting *Amaco Production Co. v. Arnold, Director of Taxation*, 213 Kan. 636, Syl. ¶ 1 (1974)).

²*Pork Motel, Corp. v. KDHE*, 234 Kan. 374, 378 (1983).

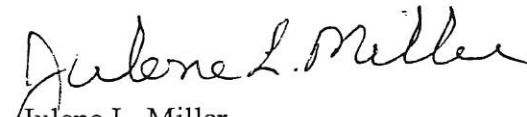
Tony R. Folsom
Page 2

2437(c) serves as such an express authorization as necessary or a inference for the Board to assess a filing fee.³

We hope this information will be of assistance to you in this matter. If this office may be of further assistance, please feel free to contact us again.

Sincerely,

OFFICE OF THE ATTORNEY GENERAL
PHILL KLINE


Julene L. Miller
Deputy Attorney General

JLM:jm

cc: Senator Dwayne Umbarger
Representative Carl Dean Holmes

³We note that the circumstances and law surrounding the authority of the Kansas Supreme Court to impose filing fees, discussed in Attorney General Opinion No. 2002-17, are very different from those surrounding a statutorily created agency's authority to do so.

Attachment C

Docking Building											
Agy	Name	Room/ Floor	Computer II Office Storage	FY 2003 Sq Ft	FY 2004 Sq. Foot Billing	Sq. Foot Change Increase/ (Decrease)	FY 2004 Published 30.71 11.30 3.44	FY 2004 Billing	FY 2004 Federal 21.88 5.88 3.44	Federal Operating 2380	Capital 2300
562	Board of Tax Appeals	4th	Office	16,926	18,685	1,759	11.30	211,140.50	5.88	109,867.80	101,272.70
Total Agency - Room/Floor				16,926	18,685	1,759		211,140.50		109,867.80	101,272.70
										211,140.50	

FY 2003 174,337.80

See attached.


increase of \$ 36,803.00

\$ 17.18

Senate Subcommittee Report

Kansas Department of Revenue


FY 2003 and FY 2004




Senator Steve Morris, Chairperson



Senator Bill Buntin



Senator Paul Feleciano



Senator Larry Salmans

House Budget Report

Agency: Kansas Department of Revenue

Bill No.

Bill Sec.

Analyst: Efird

Analysis Pg. No. 1384

Budget Page No. 349

Expenditure Summary	Agency Estimate FY 03	Governor's Recommendation FY03	Budget Adjustments
State Operations	\$ 74,203,987	\$ 72,952,213	\$ 0
Aid to Local Units	4,856,570	4,856,570	0
Other Assistance	3,500,000	3,500,000	0
Subtotal--Operating	\$ 82,560,557	\$ 81,308,783	\$ 0
Capital Improvements	0	0	0
TOTAL	\$ 82,560,557	\$ 81,308,783	\$ 0
State General Fund	\$ 33,404,975	\$ 31,261,742	\$ 0
All Other Funds	49,155,582	50,047,041	0
TOTAL	\$ 82,560,557	\$ 81,308,783	\$ 0
FTE Positions	1,196.0	1,196.0	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	1,196.0	1,196.0	0.0

Agency Estimate/Governor's Recommendation

The agency's revised FY 2003 request includes a reduction of \$711,459 SGF financing due to the August allotment. The all other funds reduction reflects a revised lower estimate for payments of aid to local units of government, especially from the County Mineral Production Fund that is reduced from \$6,750,000 to \$3,952,000 by the November consensus revenue estimates.

The Governor's recommendation incorporates the August allotment of \$711,459 and makes additional adjustments to the agency's FY 2003 request, including the November allotment of \$1,308,109 that reduces SGF financing. An third SGF reduction recommended by the Governor removes \$835,124. SGF reductions total \$2,854,692 in FY 2003. In order to replace some of the SGF financing reductions, \$891,459 in financing is added from the Electronic Databases Fund. A technical correction also is recommended by adding \$20,944 from the State Bingo Regulation Fund for other operating expenditures in FY 2003. The Governor concurs with the reduction in mineral tax payments of \$2,798,000.

Budget Committee Recommendation

The Budget Committee concurs with the Governor's FY 2003 recommendation and notes the following observations about implementing the adjustments:

1. HB 2026 as introduced includes only an increase in fee fund spending of \$891,459 in order to raise an expenditure limitation. No lapse of \$835,124 SGF was included and no \$20,944 increase in the expenditures limitation for the Bingo Fund was included.
2. Since the conference committee on HB 2026 deleted the section on this agency, any subsequent appropriations bills presumably should include all three adjustments recommended by the Governor in FY 2003, as technical corrections, if necessary.

House Committee Recommendation

The committee concurs.

Senate Subcommittee Report

Agency: Kansas Department of Revenue **Bill No.**

Bill Sec.

Analyst: Efird

Analysis Pg. No. 1384

Budget Page No. 349

Expenditure Summary	Agency Est. FY 03	Governor's Recommendation FY03	Subcommittee Adjustments
State Operations	\$ 74,203,987	\$ 72,952,213	\$ 0
Aid to Local Units	4,856,570	4,856,570	0
Other Assistance	3,500,000	3,500,000	0
Subtotal--Operating	\$ 82,560,557	\$ 81,308,783	\$ 0
Capital Improvements	0	0	0
TOTAL	<u>\$ 82,560,557</u>	<u>\$ 81,308,783</u>	<u>\$ 0</u>
State General Fund	\$ 33,404,975	\$ 31,261,742	\$ 0
All Other Funds	49,155,582	50,047,041	0
TOTAL	<u>\$ 82,560,557</u>	<u>\$ 81,308,783</u>	<u>\$ 0</u>
FTE Positions	1,196.0	1,196.0	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	<u>1,196.0</u>	<u>1,196.0</u>	<u>0.0</u>

Agency Est./Governor's Recommendation

The agency's revised FY 2003 request includes a reduction of \$711,459 SGF financing due to the August allotment. The all other funds reduction reflects a revised lower estimate for payments

of aid to local units of government, especially from the County Mineral Production Fund that is reduced from \$6,750,000 to \$3,952,000 by the November consensus revenue estimates.

