

April 20, 2016

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

and

The Honorable Ron Ryckman, Jr., Chairperson
House Committee on Appropriations
Room 111-N, Statehouse

Dear Senator Masterson and Representative Ryckman:

The items contained in this memo, Governor's Budget Amendment No. 1, amend the budget that I submitted to you in January. The items reflect new issues that have arisen or changes that can be made based on new information. Total adjustments to expenditures and revenues are shown below.

Expenditures:

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ 2,477,663	\$ 4,383,389
All Other Funds	<u>70,663,262</u>	<u>72,631,030</u>
All Funds	\$73,140,925	\$77,014,419

Adjutant General

1. Federal Grant Fund

I amend my budget for the Adjutant General in both FY 2016 and FY 2017 to include a new federal fund and expenditure authority. The agency has a new federal grant for the mitigation, management, and control of wildfires, such as the ones that have recently occurred in southern Kansas. The new fund will be titled Fire Management Assistance Grant - Federal Fund. The agency will begin to receive federal funding in FY 2016; however, there is not enough information to provide an estimate on how much federal funding will be received.

Cabinet Agencies

2. Proviso to Include Expenditure Limit Reduction in IT Savings Certification

The 2015 Session and 2016 Session budget bills require the Director of the Budget to certify funding in cabinet agencies that is not required to be expended or encumbered for information technology projects in FY 2016 and FY 2017. Further, the bill authorizes the Department of Administration to lapse the certified savings from the State General Fund and transfer certified savings from special revenue funds to the State General Fund. The bills do not clarify that the amounts certified from non-SGF appropriated funds should be lapsed from the expenditure limitation as well as transferred to the State General Fund. I therefore amend my budget for FY 2016 and FY 2017 to make that clarification.

On the Effective date of this act, during fiscal year 2016, the amounts transferred from the children's initiatives fund, the economic development initiative fund and the state water plan fund pursuant to section 80(s) of chapter 104 of the 2015 Session Laws of Kansas shall be lapsed.

On the Effective date of this act, during fiscal year 2017, the amounts transferred from the children's initiatives fund, the economic development initiative fund and the state water plan fund pursuant to section 81(s) of chapter 104 of the 2015 Session Laws of Kansas shall be lapsed.

In addition, in order to move forward with the Office of Information Technology Services efforts to consolidate Kansas' information technology infrastructure and organizations, I recommend the following proviso:

On the effective date of this act, during fiscal year 2017, the term "information technology projects" referred to in section 81(s) of chapter 104 of the 2015 Session Laws of Kansas, section 170(c) of chapter 104 of the 2015 Session Laws of Kansas and 2016 House Substitute for Senate Bill 161, section 95(b) shall include information technology-related expenditures including (1) services, labor (full-time, part-time or contract), contract payments, purchases related to planning, designing, developing, testing, implementing, training, operating, supporting, securing and maintaining any of the data, applications and/or technologies defined in paragraphs (2) – (4), (2) all data under the custodianship of the Executive Branch, (3) all computer applications under the custodianship of the Executive Branch, (4) all technology: anything digital that involves any form of compute and/or storage, including: mainframe, servers, network and network related, including switches, routers, cables, fiber, telecommunications and telecommunications-related, PC's, laptops, tablet computers, mobile phones, digital storage in any form or format, printers and fax machines, cloud computing.

Department of Education

3. FY 2016 KPERS-School Employer Contribution Delayed Payment & School Finance Cost of Living Weighting

I signed into law 2016 SB 161, which authorizes the Director of the Budget to delay the fourth quarter employer contributions for KPERS, including the KPERS-School Group.

Although no decision has been formally made to delay the payment, this delay has the potential to affect approximately five school districts that receive funding from the Cost of Living weighting in the school finance formula. Because the KPERS-School employer contributions from the state flow through a district's general fund, any delayed payment in FY 2016 would reduce overall expenditures in a district's general fund. This reduction in expenditures would reduce the amount a district could generate from the Cost of Living weighting, which is financed entirely from a district's local levy. In the event that the fourth quarter employer contributions for the KPERS-School Group are ultimately delayed, I recommend the Legislature authorize the Kansas Department of Education to calculate the Cost of Living weighting as if the KPERS-School employer contributions for the fourth quarter in FY 2016 were not delayed.

