

Capitol Building
Room 241 South
Topeka, KS 66612



phone: 785-296-3232
fax: 785-368-8788
governor@ks.gov

Office of the Governor

Sam Brownback, Governor

April 26, 2013

The Honorable Marc Rhoades, Chairperson
House Committee on Appropriations
Room 351-S, Statehouse

and

The Honorable Ty Masterson, Chairperson
Senate Committee on Ways and Means
Room 545-S, Statehouse

Dear Representative Rhoades:

The items contained in this memo, Governor's Budget Amendment No. 2, amend the budget that I submitted to you in January. These items reflect new issues that have arisen or changes that can be made based on new information. Total adjustments to expenditures and positions are shown below.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	(\$ 36,851,287)	(\$17,469,214)	\$2,749,481
All Other Funds	<u>(60,084,763)</u>	<u>12,911,454</u>	<u>(1,357,815)</u>
All Funds	(\$ 96,936,050)	(\$ 4,557,760)	\$1,391,666
FTE Positions	--	--	--
Non-FTE Unclassified Permanent	<u>--</u>	<u>1.00</u>	<u>1.00</u>
Total Positions	--	1.00	1.00

Department of Administration

1. Bonding Authority Designation to State Finance Council

The recently issued federal budget proposal for the Department of Homeland Security includes \$714.0 million for the National Bio and Agro-Defense Facility. To honor the state's commitment on this project, I recommend that the Legislature delegate additional bonding authority to the State Finance Council of \$202.0 million. It is not yet clear as to when debt

Senate Ways and Means Committee
Date: 05-09-2013
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service payments on these bonds will begin, but I will include the necessary amounts in future budgets as the project develops.

Board of Indigents Defense Services

2. Experts and Transcripts

The Board of Indigents Defense Services has realized greater trial expenses for expert witnesses and transcripts. To finance these necessary expenses, I amend my budget to add \$103,000 for FY 2013 and \$290,000 for FY 2014 as well as FY 2015. This reflects the increase in actual and estimated costs.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ 103,000	\$ 290,000	\$ 290,000
All Other Funds	<u>---</u>	<u>---</u>	<u>---</u>
All Funds	\$ 103,000	\$ 290,000	\$ 290,000

3. Assigned Counsel Consensus Adjustments

I amend my budget to reflect the funding needed for the increase in cases that are handled by assigned counsel through the Board of Indigents Defense Services. The adjustments are the result of consensus estimates that involved the staff of the Board of Indigents Defense Services, the Legislative Research Department, and the Division of the Budget. My goal is to fully finance the assigned counsel required for the public defenders to the extent the agency's own employees cannot handle the workload. For FY 2013, it is estimated that a \$600,000 State General Fund increase will be needed. For both FY 2014 and FY 2015, it is estimated that \$1.3 million will be needed.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ 600,000	\$ 1,300,000	\$ 1,300,000
All Other Funds	<u>---</u>	<u>---</u>	<u>---</u>
All Funds	\$ 600,000	\$ 1,300,000	\$ 1,300,000

Kansas Lottery

4. Message on Lottery and Gaming Revenues

Lottery ticket sale estimates provided by the Kansas Lottery indicate that the State General Fund transfer amounts that were used in my original budget must now be reduced by \$2.0 million in FY 2013, and \$500,000 in both FY 2014 and FY 2015.

The Consensus Revenue Estimating Group on Gaming Revenues met in April 2013 to revise revenue estimates from the three state-owned casinos. The amount of revenue that will be generated from the three casinos was reduced over the three fiscal years as follows:

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
ELARF	(\$ 84,000)	(\$ 1,598,000)	(\$ 2,738,000)
Problem Gambling/Addict Grant Fund	(6,000)	(138,000)	(242,000)
Local Cities/Counties	(9,000)	(207,000)	(363,000)
Casino Managers	<u>(201,000)</u>	<u>(4,957,000)</u>	<u>(8,757,000)</u>
All Funds	(\$ 300,000)	(\$ 6,900,000)	(\$12,100,000)

Expenditures through the statutory formula to make payments to local cities and counties where the casinos are located and to the casino managers must now be reduced as a result of the new revenue estimate, and I amend my budget to account for this change.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ --	\$ --	\$ --
All Other Funds	<u>(210,000)</u>	<u>(5,164,000)</u>	<u>(9,120,000)</u>
All Funds	(\$ 210,000)	(\$5,164,000)	(\$9,120,000)

The reduced estimate also requires reductions to planned expenditures from the ELARF and Problem Gambling and Addictions Grant Fund. I hereby amend the debt service budget for the Department of Administration in both FY 2014 and FY 2015 to account for these new revenue estimates and request that language be added to the appropriations bill to allow the State General Fund to make up for future ELARF revenue shortfalls.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ --	\$1,598,000	\$ 2,738,000
All Other Funds	<u>--</u>	<u>(1,598,000)</u>	<u>(2,738,000)</u>
All Funds	\$ --	\$ --	\$ --

