



Governor Laura Kelly's Budget Recommendation

Fiscal Year 2025

Presented By:

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Agenda

- Accomplishments and Budget Priorities
- One Time Expenditures
- Sustainable Tax Relief
- Medicaid Expansion
- Investments in Core Policies
- Review and SGF Outlook

Accomplishments

Accomplishments Made Together

~Partnering Together to Strengthen Budgetary Stability~

- Closed the Bank of KDOT
 - Moved into new IKE transportation program
- Fully funded K-12 five years in a row
- Retired nearly \$2.0bil in debt ahead of schedule
- Budget Stabilization Fund at \$1.7bil
- Maintained structural balance
- Provided hundreds of millions of dollars of tax relief
- Reversed previous budget maneuvers implemented during budget shortfalls
- Recently improved credit outlook from one rating agency, and a “AA” rating from another rating agency

Building on Momentum

~Partnering Together to Maintain Budgetary Stability~

- Structural balance
- Healthy ending balances – SGF and Stabilization Fund
- Minimal base spending increases
- Utilize one-time revenues for one-time expenditures
- Optimize key policy areas
 - Medicaid Expansion
 - Sustainable and meaningful tax relief
 - Early childhood education
 - K-12 and workforce development
 - Water

Consensus Revenue Estimates

	Consensus Estimate November 9, 2023					
	FY 2023 (Actual)		FY 2024 (Revised)		FY 2025	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Income Taxes:						
Individual	\$ 4,507,007	(6.8) %	\$ 4,550,000	1.0 %	\$ 4,700,000	3.3 %
Corporation	1,504,575	86.7	1,470,000	(2.3)	1,380,000	(6.1)
Financial Institutions	56,944	(8.5)	52,000	(8.7)	53,000	1.9
Total	\$ 6,068,526	6.4 %	\$ 6,072,000	0.1 %	\$ 6,133,000	1.0 %
Sales & Use Taxes:						
Retail Sales	\$ 2,776,857	0.6 %	\$ 2,760,000	(0.6) %	\$ 2,610,000	(5.4) %
Compensating Use	802,991	5.6	870,000	8.3	885,000	1.7
Total	\$ 3,579,848	1.3 %	\$ 3,630,000	1.4 %	\$ 3,495,000	(3.7) %
Other Excise Taxes:						
Cigarette	\$ 98,453	(10.0) %	\$ 94,000	(4.5) %	\$ 90,000	(4.3) %
Tobacco Products	10,358	1.8	10,700	3.3	10,900	1.9
Liquor Gallonage	24,351	(0.8)	24,000	(1.4)	24,000	--
Liquor Enforcement	83,675	0.8	84,500	1.0	85,000	0.6
Liquor Drink	14,951	8.7	15,900	6.3	16,300	2.5
Gas Severance	20,890	0.3	(300)	(101.4)	6,900	2,400.0
Oil Severance	37,234	5.4	26,300	(29.4)	25,900	(1.5)
Total	\$ 289,914	(2.4) %	\$ 255,100	(12.0) %	\$ 259,000	1.5 %
Other Taxes:						
Insurance Premiums	\$ 195,541	(0.4) %	\$ 207,000	5.9 %	\$ 212,000	2.4 %
Motor Carrier	11,982	(7.3)	11,600	(3.2)	11,300	(2.6)
Corporate Franchise	9,191	8.7	9,400	2.3	9,600	2.1
Miscellaneous	5,226	16.4	5,900	12.9	6,300	6.8
Total	\$ 221,940	(0.1) %	\$ 233,900	5.4 %	\$ 239,200	2.3 %
Total Taxes	\$ 10,160,227	4.1 %	\$ 10,191,000	0.3 %	\$ 10,126,200	(0.6) %
Other Revenues & Receipts:						
Interest	\$ 200,484	7,004.3 %	\$ 380,000	89.5 %	\$ 310,000	(18.4) %
Transfers & Other Receipts	(1,194,467)	37.6	(383,400)	67.9	(276,800)	27.8
Agency Earnings	116,566	66.6	95,900	(17.7)	97,900	2.1
Total	\$ (877,417)	52.4 %	\$ 92,500	110.5 %	\$ 131,100	41.7 %
Total Receipts	\$ 9,282,810	17.3 %	\$ 10,283,500	10.8 %	\$ 10,257,300	(0.3) %

