

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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January 15, 2013

To: House Committee on Commerce, Labor, and Economic Development

From: Raney L. Gilliland, Director

Re: State of Kansas Budget Outlook

STATE OF KANSAS BUDGET OUTLOOK

1. Approved FY 2013 state budget by the 2012 Legislature:

- a. State General Fund - \$6.2 billion of which:
 - i. 50 percent is for K-12 education;
 - ii. 12 percent is for higher education;
 - iii. 25 percent for human services;
 - iv. 6 percent for public safety; and
 - v. 7 percent for all other areas.
- b. State General Fund revenue comes from two main sources:
 - i. 46 percent is from individual income taxes; and
 - ii. 42 percent is from sales and compensating use taxes.
- c. All Funds - \$14.3 billion:
 - i. 43 percent is from the State General Fund;
 - ii. 21 percent from federal funds;
 - iii. 10 percent from the State Highway Fund; and
 - iv. 26 percent from all other funds.

2. State General Fund Revenue - Actual FY 2012

- a. Actual FY 2012 receipts were \$6.4 million or 0.1 percent above the April revenue estimates;
- b. Corporate income tax receipts were \$34.5 million above the estimate; sales taxes were \$16.4 million higher than expected; and individual income taxes finished \$47.0 million below the final estimate; and
- c. Actual FY 2012 receipts were \$530.7 million above actual FY 2011 receipts.

3. Economic Forecast for Kansas

"Although the U.S. economy, fueled by a rebounding housing market and relatively strong consumer confidence, is continuing its recovery from the Great Recession, the forecast rate of growth remains slow. Uncertainty continues:

House Commerce & Economic
Development Committee

Date: 1-16-13

Attachment #: 1

and US economies as a result of political upheavals in the Middle East, the ongoing European Union debt crisis, and the possibility of a new recession that could arise as a result of dramatic spending cuts and tax increases that will occur in 2013 (the "Fiscal Cliff") in the absence of any additional action by federal policymakers. The current assumption is that modest growth will continue in the national and state economies during the forecast period. Nominal Gross Domestic Product is now expected to grow by 4.0 percent in 2012 (the April estimate had been 3.9 percent) and 4.2 percent in 2013 (the April estimate was 4.3 percent); and nominal Kansas Gross State Product is now forecast to grow by 3.5 and 3.9 percent for the two years, respectively."

- a. **Kansas Personal Income** - Increase by 3.0 percent in 2012, 3.2 percent in 2013, and 4.0 percent in 2014;
- b. **Employment** - The unemployment rate of 6.7 percent in CY 2011; Declining to 5.9 percent in CY 2012;
- c. **Agriculture** – 2012 net farm income will be significantly affected by the drought; as of late October subsoil moisture supplies were rated short or very short in 84.0 percent of the state; 2012 corn production is expected to be the lowest since 1975;
- d. **Oil and Gas** - \$84 a barrel of oil in FY 2013 and \$92 a barrel in FY 2014; \$2.80 per mcf in FY 2013 and \$3.75 per mcf in FY 2014; and
- e. **Inflation Rate (CPI--U)** - 2.2 percent in 2012, 2.1 percent in 2013, and 2.2 percent in 2014.

4. November, 2012 Consensus Revenue Estimates

- a. Consensus Revenue Estimating Group;
- b. The **current year (FY 2013) estimate was decreased by \$5.2 million or 0.1 percent below** the previous estimate;
- c. Individual income tax receipt estimates were decreased by \$60.8 million or 2.1 percent from the previous April estimate;
- d. Retail sales tax receipt estimates remained the same at \$2.225 billion;
- e. The revised current year estimate of \$6.2 billion is \$244 million or 3.8 percent below actual FY 2012 receipts;
- f. The **FY 2014 estimate is \$5.464 billion which is \$704.8 million or 11.4 percent below** the newly revised FY 2013 amount:
 - i. Heavily influenced by fully annualized impact of the new income tax law; scheduled reductions in the retail sales and compensating use tax rates as well as the SGF's share of tax receipts from these sources (pursuant to legislation enacted in 2010) and a net change in transfers out of the SGF based on current statutory requirements for FY 2014;
 - ii. **New Kansas Income Tax Law**--Although additions to disposable Kansas personal income as a result of the new state income tax law for tax year 2013 and beyond will be expected in the long run to stimulate new economic activity and generate additional revenue streams that could help offset a portion of the revenue loss associated with the new law, there is no evidence that the fiscal notes provided by the Department of Revenue at the time the legislation was enacted should be changed significantly relative to the short run or through the end of the current forecast period in FY 2014. Relative to the individual income tax, those estimates indicated receipts were to be reduced relative to the prior law by \$249.2 million in FY 2013 and by \$847.8 million in FY 2014.
 - iii. The amount of total taxes is estimated to **decrease** by 10.4 percent in FY 2014.

1-2

5. **State General Fund Profile**

- a. After new revenue estimates in the current year (plus tax receipts only above the estimate through December - \$34.8 million) there is a **positive ending balance of \$505.1 million or 8.1 percent of expenditures;**
 - i. Funding for latest social services (\$18.8 million savings); and
 - ii. Education consensus caseloads (\$21.3 million).

- b. FY 2014 projection assumes:
 - i. FY 2013 base budget is carried forward;
 - ii. Human services entitlements (no SGF change) and education consensus estimates (\$14.9 million) are funded;
 - iii. KPERS employer contribution increase of \$50 million;
 - iv. Special education maintenance of effort requirements are funded (\$21.7 million); and
 - v. **Revenue or expenditure adjustments of \$267.3 million to reach a zero ending balance.**

- c. KLRD has now updated the fiscal note associated with that part of the Governor's proposal from 2012 that would freeze the state sales tax at 6.3 percent; hold KDOT harmless; and earmark all of the additional money for the SGF. That policy change would increase FY 2014 SGF receipts by \$262.3 million.

1-3

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November 9, 2012

To: Legislative Budget Committee and Governor Sam Brownback
From: Kansas Legislative Research Department and Kansas Division of the Budget
Re: State General Fund Receipts Estimates for FY 2013 and FY 2014

Estimates for the State General Fund (SGF) are developed using a consensus process that involves the Legislative Research Department, Division of the Budget, 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 6, 2012, and revised the estimate for FY 2013 and developed the initial estimate for FY 2014.

For FY 2013, the estimate was decreased by \$5.2 million, or 0.1 percent, below the previous estimate (made in April and subsequently adjusted for legislation enacted during the veto session). The revised estimate of \$6.169 billion represents a reduction of 3.8 percent below final FY 2012 receipts.

The initial estimate for FY 2014 is \$5.464 billion, which is \$704.8 million, or 11.4 percent, below the newly revised FY 2013 figure. Factors influencing this forecast in addition to the state of the economy include the fully annualized impact of the new state income tax law that is effective in tax year 2013; scheduled reductions in the retail sales and compensating use tax rates, as well as the SGF's share of tax receipts from these sources (pursuant to legislation enacted in 2010); and a net change in transfers out of the SGF in compliance with current statutory requirements for FY 2014.

