

Report of the Legislative Budget Committee to the 2015 Kansas Legislature

CHAIRPERSON: Senator Ty Masterson

VICE-CHAIRPERSON: Representative Gene Suellentrop

OTHER MEMBERS: Senators Jim Denning and Laura Kelly; and Representatives Jerry Henry, Marvin Kleeb, and Ron Ryckman, Jr.

CHARGE

The Legislative Budget Committee is statutorily directed to compile fiscal information, and to study and make recommendations on the state budget, revenues, and expenditures, and on the organization and functions of the state, its departments, subdivisions, and agencies with a view of reducing the cost of state government and increasing efficiency and economy.

ASSIGNED TOPICS:

- Study human services caseloads, historic trends, and the impact of KanCare;
- Review the budget and programs of the Department of Education;
- Review the Technical Education program's projected use and expenditures, actual costs, and outcomes; and
- Study the new GED Accelerator program at the Board of Regents and its projected use and outcomes.

Legislative Budget Committee

REPORT

Conclusions and Recommendations

The Committee makes no conclusions or recommendations.

- *Proposed Legislation:* None

BACKGROUND

The Legislative Budget Committee is statutorily directed to compile fiscal information, and to study and make recommendations on the state budget, revenues, and expenditures, and on the organization and functions of the state, its departments, subdivisions, and agencies with a view of reducing the cost of state government and increasing efficiency and economy.

The Committee's intention was to gather information to gauge where the State stands financially concerning consensus estimates and to formulate ideas for the remaining six months of the FY 2015 and going forward into FY 2016.

COMMITTEE ACTIVITIES

The Legislative Budget Committee met on November 11, 2014, to review fiscal information regarding revenues and expenditures and to specifically discuss the revenue estimates and what components comprise the state tax revenue, human services caseloads, technical education, and the GED Accelerator Program.

State Budget, Revenues, and Expenditures

Staff from the Kansas Legislative Research Department (KLRD) briefed the Committee on the Consensus Revenue Estimate Memorandum from November 2014. Staff explained the consensus revenue adjustments and how consensus estimates are developed. Staff stated the process involves the

KLRD, the Division of the Budget, the Kansas Department of Revenue (KDOR), and three consulting economists from state universities. Staff explained several tables that compared the consensus estimates with the actual year-to-date figures. Staff noted the final FY 2014 revenue estimates from April 2014, ended up being too high because of the extent to which capital gains and other income had been accelerated into the waning days of calendar year 2012—thereby accelerating into FY 2013 certain income tax receipts that otherwise would have been received in FY 2014.

Staff also distributed the KDOR's estimates on the combined impact of 2012 Senate Sub. for HB 2117 and 2013 HB 2059, which made changes to the Kansas tax law, including an in-depth breakdown of the changes these two bills had on Kansas income taxes.

Staff from the KDOR presented information that disaggregated the Kansas individual income tax components. The KDOR staff provided a detailed breakdown of withholding, estimated payments, regular remittances, and tax refunds by fiscal year.

Staff from the KLRD, the Division of the Budget, Kansas Lottery, and Racing and Gaming Commission met in October 2014, to project expanded gaming revenues from the three state-owned and operated gaming facilities. The KLRD staff provided Committee members with a summary of the revised revenues to the Expanded Lottery Act Revenues Fund (ELARF) and

agencies' requested transfers and expenditures from the fund in FY 2015, FY 2016, and FY 2017.

Total transfers and expenditures from the ELARF in FY 2015 are estimated to be \$86.3 million. The Department of Administration has requested \$36.3 million, all for debt service payments. This is a decrease of \$479,000, or 1.3 percent, and is due to the FY 2013 refinancing of bonds. The FY 2015 revised estimate for the ELARF includes \$10.5 million for Kan-Grow Engineering Funds and \$39.5 million for the Department of Education to reduce the unfunded actuarial liability of KPERs, which is unchanged from the FY 2015 approved amount. Expanded gaming revenues transferred to the fund are estimated to total \$77.7 million, which is a decrease of \$3.2 million, or 3.9 percent, below the FY 2015 approved amount. The decrease is attributable to lower revenues in the Southwest and South-central gaming zones. Revenues transferred to the ELARF are projected to be insufficient to cover requested transfers and expenditures. Pursuant to 2014 S. Sub for HB 2338, a State General Fund transfer will be issued in FY 2015 to cover the revenue shortfall to meet the Fund's approved transfers and expenditures. It is anticipated the State General Fund transfer will total \$8.5 million.

