

Approved on: \_\_\_\_\_

Minutes of the House Committee on Assessment and Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on January 22, 1985 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

Tom Severn, Legislative Research  
Melinda Hanson, Legislative Research  
Don Hayward, Reviser of Statutes  
Millie Foose, Committee Secretary

By consensus, the members of the committee agreed to amend the minutes of January 18, to outline the comments of Dr. Daicoff in which he stated the CPI was an inaccurate measure of inflation for business machinery equipment.

Chairman Rolfs requested the introduction of two bills; one concerning repeal of the motor fuels tax deduction and one regarding the acceleration of the insurance premiums tax. Representative Smith moved, second by Representative Aylward that the two bills be introduced.

Mr. Richard Ryan, director of Research, made a presentation of State General Fund Receipts (attachment 1.) He also discussed State General Fund projections of possible expenditure increases and State General Fund Receipts, Expenditures, and Balances. (Attachments 2\* and 3.) During the course of this presentation, members of the committee questioned Mr. Ryan about inflation rates, growth in revenues and the adequacy of ending balances.

Dr. Severn presented consensus revenue estimates by taxing sources. Several questions were asked pertaining to severance tax revenues. Dr. Severn explained that revenues decline \$2.3 million for each dollar decline for a barrel of oil.

There being no further business, the chairman adjourned the meeting.



Ed C. Rolfs, Chairman

\* As per Tom Severn, Legislative Research Department, attachment 2 is not available.

(10/28/85)

MEMORANDUM

November 8, 1984

TO: Legislative Budget Committee and Governor  
John Carlin

FROM: Kansas Legislative Research Department and  
Division of the Budget

RE: State General Fund Receipts

ESTIMATES FOR FY 1985 (REVISED) AND FY 1986

For the 11th consecutive year, the Division of the Budget and its consulting economists,\* the Department of Revenue, and the Legislative Research Department have cooperated in the preparation of estimated receipts to the State General Fund. The economists and staff members of the three agencies met on November 7, 1984 to discuss estimates that each of them had prepared independently for FY 1985 (revised estimates) and FY 1986. The "consensus estimates" agreed upon at that meeting are presented in Table I along with actual receipts in FY 1984. Table II compares the last preceding and the current revised estimates for FY 1985. Estimates of net transfers to the General Fund and of agency earnings and miscellaneous revenue for both FY 1985 and FY 1986 are tentative and might be revised in the Governor's Budget Report to the 1985 Legislature.

To provide some perspective concerning the consensus estimates, tabulated on the following page are the original and revised estimates and actual receipts in the ten preceding fiscal years, 1975-1984. The current estimating procedure began in the Fall of 1974 with the revised estimate for FY 1975.

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\* Dr. Darwin Daicoff from KU, Dr. Jarvin Emerson from KSU, and Dr. Glenn Fisher from WSU. In addition, Fred Rice of the Department of Human Resources and Moe Johnson of the U.S. Department of Agriculture were consultants regarding employment and farm income trends, respectively.

STATE GENERAL FUND REVENUE ESTIMATES

Dollar Amounts are in Millions

Fiscal Year	Adjusted Original Estimate <sup>1</sup>	Final Estimate <sup>2</sup>	Actual Receipts	Difference Between Actual Receipts and Adj. Original Est.		Difference Between Actual Receipts and Final Estimate	
				Amount	Percent	Amount	Percent
1975	—	\$ 614.9 <sup>a</sup>	\$ 627.6	—	—	\$ 12.7	2.1%
1976	\$ 676.3	699.7	701.2	\$24.9	3.7%	1.4	0.2
1977	760.2	760.7	776.5	16.3	2.1	15.8	2.1
1978	830.1	861.2	854.6	24.5	3.0	(6.5)	(0.8)
1979	945.2	1,019.3	1,006.8	61.6	6.5	(12.5)	(1.2)
1980	1,019.3	1,095.9	1,097.8	78.5	7.7	1.9	0.2
1981	1,197.1	1,226.4	1,226.5	29.4	2.5	0.1	0.01
1982	1,351.3	1,320.0	1,273.0	(78.3)	(5.8)	(47.0)	(3.6)
1983	1,599.2	1,366.9	1,363.6	(235.6)	(14.7)	(3.2)	(0.24)
1984	1,596.7	1,539.0	1,546.9	(49.8)	(3.1)	7.9	0.5

1. The original estimate made in November or December prior to the start of the next fiscal year was adjusted to account for legislation enacted which affected receipts to the General Fund.
2. The adjusted original estimate plus or minus changes subsequently made by the Consensus Estimating Group. The final estimate also includes the estimated impact of legislation on receipts.
  - a) The first estimate of the Consensus Estimating Group was the revised estimate for FY 1975.

