



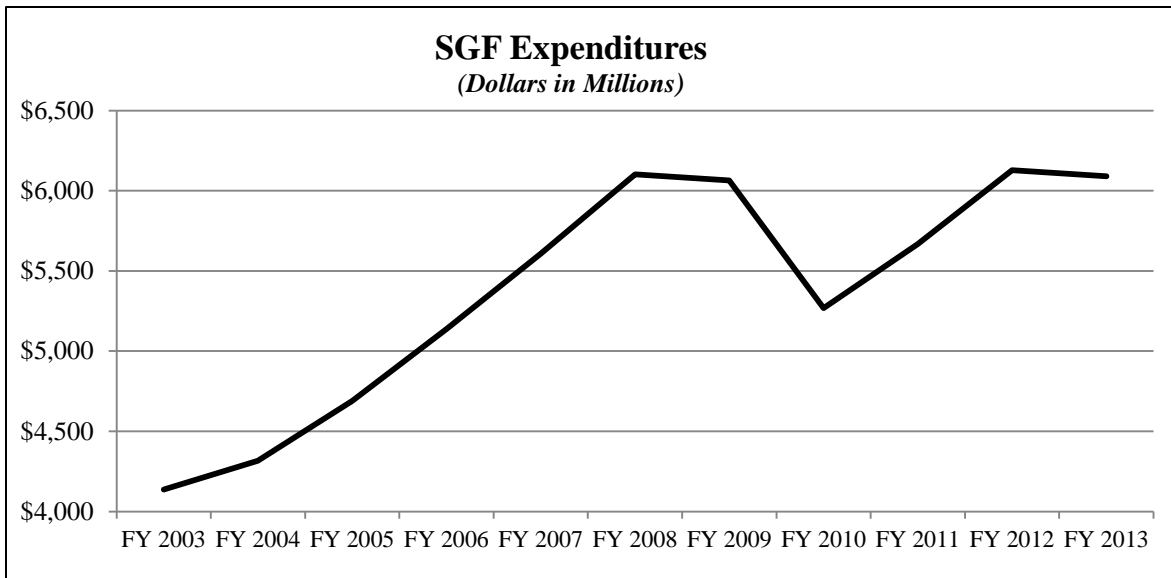
The Governor's
Budget
Report

FISCAL YEAR 2013

Budget Brief
Steven J. Anderson, CPA, MBA
Director of the Budget
State of Kansas

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Budget Highlights



- FY 2013 budget meets the 7.5% ending balance requirement
- No Highway Fund transfers are used to balance FY 2013 budget
- Casino revenues are directed to paying off state debt, saving future years' expenses
- Targeted investments are made in higher education for instruction and research, as well as economic development to promote employment for Kansans
- Commitments are met for meeting program beneficiaries' needs
- Public safety needs addressed

State General Fund Outlook Assuming Structural Reforms Are Enacted for Medicaid and School Finance

(Dollars in Millions)

