

April 19, 2005

The Honorable Melvin Neufeld, Chairperson
House Committee on Appropriations
Room 514-S, Statehouse

and

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

Dear Representative Neufeld:

This amendment, Governor's Budget Amendment No. 2, includes items for new budget issues that have arisen, updated information about existing issues, caseload adjustments, legislation that has become law, and technical corrections. The following table summarizes the contents of this GBA:

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ 19,272,146	\$ 57,575,041
All Other Funds	<u>(10,397,215)</u>	<u>(3,202,494)</u>
All Funds	\$ 8,874,931	\$ 54,372,547
FTE Positions	25.00	66.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	25.00	66.00

Department of Administration

1. New Federal Grants

Since my original recommendations were presented to the Legislature, DISC in the Department of Administration has been notified of the approval of several federal grants. Therefore, I amend my budget to provide authority to the Department to spend federal grant monies in both FY 2005 and FY 2006. Two of the federal grants are for homeland security purposes. The first is for \$800,000, \$200,000 in FY 2005 and \$600,000 in FY 2006, to enable DISC to purchase an upgrade to its current security hardware, fiber optics, and associated network equipment infrastructure. The second grant of \$200,000, \$50,000 in FY 2005 and \$150,000 in FY 2006, is for an off-site recoverable data center. These funds will be used to purchase additional application servers, data storage devices, and related equipment for this new off-site center. The agency already has expenditure authority for these grants in FY 2005 through Executive Directive No. 05-358, effective February 17, 2005, which established the Homeland Security Grants—Federal Fund. However, expenditure authority is also needed for FY 2006.

DISC will also be receiving a federal grant totaling \$50,000, \$12,500 in FY 2005 and \$37,500 in FY 2006, to plan for conversion of the Kansas Criminal Justice Information System to a national standard that complies with the Global Justice Data Model. The grant will also include training a core team consisting of representatives from the Kansas Bureau of Investigation, the Highway Patrol, the Department of Corrections, the Juvenile Justice Authority, and the Office of Judicial Administration to enable them to develop a conversion plan. Upon completion, the Kansas conversion model could be replicated and implemented in any state or local environment, thus saving time and money. I recommend the establishment of a new fund for this grant entitled the National Governor’s Association Consulting Grant—Federal Fund for FY 2005 and FY 2006.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>262,500</u>	<u>787,500</u>
All Funds	\$ 262,500	\$ 787,500

2. Transfer of Funds for the Long-Term Care Ombudsman

The Office of the Long-Term Care Ombudsman is financed partly from the State General Fund and partly from several sources of federal funding. The federal funds have traditionally been received by the Department on Aging and “passed through” to the Ombudsman by means of transfer language in the appropriations bill, where they are spent as “off budget” funds in the Department of Administration. When the MEGA bill was introduced, this provision was deleted from the bill with the expectation that a memorandum of agreement would be used to authorize the transfers. However, the Department has determined that the standard language would be the most effective way of effectuating these transactions. Therefore, I amend my budget to re-instate the language authorizing the transfer of federal funds. However, instead of specifying a dollar

amount, the language will transfer all of the funds available under Title VII of the federal Older Americans Act: Ombudsman Award and 4.38 percent of the funds related to Title III of the Older Americans Act: Part B Supportive Services Award.

3. Business Health Partnership

I amend my budget to add \$500,000 from the State General Fund in FY 2006 to finance a new health insurance benefit for small businesses that pay low wages. The Business Health Partnership has been in existence for over four years. The modeling done by Mercer, a government consulting firm, suggests that a plan of coverage that matches a more traditional program, in which the state provides 50.0 percent of the premium resulting in a price reduction for both the employer and employee, will reduce the number of uninsured in Kansas by 3,300 working adults. Based on the implementation time and “ramp up” of enrollment of a similar program that was started in Maine, the program would need funding only for the last quarter of FY 2006. The total cost for adult workers in FY 2006 would be \$500,000. Because dependent children would already be eligible for Medicaid or SCHIP, their enrollment costs are not included. Instead, they would be included in the caseload estimate.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 500,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 500,000

4. Generic Drug Program for Low Income Kansans

I amend my budget to add \$200,000 from the State General Fund in FY 2006 for a new generic drug program for low income Kansans. Many Kansans are unable to afford pharmaceuticals for themselves and their children. In most cases generic equivalents are available but even these may cost more than the individual can pay. The proposed program would make low-cost generic drugs available to uninsured low income individuals. The drugs would be made available at local participating pharmacies. The program would be managed by a Pharmaceutical Benefits Manager who would offer deep discounts on generics. The cost to the State of Kansas would be approximately \$200,000, which would be used to establish an income-driven eligibility process. Based on the costs of determining Medicaid eligibility, it is estimated that creating an enrollment file would cost approximately \$20 per family. It is possible that this program could affect 10,000 families or approximately 30,000 adults and children.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 200,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 200,000

