

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 10:30 A.M. on February 11, 2005 in Room 123-S of the Capitol.

All members were present except:

Senator Jay Emler- excused
Senator Chris Steineger- excused

Committee staff present:

Jill Wolters, Senior Assistant, Revisor of Statutes
Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Matt Spurgin, Kansas Legislative Research Department
Amy VanHouse, Kansas Legislative Research Department
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee: None

Others attending:

See attached list.

Copies of the Kansas Legislative Research Department Budget Analysis Report for FY 2005 and FY 2006 were available to the committee.

Subcommittee budget reports on:

Kansas Commission on Veterans' Affairs (Attachment 1)

Subcommittee Chairman Mark Taddiken reported that the subcommittee on the Kansas Commission on Veterans' Affairs concurs with the Governor's recommendation in FY 2005 with comment and concurs with the Governor's FY 2006 recommendations with adjustments and comments.

Senator Barone moved, with a second by Senator Wysong, to amend the subcommittee report in FY 2006 to review Item #5 at Omnibus. Motion carried on a voice vote.

Senator Umbarger moved, with a second by Senator Wysong, to amend the subcommittee report in FY 2005 to itemize the supplemental packages for the Kansas Soldiers' Home. Motion carried on a voice vote.

Senator Taddiken moved, with a second by Senator Wysong, to adopt the subcommittee budget report as amended on the Kansas Commission on Veterans' Affairs in FY 2005 and FY 2006. Motion carried on a voice vote.

Kansas Department of Revenue (Attachment 2)

Subcommittee Chairwoman Jean Schodorf reported that the subcommittee on the Kansas Department of Revenue concurs with the Governor's recommendations in FY 2005 with adjustments and comments and concurs with the Governor's FY 2006 recommendations with adjustments and observations.

Senator Schodorf moved, with a second by Senator Teichman, to adopt the subcommittee budget report on the Kansas Department of Revenue in FY 2005 and FY 2006. Motion carried on a voice vote.

The meeting adjourned at 11:20 a.m. The next meeting is scheduled for February 14, 2005.

SENATE WAYS AND MEANS SUBCOMMITTEE

on

Kansas Commission on Veterans' Affairs

FY 2005 and FY 2006



Senator Mark Taddiken, Chair



Senator Laura Kelly

Senate Subcommittee Report

Agency: Commission on Veterans' Affairs **Bill No. --**

Bill Sec. --

Analyst: VanHouse

Analysis Pg. No. Vol. II

Budget Page No. 433

| Expenditure Summary | Agency Estimate FY 05 | Gov. Rec. FY 05 | Senate Subcommittee Adjustments |
|---------------------------------|-----------------------------|----------------------|---------------------------------------|
| Operating Expenditures | | | |
| State General Fund | \$ 6,333,334 | \$ 6,007,067 | \$ 0 |
| Other Funds | 9,960,541 | 9,906,171 | 0 |
| Subtotal – Operating | \$ 16,293,875 | \$ 15,913,238 | \$ 0 |
| Capital Improvements | | | |
| State General Fund | \$ 0 | \$ 0 | \$ 0 |
| Other Funds | 7,164,619 | 7,151,831 | 0 |
| Subtotal – Capital Improvements | \$ 7,164,619 | \$ 7,151,831 | \$ 0 |
| TOTAL | \$ 23,458,494 | \$ 23,065,069 | \$ 0 |
| FTE Positions | | | |
| | 557.8 | 557.8 | 0.0 |
| Non FTE Uncl. Perm. Pos. | 0.5 | 0.5 | 0.0 |
| TOTAL | 558.3 | 558.3 | 0.0 |

Agency Estimate/Governor's Recommendation

The Commission on Veterans' Affairs estimates operating expenditures of \$16,293,875 for FY 2005, including \$6,333,334 from the State General Fund. The estimate is an increase of \$252,852, or 1.6 percent, from the amount approved by the 2004 Legislature. The estimate includes supplemental requests totaling \$745,640, including \$620,670 from the State General Fund. The capital improvements estimate totals \$7,758,196.

