



The Governor's Budget Report

Fiscal Year 2022

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State of Kansas

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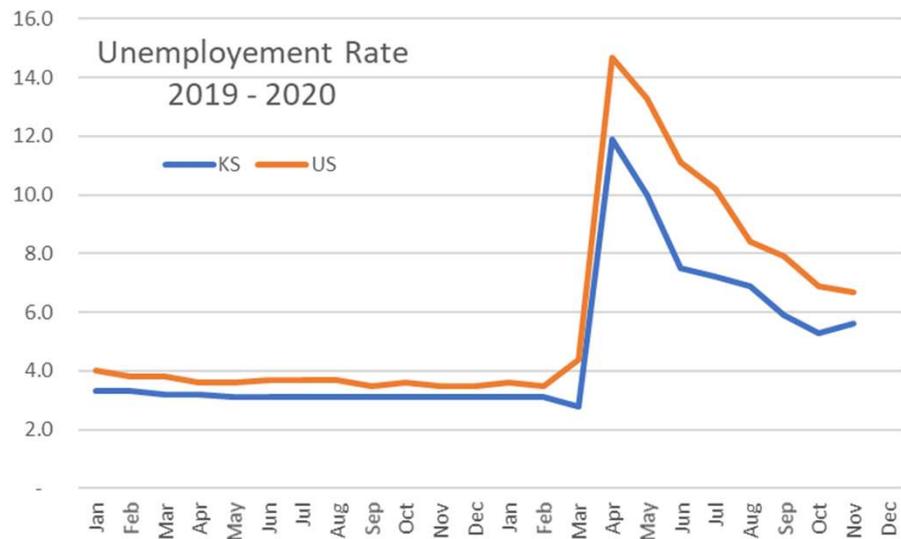
Agenda

FY21 Adjustments and FY22 Recommendations

- Context of Framework
- November Consensus Revenue Estimates
- Continued Focus on Budget Stabilization
- Education
- IT Modernization and Economic Investment
- Human Services
- Mental Health Services
- Medicaid Expansion
- Protecting Core Services
- Spending and Profile Tables
 - Revised FY21 Recommendation
 - FY22 Recommendation
 - SGF Outlook

Historical Context

- Pandemic persists – US HHS Secretary Alex Azar extended the official Public Health Emergency declaration on January 7, 2021
- Federal government continues to focus relief dollars on stabilizing economy across the nation
- Governor’s budget decisions focused on reacting to needs highlighted by the pandemic, and avoiding major profile altering policy changes



- Both the US and Kansas were enjoying historically low unemployment pre-COVID
- Even with signs of improvement, economic outlook across the nation remains uncertain

