Report of the Legislative Budget Committee to the 2018 Kansas Legislature

CHAIRPERSON: Representative Troy Waymaster

VICE-CHAIRPERSON: Senator Carolyn McGinn

RANKING MINORITY MEMBER: Representative Kathy Wolfe Moore

OTHER MEMBERS: Senators Rick Billinger and Laura Kelly; and Representatives Erin Davis, Steven Johnson, Bill Sutton (substitute), and Jim Ward (substitute)

CHARGE

The Committee is statutorily directed to compile fiscal information, study and make recommendations on the state budget, revenues, and expenditures; and 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. In addition to the statutory duties, the Committee is to review the following:

- Changes to the approved budget for state agencies that will be submitted in the 2017 Interim, including the new Performance-Based Budgeting System;
- State General Fund receipts and the impact of statutory changes to be implemented in July;
- The implementation of the new school finance formula;
- The financial, possibly procedural, changes and Centers for Medicare and Medicaid Services licensing for the Osawatomie State Hospital and Larned State Hospital, along with the use of other facilities on the Larned State Hospital campus; and
- Other topics, including the new state employee health clinic; Kansas Public Employees Retirement System unfunded actuarial liability; the use of bonds in the Kansas Department of Transportation; the need for, funding of, and source for cybersecurity; changes to the Lansing Correctional Facility; and funding and the impact of the recent wildfires in Kansas.

January 2018

Legislative Budget Committee

Annual Report

Conclusions and Recommendations

Following its review and discussion, the Committee made no recommendations.

Proposed Legislation: None

Background

The Legislative Budget Committee is statutorily directed in KSA 46-1208 to compile fiscal information. It is also directed to study and make recommendations on the state budget, revenues, 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.

Committee Activities

The Committee met four times during the interim. On August 8, 2017, the Committee reviewed the Temporary Assistance for Needy Families (TANF) Funded Home Visitation Program, recertification status of Osawatomie State Hospital (OSH), an update on the status of the request for proposal (RFP) regarding OSH, review for the 2017 pay plan implementation, and an update on correctional facilities. The Committee met on October 5, 2017, for updates on State Fire Marshal Disaster activities, Kansas Department of Transportation (KDOT) bonding, OSH recertification, KanCare 2.0, Lansing Correctional Facility replacement, the new school finance formula, and selected Kansas Efficiency Study recommendations and agency responses. The Committee met on November 11, 2017, to review the consensus revenue estimates and receive an overview of agency budget requests. Finally, the Committee met on December 20, 2017, to review Regents universities' efficiency studies, Kansas Public Employees Retirement System (KPERS) Briefing Valuation Report, an Office of Information Technology Services (OITS) update on IT modernization, a briefing on the Comprehensive Response to School Finance Decision meeting, the status of the new state employee health clinic, and selected agency issue briefings.

Specific information about each topic follows.

Temporary Assistance for Needy Families Funded Home Visitation Program

Kansas Legislative Research Department (KLRD) staff provided an overview of the TANF Funded Home Visitation Program and included a review of background information regarding the Legislature's funding for program expansion and the intended recipient of the program funds. The Committee had concerns regarding the manner in which the agency planned to distribute the funds.

Kansas Department for Children and Families (DCF) staff provided an update on the RFP on the Home Visitation Program. The Committee members noted the clear legislative intent in the documents provided. DCF staff indicated the agency would issue the funds to the Kansas Children's Service League to comply with legislative intent.

Osawatomie State Hospital Update

The Secretary for Aging and Disability Services provided an update on RFPs to construct a 100-bed psychiatric care facility at OSH and get an engineering study of vacant buildings.

Timelines for the 100-bed psychiatric facility and the engineering study of vacant buildings were provided.

An agency representative noted that an abbreviated acute care hospital survey was concluded on August 15, 2017. The Centers for Medicare and Medicaid Services (CMS) determined OSH is in compliance. The reasonable assurance period began August 15, 2017, and extends for 90 days; if, after that time, the hospital is determined to be in compliance with all Medicare conditions of participation, the hospital will be certified for participation in the Medicaid and Medicare programs.

OSH has been approved for recertification, effective December 15, 2017. Additional paper work will be completed prior to notification of payment for claims. Working in conjunction with the Kansas Department of Health and Environment (KDHE), one-time disproportionate share hospital (DSH) retroactive payments will be made in the amount of $7.5 million for OSH and $2.3 million for Larned State Hospital (LSH). Recent surveys that were conducted at OSH and LSH were highlighted. Most concerns have already been addressed or have been improved. Committee members received an updated copy of the ligature points of concern with timelines. Issues with abuse and neglect are being addressed either by termination of employment, additional training, or retraining efforts.