The Governor recommends operating expenditures of \$15,913,238 for FY 2005, including \$6,007,067 from the State General Fund. The recommendation is an increase of \$273,822, or 4.8 percent, from the amount approved by the 2004 Legislature. The recommendation includes supplemental funding totaling \$293,822 from the State General Fund.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommendation with the following comment.

- 1. Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2005 revised recommendation is a State General Fund increase of \$273,822 or 4.8 percent above the FY 2005 State General Fund amount approved by the 2004 Legislature.

2. The Subcommittee notes that the agency requested funding for the Persian Gulf War Health Initiative Board in FY 2005 and FY 2006, and that the Governor included funding for the board in FY 2005. This board is directed by statute to develop and administer surveys, make recommendations to the Legislature, report results to federal agencies, conduct studies, and make public service announcements on health problems. The agency reports that the board has not met for three years due to lack of funding. The one year of funding would allow the board to meet to determine if further work needs to be completed by the board or if it has completed its mission. Upon that determination, the Legislature should act to remove their statutory requirements or provide funding for continuation of the board.

Senate Subcommittee Report

Agency: Commission on Veterans' Affairs **Bill No. --**

Bill Sec. --

Analyst: VanHouse

Analysis Pg. No. Vol. II

Budget Page No. 433

| Expenditure Summary | Agency Request FY 06 | Gov. Rec. FY 06 | Senate Subcommittee Adjustments |
|---------------------------------|----------------------------|----------------------|---------------------------------------|
| Operating Expenditures | | | |
| State General Fund | \$ 7,048,172 | \$ 7,409,535 | \$ (494,101) |
| Other Funds | 10,497,939 | 10,334,774 | (283,755) |
| Subtotal – Operating | \$ 17,546,111 | \$ 17,744,309 | \$ (777,856) |
| Capital Improvements | | | |
| State General Fund | \$ 0 | \$ 0 | \$ 0 |
| Other Funds | 4,383,570 | 395,480 | 0 |
| Subtotal – Capital Improvements | \$ 4,383,570 | \$ 395,480 | \$ 0 |
| TOTAL | \$ 21,929,681 | \$ 18,139,789 | \$ (777,856) |
| FTE Positions | 557.8 | 557.8 | 0.0 |
| Non FTE Uncl. Perm. Pos. | 0.5 | 0.5 | 0.0 |
| TOTAL | 558.3 | 558.3 | 0.0 |

Agency Request/Governor's Recommendation

The Commission on Veterans' Affairs requests operating expenditures of \$17,546,111 for FY 2006, including \$7,048,172 from the State General Fund. The request is an increase of \$1,252,236, or 7.7 percent, from the FY 2005 estimate. The request includes enhancement packages totaling \$1,502,159, including \$1,272,239 from the State General Fund. The capital improvements request totals \$4,383,570.

The Governor recommends operating expenditures of \$17,744,309 for FY 2006, including \$7,409,535 from the State General Fund. The recommendation is an increase of \$1,831,071, or 11.5 percent, from the FY 2005 recommendation. The recommendation includes enhancement packages totaling \$765,501 from the State General Fund. The capital improvements recommendation totals \$395,480.

K.S.A. 75-6701 requires that the budget submitted by the Governor and the budget ultimately approved by the Legislature provide for a State General Fund ending balance of at least 7.5 percent of expenditures for FY 2006. To comply with this provision, Volume 1 of the *Governor's Budget Report* includes a "statutory budget" designed to provide for a 7.5 ending balance. In general, this requires a 8.9 percent reduction to the FY 2006 State General Fund executive branch budget recommendations submitted by the Governor. That reduction has not been applied to school finance funding in the Department of Education, to the Board of Regents and its institutions, or to the judicial or legislative branches. **For this agency, the reduction to the Governor's recommended FY 2006 State General Fund budget would total \$661,621.**

Senate Subcommittee Recommendation

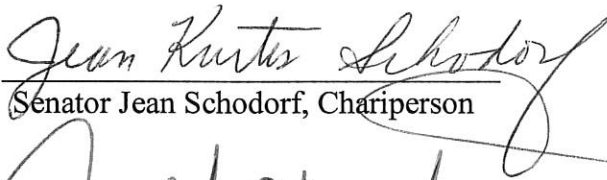
The Subcommittee concurs with the Governor's recommendation with the following adjustments and comments.