Total transfers and expenditures from ELARF are estimated to be \$106.3 million for FY 2016. Compared to the FY 2015 revised estimate, this is an increase of \$20.0 million due to the Board of Regents' request for \$20.0 million for deferred maintenance. Transfers and expenditures for Department of Administration debt service payments, KPERs unfunded actuarial liability, and Kan-Grow Engineering Funds remain unchanged from the FY 2015 revised estimate. Expanded gaming revenues transferred to the fund are estimated to total \$77.4 million, which is a decrease of \$316,000, or less than 1.0 percent, below the FY 2015 revised estimate. The decrease is attributable to lower expanded gaming revenues in the Northeast gaming zone, offset by higher revenues in the Southwest and South-central gaming zones. The FY 2016 revenue transfers to the ELARF include the anticipated payment of a \$5.5 million privilege fee by a gaming facility manager in the southeast gaming zone. Revenues transferred to the ELARF are projected to be insufficient to cover requested transfers and

expenditures for FY 2016, leaving a negative ending balance of \$23.3 million.

Total transfers and expenditures from ELARF are estimated to be \$106.3 million for FY 2016, which is unchanged from the FY 2016 request. Expanded gaming revenues transferred to the fund are estimated to total \$82.2 million, which is an increase of \$4.8 million, or 6.2 percent, above the FY 2016 request. The increase is largely attributable to the anticipated half-year operation of a gaming facility in the Southeast gaming zone. Revenues transferred to the ELARF are projected to be insufficient to cover requested transfers and expenditures for FY 2017, resulting in a negative ending balance of \$47.4 million.

Human Services Caseloads

Staff from KLRD explained the human services caseload impacts detailed in the Fall 2014 Human Services Consensus Caseload Estimates. FY 2015, FY 2016, and FY 2017 impacts are specified below.

In 2015, the revised estimate for all human service caseloads is an all funds increase of \$106.6 million and a State General Fund increase of \$46.2 million above the budget approved by the 2014 Legislature. Each program's specific effect is as follows.

The estimate for Temporary Assistance to Families (TAF) is a decrease of \$200,000 from all funding sources and \$3,437,508 from the State General Fund expenditures from the amount approved by the 2014 Legislature. The all funds decrease is due to a series of policy changes which began in fall 2011 and resulted in a declining TAF population. The State General Fund reductions were the result of meeting the federal maintenance of effort requirements through other allowable expenditures, mainly the refundable portion of the Earned Income Tax Credit. The estimate for contracted foster care services is anticipated to decrease by \$300,000 from all funding sources, and increase by \$10.2 million from the State General Fund. The increase in all funds is mostly attributable to a slight decrease in the number of children anticipated to be in the foster care system. In addition, there is an ongoing conversation with the federal Administration for Children and

Families regarding expenditures from the Title IV-E foster care funding source and the state is still waiting on ultimate decisions on the issue. The estimate in FY 2015 includes the addition of \$13.1 million, all from the State General Fund, to provide adequate cash flow for the program.

The FY 2015 caseload estimate for the Department of Corrections' Out of Home Placements is \$20.4 million. This is an overall decrease from the FY 2015 approved amount of \$300,000 partially offset by a State General Fund increase of \$500,000. The all funds decrease is attributable to fewer children in the system, specifically in the Youth Residential Center II facilities, and the State General Fund increase is due to less available Title IV-E federal funding.

The FY 2015 estimate for KanCare Medical is \$2.7 billion from all funding sources, including \$1.0 billion from the State General Fund, reflecting an increase of \$108.4 million from all funding sources and \$39.0 million from the State General Fund above the amount approved by the 2014 Legislature. The increase in KanCare Medical is largely attributable to a slight growth in the population served and the costs associated with the Affordable Care Act Insurer Fee included in the capitated rate payment (except for long term care services and supports which are excluded from the federal requirements). Kansas Department for Aging and Disability Services' (KDADS) KanCare includes the addition of \$6.3 million for payments to the MCOs for mental health assessments for both the current year and prior years, which had not been previously included in the capitation payments. The estimate includes funding of \$4.0 million from the Problem Gambling and Addictions Grant Fund.

The FY 2016 estimate is \$3.0 billion from all funding sources, including \$1.2 billion from the State General Fund. The estimate is an all funds increase of \$126.4 million and a State General Fund increase of \$76.6 million above the FY 2015 revised estimate. The base Medicaid matching rate determined by the federal Centers for Medicare and Medicaid Services increased the required state share by 0.57 percent between FY 2015 and FY 2016. The estimated impact of this adjustment in FY 2016 is \$16.2 million in additional State General Fund required for caseload expenditures.

The estimate for TAF caseloads has decreased by \$1.1 million from all funding sources, with no impact on State General Fund expenditures, from the revised FY 2015 estimate. The number of individuals estimated to receive cash assistance benefits from TAF is estimated to continue to decline. This results from a combination of lower anticipated applications for assistance and an increase in the rate of denials of the applications. It is estimated the contracted foster care services will increase by \$2.6 million from all funding sources, and decrease by \$10.0 million from the State General Fund. This is due to the reduction of the one-time increase in State General Fund expenditures in FY 2015 to address the federal IV-E funding issue partially offset by the anticipated increase in the number of children receiving services.

