Governor Laura Kelly's Budget Recommendation

Fiscal Year 2024

Presented By:

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Agenda

- Where we were
  - Key accomplishments made together

- Where we are
  - Current revenue picture

- Where we're going
  - Looking across the horizon

Where We Were

Accomplishments

~Partnering Together to Restore Budgetary Stability~

- Closed the Bank of KDOT
- Fully funding schools and eliminated delayed payment
- Retired hundreds of millions of dollars of state debt
- Repaid skipped KPERS payments
- Eliminated PMIB bridge loan (two years ahead of schedule)
- No certificate of indebtedness for two years
- Beefed up rainy-day fund
- Fully funded the state water plan
- Multiple layers of tax relief
- Consistent structural balance

Where We Are

	FY 2022 (Actual)		Consensus Estimate November 9, 2022 FY 2023 (Revised)		Consensus Estimate November 9, 2022 FY 2024	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Income Taxes:						
Individual	$ 4,836,131	5.4 %	$ 5,100,000	5.5 %	$ 5,301,500	4.0 %
Corporation	806,035	23.6	773,000	(4.1)	646,000	(16.4)
Financial Institutions	62,227	(17.2)	52,000	(16.4)	50,000	(3.8)
Total	$ 5,704,392	7.3 %	$ 5,925,000	3.9 %	$ 5,997,500	1.2 %
Sales & Use Taxes:						
Retail Sales	$ 2,759,402	9.4 %	$ 2,790,000	1.1 %	$ 2,790,000	-- %
Compensating Use	775,034	28.5	820,000	5.8	860,000	4.9
Total	$ 3,534,436	13.1 %	$ 3,610,000	2.1 %	$ 3,650,000	1.1 %
Other Excise Taxes:						
Cigarette	$ 109,406	(3.6) %	$ 100,000	(8.6) %	$ 96,000	(4.0) %
Tobacco Products	10,179	2.6	10,400	2.2	10,700	2.9
Liquor Gallonage	24,540	(0.7)	25,500	3.9	26,000	2.0
Liquor Enforcement	82,988	2.0	81,000	(2.4)	82,000	1.2
Liquor Drink	13,757	33.3	15,000	9.0	15,500	3.3
Gas Severance	20,827	432.3	24,400	17.2	12,400	(49.2)
Oil Severance	35,341	173.4	37,900	7.2	25,700	(32.2)
Total	$ 297,038	15.7 %	$ 294,200	(1.0) %	$ 268,300	(8.8) %
Other Taxes:						
Insurance Premiums	$ 196,373	7.9 %	$ 204,000	3.9 %	$ 212,000	3.9 %
Motor Carrier	12,922	(4.5)	11,600	(10.2)	11,600	--
Corporate Franchise	8,456	(14.2)	9,000	6.4	9,000	--
Miscellaneous	4,490	31.2	5,100	13.6	5,400	5.9
Total	$ 222,242	6.5 %	$ 229,700	3.4 %	$ 238,000	3.6 %
Total Taxes	$ 9,758,107	9.5 %	$ 10,058,900	3.1 %	$ 10,153,800	0.9 %
Other Revenues & Receipts:						
Interest	$ 2,822	(63.8) %	$ 112,000	3,868.8 %	$ 205,000	83.0 %
Transfers & Other Receipts	(1,914,835)	(1,586.3)	(577,700)	69.8	(321,800)	44.3
Agency Earnings	69,951	10.9	108,000	54.4	87,400	(19.1)
Total	$ (1,842,063)	(4,217.6) %	$ (357,700)	80.6 %	$ (29,400)	91.8 %
Total Receipts	$ 7,916,045	(10.7) %	$ 9,701,200	22.6 %	$ 10,124,400	4.4 %

