

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Stephen Morris at 10:35 a.m. on January 13, 2004, in Room 123-S of the Capitol.

All members were present except:

Senator Nick Jordan- excused

Committee staff present:

Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Leah Robinson, Kansas Legislative Research Department
Michele Alishahi, Kansas Legislative Research Department
Nicoletta Buonasera, Kansas Legislative Research Department
Melissa Calderwood, Kansas Legislative Research Department
Audrey Dunkel, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Debra Hollon, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Becky Krahl, Kansas Legislative Research Department
Carolyn Rampey, Kansas Legislative Research Department
Amy Vanhouse, Kansas Legislative Research Department
Robert Waller, Kansas Legislative Research Department
Norman Furse, Revisor of Statutes
Jill Wolters, Senior Assistant, Revisor of Statutes
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Duane Goossen, Director, Division of the Budget

Others attending:

See Attached List.

Chairman Morris welcomed everyone back to the committee. He recognized Senator Christine Downey as the new Ranking Minority member and welcomed Senator Henry Helgerson, Jr., as the new member of the Senate Ways and Means Committee. Staff introductions were made of the Kansas Legislative Research Department Fiscal Analysts, the Revisor of Statutes Office and the Senate Ways and Means office. The Chairman mentioned that the subcommittee assignments would be available soon.

The Chairman introduced Duane Goossen, Director, Division of the Budget, who presented an overview of the Governor's budget recommendations for FY 2004 and FY 2005 (Attachment 1). Director Goossen mentioned that there are no programmatic cuts running in the revised FY 2004 budget that the Governor presented. He also noted, regarding the State General Fund, the FY 2004 budget is about \$200 million dollars lower than what was originally passed last year. It is principally for two reasons:

- Implementation of the property tax accelerator and
- The federal fiscal relief package which the Federal Government passed after the close of the 2003 Legislative Session.

Director Goossen explained that the FY 2004 budget that was approved is intact. For FY 2005 he noted they have tried to take the FY 2004 budget and push it forward in FY 2005, keeping the same services and programs intact, and to fund them from existing resources. In addition, there are several targeted enhancements as additional funding beyond what is being done now in FY 2004. He briefly explained three of the enhancement areas of note:

1. Economic development program titled the "Economic Revitalization Program".

CONTINUATION SHEET

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE at 10:35 a.m. on January 13, 2004 in Room 123-S of the Capitol.

2. The Home and Community Based Services Waiver Disability Programs and Waiting Lists in the Department of Social and Rehabilitation Services.
3. Higher Education.

Director Goossen detailed the key components of the Budget. Committee questions and discussion followed.

Copies were distributed of an Appropriations Update, dated January 12, 2004, compiled by the Kansas Legislative Research Department (Attachment 2).

The meeting adjourned at 12:00 p.m. The next meeting is scheduled for January 14, 2004.

SENATE WAYS AND MEANS COMMITTEE

GUEST LIST

DATE January 13, 2004

NAME	REPRESENTING
Rob Mealy	HEIN Law Firm
Diane Gierstad	Wichita Public Schools
Keith Damm	KCK Chamber
Debbie Buehler	CCG
Jon Josseland	University of Kansas
Keith Haxton	SEAK
Don M. Rezac	S. E. A. K.
Debra Metzger	Farm Inc
KEN RAHJES	Ks Dairy Assn.
Andy Sanchez	KAPE
Josie Torres	SILCK
CRAIG KABERLINE	KAAAA
Sheli Sweeney	ACM NCK
LANN WILSH	Ks Dept. on Aging
BRAD HARRELSON	Ks Farm Bureau
Mike Huttles	Ks. Governmental Consulting
Matt Jordan	Dept. of Commerce
Erik Sartorius	City of Overland Park
Sandy Braden	Braden Braden Burke & Assoc. / Bus Council
Jon Conant	KDOR
KEVIN HURN	USA
Denise Aft	U.S.D #500

