

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation

The meeting was called to order by _____ Senator Fred A. Kerr _____ at
Chairperson

11:00 a.m./~~XXX~~p.m. on Wednesday, January 16, 1985 in room 526-S of the Capitol.

All members were present except:
Senator William Mulich

Committee staff present:

Tom Severn, Research Department
Melinda Hanson, Research Department
Don Hayward, Revisor's Office
LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:

Tom Severn, Research Department
Richard Ryan, Research Department
Alden Shields, Director, Division of Budget, Governor's Office

Chairman Kerr called the meeting to order and welcomed new committee members. He introduced the staff serving the Committee. He advised that the Committee will probably meet five days a week, and that resource persons from various departments with which the Committee will be working will be appearing before the Committee as time permits. Chairman Kerr said that it has not been finally determined where classification and reappraisal will be started, but it is likely it will be the Senate. Because of this, he would like to take care of individual bills and bills requested by the Department of Revenue as early as possible.

Chairman Kerr asked that the Committee consider introduction of two bills. He explained that voting to introduce a bill does not indicate final support for that particular version of the bill, but rather approval that the bill be introduced for hearing purposes.

Bill draft 5 RS 0159 relates to the problem of escaped personal property tax. Chairman Kerr said that during the massive recodification of the tax statutes a few years ago, the section allowing county appraisers to put escaped personal property tax on the tax rolls was stricken. The Payless Cashways situation is an illustration of the problem. Senator Burke moved that the bill be introduced, and Senator Allen seconded the motion. Staff explained the provisions of the bill. In response to a question from Senator Burke, staff advised that the provision for appraising the "escaped" property at "twice its fair market value" was in the original law and had never been challenged as to its constitutionality. In answer to a question from Senator Frey with regard to due process provisions, Chairman Kerr advised that subsection (b) was not a part of the original law and it is likely that amendments will be offered to provide for a statutory procedure for appeals. The motion to introduce the bill carried.

Bill draft 5 RS 0168 concerns the tax on cigarettes. Chairman Kerr said that a bill was passed last year in anticipation that the federal government would sunset the 8¢ cigarette tax on October 1, 1985. However, the possibility now exists that the full 8¢ may not be sunsetted and this bill would pick up any part of the 8¢ that may be abolished. The intent is to keep the total cigarette tax at 8¢. Senator Frey moved that the Committee introduce the bill. Senator Montgomery seconded the motion, and the motion carried.

The Committee turned its attention to a review of the consensus estimates and balances and a comparison of those figures with the proposed budget of the Governor. Staff reviewed the November 8, 1984 memorandum regarding state general fund receipts (Attachment 1). Staff then reviewed "State General Fund Projections of Possible Expenditure Increases" (Attachment 2). Staff explained the rationale for the 80, 100 and 120 million dollar ending balance possibilities. Eighty million dollars is an estimate of a figure the state might be able to "squeak" by with to escape issuing any certificates of indebtedness. Staff pointed out that these estimates are based on the projections of the consensus estimating group. Nursing home lawsuits, money for corrections

CONTINUATION SHEET

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and actions of the federal government could also affect state revenues. Staff said, in summary, that without new money, the proposed budget of the Governor will need drastic cuts.

Alden Shields discussed "Actual and Recommended Unappropriated Cash Balance" (Attachment 3). He said that two-thirds of the additional spending in the Governor's budget is for education. The budget also proposes to increase the ending unappropriated balances over a two-year period. Mr. Shields said that the cigarette tax could result in a 40 million dollar problem -- 17 million dollars in 1986 and 23 million dollars in 1987. He stated that other reasons for increasing the ending balances are that underlying problems with the economy have caused and may again cause adjustments in the revenue estimates. Also, efforts by the federal government to reduce the deficit will cause reduction and elimination of some aid programs. Mr. Shields also brought up the nursing home lawsuits.

The meeting was adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

11:00
DATE

NAME

ADDRESS

REPRESENTING

DATE	NAME	ADDRESS	REPRESENTING
1/16/85	Bill Anderson	Mission	Water Dist No. 1
"	Chip Wheeler	Topeka	Legis. Policy Group
"	Gene Sager	K.I.E.	Western Retail Assn
"	TREVA POTTER	TOPEKA	NORTHERN NAT. GAS
"	Brenda V. Stockman	Lawrence	Intern-Sen Winter
"	Bev BRADLEY	LAWRENCE	KS Assoc Counties
"	David Litwin	Topeka	KCCF
"	Marwan Harriner	Lawrence	LNUK
"	Mark Tallman	Topeka	Associated Students/KC
"	Tom Whitaker	Topeka	Ks Motor Carriers Ass
"	M. Hoover	"	Capital-Lawrence
"	THE LINDA TERRILL	TOPEKA	BOARD OF TAX APPEALS
"	Joe Miller	"	PVD
"	Ron Calbest	Newton	U.J.U.
"	BRYAN WHITEHEAD	KCK	BRAC
"	Leroy Jones	Overland Park	B.L.E.
"	John Braden	UPI	
"	Clark P. Young	TOPEKA	intern - SEN F. KESER

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.

* 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 ¹	Final Estimate ²	Actual Receipts	Difference Between Actual Receipts and Adj. Original Est.		Difference Between Actual Receipts and Final Estimate	
				Amount	Percent	Amount	Percent
1975	—	\$ 614.9 ^a	\$ 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	
	FY 1985	FY 1986
Individual Income Tax	\$ 52.6	\$ 56.7
Corporation Income Tax	(38.0)	(42.0)
Total	\$ 14.6	\$ 14.7

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.

