

April 26, 2017

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

and

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

Dear Senator McGinn and Representative Waymaster:

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

Expenditures:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$19,365,927	\$ (36,269,381)	\$31,164,424
All Other Funds	<u>11,395,303</u>	<u>197,758,355</u>	<u>5,639,180</u>
All Funds	\$30,761,230	\$161,488,974	\$36,803,604

Revenues:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$10,287,262	\$10,975,984	\$9,981,508
All Other Funds	--	--	--
All Funds	\$10,287,262	\$10,975,984	\$9,981,508

Positions:

FTE Positions	--	200.00	211.00
Non-FTE Unclassified Permanent	--	--	--
Total Positions	--	200.00	211.00

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

1. Caseload Adjustments

I amend my FY 2017, 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, the Department of Corrections, 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.

For FY 2017, the revised estimate for all human service caseloads is an all funds increase of \$25.1 million and a State General Fund increase of \$14.2 million above the approved amount. The estimate for the Temporary Assistance for Needy Families program is a decrease of \$324,360, all from federal funds, below the approved amount. Estimated expenditures for the Foster Care program were increased above the approved amount by \$55,324 from all funding sources and \$2.1 million from the State General Fund. The FY 2017 estimate for KanCare Medical is \$2.7 billion, including \$890.2 million from the State General Fund, reflecting an increase of \$1.0 million from all funding sources and a State General Fund increase of \$2.1 million above the approved amount. The KanCare Medical estimate includes medical expenditures for KDHE, KDADS, and DOC. 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 increases are partially offset by slightly lower costs for the Health Insurance Providers Fee (HIPF), Medicare buy-in payments, Hepatitis C drugs, and expenditures for the health homes pilot. In addition, the estimate for HMO privilege fee revenue, which offsets State General Fund expenditures, was increased from \$108.0 million to \$111.7 million. The FY 2017 estimate for KDADS Non-KanCare is an increase of \$24.3 million from all funding sources and a State General Fund increase of \$10.0 million above the approved amount. The estimate was increased due to a rise in retroactive fee-for-service payments, primarily for nursing facilities, attributable to the number of pended cases awaiting eligibility determination.

The FY 2018 estimate is \$2.9 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 \$19.6 million and a State General Fund decrease of \$3.0 million. The estimate for the Temporary Assistance for Needy Families program is \$12.8 million from all funding sources, including \$117,616 from the State General Fund. Estimated expenditures for the Foster Care program are \$181.0 million, including \$115.5 million from the State General Fund. The estimate is an increase of \$14.8 million from all funding sources and an increase of \$13.0 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 previous fiscal year. The FY 2018 estimate for KanCare Medical is \$2.6 billion from all funding sources, including \$900.0 million from the State General Fund. The estimate reflects a decrease of \$10.7 million from all

funding sources and a State General Fund decrease of \$22.8 million from the Governor's recommendation. The decrease results from a combination of changes from the fall estimate including a decrease in the estimate of the number of members as renewals pended from the eligibility determination backlog are completed and a \$9.0 million reduction in Medicare buy-in payments. Also included in the estimate are rate increases, increases due to federal rule changes related to home health services, and an increase in retroactive fee-for-service payments due to the number of pended cases awaiting eligibility determination. In addition, the estimate for privilege fee revenue, which offsets State General Fund expenditures, was increased from \$108.0 million to \$117.5 million. It should be noted that the new KanCare estimate for FY 2018 includes additional expenditures of \$62.0 million, including \$27.9 million from the State General Fund, to reflect the Governor's recommendation to increase the HMO privilege fee from 3.31 percent to 5.77 percent on January 1, 2018. Legislation to enact this recommendation is still under consideration. The FY 2018 estimate for KDADS Non-KanCare is \$44.0 million, including \$27.3 million from the State General Fund. The estimate reflects an increase of \$17.2 million, including \$6.8 million from the State General Fund, above the Governor's recommendation. The increase is related to an increase in retroactive fee-for-service costs attributable to the number of pended cases awaiting eligibility determination. Although there will always be some level of fee-for-service costs, most pended cases are expected to be resolved by the end of FY 2018. In FY 2019, expenditures should return to historically trended levels.

