

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Stephen Morris at 10:30 a.m. on January 31, 2002 in Room 123-S of the Capitol.

All members were present except: Senator Tim Huelskamp - excused

Committee staff present:

Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department
Deb Hollon, Kansas Legislative Research Department
Carolyn Rampey, Kansas Legislative Research Department
Michael Corrigan, Assistant Revisor of Statutes
Judy Bromich, Assistant to the Chairman
Mary Shaw, Committee Secretary

Conferees appearing before the committee: None

Others attending: See attached list

Senator Downey moved, with a second by Senator Feleciano, to approve the minutes of the January 15, 2002, and January 16, 2002, meetings as presented. Motion carried on a voice vote.

Chairman Morris introduced Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department, who presented an Overview of the Fiscal Year 2003 Governor's Budget Report. It was noted that the summary data in the overview compare actual expenditures for FY 2001, the Governor's revised estimates for FY 2002, and the Governor's recommendations for FY 2003 (Attachment 1).

Mr. Conroy mentioned that the three largest functions of government – education, human resources, and transportation – comprise 85.7 percent of the recommended expenditures for FY 2003. Regarding the State General Fund, Mr. Conroy explained that today, January 31, 2002, is the last day for general fund tax receipts and there was little, if any processing done yesterday, about \$700,000.00 of general fund receipts were deposited on January 30, 2002. The last two days of the month should be "gang-buster" days in the \$20 to \$30 million dollar range and the employees reported today at 10:00 a.m. due to the weather, and they will process things as long as they can until they reach the cut-off point to get to the bank.

Chairman Morris thanked Mr. Conroy for his presentation.

The meeting was adjourned at 11:20 a.m. The next meeting is scheduled for February 1, 2002.

SENATE WAYS AND MEANS COMMITTEE
GUEST LIST

DATE January 31, 2002

NAME	REPRESENTING
Nancy Bogina	KDOT
Bill Watts	KDOT
ERIC Sexton	WSU
J. Chubb	SOS
St Scott	SR S
Cindy Denton	DOB

Overview of the Fiscal Year 2003

Governor's Budget Report

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*Senate Ways and Means
1-31-02
Attachment 1*

OVERVIEW OF THE FISCAL YEAR 2003 GOVERNOR'S BUDGET REPORT

In this Budget Overview, various summaries of state expenditures and the plan for their financing are reviewed. The summary data were obtained from *The FY 2003 Governor's Budget Report*. The Legislative Research Department utilizes the classification of expenditures by function of government so as to coincide with the Division of the Budget and the Division of Accounts and Reports. The Department has made some changes in the classification of expenditures in order to be consistent with its prior reports to the Legislature.

The summary data in this overview compare actual expenditures for FY 2001, the Governor's revised estimates for FY 2002, and the Governor's recommendations for FY 2003.

SUMMARY OF CHANGES TO ESTIMATED FY 2001 EXPENDITURES

Based on actions of the 2001 Session of the Legislature, it was estimated by the Research Department that FY 2002 expenditures from **all funds** would total \$9.200 billion. *The Governor's Budget Report* revises the all funds FY 2002 budget to \$9.483 billion, **an increase of \$282.9 million** from the earlier estimate. Major differences from the session-end estimate and the Governor's revised estimate include:

- ◆ Increases of \$97.4 million for the **Department of Social and Rehabilitation Services**, primarily for caseload adjustments; \$59.7 million in the **Board of Regents and the Regents Institutions**, primarily reflecting capital improvement expenditures carried forward from FY 2001; \$44.6 million in the budget of the **Department of Human Resources**, largely for increases in unemployment compensation, and \$27.1 million in the budget of the **Kansas Department of Transportation**, primarily for adjustments to capital improvement projects.

At the close of the 2001 Session, FY 2002 expenditures from the **State General Fund** were estimated to be \$4.509 billion. *The Governor's Budget Report* revises the FY 2002 General Fund budget to \$4.527 billion, a **net increase of \$18.8 million** from the earlier estimate. Major differences from the session-end estimate and the Governor's revised estimate consist of:

- ◆ An increase of \$35.5 million in the budget of the **Department of Social and Rehabilitation Services**, largely reflecting caseload adjustments which is partially offset by a \$26.5 million reduction in the budget of the **Kansas Department of Transportation**, reflecting a bond offset of \$20.0 million and an operating expenditure reduction of \$6.5 million which was approved by the 2001 Legislature and subsequently vetoed by the Governor. The Governor's veto was directed at another item recommended by the 2001 Legislature, and the Governor's revised recommendation reflects his support for these two reductions.

The following tabulation summarizes the changes to FY 2002 expenditures by major category.

	Millions	
	General Fund	All Funds
Original FY 2002 Expenditure Estimates	\$ 4,508.9	\$ 9,200.1
Revisions:		
State Operations	5.1	61.9
Aid to Local Units	9.9	89.6
Other Assistance	28.8	69.7
Capital Improvements	25.0	61.7
Total Revisions	<u>\$ 18.8</u>	<u>\$ 282.9</u>
Revised FY 2002 Expenditure Estimates	<u>\$ 4,527.7</u>	<u>\$ 9,483.0</u>

TOTAL STATE EXPENDITURES FOR FY 2003

Summary of Expenditures from All Funds

The Governor's recommendation for FY 2003 state expenditures from all funds totals \$9.694 billion, an increase of \$210.9 million (2.2 percent) above the Governor's revised estimate for FY 2002 of \$9.483 billion. Actual FY 2001 expenditures from all funding sources were \$8.850 billion.

Expenditures by Major Purpose

State Operations . Actual agency operating costs for salaries and wages, contractual services, commodities and capital outlay.

The Governor's FY 2003 recommendation for state operations increases by \$10.3 million or 0.3 percent above the revised FY 2002 amount. Of the recommended increase, \$23.1 million is reflected in the budget of the Kansas Department of Transportation, reflecting increased costs related to the Comprehensive Transportation Program, and \$12.8 million is included in the budget of the Department of Social and Rehabilitation Services, reflecting increased foster care and adoption caseload contract costs. Those increases are partially offset by reductions of \$25.3 million in the Board of Regents and the Regents institutions, reflecting a 3.9 percent reduction in the State General Fund operating grants for each Regents institution. All other state operations expenditures decrease by \$0.3 million.

Aid to Local Units. Aid payments to counties, cities, school districts, and other local government entities. May be from state or federal funds.

Aid to local units decreases by \$133.6 million or 4.0 percent in FY 2003. Aid to local units in the Department of Education decreases by a total of \$121.8 million in FY 2003. General and supplemental state aid to local school districts from the Department of Education decreases by \$108.2 million, while special education services aid increases by \$11.2 million and KPERS-School employer contributions increase by \$10.4 million. A tabulation appearing later in this memorandum provides details about state aid programs.