5. Public Broadcasting Projects

I amend my budget to include bonding authority for three public broadcasting projects totaling \$1,682,810 that will allow the Public Broadcasting Council to leverage federal funds totaling \$1,297,700. By September 2005 KANZ radio station in Garden City will no longer be able to rent space on the broadcasting tower it is currently using. Therefore, a new tower will need to be constructed to accommodate this need. The tower will cost \$542,972, of which \$407,229 will be financed from federal funds, and the remaining \$135,743 will be matched by the state. The public radio stations in the state need to convert to digital technology by the end of calendar year 2005. The estimated cost of the conversion is \$2,099,239, with \$888,805 being paid from federal grant funds that all five stations collectively will receive, and the remaining \$1,210,434 will be matched by the state. Finally, this amendment includes additional equipment needs totaling \$1,238,299. Federal funds will cover \$901,666 of the cost, while the state will pay the remaining \$336,633. I recommend that the Public Broadcasting Council be given bonding authority to finance these projects, which was the same method of financing used to convert the public TV stations to digital technology in FY 2002. The debt service on the bonds will be paid from existing public broadcasting grant funds.

KPERS

6. Revised Investment Expenditures

As a result of changing financial market conditions, I amend my budget to reflect the most accurate estimate of KPERS investment-related expenditures in FY 2005 and FY 2006. For FY 2005, additional expenditures of \$1,089,964 can be expected, for a total of \$21,838,516. For FY 2006, \$2,223,013 will be added bringing the total to \$24,658,247.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>1,089,964</u>	<u>2,223,013</u>
All Funds	\$ 1,089,964	\$ 2,223,013

7. Revised Technology Project Expenditures

KPERS submitted an updated technology project plan to the 2005 Legislature during the agency's budget hearings. As a result of this plan, the agency has requested that \$309,174 of expenditures that were approved in FY 2005 be shifted to FY 2006. The agency has also requested that \$668,971 of expenditures be shifted from FY 2006 into FY 2007. The agency reports that the scope of the project has not changed, but only the timing of expenditures for the project.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>(309,174)</u>	<u>(359,797)</u>
All Funds	\$ (309,174)	\$ (359,797)

Insurance Department

8. Monumental Life Settlement Fund

I amend my budget to report expenditures of up to \$12,396 in FY 2006 from the Monumental Life Settlement Fund. These funds will provide scholarships to African-American students enrolled in higher education institutions in Kansas who have designated a major in mathematics, computer science, or business. This item was inadvertently omitted from *The FY 2006 Governor's Budget Report*, but was included in the MEGA appropriations bill. Adding the dollars to the budget now will make reportable expenditures accurate and complete, but no change is required in the omnibus bill.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>12,396</u>
All Funds	\$ --	\$ 12,396

Secretary of State

9. Constitutional Amendment

I amend my budget to include \$70,586 from the State General Fund in FY 2005 for expenditures associated with publishing Senate Concurrent Resolution No. 1601, the proposition to amend Article 15 of the *Kansas Constitution*. This amendment dealt with the issue of prohibiting same-sex marriages. KSA 64-103(b) directs the Secretary of State to publish resolutions of this type in one newspaper in each county of the state. The resolutions are required to be published once per week for three consecutive weeks immediately preceding the election at which the proposition is to be submitted. The Secretary of State fulfilled these requirements prior to the April 5, 2005 election. Because of the possibility for similar notification expenses to be incurred in the future, it would be prudent for the agency to consider adjustments to one or more fees to cover these costs, instead of relying on one-time reimbursements from the State General Fund.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ 70,586	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 70,586	\$ --

Board of Indigents Defense Services

10. Assigned Counsel

I amend my budget to lapse \$645,663 in FY 2006 from the Board of Indigents Defense Services' State General Fund Assigned Counsel Expenditures account and to appropriate the same amount to the Board of Indigents Defense Services' State General Fund Operating Expenditures account. This will fund the assigned counsel expenditures which were agreed upon in the April consensus caseload estimate meeting involving agency representatives, the Division of the Budget, and Legislative Research. This shift is the result of a change in the caseload process. It will appropriate money solely for contract assigned counsel attorney fees as a separate line item. Previously, \$645,663 of the appropriation for assigned counsel was for experts' testimony and transcription costs. This lapse and appropriation will allow the assigned counsel line item to be purely the cost of contract attorneys.