Table 1 compares the new FY 2013 and FY 2014 estimates with actual receipts from FY 2012. Table 2 shows the changes in the FY 2013 estimate.

Economic Forecast for Kansas

Although the U.S. economy, fueled by a rebounding housing market and relatively strong consumer confidence, is continuing its recovery from the Great Recession, the forecast rate of growth remains slow. Uncertainty continues to exist involving the global and US economies as a result of political upheavals in the Middle East, the ongoing European Union debt crisis, and the possibility of a new recession that could arise as a result of dramatic spending cuts and tax increases that will occur in 2013 (the "Fiscal Cliff") in the absence of any additional action by federal policymakers. The current assumption is that modest growth will continue in the national and state economies during the forecast period. Nominal Gross Domestic Product is now expected to grow by 4.0 percent in 2012 (the April estimate had been 3.9 percent) and 4.2 percent in 2013 (the April estimate was 4.3 percent); and nominal Kansas Gross State Product

is now forecast to grow by 3.5 and 3.9 percent for the two years, respectively. Although the Congressional Budget Office suggests the contractionary economic implications of the Fiscal Cliff could lead to another recession, many other forecasts are being made based on the assumption that some kind of action will be taken late in 2012 or early in 2013 to prevent this scenario. The estimates contained in this memo for FY 2013 and FY 2014 are premised on this latter set of forecasts, which are believed to represent the most likely outcome.

Kansas Personal Income

Kansas Personal Income (KPI) in 2012 is now expected to increase by 3.0 percent above the 2011 level, down from the April estimate of 4.3 percent. The 2012 estimate would have been 0.8 percent lower if a Social Security payroll tax cut had not been extended at the federal level for 2012. The new forecast calls for additional KPI growth of 3.2 percent in 2013 (down from the 4.6 percent estimate in April) and 4.0 percent in 2014. The Social Security payroll tax cut is not expected to be extended for 2013.

New Kansas Income Tax Law

Although additions to disposable Kansas personal income as a result of the new state income tax law for tax year 2013 will be expected in the long run to stimulate new economic activity and generate additional revenue streams that could help offset a portion of the revenue loss associated with the new law, there is no evidence that the fiscal notes provided by the Department of Revenue at the time the legislation was enacted should be changed significantly relative to the short run or through the end of the current forecast period in FY 2014. Relative to the individual income tax, those estimates indicated receipts were to be reduced relative to the prior law by \$249.2 million in FY 2013 and by \$847.8 million in FY 2014.

Employment

Data obtained from the Kansas Department of Labor verify that employment has continued to rebound. The most recent monthly data from the Kansas Department of Labor show that total Kansas non-farm private sector employment from September 2011 to September 2012 increased by about 12,400 jobs, with particularly strong growth in the professional and business services sector. Two and a half years after Kansas employment bottomed out as a result of the Great Recession, 36.3 percent of the lost jobs have returned to the state (compared to 48.5 percent for the US as a whole). The current average estimates used by the Department indicate that the overall Kansas unemployment rate, which was 6.7 percent in CY 2011, is expected to be 5.9 percent in CY 2012 before further declining to 5.6 percent in CY 2013. The national unemployment rate is expected to remain well above the Kansas rate, with the US rate now expected to be 8.2 percent in 2012 and 7.8 percent in 2013.

Agriculture

Although net farm income increased significantly in 2011, the outlook for 2012 has been significantly affected by the drought. Subsoil moisture supplies as of late October were rated as short or very short in 84.0 percent of the state; while topsoil moisture was short or very short in 66.0 percent of the state. Corn production has been especially hard hit, with the 2012 yield now

expected to be the lowest since 1975. Of particular significance for livestock, range and pastureland conditions are now rated 79.0 percent poor or very poor, the worst since this metric was developed in 1995. The U.S. All Crops Price Index for October was 239.0 percent of the 1990-92 base, up 17 points from a year earlier. High input prices, especially energy and fertilizer costs, remain an ongoing concern for the agricultural sector.

Oil and Gas

Driven by foreign demand and volatility in the Middle East, the price of oil thus far in FY 2013 has remained at a relatively high level and is expected to continue to for the balance of the forecast period. The average price per taxable barrel of Kansas crude in FY 2013 has been reduced to \$84, or \$8 per barrel lower than the previous forecast of \$92 (and lower than the \$90.29 final average price for FY 2012). The FY 2014 price is expected to increase to \$92 per barrel. Gross oil production in Kansas, which had been declining steadily for more than a decade until FY 2000, reversed that trend about seven years ago and began increasing. Expectations are now that the rate of increase will be accelerating as a result of significant new oil production initiatives already underway in the state. The current forecast of 45.0 million barrels for FY 2013 and 48.0 million barrels for FY 2014 compares favorably to the 33.5 million barrels produced in FY 2005. The repeal of a severance tax exemption for new oil pools in 2012 also has significantly expanded the percentage of Kansas oil subject to taxation.

The price of natural gas is expected to average \$2.80 per 1,000 cubic feet (Mcf) for FY 2013 before increasing to \$3.75 per Mcf for FY 2014, based on an industry source's analysis of futures markets. (The previous price forecast for FY 2013 made in April was \$3.10 per Mcf.) Factors considered for these estimates included the relationship between crude oil and gas prices, a review of rig count data, the current record high storage levels for gas, the overall economic outlook, and the impact of enhanced production from shale formations elsewhere in the United States. Kansas natural gas production in FY 2012 of 305.9 million cubic feet represented a significant decrease from the modern era peak of 735.0 million cubic feet in FY 1996 (largely as a result of depletion of reserves in the Hugoton Field). Production is expected to continue to decrease to 285.0 million cubic feet for FY 2013 and 265.0 million cubic feet for FY 2014.

Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) is expected to increase by 2.2 percent in 2012. The latest forecast calls for inflation to remain at very moderate levels of 2.1 percent in 2013 and 2.2 percent in 2014.

Interest Rates

The Pooled Money Investment Board (PMIB) is authorized to make investments in US Treasury and Agency securities, highly rated commercial paper and corporate bonds, repurchase agreements and certificates of deposit in Kansas banks. Extremely low idle-fund balances in recent years have required the PMIB to maintain a highly liquid portfolio, which reduces the amount of return available to the pool. In FY 2012, the state earned only 0.13 percent on its SGF portfolio (compared with a 4.26 percent rate as recently as FY 2008). The

average rates of return forecast for FY 2013 and FY 2014 remain very low (0.16 and 0.15 percent, respectively) and reflect the expected continuation of historically low interest rates and smaller idle-fund balances.

