

appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and as reserved and designated fund balances in the financial statements included in this report.

## **COMBINED GOVERNMENTAL FUNDS OF THE STATE**

The combined governmental funds of the State consist of the State General Fund, Special Revenue Funds and Capital Projects Funds. These funds encompass the broad activities of State government. The economic condition of the State is reflected in revenues and expenditures of the combined governmental funds.

The combined governmental funds revenues increased by \$101.4 million or 1.3 percent from fiscal year 1998 with the majority of the increase reflected in additional federal funding in various areas including childcare, foster care, medical services and temporary assistance to needy families.

Expenditures of combined governmental funds increased by \$650.5 million or 9.1 percent over fiscal year 1998, \$549.1 million more than the increase in revenues. The majority of the increases are in the Education function and the Human Resources function. The increase in the Education function is for aid to local school districts and reflects changes in the school finance formula to reduce local motor vehicle and property tax rates combined with slight increases in enrollment and the base state aid per student. The increase in the Human Resources function is for additional services provided by the Department of Social and Rehabilitation Services that resulted from the additional federal funding revenue.

Please note, although the above discussion addresses operating revenues and expenditures for the combined governmental funds, each fund is a separate accounting entity. Resources from one fund cannot be transferred to another fund unless authorized by statute.

## **STATE GENERAL FUND**

The State General Fund is maintained to finance all authorized governmental activities not supported by special funds. Revenues not specified by law for special funds are deposited into the State General Fund. Disbursements from the State General Fund are authorized by legislative appropriation acts. The unencumbered fund balance available to finance succeeding fiscal year appropriations at June 30, 1999, decreased to \$478.0 million from \$675.0 million at June 30, 1998. Expenditures increased by \$365.4 million while Revenue collections decreased by \$85.2 million which is an overall decrease of \$450.6 million in state general fund operating dollars.

State General Fund revenue collections for fiscal year 1999 were \$4,005.0 million, a decrease of \$85.2 million, or 2.1 percent. The major shift in State General Fund revenue was a decrease in Income and Inheritance Taxes of \$107.6 million due to reduced collections of individual tax payments in the current year due to the passage of new tax legislation.

State General Fund expenditures for fiscal year 1999 totaled \$3,944.5 million representing an increase of \$365.4 million or 10.2 percent. Analysis of expenditures by function of government reveals \$271.4 million of the increase is related to aid to local schools districts due to changes in the school finance formula and increases in enrollments and the base state aid per student.

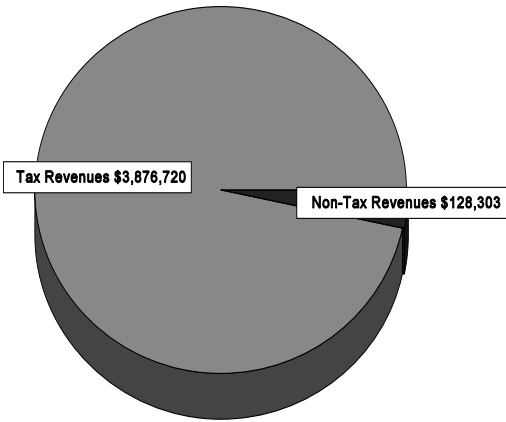
## **TRANSPORTATION FUNDS**

Transportation funds consist of the State Highway Fund, Highway Bond Proceeds Fund, Restricted Fees Funds, County Equalization and Adjustment Fund, Special City and County Highway Fund, Highway Bond Debt Service Fund, and the Elderly and Disabled Coordinated Public Transportation Assistance Fund. A comparative combined statement of revenues, expenditures and balances of these funds is presented in the Statistical Section. The Kansas Department of Transportation (KDOT) issues a separate audited comprehensive financial report which is available from the agency on request.

Total State General Fund Revenues \$4,005,023  
(In Thousands)

