

Appropriations Update
January 16, 2013

The *Governor's Budget Report for FY 2014* was presented to the 2013 Legislature on Wednesday, January 16, 2013. **The recommendations included revised funding recommendations for FY 2013, and recommendations for FY 2014 and FY 2015 for all state agencies.** The recommendations will be incorporated into appropriations bills for consideration by the Legislature. If you have any questions about any information in this report, please contact J.G. Scott, Chief Fiscal Analyst, Leah Robinson, Principal Fiscal Analyst, or Dylan Dear, Principal Fiscal Analyst, at (785) 296-3181.

Overview of the FY 2014 Recommendations

The Governor recommends expenditures of **\$14.6 billion** from all funding sources in FY 2014, including expenditures of **\$6.1 billion** from the State General Fund:

- State General Fund expenditures **decrease** by 1.9 percent, or \$115.5 million from FY 2013.
- Expenditures from all funding sources **increase** by \$186.1 million, or 1.3 percent from FY 2013.
- The Governor's budget provides for an **ending balance** of \$455.7 million, or 7.5 percent, in FY 2014.
- Recommended State General Fund **expenditures exceed receipts** by \$78.1 million.
- The Governor's recommendation makes several adjustments to **state tax policy**. The Governor recommends that the **state sales and compensating use taxes be maintained at the 6.3 percent rate**, which generates \$262.3 million in revenue to the State General Fund. The Governor also recommends the **elimination of the mortgage deduction on state income tax**, generating \$162.5 million in revenue to the State General Fund.
- The Governor recommends a number of **other revenue adjustments** that increase State General Fund revenue by a net estimated \$115.7 million for FY 2014, including: suspending the \$27.0 million transfer to the Local Ad Valorem Tax Reduction Fund; reducing the cap on the transfer to the Bioscience Authority by \$25.0 million (from \$35.0 million to \$10.0 million); billing the federal government for its share of costs to contribute to the Kansas Public Employees Retirement System (KPERs) on behalf of federally-financed special education teachers (\$16.1 million); transferring \$15.0 million from the State Highway Fund to the State General Fund, based on operational savings generated in the Department of Transportation by coordinating and consolidating functions with the Kansas Turnpike Authority; eliminating the pattern of sending severance tax revenues to the Oil and Gas Valuation Depletion Trust Fund (\$14.7 million); and \$10.2 million in savings from the Economic Development Initiatives Fund to be transferred to the State General Fund. In addition, the Governor recommends suspending the \$300,000 transfer to the State Fair Capital Improvements Fund; increasing the estimated transfer from the Kansas Lottery by \$1.0 million; transferring \$5.0 million from the Attorney General's Court Cost Fund, \$1.1 million from the Department of Education's State Safety Fund, \$750,000 from the Department of Corrections' Correctional Industries Fund, and an additional \$54,987 from the Securities Commissioner Fee Fund. The Governor does recommended eliminating the \$500,000 transfer from the Highway Patrol Training Center to the State General Fund.