Similarly, I amend the Addiction and Prevention Services Grant Program in the Department for Aging and Disability Services that is financed from the Problem Gambling and Addictions Grant Fund to ensure that current services are maintained.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ --	\$ 138,000	\$ 242,000
All Other Funds	<u>--</u>	<u>(138,000)</u>	<u>(242,000)</u>
All Funds	\$ --	\$ --	\$ --

**Department for Aging & Disability Services, Department for Children & Families,
Department of Health & Environment, and Department of Corrections/Juvenile Justice
Authority**

5. Caseload Adjustments

I amend my FY 2013, FY 2014 and FY 2015 budget to reflect changes in caseload levels and the cost of assistance programs. These adjustments are the result of consensus caseload estimates that involved the staff of the Department of Health and Environment, the Department for Children and Families, the Legislative Research Department, the Department for Aging and Disability Services, the Department of Corrections/Juvenile Justice Authority, and the Division of the Budget. The caseload estimates include expenditures for KanCare medical programs, Non-KanCare programs including Nursing Facilities for Mental Health (state only) and Frail Elderly/Physical Disability Waiver Assessments, Temporary Assistance to Families, the Reintegration/Foster Care Contracts, and Out of Home Placements. As the starting point for the current estimate the group used my original budget recommendation as adjusted by my first budget amendment.

For FY 2013, the estimate is an all funds decrease of \$97.4 million and a State General Fund decrease of \$37.6 million as compared to my original budget. The new estimate for the Temporary Assistance to Families Program reflects a reduction in beneficiaries that has resulted from program policies and decreasing unemployment in Kansas. The reduced estimate for the Juvenile Justice Authority's Out of Home Placements reflects fewer children in the system and a temporary loss of some special revenue funding utilized in the program. The Foster Care Contract is estimated to increase in the current year. More children are estimated in this program as the result of an increase in referrals and a decrease in permanent placements.

The major difference in the current estimate from the prior one is in the KanCare program. The reduction of \$97.8 million from all funding sources is attributable to several factors including fewer than previously expected beneficiaries, particularly beneficiaries who receive high cost services. In addition, certain costs associated with converting to the new KanCare program have not been as high as previously estimated and the timing of those costs have been different than was previously expected.

For FY 2014, the estimate is a decrease of \$21.1 million from all funding sources and \$24.6 million from the State General Fund. These adjustments include a decrease of \$4.1 million for the Temporary Assistance to Families program which reflects new program policies and the expectation that the Kansas economy will continue to improve. The estimate for Foster Care is reduced by \$4.4 million, including \$3.7 million from the State General Fund. The savings are expected to result from new contracts that will go into effect on July 1, 2013. A switch from five regions to four will reduce fixed costs in the system. Although overall costs are estimated to decrease with the new contracts, the estimate is based on higher number of children in the program. Conversely, the new estimate for the Department of Corrections/Juvenile Justice Out of Home Placements reflects fewer children in the system and estimated savings of \$676,669.

The FY 2014 estimate for KanCare refines expectations for the new program and reflects a decrease of \$14.8 million from all funding sources and \$23.7 million from the State General

Fund. The larger reduction to the State General Fund is mainly due to a temporary increase in payments to primary care physicians that is fully funded with federal Medicaid dollars. The effects of this policy change were not included in the prior estimate.

For FY 2015, the estimate for all human services caseloads is a decrease of \$10.9 million, including \$5.6 million from the State General Fund, as compared to the Governor's recommended budget. The estimate for the Temporary Assistance to Families is a decrease of \$5.2 million all in federal funds. As was the case for the FY 2013 and FY 2014 estimates, the number of families is expected to decrease as economic conditions improve. Foster Care and Department of Corrections/Juvenile Justice Out of Home Placements are also decreased in the new estimates. The Foster Care estimate reflects savings of \$7.1 million resulting from the new contracts and the Juvenile Out of Home Placements estimate reflects savings of \$1.2 million resulting from fewer children in the program. The total estimate for the KanCare program in all agencies in FY 2015 reflects an increase of less than \$1.0 million or 0.03 percent. The FY 15 KanCare estimate is also impacted by the anticipated change in the Federal Medical Assistance Percentage (FMAP) rate which changed from 43.19 to 43.02 and lowered the state share by .17 percentage points, or approximately \$4.4 million for FY 15.

