

### State Budget

#### K-3 State General Fund Transfers

This article provides an explanation of the five local State General Fund (SGF) demand transfers, including the statutory authorization for the transfers, the specific revenue sources for the transfers (where applicable), recent treatment of the demand transfers as revenue transfers, and funding provided for the transfers in recent years. In addition, other demand transfers, which do not flow to local units of government, are discussed briefly.

#### 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. SGF demand transfers are considered to be SGF expenditures.

A SGF **revenue transfer** is specified in an appropriation bill and involves transferring money from the SGF 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 SGF 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 SGF expenditures and are no longer subject to the ending balance law. The LAVTRF, CCRSF, and SCCHF were last treated

as demand transfers in fiscal year (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 SGF transfer recommended.

- 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 SGF 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; and
- 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 SGF transfer was made in FY 2004. The FY 2005, FY 2006, FY 2007, and FY 2009 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.

The following table reflects actual and approved local demand or revenue transfers (in millions of dollars) for FY 2018-FY 2020.

| Demand/Revenue Transfers from SGF<br>for Local Units of Government<br>FY 2018-FY 2020<br>(Dollars in Millions) |                   |                     |                     |                        |             |
|--|-------------------|---------------------|---------------------|------------------------|-------------|
|  |                   |                     |                     | Change from<br>FY 2019 |             |
|  | FY 2018<br>Actual | FY 2019<br>Approved | FY 2020<br>Approved | \$                     | %           |
| SDCIF  | \$189.8           | \$203.2             | \$215.0             | \$11.8                 | 5.8%        |
| SDCOF  | 60.5              | 65.4                | 67.8                | 2.4                    | 3.7         |
| LAVTRF   | -                 | -                   | -                   | -                      | -           |
| CCRSF  | -                 | -                   | -                   | -                      | -           |
| SCCHF  | -                 | -                   | -                   | -                      | -           |
| <b>TOTAL</b>   | <b>\$250.3</b>    | <b>\$268.6</b>      | <b>\$282.8</b>      | <b>\$14.2</b>          | <b>5.3%</b> |

**Other demand transfers.** In addition to the local demand/revenue transfers, two other transfers do not flow to local units of government.

One provides for a statutory \$6.0 million transfer from the SGF to the State Water Plan Fund. In FY 2018, \$1.4 million was transferred, and \$2.8

million in FY 2019 and \$4.0 million in FY 2020 is approved to be transferred.

Another provides for a transfer to the Regents' Faculty of Distinction Fund to supplement endowed professorships at eligible educational institutions. A transfer of \$1.7 million is approved for FY 2019 and FY 2020.

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