SENATE WAYS AND MEANS COMMITTEE

GUEST LIST

DATE January 13, 2004

NAME	REPRESENTING
SHELBY SWIFT	USD 501
Kennie Loffler	DOB
Mark Tallman	
Kim Fowler	Judicial Branch
Jerry Sloan	Judicial Branch
Aaron Dunkel	Division of the Budget
Twila Drybread	DOB
Julia Thomas	DOB
Ann Hooser	DOB
P Biggs	KS Sent Commission
B Harmon	KSC
Jan Grant	KSC
Jennifer Schwan	ASSISTIVE TECH FONTS
LOIS WEEKS	SRS
TANYA DORF	SRS
Lina McDonald	KACIL
Wes Ashton	Overland Park Chamber
Bob Vanciman	Circle KC Chamber; Blue Valley, USP 229
Sister Therese Banzet	Ks. Cath. Conf.
Teresa Schulz	Oral Health Kansas
Hally Finney	Ks. Public Health Assn.
Emily Watson	Sen. Barbara Allen

SENATE WAYS AND MEANS COMMITTEE
GUEST LIST

DATE January 13, 2004

NAME	REPRESENTING
Ryan Paul Underwood	Sen. Lane Olen
Julia Butler	Kansas Sentencing Comm.
ROBERT CHAPMAN	KDOT
Bernie Koch	Wichita Area Chamber of Commerce

Overview

The Governor's budget recommendations for FY 2004 and FY 2005 continue the current level of state services and provide enhancements for economic development, higher education, and social services. The recommended budget is financed with existing resources. The table below lists expenditure totals for the State General Fund and for all funding sources.

Kansas, like many other states, began experiencing dramatic revenue losses in FY 2002. The revenue drops, in combination with rapidly rising entitlement expenditures, depleted the reserves in the State General Fund and led to a series of very difficult budget situations.

Now, in FY 2004, Kansas appears to be emerging from that downward trend. Tax collections in the first four months of FY 2004 grew 5.4 percent over that same period in the previous year. The Consensus Revenue Estimating Group forecasts further growth in tax revenue in FY 2005. If reasonable revenue growth continues in the future, the Governor's budget recommendations can be enacted and carried forward through FY 2007 while still maintaining a positive ending balance in the State General Fund at the end of each fiscal year.

FY 2004

The revised budget presented for FY 2004 implements the programs that were included in the original budget approved by the 2003 Legislature. The Governor's plan does not include any mid-year programmatic cuts. The revised budget is lower than the original FY 2004 budget principally because of the one-time effects of

the property tax accelerator and the federal fiscal relief package. In FY 2004 only, the property tax accelerator allows for an expenditure reduction of \$163.1 million, and the federal fiscal relief package allows for a State General Fund reduction of \$62.2 million. The FY 2004 recommendations fully incorporate the expenditures required to cover the most current consensus estimates for SRS and Aging caseloads and for school enrollments.

FY 2005

The budget plan continues existing programs and provides enhancement funding for economic development, higher education, Home and Community Based Service programs, and Smart Start. The recommendations incorporate increases for caseload costs, state employee health insurance, and KPERS contributions. State General Fund expenditures rise 6.5 percent over the revised FY 2004 spending, but only because of one-time reductions in the revised FY 2004 budget. The FY 2005 State General Fund recommendation is 1.8 percent above the FY 2004 budget originally approved by the Legislature.

Statutory Budget

The budget report presents the Governor's true recommendations within existing resources. A separate budget that projects a 7.5 percent ending balance in the State General Fund and meets the requirements of Kansas statutes is also presented to the Legislature.

	Budget Totals			
	<i>(Dollars in Millions)</i>			
	SGF	Percent Change	All Funds	Percent Change
FY 2003 Actual	\$ 4,137.5	--	\$ 10,082.0	--
FY 2004 Approved	4,533.0	9.6%	10,218.0	1.3%
FY 2004 Revised Recommendation	4,332.3	4.7%	10,210.8	1.3%
FY 2005 Governor's Recommendation	4,614.7	6.5%	10,182.2	(0.3%)

*Senate Ways and Means
1-13-04
Attachment 1*

Key Components of the Budget

Positive Ending Balance. The Governor's budget recommendations provide a plan for continuing essential services in FY 2005 within existing financial resources. The budget plan projects a State General Fund balance of \$113.0 million at the end of FY 2005.