Senate Ways and Means Committee

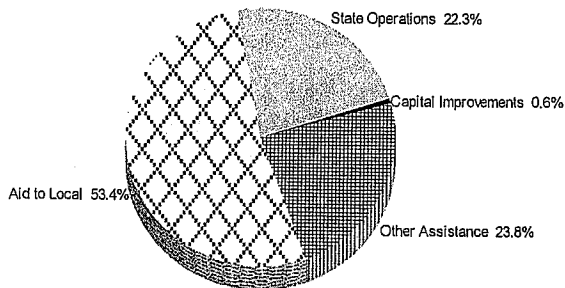
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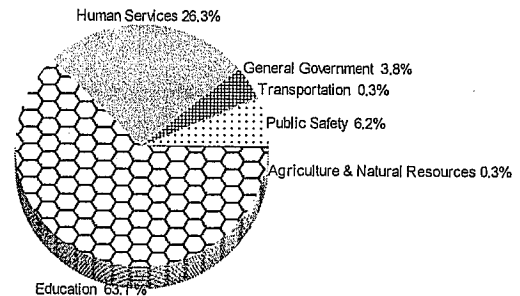
- The Governor recommends making the **Board of Veterinary Examiners** a part of the **Department of Agriculture**, and consolidating the **Juvenile Justice Authority** and the **Department of Corrections**.
- The Governor recommends utilizing \$107.3 million from the **State Highway Fund** to pay costs associated with student transportation in the budget of the **Department of Education**.
- The Governor's recommendation fully funds **social services caseload adjustments** in the budgets of the Department for Aging and Disability Services, the Department of Health and Environment; the Department for Children and Families and the Juvenile Justice Authority.
- The Governor recommends **Base State Aid Per Pupil (BSAPP)** at \$3,838 in FY 2013 and FY 2014. The Governor also proposes to use \$37.5 million from the Expanded Lottery Act Revenue Fund (ELARF) to fund a portion of **KPERS-School** employer contributions. In addition, the Governor recommends \$1.5 million from the State General Fund to assist in the state match requirement for school construction at Fort Riley, both in FY 2013 and FY 2014.
- The Governor recommends **no general state employee salary increase** for FY 2013. In addition, the Governor recommends funding **longevity bonus** payments at the statutory \$40 level, for a total of \$8.5 million, including \$3.6 million from the State General Fund, for longevity payments in FY 2014. (Statutory longevity payments are \$40 per year and employees hired after June 15, 2008 are not eligible for the longevity bonus).
- The FY 2014 **retirement rate for KPERS regular and school members** will increase by 0.9 percent, from 9.37 percent to 10.27 percent, when compared to FY 2013. For FY 2015, the retirement rate will increase by 1.0 percent from 10.27 percent to 11.27 percent. This increase is attributable to the annual statutory increase for financing the unfunded liability of the KPERS fund. In addition, the **KPERS death and disability insurance rate** is scheduled to increase to 1.0 percent for FY 2014 (from 0.769 percent in FY 2013) and to continue at 1.0 percent for FY 2015. The Governor's recommendations decrease this percentage to 0.85 percent for both years.
- The Governor's recommendation includes 38,232.9 FTE positions for FY 2014, a decrease of 118.1 FTE positions below the FY 2013 recommendation. Most of the reductions are in the **Department of Administration** (50.0 vacant FTE positions), the **Department of Transportation** (39.0 FTE positions), and the **Department for Aging and Disabilities Services and the State Hospitals** (30.7 FTE positions).

The following two charts illustrate the Governor's recommended FY 2014 State General Fund expenditures by function of government and by category of expenditure. Education (including local school aid and Regents universities) receives 62.2 percent of the State General Fund expenditures in the Governor's recommendations. Aid to local units comprises the largest category of expenditure in the Governor's budget with over half of the FY 2013 State General Fund budget (52.8 percent) distributed to local units of government, primarily through local school aid.

SGF Expenditures by Major Purpose
FY 2014 Governor's Recommendation



SGF Expenditures by Function
FY 2014 Governor's Recommendation



Overview of the FY 2015 Recommendations

- The Governor recommends expenditures of **\$14.4 billion** from all funding sources in FY 2015, including expenditures of **\$6.1 billion** from the State General Fund:
- State General Fund expenditures **increase** by 1.1 percent, or \$66.6 million from FY 2015.
- Expenditures from all funding sources **decrease** by \$182.8 million, or 1.3 percent, from FY 2015.
- The Governor's budget provides for an **ending balance** of \$458.6 million, or 7.5 percent, in FY 2015.
- Recommended State General Fund **expenditures exceed receipts** by \$78.1 million.
- The Governor's recommendations for FY 2015 primarily reflect the same **revenue and receipt adjustments** as included in the FY 2014 recommendations.
- The Governor's recommendations for FY 2015 fully fund his projected **social services caseload estimates**. No consensus caseloads were made for FY 2015.
- The Governor recommends funding **Base State Aid Per Pupil** at \$3,852 for FY 2015.
- The Governor's recommendations for FY 2015 reflect an additional 1.0 percent increase in the **KPERS retirement employer contribution rate** (from 10.27 percent to 11.27 percent) and continue the 0.85 percent **death and disability contribution rate** recommended for FY 2014.

