

STATE OF KANSAS

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GOVERNOR JEFF COLYER, M.D.

April 25, 2018

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 the former Governor Sam Brownback 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 revenues are shown below.

Expenditures	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ 43,347,380	\$ 154,204,436
All Other Funds	<u>(4,377,883)</u>	<u>17,925,545</u>
All Funds	\$ 38,969,497	\$ 172,129,981

Revenues	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ 1,558,000	\$ 1,888,000
All Other Funds	<u>4,842,000</u>	<u>5,812,000</u>
All Funds	\$ 6,400,000	\$ 7,700,000

Positions	<u>FY 2018</u>	<u>FY 2019</u>
FTE Positions	--	2.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	2.00

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

1. Human Services Consensus Caseload

I amend the FY 2018 and FY 2019 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 of Health and Environment, the Department for Children and Families, the Legislative Research Department, the Department for Aging and Disability Services, and the Division of the Budget. The caseload estimates include expenditures for Temporary Assistance to Families, the Reintegration/Foster Care Contracts, and KanCare Regular Medical Assistance and KDADS Non-KanCare. The FY 2018 estimate for all human service caseloads is \$3.0 billion from all funding sources, including \$1.0 billion from the State General Fund. The estimate is a change from the amount recommended by the Governor, reflecting an all funds increase of \$31.1 million and a State General Fund increase of \$40.5 million.

The estimate for the Temporary Assistance for Needy Families Program is \$13.2 million from all funding sources, including \$117,616 from the State General Fund. The estimate for the Temporary Assistance for Needy Families Program is an increase of \$736,800, all from federal funds, above the Governor's recommendation. The number of individuals receiving cash assistance benefits is expected to decrease less than was anticipated in the fall estimate. Estimated expenditures for the Foster Care program were increased above the Governor's recommendation by \$6.7 million from all funding sources, including \$5.9 million from the State General Fund. The number of children anticipated to be served in the foster care system is expected to continue to increase above previous fiscal years and above the number estimated in the fall. In addition to increasing estimates for the number of children in foster care in FY 2018 and FY 2019, it is estimated that contract rates will continue to increase. A portion of the increase for FY 2018 includes the payment of preliminary estimates of the federally required actual reasonable costs incurred by the state's foster care contractors retroactive to FY 2017. The final amount to be paid to the contractors is dependent upon the audit findings of the independent auditors for expenditures in both FY 2017 and FY 2018.

The FY 2018 estimate for KanCare Medical is \$2.8 billion, including \$880.3 million from the State General Fund, reflecting an increase of \$21.5 million from all funding sources and a State General Fund increase of \$33.6 million above the Governor's recommendation. The KanCare Medical estimate includes medical expenditures for KDHE and KDADS. The increase in KanCare Medical costs is attributable to several factors including slightly higher rates than those used in the fall estimate and an increase in retroactive fee-for-service payments due to the number of pended cases awaiting eligibility determination. The KanCare capitation rates reflect an increase of approximately 7.0 percent over the estimated mid-year rates, primarily due to the redetermination of members. Projected member enrollment was estimated to be lower in the fall than what is anticipated in the revised estimate. The federal medical assistance percentage (FMAP) for Fee for Service was also adjusted to account for state-only programs. The primary cause of the increase in State General Fund expenditures is a revised estimate for HMO privilege fee revenue. The net impact is a reduction of \$16.0 million in special revenue funds, resulting in the need for an offsetting increase of State General Fund. The Nursing Facility Provider Assessment estimate is also reduced by \$5.0 million in the revised estimate. Numerous providers have struggled with

cash flow issues due to eligibility delays and have set provider assessment payment plans. Additionally, the FY 2018 estimate was increased due to medical expenditures for the Program of All-Inclusive Care for the Elderly (PACE) not being operationalized to be adjusted to the KDADS Non-KanCare expenditures in FY 2018, so these expenditures are now reflected within KDHE KanCare expenditures in FY 2018.

The FY 2018 estimate for KDADS Non-KanCare is \$55.0 million, including \$33.0 million from the State General Fund. The estimate reflects an increase of \$2.1 million from all funding sources and a State General Fund increase of \$1.0 million above the Governor's recommendation. The increase in KDADS Non-KanCare costs is primarily attributable to an increase in expenditures for retroactive fee-for-service payments to nursing facilities attributable to delays in eligibility determinations for pended claims. The increase is also attributable to increased expenditures for head injury rehabilitation and home and community based services waiver assessments. The increase was partially offset by a reduction in expenditures for PACE, as FY 2018 expenditures are still reflected in the KDHE KanCare portion of expenditures in FY 2018.