1. **Pay Plan Adjustment.** Delete \$294,898, including \$189,290 from the State General Fund, to remove pay plan funding recommended by the Governor (a 2.5 percent base salary adjustment for all state employees) for consideration in a separate bill.
2. **Other Salary and Wage Adjustments.** Delete \$482,958, including \$304,811 from the State General Fund, to remove funding recommended by the Governor for the 27th payroll period (\$444,576), and for the Kansas Public Employees Retirement System (KPERs) death and disability increase (\$38,382) for later Committee consideration.
3. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2006 recommendation is a State General Fund increase of \$1,676,290 or 29.2 percent above the FY 2005 State General Fund amount approved by the 2004 Legislature. Absent the above pay plan and salary and wage adjustments, the recommendation is an increase of \$1,182,189, or 20.6 percent above the approved amount.
4. The Subcommittee notes that the Veterans' Service Representative offices in Lawrence, Independence, and Winfield are currently closed. The Lawrence and Winfield offices serve the largest two populations of veterans in the state. The Subcommittee concurs with the Governor's recommendation to include enhancement funding sufficient to fill the three vacant Veterans' Service Representative positions at these three locations.
5. The Subcommittee notes that funding for the Governor's recommended salary and wage adjustments (2.5 percent pay increase, 27th payroll period, and KPERs death and disability) includes approximately \$123,000 from fee funds and federal funds at the Kansas Veterans' Home. The agency also reported that shortfalls of about \$78,000 with the Aramark food contract and \$83,000 for pharmaceuticals may also be experienced at the Kansas Veterans' Home. The agency reported that revenue from fees and the federal government are relatively constant, and these two revenue sources are not anticipated to generate enough additional revenue to meet these additional expenditures. The Subcommittee notes that if the Governor's salary plan is approved, a supplemental appropriation of about \$284,000 may be necessary next year for these three items.
6. The agency reported that the estimated cost per day per patient is \$129.41 for nursing care and \$56.07 for assisted living at the Kansas Soldiers' Home and \$134.35 for nursing care and \$78.07 for assisted living at the Kansas Veterans' Home. Reimbursement rates from the federal Veterans Administration are \$59.36 per resident per day for nursing care and \$27.44 for assisted living. The agency also reports that approximately 25 percent of expenditures at the Homes is from the State General Fund, with approximately 37 percent from federal per diem and 38 percent from fees. Resident fees are determined based on the resident's ability to pay.
7. The Subcommittee notes that funding for the Fort Riley cemetery was deleted by the Governor for FY 2006. The state does not yet hold deed to the land for the cemetery; however, plans are on schedule for the state to receive the property.

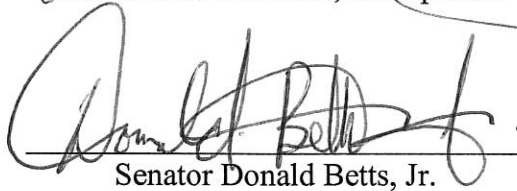
SUBCOMMITTEE REPORT

Kansas Department of Revenue

FY 2005 and FY 2006



Senator Jean Schodorf, Chairperson



Senator Donald Betts, Jr.



Senator Vicki Schmidt



Senator Ruth Teichman

Senate Subcommittee Report

Agency: Department of Revenue

Bill No.

Bill Sec.

Analyst: Efird

Analysis Pg. No.

Budget Page No. 343

| Expenditure | Agency Req. FY 05 | Governor Rec. FY 05 | Senate Subcommittee Adjustments |
|--------------------------------|----------------------|------------------------|---------------------------------------|
| Operating Expenditures: | | | |
| State Operations | \$ 75,263,037 | \$ 75,263,037 | \$ 0 |
| State Aid | 6,492,050 | 6,492,050 | 0 |
| State Assistance | 3,500,000 | 3,500,000 | 0 |
| TOTAL | <u>\$ 85,255,087</u> | <u>\$ 85,255,087</u> | <u>\$ 0</u> |
| Financing: | | | |
| State General Fund | \$ 20,046,408 | \$ 20,046,408 | \$ 0 |
| Other Funds | 65,208,679 | 65,208,679 | 0 |
| TOTAL | <u>\$ 85,255,087</u> | <u>\$ 85,255,087</u> | <u>\$ 0</u> |
| FTE Positions | 1,196.0 | 1,206.0 | (10.0) |