- Current food tax reduction already baked into CRE forecast

Where We're Going

- **Budget Highlights**
  - Investments for all Kansans, from early childhood through retirement
  - Base spending increase less than half of current inflation rates
  - Targeted and sustainable tax relief for all Kansans
  - Focus on one-time expenses
  - Further solidify stabilization fund
  - Out-year structural balance, to protect resources across the horizon

- **Budget Considerations**
  - Stress testing to safeguard against potential future macroeconomic headwinds
  - Minimize addition of new base expenditures
  - Look across the horizon – focus on structural balance
  - Avoid duplication of efforts with SPARK dollars vs. SGF dollars [1]

[1] SPARK dollars currently approved for programmatic areas rather than specific projects

Sustainable Tax Relief

Sustainable Tax Relief

Three Proposals for Sustainable Tax Relief for All Kansans

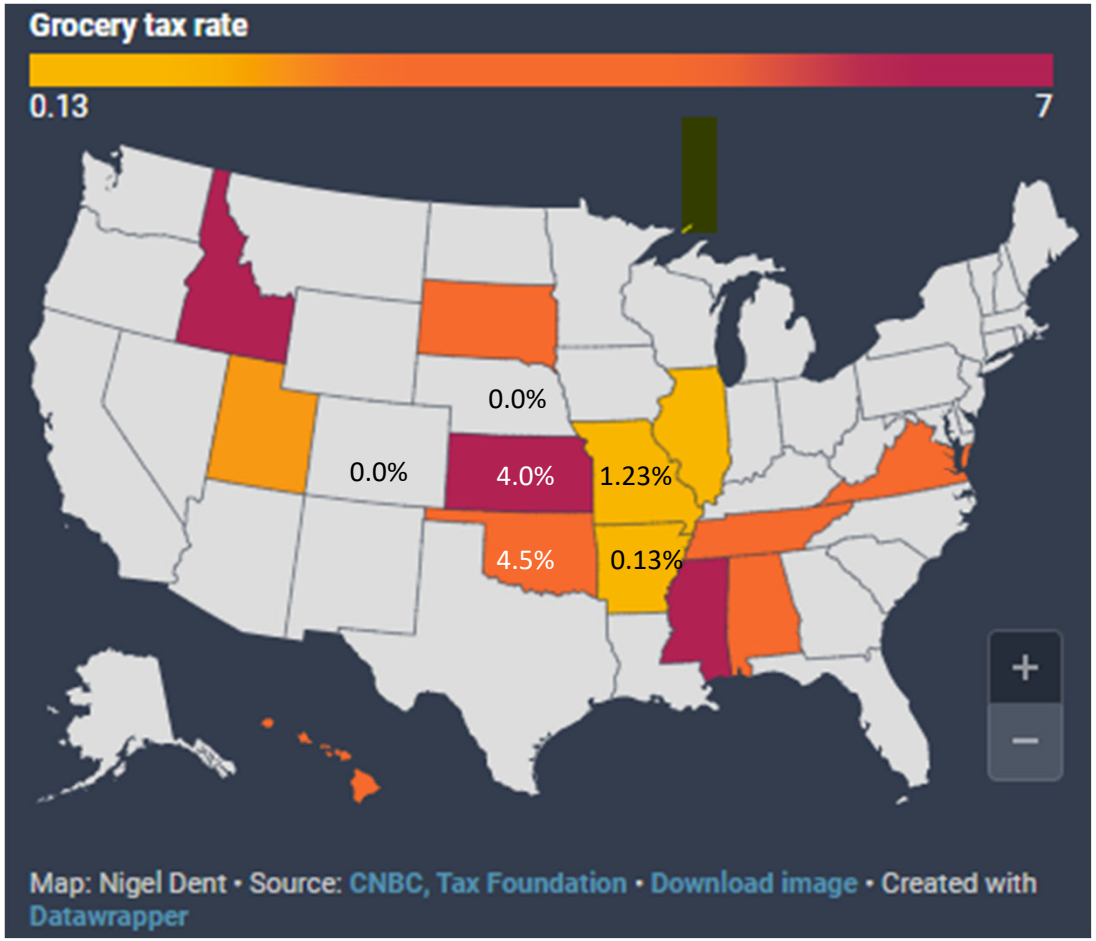
~Together, these plans will save Kansans over $500.0mil over three years~