The FY 2019 estimate is \$3.1 billion from all funding sources, including \$1.0 billion from the State General Fund. The estimate is an increase from the Governor's recommendation of \$4.1 million from all funding sources and a State General Fund increase of \$6.4 million. The estimate for the Temporary Assistance for Needy Families program is \$10.8 million, including \$105,035 from the State General Fund. The estimate reflects a decrease of \$2.8 million from all funding sources. Estimated expenditures for the Foster Care program were increased by \$6.9 million, including \$6.4 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 previous fiscal year. In addition, federal funding available for these services is expected to be lower than the amount included in the fall estimate. The FY 2019 estimate for KanCare Medical is \$2.9 billion from all funding sources, including \$875.4 million from the State General Fund. The estimate is the same as the amount recommended by the Governor. The base Medicaid state share matching rate, Federal Medical Assistance Percentage (FMAP), is estimated to decrease by 0.76 percent for FY 2019, which will reduce the state share by approximately \$20.0 million. The Governor's recommendation assumed a larger decrease in the FMAP and included a reduction of \$27.0 million. It should be noted that the new KanCare estimate for FY 2019 includes additional expenditures of \$307.9 million from all funding sources and a reduction in State General Fund expenditures of \$147.0 million to reflect the Governor's recommendation to increase the HMO privilege fee from 3.31 percent to 5.77 percent on January 1, 2018, increase the hospital provider assessment from 1.83 percent to 4.65 percent, and restore the 4.0 percent provider rate reductions that were implemented in FY 2016. If legislation to implement recommendations associated with the HMO privilege fee and hospital provider assessments are not enacted the estimate would need to be adjusted. The FY 2019 estimate for KDADS Non-KanCare is \$26.8 million, including \$20.5 million from the State General Fund, which is the same as the Governor's recommendation.

Department for Aging & Disability Services:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$10,420,000	\$ 6,780,664	\$ --
All Other Funds	<u>11,599,700</u>	<u>10,376,017</u>	<u>--</u>
All Funds	\$22,019,700	\$17,156,681	\$ --

Department for Children & Families:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ 2,059,589	\$13,005,800	\$6,424,976
All Other Funds	<u>(2,328,625)</u>	<u>89,295</u>	<u>(2,299,600)</u>
All Funds	\$ (269,036)	\$13,095,095	\$4,125,376

Department of Health & Environment:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$1,714,838	\$(22,829,900)	\$ --
All Other Funds	<u>1,625,728</u>	<u>12,141,564</u>	<u>--</u>
All Funds	\$3,340,566	\$(10,688,336)	\$ --

Department of Health & Environment

2. Capable Person Policy Change

I amend my budget recommendation that included a proposed policy change for the Program of Medical Assistance that is administered by the KDHE Division of Health Care Finance. The Capable Person policy would have applied to individuals on the Developmental Disabilities Waiver program, and would have stated that Instrumental Activities of Daily Living assistance would not be provided to members on the waiver when a capable family member or person with a significant relationship to the member lives in the same residence as the member. My budget recommendation included savings of \$3.0 million from all funding sources, of which \$1.3 million is from the State General Fund in FY 2017 through FY 2019. Recently, the Centers for Medicare and Medicaid Services (CMS) has disallowed this policy change which will require the restoration of the budgeted savings for all three years.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$1,315,500	\$1,346,700	\$1,324,200
All Other Funds	<u>\$1,684,500</u>	<u>\$1,653,300</u>	<u>\$1,675,800</u>
All Funds	\$3,000,000	\$3,000,000	\$3,000,000

3. Native American Health Center Funding

I amend my budget recommendation that included a provision for Native American Health Center funding through the Department of Health and Environment—Division of Health

Care Finance for FY 2018 and FY 2019. As part of the Affordable Care Act, states will be allowed to claim 100.0 percent federal funding for services provided by Native American health clinics and centers. My original budget recommendation reduced KanCare expenditures by \$23,846,055 from the State General Fund in both years. This should have been shown in my budget as a funding shift between the State General Fund and the Federal Medicaid Fund, as opposed to a reduction from the State General Fund. After more carefully reviewing this provision of the Affordable Care Act, KDHE now estimates that the savings will only be \$1.5 million per year. I am therefore recommending the addition of \$22,346,055 from the State General Fund and \$1,500,000 from the Federal Medicaid Fund. This recommendation will restore expenditures from all funding sources and reflect the new lower savings estimate.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$22,346,055	\$22,346,055
All Other Funds	<u>--</u>	<u>1,500,000</u>	<u>1,500,000</u>
All Funds	\$ --	\$23,846,055	\$23,846,055