Dept. for Aging & Disability Svc.:

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	(\$38,894,103)	(\$ 45,627,661)	\$ 1,855,704
All Other Funds	<u>(58,835,852)</u>	<u>(52,070,139)</u>	<u>--</u>
All Funds	(\$97,729,955)	(\$ 97,697,800)	\$ 1,855,704

Dept. for Children & Families:

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ 1,819,950	(\$3,672,837)	(\$ 7,235,135)
All Other Funds	<u>(959,230)</u>	<u>(4,827,989)</u>	<u>(5,035,604)</u>
All Funds	\$ 860,720	(\$8,500,826)	(\$12,270,739)

Dept. of Health & Environment:

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ --	\$24,470,000	\$ --
All Other Funds	<u>--</u>	<u>60,530,000</u>	<u>--</u>
All Funds	\$ --	\$85,000,000	\$ --

Dept. of Corrections/Juv. Justice:

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ (480,134)	\$ 224,812	\$ (251,560)
All Other Funds	<u>(79,681)</u>	<u>(153,029)</u>	<u>(228,016)</u>
All Funds	\$ (559,815)	\$ 71,783	\$ (479,576)

Department for Aging & Disability Services

6. Home and Community Based Services Waiting Lists

I amend my FY 2014 and FY 2015 budget to add \$18.5 million in FY 2014 and \$18.6 million in FY 2015, including \$8.0 million from the State General Fund to provide services to people on the Medicaid Home and Community Based Services (HCBS) Waiver for the Developmentally Disabled and for the Physically Disabled. The state funding will draw down additional federal support and would be split between the two waivers. This budget adjustment was made possible when the Human Services Consensus Caseload Estimate for entitlement programs was decreased for FY 2013, FY 2014 and FY 2015.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ --	\$ 8,000,000	\$ 8,000,000
All Other Funds	<u>--</u>	<u>10,522,806</u>	<u>10,596,000</u>
All Funds	\$ --	\$ 18,522,806	\$ 18,596,000

Department for Children and Families

7. Tobacco Settlement Revenue Estimates

The Kansas Legislative Research Department, the Division of the Budget, and the Attorney General's Office met on April 23, 2013, to discuss the projected revenue from the tobacco settlements. Actual receipts from the tobacco settlement agreement for FY 2013 now total just under \$68.0 million, an increase of \$12.2 million above the estimate used in my original budget recommendation, as actual payments from the tobacco companies were higher than anticipated in the fall. I amend my budget for FY 2013 to include a transfer of \$9.5 million from the Kansas Endowment for Youth (KEY) Fund to the State General Fund. This new transfer will not affect transfers from the KEY Fund to the Children's Initiatives Fund (CIF) or expenditures from the CIF in FY 2013.

The consensus estimate for tobacco settlement receipts for FY 2014 now totals \$55.0 million, an increase of \$3.5 million above the estimates used to develop my budget. There was not a revenue estimate by the fall 2012 consensus group due to uncertainty surrounding the legal proceedings involving the settlement agreement. The consensus estimate for FY 2015 is also \$55.0 million, an increase of \$3.0 million above what had been used in my budget.

As of the time of this recent spring meeting, the proposed settlement had been accepted by the arbitration panel; however, the overall fiscal effect of the precise terms of the settlement was being finalized with respect to the states. I amend my budget for both FY 2014 and FY 2015 to increase the transfer from the KEY Fund to the CIF and use those funds for the Early Childhood Block Grant Program to replace \$4,629,484 from the State General Fund with the same amount from the CIF. Total expenditures for the program will not change. My intent is that funding from this source is put on a steady course now that a new settlement has been accepted.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ --	(\$4,629,484)	(\$4,629,484)
All Other Funds	<u>--</u>	<u>4,629,484</u>	<u>4,629,484</u>
All Funds	\$ --	\$ --	\$ --

KDHE—Division of Health Care Finance

8. External Quality Review Contract

For FY 2014, the Kansas Department for Aging and Disability Services (KDADS) proposed the transfer of an external quality review contract to the Division of Health Care Finance of the Kansas Department of Health and Environment (KDHE). The contract is responsible for evaluating the managed care contracts for Medicaid mental health and substance use disorders that are now part of KanCare. The Governor's recommendation reduced KDADS budget by \$385,777, including \$196,472 from the State General Fund, for this item. No adjustments were made to the KDHE budget in the Governor's recommendation. KDHE does not require additional State General Fund, but does need an increase in the Medical Programs Fee Fund limitation in order to pay the state share of this contract. I hereby amend my budget to increase KDHE expenditures in FY 2014 and FY 2015 by \$385,777 and to increase the expenditure limitation of the Medical Programs Fee Fund in both years.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ --	\$ --	\$ --
All Other Funds	<u>--</u>	<u>385,777</u>	<u>385,777</u>
All Funds	\$ --	\$ 385,777	\$ 385,777