- Pull forward elimination of food sales tax to 04/01/23
  - Also include diapers and feminine hygiene products into bill
- Add four day back to school sales tax holiday
- Increase the exemption on social security income tax
  - Smooth the cliff, providing tax relief to certain retirees

Grocery Tax Relief

Pull Forward Full Elimination of State Food Sales Tax to 04/01/23

~Pulling forward effective date is a one-time revenue hit~



- At 4.0%, Kansas grocery tax remains among the highest in the country
- 37.0% of Kansans live in a county that borders a state with a grocery tax lower than ours
- Groceries have seen double digit inflation for nine consecutive months
- Ongoing cost already baked into revenue estimates; will use current surplus to cover the pull-forward period

Back to School Tax Relief

Add a Four Day Back to School Sales Tax Holiday

- Suspend state sales tax on robust list of back-to-school items for four days every year over the first weekend of August, starting in 2023
- Provide $5.5 million of sales tax relief to parents and teachers
- Allows businesses in border communities to compete with those in other states that have had back to school sales tax holiday in place for years
- Governor's proposal is compliant with the streamlined sales tax agreement

Social Security Income Tax Relief

Eliminate the "Cliff" on Social Security Income Tax

- Under current law, any tax filer earning less than $75,000 federal adjusted gross income (FAGI) has their entire reportable social security income exempt from state income tax
  - Once a tax filer earns one dollar over $75,000 in FAGI, their entire reportable social security income is fully taxable at the state level
  - Current law means **one additional dollar of income** could lead to **several thousand dollars of tax liability** for the tax filer
- New law will smooth the cliff, such that each dollar of FAGI between $75,000 and $100,000 only leads to incremental tax liability on the social security income
  - Governor's proposal means that no tax filer earning under $100,000 FAGI will pay full state taxes on their full reportable social security income
- Will save impacted retirees approximately $20.5mil