Except for the last three fiscal years, actual receipts were always higher than the original estimate, ranging from 2.1 percent to 7.7 percent. Receipts in FYs 1982, 1983, and 1984 were 5.8 percent, 14.7 percent, and 3.1 percent, respectively, lower than the original estimate. As might be expected, there has been a smaller difference between actual receipts and the final estimate, ranging from only one-hundredth of one percent to 3.6 percent. Also, it will be noted that in four of the ten fiscal years actual receipts were below the final estimate.

Economic Assumptions

Listed below are certain economic assumptions which, among other things such as actual receipts in FY 1984 and in FY 1985 through October, were considered in making the revenue estimates.

1. Kansas total personal income in current dollars will increase by 9.4 percent in calendar year 1984 and by 6.7 percent in 1985. (Such income rose by only 4.1 percent in 1983, which was the lowest annual growth rate since 1967.)

2. In contrast to a growth rate of 3.2 percent in CY 1983, the annual average rate of inflation, as measured by the Consumer Price Index, will be 4.4 percent in CY 1984 and will be approximately the same in CY 1985. Thus, real personal income, i.e., inflation discounted, will increase in both years. (From September 1983 to September 1984, the CPI increased by 4.2 percent; the average CPI in the first nine months of 1984 was 4.3 percent greater than the average for the same months of 1983.)
3. The unemployment rate in Kansas in FY 1984 was 5.3 percent; it will decline to approximately 4.9 percent in both FY 1985 and FY 1986. Total employment will increase by 1.8 percent in FY 1985 and by 1.2 percent in FY 1986, compared with the actual increase of 1.7 percent in FY 1984.
4. Short-term interest rates in CY 1984 will be higher than they were in 1983 when the 91-day treasury bill rate averaged 8.61 percent and the federal funds rate averaged 9.09 percent. It is now estimated that the average of such rates for all of 1985 will be slightly higher than in 1984. For 1986, it is expected that the rates will be somewhat lower than in 1985, but still higher than they were in 1983.
5. Economic conditions generally have improved from the recessionary levels of state FYs 1982 and 1983. The growth rate in real Gross National Product, which was robust during the first part of the recovery, already has declined significantly. It is expected that growth in real GNP in both CYs 1985 and 1986 will be modest, rising by about half or less than the estimated increase of approximately 7.0 percent in CY 1984.
6. There will be no dramatic change in crude oil and natural gas supplies which would affect the revenue estimates for FYs 1985 and 1986. As to prices, it is assumed that Kansas crude oil prices will decline by \$3 per barrel (from \$28 to \$25) in the middle of FY 1985 and will remain at that level in FY 1986. Kansas natural gas prices, on the average, are expected to rise moderately in FY 1986, from \$1.30 mcf to \$1.35 mcf. Uncertainties about the effect of partial natural gas price deregulation in January 1985 resulted in estimates of no increase in the average price in Kansas in FY 1985 and of only a small increase in FY 1986.

In addition to the above assumptions, the estimates attempt to take account of the direct impact on Kansas General Fund receipts of the federal Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Deficit Reduction Act of 1984. As best could be determined from available data, the estimated increases or decreases in Kansas revenues are:

	In Millions	
	<u>FY 1985</u>	<u>FY 1986</u>
Individual Income Tax	\$ 52.6	\$ 56.7
Corporation Income Tax	(38.0)	(42.0)
Total	<u>\$ 14.6</u>	<u>\$ 14.7</u>

The estimates for the individual income tax take into account the reduction in federal tax rates and indexation of the tax brackets, the zero bracket amount, and the personal exemption, which increase Kansas revenue, as well as other changes in the federal law, some of which reduce Kansas revenue while others increase revenue. As to the state corporation income tax, the reduction in revenue is due primarily to the new capital cost recovery provisions in the federal law.

#### Fiscal Year 1985

The current revised estimate of total General Fund receipts in FY 1985 is \$1,657,128,000 which is \$110.2 million, or 7.1 percent, above receipts in FY 1984 and is \$17.9 million, or 1.1 percent, below the last revised estimate. Revisions in the estimate are based on current economic data and trends, on actual receipts in FY 1984 and in FY 1985 to date, and on the estimated effects of federal tax legislation.

Table II presents a comparison of the last preceding and the current revised estimates. As noted above, receipts were reduced by a total of \$17.9 million. Most significantly, individual income tax receipts were reduced by \$14 million, sales tax by \$12 million, and severance tax by \$2.8 million, and net transfers from the General Fund were increased by \$2.9 million. Receipts from several sources, however, were raised from the last estimate, the most notable being an increase of \$13.7 million from interest earnings.