Other Assistance, Grants, and Benefits. Payments made to or on behalf of individuals as aid, including public assistance benefits, unemployment benefits, retirement payments and tuition grants.

Other assistance increases \$110.6 million or 4.3 percent above the revised FY 2002 amount. Major increases include \$95.3 million in the Department of Social and Rehabilitation Services and \$9.9 million in the Department on Aging budget (caseload increases), and \$ 7.0 million for increased unemployment insurance benefit payments in the budget of the Department of Human Resources.

Capital Improvements. Cash or debt service payments for projects involving new construction, remodeling and additions, rehabilitation and repair, razing, and the principal portion of debt service for a capital expense.

Capital improvements are recommended to increase by \$223.6 million above the FY 2002 level. Included are increases in construction expenditures for the Department of Transportation (\$269.7 million), partially offset by reductions of \$48.3 million in Regents institutions' projects.

EXPENDITURES FROM ALL FUNDS BY MAJOR PURPOSE

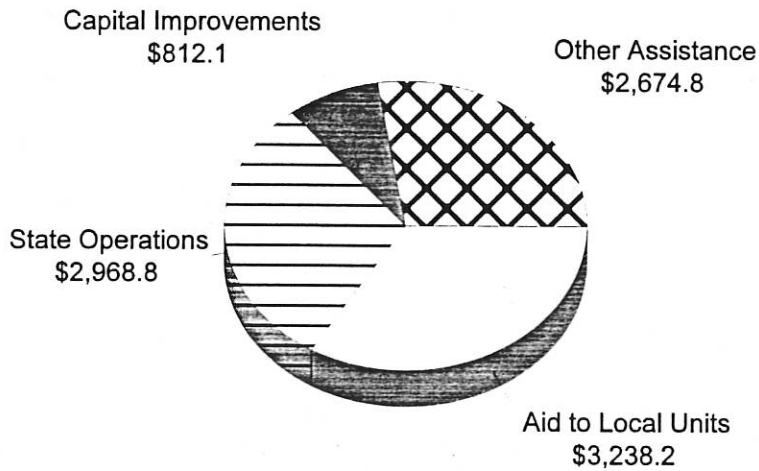
(Millions of Dollars)

Function	Actual	Est.	Change		Rec.	Change	
	FY 01	FY 02	\$	%	FY 03	\$	%
State Operations	\$ 2,822.4	\$ 2,958.5	\$ 136.1	4.8%	\$ 2,968.8	\$ 10.3	0.3%
Aid to Local Units	3,278.3	3,371.8	93.5	2.9	3,238.2	(133.6)	(4.0)
Other Assistance	<u>2,304.3</u>	<u>2,564.2</u>	<u>259.9</u>	<u>11.3</u>	<u>2,674.8</u>	<u>110.6</u>	<u>4.3</u>
Total Operating	\$ 8,405.0	\$ 8,894.5	\$ 489.5	5.8	\$ 8,881.8	\$ (12.7)	(0.1)
Capital Improvements	<u>444.9</u>	<u>588.5</u>	<u>143.6</u>	<u>32.3</u>	<u>812.1</u>	<u>223.6</u>	<u>38.0</u>
TOTAL	<u>\$ 8,849.9</u>	<u>\$ 9,483.0</u>	<u>\$ 633.1</u>	<u>7.2%</u>	<u>\$ 9,693.9</u>	<u>\$ 210.9</u>	<u>2.2%</u>

Of the total budget recommendation for FY 2003, 30.6 percent is for state operations, 33.4 percent is for state aid to local units of government, 27.6 percent is for other assistance, grants, and benefits, and 8.4 percent is for capital improvements. The following pie chart displays the major categories of all funds expenditures in FY 2003.

FY 2003 EXPENDITURES FROM ALL FUNDS BY MAJOR PURPOSE

(Millions of Dollars)



Total: \$9,693.9

Expenditures by Function of Government

The following table summarizes expenditures from all funds by function of government. Functions of government reflect the six classifications into which similar agencies are grouped that share similar basic purposes of state government. The functions include: General Government; Human Resources; Education; Public Safety; Agriculture and Natural Resources; and Transportation. The education function is by far the largest component with 42.4 percent of the total. The three largest functions of government - education, human resources, and transportation - comprise 85.7 percent of the recommended expenditures for FY 2003.

**SUMMARY OF EXPENDITURES FROM ALL FUNDS
BY FUNCTION OF GOVERNMENT**

(Millions of Dollars)

Function	Actual	Est.	Change		Rec.	Change	
	FY 01	FY 02	\$	%	FY 03	\$	%
General Government	\$ 681.5	\$ 782.2	\$ 100.7	14.8%	\$ 789.8	\$ 7.6	1.0%
Human Resources	2,609.3	2,815.9	206.6	7.9	2,931.4	115.5	4.1
Education	4,146.2	4,286.1	139.9	3.4	4,108.8	(177.3)	(4.1)
Public Safety	435.4	461.6	26.2	6.0	441.7	(19.9)	(4.3)
Agriculture/Natural Resources	140.3	159.1	18.8	13.4	149.9	(9.2)	(5.8)
Transportation	837.2	978.1	140.9	16.8	1,272.3	294.2	30.1
TOTAL	\$ 8,849.9	\$ 9,483.0	\$ 633.1	7.2%	\$ 9,693.9	\$ 210.9	2.2%

Summary Plan for Financing

Total state expenditures are financed by the resources contained in approximately 1,300 distinct funds. The following tabulation summarizes total state expenditures. The tabulation separates the plan for financing into operating purposes and capital improvements. The General Fund operating amount shown in the table for FY 2003 is based on current resources of the Fund. The net reduction in General Fund operating expenditures from FY 2002 to FY 2003 is \$139.5 million or 3.2 percent. The Governor's recommendations do, however, include both positive and negative adjustments for individual agencies.

SUMMARY OF THE PLAN FOR FINANCING STATE EXPENDITURES

(Millions of Dollars)

	Actual	Est.	Change		Rec.	Change	
	FY 01	FY 02	\$	%	FY 03	\$	%
Operating Expenditures:							
General Fund	\$ 4,366.5	\$ 4,422.6	\$ 56.1	1.3%	\$ 4,283.1	\$ (139.5)	(3.2)%
All Other Funds	<u>4,038.5</u>	<u>4,471.9</u>	<u>433.4</u>	<u>10.7</u>	<u>4,598.7</u>	<u>126.8</u>	<u>2.8</u>
Total Operating	\$ 8,405.0	\$ 8,894.5	\$ 489.5	5.8%	\$ 8,881.8	\$ (12.7)	(0.1)%
Capital Improvements:							
General Fund	\$ 63.1	\$ 105.1	\$ 42.0	66.6%	\$ 11.4	\$ (93.7)	(89.2)%
All Other Funds	<u>381.8</u>	<u>483.4</u>	<u>101.6</u>	<u>26.6</u>	<u>80.7</u>	<u>317.3</u>	<u>65.6</u>
Total Capital Imprv.	\$ 444.9	\$ 588.5	\$ 143.6	32.3%	\$ 812.1	\$ 223.6	3.8%
TOTAL Expenditures	\$ 8,849.9	\$ 9,483.0	\$ 633.1	7.2%	\$ 9,693.9	\$ 210.9	2.2%

The State General Fund, to which most state tax receipts are credited, is the predominant source of financing for state expenditures. The General Fund finances 47.7 percent of estimated FY 2002 expenditures. In FY 2003, the General Fund finances 44.3 percent of the recommended expenditures.

