Approved 1-23-91
Date

MINUTES OF THE House COMMITTEE ON Appropriations

The meeting was called to order by George Teagarden
Chairperson

1:30 ~~a.m.~~/p.m. on January 15, 1991 in room 514-S of the Capi

All members were present except: Representatives Vancrum and Pottorff (excused)

Committee staff present: Ellen Piekalkiewicz, Kansas Legislative Research Dept.
Debra Duncan, Kansas Legislative Research Dept.
Jim Wilson, Revisor of Statutes
Susan Miller, Administrative Aide
Sue Krische, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list.

Chairman Teagarden welcomed the new members to the Committee and announced the organization of the subcommittees for the 1991 Session. There will be five-member subcommittees on General Government, Human Resources, Education, and Public Safety and a three-member subcommittee on Agriculture and Natural Resources, also assigned KDOT and the Fee agencies. The Chairman asked the members to maintain promptness for the 1:30 p.m. meeting and to call the office when they will be unable to attend. He then introduced the House Appropriations Committee staff.

Chairman Teagarden noted that the Legislative Research staff will be preparing analyses of the Governor's budget recommendations during the next three weeks and asked that Committee requests of the staff be kept to a minimum whenever possible.

Ed Ahrens, Chief Fiscal Analyst, Kansas Legislative Research Department, introduced the entire fiscal staff to the Committee. Staff budget assignments and subcommittee assignments were distributed to the members. Orientation for new members is scheduled for Wednesday, January 16 and Thursday, January 17 at 1:30 p.m. in 514-S.

Richard Ryan, Director, Kansas Legislative Research Department, provided a briefing on the fiscal condition of the state referring to his memorandum titled: "Summary of the State 'Spending Lid' Bill and Projections of Its Possible Effects in FYs 1992 and 1993" (<u>Attachment 1</u>). He also provided for the Committee's information a chart of "Demand Transfers from the State General Fund" (<u>Attachment 2</u>). Mr. Ryan stated it is estimated transfers from the State General Fund will increase automatically by $20 million in FY 1992 with no change in the laws on demand transfers. Other built-in expenditures are KPERS School-$7 million, the Historical Research Center-$6 million, debt service on the penal institutions-$1 million, and $17 million has been requested in FY 1992 for operation of the El Dorado and Larned correctional facilities.

Chairman Teagarden requested authorization from the Committee to introduce the Governor's appropriations bills in the House and have them referred back to the Committee for consideration. <u>Representative Solbach moved that Chairman Teagarden introduce the Governor's appropriations bills in the House. Representative Heinemann seconded. Motion carried.</u>

The meeting was adjourned at 2:05 p.m.

GUEST LIST

COMMITTEE: House Appropriations DATE: 1-15-91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
[illegible]	Wichita	WSU
Lea Wilson	Overland Park	Sun Newspapers
Stephanie Bergmann	Wichita	KSNW
Michelle Liesler	Topeka	Peterson + Assoc
Mike Bohnhoff	Topeka	DOB
[illegible]	Topeka	KBI
Steve Slan	Topeka	KBI
Tom Whitaker	Topeka	[illegible]
Jim Ludwig	Topeka	KPL
Dan Hermes	Topeka	DOB
Julie Hein	Topeka	Hein & Ebert
Jerry Sloan		OJA
Paul Shelby	"	OJA
Marty Kennedy	"	DOB
[illegible]	Hays	FHSU

REVISED
November 26, 1990

MEMORANDUM

Kansas Legislative Research Department

Room 545-N -- Statehouse
Topeka, Kansas 66612-1586
(913) 296-3181

To: Legislative Budget Committee

SUMMARY OF STATE "SPENDING LID" BILL AND PROJECTIONS OF ITS POSSIBLE EFFECTS IN FYs 1992 AND 1993

1990 H.B. 2867. This bill, as enacted, contained amended versions of H.B. 2867 and H.B. 2900. The H.B. 2867 part of the bill is directed at the budget and appropriations process and sets targeted year-end State General Fund (SGF) balances expressed as a percentage of fiscal year expenditures and demand transfers, beginning in FY 1992. A new Cash Operating Reserve Fund is created to which an amount equal to 5 percent of authorized expenditures and demand transfers will be transferred on July 1 of each year commencing in 1991. In addition, the bill provides that the SGF shall have a balance equal to 1 percent or more of expenditures and demand transfers at the end of FY 1993, 2 percent or more at the end of FY 1994, and 2.5 percent or more at the end of FY 1995. In effect, this means that the targeted year-end balances in the SGF are 5 percent in FY 1992, 6 percent in FY 1993, 7 percent in FY 1994, and 7.5 percent in FY 1995. This is because the bill provides that the balance in the Cash Operating Reserve Fund at the close of a fiscal year must be transferred to the SGF, and there would have to be enough money in the SGF to make the required transfer to the Cash Operating Reserve Fund at the beginning of the next fiscal year. The bill also provides that the targeted balances must be adhered to in the Governor's budget recommendations.