The Governor's recommendation incorporates the August allotment of \$711,459 and makes additional adjustments to the agency's FY 2003 request, including the November allotment of \$1,308,109 that reduces SGF financing. An third SGF reduction recommended by the Governor removes \$835,124. SGF reductions total \$2,854,692 in FY 2003. In order to replace some of the SGF financing reductions, \$891,459 in financing is added from the Electronic Databases Fund. A technical correction also is recommended by adding \$20,944 from the State Bingo Regulation Fund for other operating expenditures in FY 2003. The Governor concurs with the reduction in mineral tax payments of \$2,798,000.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's FY 2003 recommendation and notes the following about implementing the recommended adjustments:

1. HB 2026 as introduced had only an increase in fee fund spending of \$891,459 in order to raise one expenditure limitation. No lapse of \$835,124 SGF was included and no \$20,944 increase in the expenditure limitation for the Bingo Fund was included.
2. Since the conference committee on HB 2026 deleted the section on this agency, subsequent appropriations bill should include all three adjustments recommended by the Governor in FY 2003.

House Budget Report

Agency: Kansas Department of Revenue

Bill No.

Bill Sec.

Analyst: Efirid

Analysis Pg. No. 1384

Budget Page No. 349

Expenditure Summary	Agency Request FY 04	Governor's Recommendation FY04	Budget Adjustments
State Operations	\$ 75,548,086	\$ 70,356,211	\$ 1,805,122
Aid to Local Units	4,712,941	4,812,941	0
Other Assistance	3,500,000	3,500,000	0
Subtotal--Operating	\$ 83,761,027	\$ 78,669,152	\$ 1,805,122
Capital Improvements	0	0	0
TOTAL	\$ 83,761,027	\$ 78,669,152	\$ 1,805,122
State General Fund	\$ 34,385,869	\$ 25,213,302	\$ 0
All Other Funds	49,375,158	53,455,850	1,805,122
TOTAL	\$ 83,761,027	\$ 78,669,152	\$ 1,805,122
FTE Positions	1,196.0	1,158.0	38.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	1,196.0	1,158.0	38.0

Agency Request/Governor's Recommendation

The agency's budget request includes enhancements of \$1,004,696 from all funds, including \$464,220 from the SGF. No reduction in full-time positions is included in the revised agency request, and one of the requested enhancements would fund 10 vacant field auditor positions. The enhancements are described in the next section below.

The Governor's recommendations include a significant reduction in SGF financing, with offsetting increases in other funds to partially replace some of that financing. The Alcoholic Beverage Control (ABC) division and its 38.0 FTE positions are deleted from this agency's budget and recommended for transfer to the Kansas Highway Patrol, with a resulting reduction of \$1,805,122, of which \$1,603,590 is SGF financing (plus an additional reduction of \$98,537 for shrinkage taken in another recommendation). In a major financing shift, the SGF is reduced \$1,600,000, with an offsetting increase of \$1,600,000 in financing recommended from the VIPS/CAMA Technology Hardware Fund for operating expenditures, with a \$2 motor vehicle title fee increase recommended. In a another major financing shift, the SGF is reduced \$1,000,000, with an offsetting increase of \$1,000,000 from the Electronic Databases Fee Fund for operating expenditures, to be funded by a fee increase imposed by the Secretary of Revenue. A third major financing shift reduces \$2,075,000 from the SGF, and shifts funding of \$2,075,000 to the Division of Vehicles (DOV) Operating Fund, with a \$6 driver license fee increase recommended. Finally, the Governor recommends an increase in shrinkage for the agency that reduces SGF financing by \$2,034,447, with no substitute financing used to offset this reduction. The Governor concurs with

one of the agency's four requested enhancements that adds \$50,000 from all funds for studying a replacement computer project for the Vehicle Information Processing System (VIPS).

Under the Governor's FY 2004 **statutory budget recommendation** for this agency, the Governor's recommendation for the agency's SGF budget would have to be reduced by an additional **\$5,307,855**.

Budget Committee Recommendation

The Budget Committee concurs with the Governor's FY 2004 recommendation and makes the following adjustments and comments:

1. Pending passage of legislation, retain the Division of Alcoholic Beverage Control (ABC) within the Department of Revenue, include expenditures and staff as recommended by the Governor, and replace the Governor's recommended primary funding source with special revenue fund financing. Recommended expenditures include \$1,805,122, of which \$1,578,011 funds 38.0 FTE positions and \$227,111 funds other operating expenses. The Governor's recommended funding from the State Highway Fund would be replaced by using moneys collected as alcohol-related taxes to finance the ABC special revenue fund. Other minor funds provide some of the financing and these other funds would be retained as recommended by the Governor.
2. Introduce a bill to raise the alcohol gallonage tax by \$2.0 million in order to offset the amount needed by the ABC special revenue fund that will be used for paying the enforcement and administrative activities of the ABC division.
3. Recommend that the Public Safety Budget Committee delete the expenditures, FTE positions, and the transfer from the State Highway Fund to finance ABC in the Highway Patrol budget, pending passage of legislation.
4. Note the agency request in FY 2004 for additional funding to hire 10.0 FTE field auditors as part of a multi-year project continuing in FY 2005 and FY 2006. The request comes in response to a report issued by The Legislative Division of Post Audit on *Corporate Income Taxes: Reviewing Factors Affecting The Recent Steep Drop in Those Tax Receipts*. One of the questions examined in the report focused on "How have the resources and results for reviewing and auditing corporate tax returns changed during the last few years?" The report recommends "The department should find ways to hire or reassign more staff to conduct corporate tax audits, and the Legislature should support that effort." The report notes that "Each corporate tax auditor generates about \$1 million a year in additional revenues and promotes greater accountability within the corporate community." The agency proposed plan follows:

Phase 1: FY 2004. Reduce shrinkage by \$466,220 SGF to allow filling of 10.0 vacant auditor positions.

Phase 2: FY 2005. Continue 10.0 FTE audit positions restored in FY 2005, add funding to begin hiring 16.0 new FTE positions, and add

funding for reclassification of existing audit staff at a cost of \$1,649,600 SGF.

Phase 3: FY 2006. Continue annual funding for 10.0 FTE plus 16.0 FTE and reclassifications at a cost of \$2,463,966 SGF.