Schedule 15 in *The Governor's Budget Report* (Volume 1) summarizes actual and estimated receipts of federal funds. Estimated FY 2002 receipts are \$2.422 billion, a reduction of \$84.8 million or 3.4 percent from the FY 2001 actual receipts. The FY 2003 estimate of \$2.566 billion is \$144.1 million or 5.9 percent below the FY 2002 estimated receipts. Three agencies – the Department of Social and Rehabilitation Services, the Department of Transportation, and the Department of Education – account for 79.7 percent of FY 2003 estimated federal receipts.

Federal receipts for fiscal years 2002 and 2003 are dependent on future actions of the federal government. Past experience indicates that the final outcome of those actions will not be known prior to adjournment of the 2002 Legislature.

Expenditures for State Operations

Expenditures for state operations, *i.e.*, for purposes other than local aid, other assistance, and capital improvements, comprise 30.6 percent of total recommended expenditures for FY 2003. The tabulation below divides state operations expenditures into four major components: salaries and wages; contractual services (communications, rent, travel); commodities (food, supplies, stationery); and capital outlay (equipment and furniture, not building and highway construction projects). The All Other category is comprised primarily of debt service.

SUMMARY OF EXPENDITURES FROM ALL FUNDS STATE OPERATIONS BY MAJOR COMPONENT

(Millions of Dollars)

Function	Actual FY 01	Est. FY 02	Change		Rec. FY 03	Change	
			\$	%		\$	%
Salaries and Wages	\$ 1,728.5	\$ 1,821.3	\$ 92.8	5.4%	\$ 1,853.9	\$32.6	1.8%
Contractual Services	668.0	691.2	23.2	3.5	655.5	(35.7)	(5.2)
Commodities	154.2	158.9	4.7	3.0	155.3	(3.6)	(2.3)
Capital Outlay	172.5	184.4	11.9	6.9	183.5	(0.9)	(0.5)
All Other	99.2	102.7	3.5	3.5	120.6	17.9	17.4
TOTAL	\$2,822.4	\$ 2,958.5	\$ 136.1	4.8%	\$ 2,968.8	\$ 10.3	0.3%

Salaries and wages expenditures, including fringe benefits, comprise almost two-thirds of the state operations budget for FY 2003 (62.4 percent) and represent a \$32.6 million or 1.8 percent increase from the FY 2002 estimate.

Salaries and wages policy recommendations incorporated into the proposed FY 2003 budget include the following:

GOVERNOR'S FY 2003 STATE EMPLOYEE SALARY ADJUSTMENTS

	<u>Millions</u>	
	<u>State General Fund</u>	<u>All Funds</u>
A. Annualization of the FY 2002 salary increase (which provided for a 3.0 percent adjustment with 1.5 percent effective at the beginning of the fiscal year and 1.5 percent effective half way through the fiscal year)	\$ 9.0	\$ 14.5
B. Longevity (\$40 a year for each year of service for those classified employees that have at least ten years of service up to a maximum of 25 years)	<u>0.5*</u>	<u>0.9*</u>
 GRAND TOTAL	 \$ 9.5	 \$ 15.4

* Amounts reflect the difference between the Governor's recommendation for FY 2002 and the amount of longevity bonus payments that are estimated to be paid in FY 2003.

Financing for all employee benefit recommendations are contained in the recommended budgets for each state agency.

Other Pay Plan Recommendations

The Governor's recommendation also provides full funding (\$ 19.8 million, including \$12.4 million from the State General Fund) of the group health insurance rate increases certified by the Health Care Commission for FY 2003, and includes a six-month moratorium for the first half of the fiscal year on employer contributions to the KPERS Death and Disability Fund (a reduction of \$8.3 million).

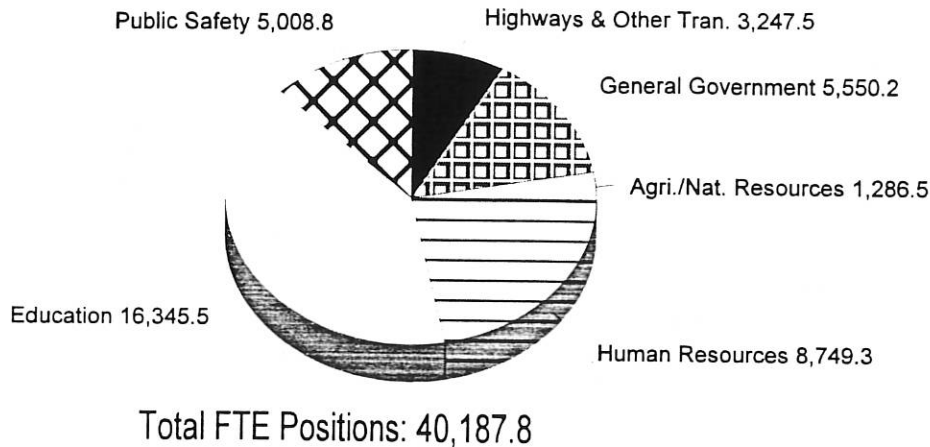
Authorized FTE Employees by Function of Government

Expenditures for salaries and wages are also affected by policy recommendations which change the size of the state's workforce. The FY 2003 budget recommendations of the Governor finance 40,187.8 full-time equivalent positions, a net reduction of 10.0 from the FY 2002 recommended level of 40,197.8. In addition, the Governor recommends 439.1 non-FTE unclassified permanent positions in FY 2003, an increase of 3.5 from FY 2002. These employees are not included in the FTE limitation.

The following pie chart reflects the Governor's recommended FY 2003 full-time equivalent positions by function of government.

FY 2003 FULL-TIME EQUIVALENT (FTE) POSITIONS

by Function of Government



State Workforce Adjustments

The Governor's FY 2003 recommendation increases the size of the state's workforce by a net 10.0 FTE positions. Factors contributing to the increase in positions include:

- ◆ Reductions of 44.2 FTE positions for the Department of Corrections and the correctional facilities (reflecting the recommendation to close the Osawatomie and Stockton facilities are offset by the addition of 19.0 FTE at Larned Juvenile Correctional Facility and 17.5 positions at the Department of Education (15.5 of which were other unclassified positions converted to FTE positions).

