MINUTES

LEGISLATIVE BUDGET COMMITTEE

July 1-2, 2002
Room 123-S—Statehouse

Members Present

Senator Stephen Morris, Chairman
Representative Kenny Wilk, Vice Chairman
Senator Paul Feleciano, Jr.
Representative Melvin Neufeld
Representative Rocky Nichols

Members Absent

Senator Dave Kerr
Representative John Ballou

Staff Present

Alan Conroy, Kansas Legislative Research Department
Leah Robinson, Kansas Legislative Research Department
Norman Furse, Revisor of Statutes
Bruce Kinzie, Revisor of Statutes Office
Mary Shaw, Committee Secretary

Conferees

Dale M. Dennis, Deputy Commissioner, State Department of Education
Stoney Wages, Executive Director, Kansas Commission on Veterans' Affairs
Jamie Clover Adams, Secretary, Kansas Department of Agriculture
Janet Schalansky, Secretary, Kansas Department of Social and Rehabilitation Services
Janis DeBoer, Deputy Secretary, Kansas Department on Aging
Duane Goossen, Director, Kansas Division of the Budget
Marvin Burris, Chief Budget Officer, Kansas Board of Regents

Stephen S. Richards, Secretary, Kansas Department of Revenue

Monday, July 1
Morning Session

The meeting was called to order by Chairman Morris at 10:10 a.m. Dale Dennis, Deputy Commissioner, State Department of Education, explained concerns that school districts are having in closing out the fiscal year (Attachment 1). Mr. Dennis reviewed an example using the Garden City Unified School District, to show how the formula works. He explained that the Garden City School District is owed $3.4 million on June 15, 2002. There appears to be enough money to pay only half of that amount on time. That payment is scheduled to be made on July 3, 2002. Mr. Dennis noted that the school districts are calling with concerns about when the money will be sent and certified public accountants are calling with concerns regarding cash-basis violations for many school districts. The law requires the state to pay by June 30, 2002. The plan is on July 1 to process the voucher to be deposited on July 3, 2002. On the last page of his testimony, Mr. Dennis listed and presented issues and concerns regarding the unified school districts following several workshops that were held around the state.

In discussion in response to a question by Representative Neufeld, Mr. Dennis responded that they felt that there are two things in the school districts budget that are underfunded:

- The Local Option Budget is underfunded by approximately $35-$40 million, with about $10 million of that due to the change made in special education.

- Payments for the School Districts' share of Kansas Public Employees Retirement System (KPERS), based on the consensus estimates, is about $6.2 million short.

Senator Feleciano expressed concern regarding the potential problem relative to the bond ratings of the school districts and Sedgwick County.

Stoney Wages, Executive Director, Kansas Commission on Veterans' Affairs, explained the purpose of his presentation was to try to address the shortfall in the Halsey Hall Nursing Home at Ft. Dodge. (No written testimony was provided.) Mr. Wages explained that last November they began, by attrition, to reduce the population from the current 78 beds back to 60 beds. Total capacity for the facility is 85 beds. They are six FTE direct care positions short from staffing the 85-bed level. Operationally they need a total of eight FTE positions. They asked for $220,000 to cover FY 2002 and started that process back in January to balance the books at the end of FY 2002. They were unable to get the shrinkage rate where they needed it to be so they are $201,000 short for FY 2002 at Ft. Dodge and most of that shortage is in Halsey Hall. According to Mr. Wages, they need a net of $421,000 for FY 2002 and FY 2003 to stay fully operational.

In response to a question by Representative Neufeld, Mr. Wages responded that the shortfall is in unpaid bills they are carrying. The plan is to run Halsey Hall at 60 beds where they plan to pick up the savings.

The Committee discussed maintenance employees. Mr. Wages explained that they have about 17 to 19 maintenance employees and that they plan to eliminate some positions. In addition, the agency imposed a hiring freeze three to four months ago, except for essential staff. The home has its own power plant, fire department, security, well and potable water system, commissary, and computers, all operational necessities that support the home. Mr. Wages noted that Ft. Dodge is operating on the same budget they had in FY1999.

Senator Feleciano asked about the match rate for federal dollars coming in on the home. Mr. Wages responded that to maximize the federal per diem requires the home to keep its daily bed rate up which it is unable to do without full staffing.

