Report of the Legislative Budget Committee to the 2019 Kansas Legislature

CHAIRPERSON: Senator Carolyn McGinn

VICE-CHAIRPERSON: Representative Troy Waymaster

RANKING MINORITY MEMBER: Senator Anthony Hensley

OTHER MEMBERS: Senator Rick Billinger; and Representatives Steven Johnson, Richard Proehl, and Kathy Wolfe Moore

CHARGE

The Legislative Budget Committee is statutorily directed to compile fiscal information, and 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 purchasing procedures concerning the practice of no-bid contracts;
- Review how funding is being used to investigate reports of abuse or missing children, as well as review the process used to determine if a child is in danger;
- Review tuition increases in the Regents institutions;
- Review causes of fee increases in the Kansas Corporation Commission Conservation Fee Fund;
- Review the implementation of secure schools and how the $5.0 million appropriation was used; and
- Receive updates on the State General Fund receipts and expenditures.

December 2018

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Legislative Budget Committee

ANNUAL REPORT

Conclusions and Recommendations

Following its review and discussion, the Legislative Budget Committee (Committee) makes the following recommendations:

- The Legislature review the best practices and common procedures to the non-competitive procurement of goods and services, noting the variation in each state's statutes and regulations. The Committee further recommends review of the Prior Authorization Review Process and exemptions from the competitive bidding process, noting its concerns regarding the number of contracts exempt under the "best interest of the state" justification outlined in KSA 2018 Supp. 75-3739(a)(7). The Committee recommends increasing procurement transparency and requests recommended changes from the Administration be reported to the Senate Committee on Ways and Means and the House Committee on Appropriations no later than February 18, 2019;

- The Legislature fund the purchase of lottery vending machines (LTVMs) from operating cash flows. This recommendation would reduce the total cost to purchase LTVMs by $2.0 million compared to vendor financing, but would increase the reduction in State General Fund (SGF) revenue for FY 2019 by $3.0 million in each year beginning with FY 2019. Three options were presented for the purchase and financing: vendor financing of $10.2 million over five years; Kansas Master Lease Program of $9.2 million over five years; and operating cash flows of $8.2 million over two years;

- The House Committee on Appropriations and the Senate Committee on Ways and Means monitor the Teach for America program throughout the next two-year budget cycle to determine its efficacy in addressing teacher shortages in high-need districts. The Committee was concerned Teach for America has only recruited five teachers in the Kansas City area for the current school year (2018-2019), instead of recruiting teachers in high-need districts throughout the state;

- The Kansas Forest Service within Kansas State University take the lead on fire suppression for the state and coordinate fire suppression activities with the Adjutant General's Office and the State Fire Marshal. The Committee further recommends a separate SGF line item within the Kansas State University section of the appropriations bill for the Kansas Forest Service with a proviso that states the amount of money within the Kansas Forest Service budget be used for fire suppression within the state;

- The State Employee Health Plan (SEHP) submit a report detailing improved health outcomes attributable to the HealthQuest program and the required health assessment to the Senate Committee on Ways and Means and the House Committee on Appropriations no later than January 31, 2019. The Committee notes its concerns regarding the current SEHP HealthQuest rewards program, including the integrity of the required health assessment and the cost to employees to obtain testing results for the health assessment;

- Locations throughout the state be explored by the Kansas Department of Health and

Environment for the possibility of additional on-site state employee health clinics;

- The Kansas Department of Health and Environment and the Kansas Department for Aging and Disability Services explore incentive options for managed care organizations for psychiatric residential treatment facility readmission reductions and extend the number of days preauthorized to 21 or more. The Committee further recommends the agencies research the rate increase necessary to compete with private and out-of-state placements and the number of beds necessary to adequately serve Kansas youth at psychiatric residential treatment facilities. The Committee recommends findings be reported to the Senate Committee on Ways and Means and the House Committee on Appropriations no later than January 31, 2019.

The Committee also makes the following observations:

- Caution should be exercised when reviewing the current profile and the ending balances. While there are substantial ending balances, the Committee notes those balances are decreasing over time. When ongoing expenditures are above receipts, it creates a structurally imbalanced budget that could require major corrections if the ending balances reach zero;

- The quick and efficient implementation of the grant funding and school safety provisions, also known as the Safe and Secure Schools Initiative, included in 2018 House Sub. for SB 109. In particular, the Committee commends the Kansas State Department of Education for providing grant funding to all 156 school districts that applied for funding. Awarded grants averaged $32,268 per school district and ranged from $1,043 for Healy (USD 468) to $922,613 for Wichita (USD 259). The Committee also commends school districts for using their grant funding to make good investments in school safety infrastructure. The Committee notes the school safety provisions, including the grant funding, expire at the end of FY 2019. To be continued, all provisions would need to be approved again by the 2019 Legislature. If the 2019 Legislature elects to continue the Safe and Secure Schools Initiative, the Committee recommends the continuation of the practice used by the Department of Education in FY 2019 in which every school district that applied for grant funding received some level of funding; and

- Mid-month rate changes hamper the ability of oil and gas producers to adjust accounting practices mid-month for increased rates in a timely manner.

Proposed Legislation: None

Background

The Legislative Budget Committee (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 three times during the interim. On September 5, the Committee received an overview of the 2018 Session budget, a review of no-bid or sole source contracts, a review of university tuition increases, and an update on the Safe and Secure Schools Initiative. On October 3, the Committee received an update on the budget, a review of the Legislative Division of Post Audit's audit on wildfire suppression, a review of the

Conservation Fee Fund, an update on the State Employee Health Plan (SEHP), an update on the Kansas Department of Health and Environment (KDHE) audit of the psychiatric residential treatment facilities (PRTF) 60-day admission policy, and follow-up on questions from the previous meeting. On November 14, the Committee received an overview from the Consensus Revenue and Caseload Estimates, an overview of the Agency Budget Enhancement Requests, an update on the Pilot Mental Health Program and Teach for America education programs and funding, an update on the Child Welfare System Task Force as well as funding for investigations for child abuse or missing children, a review of the KDHE PRTF audit results, and an update on the Mental Health Task Force.

Specific information about each topic follows.

Overview of 2018 Session Budget

At the September 5, 2018, meeting, Kansas Legislative Research Department (KLRD) staff provided an overview of the message from the Governor regarding 2018 House Sub. for SB 109, line item veto issues. The items vetoed included the Kansas Highway Patrol – Claim; Insurance Department – Insurance Department Service Regulation Fund; Board of Indigents' Defense Services – Legal Services for Prisoners, Inc., Health Insurance; Department of Commerce – Global Trade Services; Department of Commerce – Kansas International Trade Show Assistance; Department of Commerce – Innovation Growth Program; KDHE – PRTF 60-day admission policy; KDHE – KanCare Funding; Department for Children and Families (DCF) – Jobs for America's Graduates-Kansas; and Kansas Highway Patrol – Troop B Building.

