

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 AM on Friday, January 13, 2012 in 548-S of the Capitol.

All members were present except:

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

Others in attendance:

See attached list.

There were no bill introductions.

Overview of Off-Budget Items:

J. G. Scott, Chief Fiscal Analyst, Legislative Research Department, provided an overview of off-budget items and how those expenditures impact the state budget. ([Attachment 1](#)) He explained the differences between reportable expenditures and non-reportable (off-budget) expenditures and discussed the off-budget items included in the Governor's FY 2013 recommendations. Mr. Scott provided examples of off-budget items, which are expenditures between agencies such as documents prepared by the state printing plan, maintenance, and information technology. Such items already are accounted for in agency operating expenditures but taken off-budget for accounting purposes so as not to double count the funds; other items are removed for policy reasons. Mr. Scott explained that demand transfers show as state general fund (SGF) expenditures to another fund; the fund receiving the money shows it as non-reportable. Demand transfers were switched to SGF revenue transfers in 2003; revenue transfers show as a reduction in revenue. This methodology has the effect of taking those expenditures out of the SGF 7.5 percent ending balance calculation and lowering the SGF expenditures.

Mr. Scott responded to questions as follows:

The Homestead Property Tax refund is an off-budget item, which means it is shown as a reduction in revenue rather than an expense. Other examples include the Earned Income Tax Credit (EITC) and the food sales tax. Mr. Scott confirmed that although income tax

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provisions are technically an expense to the state, they are not reflected in the budget. A committee member inquired if the current process could be revised to show these expenses as reportable; Mr. Scott indicated that was possible, since this information is available in various reports. In response to a question concerning the existence of a report provided to the Senate Ways and Means Committee showing unrealized revenues due these tax incentives, Mr. Scott commented a specific report could be developed; the report was requested.

The Regents Faculty of Distinction Program is a transfer from the state general fund (SGF) to the Board of Regents and shows as an expense in each specific university's budget. Kansas statute provides the method in which this fund is transferred and expensed.

The State Housing Trust Fund was initiated to provide funding for low-interest loans for housing programs and related services and to assist in the rehabilitation and improvement of residential housing. Initially a \$4.0 million transfer occurred from the Economic Development Initiative Fund (EDIF) to the Department of Commerce, which was non-reportable. Currently, funds have been exhausted.

Highway Patrol/Capital Security shows as an expense item for the Eisenhower Building in the Department of Transportation budget; when the money is disbursed to the Highway Patrol for security purposes, it shows as a non-expense item in the Highway Patrol's budget.

Concerning various state universities, expense items can be either reportable or non-reportable. Usually, when grant monies or other funding is received and transferred to other departments/programs within the university, it is shown as non-reportable; when the receiving department expends the funds, it is shown as a reportable expense.

A committee member requested clarification concerning the Kansas Career Pipeline under the Department of Education budget. Reagan Cussimano, Senior Fiscal Analyst for the Legislative Research Department, reported this is a program designed to educate and prepare students for careers by learning about their interests, skills, and exploring career options.

Overview of Various Revenue Sources - 2013 Budget:

State Water Plan:

Jarod Waltner, Senior Fiscal Analyst for the Legislative Research Department, described the history and purpose of the State Water Plan Fund, how revenue is generated from

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various fees and statutory transfers. (Attachment 2) Mr. Waltner indicated the \$6 million SGF transfer was excluded in FY 2011 and is not included in the Governor's recommendation for FY 2012 or FY 2013. Mr. Waltner highlighted several new initiatives contained in the Governor's 2013 recommendation: \$924,014 (under the Department of Agriculture – Conservation), and \$100,000 was added for Suspended Sediment Monitoring/ Reservoir Sustainability (under Kansas Water Office). Funding was eliminated for Water Resource Education (Kansas Water Office) and Conservation Reserve Enhancement Program (CREP) under the Department of Agriculture-Conservation.

Following various questions and discussion, Mr. Waltner reported:

He was uncertain concerning the exact plan for water rights purchases at this time. A committee member indicated that if the plan is similar to CREP, SGF funds would be used without leveraging available federal funding.

Discussion was heard relative to the Local Environmental Protection Program (LEPP) and whether or not this program was funded in the Governor's Recommendation. Mr. Waltner indicated he would check to see if this was included in a SGF appropriation for FY 2012 -2013.

A thorough overview of the Water Resource Education program could not be provided during the meeting. A committee member requested follow-up on whether the Education Program (unfunded in the Governor's recommendation) may or may not tie into the water initiatives that are funded in the Governor's FY 2012 and 2013 recommendation. Senator McGinn indicated representatives from the Kansas Water Office would be appearing at the Senate Ways and Means Committee during the next week.