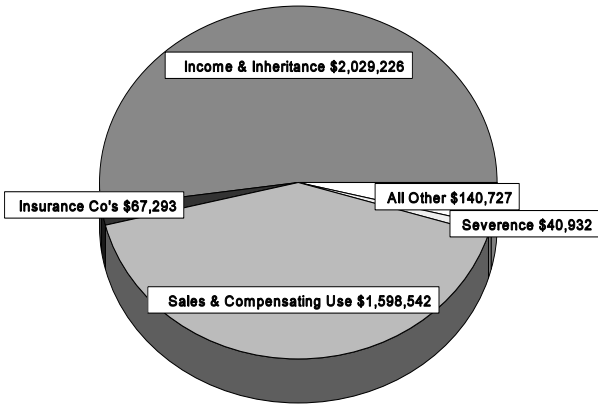
TOTAL REVENUE

\$4,005,023



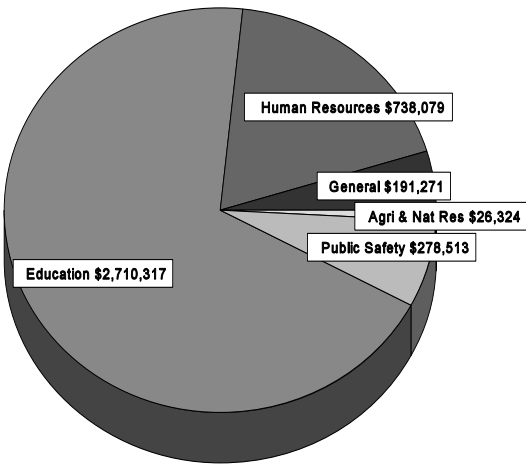
TAX REVENUE

\$3,876,720

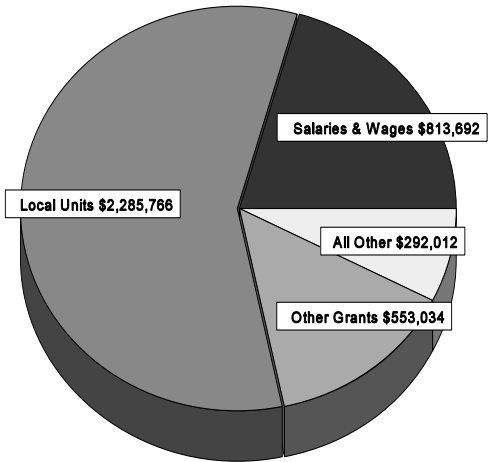


Total State General Fund Expenditures \$3,944,504  
(In Thousands)

BY FUNCTION



BY OBJECT



Revenues deposited in the transportation funds are generally restricted for financing the construction and maintenance of the state highway system. Portions of the motor fuel taxes are distributed to counties and cities for the construction and maintenance of roads and bridges.

Fiscal year 1999 revenues to the transportation funds increased by \$107.6 million to a total of \$892.8 million. State sales and compensating use taxes, motor fuel taxes, and motor vehicle registration taxes collectively increased \$24.5 million primarily due to generally strong economic conditions. Revenues from interest on investments decreased \$7.9 million due to the decreasing size of the investment portfolio. The increase in revenues from gifts, donations and federal grants of \$91.3 million reflects the increased funding from the Federal Transportation Equity Act for the Twenty - First Century, which was signed into law during June 1998.

Expenditures totaled \$993.3 million, an increase of \$36.2 million. The increase in capital outlays of \$21.0 million is primarily for machinery and equipment. The increase in contractual services of \$12.5 million reflects a greater emphasis on privatization. Scheduled principal payments on outstanding bonds increased \$16.4 million during the fiscal year. Shared Revenue distributed to local units of government increased \$6.4 million primarily due to the local units' portion of increased shared revenues. The decrease in expenditures for highways and bridges of \$20.3 million reflects a reduction in the highway construction program for the fiscal year.

Funds from other financing sources and uses decreased \$55.2 million due to lower liquidation of investments to meet contractual payments.

At June 30, 1999, indebtedness on highway revenue bonds and highway revenue refunding bonds issued in fiscal year 1992 through 1999 was \$832.0 million. This debt is to be retired by fiscal year 2015.

## EMPLOYMENT SECURITY

The Employment Security Fund was established by law as a special fund, separate and apart from all public moneys or funds of the State. The law mandates three separate accounts: (1) a clearing account, (2) an unemployment trust fund and (3) a benefit account. Deposits in this fund include contributions, interest earned on trust funds deposited in the U.S. Treasury, federal grants for unemployment benefits to federal employees and ex-military personnel, fifty percent of extended benefits, and other operating revenue. Funds are paid to regular recipients for a period up to twenty-six weeks. Extended benefits may be paid for an additional thirteen weeks during periods of high unemployment. Analysis of the Employment Security Fund transactions for fiscal year 1999 indicates that revenues decreased by \$2.3 million. Expenditures increased \$9.8 million even though the number of unemployment claims fell in fiscal year 1999. The fund balance decreased by \$57.5 million for fiscal year 1999.

The following table lists the minimum, maximum and the average employer's contribution rates for the current and prior four years.