Children's Cabinet/Department for Children and Families

4. Nullify Income Eligibility Proviso for Parents as Teachers Program

I recommend that the Legislature nullify the following proviso in 2016 House Substitute for SB 161, Section 50(e): *Provided, however, That any such programs, projects, improvements or services shall: (1) Be for those families whose income is less than 200% of the federal poverty level.*

I recommend the following proviso instead:

Provided, however, That any such programs, projects, improvements or services shall: (1) Be for those families that meet at least one risk criteria; (2) comply with requirements of the temporary assistance to needy families block grant; and (3) meet any other programmatic requirements of the federal guidelines for temporary assistance to needy families program.

Department of Commerce

5. KBA Grant Commitments

I amend my budget for the Department of Commerce to add \$6,570,000 from the State General Fund in FY 2017 that will be dependent on the State Finance Council approving the sale of the Kansas Bioscience Authority (KBA) portfolio through delegated authority from the Legislature. Once the sale is approved, all proceeds of the KBA portfolio will be deposited in the State General Fund and long-term grant commitments made by the KBA will be transferred to the Department of Commerce. The KBA has estimated that its future commitments are estimated to be \$9,942,000 that will be paid out over the next four fiscal years, including \$6,570,000 that is estimated to be paid out in FY 2017. Future long-term grant commitments will be addressed in future budgets.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ --	\$ 6,570,000
All Other Funds	--	--
All Funds	\$ --	\$ 6,570,000

Kansas Bioscience Authority

6. Reduce State General Fund Transfer to the Kansas Bioscience Authority

I amend my budget to reduce the State General Fund transfer to the Kansas Bioscience Authority from \$2.0 million to \$997,663 for FY 2016. Reducing this transfer will increase State General Fund revenues by \$1,002,337.

Revenues:

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ 1,002,337	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 1,002,337	\$ --

Kansas Lottery

7. 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 increased by \$2.0 million in FY 2016. These transfer adjustments from the State Gaming Revenues Fund are already accounted for in the April Consensus Revenue Estimate.

The Consensus Revenue Estimating Group on Gaming Revenues met in April 2016 to revise revenue estimates from state-owned casinos. The amount of net revenue that will be generated from state-owned casinos was adjusted over the two fiscal years as follows:

	<u>FY 2016</u>	<u>FY 2017</u>
ELARF	\$ 410,000	(\$1,702,000)
Problem Gambling/Addict Grant Fund	36,000	(156,000)
Local Cities/Counties	54,000	(234,000)
Casino Managers	<u>1,300,000</u>	<u>(5,708,000)</u>
Total Casino Net Revenue	\$ 1,800,000	(\$7,800,000)

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 adjusted as a result of the new revenue estimate, and I amend my budget to account for this change.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>1,354,000</u>	<u>(5,942,000)</u>
All Funds	\$ 1,354,000	(\$5,942,000)

The revised estimates for the ELARF and Problem Gambling and Addictions Grant Fund will also affect planned transfers to the State General Fund. Language already exists for FY 2016 and FY 2017 that allows additional ELARF and Problem Gambling and Addictions Grant

Fund revenues to be transferred to the State General Fund. For FY 2016, the transfer to the State General Fund is increased by \$410,000 from the ELARF and \$36,000 from the Problem Gambling and Addictions Grant Fund. The FY 2017 planned transfers from the ELARF and Problem Gambling and Addictions Grant Fund to the State General Fund were reduced by \$1,702,000 and \$156,000, respectively. These transfer adjustments are already accounted for in the April Consensus Revenue Estimate.

State General Fund Transfer Adjustments

	<u>FY 2016</u>	<u>FY 2017</u>
State Gaming Revenues Fund	\$2,000,000	\$ --
ELARF	410,000	(1,702,000)
Problem Gambling/Addict Grant Fund	<u>36,000</u>	<u>(156,000)</u>
Total SGF Transfer Adjustments	\$2,446,000	(\$1,858,000)

Department for Aging & Disability Services, Department of Health & Environment, and Department of Corrections

8. Message on Medicaid KanCare Expenditures

Currently in the state accounting system all Medicaid KanCare expenditures are made from the Department of Health and Environment (KDHE). An allocation tool is then applied to divide the expenditures between KDHE, the Department for Aging and Disability Services (KDADS) and the Department of Corrections (DOC). This allocation of expenditures requires additional administrative work, not only for KDHE, KDADS and DOC, but also for the Kansas Legislative Research Department and the Division of the Budget. The current procedure makes the tracking and forecasting of KanCare expenditures unnecessarily cumbersome. I recommend that beginning in FY 2018, all KanCare expenditures be budgeted for and reflected in KDHE only. This would be a change in accounting and budgeting procedures only. Responsibility for program policies and performance would remain with KDADS and DOC.