The Department of Corrections (DOC) expenditures for Out of Home Placements for FY 2016 are estimated to be \$20.2 million from all funds. This is a decrease of \$200,000 from all funds and \$1.0 million from the State General Fund, below the revised FY 2015 estimate. This is largely due to fewer children in the system, specifically in the Youth Residential Center II facilities, and increased federal Title IV-E funding.

The FY 2016 estimate for KanCare Medical is \$2.8 billion from all funding sources, including \$1.1 billion from the State General Fund. The new estimate is higher than the revised FY 2015 estimate by \$124.7 million from all funding sources and \$87.3 million from the State General Fund. The increase is largely attributable to a slight growth in population and the increased costs associated with the Affordable Care Act Insurer Fee included in the capitation rates (except for long-term care services and supports which are excluded from the federal requirements) and the fact that plan year 2016 includes 53 weeks of payments, rather than the standard 52 weekly payments. The FY 2016 estimate for KDADS' KanCare Medical includes an increase of \$7.1 million, all from the State General Fund, to replace fee fund moneys which were no longer available. The estimate also includes funding of \$4.0 million from the Problem Gambling and Addictions Grant Fund.

The FY 2017 estimate is \$3.1 billion, including \$1.3 billion from the State General

Fund. The estimate is an all funds increase of \$32.9 million and a State General Fund increase of \$44.5 million above the FY 2016 estimate. The base Medicaid matching rate for federal contribution increased the state share by 0.16 percent between FY 2016 and FY 2017. The estimated impact of this adjustment in FY 2017 is \$4.9 million in additional State General Fund required for caseload expenditures.

The estimate for TAF caseloads has decreased by \$1.0 million from all funding sources, with no impact on State General Fund expenditures, from the FY 2016 estimate. The number of individuals estimated to receive cash assistance benefits from TAF is estimated to continue to decline. This results from a combination of lower anticipated applications for assistance and an increase in the rate of denials of the applications. The estimate for contracted foster care services is estimated to increase by \$2.3 million from all funding sources, and increase by \$7.0 million from the State General Fund, due to an anticipated increase in the number of children receiving services and the replacement of \$5.3 million in fee funds utilized in the previous year no longer being available.

The DOC expenditures for Out of Home Placements for FY 2017 are estimated to be \$19.5 million from all funds. This is a decrease of \$700,000, all from the State General Fund below the FY 2016 estimate and largely is due to fewer children in the system, specifically in the Youth Residential Center II facilities.

The FY 2017 estimate for KanCare Medical is \$2.9 billion from all funding sources, including \$1.1 billion from the State General Fund. The new estimate is higher than the FY 2016 estimate by \$32.3 million from all funding sources and \$38.2 million from the State General Fund. The increase is attributable to a slight growth in population and the increased costs associated with the Affordable Care Act Insurer Fee included in the capitation rates (except for long-term care services and supports which are excluded from the federal requirements). This is partially offset by the elimination from the estimated expenditures of risk corridor payments for the contractors. The original three year contract provisions will end in December 2015. The FY 2017 estimate includes \$4.0 million, all from the Problem Gambling and Addictions Grant Fund.

The Committee discussed at length the impact of the change in the Federal Medicaid Assistance Percentage rate which will require additional state funds for the program in FY 2016 and FY 2017 as well as the effect of the Insurer Fee required under the Affordable Care Act.

Education

Staff provided an overview of the K-12 State Aid and the consensus estimating process. The consensus estimating process was completed on November 10, 2014, subsequent to agencies submitting budgets with revised expenditures for the current fiscal year, including the Department of Education. General and Supplemental General State School Aid and Capital Outlay State Aid are provided for each of the unified school districts in Kansas through the Department of Education budget.

Estimates included the need for an increase in Supplemental General State Aid (Local Option Budget (LOB) state aid) in the amount of \$34.3 million for FY 2015; \$38.4 million for FY 2016 and FY 2017. The reason for the increase was due to an increase in the 81.2nd percentile of assessed valuation per pupil from \$109,275 to \$116,700.

Estimates also included the need for an increase in Capital Outlay State Aid in the amount of \$19.8 million for FY 2015 and nearly \$25.0 million for FY 2016 and FY 2017. This was due to many school districts increasing their capital outlay mill levies to the maximum eight mills because the full funding of LOB state aid allowed districts to lower LOB mill levies freeing the districts to increase the capital outlay mill levies.