The Committee discussed maximizing the Veterans' Administration federal reimbursement rate and how to get there. Mr. Wages also mentioned that there is a federal government rule that will allow an option for any state that has a state veterans nursing home to fill 25 percent of those beds with non-veterans. He noted that they take care of the need of the veterans first and once all the veterans' needs have been met, then pursue the 25 percent rule.

The Committee discussed the approximate $90 comfort money allowed by the Veterans' Administration per month, as opposed to the $30 allowed to Medicaid recipients Mr. Wages indicated that the superintendents are working on a policy at this time to bring before the Veterans' Commission the issue of a co-pay for non-veterans.

Chairman Morris asked that Mr. Wages come back in a couple of months for an update after they have had a chance to do some analysis on the non-veterans and the fees. The Chairman inquired if Ford County or Dodge City could be considered to provide the services such as for fire protection and water supply. The Committee also discussed with Mr. Wages the status of the air conditioning at the veterans' facilities. Mr. Wages responded that they are working on applying for a grant to pay for air conditioning, but it is not done at this time. The Chairman asked that they provide an update on the air conditioning situation in a couple of months, also.

Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department, gave a presentation on preliminary FY 2002 State General Fund tax collections. Staff distributed a report, "Comparison of Fiscal Year 2002 and 2001 Actual General Fund Collections" (Attachment 2). Mr. Conroy explained that this report was a preliminary number on taxes only and does not include the non-tax receipts for the State General Fund which includes sources such as general fund interest and transfers. When the books were closed Friday, June 28, 2002, for the end of the month and the end of the fiscal year, the preliminary number shows the State General Fund receipts were $223 million, or over 5 percent below the estimates. Of that $223 million, over $180 million was in individual income taxes which amounts to 9 percent below the estimate for individual income taxes. The other major sources were: sales tax down $14 million, use tax down about $21 million, and corporate tax down about $6 million.

Mr. Conroy noted that the Kansas Legislative Research Department will wait until Accounts and Reports has actually closed FY 2001 books so actual numbers will be available in a couple of weeks.

Staff distributed another document, "State General Fund Profile, Reflecting Omnibus Bill and Year-to-Date Receipt Projections," (Attachment 3) and Committee discussion followed. Mr. Conroy noted that after these figures have been refined, the Governor and the Budget Director, in terms of FY 2003, will determine whether or not allotments would need to be imposed.

The meeting recessed at 11:55 a.m.

Afternoon Session

The meeting reconvened at 1:35 p.m.

Jamie Clover Adams, Secretary, Kansas Department of Agriculture, gave a status report on a grain warehouse receivership in Saline County. Secretary Adams distributed the following information:

- Operation of the Kansas Department of Agriculture Grain Warehouse Inspection Program (Attachment 4); and
- Miller Grain Company, Inc., Court Documents (Attachment 5).

Secretary Adams explained that Miller Grain Company has six locations and was under a state grain warehouse license. Three of these locations are in Saline County. She explained that the purpose of the Kansas Grain Warehouse law is to protect the depositors from losses. On April 15, 2002, the Kansas Department of Agriculture notified Miller Grain Company that they had to have a bond in place by midnight on April 29, 2002, to continue to do business. On May 24, 2002, the Kansas Department of Agriculture completed their full examination and found measured shortages of more than 200,000 bushels of wheat, more than 17,000 bushels of grain sorghum, about 1,625 bushels of sunflowers, and a few bushels of barley and corn. Around June 10, 2002, Miller Grain Company filed for bankruptcy and that put a stay on all movement of grain. On June 14, 2002, the bankruptcy judge in Topeka lifted the stay for the sole purpose of moving the grain. On June 21, 2002, Secretary Adams appeared before the State Finance Council asking them to increase the limitation on the grain warehouse fee fund so the Department could use those dollars to facilitate liquidation of the grain. On June 26, 2002, they were about 49 percent complete in moving out the inventory and continue to remove the grain to date. Secretary Adams indicated that these are older elevators and it is a slow process. Secretary Adams mentioned that there is a $750,000 bond on this facility, and when the Kansas Department of Agriculture locked down the facility, the bond was still in place. She mentioned that it looked like they will call that bond and will be able to recover almost all of the deposits of grain. Secretary Adams mentioned that after this process is over and the grain is liquidated, they will look at possible shortcomings in the law since the 1980s. She has a task force that was already formed for another purpose, but will ask them to look at ideas for the 2003 Session. Committee discussion followed.