Agency Estimate/Governor's Recommendation

The **agency** requests operating expenditures totaling \$85.3 million, of which \$20.1 million is financed by the State General Fund. No additional expenditures financed by the State General Fund are requested. Additional financing of \$608,724 for the production of license plates is requested from the Division of Vehicles (DOV) Operating Fund. The **Governor** concurs with the revised FY 2005 agency estimated expenditures of \$85.3 million and adds 10.0 FTE positions in order to improve delinquent tax collections.

Financing from the State General Fund exceeds the revised estimate of expenditures by \$2,481,954, the amount of the reappropriation from FY 2004. The **Governor** recommends lapsing \$2,481,961 State General Fund. Financing for the increased costs of producing license plates is recommended from the \$3.4 million reappropriated in the DOV Operating Fund from FY 2004.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the recommendations of the Governor, with the following adjustments and observations:

1. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2005 revised recommendation is the same State General Fund amount of \$20,046,408 originally approved by the 2004 Legislature and there is no change from the approved amount.

The Subcommittee would note that the Governor recommends an enhancement

to be initiated in FY 2005, but the increased costs are offset by additional shrinkage of \$378,134 that reduces the State General Fund by the same amount as the FY 2005 enhancement cost.

The **Governor** recommends a tax collection enhancement that adds 18.0 new FTE positions for tax collections, with 10.0 FTE recommended in FY 2005 and the other 8.0 FTE recommended in FY 2006 for new field positions. The **Governor's** recommendations provide financing from the State General Fund for salaries and benefits, with \$378,134 in FY 2005 and \$1,057,520 in FY 2006. The Governor estimates the additional staff will bring in \$6.0 million worth of unpaid taxes in FY 2006, with \$8.5 million anticipated in each of FY 2007 and FY 2008, primarily from sales and individual income taxes. The agency indicates that limited staff levels have hindered tax collections, and the Legislative Division of Post Audit concluded in its tax enforcement audit of October 2004 that the Department of Revenue could benefit by adding additional staff.

2. **Delete New FTE Positions.** The Subcommittee recommends deleting 10.0 FTE positions recommended by the Governor in FY 2005 and for the agency to absorb the new staff for the tax collection initiative within its existing FTE limitation.

According to a Division of Personnel Services 2004 Workforce Report on turnover (a process that produces shrinkage savings in the budget), the Department of Revenue had an average of 1,012 classified employees during FY 2004. The agency's authorized FTE positions in FY 2004 were 1,196.0, of which 1,164.0 were classified positions. The difference between the average of 1,012.0 classified employees and the authorized number of 1,164.0 classified positions is 152.0 FTEs, or 13.1 percent which constitutes an average vacancy rate.

The Subcommittee believes that the agency has sufficient authority to fill the 10.0 FTE positions this fiscal year and was assured by the agency that it is planning to advertise a total of 22 positions and anticipates filling those ten recommended by the Governor for tax collections. The agency believes that it has sufficient State General Fund financing to pay FY 2005 enhancement costs of \$378,134 from current resources recommended by the Governor. The agency indicates that a Governor's Budget Amendment will recommend this same reduction in 10.0 FTE positions.

Senate Subcommittee Report

Agency: Department of Revenue

Bill No.

Bill Sec.

Analyst: Efird

Analysis Pg. No.