11. Defense of "BTK" Case

I amend my budget to lapse \$80,573 in FY 2005 and \$324,126 in FY 2006 from the State General Fund account of the Board of Indigents Defense Services' Capital Defense Unit and then appropriate the same amount of money to the Board of Indigents Defense Services' Operating Expenditures account to be used to defend the "BTK" case in Sedgwick County. In FY 2005 and FY 2006, these funds will provide the agency with an additional 3.00 FTE positions, consisting of one attorney, one paralegal, and one investigator. These additional funds will also pay for expert witness costs, information technology equipment, and office supplies that will be required because of the expected complexity of the defense.

	<u>FY 2005</u>	<u>FY 2006</u>
FTE Positions	3.00	3.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	3.00	3.00

12. Death Penalty Savings

I amend my budget to lapse \$150,000 in FY 2005 from the Board of Indigents Defense Services' State General Fund Capital Defense Unit account and to appropriate the same amount to the Board of Indigents Defense Services' State General Fund Operating Expenditures account. The Capital Defense Unit has experienced savings while awaiting the outcome of the Supreme

Court ruling on the constitutionality of the Kansas death penalty. This recommendation will fund increased transcript and expert witness costs.

**Department of Social & Rehabilitation Services and
Department on Aging**

13. Caseload Adjustments

I amend my FY 2005 and FY 2006 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 Social and Rehabilitation Services, Legislative Research, Department on Aging, and the Division of the Budget. The consensus estimates included Regular Medical Assistance, Nursing Facilities, Nursing Facilities for Mental Health, Temporary Assistance to Families, General Assistance, Foster Care, and Adoption.

For FY 2005, this amendment includes an increase from all funding sources of \$8.8 million, including an increase of \$19.5 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. Also, the caseload estimate includes a reduction of \$18.6 million in funding from the Health Care Access Improvement Program. The estimate in my original budget included a full year's funding from this source. However, because the federal approval for this program has not yet occurred, there will not be sufficient time to implement the program fully in the current fiscal year.

For FY 2006, this amendment includes a decrease of \$1.7 million from all funding sources and an increase of \$38.9 million from the State General Fund. These adjustments include increases from all funding sources of \$5.5 million for Nursing Facilities, \$350,000 for Nursing Facilities for Mental Health, and \$18.1 million for Foster Care/Adoption. These adjustments include decreases from all funding sources of \$600,000 for Temporary Assistance to Families, \$300,000 for General Assistance, and \$24.8 million for Regular Medical Assistance. Although caseloads and costs in Regular Medical are increasing, the federal Medicare drug bill will decrease program expenditures by \$43.4 million from all funding sources, but decrease State General Fund expenditures by only \$4.3 million.

Dept. of SRS:	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ 16,478,309	\$ 35,355,072
All Other Funds	<u>(15,868,887)</u>	<u>(42,502,834)</u>
All Funds	\$ 609,422	\$ (7,147,762)

Dept. on Aging:	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ 3,033,680	\$ 3,499,200
All Other Funds	<u>5,166,320</u>	<u>2,000,800</u>
All Funds	\$ 8,200,000	\$ 5,500,000

14. Out-of-Home Placement Funding for Older Children

I amend my budget to add \$3,846,247 for FY 2006, including \$2,791,219 from the State General Fund, to provide funding for out-of-home services for youth over the age of 18 who were in foster care prior to age 18 and for non-abuse/neglect children ages 16-17. My original budget did not provide for these services. However, to accomplish this important change in policy, more extensive planning is required to develop alternative services and provide a smooth transition for the older children and young adults presently served. The planning involves changes in how services will be provided by SRS and securing the collaboration of community partners in building the support systems necessary for the affected youth.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 2,791,219
All Other Funds	<u>--</u>	<u>1,055,028</u>
All Funds	\$ --	\$ 3,846,247

15. Child Care

I amend my budget to add \$2.0 million in FY 2006 from the State General Fund for the Child Care Program. This additional funding is intended to address the program's growing caseload. The amendment increases total expenditures in the Child Care Program by 3.0 percent. The additional funding will finance child care expenditures for an average of 588 children per month at an average cost of \$283.33.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 2,000,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 2,000,000

16. MMIS System Modifications

I amend my FY 2006 budget to add \$5,417,200, including \$912,600 from the State General Fund, for federally required MMIS system modifications. The MMIS undergoes nearly constant modifications to meet regulatory requirements and to respond to policy changes. In FY 2006, there are three major changes outside the scope of the current contract with the software vendor for maintenance and operation of the MMIS that exceed my original recommendation for these items. New resources must be added to the contract to have the system changes completed within the required timeframes. These federally required changes include adding National

Provider Identifiers for all health providers in order to meet HIPAA requirements, making the EDS—Kansas Medical Assistance Program (KMAP) website ADA compliant and making system changes that will allow for transitioning dual eligible Medicaid beneficiaries to the new Medicare Part D prescription drug benefit.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 912,600
All Other Funds	<u>--</u>	<u>4,504,600</u>
All Funds	\$ --	\$ 5,417,200