In response to a question by Senator Feleciano regarding the auditing of Miller Grain Company, Secretary Adams responded that the Kansas Department of Agriculture did an examination in March of 2002 and found shortages. The law allows that the Department require the facility to "make good" on the shortages, which was done. Between March 2002 and April 2002, however, the situation deteriorated. Chairman Morris mentioned that once this situation is completed there is a need to evaluate how this has worked, what problems there are, and what needs to be changed. Secretary Adams mentioned that she should have more complete information regarding Miller Grain Company by the fall of this year.

Janet Schalansky, Secretary, Kansas Department of Social and Rehabilitation Services (SRS), gave an overview of the SRS FY 2002-FY 2003 Budget and discussion of the impact of potential State General Fund allotments (Attachment 6). Secretary Schalansky explained that her written testimony contained the following information and provided a detailed explanation:

- Copies of the set of materials being used during the meetings that were being held with consumers, advocates, business partners, and other stakeholders in a series of public meetings statewide to share information about the results of the 2002 Legislative Session and the FY 2003 budget.

- Copy of the language being used in completing contract negotiations for many of the SRS major contracts for FY 2003. They are acknowledging the uncertain nature of the state's financial condition by including contract language that spells out how SRS will address any financial cutbacks that may occur during the upcoming fiscal year.
- Types of cuts that SRS provided for consideration to the Governor earlier in the spring of 2002 should a State General Fund allotment occur.

Secretary Schalansky mentioned that the SRS instructions to their managers for preparing their FY 2004 budget proposals reflect a "bare bones" starting point rather than the customary "status quo." SRS budget directors are being asked to prepare two additional budgets, one with a 4 percent reduction and the other with a 6 percent reduction. She noted that a second round of public meetings is currently being held for the purpose of obtaining information that will help them in preparing the Department's FY 2004 budget proposal. Their intent is to compile meeting summaries and related information on the SRS public web site when the meetings are completed and to advise legislators when that information is available. Committee questions and discussion followed regarding possible reductions and Secretary Schalansky mentioned that only 20 percent of the SRS budget is non-caseloads which makes it very difficult to cut.

The Committee discussed administrative costs and Secretary Schalansky explained that SRS is holding 718 positions open in the Department with some of those positions in the field. She mentioned that in their central office they have a vacancy rate of 12.3 percent and in field operations the vacancy rate is 9.6 percent. The Secretary explained that one of the difficulties this year for SRS is that they do not have the ability to move money from salaries into programs because it was taken away by legislative action. It limits them a little bit. SRS is limiting travel extensively and looking at a lot of contracts and re-negotiating some of them.

Chairman Morris indicated that if allotments do become necessary, it appears that the caseloads would have to be included in order to alleviate a lot of undue hardships, and asked Secretary Schalansky what that would do regarding federal rules and regulations with some of the caseloads. The Secretary responded that her advice to the Governor when speaking about possible allotments was that for SRS the earlier they impose it the better because they can make reductions in the caseload and entitlement programs, but it takes longer and they will need more time to see any savings from it.

Secretary Schalansky responded to a question by Chairman Morris regarding status of a disease management program. She mentioned that Dr. Robert Day has a group of people that will come together to submit final plans to review cases of people that have had an extraordinary number of hospital stays, and to review the prescription drug program for the elderly.

Janis DeBoer, Deputy Secretary, Kansas Department on Aging (KDOA), gave an overview of the Department on Aging FY 2002-FY 2003 budget and discussion of the impact of potential State General Fund Allotments (Attachment 7). Ms. DeBoer mentioned that the Legislature approved a total budget for the KDOA in FY 2003 of $408.5 million and explained the following information. In preparation for any potential changes to the FY 2003 budget, KDOA is implementing a 10 percent reserve of State General Funds for several programs and operations of the Department, effective July 1, 2002. Agency administration will reserve 10 percent in all areas of operation, including travel, printing, and other expenses. Salaries will have 10 percent reserved where possible, but if all salaries had a 10 percent reserve it would force layoffs and/or furloughs. The Department has had a soft hiring freeze for eight months, filling only critical priority positions.