Department for Aging & Disability Services, Department for Children & Families, Department of Health & Environment, and Department of Corrections

9. Caseload Adjustments

I amend my FY 2016 and FY 2017 budget to reflect changes in caseloads 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, 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 the approved budget in 2016 House Substitute for SB 161.

The FY 2016 estimate for all human services caseloads is \$3.0 billion from all funding sources, including \$1.1 billion from the State General Fund. The estimate is an all funds increase of \$100.2 million, including an increase of \$3.3 million from the State General Fund, as compared to the approved budget. The estimate for the Temporary Assistance to Needy Families program is a decrease of \$648,965, all from federal funds. The number of families receiving services is expected to decrease at a faster rate than had been anticipated in the fall consensus caseload estimate. Expenditures for Foster Care are decreased by \$2.1 million from all funding sources, including \$4.6 million from the State General Fund. The decrease in all funds is attributable to an increase in the number of children anticipated to be in the foster care system, although the increase is lower than the estimate that was made by the group in the fall estimate. The estimate for the Department of Corrections/Juvenile Services Out of Home Placements is decreased by \$3.3 million, all from the State General Fund, to reflect a reduction in the numbers of youth in DOC out-of-home placements.

The FY 2016 estimate for KanCare Medical is \$2.8 billion, including \$968.9 million from the State General Fund. The total estimate for the KanCare program in all agencies in FY 2016 reflects an increase of \$101.4 million from all funding sources and an increase of \$8.4 million from the State General Fund. For the Department of Health and Environment, the KanCare Medical estimate is \$2.0 billion from all funding sources, including \$663.0 million from the State General Fund. The Department for Aging and Disability Services' KanCare Medical estimate is \$764.7 million from all funding sources, including \$304.5 million from the State General Fund. The KanCare Medical estimate for the Department of Corrections is \$3.2 million, including \$1.4 million from the State General Fund. The major contributor to the increase for FY 2016 KanCare is the higher cost of capitated negotiated rates and estimated growth in population which take into account recent processing delays and KanCare policy changes instituted in FY 2016. An additional \$18.9 million from KDHE fee funds was added to meet the state expenditure obligation in lieu of adding the same amount from the State General Fund. The FY 2016 estimate for KDADS Non-KanCare was an increase of \$4.8 million, including \$2.8 million from the State General Fund. The new estimate is increased because of the eligibility determination backlog that is requiring an increase in retroactive fee-for-service payments.

The FY 2017 estimate for all human services caseloads is \$3.0 billion from all funding sources, including \$1.1 billion from the State General Fund. The estimate is an all funds increase of \$91.9 million from all funding sources and \$2.1 million from the State General Fund, as compared to the approved budget in 2016 House Substitute for SB 161. The estimate for the Temporary Assistance to Needy Families program is a decrease of \$1.7 million all from federal funds. The number of families receiving services is expected to decrease at a faster rate than had been anticipated in the fall estimate. Expenditures for Foster Care are decreased by \$3.2 million from all funding sources, including \$1.5 million from the State General Fund. The decrease in all funds is attributable to the fact the number of children in out-of-home placement is expected to be lower than what had been anticipated in the fall consensus caseload estimate. The estimate still anticipates an increase in the number of kids in the foster care system for FY 2017. The estimate for the Department of Corrections/Juvenile Services Out-of-Home Placements is

reduced by \$1.5 million, including \$1.1 million from the State General Fund, to reflect a reduction in the numbers of youth in DOC out-of-home placements.

