



KANSAS

KATHLEEN SEBELIUS, GOVERNOR

April 16, 2007

The Honorable Sharon Schwartz, Chairperson
House Committee on Appropriations
Room 517-S, Statehouse

and

The Honorable Dwayne Umbarger, Chairperson
Senate Committee on Ways and Means
Room 120-S, Statehouse

Dear Representative Schwartz:

The items contained in this memo, Governor's Budget Amendment No. 2, amend the revised FY 2007 and new FY 2008 budget that I submitted to you in January 2007. These items reflect new issues that have arisen, caseload adjustments, or changes that can be made based on new information. Total adjustments to expenditures and positions are shown below.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ 54,701,649	\$ 146,263,876
All Other Funds	<u>2,181,367</u>	<u>56,762,835</u>
All Funds	\$ 56,883,016	\$ 203,026,711
FTE Positions	--	14.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	14.00

Department of Administration

1. Simplex Fire Safety Contract

I amend my budget to lapse \$68,000 from the State General Fund in FY 2008 from the Kansas Highway Patrol and appropriate the same amount to the Department of Administration. This action will facilitate the transfer of administering the Simplex fire safety contract back to Administration from the Highway Patrol. Two years ago, the Highway Patrol took over administering the Simplex contract, because the agency was better suited to handle the security of state buildings. However, these agencies have determined that Administration is better able to manage the fire safety component of the contract, because staff of the Division of Facilities Management currently performs maintenance on state buildings that are protected with the Simplex fire safety contract, including basic maintenance on the Simplex equipment. The Highway Patrol will continue to administer the security card access component of the Simplex system.

Department of Administration:

	FY 2007	FY 2008
State General Fund	\$ --	\$ 68,000
All Other Funds	--	--
All Funds	\$ --	\$ 68,000

Highway Patrol:

	FY 2007	FY 2008
State General Fund	\$ --	(\$ 68,000)
All Other Funds	--	--
All Funds	\$ --	(\$ 68,000)

2. MacVicar Avenue Assessment

I amend my budget to add \$1,285,749 from the State General Fund for a special assessment by the City of Topeka in connection with the old Topeka State Hospital grounds. The agency was notified of the assessment in mid-March. The amount is only an estimate based on costs calculated by the city. The final assessment will not be known until the improvements are complete. The funds generated by the assessment will be utilized by the city for traffic improvements on MacVicar Avenue along the east side of the grounds. The improvements are anticipated to be completed in the fall of 2007. Without this appropriation, the Department of Administration would have to increase office space rental rates for agencies occupying state facilities in order to pay the assessment.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 1,285,749
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 1,285,749

3. Landon State Office Building Repairs

Subsequent to the submission of my original recommendations, the Department of Administration received the results of an exterior façade study on the Landon State Office Building (LSOB) that was conducted by AMAI Architects. The terracotta and brick façade of the LSOB is almost 100 years old and very fragile, with cracked window headers and facing tile. In order to address immediate concerns regarding pedestrian safety from the potential for falling debris, a chain-link fence has been erected along the west and north sides of the LSOB, as well as a canopy over the northwest entrance. At the same time, the southwest entrance has been closed, except for use as an emergency exit. In order to repair the problems identified in the study, I amend my budget to add \$2,530,000 from the State General Fund in FY 2008. The work will include repair and replacement of defective tiles.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 2,530,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 2,530,000

Department of Revenue

4. Ethanol Producer Incentives

I amend my budget to transfer \$1.0 million from the State General Fund to the Kansas Qualified Agricultural Ethyl Alcohol Producer Incentive Fund in FY 2008. By statute, this fund receives \$3.5 million annually from motor fuel tax revenues. Expenditures from this fund provide incentives to ethanol producers at a rate of \$0.075 per gallon. A transfer in the same amount was made last year for FY 2007 in order to fund this incentive fully for all producers who qualify. It appears at this time that the full \$4.5 million available in FY 2007 for these incentives will be expended. Therefore, in order to make the same \$4.5 million available for expenditure in FY 2008, I recommend continuing this transfer.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>1,000,000</u>
All Funds	\$ --	\$ 1,000,000

5. New Intra-Governmental Service Fund

The Department of Social and Rehabilitation Services (SRS) reimburses the Department of Revenue for certain tobacco enforcement expenditures. In the budget, SRS treats its expenditures as reportable, while the Department of Revenue treats them as non-reportable to avoid counting the same dollars twice. However, the Department of Revenue needs an Intra-Governmental Service Fund so this arrangement will work correctly for all budgeting and accounting purposes. This fund was included in the FY 2008 appropriations bill, which has now been approved by the Legislature, but it was inadvertently left out of the FY 2007 supplemental bill. This item is a technical correction to rectify the omission in FY 2007.