Ms. DeBoer provided information in her testimony regarding the programs KDOA administers: Nursing Homes, Home and Community Based Services for the Frail Elderly (HCBS/FE), Senior Care Act Program (SCA), Nutrition Programs, and the Senior Pharmacy

Assistance Program.

Senator Feleciano requested information regarding the numbers in assisted living facilities and KDOA will provide that information.

On page 3 of the testimony, Ms. DeBoer explained the Nursing Home Budget Plan that KDOA will operate in accordance with section 5c of House Sub. for SB 363. The implementation of the published nursing facility reimbursement methodology will be delayed for at least six months but for not more than 12 months from July 1, 2002.

For service dates beginning July 1, 2002, calendar year 2000 cost reports will be used for setting rates. The per diem costs (before limits for each of the cost centers) in effect June 30, 2002 shall be trended forward 12 months. Effective no sooner than six months, but no later than 12 months from July 1, 2002, the calendar year 2001 cost reports will be used for setting rates, in conjunction with implementation of the new rate setting methodology. However, if there is a recision or allotment made to the current budget, or other factors arise that affect the projections, the implementation of the new rate setting methodology could be delayed.

Ms. DeBoer mentioned that the nursing homes will experience a rate increase as a result of inflation beginning July 1, 2002. Representative Nichols asked a question regarding a nursing home where cost centers cost have reduced, and whether KDOA will implement an across the board increase for all nursing homes. Further discussion followed regarding nursing home locations and who they serve. Some of the nursing home costs can go up 10 percent yet others might only increase 1 to 2 percent. Ms. DeBoer explained that with the $313.1 million budget for nursing homes, a significant number of nursing facilities would have received a rate less than the rate they were receiving on June 30, 2002. Opposed to seeing a rate reduction, they opted instead to trend the June 30, 2002 rate forward with an acceptable inflation factor and then move to 2001 cost and the methodology they are accustomed to as quickly as they can in order for the facilities to maintain their rates.

The meeting recessed at 3:15 p.m.

Tuesday, July 2
Morning Session

Chairman Morris reconvened the meeting at 9:10 a.m.

Duane Goossen, Director, Kansas Division of the Budget, gave a status report on FY 2002 State General Fund receipts and expenditures and discussed possible State General Fund allotments (Attachment 8).

Mr. Goossen explained the budget outlook through FY 2004. He included information for FY 2001, which ended one year ago, because it is an example of a very good budget year structurally. FY 2001 began with a very healthy beginning balance, the revenue that came in and the expenditures that went out almost exactly matched each other. FY 2001 ended with a healthy ending balance of a little over 8 percent.

Regarding FY 2002, Mr. Goossen mentioned that the big event has been an exceptional drop in revenue to the state. The final figures are not in yet, but if it were not for the transfers that were done in the omnibus bill right at the end of the Legislative Session, the revenue probably would have been down nearly 9.5 percent. At the beginning of FY 2002 the beginning balance was $366 million. Mr. Goossen explained that according to the latest figures as of July 1, 2002, in terms of revenue (which includes the transfers that were authorized in the omnibus bill), the state has taken in $4.1 billion. The actual accounting books will be open until mid-July so all the numbers can be added, but it appears that the FY 2002 ending balance will actually be close to zero or a little below.

For FY 2003 the beginning balance is assumed to be at zero. Mr. Goossen explained that the Revised Consensus Revenue Estimate, which takes into account the tax plan that was passed, the demand transfers that were switched to revenue transfers, and all of the transfers that were in the omnibus bill, projects FY 2002 receipts at approximately $4.5 billion. He explained that he does not believe that amount will be realized. There is nothing official that readjusts the consensus revenue estimate number at this time. The approved FY 2003 budget adjusted for statewide reductions is $4.4 billion. It is a bit higher than the number published at the end of the session because the Division of the Budget has applied the statewide reductions (lease/purchase reductions, furniture, vehicles, etc.), that were agreed to during the process and not all of the amounts estimated appear to be feasible. For example:

- Lease/purchase prohibition (estimated at $5 million). The Division of the Budget could not come up with any kind of methodology for fairly or accurately hitting agencies for it. There was no way to determine if anyone was budgeting for lease/purchase.