Legislative staff presented information regarding select expenditures. Staff provided an update on the increases to K-12 school funding that have been approved by the Legislature for FY 2017, FY 2018, and FY 2019. Over this three-year period, the Legislature has added approximately $543.5 million, including $485.3 million from the State General Fund (SGF), to the major categories of state aid. These categories include State Foundation Aid, Supplemental State Aid (LOB State Aid), Special Education State Aid, Capital Outlay State Aid, Capital Improvement State Aid, and Kansas Public Employees Retirement System (KPERS) employer contributions for public school employees. The largest increase was for State Foundation Aid, which increased by $337.3 million, including $305.8 million from the SGF. Other major increases include $69.1 million (all SGF) for LOB State Aid, $55.6 million ($65.6 million SGF) for Special Education State Aid, $36.0 million (all SGF) for Capital Outlay State Aid, and $36.7 million (all special revenue funds) for Capital Improvement State Aid. Expenditures for KPERS employer contributions increased by only $2.5 million (all SGF) during this period because the Legislature delayed $194.0 million in KPERS contributions for FY 2019.

Legislative staff discussed expenditures relating to the human services caseloads. The current estimates are from April and have been discussed with members before, but major changes since then include funding for foster care, youth crisis centers, health homes, Rainbow Services, substance abuse services, and nursing facility reimbursement rates.

KLRD staff provided an overview of the 2018 legislative salary adjustments. In FY 2019, 13,486 state employees received salary adjustments as a result of the 2018 Legislative Pay Plan. Classes that received adjustments included benefits-eligible employees in the Executive or Legislative Branch who had been continuously employed since July 1, 2017. The salary adjustments applied as follows:

- Employees who received a 2.5 percent increase from the Legislature's Pay Plan last July or an agency-funded increase for those who were left out of the Legislature's Pay Plan last July received a single step, or approximately 2.5 percent increase; and

- Employees who did not receive an increase from either the Legislature's Pay Plan last July or an agency-funded increase received two steps, or approximately 5.0 percent increase.

Increases received in FY 2018 resulting from promotions or other individual factors (*i.e.*, taking on additional duties, merit increases) did not count against an employee's eligibility to receive a 5.0 percent increase this year, nor did bonuses.

The legislation excluded the following groups of employees from these increases: state officers elected on a statewide basis, Kansas Highway Patrol troopers and law enforcement officers, teachers at the State Schools for the Blind and Deaf, Kansas Bureau of Investigation special agents and forensic scientists, Judicial Branch employees, and Kansas Board of Regents and university employees.

Judges in the Judicial Branch—as well as Executive Branch employees whose pay is tied to that of judges—also received a 2.0 percent increase. Non-judicial staff received increases ranging from 2.5 percent to 12.5 percent, as determined by the Judicial Branch; however, the adjustments are funded at 5.0 percent.

For uniformed staff in the Department of Corrections, the hiring rate was set at Step 10 for all facilities, bringing all facilities to the same hiring rate as established for job classifications at the El Dorado Correctional Facility established in the August 2017 Executive Directive 17-482. In addition, benefits-eligible employees in the above referenced job classifications who had been continuously employed since July 1, 2017, received two steps, or approximately 5.0 percent, regardless of whether they received any increase under the Legislature's Pay Plan in July 2017. This increase is in addition to any increase received because of establishing Step 10 as the new hiring rate as indicated above.

The total cost to implement the plan in FY 2019 was $25.5 million, including $13.8 million from the SGF. The implementation cost was $1.1 million SGF less than appropriated for this purpose.

Legislative staff also briefly discussed other various transfers in and out of the SGF for FY 2018 and FY 2019. Legislative staff provided an overview of the current status of SGF Receipts as of the end of FY 2018, at which time they were $267.0 million. Total receipts for July and August, the first two months of FY 2019, were $13.4 million, or 1.6 percent, above the estimate. The component of total SGF receipts from taxes only was $17.6 million, or 1.8 percent, above the estimate.

As noted in this report, during the final months of FY 2018, many of the underlying fundamentals for the individual income tax (especially withholding and estimated payments) have continued to exceed previous expectations. Receipts from this source exceeded the final FY 2018 estimate by almost $230.0 million. The projected fiscal impact of the new Kansas income tax law implemented by 2017 SB 30 now appears to have been understated, mainly as it relates to the restoration of the tax on certain non-wage business income. The Department of Revenue is conducting an analysis of tax year 2017 returns to provide more complete information.

Review—No-Bid or Sole Source State Contracts

KLRD staff provided an overview of the current process for using requests for proposal (RFPs). In Kansas, the procurement and contracting process is statutorily required pursuant to KSA 2018 Supp. 75-3739(a), which states "all contracts for construction and repairs, and all purchases of and contracts for supplies, materials, equipment and contractual services to be acquired for state agencies shall be based on competitive bids." The Department of Administration's Office of Procurement and Contracts develops and promulgates guidelines for this process.

RFPs are competitively negotiated procurement bids for either one-time or repetitive purchases. RFPs require prior authorization from the Office of Procurement and Contracts. Sole source contracts—or no-bid contracts—are procurement contracts awarded outside of the normal RFP bidding process. KSA 2018 Supp. 75-3739 authorizes the Director of Purchases to determine whether some transactions are competitive, and the Office of Procurement and Contracts employs a prior authorization review process to facilitate review of agency requests.

In FY 2018, the State of Kansas authorized $428.2 million for 7,351 sole source contracts.

Committee members expressed concern for the increase in the overall number of contracts and the State's ability to maintain oversight of the larger number.

A representative from the Department of Administration provided additional information regarding sole source contracting practices and the exemptions that are not in statute, such as for conference or hotel events, off-contract purchases, and items purchased for evaluation. While the number of contracts has increased greatly, she believes a significant number of these increases are due to changes in the accounting system and reporting changes that were changed in the 2010 to 2011 time frame. KPERS is authorized to let its own contracts, but they must be entered into the accounting system so they are reflected as prior authorization contracts. The Department of Administration does track competitive and non-competitive contracts and is working to keep non-competitive contracts to a minimum.

A representative from the Kansas Department of Revenue provided information regarding the Department's large information technology non-competitive contract, stating there was no other competing organizations that provided the same software. The Department's information technology staff has been maintaining the system, but past budget constraints limited their ability to keep up with all updates. The Department of Revenue entered into a contract with CGI Technologies and Services, Inc., (CGI) for modernization of the existing system, which allows use of a cloud environment. It will ultimately pass full support and maintenance of the contract to CGI, who owns the software and knows the coding.

