

## MINUTES

### LEGISLATIVE BUDGET COMMITTEE

August 7-8, 2006  
Room 123-S—Statehouse

#### Members Present

Senator Dwayne Umbarger, Chairman  
Representative Melvin Neufeld, Vice-Chairman  
Senator Jim Barone  
Senator Steve Morris  
Representative Bill Feuerborn  
Representative Brenda Landwehr

#### Members Absent

Representative Ray Merrick

#### Staff Present

Alan Conroy, Director, Kansas Legislative Research Department  
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department  
Leah Robinson, Kansas Legislative Research Department  
Amy Deckard, Kansas Legislative Research Department  
Susan Kannarr, Kansas Legislative Research Department  
Bruce Kinzie, Revisor of Statutes Office  
Judy Bromich, Chief of Staff, Senate Ways and Means Committee  
Melinda Gaul, Administrative Analyst, Senate Ways and Means Committee  
Mary Shaw, Committee Secretary

#### Conferees

Kraig Knowlton, Division of Personnel Services, Kansas Department of Administration  
Ken Otte, Division of Personnel Services, Kansas Department of Administration  
Carl Hill, Chief of Staff, Kansas Association of Public Employees  
Kirk Thompson, Associate Director, Kansas Bureau of Investigation  
Mary Beth Green, Planning and Research Officer, Kansas Public Employees Retirement System  
Duane Goossen, Secretary, Kansas Department of Administration  
Gary Daniels, Secretary, Kansas Department of Social and Rehabilitation Services  
Don Jordan, Commissioner, Juvenile Justice Authority  
Joan Wagon, Secretary, Kansas Department of Revenue  
Representative Candy Ruff, State Legislator

Wayne Bollig, Kansas Commission of Veterans' Affairs  
Ken Stodgell, State Legislative Chairman, Veterans' of Foreign Wars  
Chuck Yunker, State Adjutant, American Legion Department of Kansas

## **Monday, August 7 Morning Session**

Chairman Umbarger recognized Alan Conroy, Director, Kansas Legislative Research Department, who presented an overview of the State Employee Pay Plan ([Attachment 1](#)). Mr. Conroy explained that the 2005 Legislature approved a phased in 2.5 percent base salary adjustment for FY 2006. Committee questions and discussion followed.

Chairman Umbarger welcomed Kraig Knowlton and Ken Otte of the Kansas Department of Administration who also presented an overview of the State Employee Pay Plan ([Attachment 2](#)). Information was provided regarding the history of the compensation system in the past 20 years, operation of the pay plan, actions and reactions attributed to the current pay plan, the FY 2007 pay plan, and plans for the future. Mr. Knowlton and Mr. Otte presented detailed information in the following graphs and charts:

- Attachment I – a Comparison of Number of Employees by Pay Step: FY 2002 vs. FY 2007 ([Attachment 3](#));
- Attachment II – a Distribution of Employees by Pay Step and the Number of Employees by Pay Step ([Attachment 4](#));
- Attachment III – explanation of the Special Salary Adjustments Over the past 12 years ([Attachment 5](#));
- Attachment IV – a copy of the actual pay matrix ([Attachment 6](#));
- Attachment V – Current Pay Grade. It was explained that this chart breaks down the pay grade as to how a person moves through it ([Attachment 7](#));
- Attachment VI – Comparison in the Number of Position Reallocations ([Attachment 8](#));
- Attachment VII – Copy of a memorandum dated July 25, 2006, by Kansas Legislative Research Department from Alan Conroy, Director, to the Legislative Coordinating Council regarding a Pay Plan Study ([Attachment 9](#)); and
- Attachment VIII – Wage Comparison: Average Wage vs. CPI Wage vs. ECI Wage ([Attachment 10](#)).

It was noted that the University of Kansas did opt out of the Civil Service System due to the stagnation of the pay plan and that legislation would leave it open for the other Regents institutions to follow; so far that has not happened, but it is a possibility. That indicates the level of the frustration with the current pay system and the lack of maintenance. Mr. Knowlton and Mr. Otte indicated that the legislation passed during the 2006 Legislative Session for the 2007 pay plan was a good move and that the employees and state agencies have been pleased with that move.

It was noted that the Kansas Legislative Research Department and the Office of the Revisor of Statutes have been working with the Department of Administration for a Pay Plan Study. The proposed scope statement should be completed by March 2007 and would be composed of two phases:

- Conduct salary surveys; and
- Evaluate a tentative new compensation system.

