

April 29, 2019

The Honorable Carolyn McGinn, Chairperson
Senate Committee on Ways and Means
Statehouse, Room 545-S

and

The Honorable Troy Waymaster, Chairperson
House Committee on Appropriations
Statehouse, Room 111-N

Dear Senator McGinn and Representative Waymaster:

The items contained in this memo, Governor's Budget Amendment No. 1, amend the budget that I submitted to you in January. The items reflect current issues that have arisen or changes that can be made based on current information. Total adjustments to expenditures and FTE Positions are shown below.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ (8,592,222)	\$ 6,837,200
All Other Funds	<u>(4,146,800)</u>	<u>205,292,833</u>
All Funds	\$ (12,739,022)	\$ 212,129,403

Positions	<u>FY 2019</u>	<u>FY 2020</u>
FTE Positions	--	1.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	1.00

Office of Information Technology Services

1. IT Modernization

Office of Information Technology Services (OITS) is undertaking an effort to increase the capacity, reliability, security, and financial predictability of the state's information technology environment. The plan includes shifting to an "as a service" model in which OITS contracts with providers for certain statewide services rather than the state owning IT assets and incurring costly periodic upgrades. To date, this has occurred with the outsourcing of mainframe services and the consolidation of email systems. Three elements of the plan that are currently in progress include Data Center as a Service, Centralized Service Desk and Desktop as a Service.

OITS has indicated that the state's data centers are at maximum capacity, lack redundancy, and are in significant need of repair or replacement. OITS has also expressed concern regarding the potential for and severity of data center outages. The modernization strategy calls for transitioning to a Data Center as a Service model in which the state outsources data storage and compute. Using this model will allow the state to obtain adequate scale and adapt to future data capacity needs more efficiently. OITS has contracted with a vendor, Unisys, for statewide data center services. Currently, the migration of data from state data centers to Unisys data centers is being performed on a timeline that minimizes business risk.

The Centralized Service Desk will perform tier one information technology support for all Executive Branch agencies and will be the first point of contact for IT calls and emails. Under Desktop as a Service, OITS has contracted with a vendor to provide state agencies desktop and laptop computers on a consumption basis. This will reduce the number of outdated assets, standardize equipment, reduce downtime and repairs, and provide a predictable cost of operations.

I amend my budget to help agencies who require additional resources for the IT modernization plan. This will allow certain agencies to pay for OITS services without having to shift resources away from programs. In FY 2020, total expenditures will be increased by \$12,193,135 from all funds, including \$8,017,124 from the State General Fund. For the Department of Transportation, the budget amendment will require an increase of \$1,957,000 to its agency operations limitation in FY 2020. For the Kansas Highway Patrol, the budget amendment will require a transfer of \$466,262 from the State Highway Fund to the Kansas Highway Patrol.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 8,017,124
All Other Funds	<u>--</u>	<u>4,176,011</u>
All Funds	\$ --	\$ 12,193,135

<u>FY 2020</u>	<u>State General Fund</u>	<u>All Funds</u>
Department for Aging and Disability Services	\$ 61,594	\$ 61,594
Department for Children and Families	2,192,325	3,944,414
Department of Health and Environment	1,498,078	1,498,708
Department of Labor	777,330	777,330
Department of Corrections	3,487,827	3,487,827
Kansas Highway Patrol	--	466,262
Department of Transportation	<u>--</u>	<u>1,957,000</u>
Total	\$8,017,154	\$12,193,135

Kansas Human Rights Commission

2. Database Conversion

Last year, Governor's Budget Amendment No.1, Item 10 was approved, which added expenditures of \$35,800 from the Database Conversion Fund for the Kansas Human Rights Commission. The purpose of the expenditures was to upgrade the agency's contact and intake databases from Microsoft Access to SharePoint. SharePoint is a web-based, collaborative platform that is centrally maintained by OITS and would allow the Commission to store its data in a more secure and up-to-date system. The Commission does not have staff with the expertise to administer its Access databases. At the time, the Commission was receiving technical support from the OITS for database maintenance. However, because of the age of the Access databases, OITS indicated that it would no longer be able to support the Commission's databases and recommended the Commission convert to SharePoint.