Program or Agency Components of the FY 2003— All Funds Budget

To this point, this memorandum has dealt primarily with measuring **year-to-year** changes proposed in *The Governor's Budget Report*. The following tabulation pertains to **FY 2003 only** and measures major programs or agency expenditures in dollar terms and as a percent of the total budget. The budgets of the Department of Education, the Department of Social and Rehabilitation Services, and the Board of Regents and its institutions account for just under two-thirds (62.4 percent) of the total state budget.

**GOVERNOR'S RECOMMENDED
EXPENDITURES FROM ALL FUNDS, FY 2003**

By Agency or Program

	Amount (Thousands)	Percent of Total	Cumulative Percent	Percent Increase From FY 02
Department of Education	\$ 2,516,845	25.96%	25.96%	(4.6)%
Department of SRS, Except Hospitals	1,968,235	20.30	46.27	5.2
Board of Regents and Institutions	1,561,715	16.11	62.38	(3.3)
Department of Transportation	1,272,281	13.12	75.50	30.1
Department on Aging	414,998	4.28	79.78	1.1
Department of Human Resources	306,373	3.16	82.94	2.3
Department of Corrections and Facilities	239,121	2.47	85.41	(2.2)
Department of Health and Environment	181,973	1.88	87.29	2.4
Dept. of Commerce and Housing, KTEC, and Kansas, Inc.	137,701	1.42	88.71	13.0
Kansas Lottery	136,007	1.40	90.11	(2.7)
State Treasurer	121,054	1.25	91.36	(1.8)
State Hospitals	98,529	1.02	92.38	(4.2)
Judicial Branch	93,194	0.96	93.34	2.7
Juvenile Justice Authority and Facilities	88,768	0.92	94.25	(8.1)
Department of Revenue	86,198	0.89	95.14	0.2
Highway Patrol and KBI	76,075	0.78	95.93	1.0
Insurance Dept., and Health Care Stabilization Board of Governors	48,213	0.50	96.42	(1.4)
Department of Wildlife and Parks	42,429	0.44	96.86	(13.9)
KPERS Operations	31,294	0.32	97.18	3.6
Adjutant General	28,264	0.29	97.48	(19.1)
Attorney General	21,102	0.22	97.69	(10.7)
Legislative Branch	20,299	0.21	97.90	(4.5)
Department of Agriculture	20,223	0.21	98.11	(4.6)
State Corporation Commission	17,760	0.18	98.30	(1.6)
Board of Indigents' Defense Services	14,775	0.15	98.45	(2.3)
Conservation Commission	10,973	0.11	98.56	(12.2)
Water Office	5,627	0.06	98.62	(22.5)
All Other	133,871	1.38	100.00	4.1
TOTAL	<u>\$ 9,693,897</u>	<u>100.00%</u>		<u>2.2%</u>

Note: Each agency's expenditures include state and federal aid, if any, to local units of government.

INCREASE (DECREASE) IN EXPENDITURES FROM ALL FUNDS

FY 2002 to FY 2003

	Amount (Thousands)	Comments
Total Increase	\$ 210,863	
Dept. of Transportation	\$ 294,201	Increased capital improvement expenditures
SRS, Except Hospitals	97,497	Caseload increases
Commerce and Housing	16,756	Section 8 housing contracts
Veterans Affairs	7,244	Operating costs for new Veterans Home
Human Resources	6,813	Increased benefit payments
Dept. on Aging	4,480	Caseload increases
Health and Environment	4,304	Increased operations expenditures
Highway Patrol	414	Increased operations expenditures
Dept. of Revenue	159	Increased operations expenditures
Secretary of State	(143)	Operating expenditures decreases
KTEC	(843)	Operating expenditures decreases
Dept. of Administration	(1,180)	Operating expenditures decreases
State Treasurer	(2,221)	Operating expenditure decreases
Corrections	(5,490)	Facility closures
Adjutant General	(6,681)	Current year disaster expenditures
Dept. of Wildlife and Parks	(6,867)	Reduction in capital improvement expenditures
Juvenile Justice agencies	(7,862)	Reduction in capital improvement expenditures
Regents	(53,942)	Reductions in operating grants
Dept. of Education	(121,977)	Reduced Base State Aid Per Pupil
All Other Agencies	(13,799)	

Note: Details may not add to total increase due to rounding.

EXPENDITURES AND STATUS OF THE STATE GENERAL FUND

Program and Agency Components of the FY 2003 General Fund Budget

The following tabulation provides an overview of the program or agency components of the Governor's recommended FY 2003 expenditures from the State General Fund. This tabulation identifies individual components which comprise 99.4 percent of General Fund expenditures. Education and state aid account for 70.2 percent of General Fund expenditures.

STATE GENERAL FUND EXPENDITURES BY PROGRAM OR AGENCY
Governor's Recommendations for FY 2003

	<u>Amount</u> <u>(Thousands)</u>	<u>Percent</u> <u>of Total</u>	<u>Cumulative</u> <u>Percent</u>	<u>Increase Over FY 2002</u> <u>Amount (000)</u>	<u>Percent</u>
Education					
State Aid to Local Units	\$ 2,315,608	53.92%	53.92%	\$ (131,768)	(5.4)%
Bd. of Regents/Institutions (a)	549,169	12.79	66.71	(22,487)	(3.9)
Other Education*	46,323	1.08	67.79	(531)	(1.1)
Subtotal, Education	\$ 2,911,100	67.79		(154,786)	(5.0)
State Aid Except Education	101,550	2.36	70.15	(15,963)	(13.6)
SRS, Except Hospitals	589,447	13.73	83.88	25,502	4.5
Dept. of Corrections/Facilities	198,367	4.62	88.50	6,795	3.5
Department on Aging	138,410	3.22	91.72	6,477	4.9
Judicial Branch	81,194	1.89	93.61	2,294	2.9
Juvenile Justice	40,965	0.95	94.56	2,121	5.5
Highway Patrol/KBI	38,744	0.90	95.46	(105)	(0.3)
Dept. of Revenue	34,479	0.80	96.27	(576)	(1.6)
State Hospitals	33,040	0.77	97.04	1,743	5.6
Dept. of Administration	25,374	0.59	97.63	(913)	(3.5)
Health and Environment	21,939	0.51	98.14	(4,754)	(17.8)
Legislative Branch	18,716	0.44	98.57	(1,609)	(7.9)
Board of Indigents Defense	14,453	0.34	98.91	(336)	(2.3)
Elected Officials	9,942	0.23	99.14	(2,244)	(18.4)
Dept. of Agriculture	9,812	0.23	99.37	(274)	(2.7)
Dept. of Transportation	0	0.00	99.37	(94,559)	(100.0)
All Other	27,010	0.63	100.00	(1,967)	(6.8)
TOTAL	<u>\$ 4,527,696</u>	<u>100.00%</u>		<u>\$ (233,154)</u>	<u>(5.1)%</u>

* Includes Department of Education, Schools for the Blind and Deaf, State Library, Arts Commission, and Historical Society, except for state aid to local units.