Board of Tax Appeals

6. Small Claims Hearings

I amend my budget to provide additional funding from the State General Fund of \$16,880 in FY 2007 and \$33,760 in FY 2008. The additional funding will allow the Board of Tax Appeals to contract with attorneys to conduct small claims hearings because of Sedgwick County's decision to eliminate its Hearing Officer Panel on January 1, 2007. Counties with a Hearing Officer Panel are required to conduct hearings on property valuation appeals for property located within their county, while the Board of Tax Appeals is required to conduct hearings in all other counties. The Sedgwick County Hearing Officer Panel heard approximately 1,300 property valuation appeals each year, for which the Board will now have to assume responsibility.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ 16,880	\$ 33,760
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 16,880	\$ 33,760

Kansas Racing and Gaming Commission

7. Kansas Expanded Lottery Act (SB 66)

Message on Revenue. The Kansas Expanded Lottery Act (SB 66) reauthorizes the Kansas Lottery and authorizes four destination casinos in Kansas and slot machines at Kansas race tracks. Implementation of the act will bring the state new revenues, which are to be deposited in a newly created Expanded Lottery Act Revenues Fund. Since none of the revenue is currently available and local votes and potential court challenges must occur before revenue is received, these expected revenues should not be appropriated until the 2008 Legislative Session. That approach would allow the state to estimate the amount of revenue as well as provide time to consider the best use of the expected revenue.

Gaming Regulation. However, appropriations do need to be made during the wrap-up session to allow for the new costs of regulating gaming operations. A budget amendment dealing with racetrack regulation is outlined below. Another amendment that proposes further regulatory activity for gaming will be delivered to the Legislature at the beginning of the wrap-up session.

Racing Operations—Camptown Racetrack. I amend my budget to recommend increased expenditure authority of \$1,410,308 from the State Racing Fund in FY 2008, including 10.00 new FTE positions, for the Racing Operations Program. The additional expenditure authority will allow the Commission to provide regulatory oversight of the reopened Camptown Racetrack in Crawford County and enhance its regulatory efforts at the two other pari-mutuel racetrack facilities. In recent years, the Commission has experienced cashflow problems with the decline in pari-mutuel tax receipts that are used to pay for the cost of regulating this industry. The Commission has not had the financial resources to fill key positions, update its computer system, or purchase new equipment. Because the pari-mutuel tax is currently unable to support the full cost of regulating this industry, I recommend allowing the Kansas Racing and Gaming Commission to assess the cost of regulation, above what is generated from the pari-mutuel tax, directly to the pari-mutuel facility licensees.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>1,410,308</u>
All Funds	\$ --	\$ 1,410,308
FTE Positions	--	10.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	10.00

Board of Indigents Defense Services

8. Assigned Counsel Caseload Savings

I amend my budget to reduce assigned counsel expenditures for the Board of Indigents Defense Services in FY 2007 by \$1.8 million from the State General Fund. After taking the reduction into account, the revised total for assigned counsel will be \$8.0 million. This reduction was arrived at through a consensus caseload process involving the Division of the Budget, the Kansas Legislative Research Department, and the agency. The revised estimate accounts for a declining caseload, payments still being made for work done in FY 2006 at the old rate of \$50 per hour, and certain judicial districts that have agreed to accept a rate lower than the current \$80 per hour.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ (1,800,000)	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ (1,800,000)	\$ --

Attorney General

9. Water Litigation

I amend my budget to fund the *Kansas v. Nebraska* water litigation. The first compliance report regarding the settlement of disputed water claims will be received in April 2007. The report is anticipated to show that Nebraska is out of compliance with the settlement. The settlement sets out dispute resolution procedures, and Kansas will use those procedures to remedy compliance issues. Therefore, I amend my budget to add \$100,000 in FY 2007 and \$1.0 million in FY 2008, all of which will be from the State General Fund. These funds will be used to pay for outside counsel, witnesses, experts, exhibits, and water analysis costs.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ 100,000	\$ 1,000,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 100,000	\$ 1,000,000

Department of Social and Rehabilitation Services and Kansas Health Policy Authority

10. Centers for Medicare and Medicaid Services (CMS) Issues

Over the past two years, Kansas has experienced a high volume of Centers for Medicare and Medicaid Services (CMS) financial management reviews and Office of the Inspector General (OIG) audits. The targets of these audits and reviews are past practices in three main areas: local education agencies (LEAs), mental health and child welfare, and targeted case management (TCM). Kansas has made a concerted effort in each of these target areas to develop a comprehensive solution to resolve the underlying issues and bring the state into full compliance with all federal regulations and state plan provisions. The items listed in this budget amendment represent the final steps that need to be taken in this effort.

