



March 10, 2021

BILL EXPLANATION FOR SB 267 AND SB 268

SB 267 and SB 268 include adjusted funding for fiscal year (FY) 2021 and FY 2022 for state agencies and FY 2021 and FY 2022 capital improvement expenditures for a number of state agencies. An overview of the Governor's amended budget recommendations for FY 2021 and FY 2022, as adjusted by Governor's Budget Amendment No. 1, is below.

SB 267 and SB 268 do not include the Governor's recommendation to reamortize the Kansas Public Employees Retirement System (KPERs) legacy unfunded actuarial liability over 25 years. If substantive legislation, such as that introduced in SB 266, is not passed to reamortize, cost savings attributable to the Governor's reamortization recommendation would be deleted and would increase expenditures by \$177.3 million, including \$158.7 million from the State General Fund (SGF), in FY 2022.

Summary of Changes to Approved FY 2021 Expenditures (SB 267)

The FY 2021 originally approved budget totaled \$19.9 billion, including \$8.0 billion SGF. This approved amount was subsequently increased by \$351.0 million in SGF expenditure authority carried forward from FY 2020 and decreased by the lapse of \$374.5 million SGF due to the Governor's July 2020 allotment. The currently approved FY 2021 budget totals \$19.9 billion, including \$8.0 billion SGF. The approved budget includes full-time equivalent (FTE) positions totaling 40,719.9

In FY 2021, the Governor's recommendation totals \$21.3 billion, with \$7.6 billion financed from the SGF. The recommendation decreases expenditures from the SGF by \$413.0 million below the FY 2021 approved amount, subsequent to the Governor's July 2020 allotment. The approved budget includes \$351.1 million in SGF reappropriations from FY 2020 to FY 2021. The recommendation reduces the SGF approved budget by:

- \$135.2 million, including:
 - A Department of Corrections reduction from the Evidence-Based Juvenile Programs Account (\$42.2 million);
 - Kansas Department for Aging and Disability Services reductions of \$45.9 million, largely related to non-KanCare caseloads and funding offsets for the Social Welfare Fund and the Community Health Center Improvement Fund, and

- A reduction of the Adjutant General's Department budget by \$16.3 million in disaster relief funding and swapping federal Coronavirus Relief Fund moneys for SGF moneys.
- Reducing Human Services Caseloads expenditures by \$166.5 million to reflect the revised Federal Medical Assistance Percentage match rate contained in the federal Families First Coronavirus Response Act;
- Lapsing reappropriations totaling \$30.8 million;
- Reducing K-12 School Finance expenditures by \$27.8 million;
- Swapping SGF salary expenditures for federal funds, predominantly in the Department of Corrections and its facilities and the Adjutant General's Department, to reduce expenditures by \$25.0 million; and
- Reducing expenditures in the Department of Corrections by \$9.1 million to reflect savings from the return of out-of-state inmates.

In addition to the expenditure adjustments, the Governor recommends increasing SGF revenues by \$152.5 million, including \$132.2 million from delaying payment of the Pooled Money Investment Board Bridge Loan and \$17.5 million from a lapse from the Coronavirus Prevention account in the Legislative Coordinating Council back to the SGF.

It is expected the Governor's recommended revenue and expenditure adjustments will produce a current fiscal year ending balance of \$767.5 million, or 10.1 percent, of SGF expenditures.

Total State Expenditures for FY 2022 (SB 268)

Summary of Expenditures from All Funds

The Governor's recommendation totals \$21.0 billion from all funding sources, with \$8.0 billion financed from the SGF, for FY 2022. The recommendation decreases total expenditures by \$305.6 million, and increases SGF expenditures by \$375.1 million, from the FY 2021 revised estimate.

Expenditures by Major Purpose

State Operations—Agency operating costs for salaries and wages, contractual services, commodities, and capital outlay. The Governor's FY 2022 recommendation for state operations is \$5,757.6 million, which is a decrease of \$362.7 million, or 5.9 percent, below the FY 2021 recommendation. It includes a reduction of \$389.5 million in federal COVID-19 funding, predominantly in the Kansas Department of Health and Environment Division of Public Health, Board of Regents and Institutions, the Department for Children and Families, the Adjutant General's Department, and the Department of Labor. Additionally, the Kansas Highway Patrol expenditures decreased by \$16.0 million for a one-time purchase of aircraft. The reductions are partially offset by increases of \$31.5 million for a state employee pay adjustment,

\$29.4 million in contractual service payments for lottery services, and \$22.6 million for salary adjustment in the Kansas Judiciary.