** Includes Public Broadcasting, except state aid of \$0.336 million which is part of Education-State Aid.

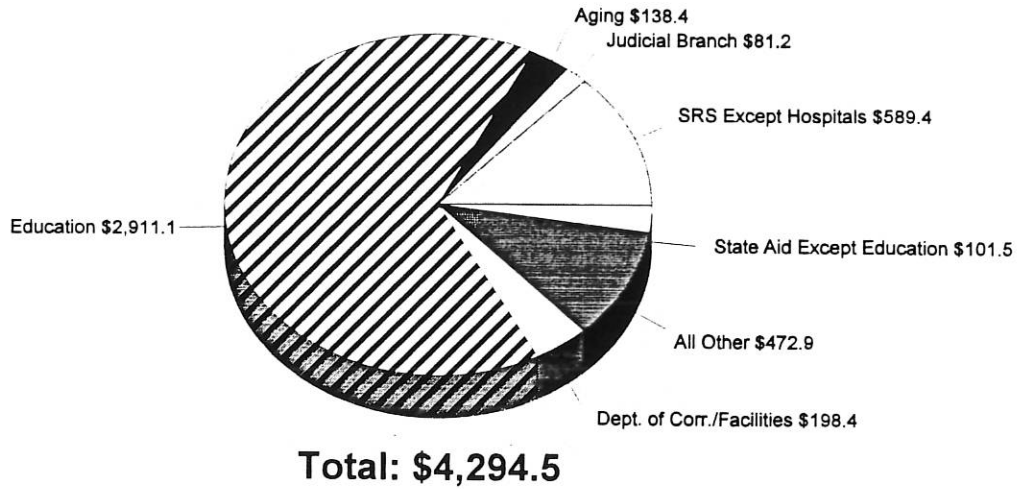
a) Aid to Washburn University is included in state aid to local units (\$10.177 million).

Note: All expenditures for each entry from SRS through "All Other" exclude state aid, if any.

The following pie chart displays the FY 2003 State General Fund expenditures by major program.

**FY 2003 State General Fund Expenditures
by Major Program or Agency**

(Millions of Dollars)



**General Fund Expenditures by Function
of Government**

The next tabulation summarizes General Fund expenditures by function of government. The reductions in education are largely related to the local aid decreases and the decreases at the Regents institutions which have previously been discussed.

**STATE GENERAL FUND EXPENDITURES
BY FUNCTION OF GOVERNMENT**

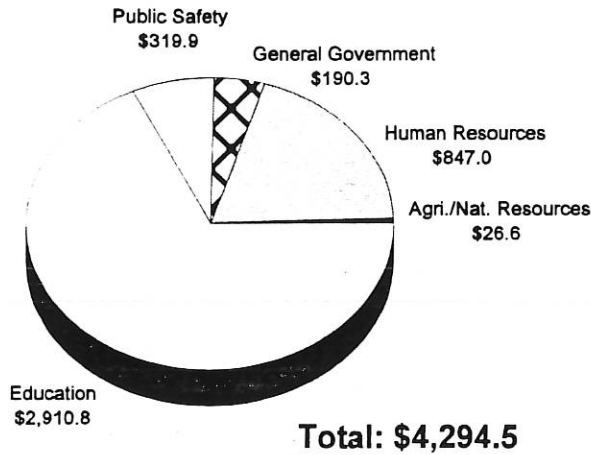
(Millions of Dollars)

Function	Actual FY 01	Est. FY 02	Change		Rec. FY 03	Change	
			\$	%		\$	%
General Government	\$ 270.5	\$ 193.2	\$ (77.3)	(28.6)%	\$ 190.3	\$ (2.9)	(1.5)%
Human Resources	788.6	822.7	34.1	4.3	847.0	24.3	3.0
Education	2,965.8	3,065.5	99.7	3.4	2,910.8	(154.7)	(5.0)
Public Safety	311.6	318.1	6.5	2.1	319.9	1.8	0.6
Agriculture/Natural Resources	31.1	33.6	2.5	8.0	26.6	(7.0)	(20.8)
Transportation	62.1	94.6	32.5	52.3	0.0	(94.6)	(100.0)
TOTAL	\$ 4,429.6	\$ 4,527.7	\$ 98.0	2.2%	\$ 4,294.5	\$ (233.1)	(5.1)%

The following pie chart reflects FY 2003 General Fund expenditures by function of government.

**FY 2003 STATE GENERAL FUND EXPENDITURES
BY FUNCTION OF GOVERNMENT**

(Millions of Dollars)



Expenditures by Major Purpose

Over \$2.4 billion (56.3 percent) of recommended FY 2003 expenditures from the General Fund is paid to local units of government, 28.2 percent represents the costs of state operations, 15.3 percent is for other assistance payments, and 0.2 percent is for capital improvements.

STATE GENERAL FUND EXPENDITURES BY MAJOR PURPOSE

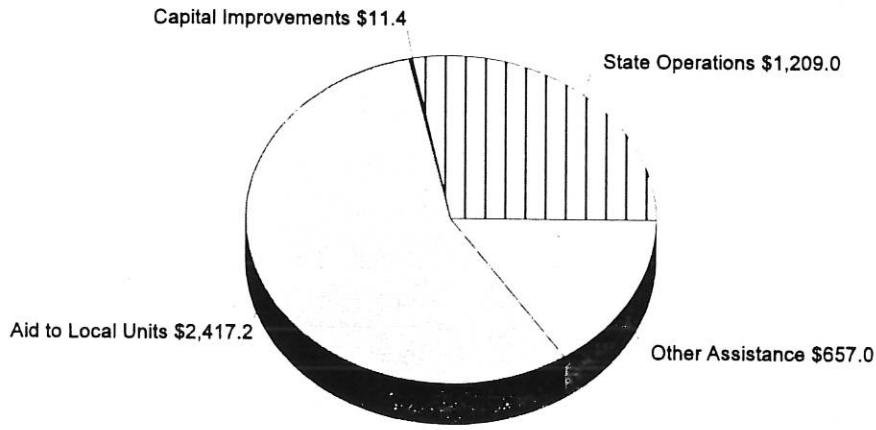
(Millions of Dollars)

	Actual	Est.	Change		Rec.	Change	
	FY 01	FY 02	\$	%	FY 03	\$	%
State Operations	\$ 1,180.1	\$ 1,224.6	\$ 44.5	3.8%	\$ 1,209.0	\$ (15.6)	(1.3)%
Aid to Local Units	2,586.5	2,564.9	(21.6)	(0.8)	2,417.2	(147.7)	(5.8)
Other Assistance	599.9	633.1	33.2	5.5	657.0	23.9	3.8
Total Operating	\$ 4,366.5	\$ 4,422.6	\$ 56.1	1.3	\$ 4,283.2	\$ (139.4)	(3.2)
Capital Improvements	63.1	105.1	42.0	66.6	11.4	(93.7)	(89.2)
TOTAL	\$ 4,429.6	\$ 4,527.7	\$ 98.1	2.2%	\$ 4,294.5	\$ (233.1)	(5.1)%

The following pie chart displays FY 2003 General Fund expenditures by major purpose.

