

# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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January 22, 2013

**To:** Senate Ways and Means Committee

**From:** J.G. Scott, Chief Fiscal Analyst

**Re:** Off-Budget Items

You had requested general information on what makes an item off-budget and how off budget items impact the state budget.

## State Expenditures

State expenditures are separated into two categories: reportable and non-reportable (or off-budget).

- **Reportable expenditures** are direct cash outlays and encumbrances for salaries and wages; other operating expenditures (rent, printing, travel, etc.), payments to local units of governments (school districts, cities, counties, etc.), assistance to individuals (welfare payments, unemployment benefit payments, etc.), and capital improvements (new building construction and renovations) by state agencies.
- **Non-reportable (off-budget) expenditures** are not reflected in the state budget for a variety of reasons. Some examples include:
  - Department of Administration -- Certain expenditures of the Department of Administration are called "off-budget." These expenditures are monies spent in many state agencies' budgets for printing services; for example, monies are spent, again, to operate the Department of Administration's State Printing Plant. The agencies' costs are treated as reportable and the Printing Plant's as non-reportable to avoid counting the same dollars twice. These non-reportable expenditures are included separately in the Governor's budget reports, but are not included in the state expenditure totals. The Department of Administration's off-budget expenditures in FY 2013 are estimated to be \$83.4 million and include 424.6 full-time-equivalent positions.
  - **Other funds** – Other non-reportable expenditures are clearing and suspense funds, revolving funds, inmate or patient benefit and trust funds, bond proceeds, and non-expense items, such as refunds. Bond proceeds are not included in the *Governor's Budget Report*, except for those of the Comprehensive Transportation Program.

Senate Ways and Means Committee  
Date: 1-22-2013  
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- **Policy decisions to exclude certain expenditures from the budget**
  - Over the years, there have been different policy decisions, usually recommended by the Governor and accepted by the Legislature, to remove certain expenditures from the state budget. Examples would include:
    - University of Kansas Hospital Authority (\$170.9 million in FY 2000);
    - KPERS retirement benefits (\$1.327 billion in FY 2013);
    - Bioscience Authority (\$47.0 million in FY 2009);
    - Homestead Property Tax refunds (\$51.0 million in FY 2002);
    - Regents Faculty of Distinction Program (\$113,602 in FY 2013);
    - and
    - State Housing Trust Fund (\$600,000).
- The KU Hospital Authority and the Biosciences Authority were established as quasi-governmental entities by the Legislature and their budgets are not reviewed by the Legislature. KPERS retirement benefits were excluded since some of the employer contributions, which make up part of the KPERS Fund would have been previously reflected in the state budget. The decisions to exclude some of the other above items from the state budget are not clearly stated in any documentation that I could find.
  - Demand transfers to revenue transfers -- Starting in 2003, several State General Fund demand transfers were switched to State General Fund revenue transfers. This has the effect of taking those expenditures out of the State General Fund 7.5 percent ending balance calculation and lowering State General Fund expenditures. For example, in FY 2003 the Local Ad Valorem Tax Reduction Fund (\$52.5 million) was switched to a revenue transfer. The \$52.5 million was taken out of State General Fund receipts and transferred to a special revenue fund (with the same expenditure purpose) and expended as special revenue fund dollars, rather than a State General Fund dollar. Another example of a State General Fund revenue transfer would include the School District Capital Improvement Fund (\$110.8 million in FY 2013).

Attached to this memorandum is a table reflecting selected non-reportable expenditures and previous State General Fund expenditures that were shifted off-budget or not reflected in the state budget. On that same table, there is a listing of demand transfers that were switched to revenue transfers. In addition, there is additional detailed information about selected agencies' non-reportable expenditures.

JGS/kal

**Expenditures shifted to off budget/Selected revenue transfers**

	Year removed/ started	Original Amount	FY 2013 Estimate
Kansas Public Employees Retirement Benefits	1999	\$ 472,547,000	\$ 1,327,245,000
University of Kansas Hospital Authority	2000	170,924,000	-
Senior Services Trust Fund	2002	51,000,000	-
Homestead Property Tax Refunds	2002	14,100,000	?
Regents Faculty of Distinction Program	2004	336,962	113,602
Cabela's Bond Financing	2005	8,000,000	Complete
Regents Research Corporation Bonds	2005	3,064,068	1,063,850
Kansas Speedway Bond Financing	2005	1,600,000	Complete
Biosciences Authority	2006	19,889,268	12,287,267
Spirit Aerosystems Incentive	2006	3,400,000	4,600,000
Eaton MDH Spec. Qual. Industrial Mfg. Fund	2008	600,000	260,000
State Housing Trust Fund	2009	4,000,000	-
Cessna Incentive	2009	1,150,000	Complete
Learlet Bond Financing	2011	3,000,000	6,000,000
Siemens Bond Financing	2011	200,000	600,000