17. Sexual Predator Treatment Program—Disabled/Frail and Elderly

I amend my budget to reflect the addition of \$78,000 from the State General Fund in FY 2005 and \$228,500 in FY 2006 for the pre-transitional release step of the Sexual Predator Treatment Program (SPTP). This phase of the program is budgeted in the SRS Health Care Policy Administration. SPTP consists of six treatment steps, the last of which is the “pre-transitional release” step in a setting outside of Larned State Hospital. One individual who is frail and elderly has reached this step, and the court has ordered SRS to provide services for this person in an appropriate setting. This person’s age and disabilities make him inappropriate for the pre-transitional release step currently operated at Osawatomie State Hospital. SRS has contracted with a private provider who can furnish the necessary supervision and support. When taking this step, SRS reviewed the needs of existing persons in the SPTP in-patient program and determined that several other persons in the program have similar disabilities. Therefore, once this first person is successfully placed and served by the private provider, SRS plans to place at least two more persons from SPTP with the same provider in the same setting with minimal additional costs. Doing this will accomplish two things: the census of the Larned State Hospital program will be reduced by two persons and the average cost per person in this setting will be significantly reduced.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ 78,000	\$ 228,500
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 78,000	\$ 228,500

Larned State Hospital

18. Sexual Predator Treatment Program—Current Services and Census Growth

I amend my FY 2006 budget to fund 22.00 FTE positions to replace support staff who currently serves both the Sexual Predator Treatment Program (SPTP) and the State Security Program. The existing staff will be moving to the new State Security Hospital in July 2005, leaving the SPTP without adequate food service, custodial, and security support. The cost for these 22.00 FTE positions is \$597,665.

In addition, I amend my FY 2005 budget to add 22.00 FTE positions that will be funded within current resources. In addition, I amend my FY 2006 budget to fund 41.00 FTE positions and associated other operating expenses for a 17-bed and a 30-bed unit in the Sexual Predator Treatment Program at Larned State Hospital. SRS expects the 17-bed unit added in FY 2005 to be fully occupied by October 2005, at which time a 30-bed unit will be opened at the new State Security Hospital. The cost to fund these two units in FY 2006 is \$1,116,296 from the State General Fund. The total amount to fund 22.00 FTE positions as support staff and 41.00 FTE positions and other operating expenses for two additional units in the Sexual Predator Treatment Program is \$1,713,961.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 1,713,961
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 1,713,961
FTE Positions	22.00	63.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	22.00	63.00

19. Extraordinary Medical Expenses

I amend my FY 2005 budget to fund extraordinary medical expenses at Larned State Hospital totaling \$497,000 from the State General Fund. Several clients who are not Medicaid-eligible incurred large medical bills for a variety of illnesses and injuries. The Hospital had estimated that off-grounds medical expenses would be \$875,000 in FY 2005. However, the revised projection is \$1,372,000, leaving a shortfall of \$497,000. It is not anticipated that such costs will recur in FY 2006.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ 497,000	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 497,000	\$ --

Department of Health & Environment

20. HIV/AIDS Dental Program Funding Shortfall

I amend my budget to increase State General Fund expenditures by \$50,000 for the dental program in the Ryan White CARE for People with HIV and AIDS Program because of a reduction in federal funds. This shortfall was not anticipated in the agency's September budget submission. Oral health is integral to general health and especially important for people living with HIV/AIDS, because oral infections may cause a decline in immune function and increase

systemic infections. Many HIV/AIDS-infected patients are covered by Medicaid; however, Medicaid does not cover dental services for adults. The \$50,000 from the State General Fund is needed to ensure the program's continuation in FY 2006.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 50,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 50,000

Department of Labor

21. Omitted Capital Improvement Projects

I amend my budget to include \$545,000 from the Employment Security Administration Fund for capital improvement projects in the Department of Labor that were inadvertently omitted from the Department's FY 2005 budget. During the 2004 Legislative Session, several capital improvement projects were approved as part of the Kansas Department of Labor's budget, including work at the Topeka facility located at 1309 Topeka Blvd. and at the Wichita facility. The total approved amount for these projects is \$545,000. The work at the Topeka facility included replacing the heating, ventilation, and air conditioning system at a cost of \$327,000 and replacing the roof at a cost of \$163,000. The work at the Wichita facility included replacing the air conditioning condensers at a cost of \$55,000. The agency already has the expenditure authority for these projects; therefore, no changes are needed in the omnibus bill.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>545,000</u>	<u>--</u>
All Funds	\$ 545,000	\$ --

22. Upgrade Unemployment Insurance Call Center's Telephone System

I amend my budget to include \$876,906 in Reed Act funds to upgrade the Unemployment Insurance Call Center telephone and computerized integrated voice response (IVR) systems. On January 19, 2005, the system that routes calls into the three call centers for the Unemployment Insurance Program failed. As a result, all three call centers were unable to take any calls, and customers were unable to file claims for benefits or to communicate with the Department. This system failure presents a serious obstacle for the agency as it strives to meet its mission of providing responsive workforce services to its customers.