Because of an increase in revenues from the 20 mill levy and because the base state aid per pupil continued to be based on \$3,852 for FY 2015, General State Aid realized a decrease of State General Funds by \$945,000, even though enrollments increased by 1,375 students.

Finally, because of an increase in bonded capital improvement projects, the estimate for capital improvement state aid (bond and interest state aid) increased by \$12.0 million for FY 2015. The increase for FY 2016 was \$20.0 million and for FY 2017 it increased by \$27.5 million.

Staff provided a report on career technical education, which is a new innovative program launched in 2012 to accelerate career technical education as authorized under 2013 SB 155. The report included a budget history of both the incentive to the school districts and the tuition assistance for the students. It was shown that participation in the program has more than doubled from the 2012 to the 2014 school years. Staff also provided a breakdown of 2013 SB 155 and the incentives by geographical region for FY 2014.

Governor's December 9, 2014, Allotment Plan

Staff gave an overview of the items outlined in the Governor's December 9, 2014, allotment plan. Staff noted the consensus revenue estimating process was completed on November 10, 2014, subsequent to agencies submitting budgets with revised expenditures for the current fiscal year. The results of the new consensus revenue estimates identified a \$278.7 million State General Fund shortfall in FY 2015. This prompted the Governor to address the shortfall with an allotment plan totaling \$280.7 million which reduced State General Fund expenditures by \$66.4 million. The allotment plan also included recommendations to transfer funds and adjust non-State General Fund expenditures an additional \$214.3 million. The adjustments included in the \$214.3 million and the 4.0 percent Legislative Branch reduction will require legislative approval to implement.

Among the significant items in Governor's December 9, 2014, allotments are the following items:

- Reduction of \$40.7 million, as a result of decreasing the Kansas Public Employer Regular and School Member Employer contribution rate (excluding KPERs Death and Disability) from 10.42 percent to 8.65 percent in FY 2015;
- Reduction of \$6.3 million, as a result of a decrease in the total FY 2015 State General Fund reappropriation;
- Reduction of \$7.1 million, as a result of a

4.0 percent reduction over the last six months or 2.0 percent for the whole fiscal year to Cabinet and other State General Funded agencies in FY 2015;

- Reduction of \$2.9 million for bond refinancing; and
- Reduction of \$5.4 million due to the delay of the Meyer Building Expansion at the Larned State Hospital.

Agency Budget Requests for Current Year 2015 and Budget Years 2016 and 2017

The Committee received a copy of a compilation of the budget requests from State agencies. The document included a summary overview of the major items. Of note, the FY 2015 revised agency estimate totals \$15.7 billion, including \$6.4 billion from the State General Fund. This is an all funds increase of \$312.2 million, or 2.0 percent, and a State General Fund increase of \$61.1 million, or 0.97 percent, above the FY 2015 approved budget. The request funds 36,859 FTE positions, a reduction of 573.5 FTE positions, from the FY 2015 approved budget. The FTE reduction is attributable to reclassifying FTE positions as non-FTE unclassified positions. The FY 2015 agency request does not include the additional \$106.6 million, including \$46.2 million from the State General Fund, identified as needed to fully fund human service caseloads from the November 2014 consensus caseload estimating process.

The FY 2016 agency request totals \$16.3 billion, including \$7.1 billion from the State General Fund. This is an all funds increase of \$605.1 million, or 3.9 percent, and a State General Fund increase of \$691.4 million, or 10.9 percent, above the FY 2015 revised agency estimate. The request funds 36,925 FTE positions, an increase of 66 FTE positions, from the FY 2015 revised estimate. The FY 2016 agency request does not include the additional \$126.4 million, including \$76.6 million from the State General Fund, identified to fully fund human service caseloads from the November 2014 consensus caseload estimating process.

The FY 2017 agency request totals \$16.4 billion, including \$7.3 billion from the State General Fund. This is an all funds increase of \$152.4 million, or 0.9 percent, and a State General Fund increase of \$211.4 million, or 3.0 percent, above the FY 2016 agency request. The request funds 36,916 FTE positions, a reduction of 9 FTE positions, from the FY 2016 agency request. The FY 2016 agency request does not include the additional \$32.9 million, including \$44.5 million from the State General Fund, identified to fully fund human service caseloads from the November 2014 consensus caseload estimating process.

The document also included specific information on each state agency related to the budget requests.

KPERS Securities Litigation Counsel

A representative of the Kansas Retirement System for Public Employees (KPERS), explained the KPERS Request for Proposals for securities litigation counsel. Pursuant to KSA 2014 Supp. 75-37,135, these proposals must be reviewed by the Legislative Budget Committee when the legal services exceed \$1.0 million.

CONCLUSIONS AND RECOMMENDATIONS

Following its review, the Committee makes no conclusions or recommendations.