Public Education Funding. The Governor's FY 2005 budget recommendations maintain public education funding at the present level. The budget includes funding to cover the current school finance formula at a base budget per pupil of \$3,863. In a separate proposal, the Governor will present a plan to the Legislature that addresses necessary changes in the finance formula and future financing needs.

Economic Revitalization Plan. As part of the budget, the Governor presents a plan to promote the revitalization of the Kansas economy and to recruit and retain jobs. The plan is financed by adding program funding and by rearranging current economic development priorities.

Comprehensive Transportation Plan (CTP) Restructured. While no new State General Fund monies are included for the CTP in FY 2005, the Governor does propose a financial plan to complete the CTP as promised. Under the proposal, all projects originally promised will be built and the ending balance in the State Highway Fund at the end of FY 2009 will be positive. The proposal resumes State General Fund transfers to the CTP in FY 2007 and provides the remainder of the necessary funding through bonding initiatives. The proposal includes permanently funding the Highway Patrol from the Highway Fund.

Special City County Highway Fund (SCCHF) Transfer Restored. After a year and a half moratorium on the State General Fund transfer to the SCCHF, \$10.1 million is proposed for transfer in FY 2005 to ensure that local road projects can be funded as expected.

New Funds for Waiting Lists. In FY 2004, the budget includes supplemental funding to cover HCBS-DD and HCBS-PD costs that were carried over from FY 2003. In FY 2005, an additional \$6.0 million from the State General Fund and \$15.2 million from all funding sources is made available to reduce waiting lists in these programs.

Smart Start Expanded. The Governor includes \$10.0 million from the Children's Initiatives Fund to finance Smart Start grants for innovative early childhood programs.

SB 345 Completed. The 1999 Legislature reorganized higher education governance and put a four-year enhanced financing plan in place, but the plan was only funded for the first two years. The FY 2005 budget includes \$8.9 million to begin a three-year completion of the SB 345 commitment.

Higher Education Enhancements. In addition to new money for SB 345, the Governor recommends adding \$1.0 million to the funding of vocational-technical schools, \$5.0 million to university operating grants, and \$1.0 million to student financial aid programs.

Salary Increase Financed with Savings. The Governor recommends a 3.0 percent salary increase for state employees at the beginning of FY 2005. The State General Fund portion of the salary increase is funded through state operations savings in all agency budgets that are generated through the work of Budget Efficiency Savings Teams.

Judicial/Legislative Budgets Unaltered. The requested budgets for the Judicial and Legislative Branches of government are fully included in the budget recommendations.

JJA Maximum Facility Not Opened. No funds are added to operate the new facility in FY 2005, making \$11.8 million available for other priorities. A new 60-bed unit on the grounds of Topeka Juvenile Correctional Facility is scheduled to open as planned.

**State General Fund
FY 2004**

(Dollars in Millions)

Beginning Balance	\$ 122.7
Revenue:	
November Consensus Revenue Est. (Includes Revenue Transfers)	4,483.6
Refunds Paid on Time	(50.0)
Adjust School Capital Improvements Revenue Transfer	2.6
Transfer to Emergency Fund	(2.1)
Vehicle Moratorium--Department of Transportation Sweep to SGF	0.4
Motor Pool Funds	5.1
Sale of Surplus Vehicles	1.0
Security Officers' KPERs Rate	3.7
KPERs "13th Check" Bonding	0.7
Released Encumbrances	2.5
Transfer Fee Funds	1.5
State Treasurer--Repay Loan	0.3
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Total Available	\$ 4,571.8
Expenditures:	
Approved Budget (May 2003)	4,533.0
Expenditure Authority Shifting from FY 2003	8.0
Property Tax Accelerator	(163.1)
SRS/Aging Caseload	3.6
Federal Medicaid Reimbursements	(62.2)
School Finance Supplemental	7.8
Sexual Predator Treatment Program	2.0
BIDS Supplemental	1.6
Net of Other Adjustments	1.7
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Total Expenditures	\$ 4,332.3
Ending Balance	\$ 239.5