Economic Forecasts

	<u>CY 2012*</u>	<u>CY 2013*</u>	<u>CY 2014*</u>
KPI Growth	3.0%	3.2%	4.0%
Inflation (CPI-U)	2.2%	2.1%	2.2%

	<u>FY 2012</u>	<u>FY 2013*</u>	<u>FY 2014*</u>
SGF Interest	0.13%	0.16%	0.15%
Oil and Gas			
Oil Price per bbl	\$ 90.29	\$ 84.00	\$ 92.00
Gross Production (000)	42,283	45,000	48,000
Gas Price per Mcf	\$ 3.80	\$ 2.80	\$ 3.75
Gas Taxable Value	\$ 1,019,466	\$ 638,400	\$ 913,000

*Estimated

State General Fund Receipts Estimates

FY 2013. The revised estimate of SGF receipts for FY 2013 is \$6.169 billion, a decrease of \$5.2 million below the previous estimate. Preliminary receipts through October from tax sources collected by the Department of Revenue had been running \$21.2 million below that forecast. The overall revised estimate is approximately \$243.7 million, or 3.8 percent, below actual FY 2012 receipts. As noted earlier, the change in income tax law that will be reducing withholding and estimated payments during the final half of FY 2013 is one of the reasons for the overall reduction, as is the significant change in net transfers relative to FY 2012.

Each individual SGF source was reevaluated independently, and consideration was given to revised and updated economic forecasts, collection information from the Departments of Revenue and Insurance, and year-to-date receipts.

The corporation income tax estimate was increased by \$70.0 million. Receipts from this source had exceeded the final FY 2012 estimate by almost \$35.0 million, and the fiscal-year-to-date receipts through October had been running well ahead of the previous estimate. Motor carrier property tax receipts, which also exceeded the final estimate for FY 2012, were increased by \$5.0 million. Fueled by unexpected growth in unclaimed property, the forecast for agency earnings was boosted by nearly \$7.0 million.

Reductions of note include the individual income tax (down by \$60.8 million); the severance tax (down by \$19.7 million); and the corporation franchise tax (down by \$11.0

million). Individual income tax receipts in FY 2012 finished \$47.0 million below the final estimate for that year and had not been keeping pace with the previous fiscal-year-to-date expectations in FY 2013. The forecast prices of both oil and gas for severance tax purposes were reduced relative to the April estimates. Finally, approximately \$11.0 million in corporation franchise tax refunds were paid in September to taxpayers who had not realized the tax has now been fully repealed.

FY 2014. SGF receipts are estimated to be \$5.464 billion in FY 2014, a figure that is 11.4 percent below the revised FY 2013 forecast. This result is heavily influenced by the fully annualized impact of the new income tax law (estimated to be a reduction of more than \$800 million relative to prior law); the reduction in the state retail sales and compensating use tax rates from 6.3 to 5.7 percent; the reduction in the share of sales and use tax receipts earmarked for deposit in the SGF; and an increase of \$54.0 million in net transfers from the SGF which will occur absent any change in current law.

Accuracy of Consensus Revenue Estimates

For 38 years, SGF 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, Tracy Turner from Kansas State University, and Nancy McCarthy Snyder from Wichita State University. Each of the agencies and individuals involved in the process prepared independent estimates and met on November 6, 2012, to discuss estimates and come to a consensus for each fiscal year.

STATE GENERAL FUND ESTIMATES

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from Original Estimate*		Difference from 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

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from Original Estimate*		Difference from Final Estimate**	
				Amount	Percent	Amount	Percent
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	4,674.5	4,320.6	4,108.9	(565.6)	(12.1)	(211.7)	(4.9)
2003	4,641.0	4,235.6	4,245.6	(395.4)	-8.5	9.9	0.2
2004	4,605.5	4,450.5	4,518.7	(86.8)	(1.9)	68.2	1.5
2005	4,490.5	4,793.8	4,841.3	350.8	7.8	47.5	1.0
2006	4,834.0	5,308.7	5,394.4	560.4	11.6	85.7	1.6
2007	5,144.0	5,721.3	5,809.0	665.0	12.9	87.8	1.5
2008	5,700.4	5,736.3	5,693.3	(7.1)	(0.1)	(43.0)	(0.7)
2009	6,185.7	5,709.7	5,587.4	(598.3)	(9.7)	(122.3)	(2.1)
2010	5,974.2	5,291.0	5,191.2	(783.0)	(13.1)	(99.8)	(1.9)
2011	5,851.0	5,775.0	5,882.1	31.1	0.5	107.1	1.9
2012	6,098.9	6,404.3	6,412.7	313.8	5.1	8.4	0.1

* 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, April, or June 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.

The table (above) presents estimates compared to actual receipts since FY 1975, the fiscal year for which the current process was initiated. First, the adjusted original estimate is compared 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. These estimates will be further adjusted in mid-April prior to the conclusion of the 2013 Legislative Session.

Table 1
State General Fund Receipts
(Dollars in Thousands)

	Consensus Estimate November 6, 2012					
	FY 2012 (Actual)		FY 2013 (Revised)		FY 2014	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax/Fee:						
Motor Carrier	\$ 24,814	7.1 %	\$ 26,000	4.8 %	\$ 39,000	50.0 %
Income Taxes:						
Individual	\$ 2,908,029	7.3 %	\$ 2,810,000	(3.4) %	\$ 2,385,000	(15.1) %
Corporation	284,466	26.5	340,000	19.5	360,000	5.9
Financial Inst.	25,849	19.4	29,000	12.2	30,000	3.4
Total	<u>\$ 3,218,344</u>	<u>8.9 %</u>	<u>\$ 3,179,000</u>	<u>(1.2) %</u>	<u>\$ 2,775,000</u>	<u>(12.7) %</u>
Excise Taxes:						
Retail Sales	\$ 2,136,353	8.7 %	\$ 2,225,000	4.1 %	\$ 1,952,000	(12.3) %
Compensating Use	325,339	13.1	345,000	6.0	303,000	(12.2)
Cigarette	96,661	0.8	92,000	(4.8)	92,000	--
Tobacco Products	6,978	6.2	7,000	0.3	7,200	2.9
Cereal Malt Bev.	2,081	9.2	1,900	(8.7)	1,900	--
Liquor Gallonage	18,543	1.5	19,000	2.5	19,200	1.1
Liquor Enforcement	58,862	4.9	60,500	2.8	61,500	1.7
Liquor Drink	9,528	5.8	9,500	(0.3)	9,800	3.2
Corp. Franchise	9,817	(67.6)	(5,000)	(150.9)	6,000	220.0
Severance	107,253	8.7	100,100	(6.7)	137,400	37.3
Gas	40,276	(2.3)	21,200	(47.4)	33,400	57.5
Oil	66,977	16.6	78,900	17.8	104,000	31.8
Total	<u>\$ 2,771,417</u>	<u>7.8 %</u>	<u>\$ 2,855,000</u>	<u>3.0 %</u>	<u>\$ 2,590,000</u>	<u>(9.3) %</u>
Other Taxes:						
Insurance Prem.	143,180	1.0 %	\$ 140,000	(2.2) %	\$ 149,000	6.4 %
Miscellaneous	2,718	34.0	2,500	(8.0)	2,500	--
Total	<u>\$ 145,898</u>	<u>1.5 %</u>	<u>\$ 142,500</u>	<u>(2.3) %</u>	<u>\$ 151,500</u>	<u>6.3 %</u>
Total Taxes	<u>\$ 6,160,474</u>	<u>8.2 %</u>	<u>\$ 6,202,500</u>	<u>0.7 %</u>	<u>\$ 5,555,500</u>	<u>(10.4) %</u>
Other Revenues:						
Interest	\$ 9,677	(51.0) %	\$ 10,000	3.3 %	\$ 9,700	(3.0) %
Net Transfers	180,521	51.9	(101,900)	(156.4)	(155,900)	(53.0)
Agency Earnings	62,079	23.1	58,500	(5.8)	55,000	(6.0)
Total	<u>\$ 252,277</u>	<u>33.4 %</u>	<u>\$ (33,400)</u>	<u>(113.2) %</u>	<u>\$ (91,200)</u>	<u>(173.1) %</u>
Total Receipts	<u><u>\$ 6,412,751</u></u>	<u><u>9.0 %</u></u>	<u><u>\$ 6,169,100</u></u>	<u><u>(3.8) %</u></u>	<u><u>\$ 5,464,300</u></u>	<u><u>(11.4) %</u></u>