Update on Pay Plan Implementation

A representative from the Kansas Department of Administration provided an update on the pay plan implementation and basis and stated the update is limited to the Legislative and Executive Branches. The Judicial Branch received an across-the-board 2.5 percent increase. The increase was based on:

- Current classified regular and unclassified benefits-eligible employees who have been continuously employed by any state agency since July 1, 2012, but have not received any increases to their regular base rate of pay since that date, are proposed to receive a 5.0 percent increase; and
- Current classified regular and unclassified benefits-eligible employees who first became employed by the State of Kansas after July 1, 2012, are proposed to receive a 2.5 percent increase.

There were five key issues that needed to be determined:

- Benefit eligibility only;
- What was meant by “increase in salary”;
- What was meant by “continuously employed with no break in service”;
- What date the employee first became employed with the State; and
- The cutoff date, July 2, 2017, which became the effective date.

This was determined for all Legislative and Executive Branch agencies, except for universities, which have their own pay systems. On July 17, 2017, an e-mail was sent out to all non-Regents employees stating that an employee who did not receive an increase could appeal by sending a return e-mail to the Office of Personnel Services. To date, there have been 950 appeals, and the Office has responded to all of the appeals. A few pay rates have changed, but most of the appeals submitted were due to the employee not understanding the language in the bill.

A Committee member suggested a review of methods to make the pay raise more equitable for all employees.

Representatives from selected agencies also commented on the pay plan implementation.

Lansing Correctional Facility

Overview

Department of Corrections (DOC) representatives provided information on the RFP for the Lansing Correctional Facility replacement, which includes options to either use contractor financing (lease-purchase) or state financing (bonding) the construction. DOC staff outlined the timeline associated with the process and the approvals needed to move forward.

Performance Audit Comparing the Merits of Lease and Bond Options for Replacing

Staff from the Legislative Division of Post Audit (LPA) provided an overview on the DOC performance audit "Comparing the Merits of Lease and Bond Options for Replacing the Lansing Correctional Facility." LPA staff noted that regardless of which option is chosen, the State will continue to operate the Facility and further highlighted that:

- With bond financing, the State would issue bonds to pay for construction of the new facility and would own it from the beginning; and

- With lease-purchase financing, a private firm would build and own the new facility, then lease it to the State for a period of time before eventually selling it to the State.

The analysis found bond financing with contracted maintenance likely would be the most cost-effective option, with an estimated net present cost of $176.0 million over 20 years. Bond financing with state maintenance had an estimated net present cost of $193.0 million over 20 years. A 20-year lease-purchase agreement with either a final purchase payment or the purchase price built into the lease payments had an estimated net present cost of $206.0 million over 20 years. The State's two options for rebuilding the Lansing Correctional Facility create some additional risks and benefits for the State. If the DOC chooses a lease-purchase option, there are some additional contract risks that will require hiring legal counsel with skills specific to lease financing for large-scale construction projects. A lease-purchase contract lowers the State's risks related to construction costs, property damage, and ongoing repairs. Regardless of whether lease or bond financing is used, relying on contracted maintenance increases the risk that necessary maintenance will be deferred.

Agency representatives presented an update on the Lansing Correctional Facility. Negotiations are under way from two proposals related to the Lansing Correctional Facility reconstruction project. Meetings were scheduled for project approval early November 2017. One proposal is from the GEO Group, located in Florida, and another from CoreCivic, which is located in Tennessee; both specialize in building and managing prisons. The proposals are for privately run facilities with lease or purchase agreements. Maximum security facilities currently double bunk inmates, unless there are segregation or mental illness considerations. The RFP included 1,920 beds, 64 segregation beds, 64 beds for mentally ill inmates, and 15 general population pods either maximum or medium security, which will be designed the same. The medium security facility will be razed before new construction, and the maximum security facility will be placed on hold pending further consideration. The completion of the new facility would take approximately 24 to 36 months. Discussion continued regarding staffing issues, increased caseloads, and turnover rates.

Lansing Building Proposal

A representative from the DOC presented an overview of the Lansing Building Proposal and noted that the medium facility has several structures on site that would be demolished and would utilize some of the infrastructure for the new facility. The new facility would address issues that the DOC currently faces in regard to staffing, mental health, and the medical field. As approved by the Legislature, a RFP for bonding authority and lease-purchase was developed. Approval from the State Building Advisory Commission to pursue a lease-purchase option was received. The new facility would provide improved working conditions for staff and living conditions for the inmates. The new facility would be State-operated, accomplished within existing resources, meet Americans with Disabilities Act requirements, have additional space for recidivism reducing programs, and will accommodate future expansion if needed. A review of staffing efficiencies followed with a projected savings of $17.0 million. Liability issues with the lease agreement were reviewed. CoreCivic would be responsible for repairs due to storm damage, cost overruns during construction, and replacement or repairs of items within the facility. Contracts would be managed by the DOC. The lease-purchase agreement would be a $23.0 million savings, and no capital improvement expenditures are expected for 5 years after the 20-year lease.