Calendar <u>Year</u>	Minimum <u>Tax Rate</u>	Maximum <u>Tax Rate</u>	Average <u>Tax Rate</u>
1995	0.00%	6.40%	0.73%
1996	0.00	6.00	0.85
1997	0.00	6.00	1.12
1998	0.00	6.00	1.41
1999	0.00	6.00	1.57

## LOCAL ASSISTANCE

Gross assistance expenditures to local units of government increased 11.8 percent from \$2,557.9 million in fiscal year 1998 to \$2,860.9 million in fiscal year 1999. Increases in education assistance from both federal and state sources account for the majority of the increase and can be attributed to a general increase in payments for aid to local school districts. Retirement contribution for school district employees, special education and school district capital improvements also showed significant increases. A local assistance schedule in the Statistical Section details purpose and program by category of assistance for State of Kansas combined funds.

Federal assistance is provided to local units of government through the State Highway Fund under the Federal Highway Safety program. Moneys for secondary road projects are expended by KDOT for capital improvements and other related costs and are reflected in the combined financial statements as expenditures.

## ENTERPRISE OPERATIONS

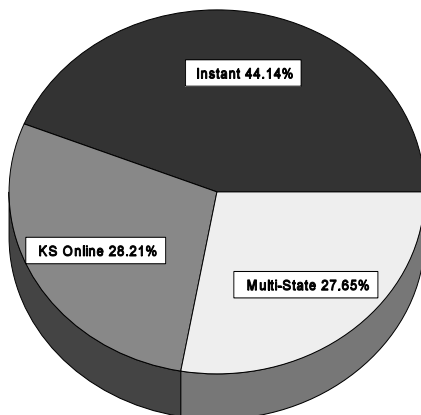
Certain State agency operations are similar to those of private industry as goods and services are exchanged for user fees which enhance the economic condition of the State. Enterprise operations include such diverse operations as Kansas State Fair receipts, sales of vocational rehabilitation products, blind vendor stand sales, Kansas Lottery ticket sales, Kansas Racing Commission receipts, the production and sales of the Kansas Magazine, and University Enterprise Funds investments to provide dollars for debt funding. Other enterprise operations include the university housing and parking systems. The operations are self-supporting, charging fees for the costs of services. These costs may include debt service expenditures for obligations incurred to provide the service. The funds maintained by the universities for the housing and parking systems operations are classified as enterprise funds in the combined financial statements.

The Lottery Operating Fund and the State Racing Fund are classified as enterprise funds on the combined financial statements for fiscal year 1999. Excess receipts over expenditures from the operations of these agencies are used to finance other governmental functions. During fiscal year 1999, \$59.3 million was transferred to the State Gaming Revenues Fund from the Lottery Operating Fund, and \$.6 million from the State Racing Fund. Of the \$60.0 million transferred to the State Gaming Revenues Fund from lottery operations and racing receipts, \$5.0 million was transferred to the Correction Institutions Building Fund, \$42.5 million to the Economic Development Initiatives Fund, and \$2.5 million to the Juvenile Detention Facilities Fund. The remaining \$10.0 million was transferred to the State General Fund.

### Fiscal Year 1999 Revenues for Selected Enterprise Operations

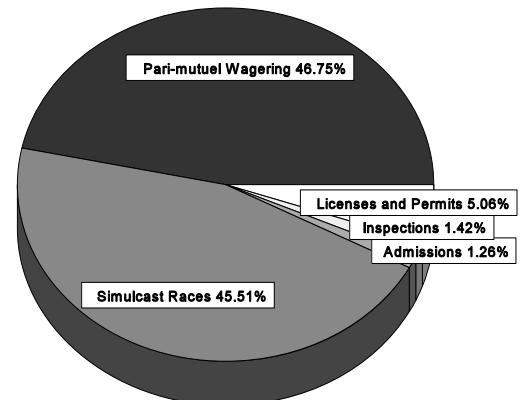
#### Kansas Lottery

\$109,324,000



#### Kansas Racing Commission

\$3,539,000



State Gaming was added to the Kansas Racing Commission in fiscal year 1997, now called The Kansas Racing and Gaming Commission. State gaming fulfills the duties and obligations of the State of Kansas set forth in the Tribal-State Gaming Compacts and the Tribal Gaming Oversight Act. Operating expenses of the State Gaming portion of the agency and expenses to enforce the Tribal Gaming Oversight Act are paid from the Tribal Gaming Fund. The State does not receive other moneys from tribal casino gaming activities.

