MINUTES

HOUSE APPROPRIATIONS COMMITTEE

October 12-13, 2009
Room 143-N—Statehouse

Members Present

Representative Kevin Yoder, Chairman
Representative Jason Watkins, Vice-chairman
Representative Barbara Ballard
Representative Sydney Carlin
Representative David Crum
Representative Peter DeGraaf
Representative Owen Donohoe
Representative John Faber
Representative Bill Feuerborn
Representative Doug Gatewood
Representative Jerry Henry
Representative Don Hineman
Representative Mitch Holmes
Representative Harold Lane
Representative Peggy Mast
Representative Marc Rhoades (Monday only)
Representative Lee Tafanelli
Representative Jeff Whitham
Representative Jerry Williams

Members Absent

Representative Tom Burroughs (Monday only)
Representative Kasha Kelley (Monday only)
Representative Joe McLeland

Staff Present

Alan Conroy, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Christina Butler, Kansas Legislative Research Department
Jim Wilson, Office of the Revisor of Statutes
Nobuko Folmsbee, Office of the Revisor of Statutes
Jason Long, Office of the Revisor of Statutes
Jill Wolters, Office of the Revisor of Statutes
Florence Deeter, Committee Secretary

Conferees

Dr. Andy Tompkins, Dean of the College of Education, Pittsburg State University
Patricia Brady, Director of Long Term Care, Sellers Dorsey, Inc., Philadelphia, Pennsylvania
Joe Tilghman, Chairperson, Kansas Health Policy Authority
Martin Kennedy, Acting Secretary, Kansas Department on Aging
Dr. Art Hall, Executive Director, Center for Applied Economics, School of Business, University of Kansas
Dave Kerr, Secretary, Kansas Department of Commerce
Thomas V. Thornton, President and CEO, Kansas Biosciences Authority
Kevin Carr, Interim CEO, Kansas Technology Enterprise Corporation
Sandy Johnson, CEO, Mid-American Manufacturing Technology Center
Arturo Perez, Program Principal, National Conference of State Legislatures, Denver, Colorado
Robert J. Vancrum, Vancrum Law Firm, LLC
Tim Gray, Director, Waste Remedies, Inc.
Dave Mosby, Senior Consultant, Talisen Technologies, Inc.

Others Attending

See attached list.

Monday, October 12
Morning Session

Chairman Yoder called the meeting to order at 10:04 a.m. He welcomed Representative Dillmore as the newest member of the Committee and expressed appreciation for the hospitality provided by Representative Peter DeGraaf and his wife, Karen.

State General Fund Receipts

Alan Conroy, Director, Kansas Legislative Research Department, provided an overview of FY 2010 State General Fund (SGF) receipts through September, 2009, stating that total receipts for the first quarter of FY 2010 were 7.7 percent below estimates (Attachment 1). He noted that $31 million in tax refunds were delayed until FY 2010 to ensure a positive year-end balance in July 2009 for the SGF. His report included additional details regarding corporate franchise tax, individual income tax, financial institutions income, insurance premiums, and estate and retail sales tax sources. Responding to a question, Mr. Conroy stated that SGF receipts through September 2009 total $197.7 million, or 14.4 percent, below the same period last year.

Mr. Conroy commented on the status of the SGF by showing comparisons of budgets dating from 2008-2012 (Attachment 2). He noted the additional adjustments used to achieve a zero ending balance for FY 2010 and the estimated amounts for FY 2011 and FY 2012. He indicated the Consensus Revenue Estimating Group will meet in November to make additional adjustments and revisions. Mr. Conroy answered a question regarding the $31 million in unpaid taxes by stating that the Kansas Department of Revenue has been more aggressive in pursuing collections during the past few months. Mr. Conroy said that the stimulus money (federal American Recovery and Reinvestment Act of 2009) contained in the 2011 budget totals $300 million and, should the

Legislature choose to maintain the same level of funding as in previous years, it would require replacing $100 million in the budget.

School Consolidations and Efficiencies

Dr. Andy Tompkins, Dean of the College of Education, Pittsburg State University, provided information regarding school consolidation (Attachment 3). He included in his testimony the cost savings in school consolidations and referred to a 1992 report by Barbara Hinton, Post Auditor, in which she included efficiencies gained by closing schools, increasing class size and reducing the number of teachers. He provided data from the Kansas State Department of Education showing school districts which unified or disorganized, the year of consolidation and/or closure, and the combined budget years. Dr. Tompkins said there is very little savings gained in having schools share superintendents. Responding to a question on administrative cost saving across the state he agreed to research the question and report back to the Committee.