Consensus Revenue Estimate

Consensus Revenue Estimate						
<i>(Dollars in Thousands)</i>						
	FY 2020 Actual		FY 2021 Estimate		FY 2022 Estimate	
	Amount	% Change	Amount	% Change	Amount	% Change
Property Tax/Fee:						
Motor Carrier	\$ 12,502	5.5 %	\$ 12,500	(0.0) %	\$ 12,500	-- %
Income Taxes:						
Individual	\$ 3,338,185	(11.1) %	\$ 4,040,000	21.0 %	\$ 3,830,000	(5.2) %
Corporation	384,407	(12.1)	410,000	6.7	360,000	(12.2)
Financial Institutions	46,197	(5.0)	52,000	12.6	45,000	(13.5)
Total	\$ 3,768,789	(11.2) %	\$ 4,502,000	19.5 %	\$ 4,235,000	(5.9) %
Excise Taxes:						
Retail Sales	\$ 2,352,523	0.7 %	\$ 2,400,000	2.0 %	\$ 2,425,000	1.0 %
Compensating Use	479,060	10.9	540,000	12.7	600,000	11.1
Cigarette	116,456	(0.2)	113,000	(3.0)	110,000	(2.7)
Tobacco Products	9,180	2.4	9,400	2.4	9,400	--
Liquor Gallonage	21,978	(0.5)	24,000	9.2	24,000	--
Liquor Enforcement	74,667	0.5	78,000	4.5	79,000	1.3
Liquor Drink	10,350	(15.2)	9,000	(13.0)	10,000	11.1
Severance	20,692	(50.4)	10,400	(49.7)	14,700	41.3
Gas	390	(96.1)	1,400	259.2	2,600	85.7
Oil	20,302	(36.1)	9,000	(55.7)	12,100	34.4
Total	\$ 3,084,905	0.6 %	\$ 3,183,800	3.2 %	\$ 3,272,100	2.8 %
Other Taxes:						
Insurance Premium	\$ 172,479	5.6 %	\$ 137,000	(20.6) %	\$ 150,000	9.5 %
Corporate Franchise	7,043	(4.2)	8,000	13.6	7,500	(6.3)
Miscellaneous	3,426	(8.5)	3,200	(6.6)	3,500	9.4
Total	\$ 182,948	4.9 %	\$ 148,200	(19.0) %	\$ 161,000	8.6 %
Total Taxes	\$ 7,049,143	(5.7) %	\$ 7,846,500	11.3 %	\$ 7,680,600	(2.1) %
Other Revenues:						
Interest	\$ 56,064	14.6 %	\$ 9,000	(83.9) %	\$ 3,000	(66.7) %
Net Transfers	(251,224)	(24.1)	(200,800)	20.1	(254,800)	(26.9)
Agency Earnings	46,465	(8.1)	53,000	14.1	54,800	3.4
Total Other Revenue	\$ (148,694)	(44.5) %	\$ (138,800)	6.7 %	\$ (197,000)	(41.9) %
Total Receipts	\$ 6,900,449	(6.4) %	\$ 7,707,700	11.7 %	\$ 7,483,600	(2.9) %

Totals may not add because of rounding.

Governor's Budget Priorities

The Governor's budget is built on two key principles

1. Respond to the needs highlighted by the pandemic and protect core services, while keeping Kansas on the path of fiscal responsibility and economic growth
 - The FY22 Governor's recommended budget will show investments in IT modernization, transportation, public safety, mental health services, education, and economic development tools
2. Continue building on the work that has been done over the past few years to keep putting tools back into the budget toolbox
 - By remaining steadfast in the commitment to restore stability to the state's finances over the past couple of years, we have been able to weather the financial uncertainty that the pandemic has brought to date

Maintain Focus on Budget Stability

- Maintain laser focus on preserving healthy ending balance
 - Ending balance first line of defense against economic downturn
 - Exceeding statutory ending balance requirement in FY21
 - Meeting obligation in FY22, while reducing reliance on KDOT transfers
- Initial allotment plan this summer called for re-borrowing the \$132mil against PMIB
 - With signs of improvement, re-borrowing against that fund is no longer necessary

State General Fund Balances

(Dollars in Millions)

Fiscal Year	Receipts	Expenditures	Balances	Percent
2021	7,860.2	7,587.7	767.5	10.1
2022	7,793.8	7,960.4	600.9	7.5

Totals may not add because of rounding.

Maintain Focus on Budget Stability

Governor continues commitment to closing the bank of KDOT

- Transfers from SHF to SGF have totaled \$2.3bil since FY10
- Governor's recommendation reduces FY22 transfer by 50% to the lowest level since FY14
- Completely eliminates transfers by FY23

State Highway Fund Transfers to SGF		
Year	Amount	\$ vs. Prior Year
FY 2010	\$ 179,322,545	147,948,422
FY 2011	\$ 185,300,000	5,977,455
FY 2012	\$ 237,760,399	52,460,399
FY 2013	\$ --	(237,760,399)
FY 2014	\$ 15,000,000	15,000,000
FY 2015	\$ 176,779,087	161,779,087
FY 2016	\$ 277,961,561	101,182,474
FY 2017	\$ 264,918,157	(13,043,404)
FY 2018	\$ 288,297,663	23,379,506
FY 2019	\$ 243,126,335	(45,171,328)
FY 2020	\$ 231,775,744	(11,350,591)
FY 2021	\$ 133,700,000	(98,075,744)
FY 2022*	\$ 66,850,000	(66,850,000)
FY 2023*	\$ --	(66,850,000)

