

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by Senator August "Gus" Bogina at
Chairperson

11:00 a.m./p.m. on January 24, 1986 in room 123-S of the Capitol.

All members were present except:

Senators Gaines and Talkington

Committee staff present:

Research Department: Richard Ryan, Ed Ahrens, Robin Hunn, Scott Rothe
Revisor's Office: Norman Furse
Committee Office: Judy Bromich

Conferees appearing before the committee:

Richard Ryan, Director of Legislative Research Department

Mr. Ryan distributed a memorandum dated November 9, 1985, regarding State General Fund Receipts (Attachment A). During his presentation, he noted the "track record" of estimates, comparing estimates to actual receipts from 1975 to 1985. He noted that one percentage point mistake can mean \$17 million to \$18 million.

Mr. Ryan discussed some of the difficulties encountered in providing revenue estimates. For instance, the estimate for the price of crude oil was a decline from \$26.91 per barrel in 1985 to \$22.50 in 1986 and \$22 in 1987. According to Mr. Ryan, it is dropping more rapidly than estimated. He indicated that 1986 figures probably will be all right, but that 1987 will be lower than estimated. He said that for each one dollar per barrel decrease, severance tax receipts drop by \$2.3 million.

Mr. Ryan suggested there will be no recession in FY 1986 and FY 1987, but economic growth will be sluggish in Kansas. Personal income and employment will increase, but at a decreasing rate. It is estimated that the rate of inflation will not increase much in calendar year 1986; and no big changes are expected from current levels of short-term interest rates.

At this point, Mr. Ryan reviewed Tables I and II of his Memorandum. He noted that the consensus estimating group has no explanation for the fact that individual income tax collections are much higher than expected.

Senator Werts asked if a decrease in the price of oil would cause less production, thus affecting severance tax receipts. Mr. Ryan answered that this factor was taken into account in the projections, and it was thought that, at \$22 a barrel, only stripper wells would be impacted, if any wells were affected.

In answer to a question from Senator Bogina about increases in income tax quarterly reports, Mr. Ryan said there are three possibilities: (1) Some taxpayers may not be aware that the booster tax is no longer required; (2) Taxpayers may be paying more intentionally in order to receive a refund; and (1) Incomes may be running that much higher. He noted that the Department of Revenue examined the returns, but did not come to any conclusion concerning this question.

There were further questions about the increased income tax collections, and Mr. Ryan said the determination cannot be made until after reports are filed, by the end of May or the first of June.

Senator Johnston asked if, without the booster tax, the spread between individual income tax and retail sales tax has been about the same. He suggested that, if individual income is up, maybe the economy is stronger than it is generally thought to be. Senator Bogina indicated that the Budget Committee reviewed this thoroughly during the interim, and that committee members can request this information if they want to examine it.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS,
room 123-S Statehouse, at 11:00 a.m./p.m./ on January 24, 1986

Senator Werts asked if the fact that income tax revenues are increasing faster than other taxes is an indication that the state is moving to a more progressive aggregate. Mr. Ryan agreed that it is becoming more progressive with severance tax, addition of upper brackets in income tax, and exemption of utilities from sales tax.

The meeting was adjourned at 11:45 a.m.

MEMORANDUM

November 9, 1985

TO: Governor John Carlin and Legislative
Budget Committee

FROM: Division of the Budget and Kansas
Legislative Research Department

RE: State General Fund Receipts

ESTIMATES FOR FY 1986 (REVISED) AND FY 1987

For the 12th 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 8, 1985 to discuss estimates that each of them had prepared independently for FY 1986 (revised estimates) and FY 1987. The "consensus estimates" agreed upon at that meeting are presented in Table I along with actual receipts in FY 1985. Table II compares the last preceding estimates and the current revised estimates for FY 1986.

