

Approved: March 2, 2012

(Date)

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairperson Carolyn McGinn at 10:30 a.m. on Thursday, January 12, 2012 in room 548-S of the Capitol.

All members were present.

Committee staff present:

Jan Lunn, Committee Assistant
Melinda Gaul, Chief of Staff, Senator McGinn's Office
Eli Johns, Intern, Senator McGinn's Office
Alan Conroy, Director, Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Legislative Research Department
Michael Steiner, Senior Fiscal Analyst, Legislative Research Department
Bobbi Mariani, Fiscal Analyst, Legislative Research Department
Jill Wolters, Office of the Revisor of Statutes
David Wiese, Office of the Revisor of Statutes
Daniel Yoza, Office of the Revisor of Statutes

Conferees appearing before the Committee:

Steve Anderson, Director, Division of Budget

Others in attendance:

See attached list.

There were no bills introduced.

Overview of the Governor's FY 2013 Budget:

Steve Anderson, Director, Division of the Budget reviewed the Governor's FY 2013 Budget with committee members. (Attachment 1) He discussed the recommended budget highlights that included:

- Meeting the 7.5 percent ending balance requirement with no Highway Fund monies used,
- Using casino revenues to pay off state debt,
- Investing in higher education for instruction and research as well as economic development in order to promote jobs in Kansas,
- Addressing certain public safety needs, and
- Committing funds to meet Medicaid program beneficiaries' needs.

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Mr. Anderson discussed the "State General Fund Outlook Assuming Structural Reforms are Enacted for Medicaid and School Finance," which was a graphic representation of budget forecasting in Kansas for five years. He noted Kansas is the first state in the United States to meet the Government Accounting Standards Board (GASB) principles of five-year governmental forecasting.

On the issue of "Education," Mr. Anderson provided a high-level overview of points, which included: a new school finance proposal; a new technical education formula for postsecondary institutions; increasing promotion and access to technical education by high school students; and program enhancements for elite professorships at Kansas University (KU), student financial aid, National Bioscience and Agro-Defense Facility (NBAF at Kansas State University), and the Veterinary Medical School at Kansas State.

"Public Safety" in Kansas requires funding a new Kansas Highway Patrol trooper class; funding short-term, necessary repairs at the KBI headquarters; creating a new criminal investigation unit to address the backlog of digital criminal evidence; addressing prison capacity needs; establishing a new fund to respond to future disasters that require state response; enhancing the forensic equipment lab at Washburn University to establish staff feeder options for the KBI lab; and consolidating Kansas Commission on Peace Officer's Standards and Training (CPOST) officers under the Attorney General.

Mr. Anderson provided a brief review of "Health and Human Services," which included: the proposed managed care model for the State's Medicaid system and projected savings; establishing Healthcare Savings Accounts for Medicaid diversion; funding Psychiatric Residential Treatment Facilities (PTRF), funding the State Children Health Insurance Program (SCHIP), utilizing State General Funds (SGF) to finance Adoption Assistance caseload growth; funding the Medicaid funding match for non-consensus programs with SGF money; funding the physical expansion of the Sexual Predator Treatment Program; and reorganizing agencies to facilitate Medicaid reform.

"Other" initiatives proposed include: combining the Kansas Arts Commission with the Film Commission as the new Creative Industries Commission under the Department of Commerce; supporting the Office of the State Bank Commission (OSBC) and the Kansas Corporation Commission (KCC) to ensure levels of regulation; enhancing funding for marketing the state's agricultural products; and funding the Wildlife, Parks and Tourism Department with funds from the Economic Development Initiative Fund (EDIF) rather than SGF to pay off debt related to operation of cabins in state parks.

Mr. Anderson also reviewed the Governor's Proposed Tax Plan which includes income tax rate reductions to a maximum of 4.9 percent; eliminating the two-year severance tax

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exemption on new pool oil and gas wells producing greater than fifty barrels daily; retaining sales and use taxes at current levels; and retaining the corporate income tax rate. Committee members' questions appear below:

When asked concerning federal funding for the Kansas Arts Commission, Mr. Anderson indicated he would follow-up with the Kansas Arts Commission regarding whether or not a grant application was made to the National Endowment for the Arts.

