

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairman Karin Brownlee at 8:30 A.M. on January 18, 2005 in Room 123-S of the Capitol.

Committee members absent: Susan Wagle-excused

Committee staff present: Kathie Sparks, Legislative Research  
Susan Kannarr, Legislative Research  
Helen Pedigo, Revisor Statutes  
Jackie Lunn, Committee Secretary

Conferees appearing before the committee:

- Alan Conroy-Director of the Kansas Legislature Research Department
- Chris Courtwright-Principal Economist Kansas Research Department
- William R. Keeton-Assistant Vice President and Economist for the Federal Reserve Bank of Kansas

Others attending:

See Attached List.

Chairperson Brownlee opened the meeting by introducing Mike Recht representing the Kansas Chamber to explain about the bill to be introduced. (Attachment 1)

Mr. Recht stated that the bill to be introduced is making changes to the unemployment security law dealing with drug and alcohol use and testing on the job workplace. This legislation will make a refusal to submit to chemical testing or breath alcohol testing inclusive evidence of misconduct. It also strengthens policies regarding positive chemical testing. Chairperson Brownlee stated there was a bill last year and this was a portion of that bill.

Senator Schodorf made the motion to introduce the bill. Senator Reitz seconded. The motion carried.

Chairperson Brownlee turned the meeting over to Chairperson Jordan. Chairperson Jordan introduced Alan Conroy, Director of the Kansas Legislature Research Department to give an overview of the State Consensus Estimating Group and how they come to their conclusions.

Mr. Conroy gave a little background of the State Consensus Estimating Group (Attachment 2). Estimates for the State General Fund are developed using a consensus process that involves the Division of the Budget, the Legislative Research Department, the Department of Revenue, and one consulting economist from each of the following universities: the University of Kansas, Kansas State University, and Wichita State University. This estimate is the base from which the Governor and the Legislature build the annual budget.

When the Consensus Revenue Estimating Group meets, there are actually six different sets of estimates, each independently prepared by the following: Division of the Budget, Department of Revenue, Legislative Research Department, Consulting economists from KU, KSU and WSU covering the following areas: Agriculture statistics, Employment, Oil and natural gas industry, the aircraft sector, Kansas personal income forecasts and CPI-U (inflation) forecasts.

During questions and answers, the Committee discussed the need for a report two times a year, once during session and once in the interim to update the Senate Commerce Committee on what is going on in the Kansas economy in the different regions and industries along with job growth that would help the committee develop policy. Mr. Conroy stated that there is a great wealth of information from several sources and can see a need to compile all this information for all sources in user friendly form.

The committee was also concerned that according to the attachment, the prediction was for the Kansas' unemployment rate to increase. Mr. Conroy stated that the prediction was based on information that the US Department of Labor would be making changes in the way they do their calculations and by changing their methodology, this would cause the number in Kansas to increase.

CONTINUATION SHEET

MINUTES OF THE Senate Commerce at 8:30 A.M. on January 18, 2005 in Room 123-S of the Capitol.

Chairperson Jordan introduce William Keeton, Assistant Vice President of Economic Research Department of the Federal Reserve Bank of Kansas City. Mr. Keeton gave an overview of the Kansas economy with his Presentation entitled "Update on the Kansas Economy" (Attachment 3) Mr. Keeton stated that the Kansas economy has continued to improve growing at a solid but not spectacular pace in 2004. Jobs and income are rising at a rate close to the national average. There are strong signs of rebounding in all areas of the economy across the state.

Meeting adjourned at 9:30 a.m. with the next meeting scheduled on January 19, 2005 at 8:30 a.m. in room 123S.



Proposed changes to Unemployment Security Law—Drug and Alcohol

K.S.A. 44-706(b)(2)

(2) For the purposes of this subsection (b), the use of or impairment caused by an alcoholic beverage, a cereal malt beverage or a nonprescribed controlled substance by an individual while working shall be conclusive evidence of misconduct and the possession of an alcoholic beverage, a cereal malt beverage or a nonprescribed controlled substance by an individual while working shall be prima facie evidence of conduct which is a violation of a duty or obligation reasonably owed to the employer as a condition of employment. ~~For purposes of this subsection (b), the disqualification of an individual from employment which disqualification is required by the provisions of the drug free workplace act, 41 U.S.C. 701 et seq. or is otherwise required by law because the individual refused to submit to or failed a chemical test which was required by law, shall be conclusive evidence of misconduct. Refusal to submit to a chemical test administered pursuant to an employee treatment program in which the individual was participating voluntarily or as a condition of further employment shall also be conclusive evidence of misconduct.~~ Alcoholic liquor shall be defined as provided in K.S.A. 41-102 and amendments thereto. Cereal malt beverage shall be defined as provided in K.S.A. 41-2701 and amendments thereto. Controlled substance shall be defined as provided in K.S.A. 65-4101 and amendments thereto of the uniform controlled substances act. As used in this subsection (b)(2), “required by law” means required by a federal or state law, a federal or state rule or regulation having the force and effect of law, a county resolution or municipal ordinance, or a policy relating to public safety adopted in open meeting by the governing body of any special district or other local governmental entity. An individual’s refusal to submit to a chemical test, or breath alcohol test shall ~~not~~ be ~~admissible~~ conclusive evidence ~~to prove~~ of misconduct ~~unless if~~ the test is required by and meets the standards of the drug free workplace act, 41 U.S.C. 701 et. seq., or the test was administered as part of an employee assistance program or other drug or alcohol treatment program in which the employee was participating voluntarily or as a condition of further employment, or the test was otherwise required by law and the test constituted a required condition of employment for the individual’s job, or the test was requested pursuant to a written policy of the employer and was a required condition of employment or, there was probable cause to believe that the individual used, possessed or was impaired by an alcoholic beverage, a cereal malt beverage or a controlled substance while working. A positive breath alcohol test shall be conclusive evidence to prove misconduct if the foundation evidence establishes, by a preponderance of the evidence, that the results are reliable. ~~The results of a A positive~~ chemical test shall ~~not~~ be ~~admissible~~ conclusive evidence to prove misconduct if ~~unless~~ the following conditions ~~were~~ are met:

- (A) Either (i) the test was required by law, the test was administered pursuant to the drug free workplace act, 41 U.S.C. 701 et. Seq., (ii) the test was administered as part of an employee assistance program or other drug or alcohol treatment program in which the employee was participating voluntarily or as a condition of further employment, (iii) the test was requested pursuant to a written policy of the employer and was a required condition of employment. (iv) the test was required by law and the test

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constituted a required condition of employment for the individual's job, or (v) there was probable cause to believe that the individual used, had possession of, or was impaired by the alcoholic beverage, the cereal malt beverage of the controlled substance while working;

- (B) The test sample was collected either (i) as prescribed by the drug free workplace act, 41 U.S.X. 701 et seq., (ii) as prescribed by an employee assistance program or other drug or alcohol treatment program in which the employee was participating voluntarily or as a condition of further employment *(iii) as prescribed by the written policy of the employer and which constituted a required condition of employment,* (iv) as prescribed by a test which was required by law and which constituted a required condition of employment for the individual's job, or (v) at a time contemporaneous with the events establishing probable cause;
- (C) the collecting and labeling of the test sample was performed by a licensed health care professional or any other individual *certified or* authorized to collect or label test samples, ~~by federal or state law, or a federal or state rule or regulation having the force and effect of law,~~ including law enforcement personnel;
- (D) the test was performed by a laboratory approved by the United States department of health and human services or licensed by the department of health and environment, except that a blood sample may be tested for alcohol content by a laboratory commonly used for that purpose by state law enforcement agencies;
- (E) the test was confirmed by gas chromatography, gas chromatography-mass spectroscopy or other comparably reliable analytical method, except that no such confirmation is required for a blood alcohol sample; and
- (F) the foundation evidence must establish, beyond a reasonable doubt, that the test results were from the sample taken from the individual.

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January 18, 2005

**To:** Senate Commerce Committee  
**From:** Alan D. Conroy, Director  
**Re:** State General Fund Consensus Revenue Estimating

## Background

Beginning in 1974, and in every year since, there has been an informal consensus approach involving the legislative and executive branches (Division of the Budget, Legislative Research Department, Department of Revenue, and one consulting economist each from the University of Kansas (KU), Kansas State University (KSU), and Wichita State University (WSU)) for estimating revenue to the State General Fund. The estimates project receipts that the state is expected to receive in the near term (the current fiscal year and the next one).

The consensus estimates have been used by both the Governor and the Legislature. 1990 legislation placed in the law a timetable and certain procedures to be followed in the preparation of estimates of revenue to the State General Fund. The law requires that on or before December 4 and April 20, the Director of the Budget and the Director of the Legislative Research Department prepare a joint estimate of revenue to the State General Fund for the current and ensuing fiscal years. The 2004 Legislature moved the April consensus date from on or before April 4 to on or before April 20.

If legislation is passed affecting State General Fund revenue, the two directors prepare a joint estimate of such revenue. If the two directors are unable to agree on the joint estimates, the Legislature must use the estimate of the Director of Legislative Research and the Governor must use the estimate of the Director of the Budget. To date, the two directors have successfully reached agreement on these revenue estimates.

## Process

An economic outlook meeting is held several weeks in advance of the actual revenue estimating meeting. At the economic outlook meeting, information is shared relating to:

- Agriculture - agricultural statistics;
- Employment - Department of Labor;
- Oil and natural gas - industry sources;
- Aircraft sector - WSU consulting economist;
- Kansas personal income forecasts - KU and KSU consulting economists; and
- CPI-U (inflation) forecasts - KU and KSU consulting economists.

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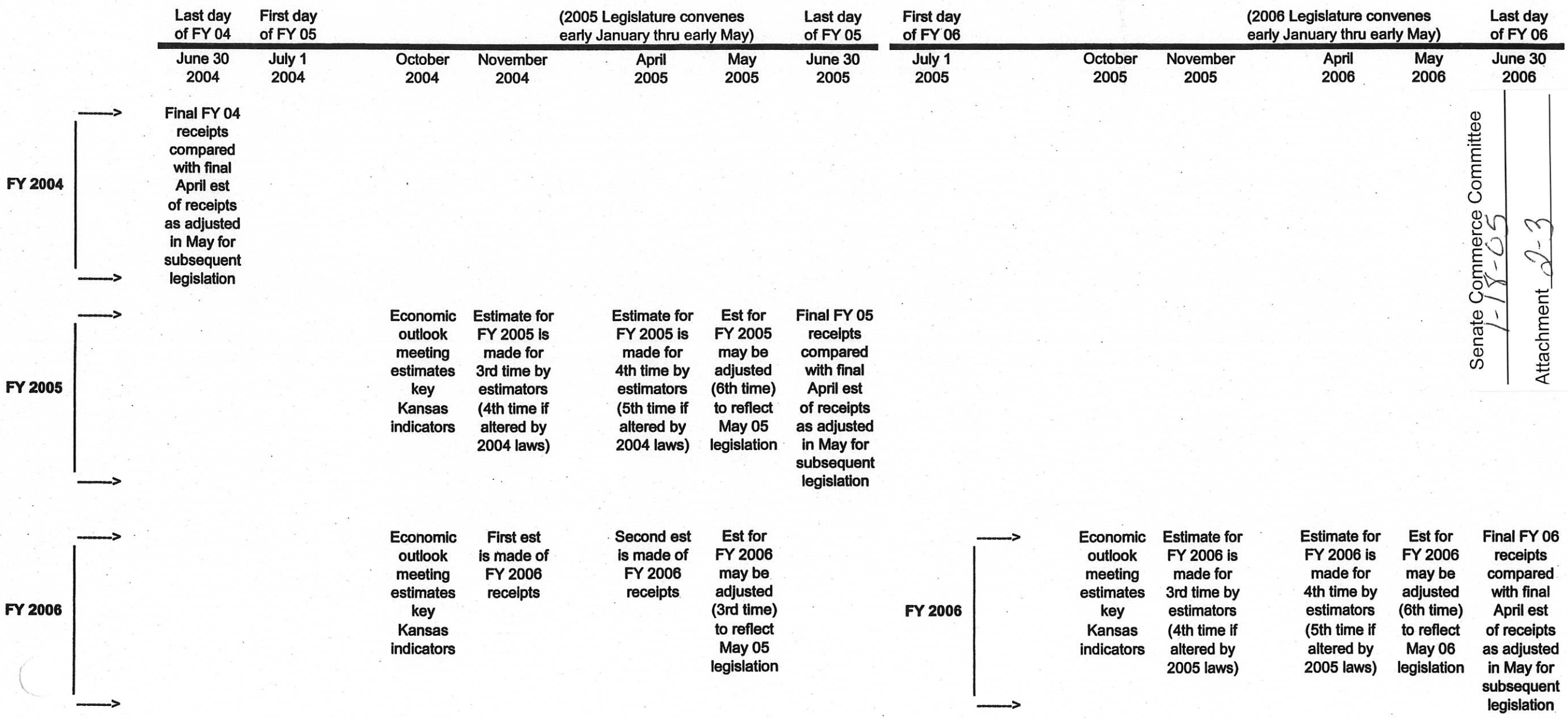
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When the Consensus Revenue Estimating Group meets, there are actually six different sets of estimates, each independently prepared. The **six different** estimates are prepared by:

- Division of the Budget (Governor);
- Department of Revenue (Governor);
- Legislative Research Department (Legislature);
- Consulting economist (KU);
- Consulting economist (KSU); and
- Consulting economist (WSU).

The individual estimates are not divulged and are held in confidence. The final estimates are reached after all parties negotiate an agreement on an estimate for every tax source. The estimates are then supported by all parties.