The FY 2017 estimate for KanCare Medical is \$2.8 billion, including \$957.2 million from the State General Fund. The new estimate reflects an increase of \$96.8 million from all funding sources, including \$2.8 million from the State General Fund. For the Department of Health and Environment, the KanCare Medical estimate is \$2.1 billion from all funding sources, including \$657.0 million from the State General Fund. The Department for Aging and Disability Services' KanCare Medical estimate is \$699.0 million from all funding sources, including \$298.7 million from the State General Fund. The KanCare Medical estimate for the Department of Corrections is \$3.5 million, including \$1.5 million from the State General Fund. The major contributor to the increase for FY 2017 KanCare is the higher cost of capitated negotiated rates and estimated growth in population, which take into account recent processing delays and KanCare policy changes instituted in FY 2016. An additional \$24.2 million from KDHE fee funds was added to meet the state expenditure obligation in lieu of adding the same amount from the State General Fund. The FY 2017 estimate for KDADS Non-KanCare is an all funds increase of \$1.4 million, including an increase of \$1.9 million from the State General Fund. The estimate is increased because of the eligibility determination backlog that is requiring an increase in retroactive fee for service payments.

Department for Aging & Disability Services:

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$34,800,443	\$28,600,000
All Other Funds	<u>61,002,126</u>	<u>49,700,000</u>
All Funds	\$95,802,569	\$78,300,000

Department for Children & Families:

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	(\$4,620,000)	(\$1,534,000)
All Other Funds	<u>7,353,633</u>	<u>(3,346,034)</u>
All Funds	(\$2,733,633)	(\$4,880,034)

Department of Health & Environment:

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	(\$23,700,000)	(\$24,178,549)
All Other Funds	<u>33,800,000</u>	<u>43,318,549</u>
All Funds	\$ 10,100,000	\$ 19,140,000

Department of Corrections:

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	(\$3,154,000)	(\$ 781,000)
All Other Funds	<u>195,000</u>	<u>87,000</u>
All Funds	(\$2,959,000)	(\$ 694,000)

Department for Aging & Disability Services

10. Combine Non-Caseload Program Savings with Caseload

I amend my budget to further reduce the Human Services Consensus Caseload estimate for the Kansas Department for Aging and Disability Services by \$32.0 million, including \$11.2 million from the State General Fund, in FY 2016 and \$16.1 million, including \$4.7 million from the State General Fund in FY 2017. These reductions will reallocate non-caseload medical savings to the proper caseload programs.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	(\$11,246,443)	(\$ 4,740,451)
All Other Funds	<u>(20,775,062)</u>	<u>(11,348,485)</u>
All Funds	(\$32,021,505)	(\$16,088,936)

Osawatomie State Hospital

11. OSH Revenue Shortfalls/Decertification Costs

I amend my budget for Osawatomie State Hospital (OSH) to add \$9,503,982 from the State General Fund in FY 2016. Of this amount, \$3,598,494 is attributable to increased expenditures necessary for the continued operations of the hospital, as well as consulting contracts necessary to regain Centers for Medicare and Medicaid Services (CMS) certification. The remaining \$5,905,488 offsets reductions in fee fund and Title XIX revenues to OSH. Revenue shortfalls are attributable to several factors among which is that OSH has been unable to bill Medicare or Medicaid since January 2016 and will not likely regain its ability to bill until July 2016. In addition, OSH is unable to bill certain private insurance companies due to contract provisions that require the hospital be CMS certified. In total, OSH has a projected revenue shortfall of \$5,905,488 in FY 2016.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ 9,503,982	\$ --
All Other Funds	<u>(5,905,488)</u>	<u>--</u>
All Funds	\$ 3,598,494	\$ --

Larned State Hospital

12. LSH Revenue Shortfall/DSH Recoupment

I amend my budget to add \$1,896,018 from the State General Fund in FY 2016 to offset a reduction in Title XIX revenue to Larned State Hospital (LSH). The funding will offset a portion of the loss of federal Disproportionate Share (DSH) revenues that have been withheld from LSH after reconciliation of past cost report audits. LSH inadvertently included Sexual Predator Treatment Program (SPTP) patient counts in certain cost report calculations, resulting in overpayment of DSH. While corrections have been made to ensure these patients are not

included in cost report calculations in the future, without this additional funding LSH will be short the cash necessary to meet its FY 2016 obligations.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$1,896,018	\$ --
All Other Funds	<u>(1,896,018)</u>	<u>--</u>
All Funds	\$ --	\$ --