One-Time Expenditures

One-Time Expenditures

Utilize One-Time Revenues to Pay for One-Time Expenditures

~Using Current Surplus for These Expenditures Avoids Millions in Future Interest Costs~

- \$1.0bil of the current surplus is tied directly to one-time enhanced federal dollars for KanCare during pandemic

<u>Quarter Ending</u>	<u>Base FMAP</u>	<u>Enhanced FMAP</u>	<u>Title 21</u>	<u>Total Savings</u>
FY20	121.9	0.2	3.7	125.7
FY21	247.6	0.4	7.4	255.5
FY22	266.8	0.6	7.9	275.2
FY23	295.3	0.6	7.3	303.1
FY24	29.0	(0.0)	0.6	29.6
Total to Date	960.5	1.7	26.9	989.1

- Governor is recommending using cash to pay for \$1.3bil of one-time expenditures
 - Over \$500.0mil for early debt retirement
 - Over \$500.0mil to pay cash for long overdue capital projects
 - Nearly \$200.0mil for post secondary education projects
 - Over \$80.0mil in community investment projects (e.g. – housing, infrastructure, etc.)

One-Time Expenditures

Utilize One-Time Revenues to Pay for One-Time Expenditures

~Using Current Surplus for These Expenditures Avoids Millions in Future Interest Costs~

- Capital Projects
 - Hutchinson Correctional Facility - \$377.6mil
 - Topeka Correctional Facility medical/behavioral support building - \$40.2mil
 - KDOC Career Campus matching dollars - \$20.0mil
 - KUMC Cancer Research Center - \$75.0mil (\$1:\$1 private match)
 - KSU Ag Innovation Initiative matching dollars - \$25.0mil
 - FHSU Stroup Hall expansion for nursing workforce development - \$15.0mil
 - KHP Training Academy upgrades and new communication center - \$17.2mil (SHF)
- Debt Retirement
 - Bond tender or defeasance for pension obligation bonds - \$450.0mil
 - Various other bond early payment - \$47.7mil
 - Capital lease prepayment - \$10.9mil
 - ESU housing and union debt for student affordability - \$12.7mil
- Community Investment
 - Emergency housing matching dollars - \$40.0mil
 - World Cup operation matching dollars - \$20.0mil
 - Moderate Income Housing - \$10.0mil
 - KDHE small town water infrastructure grants - \$10.0mil

Sustainable Tax Relief

Bipartisan Tax Plan Will Reduce Tax Burden Across Most Major Tax Sources

~Will Provide \$439.5mil of Direct Savings to Kansas Taxpayers in FY25~

Income Tax Relief

- Exempt Social Security income from state income tax for all taxpayers
 - Does not just smooth the cliff – full elimination of this tax
 - Produces taxpayer savings of \$152.1mil in FY25
- Increase the Kansas standard deduction for personal income tax
 - Increased to \$5k for individuals, \$10k for married filing jointly, \$7.5k for head of household
 - Produces taxpayer savings of \$90.5mil in FY25

Sales Tax Relief

- Pull forward date of eliminating state level food sales tax to 04/01/24
 - Add diapers and feminine hygiene products to the list of 0% tax items
 - Produces taxpayer savings of \$79.7mil in FY25
- Add a back-to-school state-sales tax holiday
 - First weekend of August every year, saving taxpayers \$4.8mil

Bipartisan Tax Plan Will Reduce Tax Burden Across Most Major Tax Sources

~Will Provide \$439.5mil of Direct Savings to Kansas Taxpayers in FY25~

Property Tax Relief

- Increase residential exemption on 20 mills property tax
 - Exempts the first \$100k of appraised value for residential homeowners
 - Produces taxpayer savings of \$93.4mil in FY25

Tax Relief for Parents

- Childcare tax credit
 - Doubles the current credit, saving Kansas families \$6.0mil per year