# State General Fund Consensus Revenue Estimating Group Timeline



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STATE GENERAL FUND REVENUE ESTIMATES

In Millions

1 Fiscal Year	2 Original Estimate <sup>1</sup> (Nov. or Dec.)	3 Leg. Changes <sup>2</sup>		5 Adj. Original Estimate (2+3+4)	6 Revisions by Consensus Estimating Group				10 Final Estimate <sup>3</sup> (5+9)	11 Actual Receipts <sup>3</sup>	12 Diff. Between Actual Receipts and Adj. Original Estimate		14 Diff. Between Actual Receipts and Final Estimate		15
		First Session	Second Session		1st March or April	Nov. or Dec.	2nd March or April	Total			Amount	Percent	Amount	Percent	
1975	-	-	-	-	-	-	-	-	\$614.9 <sup>a</sup>	\$627.6	-	-	\$12.7	2.1%	
1976	\$670.5	\$5.8	-	\$676.3	-	\$23.5 <sup>b</sup>	-	-	699.7	701.2	\$24.9	3.7%	1.4	0.2	
1977	750.4	9.8	(d)	760.2	-	3.4	(3.0) <sup>c</sup>	0.4	760.7	776.5	16.3	2.1	15.8	2.1	
1978	828.5	2.0	(0.4)	830.1	-	31.1	-	31.1	861.2	854.6	24.5	3.0	(6.5)	(0.8)	
1979	943.5	1.8	-	945.2	-	36.8	-	37.3	1,019.3	1,006.8	61.6	6.5	(12.5)	(1.2)	
1980	1,075.9	(56.6)	(d)	1,019.3	61.0	15.6	-	76.6	1,095.9	1,097.8	78.5	7.7	1.9	0.2	
1981	1,198.5	(1.4)	-	1,197.1	-	29.3	-	29.3	1,226.4	1,226.5	29.4	2.5	0.1	0.0	
1982	1,352.6	(0.4)	(0.9)	1,351.3	-	(17.8)	(13.5)	(31.3)	1,320.0	1,273.0	(78.3)	(5.8)	(47.0)	(3.6)	
1983	1,487.6	3.1	108.5	1,599.2	(36.0)	(150.7)	(45.6)	(232.3)	1,366.9	1,363.6	(235.6)	(14.7)	(3.2)	(0.2)	
1984	1,419.4	174.0	3.4	1,596.7	(40.6)	(17.1)	-	(57.7)	1,539.0	1,546.9	(49.8)	(3.1)	7.9	0.5	
1985	1,672.8	2.3	22.6	1,697.7	-	(17.9)	-	(17.9)	1,679.7	1,658.5	(39.2)	(2.3)	(21.3)	(1.3)	
1986	1,722.9	3.2	5.1	1,731.2	-	(55.1)	(9.5)	(64.7)	1,666.4	1,641.4	(89.8)	(5.2)	(25.0)	(1.5)	
1987	1,733.7	169.6	(0.2)	1,903.1	(44.8)	(93.6)	-	(138.4)	1,764.7	1,778.5	(124.6)	(6.5)	13.8	0.8	
1988	1,947.0	6.0 <sup>e</sup>	7.0 <sup>e</sup>	1,960.0	-	9.8	61.8	71.6	2,031.5	2,113.1	153.1	7.8	81.6	4.0	
1989	2,019.4	(9.5)	(2.1)	2,007.8	27.6	160.2	11.3	199.1	2,206.9	2,228.3	220.5	11.0	21.4	1.0	
1990	2,321.2	(80.3)	0.3	2,241.2	14.9	42.1	(14.9)	42.1	2,283.3	2,300.5	59.3	2.6	17.2	0.8	
1991	2,337.0	0.8	1.0	2,338.8	6.4	16.4	(1.0)	21.8	2,360.6	2,382.3	43.5	1.9	21.7	0.9	
1992	2,454.2	13.7	10.8	2,478.7	(22.9)	12.1	(13.4)	(24.2)	2,454.5	2,465.8	(12.9)	(0.5)	11.3	0.5	
1993	2,564.4	349.0	(d)	2,913.4	(17.3)	54.6	(21.1)	16.2	2,929.6	2,932.0	18.6	0.6	2.4	0.1	
1994	3,035.5	4.8	(0.2)	3,040.1	(4.5)	50.3	41.0 <sup>f</sup>	86.7	3,126.8	3,175.7	135.6	4.5	48.9	1.6	
1995	3,221.4	(10.1)	(36.9)	3,174.4	39.5	37.4	(7.3)	69.6	3,243.9	3,218.8	44.4	1.4	(25.1)	(0.8)	
1996	3,409.3	17.5	1.2	3,428.0	(33.0)	(27.3)	41.6 <sup>g</sup>	(18.7)	3,409.2	3,448.3	20.3	0.6	39.0	1.1	
1997	3,520.3	4.2	0.3	3,524.8	(9.6)	100.4	26.8	117.6	3,642.4	3,683.8	159.0	4.5	41.4	1.1	
1998	3,755.1	(1.7)	(39.0)	3,714.4	(30.5)	217.3	69.7	256.5	3,971.0	4,023.7	309.3	8.3	52.7	1.3	
1999	4,017.5	(169.2)	(3.6)	3,844.7	119.6	107.8	(20.2)	207.2	4,051.9	3,978.4	133.7	3.5	(73.4)	(1.8)	
2000	4,230.6	(27.7)	1.2	4,204.1	(0.8)	(37.3)	(5.0)	(43.1)	4,161.0	4,203.1	(1.0)	0.0	42.1	1.0	
2001	4,425.8	(1.9)	(3.2)	4,420.7	(2.6)	64.8	(74.1)	(11.9)	4,408.7	4,415.0	(5.7)	(0.1)	6.4	0.1	
2002	4,595.8	(35.0)	113.7	4,674.5	(111.4)	(113.4)	(129.1)	(353.9)	4,320.6	4,108.9	(565.6)	(12.1)	(211.7)	(4.9)	
2003	4,588.6	51.4	1.0	4,641.0	(124.5)	(363.5)	82.3	(405.7)	4,235.6	4,245.6	(395.4)	(9.3)	9.9	0.2	
2004	4,525.7	79.6	0.2	4,605.5	(133.6)	11.9	(33.3)	(155.0)	4,450.5	4,518.7	(86.8)	(1.9)	68.2	1.5	
2005	4,469.3	(0.7)			73.2	89.2									

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1. The first estimate for a fiscal year as included in the Governor's Budget Report to the Legislature, adjusted to delete the estimated effect on receipts of any policy recommendations by the Governor.
2. Estimated effect of revenue measures enacted which increased or decreased receipts.
3. For FYs 1975-1988, not adjusted for 1988 legislation which changed three revenue transfers (netted out of receipts) to demand transfers (expenditures).
  - a) The first estimate of the Consensus Estimating Group was the revised estimate for FY 1975. This final estimate of \$614.9 million reflects a reduction in receipts of about \$127,000 made by the 1975 Legislature.
  - b) Includes \$6 million added on 1/8/76 to reflect increase in the state income tax withholding rate and extension of the federal Revenue Adjustment Act of 1975 through FY 1976.
  - c) This reduction was to account for a Kansas Supreme Court decision which affected sales tax receipts.
  - d) Less than \$50,000.
  - e) The 1987 Legislature authorized a revenue transfer of \$7.43 million for county reappraisal aid and is so reflected in the "First Session" column. This was later changed, by executive action, to a demand transfer (expenditure) and that change is reflected in the "Second Session" column along with legislative action which reduced receipts by \$432,000.
  - f) Includes nearly \$15.2 million (net) due to enactment of 1993 S.B. 393, which revamped the unclaimed property law.
  - g) Includes about \$31.3 million in inheritance tax from one estate received after the November 1995 estimate.

Note: Details may not add to totals due to rounding.

Kansas Legislative Research Department  
November 5, 2004

Senate Commerce Committee

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Attachment 2-5



# KANSAS

DIVISION OF THE BUDGET  
DUANE A. GOOSSEN, DIRECTOR

KATHLEEN SEBELIUS, GOVERNOR

November 4, 2004

**To:** Governor Kathleen Sebelius, and the Legislative Budget Committee  
**From:** The Kansas Division of the Budget and the Kansas Legislative Research Department  
**Re:** State General Fund Receipts for FY 2005 (Revised) and FY 2006

Estimates for the State General Fund are developed using a consensus process that involves the Division of the Budget, the Legislative Research Department, the Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget. The Consensus Group met on November 3, 2004, to revise the FY 2005 estimate and to develop the first estimate for FY 2006.

For FY 2005, the estimate was increased by \$89.2 million, or 2.0 percent, above the previous estimate (made in April and subsequently adjusted for legislation). The overall revised SGF estimate of \$4.631 billion is 2.5 percent above actual FY 2004 receipts. The initial estimate for FY 2006 is \$4.841 billion, which is \$210.0 million, or 4.5 percent, above the newly revised FY 2005 figure. The FY 2006 estimate does not subtract any demand transfers converted to revenue transfers, while the FY 2005 estimate subtracts \$71.8 million in demand transfers that were converted to revenue transfers. If transfers are treated in a similar fashion in both years, the FY 2006 growth would be \$138.2 million, or 2.9 percent.

Detailed information regarding the specific sources of revenue constituting total receipts is presented in Table 1. Table 2 compares the FY 2005 estimate developed last spring with the recently revised estimate. Table 3 compares the revised FY 2005 estimate to the FY 2006 estimate.

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Attachment 2-6

## Economic Forecast for Kansas

The Kansas economy is expected to continue the trend of subdued, but positive growth through calendar year 2006. Several key factors that affected the consensus estimates include high energy prices; cautious, but increased capital investments by businesses; a lower unemployment rate; an improved agricultural sector; and dampening retail sales.

The national economy is expected to grow at a slower pace over the next two years. Nominal Gross Domestic Product (GDP) is expected to grow by 6.6 percent in 2004; 5.6 percent in 2005; and by 4.8 percent in 2006, while real GDP is expected to grow by 4.4 percent, 3.7 percent, and 3.0 percent, respectively. U.S. personal income also is expected to increase. The growth is anticipated to be 5.3 percent in 2004; 5.0 percent in 2005; and 5.2 in 2006. A listing of the key economic indicators is shown in the following table:

### Key Economic Indicators

	2003	2004	2005	2006
Consumer Price Index for All Urban Consumers	2.3 %	2.7 %	2.1 %	2.1 %
Real U.S. Gross Domestic Product	3.0	4.4	3.7	3.0
Nominal U.S. Gross Domestic Product	4.9	6.6	5.6	4.8
Nominal U.S. Personal Income	3.2	5.3	5.0	5.2
Corporate Profits before Taxes	15.0	15.5	38.0	4.0
Nominal Kansas Gross State Product	4.5	5.8	4.8	4.4
Nominal Kansas Personal Income:				
Dollars in millions	\$80,466	\$84,300	\$88,400	\$92,706
Percentage Change		4.8 %	4.9 %	4.9 %
Nominal Kansas Disposable Income:				
Dollars in millions	\$72,451	\$75,500	\$78,500	\$81,500
Percentage Change		4.2 %	4.0 %	3.8 %
Interest Rate for State General Fund (based on fiscal year)	1.63	1.19	2.13	3.09
Kansas Unemployment Rate (based on fiscal year)	5.3	5.1	5.9	5.7

### Inflation Rate

In 2003, the rate of inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), was 2.3 percent. The inflation rate in 2004 is expected to be higher at 2.7 percent. The rate is anticipated to drop back to 2.1 percent in 2005 and remain at that level through 2006.

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Attachment 2-7

## Kansas Personal Income

Kansas Personal Income (KPI) is expected to grow by 4.8 percent in 2004 above 2003. The growth rate is expected to increase to 4.9 percent in 2005 and remain at that level through 2006.

## Interest Rates

The Pooled Money Investment Board is authorized to make investments in US Treasury and agency securities; highly rated commercial paper; and repurchase agreements and certificates of deposit of Kansas banks. In FY 2003, the state earned 1.63 percent on its State General Fund portfolio. The average rate of return forecasted for FY 2004 is 1.19 percent. For FY 2005, the forecasted rate is 2.12 percent and 3.09 percent for FY 2006.

## Employment

Labor market statistics indicate that unemployment in Kansas is up, but experts believe that the employment outlook generally is improving. The statewide unemployment rate for FY 2003 was 5.3 percent and is expected to drop to 5.1 percent in FY 2004. The latest statistics indicate that Kansas unemployment is still below the national rate of 5.4 percent (September 2004). The overall Kansas unemployment rate for FY 2005 is expected to be 5.9 percent before decreasing to 5.7 percent in FY 2006.

The Kansas Department of Labor stated that the US Department of Labor will be making a significant change to its methodology in 2005. The Kansas Department of Labor anticipates that the change in the way that the unemployment rate is calculated will translate into a higher unemployment rate. Adjustments will be made back to 2000, when the last decennial census was conducted. Experts believe that the unemployment rate will increase by 1.0 percent because of the U.S. Department of Labor's adjustments.

## Agriculture

Net farm income in Kansas increased 451.0 percent from \$251.9 million to \$1,386.9 million in 2003. For this same period, the national net farm income increased by 59.0 percent.

The All Farm Products Index of Prices received by Kansas farmers was 105 in September, compared with 112 a year ago. The monthly average prices farmers received for wheat, corn, sorghum, and soybeans were above year ago levels for the first six months of 2003, then began to fall behind year ago prices as it became obvious that row crop production would be excellent. Using current forecasts for 2004 production and the projected prices released by the USDA in October, the value of production for the four major crops in Kansas likely will be down 5.0 to 10.0 percent from last year's levels. Cattle marketings through September are running 2.1

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percent below last year, but prices remain well below last year's levels. Hog prices have been above last year's levels.

## Oil and Gas

The average price per taxable barrel of Kansas crude oil is estimated to be \$40 in FY 2005 and to decrease to \$33 in FY 2006. Gross oil production in Kansas is expected to continue to remain steady at 34.0 million barrels throughout the forecast period (FY 2005 and FY 2006).