Representatives from CoreCivic and JE Dunn Construction provided an overview of the company and discussed the proposal for the Lansing Correctional Facility Reconstruction. A review of the states benefiting from the CoreCivic-leased prisons and full-risk maintenance services in California and Oklahoma followed. The estimated schedule is a 24-month completion timeframe that includes competitive private financing rates without impacting bonding capacity through JP Morgan. The project transfers preventative and catastrophic maintenance for the life of the lease and defers the capital outlay until the facility is ready for use.

In response to questions from Committee members, staff from CoreCivic noted property ownership, cost-effectiveness based on past experience, and cost of capital and private place market were primary factors to providing lower bids. Similarly designed facilities were reviewed, and staffing numbers and costs are in line with the Lansing Correctional Facility.

A representative from the Kansas Organization of State Employees presented testimony in opposition of the Lansing building proposal. Concerns were expressed regarding the cost of the Lansing Correctional Facility renovation, the lack of government transparency, and pre-determined project bidder and performance issues with CoreCivic, primarily in the areas of understaffing and overcrowding, which were identified in a recent audit.

El Dorado Staffing and Inmate Issues

DOC agency representatives provided an update on correctional facility staffing and inmate issues. Graphs reflected the DOC-uniformed staff turnover rate of 33.14 percent. El Dorado Correctional Facility (EDCF) and Lansing Correctional Facility have the highest turnover rates. DOC uniformed staff turnover at Lansing Correctional Facility is 37.47 percent and is 46.11 percent at Lansing Correctional Facility. Starting salaries versus turnover rates comparisons show Kansas rates fifth of the surrounding six states. The Correctional Officer I retention rate is 52.97 percent, or 518 of the 978 employees, for 0 to 2 years of employment.

State Fire Marshal Disaster Assistance Activities Update

A representative from the Office of the State Fire Marshal provided an overview of the Kansas Search and Rescue Program and reviewed disaster assistance activities in response to Hurricane Harvey. In response to the Emergency Management Assistance Compact (EMAC) request from Texas, the Kansas Search and Rescue Program sent 42 first responders to Texas. Support services were provided in the communities of Houston and Katy.

Kansas Department of Transportation Bonding Review

A representative from KDOT presented an update on the bonded indebtedness and use of current bonding authority and stated $200.0 million of the approved $400.0 million has been bonded to date. Staff reviewed the Comprehensive Highway Plan bonding authority of $890.0 million, the Comprehensive Transportation Program bonding authority of $1.27 billion, and the T-WORKS Program bonding authority of $1.37 billion. A review of the T-WORKS bonding history from FY 2011 through FY 2019 followed. The outstanding debt of approximately $2.0 billion will be completely paid in FY 2038, extended due to the bonds recently issued for 20 years, and the Comprehensive Transportation Plan's outstanding debt is scheduled for payout in 2024. A review of the amortization schedule on the debt service on outstanding bonds followed. KDOT's Standard and Poor's bonding rating is AAA, and the rating of the Kansas Turnpike Authority was recently upgraded to a AA-2, which is the highest rating for a turnpike authority.

Approximately $320.0 million in lettings, for maintenance and preservation, is anticipated in FY 2018. Special designated funds, federal funds, motor fuel taxes, and other fees totaling $923.0 million fund the highway system. KDOT staff noted 23 projects have been delayed; bonding payments remained level over the past few years; $325.0 million in outstanding Build America bonds are interest-only payments; and the Lewis and Clark Viaduct project could cost $60.0 million in FY 2018. On the $400.0 million in bonds issued in FY 2018, it is anticipated the bonding rate would be between 3.0 percent and 5.0 percent, with a premium estimate of $40.0 million.

KanCare 2.0

Overview

A KanCare 2.0 overview was presented and the managed care organization (MCO) process was reviewed. The Division of Health Care Finance (KDHE) expects six or seven responses to the RFP. The responses would be reviewed and evaluated during the first three months in 2018 with contracts awarded in June 2018. The implementation of KanCare 2.0 is scheduled to begin on January 1, 2019. A review of the provider prospective, membership communication, and the stakeholders' engagement meeting followed.