Review—Lottery Vending Machines

At the September 5, 2018, meeting, the Director of the Budget provided an update on the Kansas Lottery. The 2018 Legislature approved placing lottery vending machines (LTVMs) in retail stores, although the financing piece was not addressed in the fiscal note. The Division of the Budget now has an estimate of approximately $4.5 to $5.0 million for 272 vending machines in 2018, which was not included in the budget. Committee members discussed leasing versus a lease-purchase agreement for the machines. Three options for the purchase and financing of the LTVMs are as follows:

- Vendor financing—$10.2 million spread over five years;
- Kansas Master Lease Program—$9.2 million spread over five years; or
- Operating cash flows—$8.2 million spread over two years.

The legislation also stipulated the first $4.0 million in revenue in FY 2019 and $8.0 million in FY 2020 from the sale of lottery tickets through LTVMs be used for transfers to the Community Crisis Stabilization Centers Fund and the Clubhouse Model Program Fund of the Kansas Department for Aging and Disability Services (KDADS). However, the timeline for the purchase and receipt of the machines is approximately six months and the Kansas Lottery is unlikely to generate $4.0 million during FY 2019 from this source. It was noted KDADS will be requesting additional funds that were committed to Crisis Centers as they had anticipated having proceeds from LTVMs, but those machines are not in place yet.

Review—University Tuition Increases

At the September 5, 2018, meeting, KLRD staff provided historic national trends on higher education tuition as there are many concerns about controlling tuition increases. Some states have put in some kind of a curb or a cap on tuition and some states are looking at charging based on a family's income. There is also deferred tuition that would allow students to agree to pay their tuition after they get a job and the repayment rate is based on the student's income.

A representative of the Kansas Board of Regents (Board) provided comments regarding student tuition and addressed several areas, including steps taken to keep costs down. The Board is working to improve transfer of community college classes to four-year programs, as well a looking at a two-plus-two program, which would allow students to achieve a degree after two years of community college followed by two years at a higher education school. The Board is also requiring schools work to bring the number of credit hours required for a degree back down to

120 hours (with the exception of some specialized degrees), as they have slowly increased over the years to 123 and 126 credit hours. Additionally, the Board is working toward concurrent enrollment for students still in high school.

Schools must submit requests for tuition and fees increases, and the Board reviews them before approving any increases. There are challenges with keeping the schools modernized as many young students want private bathrooms, nearby recreational facilities, and do not want to eat in large, impersonal dining facilities. The schools also must deal with students coming out of high school unprepared for college, as well as their mental health issues.

The Kansas State University Student Body President and Kansas Board of Regents Students' Advisory Committee Chairperson, 2017-2018, discussed the involvement of students in the process of setting fees and rates. Students are very involved in providing input on priorities for the Kansas State University budget. The Kansas Board of Regents Students' Advisory Committee also meets at every Board meeting, thus allowing the student body presidents to provide input to the Board.

Update—Implementation of Safe and Secure Schools Initiative

At the September 5, 2018, meeting, KLRD staff provided information and background on the Safe and Secure Schools Initiative. House Sub. for SB 109 (2018) created the School Safety and Security Grant Fund (Fund) and transferred $5.0 million from the SGF to the Fund for FY 2019. The Fund is designed to provide grant moneys to school districts for school safety and security improvements. School districts applied to the State Board of Education (State Board), which then reviewed the applications and determined the amount of each grant. House Sub. for SB 109 also required school districts receiving grant moneys to match the amount of the grant on a dollar-for-dollar basis.

For FY 2019, the State Board awarded grant funding to 156 school districts, or 54.5 percent of the 286 school districts in Kansas. Districts requested $13.2 million in funding, which averaged $84,933 per school district. Individual requests ranged from $1,609 for Western Plains (USD 106) to $1.2 million for Wichita (USD 259). The State Board awarded $5.0 million in grant funding, which averaged $32,268 per school district. Individual grants ranged from $1,043 for Healy (USD 468) to $922,613 for Wichita (USD 259).

When coupled with the required local match, total funding for these specific security projects will total at least $10.1 million. School districts' budgets for the 2018-2019 school year may allocate additional funding for these projects, which would raise the total funding level. However, combined state and local funding will be at least $10.1 million for the current school year.

KLRD staff provided the national perspective on school security and the steps taken by other states to address security, including requirements to adopt school safety plans, emergency preparedness drills, and school safety hotlines.

A representative of the Kansas State Department of Education (KSDE) discussed the process for implementation of the Safe and Secure Schools Initiative. KSDE reviewed the requests of 156 school districts who applied for grants and determined a formula for distribution in order to expedite distribution of the funding. The funding has been sent out and schools are required to submit interim reports on use of the funds around February 1, 2019, with a final report due June 1, 2019.

The Chief of the Prevention Division, Office of the State Fire Marshal, discussed the Fire Marshal's implementation of the emergency preparedness drills for schools. The Office encouraged schools, as well as nursing homes and hospitals, to work with local emergency agencies ahead of any drills.

The Superintendent of USD 372-Silver Lake discussed implementation of the Safe and Secure Schools Aid Grant in the district. The district focused on securing doors and reinforcing glass with protective film in entry areas. The district is also are re-keying the classroom doors so they will not need a separate key for each room. The grant helped defray those expenditures and they have plans for the next several years to upgrade camera systems and other security issues.

The Superintendent of USD 345-Seaman, discussed the district's security and use of the grant funds. The district encourages kids, parents, and teachers to "see something, say something" to address issues that concern them. The district has added security cameras in schools, lock-down devices, and have also added security cameras to their buses. The Superintendent stated the problem is deeper than safer schools. He noted there is a need for more compassion for others, to be more patient with others, and to address the mental health issues of kids and each other.

The Director of Safety and Environmental Services, USD 259-Wichita, wants to ensure schools are trusted as safe places. She discussed the efforts to prepare, protect, mitigate, respond, and recover from events. The district is taking steps to secure school grounds and is using the grant funds they received toward securing entries and installing new door locks and security cameras.

The Legislative Liaison for the Kansas Association of Chiefs of Police, Kansas Sheriffs' Association, and Kansas Peace Officers Association spoke about the cooperation and involvement of local law enforcement in the implementation of the school plans. Available resources vary across the state depending on whether they are in a rural or urban setting. Local law enforcement representatives look forward to further discussions with KSDE regarding their role in safety. Local law enforcement representatives have proposed some of the required drills do not need to include students. There are complex issues involved and school staff are actually the first responders when something happens in a school.

Update—Budget

At the October 3, 2018, meeting, KLRD staff provided information on the progress of FY 2019 funded enhancements.

KLRD staff updated members on the SGF Receipts and Expenditures. SGF Receipts were $97.5 million above original estimates, mainly due to individual income, corporate income, compensating use, severance, and cigarette taxes. Receipts that came in more than $1 million below estimates were retail sales and insurance premium tax.