To provide some perspective concerning the consensus estimates, tabulated on the following page are the original and revised estimates and actual receipts in the 11 preceding fiscal years, 1975-1985. 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, Moe Johnson of the U.S. Department of Agriculture, and Lyell Ocobock of the Pooled Money Investment Board staff were consultants regarding employment, farm income, and short-term interest rate trends, respectively.

S.W.M. 1/24/86
A 1-24-86

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
1985	1,697.7	1,679.7	1,658.5	(39.2)	(2.3)	(21.3)	(1.3)

1. The original estimate made in November or December prior to the start of the next fiscal year in July 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 four fiscal years, actual receipts were always higher than the original estimate, ranging from 2.1 percent to 7.7 percent. Receipts in FYs 1982-1985 were 5.8 percent, 14.7 percent, 3.1 percent, and 2.3 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 five of the 11 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 1985 and in FY 1986 through October, were considered in making the revenue estimates.

1. Kansas total personal income in current dollars will increase by 6.0 percent in calendar year 1985 and by 5.7 percent in 1986. (Such income rose by 10.8 percent in 1984 but by only 3.2 percent in 1983.)

2. The annual average rate of inflation, as measured by the Consumer Price Index (CPI-U), was 4.3 percent in CY 1984 and will be 3.5 percent in CY 1985 and 3.6 percent in CY 1986. Thus, real personal income, i.e., inflation discounted, will increase in both years. (From September 1984 to September 1985, the CPI increased by 3.2 percent; the average CPI in the first nine months of 1985 was 3.6 percent greater than the average for the same months of 1984.)
3. The unemployment rate in Kansas in FY 1985 was 5.0 percent; it will be the same in FY 1986 and rise to 5.3 percent in FY 1987. Total employment will increase by 1.6 percent in FY 1986 and by only 0.4 percent in FY 1987, compared with the actual increase of 2.3 percent in FY 1985.
4. Short-term interest rates have declined significantly in CY 1985. For instance, in CY 1984 the average rate was 10.22 percent for federal funds and 9.52 percent for 91-day treasury bills. The averages for CY 1985 are expected to be approximately 8.0 percent and 7.5 percent, respectively. For CY 1986, those rates are estimated to be somewhat lower than in CY 1985.
5. There will be no substantial change in crude oil and natural gas supplies which would affect the revenue estimates. As to prices, it is assumed that the net price of crude oil subject to the Kansas severance tax will decline from an average of \$26.91 per barrel in FY 1985 to averages of \$25.50 in FY 1986 and \$22.00 in FY 1987, and that there will be little change in the average price of natural gas (\$1.32 mcf in FY 1985, the same in FY 1986, and \$1.30 mcf in FY 1987). The taxable production of oil in FYs 1986 and 1987 is estimated to be virtually the same as in FY 1985. Taxable value of gas in FY 1986 will be about the same as in FY 1985 and will rise slightly in FY 1987.
6. In summary, the Consensus Estimating Group believes that there will be no recession in FYs 1986 and 1987, but that economic growth will be sluggish. Kansas personal income and total employment will increase, but at decreasing rates both years. The unemployment rate will rise slightly in FY 1987. Inflation, as measured by the CPI-U, will decrease from CY 1984 to CY 1985 and will not increase much in CY 1986. No big changes are expected from the current levels of short-term interest rates.

Fiscal Year 1986

The current revised estimate of General Fund receipts in FY 1986 is \$1.671 billion, which is \$12.4 million, or 0.8 percent, above receipts in FY 1985 and is \$55.1 million, or 3.2 percent, below the last revised estimate. In addition to the economic assumptions, the low growth from FY 1985 to FY 1986 is especially affected by expiration of 1983 legislation which limited the federal income tax deduction in computing state individual income tax liability and by 1985 legislation which accelerated payment of insurance premiums taxes beginning in FY 1985 and raised the cigarette tax rate effective October 1, 1985.