An "omnibus reconciliation spending limit bill" will be relied upon to reconcile total SGF expenditure authorizations to the applicable ending balance target, beginning in the 1992 legislative session. This type of bill was enacted at the end of the 1990 Session (S.B. 799), but not under H.B. 2867. The latter bill does not require that any spending cuts made by the Legislature must be "across-the-board."

The Director of the Budget and the Director of the Legislative Research Department shall prepare joint SGF revenue estimates and revisions thereto to establish the revenue side of the budget equation (in the event no agreement is reached, the Legislature shall utilize the estimates of the Research Director and the Governor shall utilize the estimates of the Budget Director).

The other part of H.B. 2867 authorizes the Governor, beginning in FY 1992, to issue an executive order or orders, with approval of the State Finance Council, to reduce SGF expenditures and demand transfers if the estimated year-end balance in the SGF and Cash Operating Reserve Fund is less than $100 million. The Budget Director must continuously monitor receipts and

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expenditures and certify to the Governor the amount of reduction in expenditures and demand transfers that would be required to keep the year-end balance from falling below $100 million. Debt service costs and the SGF contribution to school employees retirement (KPERS-School) are not subject to reduction.

If the Governor decides to make reductions, they must be on a percentage basis applied equally to all items of appropriations and demand transfers, *i.e.*, across-the-board with no exceptions other than the two mentioned above.

FY 1991 General Fund Finances

The current consensus estimate of receipts in FY 1991, as revised on November 15, is nearly $2.361 billion. That amount is 2.6 percent more than actual receipts in FY 1990.

Expenditures authorized by the 1990 Legislature, adjusted for item vetoes, shifting from FY 1990 to FY 1991, and revised estimates of demand transfers, total $2.493 billion, an increase of $92.9 million or 3.9 percent from actual expenditures in FY 1990. Based on the current estimates, expenditures in FY 1991 are $132.5 million more than receipts (in FY 1990 expenditures exceeded receipts by $99.7 million). The SGF balance at the end of FY 1991 is now estimated at $140.4 million, or 5.6 percent of expenditures. Not included in the estimate of expenditures are potential supplemental appropriations and other possible revisions, except for the new estimates of demand transfers.

Projections for FY 1992

The consensus estimate of receipts in FY 1992 is slightly over $2.454 billion, or 4.0 percent above the revised estimate for FY 1991. To achieve the 5 percent targeted balance at the end of FY 1992 with no tax increase, expenditures would have to be $22.1 million, or 0.9 percent, less than now estimated for FY 1991, and even so expenditures would exceed receipts by $16.8 million. The year-end balance would be $123.6 million.

Although total expenditures from the SGF would be less than in FY 1991, expenditures for certain programs would increase based on current laws and policies. Some examples follow.

Demand transfers from the SGF to other funds are estimated to increase by $20.1 million. The statutorily required transfers from the SGF to KPERS-School are now estimated to rise by $7.0 million largely due to an increase of 12.5 percent in the employer (state) contribution rate. The Department of Corrections has requested $17.4 million for operation of new facilities at El Dorado and Larned, and $6.0 million already has been appropriated for construction of the Historical Society Research Center. Debt service paid from the SGF is expected to increase by $1.0 million. The 1990 Legislature shifted financing of all or part of the costs of a number of programs from the SGF to various other funds for FY 1991, but whether all or some of such costs will be shifted back to the SGF for FY 1992 obviously cannot be determined now. A big unknown at this time is what demands on the SGF will be in both FYs 1991 and 1992 for programs under the Department of Social and Rehabilitation Services.

Certain FY 1991 expenditures will not recur or will be less in FY 1992. For instance, $2.0 million was appropriated for settlement of the correction officers lawsuit, a one-time payment in FY 1991 which actually turned out to be about $1.6 million. Another example is the SGF financing of the Regents' Center ($1.0 million in both FYs 1990 and 1991), which will not recur.

Projections A, B, and C in the attached table are all the same for FY 1992 in that no tax increase is assumed. While it is by no means certain what the 1991 Legislature will do, Projections D and E are based on the premise that a tax increase package of some kind will be enacted in 1991 and that the additional revenue will be credited to the SGF.

Projection D assumes that the tax package would produce $220 million. Total receipts would thus increase by 13.3 percent. Expenditures in FY 1992 could increase by $187.5 million or 7.5 percent over FY 1991. The ending balance would be $134.0 million or 5 percent of expenditures. Under this projection, expenditures would exceed receipts by $6.4 million.

