
The Budget Process

A Primer

The purpose of this primer is to describe briefly the annual budget and appropriations process for the state.

The Governor, by KSA 75-3721, must present spending recommendations to the Legislature. *The Governor's Budget Report* reflects expenditures for both the current and upcoming fiscal years and identifies the sources of financing for them.

The Legislature uses *The Governor's Budget Report* as a guide as it appropriates the money necessary for state agencies to operate. Only the Legislature can authorize expenditures by the State of Kansas. The Governor recommends spending levels, while the Legislature chooses whether to accept or modify those recommendations. The Governor may veto legislative appropriations, although the Legislature may override any veto by a two-thirds majority vote.

Fiscal Years. It is important when reading the budget to consider which fiscal year is being discussed. The state *fiscal year* runs from July 1 to the following June 30 and is numbered for the calendar year in which it ends. The *current fiscal year* is the one which ends the coming June. The *actual fiscal year* is the year which concluded the previous June. The *budget year* refers to the next fiscal year, which begins the July following the Legislature's adjournment. In *The FY 2018 Governor's Budget Report*, the actual fiscal year is FY 2016, the current fiscal year is FY 2017, and the budget years are FY 2018 and FY 2019.

By law, *The Governor's Budget Report* must reflect actual year spending, the Governor's revised spending recommendations for the current fiscal year, state agency spending requests for the budget year and the out year and the Governor's spending recommendations for the budget year and the out year. The budget recommendations cannot include the expenditure of anticipated income attributable to proposed legislation. Expenditure data are shown by agency and category of expenditure in the schedules at the back of this volume. Those same data are included, by agency and program, in *Volume 2 of The Governor's Budget Report*.

Annual-Biennial Budgets. Appropriations for agency operating expenditures have traditionally been made on an annual basis since 1956. With enactment of

legislation in 1994, the budgets of 20 state agencies were approved on a biennial basis starting with FY 1996. They were all financed through fee funds. Since then, two of these agencies were merged into larger agencies, making the current total 19. On the recommendation of the Governor, the 2013 Legislature enacted a budget for all state agencies for both the budget year and the out-year, treating all agencies as biennial budget agencies.

Financing of State Spending. Frequent reference is made to *State General Fund* expenditures and expenditures from *all funding sources*. Expenditures from all funding sources include both State General Fund expenditures and expenditures from special revenue funds. All money spent by the state must first be appropriated by the Legislature, either from the State General Fund or from special revenue funds.

The State General Fund receives the most attention in the budget because it is the largest source of the uncommitted revenue available to the state. It is also the fund to which most general tax receipts are credited. The Legislature may spend State General Fund dollars for any governmental purpose.

Special revenue funds, by contrast, are dedicated to a specific purpose. For instance, the Legislature may not spend monies from the State Highway Fund to build new prisons.

Other examples of special revenue funds are the three state building funds, which are used predominantly for capital improvements; federal funds made available for specific purposes; and agency fee funds, which can generally be used only to support specific functions related to the agency collecting the fee. The Economic Development Initiatives Fund, the Children's Initiatives Fund, the Kansas Endowment for Youth Fund, the Expanded Lottery Act Revenues Fund, and the State Water Plan Fund are appropriated funds that function the same as the State General Fund.

Revenue Estimates. The tool used by both the Governor and the Legislature to determine State General Fund revenue is the "consensus revenue estimate" prepared by the Consensus Revenue Estimating Group.

The consensus revenue estimate is important because both the Governor and the Legislature base their budget decisions on it. The estimate is categorized by major source and covers a three-year period: the current year, the budget year, and the out year. In addition, KSA 75-6701 requires that the Director of the Budget and the Director of the Legislative Research Department certify a joint estimate of State General Fund resources to the Legislature. The revenue estimating process is the source of that estimate.

The Consensus Revenue Estimating Group includes representatives of the Division of the Budget, the Department of Revenue, the Legislative Research Department, and one consulting economist each from the University of Kansas, Kansas State University, and Wichita State University. The Director of the Budget serves as unofficial chairperson.

The Consensus Revenue Estimating Group meets each spring and fall. Before December 4 (typically in November) of each year, the group makes its initial estimate for the budget year and revises its estimate for the current and out year. The results are reported to the Governor, Legislature, and the public in a joint memorandum from the Director of Legislative Research and the Director of the Budget. The group meets again before April 20 to review the fall estimate and additional data. The group then publishes a revised estimate which the Legislature may use in adjusting expenditures, if necessary.

The consensus revenue estimate is the official revenue projection for the State General Fund. Estimates of revenues to all other funds are prepared by individual state agencies, reviewed by the Division of the Budget, and included as part of *The Governor's Budget Report*.