| | FY 2011 <u>Actual</u> | FY 2012 <u>Gov. Est.</u> | FY 2013 <u>Gov. Rec.</u> | FY 2014 <u>Projected</u> | FY 2015 <u>Projected</u> | FY 2016 <u>Projected</u> | FY 2017 <u>Projected</u> | FY 2018 <u>Projected</u> |
|------------------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Beginning Balance | \$ (27.1) | \$ 188.3 | \$ 302.7 | \$ 465.0 | \$ 459.1 | \$ 442.6 | \$ 466.5 | \$ 546.1 |
| Revenues | | | | | | | | |
| Taxes | 5,693.0 | 6,030.0 | 6,310.8 | 6,209.6 | 6,347.3 | 6,526.1 | 6,709.4 | 6,899.3 |
| Interest | 19.8 | 8.0 | 7.4 | 9.0 | 11.0 | 15.0 | 18.0 | 18.0 |
| Agency Earnings | 50.4 | 51.5 | 51.5 | 53.0 | 53.0 | 53.0 | 53.0 | 53.0 |
| Transfers: | | | | | | | | |
| School Capital Improvement Aid | (96.1) | (104.8) | (107.5) | (110.0) | (113.0) | (110.0) | (108.0) | (105.0) |
| Regents Faculty of Distinction | (1.6) | (0.6) | (0.8) | (0.8) | (0.8) | (0.8) | (0.8) | (0.8) |
| Regents Research Corp Debt Service | (9.8) | (6.0) | (1.1) | (0.1) | (0.0) | -- | -- | -- |
| Biosciences Initiative | (35.0) | (35.0) | (35.0) | (35.0) | (35.0) | (35.0) | (35.0) | (35.0) |
| Business Incentives | (9.0) | (12.9) | (12.9) | (13.5) | (16.0) | (18.0) | (20.0) | (20.0) |
| Highway Patrol | 36.0 | 32.8 | -- | -- | -- | -- | -- | -- |
| Highway Fund | 149.3 | 205.0 | -- | -- | -- | -- | -- | -- |
| State-Owned Casino Revenue | 33.9 | 32.3 | -- | -- | -- | -- | -- | -- |
| All Other Transfers | <u>51.3</u> | <u>42.9</u> | <u>39.5</u> | <u>40.0</u> | <u>30.0</u> | <u>20.0</u> | <u>10.0</u> | <u>10.0</u> |
| Total Available | \$ 5,855.0 | \$ 6,431.4 | \$ 6,554.7 | \$ 6,617.3 | \$ 6,735.5 | \$ 6,893.0 | \$ 7,093.2 | \$ 7,365.6 |
| Expenditures | | | | | | | | |
| Aid to K-12 Schools | 2,693.0 | 3,070.2 | 3,026.9 | 3,072.1 | 3,152.1 | 3,232.1 | 3,312.1 | 3,392.1 |
| Higher Education | 751.3 | 740.6 | 782.4 | 782.9 | 792.9 | 802.9 | 812.9 | 822.9 |
| Human Services Caseloads | 745.7 | 992.8 | 1,026.5 | 1,022.6 | 987.3 | 935.8 | 866.5 | 916.5 |
| KPERs State/School (Employer)* | 332.6 | 443.9 | 412.4 | 448.4 | 508.4 | 583.4 | 663.4 | 748.4 |
| All Other Expenditures | <u>1,144.0</u> | <u>881.2</u> | <u>841.4</u> | <u>832.2</u> | <u>852.2</u> | <u>872.2</u> | <u>892.2</u> | <u>912.2</u> |
| Total Expenditures | \$ 5,666.6 | \$ 6,128.8 | \$ 6,089.6 | \$ 6,158.2 | \$ 6,292.9 | \$ 6,426.4 | \$ 6,547.1 | \$ 6,792.1 |
| Ending Balance | \$ 188.3 | \$ 302.7 | \$ 465.0 | \$ 459.1 | \$ 442.6 | \$ 466.5 | \$ 546.1 | \$ 573.5 |
| As Percentage of Expenditures | 3.3% | 4.9% | 7.6% | 7.5% | 7.0% | 7.3% | 8.3% | 8.4% |

Totals may not add because of rounding.

*Employer contributions to KPERs for state employees are estimated as a proportion of the total from the SGF.

Out-year revenue assumptions: Taxes follow current law and are assumed to drop 1.6% in FY 2014 (mostly sales tax law change) and then increase by varying amounts in future years.

Out-year expenditure assumptions: KanCare reform savings are included, while caseloads increase \$50 M each year; 2011 HB 2194 rate increases for KPERs are implemented; school finance expenses will grow in future years \$80 M each year; and "all other" categories increase \$20 M each year to cover other contingencies.

Available ELARF will continue to buy down debt. 27th paycheck will be paid next in FY 2017. Amounts shown are for illustrative purposes and are not specific gubernatorial proposals.

Education

- New K-12 school finance proposal will take effect with FY 2014 budget with infusion of \$45.2 million
- State's school finance costs for general state aid are funded in Governor's budget for FY 2012 and FY 2013, taking into account lower property valuations
- State aid for special education meets federal maintenance of effort requirements
- New technical education formula for postsecondary institutions is funded with an \$8.0 million increase
- To promote and increase access to these technical education programs by high school students, \$20.5 million is added to be administered by Board of Regents and Board of Education
- Program enhancements funded for elite professorships at KU, student financial aid, NBAF at Kansas State, the Veterinary Medical School at Kansas State, research database access, as well as other campus-specific items (\$17.5 million)

Public Safety

- Governor's budget addresses short-term prison capacity needs by retrofitting existing buildings and contracting with counties while reinstating successful recidivism programs terminated for lack of funding
- New trooper class funded for FY 2012 to maintain adequate staffing levels
- Necessary repairs funded at KBI headquarters for safe functioning of the building
- New criminal investigation unit funded to address growing backlog of digital criminal evidence
- Enhance forensic equipment lab at Washburn to establish staff feeder options for KBI lab
- New fund established to respond to future disasters requiring state response
- Consolidate regulation and investigation of law enforcement officers under Attorney General