Table 2
State General Fund Receipts
FY 2013 Revised
Comparison of November 2012 Estimate to June 2012 Estimate
(Dollars in Thousands)

	FY 2013 CRE Est. as Adj. for Legis.	FY 2013 CRE Estimate	Difference	
			Amount	Pct. Chg.
Property Tax/Fee:				
Motor Carrier	\$ 21,000	\$ 26,000	\$ 5,000	23.8 %
Income Taxes:				
Individual	\$ 2,870,800	\$ 2,810,000	\$ (60,800)	(2.1) %
Corporation	270,000	340,000	70,000	25.9
Financial Inst.	26,000	29,000	3,000	11.5
Total	\$ 3,166,800	\$ 3,179,000	\$ 12,200	0.4 %
Excise Taxes:				
Retail Sales	\$ 2,225,000	\$ 2,225,000	\$ --	-- %
Compensating Use	350,000	345,000	(5,000)	(1.4)
Cigarette	92,000	92,000	--	--
Tobacco Product	6,900	7,000	100	1.4
Cereal Malt Beverage	1,900	1,900	--	--
Liquor Gallonage	19,000	19,000	--	--
Liquor Enforcement	59,500	60,500	1,000	1.7
Liquor Drink	9,300	9,500	200	2.2
Corporate Franchise	6,000	(5,000)	(11,000)	(183.3)
Severance	119,800	100,100	(19,700)	(16.4)
Gas	27,300	21,200	(6,100)	(22.3)
Oil	92,500	78,900	(13,600)	(14.7)
Total	\$ 2,889,400	\$ 2,855,000	\$ (34,400)	(1.2) %
Other Taxes:				
Insurance Premium	\$ 140,000	\$ 140,000	\$ --	-- %
Miscellaneous	2,000	2,500	500	25.0
Total	\$ 142,000	\$ 142,500	\$ 500	0.4 %
Total Taxes	\$ 6,219,200	\$ 6,202,500	\$ (16,700)	(0.3) %
Other Revenues:				
Interest	\$ 7,900	\$ 10,000	\$ 2,100	26.6 %
Net Transfers	(104,290)	(101,900)	2,390	2.3
Agency Earnings	51,510	58,500	6,990	13.6
Total Other Revenue	\$ (44,880)	\$ (33,400)	\$ 11,480	25.6 %
Total Receipts	\$ 6,174,320	\$ 6,169,100	\$ (5,220)	(0.1) %

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January 8, 2013

To: Legislative Budget Committee

STATE GENERAL FUND (SGF) RECEIPTS

July through December, FY 2013

This is the second monthly report based on the revised estimate of SGF receipts in FY 2013 made by the Consensus Estimating Group on November 6, 2012. The figures in both the "Estimate" and "Actual" columns under FY 2013 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 2013 were \$34.8 million or 1.2 percent above the estimate. The component of SGF receipts from taxes only was \$36.9 million or 1.2 percent above the estimate. Total receipts through November of FY 2013 were \$3.7 million or 0.2 percent above the estimate and taxes only were \$4.4 million or 0.2 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, as the timing and processing of receipts substantially can affect comparisons of the estimate with actual receipts over such a short period of time. In addition, receipts through the end of January will include sales tax receipts on Christmas business and individual income tax estimated payments due in January, 2013. Both of these factors may make the January report more helpful in ascertaining a picture of SGF receipts. (Remember another factor relative to January is the impact of income tax rate reductions enacted by the Legislature in 2012.)

Tax sources that **exceeded** the estimate by more than \$1.0 million were: individual income (\$30.7 million or 2.2 percent); corporation income (\$8.3 million or 4.9 percent); insurance premiums (\$4.8 million or 8.8 percent); motor carriers (\$3.4 million or 22.6 percent); and liquor enforcement (\$1.0 million or 3.4 percent).

Tax sources that fell below the estimate by more than \$1.0 million were: retail sales (\$8.3 million or 0.7 percent); compensating use (\$2.0 million or 1.2 percent); and severance (\$1.8 million or 4.8 percent).

Individual income tax withholding was \$40 million than the previous December's figure. Monitoring these receipts in January will be helpful, as the Department of Revenue has picked up some indication that bonuses that in previous years may have been received in early January were accelerated into December of 2012 for tax planning purposes, causing withholding on those bonuses to also be accelerated. For corporation income taxes, December is an estimated quarterly payment month. Corporations likely adjusted their final tax year 2012

payment to bring their total estimated payments more in line with their expected actual liability. Corporate estimated payments for the month were \$12 million more than the 2011 figure.

Interest earnings were below the estimate by \$0.3 million. Net transfers and agency earnings were both below the estimated amount by \$1.3 million and \$0.5 million, respectively.

Total SGF receipts through December of FY 2013 were \$88.0 million or 3.0 percent above FY 2012 for the same period. Tax receipts only for the same period were above FY 2012 by \$181.2 million or 6.2 percent.

This report excludes a deposit to the SGF which totals \$400 million pursuant to issuance of a Certificate of Indebtedness. The Certificate will be discharged prior to the end of the fiscal year.