**State General Fund
FY 2005**

(Dollars in Millions)

Beginning Balance	\$ 239.5
Revenue:	
Consensus Revenue Est.	4,459.8
Refunds Paid on Time	50.0
SCCHF Revenue Transfer	(10.1)
School Cap. Improvements Transfer	(57.0)
Water Plan Revenue Transfer	(3.7)
Regents Faculty of Dist. Transfer	(0.4)
Transfer Savings from BEST	20.1
Transfer Excess Revenue from Fee Agencies	6.4
Transfer Balance from KEY Fund	4.6
KPERs "13th Check" Bonding	3.1
Transfers In (in CRE)	9.5
Economic Plan Tax Credits	(2.5)
Motor Pool Transfer	2.7
Tuttle Creek Loan Repaid	1.5
Transfer Fee Funds	4.0
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Total Available	\$ 4,727.6
Expenditures:	
FY 2004 Base Budget	4,332.3
Replace One-time Property Tax Accelerator	153.4
Replace FMAP	62.2
SRS/Aging Caseloads	40.3
KPERs Regular Increase	12.7
Health Insurance Increase	11.3
Salary Plan	24.7
Judiciary Budget	7.5
Regents Research Initiative	3.4
Regents SB 345	8.9
University Operating Grants	5.0
HCBS Waiting Lists	6.0
Highway Patrol to Highway Fund	(28.9)
BEST SGF Expenditure Savings from State Operations	(6.5)
Net of Other Adjustments	(17.7)
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Total Expenditures	\$ 4,614.6
Ending Balance	\$ 113.1

Outlook for the State General Fund

(Dollars in Millions)

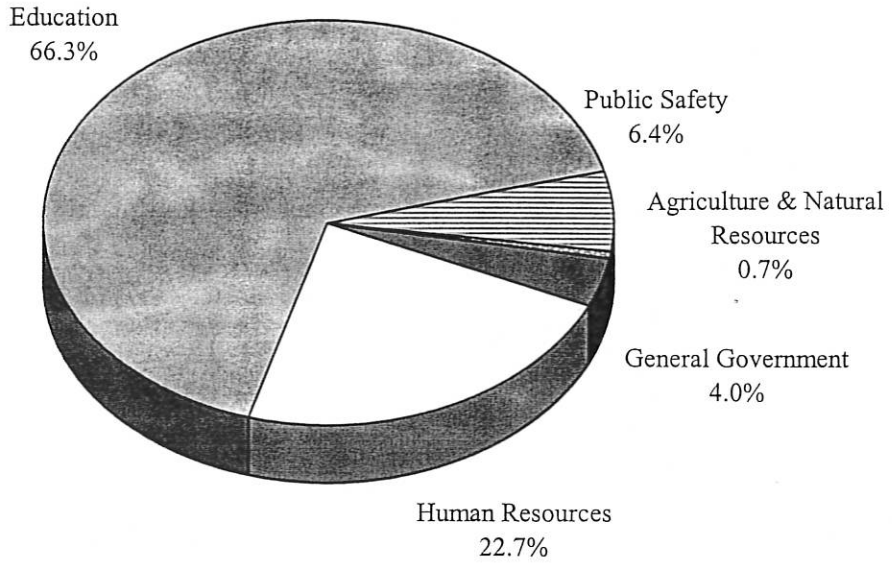
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Beginning Balance	\$ 12.1	\$ 122.7	\$ 239.5	\$ 113.0	\$ 58.4
Released Encumbrances	2.6	2.5	--	--	--
Revenue from Taxes	4,142.0	4,350.5	4,384.8	4,612.1	4,796.6
Pay Tax Refunds on Time	--	(50.0)	50.0	--	--
Interest	19.1	12.8	21.5	22.5	23.5
Agency Earnings	51.8	52.9	53.5	54.5	56.5
KDOT Transfer	--	--	--	--	(51.5)
KDOT Bond Payment	--	--	--	--	(8.0)
KDOT Loan Repayment	--	--	--	--	(32.5)
LAVTR & CCRS Transfers	(43.0)	--	--	--	--
Special County/City Highway Fund	(5.0)	--	(10.1)	(10.1)	(10.1)
School Capital Improvement Aid	(46.9)	(54.6)	(57.0)	(62.0)	(67.0)
Water Plan Fund	(3.8)	(3.8)	(3.7)	(3.7)	(3.7)
State Fair Transfer	(0.2)	--	--	(0.3)	(0.3)
Regents Faculty of Distinction	--	(0.3)	(0.4)	(0.4)	(0.4)
"Windfall" from Accelerator	--	15.3	--	--	--
Federal Flexible Grant	45.8	45.8	--	--	--
Governor's Transfer Adjustments	--	13.0	35.5	--	--
Other Transfers and Revenue	81.9	26.2	9.5	30.0	30.0
Gaming*	--	--	--	--	--
Highway Patrol Transfer	--	28.9	--	--	--
KEY Fund Transfer	3.9	9.9	4.6	10.0	10.0
Total Available	\$ 4,260.2	\$ 4,571.8	\$ 4,727.6	\$ 4,765.5	\$ 4,801.5
Expenditures	4,137.5	4,332.3	4,581.1	4,614.7	4,707.2
School Finance Estimates	--	--	--	(5.0)	(12.5)
KPERS	--	--	--	20.0	30.0
SRS & Aging Caseloads	--	--	--	50.0	50.0
Regents Research Initiative	--	--	--	6.4	--
Corrections Food & Medical Contract	--	--	--	1.4	1.4
Troopers' Pay Increase	--	--	--	0.8	--
State Employee Health Care	--	--	--	10.0	10.0
Salary Plan	--	--	24.7	--	--
Regents SB 345	--	--	8.9	8.9	8.9
Future BEST Savings*	--	--	--	--	--
Total Expenditures	\$ 4,137.5	\$ 4,332.3	\$ 4,614.7	\$ 4,707.2	\$ 4,795.0
Ending Balance	\$ 122.7	\$ 239.5	\$ 113.0	\$ 58.4	\$ 6.5
As % of Expenditures	3.0%	5.5%	2.4%	1.2%	0.1%