Health and Human Services

- KanCare managed care model for state's Medicaid system proposed—savings of \$32.1 million estimated
- \$1.0 million SGF recommended for Healthcare Savings Accounts for Medicaid diversion
- Psychiatric Residential Treatment Facilities and Area Offices funded
- HCBS waiver shortfalls covered—\$2.0 million SGF
- SCHIP financed with additional money in FY 2013
- Physical expansion of Sexual Predator Treatment Program funded in FY 2012 & FY 2013 with necessary staff
- Adoption Assistance caseload growth financed with State General Fund
- Reduction in federal Medicaid matching funding in non-consensus programs covered with \$1.1 million SGF in FY 2013
- Proposed reorganization of agencies to facilitate Medicaid Reform

Major Medicaid Programs

(Dollars in Thousands)

| | FY 2010 <u>Actual</u> | FY 2011 <u>Actual</u> | FY 2012 <u>Gov Est.</u> | FY 2013 <u>Gov Rec.</u> |
|---|--------------------------|--------------------------|----------------------------|----------------------------|
| Department for Children and Families | | | | |
| HCBS--Physically Disabled | 140,512 | 134,768 | 121,576 | -- |
| HCBS--Traumatic Brain Injury | 13,086 | 13,865 | 14,345 | -- |
| HCBS--Technology Assisted | 25,054 | 27,158 | 27,125 | -- |
| HCBS--Developmentally Disabled | 311,275 | 319,851 | 323,198 | -- |
| HCBS--Autism | 753 | 777 | 1,442 | -- |
| Intermediate Care Facilities/MR | 13,675 | 13,513 | 12,967 | -- |
| State Hospitals | 52,061 | 46,601 | 48,362 | -- |
| Nursing Facilities for Mental Health | 15,815 | 18,399 | 18,742 | -- |
| Regular Medical | 289,242 | 289,242 | 298,364 | -- |
| Total--SRS Medicaid Programs | \$ 861,472 | \$ 864,173 | \$ 866,121 | \$ -- |
| State General Fund Portion | \$ 242,445 | \$ 168,020 | \$ 227,390 | \$ -- |
| KHPA/KDHE-Division of Health Care Finance | | | | |
| Regular Medical | \$ 1,332,355 | \$ 1,445,489 | \$ 1,465,850 | \$ 1,544,757 |
| State General Fund Portion | \$ 335,506 | \$ 376,759 | \$ 565,036 | \$ 597,500 |
| Department for Aging and Disability Services | | | | |
| HCBS--Physically Disabled | -- | -- | -- | 118,648 |
| HCBS--Traumatic Brain Injury | -- | -- | -- | 14,240 |
| HCBS--Technology Assisted | -- | -- | -- | 26,852 |
| HCBS--Developmentally Disabled | -- | -- | -- | 320,529 |
| HCBS--Autism | -- | -- | -- | 1,460 |
| Intermediate Care Facilities/MR | -- | -- | -- | 13,009 |
| State Hospitals | -- | -- | -- | 46,841 |
| Nursing Facilities for Mental Health | -- | -- | -- | 18,742 |
| Regular Medical | -- | -- | -- | 314,211 |
| Nursing Facilities | 358,674 | 422,019 | 442,904 | 436,207 |
| All-Inclusive Care for the Elderly | 4,318 | 4,950 | 5,033 | 5,667 |
| HCBS--Frail Elderly | 74,459 | 76,685 | 75,040 | 73,803 |
| HCBS--Targeted Case Management | 4,896 | 4,962 | 5,169 | 5,312 |
| Total--Aging Medicaid Programs | \$ 442,347 | \$ 508,617 | \$ 528,146 | \$ 1,395,522 |
| State General Fund Portion | \$ 133,169 | \$ 148,651 | \$ 206,279 | \$ 564,526 |
| Juvenile Justice Authority | | | | |
| Level V & VI Group Homes | \$ 6,924 | \$ 6,914 | \$ 6,000 | \$ 6,252 |
| State General Fund Portion | \$ 2,107 | \$ 2,134 | \$ 2,554 | \$ 2,713 |
| Total--Major Medicaid Programs | \$ 2,643,098 | \$ 2,825,193 | \$ 2,866,117 | \$ 2,946,530 |
| State General Fund Portion | \$ 713,226 | \$ 695,565 | \$ 1,001,258 | \$ 1,164,739 |