The net assessments anticipated from this auditing enhancement are projected as follows:

FY 2005	\$	153,000
FY 2006		826,500
FY 2007		2,440,000
FY 2008		5,541,250

The benefits do not come immediately after the added costs are incurred, so the time-delay mitigates against this enhancement producing new revenue in the near future. The Budget Committee concurs with the Governor that the agency should find the additional resources internally and reallocate from other areas in order to begin an emphasis on corporate auditing. The 2002 Legislature approved a five-year collections project and provided enhanced SGF resources plus FTE positions that may be shifted to the corporate auditing emphasis as the collections project matures and begins to wind-down in year four and five. A contract with an outside vendor to do telephone collections costs slightly more than \$1.0 million annually, and those funds can be redirected to the corporate auditing needs in a later fiscal year as the backlog in collections is brought under control.

5. Note that the *Governor's Legislative Message (State of the State)* proposes a Fair Share plan that includes a tax amnesty proposal to enhance collections and also includes tax audits to verify accurate collections and to pursue those who fail to pay their Fair Share. No additional financing is included in the *Governor's Budget Report* for these initiatives. The agency has agreed to fund the costs by reallocating internal resources. Tax amnesty is anticipated to yield \$4.5 million in net collections during FY 2004. A recent Missouri amnesty program yielded much greater revenue to that state, and it is hoped that the Kansas plan may exceed the projection.
6. Direct by proviso that the Executive Chief Information Technology Officer shall coordinate joint meetings of representatives from the Department of Revenue and the Secretary of State's Office to explore the possibility of sharing computer hardware and networks for three different applications that will have new software developed in the future and which will run in county courthouses. Two departmental initiatives, the Computer Assisted Mass Appraisal (CAMA) project and the Vehicle Information Processing System (VIPS) project, will replace existing software and need new hardware. The statewide voter registration system being planned by the Secretary of State's Office is the third multimillion dollar computer system that may lend itself to shared resources in the 105 county courthouses, including hardware and networks. At least in the planning stage, this recommen-

ation is intended to provide for coordination of three different projects that otherwise may be developed and implemented separately. The Executive Chief Information Technology Officer should report periodically to the Joint Committee on Information Technology on this matter.

7. Express a concern about aircraft purchased out of state and then brought to Kansas for operation, and the possibility of the owners not paying either out of state sales tax or compensating use tax to Kansas. This is one example of how business and corporate auditing is needed in order to insure proper taxes are assessed and paid. The House Committee on Taxation should be apprised of this issue in order to determine if a bill is needed to authorize some form of registration of aircraft, like automobiles and boats are required, in order to identify which entities have not paid taxes due.

House Committee Recommendation

The Committee concurs, except for the following changes and additions:

1. Delete items 1 and 3; introduce a bill to shift ABC to the KHP.
 2. Allow Public Safety and Tax Budget Committees to continue review of ABC issue.
-

Senate Subcommittee Report

Agency: Kansas Department of Revenue **Bill No.**

Bill Sec.

Analyst: Efird

Analysis Pg. No.1384

Budget Page No. 349

Expenditure Summary	Agency Req. FY 04	Governor's Recommendation FY04	Subcommittee Adjustments
State Operations	\$ 75,548,086	\$ 70,356,211	\$ 1,805,122
Aid to Local Units	4,712,941	4,812,941	0
Other Assistance	3,500,000	3,500,000	0
Subtotal--Operating	\$ 83,761,027	\$ 78,669,152	\$ 1,805,122
Capital Improvements	0	0	0
TOTAL	\$ 83,761,027	\$ 78,669,152	\$ 1,805,122
State General Fund	\$ 34,385,869	\$ 25,213,302	\$ 0
All Other Funds	49,375,158	53,455,850	1,805,122
TOTAL	\$ 83,761,027	\$ 78,669,152	\$ 1,805,122
FTE Positions	1,196.0	1,158.0	38.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	1,196.0	1,158.0	38.0

Agency Req./Governor's Recommendation

The agency's budget request includes enhancements of \$1,004,696 from all funds, including \$464,220 from the SGF. No reduction in full-time positions is included in the revised agency request, and one of the requested enhancements would fund 10 vacant field auditor positions. The enhancements are described in the next section below.

The Governor's recommendations include a significant reduction in SGF financing, with offsetting increases in other funds to partially replace some of that financing. The Alcoholic Beverage Control (ABC) division and its 38.0 FTE positions are deleted from this agency's budget and recommended for transfer to the Kansas Highway Patrol, with a resulting reduction of \$1,805,122, of which \$1,603,590 is SGF financing (plus an additional reduction of \$98,537 for shrinkage taken in another recommendation). In a major financing shift, the SGF is reduced \$1,600,000, with an offsetting increase of \$1,600,000 in financing recommended from the VIPS/CAMA Technology Hardware Fund for operating expenditures, with a \$2 motor vehicle title fee increase recommended. In a another major financing shift, the SGF is reduced \$1,000,000, with an offsetting increase of \$1,000,000 from the Electronic Databases Fee Fund for operating expenditures, to be funded by a fee increase imposed by the Secretary of Revenue. A third major financing shift reduces \$2,075,000 from the SGF, and shifts funding of \$2,075,000 to the Division of Vehicles (DOV) Operating Fund, with a \$6 driver license fee increase recommended. Finally, the Governor recommends an increase in shrinkage for the agency that reduces SGF financing by \$2,034,447, with no substitute financing used to offset this reduction. The Governor concurs with

one of the agency's four requested enhancements that adds \$50,000 from all funds for studying a replacement computer project for the Vehicle Information Processing System (VIPS).

Under the Governor's FY 2004 **statutory budget recommendation** for this agency, the Governor's recommendation for the agency's SGF budget would have to be reduced by an additional **\$5,307,855**.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's FY 2004 recommendation and makes the following adjustments and comments:

- 1A. Retain the Division of Alcoholic Beverage Control (ABC) within the Department of Revenue, include expenditures and staff as recommended by the Governor, and use the Governor's recommended primary funding source of State Highway Fund (SHF) financing. Recommended expenditures include \$1,805,122, of which \$1,578,011 funds 38.0 FTE positions and \$227,111 funds other operating expenses. The Governor's recommended funding from the SHF would be transferred to the Division of Vehicles Operating Fund, and an amendment to KSA 68-416 is required to expand in current law that limits use of SHF moneys to drivers license and registration functions in the department. Other minor funds provide some of the financing and those other funds would be retained as recommended by the Governor.