*Governor's Recommendation

Maintain Focus on Budget Stability

KPERS Reamortization

- Proposing reamortizing KPERS legacy unfunded actuarial liability over 25 years
 - Represents ten-year extension from current schedule
 - Frees up \$158.7mil of SGF in FY22, providing budget flexibility
- KPERS Board likely to consider reamortizing legacy unfunded liability in coming years
 - Choosing to do so now provides immediate budget stability
 - Allows state to focus SGF dollars on preserving resources and necessary programs, while continuing to navigate global pandemic

KPERS State/School SGF Contributions Governor's Reamortization Plan*

	Current Baseline*	Reamort. Plan.	Difference
FY 2022	\$ 658,580,448	\$ 499,850,427	\$(158,730,021)
FY 2023	\$ 668,860,383	\$ 508,043,667	\$(160,816,716)
FY 2024	\$ 681,996,930	\$ 515,040,885	\$(166,956,045)
FY 2025	\$ 695,308,626	\$ 521,958,515	\$(173,350,111)

KPERS State/School Contribution Rates* Governor's Reamortization Plan

	Current Baseline	Reamort. Plan	Difference
FY 2022	15.09%	11.92%	-3.17%
FY 2023	14.86%	11.74%	-3.12%
FY 2024	14.69%	11.53%	-3.16%
FY 2025	14.52%	11.32%	-3.20%

*Baseline includes \$25.8 million layering payments for skipped contributions in FY 2017 & FY 2019. Governor's Reamortization Plan folds the layering payments into the new contribution rate.

Maintain Focus on Budget Stability

- Reamortizing KPERS will **NOT**:
 - Reduce member benefits
 - Diminish member benefits
 - Jeopardize member benefits
 - Threaten member benefits
 - Weaken member benefits
- Reamortizing KPERS will:
 - Maintain member benefits for current and future retirees
 - Provide SGF savings of \$158.7mil in FY22, and \$160.8mil in FY23
 - Provide budget stability in coming years
 - Ensure more manageable level of employer contribution rates
 - Maintain funded ratio above 70%, while continuing to march toward 100%

Protecting Local Business

Level the playing field for local businesses with fair tax policy

- Retail Sales & Compensating Use Taxes on Digital Property
 - Requires tax on digital sales, just as physical sales are taxed in Kansas stores
 - Increases SGF Revenues by \$42.7mil in FY22
- Marketplace Facilitators to Collect Sales Tax
 - Makes for more fair tax code for small Kansas businesses
 - Increases SGF Revenues by \$43.1mil in FY22
- Kansas is one of three states that has not yet enacted a marketplace facilitator provision

<u>Type</u>	<u>SFY22</u>
Marketplace Facilitator	\$43.1mil
Digital Property	\$42.7mil
Total	<u>\$85.8mil</u>

Funding Education

Continue to Fund K-12 Education at Constitutionally Required Levels

- Budget recommendation protects K-12 funding to comply with Base Aid requirements
- Supreme Court declared base aid constitutional, which will continue with this budget

(Dollars in Thousands)

	FY 2020 Actuals	FY 2021		FY 2022	
		Governor's Recomm.	Prior Year Difference	Governor's Recomm.	Prior Year Difference
Unweighted FTE Enroll.	473,300	472,650	(650)	473,300	650
Weighted FTE Enroll.	683,170	678,100	(5,070)	683,800	5,700
Base Aid for Student Excell.	\$ 4,436	\$ 4,569	\$ 133	\$ 4,706	\$ 137
State Foundation Aid (SFA)*					
State General Fund	\$ 2,282,149	\$ 2,264,593	\$ (17,556)	\$ 2,437,622	\$ 173,029
20-Mill Local Prop. Tax	709,436	732,667	23,230	752,398	19,731
School Dist. Fin. Fund	59,151	52,000	(7,151)	52,000	--
Mineral Production Fund	11,187	8,581	(2,606)	4,840	(3,741)
State Highway Fund	--	--	--	--	--
Total--SFA	\$ 3,061,923	\$ 3,057,841	\$ (4,082)	\$ 3,246,861	\$ 189,019