Policy	FY24	FY25	FY26	FY27	FY28
Axe the Tax Pull Forward of Start Date (04/01/24)	20.8	72.6	-	-	-
Fem. Hygiene/Diapers Sales Tax Elimination	1.2	7.1	7.1	7.1	7.1
Eliminate Social Security State Income Tax	-	152.1	120.7	124.4	128.1
Standard Deduction Increase to \$10k/\$7.5k/\$5k	-	90.5	70.4	71.1	71.8
Childcare Tax Credit	-	6.0	6.0	6.0	6.0
Bank Privilege Match Corporate Income Rate Reduction	-	13.0	7.4	7.5	7.6
Back to School Sales Tax Holiday	-	4.8	4.9	5.0	5.0
20 Mills Residential Exemption Increase to \$100k in TY24*	-	93.4	98.2	103.2	108.5
Total Direct State Benefit (Millions)	22.0	439.5	314.7	324.3	334.1

* 20 mills exemption does not reduce SGF revenues, but rather increases K-12 expenditures

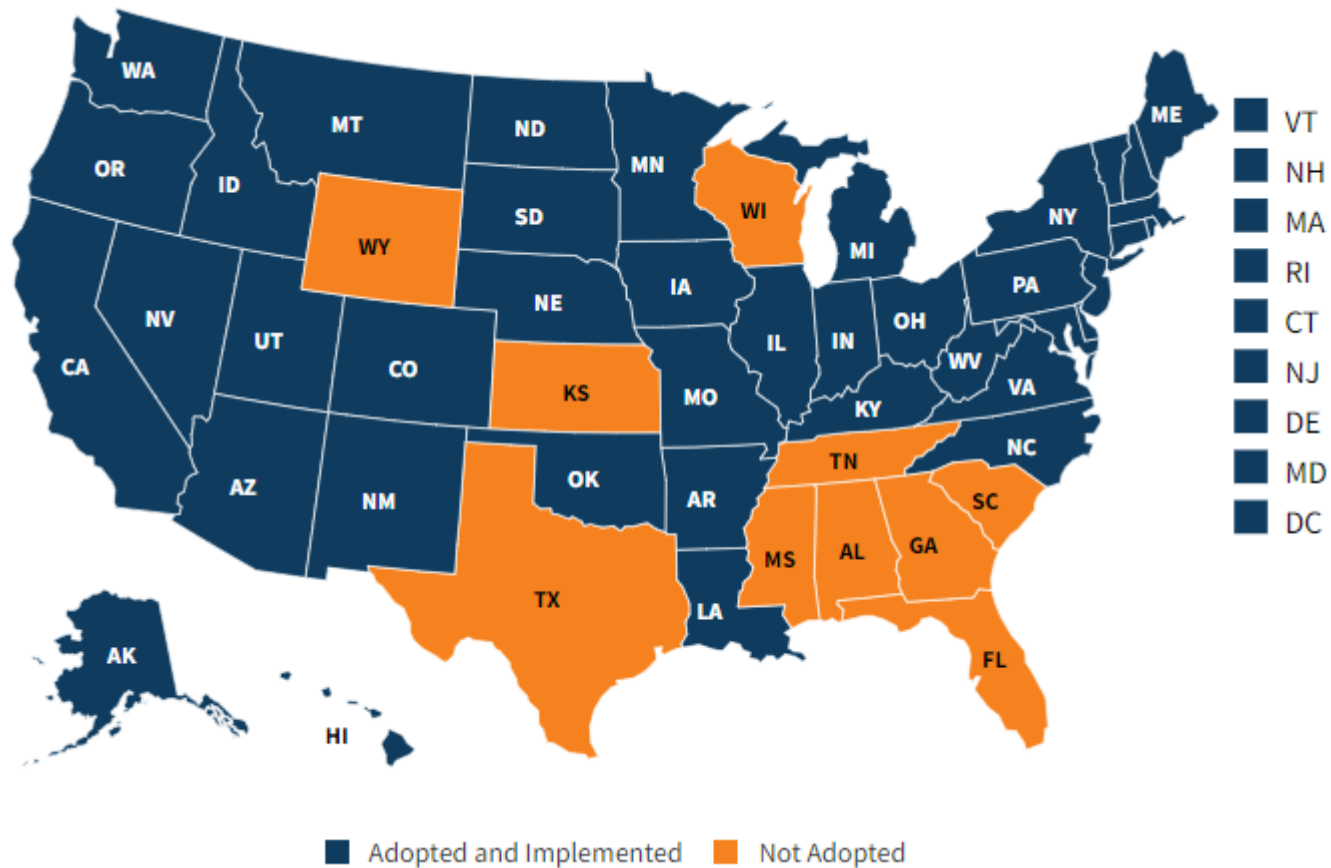
Restore the LAVTRF Transfer

~Reinstatement of Transfer That Has Been Suspended for 20 Years~

- Restore the LAVTRF transfer, beginning in FY25
 - \$54.0mil revenue transfer to the counties
 - Defrays property tax burden at local level
- KSA 79-2959 outlines the transfer mechanism
 - State has suspended this transfer since FY03
 - Recommendation will set the transfer amount equal to \$54.0mil each year
 - Will maintain distribution formula of 65% based on population and 35% based on valuations

Medicaid Expansion

Medicaid Expansion



- Note: Wisconsin provides Medicaid coverage for parents, and childless adults, up to 100% of FPL

Medicaid Expansion

Governor Recommending Medicaid Expansion to Begin 01/01/25

~Will Provide Access to High Quality Health Care for Approximately 150k Kansans~

- Kansas is now one of 10 states that has not yet expanded Medicaid
 - Every state that shares a border with Kansas has expanded Medicaid
 - Voters in Missouri, Nebraska, Oklahoma, and South Dakota approved expansion
 - 70% - 80% of Kansas citizens are in favor of Medicaid expansion
- Governor's plan addresses many of the concerns that have been brought forth in the past
 - Hospital surcharge and incremental federal dollars make this SGF neutral
 - Contains a work requirement
 - Proposal to cover health costs for incarcerated individuals, relieving county/local jail financial strain
- Provides needed mental health services to Kansans
 - Large portion of population anticipated to be in need of behavioral health and substance use treatments