The current telephone infrastructure that supports the call centers and IVR systems for the Unemployment Insurance Program poses considerable risk to the Department of Labor's ability to provide consistent service and claims processing for customers. These current systems are outdated and are beginning to fail on a regular basis. In addition, the ability to support these

systems is a major concern, because the systems are built on operating system platforms that are no longer supported by the software vendors.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u> --</u>	<u>876,906</u>
All Funds	\$ --	\$ 876,906

Department of Education

23. School Finance Consensus Adjustments

Staff from the Department of Education, Kansas Legislative Research Department, and Division of the Budget met on April 14, 2005, to update school finance estimates for FY 2005 and FY 2006. Part of this update is to account for legislation that has passed so far this session. The two key bills here are HB 2059 for the additional student count for military installations and the Legislature's school finance plan, HB 2247.

I signed HB 2059 into law on March 18, 2005. This legislation will provide state aid for the additional school-aged children who will be in the state because their parents are part of the new Unit of Action at Ft. Riley. The estimating group agreed this group of students will add 1,631.25 FTE weighted students to Kansas school enrollment in the next year. To pay for these additional students, I amend my budget to add \$6,301,519 from the State General Fund for general state aid. This increment relies on the base state aid per pupil amount of \$3,863 contained in my original budget recommendations.

Staff who met to revise estimates on school finance also determined that property tax collections from the 20-mill uniform levy will raise \$647,612 less in FY 2005 and \$640,063 less in FY 2006 and that projections for the effect of HB 2247 on local option budgets were understated by \$6.8 million. In addition, staff has determined that estimates for mandated employer contributions for KPERS—School were understated by \$1.7 million in FY 2006, when projected salary increases resulting from HB 2247 are factored in with the most recent salary data. These amounts would need to be added in the omnibus bill if HB 2247 is to be fully funded.

I believe the Legislature's school finance legislation endangers the state's budget, will prevent us from dealing with future financial issues, and contains new features that disqualify funding for our state's schools. Because I allowed the school finance bill to become law without my signature, in anticipation of the Supreme Court's ruling, I do not amend my budget to add monies for its newly calculated additional costs.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 6,301,519
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 6,301,519

University of Kansas

24. Faculty of Distinction Program Withdrawal

The Faculty of Distinction Program allows individuals to become donors to the state university of his or her choice. The interest earned from the donations is used to support a professorship. However, the donors to the unfilled Caldwell/Sabatini Professorship have withdrawn their support, because the professorship in Roman Catholic Thought could not be filled. The University of Kansas received a total of \$22,989.85 over FY 2004 and FY 2005 and believes it is appropriate that these unused dollars be returned to the State General Fund. In addition, the withdrawn donation will be removed from the list of certified gifts under the Faculty of Distinction Program, so interest is not transferred in future years. Therefore, I amend my recommendation for FY 2005 to transfer this \$22,989.85 from the Faculty of Distinction Matching Fund to the State General Fund.

University of Kansas Medical Center

25. Ambulatory Care Facility Bonding Increase

I amend my budget to increase the bonding authority for the Ambulatory Care Facility at the University of Kansas Medical Center from \$42.0 million to \$53.0 million. This level of funding will provide the flexibility needed to plan, design, and build the outpatient facility actually required. The debt service on the bonds will be financed from the revenues generated by the new facility and will not start until FY 2007.

Wichita State University

26. Aviation Research Debt Service

I amend my budget to finance the debt service on the National Institute Aviation Research Center bonds at Wichita State University. The amount needed is \$123,480 from the State General Fund to pay the April 2005 interest payment. With this addition, the debt service payment for FY 2005 will total \$1,180,961. Bond funds are being used to equip the aviation research center at the University. The University does not have adequate funding to pay the debt service in FY 2005 because of a misunderstanding concerning the amount of capitalized interest available for payment of the debt service. Less capitalized interest was available than

anticipated, thus requiring more funds from the agency. This item constitutes a one-time correction that will not be repeated in FY 2006.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ 123,480	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 123,480	\$ --

