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January 29, 2015 Legislative Update

While the Governor's Budget Recommendation Bill, SB 354 (HB 2530 in the House), was finally introduced on Monday with a first hearing on Tuesday in the Senate Ways & Means Committee, week three continued the slow pace trend we've seen thus far this session. There were more informational hearings from state agencies; but once the January revenues come in, the Legislature will have to consider month to month how much budget cuts are truly needed to meet the Governor's proposed \$35 million ending balance for the fiscal year 2016 budget. The Senate Ways and Means Committee Chairman Ty Masterson is hopeful to hold a second hearing on the budget bill next Tuesday.

Governor's Budget: Senate Bill 354

Background

In 2015, the Legislature approved a FY'16 budget of \$15.4 billion, including \$6.4 from the State General Fund (SGF). At that time, they also authorized the Governor to make transfer adjustments to the SGF in the amount of \$100 million, which was not included in the Legislature-approved budget. After consensus revenue estimates came in July, the Governor recommended \$22.5 in revenue increases, \$20.6 million in expenditure reductions, and \$17.7 million in expenditure adjustments to the SGF. When November consensus revenue estimates were completed, they reflected an \$118.2 million shortfall in the SGF for FY'16. Thus, the Governor proposed an allotment plan of \$123.8 million, reducing expenditures by \$52.6 million. The allotment plan also included recommendations to transfer non-SGF funds to the SGF in the amount of \$71.2 million. Only \$17.7 million from July and \$14.3 million from November require legislative approval.

Governor's Rescission Bill

SB 354 is a \$15.6 billion budget proposed by the Governor for FY'16 with \$6.3 billion from the SGF. The recommendation comes from both expenditure and revenue adjustments made by agency. Total expenditure reductions decreased by \$22.7 million from SGF, with revenue increased by a total of \$35.2 million.

The following is a breakdown of the Governor's recommended adjustments for FY'16-FY'18:

- FY'16 adjustments = \$27,166, 973
- FY'17 adjustments = \$14,000,000
- FY'18 adjustments \$7,000,000
- Total FY'16-FY'18 = \$48,166,973

Presentation on Statewide Efficiency Study: Budget Process Review

Staff from Alvarez and Marsal, the consulting company selected by the Legislature in 2015 to conduct an all-agency efficiency study of Kansas government, continued their study presentations to both the House Appropriations and Senate Ways & Means Committees on Thursday.

Specific to this week's presentation was highlighting 15 specific "smart practices" or recommendations to improve Kansas' budgetary process and execution. Those 15 recommendations focused on three main areas: Fiscal Stability, Improved Accountability and Budget Transparency.

Financial Stability:

1. Establish a Risk-Based Reserve Fund Policy – a rainy day fund with legislative oversight that should be put in statute.
2. Develop a Structurally Balanced Budget Policy - identify reoccurring revenues to address reoccurring expenditures each year.
3. Improve Accuracy and Addictiveness of Revenue Forecasts – use more expert economists to provide firm budget forecasts.
4. Develop Long Term Financial Plans – over 22 states have forecasts that go up an additional 3-4 years on top of their regular 2-year budget plan.
5. Develop User Fee Policy – the study found that Kansas' fees are not covering the programs or services they are providing. Kansas should set a policy to fully cost the program or service then give the Legislature the power to decide whether or not to fund the program or service through additional fees or subsidization.
6. Develop Debt Management Policies
7. Adopt Policy for Addressing Pension Liabilities
8. Maintain Policy for Funding Other Postemployment Benefits (OPEB) Obligations – a recommendation was made for Kansas to look at and model after California's system.

Improved Accountability:

1. Conduct a Program/Service Inventory Assessment
2. Develop Goals to Guide Better Budget Decision-Making – each agency needs to set specific goals and a strategic plan that is tied to their proposed budget.
3. Include of Program Effectiveness in Budget Decisions
4. Implement Performance Budgeting – Kansas should budget based on the lowest level of programs and services costs.

Budget Transparency:

1. Provide Online Access to Budget Documents and Supplemental Data – Kansas needs to create better communication tools and user guides to explain the budget process to constituents.
2. Optimize Transparency and Accessibility of the Budget Document
3. Be Transparent About the Role of Transfers in the Budget –give more detail on the reason and impact of the budget transfers.