4. MCO Privilege Fee Payment & Restore Provider Cuts

In meetings regarding the implementation of my budget recommendation to increase the MCO Privilege Fee, several stakeholders have suggested that the timing of privilege fee payments should be accelerated. I urge the Legislature to amend HB 2180 and/or SB 94 to include provisions that will require estimated semi-annual payments of the MCO Privilege Fee. This would allow the state to receive an additional \$108.6 million in fee revenue in FY 2018. With this one-time additional revenue, the KanCare provider reductions could be restored in FY 2018 instead of FY 2019. Therefore, I amend my budget recommendation for FY 2018 to increase expenditures by \$95.8 million, including \$43.0 million from the State General Fund, to restore the provider cuts. In addition, I amend my budget to use the \$108.6 million for Medicaid medical assistance payments.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$(65,562,786)	\$ --
All Other Funds	<u>--</u>	<u>161,352,494</u>	<u>--</u>
All Funds	\$ --	\$ 95,789,708	\$ --

Department for Aging & Disability Services

5. Security Enhancement

Under the Personal and Family Protection Act, carrying concealed handguns cannot be prohibited unless adequate security measures are in place. The state hospitals are exempt from that requirement until July 1, 2017. The Kansas Department for Aging and Disability Services (KDADS) estimates that additional expenditures of \$12,510,000 from the State General Fund are needed for security enhancements in order to meet this provision of current law. Of this amount, \$810,000 would be for one-time costs for metal detectors and firearms and \$11,700,000 would be for ongoing costs for the salaries and wages of 180.00 FTE positions (2.00 FTE positions for

three shifts for 30 locations at all state hospitals). As required by the Personal and Family Protection Act, the additional staffing would include armed personnel.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$12,510,000	\$11,700,000
All Other Funds	<u>--</u>	<u>--</u>	<u>--</u>
All Funds	\$ --	\$12,510,000	\$11,700,000
 FTE Positions	 --	180.00	180.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>	<u>--</u>
Total Positions	<u>--</u>	180.00	180.00

Larned State Hospital

6. State Institutions Building Fund

Current estimates for the State Institutions Building Fund (SIBF) include unexpended balances of \$3.0 million at the end of FY 2018 and \$5.2 million at the end of FY 2019. I amend my FY 2018 and FY 2019 budgets for Larned State Hospital to increase expenditures from the SIBF by \$2.5 million and decrease expenditures from the State General Fund by \$2.5 million. I recommend that the additional SIBF be used for salary expenditures for positions that perform maintenance and rehabilitation and repair at the hospital and recommend the following provisos to be included with KDADS SIBF line items for Rehabilitation and repair projects:

Provided, That, notwithstanding the provisions of K.S.A. 76-6b05, and amendments thereto, or any other statute, in addition to other purposes for which expenditures may be made by the above agency from the rehabilitation and repair projects account of the state institutions building fund during fiscal year 2018, expenditures may be made from such account for salary costs of maintenance personnel.

Provided, That, notwithstanding the provisions of K.S.A. 76-6b05, and amendments thereto, or any other statute, in addition to other purposes for which expenditures may be made by the above agency from the rehabilitation and repair projects account of the state institutions building fund during fiscal year 2019, expenditures may be made from such account for salary costs of maintenance personnel.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$(2,500,000)	\$(2,500,000)
All Other Funds	<u>--</u>	<u>2,500,000</u>	<u>2,500,000</u>
All Funds	\$ --	\$ --	\$ --

Osawatomie State Hospital

7. Osawatomie State Hospital Funding Shortfall

I amend my budget for Osawatomie State Hospital for FY 2017 and FY 2018 to ensure continued operations compatible with the Centers for Medicare and Medicaid Services (CMS) requirements. Several factors contribute to the need for additional State General Fund support of OSH: (1) increased operating costs to meet new CMS standards for staffing and environment; (2) increased costs associated with operating two separate entities; and (3) lack of federal fund revenue due to decertification. Operating costs at OSH have increased significantly in the hospital's endeavors to regain certification for the hospital. The increased costs are associated primarily with augmented staffing numbers necessary to increase the staff to patient ratio. Contract staffing continues to be utilized where necessary, adding to the cost of operation. Separating the hospital into two individual operating units, the licensed-only Osawatomie State Hospital and the to-be-certified Adair Acute Care at Osawatomie State Hospital, have also contributed to increased operating costs. Several classifications of staff may not be shared between the licensed only and certified hospitals, requiring duplication of certain direct care staff, physicians, and administrators.