Department of Corrections

27. Bedspace Contract & Day Reporting Centers

In my original budget recommendations, \$1,079,729 was recommended for the lease of bedspace at a private correctional facility in Groesbeck, Texas. However, as space has become available, the Department has been relocating its inmates back to Kansas facilities. On February 9, 2005, all remaining inmates at the facility in Texas were transferred back. The Department of Corrections indicates that, because of the current declining inmate population trend at least for the short term, there would be little additional need for contract bedspace for the remainder of FY 2005. After allowing for actual contract costs incurred to be paid and a reserve to contract 25 beds for the remainder of the fiscal year, I amend my budget to reduce expenditures by \$573,939 from all funding sources in FY 2005, including \$58,909 from the State General Fund and \$515,030 in federal VOI/TIS funds. For the federal VOI/TIS savings, I amend my budget to shift the \$515,030 to FY 2006 to offset a portion of the State General Fund expenditures for the day reporting centers. As a result, expenditures from the State General Fund can be reduced by \$515,030 in FY 2006.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ (58,909)	\$ (515,030)
All Other Funds	<u>(515,030)</u>	<u>515,030</u>
All Funds	\$ (573,939)	\$ --

28. Utility Increases

I amend my budget to add \$35,000 from the State General Fund in FY 2006 at the Larned Correctional Mental Health Facility (LCMHF) to shift the electrical load supply for the Jenkins Building from Larned State Hospital to LCMHF. Because Larned State Hospital will no longer have the expenditures for this electrical load, I amend my budget to reduce the same amount of expenditures from the Larned State Hospital budget. I also amend my budget to add \$21,000 from the State General Fund in FY 2006 for additional utility costs in the Winfield Correctional Facility budget for new meeting rooms that were added on the Kansas Veterans Home Complex.

Larned Correctional MH Facility:	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 35,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 35,000
Larned State Hospital:	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ (35,000)
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ (35,000)
Winfield Correctional Facility:	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 21,000
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	\$ 21,000

Juvenile Justice Authority

29. Rehabilitation and Repair Lapse

I amend my budget to reduce State Institutions Building Fund expenditures by a net of \$314,000 in FY 2005 and by a net of \$446,000 in FY 2006 for rehabilitation and repair of the Juvenile Justice Authority's juvenile correctional facilities. The 2004 Legislature approved \$1,120,000 in FY 2005 for rehabilitation and repair projects and \$1,126,000 in FY 2006. In March the agency submitted a revised systemwide capital improvement plan. The revised plan deleted projects that were originally scheduled at the Topeka Juvenile Correctional Facility and are no longer needed because of the facility's merger with the Kansas Juvenile Correctional Complex. The revised plan also accelerated projects at the Beloit, Atchison, and Topeka Juvenile Correctional Facilities that were originally planned to be completed in the out years or which had been requested as an enhancement in FY 2006. I recommend the agency's revised plan, except for the part that accelerates projects. Instead, I recommend that these projects remain in the out years until the Joint Committee on Corrections and Juvenile Justice makes recommendations for the most efficient utilization of all juvenile correctional facilities.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>(314,000)</u>	<u>(446,000)</u>
All Funds	\$ (314,000)	\$ (446,000)

Topeka Juvenile Correctional Facility

30. Electric Generator Savings

I amend my budget to reduce State Institutions Building Fund expenditures by \$453,908 in FY 2005, which was originally included in the budget of the Topeka Juvenile Correctional Facility. The 2004 Legislature approved \$494,908 for the construction of a new emergency electric generator for the Topeka Juvenile Correctional Facility. Of those funds, \$41,000 has already been expended for design and construction fees. However, because of the movement of offenders from the Topeka Juvenile Correctional Facility to the Kansas Juvenile Correctional Complex, the generator is no longer needed and the savings can be captured.

	FY 2005	FY 2006
State General Fund	\$ --	\$ --
All Other Funds	(453,908)	--
All Funds	\$ (453,908)	\$ --

Kansas Highway Patrol

31. Homeland Security Federal Funds

The Highway Patrol currently has a Homeland Security—Federal Fund to receive funds from the federal Department of Homeland Security. Some of the funds are transferred to local governments and other state agencies and some are disbursed directly from the Highway Patrol. These dollars have already been reported in my original recommendations, and this item makes no changes to the reported amounts. However, the federal government is requesting that federal homeland security funds be accounted for in separate funds for auditing and grant-tracking purposes. Therefore, I amend my budget to add new federal funds for both FY 2005 and FY 2006 based on the federal fiscal year in which the federal government appropriated money for the grants.