Budget Balancing Mechanisms. This term refers to KSA 75-6701 to 75-6704. The purpose of the law is to ensure an adequate operating balance in the State General Fund. The practical effect of this provision is to target the ending balance in the State General Fund to be at least 7.5 percent of authorized expenditures and demand transfers in the budget year. The statutory provisions were suspended for the first time for FY 2003, and the suspension was continued for ten years.

The “spending lid” statute requires *The Governor's Budget Report* and actions of the Legislature to comply with its provisions. An “Omnibus Reconciliation Spending Limit Bill” must be the last appropriation

bill passed by the Legislature. The purpose of the bill is to reconcile State General Fund expenditures and revenues by reducing expenditures, if necessary, to meet the provisions of the “spending lid.”

The final provision of the “spending lid” act allows the Governor to reduce State General Fund expenditures in the current fiscal year, when the Legislature is not in session, by an amount not to exceed that necessary to retain an ending balance in the State General Fund of \$100.0 million. The Governor must make the reductions “across the board” by reducing each line item of expenditure by a fixed percentage. The only exceptions are debt service obligations, state retirement contributions for school employees, and transfers to the School District Capital Improvements Fund. The reductions must be approved by the State Finance Council.

In addition to the “spending lid” act, the Governor has the authority under a statutory allotment system to limit expenditures of the State General Fund and special revenue funds when it appears that available monies are not sufficient to satisfy expenditure obligations. This authority applies to agencies of the Executive Branch but not the Legislature or the Judiciary. Allotments can be made on a case-by-case basis and do not have to be across the board. Agencies have the right to appeal any allotment amount and the Governor makes the final determination.

Classification of State Spending. The State of Kansas classifies state spending by function of government and by category of expenditure. Function of government is a grouping of agencies which make expenditures for similar programs and purposes. There are six functions of government: general government, human services, education, public safety, agriculture and natural resources, and transportation.

Category of expenditure classifies expenditures according to budgeting and accounting objects of expenditure (state operations; aid to local governments; other assistance, grants, and benefits; and capital improvements).

Each of the six functions of government is discussed in a section of this volume. The following is a brief description of each function.

General Government includes state agencies with both administrative and regulatory functions. These

agencies include elected officials (the Governor, Secretary of State, etc.) and the Department of Administration. The Board of Nursing, the Kansas Corporation Commission, the Racing and Gaming Commission, and the Department of Revenue are examples of agencies that perform a regulatory function. Other general government agencies include the Legislature and the Judiciary.

FY 2018 Expenditures by Function (Dollars in Millions)		
	<u>SGF</u>	<u>All Funds</u>
General Government	\$ 329.2 5.3%	\$ 1,222.4 8.0%
Human Services	\$ 1,703.6 27.2%	\$ 4,970.5 32.4%
Education	\$ 3,816.6 60.9%	\$ 7,443.6 48.6%
Public Safety	\$ 392.4 6.3%	\$ 579.5 3.8%
Ag. & Natural Resources	\$ 14.7 0.2%	\$ 195.4 1.3%
Transportation	\$ 10.4 0.2%	\$ 912.1 6.0%
Statewide Reductions	\$ (5.0)	\$ (5.0)
Total	\$ 6,261.9 100.0%	\$ 15,318.6 100.0%

Totals may not add because of rounding.

Agencies in the *Human Services* function provide services to individuals. Such services include the nutrition programs and care of the developmentally disabled in the Department for Aging and Disability Services; as well as financial assistance and social services by the Department for Children and Families; health care programs administered by the Divisions of Health and Health Care Finance within the Department of Health and Environment; services to veterans provided by the Kansas Commission on Veterans Affairs; and unemployment benefits provided through the Department of Labor.

The *Education* function agencies provide various educational services to Kansans. The largest single item of expenditure for the state is the financial aid provided to the local school districts through the Department of Education. While Regents institutions and the Board of Education provide direct education services, services by agencies such as the State Library are indirect in nature.

Public Safety agencies ensure the safety and security of Kansas citizens. Agencies in this function include the Department of Corrections and law enforcement agencies. Also included are the Kansas Highway Patrol, and the Kansas Bureau of Investigation.

Agriculture and Natural Resources agencies protect the natural and physical resources of the state and regulate the use of those resources. Agencies included in this function are the Department of Agriculture, the Division of Environment of the Department of Health and Environment, the State Fair, the Water Office, and the Department of Wildlife, Parks and Tourism.

Transportation includes only the Department of Transportation and bond payments in the Department of Administration. Responsibilities of this agency include maintenance and construction of highways in Kansas.

Categories of expenditure are based on accounting objects of expenditure. The four general categories are state operations; aid to local governments; other assistance, grants, and benefits; as well as capital improvements. The first three categories constitute what are called operating expenditures. Following is a brief guide to the general categories of expenditure.