Funding Education

Protecting Investments in Higher Education

- Budget calls for restoring many of the allotments/cuts to the Regents and their members
 - Restore \$26.3mil from allotment that reduced the FY22 base budget
 - Restore \$27.4mil from the universities reduced resource package submitted this summer
 - Restore \$14.9mil of the Board of Regents Post Secondary Institutions (Community Colleges, Technical Schools and others) reduced resource package
 - Protected entirety of the \$2.4mil budget for student financial assistance
 - Add \$10.4mil to the Board of Regents administrative budget; amount equal to 2.5% pay increase for university employees, but funds to be used on top administrative priorities across the Regents institutions as determined by the Board

Investing in Economic Development

Protecting Funding for Commerce

- Restored the 10% reduced resource package, including \$1.3mil in EDIF
- Continues funding for key programs administered by Department of Commerce
 - Main Street Program
 - International trade operations
 - Community development grants
 - Build Up Kansas
- Allows Department of Commerce to continue to build on their recent successes of more than \$2.5bil in record-breaking capital investments to Kansas

Investing in IT Modernization

Critical IT Infrastructure Improvements – FY22

- Department of Labor
 - Investing \$37.5mil between FY21 – FY22 from Federal and special revenue funds for UI modernization efforts
- Department of Corrections
 - \$3.1mil for Juvenile and Offender Management Information Systems
- Department of Human Services
 - \$2.0mil for Electronic Health Record support and maintenance
 - \$1.0mil for Comprehensive Child Welfare Information System
- OITS
 - \$4.3mil for rehab and repair
- KPERS
 - \$6.6mil as part of IT modernization roadmap plan

Human Services

Department of Human Services

- ERO to Create Department of Human Services
 - Will combine Department for Children and Families with the Department for Aging and Disability Services
 - Enhances level of service that our citizens will receive from these Agencies
- Department of Human Services Budget
 - Of the \$57.7mil in reductions proposed as part of the reduced resource package, Governor recommends restoring \$40.5mil
 - Targeting additional funds to DHS for high impact areas of need
 - \$2.0mil for EHR support and maintenance
 - \$3.6mil for adoption assistance growth
 - \$0.6mil for Community Integration Housing First Program

Human Services

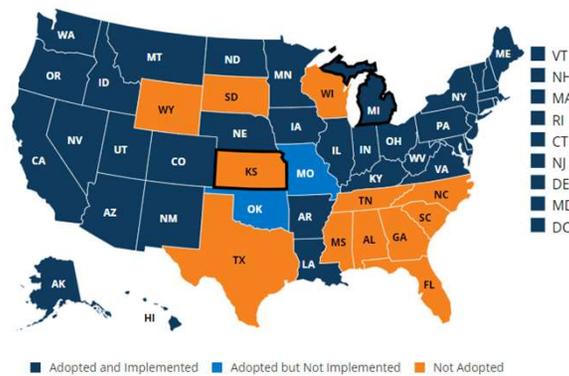
Prioritizing Investments in Behavioral Healthcare Services

- Department of Human Services Enhancements
 - \$2.0mil for CMHC specialized services in Nursing Facilities for Mental Health
 - \$5.0mil for statewide mobile response & stabilization
 - Provides community-based interventions and individualized care planning
 - \$3.0mil for family crisis response and support
 - Provides any child/youth up to 18 in the community, or any young adult (ages 18 – 21) who is a foster care alum who is experiencing behavioral or psychiatric emergency with rapid, community-based crisis intervention services, regardless of health care insurance status
- Department of Corrections Lansing facility
 - Substance abuse program implementation

Human Services

Expanding Medicaid to full adult expansion population, beginning 01/01/2022

- Provide access to critical health care services for estimated 165,000 Kansans
 - Estimate up slightly from prior estimates due change in economy
- \$19.0mil in SGF for FY22, drawing in over \$541mil of Federal funding (estimated)
 - State obligation for cost of expansion is approximately 3-4 cents on the dollar
 - Estimate above is for half of a fiscal year, as Agency would implement on 01/01/22
- Two more states have passed Medicaid expansion since last year, leaving Kansas as one of 12 states to not yet expand eligibility
 - Every state sharing a border with Kansas has now passed Medicaid expansion