The Legislative Coordinating Council, at a previous meeting, had directed the staff to prepare an outline of a scope statement for the state employee pay plan study and to work with the Hay Consulting Group, the consultant, to determine its interest and availability in assisting with the pay plan study. Specific consultant responsibilities are listed in detail in the Kansas Legislative Research Department memorandum. It was indicated that the new pay plan would not be available until FY 2000 due to the studies that are being conducted.

In regard to Attachment VIII, it was noted that Mr. Knowlton and Mr. Otte indicated that they would recommend using the Employee Cost Index (EPI) rather than the Consumer Price Index (CPI) in the future in looking at employee compensation. Plans are to have the Pay Plan Study ready to present at the 2008 Legislative Session for FY 2009. Chairman Umbarger invited Mr. Knowlton and Mr. Otte to come before the Committee at a future date to provide the research results they have found with other states and the use of the ECI.

In response to questions, Mr. Knowlton and Mr. Otte explained that the Baby Boomer generation, in reaching the 85 points and being fully eligible for Social Security, and those taking the 85 point option at age 54, produces concern regarding that employee not receiving the full benefits and if there is some incentive plan to try to retain employees longer. They are looking at other states and retirement plans on how to retain employees longer. Representative Neufeld requested information regarding separating out the figures shown on Attachment I for 2004, 2005, 2006, and 2007 to be able to see the figures broken out step by step with the new pay plan. Representative Neufeld also requested a copy of the executive order that was noted in an email that was sent to state employees from the Governor about the pay plan increase that was increased by the 2006 Legislature and went into state law and that the increase was done by executive order. It was explained that it was an executive directive to implement the features that were provided for by appropriations. Copies of the Executive Directive No. 06-369 were distributed to the Committee (Attachment 11).

In regard to the University of Kansas opting out of the Civil Service System, Senator Barone requested information regarding how the employees were treated and how it was funded. Regarding Attachment VIII and classified employees, Senator Barone requested the same information for the unclassified employees.

Chairman Umbarger welcomed Carl Hill, Chief of Staff, Kansas Association of Public Employees (Attachment 12). Mr. Hill introduced their president, Brian R. Thompson who was present with him. Mr. Hill extended the appreciation of their state employee members who are in the classified service for the Legislature's leadership in doing the right thing by reinstating step-movement for longtime, career employees, offering wage adjustments for uniformed officers in the Department of Corrections, the Juvenile Justice Authority, and Social and Rehabilitation Services and the 30-cents-per-hour increase to members of the trades. He noted that this, along with the 1.5 percent Base Salary Adjustment, sends the message that the state workforce is recognized for the service it provides. He acknowledged that the granting of free parking for state employees on the

surface lots in the Capitol Area Complex was greatly appreciated. Mr. Hill addressed the following information in his testimony regarding the pay plan system:

- Codify Step-Movement;
- Retain the Longevity Pay Bonus;
- Cost-of-Living Adjustment;
- Reclassification of Positions;
- Reclassification of Employees;
- Professional Development Assessment;
- Pay for Performance; and
- Cost Savings Incentive.

Senator Barone requested information from the Kansas Department of Administration about what agencies have professional development training.

Chairman Umbarger welcomed Kirk Thompson, Associate Director, Kansas Bureau of Investigation (no written testimony was provided). Mr. Thompson addressed what the Kansas Bureau of Investigation was doing with the funding that was provided to them during the Omnibus session. The agency received \$263,000 and currently are in the process of hiring two positions in the high technology crime field, evaluating people that will be retiring soon and hope to hire four-to-six positions down the road. Mr. Thompson responded to a question from the Chairman that it is very difficult to hire people in the high technology crime field that have all the skills that are necessary.

Chairman Umbarger welcomed Mary Beth Green, Planning and Research Officer, Kansas Public Employees Retirement System, who addressed the Earnings Limitation for Retired Nurses (Attachment 13). Ms. Green explained that a number of bills have been introduced to modify the earnings limitation or other working after retirement requirements in recent legislative sessions. She detailed information from the 2005 Legislative Session and the 2006 Legislative Session in her written testimony. Ms. Green noted that exemption effective from July 1, 2005, through June 30, 2008, was:

- Retirees must be off the institution's payroll for 30 days before returning to work; and
- Current employees must be eligible for normal retirement (not early retirement) to qualify for the exemption.

In closing, Ms. Green explained that participating employers are required to pay KPERS the actuarially-determined employer contribution rate applied to the retired nurse's compensation.