- 1B. Revise the previous Kansas Highway Patrol (KHP) Subcommittee Report as amended by the Senate Ways and Means Committee. The ABC division should be removed from the KHP budget by deleting expenditures, financing, transfer language, and positions in order that the accounting not be duplicated with retaining ABC in the Department of Revenue. Any shift of ABC to the KHP will require legislation to pass, and the budget may be adjusted after that happens during Omnibus, if necessary.

Requested that the department provide information (received 3/3/2003) no later than April 24, 2003, for Omnibus review of the liquor license fee rates for surrounding states.

2. Note that this ABC recommendation (which requires an amendment to KSA 68-416 in order for funding to be available) is consistent with another of the Governor's recommendations that an additional \$2.0 million be transferred from the SHF to partially finance the operations of the Taxation Division in FY 2004. Similarly, an amendment to KSA 68-416 (that limits use of SHF moneys to drivers license and registration functions in the department) will be required for this recommendation to be carried out. The Governor recommends raising the cost of driver licenses from \$12 to \$18 in order to help partially offset this revenue shift, and the Subcommittee concurs in raising this fee. Failure to pass HB 2193 will require further review during Omnibus of the department's financing. An appropriate amendment could be included in HB 2193 (assigned to Senate Ways and Means Committee) to allow SHF money to be used for other purposes as recommended by the *Governor's Budget Report*.

3. Concur with another recommendation by the Governor to raise motor vehicle title fees by \$2 in order to finance more agency operations from the VIPS/CAMA Technology Fund. A \$1.6 million shift in financing depends upon this fee increase. The Subcommittee recommends HB 2192 (Assigned to Senate Ways and Means Committee). Failure to pass HB 2192 will require further review during Omnibus of the department's financing.
4. Note an additional fee increase is recommended by the Governor for the sale of public records in order to enhance revenue to the Electronic Databases Fee Fund. The Secretary of Revenue has authority to raise those fees. The Subcommittee urges the Secretary also to review contracts for bulk purchasers of public records, and to try to raise the negotiated rate for these customers, as well as the general public, when selling public records. Information (received 3/3/2003) about the bulk contracts was requested to compare Kansas with surrounding states.
5. Due to budget cuts and shifts, the department is in a precarious position during FY 2004. The agency expects for staff vacancies to increase from 127 to 145. The shrinkage rate recommended by the Governor in FY 2004 is 9.84 percent. It is hoped that turnover through attrition will be sufficient to achieved FY 2004 savings and that layoffs will not be necessary. However, the high vacancy rate may impact productivity and cause backlogs to develop in some areas, especially tax processing. Last year there were more than 100,000 open tax cases, and that backlog has been reduced to 0 this year. The normal turnover rate for this agency is 60 to 65 positions being vacant at any given time due to attrition. More than doubling the normal rate in order to accommodate high shrinkage may be counterproductive regarding tax collections and good customer service. In FY 2004, as much as \$200,000 of interest may be lost if tax returns are not opened promptly and receipts deposited in a timely manner. Reductions to part-time salaries for temporary employees used to open mail will have an additional negative impact on state revenue as interest will not be earned on deposits in mail left unopened for days or weeks.

The department was asked to provide information about temporary staff opening the tax season mail, and how many additional workers would be needed to open the mail more timely after April 15 in order to earn more interest on rapid deposits. Information (received 3/3/2003) will be reviewed during the Omnibus period beginning April 24, 2003.

6. Regarding enhanced collections of accounts receivable, the 2001 Legislature approved an increase in State General Fund (SGF) expenditures of almost \$3.28 million for FY 2002 in order to collect \$48.75 million of accounts receivable during the fiscal year. A total of 34.0 new FTE positions was added in FY 2002 to assist with collections of accounts receivable, bringing the number of agency personnel working on this program of enhanced collections to a total of 75 positions. Of the total, 26.0 FTE are provided in a contract for telephone collections services by an outside firm, and the remaining 49.0 FTE positions are included in the agency's authorized staff limitation. Of that 49.0 FTE total, 15.0 FTE positions were reallocated internally and 34.0 FTE positions were the newly authorized positions. The agency indicates that it collected

approximately \$53 million in FY 2002 as part of the enhanced effort, or more than \$4 million higher than predicted.

This effort will continue for three to four more fiscal years, and the Subcommittee asked the department to provide information about future enhanced collections, and how much of \$294 million in pending collectibles may be uncollectible.

A report (not yet received) is to be submitted by the department for review by the Omnibus period which begins April 24, 2003, concerning the enhanced collections history and projections for the remaining years in the effort.

7. Note an agency request in FY 2004 for additional funding to hire 10.0 FTE field auditors as part of a multiyear project continuing in FY 2005 and FY 2006. The request comes in response to a report issued by The Legislative Division of Post Audit on *Corporate Income Taxes: Reviewing Factors Affecting The Recent Steep Drop in Those Tax Receipts*. One of the questions examined in the report focused on "How have the resources and results for reviewing and auditing corporate tax returns changed during the last few years?" The report recommends "The department should find ways to hire or reassign more staff to conduct corporate tax audits, and the Legislature should support that effort." The report notes that "Each corporate tax auditor generates about \$1 million a year in additional revenues and promotes greater accountability within the corporate community." The agency proposed plan follows:

Phase 1: FY 2004. Reduce shrinkage by \$466,220 SGF to allow filling of 10.0 vacant auditor positions.

Phase 2: FY 2005. Continue 10.0 FTE audit positions restored in FY 2005, add funding to begin hiring 16.0 new FTE positions, and add funding for reclassification of existing audit staff at a cost of \$1,649,600 SGF.

Phase 3: FY 2006. Continue annual funding for 10.0 FTE plus 16.0 FTE and reclassifications at a cost of \$2,463,966 SGF.