The price of natural gas is expected to increase from the FY 2004 level of \$4.17 per mcf to \$5.50 per mcf in FY 2005 and then to \$5.00 per mcf in FY 2006. Natural gas production in FY 2004 was 417.6 million cubic feet. Production is expected to continue to decline for the foreseeable future as natural gas reserves, especially those in the Hugoton field, are depleted. The forecast is for 385.0 million cubic feet in FY 2005 and 355.0 million cubic feet in FY 2006.

## State General Fund Receipts Estimates

Each individual SGF source was reevaluated independently and consideration was given to revised and updated economic forecasts, and year-to-date receipts. Additional information was provided by the Department of Revenue, the Insurance Department, the State Treasurer's Office, the Pooled Money Investment Board, and the Kansas Department of Labor.

### Tax Receipts

**FY 2005.** Estimated tax receipts for FY 2005 were increased by \$89.2 million. Individual income tax receipts account for \$60.1 million of the total increase, while severance tax receipts account for \$27.8 million. Corporation income tax receipts also were increased by \$22.0 million. One factor supporting the increase in the individual income tax estimate is that FY 2004 receipts from this source exceeded the final estimate by more than \$58.0 million. Data show that the average balance due increased by \$60 per check over the prior year. In addition, withholding receipts have shown significant growth in the first four months of FY 2005.

Increases to the severance tax are attributable to higher than anticipated energy costs. The war in Iraq, unrest in the Middle East, and the effects of hurricanes in the Gulf of Mexico have caused price increases in both oil and natural gas. Corporation income tax receipts were increased because of the current economic expansion in business investment. This trend is expected to continue through the forecast period.

The retail sales tax estimate was reduced for FY 2005 from \$1,670.9 million to \$1,650.0 million (-\$20.9 million). This reduction was based on slower than expected consumer spending through the first four months of the fiscal year and the expectation that the pattern will continue throughout the rest of the fiscal year.

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Alternatively, the compensating use tax estimate was increased by \$8.7 million from \$224.3 million to \$233.0 million. This tax source estimate was affected by an apparent increase in business purchases.

Other tax source estimates that were increased include motor carrier property tax; estate tax; tobacco products tax; liquor enforcement; and corporate franchise taxes. Motor carrier receipts were increased by \$1.5 million because there are more carriers and operating units that were valued for tax year 2004.

The estate tax estimate was increased by \$1.0 million from \$49.0 million to \$50.0 million. Statutory changes also were made to the corporate franchise tax during the 2004 Legislative Session. Beginning January 1, 2005, collection of the corporate franchise tax will be transferred from the Secretary of State's Office to the Department of Revenue. This tax is assessed against businesses on the basis of \$1.25 per each \$1,000 of net worth. The Secretary of State's Office will continue to collect the corporate franchise fee, which is assessed to all businesses and non-profit organizations. The overall estimate for both sources was increased because the collections for the first four months of FY 2005 have been stronger than expected.

Other sources that are expected to decrease include financial institutions privilege tax receipts and liquor drink tax receipts. The liquor drink receipts were revised downward by \$200,000, while financial institutions income tax receipts were revised downward by \$12.5 million. It is not evident why this source has dropped dramatically. However, the Department of Revenue is investigating the possible causes.

**FY 2006.** Total State General Fund receipts are estimated to be \$4.84 billion in FY 2006, while tax receipts are estimated to be \$4.68 billion. The total receipts are \$210.0 million, or 4.5 percent greater than the newly revised FY 2005 figure. Tax receipts only for FY 2006 are estimated to increase \$138.0 million, or 3.0 percent.

The FY 2006 estimate does not subtract any demand transfers converted to revenue transfers, while the FY 2005 estimate subtracts \$71.8 million in demand transfers that were converted to revenue transfers. If transfers are treated in a similar fashion in both years, the FY 2006 growth would be \$138.2 million, or 2.9 percent. Modest increases are forecast for the principal State General Fund tax revenue sources in FY 2006 over the FY 2005 levels.

### Accuracy of Consensus Revenue Estimates

For 30 years, State General Fund revenue estimates for Kansas have been developed using the consensus revenue estimating process. Besides the three state agencies identified on the first page, the economists currently involved in the process are Joe Sicilian from the University of Kansas, Ed Olson from Kansas State University, and John Wong from Wichita State University. Each of those involved in the process prepared independent estimates and met on November 3, 2004, to discuss estimates and come to a consensus for each fiscal year.

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The table on page 7 presents estimates compared to actual receipts since FY 1975, the fiscal year for which the current process was initiated. The process involves comparing the adjusted original estimate to actual collections and then the final estimate is compared to actual receipts.

### Concluding Comments

Consensus revenue estimates are based on current federal and state laws and their current interpretation. The group will meet again in April to revise these estimates. Developments which occur between the November and April meetings will be taken into account at that time.

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Attachment

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## ACCURACY OF STATE GENERAL FUND ESTIMATES

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from:			
				Original Estimate		Final Estimate	
				Amount	Percent	Amount	Percent
1975	\$ --	\$ 614.9	\$ 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	--
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)	(0.2)
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)
1986	1,731.2	1,666.4	1,641.4	(89.8)	(5.2)	(25.0)	(1.5)
1987	1,903.1	1,764.7	1,778.5	(124.6)	(6.5)	13.8	0.8
1988	1,960.0	2,031.5	2,113.1	153.1	7.8	81.6	4.0
1989	2,007.8	2,206.9	2,228.3	220.5	11.0	21.4	1.0
1990	2,241.2	2,283.3	2,300.5	59.3	2.6	17.2	0.8
1991	2,338.8	2,360.6	2,382.3	43.5	1.9	21.7	0.9
1992	2,478.7	2,454.5	2,465.8	(12.9)	(0.5)	11.3	0.5
1993	2,913.4	2,929.6	2,932.0	18.6	0.6	2.4	0.1
1994	3,040.1	3,126.8	3,175.7	135.6	4.5	48.9	1.6
1995	3,174.4	3,243.9	3,218.8	44.4	1.4	(25.1)	(0.8)
1996	3,428.0	3,409.2	3,448.3	20.3	0.6	39.0	1.1
1997	3,524.8	3,642.4	3,683.8	159.0	4.5	41.4	1.1
1998	3,714.4	3,971.0	4,023.7	309.3	8.3	52.7	1.3
1999	3,844.7	4,051.9	3,978.4	133.7	3.5	(73.4)	(1.8)
2000	4,204.1	4,161.0	4,203.1	(1.0)	--	42.1	1.0
2001	4,420.7	4,408.7	4,415.0	(5.7)	(0.1)	6.4	0.1
2002	4,595.8	4,320.6	4,108.7	(565.6)	(12.1)	(211.7)	(4.9)
2003	4,641.0	4,235.6	4,245.6	(395.4)	(9.3)	9.9	0.2
2004	4,605.5	4,450.0	4,518.7	(56.8)	(1.9)	68.2	1.5

\* The adjusted original estimate is the estimate made in November or December prior to the start of the next fiscal year in July and adjusted to account for legislation enacted, if any, which affected receipts to the SGF.

\*\* The final estimate made in March or April is the adjusted original estimate plus or minus changes subsequently made by the Consensus Estimating Group. It also includes the estimated impact of legislation on receipts.

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**Table 1**  
**Consensus Resources Estimates for Fiscal Years 2005 & 2006**  
**and FY 2004 Actual Receipts**  
*(Dollars in Thousands)*

	FY 2004 (Actual)		FY 2005 (Revised)		FY 2006	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
<b>Property Tax:</b>						
Motor Carrier	\$19,497	24.0 %	\$21,000	7.7 %	\$22,000	4.8 %
Motor Vehicle	\$185	n/app	800	n/app		
Ad Valorem	\$15,258	n/app	1,100	n/app		
<b>Total</b>	<b>\$34,940</b>	<b>122.1 %</b>	<b>\$22,900</b>	<b>(34.5) %</b>	<b>\$22,000</b>	<b>(3.9) %</b>
<b>Income Taxes:</b>						
Individual	\$1,888,434	7.9 %	\$1,960,000	3.8 %	\$2,060,000	5.1 %
Corporation	141,173	34.2	152,000	7.7	155,000	2.0
Financial Inst.	25,435	(18.3)	22,000	(13.5)	22,000	-
<b>Total</b>	<b>\$2,055,042</b>	<b>8.9 %</b>	<b>\$2,134,000</b>	<b>3.8 %</b>	<b>\$2,237,000</b>	<b>4.8 %</b>
Estate Tax	\$48,063	2.4 %	\$50,000	4.0 %	\$51,000	2.0 %
<b>Excise Taxes:</b>						
Retail Sales	\$1,612,067	2.8 %	\$1,650,000	2.4 %	\$1,700,000	3.0 %
Compensating Use	214,502	(5.1)	233,000	8.6	237,000	1.7
Cigarette	119,787	(7.3)	118,000	(1.5)	117,000	(0.8)
Tobacco Products	4,796	6.3	5,000	4.3	5,200	4.0
Cereal Malt Bev.	2,165	(4.8)	2,200	1.6	2,100	(4.5)
Liquor Gallonage	15,843	7.0	16,000	1.0	16,000	-
Liquor Enforcement	40,257	3.7	43,000	6.8	45,000	4.7
Liquor Drink	7,153	4.5	7,500	4.9	7,700	2.7
Corp. Franchise	36,805	18.4	48,000	30.4	45,000	(6.3)
Severance	84,641	16.3	105,400	24.5	88,000	(16.5)
Gas	66,055	17.4	79,100	19.7	66,300	(16.2)
Oil	18,586	12.5	26,300	41.5	21,700	(17.5)
<b>Total</b>	<b>\$2,138,016</b>	<b>2.1 %</b>	<b>\$2,228,100</b>	<b>4.2 %</b>	<b>\$2,263,000</b>	<b>1.6 %</b>
<b>Other Taxes:</b>						
Insurance Prem.	\$107,603	13.9 %	\$100,000	(7.1) %	\$100,000	- %
Miscellaneous	3,646	(17.6)	4,500	23.4	4,500	-
<b>Total</b>	<b>\$111,249</b>	<b>12.5 %</b>	<b>\$104,500</b>	<b>(6.1) %</b>	<b>\$104,500</b>	<b>- %</b>
<b>Total Taxes</b>	<b>\$4,387,310</b>	<b>5.9 %</b>	<b>\$4,539,500</b>	<b>3.5 %</b>	<b>\$4,677,500</b>	<b>3.0 %</b>
<b>Other Revenues:</b>						
Interest	\$13,870	(27.3) %	\$25,100	81.0 %	\$40,350	60.8 %
Net Transfers	16,718	(228.2)	(2,700)	(116.2)	65,800	n/app
Demand to Revenue	(62,699)	n/app	(71,800)	n/app	-	(100.0)
Other Transfers	79,417	n/app	69,100	n/app	65,800	(4.8)
Agency Earnings	55,290	6.8	69,000	24.8	57,200	(17.1)
Federal Grants	45,710	n/app	-	n/app	-	n/app
<b>Total</b>	<b>\$131,588</b>	<b>27.0 %</b>	<b>\$91,400</b>	<b>(30.5) %</b>	<b>\$163,350</b>	<b>42.0 %</b>
<b>Total Receipts</b>	<b>\$4,518,898</b>	<b>6.4 %</b>	<b>\$4,630,900</b>	<b>2.5 %</b>	<b>\$4,840,850</b>	<b>4.5 %</b>

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**Table 2**  
**State General Fund Receipts**  
**FY 2005 Revised**  
**Comparison of November 2004 Estimate to April 2004 Estimate As Adjusted for Legislation**  
*(Dollars in Thousands)*

	FY 2005 CRE Est. As Adjusted for Legislation after 04/20/04	FY 2005 CRE Est. Revised 11/03/04	Difference	
			Amount	Pct. Chg.
<b>Property Tax:</b>				
Motor Carrier	\$19,500	\$ 21,000	\$1,500	7.7 %
Motor Vehicle	400	800	400	n/app
Ad Valorem	1,000	1,100	100	n/app
<b>Total</b>	<b>\$20,900</b>	<b>\$ 22,000</b>	<b>\$1,100</b>	<b>5.3 %</b>
<b>Income Taxes:</b>				
Individual	\$1,899,904	\$ 1,960,000	\$60,096	3.2 %
Corporation	130,000	152,000	22,000	16.9
Financial Inst.	34,500	22,000	(12,500)	(36.2)
<b>Total</b>	<b>\$2,064,404</b>	<b>\$ 2,134,000</b>	<b>\$69,596</b>	<b>3.4 %</b>
Estate Tax	\$49,000	\$ 50,000	\$1,000	2.0 %
<b>Excise Taxes:</b>				
Retail Sales	\$1,670,941	\$ 1,650,000	(20,941)	(1.3) %
Compensating Use	224,290	233,000	8,710	3.9
Cigarette	118,000	118,000	-	-
Tobacco Product	4,900	5,000	100	2.0
Cereal Malt Beverage	2,200	2,200	-	-
Liquor Gallonage	16,000	16,000	-	-
Liquor Enforcement	42,000	43,000	1,000	2.4
Liquor Drink	7,700	7,500	(200)	(2.6)
Corporate Franchise	42,300	48,000	5,700	13.5
Severance	77,600	105,400	27,800	35.8
Gas	58,900	79,100	20,200	34.3
Oil	18,700	26,300	7,600	40.6
<b>Total</b>	<b>\$2,205,931</b>	<b>\$ 2,228,100</b>	<b>\$22,169</b>	<b>1.0 %</b>
<b>Other Taxes:</b>				
Insurance Premium	\$100,000	\$ 100,000	\$ -	- %
Miscellaneous	4,500	4,500	-	-
<b>Total</b>	<b>\$104,500</b>	<b>\$ 104,500</b>	<b>\$ -</b>	<b>- %</b>
<b>Total Taxes</b>	<b>\$4,444,735</b>	<b>\$ 4,539,500</b>	<b>\$94,765</b>	<b>2.1 %</b>
<b>Other Revenues:</b>				
Interest	\$21,500	\$ 25,100	\$3,600	16.7 %
Net Transfers	11,530	(2,700)	(14,230)	n/app
Demand to Revenue Transfers	(74,600)	(71,800)	2,800	n/app
Other Transfers	86,130	69,100	(17,030)	(19.8)
Agency Earnings	63,956	69,000	5,044	7.9
Federal Grants	-	-	-	-
<b>Total Other Revenue</b>	<b>\$96,986</b>	<b>\$ 91,400</b>	<b>(\$5,586)</b>	<b>(5.8) %</b>
<b>Total Receipts</b>	<b>\$4,541,721</b>	<b>\$ 4,630,900</b>	<b>\$89,179</b>	<b>2.0 %</b>

