

April 21, 2022

The Honorable Rick Billinger, 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 Billinger and Representative Waymaster:

The items contained in this memo, Governor's Budget Amendment No. 2, 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 are shown below.

Revenues	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 1,854,000	\$ 1,518,000
All Other Funds	<u>1,200,000</u>	<u>--</u>
All Funds	\$ 3,054,000	\$ 1,518,000

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 464,042,952	\$ 107,717,644
All Other Funds	<u>125,477,188</u>	<u>166,121,386</u>
All Funds	\$ 589,520,140	\$ 273,839,030

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

1. Human Services Consensus Caseload

I amend my FY 2022 and FY 2023 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 Kansas Department for Aging and Disability Services (KDADS), the Department for Children and Families, the Kansas 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 2022 estimate for all human service caseloads is \$4.1 billion from all funding sources, including \$1.1 billion from the State General Fund. The FY 2022 estimate is a change from the amount approved by the 2022 Legislature, reflecting an all funds increase of \$110.4 million, and a State General Fund decrease of \$12.6 million. The FY 2023 estimate is \$4.4 billion from all funding sources, including \$1.4 billion from the State General Fund. The estimate is a change from the amount approved by the 2022 Legislature, reflecting an all funds increase of \$221.5 million, and a State General Fund increase of \$61.3 million. For additional details on the new consensus estimate see the Spring 2022 Human Services Consensus Caseload memo.

Kansas Department for Aging and Disability Services

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 16,000,000	\$ 32,355,348
All Other Funds	<u>73,580,000</u>	<u>78,355,765</u>
All Funds	\$ 89,580,000	\$ 110,711,113

Department for Children and Families

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ (6,600,000)	\$ (5,350,000)
All Other Funds	<u>4,000,000</u>	<u>5,500,000</u>
All Funds	\$ (2,600,000)	\$ 150,000

Kansas Department of Health and Environment

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ (21,989,024)	\$ 34,249,128
All Other Funds	<u>45,435,932</u>	<u>76,383,647</u>
All Funds	\$ 23,446,908	\$ 110,632,775

Kansas Lottery

2. 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 can now be increased by \$1,150,000 in FY 2022 to reflect higher estimated lottery ticket sales. The transfer adjustment from the State Gaming Revenues Fund is already accounted for in the April Consensus Revenue Estimate. The mental health transfers related to revenue generated from lottery ticket vending machines were also increased in FY 2022. The Community Crisis Stabilization Centers Fund transfer was increased by \$900,000, while the Clubhouse Model Program Fund transfer was increased by \$300,000.

Revenue	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 1,150,000	\$ --
All Other Funds	<u>1,200,000</u>	<u>--</u>
All Funds	\$ 2,350,000	\$ --

The Consensus Revenue Estimating Group on Gaming Revenues met in April 2022 to revise revenue estimates from state-owned casinos. The amount of net gaming revenue that will be generated from state-owned casinos was increased in FY 2022 by \$3.2 million and in FY 2023 by \$6.9 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 increased as a result of the new gaming revenue estimate, and I amend the budget to account for this change. Payments to cities and counties were increased by \$96,000 in FY 2022 and by \$207,000 in FY 2023, while payments to casino managers were increased by \$2,336,000 in FY 2022 and by \$5,037,000 in FY 2023.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>2,432,000</u>	<u>5,244,000</u>
All Funds	\$ 2,432,000	\$ 5,244,000

The revised estimates for the Expanded Lottery Act Revenues Fund (ELARF) will also affect planned transfers to the State General Fund. Appropriation language already exists for both FY 2022 and FY 2023 that allows that any additional revenues in the ELARF to be transferred to the State General Fund at the end of the fiscal year. Appropriation language also allows the State General Fund to transfer to the ELARF if revenues at the end of the fiscal year are not sufficient to make all approved expenditures and transfers. The State General Fund transfer to the ELARF of \$22,000 in FY 2022 that was used in my original budget is eliminated and now it is estimated that \$682,000 would be transferred from the ELARF to the State General Fund at the end of FY 2022 due to higher estimated ELARF revenue. It is now estimated that \$1,518,000 would be transferred from the ELARF to the State General Fund at the end of FY 2023, which represents the excess revenues not needed to fund the ELARF budget. These transfer adjustments are already accounted for in the April Consensus Revenue Estimate.