Table II presents a comparison of the last preceding estimate for FY 1986 with the current revised estimate. As noted above, estimated receipts were reduced by a total of \$55.1 million. The most notable decreases were: individual income tax, \$35.0 million; sales tax, \$17.6 million; and interest earnings, \$14.1 million. On the other hand, estimates for the following major sources were increased: compensating use taxes, \$5.0 million; agency earnings and miscellaneous revenue, \$5.1 million; severance tax, \$2.0 million; and inheritance tax, \$1.0 million. The main reason for the increase in severance tax revenue is that the net price of oil in FY 1986 is expected to average 50 cents higher than estimated a year ago.

Estimated receipts from the cigarette tax in FY 1986 (and FY 1987 as well) were based on the assumption that the federal tax rate will not be decreased from the current 16 cents per pack.

Fiscal Year 1987

The estimate of receipts in FY 1987 is \$1.734 billion. That amount is \$62.8 million, or 3.8 percent, more than the current revised estimate for FY 1986. The percentage increase, FY 1987 over FY 1986, for the principal sources are: individual income tax, 7.3 percent; corporation income tax, 3.8 percent; sales tax, 4.6 percent; compensating use taxes, 4.2 percent; insurance premium taxes, 6.6 percent; agency earnings and miscellaneous revenue, 5.5 percent; and cigarette tax, 3.4 percent (this increase is because the 8 cent tax increase was effective for only nine months of FY 1986). Estimated decreases from FY 1986 estimates are: interest earnings, 15.1 percent; severance tax, 7.4 percent; and inheritance tax, 3.1 percent.

Concluding Comment

When the Consensus Estimating Group meets again in March 1986, it will review all of the economic assumptions discussed herein as well as the trend of actual receipts to the General Fund in FY 1986. The revenue estimates will then be raised or lowered if there have been significant changes in the economic outlook and revenue expectations since the estimates were made in November to warrant a revision.

The revenue estimates for FYs 1986 and 1987 do not take account of federal "tax reform" legislation currently being considered by the Congress. If such legislation is enacted, the impact on Kansas General Fund receipts will then be considered.

TABLE I
STATE GENERAL FUND RECEIPTS

In Thousands

	Actual FY 1985		Consensus Estimates, November 8, 1985			
			FY 1986 (Revised)		FY 1987	
	Amount	% Increase	Amount	% Increase	Amount	% Increase
Property Tax:						
Motor Carriers	\$ 6,643	13.9%	\$ 8,600	29.5%	\$ 8,900	3.5%
Income and Privilege Taxes:						
Individual	603,455	6.3	615,000	1.9	660,000	7.3
Corporation	141,957	17.3	132,000	(7.0)	137,000	3.8
Financial Institutions	13,910	24.3	14,500	4.2	15,500	6.9
Domestic Insurance Cos.	217	(63.0)	260	19.8	290	11.5
Total	<u>759,539</u>	<u>8.4</u>	<u>761,760</u>	<u>0.3</u>	<u>812,790</u>	<u>6.7</u>
Inheritance Tax	29,832	(0.8)	32,000	7.3	31,000	(3.1)
Excise Taxes:						
Retail Sales	478,770	4.4	500,000	4.4	523,000	4.6
Compensating Use	68,162	12.9	71,000	4.2	74,000	4.2
Cigarette	43,634	(2.3)	58,000	32.9	60,000	3.4
Tobacco Products	1,244	6.7	1,350	8.5	1,400	3.7
Cereal Malt Bev.	5,076	(1.0)	4,600	(9.4)	4,200	(8.7)
Liquor Gallonage	11,461	0.3	11,500	0.3	11,500	—
Liquor Enforcement	17,010	6.7	18,500	8.8	19,000	2.7
Private Clubs	2,206	0.4	2,500	13.3	2,600	4.0
Corporation Franchise	7,983	5.4	8,550	7.1	8,900	4.1
Wheat	138	16.9	122	(11.6)	125	2.5
Severance	101,290	(4.5)	98,300	(3.0)	91,000	(7.4)
Total	<u>736,976</u>	<u>3.3</u>	<u>774,422</u>	<u>5.1</u>	<u>795,725</u>	<u>2.8</u>
Other Taxes:						
Insurance Premium	70,599 ^a	59.3	50,000	(29.2)	53,300	6.6
Bingo Enforcement	270	(0.7)	270	—	280	3.7
Miscellaneous	1,081	(2.6)	1,100	1.8	1,200	9.1
Total	<u>71,950</u>	<u>57.5</u>	<u>51,370</u>	<u>(28.6)</u>	<u>54,780</u>	<u>6.6</u>
Total Taxes	<u>1,604,939</u>	<u>7.3</u>	<u>1,628,152</u>	<u>1.4</u>	<u>1,703,195</u>	<u>4.6</u>
Other Revenue:						
Interest	50,410	27.4	41,800	(17.1)	35,500	(15.1)
Transfers (net)	(31,290)	(72.6)	(35,556)	(13.6)	(43,521)	(22.4)
Agency Earnings and Miscellaneous	34,391	14.7	36,500	6.1	38,500	5.5
Total	<u>53,512</u>	<u>4.1</u>	<u>42,744</u>	<u>(20.1)</u>	<u>30,479</u>	<u>(28.7)</u>
GRAND TOTAL	<u>\$1,658,451</u>	<u>7.2%</u>	<u>\$1,670,896</u>	<u>0.8%</u>	<u>\$1,733,674</u>	<u>3.8%</u>