**Demand transfers (State General Fund expenditure) changed to revenue transfers (non-State General Fund expenditure)**

Local Ad Valorem Tax Reduction Fund	2003	\$ 52,500,000	\$ -
School District Capital Improvement Fund	2003	47,216,000	110,818,543
County and City Revenue Sharing Fund	2003	33,500,000	-
Special City and County Highway Fund	2003	11,200,000	-
State Water Plan Fund	2003	6,000,000	-
Property Tax Reimb. to Local Tax Subdiv.	2008	25,860,360	-

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## FY 2013 Transfers In and Out of the State General Fund

		November <u>Cons. Rev. Est.</u>	Governor's <u>Adjustments</u>	FY 2013 <u>Revised</u>
<b>Transfers In:</b>				
Department of Administration	Cancelled Warrants	3,000,000	--	3,000,000
	Accounting Services Recovery Fund	411,578	--	411,578
	Medical Residents FICA Refunds	--	25,000,000	25,000,000
KPERS	Bond Payment for 13th Check	3,208,993	--	3,208,993
Kansas Lottery	Gaming Revenues Fund	21,300,000	2,000,000	23,300,000
	Special Veterans Benefit Game	1,200,000	--	1,200,000
	Exp. Lottery Act Rev. Fund Receipts	5,000,000	(7,000,000)	(2,000,000)
Racing & Gaming	Tribal Gaming Program Loan Repayment	450,000	--	450,000
PMIB	PMIB Investment Portfolio Fee Fund	1,600,000	--	1,600,000
Department of Revenue	Unused Emergency Funds-SE Ks Bus Rcvry	1,289,451	--	1,289,451
	Unused Emergency Funds-Bus Restoration	576,271	--	576,271
	DOV Modernization Fund	6,751,952	--	6,751,952
	Oil & Gas Val. Deplet. Trust Fund Admin. Fee	283,000	--	283,000
Securities Commissioner	Statutory End of the Year Balance Transfer	10,823,890	--	10,823,890
Attorney General	Court Cost Fund	4,881,920	--	4,881,920
Judicial Council	Judicial Performance Fund	600,000	--	600,000
Department of Education	State Safety Fund	1,500,000	--	1,500,000
	Federal Billing for KPERS/Special Ed Teachers	--	16,100,000	16,100,000
Highway Patrol	Training Center Fund	500,000	--	500,000
Department of Transportation	Overhead Payment/Purchasing	210,000	--	210,000
State Fair	Special Cash Fund	200,000	--	200,000
Water Office	Water Supply Storage Acquisition Fin. Fund	120	--	120
Various Agencies	27th Check Pay Forward/Coding in SMART	1,175,831	--	1,175,831
<b>Transfers Out:</b>				
Department of Education	School District Cap. Improvements Fund	(110,818,543)	--	(110,818,543)
Housing Resources Corporation	Housing Trust Fund	(600,000)	--	(600,000)
State Fair	Special Cash Fund	(200,000)	--	(200,000)
	Capital Improvements Fund	(300,000)	--	(300,000)
Board of Regents	Regents Faculty of Distinction Program	(113,602)	--	(113,602)
	Regents Research Corporation Bonds	(1,063,850)	--	(1,063,850)
Attorney General	Tort Claims	(1,592,357)	(95,000)	(1,687,357)
Various Agencies	Bioscience Initiatives	(35,000,000)	22,712,733	(12,287,267)
KPERS	Non-Retirement Administration	(240,000)	--	(240,000)
State Treasurer	Spirit Aerosystems Incentive	(4,600,000)	--	(4,600,000)
	Eaton MDH Spec. Qual. Indus. Mfg. Fund	(260,000)	--	(260,000)
	Siemens Manufacturing Incentive	(600,000)	--	(600,000)
	Learjet Incentive	(6,000,000)	--	(6,000,000)
	Tax Increment Finance Replacement Fund	(950,000)	--	(950,000)
	Learning Quest Matching Funds	(490,000)	--	(490,000)
Racing & Gaming	Tribal Gaming Program Loan	(450,000)	--	(450,000)
Highway Patrol	Highway Patrol Operations Fund	(627,766)	--	(627,766)
Total Transfers		\$ (98,943,112)	\$ 58,717,733	\$ (40,225,379)
Interest		(2,956,888)	--	(2,956,888)
Net Transfers		\$ (101,900,000)	\$ 58,717,733	\$ (43,182,267)