The net assessments anticipated from this auditing enhancement are projected as follows:

FY 2005: \$153,000

FY 2006: \$826,500

FY 2007: \$2,440,000

FY 2008: \$5,541,250

The Subcommittee understands that the Governor did not include additional funding for this enhancement, but has indicated to the department that increased corporate auditing will be a priority and resources should be reallocated internally. The agency indicated that approximately five staff

positions will be shifted into this area during FY 2004. One problem which needs addressing is an \$81,000 cut in audit travel out-of-state. Due to a legislative across the board cut enacted by the 2002 Legislature, the travel budget was reduced to \$219,000 in FY 2003, and effectively, in FY 2004 also given the base budget restrictions with no growth. Only 40 corporate audits will be undertaken in FY 2003, in part because of travel cuts.

The Subcommittee considered exempting audit travel from the restriction, and asked the department to present a proposal (not yet received) for supplemental travel funding to be reviewed during the Omnibus review beginning April 24, 2003. Also requested was information about how many out-of-state corporations file tax returns in Kansas, and a list of corporation tax credits (received 3/3/2003). Other information about carry forward tax credits was requested (not received yet).

8. Express concern about recently passed Congressional tax legislation and pending legislation that reduces Kansas income tax collections because of linkage. The Subcommittee thinks there may be a need to decouple Kansas tax laws from federal law, if current trends continue. Recent federal legislation reduced Kansas tax collections by \$22.6 million in FY 2004, coupled with losses in FY 2002 of \$6.6 million and in FY 2003 of \$18.7 million. Pending federal legislation may reduce another \$51 million in FY 2004 Kansas collections. SB 146 as recommended by the Senate Committee on Assessment and Taxation would decouple the Kansas income tax from any future federal exclusion of dividend income, and should be passed this Session. Information (received 3/3/2003) was requested about the President's Tax Stimulus proposal.
9. A question about why compensating use taxes have decreased could not be answered during budget review, and a report (received 3/3/2003) on that topic will be submitted by the department no later than April 24, 2003, for the Omnibus period.

**SENATE WAYS AND MEANS
BUDGET SUBCOMMITTEE ON THE
KANSAS DEPARTMENT OF REVENUE
March 3, 2003**

The subcommittee requested the following information related to the various divisions within the Kansas Department of Revenue:

Alcoholic Beverage Control Division

1. **Committee Request:** What are the liquor license fee rates for surrounding states?

Agency Response: See attached listing.

Tax Operations Division

2. **Committee Request:** How many out of state corporations file tax returns in Kansas?

Agency's Response: There is an estimated 14,007 out of state corporations that file tax returns in Kansas.

3. **Committee Request:** Provide a complete list of Corporation Tax Credits.

Agency's Response: The following is a list of Corporate Tax Credits and related K.S.A.'s:

1. Abandoned Well Plugging Credit – K.S.A. 79-32,207
2. Agricultural Interest Reduction Loan Credit – K.S.A. 79-32,181a; K.S.A. 79-1126a
3. Alternative Fuel Tax Credit – K.S.A. 79-32,201
4. Business and Job Development Credit – K.S.A. 79-32,153, 79-32,160a
5. Business Machinery and Equipment Credit – K.S.A. 79-32,206
6. Child Day Care Assistance Credit – K.S.A. 79-32,190
7. Community Service Contribution Credit – K.S.A. 79-32,197
8. Disabled Access Credit – K.S.A. 79-32,176
9. Habitat Management Credit – K.S.A. 79-32,203
10. Historic Preservation Credit – K.S.A. 79-32,211
11. High Performance Incentive Program Credit – K.S.A. 74-50,132; K.S.A. 79-32,160a(e)
12. Local Seed Capital Pool Credit – K.S.A. 74-8401
13. National Guard Employer Health Insurance Credit – K.S.A. 79-32,213
14. Research and Development Credit – K.S.A. 79-32,182; K.S.A. 79-32,182b
15. Single City Port Authority Credit – K.S.A. 79-32,212
16. Small Employer Health Benefit Plan Credit – K.S.A. 40-2246
17. Swine Facility Improvement Credit – K.S.A. 79-32,204
18. Telecommunications Credit – K.S.A. 79-32,210
19. Venture Capital Credit – K.S.A. 74-8206; K.S.A. 74-8304; K.S.A. 74-8316

4. **Committee Request:** Provide the committee with information regarding the President's Tax Stimulus proposal as it affects Kansas.

Agency's Response: See attached testimony and supporting information as provided to Senate Tax Committee.

5. **Committee Request:** Provide information on decline in Compensating Use Tax.

Agency's Response: The KDOR Office of Policy & Research states that compensating use tax revenues were down last year primarily because of the economic downturn. Much of Kansas' use tax receipts are from businesses that make purchases and self-assess and remit consumers use tax to the State. Businesses have apparently held back on major purchases. Our use tax receipts were actually flat compared to the year before last, but there was a large drop off from FY 2000 receipts. Again, we believe this is primarily due to businesses shying away from making major purchases during a down economy.

6. **Committee Request:** How many additional temporary staff would KDOR need to address the backlog of remittances that occur each year around April 15th? The agency previously reported to the Senate committee that anywhere from \$66,460 to \$199,380 (depending on interest rate) the amount of interest lost from remittances in backlog.

Agency's Response: The agency does not believe it is feasible to recruit, train or provide workspace for the number of temporary employees it would take to open. KDOR receives nearly 500,000 pieces of mail immediately following the April 15 filing deadline. Utilizing over 200 temporary workers, returns with payments are opened and deposited within 2-3 weeks. Any significant reduction in this timeframe would require well over 500 temporary workers and KDOR does not have facilities, equipment or training resources capable of supporting this level of staffing for the minimal time period involved.

Vehicles Division

7. **Committee Request:** What do other states charge for bulk rates on vehicle records requests?

Agency's Response: The following spreadsheet indicates what Kansas and other surrounding states charge for bulk rates on vehicle records requests:

State	Amount	Description
Kansas	\$50.00 to \$75.00 \$.1425 cents	Per 1,000 Co. Title and Reg. Update Records Per Driver License Record 200,000 required mo.
Colorado	\$25.00	Per 1,000 records
Iowa	\$25.00	Per week for weekly updates once the entire database is purchased. Cost for entire database is \$550.00 plus shipping.
Missouri	Varies	\$35.00 processing fee and \$4.30/1,000 records for first 5,000 records, then \$.30 per 1,000 records. Programming cost is \$35.00 per hour – 3 hour ave.
Nebraska	\$12.00	Per 1,000 records.
Oklahoma	\$20.00	Per 1,000 records. \$25,000 one time cost for initial database load.
Texas	Varies	\$5,000 plus \$.38 per 1,000 records for entire database. Retrieval by VIN \$23.00 per computer run and \$.12 per record.