The FY 2019 estimate is \$3.4 billion from all funding sources, including \$1.2 billion from the State General Fund. The estimate is a change from the amount recommended by the Governor, reflecting an all funds increase of \$76.9 million and a State General Fund increase of \$68.6 million.

The estimate for the Temporary Assistance for Needy Families Program is \$12.5 million from all funding sources. The estimate is an increase of \$1.8 million from all funding sources from the Governor's recommendation. The number of individuals receiving cash assistance benefits is expected to decrease less than was anticipated in the fall estimate. Estimated expenditures for the Foster Care Program are \$199.0 million, including \$135.0 million from the State General Fund. The estimate is an increase of \$14.4 million from all funding sources and an increase of \$12.2 million from the State General Fund above the Governor's recommendation. The number of children anticipated to be served in the foster care system, as well as the costs for those services are expected to continue to increase compared to the Governor's recommendation. It is estimated that contract costs will increase in FY 2019 to cover the actual, reasonable costs incurred by foster care contractors, pending completion of the independent audits of the state's foster care contractors' expenses.

The FY 2019 estimate for KanCare Medical is \$3.1 billion from all funding sources, including \$1.0 billion from the State General Fund. The estimate reflects an increase of \$49.4 million from all funding sources and a State General Fund increase of \$50.1 million from the Governor's recommendation. The increase is a result of many factors. The KanCare capitation rates were determined by applying a 3.2 percent per member per month growth for cost trend in FY 2019. Projected member enrollment is estimated to increase by approximately 10,000 members from FY 2018. The FMAP for Fee for Service was also adjusted to account for state-only programs. The primary cause of the increase in State General Fund expenditures is a revised estimate for FY 2019 HMO privilege fee revenue. The net impact is a reduction of \$21.0 million in fee revenue, resulting in the need for an offsetting increase of State General Fund.

It should be noted that the new KanCare estimate for FY 2019 includes additional expenditures in the Governor's budget recommendation of \$22.1 million, including \$9.6 million from the State General Fund, to reflect the Governor's recommendation to increase all hospital

provider rates by 4.0 percent; \$17.7 million, including \$7.7 million from the State General Fund for a 3.0 percent increase to nursing facility rates; and \$2.3 million, including \$1.0 million from the State General Fund for hospitals to start new residency programs.

The FY 2019 estimate for KDADS Non-KanCare is \$61.3 million, including \$35.3 million from the State General Fund. The estimate reflects an increase of \$11.3 million, including \$6.3 million from the State General Fund, above the Governor's recommendation. The increase in KDADS Non-KanCare costs is primarily attributable to an increase in expenditures for retroactive fee-for-service payments to nursing facilities attributable to delays in eligibility determinations for pending claims. The increase is also attributable to increased expenditures for head injury rehabilitation and home and community based services waiver assessments.

Department for Children and Families

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ 5,930,153	\$ 12,155,270
All Other Funds	<u>1,518,902</u>	<u>4,021,274</u>
All Funds	\$ 7,449,055	\$ 16,176,544

Kansas Department of Health and Environment

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ 22,800,000	\$ 35,084,000
All Other Funds	<u>(13,400,000)</u>	<u>(20,364,000)</u>
All Funds	\$ 9,400,000	\$ 14,720,000

Kansas Department for Aging and Disability Services

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ 11,800,000	\$ 21,350,000
All Other Funds	<u>2,410,000</u>	<u>24,679,780</u>
All Funds	\$ 14,210,000	\$ 46,029,780

Kansas Department of Health and Environment

2. Campus Sexual Assault Prevention Grant

I amend the budget for the KDHE to include a new federal fund and expenditure authority. The agency received a new federal grant for a capacity building initiative and is to support the implementation and evaluation of evidence-based and informed strategies to prevent campus sexual assault. The new fund would be titled Campus Sexual Assault Prevention Grant—Federal Fund. The agency would begin to receive \$25,000 in federal funding in FY 2018. The project period would run from March of 2018 to March of 2019.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>25,000</u>	<u>--</u>
All Funds	\$ 25,000	\$ --

3. Health Facilities Surveys Contractors

I amend the FY 2019 budget for the Bureau of Community Health Systems/Health Facilities Program. KDHE requests additional State General Fund monies to contract with an outside Survey Provider to allow for completion of Federally Mandated Centers for Medicare and Medicaid Services (CMS) surveys, such as Critical Access Hospitals and Dialysis Clinics, and for state licensure survey requirements. Available staffing levels are insufficient to allow for meeting CMS mandatory workload requirements. Failure of the state to meet CMS workload requirements could result in fiscal holdbacks and further impede state survey activity. The additional appropriation from the State General Fund would bring in an additional \$644,216 in federal funds, as many of the survey types are funded at a 15.0 percent state 85.0 percent federal rate.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ 179,532
All Other Funds	<u>--</u>	<u>644,216</u>
All Funds	\$ --	\$ 823,748

