

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

010-West-Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 ♦ FAX (785) 296-3824

kslegres@klrd.state.ks.us

<http://www.kslegislature.org/klrd>

February 13, 2009

To: Speaker Mike O'Neal
From: Alan D. Conroy, Director
Re: Budget Information

You had requested that this office provide you with various budgetary information regarding Certificates of Indebtedness and ending balances in the State General Fund.

Certificate of Indebtedness

The Governor has requested that the State Finance Council issue another, or third, Certificate of Indebtedness in the amount of \$225 million, for a total of \$775 million in the current fiscal year. By previous State Finance Council action (June 27, 2008) a Certificate of Indebtedness of \$300 million was issued for the beginning of FY 2009 and another Certificate of \$250 million was issued on December 16, 2008. **With the issuances of all three Certificates combined, it is at \$775 million, the largest total issued amount of Certificates of Indebtedness in Kansas history.** The previous largest amount was \$550 million that was issued earlier in FY 2009. This will be the first time that three Certificates were in place at the same time. FY 2009 to date was the second time that two Certificates were in place at the same time. During FY 2002, there was one Certificate for \$150 million and a second one for \$200 million. Certificates of Indebtedness were created by law in 1970. The following listing indicates all Certificates of Indebtedness that have been approved by the State Finance Council:

- \$65 million in December, FY 1983;
- \$30 million in October, FY 1984;
- \$75 million in April, FY 1986;

- \$140 million in December, FY 1987 (which replaced the July certificate);
- \$75 million in November, FY 1992;
- \$150 million in January, FY 2000;

- \$150 million in January, FY 2001;
- \$150 million in September, FY 2002;
- \$200 million in December, FY 2002;

- \$450 million in July, FY 2003;
- \$450 million in July, FY 2004;
- \$450 million in July, FY 2005;
- \$450 million in July, FY 2006;

- \$200 million in December, FY 2007;
- \$350 million in December, FY 2008;

- \$300 million in July, FY 2009;
- \$250 million in December, FY 2009.

Authority For a Certificate of Indebtedness to be issued (KSA 75-3725(a), provides that:

“ Whenever it appears that the estimated resources for any fiscal year in the State General Fund are **sufficient to meet in full the estimated expenditures and obligations for that fiscal year** (emphasis added), but that the estimated resources in the State General Fund in any month or months of such fiscal year are insufficient to meet in full the estimated expenditures and obligations for such month or months as the same become due, the Director of the Budget shall so inform....”

The State General Fund cash flow projections from the Division of the Budget are based on the consensus revenue estimates of November 4, 2008, as modified by revenue adjustments contained in House Substitute for Substitute for SB 23 (the current year recision bill). Expenditures for FY 2009 are as approved by the 2008 Legislature, plus authorized shifting of expenditures from FY 2008 to FY 2009 and further adjusted by House Substitute for Substitute for SB 23.

As you are aware, that bill has not yet been enacted into law. There is a chance it might be presented to the Governor for her consideration next week. Once the Governor receives a bill, the Governor has 10 days to approve it, veto it, or let it become law without her signature. If one assumes that the adjustments contained within that bill should not be considered until enacted into law, then the projected State General Fund ending balance on June 30, 2009 would be a **negative \$131.0 million**. The statutory language (cited above) indicates that a Certificates of Indebtedness may be used when the State General Fund estimated receipts and obligations for the **entire year are sufficient**, but just not within a given month. Without the enactment of House Substitute for Substitute for SB 23, it does not appear that the State General Fund would be in a position to satisfy the Certificates by June 30, 2009.

Recent Allotment

I would point out that yesterday (see the attached memorandum) the Secretary of Administration has advised the Governor that an allotment should be imposed because:

"expected resources of the State General Fund are likely to be insufficient to cover appropriations made against it and that the use of an allotment plan as provided for in K.S.A. 75-3722 is necessary and beneficial to the state."

