



**P-1
District Court Docket
Fees**

**P-2
Kansas Laws to
Eliminate Deficit
Spending**

**P-3
Local Demand
Transfers**

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State Finance

P-3 Local Demand Transfers

This briefing report provides an explanation of the five local State General Fund demand transfers (the Local Ad Valorem Tax Reduction Fund, the County and City Revenue Sharing Fund, the Special City-County Highway Fund, the School District Capital Improvements Fund (SDCIF), and the School District Capital Outlay Fund (SDCOF)), including: the statutory authorization for the transfers; where applicable, the specific revenue sources for the transfers; recent treatment of the demand transfers as revenue transfers; and funding provided for the transfers in recent years. In addition, other demand transfers (the State Water Plan Fund, the State Fair Capital Improvements Fund, and the Regents Faculty of Distinction Fund), which do not flow to local units of government.

Distinction between Demand Transfers and Revenue Transfers

- **Demand transfers** are expenditures specified by statute rather than appropriation acts. An important characteristic of a demand transfer is that the amount of the transfer in any given fiscal year is based on a formula or authorization in substantive law. The actual appropriation of the funds traditionally was made through that statutory authority, rather than through an appropriation. In recent years, however, adjustments to the statutory amounts of the demand transfers have been included in appropriation bills. State General Fund demand transfers are considered to be State General Fund expenditures.
- A State General Fund **revenue transfer** is specified in an appropriation bill and involves transferring money from the State General Fund to a special revenue fund. Any subsequent expenditure of the funds is considered an expenditure from the special revenue fund.

Five statutory demand transfers flow to local units of government:

- Two of the local transfers are funded from sales tax revenues: the Local *Ad Valorem* Tax Reduction Fund (LAVTRF) and the County and City Revenue Sharing Fund (CCRSF). Both are to be distributed to local governments for property tax relief. The LAVTRF should receive 3.6 percent of sales and use tax receipts, and the CCRSF should receive 2.8 percent. While the

percentages are established in statute, in recent years, the transfers often have been capped at some level less than the full statutory amount or not funded at all;

- The other local transfer based on a specific revenue source is the Special City-County Highway Fund (SCCHF), which was established in 1979 to prevent the deterioration of city streets and county roads. Each year this fund is to receive an amount equal to the state property tax levied on motor carriers;
- The fourth transfer to local units of government is not based on a specific tax resource. The School District Capital Improvements Fund (SDCIF) is used to support school construction projects. By statute, the State Board of Education is to certify school districts' entitlements determined under statutory provisions and funding is then transferred from the State General Fund to the SDCIF; and
- The fifth transfer to local units of government is the School District Capital Outlay Fund (SDCOF). The 2005 Legislature created the capital outlay state aid program as part of its response to the Kansas Supreme Court's opinion in school finance litigation. The program is designed to provide state equalization aid to school districts for capital outlay mill levies up to eight mills.

Treatment of Demand Transfers as Revenue Transfers. In recent years, the local demand transfers, with the exception of the SDCOF, have been changed to revenue transfers. By converting demand transfers to revenue transfers, these funds cease to be State General Fund expenditures and are no longer subject to the ending balance law. The LAVTRF, CCRSF, and SCCHF were last treated as demand transfers in FY 2001, and the SDCIF transfer was changed to a revenue transfer in FY 2003.

Recent Funding for the Local Demand/Revenue Transfers. The SDCIF was the only local State General Fund transfer recommended for FY 2016.

- Full-year funding (at a level below the statutory amount) was last recommended for the LAVTRF and the CCRSF in FY 2002;
- In FY 2003, as part of approved State General Fund allotments, the second half of the scheduled transfers to the LAVTRF, CCRSF, and SCCHF were suspended, and no transfers have been made since FY 2004;
- Because of balances in the SCCHF, local governments received the full amounts of the SCCHF transfer in both FY 2003 and FY 2004, although only one of two scheduled transfers was made in FY 2003 and no State General Fund transfer was made in FY 2004. The FY 2005, FY 2006, FY 2007, and FY 2009; and
- The transfers to the SCCHF were approved at the FY 2003 pre-allotment amount. The FY 2009 transfer was approved at \$6.7 million. No funding has been approved since FY 2009; and
- The transfer to the SDCOF was made in FY 2015, but is scheduled to be consolidated in the School Block Grant in FY 2016.

The following table reflects actual and approved local demand or revenue transfers (in thousands of dollars) for FY 2012-FY 2015:

Demand/Revenue Transfers from State General Fund for Local Units of Government FY 2014 - FY 2017 (Dollars in Millions)						
	Actual	Actual	Approved	Approved	Change from FY	
	2014	2015	Amount	Amount	2016	
			FY 2016	FY 2017	\$	%
School District Capital Improvements Fund	\$ 129.7	\$ 145.0	\$ 155.0	\$ 162.5	\$ 7.5	4.8%
School District Capital Outlay Fund	-	28.9	-	-	-	-
Local <i>Ad Valorem</i> Tax Reduction Fund	-	-	-	-	-	-
County and City Revenue Sharing Fund	-	-	-	-	-	-
City-County Highway Fund	-	-	-	-	-	-
TOTAL	\$ 129.7	\$ 173.9	\$ 155.0	\$ 162.5	\$ 7.5	4.8%

Other Demand Transfers. In addition to the local demand/revenue transfers, three other transfers do not flow to local units of government.

One transfer provides matching funds for capital improvement projects at the **Kansas State Fair**. The amounts to be transferred are intended to match amounts transferred by the State Fair to its Capital Improvements Fund, up to \$300,000. A transfer of \$100,000 was approved for FY 2016.

Another provides for a statutory \$6.0 million transfer from the **State General Fund** to the State Water Plan Fund. *No transfer was approved for FY 2016.*

The third provides for a transfer to the **Regents' Faculty of Distinction Fund**. This provides for a transfer to supplement endowed professorships at eligible educational institutions. *A transfer of \$13,224 was authorized for FY 2016.*

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