- Medicaid expansion is a workforce issue
 - Provides for healthier workforce to keep employees on the job
 - Assists small businesses who don't offer health insurance to retain employees
 - Create jobs and new revenues across the state

Medicaid Expansion

What's Been Said

- X It's too expensive
- X Only helps "able bodied" people that don't work
- X Removes people from private insurance
- X Will pay for services for people from other states
- X Won't save rural hospitals
- X Feds won't support it long term

How it is Addressed

- ✓ SGF Neutral
 - ✓ Hospital surcharge to fund state share
 - ✓ Federal Dollars to Cover Balance for 15 Years
- ✓ Contains work requirement
 - ✓ Most individuals are already working
- ✓ Contains premium assistance program
- ✓ Every state that shares a border with Kansas has expanded
- ✓ Will greatly assist rural hospitals
 - ✓ Rural health advisory committee
- ✓ Program ends if federal share falls below 90%

Education

Early Childhood Care and Education

Historic Investment in Early Childhood Care and Education

~Responding to Early Childhood Transition Taskforce Recommendations~

- Governor is proposing \$56.4mil to fund coordinated efforts for Early Childhood Care and Education
 - Money will assist in ensuring adequate available slots across the state
 - Funding in response to recommendations by early childhood transition taskforce
- \$30.0mil for childcare capacity accelerator grants
 - Have previously provided \$55.0mil through one-time federal funds and private & local partners
 - Has funded 5,655 new childcare slots across the state
 - With private match requirements, will infuse additional funds into the sector
 - Ability to continue to satisfy demand not met through first two rounds
- \$15.0mil for sustainability grants, administered by DCF
 - Will be used as direct support to existing childcare providers, especially home-based providers
 - Goal is to provide approximately 3,500 providers with approximately \$4,000 each in support
- \$5.0mil for pilot program to address rural childcare needs in NW Kansas
 - State dollars used as matching dollars for private philanthropic dollars to address childcare shortages

Continue to Fully Fund K-12 at Constitutional Levels *~Marks the 6th Consecutive Year of Fully Funding K-12~*