KLRD staff also provided an expenditure analysis based on the first two months of FY 2019. The 2018 Legislature approved a FY 2019 SGF budget of $7.1 billion for the State. For the first two months (July and August), the State expended approximately $1.5 billion, or 21.4 percent, of the total SGF budget for FY 2019. Based on the three- and six-year averages of SGF spending by state agencies in the first two months of the fiscal year, this amount is between $50.0 million and $60.0 million below what the State would normally spend. A comparison to the FY 2018 is $37.3 million above what the State would normally spend over the first two months based on a $7.1 billion SGF appropriation. The three- and six-month average is about a 0.8 percent variance, and the previous year is about a 0.5 percent variance as a measure to total spending.

Review—Legislative Post Audit on Wildfire Suppression

The Deputy Post Auditor, Legislative Division of Post Audit (LPA), reviewed the LPA Report titled *Kansas Wildfire Management: Evaluating the Adequacy of Kansas' Wildlife Suppression System*. LPA investigated whether Kansas' wildfire suppression system was adequately designed and resourced to effectively suppress wildfires. LPA determined the State is not adequately designed or resourced and recommended the Legislature amend state law to designate a single state entity to lead the State's wildfire suppression system and provide sufficient resources and funding to that entity.

The Adjutant General disagreed with portions of the report. Kansas employs an all-hazard approach to disaster planning and he does not see the fragmented structure noted in the report. He outlined steps taken to enhance wildland fire management and emphasized the need for continued cooperation between state agencies.

The State Fire Marshal expressed issues with the report. He stated the report discussed some issues the State has, but the fires experienced in 2016 and 2017 were particularly bad compared to previous years; they are taking steps to improve response. The Fire Marshal added that the Kansas Forest Service is in need of additional funding.

A representative of the Kansas Forest Service applauded the auditors' work and indicated the agency is working much closer with the Adjutant General's and Fire Marshal's offices since the audit was conducted. There are approximately 13,000 volunteer firefighters across the state, but the Forest Service has funding for only one person to conduct wildfire training. A designated single lead state agency would add a great deal of value and would help tighten up the reporting requirements. The representative stated funding for the Kansas Forest Service currently goes through the Board of Regents and Kansas State University, but having a Forest Service line item in the budget would be more effective.

The Fire Management Officer, Kansas Forest Service, supports the audit and its findings. He stated Kansas needs a better system and the Forest Service is best suited to be the lead agency. Its employees have the experience and knowledge to lead this effort and are also natural resource professionals. The Forest Service currently lacks the funding to make this happen and he supports a budget line item.

Senator Hawk serves on the Kansas Forest Service Advisory Council; he stated the Legislature is seriously underfunding state wildfire training and suppression and better coordination is needed. He also stated this could be accomplished best by appropriately funding and staffing the Kansas Forest Service. The Advisory Council also suggested creating a Wildfire Authority, which could serve in a capacity similar to the Water Authority.

Representative Rooker also serves on the Kansas Forest Service Advisory Council; she agreed the Legislature needs to address the issue of the Kansas State University funding relationship with the Kansas Forest Service. She stated it is not about usurping authority of other agencies, but considering the needs of all stakeholders, including livestock owners and farmers.

The Fire Chief of Soldier Township spoke to the fact that Kansas is a home-rule state and local departments have put out many fires successfully, many of them with volunteer firefighters. Local fire departments are experiencing a declining number of volunteer firefighters. Because of this, they have to ask for help more often, but are hesitant to do so until they are sure a fire is beyond their control. He concurs with the idea of some kind of fire authority or working group to address this problem.

Review—Conservation Fee Fund

KLRD staff provided an overview of the Kansas Corporation Commission Conservation Fee Fund. The Conservation Fee Fund's major sources of revenue are the Oil Conservation Assessment and the Gas Conservation Assessment, which are assessed against oil and natural gas producers. Additional sources of revenue to the Fund include fees assessed to operators for well plugging, application fees for new injection well permits, and operator license renewals.

As of June 2018, the Kansas Corporation Commission (KCC) assesses oil producers at a rate of 144.00 mills per barrel of oil marketed or used, as authorized by KAR 82-3-206. Natural gas producers are assessed at a rate of 20.50 mills for each 1,000 cubic feet of gas sold or marketed as authorized by KAR 82-3-307. Prior to June 2018, the assessment rate for oil producers was 91.00 mills per barrel of oil marketed or used and the rate for gas producers was 12.90 mills per 1,000 cubic feet of natural gas sold or marketed.

The Conservation Fee Fund revenues are expended to support the KCC Conservation Division, primarily in salaries and wages and contractual services. Additionally, $800,000 is statutorily transferred from the Conservation Fee Fund into the Abandoned Oil and Gas Well Fund annually ($200,000 quarterly).

The Director, Conservation Division, KCC, determined approximately a year ago the mill rates needed to increase to keep up with budgetary requirements due to decreases in revenues, along with transfers out of the Conservation Fee Fund. The KCC called a special meeting of the Oil and Gas Advisory Committee to discuss this issue and to receive input from members. It also held several open meetings with members of the oil and gas industry to discuss a mill increase. The KCC intends to continue to work through the Oil and Gas Advisory Committee to find the right mill balance.

The Director, Fiscal Services, KCC, provided information regarding analysis of cash flow and statutory obligations for the Conservation Fee Fund.

The President of the Kansas Independent Oil and Gas Association (KIOGA) spoke on behalf of the thousands of independent oil and natural gas explorers and producers the organization represents. The KCC last raised the mill rate in 2006, but declining oil and natural gas production has decreased the revenue stream. Oil and natural gas activity stabilized in late 2017 and drilling permits are up slightly; however, natural gas production is expected to continue to decline. KIOGA has concerns with the KCC using historical declines to project future declines and intends to work through the Oil and Gas Advisory Committee to address options for budgetary issues in the future.

Update—State Employee Health Plan

At the October 3, 2018, meeting, a representative of the Department of Administration provided an update on the State Employee Health Clinic. The clinic is being implemented as a pilot in Topeka and a contract was conditionally awarded in June and finalized in August. Renovations of the clinic space, located in the Mills Building, will begin soon. The Committee members discussed possible locations for additional clinics.

A representative of the State Employee Health Benefits, KDHE, provided an overview of the rates for calendar year 2019. Funds available to the SEHP are referred to as the reserve fund. The beginning balance of the SEHP reserve denotes the funds available at the beginning of each year, after all expenses have been paid from the previous plan year, including moneys remaining from payroll collections (employees and state agencies), direct bill contributions from retirees, COBRA contributions, and non-state public employer contributions.