Budget Page No. 343

| Expenditure | Agency Req. FY 06 | Governor Rec. FY 06 | Senate Subcommittee Adjustments |
|--------------------------------|----------------------|------------------------|---------------------------------------|
| Operating Expenditures: | | | |
| State Operations | \$ 76,235,295 | \$ 78,879,734 | \$ (2,657,439) |
| State Aid | 6,492,050 | 6,492,050 | 0 |
| State Assistance | 3,500,000 | 3,500,000 | 0 |
| TOTAL | <u>\$ 86,227,345</u> | <u>\$ 88,871,784</u> | <u>\$ (2,657,439)</u> |
| Financing: | | | |
| State General Fund | \$ 20,098,909 | \$ 20,678,285 | \$ (901,976) |
| Other Funds | 66,128,436 | 68,193,499 | (1,755,463) |
| TOTAL | <u>\$ 86,227,345</u> | <u>\$ 88,871,784</u> | <u>\$ (2,657,439)</u> |
| FTE Positions | 1,196.0 | 1,214.0 | (68.0) |

Agency Request/Governor's Recommendation

The **agency** requests operating expenditures totaling \$86.2 million, of which \$20.1 million is financed by the State General Fund. The **agency's** budget request includes an enhancement package totaling \$438,800 for replacement motor vehicles, of which \$388,000 is financed from the State General Fund.

The **Governor** concurs with the agency's FY 2006 base budget request, provides salary plan adjustments, funding for a 27th pay period, increased death and disability insurance funding, and 18.0 FTE positions in order to improve delinquent tax collections. Ten of the positions are included in FY 2005 by the **Governor's** recommendation, and eight positions are added in FY 2006 by the **Governor's** recommendation. The *Governor's Budget Report* cites the agency estimate that the additional staff will bring in \$6.0 million worth of unpaid taxes in FY 2006, primarily from sales and individual income taxes. The recommendation by the Governor would allow expenditures of almost \$88.9 million in FY 2006.

Statutory Budget Submission

K.S.A. 75-6701 requires that the budget submitted by the Governor and the budget ultimately approved by the Legislature provide for a State General Fund ending balance of at least 7.5 percent of expenditures for FY 2006. To comply with this provision, Volume 1 of the *Governor's Budget Report* includes a "statutory budget" designed to provide for a 7.5 ending balance. In general, this requires a 8.9 percent reduction to the FY 2006 State General Fund executive branch budget recommendations submitted by the Governor. That reduction has not been applied to school finance funding in the Department of Education, to the Board of Regents and its institutions, or to the judicial or legislative branches. **For this agency, the reduction to the Governor's recommended FY**

2006 State General Fund budget would total \$1,846,430.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the recommendations of the Governor, with the following adjustments and observations:

1. **Pay Plan Adjustment.** Delete \$1,121,883, including \$342,681 from the State General Fund, to remove pay plan funding recommended by the Governor (a 2.5 percent base salary adjustment for all state employees) for consideration in a separate bill.
2. **Other Salary and Wage Adjustments.** Delete \$1,830,556, including \$559,295 from the State General Fund, to remove funding recommended by the Governor for the 27th payroll period (\$1,661,640, including \$506,906 State General Fund), and for the Kansas Public Employees Retirement System (KPERs) death and disability increase (\$168,916, including \$52,389 State General Fund) for later Committee consideration.
3. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2006 recommendation is a State General Fund increase of \$631,877 or 3.2 percent. above the FY 2005 State General Fund amount approved by the 2004 Legislature. Absent the above pay plan and salary and wage adjustments, the recommendation is a decrease of \$270,099, or 1.3 percent below the approved amount.
4. **Delete New FTE Positions.** The Subcommittee recommends deleting 18.0 FTE positions recommended by the Governor in FY 2006 and for the agency to absorb the new staff positions for the tax collection initiative within its existing FTE limitation.

The Subcommittee was assured by the agency that it had sufficient flexibility with its FTE positions and vacant positions to absorb the new staff as recommended by the Governor, and that eliminating the 18.0 FTE positions would not be harmful to the agency. The agency indicates that a Governor's Budget Amendment will recommend this same action.