One Time Expenditures

One Time Expenses

Continue to Build for Our Future

~Invest in projects with one-time expenditures that provide ongoing benefit~

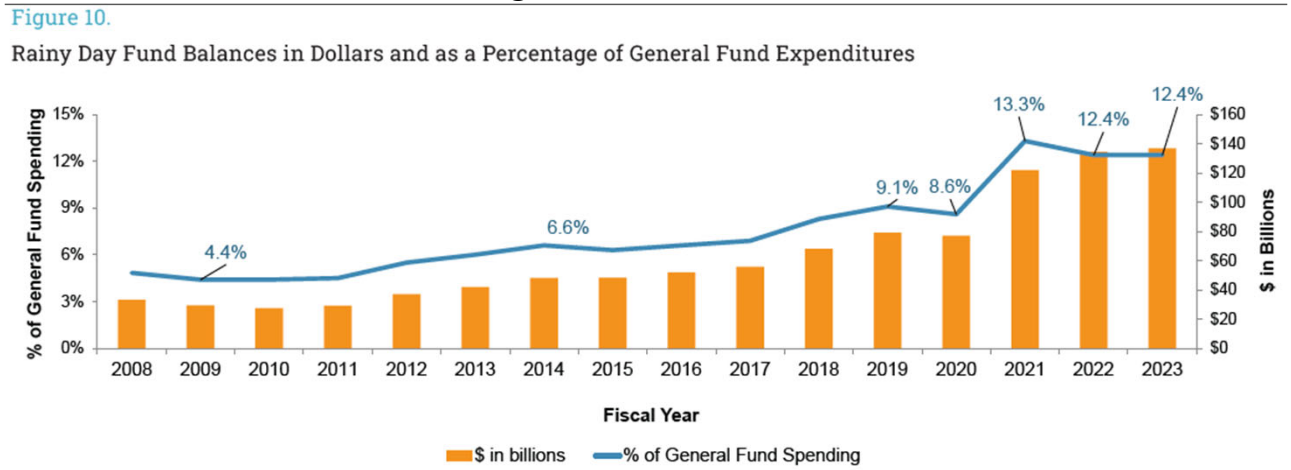
Project	FY 23	FY 24
Stabilization Fund Deposit	500.0	--
Infrastructure Hub Matching Funds	220.0	--
Federal Matching Grants Set Aside	50.0	--
Water Office Reservoir Future Debts	53.0	--
Dept. of Labor UI System Modernization	20.5	--
Lansing Minimum Security Fence	0.6	--
BOTA System Modernization	0.6	--
KCVAO Vehicle Purchases	0.1	--
Housing Revolving Loan Fund	--	20.0
Behavioral Health ED Bed Capacity Enhancement	--	22.0
Demolish Old Lansing Facility	--	9.9
Printing Plant Infrastructure Modernization	--	6.5
KBOR capital renewal initiative (1-1 match)	--	20.0
KBOR Demolition	--	10.0
Tech Ed Cybersecurity Upgrades	--	6.5
KBOR Cybersecurity and IT	--	5.0
Washburn Cybersecurity Upgrades	--	0.5
KDWP Deficient Dam Repair	--	2.5
KDWP Land Purchase	--	0.6
Child Care Facility Pilot Project	--	2.5
State Employee Comprehensive Workforce Study	--	0.5
LSH Fire Fighting Equipment	--	0.1
	$ 844.7	$ 106.5

Rainy Day Fund

Add $500.0mil to Budget Stabilization Fund

- Will take us to $1.5bil, or 15.0% of revenues, which is the proposed cap on the fund
  - Better prepares us for future potential economic downturns
- States have responded to each of past two recessions by further increasing their reserves
  - Kansas balance will be slightly above national average
- Modify statute to place more stringent protections around the fund
  - Disallow from being counted toward ending balance
  - Identify specific purpose for withdrawals (i.e. – only for revenue missing forecast)
  - Place limit on annual maximum withdrawal

Nat'l Average Historical Fund Balances



- KS had a balance of $0 until FY20

https://www.nasbo.org/reports-data/fiscal-survey-of-states

Infrastructure Leveraging Fund

Add $220.0 million to Infrastructure Leveraging Fund

- The Federal Bipartisan Infrastructure Law has created a host of funding opportunities for states to take advantage of to update their infrastructure
  - Many of the federal funding streams have matching and/or local spending requirements; state contribution will more fully optimize available federal funds

- Infrastructure Hub has identified an opportunity for the state to set aside money into a special fund, which can be invested into projects identified as priority for the state
  - Utilize for assisting locals with required matching dollars to leverage federal funding
  - Preserve funding for various regions of the state to ensure statewide access to dollars
  - Invest funds across multiple areas of infrastructure needs

- Many states have begun to set aside funds to leverage federal dollars
  - Combination of matching funds and money for technical assistance

Debt Buydown / Debt Avoidance

Retire Debt Early and Pay Cash for Capital Projects

- $53.0mil of SGF in FY 23 to the Kansas Water Office for debt retirement
  - Eliminate two remaining reservoir debts related to Milford and Perry
  - Saves $29.4mil of interest payments
  - Allow KWO to redirect existing resources to other strategic water needs

	Contract Interest Rate	Contract Capital Costs Due Date	Balance on Due Date	Current Balance
Milford Lake	2.632%	2034	$37.9 million	$27.8 million
Perry Lake	3.046%	2041	$44.2 million	$24.9 million
TOTAL			**82.1 million**	**$52.7 million**
Potential State Interest Savings from Early Debt Payoff (Balance on Due Date – Current Balance): $29.4 million				