The Kansas Human Rights Commission had hoped to receive a grant from the Information Network of Kansas (INK) for the database upgrade. However, the Commission's grants were not approved because it was INK's belief that the project was primarily focused on the Commission's core business operations rather than on increasing public access to government services. I amend the budget to reduce expenditures from the Database Conversion Fund by \$35,800 in FY 2019 and add \$35,000 from the State General Fund in FY 2020 to allow the Kansas Human Rights Commission to convert its key operating databases from Access to SharePoint.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 35,000
All Other Funds	<u>(35,800)</u>	<u>--</u>
All Funds	\$ (35,800)	\$ 35,000

Board of Indigents' Defense Services

3. Assigned Counsel Caseloads

I included increases for assigned counsel caseloads as estimated by the consensus group in October 2018 in my budget recommendation. The caseload consensus group met again on April 11, 2019, and estimated revised expenditures totaling \$15,900,000 for assigned counsel in FY 2020. As a result of the revised caseload estimate, I recommend an additional \$600,000 from the State General Fund for assigned counsel expenditures in FY 2020.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 600,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 600,000

Kansas Lottery

4. Message on Lottery and Gaming Revenues

Lottery ticket sale estimates provided by the Kansas Lottery indicate that the State Gaming Revenues Fund transfer amounts to the State General Fund that were used in my original budget must now be increased by \$3.2 million in FY 2019 (a reduction of \$200,000 from the November CRE estimate) and be decreased by \$1.0 million in FY 2020 (a reduction of \$2.9 million from the November CRE estimate). Compared to the November CRE, my budget and the newly revised estimate include using available cash to purchase lottery ticket vending machines in both FY 2019 and FY 2020 instead of financing the costs of the purchase with the Master Lease Program. The transfer adjustments from the State Gaming Revenues Fund are already accounted for in the April Consensus Revenue Estimate. The Community Crisis Stabilization Centers Fund transfer (\$900,000) and the Clubhouse Model Program Fund transfer (\$300,000) that were included in my budget from the proceeds from lottery ticket vending machines sales were eliminated in FY 2019. The Consensus Revenue Estimating Group on Gaming Revenues met in April 2019 to revise revenue estimates from state-owned casinos. The amount of net gaming revenue that will be generated from state-owned casinos was decreased in FY 2019 by \$100,000 and in FY 2020 by \$2.2 million. Expenditures through the statutory formula to make payments to local cities and counties where the casinos are located and to the casino managers must now be decreased as a result of the new gaming revenue estimate, and I amend the budget to account for this change.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>(76,000)</u>	<u>(1,632,000)</u>
All Funds	\$ (76,000)	\$ (1,632,000)

The revised estimates for the ELARF and the Problem Gambling and Addictions Grant Fund will also affect planned transfers to the State General Fund. Language already exists for FY 2019 that allows additional ELARF and Problem Gambling and Addictions Grant Fund revenues to be transferred to the State General Fund. For FY 2019, the transfer to the State General Fund is decreased by \$22,000 from the ELARF and increased by \$29,714 from the Problem Gambling and Addictions Grant Fund. The increased transfer from the Problem Gambling and Addictions Grant Fund is the result of an additional \$31,714 from a budget correction minus \$2,000 from lower casino revenue. These transfer adjustments are already accounted for in the April Consensus Revenue Estimate.

Insurance Department

5. Insurance Department Service Regulation Fund Settlement

To settle litigation regarding transfers from the Insurance Department Service Regulation Fund to the State General Fund made in FY 2018 and FY 2019, I amend the Insurance Department's budget to allow the transfer of \$5,375,000 from the State General Fund to the Insurance Department Service Regulation Fund in FY 2019, FY 2020 and FY 2021. The litigants in the lawsuit have agreed to settle the matter and dismiss all claims if the transfers are made.