Revenue	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 704,000	\$ 1,518,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 704,000	\$ 1,518,000

Adjutant General

3. Migrate KDEM to OITS Network

I amend my budget to include \$37,160 in FY 2022 and \$147,055 in FY 2023 from the State General Fund for the migration of the Kansas Department of Emergency Management (KDEM) from the National Guard Bureau network to the Office of Information Technology Services (OITS) network. Because of cyber security actions taken by the United States Department of Defense to mitigate critical cyber vulnerabilities, KDEM will no longer be able to access websites and data to complete its operational requirements. In addition, the Adjutant General has been informed that because KDEM employees do not play a role in the everyday operations of the Bureau the KDEM employees will no longer have access to the Bureau's network.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 37,160	\$ 147,055
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 37,160	\$ 147,055

Kansas Commission on Veterans Affairs Office

4. Updated Debt Service Estimates for New Veterans Home

To ensure that the Kansas Commission on Veterans Affairs Office has the proper bonding authority to construct the new state veterans' home that was approved in 2021 HB 2021, I amend my budget to increase the bond allowance from \$10.5 million to \$17.2 million. The \$17.2 million will represent the state match and the federal match is estimated to be \$31.9 million. The increased bond allowance will allow for the construction of a 72-bed facility in northeast Kansas.

Kansas Department for Aging and Disability Services

5. Contracted Nursing Staffing at Larned State Hospital (LSH)

I amend my budget to add \$5.5 million, all from the State General Fund, for costs associated with additional expenditures at Larned State Hospital for contracted Registered Nurse, Licensed Practical Nurse, and Certified Nurse Aide staffing during the remainder of FY 2022. In February 2022, the number of contract staff increased to 117 and monthly costs are expected to reach \$2.5 million. The additional costs were due to greater reliance on contract staff to make up

for staff vacancies, to provide relief to staff shortages due to COVID-19 outbreaks, and to relieve high rates of overtime. The state contracts for agency staffing also were renegotiated in January 2022 to include a COVID-19 pay rate that ranged between \$148.00 and \$186.00 per hour for a Registered Nurse. LSH anticipates staying at the higher number of agency staff through the end of the fiscal year as LSH continues to focus on recruiting and retaining full time staff with the 24-7 pay plan enhanced wages. The contract staff are keeping the hospital operating while providing some relief to full time staff working mandatory overtime and being held over from shift to shift. The total estimated expenditures for contract staffing in FY 2022 is expected to be \$26.5 million. LSH had \$8.6 million encumbered for FY 2022 based on the FY 2021 contract expenditures. That leaves a shortfall of \$17.8 million that LSH and the Kansas Department for Aging and Disability Services (KDADS) will use existing funds to close this gap. Those resources include COVID relief funds, Title XIX revenue that is available over the budgeted expenditures for FY 2022, and State General Funds unspent by other state hospitals, and carry over funds from KDADS.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 5,500,000	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 5,500,000	\$ --

6. Additional Staffing for Home and Community Based Services Waiver Program

I amend my budget to add \$500,000, including \$250,000 from the State General Fund, in FY 2023 for the costs associated with additional expenditures for waiver services administration. Currently, KDADS has 8.00 FTE HCBS positions, including the HCBS Director, overseeing programmatic aspects of the seven HCBS waivers. These seven waivers provide HCBS to approximately 25,000 participants on average per month at an annual cost of approximately \$828.4 million from all funding sources. The amount of work and responsibility generated with the day-to-day administration of the waivers, as well as the oversight of the Managed Care Organizations, requires more resources than are currently afforded to KDADS. KDADS has identified the need for an additional 5.00 FTE positions to support the operation and oversight of the seven HCBS waivers. The additional staff support would provide the resources that are necessary to provide appropriate oversight of the programs, increasing focus on program performance and outcomes that will lead to closure of the Centers for Medicare and Medicaid Services Corrective Action Plans and address findings noted in an audit conducted by the Office of the Medicaid Inspector General.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ 250,000
All Other Funds	<u>--</u>	<u>250,000</u>
All Funds	\$ --	\$ 500,000

Department of Administration

7. Stabilize State Health Insurance Plan Reserve Fund

I amend my budget to transfer \$10.0 million from the State General Fund to the State Employee Health Plan reserve fund in FY 2023. During Plan Year 2009, legislative action resulted in state agencies not contributing the required employer health benefits plan contributions for seven pay periods resulting in a reduction of \$64.0 million from the Health Benefits Admin Clearing fund. In FY 2010, legislative action in Senate Bill 572 reduced the reserve fund by \$9.7 million. In 2014, an audit performed by the U.S. Department of Health and Human Services (HHS) found the State of Kansas had been transferring the interest income from the Health Benefit Admin Clearing Fund Account to the State General Fund. HHS fined the State of Kansas \$17,394,344 which was paid out of the reserve fund over five years from 2014 to 2019. Due to State budget issues, the health plan saw reductions in the State's contribution to the health plan in FY 2015 and 2016 which resulted in further reduction in the plan reserve fund. This one-time transfer will restore the fund to a healthy position that allows for consideration of future plan enhancements and stabilize or reduced employee premiums.