## **PENSION TRUST FUND OPERATIONS**

The Kansas Public Employees Retirement System is an umbrella organization administering three statewide retirement systems under one plan. These systems are Kansas Public Employees Retirement System, Kansas Police and Firemen's Retirement System and Kansas Retirement System for Judges. Further information on State participation in the retirement system can be found in Note III C of the Financial Section.

## **INTERNAL SERVICE FUNDS**

Internal Service Funds are used by State agencies to recover the costs of providing services through user charges. Various State agencies have elected to allocate their costs of providing centralized services within their different funds. Agencies may also use certain funds to recover costs of providing services to other State agencies.

Internal Service Funds are used by the Department of Administration to charge other agencies for central services such as duplicating and printing services, motor pool, data processing, central aircraft expenses, depreciation and Year 2000 assessment, planning and repair services. The Highway Patrol provides capital area security services within State buildings. Most Kansas universities also use Internal Service Funds to charge their various departments for services such as maintenance, supplies, postage and telecommunications. Correctional Industries offer such services to other State agencies through furniture refinishing, janitorial products, signs and graphics production.

## **DEBT ADMINISTRATION**

The State of Kansas finances a portion of its capital expenditures with various debt instruments. Of the capital expenditures that are debt-financed, revenue bonds and loans from the Pooled Money Investment Board finance most capital improvements for buildings, and certificates of participation and "third-party" financing pay for most capital equipment. The Kansas Constitution provides for the issuance of general obligation bonds subject to certain restrictions; however, no bonds have been issued under this provision. No other provision of the Constitution or State statute limits the amount of debt that can be issued. Statutory authority has been granted to issue revenue bonds for:

- academic and hospital facilities, parking facilities, student unions, athletic facilities and dormitories at State universities by the Board of Regents;
- highway construction by the Kansas Department of Transportation;
- a Bioscience Research Center and a Health Center for the University of Kansas;
- office buildings by the Department of Administration;
- reservoir projects or the purchase of storage in existing reservoirs by the Kansas Water Office;
- grandstand renovations by the State Fair Board;
- water pollution control grants to be loaned to participating Kansas municipalities to pay the costs of acquiring, constructing, improving, repairing, rehabilitating or extending municipal waste water projects by the Department of Health and Environment;
- public water supply project loans to participating Kansas municipalities to pay the costs of acquiring, construction, reconstructing, improving, rehabilitating or extending a public water supply system by the Department of Health and Environment; and
- investments in lifelong learning programs by the Kansas Department of Commerce and Housing.

Although the debt liability has increased in recent years, it is still considered low compared to other states or public entities. The State of Kansas has no General Obligation debt rating; however, in October 1998 Standard and Poor's assigned an issuer credit rating "AA+" to the State of Kansas. Standard and Poor's credit rating reflects the State's credit quality in the absence of general obligation debt. Recent revenue bonds issued by the Kansas Development Finance Authority (KDFA) for State agencies have received ratings ranging from "Aa1" to "AA+" from Moody's, and Standard & Poor's, respectively. Recent fixed rate bonds issued by the Kansas Department of Transportation were "Aa2" from Moody's, "AA" from Fitch and "AA+" from Standard & Poor's.

Most State debt is issued through the KDFA, an independent instrumentality of the State created in 1987 for the primary purpose of enhancing the ability of the State to finance capital improvements and improving access to long term Capital markets for State agencies, political subdivisions, public and private nonprofit organizations and businesses. Debt financing for capital improvements is used mostly for highway improvements, prison construction, acquisition and renovation of office space, energy conservation improvements and university facility construction and renovation.

Of the total State budget, debt service payments constituted 1.2 percent in 1994, 1.1 percent in 1995, 1.2 percent in 1996, 1.4 percent in 1997, 1.5 percent in 1998 and .4 percent in 1999. During fiscal years 1994 and 1995, the State sold bonds totaling approximately \$151.0 million and \$167.1 million. The largest use of the bond proceeds was \$125.0 million and \$140.0 million for the Comprehensive Highway Program, for these two years respectively. During fiscal year 1996, the State sold bonds totaling approximately \$33.0 million. The bonds were issued for library expansion, renovation, water pollution control and investments in lifelong learning programs. During fiscal year 1997, the State sold bonds totaling approximately \$98.1 million. The bonds were issued for water pollution control and rehabilitation and repairs projects at Board of Regents institutions. During fiscal year 1998, the State sold bonds totaling approximately \$446.8 million. The bonds were issued for water pollution control, public water supply and highway revenue refunding bonds. Total outstanding revenue bonds increased \$1,014.2 million in fiscal year 1999, due to issuance of additional bonds for public water supply, limited tax revenue bonds, housing and office renovation projects and educational building projects. In fiscal year 1999, bond principal payments and bond defeasance were \$41.8 million.