The first and second items provide one-time state funding in FY 2007 to make up for the loss of federal funds. The remaining items propose FY 2008 appropriations that will allow Kansas policy to change in order to meet CMS requirements. In addition, a separate budget amendment (Item No. 19), which deals with school finance consensus estimates for special education, is directly related to these issues.

Local Education Agency Medicaid Deferral. I amend my budget to substitute \$37,487,770 from the State General Fund in FY 2007 in the Kansas Health Policy Authority to replace federal Medicaid funds that were repaid to the Centers for Medicare and Medicaid Services (CMS) for audit findings in the school-based services program. There were three audits conducted on the bundled rate development, application, and claiming processes by the federal Health and Human Services Office of Inspector General (OIG). These audits reviewed documentation at a sampling of school districts and determined that federal Medicaid funds were claimed inappropriately. For those sampled districts, the OIG calculated the amounts that should be returned to CMS. The funds were returned in June 2006, November 2006, and the final amount will be repaid by June 2007. The additional State General Fund monies will help defray shortfalls in federal funds that are used to make current payments to providers.

Kansas Health Policy Authority:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ 37,487,770	\$ --
All Other Funds	<u>(37,487,770)</u>	<u>--</u>
All Funds	\$ --	\$ --

Child Welfare Medicaid Deferrals. I amend my budget to substitute \$8,127,663 from the State General Fund for federal dollars for FY 2007 in the Department of Social and Rehabilitation Services. The Centers for Medicare and Medicaid Services (CMS) continue to defer all mental health services claimed for children in SRS custody. The requested amount would replace Medicaid funding for the quarters ending September 30, 2006, and December 31, 2006. Since CMS reduces the state's grant award, two quarters after the funds are deferred, any deferrals for quarters ending March 31, 2007, and June 30, 2007, will not affect cashflow until FY 2008. Last year, \$1.5 million per quarter was added to cover deferrals in FY 2007. However, CMS continues to defer approximately twice that amount per quarter because of data management issues that have to be manually reconciled. These additional amounts that are being deferred are causing cashflow problems in the current year.

Social & Rehabilitation Services:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ 8,127,663	\$ --
All Other Funds	<u>(8,127,663)</u>	<u>--</u>
All Funds	\$ --	\$ --

Prepaid Ambulatory Health Managed Care Plan. I amend my FY 2008 SRS budget to add \$15,468,000, including \$7,644,500 from the State General Fund, for administration of its Prepaid Ambulatory Health Managed Care Plan for Community Mental Health Services Program. To satisfy CMS requirements and to maintain critical aspects of the community mental health system, Kansas has received approval for a non-risk managed care plan. Non-risk plans pay for the administrative costs of the plan separately, based on actual costs. SRS used a contractor to assist in developing the administrative cost report and negotiating with the managed

care provider to establish the base price to administer the plan. The current estimate of the plan administration cost is 9.1 percent of the total service costs, or \$15.5 million from all funding sources.

Social & Rehabilitation Services:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 7,644,500
All Other Funds	<u>--</u>	<u>7,823,500</u>
All Funds	\$ --	\$ 15,468,000

Community Mental Health Centers Certified Match Replacement. I amend my budget to add \$10.0 million from the State General Fund in FY 2008. Currently, SRS pays the federal share and only a portion of the Medicaid funding to the community mental health centers (CMHCs). The CMHCs certify the remaining required state share from other non-federal funds. These grant payments include \$10.2 million in State General Fund State Aid, \$31.0 million in State General Fund Mental Health Consolidated Grants, and \$6.0 million from the Children's Initiatives Fund. Of this \$47.2 million, \$26.5 million is certified as the state match. The Centers for Medicare and Medicaid Services (CMS) have proposed new regulations that more stringently define which "government entities" can certify the state share of Medicaid funding. If these regulations are adopted, CMHCs will not be allowed to certify the state share any longer.

In addition, the new managed care program for Medicaid community mental health services that SRS will start on July 1, 2007, makes eliminating the certified match process necessary. In order to meet the requirement for state matching dollars, Mental Health Consolidated Grants will be reduced from \$31.0 million to \$14.5 million. This amount will ensure that the CMHC system, as a whole, will have enough state funding to provide state match dollars for federal Medicaid funding. The net result of this item is increased funding in the mental health system; however, the distribution of funding will change according to which centers are serving Medicaid patients.