Update

A representative from KDHE provided an update on KanCare and the 2018 Schedule for KDHE Meetings and Associations and Advocacy Groups. The waiver application timeline opened on October 27, 2017, and public hearings were held throughout November 2017. There were 256 pages of comments submitted, and they are available for review on KDHE's website. The application process and negotiation of special terms and conditions with CMS will take place over the next 9-to-12-month timeframe, as well as continued work with stakeholders and legislative representatives. A representative from KDHE provided a review of KanCare utilization, cost comparison, and new services that are at no cost to the State. Kansas Medicaid has developed contingency plans regarding the Children's Health Insurance Program (CHIP) and reauthorization determination, which includes the following: a new eligibility category; system changes supporting new eligibility determination; a notification plan for CHIP participants; and a transition plan from CHIP to Medicaid. If CHIP is not reauthorized, the impact to the State General Fund (SGF) would be $37.7 million in FY 2018 and $53.3 million for FY 2019. The Kansas Medicaid Enterprise is on schedule to complete all requirements by December 2017.

School Finance

New School Finance Formula Overview

An overview of the new school finance formula reflected in SB 19, which was enacted during the 2017 Legislative Session, was provided by KLRD staff. The new Kansas School Equity and Enhancement Act provides aid to school districts based on specific calculations and allows districts to adopt a local option budget (LOB). KLRD staff stated the Kansas School Equity and Enhancement Act includes weighting, enrollment, LOB cap and equalization, inflation adjustments, accreditation and reporting, and nomenclature changes. State Aid to K-12 education for FY 2016 (actual) through FY 2019 (approved) was reviewed. KLRD staff noted the FY 2018 to FY 2019 change reflects a KPERS delayed payment.

A representative from the Kansas State Department of Education (KSDE) presented an overview of the effect of SB 19 on school district expenditures for the 2017–2018 school year. The total impact of the bill on the unified school districts is estimated to be approximately $215.3 million.

Staff of the Office of Revisor of Statutes provided an overview of the Kansas Supreme Court's fifth opinion in *Gannon v. State*. The Supreme Court ruling, issued October 2, 2017, states SB 19 fails to satisfy both adequacy and equity components of Article 6 of the *Kansas Constitution*. The State has until June 30, 2018, to correct the constitutional compliance issues, and the Court set a briefing schedule to begin on April 30, 2018.

Briefing on the Comprehensive Response to School Finance Decision Meeting

KLRD staff presented an overview on the comprehensive response to the School Finance Decision meeting. A special committee was formed in response to the *Gannon* litigation, *Gannon V*, to act as fact-finders to gather information, compile options, and identify specific matters for both chambers. Meetings included a review of the history of the school finance litigation, history of *Gannon*, SB 19, the Kansas School Equity and Enhancement Act, and the *Gannon V* opinion, information on the education consensus calculation for FY 2018 and FY 2019, and a five-year SGF profile provided by KLRD staff. KLRD staff provided scenarios on revenue and budget adjustments of 18.0 percent across-the-board reductions, or $600 million, that could be required for additional K-12 funding. A review of various state agencies and the impact of an 18.0 percent budget reduction followed. During the final Committee meeting, the members looked at reducing or eliminating the conflict over school finance and the recurrent possibility of school closures, and had a review of information from the Office of Revisor of Statutes as related to constitutional provisions governing K-12 school finance.

Review of Kansas Efficiency Study

The Committee was given a review of selected agency recommendations and agency responses to the "Kansas Statewide Efficiency Review" from Alvarez & Marsal (A&M), which included the KSDE and school districts, the Medicaid program in KDHE, the Department of Commerce, the DOC, DCF, the Department of Administration, the Department of Labor, the Department of Revenue, the Adjutant General, and KDOT.

Actual implementation and realistic savings from the A&M "Kansas Statewide Efficiency Review" will be provided to the Committee for review at the beginning of the 2018 Legislative Session. Discussion followed by Committee members regarding the process going forward as related to school funding and feasible funding options.

State Budget, Revenues, and Expenditures

Consensus Revenue Estimates for FY 2018 and FY 2019

KLRD staff presented an overview of the Consensus Estimating Group short memorandum regarding the SGF Revenue Estimate for FY 2018 and FY 2019.

The impact of the new income tax laws and legislative adjustments contained in the Omnibus Bill were reviewed.

The estimate for total taxes increased by $224.7 million and other revenues increased by $4.9 million for the two years combined. The FY 2018 estimate increased by $108.3 million and the revised estimate for FY 2019 increased by $121.2 million above the previous estimate. A review of the revised estimates, which reflects actual receipts from FY 2017 and changes within the FY 2018 and FY 2019 estimates, followed. The Kansas personal income growth has been reduced to 1.5 percent for FY 2017 and 3.1 percent projected growth for FY 2018. KLRD staff reviewed the impact on the economy and the SGF with the declining value of crop production, oil, and gas prices. Kansas employment has remained stagnant, hourly earnings increased by 0.02 percent, and an increase in corporate and sales tax receipts is projected.