Revenues	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
State General Fund	\$ (5,375,000)	\$ (5,375,000)	\$ (5,375,000)
All Other Funds	<u> --</u>	<u> --</u>	<u> --</u>
All Funds	\$ (5,375,000)	\$ (5,375,000)	\$ (5,375,000)

Osawatomie State Hospital

6. Revenue Shortfall

I amend Osawatomie State Hospital's budget to provide additional State General Fund totaling \$2,300,000 in FY 2019 for a projected revenue shortfall. My recommendation currently includes estimated special revenue expenditures totaling \$5,331,371 for Osawatomie State Hospital in FY 2019. The agency's special revenue expenditures should total \$3,031,371 or \$2,300,000 less than my recommendation. A technical error occurred during the budget preparation and review process and resulted in agency revenue estimates to be overstated. Increases in State General Fund are offset by reducing expenditures from special revenue funds which causes no increase or decrease in overall agency expenditures.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ 2,300,000	\$ --
All Other Funds	<u>(2,300,000)</u>	<u> --</u>
All Funds	\$ --	\$ --

Department for Aging and Disability Services, Department for Children and Families, and Department of Health and Environment

7. Human Services Consensus Caseload

I amend my FY 2019 and FY 2020 budget to reflect changes in caseloads and the cost of assistance programs. These adjustments are the result of consensus caseload estimates that involved the staff of the Department for Aging and Disability Services, the Department for Children and Families, the Department of Health and Environment, the Legislative Research Department, and the Division of the Budget. The caseload estimates include expenditures for Temporary Assistance to Families, the Reintegration/Foster Care Contracts, KanCare Regular Medical Assistance and KDADS Non-KanCare Services. The FY 2019 estimate for all human service caseloads is \$3.5 billion from all funding sources, including \$1.3 billion from the State General Fund. The FY 2019 estimate is a change from the amount recommended by the Governor, reflecting an all funds decrease of \$15.9 million and a State General Fund decrease of \$12.3 million. The FY 2020 estimate is \$4.1 billion from all funding sources, including \$1.3 billion from the State General Fund. The estimate is a change from the amount recommended by the Governor, reflecting an all funds increase of \$5.4 million and a State General Fund increase of \$4.2 million. For additional details on the new consensus estimate see the Spring 2019 Human Services Consensus Caseload memo.

Kansas Department for Aging and Disability Services

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ (2,870,000)	\$ (6,400,000)
All Other Funds	<u>(3,910,000)</u>	<u>(18,050,000)</u>
All Funds	\$ (6,780,000)	\$ (24,450,000)

Department for Children and Families

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ 2,200,000	\$ (3,000,000)
All Other Funds	<u>3,100,000</u>	<u>200,000</u>
All Funds	\$ 5,300,000	\$ (2,800,000)

Kansas Department of Health and Environment

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ (11,600,000)	\$ 13,647,550
All Other Funds	<u>(2,800,000)</u>	<u>19,048,247</u>
All Funds	\$ (14,400,000)	\$ 32,695,797

8. Children's Health Insurance Program (CHIP) Bonus Repayment

The federal Centers for Medicare and Medicaid Services (CMS) has disallowed \$17.8 million of CHIP bonus payments received from FY 2009 through FY 2013. KDHE maintains that the data used in Kansas' bonus payment calculations were in accordance with Federal requirements. However, CMS suggests that Kansas overstated the bonus amount by including individuals who did not qualify because of their basis-of-eligibility category. The repayment was included in the 2019 spring consensus caseload figures for FY 2020. On Friday, April 26, 2019, the Kansas Department of Health and Environment (KDHE) received a phone call from CMS that a formal notice of disallowance and a demand letter for the full amount will be received on Tuesday, April 29, 2019. CMS will give KDHE 30 days to file an appeal, but CMS plans to recover the full amount of the disallowance at the end of the 30 days, even if the case goes to appeal. I amend my budget to move the amount included in the Consensus estimate for FY 2020 for the disallowance to FY 2019.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ 17,800,000	\$ (17,800,000)
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 17,800,000	\$ (17,800,000)