Social & Rehabilitation Services:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 10,000,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 10,000,000

Developmental Disabilities Targeted Case Management Match Replacement. I amend my budget to substitute \$8,975,141 from the State General Fund for federal funds in FY 2008. Currently, SRS pays the federal share and only a small portion of the required state share for Medicaid Targeted Case Management (TCM) provided by Community Developmental Disabilities Organizations (CDDOs). The CDDOs certify the remaining state share using SRS grant funds and county property tax mill levy funds. The federal share totals \$24.8 million; the

SRS share totals \$1.5 million; and CDDOs certify \$14.9 million from SRS grants and county funds.

The Centers for Medicare and Medicaid Services (CMS) found in a financial management review that CDDOs are not expending the entire \$41.2 million on TCM services. Proposed CMS regulations, if adopted, will prohibit paying more than it costs to provide these services and will prohibit CDDOs from certifying any matching state funds. SRS must address these issues to avoid Medicaid findings, disallowances, and deferrals that will result in the loss of funding. The addition of \$8,975,141 from the State General Fund will allow SRS to stop the certified match process in the provision of TCM services for the developmentally disabled (DD). This is the minimum amount that will keep the DD system whole. However, because of differences in service levels across regions, providers cannot be assured that they will receive the same amount of funding under the new plan.

Social & Rehabilitation Services:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 8,975,141
All Other Funds	<u>--</u>	<u>(8,975,141)</u>
All Funds	\$ --	\$ --

CDDO Administrative Certified Match Replacement. I amend my budget to add \$1,792,000 from the State General Fund in FY 2008. The Developmental Disabilities Reform Act requires the Community Developmental Disabilities Organizations (CDDOs) to carry out certain administrative functions related to local service delivery of developmental disabilities services. A portion of these services is reimbursable through Medicaid administrative payments. SRS provides all of the federal Medicaid funds and some of the required state matching funds for the cost of these services. The CDDOs certify the remaining portion of the required state matching funds from their local county funds. The Centers for Medicare and Medicaid Services (CMS) have proposed new regulations that more stringently define which “government entities” can certify the state share of Medicaid funding. If these regulations are adopted, CDDOs will not be allowed to certify the state share any longer. Therefore, I recommend the addition of \$1,792,000 from the State General Fund to replace the county funds.

Social & Rehabilitation Services:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 1,792,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 1,792,000

Department of Social and Rehabilitation Services

11. Child Care Assistance

I amend my budget to increase expenditures for child care assistance by \$3.6 million from the Temporary Assistance for Families (TAF) Fund in FY 2008. Child care assistance is a crucial employment support to low-income, working families but especially single parents who face a greater financial hardship in their effort to combine work and care for their children. Without this enhancement, many low-income families will be unable to keep their jobs, and some may resort to welfare assistance. Although my original budget increased funding for this program to \$79.0 million, the current projection for the program is \$82.6 million. However, it should be noted that TAF is a federal block grant. And if the Temporary Assistance for Families caseload increases in future years, TAF funding will have to be replaced.

	<u>FY 2007</u>		<u>FY 2008</u>
State General Fund	\$ --		\$ --
All Other Funds	<u>--</u>		<u>3,610,249</u>
All Funds	\$ --		\$ 3,610,249

**Kansas Health Policy Authority,
Social & Rehabilitation Services, and Aging**

12. Caseload Adjustments

I amend my FY 2007 and FY 2008 budgets 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 Health Policy Authority, the Department of Social and Rehabilitation Services, the Legislative Research Department, the Department on Aging, and the Division of the Budget. The consensus estimates included Regular Medical Assistance, Nursing Facilities, Temporary Assistance to Families, General Assistance, and Reintegration/Foster Care. The estimating group used the budget as approved in 2007 HB 2368 as the starting point for the current estimate.

For FY 2007, this amendment includes a decrease from all funding sources of \$30.7 million, but an increase of \$5.9 million from the State General Fund. This change in the funding mix is partially the result of changes in the populations that are served and the funding sources that are available for each population. The reduction in caseload expenditures is the result of a decrease in the caseload for Temporary Assistance to Families, lower Medicaid expenditures in the Regular Medical Assistance Program and community supports and services, and slower than expected growth in the number of residents in Nursing Facilities. Nursing Facility expenditures were reduced by \$1.9 million from the State General Fund to reflect a lower number of persons served. The KHPA Regular Medical reduction of \$26.0 million from all funding sources is generally tied to reduced estimates of beneficiaries. As a result of new federal citizenship verification requirements implemented July 1, 2006, an estimated 18,000 beneficiaries have lost benefits, and the increased requirements are expected to dampen the number of people applying

for services as compared to past years. The FY 2007 estimate also includes a cost increase attributable to an increase in the number of children in foster care and slight increases in the General Assistance Program, Nursing Facilities for Mental Health, and community mental health services.