**FY 2003 STATE GENERAL FUND EXPENDITURES
BY MAJOR PURPOSE**

(Millions of Dollars)



Total: \$4,294.5

State Operations by Function of Government

The following tabulations show expenditures from the State General Fund for state operations, *i.e.*, excluding state aid, other assistance, and capital improvements, by function of government.

**STATE GENERAL FUND FOR STATE OPERATIONS
BY FUNCTION OF GOVERNMENT**

(Millions of Dollars)

Function	Actual FY 01	Est. FY 02	Change		Rec. FY 03	Change	
			\$	%		\$	%
General Government	\$ 177.2	\$ 186.4	\$ 9.2	5.2%	\$ 184.6	\$ (1.8)	(1.0)%
Human Resources	143.3	148.8	5.5	3.8	153.0	4.2	2.8
Education	578.4	599.6	21.2	3.7	576.3	(23.3)	(3.9)
Public Safety	255.4	262.7	7.3	2.9	268.7	6.0	2.3
Agriculture/Natural Resources	25.8	27.0	1.2	4.7	26.3	(0.7)	(2.6)
Transportation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	\$ 1,180.1	\$ 1,224.6	\$ 44.4	3.8%	\$ 1,209.0	\$ (15.6)	(1.3)%

State Aid to Local Units of Government

The tabulation on the following page lists state aid by major program or financing source. Although most of the programs of state aid to local units are financed from the State General Fund, some significant ones are financed from the resources of other funds. For example, the Governor's recommendation includes \$10.4 million in local aid expenditures from the Children's Initiatives Fund in the budget of the Department of Education. Federal aid is not included in this tabulation.

The tabulation reflects General Fund aid to local school districts in FY 2003 which decreases \$127.4 million or 5.5 percent below the FY 2002 level. Total General Fund aid to local units in the budget year decreases \$147.7 million or 5.8 percent below the current year.

STATE AID TO LOCAL UNITS OF GOVERNMENT
In Thousands

From State General Fund	FY 1998	FY 1999	FY 2000	FY 2000	Gov. Rec. FY 2002	Gov. Rec. FY 2003	Increase FY 2002-2003	
							Amount	Percent
General State Aid	\$ 1,488,745	\$ 1,683,061	\$ 1,777,656	\$ 1,805,484	\$ 1,810,621	\$ 1,693,752	\$ (116,869)	(6.5)%
Supp. General Aid	50,251	64,998	72,523	84,255	117,102	125,798	8,696	7.4
Subtotal	1,538,996	1,748,059	1,850,179	1,889,739	1,927,723	1,819,550	(108,173)	(5.6)
Cap. Improve. Aid	18,980	22,747	26,098	30,676	40,100	-	(40,100)	(100.0)
KPERS-School ¹⁾	75,775	83,557	87,889	88,462	98,392	108,763	10,371	10.5
Special Ed.	200,848	218,843	228,757	233,391	242,250	253,412	11,162	4.6
Deaf/Blind/Hand. Child.	110	110	109	109	110	110	-	0.0
Adult Basic Ed. (USDs)	296	323	385	385	385	385	-	0.0
Food Service	2,370	2,365	2,361	2,362	2,373	2,373	-	0.0
In-Service Training	2,995	3,993	4,944	4,592	2,600	2,600	-	0.0
Parent Education	2,738	4,595	4,365	4,620	4,265	4,640	375	8.8
USD 207-Ft. Leaven.	1,311	-	-	-	-	-	-	0.0
Structured Mentoring	-	975	964	-	-	-	-	0.0
Ed. Excellence Grants	115	1,600	-	41	38	38	-	0.0
Innovative Programs	-	-	1,580	11	11	11	-	0.0
Mentor Teachers	-	-	-	0	1,000	-	(1,000)	(100.0)
Juv. Detention Grants	2,820	3,320	4,011	4,703	5,599	5,599	-	0.0
Subtotal, USDs	1,847,354	2,090,487	2,211,642	2,259,091	2,324,846	2,197,481	(127,365)	(5.5)
Voc. Ed.-Postsecondary	18,406	18,866	19,508	19,508	20,084	19,675	(409)	(2.0)
Community Colleges	55,693	58,689	60,937	74,807	85,175	81,819	(3,356)	(3.9)
Adult Basic Ed. (CCs)	561	613	715	715	715	715	-	0.0
Tech. Equip. (WU and CCs)	1,000	-	450	450	450	450	-	0.0
Capital Outlay Aid (AVTS)	-	-	500	-	-	-	-	0.0
Washburn University	7,455	7,902	8,188	9,270	10,594	10,177	(417)	(3.9)
Public TV (Washburn)	254	228	259	323	337	336	(1)	(0.3)
Libraries	3,128	3,454	4,031	3,866	3,873	3,720	(153)	(4.0)
Arts Program Grants	194	192	228	1,303	1,302	1,237	(65)	(5.0)
KUMC Telemedicine	50	50	-	-	-	-	-	0.0
Total, Education	1,934,095	2,180,481	2,306,458	2,368,613	2,447,376	2,315,609	(131,766)	(5.4)
Local Prop. Tax Reduc. ¹²⁾	47,771	55,122	57,903	54,137	-	-	-	0.0
Co.-City Revenue Sharing	35,709	36,566	36,932	34,531	-	-	-	0.0
Community Corrections	13,894	14,717	14,824	14,753	15,309	13,559	(1,750)	(11.4)
Community Corr. Camps	1,592	2,219	2,174	2,629	2,686	224	(2,462)	(91.7)
Juvenile Community Programs	14,012	25,631	32,611	25,317	24,014	21,356	(2,658)	(11.1)
Watershed Const/Soil Cons.	-	-	-	-	-	-	-	0.0
Local Public Health	7,418	9,150	9,607	9,582	9,851	9,851	-	0.0
Cherokee Co. Road Remed.	-	-	50	-	-	-	-	0.0
Aging Dept. Programs	2,084	2,580	2,052	10,108	10,417	5,997	(4,420)	(42.4)
Comm. Mental Health	10,001	10,233	10,233	10,233	10,233	10,233	-	0.0
Comm. Mental Retard.	5,963	5,963	5,963	5,963	5,963	5,963	-	0.0
Comm. Assnt. Grants	40,563	42,010	39,748	39,909	38,638	34,050	(4,588)	(11.9)
Winfield Claim	6	-	-	-	-	-	-	0.0
Disaster Relief/Training	10	20	584	41	-	-	-	0.0
Mtr. Carrier Tax to CCHF	10,737	10,995	11,182	10,343	-	-	-	0.0
HOME Program	1,037	1,037	773	-	-	-	-	0.0
Judiciary Operations	-	-	477	-	-	-	-	0.0
EMS Regional Councils	68	100	84	-	78	-	(78)	(100.0)
KDHE Superfund Match	86	-	-	-	-	-	-	0.0
Dept. of Revenue Aid	-	93	-	-	-	-	-	0.0
Community Lake Asst.	-	25	-	-	-	-	-	0.0
Employment Programs	-	-	331	372	325	316	(9)	(2.8)
Crim. Justice Info. Sys.	204	541	15	-	-	-	-	0.0
Total, Other Programs	190,885	217,090	225,544	217,918	117,514	101,549	(15,965)	(13.6)
Total, General Fund	\$ 2,124,980	\$ 2,397,571	\$ 2,532,002	\$ 2,586,532	\$ 2,564,889	\$ 2,417,158	\$ (147,731)	(5.8)%
% of Total SGF Expend.	56.0%	57.1%	57.8%	58.4%	56.6%	56.3%		