Local Units of Government—Aid payments to counties, cities, school districts, and other local government entities; may be from state or federal funds. The Governor's FY 2022 recommendation for aid to local units of government is \$6,190.1 million, which is a decrease of \$433.2 million, or 6.5 percent, below the FY 2021 recommendation. The decrease is attributable to a reduction of \$400.0 million in the Office of Recovery for direct aid to local cities and counties, \$147.6 million for the KPERS reamortization resulting in reduced K-12 contributions, \$21.1 million from the Adjutant General's Department in COVID-19 relief funding, \$16.7 million in the Department of Commerce from the Job Creation Program Fund and COVID-19 relief funding, and \$15.7 million from the Board of Regents. The reductions are partially offset by an increase of \$173.6 million for implementation of the K-12 education plan.

Other Assistance, Grants, and Benefits—Payments made to or on behalf of individuals as aid, including public assistance benefits, unemployment benefits, and tuition grants. The Governor's FY 2022 recommendation for other assistance, grants, and benefits is \$7,278.5 million, which is an increase of \$143.6 million, or 2.0 percent, above the FY 2021 recommendation. The increase is attributable to \$643.9 million in the Kansas Department of Health and Environment Division of Public Health due to Medicaid Expansion (\$596.0 million) and human services caseload adjustments, and \$77.8 million in the Department for Children and Families for caseload adjustments and adjustments to the Home and Community Based Services waivers. The increases are partially offset by reductions of \$260.1 million in the Department of Labor for unemployment insurance benefits and \$206.3 million in the Department of Commerce for COVID-19 federal assistance.

Capital Improvements—Cash or debt service payments for projects involving new construction, remodeling and additions, rehabilitation and repair, razing, and the principal portion of debt service for a capital expenditure. The Governor's FY 2022 recommendation for capital improvements is \$1,734.9 million, which is an increase of \$346.7 million, or 25.0 percent, above the FY 2021 recommendation. The increase is attributable to \$392.9 million, largely for implementation of the Eisenhower Legacy Comprehensive Transportation Plan. The increase is partially offset by a reduction of \$35.0 million in the Board of Regents and Institutions due to the completion of the University of Kansas heating, ventilation, and air conditioning work and Irving Hill roadwork; the Fort Hays State University Memorial Union addition and south campus drive; and the Kansas State University Willard Hall project. The Kansas Department of Wildlife and Parks expenditures also decrease by \$5.3 million for completion of repairs due to flooding in FY 2019.

FY 2021 and FY 2022 Expenditures for State Employees

Salaries and wages expenditures, including fringe benefits, comprise 52.0 percent of the recommended state operations budget in FY 2021, and salaries and wages expenditures comprise 55.7 percent of the state operations budget for FY 2022.

The Governor's budget does include additional resources for a general, broad-based salary increase for FY 2022. The Governor's recommendation for FY 2022 appropriates \$31.5 million, including \$11.3 million SGF, for a 2.5 percent state employee base pay adjustment. The plan would increase salaries for classified and unclassified employees in the Executive Branch, Legislative Branch, and Judicial Branch. Legislative and elected officials would be excluded from this salary adjustment. The funds would be appropriated to and certified for distribution by

the State Finance Council if approved. Employees of state universities are also not included in the proposed pay plan; however, the Governor recommends adding \$10.4 million, all SGF, to the university operating grants. This amount is equivalent to what the pay plan would have provided for university employees, but the funds are included in the Board of Regents budget for use at its discretion.

The Governor’s recommendation also includes \$20.2 million, all SGF, in salary increases for the Judicial Branch for FY 2022, including a 25.4 percent adjustment for judges (\$9.4 million) and adjustments ranging from 2.7 percent to 18.9 percent for non-judge employees (\$10.8 million). Pursuant to KSA 75-3721f, the Governor is statutorily required to include the Judicial Branch’s budget in *The Governor’s Budget Report* as submitted by the agency.

In FY 2021 and for FY 2022, the Governor recommends funding longevity bonus payments for eligible state employees at the statutory rate of \$40 per year of service, with a 10-year minimum (\$400) and a 25-year maximum (\$1,000). Classified employees hired after June 15, 2008, are not eligible for longevity bonus payments. The estimated cost for the recommended FY 2021 payment is \$3.0 million, including \$1.1 million SGF. For FY 2022, the estimated cost is \$3.1 million, including \$1.1 million SGF.

The Governor’s proposed salary expenditures in agency budgets are based on fringe benefit rates established by law or certified by agencies to the Division of the Budget for the budget instructions, which are used by agencies to prepare their budgets.