Dr. Tompkins provided succinct comments on educational instruction twenty years from now, saying that technology could provide new forms of instruction through the internet with real-time interaction between a class and teacher. He concluded his remarks by stating that individual school boards need to decide the parameters for their communities.

Maximizing Federal Health Care Funds

Patricia Brady, Director of Long Term Care, Sellers Dorsey, Inc., Philadelphia, Pennsylvania, said that Sellers Dorsey is a national healthcare consulting firm which focuses on revenue to maximize Medicaid financing and health reform programs (Attachment 4). She reported that Sellers Dorsey has worked with several states and care-provider facilities in designing and modifying various assessment models. She serves as the liaison between persons advocating government standards and those who are community providers. Ms. Brady indicated that the basis of revenue maximization lies in implementing program policies that enhance federal participation in the Medicaid program. She commented on specific areas for maximization and the regulatory requirements for the use of funds. Ms. Brady provided a list of potential revenue strategies for consideration in Kansas. Ms. Brady then responded to questions.

Nursing Home Financing

Joe Tilghman, Chairperson, Kansas Health Policy Authority (KHPA), reported on the potential of a Nursing Home Provider Tax in the Kansas Medicaid program (Attachment 5). He noted that currently 41 states have some form of provider tax in place regarding their respective Medicaid programs. Mr. Tilghman said a workgroup was convened to hear opinions from various entities whose information could help KHPA formulate a model for SGF savings. His testimony included the advantages and disadvantages of proposed options that will be presented to the Legislature and the Governor. Mr. Tilghman assured the Committee that the workgroup is striving to produce the best possible model.

Written testimony from Martin Kennedy, Acting Secretary, Kansas Department on Aging, was distributed to members of the Committee (Attachment 6).

The Chairman recessed the meeting until 9:00 a.m. on Tuesday, October 13, 2009.

Afternoon Session

Appropriations subcommittees were scheduled to meet during the afternoon session.

Tuesday, October 13
Morning Session

The Chairman called the meeting to order at 9:10 a.m. and outlined the agenda for the day.

Kansas Public Employees Retirement System Funding Issues

Dr. Art Hall, Executive Director, Center for Applied Economics, School of Business, University of Kansas, provided an executive summary of the Kansas Public Employees Retirement System (KPERS) and said the unfunded liabilities in the system doubled last year from $5 to $10 billion (Attachment 7). He considers KPERS insolvent and a solution needs to be found to achieve actuarial balance. A graph showing comparisons among states reveals Kansas has dropped far below the safe level established by the federal government (Attachment 8). He said moving to a defined-contribution plan, which would apply primarily to new employees, would be a more predictable system. Dr. Hall presented a comparison between the defined-benefit plan that KPERS has in place and the defined-contribution plan used by the Regents. He indicated that both plans contain similar benefits; however, requiring new employees to come under a Regents-like system has the potential of greater financial stability for the state.

Dr. Hall will provide the Committee with fiscal note information on a possible move to 401K plans.

Overview of Economic Development Activity and Economic Status of Kansas

Dave Kerr, Secretary, Kansas Department of Commerce, said Kansas unemployment numbers have moved up and down the scale and now stand at 7.1 percent, which is 2-2.5 points below the national average of 9.7 percent. He indicated that unemployment will trail economic recovery and until a 2.5 percent annualized GDP is realized, unemployment will not improve. Mr. Kerr provided data on the actual change in percentages in all Kansas industries and service-provider jobs (Attachment 9). He commented on the areas of recruitment, retention and expansion of businesses in Kansas and listed various projects the Department of Commerce is pursuing. Mr. Kerr said some new companies require access to capital funds to facilitate locating in Kansas.

Mr. Kerr elaborated on the number of new jobs, businesses and opportunities for employment presently located and/or retained in Kansas. He said the Department of Commerce is continually looking for capital investment opportunities. Looking at trade development he said this is the fourth consecutive year of record-setting exports for Kansas. Mr. Kerr lauded the national recognition which Kansas has received; one magazine selected Kansas as one of the nation's top ten most competitive states for capital investment.

Mr. Kerr reported on a Governor's Round Table event begun in September 2009 for the purpose of gathering information from business and labor leaders across the state. Regional meetings are held quarterly to determine how the economy is impacting business, industry and communities. A preliminary report indicates upturns in the re-hiring of employees.