Alvarez & Marsal broke down the 15 "smart practices" based on a short-term (1-2 years), medium-term (2-3 years) and long-term (3+ years) timeline.

All 105 efficiency study recommendations reported during the first week of the legislative session have been disseminated to individual committees for further study. Both the House Appropriations and Senate Ways and Means Committees will then review each sub committees' recommendations.

Non-severability Clause to Become Law

On Thursday, the full Senate passed HB 2449 by a vote of 39-1. It passed the House of Representatives last week 119-0. It is now on its way to the Governor for signature into law. HB 2449 repeals the non-severability clause in last year's chief judge election bill. The bill removed the authority of the Kansas Supreme Court the appointment of chief judges of the state's 31 judicial districts, with a non-severability clause that would eliminate the \$100 million-plus budget of the Kansas Judiciary this year and next if the court struck down the provision.

Concealed-carry Prohibition Amended, Moves to Full House

On Wednesday, the House Federal and State Affairs Committee amended HB 2440 to allow for most units of government to create temporary concealed-carry gun zones in municipal and county buildings. The amendment inserted into the bill will allow public buildings to designate certain days, times, or when there are insufficient officers to check for weapons that a certain meeting room can be made gun-free, while not requiring permanent and expensive security precautions when not needed.

Currently under the Personal and Family Protection Act, it is unlawful to prohibit the carrying of a concealed handgun in any state or municipal building unless the building has adequate security measures – generally metal detectors – to ensure that no weapons are permitted to be carried into the building by anyone unauthorized. HB 2440 passed out of committee on Wednesday and now goes to the full House of Representatives for debate.

Step Therapy Hearing

It was a packed committee room for the hearing on SB 341 in the Senate Public Health and Welfare Committee on Wednesday. The bill would remove the current prohibition in Kansas for step therapy for Medicaid patients. According to Senator Denning, who introduced the bill, Kansas laws are the strictest in country and is the only state with a complete prohibition of step therapy.

Step therapy is the practice of beginning drug therapy for a medical condition with the most cost effective drug, allowing a progression to other more costly drugs, if needed. Passage of the bill would result in \$10.6 million in SGF savings for the Kansas Department of Health and Environment's Division of Health Care Finance (DHCF), the department administering the program. The fiscal effect associated with SB 341 is included in the FY'17 Governor's Budget Report.

Proponents included America's Health Insurance Plans (AHIP) and two Kansas physicians.

Opponents included the National Association of Mental Illness, National Multiple Sclerosis Society, International Pain Foundation, Kansas Mental Health Coalition and the Mental Health America of the Heartland.

House Appropriations Committee Considered Bill on Shortening Legislative Session

Representative Marvin Kleeb (R-Overland Park) introduced and testified in support of HB 2513 that would limit the meeting days of future legislative sessions to 60 days during odd-numbered years – or budget year 1 – and 90 days on even numbered years – or budget year 2. HB 2513 would provide that the duration of regular sessions of the Legislature could not exceed the 60/90 calendar days, unless by an affirmative vote of two thirds of the members of each house.

According to Legislative Administrative Services, enactment of HB 2513 would have the potential to reduce State General Fund expenditures for the Legislature in odd-numbered years. When compared to the estimated \$4.7 million cost of a 90-day Legislative Session, a 60-day Session would have expenses of approximately \$3.2 million, which would save approximately \$1.6 million, all from the

SGF. Any fiscal effect associated with HB 2513 is not reflected in the FY '17 Governor's Budget Report. Senator Tom Holland (D- Baldwin City) also testified in support of the bill.

While some committee members expressed concern that constituents may view a shorter session as restriction of access to their Legislature, proponents argued that the efficient use of the fall interim months would be more than enough time to engage with revisers, write and prepare any bills they plan to introduce; and removing the 90-day mentality currently held in the Legislature will ensure quicker and more efficient use of legislative session days.

Pro Forma Friday

The Kansas Legislature will be pro forma today, meaning that each Chamber will quickly meet for introduction of bills, but no other business will be conducted.