Osawatomie State Hospital is currently awaiting the initial survey by CMS to regain certification for 60 of its beds. Based on recent dialogue with CMS officials, it is expected that this initial survey by CMS will happen sooner rather than later. Upon satisfactory completion of this initial survey, OSH intends to seek an accreditation survey by The Joint Commission to serve as the second required follow-up survey that would put the hospital into certified status. Once the initial 60 beds at OSH are recertified, there would be at least a one-month delay in receipting federal funds in support of the hospital.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ 8,900,000	\$ --
All Other Funds	<u>2,800,000</u>	<u>4,300,000</u>	<u>--</u>
All Funds	\$2,800,000	\$13,200,000	\$ --

Department of Commerce

8. Credit Monitoring for Clients of America's Job Link Alliance

I amend my budget in FY 2017 to provide \$1.2 million from the State General Fund to provide credit monitoring, forensic IT analysis, and legal fees related to a hacking incident reported by America's Job Link Alliance (AJLA). AJLA is a multi-state web-based system that links job seekers with employers which is an independent entity housed in the Department of Commerce. On March 21, 2017, AJLA confirmed that a malicious third party hacker exploited a vulnerability in its application code to view the names, Social Security Numbers, and dates of birth of job seekers from up to ten states, including Kansas. Upon discovery of this activity, AJLA immediately intervened and deployed its technical team to assess and stop the incursion to disable the hacker's access to the AJL systems. AJLA is working diligently with law enforcement officials to identify and apprehend the perpetrator.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$1,200,000	\$ --
All Other Funds	<u>--</u>	<u>--</u>	<u>--</u>
All Funds	\$ --	\$1,200,000	\$ --

Department of Revenue

9. Automated Tax System Fund

I amend my budget recommendation for the Department of Revenue for FY 2018 and FY 2019 to add a new fund titled “Automated Tax System Fund.” The new fund should have a “no limit” designation. Since my original budget recommendation, the Department has entered into a contract under KSA 75-5147 to upgrade its automated tax system. The upgrades to the automated tax system will allow taxpayers to securely log in and view their account, set up payment plans, manage those payment plans within established parameters, and to assist the Department with a more streamlined legal action filing system. Studies show that people who are allowed to set up their own payment plans and schedules are 90.0 percent more likely to make scheduled payments through the plan to its duration. The Department currently sets up payment plans for taxpayers, but taxpayers cannot see their account. Self-service interaction will allow a reduction in telephone calls and staff time devoted to managing payment plans and has the potential to increase delinquent tax debt collections. The vendor will be responsible for the system upgrades and will be compensated from the additional amount of delinquent taxes that are collected above a base amount. The upgrades have shown to increase delinquent tax debt collections in other states; however, the Department of Revenue is not recommending changes to the Consensus Revenue Estimates for FY 2018 and FY 2019 until the upgrades are fully implemented and more information is gathered on how the upgrades impact delinquent tax debt collections. I amend my budget recommendation for the Department of Revenue for FY 2018 and FY 2019 to add the following provisos that will be necessary to track the increase in delinquent tax collections:

On August 1, 2017, and on the first day of each month thereafter during fiscal year 2018, the secretary of revenue shall report to the director of the budget and the director of the legislative research department (1) the amount of any increase in the amount of taxes, interest and penalties collected in the immediately preceding month that is attributable to the implementation of the automated tax systems authorized by K.S.A. 75-5147 and amendments thereto, and (2) that portion of such monthly increase in the amount of taxes, interest and penalties which is currently required to pay one or more vendors pursuant to contracts entered into under K.S.A. 75-5147 and amendments thereto for the acquisition or implementation of such automated tax systems. Upon receipt of each such report from the secretary of revenue, the director of the budget shall certify to the director of accounts and reports the amount reported that is required to be paid to such vendors and the director of accounts and reports shall transfer the amount certified from the state general fund to the automated tax systems fund of the department of revenue.

On July 1, 2018, and on the first day of each month thereafter during fiscal year 2019, the secretary of revenue shall report to the director of the budget and the director of the legislative research department (1) the amount of any increase in the amount of taxes, interest and penalties collected in the immediately preceding month that is attributable to the implementation of the automated tax systems authorized by K.S.A. 75-5147 and amendments thereto, and (2) that portion of such monthly increase in the amount of taxes, interest and penalties which is currently required to pay one or more vendors pursuant to contracts entered into under K.S.A. 75-5147 and amendments thereto for the acquisition or implementation of such automated tax systems. Upon receipt of each such report from the secretary of revenue, the director of the budget shall certify to the director of accounts and reports the amount reported that is required to be paid to such vendors and the director of accounts and reports shall transfer the amount certified from the state general fund to the automated tax systems fund of the department of revenue.