Adjutant General

4. Additional Disaster Funding

Because of recent disasters that have occurred, including the wildfires in March, I amend the Adjutant General's budget to provide additional disaster funding. This recommendation will provide a 10.0 percent state match to draw down federal funds for federally-declared disasters, add funding for state-only declared disasters, and include funding for aerial fire suppression, fire equipment, and training. The amounts recommended are listed in the table below.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ 2,817,227	\$ 146,726
All Other Funds	<u>226,215</u>	<u>1,247,171</u>
All Funds	\$ 3,043,442	\$ 1,393,897

Department for Children and Families

5. Child Protection Professionals

I amend the budget for the Department for Children and Families by adding \$1,591,655 from all funding sources, including \$1,536,743 from the State General Fund to provide salary increases to the agency's child protection professionals in FY 2019. Specifically, I recommend increasing salaries by 5.0 percent for all Protection Specialists, Protection Supervisors and

Protection Investigators in Child Protective Services, Adult Protective Services and the staff at the Kansas Protection Report Center. It is estimated that 488 positions would qualify for the 5.0 percent raise.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ 1,536,743
All Other Funds	<u>--</u>	<u>54,912</u>
All Funds	\$ --	\$ 1,591,655

Kansas Lottery

6. Message on Gaming Revenues

The Consensus Revenue Estimating Group on Gaming Revenues met in April 2018 to revise revenue estimates from state-owned casinos. The amount of net gaming revenue that will be generated from state-owned casinos was increased over the two fiscal years as follows:

	<u>FY 2018</u>	<u>FY 2019</u>
ELARF	\$ 1,430,000	\$ 1,734,000
Problem Gambling/Addict Grant Fund	128,000	154,000
Local Cities/Counties	192,000	231,000
Casino Managers	<u>4,650,000</u>	<u>5,581,000</u>
Net Gaming Revenue	\$ 6,400,000	\$ 7,700,000

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.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>4,842,000</u>	<u>5,812,000</u>
All Funds	\$ 4,842,000	\$ 5,812,000

The revised estimates for the ELARF and Problem Gambling and Addictions Grant Fund will also affect planned transfers to the State General Fund. Language already exists for FY 2018 and FY 2019 that allows additional ELARF and Problem Gambling and Addictions Grant Fund revenues to be transferred to the State General Fund. For FY 2018, the transfer to the State General Fund is increased by \$1,430,000 from the ELARF and \$128,000 from the Problem Gambling and Addictions Grant Fund. The FY 2019 planned transfers from the ELARF and Problem Gambling and Addictions Grant Fund to the State General Fund were increased by \$1,734,000 and \$154,000, respectively. These transfer adjustments are already accounted for in the April Consensus Revenue Estimate.

State General Fund Transfer Adjustments

	<u>FY 2018</u>	<u>FY 2019</u>
ELARF	\$ 1,430,000	\$ 1,734,000
Problem Gambling/Addict Grant Fund	<u>128,000</u>	<u>154,000</u>
Total SGF Transfer Adjustments	\$ 1,558,000	\$ 1,888,000

Kansas Highway Patrol, Department for Children and Families, Department of Corrections, Department for Aging and Disability Services, Department of Health and Environment, Department of Labor, Department of Transportation, and Department of Wildlife, Parks and Tourism

7. OITS Modernization—Data Center

The Office of Information Technology Services (OITS) is undertaking an effort to increase the capacity, reliability, security and ability to better predict costs 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 already occurred with the outsourcing of mainframe services (Mainframe as a Service) and the consolidation of email systems. Currently, OITS is implementing Hardware as a Service. Hardware as a Service will allow desktops and laptops to be provided to state agencies on an as needed basis. Other initiatives of the plan include better coordination of IT spending and administration; addressing the state’s outdated data centers (Data Center as a Service) and network infrastructure (Network as a Service); improving project management; and creating a centralized service desk for IT support.

Of all the initiatives, the most pressing need in FY 2019 is the state’s data centers. OITS has indicated that our 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 will contract with a vendor, Unisys, for statewide data center services. The ongoing costs for the contract will be charged to user agencies.