* Future amounts will depend on legislative and administrative actions.

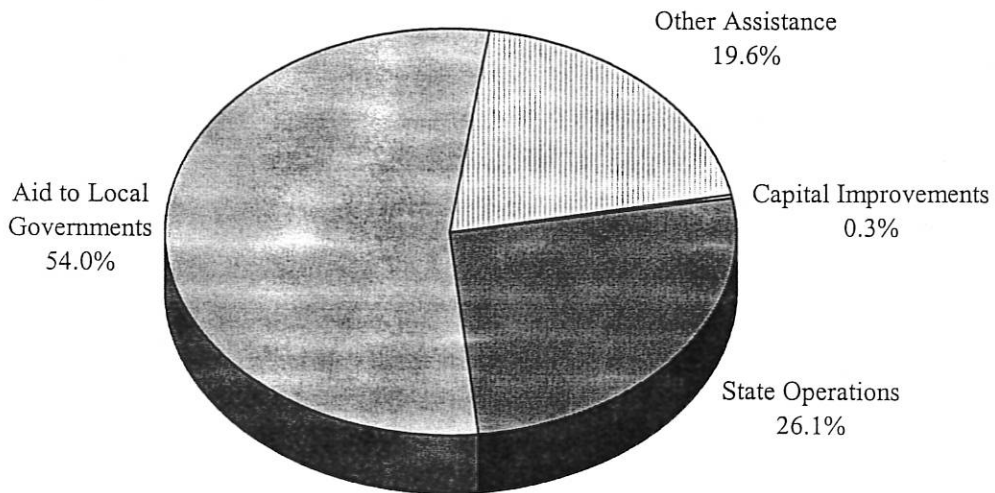
Totals may not add because of rounding.