Projection E contemplates a tax package producing $300 million, which would result in total receipts increasing by 16.7 percent over FY 1991. Expenditures in FY 1992 could increase by $263.7 million, or 10.6 percent. Expenditures would exceed receipts by only $2.6 million.

Projections for FY 1993

There are five different projections for FY 1993 in the attached table to illustrate possible effects of the new law (1990 H.B. 2867) in the second year of its application. As for FY 1992, Projections A, B, and C assume no tax increase. The only difference among them is the assumed rate of growth in revenue. Projections D and E are driven off of the presumed tax packages for FY 1992 discussed above.

Projection A is based on an increase in revenue of 3.0 percent. With a targeted closing balance equal to 6 percent of expenditures, the increase in expenditures over FY 1992 would be $30.3 million or 1.2 percent. The ending balance would be $150.1 million.

Projection B assumes revenue growth of 4.0 percent in FY 1993. Expenditures could increase by $53.5 million or 2.2 percent, and the ending balance would be $151.5 million.

Projection C has receipts growing by 5.0 percent. The increase in expenditures could be $76.6 million or 3.1 percent, with an ending balance of $152.9 million.

Projections D and E are both based on an increase in receipts of 4.0 percent, or the middle rate of Projections A-C. Under D, expenditures could increase by $69.6 million or 2.6 percent in contrast to the 7.5 percent increase in FY 1992. The ending balance would be $165.0 million.

Under E, the increase in expenditures could be $75.5 million or 2.7 percent, compared with 10.6 percent in FY 1992. The balance at the close of FY 1993 would be $169.9 million.

These last two projections illustrate two points that should be kept in mind. One is that all of the SGF revenue from a tax increase package cannot be spent in FY 1992 if a targeted ending balance equal to 5.0 percent of expenditures is to be attained. The second point is that the increase in expenditures in FY 1993 would have to be substantially less than in FY 1992 for two reasons: a much lower overall growth rate in receipts in FY 1993 compared with FY 1992 (4.0 percent as opposed to either 13.3 percent or 16.7 percent) and the targeted ending balance rises from 5 percent to 6 percent of expenditures.

To avoid the prospect that the growth in expenditures would be less in FY 1993 than FY 1992, the Legislature could decide to target a higher balance than 5 percent of expenditures in FY 1992 which, of course, would mean spending less in that year than indicated by the above projections. Another option would be to use a significant part of the money available for expenditure in FY 1992 for nonrecurring items.

Comment on Ending Balances

Finally, a statement needs to be made about all of the projections in this memo. While SGF balances might appear to be adequate, it should not be assumed that they would be sufficient, particularly in the event of a serious recession, to avoid triggering the second part of H.B. 2867 under which the Governor, with Finance Council approval, might have to decide to order across-the-board spending cuts.

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FIVE PROJECTIONS – STATE GENERAL FUND AND CASH OPERATING RESERVE FUND

In Millions

	Actual FY 1990	FY 1991	Increase	FY 1992		Increase	FY 1993		Increase
A. Beginning Balance									
General Fund	$ 371.4	$ 272.9		$16.8	(7-1-91)		$ (1.5)	(7-1-92)	
Cash Oper. Res. Fund	–	–		123.6	(7-1-91) cash operating reserve fund		125.1	(7-1-92)	
% of Expend.	–	–		5.0%			5.0%		
Receipts	2,300.5	2,360.6[a]	2.6%	2,454.2[a]		4.0%	2,527.8		3.0%
Expenditures	2,400.2	2,493.1[b]	3.9%	2,471.0		$(22.1) (0.9)%	2,501.3		$30.3 1.2%
Ending Balance	100M over								
General Fund	272.9[c]	140.4 (6-30-91)		123.6	(6-30-92)		150.1	(6-30-93)	
% of Expend.	11.4%	5.6%		5.0%			6.0%		
Cash Oper. Res. Fund	–	–		0.0			0.0		
B. Beginning Balance									
General Fund	$ 371.4	$ 272.9		$ 16.8	(7-1-91)		$ (2.6)	(7-1-92)	
Cash Oper. Res. Fund	–	–		123.6	(7-1-91)		126.2	(7-1-92)	
% of Expend.	–	–		5.0%			5.0%		
Receipts	2,300.5	2,360.6[a]	2.6%	2,454.2[a]		4.0%	2,552.4		4.0%
Expenditures	2,400.2	2,493.1[b]	3.9%	2,471.0		$(22.1) (0.9)%	2,524.5		$53.5 2.2%
Ending Balance									
General Fund	272.9[c]	140.4 (6-30-91)		123.6	(6-30-92)		151.5	(6-30-93)	
% of Expend.	11.4%	5.6%		5.0%			6.0%		
Cash Oper. Res. Fund	–	–		0.0			0.0		
C. Beginning Balance									
General Fund	$ 371.4	$ 272.9		$ 16.8	(7-1-91)		$ (3.8)	(7-1-92)	
Cash Oper. Res. Fund	–	–		123.6	(7-1-91)		127.4	(7-1-92)	
% of Expend.	–	–		5.0%			5.0%		
Receipts	2,300.5	2,360.6[a]	2.6%	2,454.2[a]		4.0%	2,576.9		5.0%
Expenditures	2,400.2	2,493.1[b]	3.9%	2,471.0		$(22.1) (0.9)%	2,547.6		$76.6 3.1%
Ending Balance									
General Fund	272.9[c]	140.4 (6-30-91)		123.6	(6-30-92)		152.9	(6-30-93)	
% of Expend.	11.4%	5.6%		5.0%			6.0%		
Cash Oper. Res. Fund	–	–		0.0			0.0		