The total revenues are based upon the contributions made by state agencies, non-state public employers, employees and retirees, and interest earned by the SEHP. The state agency and non-state public employer contributions are adjusted on July 1 each year. The employee contributions are adjusted January 1 of each year. SEHP expenses are payments for medical, dental, and prescription drug claims, and related contract administration fees that are paid by the SEHP. Administration expenditures are the expenditures to maintain the program, including employee salaries, consulting fees, and other expenses. A 2.0 percent annual growth in administration expenditures is factored into the projections. SEHP administrative expenditures represent less than 1.0 percent of health plan expenditures.

The Health Care Commission's (HCC's) funding objective in managing the SEHP over the long term is to have a target reserve equal to the actuarially calculated claims incurred but not reported, and a reasonable contingency to account for unforeseen and unexpected growth in health costs that could arise before SEHP revenue can be adjusted. The target reserve is adjusted for the health cost trend over time. The projected target reserve for each year is based upon a function of SEHP contributions, plan expenses, and the health care cost trend to maintain the financial stability of the health plan.

The HCC works with Segal Consulting, an actuarial firm, to develop the rates based upon the projected expenses and revenue for the SEHP. The Employee Advisory Committee also makes a recommendation to the HCC for consideration regarding the plan year rates. The HCC receives periodic financial reports summarizing plan revenues, expenditures, and both current and projected balances in the SEHP funds throughout the plan year. The employee rates for Plan Year 2019 will increase 3.3 percent, with the two spousal coverage tiers increasing 16.7 percent. The employer rates for FY 2020 will increase 3.3 percent. The non-Medicare eligible retiree rates will increase 6.7 percent.

Update—KDHE Audit of the PRTF 60-Day Admission Policy

At the October 3, 2018, meeting, the Director of Program Finance and Informatics, KDHE, provided an update on the KDHE audit of the PRTF 60-day admission policy for children who are enrolled in the Medicaid program. KDHE and KDADS partnered to conduct an audit of managed care organizations' (MCOs') files for the cases involving stays in PRTFs to determine if the MCOs were adhering to proper procedures for determining medical necessity. The audit is being done in two waves and the first wave has been completed. State clinical staff determined MCOs did follow protocol. They also analyzed length-of-stay data.

The Commissioner of Behavioral Health, KDADS, distributed a presentation, but primarily responded to questions from Committee members regarding lengths of stay and the wait list. As of late September 2018, there were 121 children on the wait list. KDADS is implementing a Mobile Crisis Stabilization program that has had success in other states. It is also looking at policies and admission criteria to determine what is the right number of beds. The State continues to work with PRTF providers, but these providers are private organizations running a business and the State can only encourage them to increase beds and take Kansas children instead of out-of-state children for whom they are paid more.

Follow Up—September 5, 2018, Meeting

At the October 3, 2018, meeting, KLRD staff distributed a packet providing responses to questions raised by Committee members at the September 5, 2018, Legislative Budget Committee meeting, which included the following information:

- Changes from the original consensus revenue estimates for FY 2018 SGF receipts;
- Sole source contracts used by the State;
- Kansas Department of Revenue, including the implementation of Alvarez & Marsal recommendations, modernization of incoming mail processing, the sole source CGI contract, and collections data effective February 2017. The total expenditures are $114.5 million paid over ten years. The bulk of the contract for modernization deliverables will be paid by FY 2020 with remaining ongoing cost for maintenance and technical services in subsequent years;
- Kansas Department of Wildlife, Parks and Tourism sole source contract with Pheasants Forever for habitat specialists;
- Leasing versus buying Lottery vending machines (LTVMs). It was noted KDADS will be requesting additional funds that were committed to Crisis Centers as they had anticipated having proceeds from LTVMs, but those machines are not in place yet; and
- Deferred tuition programs established by other states, including Income Share Agreements, Pay It Forward programs, and Tuition Postponement Option programs.

The Office of Revisor of Statutes updated members on the Kansas Insurance Department case against the State. The court denied the State's request to dismiss the case and also denied the Insurance Department's request for a temporary injunction. The trial date is set for May 7, 2019.

Overview—Consensus Revenue and Caseload Estimates

Caseload Estimates

The Division of the Budget, DCF, KDHE, KDADS, and KLRD met on November 1, 2018, to revise the estimates on human services caseload expenditures for FY 2019 and develop estimates for FY 2020 and FY 2021. [*Note:* The caseload estimates include expenditures for Temporary Assistance for Needy Families, the Reintegration/Foster Care Contracts, KanCare Regular Medical Assistance, and KDADS non-KanCare.]

The estimate for FY 2019 is an increase of $121.6 million from all funding sources and $54.6 million from the SGF, as compared to the budget approved by the 2018 Legislature. The estimate for FY 2020 is an increase of $84.7 million from all funding sources and a SGF decrease of $20.5 million from the FY 2019 revised estimate. The estimate for FY 2021 is an increase of $71.3

million from all funding sources and $51.0 million from the SGF above the FY 2020 estimate. The combined estimate for FY 2019, FY 2020, and FY 2021 is an all funds increase of $277.6 million and a SGF increase of $85.1 million.

Education Estimates

The Fall 2018 Education Consensus Estimates include major categories of state aid to school districts and KPERS employer contributions for public school employees. The estimates include a revised estimate for FY 2019 and initial estimates for FY 2020 and FY 2021. The FY 2019 estimate is $4.5 billion ($3.5 billion SGF). This is an increase of $8.7 million, including a SGF decrease of $6.5 million, from the FY 2019 approved amount. The FY 2020 estimate is $4.9 billion ($3.8 billion SGF). This is an increase of $400.5 million ($351.6 million SGF) above the FY 2019 revised estimate. The FY 2021 estimate is $5.1 billion ($3.9 billion SGF). This is an increase of $154.5 million ($113.5 million SGF) above the FY 2020 estimate.

Revenue Estimates

Estimates for the SGF are developed using a consensus process that involves the Division of the Budget, KLRD, the Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget. Consensus revenue estimates are based on current federal and state laws and their current interpretation.

For FY 2019, the estimate was increased by $306.4 million, or 4.4 percent, above the previous estimate (made in April 2018 and subsequently adjusted for legislation enacted during the veto session). The revised estimate of $7.310 billion represents 0.2 percent above final FY 2018 receipts.

The initial estimate for FY 2020 is $7.271 billion, which is $38.4 million, or 0.5 percent, below the newly revised FY 2019 figure. The amount of total taxes is estimated to increase by 2.7 percent in FY 2020, following a 2.9 percent increase in FY 2019.

The initial estimate for FY 2021 is $7.235 billion, which is $36.5 million, or 0.5 percent, below the FY 2020 figure.