Various Agencies

13. A & M Savings Certification

I amend my FY 2017 budget to reduce expenditures by \$6.5 million from the State General Fund. The reduction represents savings that will be realized through the implementation of the Alvarez and Marsal recommendations. Since we do not know yet which recommendations will provide the savings or in which agencies the savings will be realized, I recommend that the Director of the Budget certify to the Director of Accounts and Reports amounts to lapse from State General Fund appropriations and amounts to transfer from special revenue funds to the State General Fund for specified agencies. Certification authority would be provided to the Director of the Budget through a budget proviso.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ --	(\$6,500,000)
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	(\$6,500,000)

Osawatomie State Hospital

14. OSH Diversion Beds

I amend my budget to add \$3,855,852 from the State General Fund in FY 2017 to continue to contract for additional inpatient psychiatric beds in the community due to the reduced number of inpatient beds available at Osawatomie State Hospital. These diversion beds provide an important back-up to the state psychiatric hospital during a critical time in the history of its operations. The contracted inpatient psychiatric beds mitigate the impact of the moratorium on admissions to OSH.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ --	\$ 3,855,852
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 3,855,852

15. OSH Direct Care Pay Increases

I amend my budget to add \$1,289,537 from the State General Fund for FY 2017 to increase Registered Nurse pay at OSH by 10.0 percent and Mental Health Technician pay at OSH by 12.0 percent. This increase will provide aid in recruitment and retention of qualified nursing and direct care staff.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ --	\$ 1,289,537
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 1,289,537

Larned State Hospital**16. LSH Direct Care Pay Increase**

I amend my budget to add \$450,000 from the State General Fund in FY 2017 to provide a 2.5 percent pay increase for Mental Health Technicians at Larned State Hospital. In House Substitute for Senate Bill 161, the Kansas Department of Corrections (KDOC) was appropriated additional funding in order to provide its uniformed Correctional Officers a 2.5 percent pay increase. Due to the fact that two KDOC facilities are located on the same campus as LSH, the facilities already compete for qualified employees. Providing a raise for employees of the correctional facilities without providing a similar increase for those employees at LSH will exacerbate the staffing shortfalls the hospital is experiencing as LSH employees are likely to move to KDOC employment at higher pay.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ --	\$ 450,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 450,000

Department for Children and Families**17. Social Worker Pay Rate Increase**

I amend my budget to add \$1.1 million, including \$902,000 from the State General Fund, in FY 2017 to fund pay increases for Department for Children and Families (DCF) social workers. DCF would offer all Social Workers and Social Worker Supervisors a 5.0 percent pay increase if they switched from the Classified Service to the Unclassified Service. Some Social Workers and Supervisors would be given an additional 2.5 percent increase based on merit. These pay increases would improve recruitment and retention in these hard to fill positions.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ --	\$ 902,000
All Other Funds	<u>--</u>	<u>162,000</u>
All Funds	\$ --	\$ 1,064,000

Department of Revenue

18. MSA Compliance Compact with Tribal Nations

I amend my FY 2017 budget for the Department of Revenue to add \$450,000 from the State General Fund. The provisions of the compact between the State of Kansas and the Prairie Band Potawatomi Nation and Iowa Tribe of Kansas and Nebraska will help ensure that Kansas meets the diligent enforcement requirement of the Master Settlement Agreement (MSA) from the 1998 tobacco settlement and allows Kansas to continue to receive approximately \$60.0 million in annual tobacco payments. The compacts require the Department of Revenue to manufacture and deliver specific cigarette tax stamps to each of the Tribal Nations, perform enforcement and accounting activities for tobacco sales on qualified tribal lands, reimbursement of certain enforcement efforts, and payments to the Tribal Nations for its assistance in the state's diligent enforcement requirements of the MSA. The Department of Revenue is requesting 3.00 FTE positions to fulfill the requirements of the MSA Compliance Compacts with the Tribal Nations.