The documentation from the Secretary of Administration indicates that there is a **projected deficit of \$133 million in the State General Fund at the end of FY 2009**. The allotment imposed yesterday only addresses \$3.4 million of the deficit by adjusting downward the machinery and equipment "slider" from \$53.5 million to \$50.0 million. The determination to use the allotment process appears to be based on using the November Consensus Revenue estimates and the approved FY 2009 budget by the 2008 Legislature (including shifting of some expenditures from FY 2008 to FY 2009). Even after this allotment, there would still be a deficit in the State General Fund of \$129.6 million. Again, a Certificate can be issued when there will be sufficient anticipated resources at the end of fiscal year to be able to redeem the Certificate.

I hope this information is helpful. Please let me know if you need any additional information.

MEMORANDUM

TO: Governor Kathleen Sebelius

FROM: Duane A. Goossen, Secretary of Administration and Director of the Budget

DATE: February 12, 2009

SUBJECT: FY 2009 State General Fund Allotment

KSA Supp. 79-2978 and 79-2979 provide a statutory deadline for taking action on payments to city and county governments associated with reduced property tax revenues on new business machinery and equipment (known as the "property tax slider"). The Legislature's Conference Committee on the current year revisions bill, SB 23, has tentatively agreed to reduce the total amount of the property tax slider by 6.5 percent and to delay the payment of the remaining amount. The slider is to be paid by February 15 so action must be taken now to ensure we meet the statutory deadline.

After considering current revenue information, the FY 2009 approved budget, and other pertinent information, it appears that the resources of the State General Fund are likely to be insufficient to cover the appropriations made against the State General Fund. Therefore, I advise that the use of an allotment plan as provided for in K.S.A. 75-3722 is necessary.

Expected resources in the State General Fund during FY 2009 total \$6.308 billion: a beginning balance of \$527 million plus revenue of \$5.781 billion as estimated in the November 2008 Consensus Revenue Estimate. However, the approved FY 2009 appropriations of \$6.441 billion are greater than available resources, creating a deficit of \$133 million. In each month since the November 2008 Consensus Revenue Estimate was completed, actual revenue collections have been lower than estimated, which means the potential deficit for FY 2009 could be even greater than \$133 million.

Although the Legislature's Conference Committee has tentatively agreed to a compromise on the FY 2009 budget, a final bill will not reach your desk by the statutory deadline for making the slider payment. Therefore, I advise that through the allotment system the total amount of the property tax slider be reduced from \$53,496,055.86 to \$50,018,812.23, and that half of the new total be paid on March 1 if we determine that cash is available in the State General Fund, and that the remaining half be paid on June 1, unless a different decision is made before that time. This course of action is consistent with the tentative agreement of the Conference Committee.

MEMORANDUM

TO: State Treasurer McKinney

FROM: Duane Goossen, Secretary of Administration

DATE: February 12, 2009

SUBJECT: FY 2009 State General Fund Allotment

In a memorandum dated February 12, 2009, (attached) I have advised the Governor that the expected resources of the State General Fund are likely to be insufficient to cover appropriations made against it and that the use of an allotment plan as provided for in K.S.A. 75-3722 is necessary and beneficial to the state. In accordance with the authority granted by this statute, an allotment system is now imposed upon selected State General Fund transactions for FY 2009.

Specific to your agency, the allotment is being applied to the machinery and equipment transfer to local governments (often referred to as the "slider" payment). In January 2009, the Secretary of Revenue certified the amounts necessary to make the transfer in accordance with K.S.A. 2008 Supp. 79-2978 and K.S.A. 2008 Supp. 79-2979. Under this allotment, the amounts transferred from the State General Fund to pay the FY 2009 property tax slider will be reduced from \$53,496,055.86 to \$50,018,812.23. Half of the new total will be disbursed to cities and counties on March 1, if it is determined by Division of the Budget that cash is available to release this transfer and still meet the other obligations of the State General Fund. The remaining half should be disbursed on June 1, unless a decision to alter the transfer is made before that time.

As the state agency affected by this allotment, K.S.A. 75-3722 and K.A.R. 1-61-3 provide that you may appeal this decision to the Governor. Please deliver any appeal in writing with supporting information to the Division of the Budget no later than February 22.

If you have questions about this process, please feel free to contact me.