- $16.4mil of State Institutions Building Fund (SIBF) in FY 24 to pay cash for state share of new Veterans' Home
  - Avoid taking on new debt, likely saving over of $10.0mil in interest [1]
  - Contingent upon US Dept of VA awarding federal funds to Kansas in FY24
  - Having dedicated funding source increases our score with federal priority criteria

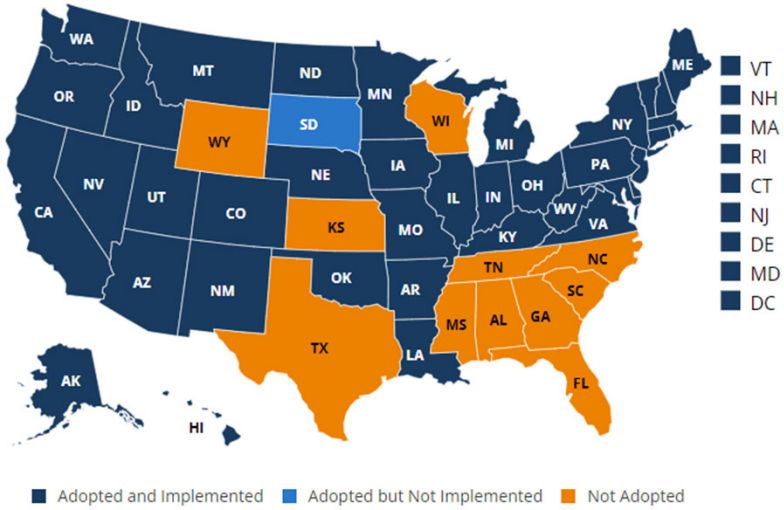
[1] Assumes 30-year level payment term at 4% interest

Human Services

Medicaid Expansion

Kansas Has Become an Island Surrounded by States that Have Expanded Medicaid

- Kansas is now one of 11 states that have not yet expanded Medicaid
- Every state that shares a border with Kansas has expanded Medicaid
  - Providers are reporting losing staff to surrounding states
- Kansas will receive an estimated $370.0mil - $450.0mil in additional federal funding over the next eight quarters when we expand Medicaid
  - This is enough to cover the state's share of expansion costs for ~8 years



- Over the past several years, Missouri, Oklahoma, Nebraska, and South Dakota have all expanded Medicaid by way of voter referendum
- Medicaid Expansion would provide access to high quality healthcare for an estimated 150,000 Kansans, and would provide needed support to our rural providers
- A large proportion of the expansion population is likely to have existing behavioral health and/or substance use disorders (SUD), and would receive access to much-needed behavioral health/SUD treatment

https://www.kff.org/medicaid/issue-brief/status-of-state-medicaid-expansion-decisions-interactive-map/

Other Human Services

Enhancements to Current KanCare Program

- $1.5mil of SGF to increase rates for targeted case management
  - Matches the 25.0% increase for I/DD waiver from last year
  - Did not receive increase with waiver rates, as it is a state plan service

- $7.1mil of SGF to standardize key reimbursement rates across waivers
  - Increases service rates for the Brain Injury, Physical Disability, Autism, and Technology Assisted waivers to match the rates for the Frail Elderly waiver
  - Eliminates disparity in service rates between waivers
  - Enhances ability to secure providers for waivers that had lower reimbursements

- $3.7mil of SGF to increase rates for brain injury facilities
  - Doubles the daily rate for intensive rehabilitation treatment
  - Maintains current capacity and encourages new additional network capacity

Increasing Support for Foster Care

- $5.1mil SGF to increase placement rates for relative & non-kinship foster homes

- Support aged-out/aging out foster kids transitioning to adulthood
  - Increase amount of monthly subsidy for independent living youth
  - Enhance funding for WeKanDrive program to grow the footprint