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**Table 3**  
**State General Fund Receipts**  
**FY 2006**  
**Comparison of Revised FY 2005 CRE Estimate to Initial FY 2006 Estimate**  
*(Dollars in Thousands)*

	FY 2005 CRE		Difference	
	Est. Revised 11/03/04	FY 2006 CRE Est. 11/03/04	Amount	Pct. Chg.
<b>Property Tax:</b>				
Motor Carrier	\$21,000	\$ 22,000	\$1,000	4.8 %
Motor Vehicle	800	—	(800)	n/app
Ad Valorem	1,100	—	(1,100)	n/app
<b>Total</b>	<b>\$22,900</b>	<b>\$ 22,000</b>	<b>(\$900)</b>	<b>(3.9)</b>
<b>Income Taxes:</b>				
Individual	\$1,960,000	\$ 2,060,000	\$100,000	5.1 %
Corporation	152,000	155,000	3,000	2.0
Financial Inst.	22,000	22,000	—	—
<b>Total</b>	<b>\$2,134,000</b>	<b>\$ 2,237,000</b>	<b>\$103,000</b>	<b>4.8 %</b>
Estate Tax	\$50,000	\$ 51,000	\$1,000	2.0 %
<b>Excise Taxes:</b>				
Retail Sales	\$1,650,000	\$ 1,700,000	50,000)	3.0 %
Compensating Use	233,000	237,000	4,000	1.7
Cigarette	118,000	117,000	(1,000)	(0.8)
Tobacco Product	5,000	5,200	200	4.0
Cereal Malt Beverage	2,200	2,100	(100)	(4.5)
Liquor Gallonage	16,000	16,000	—	—
Liquor Enforcement	43,000	45,000	2,000	4.7
Liquor Drink	7,500	7,700	200	2.7
Corporate Franchise	48,000	45,000	(3,000)	(6.3)
Severance	105,400	88,000	(17,400)	(16.5)
Gas	79,100	66,300	(12,800)	(16.2)
Oil	26,300	21,700	(4,600)	(17.5)
<b>Total</b>	<b>\$2,228,100</b>	<b>\$ 2,263,000</b>	<b>\$34,900</b>	<b>1.6 %</b>
<b>Other Taxes:</b>				
Insurance Premium	\$100,000	\$ 100,000	\$ —	— %
Miscellaneous	4,500	4,500	—	—
<b>Total</b>	<b>\$104,500</b>	<b>\$ 104,500</b>	<b>\$ —</b>	<b>— %</b>
<b>Total Taxes</b>	<b>\$4,539,500</b>	<b>\$ 4,677,500</b>	<b>\$138,000</b>	<b>3.0 %</b>
<b>Other Revenues:</b>				
Interest	\$25,100	\$ 40,350	\$15,250	60.8 %
Net Transfers	(2,700)	65,800	68,500	n/app
Demand to Revenue Transfers	(71,800)	—	71,800	(100.0)
Other Transfers	69,100	65,800	(3,300)	(4.8)
Agency Earnings	69,000	57,200	(11,800)	(17.1)
Federal Grants	—	—	—	—
<b>Total Other Revenue</b>	<b>\$91,400</b>	<b>\$ 163,350</b>	<b>\$71,950</b>	<b>78.7 %</b>
<b>Total Receipts</b>	<b>\$4,630,900</b>	<b>\$ 4,840,850</b>	<b>\$209,950</b>	<b>4.5 %</b>

Senate Commerce Committee

Attachment 118-09  
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January 6, 2005

To: Legislative Budget Committee

## STATE GENERAL FUND (SGF) RECEIPTS July through December, FY 2005

This is the second monthly report based on the revised estimate of SGF receipts in FY 2005 made by the Consensus Estimating Group on November 3, 2004. The figures in both the "Estimate" and "Actual" columns under FY 2005 on the following table include actual amounts received in July-October. Thus, the report essentially deals with the difference between the estimated and actual receipts in November and December.

**Total receipts through December of FY 2005 were \$6.2 million or 0.3 percent above the estimate. The component of SGF receipts from taxes only was \$287,000 or 0.0 percent above the estimate.** Total receipts through November of FY 2005 were \$16.2 million or 0.9 percent above the estimate, and taxes only were \$9.2 million or 0.5 percent above the estimate.

Generally, a comparison of only two months is of little value in identifying a trend for the remainder of the year. Receipts through the end of January will include sales tax receipts on Christmas business and individual income tax estimated payments due in January. Both of these factors will make the January report more helpful in ascertaining a picture of SGF receipts.

Taxes that **exceeded** the estimate by more than \$1.0 million were corporation income (\$11.7 million or 14.8 percent), insurance premiums (\$5.6 million or 15.6 percent), and estate (\$4.9 million or 17.9 percent).

Taxes that **fell below** the estimate by more than \$1.0 million were individual income (\$22.3 million or 2.3 percent) and financial institutions privilege (\$1.1 million or 11.6 percent).

Agency earnings and interest earnings each exceeded the estimate by \$5.4 million and \$0.7 million, respectively. Net transfers were \$0.2 million higher than expected.

**Total SGF receipts through December of FY 2005 were \$37.0 million or 1.7 percent above FY 2004 receipts for the same period. Tax receipts only for the same period exceeded FY 2004 by \$77.2 million or 3.6 percent.**

This report excludes the July 1 deposit to the SGF of \$450 million, pursuant to issuance of a certificate of indebtedness. This certificate will be discharged prior to the end of the fiscal year.

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**STATE GENERAL FUND RECEIPTS**  
**July-December, FY 2005**  
 (dollar amounts in thousands)

	Actual FY 2004	FY 2005			Percent increase relative to:	
		Estimate*	Actual	Difference	FY 2004	Estimate
<b>Property Tax:</b>						
Motor Carriers	\$ 11,613	\$ 11,750	\$ 12,350	\$ 600	6.3%	5.1%
General Property	-	600	438	( 162 )	-	( 27.0 )
Motor Vehicle	663	800	924	124	39.3	15.5
<b>Total</b>	<b>\$ 12,276</b>	<b>\$ 13,150</b>	<b>\$ 13,712</b>	<b>\$ 562</b>	<b>11.7%</b>	<b>4.3%</b>
<b>Income Taxes:</b>						
Individual	\$ 907,949	\$ 951,000	\$ 928,678	\$ ( 22,322 )	2.3%	( 2.3 )%
Corporation	68,884	79,300	91,001	11,701	32.1	14.8
Financial Inst.	13,358	9,050	7,996	( 1,054 )	( 40.1 )	( 11.6 )
<b>Total</b>	<b>\$ 990,190</b>	<b>\$ 1,039,350</b>	<b>\$ 1,027,676</b>	<b>\$ ( 11,674 )</b>	<b>3.8%</b>	<b>( 1.1 )%</b>
Estate Tax	\$ 22,148	\$ 27,600	\$ 32,535	\$ 4,935	46.9%	17.9%
<b>Excise Taxes:</b>						
Retail Sales	\$ 819,415	\$ 827,000	\$ 827,253	\$ 253	1.0%	0.0%
Comp. Use	105,422	117,000	117,896	896	11.8	0.8
Cigarette	62,029	59,100	59,192	92	( 4.6 )	0.2
Tobacco Prod.	2,382	2,600	2,599	( 1 )	9.1	( 0.0 )
Cereal Malt Bev.	1,162	1,175	1,108	( 67 )	( 4.7 )	( 5.7 )
Liquor Gallonage	8,370	8,000	8,103	103	( 3.2 )	1.3
Liquor Enforce.	20,104	21,400	20,997	( 403 )	4.4	( 1.9 )
Liquor Drink	3,558	3,700	3,626	( 74 )	1.9	( 2.0 )
Corp. Franchise	11,916	12,800	12,930	130	8.5	1.0
Severance	41,666	49,600	49,650	50	19.2	0.1
Gas	33,128	36,500	36,273	( 227 )	9.5	( 0.6 )
Oil	8,538	13,100	13,377	277	56.7	2.1
<b>Total</b>	<b>\$ 1,076,023</b>	<b>\$ 1,102,375</b>	<b>\$ 1,103,356</b>	<b>\$ 981</b>	<b>2.5%</b>	<b>0.1%</b>
<b>Other Taxes:</b>						
Insurance Prem.	\$ 40,933	\$ 36,000	\$ 41,626	\$ 5,626	1.7%	15.6%
Miscellaneous	2,037	2,000	1,858	( 142 )	( 8.8 )	( 7.1 )
<b>Total</b>	<b>\$ 42,970</b>	<b>\$ 38,000</b>	<b>\$ 43,483</b>	<b>\$ 5,483</b>	<b>1.2%</b>	<b>14.4%</b>
<b>Total Taxes</b>	<b>\$ 2,143,608</b>	<b>\$ 2,220,475</b>	<b>\$ 2,220,762</b>	<b>\$ 287</b>	<b>3.6%</b>	<b>0.0%</b>
<b>Other Revenue:</b>						
Interest	\$ 6,491	\$ 9,200	\$ 9,914	\$ 714	52.7%	7.8%
Transfers (net)	\$ ( 862 )	\$ ( 17,300 )	\$ ( 17,491 )	\$ ( 191 )	-	-
Agency Earnings and Misc.	\$ 78,021	\$ 45,700	\$ 51,063	\$ 5,363	( 34.6 )	11.7
<b>Total</b>	<b>\$ 83,651</b>	<b>\$ 37,600</b>	<b>\$ 43,486</b>	<b>\$ 5,886</b>	<b>( 48.0 )%</b>	<b>15.7%</b>
<b>TOTAL RECEIPTS</b>	<b>\$ 2,227,259</b>	<b>\$ 2,258,075</b>	<b>\$ 2,264,248</b>	<b>\$ 6,173</b>	<b>1.7%</b>	<b>0.3%</b>

\* Consensus estimate as of November 3, 2004.

Excludes \$450 million to State General Fund due to issuance of a certificate of indebtedness.

NOTE: Details may not add to totals due to rounding.

Senate Commerce Committee

*1-18-05*

Attachment

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# Update on the Kansas Economy

Presentation to  
Senate Commerce Committee  
Kansas State Legislature  
January 18, 2005

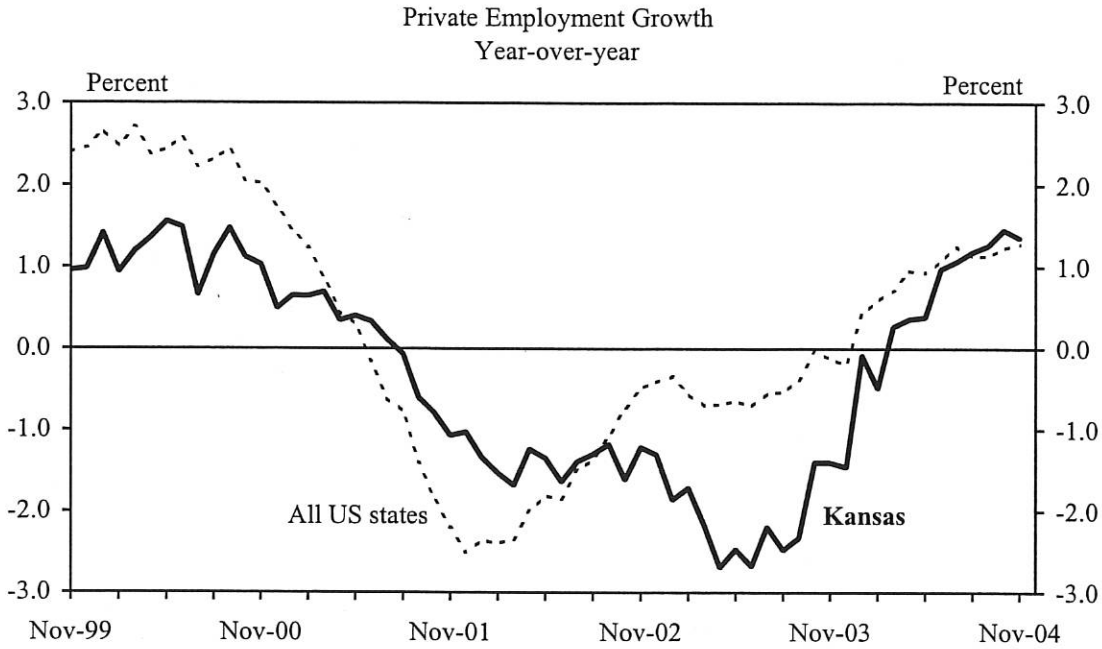
Bill Keeton  
Assistant Vice President  
Economic Research Department  
Federal Reserve Bank of Kansas City

