KLRD Kansas Legislative Research Department
*Providing nonpartisan, objective research and fiscal analysis for the Kansas Legislature since 1934*

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# BUDGET BASICS

The purpose of this document is to provide context for terminology commonly seen in the Kansas Legislative Research Department's Budget Analysis publication and to explain some basics of state agency budgeting. For more information on the budget process timeline and legislators' role in the process, see KLRD's Legislative Budget Process document.

## Funding

The first step to understanding a state agency budget is to understand where an agency obtains its money. Funding for state agency budgets can generally be broken down into three categories:

- **State General Fund.** The principal revenue source for the State General Fund is taxes, including individual and corporate incomes taxes, sales and compensating use taxes, and interest earnings. Revenue from the State General Fund is used to finance governmental operations not provided for by other funds.
  - Reappropriation. Reappropriations are unexpended funds remaining at the end of the current fiscal year that are carried over to the next fiscal year. Unexpended Statfe General Fund moneys, as well as appropriated special revenue funds (discussed below), can be reappropriated.
- **State special revenue funds.** There are several hundred state special revenue funds. Agency fee funds, which consist of receipts collected and retained by an agency, are categorized as state special revenue funds. Other special revenue funds are funded through special fees, fines, or levies assessed by the State. Some state special revenue funds are shared between multiple agencies. Generally, these moneys must be expended for purposes specified in state statutes.
  - Limited and no-limit special revenue funds. Most special revenue funds are not limited on the amount that can be expended from that fund; these are called no-limit special revenue funds. Some funds have a limitation placed by the Legislature on the amount that can be spent; these are limited special revenue funds.
  - Appropriated special revenue funds. Some special revenue funds are divided between multiple agencies that receive specified amounts of moneys for particular purposes. Appropriated special revenue funds include the Economic Development Initiatives Fund, the Children's Initiatives Fund, the Expanded Lottery Act Revenues Fund, and the State Water Plan Fund.

- **Federal funds.** Similar to state special revenue funds, federal funds are largely from fees, fines, or levies assessed by the federal government. Federal funds are expended for purposes specified by the federal government.

## Expenditures

The next step is to understand how an agency spends its money. An expenditure is an actual commitment of money out of any state or federal fund. Classifications of expenditures can be broken down by categories including:

- **Salaries and wages.** Salaries and wages expenditures include payments to state officers and employees for their work, and the State's costs for employee fringe benefits such as Federal Insurance Contributions Act (FICA) payments, retirement contributions, workers compensation, unemployment insurance, the state leave payment assessment, and health insurance.

- **Contractual services.** Contractual services expenditures include a large variety of payments for various services including communications, travel, utilities, and consultant services. Any services not performed by agency staff are considered contractual services, ranging from landscaping to marketing services.

- **Commodities.** Commodities are consumable materials, supplies, and parts used in the operation of the agency including stationery, cleaning supplies, and fuel.

- **Capital outlay.** In contrast to commodities, capital outlay comprises expenditures for items that will be used for more than one year, such as office equipment, machinery, furniture, and vehicles.

- **Aid to local governments.** Aid payments may be from state or federal funds and are payments to counties, cities, school districts, and other local governments with taxing authority.

- **Other assistance, grants, and benefits.** This category comprises payments made to, or on behalf of, individuals as aid, including public assistance benefits, retirement benefits, claims, unemployment benefits, property tax relief payments, and tuition grants.

- **Capital improvements.** Capital improvements expenditures include cash or debt service principal payments for construction of highways, buildings, or other facilities (including equipment necessary to place facilities in operation); remodeling and additions to existing structures; rehabilitation and repair projects; razing of structures; and the purchase or improvement of land. Capital improvement expenditures will appear in the budgets of agencies that own their own buildings or grounds.

All categories of expenditures above are combined into an agency's base budget. A base budget is the level of expenditure necessary for the agency to maintain its current level of operations. Some expenditure requests are also classified as supplementals or enhancements. Supplementals and enhancements are budget requests that are funding above the amount needed to maintain an ongoing or current services level of operation. These can include funding for a new program or position or the expansion of an existing program. Supplementals are requested for the current fiscal year, while enhancements are requested for future fiscal years.

Agencies can also be required to submit a reduced resources package as a part of their annual budget submission. A reduced resources package reflects a state-wide percentage reduction from the current service level for State General Fund and Economic Development Initiatives Fund expenditures.

## Budget Versions

KLRD's Budget Analysis Document compares three iterations of a state agency's budget: an approved budget, the agency request, and the Governor's recommendation.

An ***approved budget*** is the budget for a fiscal year that has already been passed by the Kansas Legislature and signed into law by the Governor. For most state agencies, an approved budget covers only the current fiscal year. The approved budget includes the amount the agency was approved to spend by the previous Legislature, as well as any unspent moneys that were reappropriated from the prior fiscal year.

The ***agency request*** includes funding to maintain current agency operations and all proposed new or expanded programs or positions for the current fiscal year and one or two future fiscal years. The agency's request could be considered an agency's ideal scenario, a request for everything an agency needs and wants. The Budget Analysis compares the approved budget and the agency request for the current fiscal year to describe adjustments made since the budget was signed into law.

The ***Governor's recommendation*** includes the level of funding recommended by the Governor to maintain current agency operations and funding for selected supplementals or enhancements. The Governor's recommendation serves as the starting point for the budget process; any recommendations made by the Legislature are changes to the Governor's recommendation. The Budget Analysis compares the agency request to the Governor's recommendations for the current fiscal year and one or two future fiscal years.

The requirement for some agencies to provide budget information for two future fiscal years rather than one is set in statute (KSA 75-3717(f)). Those agencies are called biennial budget agencies.

## Performance Based Budgeting

The 2016 Legislature passed HB 2739, which outlined a three-year process for state agencies to develop and implement a system of performance budgeting. Measures to evaluate agency-wide performance are called performance measures and consist of two types.

***Outcome*** measures gauge the ultimate effect of agency programs. For instance, if the duty of an agency is to license dentists, the goal of licensing dentists would be to protect the public. A measure that describes how well the agency protected the public would be the outcome measure.

***Output*** or workload measures indicate the level of resource input or intermediate outputs. Many state agencies issue a form of license; the number of licenses an agency issues would be an output measure. Agencies are also required to submit an efficiency measure that measures output. The cost to the agency of issuing each license would be an efficiency measure.