Consensus Caseloads

(Dollars in Thousands)

| | FY 2009 <u>Actual</u> | FY 2010 <u>Actual</u> | FY 2011 <u>Actual</u> | FY 2012 <u>Gov. Est.</u> | FY 2013 <u>Gov. Rec.</u> |
|---|--------------------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Department for Children & Families | | | | | |
| Temporary Assist. to Families | 45,222 | 56,588 | 57,780 | 45,000 | 37,946 |
| General Assistance | 9,184 | 3,824 | 3,056 | -- | -- |
| Reintegration/Foster Care | 150,528 | 132,556 | 137,030 | 138,606 | 138,579 |
| Nursing Facil. for Mental Health | 15,578 | 15,815 | 18,399 | 18,742 | -- |
| Regular Medical | 261,474 | 289,242 | 298,364 | 299,688 | -- |
| Total--SRS Caseload Programs | \$ 481,987 | \$ 498,025 | \$ 514,629 | \$ 502,037 | \$ 176,525 |
| State General Fund Portion | \$ 249,160 | \$ 190,662 | \$ 228,492 | \$ 232,762 | \$ 91,020 |
| <i>Percent Change</i> | 3.9% | 3.3% | 3.3% | (2.4%) | (64.8%) |
| KHPA/KDHE - Division of Health Care Finance | | | | | |
| Regular Medical | \$ 1,293,813 | \$ 1,332,355 | \$ 1,445,489 | \$ 1,465,850 | \$ 1,544,757 |
| State General Fund Portion | \$ 396,866 | \$ 335,506 | \$ 376,759 | \$ 565,036 | \$ 597,500 |
| <i>Percent Change</i> | 2.1% | 3.0% | 8.5% | 1.4% | 5.4% |
| Juvenile Justice Authority | | | | | |
| Out-of-Home Placements | 22,111 | 23,838 | 19,421 | 23,296 | 23,140 |
| Level V & VI Group Homes | 7,009 | 6,924 | 6,914 | 6,000 | 6,252 |
| Total--JJA Caseload Programs | \$ 29,120 | \$ 30,761 | \$ 26,335 | \$ 29,296 | \$ 29,392 |
| State General Fund Portion | \$ 20,909 | \$ 20,216 | \$ 18,158 | \$ 22,850 | \$ 22,605 |
| <i>Percent Change</i> | (8.2%) | 5.6% | (14.4%) | 11.2% | 0.3% |
| Department for Aging and Disability Services | | | | | |
| Nursing Facilities | 366,838 | 358,674 | 422,019 | 442,904 | 436,207 |
| Nursing Facil. for Mental Health | -- | -- | -- | -- | 18,742 |
| Regular Medical | -- | -- | -- | -- | 314,211 |
| HCBS--Targeted Case Management | 5,022 | 4,896 | 5,073 | 5,169 | 5,312 |
| Total--Aging Caseload Programs | \$ 371,860 | \$ 363,570 | \$ 427,092 | \$ 448,073 | \$ 774,472 |
| State General Fund Portion | \$ 129,882 | \$ 109,468 | \$ 122,300 | \$ 172,200 | \$ 315,419 |
| <i>Percent Change</i> | 3.1% | (2.2%) | 17.5% | 4.9% | 72.8% |
| Total--Consensus Caseloads | \$ 2,176,780 | \$ 2,224,711 | \$ 2,413,544 | \$ 2,445,256 | \$ 2,525,146 |
| State General Fund Portion | \$ 796,817 | \$ 655,851 | \$ 745,710 | \$ 992,847 | \$ 1,026,543 |

Home & Community-Based Services Waivers

(Dollars in Thousands)

| | FY 2009 <u>Actual</u> | FY 2010 <u>Actual</u> | FY 2011 <u>Actual</u> | FY 2012 <u>Gov. Est.</u> | FY 2013 <u>Gov. Rec.</u> |
|----------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Physically Disabled | 139,713 | 140,512 | 134,768 | 121,576 | 118,648 |
| Traumatic Brain Injury | 10,926 | 13,086 | 13,865 | 14,345 | 14,240 |
| Technology Assisted | 18,189 | 25,054 | 27,158 | 27,125 | 26,852 |
| Developmentally Disabled | 293,283 | 311,275 | 319,851 | 323,198 | 320,529 |
| Autism | 531 | 753 | 777 | 1,442 | 1,460 |
| Frail Elderly | 72,097 | 74,460 | 76,685 | 75,040 | 73,803 |
| Total Waiver Programs | \$ 534,740 | \$ 565,140 | \$ 573,104 | \$ 562,725 | \$ 555,533 |
| State General Fund Portion | \$ 183,043 | \$ 161,663 | \$ 174,314 | \$ 239,353 | \$ 241,034 |
| <i>Percent Change</i> | | 5.7% | 1.4% | -1.8% | -1.3% |