State General Fund

Expenditures by Function



Expenditures by Category



Fiscal Year 2005

Appropriations Update ***January 12, 2004***

The *Governor's Budget Report for FY 2005* was presented to the 2004 Legislature and discussed by the Governor during her State of the State message on Monday, January 12, 2004. The recommendations will be incorporated into appropriations bills for consideration by the Legislature. If you have any questions about any information in this report, please contact Alan Conroy, Director, J.G. Scott, Chief Fiscal Analyst, or Leah Robinson, Principal Fiscal Analyst, at (785) 296-3181.

Overview of FY 2005 Recommendation

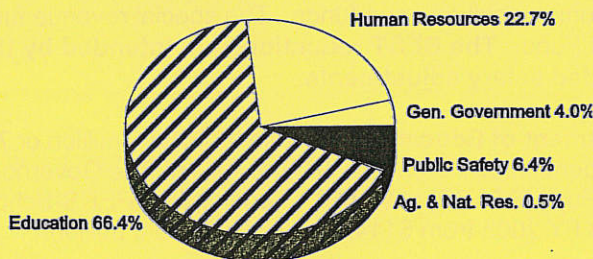
The Governor recommends expenditures of **\$10.2 billion** from all funding sources in FY 2005, including expenditures of **\$4.6 billion** from the State General Fund:

- ◆ State General Fund expenditures **increase** by 6.5 percent, or \$282.3 million.
- ◆ Expenditures from all funding sources **decrease** by \$28.6 million, or 0.3 percent.
- ◆ The Governor's budget provides for a FY 2005 State General Fund **ending balance** totaling 2.4 percent of expenditures (\$113.0 million), \$233.1 million less than the 7.5 percent ending balance required by statute. (Note: The Governor does include a "statutory budget" which complies with the required 7.5 percent ending balance law in Volume 1 of the *Governor's Budget Report*. The statutory budget reduces most agencies by a total of \$216.9 million, or 14.8 percent.)
- ◆ Recommended State General Fund **expenditures exceed revenues** by \$126.5 million.
- ◆ The recommendations include a **3.0 percent base salary increase** for state employees (estimated to cost \$51.3 million from all funding sources, including \$24.7 million from the State General Fund). Included in the salary increase are statewide elected officials, state legislators, judges and Regents faculty
- ◆ The recommendation includes reductions of \$26.7 million in anticipation of the implementation of recommendations of the Governor's **Budget Efficiency Savings Teams (BEST)**, specifically regarding savings in the areas of information technology and purchases. Of the reductions, \$6.5 million are from the State General Fund and \$20.1 million are from special revenue funds. The special revenue fund savings will be transferred to the State General Fund. **The BEST reductions are intended by the Governor to be used to fund her recommended salary adjustments.**
- ◆ State General Fund expenditures for the **Department of Education** increase by \$160.6 million or 7.4 percent. General and supplemental state aid expenditures increase by \$140.8 million. The Governor's recommendation maintains Base State Aid Per Pupil (BSAPP) at \$3,863. Funding for KPERS-School employer contributions increase \$20.2 million in FY 2005 from \$114.7 million to \$135.0 million.
- ◆ State General Fund expenditures for the **Board of Regents and the Regents Institutions** increase by \$31.8 million or 4.7 percent. The recommendation includes funding of \$8.9 million to begin a three-year completion of the original estimate (excluding performance funding) of the Higher Education Reform Act (1999 SB 345).