Investing in Our Veterans

Continued Enhancements to Commission on Veterans Affairs

- Add $2.9mil across FY23 and FY24 for Veterans' Home and Soldiers' Home to enhanced staffing to support increasing census in both Homes
  - Will reduce reliance on contract staffing

- Utilize $16.4mil of SIBF surplus to pay cash for state share of new veteran's home
  - Pending approval from US Dept of VA for project prioritization

- Enhanced funding for facility upgrades at existing campuses
  - Emergency repairs to four cemeteries
  - Fence and storage enhancements at Ft. Dodge cemetery
  - New doors on committal structures at Ft. Dodge/WaKeeney cemeteries, allowing for services to continue regardless of weather

Education and Workforce Development

K-12 Education

Continue Investing in Elementary and Secondary Education

- Fully fund K-12 BASE for 5th consecutive year
  - Governor recommending funding for FY24 and FY25
- Expand Mental Health Intervention Team Pilot
  - Add $3.0mil of SGF to program, will add additional 15-25 districts to program
- Add $5.0mil from SGF for Safe & Secure grants
  - Add naloxone hydrochloride and communication devices as allowable uses
- Add funding for Schools for the Deaf and Blind to have dedicated School Resource Officers at each campus, to be employed directly by the schools
- Will change capital improvement aid to become a demand transfer rather than a revenue transfer in FY24
  - Not new funding for schools, but rather corrects previous budget maneuver that was implemented to reduce ending balance requirements

Special Education

Begin Plan to Fully Fund Special Education at Statutory Levels

~Add incremental $72.4mil each of next 5 years~

Special Education Services State Aid, FY 2009-FY 2024				
Fiscal Year	State Aid*	Federal Aid**	Total Aid	Excess Costs
2009	$427,718,409	$—	$427,718,409	92.0%
2010	367,427,058	56,517,430	423,944,488	88.7%
2011	388,982,076	54,453,996	443,436,072	92.0%
2012	428,133,154	396,920	428,530,074	88.4%
2013	430,426,151	—	430,426,151	82.8%
2014	428,702,584	—	428,702,584	80.1%
2015	428,360,566	—	428,360,566	80.8%
2016	434,754,409	—	434,754,409	80.0%
2017	435,469,632	—	435,469,632	79.6%
2018	445,981,646	—	445,981,646	78.5%
2019	490,366,856	—	490,366,856	81.4%
2020	497,709,133	—	497,366,856	75.3%
2021	505,416,348	8,030,261	513,446,509	74.3%
2022	512,892,374	27,614,188	540,506,562	76.4%
2023 Est.	520,519,379	27,442,353	546,442,971	76.0%

- State has not met 92.0% statutory requirement in over a decade
- Schools have pulled from operating funds to cover special education requirements
- State share of excess cost has diminished over past decade

- Phased-in plan will allow us to meet our obligation by FY28
- Allows state time to advocate for greater federal support

Fiscal Year	Excess Costs	State Aid	Percent of Excess Costs	Additional Cost
2024	$764,435,994	$592,740,238	77.5%	$72,359,420
2025	$828,324,408	$665,099,659	80.3%	$72,359,421
2026	$869,740,628	$737,459,079	84.8%	$72,359,420
2027	$913,227,660	$809,818,499	88.7%	$72,359,420
2028	$958,889,043	$882,177,919	92.0%	$72,359,420

Higher Education

Continue to Build on Historic Investments in Higher Education

~Make higher education more affordable and more accessible to more Kansans~

- New investments of $107.9mil of SGF across the post-secondary system
  - Goal is to continue recent trend of no-to-low tuition increases

- $65.9mil of base increases
  - $20.0mil to expand financial aid for the state's public universities
  - $21.8mil to mitigate impact from inflation
  - $10.6mil for university specific programs
  - $8.5mil for implementation of National Institute of Student Success Academic Playbooks

- $42.0mil of one-time expenses
  - $20.0mil for deferred maintenance, with a dollar-for-dollar match requirement
  - $12.0mil for IT and cybersecurity upgrades
  - $10.0mil for demolition