For FY 2008, the estimate is a decrease of \$7.0 million from all funding sources, but an increase of \$21.3 million from the State General Fund. These adjustments include decreases from all funding sources of \$9.0 million for Temporary Assistance to Families, \$2.0 million for Medicaid community supports and services, and \$27.0 million for Regular Medical Assistance in KHPA. The KHPA Regular Medical reduction of \$27.0 million from all funding sources is again tied to reduced estimates of beneficiaries. The new federal citizenship verification requirements are expected to dampen the number of people applying for services in FY 2008 as well. The increase in the required amount of State General Fund dollars is largely due to decreases in estimates of available fee funds and the provider assessment revenue as well as an increase in the match requirements for disproportionate share payments to hospitals. The estimate for Nursing Facility expenditures is unchanged from the approved amounts. Increases in the remaining programs can be attributed to increases in the number of persons served and increases in the cost of services. In addition, beginning in FY 2008, SRS will change the way services are delivered in the Addiction and Prevention Services Program and for community mental health. Addiction and prevention services will be provided through a new managed care plan, the Prepaid Inpatient Health Plan. Most community mental health services will be provided through a new managed care plan, the Prepaid Ambulatory Health Plan.

Kansas Health Policy Authority:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ 4,300,000	\$ 5,000,000
All Other Funds	<u>(30,300,000)</u>	<u>(32,000,000)</u>
All Funds	\$(26,000,000)	\$ (27,000,000)

Social & Rehabilitation Services:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ 3,565,196	\$ 16,320,810
All Other Funds	<u>(3,571,013)</u>	<u>3,636,553</u>
All Funds	\$ (5,817)	\$ 19,957,363

Department on Aging:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ (1,900,000)	\$ --
All Other Funds	<u>(2,800,000)</u>	<u>--</u>
All Funds	\$ (4,700,000)	\$ --

Kansas Health Policy Authority**13. Citizenship Verification**

I amend my budget to add \$1,004,145 in FY 2008 to increase the contract with the Medicaid Clearinghouse for issues related to citizenship verification. The State General Fund portion of the amendment is \$502,073. The federal Deficit Reduction Act of 2005 requires individuals to provide satisfactory documentary evidence of citizenship or nationality when applying for Medicaid. The law went into effect July 1, 2006. The requirement of additional documentation has significantly altered the application process. Each applicant is now required to submit either one primary document verifying citizenship and identity, such as a passport or certificate of naturalization, or two secondary documents, one verifying citizenship, such as a birth certificate, and one verifying identity, such as a driver's license or school ID card.

All these documents must be submitted in hard copy and be verified, processed, and stored for future reference. These new requirements have caused confusion for applicants. As a result, monthly calls for customer service have doubled from 23,000 to 49,000; voicemails have increased from 1,200 to 11,000; and faxes have doubled to 6,000. While the workload has increased significantly, the amount of staff has remained the same. As a result, the amount of unfinished eligibility determinations has been increasing rapidly. The backlog increased from 8,000 cases in November 2006 to 14,000 in March 2007. This amendment includes costs KHPA needs to respond to the backlog of applications and to address the need to verify citizenship in a creative way.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 502,073
All Other Funds	<u>--</u>	<u>502,072</u>
All Funds	\$ --	\$ 1,004,145

Department of Health and Environment**14. Youth Programs Division Transfer**

I amend my budget to transfer the Youth Programs Division of the Office of the State Fire Marshal to the Kansas Fire Injury Prevention Program of the Department of Health and Environment (KDHE) for FY 2008. This transfer was not anticipated in either agency's

September budget submission because an agreement between them was not yet finalized. This item will require an increase of \$99,237 from the State General Fund in the KDHE budget, and a corresponding decrease from the Fire Marshal Fee Fund in the Fire Marshal's budget. The amendment will also require the transfer of 1.00 FTE position from the Office of the State Fire Marshal to KDHE. The objectives of the combined program will be to provide resource materials for parents, teachers, childcare providers, and fire service personnel statewide to increase the number of homes with smoke alarms, increase knowledge related to the prevention of fire-related injuries, and prevent children from starting fires.