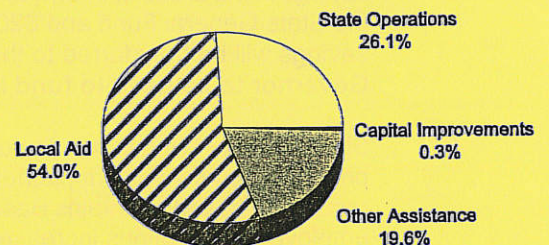
- ◆ State General Fund expenditures for the **Department of Social and Rehabilitation Services** increase \$92.2 million, or 13.0 percent, largely for caseload increases and to replace the one-time increase in FY 2004 Federal Medicaid Assistance Percentage (FMAP) funding.
- ◆ The recommendation reduces **FTE positions** by 165.5 from FY 2004 to FY 2005.
- ◆ For FY 2005, there are no **State General Fund transfers** to the State Highway Fund, the Local Ad Valorem Tax Reduction Fund, or the City County Revenue Sharing Fund. The recommendation includes transfers to the Special City County Highway Fund (\$10.1 million); the School District Capital Improvements Fund (\$57.0 million); the State Water Plan Fund (\$3.7 million) and the Regents Faculty of Distinction Program (\$0.4 million).
- ◆ The Governor's recommendation shifts portions of the **Kansas Highway Patrol** budget formally funded from the State General Fund to the State Highway Fund. No State General Fund financing is recommended for the Highway Patrol in FY 2005.
- ◆ The Governor's submitted budget does not reflect the additional proposals included in her "**Education First**" Plan, which would provide, among other things, funding to increase Base State Aid Per Pupil (BSAPP) by \$250 over three years. The proposal is funded through three different revenue sources: increased sales taxes (from 5.3 percent to 5.5 percent in FY 2005, 5.6 percent in FY 2006, and 5.7 percent in FY 2007, estimated to generate \$316.9 million over three years); a 5.0 percent income tax surcharge estimated to raise \$300 million over three years; and an increase in the school mill levy from the present 20 mills to 21 mills (estimated to generate \$47.0 million over three years). In addition, the proposal includes an additional 1 mill increase beginning in FY 2008.

The following two charts illustrate the Governor's recommended State General Fund expenditures by function of government and by category of expenditure. Education (including local school aid and Regents universities) receives 66.4 percent of the State General Fund in the Governor's recommendations. Aid to local units comprises the largest category of expenditure in the Governor's budget with over half of the FY 2005 State General Fund budget (54.0 percent) distributed to local units of government, primarily through local school aid.

SGF Expenditures by Function
FY 2005 Governor's Recommendation



SGF Expenditures by Major Purpose
FY 2005 Governor's Recommendation



Recommended Current Year Budget Changes

The Governor's revised FY 2004 recommendation is a reduction of \$7.2 million from all funding sources, and a reduction of \$200.6 million from the State General Fund from the amount approved by the 2003 Legislature.

The *Governor's Budget Report* identifies several current year adjustments including:

- An increase of \$170.2 million in the budget of the **Kansas Department of Human Resources**, largely reflecting increased unemployment benefits.
- A net State General Fund decrease of \$34.0 million in the budget of the **Department of Social and Rehabilitation Services**, largely to reflect savings related to the Federal Medicaid Assistance Percentage (FMAP) funding in the current year. The net change to the Department's budget from all funding sources is an increase of \$6.5 million.
- A net reduction of \$124.2 million in the budget of the **Department of Education**, primarily related to the Governor's decision to trigger property tax accelerator provisions authorized by the 2003 Legislature (\$163.1 million), partially offset by increased school finance adjustments (\$22.7 million).

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

State General Fund Profile-Governor's Recommendation			
Non-Statutory Budget			
In Millions			
	Actual FY 03	Gov. Rec. FY 04	Gov. Rec. FY 05
Beginning Balance	\$ 12.1	\$ 122.7	\$239.5
Released Encumbrances	2.6	2.5	0.0
Receipts (Nov. 03 Consensus)	4,245.6	4,483.6	4,469.3
Governor's Recommended Receipt Adj.	0.0	(37.0)	18.8
Adjusted Receipts	<u>\$ 4,245.6</u>	<u>\$ 4,446.6</u>	<u>\$ 4,488.1</u>
Total Available	4,260.3	4,571.8	4,727.6
Expenditures	<u>4,137.5</u>	<u>4,332.3</u>	<u>4,614.6</u>
Ending Balance	<u>\$ 122.7</u>	<u>\$ 239.5</u>	<u>\$ 113.0</u>
Ending Balance as a % of Expenditures	3.0%	5.5%	2.4%
Adjusted Receipts in Excess of Expenditures	\$108.1	\$114.3	(\$126.5)
% Change from Prior Year:			
Adjusted Revenues	3.3%	4.7%	0.9%
Expenditures	(7.4)%	4.7%	6.5%

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