10. MSA Diligent Enforcement and Compliance Compact with Tribal Nations

I amend my FY 2018 and FY 2019 budget for the Department of Revenue to fully account for all expenditures to ensure that Kansas meets the diligent enforcement requirement of the Master Settlement Agreement (MSA) from the 1998 tobacco settlement and allows Kansas to continue to receive approximately \$50.0 million in annual tobacco payments. My budget already includes funding from the State General Fund of \$448,545 in FY 2018 and \$448,257 in FY 2019 to support 3.00 FTE positions for the diligent enforcement requirement of the MSA and to fund the provisions of the compacts that were approved in FY 2016 between the State of Kansas and the Prairie Band Potawatomi Nation and the Iowa Tribe of Kansas and Nebraska. Two additional tribal-state compacts have been submitted to the 2017 Legislature between the State of Kansas and the Kickapoo Tribe and the Sac and Fox Nation of Missouri in Kansas and Nebraska. Diligent enforcement requirements of the MSA will require additional expenditures to enforce internet sales and to limit contraband cigarettes and tobacco products from coming into Kansas. The total required expenditures to fund the provisions of the four tribal-state compacts and for the diligent enforcement requirement of the MSA are estimated to be \$1,292,144 in FY 2018 and \$1,331,477 in FY 2019. The Department of Revenue is requesting an additional 3.00 FTE positions in FY 2018 and 5.00 FTE positions in FY 2019 to fulfill these requirements.

I amend my budget to transfer \$1,292,144 in FY 2018 and \$1,331,477 in FY 2019 from the Kansas Endowment for Youth (KEY) Fund to a new special revenue fund titled “MSA Compliance.” I am also amended my budget to add 3.00 FTE positions in FY 2018 and 5.00 FTE positions in FY 2019. The KEY Fund receives proceeds from the MSA that are used to fund programs that benefit children in various agencies, administrative expenses specific to the MSA for the Attorney General, and to fund the Court Appointed Special Advocates Program for the Judicial Branch. The recommendation also eliminates the appropriation from the State General Fund to allow the KEY Fund transfer as the source of revenue to fulfill all diligent enforcement requirements of the MSA.

FY 2017

FY 2018

FY 2019

State General Fund	\$ --	\$ (448,545)	\$ (448,257)
All Other Funds	<u>--</u>	<u>1,292,144</u>	<u>1,331,477</u>
All Funds	\$ --	\$ 843,599	\$ 883,220
FTE Positions	--	3.00	5.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>	<u>--</u>
Total Positions	--	3.00	5.00

KPERS

11. Kansas Endowment for Youth Fund Transfers

My original budget recommendation included securitizing the tobacco settlement funding in FY 2017 and funding all Kansas Endowment for Youth Fund (KEY) and Children's Initiatives Fund (CIF) expenditures with the State General Fund. The Legislature did not adopt that proposal. Instead both the Senate and House versions of the budget bill include expenditures of \$248,571 from the Kansas Endowment for Youth Fund and \$41.8 million from the Children's Initiatives Fund and transfers from the KEY Fund to the Judicial Branch and the Attorney General totaling \$660,593. In Item No. 10 of this GBA, I have recommended additional transfers of \$1.3 million from the KEY Fund to the Department of Revenue to fund on-going expenditures for MSA compliance. Current KEY Fund revenue estimates will provide for the Legislature's current position and my recommended additional transfers leaving a fund balance \$5.0 million at the end of FY 2018 and \$4.0 million at the end of FY 2019. Therefore, I amend my budget recommendation for FY 2017 to transfer \$4,057,022 from the KEY Fund to the State General Fund, FY 2018 to transfer \$5,046,055 from the KEY Fund to the State General Fund and for FY 2019 to transfer \$4,006,209 from the KEY Fund to the State General Fund.

Revenues:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$4,057,022	\$5,046,055	\$4,006,209
All Other Funds	<u>--</u>	<u>--</u>	<u>--</u>
All Funds	\$4,057,022	\$5,046,055	\$4,006,209

Office of Information Technology Services

12. Cabinet Agency Information Technology Savings

In my original recommendation it was estimated that \$7.4 million in State General Fund information technology savings could be obtained from cabinet agencies in FY 2017. However, mainly due to the fact that the Office of Information Technology Services must cover approximately \$1.0 million in past due bills for the Legislature, it now appears that only \$6.1 million in actual State General Fund savings will be achieved in FY 2017. I amend my budget to reflect that \$1,356,000 in State General Fund savings will be unrealized in FY 2017. However, some or all of the unrealized savings in FY 2017 could be captured in future fiscal years. My recommendation for FY 2018 and FY 2019 includes IT savings of \$5.0 million from the State General Fund each fiscal year from continuous efforts to achieve sustainable, on-going IT efficiencies.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$1,356,000	\$ --	\$ --
All Other Funds	--	--	--
All Funds	\$1,356,000	\$ --	\$ --