STATE GENERAL FUND RECEIPTS
 July-December, FY 2013
 (dollar amounts in thousands)

	Actual FY 2012	FY 2013			Percent change relative to:	
		Estimate*	Actual	Difference	FY 2012	Estimate
Property Tax:						
Motor Carriers	\$ 14,367	\$ 14,900	\$ 18,264	\$ 3,364	27.1 %	22.6 %
Income Taxes:						
Individual	\$ 1,337,545	\$ 1,399,000	\$ 1,429,747	\$ 30,747	6.9 %	2.2 %
Corporation	109,470	170,200	178,482	8,282	63.0	4.9
Financial Inst.	9,085	10,900	11,853	953	30.5	8.7
Total	\$ 1,456,100	\$ 1,580,100	\$ 1,620,082	\$ 39,982	11.3 %	2.5 %
Excise Taxes:						
Retail Sales	\$ 1,065,417	\$ 1,107,600	\$ 1,099,333	\$ (8,267)	3.2 %	(0.7) %
Comp. Use	158,708	168,000	166,038	(1,962)	4.6	(1.2)
Cigarette	48,538	47,300	47,352	52	(2.4)	0.1
Tobacco Prod.	3,552	3,650	3,596	(54)	1.2	(1.5)
Cereal Malt Bev.	1,136	1,005	992	(13)	(12.7)	(1.3)
Liquor Gallonage	9,196	9,750	9,815	65	6.7	0.7
Liquor Enforce.	29,058	29,900	30,920	1,020	6.4	3.4
Liquor Drink	4,609	4,710	4,805	95	4.3	2.0
Corp. Franchise	5,361	(9,300)	(9,216)	84	(271.9)	(0.9)
Severance	52,976	37,700	35,898	(1,802)	(32.2)	(4.8)
Gas	24,015	7,700	8,109	409	(66.2)	5.3
Oil	28,960	30,000	27,789	(2,211)	(4.0)	(7.4)
Total	\$ 1,378,550	\$ 1,400,315	\$ 1,389,533	\$ (10,782)	0.8 %	(0.8) %
Other Taxes:						
Insurance Prem.	\$ 56,587	\$ 54,762	\$ 59,559	\$ 4,797	5.3 %	8.8 %
Miscellaneous	1,658	1,488	1,064	(424)	(35.8)	(28.5)
Total	\$ 58,245	\$ 56,250	\$ 60,623	\$ 4,373	4.1 %	7.8 %
Total Taxes	\$ 2,907,261	\$ 3,051,565	\$ 3,088,502	\$ 36,937	6.2 %	1.2 %
Other Revenue:						
Interest	\$ 5,078	\$ 6,200	\$ 5,857	\$ (343)	15.3 %	(5.5) %
Transfers (net)	13,824	(79,750)	(81,030)	(1,280)	(686.2)	(1.6)
Agency Earnings and Misc.	36,849	38,200	37,723	(477)	2.4	(1.2)
Total	\$ 55,752	\$ (35,350)	\$ (37,450)	\$ (2,100)	(167.2) %	5.9 %
TOTAL RECEIPTS	\$ 2,963,013	\$ 3,016,215	\$ 3,051,052	\$ 34,837	3.0 %	1.2 %

Consensus estimate as of November 6, 2012.

Excludes a Certificate of Indebtedness of \$400 million, that must be redeemed prior to the end of the fiscal year.

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



November 2012 Consensus Revenue Estimates
 Governor's Recommended Revenue and Expenditures

STATE GENERAL FUND PROFILE
 FY 2011-FY 2015
 (Dollars in Millions)

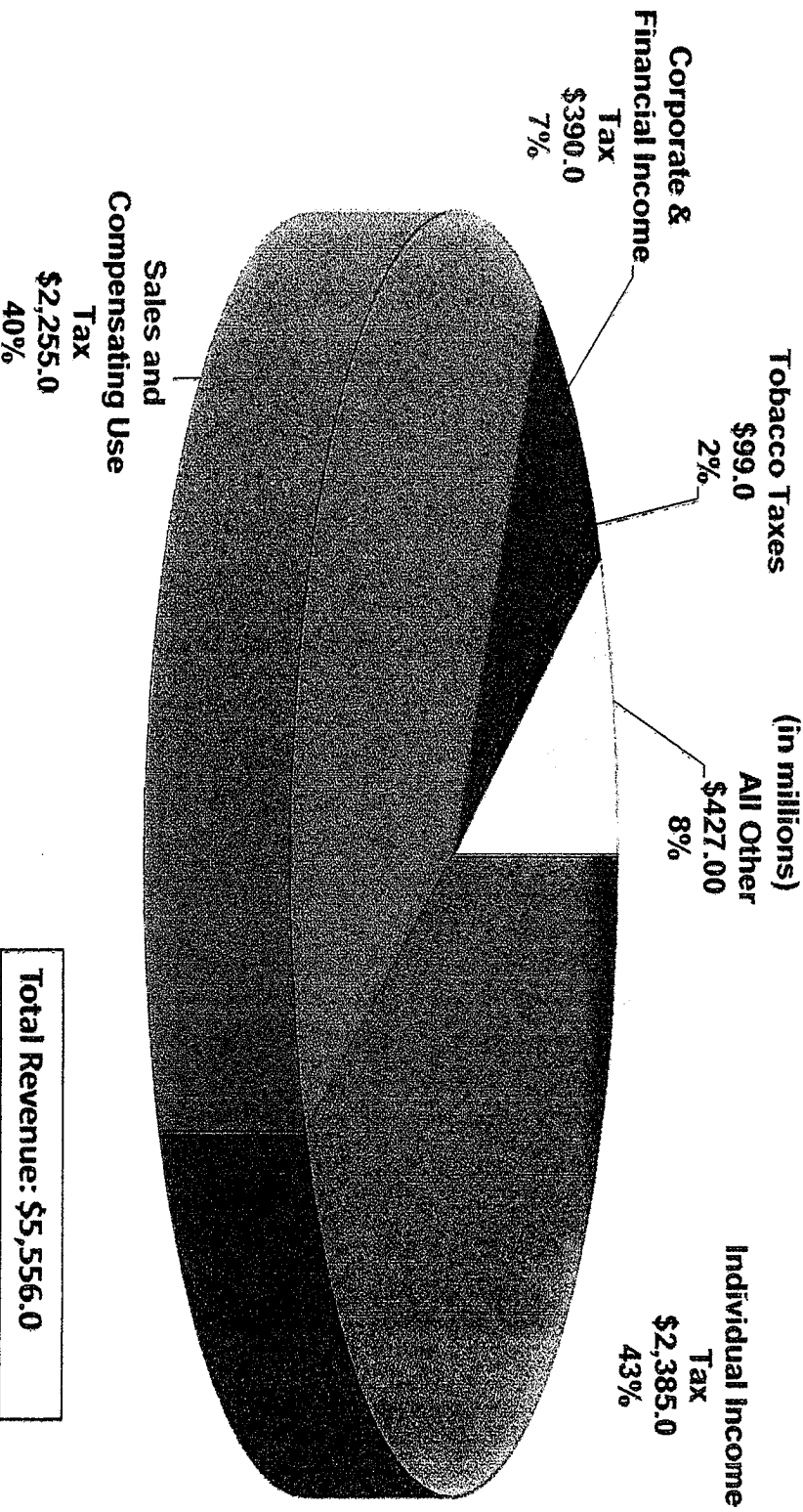
	Actual FY 2011	Actual FY 2012	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015
Beginning Balance	\$ (27.1)	\$ 188.3	\$ 502.9	\$ 533.9	\$ 455.7
Consensus Revenue Estimate (November 6, 2012)	\$ 5,882.1	\$ 6,412.7	\$ 6,169.1	\$ 5,464.3	\$ 6,132.5
Governor's Revenue Adjustments	\$ -	\$ -	\$ 60.3	\$ 640.5	\$ -
Total Available Revenue	\$ 5,855.0	\$ 6,601.0	\$ 6,732.3	\$ 6,538.8	\$ 6,908.2
Expenditures	\$ 5,667.0	\$ 6,098.1	\$ 6,170.6	\$ 6,199.5	\$ 6,082.9
State General Fund Expenditures Shifted from FY 2012	\$ -	\$ -	\$ 27.2	\$ (27.2)	\$ -
Human Services Caseloads	\$ -	\$ -	\$ (18.8)	\$ (0.1)	\$ -
School Finance General State Aid Adjustments	\$ -	\$ -	\$ 21.3	\$ -	\$ -
Governor's Expenditure Adjustments	\$ -	\$ -	\$ (1.3)	\$ (8.2)	\$ 66.6
Total Adjusted Expenditures	\$ 5,667.0	\$ 6,098.1	\$ 6,198.5	\$ 6,082.9	\$ 6,149.5
Finding Balance	\$ 188.3	\$ 502.9	\$ 533.9	\$ 455.7	\$ 458.7
Finding Balance as a Percentage of Expenditures	3.3%	8.2%	8.6%	7.5%	7.5%
Receipts in Excess of Approved Expenditures	\$ 215.2	\$ 314.7	\$ 30.9	\$ (78.1)	\$ 2.9