Note: Legislation enacted during the period 1983-1985 affected receipts in FYs 1984 and 1985 and also affects the estimates for FYs 1986 and 1987.

a) Includes \$22.9 million as a result of 1985 legislation which accelerated payment of insurance premium taxes.

TABLE II

GENERAL FUND RECEIPTS -- COMPARISON OF THE LAST PRECEDING
AND THE CURRENT REVISED ESTIMATES, FY 1986

	<u>In Thousands</u>		
	<u>Last Estimate*</u>	<u>Current Revised Estimate</u>	<u>Difference</u>
Property Tax:			
Motor Carriers	\$ 7,000	\$ 8,600	\$ 1,600
Income and Privilege Taxes:			
Individual	650,000	615,000	(35,000)
Corporation	131,200	132,000	800
Financial Institutions	14,500	14,500	—
Domestic Insurance Cos.	700	260	(440)
Total	<u>796,400</u>	<u>761,760</u>	<u>(34,640)</u>
Inheritance Tax	31,000	32,000	1,000
Excise Taxes:			
Retail Sales	517,600	500,000	(17,600)
Compensating Use	66,000	71,000	5,000
Cigarette	59,400	58,000	(1,400)
Tobacco Products	1,350	1,350	—
Cereal Malt Bev.	5,200	4,600	(600)
Liquor Gallonage	11,500	11,500	—
Liquor Enforcement	18,000	18,500	500
Private Clubs	2,400	2,500	100
Corporation Franchise	8,550	8,550	—
Wheat	120	122	2
Severance	96,300	98,300	2,000
Total	<u>786,420</u>	<u>774,422</u>	<u>(11,998)</u>
Other Taxes:			
Insurance Premium	51,800	50,000	(1,800)
Bingo Enforcement	300	270	(30)
Miscellaneous	1,315	1,100	(215)
Total	<u>53,415</u>	<u>51,370</u>	<u>(2,045)</u>
Total Taxes	<u>1,674,235</u>	<u>1,628,152</u>	<u>(46,083)</u>
Other Revenue:			
Interest	55,900	41,800	(14,100)
Transfers (net)	(35,547)	(35,556)	(9)
Agency Earnings and Miscellaneous	31,442	36,500	5,058
Total	<u>51,795</u>	<u>42,744</u>	<u>(9,051)</u>
GRAND TOTAL	<u>\$1,726,030</u>	<u>\$1,670,896</u>	<u>\$ (55,134)</u>

* Estimates made on November 7, 1984, adjusted after the 1985 legislative session to account for the effect on receipts of legislation enacted.