5. **Governor's Tax Collection Initiative.** The **Governor's** recommendations provide enhancement financing from the State General Fund for salaries and benefits of \$1,057,520 in FY 2006. The Governor estimates the additional staff will bring in \$6.0 million worth of unpaid taxes in FY 2006, with \$8.5 million anticipated in each of FY 2007 and FY 2008, primarily from sales and individual income taxes. The Subcommittee asked for an accounting of how the agency would spend the enhancement funding recommended by the Governor and the following details were provided for FY 2006:

| | |
|---|-------------|
| Fill 18 vacant positions | \$ 798,500 |
| Reclassify current staff | 154,000 |
| Subtotal--salaries and benefits | 952,500 |
| Other operating expenses | 37,460 |
| One-time capital outlay: | |
| Office equipment and installation | 67,725 |
| Five automobiles | 54,500 |
| Total | \$1,112,185 |

The agency indicates that it is able to absorb the additional cost of \$54,665 (primarily for automobiles) within the Governor's FY 2006 State General Fund financing as recommended. The agency indicates that the five automobiles are in addition to the other enhancement request recommended by the Governor for motor vehicles. The Governor recommends \$130,800 for additional motor vehicle purchases, with \$65,400 financed by the State General Fund and \$65,400 financed by the DOV Operating Fund. The Subcommittee recommends that the agency consider leasing rather than purchasing, and that a report should be made to this Subcommittee during the 2006 Legislature, explaining what cost-benefit analysis results guided the decision as to lease or purchase motor vehicles in FY 2006.

6. **Additional State General Fund Revenue.** The *Governor's Budget Report* attributes enhanced tax collections in three fiscal years that will result from the initiative of adding 18 field staff positions. Information provided by the agency suggests that increasing field audit staff also will produce new revenue. The Subcommittee notes that at the present time four field auditor positions are vacant and recommends that all four positions be filled as soon as possible. The agency indicates that it had planned to recruit to fill two of the four positions from among college graduates this spring. The Subcommittee cites a 2003 Legislative Division of Post Audit report 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 \$1.0 million a year in additional revenues and promotes greater accountability within the corporate community."

The Subcommittee recommends filling 4.0 FTE field auditor positions in FY 2006 and much like the Governor's tax collection initiative, the financing should be from the recommended FY 2006 budget. The Subcommittee points out that the DOV Operating Fund is projected to have an ending balance of \$500,000 at the conclusion of FY 2006 and that the Audit Services program is financed primarily from that fund in the Governor's FY 2006 recommendations. Salaries and benefits of the four positions should be financed from the \$500,000 balance, unless it is to be transferred to the State General Fund as has happened to some fund balances in other state agencies. The Governor's FY 2006 recommendations do not include such a transfer of that \$500,000 balance. The

estimated cost in FY 2006 for the four staff and operating expenses is \$295,000 for the full 12 months.

The Subcommittee understands that new field auditors will not produce \$1.0 million each in the first or even second year. A schedule previously developed by the agency suggests audit assessments will produce \$830,000 in FY 2006, \$2,140,000 in FY 2007, and \$3,575,000 in FY 2008, if the Audit Services program were fully staffed. By filling the four additional staff positions, the program should be at full staffing in FY 2006. The agency's revenue projections originally were attributed to the productivity of new field audit staff, of which 12 already have been hired. The revenue projections do not appear to have been incorporated in State General Fund consensus estimates for the next three fiscal years. The Subcommittee offers this recommendation in the hopes that it will yield new revenue for the State General Fund.

7. **Eliminate Unneeded FTE positions.** The Subcommittee recommends deleting 50.0 FTE positions. As pointed out in the FY 2005 recommendations, according to a Division of Personnel Services 2004 Workforce Report on turnover (a process that produces shrinkage savings in the budget), the Department of Revenue had an average of 1,012 classified employees during FY 2004. The agency's authorized FTE positions in FY 2004 were 1,196.0, of which 1,164.0 were classified positions. The difference between the average of 1,012.0 classified employees and the authorized number of 1,164.0 classified positions is 152.0 FTEs, or 13.1 percent which constitutes an average vacancy rate. The Subcommittee believes that this action will not adversely affect the agency and that future budgets will not have shrinkage adjustments of the magnitude used in FY 2005 and FY 2006. The Governor's recommendations include \$5,578,525 in FY 2005 and \$7,015,209 in FY 2006 for shrinkage adjustments. The effective shrinkage rates for this agency were 10.2 percent in FY 2005 and 11.9 percent in FY 2006 as recommended by the Governor.