Revenue	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ (10,000,000)
All Other Funds	--	--
All Funds	<u>\$ --</u>	<u>\$ (10,000,000)</u>

8. Kansas Resident Tax Rebate

This budget amendment will add \$460.0 million from the State General Fund in FY 2022 for a one-time tax rebate of \$250 to all Kansas residents who timely filed a tax return in calendar year 2021. Resident tax filers who are married and filing jointly will be eligible for a \$500 direct payment. All other filing types will be eligible for a \$250 direct payment. The Governor's tax rebate will be paid for with the state's current budget surplus and will provide relief to tax filers who are Kansas residents. More than 1.2 million Kansas resident taxpayers will be eligible for the Governor's tax rebate plan. This plan was included in my original budget recommendation, but it was not included in House Substitute for Substitute for Senate Bill 267.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 460,000,000	\$ --
All Other Funds	--	--
All Funds	<u>\$ 460,000,000</u>	<u>\$ --</u>

Department of Corrections

9. Community Corrections Pay Plan

This budget amendment will add \$841,113 for FY 2023 to increase grants to county-operated community corrections agencies for a 5.0 percent pay increase. The 2022 Legislature

concurring with my recommendation to increase expenditures by \$8.4 million from the State General Fund to bring community correction supervision officers in line with court services officers. Including the Judicial Branch in the 5.0 statewide pay increase and not including these agencies will create pay disparity between community corrections supervision officers and court services officers. The additional funding will maintain parity.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ 841,113
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 841,113

Department of Education

10. Increased FY 2022 KPERS-School Employer Contribution for School Districts

As presented in *The FY 2023 Governor's Budget Report*, FY 2022 expenditures for KPERS-School employer contribution payments for school districts was estimated to be \$508,558,178. This amount was estimated during the Fall 2021 Education Consensus Meeting. However, with the final FY 2022 quarterly invoice received from KPERS by the Department of Education in April 2022, the liability for KPERS-School payments for school districts totals \$519,652,994, an increase of \$11,094,816 from amounts originally recommended by the Governor for FY 2022.

Although anecdotal, the Department of Education believes that additional pandemic payments for teachers and staff have been authorized by school districts during FY 2022 that were not entirely recognized by the Education Consensus Group in the revised FY 2022 KPERS-School expenditures. The Education Consensus Group had originally anticipated a 4.0 percent increase to the projected salary base over FY 2021 during FY 2023. However, the actual increase was approximately 6.3 percent.

I amend my budget to increase amounts budgeted for FY 2022 KPERS-School employer contributions for school districts by \$11,094,816 to have the required payment completed in FY 2022.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ 11,094,816	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 11,094,816	\$ --

11. Special Education Excess Costs

I amend my budget to increase special education state aid expenditures by \$30.0 million from the State General Fund in FY 2023. KSA 72-3422 requires special education state aid to be provided at 92.0 percent of excess costs. Consensus estimates project that state aid for special

education in FY 2023 as currently budgeted will reach 71.0 of excess costs, a shortfall of approximately \$155.0 million. While this additional funding of \$30.0 million will not make up for the entirety of the projected shortfall, it will aid school districts to reduce the gap in funding in FY 2023 only. I would like to work with KSDE and the Legislature to determine the current optimal funding for special education for use in future budgets.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ 30,000,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 30,000,000

Office of the Governor

12. Governor’s Grants Office CASA Funding

I amend my budget to add \$225,000 from the State General Fund in FY 2023 for a grant to the Court Appointed Special Advocates Program. For the past several years this grant has been funded with the Kansas Endowment for Youth Fund in the Judiciary budget. In my original budget recommendation, it was intended that the grant would be continued in FY 2023 with other Judiciary funding sources, however alternative funding sources have not been identified.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ 225,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 225,000

Kansas Department of Health and Environment

13. Specialty Health Care Access Programs

I amend my budget to add \$750,000 from the State General Fund in FY 2023 for specialty health care access programs, including Project Access of Wichita, HealthAccess of Shawnee, and Wy Jo Care of Wyandotte and Johnson counties. Grants through the Kansas Department of Health and Environment will be distributed at a level of \$250,000 to each program. The three programs coordinate specialty care (cancer, heart disease, etc.) provided free of charge by local physicians, hospitals, and other providers. Each year, these providers donate millions of dollars of medical services. Every \$1 of support for Project Access leverages more than \$15 in donated care. The programs have a diverse group of funding partners, including city and county governments, United Way, foundations, private companies, and individuals. Funding cuts at United Way and other foundations have strained services. This infusion of SGF is intended to be a one-time event, and we will look to our health foundation partners to ensure the sustainability of this funding going forward.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ 750,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 750,000