Workforce Development

Invest in Workforce Recruitment and Retention

~Retain trained Kansans within the state and draw more trained workforce to the state~

- $4.0mil of SGF in FY24 to Board of Regents for micro-internship program
  - Connect college students with Kansas businesses for internship opportunities, increasing retention rates upon graduation
- $3.0mil of EDIF for enhanced marketing campaign through the Department of Commerce, focused on workforce in Kansas
- $500,000 EDIF to continue building investment in the Office of Registered Apprenticeship

Workforce Development

Investments in Housing and Childcare to Support Workforce

- $1.0mil of EDIF for early childhood education and care
  - Allow Kansas communities to implement options to address issues currently affecting the workforce

- $2.5mil of SGF for a childcare facility pilot project
  - Increase accessibility of childcare slots in pilot area, enhancing opportunity for childcare support for state employees

- $20.0mil of SGF to Housing Revolving Loan Program administered by Kansas Housing Resources Corporation [1]
  - Made a $20.0mil deposit to this program last year, but limited to rural Kansas
  - Incremental $20.0mil deposit to be available to entire state (still protecting minimum investment for rural Kansas)
  - Continue to see major expansion projects all across the state, but lack sufficient housing for the workforce required for these areas

https://kshousingcorp.org/kansas-statewide-housing-needs-assessment-2021/

Investments in State Employees

Build out State Employee Recruitment and Retention Efforts

~Continue Efforts to Make State of Kansas an Employer of Choice~

- Funding for Statewide 5.0% pay adjustment [1]
- Approve funding to bring job classifications to within 5.0% of market, based on market study conducted by Office of Personnel Services
- Funding a comprehensive workforce study
  - Identify compensation issues, including market comps, wage compression, overall structure, cost leakage from utilizing contractors
  - Study fringe benefits and alternate/remote work options to ensure they are effective for recruitment/retention, yet feasible for state to cover
- Eliminate overly restrictive language in statute for bonuses, to allow greater flexibility for uses (i.e. – allow recruitment/sign-on bonuses, etc.)
  - Allows Kansas to be more competitive with surrounding states offering bonuses
  - Will ensure appropriate safeguards to mitigate potential for misuse

[1] Excludes Judicial Branch, Teachers at KSSB and KSSD, elected officials, and agencies on an approved career progression plan

Cybersecurity, Systems, and IT Infrastructure

Investments in IT Infrastructure and Security

Modernize and Protect State Systems
Upgrade Outdated Systems and Invest in Cybersecurity

Project	FY 23	FY 24
Dept. of Labor UI System Modernization	20.5	--
CPOST Central Registry database upgrade(Fee Fund)	0.0	--
BOTA System Modernization	0.6	--
BOTA 3-Year IT Modernization Plan	0.1	0.1
BIDS IT Infrastructure Upgrades	--	0.3
OITS IT Security Funding	--	5.8
Board of Nursing Software Upgrades(Fee Fund)	--	0.2
Commerce Upgrade Salesforce IT Platform(EDIF)	--	0.5
KDADS IT Support	--	0.2
KDADS CARE/PASRR Fully Automated System	--	1.0
Sentencing Commission IT Contract Enhancements	--	0.2
School for the Blind Safety Network Upgrade (SIBF)	--	0.1
School for the Deaf Safety Network Upgrade (SIBF)	--	0.1
Tech Ed Cybersecurity Upgrades	--	6.5
KBOR Cybersecurity and IT	--	5.0
Washburn Cybersecurity Upgrades	--	0.5
	$ 21.2	$ 20.4

Review

Review of Budget Priorities

- Look across the horizon
  - Structural balance is key – not just the FY24 ending balance
  - Anticipate future obligations and needs

- Responsible and sustainable tax relief
  - Does not jeopardize state's ability to meet obligations over the horizon
  - Cover Axe the Food Tax pull forward with current surplus
  - Provide relief to all Kansans