13. Cybersecurity

As a result of extensive study and discussion and the exposure of the state to potential threats and liabilities, it has been determined that the state's current level of cybersecurity capabilities is insufficient. A plan has been created by the Office of Information Technology Services (OITS) and proposed through legislation. The plan would create a new Kansas Information Security Office (KISO) within OITS to elevate the importance of information security and provide the organizational framework to better coordinate essential efforts among Executive Branch agencies and agencies in other branches of state government. OITS estimates approximately \$10.0 million would be needed annually for cybersecurity expenditures related to staff, security software, security hardware and third-party requirements. I amend my budget to create a financing mechanism to fund critical cybersecurity enhancements for the state. The costs of cybersecurity would be spread among agencies based on the number of users for each agency. This would require additional expenditures of \$1.9 million from the State General Fund and \$3.4 million from all funds in FY 2018 and \$3.8 million from the State General Fund and \$6.8 million from all funds in FY 2019. See **Attachment A** for detailed expenditures by agency.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$1,877,493	\$3,754,985
All Other Funds	--	<u>1,522,507</u>	<u>3,045,015</u>
All Funds	\$ --	\$3,400,000	\$6,800,000
FTE Positions	--	17.00	26.00
Non-FTE Unclassified Permanent	--	--	--
Total Positions	--	17.00	26.00

State Board of Indigents Defense Services

14. Assigned Counsel Caseloads

I included increases for assigned counsel caseloads as estimated by the consensus group in October 2016 in my budget recommendation. The caseload consensus group met again on April 4, 2017, and estimated revised expenditures totaling \$12,500,000 for assigned counsel in FY 2017. As a result of these revised caseload estimate, I recommend an additional \$1,300,000 from the State General Fund for assigned counsel expenditures in FY 2017.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$1,300,000	\$ --	\$ --
All Other Funds	--	--	--
All Funds	\$1,300,000	\$ --	\$ --

Adjutant General

15. Additional Disaster Funding

Because of recent disasters that have occurred, including the wildfires in March, I amend my budget to provide additional disaster funding. The additional funding will provide a 10.0 percent state match to draw down federal funds for federally declared disasters and additional funding for state-only declared disasters. The amounts recommended are listed in the table below.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ 815,138	\$ 262,465
All Other Funds	<u>--</u>	<u>7,501,035</u>	<u>5,718,488</u>
All Funds	\$ --	\$8,316,173	\$5,980,953

Kansas Lottery

16. Message on Lottery and Gaming Revenues

Lottery ticket sale estimates provided by the Kansas Lottery indicate that the State General Fund transfer amounts that were used in my original budget must now be reduced by \$2.1 million in FY 2017, \$2.7 million (\$1.7 million from the November CRE estimate) in FY 2018, and \$2.2 million (\$1.2 million from the November CRE estimate) in FY 2019. The transfer adjustments from the State Gaming Revenues Fund are already accounted for in the April Consensus Revenue Estimate.

The Consensus Revenue Estimating Group on Gaming Revenues met in April 2017 to revise revenue estimates from state-owned casinos. The amount of net revenue that will be generated from state-owned casinos was decreased over the three fiscal years as follows:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
ELARF	\$(1,208,000)	\$(1,958,000)	\$ (2,360,000)
Problem Gambling/Addict Grant Fund	(106,000)	(172,000)	(208,000)
Local Cities/Counties	(159,000)	(258,000)	(312,000)
Casino Managers	<u>(3,827,000)</u>	<u>(6,212,000)</u>	<u>(7,520,000)</u>
All Funds	\$(5,300,000)	\$(8,600,000)	\$(10,400,000)

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 decreased as a result of the new revenue estimate. I amend my budget to account for this change.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$ --	\$ --
All Other Funds	<u>(3,986,000)</u>	<u>(6,470,000)</u>	<u>(7,832,000)</u>
All Funds	<u><u>(3,986,000)</u></u>	<u><u>(6,470,000)</u></u>	<u><u>(7,832,000)</u></u>

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 2017 that allows additional ELARF and Problem Gambling and Addictions Grant Fund revenues to be transferred to the State General Fund. For FY 2017, the transfer from the ELARF to the State General Fund was increased by a total of \$1,341,792, including an increase of \$2,549,792 to account for a lapse in an ELARF appropriation for the Department of Administration, which was partially offset by the reduction of \$1,208,000 related to lower estimates of casino revenues. The transfer from the Problem Gambling and Addictions Grant Fund to the State General Fund was reduced by a total of \$391,318 in FY 2017, including a reduction of \$287,007 to account for correct transfer amounts and a reduction of \$106,000 related to lower estimates of casino revenues, which were partially offset by an increase of \$1,689 to correct the expenditure limitation. These transfer adjustments are already accounted for in the April Consensus Revenue Estimate.