Senate Commerce Committee

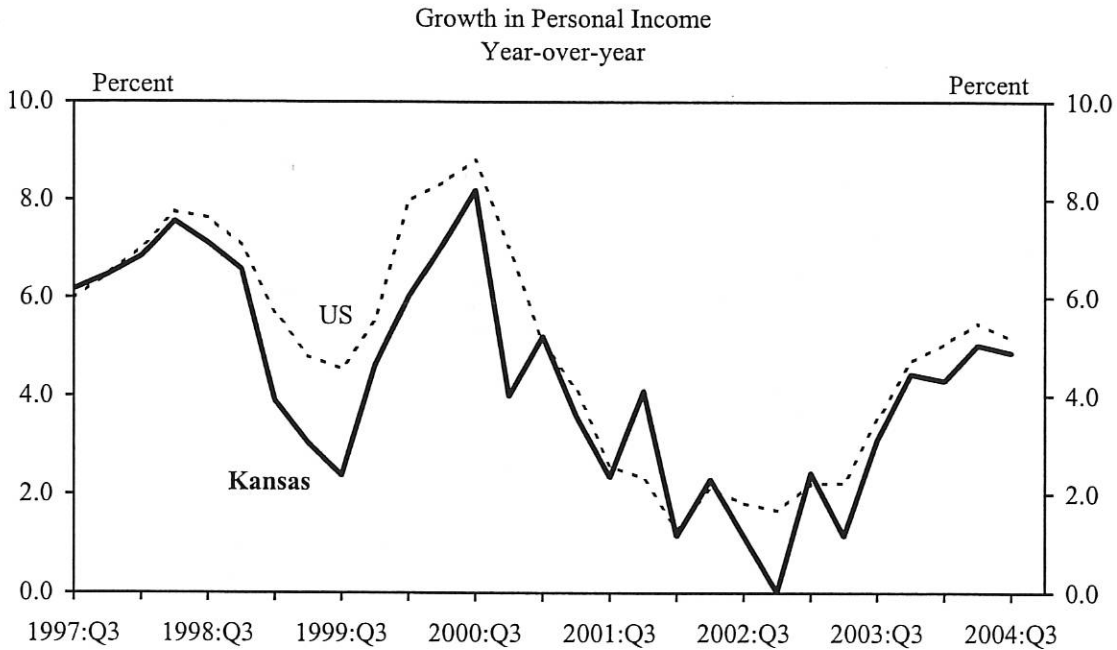
1-18-05

Attachment 3-1

### The Kansas economy rebounded solidly in 2004



Source: Bureau of Labor Statistics



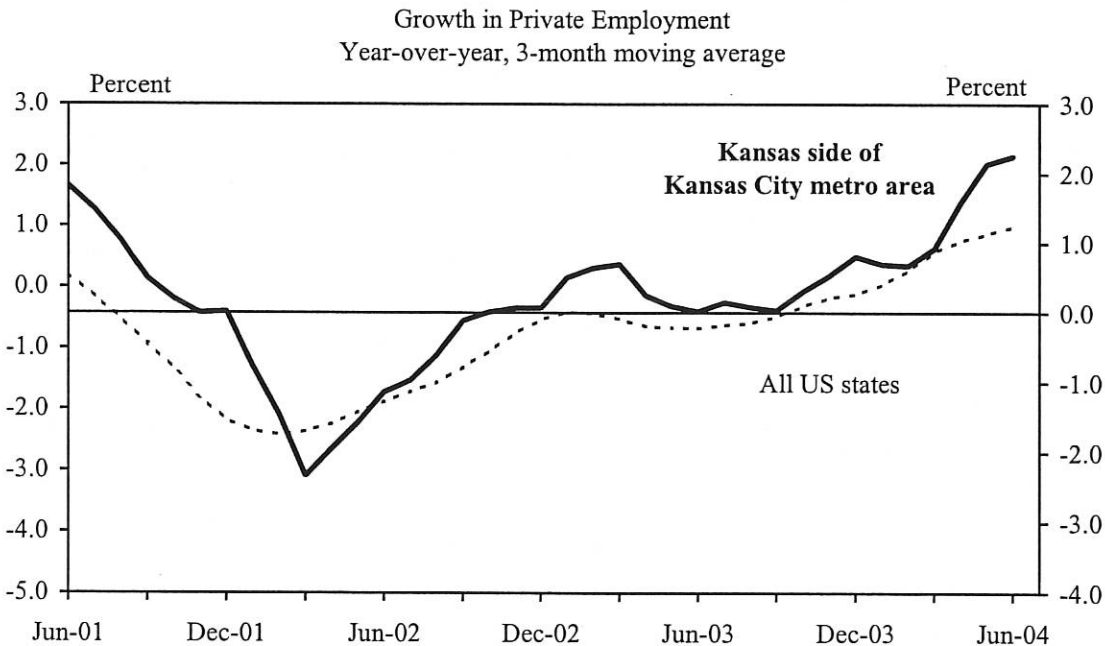
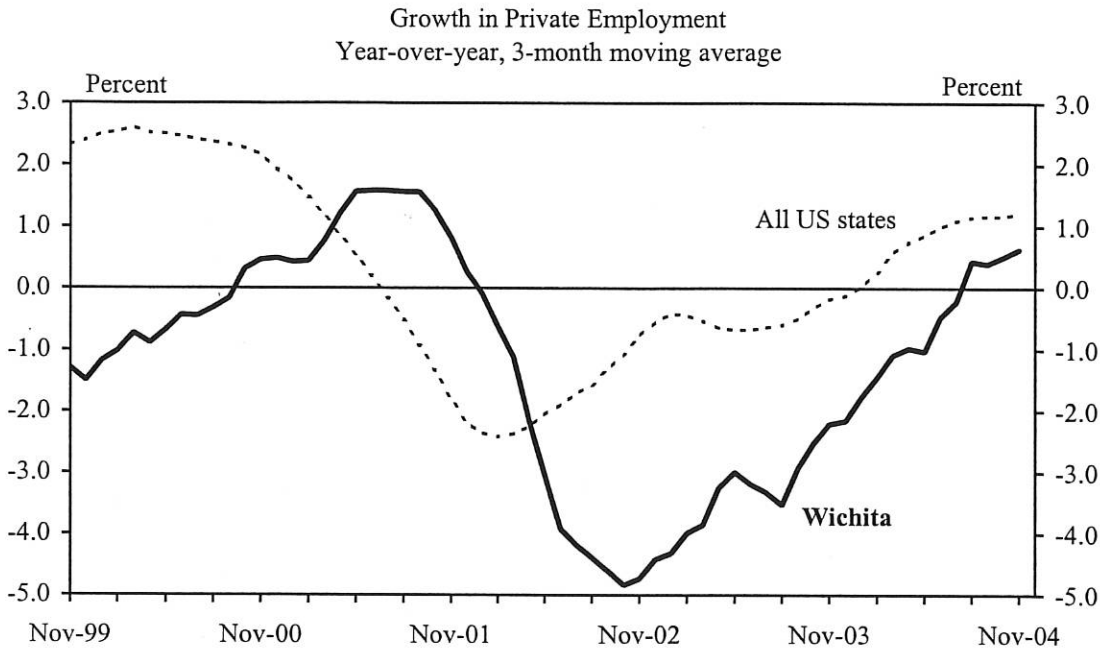
Source: Bureau of Economic Analysis

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Attachment 3-2



***Job growth has turned positive in Wichita and rebounded strongly on the Kansas side of the Kansas City metro area***



Source: Bureau of Labor Statistics

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Attachment 3-3

*Despite the improvement, Kansas still has some ground  
to make up from the recession*

	Change in Private Employment 2000-2004*	
	Thousands	Percent
Topeka	-5.9	-7.2
Wichita	-13.4	-5.3
Lawrence	-0.6	-1.6
Kansas side of Kansas City MSA	5.1	1.4
<b>Kansas</b>	<b>-26</b>	<b>-2.3</b>
<b>U.S.</b>	<b>-1,119</b>	<b>-1.0</b>

\* June 2000 to June 2004 for Kansas side of Kansas City metro area.  
November 2000 to November 2004 for all other areas.

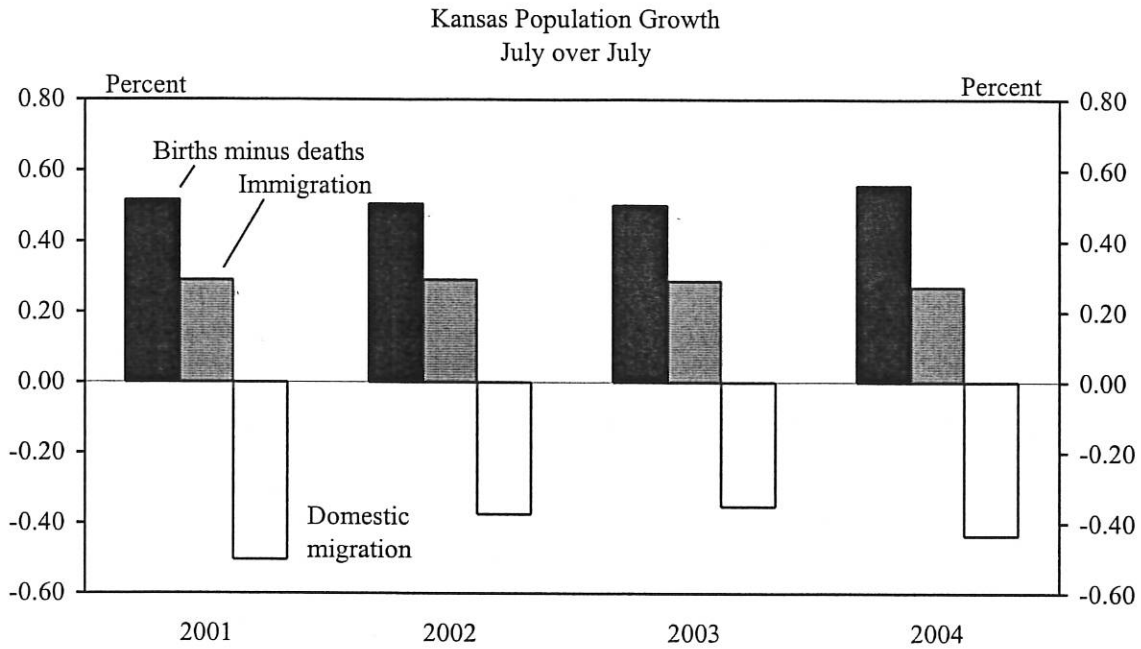
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Attachment

3-4

*Kansas population growth has slowed somewhat  
due to out-migration to other states*



Source: Census Bureau

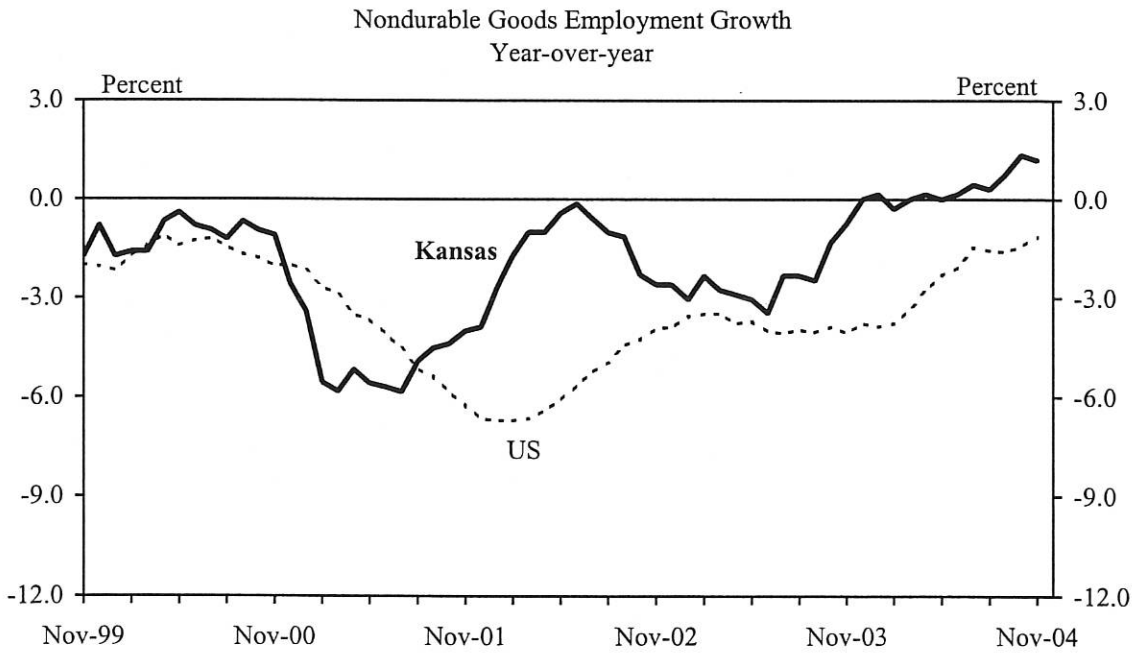
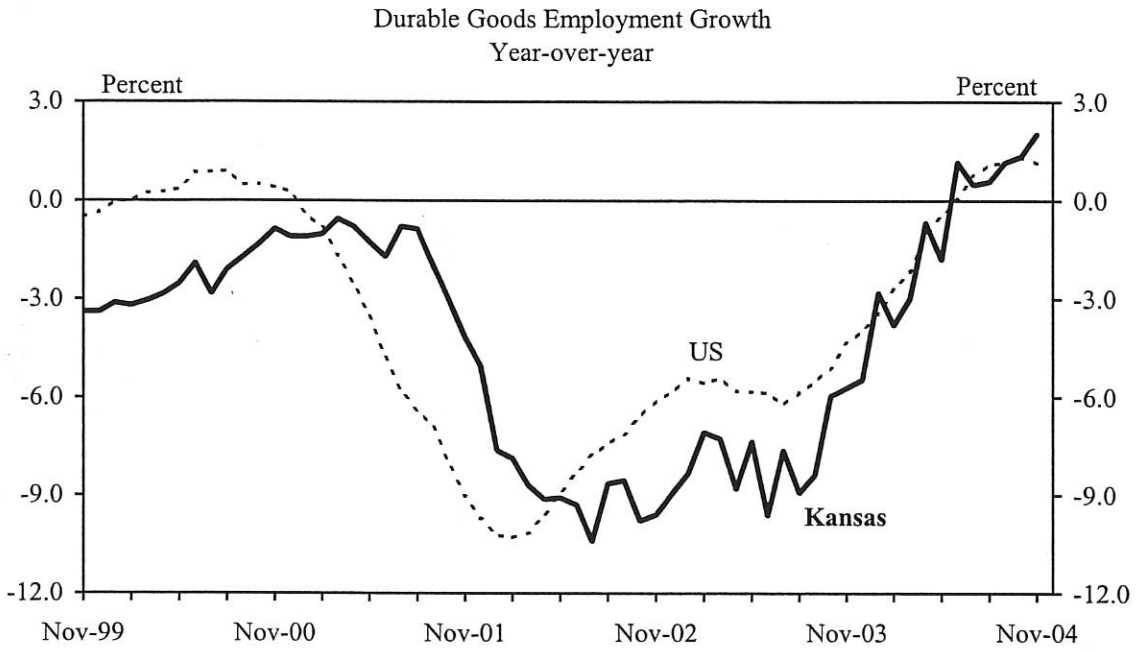
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### *Manufacturing has begun to recover from the recent slump*