- Recommending full funding for FY25 and FY26
 - Allows for predictability for school districts when extending contract offers
 - Includes expenditures associated with increasing the 20 mills residential exemption
- Professional Development State Aid to be funded at level requested by State Board
 - FY22 saw no funding, but FY23 and FY24 are funded at \$1.8mil
 - Governor is recommending funding of \$3.7mil in FY25 and FY26
- Mentor Teacher State Aid
 - Current funding allows for stipend of \$1,000, \$500, and \$250 for each year of mentoring
 - Governor recommending full funding by adding incremental \$1.0mil
 - Will allow for stipend of \$1,000 for each of the three years of mentorship
- Incremental \$3.0mil to expand the Mental Health Intervention Team Pilot Program (MHIT)
 - Began as \$7.3mil program, covering 9 districts in FY19
 - New funding will provide for total of \$17.4mil, enough to cover over 100 districts

Begin Plan to Fully Fund Special Education at Level Required by Law

~Add Incremental \$74.9mil Each of Next 5 Years~

- K.S.A. 72-3422 details the calculation by which the state is required to fund Special Education:
 - Section (a)(11) says “multiply the remainder obtained under subsection (a)(10) by 92%. The computed amount is the amount of state aid for the provision of special education and related services aid **a school district is entitled to receive for the ensuing year.**”
- State has not met this statutory obligation since FY11
 - State share as a percent of excess cost has diminished over past decade
 - Schools have pulled from operating funds to cover special education requirements
- Governor’s recommendation will allow us to reach the full statutory funding by FY29
 - Allows state time to advocate for greater federal support

Begin Plan to Fully Fund Special Education at Level Required by Law *~State Has Not Met Statutory Obligation Since FY11~*

Special Education Services State Aid, FY 2009-FY 2025				
<u>Fiscal Year</u>	<u>State Aid*</u>	<u>Federal Aid**</u>	<u>Total Aid</u>	<u>Excess Costs</u>
2009	\$427,718,409	\$—	\$427,718,409	89.5%
2010	367,427,058	56,517,430	423,944,488	91.9%
2011	388,982,076	54,453,996	443,436,072	95.7%***
2012	428,133,154	396,920	428,530,074	86.6%
2013	430,426,151	—	430,426,151	84.7%
2014	428,702,584	—	428,702,584	82.9%
2015	428,360,566	—	428,360,566	82.2%
2016	434,754,409	—	434,754,409	83.3%
2017	435,469,632	—	435,469,632	80.9%
2018	445,981,646	—	445,981,646	79.2%
2019	490,366,856	—	490,366,856	80.7%
2020	497,709,133	—	497,366,856	76.0%
2021	505,416,348	6,339,663	511,756,011	77.6%
2022	512,892,374	26,095,428	538,987,802	80.6%
2023	522,877,065	21,945,515	544,822,580	76.5%
2024 Est.	528,160,830	5,496,839	533,658,669	69.3%
2025 Allocation	535,518,818	—	535,518,818	66.4%
2025 Gov. Rec.	610,397,343	—	610,397,343	75.5%

* State Aid includes transfers from SHF in FY14 – FY18

** Includes funding from ARRA in FY10 – FY12, and includes funding from ARPA in FY21 – FY23

*** Amount exceeded 92% due to funding to close shortfall in State's required maintenance of financial support

Post Secondary Education

Continue to Invest in Post-Secondary Education

~Current Academic Year Saw Increase in Enrollment of 1,006 Students~

- Continuing to invest in strategic programs is an investment in the future of our workforce and economy
- Student affordability measures
 - Increase need-based aid funding by \$14.1mil – brings Kansas to the regional median for funding
 - Early retirement of \$12.7mil in ESU debt, to reduce student fees and housing costs
 - \$5.0mil expansion of WSU student affordability, retention and work development
- Workforce Development
 - \$15.4mil for expansion of FHSU Western Kansas nursing workforce development program/building
 - \$2.0mil enhancement to Kansas nursing initiative – essentially doubles current funding
 - \$8.0mil continuation for community and technical colleges apprenticeship and business partnership
 - Continue investments in NISS efforts to increase student retention and graduation rates
- Capital Projects
 - \$20.0mil to capital renewal initiative (\$1:\$1 match) to build on previous efforts
 - \$10.0mil for facility demolition to continue right-sizing campus footprints
 - \$2.0mil for READing (dyslexia program) facility improvements on PSU campus
- Cybersecurity
 - \$7.5mil for Regents institutions (one-time)
 - \$6.5mil for community and technical colleges (one-time)