a. Consensus estimate as of November 15, 1990.

b. As authorized by the 1990 Legislature except for item vetoes by Governor, shifting of expenditures from FY 1990 to FY 1991, and revised estimates of demand transfers.

c. Includes $1.3 million of released encumbrances.

	Actual FY 1990	FY 1991	Increase	FY 1992	Increase	FY 1993	Increase
D. Beginning Balance							
General Fund	$ 371.4	$ 272.9		$ 6.4 (7-1-91)		$ (3.5) (7-1-92)	
Cash Oper. Res. Fund	–	–		134.0 (7-1-91)		137.5 (7-1-92)	
% of Expend.	–	–		5.0%		5.0%	
Receipts – Base	2,300.5	2,360.6[a]	2.6%	2,454.2[a]	4.0%		
– Legis. Adj.	–	–	–	220.0 assumes	–		
Total	2,300.5	2,360.6	2.6%	2,674.2 tax pkg.	13.3%	2,781.2	4.0%
Expenditures	2,400.2	2,493.1[b]	3.9%	2,680.6	$187.5 7.5%	2,750.2	$69.6 2.6%
Ending Balance							
General Fund	272.9[c]	140.4 (6-30-91)		134.0 (6-30-92)		165.0 (6-30-93)	
% of Expend.	11.4%	5.6%		5.0%		6.0%	
Cash Oper. Res. Fund	–	–		0.0		0.0	
E Beginning Balance							
General Fund	371.4	272.9		2.6 (7-1-91)		(3.8) (7-1-92)	
Cash Oper. Res. Fund	–	–		137.8 (7-1-91)		141.6 (7-1-92)	
% of Expend.	–	–		5.0%		5.0%	
Receipts – Base	2,300.5	2,360.6[a]	2.6%	2,454.2[a]	4.0%		
– Legis. Adj.	–	–	–	300.0	–		
Total	2,300.5	2,360.6	2.6%	2,754.2	16.7%	2,864.4	4.0%
Expenditures	2,400.2	2,493.1[b]	3.9%	2,756.8	$263.7 10.6%	2,832.3	$75.5 2.7%
Ending Balance							
General Fund	272.9[c]	140.4 (6-30-91)		137.8 (6-30-92)		169.9 (6-30-93)	
% of Expend.	11.4%	5.6%		5.0%		6.0%	
Cash Oper. Res. Fund	–	–		0.0		0.0	

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DEMAN 'RANSFERS FROM STATE GEN AL FUND

In Thousands

	Actual FY 1990	FY 1991 Prior Est. *	FY 1991 Revised Est.	FY 1991 Increase	FY 1992 Est.	FY 1992 Increase
Income Tax Rebate	$ 167,274	$ 187,400	$ 189,720	$ 2,320	$ 203,900	$ 14,180
State Highway Fund	63,489	73,834 (a	74,468 (a	634	78,100	3,632
Local Ad Valorem Tax Reduction Fund	35,326	37,177	37,164 (b	(13)	38,696	1,532
County-City Revenue Sharing Fund	26,601	28,351 (b	28,351 (b	--	29,461 (b	1,110
City-County Highway Fund	10,198	9,599 (a	9,127 (a	(472)	9,500	373
Water Plan Fund	--	5,895 (a	5,895 (a	--	6,000	105
Workers Comp. Fund	4,000	3,930 (a	3,930 (a(b	--	4,000	70
Regents' Center	1,000	1,000 (b	1,000 (b	--	--	(1,000)
State Fair	88	--	--	--	--	--
TOTAL	$ 307,976	$ 347,186	$ 349,655	$ 2,469	$ 369,657	$ 20,002

* After 1990 Legislative Session.

a) Reflects 1.75 percent reduction required by 1990 S.B. 799.

b) Actual.

Kansas Legislative Research Department
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