Office of Policy & Research
Richard L. Cram, Director
915 SW Harrison St.
Topeka, KS 66625



(785) 296-3081
FAX (785) 296-7928
Hearing Impaired TTY (785) 296-6461
Internet Address: www.ksrevenue.org

Office of Policy & Research

To: Senator David Corbin, Chair
Senate Committee on Assessment and Taxation

From: Richard L. Cram

Re: Fiscal Impact to Kansas of President Bush's January 6, 2003 Tax Stimulus Proposal

Date: January 15, 2003

On January 7, 2003, President George Bush publicly announced the highlights of his newest proposal for tax relief and economic stimulus. The proposal includes accelerated expansion of the 10% bracket, accelerated reduction in the income tax rates, accelerated deduction of the marriage penalty, accelerated increase in the child tax credit from \$600 to \$1000, exclusion of dividends from individual taxable income when paid out of previously taxed corporate income, an increased allowance of small business expensing from \$25,000 to \$75,000, and some alternative minimum tax (AMT) hold-harmless relief. The press release from the Office of Public Affairs, Department of Treasury, generally describing the proposal, is attached.

Acceleration of the tax rate reductions, increased marriage penalty relief, increase to the child care tax credit, and AMT hold-harmless relief should not significantly affect Kansas income tax revenue. The proposed dividend exclusion would be the most costly to the states. Increased small business expense write-offs will have a smaller negative impact on Kansas income tax revenue. Although the details of the Bush proposal are still somewhat sketchy and subject to change, preliminary estimates of the fiscal impact to states of the proposed dividend exclusion are already appearing. On January 6, the Federation of Tax Administrators estimated that the total negative fiscal impact to the states would be \$4.098 billion per year, with \$40 million of that impact falling upon Kansas individual income tax receipts. On January 10, the Center on Budget and Policy Priorities (CBPP) made a higher preliminary estimate, placing the total negative fiscal impact on the states at \$4.5 billion, with \$51 million of that on Kansas. At this point, we are more inclined to rely on the CBPP estimate for Kansas of \$51 million.

The CBPP has also noted that the dividend exclusion proposal will also include some limited capital gains relief, the state fiscal impact of which has not yet been estimated. A fact sheet from the Treasury Department entitled "Reinvested Earnings" (attached) explains how this works. The increase in the stock price attributable to retained earnings on which the corporation has already paid corporate income tax will be added to the basis of the stock when sold, thus decreasing capital gains.

According to CBPP, the increased "expensing" for small businesses proposal would result in a small annual reduction in state revenue. This provision would increase the ability of

small businesses to consider a portion of investments made as an expense that can be deducted immediately, rather than deducted gradually over the life of the asset. The proposal would increase the amount that can be expensed from \$25,000 to \$75,000. CBPP estimates the revenue loss to the states is likely to be around \$200 million a year. We would estimate that this would probably break out to a fiscal impact to Kansas of approximately \$2 million, spread across both individual and corporate income tax.

The CBPP also opined that the dividend exclusion could cause upward pressure on interest rates by drawing capital from the bond market to stocks and increasing the federal deficit, thus increasing states' borrowing costs. The CBPP cited Brookings Institution economists who believe that the increased deficit pressure alone could result in a one-half percent increase in interest rates.

The CBPP commented that many states could consider "decoupling" from the federal dividend exclusion, if enacted, noting that an unprecedented number of states (30) had "decoupled" from the federal bonus accelerated depreciation provisions enacted in 2002. However, the CBPP also observed that decoupling from the dividend exclusion may be more difficult:

States that decoupled from the bonus depreciation knew that after a short period of time, their tax laws on depreciation would once again conform to federal treatment. The dividend exclusion, however, would be permanent. In the majority of states that have the tradition of conformity to federal tax law, it can be quite difficult to sustain a major difference from federal law over time.

Conclusion

Fiscal impact to Kansas from the President's latest economic stimulus proposal is estimated to be a negative \$51 million against individual income tax receipts per year for the dividend exclusion proposal and a negative \$2 million spread across both individual income tax and corporate income tax for the increased small business expensing proposal. An estimate for the capital gains exclusion related to retained earnings already taxed is not yet available.

Impact of Economic Growth and Tax Relief Reconciliation Act of 2001 on Kansas SGF

Income Tax

(\$ in millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	Total thru <u>FY 2007</u>
Education Provisions	(\$3.666)	(\$7.692)	(\$9.480)	(\$10.411)	(\$5.980)	(\$4.815)	(\$42.044)
IRA, Pension Provisions	(\$2.830)	(\$9.125)	(\$10.112)	(\$11.797)	(\$12.982)	(\$11.962)	(\$58.808)
All Other Inc Tax Provisions	(\$0.090)	(\$1.887)	(\$2.987)	(\$3.008)	(\$5.131)	(\$8.239)	(\$21.342)
Total Income Tax Provisions	(\$6.586)	(\$18.704)	(\$22.579)	(\$25.216)	(\$24.093)	(\$25.016)	(\$122.194)

Source: Department of Revenue

Sales Tax

Impact expected to be slightly positive, but indeterminate

Gallup Poll: What Will You Do With Your Check?

Pay Off Bills	47.00%
Save/Invest	32.00%
Spend It	17.00%
Donate to Charity	2.00%
No Opinion/Don't Know	2.00%

Richard
Cram

Estate Tax

NO impact on Kansas because of lack of prospective conformity in Kansas Estate Tax Act (see KSA 2000 Supp 79-15,101, which ties the Kansas pick-up tax to the federal law in effect on Dec 31, 1997.)