State Operations includes expenditures incurred conducting the day-to-day business of state government. The largest category of these costs is the salaries and wages paid to state employees.

Aid to Local Governments consists of payments made to governments which provide services at the local level and in most cases have taxing authority

Other Assistance, Grants, and Benefits constitutes payments to individuals and agencies that are not governments. Medicaid payments, financial aid for postsecondary education, nutrition assistance for mothers and their babies, and temporary assistance for needy families are examples.

Capital Improvements include highway construction costs as well as the cost of rehabilitation and repair, razing, remodeling, and construction of state-owned buildings and other facilities. Some of these projects are financed by bond issues. The cost of that portion of the debt service payment on bonds that represents the principal is also included in this category. By far the largest portion of the expenditures in this category is highway construction costs

FY 2018 Expenditures by Category

(Dollars in Millions)

	SGF	All Funds
State Operations	\$ 1,430.5 22.8%	\$ 4,802.7 31.4%
Aid to Local Governments	\$ 3,225.7 51.5%	\$ 5,033.7 32.9%
Other Assistance, Grants, & Benefits	\$ 1,544.8 24.7%	\$ 4,833.6 31.6%
Capital Improvements	\$ 60.8 1.0%	\$ 648.5 4.2%
Total	\$ 6,261.9 100.0%	\$ 15,318.6 100.0%

Totals may not add because of rounding.

State Employees. A major part of the state operations category of expenditures is salary and wage payments to employees in the State Civil Service.

The State Civil Service, by KSA 75-2935, includes the classified and the unclassified service. Employees hired to fill positions in the classified service must be hired on the basis of merit as determined by standardized requirements for knowledge, skills, and abilities. These employees are also promoted and discharged according to rules and regulations established for administration under the Kansas Civil Service Act.

The classified personnel service includes *regular* full-time and part-time positions. The classified service also includes the following special types of appointments:

Limited Term appointments are made in cases where the position will be eliminated at the end of a predetermined length of time as stipulated in a federal grant or by a contractual agreement. Except for this time factor, which means an employee in one of these positions has no layoff rights, limited term appointments are generally the same as classified positions.

Temporary positions may be either classified or unclassified. Those positions in the classified service require the employee filling the position to work no more than 999 hours in a 12-month period. The unclassified temporary category in the SHARP personnel and payroll system consists of two groups: those that truly are temporary and non-FTE

unclassified permanent positions. Positions in the second group are counted as part of the state workforce because they participate in the state retirement system.

The regular unclassified service includes full-time and part-time positions specifically designated as being in the unclassified service. Typically these positions are defined by certain agencies, or types of agencies, for particular purposes. Examples are all employees of the Legislature; teaching, research, student, and health care employees of the Regents institutions; and all employees of the courts. Unclassified positions are governed by rules and regulations of the appointing agencies and are not subject to Civil Service Act rules and regulations.

Children’s Budget. KSA 75-3717(a)(2) requires that the Governor include in *The Governor’s Budget Report* a listing of all state agency programs that “provide services for children and their families.” The information is summarized in the Children’s Budget, which includes estimated expenditures from all funding sources and from the State General Fund, by agency and by project; the number of children or families served in each program; and a brief description of each of the agency programs.

Budget Process. Producing a budget is a continuous process; however, it does have certain discrete phases. In the Executive Branch, the budget process begins as soon as the legislative session ends. At that time, the budget staff prepares *The Comparison Report*. This report compares the budget recommended by the Governor for the current and budget fiscal years to the budget approved by the Legislature.

In June, budget instructions are distributed by the Division of the Budget to state agencies. These instructions include allocations that each Executive Branch agency uses in budget preparation and instructions for preparing a capital budget for the budget year based on the approved budget for the current fiscal year, as adjusted for one-time expenditures, caseloads, and the annualization of partial-year funding. Enhancement packages and reduced resource packages are also a part of budget preparation.

On July 1, agencies use the budget instructions to submit a capital budget. The capital budget contains a

five-year plan, which includes the capital improvement requests for the current year, the budget year, and four out-years following the budget year.

Concurrent with preparation of financial segments of the agency budget is completion of agency strategic plans that are submitted with the budget in September. Agency strategic plans establish a clear definition of mission and a direction for the future; develop agency-wide work plans and agency-specific objectives as well as strategies for fulfilling the agency mission; and allocate resources according to priority and ensure accountability for the use of those resources. As part of the strategic planning process, agencies identify an agency mission, agency philosophy, goals and objectives, and performance measures to track progress toward the plan.