Assumptions:

- November 6, 2012 Consensus Revenue estimates for FY 2013 and FY 2014.
- FY 2013 expenditure adjustments include \$27.2 million expenditure authority shifted from FY 2012; a reduction of \$18.8 million for the Human Services Consensus estimates; and \$21.3 million for revisions to School Finance.
- FY 2013 Governor's revenue adjustments include \$25.0 million for medical resident FICA refund, \$22.7 million for Bioscience Authority transfer reduction, \$16.1 million for federal participation of Special Education Teachers KPERs.
- FY 2014 Governor's revenue increases include \$292.3 million by maintaining sales tax at 6.3 percent, \$162.5 million by eliminating the mortgage deduction on state income tax, \$27.0 million by eliminating the LAWTRF transfer and \$25.0 million by copying the Bioscience Authority transfer at \$10.0 million.
- Governor's FY 2014 expenditure adjustments include savings of \$107.3 million by funding student transportation with State Highway Funds, additional expenditures of \$17.2 million for Judiciary, and expenditures of \$7.0 million for Dept. of Admin. debt service.
- Governor's FY 2015 projected revenue and expenditures reflect similar amounts as FY 2014 with expenditures for social services caseloads, KPERs retirement employer contributions and BSAPP funded at \$3,852, up from \$3,838.

Where does the money come from?

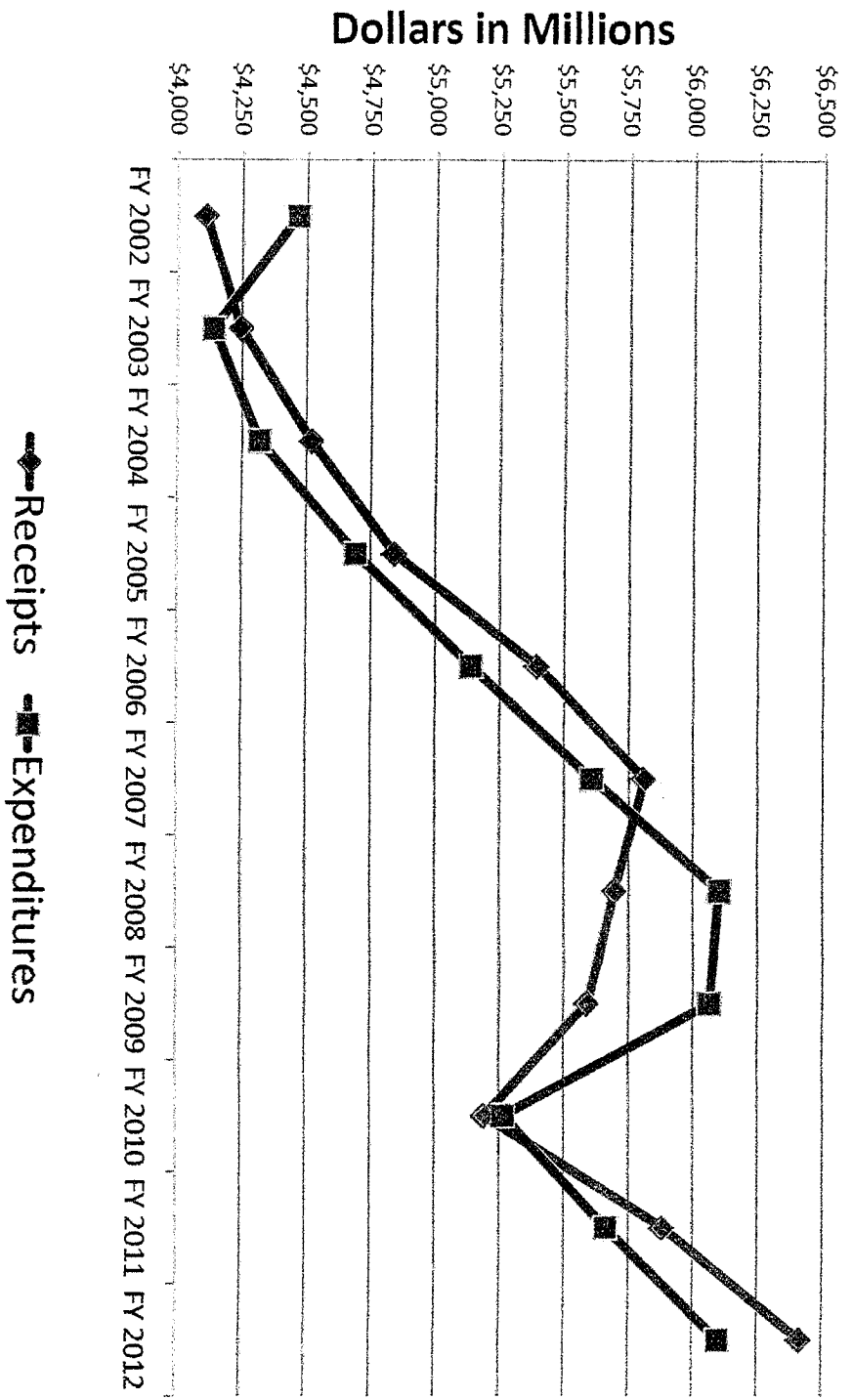
FY 2014 Estimated State General Fund Receipts