- Prohibition on shifting unspent salary moneys (estimated at $5 million). There is no way to project until the end of the year how much salary money will go unspent.

- Prohibition on furniture purchases (estimated at $6 million). The Division of the Budget took the last three years, took all actual expenditures for furniture from State General Fund sources, averaged that amount, and reduced that from each agency budget. This yielded $1.5 million rather than the $6 million.

- Prohibition on color printing for annual reports. The Division of the Budget determined that the yield was $4,000 rather than the $1 million.

- Vehicle Purchase Moratorium (estimated at $5 million). The Division of the Budget did the same thing that was done on furniture by averaging actual expenditures over the last three years and yielded about $1.5 million worth of cuts and took those. They were authorized to take money from other revenue funds, but that will appear as transfers in revenue, not as expenditure reductions. Between the reduced expenditures and increased revenue transfers, the $5 million reduction was realized.

Copies of the "Statewide Reductions by the Division of the Budget" were distributed (Attachment 9) as well as the Kansas Legislative Research Department memorandum, "Legislative Adjustments to Consensus Estimates for FY 2002 and FY 2003" (Attachment 10).

Committee questions and discussion followed. Representative Wilk requested the final and actual salary information for FY 2002 from the accounting system. Staff mentioned that the actual details on salaries will be available in a few days from Accounts and Reports that will break down the salary information by agency.

Mr. Goossen mentioned that there is a number in the budget system for salaries for FY 2003 and if you want to compare that number to what was actually spent in FY 2002 it can be done, but that is not how the provision in the bill was written. The Director mentioned that there is another complicating factor in that the currently approved salary number is based on the budget that has been passed, but before the fiscal year is out, there will be a revised budget.

Regarding FY 2003, if it is assumed that the revised Consensus Revenue Estimate is right (Mr. Goossen does not believe that it is), and if the approved budget would be implemented at $4.4 billion, there would be a positive ending balance of approximately $70 million. He believes that number is going to be considerably lower. This is where the issue of potential allotments comes into play. The Governor has the authority to initiate an allotment proceeding if the Governor believes that it is needed to keep the State General Fund at zero. Mr. Goossen explained that the Governor has decided to watch the end of FY 2002, watch the revenues in July, and then see where things are at that point. It is possible that a decision on allotments could be made in August or even later depending on how July revenues and how everything settles up at the end of FY 2002. The Division of the Budget will watch it very carefully. A letter has been sent to all agencies advising them to begin this fiscal year very cautiously and informing them that the likelihood of an allotment is certainly out there. The Division of the Budget's intent is not to try to build an ending balance but just to try to manage the budget as we approach the next legislative cycle just trying to keep it at zero.

Representative Wilk asked if furloughs were being discussed and Mr. Goossen responded that they were not looking at furloughs at this time and are waiting to see if an allotment is necessary or not.

Chairman Morris recognized Mr. Dennis, who spoke regarding a solution to the cash-basis problem discussed yesterday. *Senator Feleciano moved, with a second by Representative Neufeld, to introduce a bill concerning the cash-basis law; relating to exemptions therefrom (Attachment 11). Motion carried.* The Revisor mentioned that Section 3 should be deleted because it is in the bill twice.

Marvin Burris, Chief Budget Officer, Kansas Board of Regents, gave an overview of the State Board of Regents FY 2002 and FY 2003 budget and discussed the impact of potential State General Fund allotments (Attachment 12). Mr. Burris explained post-secondary issues related to the FY 2002 and FY 2003 budgets found on page 1 of his testimony. He mentioned institutional responses to funding cuts in his testimony and the Kansas Board of Regents responses to FY 2003 budget reductions. Mr. Burris mentioned that the Board office will probably hold back up to 6 percent of student financial aid funds and hopefully be able to release those funds in the spring if there are no further cuts. Also, Mr. Burris mentioned that with regard to the payments to Community Colleges, Washburn University, and technical schools, the distributions they made are by statute and while, depending on the timing of a reduction, there is probably time to pull money back from a subsequent distribution, the Board does not feel that it has the authority to take the community college appropriation and cut 3 to 5 percent off the top and then make the distributions. They feel they are bound by statute and must make the distribution as intended by law.