In my original budget, I included language that transfers additional revenues in the ELARF and Problem Gambling and Addictions Grant Fund to the State General Fund at the end of both FY 2018 and FY 2019. With the revised revenue estimate, I amend my budget to account for these revenue adjustments. The FY 2018 transfers from the ELARF and Problem Gambling and Addictions Grant Fund to the State General Fund were reduced by \$1,958,000 and \$172,000, respectively. For FY 2019, the transfer to the State General Fund was decreased by \$2,360,000 from the ELARF and \$208,000 from the Problem Gambling and Addictions Grant Fund. These transfer adjustments are already accounted for in the April Consensus Revenue Estimates.

State General Fund Transfer Adjustments

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State Gaming Revenues Fund	<u><u>\$2,100,000)*</u></u>	<u><u>\$1,700,000)*</u></u>	<u><u>\$1,200,000)*</u></u>
ELARF	<u><u>1,341,792 *</u></u>	<u><u>(1,958,000)</u></u>	<u><u>(2,360,000)</u></u>
Problem Gambling/Addict Grant Fund	<u><u>(391,318)*</u></u>	<u><u>(172,000)</u></u>	<u><u>(208,000)</u></u>
Total SGF Transfer Adjustments	<u><u>\$1,149,526)*</u></u>	<u><u>\$3,830,000)</u></u>	<u><u>\$3,768,000)</u></u>

* Included in the April Consensus Revenue Estimate

State Treasurer

17. Eliminate Tax Increment Finance Replacement Fund Transfers

There were 26 Tax Increment Financing Districts in Kansas prior to December 31, 1996. Tax increment financing districts subsidize urban redevelopment project by diverting property

tax revenue from city, county, and local entities to pay debt service on bonds issued to finance redevelopment. The revenue may also be used for maintenance work within the redevelopment district if allowed by the Tax Increment Financing District plan. In 1997, the Legislature reduced the statewide mill levy for education from 30 mills to 20 mills. This reduced the amount of property tax revenue flowing to the redevelopment districts which could be used to pay debt service and maintain the redevelopment districts. In response, the Legislature passed KSA 12-1775a, which transfers the difference between the 20 and 30 mills to the redevelopment districts from the State General Fund for those districts which were in existence prior to 1997. Annually, this transfer is approximately \$1.0 million. In the intervening years, 20 of the 26 districts have paid off their debt service or otherwise dissolved. The remaining six districts have refinanced bonds and expanded project costs after 1996 that extend the life of the redevelopment districts. Kansas law provides that the life of a redevelopment district is limited to 20 years. However, as long as the physical boundaries of a district do not change it can be extended indefinitely through the issuance of new bonds, refinancing of existing bonds, and creation of new projects within the existing project boundaries. The State of Kansas has fulfilled the obligations of this program to make redevelopment districts whole over the 20 years of this program. I amended my budget to eliminate the \$1.0 million transfer from the State General Fund to the Tax Increment Finance Replacement Fund in FY 2018, FY 2019, and FY 2020.

Revenues:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$ --	\$1,000,000	\$1,000,000
All Other Funds	--	--	--
All Funds	\$ --	\$1,000,000	\$1,000,000

Department of Transportation

18. State Highway Fund Transfers

My budget includes total transfers from the State Highway Fund of \$504,776,376 in FY 2017, \$527,092,944 in FY 2018 and \$531,909,513 in FY 2019. The total amounts include transfers of \$255,364,749, \$288,297,663 and \$293,126,335 to the State General Fund for FY 2017, FY 2018 and FY 2019, respectively. As a result of the April 2016 Consensus Revenue Estimate and the new estimates for sales and compensating use taxes, I amend my budget and increase total transfers from the State Highway Fund to \$510,941,229 in FY 2017, \$531,909,007 in FY 2018, and \$536,725,571 in FY 2019. Of the revised total transfers, \$261,594,989 in FY 2017, \$293,227,592 in FY 2018, and \$298,101,634 in FY 2019 will be to the State General Fund.

Of the total State General Fund transfer for FY 2017, \$115.0 million was authorized to be transferred using the special allotment process set forth in House Substitute for Senate Bill 161, Section 98(a)(1). To aid State Highway Fund cash flow, the funds were to be transferred in four installments of \$28,750,000 each in October 2016, January 2017, April 2017 and June 2017. The June transfer will be adjusted to \$19,574,320 under the special allotment process. This budget amendment will also make corrections to ordinary transfers in the *FY 2018 Governor's Budget Report*.