## **CASH MANAGEMENT**

On a daily basis, the State monitors receipts to, and expenditures out of, the State Treasury. It also employs cash flow tools and techniques that maximize revenues without incurring undue risk. The State invests idle funds to match anticipated cash flow needs by using government securities, collateralized bank deposits, and commercial paper to provide safety, liquidity, and yield, in that order. As a cash flow management policy, the State seeks to avoid borrowing from its own idle funds to meet expenditure obligations of the State General Fund.

The State maintains investments in addition to idle moneys. Authorized agencies may make investments independently of the State Treasury pooled cash. Generally the Pooled Money Investment Board (PMIB) acts as agent for these investments. Certain funds, such as Kansas Public Employees Retirement System and the Employment Security Fund, are statutorily exempted from PMIB oversight. Investments of the Municipal Investment Pool, an investment option established by the 1992 legislature for local governments, are also made by the PMIB.

Cash management procedures changed with the passage of Senate Bill 476 during the 1996 legislative session. This legislation established the Pooled Money Investment Portfolio, a single investment vehicle for all moneys in the State Treasury, except for the Employment Security Fund. This legislation established the position of Director of Investments to manage the investments based on policies set by the PMIB.

## **RISK MANAGEMENT**

The State has elected to manage most exposures to risk through the retention of risk. The exposures retained by the State are for buildings and capital equipment, health and life benefits, tort liability, unemployment benefits and worker's

compensation benefits. The State has assumed many of these risks on a cash basis and has not encountered difficulty in resolving past losses by using resources available at the time that the loss occurred.

The State manages its risk by positively addressing various benefits and liabilities through review, legislation and administration to assure that claims are promptly and correctly adjudicated and that appropriate and fair benefits and liabilities are reflected in the statutes and regulations. Where cost effective and appropriate, such as limiting the impact of a catastrophic occurrence to the state buildings, the State has begun to limit its exposure through high deductible catastrophic loss insurance.

The indemnity medical plans (administered by Blue Cross/Blue Shield and Principal Mutual) and the dental plan (administered by Delta Dental) offered to State employees, elected officials, retirees and their dependents became self-insured effective January 1, 1996 and the State assumes all the risk for claims incurred under those plans. The prescription drug plan (administered by Diversified through December, 1997 and by Advance Paradigm, Inc. beginning in January, 1998) became self-insured in October 1997 and the State assumes all the risk for claims incurred under this plan. Payments for those participating in these plans are collected through payroll deductions, deductions through the Kansas Public Employee's Retirement System and self-payment. The Health Care Commission pursued a stop-loss arrangement to limit the State's exposure in the event of extraordinary unanticipated claims; however, the required premium would have exceeded potential extraordinary losses. The Health Care Commission is monitoring claims to determine if and at what point stop-loss insurance would be required.