Chairman Umbarger welcomed Terri Roberts, Executive Director, Kansas State Nurses Association, who indicated that the main point she wanted to express was that the Kansas State Nurses Association believes that the "legislative intent" of the three-year trial run was not preserved in the implementation and would like to have it reviewed (Attachment 14).

Ms. Roberts explained that any Registered Nurse who retired prior to July 1, 2005, does not qualify for the \$15,000 earning cap limitation lifting. She noted that this means that you had to retire after the effective date. One of the arguments during the four years of debate on this provision was that they did not want an incentive for the Registered Nurses to retire and then return to work. The "interpretation" does just that. The Revisor provided copies of the portion of 2005 HB 2037 that applied the nurses working at to state hospitals (Attachment 15).

Ms. Roberts called attention to the KPERS memorandum, dated July 8, 2005, to Osawatomie State Hospital, where she wanted clarification at the bottom of the memorandum, under the section "Who Is Eligible for the Earnings Limit Exemption?" Ms. Green mentioned that she will look into it. She noted that Osawatomie State Hospital was operating at a 17 percent vacancy and Larned State Hospital was operating at a 10 percent vacancy.

The Committee recessed for lunch at 12:05 p.m.

### **Afternoon Session**

The meeting reconvened at 1:35 p.m. Chairman Umbarger asked that Mary Beth Green of the Kansas Public Employees Retirement System, Secretary Gary Daniels of the Kansas Department of Social and Rehabilitation Services, and Terri Roberts of the Kansas State Nurses Association get together to be sure that this item is resolved and to report back to the Committee. Mary Beth Green distributed copies of an Excerpt from the KPERS 2005 Designated Agent Workshop, Working After Retirement (Attachment 16).

Chairman Umbarger welcomed Duane Goossen, Secretary, Kansas Department of Administration, who provided an update on the State Vehicle Policy and Usage (Attachment 17). Secretary Goossen provided the following details regarding the three main changes:

- **Reduce Fleet/Sell Unneeded Cars, Savings of \$1.6 million to date.** Secretary Goossen noted that the basic fleet was reduced from 4,279 vehicles to 3,602 by February 2004. It is expected to be further reduced to 3,402 by the end of FY 2007.
- **Vehicle Purchase Moratorium/New Replacement Policy, Savings of \$24 million over 4 years.** A moratorium was placed on the purchase of most new vehicles from November 2003 until November 2005.
- **Vehicle Management Accountability to Agencies, Savings of \$5.1 million initially plus \$2-\$3 million per year.** In the two years following the close of the dispatch pool, statewide vehicle operational costs have been \$2-\$3 million lower than the last year in which the dispatch pool operated.

The Committee discussed the post-moratorium replacement policy, specifically why the replacement vehicle must have reached 100,000 miles for cars and 140,000 miles for pick-up trucks because traditionally it appears that pick-up trucks have more wear and usage than cars do. Secretary Goossen noted that the Kansas Department of Transportation and the Kansas Department of Wildlife and Parks are the heaviest users of trucks and he noted that they would be more than happy to visit with these two agencies to see if they would track the usage on their trucks.

Representative Landwehr requested a breakdown by agency regarding the information provided on the chart found on page 5 of Secretary Goossen's testimony regarding vehicle operational expenses. Senator Barone requested a trend line of actual expenses regarding the cost of maintaining vehicles per agency for the first half of 2006.

Chairman Umbarger welcomed Gary Daniels, Secretary, Kansas Department of Social and Rehabilitation Services (SRS), who presented an update on Level V and VI Services (Attachment

18). Secretary Daniels explained that starting in the Spring of 2004 the federal Centers for Medicare and Medicaid Services (CMS) notified SRS that substantial portions of the current Medicaid State Plan governing mental health/behavioral health/substance abuse services are now considered out of compliance with practical standards. In order to comprehensively address the myriad issues CMS had expressed concern about throughout the first half of 2006, a collaborative and focused work group of staff from SRS, Division of Health Policy and Finance (DHPF), consultants with CMS and state plan expertise explored available responsive options.