Agencies are requested to prepare two complete operating budget requests for submission on September 15. This would include the budget year and the out year requests. For Executive Branch agencies, the submission is based on allocations prepared by the Division of the Budget in June. Each Executive Branch budget submission also includes reduced resource packages that detail how the services provided by the agency would be affected under a reduced resource scenario. The Division of the Budget identifies the amount for these agencies to use in preparing their reduction packages. Agencies may also submit requests for incremental additions to their base budgets in the form of enhancement packages that represent new programs or the expansion of existing ones. All of the budget components are intended to reflect program priorities.

According to law, the Governor must submit the Judicial Branch budget as requested, without any adjustments. Therefore, the Governor includes these budgets as requested to present a complete state budget that accounts for all demands for state funds.

The individual budgets submitted by state agencies show program expenditures with appropriate funding sources for each program within the agency. These data are shown for the actual fiscal year, the current year, the budget year, and the out year. Budget submissions also document performance that relates to the outputs and outcomes identified in the agency's strategic plan. Evaluation of performance provides a means for weighing budget alternatives.

Beginning September 15, analysts in the Division of the Budget review agency budget requests. Based on those analyses, the Division of the Budget recommendations are provided to each state agency by November 10. The agencies then have ten days to determine whether to appeal those recommendations to the Secretary of Administration. Many appeal the recommendations in writing; some also request an appointment to present an oral appeal.

Once the appeal process has been completed, the Division of the Budget staff prepares its presentations for the Governor. An analysis of the difference between the Division of the Budget recommendations and the agency's request, including the effect on performance, is presented to the Governor. The analysis includes the agency's request and the basis for it, the Division of the Budget recommendation and the basis for it, and the agency's appeal, if any. The Governor uses this information to make budget determinations for all Executive Branch agencies. The Division of the Budget then aggregates final recommendations and prepares *The Governor's Budget Report*.

During this same period, between September 15 and commencement of the legislative session in January, the Legislative Research Department's fiscal staff is also analyzing agency budgets. Following receipt of the Governor's recommendations, legislative fiscal analysts update their analysis for each agency to reflect the recommendations of the Governor. These updated budget analyses are printed in the Legislative Research Department's annual analysis and copies are distributed to each legislator.

Consideration by Legislature. The Governor's budget recommendations are drafted into appropriation language by the Office of the Revisor of Statutes. Appropriations are usually divided into three parts: supplemental appropriations, capital improvement appropriations, as well as budget year and out year expenditure authority for all agencies. The appropriations are simultaneously considered by the Ways and Means Committee of the Senate and the Appropriations Committee of the House.

The Chairperson of the Ways and Means Committee appoints Senate Subcommittees and the Speaker appoints House Budget Committees to consider appropriations for various agencies. They vary in size; usually between two and nine legislators are named to

a subcommittee or budget committee. After reviewing the budget requests, the subcommittee or budget committee drafts a report with assistance from staff which details all budgetary adjustments to the Governor's recommendations. The House Budget Committees make recommendations to the House Appropriations Committee, and the Senate Subcommittees make recommendations to the Senate Ways and Means Committee. The budget committee or subcommittee reports may contain administrative or programmatic recommendations.

After the subcommittee or budget committee reports are presented to the full committees for consideration, further adjustments may be made or the full committee may adopt an entire report as submitted. The appropriations language is reprinted in order to reflect the recommendations of the full committee. The appropriations are then presented to either the House or Senate, which may amend or reject them.

Conference Committee Action. Upon completion of consideration of the appropriations by both chambers, the bills typically go to a conference committee so that differences between the House and Senate versions can be reconciled. Each chamber then votes to accept or reject this appropriation bill. If either chamber rejects the conference committee report on the appropriation bill, it is returned to the conference committee for further review and for possible modification.

Omnibus Appropriation Bill. Traditionally, this has been the last appropriation bill of the session. It contains any appropriation necessary to carry out the intent of the Legislature that has not yet been included in another appropriation bill. Since the advent of the statutory requirement for an Omnibus Reconciliation Spending Limit Bill to be passed at the end of the session, the Omnibus Appropriation Bill has served as the reconciliation bill.

State Finance Council. The Finance Council is a statutory body that provides a mechanism for making certain budgetary and personnel adjustments when the Legislature is not in session. The Council consists of nine members: the Governor, Speaker of the House, President of the Senate, House and Senate majority leaders, minority leaders, as well as Ways and Means and Appropriations Committee chairpersons.

The Governor serves as chairperson of the Finance Council. Meetings are at the call of the Governor, who also prepares the agenda. Approval of Finance Council items typically requires the vote of the Governor and a majority of the legislative members.