	<u>Kansas Exemption Amount</u> <u>(1997 federal law)</u>	<u>New Federal</u> <u>Exemption Amount</u>
2002	\$700,000	\$1,000,000
2003	\$700,000	\$1,000,000
2004	\$850,000	\$1,500,000
2005	\$950,000	\$1,500,000
2006	\$1,000,000	\$2,000,000
2007	\$1,000,000	\$2,000,000
2008	\$1,000,000	\$2,000,000
2009	\$1,000,000	\$3,500,000
2010	\$1,000,000	tax repealed
2011	\$1,000,000	\$1,000,000

MEMORANDUM

May 3, 2002

To: Senators Dave Kerr and Dave Corbin
From: Chris W. Courtwright
Re: Decoupling Fiscal Note

This memo is in response to your request to quantify legislation that would "decouple" from that part of the new federal tax law, the Job Creation and Worker Assistance Act of 2002, relating to a special "bonus" depreciation of 30 percent for certain business property acquired between September 11, 2001, and September 11, 2004. As you know, the new federal tax treatment will also affect Kansas income tax liability because of the extent to which much of our income tax structure piggybacks and uses the federal law as a starting point.

The Department of Revenue has provided the following figures, which would be applicable to some new language that Don Hayward and Richard Cram have devised that would be amendatory to the provisions of HB 3037.

(\$ in millions)

FY 03	\$25.000
FY 04	\$22.000
FY 05	\$20.000
FY 06	(\$13.000)
FY 07	(\$14.000)
5-yr total	\$40.000

Richard
Cram

I have also attached a "bullet-point" memo that you had me prepare on April 18 regarding some of the issues being discussed in Kansas and other states about decoupling.



KANSAS

Senate Ways and Means Committee

Testimony from Jeremy Anderson, Director of Government Affairs

March 12, 2003

Mr. Chairman and members of the committee,

Thank you for allowing me the opportunity to testify in support of HB 2192 and HB 2193. Both of these bills are necessary parts of the Governor's FY 2004 budget recommendation.

HB 2192 raises the fee for a driver's license from \$12 to \$18. Driver's licenses are renewed every 6 years which means the fee increase equates to \$1 per year to maintain a license. The fee increase is estimated to raise approximately \$2.1 million in FY 2004. The increase would be used to offset State General Fund expenditures in the Dept. of Revenue.

HB 2193 would raise the cost of a vehicle title fee from \$8 to \$10. The change is estimated to raise \$1.6 million in FY 2004 and also would be used to offset State General Fund expenditures in the Dept. of Revenue.

Together, these bills allow for the reduction of almost \$3.7 million of State General Fund financing in the Governor's recommended budget. If these bills are not passed that money needs to be added back in order for the Dept. of Revenue to continue its current operations.

Thank you for allowing me to testify in support of HB 2192 and HB 2193.



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
RESOURCE MANAGEMENT

KATHLEEN SEBELIUS, GOVERNOR

MEMORANDUM

TO: Senator Stephen Morris, Chairman
Senate Ways & Means Committee

FROM: Jim Conant, Director
Resource Management

DATE: March 12, 2003

RE: House Bills 2192 & 2193

Mr. Chairman, committee members, thank you for the opportunity to appear in support of House Bills 2192 and 2193. These bills implement certain fee increases in support of the Governor's budget proposal for funding KDOR operations.

HB 2192

House Bill 2192 increases fees charged for driver's licenses and identification cards by \$1 per each year of validity. For example, the fee for a Class C driver's license valid for 6 years will be increased from \$12 to \$18. The Division of Vehicles estimates total additional revenues from the new fees to be \$2,075,000 per year. This additional revenue is included in the Governor's budget recommendations for FY 04 and has been included in the House Budget Committee report and your Subcommittee report on the Department of Revenue. In addition, the bill enacts new legislation relating to the identity verification provisions of Senate Bill 16 by creating the Photo Fee Fund. This action ensures that sufficient funding is available from photo fees for the administrative and operational costs associated with central issue and enhanced verification procedures.

HB 2193

House Bill 2193 increases title application fees from the current \$8 to \$10 and provides for the additional revenue to flow into the VIPS/CAMA Fund. The estimated increase to VIPS/CAMA of \$1,600,00 per year is included in the Governor's budget recommendations for FY 04 and has been included in the House Budget Committee report and your Subcommittee report on the Department of Revenue. The bill also removes the June 30, 2004 sunset of the current fee structure, ensuring continued funding for VIPS/CAMA and the Highway Patrol Motor Vehicle Fund.

Thank you again for the opportunity to appear and I would be happy to attempt to answer any questions the committee may have.



K A N S A S

JOAN WAGNON, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

DEPARTMENT OF REVENUE
DIVISION OF VEHICLES

TO: Chairman Steve Morris
Members of the Senate Ways & Means Committee

FROM: Sheila J. Walker, Director of Vehicles *Sheila J. Walker*

DATE: March 12, 2003

SUBJECT: House Bill 2192 – Driver’s License Fees

Mr. Chairman, members of the committee, I am Sheila Walker, Director of the Kansas Department of Revenue’s Division of Vehicles. Thank you for allowing me to testify in support of House Bill 2192. This bill increases the fees to obtain a driver’s license or identification card and creates a “photo fee fund” in which photo fees are to be deposited with the Kansas Department of Revenue.

Under this bill, persons issued a four-year driver’s license or ID card will be charged an additional \$4; persons issued a six-year driver’s license or ID card will be charged an additional \$6. Persons with a motorcycle license, in conjunction with a driver’s license, will also pay an additional \$4 or \$6 for the motorcycle license as well, depending on their age (persons under 21 and over 65 have a four-year license; persons between the ages of 21 and 65 have a six-year license).

Here’s a breakdown of the current and proposed fees for a basic, Class C four-year and six-year license:

	Current Four-Year	Proposed Four-Year	Current Six-Year	Proposed Six-Year
License Fee	\$8	\$12	\$12	\$18
Photo Fee	\$4	\$4	\$4	\$4
Exam Fee	<u>\$3</u>	<u>\$3</u>	<u>\$3</u>	<u>\$3</u>
Total	\$15	\$19	\$19	\$25

The proposed fee increase is expected to generate an additional \$2.075 million annually.

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Page 2
March 12, 2003

Under this bill, moneys generated from the photo fee would be deposited directly into a "photo fee fund" at the Kansas Department of Revenue. This fee fund is designed to cover the costs associated with issuing drivers' licenses and ID cards.

The license fees in Kansas have been at \$2 a year for at least 10 years, if not longer. The proposed new fees are comparable to surrounding states:

Oklahoma	\$19
Colorado	\$15
Nebraska	\$18.75
Missouri	\$19

We appreciate the Committee's support of House Bill 2192, and request that you pass it out favorably.