In regard to the salary proviso, Mr. Burris expressed concern that the university officers are concerned that even without facing global budget reductions or allotment reductions, the inability to re-direct unspent salary money certainly limits management flexibility of an institution or the Kansas Board of Regents. They hope that the proviso to sweep that money at the end of the fiscal year would not be in addition to a 3 to 4 percent allotment.

Committee questions and discussion followed. Senator Feleciano requested information regarding the amount of dollars of generated institution tuition increases, an analysis of how and when the institutions perceive they will spend the money, and whether any of these moneys will go toward increasing the salaries of the university presidents. Mr. Burris responded that those moneys will not go for salary increases for the presidents.

Stephen S. Richards, Secretary, Kansas Department of Revenue, gave a status report on closing driver's license exam stations (Attachment 13). Mr. Richards mentioned some significant issues the Kansas Department of Revenue is having to deal with. They were granted about $800,000 to cover some increased health care costs but with that, they had approximately $600,000 of legislative mandated reductions in their OOE costs, approximately $500,000 of unfunded health care costs that they did not get additional funding for, and reduced funding for longevity bonuses which are statutorily required.

In addition to implementing the closing of some of the driver's license exam stations, they are eliminating one of their 800 service phone numbers for those taxpayers that have compliance problems or delinquencies in order to address the shortfall in their operating expenditures. They will maintain 800 service for taxpayers calling into the Department wanting information on forms, how they file returns, what they file, etc. The decision to close the driver's license exam stations was not made lightly. The Department also currently has a hiring freeze in place.

Mr. Richards reviewed the chart titled "Kansas Driver's Licenses Offices" showing the county driver's license offices (65), full services state offices (34), offices identified for closure, and areas where no services are available. He mentioned that since they have started the notification process of the locations being closed, several county treasurers offices have contacted them and have begun a cooperative process of providing renewal service for those locations they have had to close.

Committee questions and discussion followed. Staff asked about the use of on-line renewals for driver's licenses. The Department has some testing for motor vehicle registrations in progress at this time and hope to have the information released by the fall. They have looked at the driver's license renewals and one of the problems they have not been able to overcome is the eyesight exam.

The Committee discussed possible interim topics. Chairman Morris explained that the Legislative Coordinating Council assigned the topic of zero based budgeting and the topic of a constitutional amendment to limit legislative sessions to 89 calendar days plus one day veto session. The Committee will take both of these topics under advisement. After discussion the Committee decided to cancel the meeting of July 29 and 30.

Representative Wilk suggested looking at the following topics for the interim:

- Facilitation of a "brainstorming session" between the state and US Veterans' Administration to study creative ways to provide medical services to Kansans.

- Ask the Joint Committee on Information Technology and other standing Committees to come back to the Legislative Budget Committee with specific recommendations on how to save money through the use of technology or other means.

- Look into consolidation of services of state offices at the local level to see if there are savings there.

Senator Feleciano mentioned looking at consolidating purchasing of hardware and software for the state, noting that $150 to $200 million per year is spent alone for information technology.

Senator Feleciano requested an update from SRS regarding the prescription drug buy-down.

Chairman Morris mentioned that the Joint Committee on State Building Construction will be looking into making an effort into the infrastructure and maintenance of state buildings and would solicit suggestions in regard to funding.

Chairman Morris explained that Representative Nichols had discussed maximizing efforts to help build the capacity of state government, local governments, and community-based organizations to better access federal grant dollars in regard to the website set up by the Kansas Department of Administration. Representative Nichols reviewed a draft of a letter that he had composed (Attachment 14). It was suggested to pick several sample agencies to work with, inquiring what impediments may exist to their ability to access the federal grant dollars. Staff will work with Representative Nichols and Chairman Morris to refine the letter, or something similar, to send to the sample agencies.

Chairman Morris requested that Committee members get any topics to him prior to the next meeting. The next meeting is scheduled for August 26-27, 2002.

In response to a question, Mr. Conroy mentioned that the intent is to fill at least two of the vacancies on the Fiscal Staff but the Department needs to wait for decisions on how allotments may play out. Hopefully, interviews to fill the vacancies can begin by mid-September.

The meeting adjourned at 11:45 a.m.

Prepared by Mary Shaw
Edited by Leah Robinson

Approved by Committee on:

September 30, 2002