- 1) State payment of employer contribution for school employees retirement, mostly on behalf of school districts but part on behalf of community colleges and area vocational schools.
- 2) Community colleges and Washburn University share in this aid, but most goes to counties, cities, townships, and special districts. School districts do not participate.

Recommended Changes in General Fund Programs

The following tabulation summarizes General Fund expenditure changes from the FY 2002 Governor's revised estimate to the Governor's recommendations for FY 2003.

INCREASE IN STATE GENERAL FUND EXPENDITURES FY 2002 to FY 2003

	Amount (000)	Percent of Total Increase
Total Increase	<u>\$ (233,154)</u>	<u>100.0%</u>
State Aid for Education, Total	(131,767)	56.5
Basic General Aid	(116,869)	50.1
Supplemental General Aid	8,696	(3.7)
Special Education	11,162	(4.8)
Capital Improvement Aid	(40,100)	17.2
KPERs-School	10,371	(4.4)
Community College Aid	(3,355)	1.4
All Other	(1,672)	0.7
SRS, Except Hospitals	20,914	(9.0)
Corrections	2,584	(1.1)
Judicial Branch	2,294	(1.0)
Department on Aging	2,058	(0.9)
SRS Hospitals	1,742	(0.7)
State Fair	167	(0.1)
Historical Society	165	(0.1)
State Treasurer	30	0.0
Highway Patrol	(21)	0.0
Secretary of State	(38)	0.0
Arts Commission	(64)	0.0
Adjutant General	(156)	0.1
Department of Agriculture	(274)	0.1
Department of Wildlife and Parks	(444)	0.2
Juvenile Justice	(536)	0.2
Department of Revenue	(576)	0.2
Department of Health and Environment	(754)	0.3
Department of Human Resources	(853)	0.4
Legislative Agencies	(858)	0.4
Department of Administration*	(913)	0.4
Attorney General	(1,830)	0.8
Conservation Commission	(6,011)	2.6
Board of Regents and Institutions*	(22,487)	9.6
Department of Transportation	(94,559)	40.6
All Other	(967)	0.4

*Excludes state aid to local units of government.

DEMAND TRANSFERS FROM THE STATE GENERAL FUND

Demand transfers are certain expenditures specified by statute. In FY 2002, three of the demand transfers: Local Ad Valorem tax Reduction Fund, County and City Revenue Sharing Fund and the Special City and County Highway Fund were made revenue transfers. By changing these selected demand transfers to revenue transfers, these funds were no longer considered State General Fund expenditures and thus, no longer subject to the State General Fund ending balance law. In FY 2003, the Governor recommends keeping the three converted transfers as revenue transfers. In addition, the Governor recommends that two more demand transfers, the State Water Plan Fund and the School District Capital Improvement Fund, be changed to revenue transfers from the State General Fund. The Governor, does not recommend any funding for the State Highway Fund demand transfer in the budget year. The State Fair Capital Improvement Fund, under the Governor's FY 2003 recommendation, remains as the only demand transfer. In the current year the Governor recommends that the State Highway Fund demand transfer be reduced by \$20.0 million to reflect action by the 2001 Legislature that authorized an additional \$277 million in bonds for the Comprehensive Transportation Plan and a general reduction of \$6.5 million. Both of these items were vetoed by the Governor during the 2001 Session of the Legislature in order to delete another KDOT funding adjustment.

FY 2003 DEMAND/REVENUE TRANSFERS FROM STATE GENERAL FUND TO OTHER STATE FUNDS

(In Thousands)

Fund	FY 2003		
	No Law Change	Proposed	Change
State Highway	\$ 165,193	\$ 0	\$ (165,193)
Local Ad Valorem Tax Reduction	62,738	52,493	(10,245)
Co.-City Revenue Sharing	47,868	33,481	(14,387)
City-Co. Highway	20,000	11,182	(8,818)
Water Plan	6,000	6,000	0
School Dist. Cap. Improve.	45,100	45,100	0
State Fair	300	300	0
TOTAL	<u>\$ 347,199</u>	<u>\$ 148,556</u>	<u>\$ (198,643)</u>

Status of the State General Fund

The following tabulation summarizes the status of the State General Fund as to receipts, expenditures, and unencumbered cash balances based on the Governor's recommendation for fiscal years 2001 and 2002.

STATE GENERAL FUND RECEIPTS, EXPENDITURES, AND BALANCES

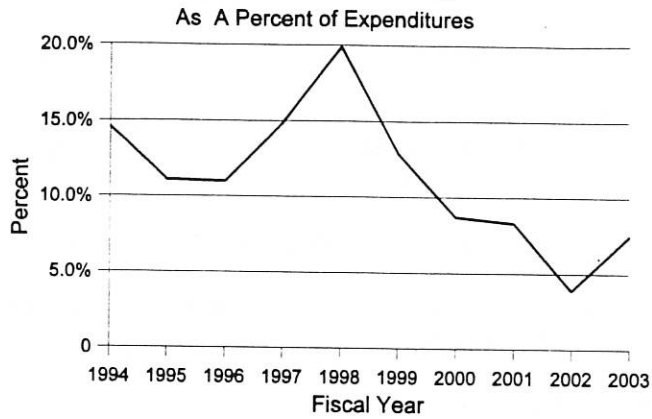
(Millions of Dollars)