Present statutes characterize the following items of general application to state agencies as legislative delegations, allowing them to receive Finance Council approval under certain circumstances:

1. Increases in expenditure limitations on special revenue funds and release of State General Fund appropriations.
2. Authorization for state agencies to contract with other state or federal agencies, if the agencies do not already have such authorization.
3. Authorization of expenditures from the State Emergency Fund for purposes enumerated in the statutes.
4. Increases in limitations on positions imposed by appropriation acts on state agencies.
5. Approval of the issuance of certificates of indebtedness to maintain a positive cashflow for the State General Fund.
6. Approval to issue bonds for capital projects when an agency has been granted bonding authority.

Certain other items of limited application may be allowed to be subject to Finance Council action. One example is the business restoration assistance program created at the end of the 2007 Legislative Session after tornadoes and flooding struck several parts of the state in a short time frame. The Finance Council cannot appropriate money from the State General Fund, authorize expenditures for a purpose that specifically was rejected by the previous legislative session, or commit future legislative sessions to provide funds for a particular program.

The following chart is intended to capture the essential elements of the budget process on a single page over the course of a complete yearly cycle and to depict the roles and interactions of the primary agencies involved in developing and approving the state budget.

Prepared by the Division of the Budget in cooperation with the Legislative Research Department.

Kansas Budget Cycle

	June	July	August	September	October	November	December	January	February	March	April	May
State Agencies	Prepare 5-year capital improvement plans for submission July 1		Prepare budgets in budget system & submit to Budget Division & Legislative Research							Review budgets & request amendments to update the Governor's recommendations		
Governor & Budget Division	Budget Division issues instructions & allocations to agencies in developing budget requests	Budget Division conducts agency budget training, analyzes capital projects, & makes on-site agency visits		Budget staff analyzes agency budget requests & makes preliminary recommendations	Budget Division recommends to agencies & agency appeals are heard	Governor develops recommendations to the Legislature & Budget Division prepares budget documents	Governor submits <i>Budget Report</i> to Legislature by 8th calendar day of the Session (2 1st day for new Governor)	Budget Division prepares fiscal notes on legislative bills, drafts introduced version of appropriation bills, tracks legislative adjustments to Governor's recommendations, & prepares amendments to Governor's original recommendations for the Omnibus Bill	Budget Division reconciles final budget numbers with legislative staff & prepares post-session report			
Consensus Revenue Estimating Group					Project State General Fund revenues						Project State General Fund revenues	
Legislative Fiscal Staff	Legislative fiscal staff prepares <i>Fiscal Facts, Appropriations Report</i> , & works with interim legislative committees		Legislative fiscal staff analyzes agency budget requests, begins to prepare Budget Analysis, & continues to work with interim committees					Fiscal staff analyzes Governor's budget recommendations & completes the Budget Analysis	Legislative fiscal staff works with subcommittees of Senate Ways & Means & House Appropriations on finalizing the budget	Fiscal staff prepares items for Omnibus Bill consideration & works with Legislature to develop Omnibus Bill	Legislative fiscal staff reconciles final budget numbers with Budget Division & prepares post-session report	
Legislature	Legislative interim committees review assigned topics; House Appropriations, Senate Ways & Means, Legislative Post Audit, & State Building Committee tour state (October of odd numbered years)											
								Subcommittees of House Appropriations & Senate Ways & Means begin review of agency budgets	Appropriations bills are reviewed & acted upon in the House & Senate	Conference Committees resolve differences in appropriations bills	Omnibus Bill considered & acted upon	Legislature adjourns

Financial Policies

The State of Kansas observes the following financial policies to manage fiscal affairs responsibly.

Operating Policies

The state, through performance budgeting principles, allocates available public resources in keeping with the goals and objectives of state agencies as embodied in their strategic plans.

The state emphasizes the preservation of existing capital facilities over the construction of new ones. A major portion of the Educational Building Fund for universities, Correctional Institutions Building Fund for correctional facilities, and State Institutions Building Fund for hospitals and juvenile correctional facilities is dedicated to rehabilitation and repair.

Revenue Policies

The state maximizes the use of fee funds, federal funds, and other special revenues to preserve the integrity of the State General Fund and ensure budgetary flexibility.

The state uses consensus revenue estimates developed by executive and legislative professional staff as well as university economist consultants as the basis for budgetary decision making.

The state collects taxes, penalties and interest, and other revenues. Internally, state collection units make multiple efforts to collect amounts due the state by using administrative procedures and liens against property. Persistent delinquencies are pursued through legal proceedings and, after exhausting all remedies, may be referred to a private collection agency.

Cash Management Policies

On a daily basis, the state monitors receipts into, and expenditures out of, the state treasury. Ensuring the state has adequate resources at the time obligations occur is the primary goal. Certificates of indebtedness are the first tool used to meet this goal. Managing the timing of expenditures is a secondary tool.