	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	\$ --	\$ 450,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 450,000

All Agencies

19. KPERS

Current law allows a reduction in FY 2016 KPERS employer contributions to be used as a budget balancing tool. Further, 2016 House Substitute for Senate Bill 161 requires that the FY 2016 reduction in contributions be paid into the KPERS fund in the first quarter of FY 2017 with 8.0 percent annual interest. House Substitute for Senate Bill 161 did not call for the budget expenditure authority for agencies to be increased by the same amount as the increase in KPERS employer contributions. If this budget balancing tool is used, all agencies in the three branches of state government will receive a budget reduction in FY 2017. These additional expenditures without corresponding budget adjustments will constitute an across-the-board budget cut. I ask that a provision be added to allow for agency budget authority to be increased by the same amount as the increased KPERS employer contributions in FY 2017 should the KPERS contributions be reduced in FY 2016.

Various Agencies

20. Budget Balancing Choices

In order to balance the FY 2016 and FY 2017 budgets, I offer the following three choices to the 2016 Legislature:

Option One*Governor's Allotment Authority*

The Governor would use his special allotment authority to reduce most of the remaining sales tax going into the State Highway Fund. This would transfer \$70.0 million to the State General Fund in FY 2016 and \$115.0 million in FY 2017. The Governor would also carry forward into FY 2017 the 3.0 percent reduction made to Universities in FY 2016, which would be \$17.7 million in reduced expenditures.

Legislative Approval Required

In option one; the state could securitize future tobacco settlement payments in excess of \$42.0 million for an estimated one-time revenue infusion of approximately \$158.0 million in FY 2017. Children's programs currently financed through the Children's Initiatives Fund would continue to receive funding of \$42.0 million per year. Legislative approval to securitize future tobacco settlement payments would be provided to the Governor through a budget proviso.

See the attached profile for more details on option one.

Option Two*Governor's Allotment Authority*

The Governor would use his special allotment authority to reduce most of the remaining sales tax going into the State Highway Fund. This would transfer \$70.0 million to the State General Fund in FY 2016 and \$115.0 million in FY 2017. The Governor would also carry forward into FY 2017 the 3.0 percent reduction made to Universities in FY 2016, which would be \$17.7 million in reduced expenditures. The Governor would also utilize the special allotment authority to reduce expenditures or transfer \$25.0 million in targeted efficiency savings.

Legislative Approval Required

In option two, the FY 2016 fourth quarter KPERS payment would be delayed, as provided for in 2016 House Substitute for SB 161, but repayment would not be made until FY 2018. Legislative approval to reduce KPERS contributions and delay repayments would be provided to the Governor through a budget proviso.

See the attached profile for more details on option two.

Option Three*Governor's Allotment Authority*

The Governor would use his special allotment authority to reduce most of the remaining sales tax going into the State Highway Fund. This would transfer \$70.0 million to the State General Fund in FY 2016 and \$115.0 million in FY 2017.

Legislative Approval Required

In option three, three to five percent expenditure reductions would be made to most state agencies for FY 2017 and would total \$139.3 million. Following is a summary of the reductions that would be made to state agencies:

3.0 percent reduction

Department for Aging & Disability Services (excludes HCBS appropriation) – \$11,001,850
 Department of Agriculture – \$296,831
 Department of Administration (excludes debt service) – \$282,047
 Fort Hays State University – \$1,016,467
 Office of the Governor – \$201,225
 Kansas Guardianship Program – \$34,389
 Health & Environment—Environment – \$133,228
 Historical Society – \$130,885
 Department of Labor – \$9,363
 KSU—Veterinary Medical Center – \$452,898
 Kansas State University—ESARP – \$1,422,673
 Emporia State University – \$948,769
 Pittsburg State University – \$1,085,716
 State Library – \$120,751
 Board of Regents (excludes debt service) – \$5,930,603
 Court of Tax Appeals – \$23,837
 Department for Children & Families (excludes caseloads) – \$4,225,999
 Department of Education* – \$ 57,262,285
 University of Kansas Medical Center – \$3,365,797
 Kansas Water Office – \$34,637

* The Department of Education reduction excludes KPERS, bond/interest aid, LOB aid and Capital Outlay aid.

5.0 percent reduction

Health & Environment—Health – \$35,636,050
 Kansas State University – \$5,122,604
 University of Kansas (excludes debt service) – \$6,814,504
 Wichita State University – \$3,728,210

See the attached profile for more details on option three.

Sincerely,



Sam Brownback
 Governor