Guided by extensive prior stakeholder input, as well as the leadership guidance of state agencies and the Legislature, a foundation for responding to CMS was developed. Secretary Daniels addressed their conclusions in his written testimony. Part of their conclusions was that the only functional option, looking at the overall character, purpose, and design of Level V and Level VI facilities, was to acknowledge that they are primarily IMDs, and to assist them in preparing to deliver services within that structure. Secretary Daniels explained the proposals submitted to CMS by SRS and DHPF regarding psychiatric residential treatment facilities (PRTF) that will be added to the state plan and which are detailed in the written testimony. With these proposals submitted to CMS, they identified January 1, 2007, as the anticipated implementation date for PRTF services. CMS will have 90 days to review and respond to this proposal. Once SRS responds to the response from CMS regarding additional questions, CMS will have an additional 90 days to make their final decision. Based on the final feedback from CMS, adjustments may be required in either the service description or reimbursement methodology. In the meantime, SRS and Juvenile Justice Authority are collaboratively engaged in implementation readiness for the conversion to PRTF services and SRS continues to work with providers and other stakeholders to fully develop readiness and implementation tools. Committee questions and discussion followed. Representative Landwehr provided a number of written requests and questions from SRS and the agency will be responding to them.

Chairman Umbarger welcomed Don Jordan, Commissioner, Juvenile Justice Authority (JJA), who provided an update on the JJA process to re-design the Level V and Level VI Residential Services to meet the CMS concerns ([Attachment 19](#)). Commissioner Jordan noted in his written testimony that JJA switched their focus to helping current Level V and Level VIs to become Psychiatric Residential Treatment Facilities (PRTFs).

Commissioner Jordan mentioned that they have been working closely with providers to ensure they have the tools and information they need to adjust their services to meet PRTF regulations. Commissioner Jordan discussed accreditation to meet the standards required of PRTFs. JJA has been participating in work groups to develop an implementation plan for the necessary system changes.

In response to a question, Commissioner Jordan mentioned that they may need to struggle with the following:

- A youth that commits a crime and does not end up with a diagnosis that would provide the basis for medical necessity to be in a PRTF.
- Judges that are used to placing youth into out-of-home placement and at this time JJA is not ready to set up a non-Medicaid system.

Chairman Umbarger welcomed Gary Daniels, Secretary, Kansas Department of Social and Rehabilitation Services, who provided an update on the Social Welfare Deferrals and Audits ([Attachment 20](#)). Secretary Daniels provided details in his Attachment A that addressed the federal findings in a summary of the deferrals and audits as of July 2006. In Attachment B of his testimony,

Secretary Daniels provided a complete overview of SRS Medicaid State Plan Changes, Mental Health and Substance Abuse Services, June 2006.

Secretary Daniels explained that the federal government continues its heightened oversight of state claims of federal funds. As a result, states are facing significant deferrals of federal funds, increased federal audits, challenges to federal cost allocations, and new federal interpretation of existing laws, regulations, and state plans. Kansas is no exception.

Vice-Chairman Neufeld welcomed Secretary Daniels who continued with an overview of the Home and Community Based Services Waiver and the Physical Disabilities Waiting List Reduction (Attachment 21). He explained that at the conclusion of the 2006 Legislative Session, SRS held a meeting with key stakeholders to discuss the directive by the Legislature to look at the use of the new funding. It was a consensus of the stakeholders that there be no waiting list, and that reimbursement rates remain unchanged. With this information, SRS made the decision that reimbursement rates for the HCBS/PD waiver would remain unchanged and that the program strive to maintain no waiting list during the year.

The Committee recessed at 4:15 p.m.

## **Tuesday, August 8**

The Committee reconvened at 9:05 a.m. Chairman Umbarger welcomed Joan Wagnon, Secretary, Kansas Department of Revenue (KDOR), who presented information on the Kansas Department of Revenue tax collections. Secretary Wagnon distributed a copy of the press release regarding the delinquent taxes that were collected in FY 2006 (Attachment 22). Copies of the following information was distributed from the Kansas Department of Revenue and discussed with the Committee:

- Compliance Enforcement Department, Return on Investment, Statement for FY 2006 (Attachment 23);
- Kansas Department of Revenue, Compliance Enforcement, Fiscal Year 2006 Final (Attachment 24); and
- Kansas Department of Revenue, Accounts Receivable/Discovery, FY 2000 – FY 2006 (Attachment 25).

Secretary Wagnon mentioned that the total investment in their tax recovery was \$7.7 million and KDOR brought in \$108.0 million, therefore, as calculation of return on investment there was a ratio of \$15.00 collected on every \$1.00 that was spent. KDOR has expanded their field service staff.