Total may not add due to rounding

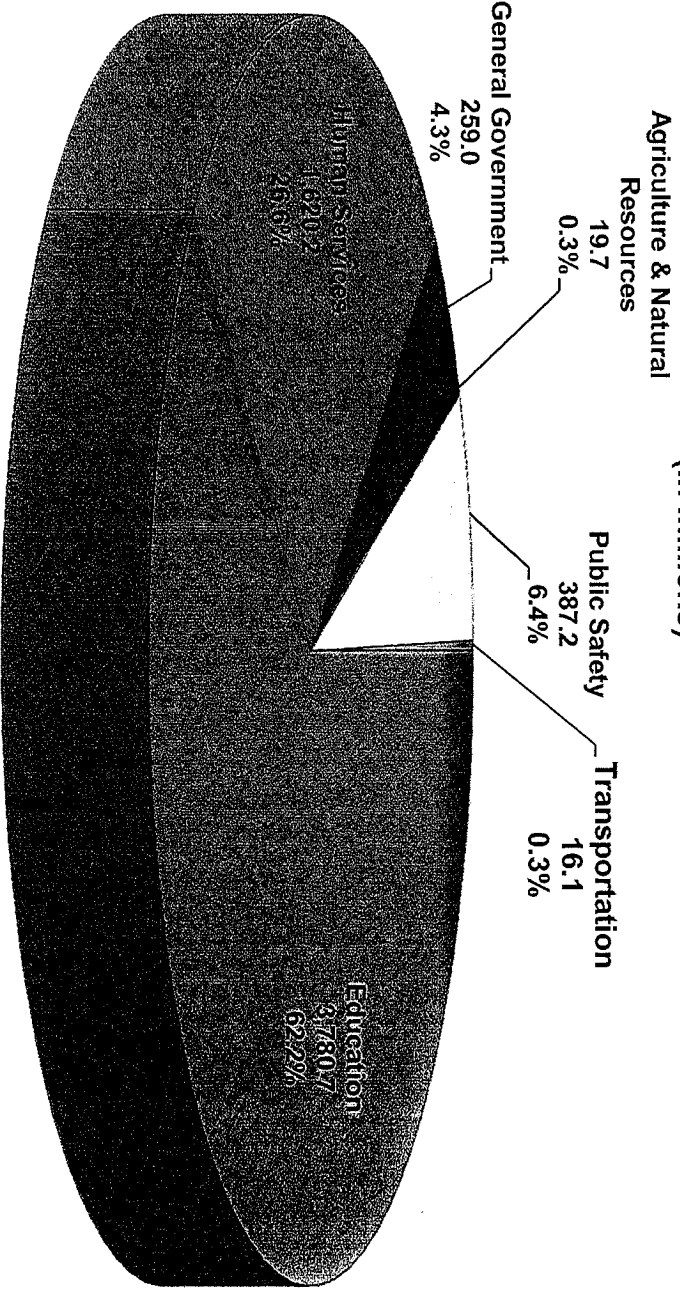
How do receipts and expenditures compare over time?

State General Fund Receipts and Expenditures



Where does the money go?

FY 2014 Governor Rec. State General Fund Expenditures
(in millions)



Total Expenditures: \$6,082.9

Total may not add due to rounding

Appropriations Update
January 16, 2013

The *Governor's Budget Report for FY 2014* was presented to the 2013 Legislature on Wednesday, January 16, 2013. **The recommendations included revised funding recommendations for FY 2013, and recommendations for FY 2014 and FY 2015 for all state agencies.** The recommendations will be incorporated into appropriations bills for consideration by the Legislature. If you have any questions about any information in this report, please contact J.G. Scott, Chief Fiscal Analyst, Leah Robinson, Principal Fiscal Analyst, or Dylan Dear, Principal Fiscal Analyst, at (785) 296-3181.

Overview of the FY 2014 Recommendations

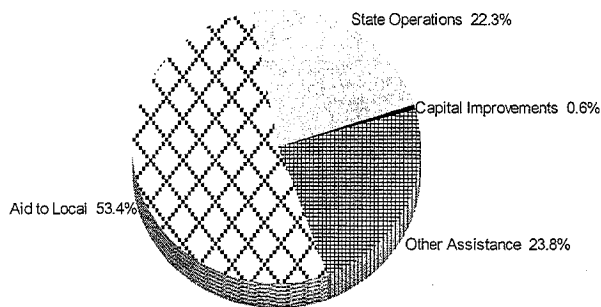
The Governor recommends expenditures of **\$14.6 billion** from all funding sources in FY 2014, including expenditures of **\$6.1 billion** from the State General Fund:

- State General Fund expenditures **decrease** by 1.9 percent, or \$115.5 million below FY 2013.
- Expenditures from all funding sources **increase** by \$186.1 million, or 1.3 percent above FY 2013.
- The Governor's budget provides for an **ending balance** of \$455.7 million, or 7.5 percent, in FY 2014.
- Recommended State General Fund **expenditures exceed receipts** by \$78.1 million.
- The Governor's recommendation makes several adjustments to **state tax policy**. The Governor recommends that the **state sales and compensating use taxes be maintained at the 6.3 percent rate**, which generates \$262.3 million in revenue to the State General Fund. The Governor also recommends the **elimination of the mortgage deduction on state income tax**, generating \$162.5 million in revenue to the State General Fund.
- The Governor recommends a number of **other revenue adjustments** that increase State General Fund revenue by a net estimated \$115.7 million for FY 2014, including: suspending the \$27.0 million transfer to the Local Ad Valorem Tax Reduction Fund; reducing the cap on the transfer to the Bioscience Authority by \$25.0 million (from \$35.0 million to \$10.0 million); billing the federal government for its share of costs to contribute to the Kansas Public Employees Retirement System (KPERS) on behalf of federally-financed special education teachers (\$16.1 million); transferring \$15.0 million from the State Highway Fund to the State General Fund, based on operational savings generated in the Department of Transportation by coordinating and consolidating functions with the Kansas Turnpike Authority; eliminating the pattern of sending severance tax revenues to the Oil and Gas Valuation Depletion Trust Fund (\$14.7 million); and \$10.2 million in savings from the Economic Development Initiatives Fund to be transferred to the State General Fund. In addition, the Governor recommends suspending the \$300,000 transfer to the State Fair Capital Improvements Fund; increasing the estimated transfer from the Kansas Lottery by \$1.0 million; transferring \$5.0 from the Attorney General's Court Cost Fund, \$1.1 million from the Department of Education's State Safety Fund, \$750,000 from the Department of Corrections' Correctional Industries Fund, and an additional \$54,987 from the Securities Commissioner Fee Fund. The Governor does recommended eliminating the \$500,000 transfer from the Highway Patrol Training Center to the State General Fund.