Human Services Caseloads

KLRD staff explained the human services caseload impacts detailed in the Fall 2017 Human Services Consensus Caseload Estimates for FY 2018 and FY 2019.

The FY 2018 estimate is an all funds decrease of $4.6 million and an SGF increase of $16.4 million from the approved FY 2017 budget. The estimate for the TANF program reflects a decrease of $286,800 in FY 2018 and $105,035 for FY 2019 from all funding sources as a result of declining numbers of individuals receiving cash assistance. The Foster Care program reflects an increase in all funding sources of $4.7 million in FY 2018 and $4.6 million for FY 2019, as the number of children served and the cost for those services increase. The Kansas Department for Aging and Disability Services (KDADS) KanCare estimate reflects an all funds decrease of $902,431 in FY 2018 and a decrease of $25.0 million for FY 2019, attributable to an SGF expenditure correction with changes to Federal Medical Assistance Percentages (FMAP), the rate at which federal funds are distributed, and other adjusted expenditures. KanCare Medical is an all funds decrease of $17.9 million in FY 2018 and an all funds increase of $231.3 million for FY 2019, attributable to increased federal rates, which resulted in an adjusted SGF savings of $23.0 million. KDADS non-KanCare is an increase of $8.9 million in FY 2018 and $23.2 million for FY

2019 above the 2017 approved amount and is attributable to increased projected expenditures.

Expanded Lottery Act Revenue Fund

KLRD staff presented an overview of the Expanded Lottery Act Revenue Fund (ELARF) for FY 2018 through FY 2019. The State receives 27.0 percent of the four State-owned casinos gaming revenue, including 22.0 percent to the ELARF, 2.0 percent to the Problem Gambling and Addictions Grant Fund, and 3.0 percent to cities and counties that house casinos. KLRD staff reviewed the legislative-approved transfers and expenditure and estimated revenue for FY 2018, which reflects a negative ending balance of approximately $40,000, and noted 2017 Senate Sub. for HB 2002 authorized the transfer of unencumbered funds balances from ELARF to the SGF for FY 2018 and FY 2019.

Discussion followed by Committee members regarding gaming revenues and competition with casinos in bordering states. Staff noted the southeast gaming facility's projected revenue was $40.2 million in FY 2017 and $29.9 million in FY 2018. The Northeast, South Central, and Southwest Gaming Zones have reached a plateau since FY 2016.

Education Estimates

KLRD staff presented an overview on the Fall 2017 estimates for FY 2018 and FY 2019 for the Education Consensus Calculations. SGF expenditures is estimated to be a decrease of $1.7 million in FY 2018 and an estimated increase of $46.0 million for FY 2019, in order to meet statutory requirements. The new facilities' weighting and the upward revised 20 mill of approximately $7.5 million resulted in a net of all changes for the State Foundation Aid at a cost of $10.3 million in FY 2018 and $22.6 million for FY 2019. The LOB decreased by $26.4 million in FY 2018 and $8.1 million for FY 2019, which was based on the prior year. Capital Improvement Aid decreased $5.5 million in FY 2018 and $3.5 million for FY 2019. Capital Outlay Aid increased $1.8 million in FY 2018 and $4.3 million for FY 2019.

A review of the school employer contributions for KPERS followed. The increased employer contribution to KPERS was a result of increased teacher salaries. KLRD staff noted there is $1.07 billion in LOB in FY 2017 and approximately $1.00 billion in FY 2018, with the State's share an increased cost.

State General Fund Profile

KLRD staff provided an overview of the SGF Profile for FY 2018 through FY 2019. The FY 2017 receipts were approximately $72.0 million more than projected, income tax projections were approximately $1.0 million less than projected, corporate income tax was $52.0 million more than projected, retail sales were up by $14.0 million, and compensating use was up approximately $5.0 million. The FY 2018 beginning balance is $108.5 million and payments on the Pooled Money Investment Board loan will begin for FY 2019. Expenditures included approved expenditures, school finance funding, KPERS–School, caseloads, and a reappropriation of $30.1 million for a total $6.6 billion in FY 2018 and $6.7 billion for FY 2019. The actual ending balance after adjusted expenditures is $108.5 million for FY 2017, $279.7 million approved in FY 2018, and $354.9 million approved for FY 2019. The 7.5 percent statutory ending balance for FY 2019 is $503.0 million, which reflects a budget shortfall of $150.0 million, and over $300.0 million in additional revenue has been included over a three-year period. The State is in a much better position than in previous years with a $300.0 million ending balance, but KLRD staff cautioned members that the receipts above expenditures are declining and they anticipate the trend to continue in to FY 2020 and FY 2021.