32. Fuel Costs

I amend my budget to increase expenditures from the Kansas Highway Patrol Operations Fund by \$630,864 in FY 2006 for increasing fuel costs. To provide the necessary financing, this amount will be transferred from the State Highway Fund in KDOT to the Patrol's Operating Fund. Gas prices have risen over the past year, and it is anticipated that prices will continue to rise or at least stay at the current higher rate. The Division of the Budget will review this item during the FY 2007 budget process to determine whether any further adjustments are needed. In the agency's original budget request in September 2004, the price per gallon was budgeted at \$1.74 for retail purchases and \$1.62 for bulk purchases. My recommendation will be based on a retail price of \$2.00 and a bulk purchase price of \$1.88. The increased fuel costs are based on the same mileage estimate of 950,000 that my original recommendations were based on.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>630,864</u>
All Funds	\$ --	\$ 630,864

33. Hangar Construction

I amend my budget to finance the construction of a new hangar for the Highway Patrol at Billard Airport in Topeka. The project will cost \$1.5 million and will be financed from the Patrol's Federal Forfeiture Fund. Currently, the Patrol is located in three hangars: one hangar is shared with Kansas Department of Transportation (KDOT), one with a private corporation, and one is not shared because it is made for only one aircraft belonging to the Patrol. These hangars are currently leased from the Metropolitan Topeka Airport Authority. The Patrol has a total of six aircraft and KDOT has one. The new hangar will be located on land that is owned by the Patrol. The hangar will allow the Patrol to consolidate its aircraft and related staff into one facility.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ --
All Other Funds	<u>--</u>	<u>1,500,000</u>
All Funds	\$ --	\$ 1,500,000

Adjutant General

34. Disaster Relief Funding

I amend my budget to finance the state and federal portions of the total disaster relief effort. The state has experienced a number of disasters in the past several years, including the 2005 ice storm, which involved 40 counties; tornadoes during 2004 in Wyandotte and Douglas Counties; and storms in the summer of 2004 in central and western Kansas. These weather-related disasters caused severe damage to streets, county roads, public property, homes, businesses, and automobiles across the state. Currently, the agency has sufficient emergency funds to cover expenses through the end of FY 2005. However, expenditures totaling \$35.3 million are estimated to be needed in FY 2006: \$26.3 million from federal funds, \$3.5 million from the State General Fund, and \$5.5 million from local funds. The local funds will be provided by various local governments and are mentioned here only to provide a complete picture of the projected financing for damage repair.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 3,500,000
All Other Funds	<u>--</u>	<u>26,300,000</u>
All Funds	\$ --	\$ 29,800,000

35. Maintenance and Repair Funding Increase

I amend my budget to add \$50,000 from the State General Fund for FY 2005 to finance maintenance and repair projects for the Adjutant General's armories and state defense building subprogram, which supports 62 facilities. The agency has depleted all the money it was budgeted for maintenance and repair services and has used approximately \$6,000 of its utility budget to finance emergency maintenance and repair projects. The total amount expected to be spent for maintenance in FY 2005, including available funds and the \$50,000 supplemental funds, is estimated to be \$248,000.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ 50,000	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ 50,000	\$ --

Sentencing Commission

36. Drug Treatment Savings

I amend my budget to reduce expenditures in FY 2005 by \$1.0 million from the State General Fund for 2003 SB 123 drug treatment payments to community corrections agencies. This recommendation does not reduce the capacity of the program, but only adjusts expenditures based on the most recent estimates for the number of offenders who are utilizing the treatment program. After capturing the \$1.0 million in savings, the revised total for the program for FY 2005 is \$4.5 million.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ (1,000,000)	\$ --
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ (1,000,000)	\$ --

Animal Health Department

37. Animal Donation Fund

I amend my budget to create a new fund entitled the “Animal Donation Fund” with “no limit” expenditure authority for FY 2005 and FY 2006. After the Department seized neglected animals from kennels and breeders in the summer of 2004, the public became aware of the costs to Animal Health of taking care of these animals. It is possible as a result that more people will be inclined to donate funds for the care of these animals. If that occurs, the agency wants to be ready to make use of any funds that are donated. Although the new fund is being added to provide expenditure authority for any monies received, no reportable expenditures are shown, because there is no way of knowing how much will be donated.

State Conservation Commission

38. Revised Priorities for State Water Plan Financing

I amend my budget to revise the priorities included in State Water Plan financing for FY 2006. Initially, I recommended \$1,310,000 for the Irrigation Transition Program (ITAP), because this program would be effective for areas that are experiencing excessive aquifer depletion or are in need of streamflow restoration. Resistance to this voluntary program would limit its effectiveness; therefore, I am recommending that the funding for this program be shifted to the existing Land Treatment Cost Share account of the Water Resources Cost Share Program (WRCSP) included in this agency’s budget. The WRCSP also provides financial incentives to landowners but focuses on the establishment of conservation practices that reduce soil erosion and improve water quality, rather than the permanent dismissal of water rights that is the focus of the ITAP. This shift in funding priorities will not change the total amount of State Water Plan expenditures that I originally recommended. And it would still require the statutory transfer of \$6.0 million from the State General Fund to the State Water Plan Fund.