## **ACKNOWLEDGMENTS**

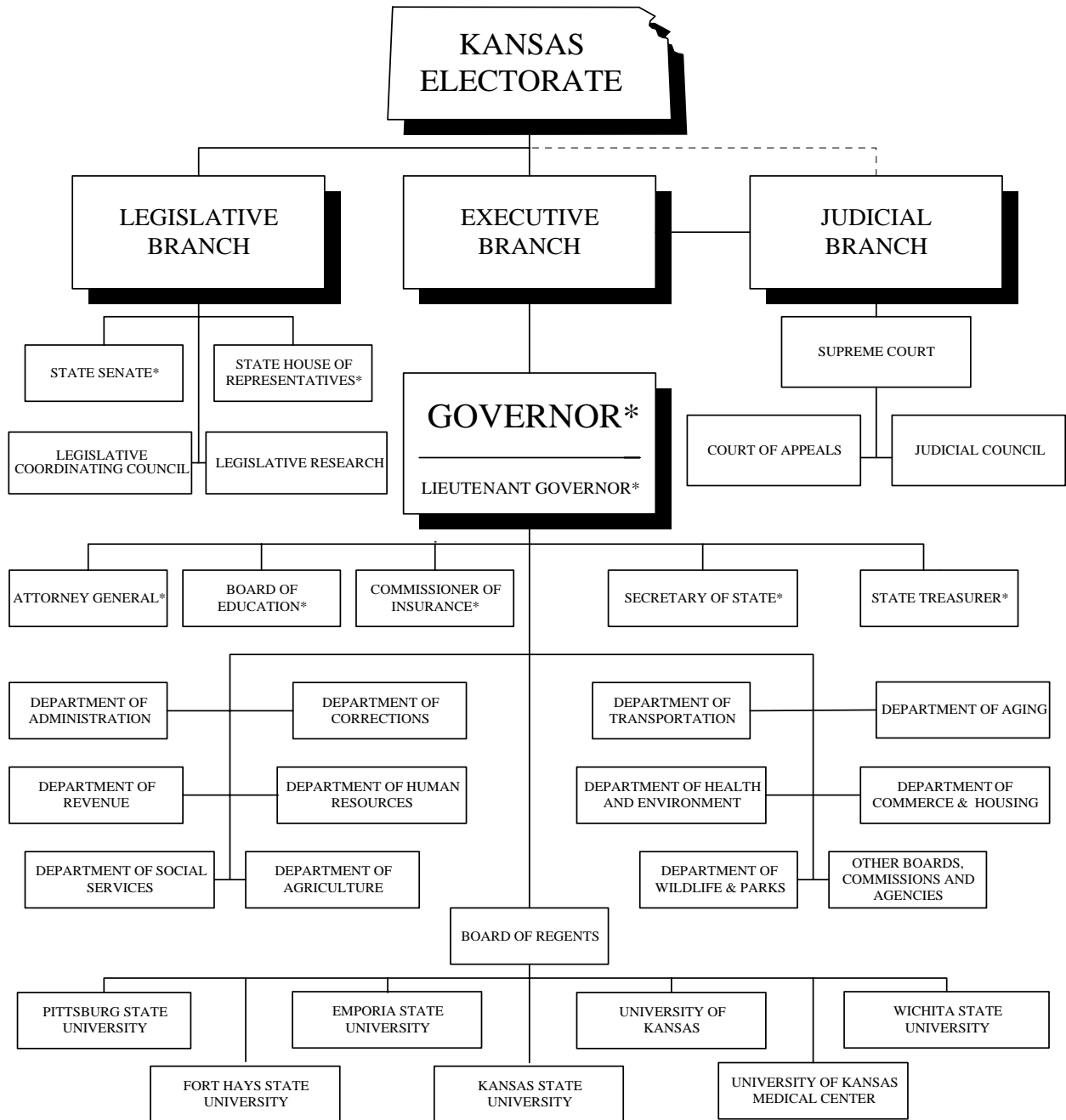
I wish to thank my staff whose dedicated efforts have made this report possible. Additionally, the professionalism and dedication demonstrated by the financial and management personnel of each State agency genuinely facilitated the preparation of this report. I sincerely appreciate the photographs provided by the Department of Wildlife and Parks. Finally, special thanks go out to the agencies who provided the information included in the Service Efforts and Accomplishments addressed earlier in this letter.

Sincerely,

Shirley A. Moses, Director  
Division of Accounts and Reports

State of Kansas  
**Introduction**  
June 30, 1999

Organizational Chart



\*ELECTED OFFICIALS



State of Kansas  
**Introduction**  
June 30, 1999

Listing of Selected Officials
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**Executive Branch**

*Governor*  
Bill Graves

*Lieutenant Governor*  
Gary Sherrer

*Secretary of State*  
Ron Thornburgh

*State Treasurer*  
Tim Shallenburger

*Attorney General*  
Carla Stovall

*Board of Education*  
John A. Tompkins

*Commissioner of Insurance*  
Kathleen Sebelius

**Legislative Branch**

*Speaker of the House of  
Representatives*  
Robin Jennison

*Speaker Pro Tempore of the  
House of Representatives*  
Doug Mays

*President of the Senate*  
Dick Bond

*Vice President*  
Alicia L. Salisbury

*Chief Clerk of the House of  
Representatives*  
Janet E. Jones

*Legislative Coordinating  
Council*  
Dick Bond

*Legislative Research*  
Ben F. Barrett

**Judicial Branch**

*Supreme Court of Kansas*  
*Chief Justice*  
Kay McFarland

*Justices*  
Tyler C. Lockett  
Donald L. Allegrucci  
Fred N. Six  
Bob Abbott  
Robert E. Davis  
Edward Larson

*Court of Appeals*  
J. Patrick Brazil

*Judicial Council*  
Randy Hearrell

*Judicial Administrator*  
Howard P. Schwartz