Health & Environment:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 99,237
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 99,237
FTE Positions	--	1.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	1.00

Fire Marshal:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>(99,237)</u>
All Funds	\$ --	\$ (99,237)
FTE Positions	--	(1.00)
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	(1.00)

15. Laboratory Security Contract Transfer

I amend my budget to increase FY 2008 State General Fund expenditures by \$102,000 for the Kansas Department of Health and Environment (KDHE) and reduce State General Fund expenditures by the same amount for the Kansas Highway Patrol (KHP). Currently, the KHP is paying for a contract with a private company to provide security services for the KDHE laboratory facility at Forbes Field in south Topeka. The two agencies have determined that there is no need for the KHP to serve as an intermediary in the contract process. My amendment will allow KDHE to deal directly with the vendor who provides laboratory security services.

Health & Environment:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 102,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 102,000

Kansas Highway Patrol:

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ (102,000)
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ (102,000)

Department of Labor**16. Unemployment Insurance Modernization Project**

The Department of Labor has been working to modernize its unemployment insurance (UI) benefits system. In order to complete an overhaul of the information technology systems involved in the UI Program, it has been determined that a second phase to the project is necessary. To finish this project, I amend my budget to authorize the agency to spend \$26.0 million in federal Reed Act funds to finance the system improvements. By law, such a large project requires approval by the Executive Branch CITO, who is monitoring the project. The agency has also contracted for independent validation and verification to oversee project completion.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>26,000,000</u>	<u>--</u>
All Funds	\$ 26,000,000	\$ --

Department of Education**17. School Finance Consensus Adjustments**

I amend my budget to adjust state funding for school finance in FY 2007 and FY 2008. Current estimates for the amount of supplemental general state aid and general state aid to school districts are based on the recently released final assessment valuation data, enrollment changes, and the anticipated effect of state aid requirements for local option budgets. Property values have increased by a slight amount, reducing the state's obligation under the school finance

formula by \$5.8 million in FY 2007 and \$2.3 million in FY 2008. The consensus of the group is to leave enrollment at the same level for FY 2007, but 832 weighted FTE students must be added for FY 2008 for the second enrollment count authorized by 2007 HB 2159, which I signed into law on April 10, 2007, requiring the addition of \$4.0 million. Local option budget state aid must be increased in FY 2008 as well to account for an increased state aid ratio from 35.0 to 36.65 percent. Valuation per pupil levels for districts near the 81st percentile have increased considerably, increasing the state's cost to equalize to that level. All of these factors were agreed to by staff from the Legislative Research Department, Department of Education, and Division of the Budget on April 13, 2007.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	(\$2,433,000)	\$ 16,251,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	(\$2,433,000)	\$ 16,251,000

18. Special Education

The state's school finance law now provides for a specific ratio of state aid for districts' spending on special education services. Within that formula is a deduction for federal Medicaid reimbursements, which are now projected to decrease in FY 2008 as a result of the decision not to allow for a bundled rate any longer and for other audit exceptions. Districts will have to begin billing for each individual service for Medicaid-eligible students. Staff from the Kansas Health Policy Authority, Department of Education, Legislative Research Department, and Division of the Budget met on April 13, 2007, to review this issue. It is now anticipated that federal Medicaid reimbursements will be only \$17.5 million in FY 2008 compared to \$35.0 million in FY 2007. To maintain state aid at the required 92.0 percent, I amend my budget to add \$16.1 million in FY 2008.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 16,100,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 16,100,000

Board of Regents

19. Deferred Maintenance

I amend my budget to include \$62,692,000 for FY 2008 to assist with the deferred maintenance problems with state university buildings. Of that amount, \$15.0 million will be provided by a transfer from the State General Fund to the Educational Building Fund (EBF) so that a full \$30.0 million is available from the EBF for university building projects even after the Crumbling Classroom debt service payment is made. Currently, half of the \$30.0 million revenue stream to the EBF is for debt service, leaving the other \$15.0 million for repair projects.

Both the State General Fund transfer and the expenditure from the EBF are recommended to occur from FY 2008 through FY 2012.

The remaining \$47,692,000 is recommended as a one-time appropriation from the State General Fund to the Board of Regents to address the universities' seven highest priority maintenance projects. The seven projects include utility tunnel improvements for \$8.8 million at the University of Kansas; Applegate Energy Center improvements for \$7,907,000 at the University of Kansas Medical Center; utilities, infrastructure, and power plant improvements (Phase I) for \$18.4 million at Kansas State University; Duerksen Fine Arts Center improvements for \$3,240,000 at Wichita State University; William Allen White Library improvements for \$3.6 million at Emporia State University; McCray Hall improvements for \$1.9 million at Pittsburg State University; and Picken Hall improvements for \$3,845,000 at Fort Hays State University.