Overview—Agency Budget Requests

Statewide Overview

The Committee received a copy of the "FY 2018 to FY 2019 Preliminary Agency Budget Summaries." KLRD staff presented an overview of the FY 2018 and FY 2019 preliminary agency budget requests. The information provided includes major changes to the FY 2018 and FY 2019 approved agency budgets. A review of the process for agency budget submission followed. The 2017 Legislature approved $16.2 billion in expenditures, which includes $6.6 billion from the SGF for FY 2018 and FY 2019. The approved budget included $11.9 million from the SGF for the legislative pay plan and supplementals of $16.4 billion in FY 2018 and $16.8 billion for FY 2019. This reflects an all funds increase of $386.1 million above the approved FY 2018 budget, and an all funds increase of $601.4 million above the approved FY 2019 budget. If the Legislature adopts the budget requests, the SGF would be reduced from the previously reviewed profile from $379.7 million to $298.3 million.

The FY 2018 and FY 2019 major supplemental requests followed. Staff noted that if the budget requests and adjustments for FY 2019 were granted, the SGF ending balance would be reduced to a negative $0.8 million. A review of the FY 2017 through FY 2019 all funds expenditures and SGF expenditures, as related to operating expenditures, aid to local units of government, other assistance, and capital improvements, followed.

Select Agency Overviews

Department of Education

KLRD staff presented an overview of the "FY 2018 and FY 2019 Preliminary Agency Budget Summary" for the KSDE. The agency requests $18.3 million above the approved 2017 budget in FY 2018 and $34.0 million for FY 2019 above the approved budget for supplemental requests and reappropriations, primarily for the KPERS contributions for covered payroll increases, technical education incentives, and the monumental building surcharge. A summary of operating expenditures by program funding sources and funding history and key performance measures (which now includes kindergarten students as 1.0 FTE as opposed to 0.5 FTE) followed.

A KSDE representative responded to questions from Committee members. Staff noted the unfilled positions will vary throughout the year. There were six bond issues of approximately $100.0 million that passed during the local 2017 election. Discussion followed regarding cash balances and the recommendation for local school boards to develop a three-year plan for implementation, which would be reviewed by the KSDE. A majority of the supplemental request was due to the increase in salaries and wages and a corresponding increase needed in KPERS funding. The statute related to the technical education incentive went from $1,000 to $35.00 per certificate, the representative noted. The agency representative suggested the statute should either be repealed or be fully funded. Emphasis was placed on the funding needs to address the continued growth in the technical field. A copy of the LOB change from FY 2016 through FY 2018 was distributed to Committee members.

Kansas Department for Aging and Disability Services and State Hospitals

KLRD staff presented an overview of the "FY 2018 and FY 2019 Preliminary Agency Budget Summaries" for KDADS and state hospitals

The supplemental requests for KDADS is $15.5 million in FY 2018 for the replacement of the state hospitals' patient management system and on-going maintenance and retroactive payment for Medicaid applicants in adult care homes, and $299.0 million for FY 2019 to clear waiting lists for individuals, rebase nursing facility rates, and replace the patient management system and for on-going maintenance. The funding to clear waiting lists was not included in last year's budget.

Larned State Hospital's (LSH) supplemental request in FY 2018 is $9.9 million, all from the SGF, for increased expenditures for the Sexual Predator Treatment Program to cover the DSH funds from the past overpayment from DSH, and $9.4 million, all from the SGF, for FY 2019 for increased expenditures for the Sexual Predator Treatment Program to cover funds from past overpayment of DSH and salary increases for technicians and unclassified employees who were not included in the 2017 legislative pay plan.

A representative for KDADS responded to questions from Committee members regarding federal funding and other issues concerning LSH. The KDADS representative stated a survey was conducted in August 2017 that identified three main areas of concern, primarily related to the grievance process: patient rights, investigation regarding abuse and neglect with staff upon patients, and ligature points at OSH. Discussion continued regarding adequate staffing. Challenges of recruiting and retaining nurses and mental health technicians, and culture and wage issues at LSH were also noted. A study is underway regarding a proviso for the construction of a 100-bed and 200-bed facility with comparative costs, and a building evaluation at Osawatomie State Hospital (OSH) for demolition.

Adjutant General's Department

KLRD staff presented an overview of the "FY 2018 and FY 2019 Preliminary Agency Budget Summary" for the Adjutant General's Department. The FY 2018 agency request is $16.3 million above the approved amount and the request for FY 2019 is $36.4 million above the approved amount. There are 12 supplemental requests with the budget increase, primarily for disaster relief funding, and rehabilitation and repair of armories and facilities. KLRD staff also reviewed a summary of funding sources.