Revenues:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	\$6,230,240	\$4,929,929	\$4,975,299
All Other Funds	<u>(65,387)</u>	<u>(113,866)</u>	<u>(159,241)</u>
All Funds	\$6,164,853	\$4,816,063	\$4,816,058

Sincerely,



Sam Brownback
Governor

Attachment A

Agency Number	Agency Name	FY 2018 Allocation	FY 2019 Allocation
016	Abstracters Board of Examiners	401	801
028	Board of Accountancy	401	801
039	Ks Dept for Aging & Disab Svs	51,873	103,746
046	Kansas Dept of Agriculture	70,900	141,800
058	Kansas Human Rights Commission	2,804	5,608
094	Bank Commissioner	19,628	39,255
100	Board of Barbering	401	801
102	Behavioral Sciences Reg Board	1,803	3,605
105	State Board of Healing Arts	12,017	24,034
122	Citizens Utility Ratepayer Bd	1,202	2,403
143	Corporation Commission	36,451	72,903
149	Board of Cosmetology	3,205	6,409
159	Department of Credit Unions	2,203	4,406
167	Dental Board	601	1,202
173	Department of Administration	4,957	9,913
173	Department of Administration	1,848	3,697
173	Department of Administration	1,554	3,108
173	Department of Administration	3,837	7,675
173	Department of Administration	26,507	53,015
173	Department of Administration	36,603	73,205
173	Office of Information Technology Svs	16,623	33,247
177	Ellsworth Correctional Fclty	44,863	89,727
178	Office of Adminstratv Hearings	2,203	4,406
195	El Dorado Correctional Fclty	86,522	173,044
204	Board of Mortuary Arts	601	1,202
206	Emergency Medical Services	2,804	5,608
234	Fire Marshal	11,817	23,633
247	KS Gvmtl Ethics Commission	1,803	3,605
247	KS Gvmtl Ethics Commission	901	1,803
252	Governor	6,009	12,017
252	Governor	1,638	3,276
252	Governor	365	730
264	Dept of Health & Environment	48,116	96,232
264	Dept of Health & Environment	152,367	304,734
266	Bd of Examnrs for Hearing Aids	601	1,202
270	Hlth Care Stabilization Fund B	3,805	7,611
276	Department of Transportation	456,244	912,488
280	Highway Patrol	159,826	319,651
288	Kansas Historical Society	22,832	45,664
296	Department of Labor	76,708	153,417
300	Dept of Commerce	53,275	106,550
313	Hutchinson Correctional Fclty	97,938	195,877
328	Indigents Defense Svcs St Bd	31,725	63,450
328	Indigents Defense Svcs St Bd	3,525	7,050

Agency Number	Agency Name	FY 2018 Allocation	FY 2019 Allocation
352	Kansas Juvenile Correct. Cmplx	42,861	85,721
363	Kansas Neurological Institute	83,518	167,036
373	Kansas State Fair Board	5,007	10,014
400	Lansing Correctional Facility	121,171	242,342
408	Larned Corr Mental Hlth Fclty	35,650	71,301
410	Larned State Hospital	145,405	290,811
434	State Library	5,408	10,815
450	The Kansas Lottery	18,025	36,051
482	Board of Nursing	5,207	10,415
488	Optometry Board of Examiners	401	801
494	Osawatomie State Hospital	83,318	166,635
507	Parsons St Hosp & Trng Center	92,931	185,862
521	Department of Corrections	77,109	154,218
522	KS Correctional Industries	11,216	22,432
529	KS Comm Peace Ofcrs Std & Trng	1,803	3,605
531	Board of Pharmacy	3,004	6,008
543	Real Estate Appraisal Board	200	401
543	Real Estate Appraisal Board	200	401
549	Real Estate Commission	2,003	4,006
553	Kansas Racing & Gaming Comm	19,628	39,255
562	Court of Tax Appeals	1,346	2,692
562	Court of Tax Appeals	1,859	3,717
565	Department of Revenue	226,520	453,040
581	Norton Correctional Facility	48,669	97,337
604	School for the Blind	13,820	27,639
610	School for the Deaf	37,052	74,105
625	Securities Comm of Kansas	5,207	10,415
626	Kansas Sentencing Commission	2,203	4,406
629	Dept for Children and Families	453,740	907,481
660	Topeka Correctional Facility	47,467	94,934
663	Technical Professions St Bd	1,001	2,002
694	Veterans Commission	69,498	138,996
700	Board of Veterinary Examiners	801	1,602
709	Kansas Water Office	3,805	7,611
710	KS Wildlife, Parks & Tourism	85,921	171,843
710	KS Wildlife, Parks & Tourism	42,300	84,599
710	KS Wildlife, Parks & Tourism	3,965	7,931
712	Winfield Correctional Facility	38,454	76,909
Grand Total		\$ 3,400,000	\$ 6,800,000