March 8, 2016

The Honorable Ty Masterson, Chairperson
Senate Committee on Ways and Means
Statehouse, Room 545-S
Topeka, Kansas  66612

Dear Senator Masterson:

SUBJECT: Fiscal Note for SB 463 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 463 is respectfully submitted to your committee.

SB 463 would on July 1, 2017 abolish the Kansas Endowment for Youth Fund (KEY) and the Children’s Initiatives Fund (CIF). All moneys in the funds would be transferred to the State General Fund (SGF) and all liabilities of the funds would be transferred to and imposed upon the State General Fund. The bill would repeal statutes pertaining to the investment of the KEY Fund. The bill would provide for all moneys received by the state pursuant to the tobacco litigation settlement agreements to be deposited in the State General Fund instead of the KEY Fund.

SB 463 would charge the Kansas Children’s Cabinet with advising the Governor and the Legislature regarding the uses of moneys allocated to and expended on children and youth programs, projects, improvements, services and other purposes directly or indirectly beneficial to the physical and mental health, welfare, safety and overall well-being of children in Kansas. The Cabinet would make annual appropriation recommendations for not more than $50.0 million to be expended on children and youth programs and services. The Cabinet would submit the recommendations to the Legislative Budget Committee, the House Committee on Appropriations, the Senate Committee on Ways and Means and the Governor on or before September 1 each year. The Cabinet would then review, assess and evaluate all programs and services that were funded pursuant to its recommendations. The cost of these reviews, assessments and evaluations would be paid from the Children’s Initiatives Accountability Fund.

SB 463 would also abolish the Economic Development Initiatives Fund (EDIF) and Expanded Lottery Act Revenues Fund (ELARF) on July 1, 2017. All moneys in the funds would be transferred to the State General Fund and all liabilities of the funds would be transferred to and imposed upon the State General Fund. The bill would provide for all revenues and transfers that are currently deposited in the EDIF and the ELARF to be deposited in the State General Fund. Current law requires transfers of $2.0 million from the EDIF to the State Housing Trust
Fund on July 1, 2016, July 1, 2017 and July 1, 2018. SB 463 would make those transfers on July 1, 2017 and July 1, 2018 from the State General Fund.

SB 463 would increase the percentage of state sales and compensating use tax distributed to the State Highway Fund (SHF) from 16.154 percent to 16.226 percent for FY 2017. Beginning in FY 2018, the percentage of state sales tax and compensating use tax distributed to the SHF would be eliminated.

The Department for Children and Families (DCF) states that SB 463 would not change the administrative support it provides to the Kansas Children’s Cabinet. For the past several years appropriations of $5.0 million for the Child Care Program and $2.2 million for the Family Preservation Program were made from the CIF. DCF states that if those appropriations are not replaced with SGF appropriations, the loss of state funding will result in the loss of federal matching funds. The loss of $5.0 million in state funds for the Child Care Program would result in the loss of $6.6 million in federal funds for a total program reduction of $11.6 million. The loss of $2.2 million in state funds for the Family Preservation Program would result in the loss of $1.5 million in federal funds for a total program reduction of $3.7 million.

The Kansas Children’s Cabinet states that SB 463 would reduce the revenue managed by the Cabinet by $26.1 million, which includes administrative funding from the KEY Fund, the Early Childhood Block Grant, and Community-Based Child Abuse Prevention federal funding. Funding for the Early Childhood Block Grant (ECBG) would need to be replaced from the SGF in order to fund the current ECGB grant programs. To maintain federal matching monies or meet maintenance of effort requirements, CIF funding would also have to be replaced for Community-Based Child Abuse Prevention, Child Care, Family Preservation, Infants and Toddlers, and Healthy Start. A transfer from the KEY fund of $460,000 to the Attorney General’s Office funds ongoing work on the Master Settlement Agreement. This funding should be replaced as well.

SB 463 would have no fiscal effect for the Kansas Lottery or the Racing and Commission. The Department of Commerce has not responded to the request for a fiscal note on this bill. A revised fiscal note will be issued if the Department provides information to the Division of the Budget.

The Department of Revenue (KDOR) states that SB 463 would increase the transfer to the State Highway Fund by $2.4 million in FY 2017. A corresponding reduction to State General Fund revenues would occur. Beginning in FY 2018, all state sales and use tax receipts would be credited to the State General Fund with none statutorily credited to the State Highway Fund. Assuming an annual increase of 3.5 percent in sales and use taxes, State General Fund revenue would increase by $553.4 million in FY 2018, $572.7 million in FY 2019, $592.8 million in FY 2020 and $613.5 million in FY 2021.

The Kansas Department of Transportation (KDOT) concurs with the Department of Revenue’s estimate for the increased transfer to the SHF in FY 2017. For fiscal years 2018, 2019 and 2020 KDOT’s estimates for SHF transfers are slightly different than KDOR’s because
KDOT assumed a 3.75 percent annual growth rate for sales and use tax. The KDOT growth rate is the rate used by the November, 2015 Highway Revenue Estimating Group. KDOT states that the total decrease in sales and compensating use tax revenue to the SHF over the next four years represents the remainder of the Transportation Works for Kansas (T-WORKS) Program. If the loss of revenue is not replaced by a State General Fund appropriation or transfer, it is likely that the scope of the T-WORKS Program would need to be reexamined. A secondary effect could be a reduction in the amount of bonds KDOT would be able to issue. Under current law, KDOT’s bonding authority is capped at 18.0 percent of projected SHF revenue, with the exception of FY 2016 and FY 2017. Therefore, any reduction in revenue has the potential to impact agency bonding. Any fiscal effect associated with SB 463 is not reflected in The FY 2017 Governor’s Budget Report.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Bob North, Commerce
    Brad Ridley, Aging & Disability Services
    Jackie Aubert, Children & Families
    Faith Loretto, KPERS
    Colleen Becker, Department of Administration
    Susan Sankey, State Fair
    Stephen Durrell, Lottery
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