The forecast is challenging due to high levels of uncertainty about the future of the economy, the impact of the Wayfair Supreme Court decision, and changes to state and federal income tax laws. The economic outlook for Kansas shows the Kansas personal income (KPI) 3.9 percent growth estimate for calendar year 2018 remains unchanged; 2019 KPI has increased from 3.8 percent to 4.0 percent and initial forecast of calendar year 2020 KPI growth is also 4.0 percent. On a national front, estimates for U.S. personal income is 5.1 percent in calendar year 2018, 4.4 percent in calendar year 2019, and 3.7 percent for calendar year 2020.

For the agricultural sector, net farm income for 2018 is predicted to be near the 2017 level. Crop prices continue to struggle, but above-average yields are lending support to overall cash receipts. A mild strengthening in crop prices is expected through 2021, while livestock prices are expected to trend slightly lower.

Approval of the new North American trade agreement is important to the agriculture sector, as broader trade war and tariff issues arise. Secondary impacts are being felt in the rural economy, which may explain why sales tax receipts are again weakening in many non-urban counties.

The Kansas Department of Labor reports the national picture shows non-farm jobs grew at 1.7 percent year over year from September 2017 to September 2018. Kansas added 20,600 more non-farm jobs, or an increase of 1.5 percent over the same 12-month period. The most recent job market survey reported the second highest number of job vacancies in Kansas since 2004. The Kansas unemployment rate of 3.3 percent is the lowest since 1999 (3.2 percent). The Kansas unemployment rate is projected at only 3.4 percent in calendar years 2020 and 2021, and the U.S. rate is projected at 3.5 percent during that same period.

The Department of Revenue analysis of 2016 returns reflected the majority of the liability associated with taxing non-wage income is coming from taxpayers in the upper income bracket through restoration of the three-bracket system and repeal of the non-wage exemption. FY 2018 receipts ended about $290.0 million more than had been originally estimated at the time SB 30 was enacted in 2017.

For FY 2019, the estimate also includes $80.0 million to $100.0 million of additional state income tax liability assumed attributable to federal tax law changes that occurred late last year using the federal Joint Committee on Taxation forecast. That forecast extrapolated down to Kansas suggests this impact might be even greater for FY 2020 and FY 2021.

For FY 2020 and FY 2021, individual income tax growth is expected to return to more normal historic levels, meaning it will be growing faster in response to growth in Kansas personal income.

For corporation income tax, receipts have been exceeding the previous forecast for a number of months due to increasing profits and repatriated dollars returned to the United States from off-shore locations under the provisions of the new federal law, also subject to Kansas' tax. With the new Global Intangible Low-Taxed Income (GILTI) provisions, the State will continue to receive some additional revenues on an ongoing basis.

Sales tax collections fell by 0.3 percent below FY 2018's receipts for the first four months of FY 2019. The trade war and the overall sluggish rural outlook appears to be depressing spending in the majority of the state's non-urban counties. Consulting economists indicate the fastest growing share of consumer spending over the last year has been on gasoline and energy, which means that money spent here is not available to purchase other items.

Compensating use tax collections grew 4.6 percent above last year's receipts for the first four months of the fiscal year. Use tax estimate was, in fact, increased by $15.0 million. While the impact of the Wayfair Supreme Court decision is not completely known, up to approximately $30.0 million, with a law change, would enable the State to compel third-party facilitators to collect and remit the tax.

Oil production forecast includes an average price for FY 2019 of $52 per barrel, increased to $54 per barrel in FY 2020, and projected in FY 2021 to rise to $55.

Gas production receipts are now expected to be $41.0 million in FY 2019, declining to less than $34.0 million by FY 2021.

Interest earnings show significantly higher projected balances due to higher interest rates than had been previously assumed and larger ending balances.

Net transfers in FY 2020 and FY 2021 do not include $293.1 million that was transferred to the SGF from the State Highway Fund in FY 2019. Net transfers for FY 2021 does include a transfer from the SGF of $78.1 million to the City County Revenue Sharing Fund (CCRSF) and $54.0 million to the Local *Ad Valorem* Tax Revenue Fund (LAVTRF).

Overview—Agency Budget Enhancement Requests

KLRD staff provided details on supplemental and enhancement requests from the agencies submitted in September 2018 from the incumbent Governor. The incoming Governor's recommendation will further refine these requests. In a regular year, the Governor has until the eighth calendar day of the legislative session to submit a budget. During a year in which a new Governor has been elected, the Governor will have 13 additional days to make that recommendation (on or before the 21st calendar day).

The agencies have submitted enhancement and supplemental requests totaling $1.4 billion, including $1.3 billion from the SGF, over three fiscal years. More specifically, the requests are $140.5 million, including $104.9 million from the SGF, in FY 2019; $593.4 million, including $504.9 million from the SGF, for FY 2020; and $759.3 million, including $654.8 million from the SGF, for FY 2021. These requests are in addition to the agency's base budget requests. Approximately half of the SGF enhancement requests in FY 2020 and FY 2021 are from the KSDE and the Board of Regents.

The Kansas Water Office has also requested additional transfers of $6.0 million from the SGF and $2.0 million from the Economic Development Initiatives Fund for FY 2020 and FY 2021. These transfers would reduce SGF revenue by $8.0 million in each year.

Update—Specific Education Programs and Funding

Mental Health Initiative

In Sub. for SB 423 and House Sub. for SB 61, the 2018 Legislature created the Mental Health Intervention Team Pilot Program (Program) for FY 2019 "to improve social-emotional wellness and outcomes for students by increasing schools' access to counselors, social workers and psychologists statewide" (Sub. for SB 423, Sec. 1(a)). The legislation requires school districts and community mental health centers (CMHCs) to enter into partnerships through memorandums of understanding (MOUs) to implement the Program. Additionally, the legislation requires mental health intervention teams to consist of school liaisons employed by the participating school districts and clinical therapists and case managers employed by the participating CMHCs.

The Legislature appropriated $10.0 million, all from the SGF, to the KSDE to fund the Program for FY 2019. The appropriation includes $4.2 million to cover treatment costs for participating students. This includes $2.6 million for Medicaid expenditures and $1.5 million for CMHCs. In addition, the appropriations include $3.3 million to cover the expenditures associated with the school liaisons hired by participating school districts. Finally, $2.5 million is included to create an online database to be used for the Program.

As implemented by KSDE, the Program will focus on providing care to two groups of students. The "alpha group" consists of youth who are children in need of care and are in state custody. These students have experienced multiple placements and move school districts multiple times throughout the school year. The "beta group" consists of youth who may move from time to time, but are likely to reside in one school district throughout their education.

All funding for the Program flows through the participating school districts. Following are the three different grant payments: School Liaison grants totaling $3.3 million; CMHC grants totaling $1.5 million; and KDHE grants totaling $2.6 million.

