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To: Kansas Legislature
From: Alan D. Conroy, Chief Fiscal Analyst
Re: Allotment System/\$100 Million Ending Balance

This office has received numerous requests on the allotment system as provided in Kansas law (KSA 75-3722). To respond to those inquiries, the Legislative Research Department has compiled the following information on the allotment system and the \$100 million State General Fund ending balance provision.

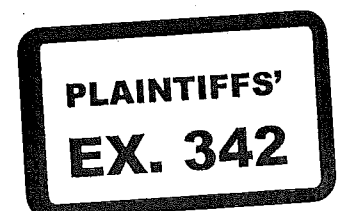
Governor's Authority

The Governor does have the statutory authority to reduce State General Fund expenditures. There are two different procedures that the Governor may utilize to address a shortfall in the State General Fund ending balance. The first one relates to an allotment system that could prevent the State General Fund ending balance from being in a negative position or to get the balance to a minimum of zero. The second one relates to action that would help maintain a \$100 million State General Fund ending balance.

Allotment System

The allotment system statutes (KSA 75-3722) were enacted in 1953 as part of the law which created the Department of Administration. In response to a request from Governor Carlin, the Attorney General issued an opinion (No. 82-160), which sets forth some of the things that can and cannot be done under the allotment system statutes. Some of the key points in that opinion are:

1. With certain exceptions, noted below, the Governor (through the Secretary of Administration and Director of the Budget Division) has broad discretion in the application of allotments in order to avoid a situation where expenditures in a fiscal year would exceed the resources of the General Fund or a special revenue fund. Allotments need not be applied equally or on a prorata basis to all appropriations from, say, the General Fund. Thus, the Governor may pick and choose "as long as such discretion is not abused."



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2. Demand transfers from the General Fund to another fund are not subject to the allotment system because, technically, appropriations are made from the other fund and not the General Fund. Such transfers include those to the Local Ad Valorem Tax Reduction Fund, County City Revenue Sharing Fund, City-County Highway Fund, Water Plan Fund, State Fair Capital Improvements Fund, and School District Capital Improvements Fund. In FY 2002, the Local Ad Valorem Tax Reduction Fund, County-City Revenue Sharing Fund, and City-County Highway Fund were revenue transfers, and thus are not State General Fund expenditures. In FY 2003 all demand transfers, except the State Fair Capital Improvements Fund, are treated as revenue transfers.
3. The allotment system cannot be used in any fiscal year for the purpose of increasing the year-ending balance of a fund nor for controlling cash shortages that might occur at any time within a fiscal year. Thus, if a "deficit" were to be projected, the allotment system could be used to restore the General Fund balance to zero.
4. Agencies affected by the decisions of the Secretary of Administration must be notified in writing at least 30 days before any allotment becomes effective. In addition, any affected agency may, by written request to the Governor within 10 days of the notice of an allotment, request a review of the allotment decision by the Governor. The Governor must make a decision about the appealed issues within 20 days from when the request for such hearings was received.
5. The Director of the Budget shall obtain from each agency information on the estimated receipts and expenditures that the agency anticipates based on the allotment. The agencies must also provide time sensitive allotment information as determined by the Director of the Budget, *i.e.*, on a monthly, quarterly, semi-annual, or annual period.
6. The Director of the Budget is required to provide the allotment information to the Director of Accounts and Reports in order for the individual agency appropriations to be adjusted accordingly.
7. The Legislature and the courts and their officers and employees are exempt from the allotment system.

\$100 Million Minimum Ending Balance

Kansas law does permit the Governor to issue an executive order or orders, with the approval of the State Finance Council, to reduce State General Fund expenditures and demand transfers if the estimated year-end balance in the General Fund is less than \$100 million. The Budget Director must continuously monitor receipts and expenditures and certify to the Governor the amount of reduction in expenditures and demand transfers that would be required to keep the year-end balance from falling below \$100 million. (Budget Director

Göossen has recently made such certification to Governor Graves). Debt service costs, the General Fund contribution to school employees retirement (KPERS-School), and the demand transfer to the School District Capital Improvements Fund are not subject to reduction.

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

In August 1991 (FY 1992), the Governor issued an executive directive, with the approval of the State Finance Council, to reduce State General Fund expenditures (except debt service and the KPERS-School employer contributions) by 1 percent. At the time of the State Finance Council action, the projected State General Fund ending balance was approximately \$76 million.

I hope this information is helpful. If you have any further questions, please contact me or Leah Robinson.

AC/mkl