Statistical information was presented suggesting a correlation between interstate domestic migrations to states with lower marginal personal income tax rates. Mr. Anderson recommended any follow-up required be directed to Secretary Nick Jordan, Department of Revenue.

Mr. Anderson could not answer when Kansas Medicaid provider rates were increased. Senator Schmidt suggested provider rates were increased approximately 10-15 years ago. Julie Thomas, principal analyst, Division of the Budget, confirmed that when provider rates are decreased, access becomes an issue.

With the attempt to forecast a five-year budget plan, Mr. Anderson responded it was not the state's intent to incrementally decrease corporate income tax rates.

Mr. Anderson indicated local governments will not need to renegotiate revenue contracts with casinos.

With regard to a question concerning funding the new technical education program for postsecondary institutions in the amount of \$20.5 million, Mr. Anderson responded he was unaware of those funds being transferred from one place to another. He suggested that question be directed to Mr. Landon Fulmer, Policy Director for the Governor's Office.

Julie Thomas, Division of Budget, clarified that the difference in the consensus caseload numbers is due to a reduction in Temporary Assistance to Needy Families (TANF); higher projected gaming revenue, which was added to addiction services, and foster care funding that was transferred into the adoption assistance program. Senator Kultala expressed concern that should foster care contracts be reopened, the child welfare system in the state could suffer.

With regard to the KBI lab and whether other labs in Kansas provide similar or like testing, additional information was requested on the number of cases/tests involved in other facilities. Mr. Anderson will furnish that information at a later time.

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Since Wildscape has committed to funding the cost of cabins within the state park system, the question arose as to what debt is related to the state's operation of cabins. Mr. Anderson could not respond and suggested that question be directed to Secretary Robin Jennison, Department of Wildlife, Parks, and Tourism.

Concerning questions related to the tax plan, Mr. Anderson deferred to Secretary Nick Jordan as the expert resource for these inquiries.

Several questions were asked about the chart entitled "State General Fund Outlook Assuming Structural Reforms are Enacted for Medicaid and School Finance," which is contained in Mr. Anderson's written testimony. With regard to the "Business Incentives" transfers within the chart, Mr. Anderson indicated that forecasting excludes legislation that could be passed, and therefore, a historical review reflects the figures shown, which builds in deductions to revenue. Under the "expenditures" column, "Aid to K-12 Schools" does not appear to be the same information as was presented in the budget profile. Mr. Anderson and his staff indicated this information will be reviewed and reconciled to ensure accuracy. A committee member questioned the value of five-year forecasting due to the lack of factual information on which to base projections.

Related to funding education, Mr. Anderson suggested questions are directed to Landon Fulmer, Policy Director, Office of the Governor.

A committee member suggested that funding be expanded to include all banking regulators within the state in addition to funding in the Governor's Budget Report that supports the KCC and the OSBC. In addition, it was suggested that the KBI laboratory in Great Bend requires remodeling and repairs that will enhance its functionality.

Mr. Anderson confirmed a \$600,000 allocation for public broadcasting is included in the Governor's recommendation.

Questions were heard related to funding reallocations for various water initiatives; Mr. Anderson suggested those questions be directed to Secretary Dale Rodman, Department of Agriculture.

Mr. Anderson confirmed a 4 percent assumption was used to project revenues.

Discussion was heard on the doubling of the standard head of household deduction and its impact on the earned income tax credit (EITC) and TANF. In addition, the Governor's Budget Report assumes less than \$40 million in funding for the Children's Initiatives Fund. Comments were heard regarding the disparity in funding reported by the Attorney

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General to members of the Kansas Children's Cabinet in November 2011; the Children's Cabinet proposed recommendations based on an anticipated funding level of \$56 million.

In response to a question concerning school finance, and the local mill levy included in the Governor's Budget Report, Mr. Anderson recommended those questions be directed to Landon Fulmer, Policy Director, Office of the Governor.

Due to time limits, the discussion of "Various Revenue Sources--FY 2013 Budget" will be rescheduled to January 13, 2012.

The meeting was adjourned at 11:52 a.m.