There are 22 schools participating in the Wichita school district (USD 259), 28 schools participating in the Topeka school district (USD 501), 10 schools participating in the Kansas City school district (USD 500), 5 schools participating in the Parsons school district (USD 503), and 5 schools participating in the Garden City school district (USD 457). The Abilene school district (USD 435), in addition to having three participating schools, is serving as the fiscal agent for Solomon (USD 393); Chapman (USD 473); and Herington (USD 487), which have a total of six schools participating in the Program.

Teach for America

The 2018 Kansas Legislature appropriated $520,000 for Teach for America. This program works with Kansas universities to prepare more teachers, particularly in areas where shortages exist.

Teach for America primarily consists of individuals who have a bachelor's degree, but no teaching license. A program has been established that will assist these individuals in obtaining a teaching license, as well as on-the-job mentoring. KSDE staff have met with Teach for America representatives on several occasions to discuss how the program would work in Kansas. In addition, the State Board of Education has met with Teach for America representatives on two occasions to discuss the costs and implementation process of the program.

The current agreement and expenditures involved between the State Board of Education and Teach for America totals $270,000 and covers five teachers in Kansas City, Kansas, at $36,000 for a total of $180,000; one Teach for America National Recruiter in the Lawrence area for $80,000; and one day of professional development in Topeka at the *Brown v. Board of Education* Museum for $10,000.

The State Board of Education was hoping Teach for America would move west, particularly to the Wichita and Garden City areas, where there is a large teacher shortage.

Update—Child Welfare System Task Force

House Sub. for SB 126 (L. 2017, ch. 102) required the Secretary for Children and Families to establish a Child Welfare System Task Force (Task Force) to study the child welfare system. The bill directed the Task Force to convene working groups to study the general administration of child welfare by DCF, protective services, family preservation, reintegration, foster care, and permanency placement. The Task Force and each working group were directed to study the following topics:

- The level of oversight and supervision by DCF over each entity that contracts with DCF to provide reintegration, foster care, and adoption services;
- The duties, responsibilities, and contributions of state agencies, nongovernmental entities, and service providers that provide child welfare services in the state;
- The level of access to child welfare services, including, but not limited to, health and mental health services and community-based services in the state;
- The increasing number of children in the child welfare system and contributing factors;
- The licensing standards for case managers working in the child welfare system; and
- Any other topic the Task Force or a working group deems necessary or appropriate.

The Legislative Coordinating Council approved five meeting days for the Task Force in 2018. The Task Force met February 2, July 16, August 27, September 28, October 22, and December 4.

The Task Force established three working groups: General Administration of Child Welfare and Foster Care (Working Group A), Protective Services and Family Preservation (Working Group B), and Reintegration and Permanency Placement (Working Group C).

On August 27, 2018, members of Working Group A and Working Group B presented their group recommendations to the Task Force. On September 28, 2018, members of Working Group C presented their group's recommendations to the Task Force. Starting from the recommendations made by each working group, the Task Force began a discussion of the recommendations.

On October 22, 2018, the Task Force continued the discussion of the recommendations made by the working groups and began prioritizing the recommendations into three tiers. The Task Force met on December 4, 2018, to finalize its recommendations. The Task Force must submit a final report to the Legislature on or before January 14, 2019.

Review—Funding for Investigations of Child Abuse or Missing Children

DCF is responsible for assessing reports of abuse or neglect and determining whether DCF should become involved. If it is determined a child is unsafe, DCF makes a recommendation to the court regarding what action should be taken regarding the child's safety. If the child is adjudicated a child in need of care (CINC), DCF is responsible for ensuring the child's safety and well-being.

The Kansas Protection Reporting Center (KPRC) evaluates all CINC reports received by DCF. KPRC staff take calls of reported abuse or neglect 24 hours per day and conduct an initial assessment to determine whether the report should be assigned for further investigation or assessment. Reports may be assigned for abuse, neglect, or Family in Need of Assessment (FINA). Reports that are assigned for abuse or neglect are investigated by DCF staff to determine the validity of the report and determine what services may be required. FINA assignments do not meet the criteria to assign for abuse or neglect and are reviewed by DCF to assess for other services.

A case finding is completed for each assigned abuse or neglect report. Generally, a case finding must be made within 30 working days from the date the report was assigned. The standard of evidence applied to all case finding decisions regarding abuse or neglect is preponderance of the evidence. Thus, a finding is affirmed if a reasonable person would conclude it is more likely than not the alleged perpetrator's actions or inaction meet the statutory definitions for abuse or neglect. A finding is substantiated if DCF staff determine:

- The facts and circumstances meet one of the required definitions for physical, sexual, or emotional abuse; physical or medical neglect; lack of supervision; or abandonment of a child; and

- The perpetrator's actions, behaviors, or omissions occurred and there was an intent to commit the act that resulted in the harm, a reasonable person would have anticipated harm would occur to the child, or the harm was a result of failure of refusal to protect the child; and

- There was serious harm, injury, or deterioration to the child; or there was a likelihood of, or endangerment of, serious harm, injury, or deterioration to the child.

A case finding is not required for FINA assignments.

In FY 2018, the Governor recommended adding $75,000, including $60,750 from the SGF, and 1.0 full-time equivalent (FTE) position to hire an investigator to assist with locating missing foster care children. The 2018 Legislature approved the additional FTE position and decreased the funding for the new investigator's salaries and wages to a quarter of the fiscal year and added language lapsing any of the unspent SGF money appropriated for that purpose in FY 2018.

For FY 2019, the Governor recommended adding $150,000, including $121,500 from the SGF, and 1.0 FTE position for the Special Investigator position. The 2018 Legislature concurred with the Governor's recommendation for FY 2019.

DCF lapsed $36,548, including $29,604 from the SGF, of the funding for the Special Investigator position in FY 2018. The agency reported that $3,757, including $3,238 from the SGF, was used for the investigator's salary for two pay periods in FY 2018. The Special Investigator position was filled on April 8, 2018, but the position became vacant on May 6, 2018. The position was filled again on July 29, 2018, and has remained filled since that time.

DCF's revised request for FY 2019 includes $192,210 to fund two positions: a special investigator and a public service administrator. The public service administrator provides administrative support for DCF's Investigate Missing Foster Care Children subprogram and assists the special investigator with in-person searches.

In addition to hiring the special investigator, the agency conducted special searches in Kansas City and Wichita. During these searches, DCF partnered with foster care contractor staff and local law enforcement to target specific locations. The Kansas City search was conducted on September 7, 2018, and the Wichita search was conducted on September 14, 2018. The agency estimates the expenses related to these searches total $6,000. These searches resulted in the agency locating eight foster care youth.