Source: Bureau of Labor Statistics

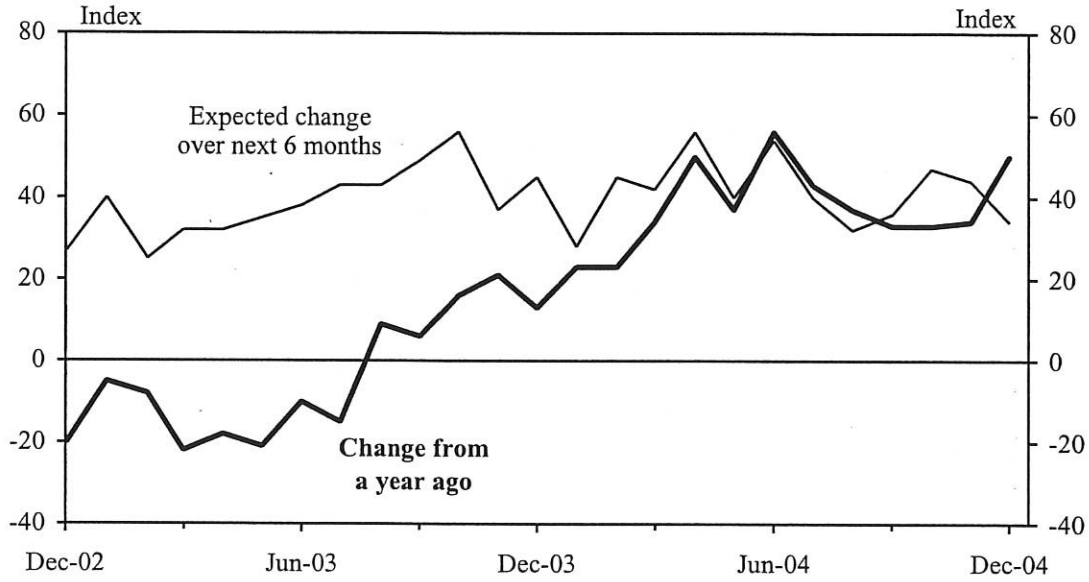
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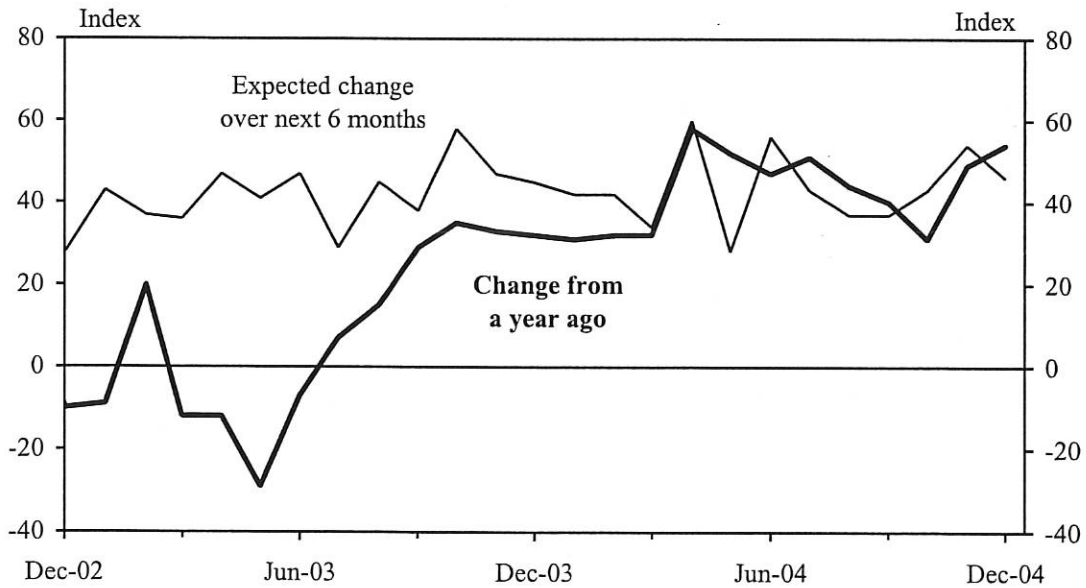
Attachment 3-6

### *Smaller manufacturers in the region report increased activity*

Production Indexes for Kansas and western Missouri



New Orders Indexes for Kansas and western Missouri



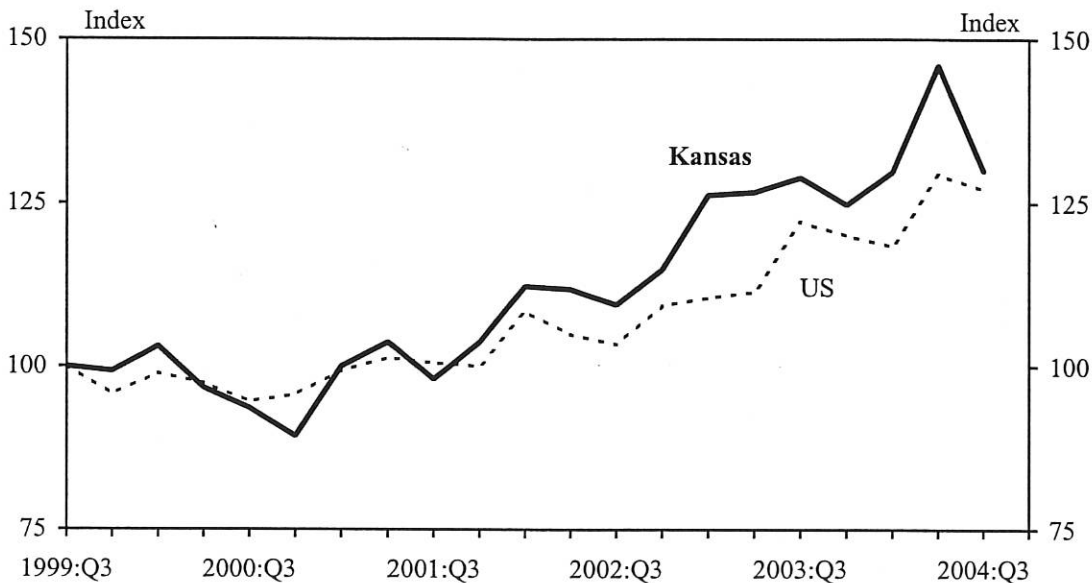
Source: FRBKC Manufacturing Survey

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Attachment 3-7

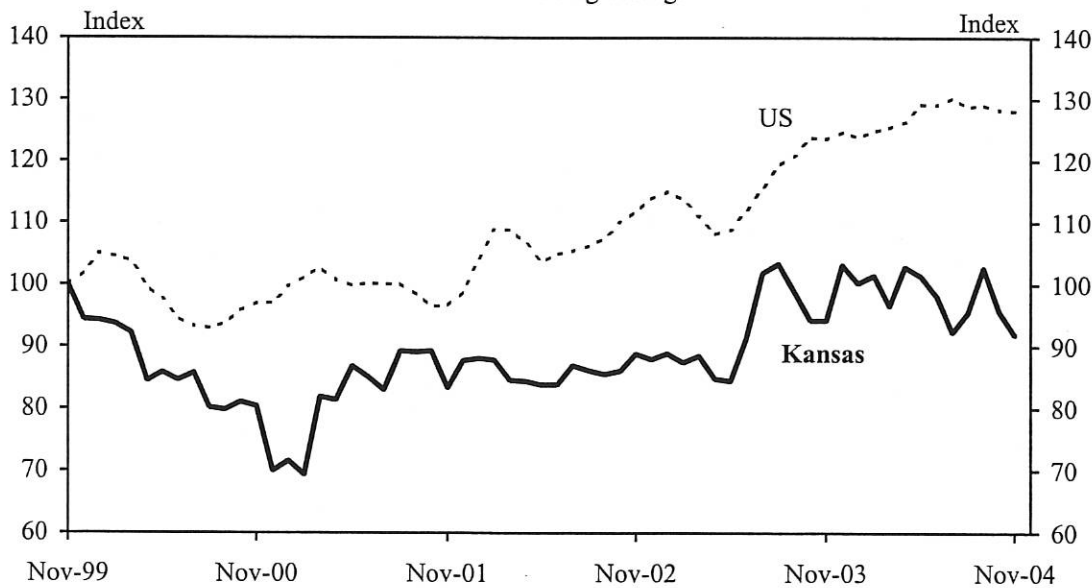
### Housing activity has eased but is still high

Existing Home Sales



Source: National Association of Realtors

Single-Family Permits  
3-month moving average



Source: Census Bureau

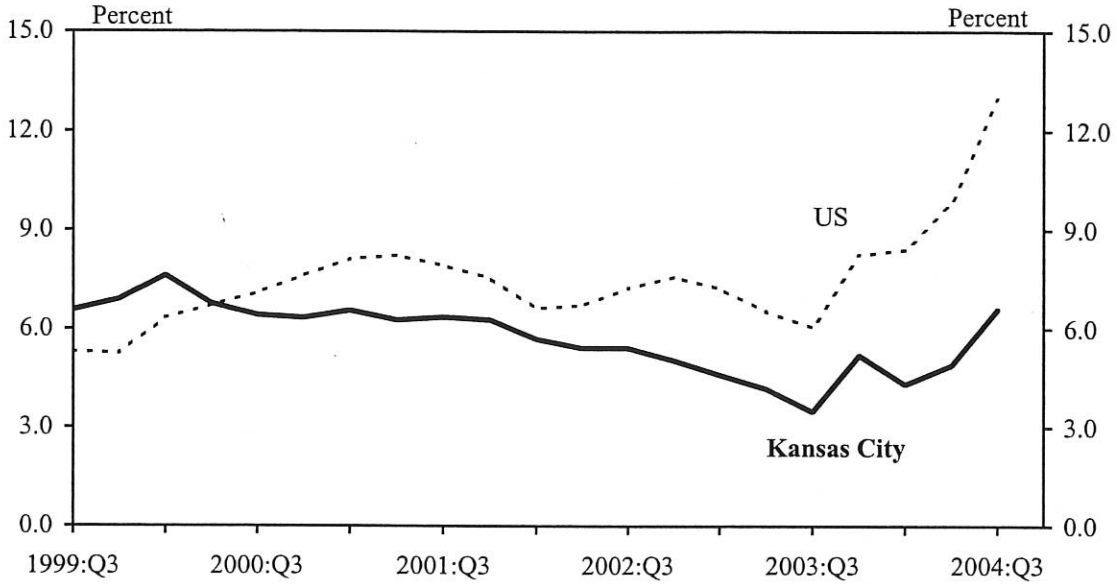
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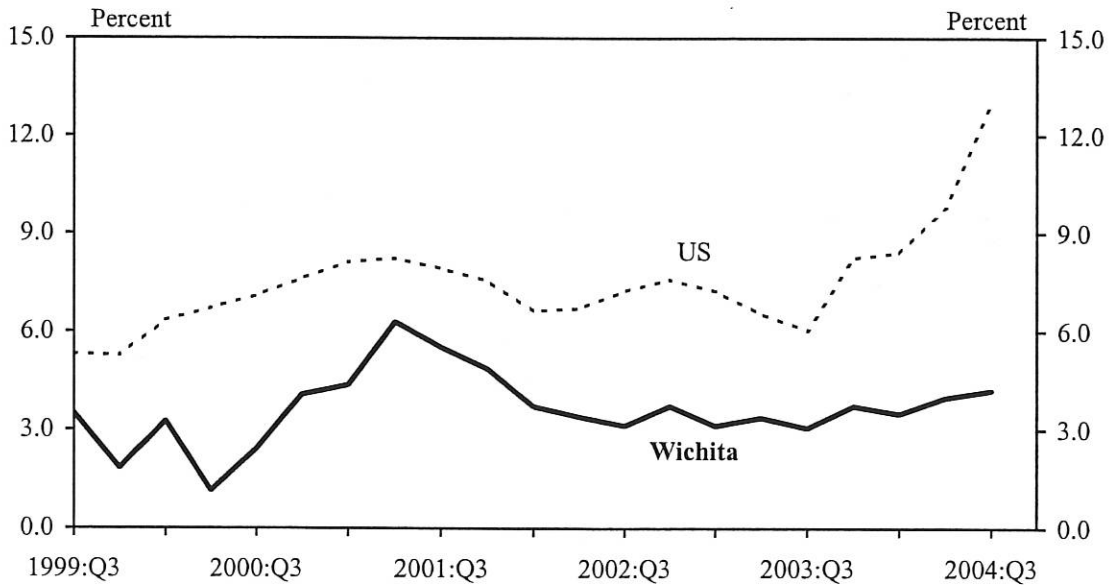
Attachment 3-8