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) ^a	(73.1)	(36,849) ^a	(17.4)
Agency Earnings and Miscellaneous	29,985	11.4	30,000 ^a	.1	31,500 ^a	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) ^a	(2,887)
Agency Earnings and Miscellaneous	29,678	30,000 ^a	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.

STATE GENERAL FUND PROJECTIONS OF POSSIBLE EXPENDITURE INCREASES*

In Millions

	FY 1985	FY 1986**						FY 1987**					
		Projection A	Incr. Over FY 85	Projection B	Incr. Over FY 85	Projection C	Incr. Over FY 85	Projection A	Incr. Over FY 86	Projection B	Incr. Over FY 86	Projection C	Incr. Over FY 86
Beginning Balance	\$ 95.6	\$ 128.8		\$ 128.8		\$ 128.8		\$ 80.0		\$ 100.0		\$ 120.0	
Receipts													
Consensus Estimate	1,657.1	1,722.9		1,722.9		\$ 1,722.9							
Ins. Prem Taxes —													
Accel.	23.2	3.7 ^b		3.7 ^b		3.7 ^b							
Cigarette Tax Increase	—	(17.0) ^c		(17.0) ^c		(17.0) ^c							
Gov. Rec. Transfers (net)	(0.4)	0.4		0.4		0.4							
Total	1,679.9	1,710.0	30.1	1,710.0	30.1	1,710.0	30.1	1,846.7	136.7 ^d	1,825.7	115.7 ^e	1,804.7	94.7 ^f
Expenditures	1,646.7 ^a	1,758.8	112.1	1,738.8	92.1	1,718.8	72.1	1,846.7 ^g	87.9	1,825.7 ^g	86.9	1,804.7 ^g	85.9
Ending Balance	128.8	80.0		100.0		120.0		80.0		100.0		120.0	

* Based on three different targeted ending balances.

** Excludes Governor's proposed sales and use tax increase and associated transfers and his expenditure recommendations for FY 1986 which, in total, are \$151.6 million over his revised budget for FY 1985.

- a) Governor's recommendation. That amount is \$143.3 million over actual expenditures in FY 1984.
 b) Includes both acceleration and interest earnings from acceleration.
 c) If the Congress does not allow the federal cigarette tax rate to decrease as now provided by law.
 d) 8.2 percent increase over FY 1986 receipts excluding the \$3.7 million from acceleration of premium taxes from the base.
 e) 7.0 percent increase over FY 1986 receipts excluding the \$3.7 million from acceleration of premium taxes from the base.
 f) 5.8 percent increase over FY 1986 receipts excluding the \$3.7 million from acceleration of premium taxes from the base.
 g) Assumes 5 percent increase over expenditures shown for FY 1986.

Kansas Legislative Research Department
 January 16, 1985

SCHEDULE 1 — ACTUAL AND RECOMMENDED UNAPPROPRIATED CASH BALANCE

STATE GENERAL FUND

(Millions of Dollars)

	FY 1934 ACTUAL	FY 1935 ESTIMATE	FY 1936 RECOMMENDED
Beginning Unappropriated Balance	\$44.2	\$81.9	\$128.7
ADD: Released from Prior Year Encumbrances9 ¹	-	-
Reappropriations from Prior Year	6.9	13.6	-
Revenues from Current Sources	1,546.9	1,657.1	1,722.9
Acceleration of Current Collections	-	23.2 ²	3.7 ²
Revenues from Proposed Sources	-	-	86.8 ⁵
Recommended New Transfers	-	.2 ³	.6 ⁶
LESS: Recommended New Transfers	-	.6 ⁴	.2 ⁷
Additional Food Sales Tax Refund	-	-	2.8 ⁸
TOTAL RESOURCES	\$1,598.9	\$1,775.4	\$1,939.7
LESS: Reappropriations to Succeeding Year	13.6	-	-
Detailed Expenditures	1,503.4	1,646.7	1,775.8
Reserve for Salary Plan Revision	-	-	22.5
TOTAL DEMANDS	\$1,517.0	\$1,646.7	\$1,798.3
ENDING UNAPPROPRIATED BALANCE	\$81.9	\$128.7	\$141.4

1. Difference between prior year's encumbrances and expenditures charged to those encumbrances.
2. Estimated increase in receipts from changes in remittance of insurance premium tax as proposed by the governor.
3. Transfer of estimated FY 1935 year-end balances in the Federal Revenue Sharing Fund (\$204,903), the Animal Health Department's Tuberculosis Indemnification Fund (\$28,290) and Scabies Eradication Fund (\$5,000) to the State General Fund as recommended by the governor.
4. Reflects transfer of \$550,000 from the State General Fund to the Department of Administration — State Workmen's Compensation Fund.
5. Includes estimated receipts to be deposited in the State General Fund less amount to be transferred to the State Highway Fund from a one-half cent increase in the sales and compensating tax as recommended by the governor.
6. Reflects transfer of \$550,000 from the Department of Administration — State Workmen's Compensation Fund to the State General Fund to restore amount proposed for transfer from State General Fund in current year.
7. Reflects transfer of \$200,000 from the State General Fund to the Department of Health and Environment — Hazardous Waste Clean-up Fund as recommended by the governor.
8. Estimated increase in refunds related to enhanced food sales tax refunds as proposed by the governor.