The state invests idle funds to match these anticipated cashflow needs by using commercial paper, repurchase agreements, government securities and collateralized bank deposits to provide safety, liquidity, and yield in that order.

Debt Service Policies

The state incurs debt through the issuance of revenue bonds mainly to finance capital improvements, equipment, certain grant programs, and reducing the unfunded liability of the KPERS Fund. The use of debt financing for operating expenses in state government is limited.

The constitution allows for the issuance of general obligation bonds subject to certain restrictions. However, the state has not exercised this authority for many years.

The most recent issuer credit ratings for the State of Kansas are AA- by Standard and Poor's and Aa2 by Moody's Corporation. These ratings indicate that the state still has a strong capacity to meet its financial commitments and reflect the following credit factors: a relatively diverse economic base, conservative fiscal management, and a low debt burden.

Reserve Policy

State law requires an ending balance of at least 7.5 percent of total expenditures in the State General Fund for the Governor's budget recommendations and the legislative-approved budget. This was intended to provide sufficient cash throughout the year and provide a cushion against tax revenue downturns.

Accounting, Auditing, & Reporting Policies

The state prepares financial statements in accordance with generally accepted accounting principles, and an independent certified public accounting firm conducts a financial and compliance audit of those statements. As a part of that statewide audit, compliance and control audits of individual agencies are performed at least once every three years. For budgeting, the state avoids double counting expenditures by treating non-expense items and a number of "off budget" expenses as non-reportable.

Basis of Budgeting

Revenue

Receipts to funds in Kansas generally are credited on a cash basis, not as accounts receivable. However, each July 1 for cashflow purposes, the Educational Building Fund, Correctional Institutions Building Fund, and State Institutions Building Fund are credited with receipts totaling 95.0 percent of each fund's actual receipts in the previous fiscal year. In a similar manner, the Economic Development Initiatives Fund, Expanded Lottery Act Revenues Fund and the Kansas Endowment for Youth Fund receive credits at the beginning of the year for cashflow needs.

Encumbrances

For budgeting purposes, encumbrances are treated as reportable expenditures; therefore, no distinction is made between cash outlays or liquidated and unliquidated encumbrances. Encumbrances, along with the funds to liquidate them, are attributed to the fiscal year in which they were incurred.

Expenditures

Expenditures are separated into two categories: reportable and non-reportable. Reportable expenses are direct cash outlays and encumbrances for salaries and wages; other operating expenditures; aid to local governments; other assistance, grants, and benefits; and capital improvements incurred by state agencies. In general, the dollars reported throughout the budget, especially the accumulated totals in statewide tables and schedules, are reportable expenditures.

With debt-financed projects, the debt service is reported, and not the cost of the project. The interest portion of capital projects is considered an operating expense, whereas the principal portion is a capital expense.

The budgeting and accounting systems differ in their reporting of certain capital costs. For example, a facility purchased by bonds through the Kansas Development Finance Authority and leased to a state agency is reported as a lease/rental cost to the agency in the accounting system. In budgeting, it is reported

as a capital improvement cost because a facility is being added to the state's inventory of capital assets.

For budgeting purposes, there are several kinds of non-reportable expenditures. Chief among these are so-called "off budget" expenditures in the Department of Administration. Dollars spent in many state agencies' budgets for printing services, for example, are spent again to operate the Printing Plant. Agencies' costs are treated as reportable and the Printing Plant's non-reportable to avoid counting the same dollars. These non-reportable expenditures are identified in the budget, but they are not included in statewide totals.

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 budget report, except for KDOT's T-WORKS Plan bonded projects, which are shown in the agency's cashflow table.

Balances

Beginning and ending fund balances for budgeting purposes generally reflect unencumbered cash balances only. For example, if an encumbrance in a prior fiscal year has not been liquidated, the accounting system still shows the amount of the cash reserve set aside to liquidate that encumbrance. Budget reports, on the other hand, deduct the amount from the balance in the prior fiscal year, so none of the fund activity of the prior fiscal year distorts activity in later years. Thus, for trend analysis and other budgeting purposes, it is important to show fund activity in the fiscal year to which it is attributed. The current cash status reports of the accounting system, by contrast, are more important for cash management.

Funds that become unencumbered when a cash outlay is made are shown as an addition to the beginning balance of the fiscal year following the year from which the funds were unencumbered, except released encumbrances from the State General Fund are credited to the 27th Payroll Adjustment Account. The effect is to increase available funds; however, reported expenditures in prior fiscal years are not adjusted for the unencumbered amounts.

Budget Preparation

The budget process for Kansas has been an annual planning process for decades, except for those regulatory agencies designated as biennial in the statutes for budgeting. However, during the 2013 Legislative Session, Governor Brownback proposed and the Legislature approved that all agencies be placed on a biennial cycle, to improve long-term planning.