Department of Wildlife and Parks

39. Circle K Ranch

I amend my FY 2005 budget to authorize the Department of Wildlife and Parks, upon approval of the State Finance Council, to borrow the full amount of the acquisition cost for the Circle K Ranch from the Pooled Money Investment Board (PMIB). The cost of the Ranch is not available at this time, but is anticipated to be a negotiated amount between \$3.2 million and \$4.2 million. The Department plans to repay the cost by the following means: the United States Fish and Wildlife Service will reimburse the state 75.0 percent of the appraised value; the regional Groundwater Management District No. 5 will pay up to \$500,000 toward that portion of the purchase price amount that exceeds the appraised value; and the remainder of the funding needed to retire the bonds will come from the State Water Plan Fund, with the first year’s payment in FY 2007. The appropriation from the State Water Plan Fund is estimated to be \$440,000. The

agency indicates that some federal reimbursements could occur in FY 2006. However, the amount is not known. Therefore, no change is shown in reportable expenditures at this time.

Circle K Ranch, located in Edwards County along the Arkansas River, is a 6,900 acre irrigation farm. Approximately 4,500 acres are presently being irrigated, and the remaining 2,400 acres are in native prairie grasses. Purchase of the ranch by the State of Kansas will retire all or a portion of the water rights to help achieve a reduction in the overall water use in the area. This purchase will allow the land to be returned to native habitats. A wildlife area and public hunting area will then be created, which will benefit the economy of the city and county in which the ranch is located.

40. State Parks Funding Shortfall

I amend my budget to provide additional funding of \$1,017,000 from the State General Fund to offset shortfalls in two programs in the Department of Wildlife and Parks' FY 2006 budget. Reduced revenues in the Parks Fee Fund in FY 2005 because of economic and weather factors would cause the balance of the fund to be negative by the end of FY 2006. In order to pay for Parks' direct expenses and overhead costs related to park operations in FY 2006, the agency must supplement the Parks Program by \$300,000 and fund parks' overhead costs in the Administration Program in the amount of \$717,000.

	<u>FY 2005</u>	<u>FY 2006</u>
State General Fund	\$ --	\$ 1,017,000
All Other Funds	<u>--</u>	<u>(300,000)</u>
All Funds	\$ --	\$ 717,000

Messages on Other Issues

Medicaid Drug Formulary

In my budget recommendation I included savings of \$3.1 million, including \$1.2 million from the State General Fund, for acceleration of the approval of drugs on the Medicaid formulary by allowing pharmaceutical policies to be implemented without going through the Administrative Rules and Regulations process. HB 2107 and SB 290 make the statutory changes that are necessary to implement this policy. If neither of those bills has been enacted, additional funding will be necessary in the SRS budget.

Salary Increase for State Employees

In the budget I submitted in January, I recommended a 2.5 percent salary increase for state employees, effective at the beginning of FY 2006. The Legislature, in the regular part of the session, authorized a salary increase in two parts: 1.25 percent for the first half of FY 2006 and 2.5 percent for the last half. Funding is provided in agency budgets for the last half, but the first half is unfunded. The practical effect of the Legislature's action will be to force agencies to finance the 1.25 percent increase for the first half from the budget approved for FY 2006. In the

first place, this will cause disruptions to many agency budgets in order for them to accommodate the increase, but it will also create funding inequities, because some agencies will be able to afford the increase while others will not. More importantly, it is unfair for state employees to bear the burden of the expedient actions taken by the Legislature to approve an inadequate and constitutionally questionable school finance plan in addition to the problems that such actions will have on the state budget for future fiscal years. I urge the Legislature to do the right thing by restoring funds for the COLA at the level I recommended for all of FY 2006.

Death & Disability Program

I also included funds in agency budgets to finance an increase in the KPERS death and disability insurance rate from .6 percent to 1.0 percent. This funding will preserve the benefits of the program into FY 2006 as they currently exist. The bill to implement the rate increase, HB 2037, is still under consideration by the Legislature. However, funds have been removed from agency budgets based on a rate of .8 percent, instead of the 1.0 percent I recommended. Funding maintained at this level will necessitate benefit reductions to the program, possibly in the insured death benefit, which is currently at 150.0 percent of an employee's annual rate of pay. In addition, this level of funding increases the likelihood of cashflow problems in the fund financing this program. Therefore, in completing its work on HB 2037 as well as the omnibus bill, I ask the Legislature to restore funding for the Death and Disability Program based on the full 1.0 percent I originally recommended.

Sincerely,

Kathleen Sebelius
Governor of the State of Kansas