#### Fiscal Year 1986

The estimate of General Fund receipts in FY 1986 is \$1,722,871,000. That amount is \$65.7 million, or 4.0 percent, more than the current revised estimate for FY 1985.

Estimated receipts from the individual income tax take into account the expiration, basically at the end of FY 1985, of the limitation on the federal income tax deduction which applied only to tax years 1983 and 1984 (1983 S.B. 436). This largely explains the estimated small increase of 2.4 percent from the individual income tax.

The estimate for the cigarette tax is based on provisions of current federal and Kansas laws which, effective October 1, 1985, will reduce the federal tax by 8 cents per package and will increase the state tax by the same amount. This change is estimated to produce \$17 million for the General Fund in the last nine months of state FY 1986.

Concluding Comment

A basic assumption concerning the revenue estimates for FYs 1985 and 1986 is that the economy will not be in a recession during either year but growth, as measured by real GNP, will be somewhat sluggish. Obviously, federal fiscal and monetary policies in CYs 1985 and 1986 will have an important bearing on the rate of economic growth and what those policies will be can be only a matter of speculation at this time.

When the Consensus Estimating Group meets again in March 1985, it will review all of the economic assumptions discussed herein as well as the trend of actual receipts to the General Fund in FY 1985. The revenue estimates will then be raised or lowered if conditions have changed significantly enough since the estimates were made in November to warrant a revision.

Finally, it should be emphasized that the revenue estimates for FYs 1985 and 1986 are based on existing state and federal laws. If any changes are made, their effect on General Fund receipts will have to be accounted for later.

STATE GENERAL FUND — RECEIPTS, EXPENDITURES, AND BALANCES

In Millions

Fiscal Year	Receipts		Expenditures		Ending Balance
	Amount	Annual % Increase	Amount	Annual % Increase	
1979	\$ 1,006.8	17.8%	\$ 965.4	14.9%	\$ 195.9
1980	1,097.8	9.0	1,110.8	15.1	183.3
1981	1,226.5	11.7	1,258.2	13.3	152.1
1982	1,273.0	3.8	1,332.5	5.9	92.4
1983	1,363.6 <sup>a</sup>	7.1	1,405.9 <sup>c</sup>	5.5	51.1
1984	1,546.9 <sup>b</sup>	13.4	1,503.4	6.9	95.6
(A) 1985	1,679.9	8.6	1,646.7 <sup>d</sup>	9.5	128.8
1986	1,811.0	7.8	1,798.3	9.2	141.5
Less Cig. Tax Incr.	(17.0)				
	1,794.0	6.8			124.5
Less Cig. Tax and Sales/Use Tax Incr's.	(101.0)				
	1,710.0	1.8			40.5
(B) 1985	1,656.7	7.1	1,646.7 <sup>d</sup>	9.5	105.6
1986	1,706.3	3.0	1,706.3 <sup>e</sup>	3.6	105.6

- a. Includes acceleration of income tax withholding and sales and use taxes. Receipts would have declined without acceleration.
- b. Includes acceleration of receipts and revenue from the tax package enacted in 1983.
- c. The 1983 Legislature lapsed \$52.2 million in expenditures authorized by the 1982 Legislature and deferred payments amounting to about \$18 million from the Local Ad Valorem Tax Reduction Fund and the County and City Revenue Sharing Fund.
- d. Increase of \$143.3 million over FY 1984.
- e. Increase of about \$60 million over FY 1985 compared with Governor's recommendation of approximately \$152 million.

(A) Governor's budget.

(B) Assumes no acceleration of insurance premium taxes and no increase in sales and use and cigarette tax rates, and that expenditures in FY 1986 will equal receipts so that the balances at the end of both FYs 1985 and 1986 will be the same.