Budget Instructions & Allocations. General instructions for budget preparation are typically sent to state agencies in June or July. Executive Branch agencies are provided allocated amounts for the use of State General Fund, Children’s Initiatives Fund, State Water Plan Fund, Expanded Lottery Act Revenues Fund, and Economic Development Initiatives Fund. Agencies are instructed to build their base budget requests from those funds within the allocated amounts. Agencies are otherwise instructed to request funds to the extent needed to finance current agency programs. In recent years, no offer has been made to backfill federal programs that may be impacted by the federal Budget Control Act or federal shutdowns.

Allocations are customarily built from an agency’s approved budget. Adjustments are typically limited to increased costs for KPERs employer contributions or health insurance benefits for employees, changes in costs for debt service payments, annualization of operating programs funded for only part of the year, or capital projects that do not recur.

Agencies that wish to request funds beyond the amounts allocated or for new programs are instructed to ask for the funding as an identified enhancement.

As is standard practice, agencies are directed to submit reduced resource packages that outline how their allocated budget amounts could be reduced, if necessary. In some instances, the Budget Division recommends the Governor consider these reductions.

The Legislative and Judicial Branches of government are not given allocations as part of their budget instructions, nor are they expected to submit reduced resource packages. Under state law, the Judicial Branch budget is simply passed on to the Legislature for its consideration, and the Governor makes no budget revisions.

Budget Review. Agency budget requests are due to the Division of the Budget on September 15. The Division uses the submitted requests to develop an initial set of recommendations for each agency and distributes those recommendations to agencies in the second week of November.

Agencies’ written appeals to the Division of the Budget recommendations were due ten days after the recommendations were issued. Agency appeals presented in person by agency representatives were heard in late November by Division of the Budget with staff from the Governor’s Office.

The Governor subsequently developed his budget and policy recommendations after considering the state’s financial situation, recommendations made already by the Division of the Budget, agency appeals, as well as any new, relevant information offered by agencies with a view to keeping state expenditures and revenues in balance.

Glossary

Glossary

Allotment

KSA 75-3722 authorizes the Secretary of Administration to impose reductions to appropriations when it is determined available resources are insufficient to finance the approved expenditures. An allotment can be applied to the State General Fund or any special revenue fund and can follow whatever pattern the Governor proposes.

Appropriation

An amount of money for a particular purpose that an agency is authorized to spend during a fiscal year. The entire amount is available at the start of the fiscal year.

Base Budget

A level of expenditure for the forthcoming fiscal year based on the approved budget of the preceding year, as adjusted for the deletion of one-time expenses and the addition of funds to annualize partial year funding in the preceding fiscal year or for caseloads in entitlement programs. The base budget serves as the reference point for adding programmatic enhancements and applying reduced resource cuts.

Biennial Budget

A budget which plans revenues and expenditures for the two forthcoming fiscal years, rather than one year. The 1994 Legislature enacted legislation requiring fee-funded agencies to submit biennial budgets beginning on September 15, 1994, for FY 1996 and FY 1997. All other agencies were officially on an annual cycle. Governor Brownback proposed putting all state agencies on a biennial cycle beginning with FY 2014 and FY 2015. The 2013 Legislature approved the new biennial process for all agencies.

Budget

A plan specifying how resources will be allocated or spent during a particular period; this plan also includes an estimate of the means to finance these resources, in order to meet the needs of the public.

Capital Improvements

Projects involving new construction, acquisition, remodeling, rehabilitation and repair, razing, and the principal portion of debt service for a capital expense. The interest portion is an operating expense.

Classified Temporary Positions

An appointment not exceeding 999 hours of employment in a 12-month period. Temporary positions do not count toward the agency's FTE position limitation. Employees in these positions do not receive fringe benefits.

Decrements

The decremental decrease in expenditures or positions, or both, to reduce or delete a service or program, primarily when revenues are insufficient to continue support at the base budget level.

Enhancements

The incremental increase in expenditures or positions to expand a service or program or provide a new one.

Expenditure

The actual payment of money out of any state fund or the commitment to make such a payment in the form of an encumbrance.

Expenditure Limitation

A limitation placed on expenditures that can be made from a special revenue fund.

Expenditures, Non-Reportable

Disbursements that do not result in a net reduction of statewide assets. An example is a refund, where an agency is reimbursed for an item. Also non-reportable are certain "off budget" expenditures, most occurring in the Department of Administration. For example, dollars are spent in many state agencies' budgets for

printing services provided by the Division of Printing. Those dollars are spent again for the salaries, utilities, equipment, paper supplies, and other operating costs of the Printing Plant. To avoid reporting expenditures twice, the agencies' printing costs are treated as reportable and the Printing Plant's are non-reportable.