## FY 2014 Transfers In and Out of the State General Fund

		November	Governor's	FY 2014
		<u>Cons. Rev. Est.</u>	<u>Adjustments</u>	<u>Gov. Rec.</u>
<b>Transfers In:</b>				
Economic Dev't Initiatives Fund	Sweep to SGF	--	10,200,000	10,200,000
Department of Administration	Cancelled Warrants	2,500,000	--	2,500,000
Attorney General	Court Cost Fund	--	5,000,000	5,000,000
KPERS	Bond Payment for 13th Check	3,206,406	--	3,206,406
Kansas Lottery	Gaming Revenues Fund	21,300,000	1,000,000	22,300,000
	Special Veterans Benefit Game	1,200,000	--	1,200,000
Racing & Gaming	Tribal Gaming Program Loan Repayment	450,000	--	450,000
PMIB	PMIB Investment Portfolio Fee Fund	1,000,000	--	1,000,000
Department of Revenue	Oil & Gas Val. Deplet. Trust Fund Admin. Fee	300,000	14,700,000	15,000,000
Securities Commissioner	Statutory End of the Year Balance Transfer	10,759,205	54,987	10,814,192
Department of Education	State Safety Fund	--	1,100,000	1,100,000
	Federal Billing for KPERS/Special Ed Teachers	--	16,100,000	16,100,000
Regents System	27th Paycheck	1,175,831	--	1,175,831
Department of Corrections	Correctional Industries Fund	--	750,000	750,000
Highway Patrol	Training Center Fund	500,000	(500,000)	--
Department of Transportation	State Highway Fund	--	15,000,000	15,000,000
	Overhead Payment/Purchasing	210,000	--	210,000
State Fair	Special Cash Fund	200,000	--	200,000
<b>Transfers Out:</b>				
Department of Education	School District Cap. Improvements Fund	(114,000,000)	--	(114,000,000)
Health Care Stabilization Fund	Support for KUMC Graduate Students	(3,967,245)	--	(3,967,245)
State Fair	Special Cash Fund	(200,000)	--	(200,000)
	Capital Improvements Fund	(300,000)	300,000	--
Board of Regents	Regents Faculty of Distinction Program	(120,000)	--	(120,000)
	Regents Research Corporation Bonds	(155,400)	--	(155,400)
Attorney General	Tort Claims	(1,141,133)	--	(1,141,133)
Various Agencies	Bioscience Initiatives	(35,000,000)	25,000,000	(10,000,000)
KPERS	Non-Retirement Administration	(240,000)	--	(240,000)
State Treasurer	Spirit Aerosystems Incentive	(4,800,000)	--	(4,800,000)
	Eaton MDH Spec. Qual. Indus. Mfg. Fund	(270,000)	--	(270,000)
	Siemens Manufacturing Incentive	(350,000)	--	(350,000)
	Learjet Incentive	(6,200,000)	--	(6,200,000)
	Tax Increment Finance Replacement Fund	(500,000)	--	(500,000)
	Learning Quest Matching Funds	(350,000)	--	(350,000)
	Local Ad Valorem Tax Reduction Fund	(27,000,000)	27,000,000	--
Racing & Gaming	Tribal Gaming Program Loan	(450,000)	--	(450,000)
Total Transfers		\$ (152,242,336)	\$ 115,704,987	\$ (36,537,349)
Interest		(3,657,664)	--	(3,657,664)
Net Transfers		\$ (155,900,000)	\$ 115,704,987	\$ (40,195,013)