Status Report on the Kansas Biosciences Authority, Including the National Bio and Agro-Defense Facility

Thomas V. Thornton, President and CEO, Kansas Biosciences Authority (KBA), expressed appreciation to the Legislature for the opportunity given KBA to pursue its mission of advancing Kansas as a national leader in the bioscience arena. He said KBA works to advance research, develop the infrastructure for bioscience, and foster the formation and growth of bioscience companies in Kansas. Mr. Thornton submitted data on the funding and timeline of the National Bio and Agro-Defense Facility (NBAF) conference agreement (Attachment 10). He reported that in 2004 there were 130 million research and development projects conducted; that number increased last year to 253 million and ranked the agency third in the country in the area of research and development. He noted that at present, bio science companies have attracted $37 million in private venture investments and over $7 million in federal small business innovation research grants.

Mr. Thornton said the KBA invested $177 million to establish 32 projects; approximately $227 million has been provided since the inception of NBAF. He said KBA has created 1,151 jobs and attracted more than $110 million in private capital ventures. He indicated that the lawsuit regarding NBAF was dismissed without prejudice. Commenting on the construction at Kansas State University, Mr. Thornton said ground-breaking will begin in August 2010, after an epidemiological study, which is a standard procedure of the area. An evaluation by the National Academy of Sciences must be in place to begin construction.

Mr. Thornton said the KBA receives no funds through the American Recovery and Reinvestment Act of 2009 (ARRA), however, the agency is assisting Kansas Bio Science companies listed under the ARRA in pursuing opportunities outlined in that program. He said that the primary barrier to the success of Bio Science development is the lack of private capital investment.

Status Report on Kansas Technology Enterprise Corporation

Kevin Carr, Interim CEO, Kansas Technology Enterprise Corporation (KTEC), presented a perspective on the purpose of KTEC, stating that the organization seeks to stimulate innovative business entrepreneurship (Attachment 11). He said college graduates hold the opinion that self-employment provides a more secure future position than full-time work with a corporation, and young people are doing start-up companies at a faster rate than their middle-aged counterparts.

Mr. Carr explained the allocation of current year budget reductions, stating $1 million in funds carried over from FY 2009 to FY 2010 will provide some stability. He said KTEC provides support for companies seeking to create jobs; many have great technology, however, funds to initiate that business are not easily available. Mr. Carr commented on grant programs, including the Experimental Program to Stimulate Competitive Research (EPSCoR) and the Strategic Technology Research Fund (STAR), both of which are federally based. He explained the PIPELINE program focuses on identifying high potential technology entrepreneurs, coordinating their training, and providing resources and mentors to facilitate future economic growth in Kansas.

Mr. Carr said KTEC has an investment program which provides pre-bank financing and pre-venture capital for small companies who are developing innovative products and are in the early stages of moving products into a full-fledged business. He reported that a tax incentive through Angel Tax Credits reduces risk to an investor and makes investment into the company more financially enticing. Mr. Carr said the estimated effect of the investment program on the Kansas economy has great potential.

Mr. Carr submitted KTEC's response to the Kansas, Inc., evaluation as seen in (Attachment 12).

Status Report on the Mid-American Manufacturing Technology Center

Sandy Johnson, CEO, Mid-American Manufacturing Technology Center (MAMTC), spoke on the importance of manufacturing, stating that one hundred percent of all job growth in America comes from small and medium-sized companies (Attachment 13). Her report includes the number of manufacturers in Kansas, the number of employees and the average wage paid in the state. Ms. Johnson stated MAMTC's promise to small and mid-sized Kansas manufacturers is to help them develop and implement plans for reducing costs by 20 percent and growing top-line sales by 20 percent. She commented on the positive impact MAMTC has had during the past two years, showing the success of the agency. Ms. Johnson said that growing all Kansas businesses by ten employees would result in an increase of 39,000 employees and $1.8 billion increase in payroll.

Afternoon Session

Overview of Legislative Budget Processes in Other States

Arturo Perez, Program Principal, National Conference of State Legislatures (NCSL), Denver, Colorado, introduced a research paper, *The Power of the Purse: Legislatures That Write State Budgets Independently of the Governor,* by Ronald Snell, written originally for the Kansas Legislature in June 2007 (Attachment 14). He commented on the budget committee structure of four states – Arizona, Colorado, Oklahoma, and Texas, saying three of the legislatures have a budget process that is as centralized as the executive branch process in their respective states. Oklahoma differs in that the entire membership of the legislature is actively involved in the budget process.

Mr. Perez directed attention to the budget and calendar cycles of various legislatures. A table showing the average number of appropriations bills introduced and the entity that writes bills to be introduced is included in his testimony. He provided a chart on the timing of agency budget requests and the maximum time the legislature or a committee has to consider the budget. Mr. Perez noted the structure and size of appropriation standing committees (Attachment 15). The budgeting procedure for each state is available on (Attachment 16).