Fiscal Year

A 12-month period beginning July 1 and ending June 30 of the following year that is used as the state budget, accounting, and appropriation period.

Fringe Benefits

State expenditures for retirement, social security, workers compensation, unemployment insurance, state leave payment assessment upon retirement (including sick and annual leave), and group health insurance.

Full-Time Equivalent (FTE) Positions

State employee positions that are permanent and either full-time or part-time but mathematically equated to full-time, e.g., two half-time positions equal one full-time position. Limited term positions are included in an agency's position limitation. Teaching positions contracted for nine or more months are considered 1.00 FTE position.

Functions of Government

The six classifications into which similar agencies are grouped to reflect the basic purposes of state government: General Government, Human Services, Education, Public Safety, Agriculture and Natural Resources, and Transportation (see the Primer).

Fund

A fund is a basic unit of classification in both the budget process and the accounting system for agency monies. Fund names and numbers are included in the accounting system's *Central Chart of Accounts*, which lists every active fund by agency.

Holiday Pay

Payments to employees working on a legal holiday, such as certain personnel in correctional facilities or

state hospitals, who receive additional compensation at the rate of one and one-half times the regular rate of pay. The additional pay may be given in the form of wages or compensatory time credits.

Lapse

That portion of an appropriation not spent or reappropriated. A lapsed appropriation reverts to the fund from which it was made and becomes part of the unappropriated balance. At the end of the fiscal year, State General Fund appropriations automatically lapse unless specific authorization reappropriates the funds.

Line-Item Appropriation

An appropriation of funds made by the Legislature for a specific purpose. The purpose could be limited to a specific item, such as equipment, or more generally to a category of expenditure or a program.

Longevity

Bonus payments made to state employees based on \$40 per year of service times the number of years of state service. Employees hired after June 15, 2008 are not eligible for the payment. Minimum eligibility is ten years of state service, and the maximum payment is \$1,000, for 25 years of service.

Multi-Year Appropriation

A legislative authorization to expend funds that provides funding for more than one fiscal year.

Non-Expense Item

This is an expenditure of funds that has no budgetary implications—for example, an expense incurred from the purchase of supplies for which an agency is subsequently reimbursed. The amount is shown in the budget as a “non-expense” to acknowledge the transaction, but it is not included in an agency's expenditure totals to avoid overstating the true cost of government services.

Non-FTE Unclassified Permanent Positions

The category of “unclassified temporary” in the SHARP system consists of two groups: one that truly

is temporary and the other permanent because the employees in the permanent group participate in the state retirement system. The category of Non-FTE Unclassified Permanent refers to the second group, which is reported as part of the state workforce.

Overtime Pay

Pay or compensatory time credits for hours worked over the maximum number of hours required in a work period, which may vary depending on the type of position. A normal work period is 40 hours per week, although law enforcement and firefighters have a different work week.

Performance Budgeting

A budgeting process that uses strategic plans and performance measures to distribute available financial resources to accomplish goals and objectives. Outcome measures gauge the ultimate effect of programs on the problems or conditions they are intended to affect.

Program

A set of related operations that follows a planned course of action to achieve a specified purpose and set of objectives. Programs classify agency services and provide a framework for resource allocation decisions.

Reappropriation

Funds remaining unexpended or unencumbered at the end of a fiscal year that carry over to the next year that may be spent in the subsequent year.

Shrinkage

The difference, expressed as a percentage, between the cost of fully funding salaries and wages in a budget,

assuming all positions are filled all the time, and actual salary costs, taking vacancies into account.

Supplemental Appropriation

An appropriation made to finance the operations of state government during the current fiscal year in addition to regular appropriations already approved. Supplemental appropriations are considered where a shortage of funds is anticipated as a result of an emergency or unforeseen occurrence.

Total Positions

The sum of FTE positions and non-FTE unclassified permanent positions, representing a complete reporting of positions constituting the state workforce.

Transfer (Demand)

Funds transferred annually from the State General Fund to a special revenue fund in accordance with a formula in statute but treated as expenditures from the State General Fund. By FY 2004, all of them had been converted to revenue transfers with the amount of the transfers determined through the appropriations process. However, the 2006 Legislature passed legislation to make the School District Capital Outlay State Aid Fund a demand transfer. Beginning in FY 2016 the School District Capital Outlay State Aid Fund is a part of the K-12 Block Grant and no demand transfers currently exist.

Transfer (Revenue)

Authority in appropriation bills “relocating” all or part of the unencumbered balance in a fund to another fund prior to expenditure. Revenue transfers affecting the State General Fund are detailed in this report.