## FY 2015 Transfers In and Out of the State General Fund

		Ongoing <u>Transfer "Base"</u>	Governor's <u>Adjustments</u>	FY 2015 <u>Gov. Rec.</u>
<b>Transfers In:</b>				
Economic Dev't Initiatives Fund	Sweep to SGF	--	9,700,000	9,700,000
Department of Administration	Cancelled Warrants	2,500,000	--	2,500,000
Attorney General	Court Cost Fund	--	3,000,000	3,000,000
Kansas Lottery	Gaming Revenues Fund	22,300,000	500,000	22,800,000
	Special Veterans Benefit Game	1,200,000	--	1,200,000
Racing & Gaming	Tribal Gaming Program Loan Repayment	450,000	--	450,000
PMIB	PMIB Investment Portfolio Fee Fund	1,000,000	--	1,000,000
Department of Revenue	Oil & Gas Val. Deplet. Trust Fund Admin. Fee	300,000	19,000,000	19,300,000
Securities Commissioner	Statutory End of the Year Balance Transfer	10,784,030	81,242	10,865,272
Department of Education	State Safety Fund	--	1,100,000	1,100,000
	Federal Billing for KPERS/Special Ed Teachers	--	16,500,000	16,500,000
Regents System	27th Paycheck	1,175,831	--	1,175,831
Highway Patrol	Training Center Fund	500,000	(500,000)	--
Department of Transportation	State Highway Fund	--	15,000,000	15,000,000
	Overhead Payment/Purchasing	210,000	--	210,000
State Fair	Special Cash Fund	200,000	--	200,000
<b>Transfers Out:</b>				
Department of Education	School District Cap. Improvements Fund	(118,000,000)	(560,000)	(118,560,000)
Health Care Stabilization Fund	Support for KUMC Graduate Students	(3,967,245)	--	(3,967,245)
State Fair	Special Cash Fund	(200,000)	--	(200,000)
	Capital Improvements Fund	(300,000)	300,000	--
Board of Regents	Regents Faculty of Distinction Program	(120,000)	--	(120,000)
	Regents Research Corporation Bonds	(100,000)	55,620	(44,380)
Attorney General	Tort Claims	(1,200,000)	--	(1,200,000)
Various Agencies	Bioscience Initiatives	(35,000,000)	--	(35,000,000)
KPERS	Non-Retirement Administration	(240,000)	--	(240,000)
State Treasurer	Spirit Aerosystems Incentive	(4,800,000)	--	(4,800,000)
	Siemens Manufacturing Incentive	(350,000)	--	(350,000)
	Learjet Incentive	(6,200,000)	1,550,000	(4,650,000)
	Tax Increment Finance Replacement Fund	(500,000)	--	(500,000)
	Learning Quest Matching Funds	(350,000)	--	(350,000)
	Local Ad Valorem Tax Reduction Fund	(40,500,000)	40,500,000	--
Racing & Gaming	Tribal Gaming Program Loan	(450,000)	--	(450,000)
Total Transfers		\$ (171,657,384)	\$ 106,226,862	\$ (65,430,522)
Interest		(3,000,000)	--	(3,000,000)
Net Transfers		\$ (174,657,384)	\$ 106,226,862	\$ (68,430,522)

**OFF BUDGET ITEMS INCLUDED IN THE GOVERNOR'S FY 2013 RECOMMENDATIONS**

Agency	Expenditures
Department of Administration	\$ 96,536,279
Department of Health and Environment--Health	39,183,852
Kansas Bureau of Investigation	2,865,048
Office of Administrative Hearings	879,126
Commission on Veterans Affairs	612,900
Highway Patrol	248,284
<b>Subtotal</b>	<b>\$ 140,325,489</b>
Nonexpense Items	2,751,049,913
<b>Grand Total</b>	<b><u>\$ 2,891,375,402</u></b>

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## Provisos in HB 2014 Changing Demand Transfers to Revenue Transfers

### Sec. 180 – School District Capital Improvements Funds

(c) The state board of education shall certify to the director of accounts and reports the entitlements of school districts determined under the provisions of subsection (b), and an amount equal thereto shall be transferred by the director from the state general fund to the school district capital improvements fund for distribution to school districts. All transfers made in accordance with the provisions of this subsection shall be considered to be demand transfers from the state general fund, except that all such transfers during the fiscal years ending June 30, 2011, and June 30, 2012, *and June 30, 2013*, shall be considered to be **revenue transfers** from the state general fund.

### Sec. 182 – Faculty of Distinction

On July 1, 2011, K.S.A. 2010 Supp. 76-775 is hereby amended to read as follows: 76-775. (a) Subject to the other provisions of this act, on the first day of the first state fiscal year commencing after receiving a certification of receipt of a qualifying gift under K.S.A. 2010 Supp. 76-774, and amendments thereto, the director of accounts and reports shall transfer from the state general fund the amount determined by the director of accounts and reports to be the earnings equivalent award for such qualifying gift for the period of time between the date of certification of the qualifying gift and the first day of the ensuing state fiscal year to either (1) the endowed professorship account of the faculty of distinction matching fund of the eligible educational institution, in the case of a certification of a qualifying gift to an eligible educational institution that is a state educational institution, or (2) the faculty of distinction program fund of the state board of regents, in the case of a certification of a qualifying gift to an eligible institution that is not a state educational institution. Subject to the other provisions of this act, on each July 1 thereafter, the director of accounts and reports shall make such transfer from the state general fund of the earnings equivalent award for such qualifying gift for the period of the preceding state fiscal year. All transfers made in accordance with the provisions of this subsection shall be considered demand transfers from the state general fund, except that all such transfers during the fiscal years ending June 30, 2011, and June 30, 2012, *and June 30, 2013*, shall be considered to be **revenue transfers** from the state general fund.