Earlier in this legislative session, I proposed a more comprehensive plan for dealing with university deferred maintenance. However, neither my plan, nor any other, has been enacted. \$47,692,000 in FY 2008 will provide at least short-term progress in dealing with this issue.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 47,692,000
All Other Funds	<u>--</u>	<u>15,000,000</u>
All Funds	\$ --	\$ 62,692,000

Fort Hays State University

20. Cheyenne Bottoms Staffing

I amend my budget to include \$200,000 from the State General Fund and 4.00 new FTE positions for FY 2008 for first year operating costs at the Kansas Wetlands Educational Center at Cheyenne Bottoms. Approximately \$142,000 of this total will finance the salaries of the 4.00 FTE positions and four graduate assistants. The remaining expenditures will be for operations. The Center is expected to be open to the public in late 2007.

This new Educational Center will be an extension of Fort Hays State University's Sternberg Museum of Natural History. The staff will offer visitors the opportunity to explore the wetlands and to receive detailed information on habitat and wildlife. The attraction of visitors to the Center will help create long-term sustainable economic revitalization for communities in central Kansas. The Center will also provide the opportunity for enhanced on-site research, which will take advantage of the affiliation between the Center and Fort Hays State University to allow the University to provide diversified educational opportunities for its students.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 200,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 200,000
FTE Positions	--	4.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	4.00

Department of Corrections

21. Reappropriation Authority

Included in my budget is an appropriation of \$400,000 in FY 2007 for replacement of the Total Offender Activity Documentation System. This appropriation was made to the Central Administration Operations and Parole and Post-Release Supervision Operations account of the State General Fund. Currently, any unspent funds remaining at the end of FY 2007 cannot be spent without approval of the State Finance Council. Although the total cost of the project has not changed, the schedule has. As a result, I amend my budget to recommend allowing any unspent funds in the Central Administration Operations and Parole and Post-Release Supervision Operations account to carry forward and be available to spend in FY 2008.

Juvenile Justice Authority

22. Psychiatric Residential Treatment Facilities

The Juvenile Justice Authority had planned for Level V and Level VI facilities to be converted into psychiatric residential treatment facilities on April 1, 2007. That date has now been delayed to July 1, 2007. Because of the scheduling change and based on new estimates provided by the agency, I amend my budget to reduce expenditures by \$1,120,100 from the State General Fund and \$4,094,149 from federal Title XIX funds in FY 2007. For FY 2008, I amend my budget to add \$1,150,260 from the State General Fund and reduce \$8,342,313 from federal Title XIX funds. Total State General Fund expenditures, including my original recommendation and this amendment, for the psychiatric residential treatment facilities will be \$6,150,260.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ (1,120,100)	\$ 1,150,260
All Other Funds	<u>(4,094,149)</u>	<u>(8,342,313)</u>
All Funds	\$ (5,214,249)	\$ (7,192,053)

Adjutant General

23. Disaster Relief

I amend my budget to finance the state and federal portions of the total disaster relief effort. My original budget recommendation did not include the federally-declared winter weather disaster in western Kansas, because the storm had not yet occurred. This storm occurred in late December 2006 and caused roads to be closed, power outages, and downed power poles. Snow depths from this storm ranged from four to 30 inches. The agency has had to delay paying the state portion of this disaster because less than \$150,000 of state funds remains available for FY 2007, and these dollars have been obligated to pay expenses related to other disasters. However, the agency has been paying the federal portion of the disaster in western Kansas.

Because of these circumstances, the agency will need additional monies. Therefore, I amend my budget to add \$70,677,236, including \$8,357,240 from the State General Fund, for FY 2007 and \$82,432,441, including \$9,627,346 from the State General Fund, for FY 2008 to finance the disaster relief effort. In addition, \$12,416,094 in FY 2007 and \$14,441,019 in FY 2008 will be provided by various local governments. Additional funding is expected to be needed in FY 2009. These local amounts are mentioned here only to provide a complete picture of the projected financing for damage repair.