Mr. Perez commented on state finances saying, that states are preparing to adopt their budgets earlier this year than previously. He reported there is a total of $144 billion in budget cuts nationwide. Mr. Perez indicated that sometime later this month NCSL will have a full and comprehensive report of state revenues since July 2009. He said early reports show revenue is trending downward in income, tax returns, and sales. Mr. Perez said about 21 states have implemented furloughs and layoffs of employees.

Mr. Perez will provide Committee members and staff with information packets from NCSL on performance-based budgeting.

Review of Budget Process Reform Legislation Pending from the 2009 Session

J. G. Scott, Legislative Research Department, provided an overview of House and Senate bills pertaining to the budget process and explained the implications of each bill (Attachment 17).

Capitol Restoration Review

Barry Greis, Statehouse Architect, addressed the Committee on the present status of renovation to the Capitol (Attachment 18). He provided a timeline for reintegration of the representatives presently located in the Docking Building, spoke about the relocation of the State Library, and explained the combining of committee rooms in the Docking Building. Mr. Greis commented on the work being done on the exterior of the Capitol, the north wing visitor center and the interior rotunda. He quoted the total expenditures as of June 30, 2009, to be about $169 million.

Mr. Greis will provide the Committee with information on the amount of interest being paid on the bonds. He offered members a tour of the Capitol following adjournment of the Committee.

Potential Budget Solutions

Robert J. Vancrum, Vancrum Law Firm, LLC, spoke to the Committee on budget solutions related to building operations and savings on waste (Attachment 19). He introduced two men whose consulting business expertise has saved money for both public and private entities. He said their proposed model could save the state up to $15-$20 million in ongoing costs.

Tim Gray, Director of Waste Remedies, Inc., has led and maintained the firm's business development and consulting programs for five years with employees in St. Louis, Missouri, and Des Moines, Iowa (Attachment 20). He said Kansas is paying for much more trash service than necessary and Waste Remedies has tools to analyze and implement reduced costs for waste services. He responded to a member's question by stating that a two-ton waste container designed to hold ten tons, and making five trips per day at a cost of $200 per trip is not cost effective.

Dave Mosby, Senior Consultant for Talisen Technologies, Inc., addressed the Committee on the topic of energy consumption in state operations, utilities and real estate (Attachment 21). He gave examples of the work done for Missouri's 34 million square feet of real estate. His aggressive work to reduce the escalating costs incurred by the state resulted in over $20 million savings annually in the area of real estate, facility operations, construction and energy expenditures. Mr. Mosby explained that information is gained through a secure communication system and interfaced with an access portal where specific data related to expended energy is analyzed resulting in significant savings. His testimony included numerical results in savings. Mr. Mosby responded to a Committee member's question stating that a baseline is established per square foot on commodities, gas, electricity, space, and energy consumption. The cost savings is then based on that information.

The Chairman recognized Representative Crum who presented data on programs and sub-programs administered the Kansas Department of Social and Rehabilitation Services including the agency's requests for funds and the Governor's recommendations (Attachment 22). His report expands on the information provided to subcommittees. The Chairman recommended the information be kept for future reference.

Committee Bill Introductions

Representative Donohoe inquired about the issue of catastrophic aid previously discussed in the Education Committee and requested the Legislative Education Planning Committee be apprised of any upcoming bill introduction by the Post Audit Committee.

Representative Watkins moved that a bill be introduced regarding performance-based budgets. Representative DeGraaf seconded the motion. The motion passed.

Representative Watkins made a motion that a bill be introduced creating a Sunset Commission. Representative Donohoe seconded the motion. The motion passed.

Representative Yoder moved that a bill be introduced that would repeal the statute requiring a judge in each county, and have the assignment of judges determined by the Judicial Branch. Representative Feuerborn seconded the motion. The motion passed.

Representative Feuerborn made a motion that a bill be introduced to change district magistrate judges to district judge positions. Representative Watkins seconded the motion. The motion passed.

Chairman Yoder again expressed appreciation for the hospitality provided by Representative Peter DeGraaf and his wife, Karen. He thanked Committee members for their participation and noted the tour of the building with Barry Greis.

The next meeting is tentatively scheduled for November 17 and 18, 2009.

The meeting was adjourned at 4:15 p.m.

Prepared by Florence Deeter
Edited by Amy Deckard and Christina Butler

Approved by Committee on:

November 24, 2009
(Date)