Economic Development Initiatives Fund (EDIF):

Michael Steiner, Senior Fiscal Analyst for the Legislative Research Department described the agencies and expenditures receiving EDIF funds, the transfers from EDIF to other funds, the EDIF resource estimates, and ending balances. (Attachment 3)

Following discussion and questions, Mr. Steiner indicated:

Under the Department of Commerce, Rural Opportunity Zones Program, \$1.7 million has been spent in FY 2011; this expenditure represents the administration costs associated with the program. A request was made for a detailed report on the expenses for the Rural Opportunity Zones Program. Mr. Steiner clarified that previous to FY 2011, the Department had a Rural Opportunity Program; the Rural Opportunity Zones Program was merged into the previous program.

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The State Housing Trust Fund (previously discussed above) was allocated \$2 million in the Governor's 2013 recommendation; Mr. Steiner elaborated that the transfer will go to the State Housing Resources Corporation (SHRC), which is administered by the Kansas Finance Authority. The SHRC funding is designated to provide low-interest loans to owners of apartment buildings and multi-unit dwellings in order to offer low-rent accommodations. The SHRC receives the majority of its funding from the federal government; the SHRC is an off-budget entity, and therefore, the recommended allocation will not be reflected in any budget. The Governor has recommended the program be reinstated; the legislature has not acted on this recommendation at this time.

The funding recommended for the Parks Program, Department of Wildlife and Parks, is designed to build Kansas as an outdoor destination and is funded by EDIF dollars.

The Air Service Incentive fund is a newly established fund to support air travel in north central Kansas; while the fund is new, the intent is not. Previously, there was a transfer from EDIF to the Department of Transportation for public use and general aviation programs; that program has been discontinued. Mr. Steiner clarified that \$2 million was returned to the state from the Manhattan airport initiative, which is represented under the "Transfers to Other Funds" category: "Public Use General Aviation Airport Development Fund."

Mr. Steiner will provide further information at a later time concerning the proposed use of the \$200,000 recommended allocation to the Creative Industries Commission. A committee member recalled the allocation was for grants (federal matching) rather than staffing, as was reported by the Director of the Division of Budget earlier in the week. A committee member recommended the development of a tracking mechanism for the purpose of evaluating previous funding, continued funding, eliminated funding, and proposed funding for the Creative Industries Commission. Mr. Steiner could not answer whether or not an Executive Reorganization Order (ERO) is required for the establishment of the Creative Industries Committee; he will report back at a later time.

Children's Initiatives Fund:

Amy Deckard, Senior Fiscal Analyst, Legislative Research Department, discussed the flow of tobacco settlement dollars in Kansas, the addition of the Children's Mental Health Initiative under the Department on Aging (which is transferring from the Department of Social and Rehabilitation services), other agencies and funding recommended under the Governor's FY 2013 recommendation, and ending balances. (Attachment 4) Ms. Deckard noted the transfers from the Kansas Endowment for Youth Fund (KEY) to the Attorney General for fiscal years 2012 and 2013.

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Responding to committee members' questions, Ms. Deckard indicated:

The Family Centered System of Care provides services (through Community Mental Health Centers or CMHC) to families with children who have some type of mental disturbance; funding is through grants to CMHC. Funding has been eliminated and is not designated to be replaced. There was no known reason for the elimination of funding. With regard to a rationale or reason why the Family Centered System of Care was not transferred along with the Children's Mental Health Initiative to the Department on Aging, Ms. Deckard indicated the table was only to represent the funding location.

In January, the Governor announced a reorganization of agencies; under that plan SRS' Disability and Behavioral Health Services (DBHS) division is being merged with Kansas Department on Aging to create a new agency: the Department for Aging and Disability Services. The Children's Mental Health Initiative was moved to the newly-named agency. All other children's services are the responsibility of Social and Rehabilitation Services, Children and Family Services.

The Children's Cabinet makes expenditure recommendations from the Children's Initiatives Fund to the Governor; the Governor makes the decision on funding inclusions in his Budget Report. Ms. Deckard clarified the State of Kansas is actively participating in the Tobacco Master Settlement Agreement. This ongoing litigation results in the inability to identify a permanent revenue stream amount. An informal consensus estimating group considers that revenue source; however, this revenue is received in April each year. Because of the timing in which funds are received, it is difficult to reduce allocations in the same year that monies are receipted. Historically, the appropriations bill contains language that a loan from the SGF to the Children's Initiatives Fund for cash flow purposes. The Governor's recommendation indicates the funding source may be unstable, and is based upon receipt of \$40 million in fiscal year 2013.

Ms. Deckard reported \$10.2 million from Early Childhood Block Grant, \$1 million from the SGF, and \$66,584 from the Children's Initiative fund are designated for Early Head Start in the Governor's recommendation.

Expanded Lottery Act Revenue Fund Table:

Dylan Dear, Legislative Research Department Fiscal Analyst, provided information on the Expanded Lottery Act Revenue Fund, and the Governor's recommendations for fiscal year 2013. ([Attachment 5](#))

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It was clarified that the \$11.1 million for the State Fair Capital Improvement Master Plan Debt Service is designated to pay off one of the bonds, which will reduce future debt service payment to the SGF and will alleviate some identified problems.

The meeting was adjourned at 11:58 p.m.