Water

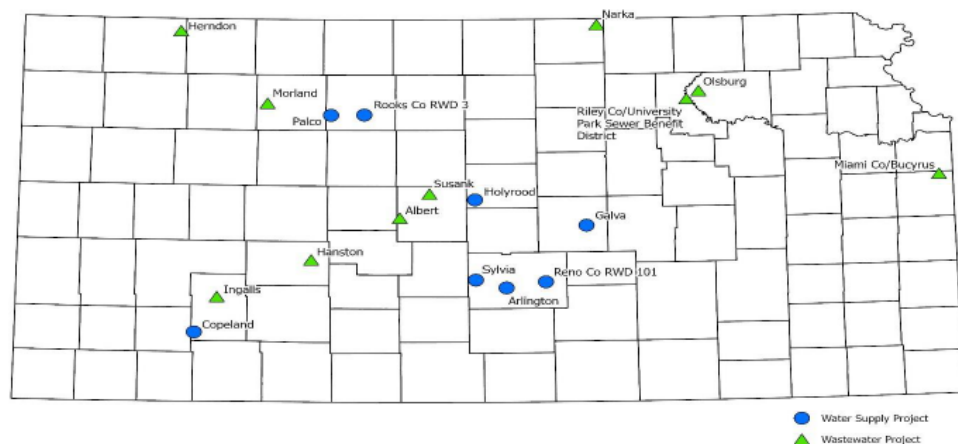
Investing in the State's Water Supply

Continue to Make Water a Priority

~Statewide Effort to Preserve and Increase Both Quantity and Quality~

- The Governor is once again proposing to fully fund the State Water Plan Fund
 - Full statutory funding is the new baseline going forward
 - Recommendation also includes continuing the extra \$35.0mil transfer from HB 2302
- \$5.0mil to Kansas State University for Water Institute
 - Establishment of campus-wide, interdisciplinary institute
- Additionally, \$10.0mil in one-time funding to KDHE for Small Town Infrastructure Assistance
 - Initial SPARK money fell short of demand

2023 Small Town Water and Wastewater Infrastructure Grant Projects



SGF & EDIF Transfers to the State Water Plan Fund

	SGF	EDIF
FY 2013	\$ --	\$ 2,000,000
FY 2014	\$ --	\$ --
FY 2015	\$ --	\$ 750,000
FY 2016	\$ --	\$ --
FY 2017	\$ --	\$ --
FY 2018	\$ 1,400,000	\$ --
FY 2019	\$ 2,750,000	\$ 500,000
FY 2020	\$ 4,005,632	\$ 500,000
FY 2021	\$ 6,000,000	\$ 913,325
FY 2022	\$ 4,005,632	\$ 1,719,264
FY 2023	\$ 6,000,000	\$ 2,000,000
FY 2024 Gov. Rec.	\$ 41,000,000	\$ 2,000,000
FY 2025 Gov. Rec.	\$ 41,000,000	\$ 2,000,000

State Employee Pay

Recognize State Employee Contributions with 5% Statewide Pay Adjustment *~Continue to Keep Pace With Strong Labor Market~*

- Apply statewide 5% pay adjustment for state employees ¹
 - Market continues to adjust, leaving state employees behind
 - Still recovering from years of little-to-no pay increases
 - \$68.9mil SGF, and \$168.8mil all funds budget impact
- Set minimum starting wage of \$15 / hour for all state employees
 - This does **not** impact the state's minimum wage for the private sector employers
 - Impacts 969 employees, with a current average hourly rate of \$13.17
 - \$2.0mil SGF and \$3.0mil all funds budget impact

¹ Excludes elected officials, Teachers at KSSB and KSSD, and employees on an approved career progression plan

State Employee Pay – 24/7 Facilities

Make 24/7 Pay Plan Permanent with Few Modifications *~Provides Sustainability to Plan that Has Stabilized Workforce~*

- Convert differentials 1, 2, and 3 into base pay
 - Minimal budget impact, as the spending is accounted for in agency allocations
- Leave differential 4 as a differential, but adjust the qualifying triggers
 - Add difficult to fill geography as a qualifier
 - Review efficacy of vacancy rate, study minimum staffing rates
 - Minimal budget impact, as the spending is accounted for in agency allocations
- Implement 7.5% pay adjustment for all 24/7 salaried employees
 - Other than one-time bonus in FY22, salaried staff have not received additional targeted pay increases
 - Salary compression between hourly staff and salaried staff has stunted natural career progression
 - \$2.6mil budget impact – all from SGF
- All adjustments become effective 07/01/24