In response to questions from the Committee, Secretary Wagnon explained that the agency tries to help taxpayers before they get into trouble. Their field agents work with taxpayers to try to work things out. Senator Barone asked for information regarding legislation passed on unemployment tax and can this be done on sales tax regarding people not paying taxes. Secretary Wagnon said she would look into getting a proposal on this. The Committee discussed undocumented workers.

Chairman Umbarger welcomed Representative L. Candy Ruff, who provided an update on implementing the Veterans Claims Assistance Program ([Attachment 26](#)). She addressed one page from the approved Rules and Regulations that seem to be causing the Kansas Commission on Veterans' Affairs Executive Director and perhaps other Commission members a moment's pause from KSA 97-6-2. Representative Ruff noted that when the Kansas Commission on Veterans' Affairs meets in Winfield on August 25 members will vote on these rules and regulations. At the same meeting, the Veterans of Foreign Wars and American Legion will be asked to sign their contracts with the state, and within a handful of weeks, new employees will come on board. She asked what happens if the Commission rejects the criteria portion of the regulations. Representative Ruff mentioned that her role in appearing before the Committee was to share the genuine concern being felt by the state leaders of the American Legion and the Veterans of Foreign Wars.

Chairman Umbarger welcomed Wayne Bollig, Manager, Veteran Services Program, Kansas Commission on Veterans' Affairs (KCVA) on behalf of the KCVA, and provided a report on the Veterans Service Organization Grant Program and Veterans Service Representative Pay issues ([Attachment 27](#)). Mr. Bollig expressed thanks on the behalf of the KCVA to the Legislature and the Governor for supporting changes to the program of veterans services and assistance. He noted that the Veterans Claims Assistance Program Advisory Board recently made its first recommendations to the Commission, and the Commission discussed the recommendations during a meeting on July 21, 2006. There are four items that the Commission was asked to approve and they are detailed in the written testimony.

Chairman Umbarger welcomed Kenneth Stodgell, Chairman, State Legislative Committee, Veterans of Foreign Wars of the United States, who provided an update on the Veterans Service Organizations Grant Program and Veterans Service Representative Pay Issue ([Attachment 28](#)). Mr. Stodgell explained that meetings are now taking place with the Veterans Administration to insure space is available at all three facilities in Leavenworth, Topeka, and Wichita for the "one-stop" centers, making the program more efficient. The VFW is spending considerable time working with health insurance companies and other human resource professionals in anticipation of having prospective employees begin their new jobs September 1, 2006, for implementation of the program. Mr. Stodgell expressed concern that they feel shut out of the process and have concern for the delay to implement a bill after it becomes law.

Chairman Umbarger welcomed Charles M. Yunker, Adjutant, The American Legion Department of Kansas, who provided an update on the Veterans Service Organizations Grant Program and Veterans Service Representative Pay Issues ([Attachment 29](#)). Mr. Yunker mentioned that their attorney is concerned about Attachment G of the draft contract and it talks about errors and requested clarification of it or look into a way to rewrite that portion.

Chairman Umbarger recognized Alan Conroy, Director, Kansas Legislative Research Department, who provided a report on the State General Fund and distributed the following information:

- State General Fund Receipts, FY 2006 ([Attachment 30](#));
- State General Fund Receipts Profile, Expenditures and Balances as Projected, FY 2005-FY 2006, In Millions ([Attachment 31](#)); and
- State General Fund Receipts, July, FY 2007 ([Attachment 32](#)).

Mr. Conroy explained that total receipts to the State General Fund were \$80.5 million, or 1.5 percent, above the final adjusted estimate (which includes any legislation enacted after the



Consensus Revenue estimate). Taxes only in FY 2006 were \$103.5 million, or 2.0 percent, above the adjusted estimate, most notably in higher-than-estimated individual and corporate income taxes and sales taxes. He also explained that total State General Fund Receipts in FY 2006 exceeded total State General Fund Receipts in FY 2005 by \$525.4 million, or 10.9 percent. Tax receipts only for FY 2006 exceeded FY 2005 tax receipts only by \$606.7 million, or 12.9 percent.

Mr. Conroy noted that total receipts for July, the first month of FY 2007, were \$13.7 million, or 3.6 percent, above the estimate. The component of total State General Fund receipts from taxes only was \$815,000, or 0.2 percent, below the estimate.

The next meeting of the Legislative Budget Committee is scheduled for September 11-12, 2006. Chairman Umbarger thanked everyone for their work and the meeting adjourned at 11:05 a.m.

Prepared by Mary Shaw  
Edited by Leah Robinson

Approved by Committee on:

September 12, 2006

(date)