“All Other”

- Voluntary Retirement Incentive Program savings from not filling all vacated positions (\$24 million)
- Key areas received additional support for ensuring proper levels of regulation—Bank Commissioner, KCC
- Place Kansas Arts Commission with Film Commission as the new Creative Industries Commission in Department of Commerce; focus efforts in promoting economic development
- Enhance funding for marketing of the state’s agricultural products
- Fund Wildlife, Parks & Tourism with EDIF rather than SGF and pay off debt related to operation of cabins at state parks, freeing a source of income to the agency

Governor's Tax Plan

- Governor Brownback committed his Administration to increasing employment of Kansans
- Tax policy plays a crucial role in positioning Kansas for economic growth
- Income tax rate reductions to a maximum of 4.9 % (from current 6.45%)
 - Establish two income tax brackets rather than three
 - Eliminate most itemized deductions and credits
 - Exempt non-wage business income from individual income tax
 - Double standard head of household deduction to \$9,000
 - As state revenues grow beyond 2% in future years, additional rate reductions could be instituted
- Eliminate two-year severance tax exemption on new pool oil and gas wells producing > 50 barrels per day
- Retain sales and use tax rates at current levels
- Retain corporate income tax rate

Chart 1, Appendix A

The Nine States with the Lowest and the Highest Marginal Personal Income Tax (PIT) Rates Ten-Year Economic Performance

(Performance between 2001 & 2010 unless otherwise noted)

| State | Top PIT Rate* | Gross State Product Growth | Non-Farm Payroll Employment Growth | Population Growth | Net Domestic In-Migration as a % of Population*** | State & Local Tax Revenue Growth**** |
|---|------------------|----------------------------------|---|----------------------|--|--|
| Alaska | 0.00% | 77.00% | 12.20% | 12.10% | -2.00% | 452.60% |
| Florida | 0.00% | 47.70% | 0.20% | 15.00% | 6.50% | 82.30% |
| Nevada | 0.00% | 58.90% | 6.10% | 28.90% | 14.10% | 100.10% |
| New Hampshire | 0.00% | 35.20% | -0.70% | 4.70% | 2.50% | 59.60% |
| South Dakota | 0.00% | 58.50% | 6.40% | 7.30% | 0.80% | 51.20% |
| Tennessee | 0.00% | 38.60% | -2.80% | 10.30% | 4.20% | 61.70% |
| Texas | 0.00% | 57.70% | 8.70% | 17.90% | 3.40% | 75.50% |
| Washington | 0.00% | 47.80% | 3.00% | 12.30% | 3.40% | 57.80% |
| Wyoming | 0.00% | 105.60% | 15.20% | 14.30% | 4.30% | 172.20% |
| 9 States with no PIT** | 0.00% | 58.54% | 5.36% | 13.65% | 4.12% | 123.66% |
| U.S. Average** | 5.47% | 46.61% | 0.51% | 8.63% | 0.86% | 70.23% |
| Kansas | 6.45% | 42.35% | -1.90% | 5.61% | -2.36% | 62.87% |
| States with Highest Marginal PIT Rate** | 9.92% | 42.06% | -1.68% | 5.49% | -1.91% | 61.79% |
| Ohio | 8.24% | 24.80% | -9.30% | 1.20% | -3.10% | 44.50% |
| Maine | 8.50% | 35.40% | -2.50% | 3.40% | 2.30% | 45.30% |
| Maryland | 9.30% | 50.90% | 1.70% | 7.40% | -1.50% | 67.00% |
| Vermont | 9.40% | 36.10% | -1.60% | 2.20% | -0.10% | 64.50% |
| New York | 10.50% | 43.10% | -0.40% | 1.50% | -8.30% | 68.30% |
| California | 10.55% | 42.10% | -4.80% | 8.00% | -3.90% | 77.20% |
| New Jersey | 10.75% | 33.70% | -3.60% | 3.60% | -4.80% | 70.40% |
| Hawaii | 11.00% | 57.40% | 5.70% | 11.70% | -2.20% | 72.10% |
| Oregon | 11.00% | 55.00% | -0.30% | 10.40% | 4.50% | 46.80% |

* Highest marginal state & local personal income tax rate imposed as of 1/1/2011 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable. New Hampshire & Tennessee tax dividend interest income only.

** Equal-weighted averages

*** 2000-2009

**** 1999-2008

Data compiled by Laffer Associates.

For additional information, visit

<http://budget.ks.gov>