- Fully fund education – to include special education
  - Investments in all levels of education builds a sustainable workforce

- Safeguard against potential future economic headwinds
  - Invest in rainy-day fund
  - Healthy ending balance
  - Minimize base spending increases, and optimize one-time expenditures

SGF Outlook

State General Fund Outlook

(Dollars in Millions)

	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Gov. Rec.	FY 2024 Gov. Rec.
Beginning Balance	$ 761.7	$ 1,105.1	$ 495.0	$ 2,094.8	$ 1,834.6	$ 1,481.4
Revenues						
Taxes	7,471.3	7,049.1	8,908.6	9,758.1	10,014.6	9,830.2
Interest	48.9	56.1	7.8	2.8	112.0	205.0
Agency Earnings	58.3	58.3	64.8	89.7	108.0	87.4
Transfers						
School Capital Improvement Aid [1]	(202.1)	(203.4)	(195.0)	(200.7)	(200.0)	--
Highway Fund	243.1	231.8	133.7	66.9	--	--
Budget Stabilization Fund	--	(81.9)	--	(969.1)	(500.0)	--
PMIB Bridge Funding	(52.9)	(132.2)	(66.1)	(66.1)	--	--
KPERS	--	--	--	(853.7)	(271.1)	--
All Other Transfers	(190.5)	(65.6)	13.8	107.8	(376.6)	(128.4)
Total Revenues	$ 7,376.2	$ 6,912.3	$ 8,867.7	$ 7,935.8	$ 8,886.9	$ 9,994.2
Total Available	$ 8,138.0	$ 8,017.4	$ 9,362.6	$ 10,030.6	$ 10,721.5	$ 11,475.6
Expenditures						
General Government	234.4	242.4	249.5	584.8	371.2	305.7
Judiciary	107.1	111.7	110.5	138.0	172.5	194.8
Human Services	686.0	748.9	683.9	711.0	1,214.6	1,023.7
Health/Human Service Caseloads	1,266.6	1,107.4	994.4	1,134.7	1,294.0	1,457.0
K-12 Education	3,509.5	3,992.5	3,946.0	4,133.9	4,433.3	4,740.3
Higher Education	802.1	851.2	833.4	902.3	1,065.9	1,099.6
Public Safety	411.2	450.8	432.8	498.3	569.0	583.7
Agriculture & Natural Resources	15.9	17.6	17.5	92.9	119.6	20.9
State Employee Pay Plan	--	--	--	--	--	65.5
Total Expenditures	$ 7,032.8	7,522.5	7,267.8	8,195.9	9,240.1	9,491.3
Ending Balance	$ 1,105.1	$ 495.0	$ 2,094.8	$ 1,834.6	$ 1,481.4	$ 1,984.4
As Percentage of Expenditures	*15.7%*	*6.6%*	*28.8%*	*22.4%*	*16.0%*	*20.9%*
Budget Stabilization Fund Balance	--	81.9	81.9	969.2	1,484.2	1,513.9
One-Time Expenditures/Adjustments				1,048.5	844.7	113.0

Totals may not add because of rounding.

Revenues for FY 2023 & FY 2024 Recommendations reflect the November 2022 Consensus Revenue Estimate as adjusted by the Governor.

Expenditures for the Recommendations reflect the November 2022 Human Services Consensus Caseload Estimate.

[1] *Capital Improvement Aid shifting from a revenue transfer to become a demand transfer in FY24, thus moving from revenues to expenditures*

- FY24 is structurally balanced by $502.9mil
- In FY24, there is a $200.0mil shift from revenues to expenditures for school capital improvement aid
- Enhanced FMAP assumed to go away in FY24, increasing human services SGF expenditures
- Governor's FY24 base spending adjustments = **3.2% increase vs. FY23 approved base budget**

Budget.Kansas.Gov