Staff from the Adjutant General's Department, provided enhancement request information on the Adjutant General's Department and emphasized the importance of the Pre-Disaster Mitigation Grant, which will require the Kansas Division of Emergency Management to update the 12 regional mitigation plans and will require the agency to hire a contractor to review and update current plans. The grant would be funded by $84,417 from the SGF and $253,249 from federal funds. A review of Federal Emergency Management Agency funding requirements followed.

Department of Corrections

KLRD staff provided an overview of the "FY 2018 and FY 2019 Preliminary Budget Summary" for the DOC. The overall request is $223.0 million in FY 2018, which reflects $14.2 million above the Legislature approved amount in FY 2018, primarily due to a reappropriation from the SGF from the Evidence-Based Programs Account and cloud-based e-mail support services and licensing, and $211.0 million for FY 2019, attributable to the supplemental request to replace the server for the automated offender document system and for a funds transfer from the Kansas Juvenile Correctional Complex to the DOC. Lansing Correctional Facility and Larned Correctional Mental Health Facility agency budgets and the impact of funds transfers were reviewed. The Lansing Correctional Facility requested less than what was approved due to a transfer to the DOC Central Office to help fund pay increases statewide and vacant positions during construction of the new facility.

Staff from the DOC responded to questions from Committee members regarding the building project: there are individuals housed at the Lansing Correctional Facility in the building that is to be razed; no final decision has been made regarding the EDCF; and the current execution chamber is located at the Lansing Maximum Facility Compound and would not be impacted. DOC staff stated no bids were received for the bonding design-build option, and only a lease-purchase design bid was received. The DOC is looking at the most cost-effective means for the State while remaining budget neutral to pay for the new building by staff savings and efficiencies gained with a smaller footprint.

Department of Revenue

KLRD staff provided an overview of the "FY 2018 and FY 2019 Preliminary Agency Budget Summary" for the Department of Revenue. The agency request is an increase of $13.5 million in FY 2018 and $13.9 million for FY 2019, attributable to the Automated Tax System Fund, REAL ID implementation and maintenance costs, adjustments related to the legislative pay plan, and digital license plate production.

A representative from the Department of Revenue reviewed supplemental requests for the agency and stated the supplemental requests are for the legislative pay plan shortfall, the REAL ID Act passed by Congress regarding minimum security standards for State-issued drivers' licenses and ID cards, production of the digital license plate, and the automated tax system fund. Samples of the digital license plate were shown to Committee members.

Judicial Branch

KLRD staff provided an overview of the "FY 2018 and FY 2019 Preliminary Agency Budget Summary" for the Judicial Branch. The agency request is a decrease of $3.2 million below the FY 2017 approved amount in FY 2018, primarily due to a delay in eCourt implementation, and an increase of $24.8 million above the approved amount for FY 2019, primarily due to increasing salaries for non-judge and judge employees. For FY 2019, the agency's supplemental request totals $19.6 million, primarily for salary increases for non-judge and judge salaries and additional positions, and courtroom construction.

An agency representative presented information on the Judicial Branch FY 2018 and FY 2019 supplemental budget and detailed salary comparisons with other states. The agency representative stated Kansas judicial wages currently rank 42nd or 43rd, and for cost-of-living wages for judges, compared to other states, Kansas ranked 45th in 2016.

Department of Agriculture, Kansas Water Office, and State Fair Board

KLRD staff presented the "FY 2018 and FY 2019 Preliminary Agency Budget Summaries" for the Department of Agriculture, Kansas Water Office, and State Fair Board. The Department of Agriculture budget request in FY 2018 is $4.8 million above the FY 2017 approved amount, which is primarily due to $4.1 million in federal funding for the LIDAR (light detection and ranging) topographic mapping program, and $1.2 million for FY 2019 in order to fill vacant positions, for capital outlay, and for a projected increase in card processing fees.

The Kansas Water Office budget request in FY 2018 is $601,979 above the FY 2017 approved amount, primarily due to a transfer request to the State Water Plan Fund for Milford Lake Watershed Regional Conservation Partnership program and Harmful Algae Bloom in-lake treatment pilot. For FY 2019, the agency request totals $8.3 million for 18 supplemental requests, including 3.0 new FTE positions and the transfer from the SGF ($6.0 million) and Economic Development Initiatives Fund ($2.0 million) into the State Water Plan Fund for programs related to the Vision for the Future of Water Supply in Kansas.

The State Fair Board agency request in FY 2018 is an increase of $35,053 above the approved FY 2017 budget for capital improvements for the State Fairgrounds. For FY 2019, the agency supplemental requests total $10.6 million for capital improvements to the State Fairgrounds, to replace the EXPO Center, and to renovate the Bison Area.