Schools for the Deaf and Blind

9. Authorization to Transfer Funds between the School for the Deaf and the School for the Blind

For operational flexibility, I amend my budget to allow the Superintendent of the Schools for the Deaf and the Blind, with approval of the Director of the Budget, to transfer funds between individual State General Fund appropriations of the School for the Blind and School for the Deaf during FY 2013, FY 2014 and FY 2015. The schools continue to realize operational efficiencies and this authorization will assist in these efforts while ensuring essential services are maintained. The following language would be inserted in the appropriations bill:

- (a) During the fiscal year ending June 30, 2013, the superintendent for the schools for the deaf and the blind, with the approval of the director of the budget, may transfer any part of any item of appropriation for fiscal year 2013 from the state general fund for the school for the deaf or the school for the blind to another item of appropriation for fiscal year 2013 from the state general fund for the school for the deaf or the school for the

blind. The superintendent for the schools for the deaf and the blind shall certify each such transfer to the director of accounts and reports and shall transmit a copy of each such certification to the director of legislative research.

(b) During the fiscal year ending June 30, 2014, the superintendent for the schools for the deaf and the blind, with the approval of the director of the budget, may transfer any part of any item of appropriation for fiscal year 2014 from the state general fund for the school for the deaf or the school for the blind to another item of appropriation for fiscal year 2014 from the state general fund for the school for the deaf or the school for the blind. The superintendent for the schools for the deaf and the blind shall certify each such transfer to the director of accounts and reports and shall transmit a copy of each such certification to the director of legislative research.

(c) During the fiscal year ending June 30, 2015, the superintendent for the schools for the deaf and the blind, with the approval of the director of the budget, may transfer any part of any item of appropriation for fiscal year 2015 from the state general fund for the school for the deaf or the school for the blind to another item of appropriation for fiscal year 2015 from the state general fund for the school for the deaf or the school for the blind. The superintendent for the schools for the deaf and the blind shall certify each such transfer to the director of accounts and reports and shall transmit a copy of each such certification to the director of legislative research.

University of Kansas Medical Center

10. Midwest Stem Cell Therapy Center

I amend my budget to provide \$1.2 million for start-up costs for the Midwest Stem Cell Therapy Center at the University of Kansas Medical Center. Ongoing costs for the Center will be \$754,500. The Midwest Stem Cell Therapy Center will focus on activities that advance adult, cord blood and related stem cell research, and therapies for patient treatment. The Center will partner with the Blood and Marrow Transplant Center of Kansas. The state funds will be deducted from the stream of income tax withholding directed to our state's investment in the bioscience industry.

	FY 2013	FY 2014	FY 2015
State General Fund	\$ --	\$ --	\$ --
All Other Funds	--	1,154,500	754,500
All Funds	\$ --	\$ 1,154,500	\$ 754,500

Adjutant General

11. Homeland Security

Because of the federal budget sequester, the Adjutant General has lost federal Homeland Security and Emergency Management Performance Grant funds. The loss of federal funds will greatly reduce the agency's ability to meet its obligations for disaster preparedness, response,

recovery, and mitigation efforts to protect our state. I therefore amend my budget to replace the lost federal funding with state support and to add funding for 1.00 non-FTE unclassified permanent position to begin the coordination and planning efforts with state and federal partners for the National Bio and Agro-Defense Facility in both FY 2014 and FY 2015.

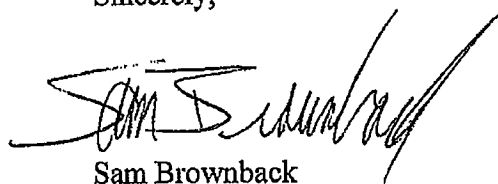
	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
State General Fund	\$ --	\$ 439,956	\$ 439,956
All Other Funds	--	<u>(359,956)</u>	<u>(359,956)</u>
All Funds	\$ --	\$ 80,000	\$ 80,000
FTE Positions	--	--	--
Non-FTE Unclassified Permanent	--	<u>1.00</u>	<u>1.00</u>
Total Positions	--	1.00	1.00

Message on the Judicial Branch

Fourteenth Court of Appeals Judge and Staff

In my original budget, I included funding in the amount of \$421,559 from the State General Fund for the 14th Court of Appeals Judge and staff in FY 2014 and FY 2015. In recognition of the essential nature of the activities of the Court of Appeals and the importance of finally reaching the complement of judges initially recommended by the 2001 Legislature, the 2013 Legislature passed HB 2019, which I signed into law on March 27, 2013. In order to implement the provisions of the bill, which require that a 14th Judge of the Court of Appeals be appointed within 60 days of the effective date of the bill, I encourage the Legislature to include this funding in the Judicial Branch budget for FY 2014 and FY 2015.

Sincerely,



Sam Brownback
Governor