Department of Education

9. 2019 SB 16 Accountability and Financial Reports—Administration

2019 SB 16, which enacted the Legislature’s school finance adequacy resolution, requires the Department of Education to create one-page performance accountability and transparency reports for the state, each school district, and each school building, for a total of over 1,600 reports. Also, the Department must prepare annual longitudinal reports on student achievement on the state assessments for English language arts, mathematics, and science for all students and each student subgroup. In addition, the Department is required to prepare and submit annual financial reports to the Governor and the Legislature to include virtual student enrollment, as well as expenditures for litigation of constitutional challenges to school finance laws. In order for the Department to fulfill its new statutory obligation for these accountability and financial reports, I amend my budget to include expenditures totaling \$85,357 from all funding sources, including \$56,905 from the State General Fund, as well as an additional 1.00 FTE positions.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 56,905
All Other Funds	<u>--</u>	<u>28,452</u>
All Funds	\$ --	\$ 85,357
Positions	<u>FY 2019</u>	<u>FY 2020</u>
FTE Positions	--	1.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	1.00

10. KPERS-School Employer Contributions Revision

It was recently discovered that an error in FY 2018 data was used to calculate the estimated covered payroll base for the KPERS-School—USDs employer contributions during the Fall 2018 Education Consensus meeting. As a result, expenditures presented in my budget can be reduced for FY 2019, FY 2020, and FY 2021 for KPERS-School—USDs employer contributions. In consultation with KPERS, it was determined by the Division of the Budget, the Kansas Legislative Research Department, and the Department of Education that the state properly remitted the employer contributions in FY 2018. The error was only in the data used in the estimating process for FY 2019 through FY 2021.

In addition, it was determined that the estimate for KPERS-School non-USDs can be reduced in FY 2019 through FY 2021 after the final quarterly payment was made on April 15, 2019. The following table shows amounts by each KPERS-School employer contribution group that I propose to be reduced, all from the State General Fund, from amounts that were included in my original budget:

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
KPERS-School—USDs	\$ (18,986,893)	\$ (25,715,257)	\$ (31,303,617)
KPERS-School—non-USDs	<u>(3,082,497)</u>	<u>(3,543,375)</u>	<u>(4,896,608)</u>
Total	\$ (22,069,390)	\$ (29,258,632)	\$ (36,200,225)

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
State General Fund	\$ (22,069,390)	\$ (29,258,632)	\$ (36,200,225)
All Other Funds	<u> --</u>	<u> --</u>	<u> --</u>
All Funds	\$ (22,069,390)	\$ (29,258,632)	\$ (36,200,225)

11. Education Super Highway

In my original budget recommendation, \$950,000 from the State General Fund was included for the Education Super Highway state matching funds for school districts in FY 2020. After reviewing applications that were submitted by school districts for the upcoming fiscal year, expenditures for the state match in FY 2020 can be reduced by \$437,118. A total of 13 school districts submitted applications for a state match of \$512,882 that will be combined with \$5,128,820 in federal funds for eligible broadband infrastructure and Wi-Fi projects.

	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ (437,118)
All Other Funds	<u> --</u>	<u> --</u>
All Funds	\$ --	\$ (437,118)

Board of Regents

12. Career and Technical Education Initiative

I amend the Board of Regent's budget to provide additional funding for the Career and Technical Education Initiative in FY 2019. This recommendation will increase the current appropriation by \$4.5 million or approximately 15.5 percent, which is the amount needed to meet revised estimates based on current enrollment data submitted from the colleges. When State General Fund appropriations fall short, the appropriation is prorated, and colleges are required to absorb the shortfall by subsidizing the instruction cost from other sources of revenue.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ 4,500,000	\$ --
All Other Funds	<u> --</u>	<u> --</u>
All Funds	\$ 4,500,000	\$ --