**From KFF.org

Core Services

Budget Protects Core Services, Including Public Safety and Transportation

- Highway Patrol
 - \$16.0mil in FY21 to upgrade the Highway Patrol's aircraft fleet, including the purchase of two helicopters and one single engine plane, plus upgrades in technology to existing fleet
 - \$3.3mil of funding over FY21 and FY22 for career progression plan to aide in recruiting and retaining high quality public safety officers
- Corrections
 - Bringing back out of state inmates, realized savings \$9.1mil in FY21
 - \$3.1mil targeted for modernization of IT systems
 - \$13.3mil between FY21 – FY22 for expansion of Winfield and Lansing facilities
 - Adds specialized care for inmates with acute health conditions, specifically for geriatric population with chronic medical and/or cognitive care issues
 - Provides for intensive substance abuse treatment for inmates preparing for release, allowing for better integration into society upon release, driving down recidivism rates

Core Services

Budget Protects Core Services, Including Public Safety and Transportation

- Adjutant General
 - Recommend \$1.6mil to begin design work for remodeling the State Defense Building, which contains State Emergency Operations Center as well as the Division of Emergency Management
 - \$1.5mil from all funds (\$0.7mil SGF) for deferred maintenance and rehab/repair for the Armories
- Transportation
 - Reduced SGF reliance on KDOT, with plan to phase out by FY23
 - Keeping the funds with KDOT allows them to continue moving forward with the Eisenhower Legacy Plan that was approved by the Legislature in 2020

Investing in Employees

Funding for Pay Increase for State Employees

- Governor proposes \$14.3mil in SGF to fund a 2.5% pay increase for all State employees
 - Executive, Legislative and Judicial branches included
 - Does not include Legislators or statewide elected officials
 - Board of Regents allocated separate administrative funds equal to pay increase
 - After many consecutive years of no increases, the state was able to begin increases again in FY18
 - No pay plan was approved for FY21
 - Investing in employee pay is a powerful tool to ensure we are able to attract and retain talent

SGF Expenditures – FY21

FY 2021 State General Fund	
<i>(Dollars in Millions)</i>	
Beginning Balance	\$ 495.0
Revenue:	
November Consensus Revenue Est.	7,707.7
Governor's Transfer Adjustments	152.5
Total Available	\$ 8,355.2
Expenditures:	
FY 2021 Budget-Total Expenditures	7,587.7
Key Adjustments Included in Total:	
Reappropriations	351.0
Allotment	(374.5)
Agency Reduced Requests	(135.2)
Health/Human Service Caseloads	(166.5)
Lapse Reappropriations from FY 2020	(30.8)
K-12 Caseloads	(27.8)
CRF Round 3 Public Safety Salaries	(25.0)
Medicaid Non-Caseloads	(13.7)
KDADS Fee Fund Swap	(12.0)
Return Out-of-State Inmates	(9.1)
BIDS Assigned Counsel Caseload	(3.0)
DOC Food Service Savings	(1.7)
State Fair--LCC Coronavirus funding	1.0
OITS HHS Settlement	1.7
Additional Disaster Funding	2.6
Commerce--LCC Coronavirus funding	5.0
DOC Medical Contract	7.8
Net All Other Adjustments	(6.2)
Ending Balance	\$ 767.5

Totals may not add because of rounding.

SGF Expenditures – FY22

FY 2022 State General Fund	
<i>(Dollars in Millions)</i>	
Beginning Balance	\$ 767.5
Revenue:	
November Consensus Revenue Est.	7,483.6
Governor's Tax Policy Adjustments	85.8
Governor's Transfer Adjustments	224.4
Total Available	\$ 8,561.3
Expenditures:	
FY 2022 Budget-Total Expenditures	7,960.4
Key Adjustments Included in Total:	
K-12 Caseloads	(14.2)
KSDE Reductions	(4.2)
Higher Education Reduction Package	(42.4)
Higher Education GEER Fund Restore	26.3
Higher Education Discretionary Funding	10.4
Medicaid Expansion	19.0
Health/Human Service Caseloads	204.8
Medicaid Non-Caseloads	15.9
Human Services Initiatives	16.2
State Hospital Reductions	(12.1)
DOC Reduce Contract Bed Funding	(9.5)
DOC Medical Contract	9.6
DOC Fund Swaps	(16.1)
DOC Food Service Savings	(1.5)
Adjutant General Initiatives	2.1
Dept. of Administration Debt Service	3.8
BIDS Recruiting and Retention	4.1
Agency Reduction Packages	(25.0)
State Employee Pay Plan	14.3
KPERS Reamortization	(158.7)
Ending Balance	\$ 600.9

Totals may not add because of rounding.