Kansas Legislative Research Department  
January 22, 1985

TABLE I

## STATE GENERAL FUND RECEIPTS

In Thousands

	Actual FY 1984		Consensus Estimates, November 7, 1984			
			FY 1985 (Revised)		FY 1986	
	Amount	% Increase	Amount	% Increase	Amount	% Increase
Property Tax:						
Motor Carriers	\$ 5,832	(6.2)%	\$ 6,700	14.9%	\$ 7,000	4.5%
Income and Privilege Taxes:						
Individual	567,903	6.9	635,000	11.8	650,000	2.4
Corporation	120,993	(1.5)	125,000	3.3	130,000	4.0
Financial Institutions	11,193	68.7	14,000	25.1	14,500	3.6
Domestic Insurance Cos.	586	70.8	650	10.9	700	7.7
Total	700,675	6.0	774,650	10.6	795,200	2.7
Inheritance Tax	30,071	9.6	31,000	3.1	31,000	—
Excise Taxes:						
Retail Sales	458,547	3.9	490,000	6.9	518,000	5.7
Compensating Use	60,360	4.4	65,000	7.7	66,000	1.5
Cigarette	44,669	37.8	45,000	.7	62,000	37.8
Tobacco Products	1,166	8.7	1,300	11.5	1,350	3.8
Cereal Malt Bev.	5,125	2.9	5,200	1.5	5,200	—
Liquor Gallonage	11,423	(1.0)	11,500	.7	11,500	—
Liquor Enforcement	15,938	78.9	17,500	9.8	18,000	2.9
Private Clubs	2,197	4.4	2,300	4.7	2,400	4.3
Corporation Franchise	7,572	4.1	8,200	8.3	8,550	4.3
Wheat	118	5.4	138	16.9	120	(13.0)
Severance	106,112	—	97,200	(8.4)	96,300	(0.9)
Total	713,228	25.7	743,338	4.2	789,420	6.2
Other Taxes:						
Insurance Premium	44,305	5.6	47,500	7.2	50,000	5.3
Bingo Enforcement	272	1.5	280	2.9	300	7.1
Miscellaneous	1,110	9.7	1,200	8.1	1,300	8.3
Total	45,688	5.7	48,980	7.2	51,600	5.3
Total Taxes	1,495,493	14.6	1,604,668	7.3	1,674,220	4.3
Other Revenue:						
Interest	39,556	(4.9)	53,850	36.1	54,000	0.3
Transfers (net)	(18,130)	(75.5)	(31,390) <sup>a</sup>	(73.1)	(36,849) <sup>a</sup>	(17.4)
Agency Earnings and Miscellaneous	29,985	11.4	30,000 <sup>a</sup>	.1	31,500 <sup>a</sup>	5.0
Total	51,411	(11.6)	52,460	2.0	48,651	(7.3)
GRAND TOTAL	\$1,546,904	13.4%	\$1,657,128	7.1%	\$1,722,871	4.0%

a) Preliminary estimate, subject to revision in the Governor's Budget Report to the 1985 Legislature.

Note: The 1983 and 1984 Legislatures enacted legislation which affected receipts from certain sources in FYs 1983 and 1984 and which will affect collections from various sources in FYs 1985 and 1986.



TABLE II

GENERAL FUND RECEIPTS — COMPARISON OF THE LAST PRECEDING  
AND THE CURRENT REVISED ESTIMATES, FY 1985

	<u>In Thousands</u>		
	<u>Last Estimate*</u>	<u>Current Revised Estimate</u>	<u>Difference</u>
Property Tax:			
Motor Carriers	\$ 6,300	\$ 6,700	\$ 400
Income and Privilege Taxes:			
Individual	649,000	635,000	(14,000)
Corporation	124,500	125,000	500
Financial Institutions	16,000	14,000	(2,000)
Domestic Insurance Cos.	700	650	(50)
Total	<u>790,200</u>	<u>774,650</u>	<u>(15,550)</u>
Inheritance Tax	31,000	31,000	—
Excise Taxes:			
Retail Sales	502,000	490,000	(12,000)
Compensating Use	64,000	65,000	1,000
Cigarette	44,000	45,000	1,000
Tobacco Products	1,300	1,300	—
Cereal Malt Bev.	5,400	5,200	(200)
Liquor Gallonage	12,200	11,500	(700)
Liquor Enforcement	18,500	17,500	(1,000)
Private Clubs	2,400	2,300	(100)
Corporation Franchise	8,300	8,200	(100)
Wheat	130	138	8
Severance	100,000	97,200	(2,800)
Total	<u>758,230</u>	<u>743,338</u>	<u>(14,892)</u>
Other Taxes:			
Insurance Premium	46,500	47,500	1,000
Bingo Enforcement	300	280	(20)
Miscellaneous	1,200	1,200	—
Total	<u>48,000</u>	<u>48,980</u>	<u>980</u>
Total Taxes	<u>1,633,730</u>	<u>1,604,668</u>	<u>(29,062)</u>
Other Revenue:			
Interest	40,172	53,850	13,678
Transfers (net)	(28,503)	(31,390) <sup>a</sup>	(2,887)
Agency Earnings and Miscellaneous	29,678	30,000 <sup>a</sup>	322
Total	<u>41,347</u>	<u>52,400</u>	<u>11,113</u>
GRAND TOTAL	<u>\$1,675,077</u>	<u>\$1,657,128</u>	<u>\$ (17,949)</u>

\* Estimates made on November 4, 1983, adjusted after the 1984 legislative session to account for the effect of legislation enacted on receipts.

a) Preliminary estimate, subject to revision in the Governor's Budget Report to the 1985 Legislature.