K A N S A S

JOAN WAGNON, ACTING SECRETARY

DEPARTMENT OF REVENUE
DIVISION OF VEHICLES

KATHLEEN SEBELIUS, GOVERNOR

TO: Chairman Steve Morris
Members of the Senate Ways & Means Committee

FROM: Sheila J. Walker, Director of Vehicles *Sheila J. Walker*

DATE: March 12, 2003

SUBJECT: House Bill 2193 – Title Fees

Mr. Chairman, members of the committee, I am Sheila Walker, Director of the Kansas Department of Revenue's Division of Vehicles. Thank you for allowing me to testify in support of House Bill 2193.

This bill increases the title fee \$2 (from \$8 to \$10) and lifts the sunset on the Kansas Department of Revenue's VIPS/CAMA fee fund (a fund designed to maintain the DMV's Vehicle Information Processing System and the Property Valuation Division's Computer Assisted Mass Appraisal System), as well as the Kansas Highway Patrol's vehicle fee fund.

The \$2 increase is expected to generate an additional \$1.6 million annually.

The Kansas Department of Revenue appreciates the Committee's favorable consideration of lifting the sunset imposed on these funds. Technology is ever changing and needs to be funded on a continuing basis. The Kansas Divisions of Motor Vehicles and Property Valuation strongly rely on county treasurers and county appraisers to provide face-to-face customer service to all citizens registering vehicles and owning property in the state of Kansas. Passage of this bill will enable us to furnish county treasurers and appraisers with the tools they need to continue to provide quality customer service. Past Legislative Post Audits have shown that the department's expenditures from the fund are accountable and responsible.

While some states charge upwards of \$50, a \$10 Kansas title fee would still be comparable to surrounding states:

Oklahoma	\$11.00
Nebraska	\$10.00
Colorado	\$9.50
Missouri	\$8.50

We appreciate the Committee's support of House Bill 2193, and request that you pass it out favorably.

DOCKING STATE OFFICE BUILDING, 915 SW HARRISON ST., TOPEKA, KS 66626-0001
Voice 785-296- 3601 Fax 785-291-3755 <http://www.ksrevenue.org/>

*Senate Ways and Means
3-12-03
Attachment II*

Kansas Highway Patrol
Summary of Testimony on HB 2193
For the Senate Ways and Means Committee
By Mr. Walter Darling
March 12, 2003
10:30 a.m.-123S

Mr. Chairman and members of the Committee, my name is Walt Darling. I am the Chief Finance Officer for the Kansas Highway Patrol and am pleased to appear before you today in support of House Bill 2193.

House Bill 2193 makes one change to the financing for the Highway Patrol Fleet Program. It eliminates the sunset attached to the title fee financing for this program and thus, allows the program to continue as established by the 1993 Legislature.

Prior to FY 1994, motor vehicles used by the patrol were financed annually through direct appropriations of approximately \$2.5 million from the State General Fund. The subject matter in House Bill 2193 was established by the 1993 Legislature when it passed the then Senate Bill 212, which created a new Fleet Program within the patrol. This new program provided both an alternative means for financing the Patrol's motor vehicles and a process for allowing the patrol to continually replace its used vehicles at a lower, and thus safer, level of mileage.

The alternate financing provided by the Legislature in the statutes being amended here replaces the financing previously provided from the State General Fund. However, equally important to the Fleet Program is the authority provided by the 1993 Legislature in KSA 74-2124, which allows the Patrol to sell its cars and use the resale value to purchase new vehicles. Thus, while the annual revenue being discussed here replaced the monies previously provided from the State General Fund the additional monies provided by the resale of vehicles, when captured and recaptured year after year is what allows the agency to maintain its lower level of vehicle mileage. An early objective of the 1993 Legislature was to provide these lower mileage vehicles to local units of government. This objective has been achieved.

Several questions have been answered since the program was established.

1. The Patrol has learned that market forces affect financing under the program. In 1995 and 1996, when the price of motor vehicles increased from \$14,000 to \$19,000, our revenue was insufficient to finance the program. That financing level was adjusted by the 1996 Legislature.
2. The Patrol has learned that resale price is critical to maintaining revenues at the level needed to match the revenue under the title fees. Care and maintenance of vehicles has become very important and officers are held to a higher level of accountability regarding the care of their vehicle.
3. Under the auspices of two studies by the Division of Post Audit (1997; 1998), the Patrol has learned that the optimum mileage point for these cars to ensure the balance between the financing sources is a point just prior to 50,000 miles.

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3-12-03
Attachment 12

4. Through difficulties regarding the interpretation of the program intent, we learned that written policies are critical to ensuring program integrity. In a special audit of those policies in 1999 by McBride, Lock & Associates of Kansas City, the Patrol fine-tuned its internal policies and ensured that the program intent could be easily facilitated. Those policies were submitted to the Legislature in that year.
5. Finally, the Patrol has learned that the financing available for hiring troopers significantly impacts the financing needed for vehicles. During the past several years, the Patrol has lost a large number of officers. These positions have been held vacant due to salary shrinkage rates that have increased to 14%. The lack of officers reduces the number of cars that need to be issued. Savings that have accumulated in the program have been transferred to the State General Fund. The transfers included \$1.2 million in FY 2000; \$1.8 million in FY 2002, and \$1.0 million in FY 2003.

This program has been successful because of the Patrol's dedication to its success and the oversight that has been provided by the Governor and the Legislature. When market forces crippled the program 1996, the Governor and the Legislature adjusted the revenue stream to provide additional resources. When a shortage of officers occurred, and fewer cars were purchased, the excess revenue in the fund was transferred to the State General Fund. Under the recommendations of the Governor for FY's 2003 and 2004, the Highway Patrol will be replacing up to 70 officers lost to retirements or other turnover. Particularly in FY 2004, the need for additional cars will be increased as these additional officers are brought on line. I believe that in the past decade, by annual reviews and periodic audits, the Patrol has gained the trust of the Governor and the Legislature in the implementation and operation of this program. I ask you to pass this measure, as introduced, so that the program may be continued indefinitely.

I appreciate the opportunity to appear before your committee, and will stand for any questions you may have.