A representative from the Department of Agriculture provided copies of the Kansas Department of Agriculture budget overview for FY 2018 and the adjusted budget request for the Department for FY 2018 and FY 2019. The Department continues to use performance-based budgeting and actual numbers will be available with the budget presentations in Spring 2018. Department of Agriculture staff noted the agency and the Kansas Department of Wildlife, Parks and Tourism are working together on the Kansas Water Plan. A review of the Ogallala water document followed, and everything but the water educational component was implemented.

A representative from the Kansas Water Office reviewed supplements to the agency budget and discussed priority projects focused on implementing the long-term vision of the water supply for Kansas. The supplemental requests includes three additional Water Resource Planner positions for implementation of the vision activities. Discussion followed regarding the Colorado and Montgomery County in Kansas waterways and recreational opportunities.

A representative from the State Fair Board presented background information and budget enhancement requests for the State Fair and stated communication is ongoing with Westar Energy regarding the status change from a medium to a large user, and the exploration of alternative energy options.

Regents Universities' Efficiency Studies

A representative of the Board of Regents presented on overview of the measures universities have undertaken to maximize efficiencies. Campuses continue to work on ways to reduce administrative costs, reduce electric utility costs, and simplify administrative processes through coordinated efforts across the universities, as well as the two-year colleges. Many of the efficiencies are based on the allocation of funding, competitive tuition rates, and transfer courses for students.

Kansas Public Employees Retirement System Briefing on New Valuation Report

A KPERS representative presented an overview on the KPERS' calendar year 2016 actuarial valuation. Two significant factors in the 2016 valuation included the 2017 legislative appropriation changes and the triennial experience study. A review of the State/School Employer actuarial and statutory contributions followed. KPERS payments of $1.63 billion will be made over a three-year period beginning in 2017. Of that, $258.0 million will be layered or paid over a 20-year period. A key factor impacting assumption changes was primarily due to the lowering of the investment return from 8.00 percent to 7.75 percent, which increased the unfunded actuarial liability for all groups. The KPERS representative stated the unfunded liability is still estimated to be paid off in 2023. A review of the funding status and value of assets followed. The unfunded actuarial liability increased by $522.0 million to $9.06 billion. Ideally, the trust fund is at 80 percent to 100 percent funded, which would help absorb any large economic down-turns, the KPERS representative noted. The combined rate for all groups is 67 percent. The employer contributions and funds needed to maintain "steady state" is $623.5 million for FY 2019. A review of the employer contribution rate comparisons funding projections followed.

Office of Information Technology Services Update on IT Modernization

A representative of the OITS provided an update on IT modernization. A review of the "Information Technology Consolidation Feasibility Study" followed. The representative noted over 75 percent of the servers are over eight years old, data centers are in need of significant repairs, and there is a lack of funds and qualified staff to address issues. The impact to the State has been outages, security breaches, and loss of services within several state agencies. The OITS strategy is to become a service broker by consolidating functions and services and outsourcing opportunities. The focus is on operations, data centers, and servers. A review of successful milestones followed. The impact of budget enhancements for OITS as an ongoing investment is important to an infrastructure that is updated and maintains data that is secure. The budget request of $9.5 million in FY 2018 and $4.0 million for FY 2019 would be for upfront costs, with a projected savings in following years of $4.0 million to $5.0 million. A review followed of the V-Block equipment that was purchased in prior years but was kept in storage. The OITS representative stated the vendor would take physical access and use of this equipment and the State maintains the loan, as money is still owed on the V-Block. An additional $35.0 million would have been needed to put this equipment in place due to inadequate weight and cooling issues.

State Employee Health Clinic

A representative of the Department Administration presented an overview on the status of the new State Employee Health Clinic and the bid process pursuant to KSA 75-3737a. Department of Administration staff noted the funding was capped at $2.7 million from the State Employee Health Plan. Eight entities expressed interest, and the only bidder that met the terms withdrew its bid due to negotiation issues that were not allowable and required legislation. A RFP with the Health Care Commission and the Legislature's directive to the Department of Administration agree that the process will generate more bids, allowing for contractual negotiations with a potential for savings to the plan.

Impacts of Agriculture on Commerce

A representative from the Department of Agriculture provided information on the Estimated Economic Impact of Agriculture, Food, and Food Processing Sectors. Staff emphasized the impact of Kansas agriculture, which is approximately 45 percent, or $6.5 billion, of the state's economy and does not include food retail. The importance of growing the agricultural industry will be key to statewide prosperity. In order to accomplish this goal, a growth strategy was implemented, which entailed 350 meetings throughout the state with individuals to collect feedback regarding challenges and opportunities in the industry. Agriculture development of action plans are underway, with industry leaders in 19 sectors, and will be available to legislators at the beginning of the 2018 Session. This involves promotional efforts, both nationally and internationally, for partnership development.

Conclusions and Recommendations

Following its review and discussion, the Committee made no recommendations.