### *Housing inflation is more subdued than in the nation*

Year-Over-Year Growth in Repeat Sales Price Index



Year-Over-Year Growth in Repeat Sales Price Index



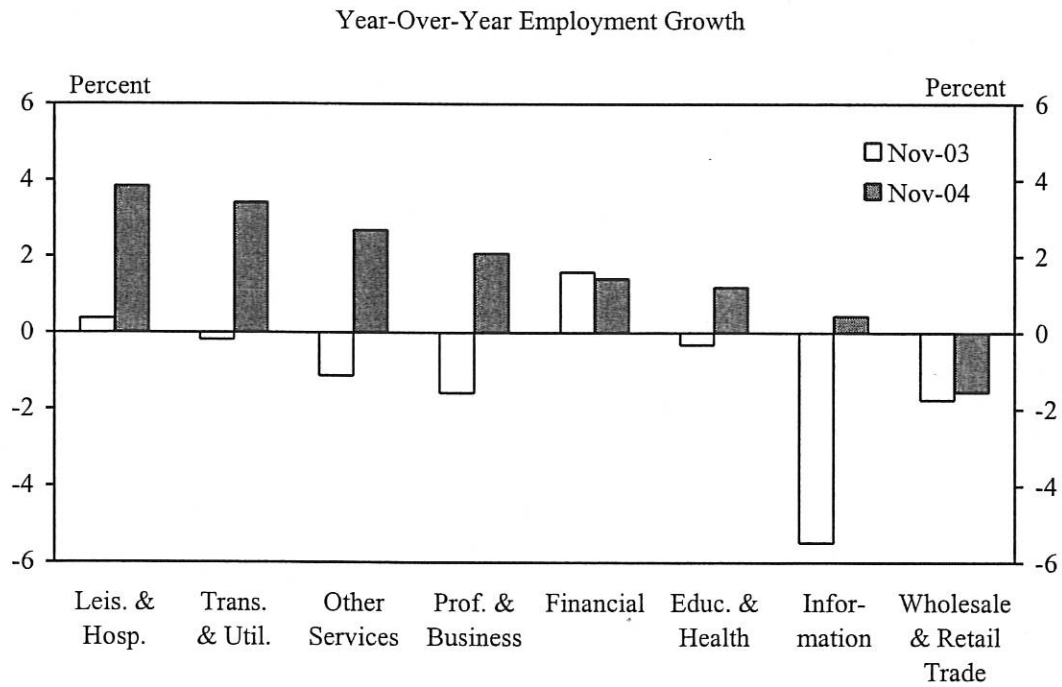
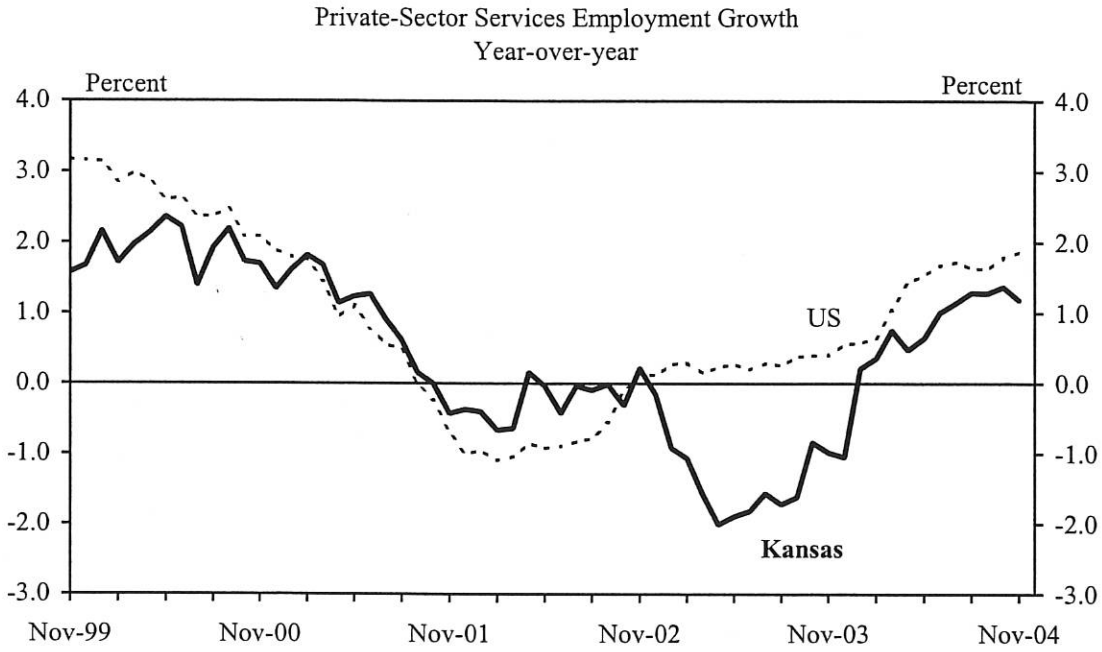
Source: OFHEO

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Attachment 3-9

*A broad array of service sectors are now expanding*



Source: Bureau of Labor Statistics

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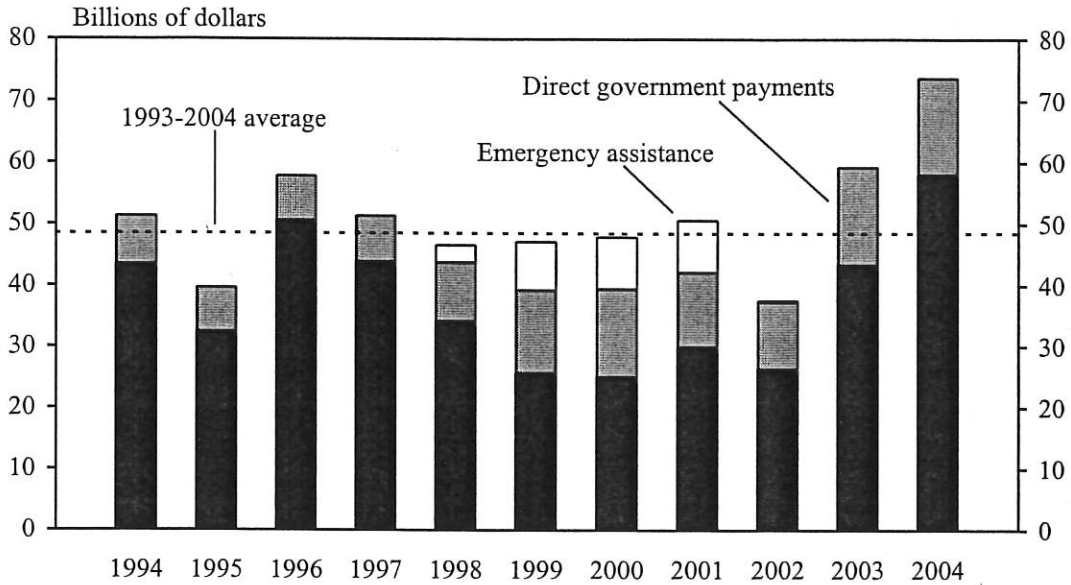
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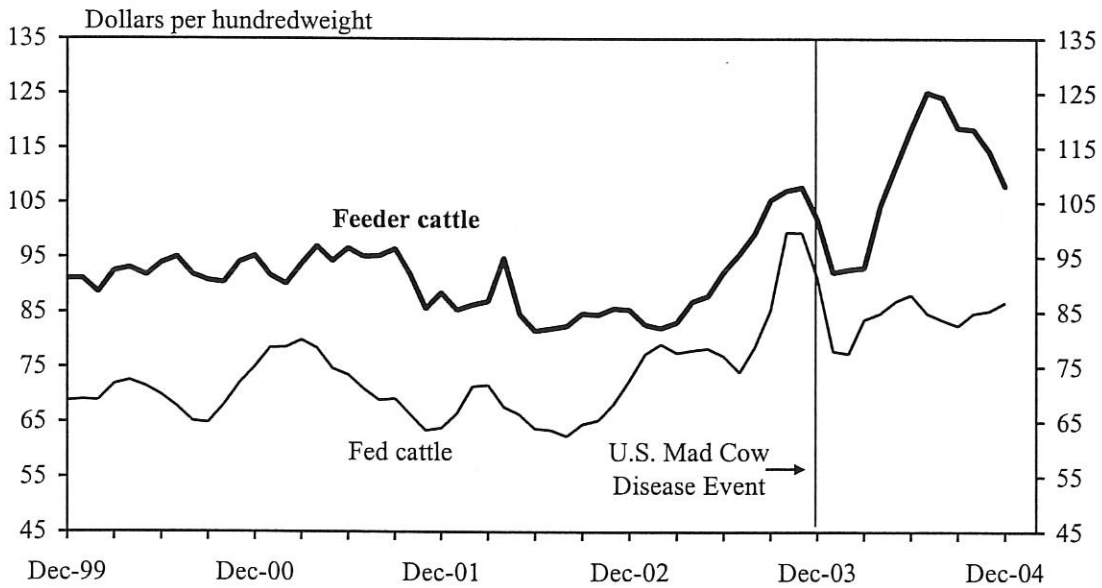


*Farm conditions are favorable overall*

U.S. Net Farm Income



Cattle Prices



Source: USDA

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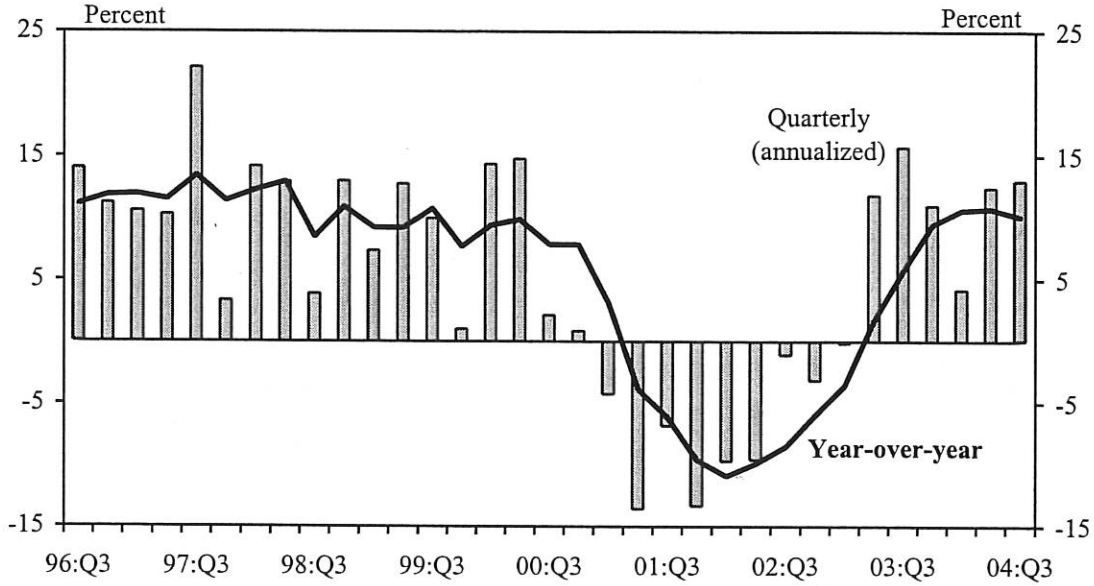
1-18-05

Attachment

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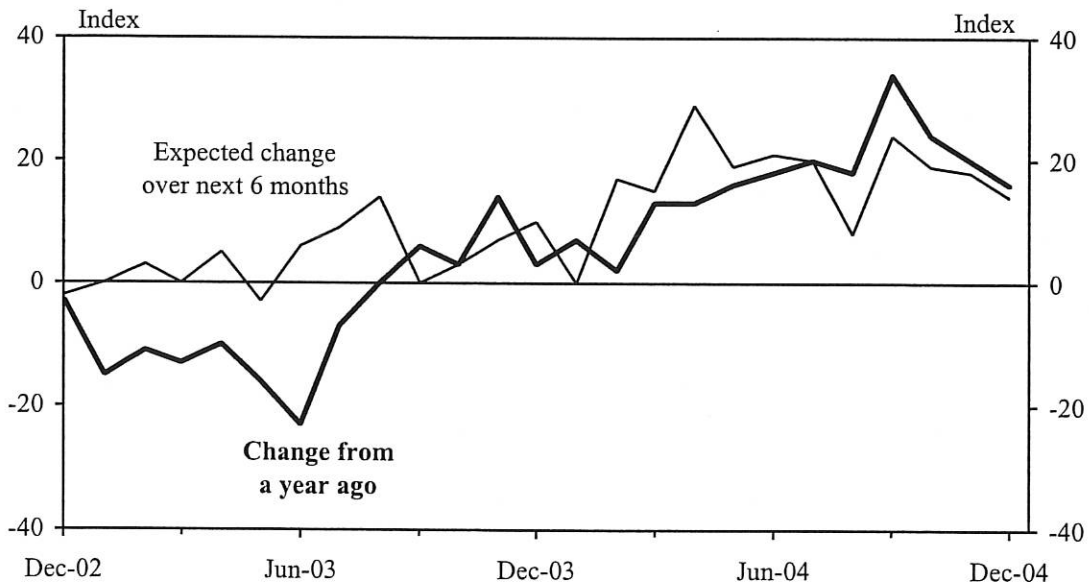
***Business investment has rebounded both in the nation and the region***

Growth in Business Fixed Investment in the U.S.