Recommended Current Year Budget Changes

The Governor's revised FY 2013 recommendation is a net increase of \$77.7 million, or 0.5 percent, from all funding sources, and a State General Fund increase of \$27.9 million, or 0.5 percent, above the amount approved by the 2012 Legislature. Major adjustments in the Governor's Budget Report include:

- Revised **social services caseload estimates** decrease by \$46.2 million from all funding sources and by \$18.8 million from the State General Fund. The State General Fund decrease is attributable to a slowed caseload growth below the approved amount for FY 2013. The all funds decrease is due largely to reduced estimates for regular medical expenditures and nursing facilities expenditures, as well as a decrease in Temporary Assistance to Families.
- **General State Aid in the State Department of Education** increases by \$21.3 million, all from the State General Fund, based on the November 2012 revised school finance estimates.
- Expenditures in the **Department of Transportation** budget decrease by \$244.9 million, primarily for capital improvement projects.
- All funds increases of \$130.0 million in the budget of the Board of Regents and the Regents institutions, primarily the result of increased tuition revenue and increased federal grants.
- Recommended FY 2013 **State General Fund revenue adjustments** total a **net increase of \$60.3 million**, and include: an anticipated refund of \$25.0 million from the federal government based on FICA taxes paid by the University of Kansas Medical Center for medical residents; elimination of the remaining \$22.7 million scheduled to be transferred to the Bioscience Authority in the current year; billing the federal government for its share of costs to contribute to the Kansas Public Employees Retirement System (KPERs) on behalf of federally-financed special education teachers (\$16.1 million); a projected increase of \$2.0 million from lottery sales; and \$1.6 million in additional income tax revenue based on a December 2012 Powerball winner in Kansas. The receipt adjustments also reflect decreases of \$7.0 million for projected reductions in casino revenues; and \$95,000 to reflect a tort claim paid in 2012.

The status of the State General Fund, based on the recommendations of the Governor, is reflected in the following profile.

State General Fund Profile-Governor's Recommendation (In Millions)

	Actual FY 2012	Gov. Rec. FY 2013	Gov. Rec. FY 2014	Gov. Rec. FY 2015
Beginning Balance	\$ 188.3	\$ 502.9	\$ 533.9	\$ 455.7
Receipts (Nov. 2012 Consensus)*	6,412.8	6,169.1	5,464.3	0.0
Adjustments in Governor's Rec.	0.0	60.3	540.5	6,152.5
Adjusted Receipts	6,412.8	6,229.4	6,004.8	6,152.5
Total Available	\$ 6,601.1	\$ 6,732.3	\$ 6,538.7	\$ 6,608.2
Expenditures	6,098.1	6,198.5	6,082.9	6,149.6
Ending Balance	\$ 502.9	\$ 533.9	\$ 455.7	\$ 458.6
Ending Balance as a % of Expenditures	8.2%	8.6%	7.5%	7.5%
Adj. Receipts in Excess of Expenditures	\$ 314.7	\$ 30.9	\$ (78.1)	\$ 2.9
Percent Change from Prior Year				
Adjusted Receipts	9.0%	(2.9%)	(3.6%)	2.5%
Expenditures	7.6%	1.6%	(1.9%)	1.1%

Additional information on the Governor's budget recommendation and the requests made by state agencies will be presented in the Legislative Budget Analysis to be presented to the Legislature after the legislative fiscal staff completes its analysis.

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