The employer retirement contribution rate for KPERS State and School is scheduled to be 14.23 percent in FY 2021 and 15.09 percent for FY 2022. The Governor recommends the KPERS State and School Group be reamortized. The current amortization period was set by the Legislature in 1993 for 40 years. The Governor proposes the new amortization be set for 25 years, beginning in FY 2022. Reamortization would reduce employer contributions for the KPERS State and School Group in the short term. It is estimated that resetting the amortization period to 25 years could produce budget savings of \$158.7 million SGF and \$18.6 million from all funds for FY 2022.

Governor’s FY 2022 State Employee Salary Adjustments

	Dollars in Millions	
	State General Fund	All Funds
Judicial Branch Step Movement and Salary Adjustments	\$ 21.0	\$ 21.0
Kansas Highway Patrol Career Progression Plan	2.1	2.1
State Employee 2.5 Percent Salary Adjustment	11.3	31.5

Authorized FTE Employees by Function of Government

Expenditures for salaries and wages are affected by policy recommendations that change the size of the State’s workforce. The FY 2021 Governor’s budget recommendations include 40,836.3 FTE positions, which is an increase of 116.5 positions above the FY 2021 approved FTE. For FY 2022, the Governor recommends 40,853.1 FTE positions, which is an increase of 16.9 FTE positions above the FY 2021 recommendation.

The increase from the FY 2021 revised estimate is primarily attributable the addition of 70.0 FTE positions in the Judicial Branch, partially offset by the reduction of 31.0 FTE positions at Larned Correctional Mental Health Facility (LCMHF) and 14.8 FTE positions in the Office of the Governor. The increase in FTE positions in the Judicial Branch is due to the enhancement

request for 70 additional Court Services Officers. The reduction of FTE positions at LCMHF is due to the elimination of 31 temporary correctional officer positions, which were funded with a federal grant supporting temporary use of the former Larned Juvenile Correctional Facility as a COVID-19 intake isolation unit in FY 2020. The reduction of FTE positions in the Office of the Governor is due to elimination of temporary positions associated with the Office of Recovery.

Status of the State General Fund

The Governor's recommendations for FY 2021 and FY 2022 would result in an ending balance of \$767.5 million at the end of FY 2021 and \$598.5 million at the end of FY 2022. Recommended receipts for FY 2020 and FY 2021 are equal to the consensus revenue estimates with the exception of certain transfers, adjustments, and revenue proposals recommended by the Governor, which increase projected SGF receipts by \$152.5 million in FY 2021 and increase projections by \$224.4 million for FY 2022.

The Governor's proposed revenue adjustments include the following changes:

- Delay repayment of the Pooled Money Investment Board Loan in FY 2021 and pay it back over ten years;
- Transfer the \$81.9 million balance in the Budget Stabilization Fund for FY 2022 to the SGF;
- Add \$43.1 million for FY 2022 through passage of the Marketplace Facilitator bill; and
- Add \$42.7 million, for FY 2022, through passage of a tax on digital products.

STATE GENERAL FUND RECEIPTS, EXPENDITURES, AND BALANCES (Dollars in Millions)

	Actual FY 2020	Gov. Rec. FY 2021	Change	Gov. Rec. FY 2022	Change
Beginning Unencumbered Cash	\$ 1,105.1	\$ 495.0	\$ (610.1)	\$ 767.5	\$ 272.5
Receipts	6,912.3	7,707.7	795.4	7,483.6	(224.1)
Gov. Rec. Adjustments	0.0	152.5	152.5	224.4	71.9
Gov. Rec. Tax Adjustments	0.0	0.0	0.0	85.8	85.8
<i>Total Resources</i>	<i>\$ 8,017.4</i>	<i>\$ 8,355.2</i>	<i>\$ 337.8</i>	<i>\$ 8,561.3</i>	<i>\$ 206.1</i>
Less: Expenditures	7,522.5	7,587.7	65.2	7,962.8	375.1
Ending Unencumbered Cash Balance	\$ 495.0	\$ 767.5	\$ 272.5	\$ 598.5	\$ (169.0)
Ending Balance as a Percentage of Expenditures	6.6 %	10.1 %		7.5 %	
Adj. Receipts in Excess of Expenditures	\$ (610.2)	\$ 272.5		\$ (169.0)	

(Note: Totals may not add due to rounding.)

**RECEIPTS IN EXCESS OF EXPENDITURES
GOVERNOR'S RECOMMENDATION – STATE GENERAL FUND
(Dollars in Millions)**