Follow Up—KDHE Internal PRTF Audit Results

At the November 14, 2018, meeting, a representative of KDADS summarized the progress of the ongoing audit by the Kansas Foundation of Medical Care (KFMC) on the MCOs' determinations of medical necessity in admissions to PRTFs. KDADS indicated KFMC has reviewed 20 admissions and is continuing to review additional admissions. The agency anticipates KFMC finishing their audit by the end of December 2018, and then KFMC will provide a report to KDADS and the Legislature with their findings. The agency reported there are 125 children on the wait list. There are 294 PRTF beds; the census in October 2018 was 261. The agency indicated the main reason the census is less than the number of beds is due to some beds being gender-restricted and lack of staffing of certain PRTFs. The agency noted a lot of other states are using a System of Care approach, which focuses more on providing services in the community, rather than in-patient admissions to facilities like PRTFs. KDADS is attempting to use more mobile crisis response efforts to avoid additional admissions. Additionally, KDADS is currently evaluating whether the reimbursement rate should be adjusted, if staffing issues can be improved, how many additional PRTF beds are needed, and how to incentivize PRTF providers to add more beds.

The Executive Director, Children's Alliance of Kansas, indicated there is a need for more PRTF beds and stated one of the current challenges with PRTFs and treatment of these children is coordinating with many different state agencies and other organizations. She reported there are roughly one-third the number of PRTF beds today than there were in 2011. Over this time, the average length of stay has decreased; however, the re-admission rate has significantly increased. Other states have longer initial authorization length of stays, some as long as 60 days, before treatment and continuation of stay is re-evaluated. Two of the MCOs have initial authorized stays of 14 days and the third MCO has a 30-day initial authorized policy.

Update—Mental Health Task Force

The Mental Health Task Force (Task Force) had recommendations last year, including PRTF recommendations, which included an incentive for lower re-admission rates. The Task Force has been trying to align recommendations with the Governor's Substance Abuse Task Force. Part of this concern is that the Problem Gambling and Addition Fund (PGAF) is being used as intended.

The main three priority recommendations the Task Force has are:

- **Medicaid expansion.** The Task Force states Medicaid expansion reduces the number of uninsured of when the State takes care. The majority of people at state mental health hospitals are uninsured. This recommendation is endorsed by the Governor's Substance Abuse Task Force;

- **Regional Crisis Services (RSI).** The Task Force states RSI has been very effective. The State has ongoing standing investment in making sure centers are available; and

- **State hospital regionalization.** The Task Force states moratorium was implemented in June 2015 and it is still in place. The group complements KDADS in getting part of the hospital re-certified. The Task Force has instituted a bed study to look at the need of available beds. In 1990, Kansas had more than 1,000 beds. The Task Force states the change has been dramatic. It also states people are looking back to 2013 to get good information on patient beds. Some individuals have given up trying to get individuals into the hospital beds. Regionalization is not an either/or, it is an "and." If the State is able to contract for regional beds, the State will still need the hospitals for the forensic population and those that are committed. The investment in the employees at Osawatomie State Hospital and Larned State Hospital is still imperative.

Conclusions and Recommendations

Following its review and discussion, the Committee made the following recommendations:

- The Legislature review the best practices and common procedures to the non-competitive procurement of goods and services, noting the variation in each state's statutes and regulations. The Committee further recommends review of the Prior Authorization Review Process and exemptions from the competitive bidding process, noting its concerns regarding the number of contracts exempt under the "best interest of the state" justification outlined KSA 2018 Supp. 75-3739(a)(7). The Committee recommends increasing procurement transparency and requests recommended changes from the Administration be reported to the Senate Committee on Ways and Means and the

House Committee on Appropriations no later than February 18, 2019;

- The Legislature fund the purchase of LTVMs from operating cash flows. This recommendation would reduce the total cost to purchase LTVMs by $2.0 million compared to vendor financing, but would increase the reduction in SGF revenue for FY 2019 by $3.0 million in each year beginning with FY 2019. Three options were presented for the purchase and financing: vendor financing of $10.2 million over five years; Kansas Master Lease Program of $9.2 million over five years; and operating cash flows of $8.2 million over two years;

- The House Committee on Appropriations and the Senate Committee on Ways and Means monitor the Teach for America program throughout the next two-year budget cycle to determine its efficacy in addressing teacher shortages in high-need districts. The Committee was concerned Teach for America has only recruited five teachers in the Kansas City area for the current school year (2018-2019), instead of recruiting teachers in high-need districts throughout the state;

- The Kansas Forest Service within Kansas State University take the lead on fire suppression for the State and coordinate fire suppression activities with the Adjutant General's Department and the State Fire Marshal. The Committee further recommends a separate SGF line item within the Kansas State University section of the appropriations bill for the Kansas Forest Service, with a proviso that states the amount of money within the Kansas Forest Service budget that would be used for fire suppression within the state;

- The SEHP submits a report detailing improved health outcomes attributable to the HealthQuest program and the required health assessment to the Senate Committee on Ways and Means and the House Committee on Appropriations no later than January 31, 2019. The Committee notes its concerns regarding the current SEHP HealthQuest rewards program, including the integrity of the required health assessment and the cost to employees to obtain testing results for the health assessment;

- Locations throughout the state be explored by KDHE for the possibility of additional on-site state employee health clinics; and

- KDHE and the KDADS explore incentive options for MCOs for PRTF readmission reductions and extend the number of days preauthorized to 21 or more. The Committee further recommends the agencies research the rate increase necessary to compete with private and out-of-state placements and the number of beds necessary to adequately serve Kansas youth at PRTFs. The Committee recommends findings be reported to the Senate Committee on Ways and Means and the House Committee on Appropriations no later than January 31, 2019.

Committee Observations

The Committee also make the following observations:

- Caution should be exercised when reviewing the current profile and the ending balances. While there are substantial ending balances, the Committee notes those balances are decreasing over time. When ongoing expenditures are above receipts, it creates a structurally imbalanced budget that could require major corrections if the ending balances reach zero;

- The quick and efficient implementation of the grant funding and school safety provisions, also known as the Safe and Secure Schools Initiative, included in 2018 House Sub. for SB 109. In particular, the Committee commends the KSDE for providing grant funding to all 156 schools districts that applied for funding. Awarded grants averaged $32,268 per school district and ranged from $1,043 for Healy (USD 468) to $922,613 for Wichita (USD 259). The Committee also commends school districts for using their grant funding to make good investments in school safety infrastructure. The Committee notes the school safety provisions, including the grant funding, expire at the end of FY 2019. To be continued, all provisions would need to be approved again by the 2019 Legislature. If the 2019 Legislature elects to continue the Safe and Secure Schools Initiative, the Committee recommends the continuation of the practice used by the KSDE in FY 2019, where every school district that applied for grant funding received some level of funding; and

- Mid-month rate changes hamper the ability of oil and gas companies to adjust prices to account for increased rates in a timely manner.