	FY 2007	FY 2008
State General Fund	\$ 8,357,240	\$ 9,627,346
All Other Funds	62,319,996	72,805,095
All Funds	\$ 70,677,236	\$ 82,432,441

24. Training Centers Bonding Authority

I amend my budget to include total bonding authority of \$32.0 million over three years to finance the construction of five regional training centers that will support the Kansas National Guard, first responders, and public safety organizations throughout the state. These training centers will assist our state in meeting training requirements and improve the proficiency and capabilities of all first responders and public safety organizations as well as the National Guard. Currently, many public safety personnel in the state do not have access to realistic multi-agency training because of limited funds and geographic location. Furthermore, these centers will increase the opportunity for the National Guard to train with first responders and public safety organizations, as they do in “real” emergency situations. These training centers are essential to achieving the highest degree of readiness to protect life and property in Kansas in the event of natural and human-made disasters.

In addition, recent changes in the military training requirements have placed the burden of pre-combat training for the National Guard on the Adjutant General of each state. This training was previously completed out of state and was the responsibility of the federal government. Given this change and the need to increase inter-agency communication and operational capabilities, I propose these training centers to ensure the continuation of training for the National Guard, first responders, and public safety organizations. The regional training

center hub will be in Salina, but the locations of the other four centers have not been determined. The project will include land acquisitions, environmental survey and assessments, and construction of the training complexes (i.e., simulated disaster cities or settings).

The bonding schedule will be as follows: \$16.0 million in FY 2008 and \$10.0 million in FY 2009. The remaining \$6.0 million will be issued in FY 2009 or in a future year and be subject to State Finance Council approval in order to review the progress and performance of the project before the last issuance. The Adjutant General is researching options that could make the total project less than the estimated \$32.0 million. The debt service will not start until FY 2009 for the bonds issued in FY 2008. Operating expenditures for the new facilities are estimated to be \$1,751,000 annually for all five training centers. Of this amount, \$320,000 will be paid with fees collected to use the facilities and state funds, and the remaining \$1,431,000 will be paid with federal funds.

25. Incident Management Team

I amend my budget to include \$60,000 for FY 2008 from the State General Fund for Incident Management Teams (IMTs). It is the responsibility of the Division of Emergency Management (KDEM) to implement an incident management system to be used during emergency situations by all state, county, city, and interjurisdictional disaster agencies that respond to such situations. The IMT will be highly trained individuals who can adapt to any situation, depending on the needs required. The type of assistance the team will provide includes emergency management, fiscal support, resource management, and other assistance, as needed. KDEM has begun assessing the requirements and has started the process of setting up the IMT. The teams are anticipated to be finalized before the end of FY 2007.

The agency estimates that there will be six IMTs, which will consist of up to 20 members per IMT. All the members of the team will be volunteers. Therefore, KDEM will need to reimburse these members for their travel costs. The Adjutant General estimates that \$150 per day would cover lodging, mileage, and meals. The agency will have a three-day training session for the six IMTs in FY 2008 and estimates it will need \$18,000 for this session to reimburse the team members. Also, the agency estimates that 20 members will be deployed for 14 days in FY 2008 for disaster assistance. To finance the assistance, the agency will need \$42,000.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ 60,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 60,000

Kansas Highway Patrol

26. Operating Expenditure Correction

The Kansas Highway Patrol Operations Fund is one of the main sources of funding for operation of the Kansas Highway Patrol. This fund is capitalized by a quarterly transfer from the

State Highway Fund. A year ago, for FY 2007, the transfer and expenditure authority were established at the level approved by the 2006 Legislature. However, this year the revised estimate of expenditures for the fund was inadvertently reduced by \$241,966, which also reduced the transfer accordingly. I amend my budget as a technical correction to restore the funding, both the transfer and reportable expenditures, to ensure agency operations can continue to function as originally approved.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>241,966</u>	<u>--</u>
All Funds	\$ 241,966	\$ --

27. Uniform Carrier Registration

Under the Single State Registration System (SSRS), each state was allowed to set up its own motor carrier registration fee schedule. However, SSRS expired on December 31, 2006, and to date there has been no system to replace the previous one. The Kansas Corporation Commission (KCC) now believes the replacement Uniform Carrier Registration (UCR) Program will begin by the fall of 2007. UCR will create a universal fee schedule for motor carriers in all states. Previously, two federal transfers through the KCC to the Highway Patrol supported this program. In my original recommendations, one of the transfers was reduced because of the uncertainty about federal funding. This item will restore that second transfer to the full amount. Therefore, I recommend an increase in the transfer from the Motor Carrier License Fees Fund in the KCC to the Motor Carrier Safety Assistance Program State Fund of the Kansas Highway Patrol by \$391,749 for FY 2008, and expenditures from this no-limit fund will increase accordingly.

	<u>FY 2007</u>	<u>FY 2008</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>391,749</u>
All Funds	\$ --	\$ 391,749

Sincerely,

Kathleen Sebelius
Governor of the State of Kansas