Kansas Board of Barbering

14. Budget Shortfall

I amend my budget to add \$20,000 additional expenditure authority for the Kansas Board of Barbering in FY 2022 and \$8,000 in FY 2023. When the agency submitted its budget the amount of additional travel needed to catch up on inspections that were missed during the beginning of the pandemic was significantly underestimated. The agency also underestimated the costs associated with contracted testing services. The testing service provider did not bill the agency at all in FY 2021. In the submitted budget it was assumed that the cost for testing services in FY 2022 would be comparable to the amount billed for FY 2021. However, during the pandemic, several examination dates had to be postponed and the budget did not account for the travel and testing service costs associated with additional examinations in FY 2022. Although it is expected that travel and testing activity will stabilize to a more normal level in FY 2023, the increase in expenditure authority is recommended to account for higher than previously expected fuel prices and higher costs for testing services.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>20,000</u>	<u>8,000</u>
All Funds	\$ 20,000	\$ 8,000

Kansas Board of Veterinary Examiners

15. Budget Shortfall

I amend my budget to increase the expenditure limitation for the Board of Veterinary Examiners by \$9,256 in FY 2022. This recommendation is to support normal agency expenditures that were not accounted for when the budget was submitted by the prior Executive Director. The change in leadership at the agency has improved the accuracy of its budgeting.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>9,256</u>	<u>--</u>
All Funds	\$ 9,256	\$ --

Kansas Real Estate Commission

16. Licensing Software System Replacement

The Kansas Real Estate Commission indicates that its current licensing software system provides only limited functionality and is unable support needed enhancements, including allowing for a fully automated initial application process to obtain a real estate license. I amend my budget to increase the expenditure limitation for the Real Estate Fee Fund by an additional \$200,000 in FY 2023 for the first year's expenses to replace the licensing system. The new licensing system would be more user friendly, support additional enhancements, and continue to help protect and secure personally identifiable information. The Commission anticipates that the project would be completed by June 2023.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>200,000</u>
All Funds	\$ --	\$ 200,000

KSU—Veterinary Medical Center

17. Veterinary Medicine Scholarship program

I amend my budget to add \$250,000 from the State General Fund in FY 2023 to provide additional scholarships for the Veterinary Training Program for Rural Kansas. During the 2022 legislative session House Bill 2605 made several changes to the Veterinary Training Program for Rural Kansas. These modifications increased the funding limit from \$20,000 to up to \$25,000 for veterinarian student tuition. The legislation also increased the population limit for rural counties in which newly trained large animal veterinarians can serve from 35,000 to 40,000. In addition to these modifications, additional funding will enable an increased number of students to participate in the program. The Rural Veterinary Workforce Development Task Force was supportive of the changes made by the legislation and recommends the increased funding, which will increase the number of potential scholarship recipients from five students to up to ten. This will attract more veterinarians to support large animal production across rural Kansas.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ 250,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 250,000

Office of Administrative Hearings

18. Additional FTE Positions

The Office of Administrative Hearings average caseload per judge in FY 2021 was 656 with four judges and the average caseload per judge is estimated to decrease to 525 in FY 2022 with five judges. To reduce the average caseload per judge further, I amend my budget to include funding for an additional Administrative Law Judge FTE position in FY 2023. Currently, administrative functions are performed by the agency's Legal Assistant staff, which takes time away from their other job functions. To reduce the amount of time the agency's Legal Assistants must spend on administrative functions, I amend my budget to include funding for a new Administrative Assistant FTE position in FY 2023.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ --
All Other Funds	--	<u>132,974</u>
All Funds	\$ --	\$ 132,974
FTE Positions	--	2.00
Non-FTE Unclassified Permanent	--	<u>--</u>
Total Positions	--	2.00

State Fire Marshal

19. Fuel Costs

I amend my budget to add \$45,000 from the Fire Marshal Fee Fund in FY 2023 for fuel costs. The Office of the State Fire Marshal has a fleet of over 50 vehicles which travel daily. The recent increase in fuel costs has increased the agency's projections for total commodities expenditures in FY 2023 and additional funding is needed to address the budget gap.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ --
All Other Funds	--	<u>45,000</u>
All Funds	\$ --	\$ 45,000

Department of Corrections and State Hospitals

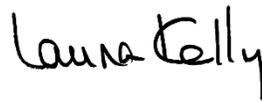
20. Salary Increases for Employees in the 24/7 Plan

I amend my budget to add \$4.0 million from the State General Fund in FY 2023 for employees at correctional facilities and state hospitals that did not receive a base pay increase in the 24/7 Plan. The state pay plan increase approved by the 2022 Legislature excluded all employees that received any pay adjustments in the 24/7 Plan. However, some employees only

received temporary differential increases, I recommend not excluding those employees from a 5.0 percent permanent base pay increase.

Expenditures	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$ --	\$ 4,000,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 4,000,000

Sincerely,



Laura Kelly
Governor