Governor's Proposed SGF Profile

State General Fund Outlook						
<i>(Dollars in Millions)</i>						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Gov. Rec.</u>	<u>Gov. Rec.</u>
Beginning Balance	\$ 37.1	\$ 108.5	\$ 761.7	\$ 1,105.1	\$ 495.0	\$ 767.5
Revenues						
Taxes	5,816.9	7,030.8	7,471.3	7,049.1	7,846.5	7,766.4
Interest	65.6	22.8	48.9	56.1	9.0	3.0
Agency Earnings	74.7	50.2	58.3	58.3	53.0	54.8
Transfers						
School Capital Improvement Aid	(179.7)	(189.8)	(202.1)	(203.4)	(205.0)	(205.0)
Highway Fund	266.8	288.5	243.1	231.8	133.7	66.9
Budget Stabilization Fund	--	--	--	(81.9)	--	81.9
PMIB Bridge Funding	198.4	118.8	(52.9)	(132.2)	--	--
All Other Transfers	<u>105.1</u>	<u>(19.1)</u>	<u>(190.5)</u>	<u>(65.6)</u>	<u>23.0</u>	<u>25.9</u>
Total Revenues	\$ 6,347.9	\$ 7,302.3	\$ 7,376.2	\$ 6,912.3	\$ 7,860.2	\$ 7,793.8
Total Available	\$ 6,385.0	\$ 7,410.8	\$ 8,138.0	\$ 8,017.4	\$ 8,355.2	\$ 8,561.3
Expenditures						
Aid to K-12 Schools/KPERS School	3,084.8	3,377.8	3,476.4	3,960.5	3,930.2	4,174.7
Higher Education	758.7	761.8	794.1	843.4	825.7	823.3
Health/Human Service Caseloads	1,079.8	1,088.3	1,266.6	1,107.4	1,196.6	1,416.5
Judiciary	105.0	103.0	107.1	111.7	111.6	138.9
General Government	201.9	224.1	234.4	242.4	267.3	240.3
Public Safety	387.3	391.1	411.2	450.8	453.9	454.9
Agriculture & Natural Resources	15.5	15.0	15.9	17.6	17.7	14.8
KPERS Reamortization	--	--	--	--	--	(158.7)
State Employee Pay Plan	--	--	--	--	--	14.3
All Other Expenditures	<u>643.6</u>	<u>687.9</u>	<u>628.8</u>	<u>788.8</u>	<u>784.8</u>	<u>841.3</u>
Total Expenditures	\$ 6,276.5	\$ 6,649.1	\$ 7,032.8	\$ 7,522.5	\$ 7,587.7	\$ 7,960.4
Ending Balance	\$ 108.5	\$ 761.7	\$ 1,105.1	\$ 495.0	\$ 767.5	\$ 600.9
<i>As Percentage of Expenditures</i>	<i>1.7%</i>	<i>11.5%</i>	<i>15.7%</i>	<i>6.6%</i>	<i>10.1%</i>	<i>7.5%</i>
Budget Stabilization Fund Balance	--	--	--	81.9	81.9	--

Totals may not add because of rounding.

Revenues for FY 2021 & FY 2022 Recommendations reflect the November 2020 Consensus Revenue Estimate as adjusted by the Governor.

Expenditures for the Recommendations reflect the November 2020 Human Services Consensus Caseload Estimate as adjusted by the Governor.

Summary

Review of Budget Priorities

- Economy showing signs of improvement, but outlook remains uncertain – both in Kansas and across the nation
- Respond to pandemic
 - Investments in IT modernization
 - Continue to invest in Economic Development
 - Protect core services
 - Fully fund Education
- Continue building toolbox
 - Avoid profile-altering fiscal policy changes
 - Maintain healthy ending balances
 - Reduce reliance on Highway Fund, with target to eliminate
- No increases in Personal or Corporate Income Tax



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