I amend the budget to give certain agencies the ability to pay for these ongoing charges without taking resources away from programs. In FY 2019, total expenditures will be increased by \$3,061,557 from all funds, including \$1,267,165 from the State General Fund. However, this budget amendment is contingent upon approval of the \$7.3 million from the State General Fund for FY 2019 for OITS that the House Appropriations Committee included in its budget for the upfront costs associated with the modernization strategy, including the data centers. A table listing the affected agencies and the estimated amounts is provided below. Expenditures for the Kansas Highway Patrol will require increasing the amount the agency receives from the State Highway Fund. The expenditures for the Kansas Department of Transportation will require increasing the expenditure limitation on its State Highway Fund operations account.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ 1,267,165
All Other Funds	--	<u>1,794,392</u>
All Funds	\$ --	\$ 3,061,557

<u>Agency</u>	<u>FY 2019</u> <u>State General Fund</u>	<u>FY 2019</u> <u>All Funds</u>
Kansas Highway Patrol	\$ --	\$ 124,766
Department for Children & Families	610,376	1,098,183
Department of Corrections	141,570	141,570
Department for Aging & Disability Services	29,072	61,594
Department of Health & Environment	198,636	440,435
Department of Labor	287,511	463,728
Department of Transportation	--	686,624
Department of Wildlife, Parks & Tourism	--	<u>44,657</u>
Total--Data Center	<u>\$ 1,267,165</u>	<u>\$ 3,061,557</u>

Department of Health and Environment—Environment

8. Bureau of Water/Livestock Waste Management

KDHE-Environment requests additional State General Fund monies to support 2.00 FTE positions, including a Professional Environmental Engineer in the Topeka office and an Inspector (Environmental Compliance & Regulatory Specialist) in the North Central District Office in Salina. These positions will directly support the oversight of concentrated animal feeding operations in Kansas. The additional FTE positions are needed to address the current growth of animal agriculture in the state. In order to reduce the current backlog of permit applications, funds are also requested for FY 2019 for contractual services to assist with processing permits. Of the total, \$50,000 for contractual services would be a one-time cost.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ 235,000
All Other Funds	--	--
All Funds	\$ --	\$ 235,000
FTE Positions	--	2.00
Non-FTE Unclassified Permanent	--	--
Total Positions	--	<u>2.00</u>

Department of Agriculture

9. Cattle Traceability Pilot Program

I amend the FY 2019 budget to add \$250,000 from the State General Fund for a Cattle Traceability Pilot Program in the Kansas Department of Agriculture (KDA). The United States

Department of Agriculture intends to tighten existing rules on its Animal Disease Traceability (ADT) program. This program promotes the ability of the USDA to trace animals back from slaughter and forward from premises where they are identified, as well as trace animals' interstate movements to identify, prevent and control disease. The Kansas Department of Agriculture has been chosen to conduct a pilot program to determine the best technology and systems available to close gaps in the current ADT. The KDA indicates that it expects to receive additional federal and private funds for the pilot program of \$1.5 million to \$2.0 million

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ 250,000
All Other Funds	--	--
All Funds	<u>\$ --</u>	<u>\$ 250,000</u>

Kansas Human Rights Commission

10. Database Conversion

The Kansas Human Rights Commission currently uses Microsoft Access databases to manage contact and intake information. The Commission receives technical support from the Office of Information Technology Services (OITS) for database maintenance. Because of the age of the databases, OITS will no longer be able to support the Commission's databases and has recommended the Commission convert the databases to SharePoint. SharePoint is a web-based, collaborative platform that is centrally maintained by OITS and will 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.

It is estimated that converting the databases will cost \$35,800. To finance the costs, the Commission will seek a grant from the Information Network of Kansas (INK). However, if the funds are approved, the Commission does not have an existing fund that is appropriate to receive the monies. I amend the budget for FY 2019 to add \$35,800 from a new special revenue fund called the "Database Conversion Fund" to allow the Commission to receive monies from the INK in the event the grant is approved.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ --
All Other Funds	--	35,800
All Funds	<u>\$ --</u>	<u>\$ 35,800</u>

KPERS

11. Reduce FY 2019 Deferred KPERS Contribution

The approved FY 2019 budget includes the deferral of approximately \$194.0 million in KPERS contributions. I amend the budget to reduce the deferral to approximately \$112.0 million

by adding \$82.0 million from the State General Fund for KPERS contributions. This will reduce the amortization payments that will begin in FY 2020.

	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ 82,000,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 82,000,000

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Colyer". The signature is fluid and cursive, with the first name "Jeff" being more prominent and the last name "Colyer" following in a similar style.

Jeff Colyer, M.D.
Governor