Source: Bureau of Economic Analysis

Capital Spending Indexes for Kansas and western Missouri



Source: FRBKC Manufacturing Survey

Senate Commerce Committee

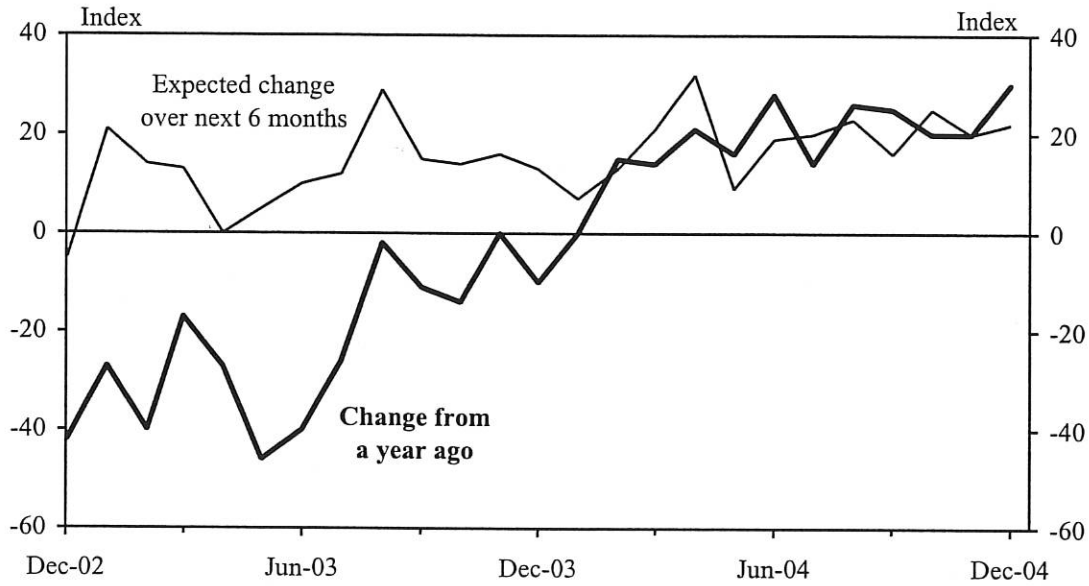
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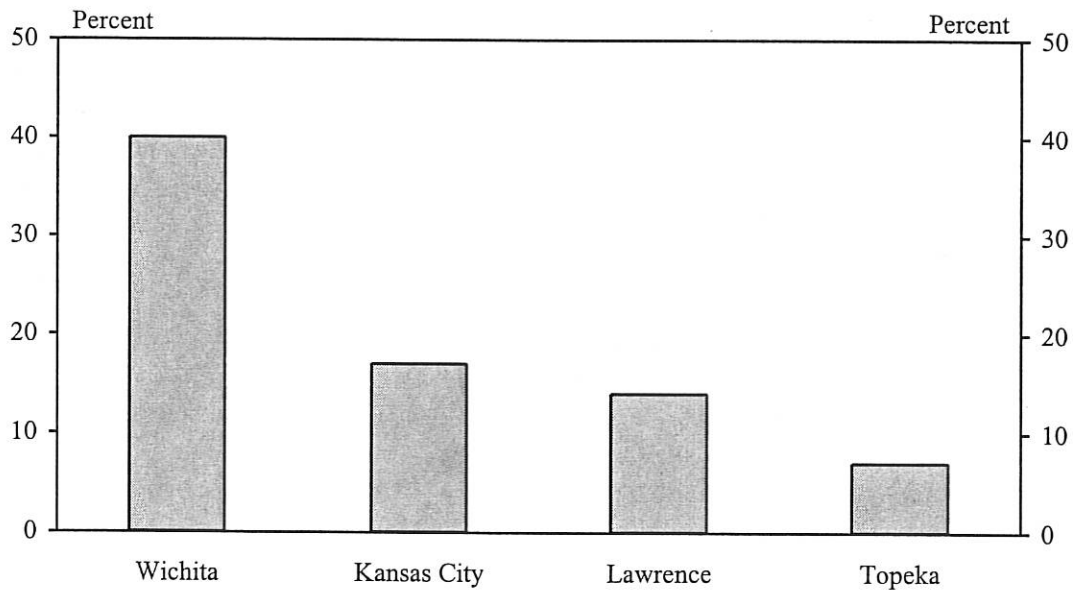
### Firms plan to keep hiring

Employment Indexes for Kansas and Missouri



Source: FRBKC Manufacturing Survey

Net Percentage of Firms Planning to Increase Employment in First Quarter



Source: Manpower Employment Outlook Survey

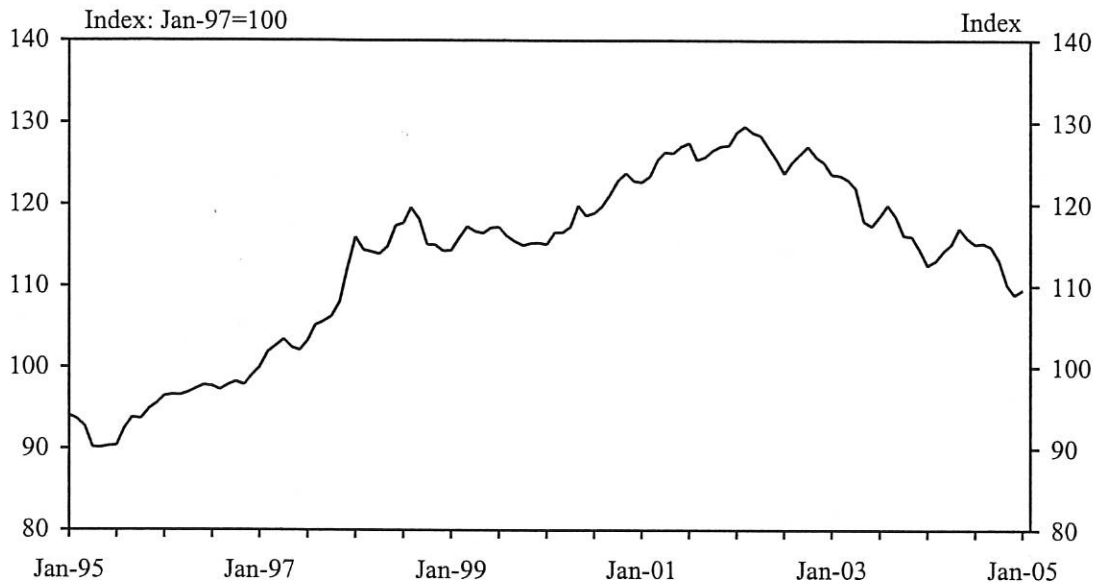
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Attachment 3-13

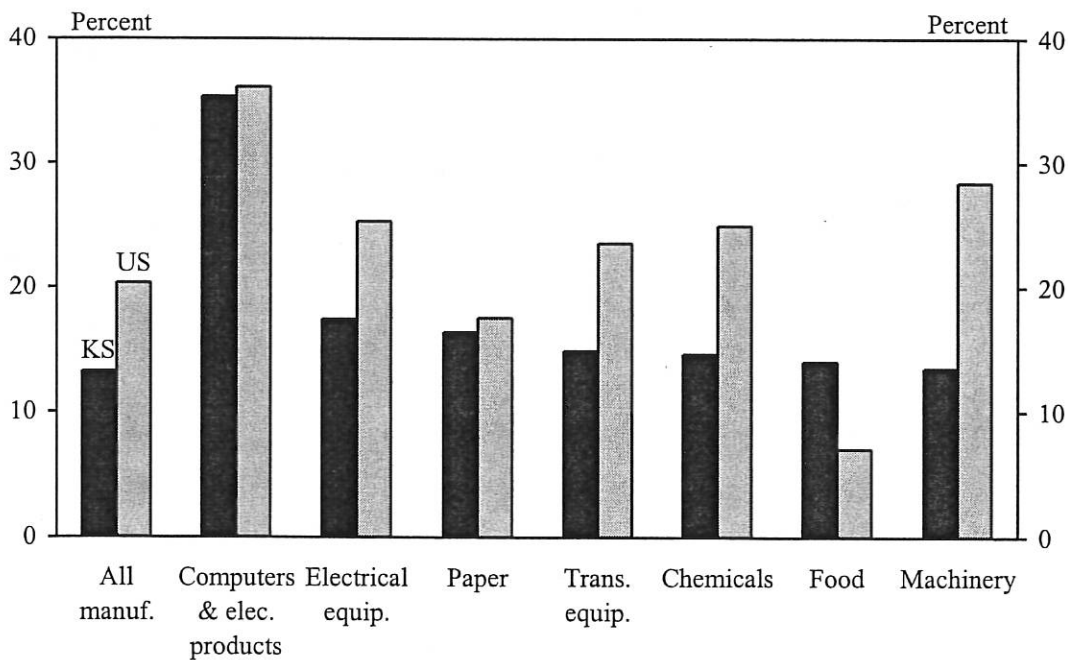
***Recent declines in the dollar will benefit manufacturers,  
although less in Kansas than the nation***

Exchange Rate for U.S. Dollar



Source:

Manufacturing Exports as a Percent of Shipments



Source:

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Attachment

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***Risks to the Outlook***

Energy prices have come down but are still high

Consumers have high debt and are receiving less of a boost from tax cuts and mortgage refinancing

Inflation could increase

Uncertainty about the Sprint-Nextel merger and the Boeing sale could make businesses in Kansas more cautious

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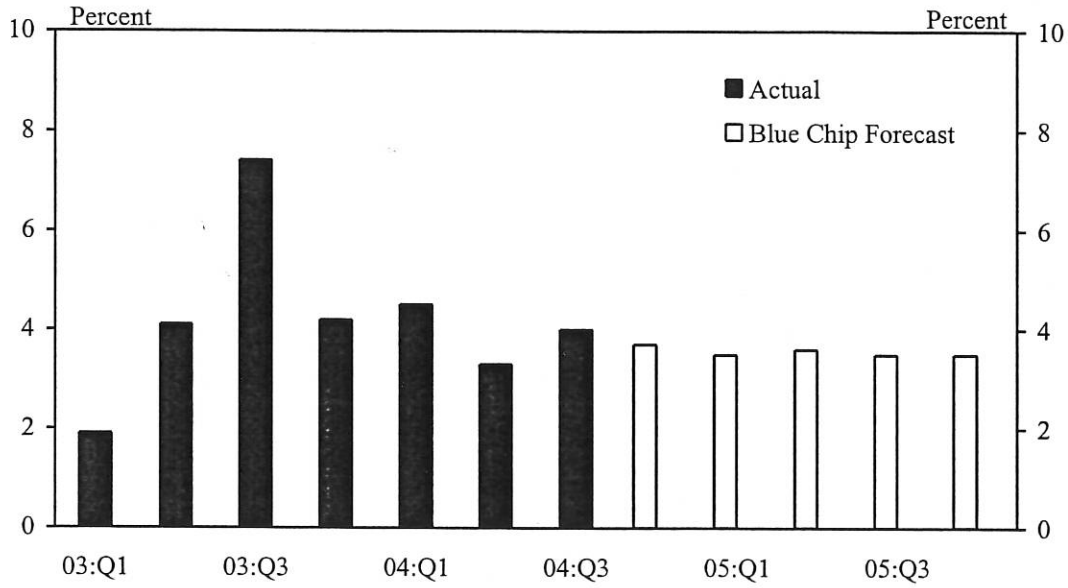
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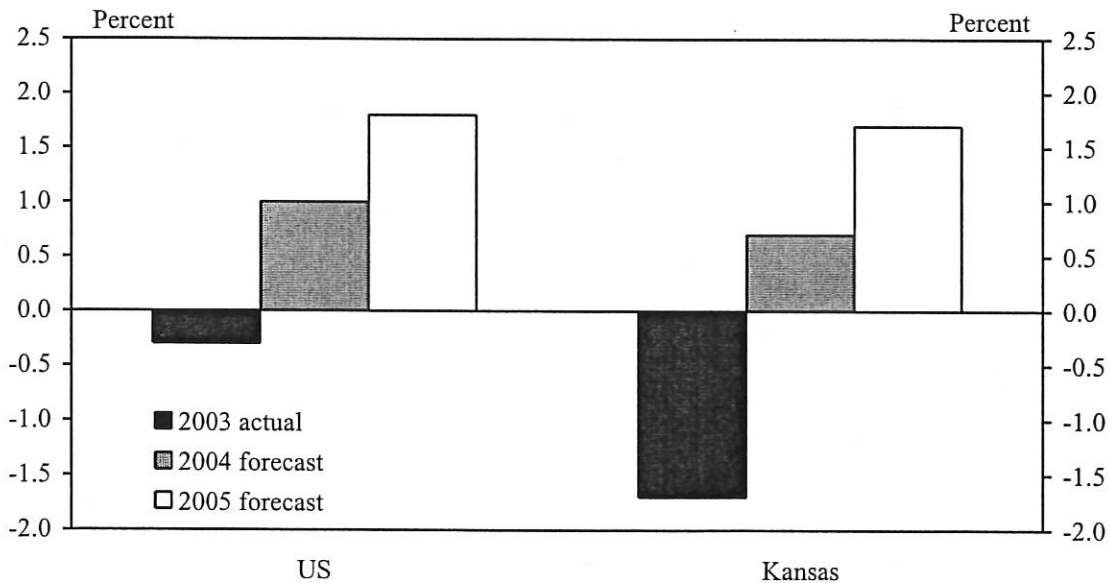
*Despite the risks, most economists predict the recovery will continue*

Blue Chip Forecast for Real GDP Growth



Source: Blue Chip

Forecasts for Annual Employment Growth



Source: Economy.com

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