Review

Review of Budget Priorities

- One-time revenues for one-time expenditures
- Minimal base spending increases
- Maintain focus on debt reduction and structural balance
- Provide meaningful and sustainable tax relief for all Kansans
- Investments in key priorities
 - Expand Medicaid – SGF neutral
 - Water preservation
 - Early childhood care and education
 - Fully funding K-12 education
 - Special education

SGF Outlook

State General Fund Outlook

(Dollars in Millions)

	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Gov. Rec.	FY 2025 Gov. Rec.
Beginning Balance	\$ 1,105.1	\$ 495.0	\$ 2,094.8	\$ 1,834.6	\$ 2,410.4	\$ 2,798.2
Revenues						
Taxes	7,049.1	8,908.6	9,758.1	10,180.2	10,169.0	9,780.1
Interest	56.1	7.8	2.8	200.5	380.0	310.0
Agency Earnings	58.3	64.8	89.7	116.6	95.9	97.9
Transfers						
School Capital Improvement Aid ¹	(203.4)	(195.0)	(200.7)	(196.6)	--	--
Highway Fund	231.8	133.7	66.9	--	--	--
Budget Stabilization Fund	(81.9)	--	(969.1)	(613.0)	--	--
PMB Bridge Funding	(132.2)	(66.1)	(66.1)	--	--	--
KPERs	--	--	(853.7)	(271.1)	--	--
All Other Transfers	(65.6)	13.8	107.8	(113.7)	(354.0)	(381.4)
Total Revenues	\$ 6,912.3	\$ 8,867.7	\$ 7,935.8	\$ 9,302.8	\$10,290.9	\$ 9,806.6
Total Available	\$ 8,017.4	\$ 9,362.6	\$10,030.6	\$11,137.4	\$12,701.3	\$12,604.8
Expenditures						
General Government	242.4	249.5	584.8	403.8	365.6	852.8
Judiciary	111.7	110.5	138.0	172.5	183.9	211.4
Human Services	748.9	683.9	711.0	977.7	1,419.5	1,152.4
Health/Human Service Caseloads	1,107.4	994.4	1,134.7	1,217.4	1,465.9	1,511.8
K-12 Education	3,992.5	3,946.0	4,133.9	4,388.8	4,601.3	5,006.2
Higher Education	851.2	833.4	902.3	1,012.7	1,215.0	1,290.2
Public Safety	450.8	432.8	498.3	535.3	616.2	1,052.9
Agriculture & Natural Resources	17.6	17.5	92.9	19.0	35.7	29.3
State Employee Pay Plan	--	--	--	--	--	73.5
Total Expenditures	\$ 7,522.5	\$ 7,267.8	\$ 8,195.9	\$ 8,727.1	\$ 9,903.1	\$11,180.5
Ending Balance	\$ 495.0	\$ 2,094.8	\$ 1,834.6	\$ 2,410.4	\$ 2,798.2	\$ 1,424.3
<i>As Percentage of Expenditures</i>	6.6%	28.8%	22.4%	27.6%	28.3%	12.7%
Budget Stabilization Fund Balance	\$ 81.9	\$ 81.9	\$ 969.2	\$ 1,610.3	\$ 1,685.7	\$ 1,757.5
One-Time Expenditures/Adjustments			\$ 1,048.5	\$ 1,055.1	\$ 1,379.5	\$ 1,287.9

Totals may not add because of rounding.

Revenues for FY 2024 & FY 2025 Recommendations reflect the November 2023 Consensus Revenue Estimate as adjusted by the Governor.

Expenditures for the Recommendations reflect the November 2023 Human Services Consensus Caseload Estimate.

¹ Capital Improvement Aid shifting from a revenue transfer to become a demand transfer in FY 2024, thus moving from revenues to expenditures.

- Governor's FY25 base spending adjustments = **2.2% increase vs. FY24 approved base budget**
- After adjusting for one-time expenditures, budget is structurally balanced



Budget.Kansas.Gov