### Sec. 182 – Bonds for Regent Scientific Research and Development (\$120 million)

(3) Upon acceptance by the board of regents of each project initiated and completed under this act and upon a determination by the board of regents that the period for repayment of debt for such project is to commence, the board of regents shall certify to the director of accounts and reports that principal and interest payments for such project are to commence and the dates and amounts of all principal and interest payments for such project. Pursuant to each such certification and commencing on or after July 1, 2004, the director of accounts and reports shall transfer, from the state general fund to the debt service fund or funds at a state educational institution as specified in the certification for such project, the amount certified on or before the respective payment date therefor. Transfers shall be made under this section pursuant to any such certification on or after July 1, 2004. All such transfers during the fiscal years ending June 30, 2011, and June 30, 2012, *and June 30, 2013*, shall be considered to be **revenue transfers** from the state general fund. The aggregate of all such transfers from the state general fund during any fiscal year shall not exceed \$10,000,000 and the aggregate of all such transfers from the state general fund under this section shall not exceed \$50,000,000. The Kansas development finance authority and the board of regents shall enter into contracts with respect to the scientific research and development facilities financed under this act prescribing the obligation of the board of regents and the state educational institutions to provide for repayment of amounts of bond debt service in addition to those amounts provided for by transfers under this section from the state general fund.

### Sec. 185 Ad Valorem Tax Reduction Fund

(b) On January 15 and on July 15 of each year, the director of accounts and reports shall make transfers in equal amounts which in the aggregate equal 3.63% of the total retail sales and compensating taxes credited to the state general fund pursuant to articles 36 and 37 of chapter 79 of Kansas Statutes Annotated and acts amendatory thereof and supplemental thereto during the preceding calendar year from the state general fund to the local ad



valorem tax reduction fund, except that: (1) No moneys shall be transferred from the state general fund to the local ad valorem tax reduction fund during state fiscal years 2009, 2010, 2011, ~~and~~ 2012, and 2013, and (2) the amount of the transfer on each such date shall be \$13,500,000 during fiscal year ~~2013~~ 2014, \$20,250,000 during fiscal year ~~2014~~ 2015, and \$27,000,000 during fiscal year ~~2015~~ 2016 and all fiscal years thereafter. All such transfers are subject to reduction under K.S.A. 75-6704, and amendments thereto. All transfers made in accordance with the provisions of this section shall be considered to be demand transfers from the state general fund, except that all such transfers during fiscal year ~~2013~~ 2014 shall be considered to be **revenue transfers** from the state general fund.

#### Sec. 190. State Water Plan Fund

On July 1, 2011, K.S.A. 2010 Supp. 82a-953a is hereby amended to read as follows: 82a-953a. During each fiscal year, the director of accounts and reports shall transfer \$6,000,000 from the state general fund to the state water plan fund created by K.S.A. 82a-951, and amendments thereto, one-half of such amount to be transferred on July 15 and one-half to be transferred on January 15, except that (1) such transfers during each fiscal year commencing after June 30, 2008, are subject to reduction under K.S.A. 75-6704, and amendments thereto, (2) the total amount of moneys transferred from the state general fund to the state water plan fund during the fiscal year ending June 30, 2009, shall not exceed \$2,000,000, (3) the total amount of moneys transferred from the state general fund to the state water plan fund during the fiscal year ending June 30, 2010, shall not exceed \$3,295,432, and (4) the total amount of moneys transferred from the state general fund to the state water plan fund during the fiscal year ending June 30, 2011, shall not exceed \$1,348,245, *and (5) no moneys shall be transferred from the state general fund to the state water plan fund during the fiscal years ending June 30, 2012, or June 30, 2013.* On the effective date of this act, the director of accounts and reports shall transfer the amount in excess of \$2,000,000 which was transferred from the state general fund to the state water plan fund prior to the effective date of this act during the fiscal year ending June 30, 2009, as certified by the director of the budget to the director of accounts and reports to the state general fund. All transfers under this section shall be considered to be demand transfers from the state general fund, except that all such transfers during the fiscal years ending June 30, 2010, and June 30, 2011, shall be considered **revenue transfers** from the state general fund.