	Actual FY 01	Revised FY 02	Change	Rec. FY 03	Change
Beginning Unencumbered Cash Balance	\$ 378.0	\$ 365.7	\$ (12.3)	\$ 174.4	\$ (203.6)
Released Encumbrances	2.3	0.0	(2.3)	0.0	(2.3)
Receipts (November 2001 Consensus)	4,415.0	4,336.0	(79.0)	4,588.6	173.6
Gov. Rec. Adjustments	0.0	0.4	0.4	(146.2)	(146.2)
Adjusted Receipts	4,415.0	4,336.4	(78.6)	4,442.4	27.4
Total Resources	\$ 4,795.3	\$ 4,702.1	\$ (93.2)	\$ 4,616.8	\$ (178.5)
Less Expenditures	4,429.6	4,527.7	98.1	4,294.5	(135.1)
Ending Unencumbered Cash Balance	<u>\$ 365.7</u>	<u>\$ 174.4</u>	<u>\$ (191.3)</u>	<u>\$ 322.3</u>	<u>\$ (43.4)</u>
Ending Balance as a Percentage of Expenditures	8.3%	3.9%		7.5%	
Adj. Receipts in Excess of Expenditures	\$ (14.6)	\$ (191.3)		\$ 147.9	

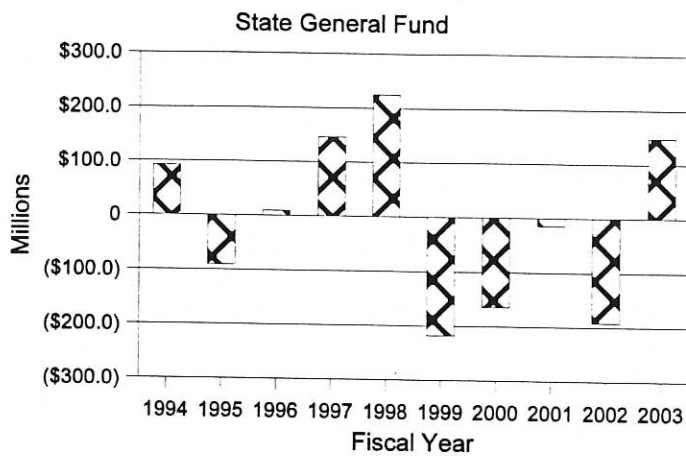
The FY 2003 General Fund ending balance as a percentage of expenditures under the Governor's recommendations would be 7.5 percent, the targeted minimum ending balance required under K.S.A. 75-6702 and 75-6703. **Receipts for FY 2002 and FY 2003 are equal to the consensus estimates except for certain transfers and proposals recommended by the Governor which increase receipts to the State General Fund by \$0.4 million in FY 2002 and reduce receipts by \$146.1 million in FY 2003. The Governor's proposals include the following:**

- ◆ For **FY 2002**, the Governor recommends a transfer of \$250,000 from the State Water Plan to the State General Fund. In addition, the Governor's recommendation includes \$711,500 in additional insurance premium tax revenues through elimination of the transfer of 1.0 percent of total receipts to the Insurance Department. In addition, the adjustment reflects the transfer of \$545,096 from the State General Fund to the State Emergency Fund which was authorized by the State Finance Council.
- ◆ For **FY 2003**, the Governor's recommendation decreases State General Fund revenues by \$146.1 million. The Governor recommends converting all demand transfers except the State Fair Capital Improvement demand transfer to revenue transfers (a reduction of \$146.1 million). The Governor's recommendation also includes an additional \$0.8 million in revenue from insurance premium tax receipts, and an increase in agency earnings of \$0.3 million to account for the increase in the reimbursement rate charged by the Department of Corrections to inmates who are in Kansas correctional facilities. In addition, the Governor recommends the transfer of \$1.1 million from the KPERS Death and Disability Special Revenue Fund to the State General Fund.

State General Fund Ending Balance



Receipts in Excess of Expenditures



Governor's Proposal for Increased State General Fund Receipts and Expenditures

During his State of the State message, the Governor offered a proposal for increased State General Fund revenues to be derived from the from the following sources:

- **A \$0.65 per pack increase (from \$0.24 to \$0.89) in cigarette taxes**, expected to generate **\$111.0 million** in additional revenue.
- **A one-quarter cent state sales tax increase (from 4.9 to 5.15 percent)**, expected to generate **\$95.0 million**.
- **\$22.0 million** in additional revenue would be generated through **a one cent increase in the state motor**

fuels tax and a 3.0 percent increase in the registration fees on all vehicles. *This additional revenue would be earmarked for the state's Comprehensive Transportation Plan.*

The Governor indicated he would utilize the additional revenues as outlined below:

Restore \$139.0 million in expenditures reduced in his submitted budget, including:

- \$91.1 million to **maintain Base State Aid Per Pupil at \$3,870;**
- \$27.1 million to **restore the budgets of the Regents institutions to current year levels;**
- **\$7.0 million in grants and services in the Department of Social and Rehabilitation Services**, including mental health grants (\$3.0 million), developmental disability grants (\$1.5 million), family preservation services (\$2.0 million), and funeral assistance (\$0.5 million);
- **\$4.4 million to restore Senior Care Act funding** to provide elderly in-home services;
- \$5.5 million to **keep the Labette Correctional Conservation Camp, and the Stockton, Osawatomie and Toronto Correctional Facilities open;**
- \$0.2 million for **aid to local libraries;**
- \$0.1 million to restore funding for **Teachers National Board Certification** at Emporia State University; and
- \$3.6 million to **restore revenue transfers to the Local Ad Valorem Tax Reduction Fund (LAVTRF) and the County-City Revenue Sharing Fund (CCRSF) to current year levels.**

Fund targeted enhancements totaling \$52.6 million, including:

- \$12.0 million to **increase Base State Aid Per Pupil by \$20 (from \$3,870 to \$3,890);**
- A **2.0 percent salary increase for state employees** (\$12.0 million);
- **Increase operating grants at the Regents Institutions** by \$7.0 million;
- \$3.0 million for an **economic stimulus package**, including funding for tourism advertising (\$0.5 million), grant programs to assist communities in attracting conventions and events of national or regional importance (\$0.2 million), support for the Enterprise Facilitation Program (\$1.0 million), a pilot program to determine the effectiveness of a tax credit incentive for value-added agriculture (\$0.8 million), and funding for the Training Equipment Grant program (\$0.5 million);
- \$2.0 million for **homeland security initiatives;**
- \$1.5 million for **tobacco prevention programs;** and
- \$4.1 million to keep the **Judiciary** system fully operational.

Utilize \$14.3 million to maintain the FY 2003 ending balance at 7.5 percent.

The Governor's recommended budget, including his proposed restorations and targeted enhancements would provide FY 2003 State General Fund expenditures of \$4.486 billion, a reduction of \$41.6 million (0.9 percent) from the Governor's FY 2002 revised recommendation