Department of Corrections

13. Employee Compensation Adjustment

To provide proper compensation for certain classification of employees of the Department of Corrections, I amended the Department of Corrections' budget to provide funding for pay increases for correctional officers, parole officers, parole supervisors, and other employee classifications. The amounts recommended in the table below assume that the pay plan included in my budget is not adopted.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ 897,168	\$ 11,521,643
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 897,168	\$ 11,521,643

14. Contract Beds for Adult Male Offenders

Kansas' offender population is currently over the Department of Corrections' operating capacity and is projected to increase. To address a shortage of correctional officers, I amend my budget to add \$16.4 million from the State General Fund to provide additional funding for contract beds for adult male offenders. This funding will allow correctional officers to be utilized in other areas to ease those shortages.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 16,425,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 16,425,000

15. Housing Female Adult Offenders at the Kansas Juvenile Correctional Complex

The Topeka Correctional Facility has an operating capacity of 903 and as of March 31, 2019, the population was 922. The Kansas Sentencing Commission estimates a population of 978 at the end of FY 2019 and 1,018 in FY 2020. I amend my budget to include \$3.0 million from the State General Fund to allow for the transfer of up to 120 female inmates to be housed in a vacant housing unit at the Kansas Juvenile Correctional Complex. The adult female inmates will be kept separated from the juveniles at the facility.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 3,036,261
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 3,036,261

16. Replacement Stab Vests

To replace expired stab vests and to increase the total number of stab vests available, I amend the Department of Corrections' budget to include an additional \$344,400 from the State General Fund in FY 2020.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 344,400
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 344,400

17. Hepatitis C Treatment

Several states have been sued over the last several years for not providing Hepatitis C treatment. The Department of Corrections has \$1.5 million in the current inmate health care contract for treatment expenditures and the Legislature has agreed to add \$1.5 million in FY 2019

to treat 100 inmates. To allow the Department to provide the necessary treatment for additional inmates, I amend my budget to add \$4.5 million from the State General Fund in FY 2020.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 4,500,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 4,500,000

Adjutant General

18. McConnell Air Force Base Utility Costs

Utility costs will increase at McConnell Air Force Base beginning on June 1, 2019; however, the Adjutant General will be able to absorb the increase in FY 2019. I amend my budget to add \$21,250 from the State General Fund in FY 2020. My recommendation will provide the Adjutant General with a 25.0 percent state match to draw down federal funds to pay for the increased utility costs.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ 21,250
All Other Funds	<u>--</u>	<u>63,750</u>
All Funds	\$ --	\$ 85,000

19. Additional Disaster Funding

To pay for seven open federally-declared disasters, I amend my budget to provide additional disaster funding of \$250,000 in FY 2019 and \$5.5 million in FY 2020. This State General Fund recommendation will provide a 10.0 percent state match to draw down federal funds for federally-declared disasters.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ 250,000	\$ 5,527,787
All Other Funds	<u>1,875,000</u>	<u>41,458,403</u>
All Funds	\$ 2,125,000	\$ 46,986,190

Department of Transportation

20. Additional Transportation Investments

My FY 2020 budget for transportation includes additional revenue in the State Highway Fund as a result of reduced transfers out of the State Highway Fund. I amend my budget to use this additional revenue and increase expenditures from the State Highway Fund by \$160.0 million in FY 2020 to implement the Kansas Department of Transportation's plan of moving forward on the recommendations from the Joint Legislative Transportation Vision Task Force. The plan includes approximately \$50.0 million for additional Preservation work; \$80.0 million for four delayed T-WORKS projects; \$21.0 million for construction projects that are part of either a new

cost-share program or new enhanced safety program; \$5.0 million to reinstate the local bridge improvement program; \$2.0 million for other modes of transportation; and \$2.0 million to increase city connecting links payments from \$3,000 per lane mile to \$5,000 per lane mile. . The budget amendment will require increasing the limitation on city connecting links payments from \$3,360,000 to \$5,360,000 in FY 2020.

Expenditures	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>160,000,000</u>
All Funds	\$ --	\$ 160,000,000