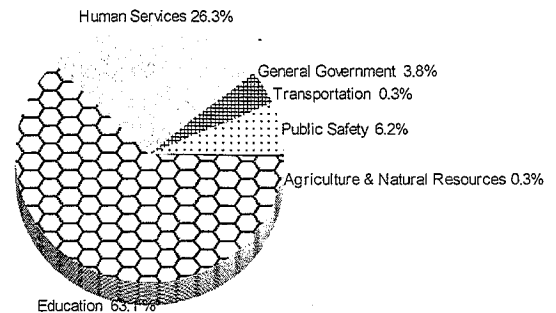
- The Governor recommends making the **Board of Veterinary Examiners** a part of the **Department of Agriculture**, and consolidating the **Juvenile Justice Authority** and the **Department of Corrections**.
- The Governor recommends utilizing \$107.3 million from the **State Highway Fund** to pay costs associated with student transportation in the budget of the **Department of Education**.
- The Governor's recommendation fully funds **social services caseload adjustments** in the budgets of the Department for Aging and Disability Services, the Department of Health and Environment; the Department for Children and Families and the Juvenile Justice Authority.
- The Governor recommends **Base State Aid Per Pupil (BSAPP)** at \$3,838 in FY 2013 and FY 2014. The Governor also proposes to use \$37.5 million from the Expanded Lottery Act Revenue Fund (ELARF) to fund a portion of **KPERS-School** employer contributions. In addition, the Governor recommends \$1.5 million from the State General Fund to assist in the state match requirement for school construction at Fort Riley, both in FY 2013 and FY 2014.
- The Governor recommends **no general state employee salary increase** for FY 2014. In addition, the Governor recommends funding **longevity bonus** payments at the statutory \$40 level, for a total of \$8.5 million, including \$3.6 million from the State General Fund, for longevity payments in FY 2014. (Statutory longevity payments are \$40 per year and employees hired after June 15, 2008 are not eligible for the longevity bonus).
- The FY 2014 **retirement rate for KPERS regular and school members** will increase by 0.9 percent, from 9.37 percent to 10.27 percent, when compared to FY 2013. For FY 2015, the retirement rate will increase by 1.0 percent from 10.27 percent to 11.27 percent. This increase is attributable to the annual statutory increase for financing the unfunded liability of the KPERS fund. In addition, the **KPERS death and disability insurance rate** is scheduled to increase to 1.0 percent for FY 2014 (from 0.769 percent in FY 2013) and to continue at 1.0 percent for FY 2015. The Governor's recommendations decrease this percentage to 0.85 percent for both years.
- The Governor's recommendation includes 38,232.9 FTE positions for FY 2014, a decrease of 118.1 FTE positions below the FY 2013 recommendation. Most of the reductions are in the **Department of Administration** (50.0 vacant FTE positions), the **Department of Transportation** (39.0 FTE positions), and the **Department for Aging and Disabilities Services and the State Hospitals** (30.7 FTE positions).

The following two charts illustrate the Governor's recommended FY 2014 State General Fund expenditures by function of government and by category of expenditure. Education (including local school aid and Regents universities) receives 62.2 percent of the State General Fund expenditures in the Governor's recommendations. Aid to local units comprises the largest category of expenditure in the Governor's budget with over half of the FY 2013 State General Fund budget (52.8 percent) distributed to local units of government, primarily through local school aid.

SGF Expenditures by Major Purpose
FY 2014 Governor's Recommendation



SGF Expenditures by Function
FY 2014 Governor's Recommendation



Overview of the FY 2015 Recommendations

- The Governor recommends expenditures of **\$14.4 billion** from all funding sources in FY 2015, including expenditures of **\$6.1 billion** from the State General Fund:
- State General Fund expenditures **increase** by 1.1 percent, or \$66.6 million above FY 2014.
- Expenditures from all funding sources **decrease** by \$182.8 million, or 1.3 percent, below FY 2014.
- The Governor's budget provides for an **ending balance** of \$458.6 million, or 7.5 percent, in FY 2015.
- Recommended State General Fund **receipts exceed expenditures** by \$2.9 million.
- The Governor's recommendations for FY 2015 primarily reflect the same **revenue and receipt adjustments** as included in the FY 2014 recommendations.
- The Governor's recommendations for FY 2015 fully fund his projected **social services caseload estimates**. No consensus caseloads were made for FY 2015.
- The Governor recommends funding **Base State Aid Per Pupil** at \$3,852 for FY 2015.
- The Governor's recommendations for FY 2015 reflect an additional 1.0 percent increase in the **KPERS retirement employer contribution rate** (from 10.27 percent to 11.27 percent) and continue the 0.85 percent **death and disability contribution rate** recommended for FY 2014.

Recommended Current Year Budget Changes

The Governor's revised FY 2013 recommendation is a net increase of \$77.7 million, or 0.5 percent, from all funding sources, and a State General Fund increase of \$27.9 million, or 0.5 percent, above the amount approved by the 2012 Legislature. Major adjustments in the Governor's Budget Report include:

- Revised **social services caseload estimates** decrease by \$46.2 million from all funding sources and by \$18.8 million from the State General Fund. The State General Fund decrease is attributable to a slowed caseload growth below the approved amount for FY 2013. The all funds decrease is due largely to reduced estimates for regular medical expenditures and nursing facilities expenditures, as well as a decrease in Temporary Assistance to Families.
- **General State Aid** in the **State Department of Education** increases by \$21.3 million, all from the State General Fund, based on the November 2012 revised school finance estimates.
- Expenditures in the **Department of Transportation** budget decrease by \$244.9 million, primarily for capital improvement projects.
- All funds increases of \$130.0 million in the budget of the Board of Regents and the Regents institutions, primarily the result of increased tuition revenue and increased federal grants.
- Recommended FY 2013 **State General Fund revenue adjustments** total a **net increase of \$60.3 million**, and include: an anticipated refund of \$25.0 million from the federal government based on FICA taxes paid by the University of Kansas Medical Center for medical residents; elimination of the remaining \$22.7 million scheduled to be transferred to the Bioscience Authority in the current year; billing the federal government for its share of costs to contribute to the Kansas Public Employees Retirement System (KPERs) on behalf of federally-financed special education teachers (\$16.1 million); a projected increase of \$2.0 million from lottery sales; and \$1.6 million in additional income tax revenue based on a December 2012 Powerball winner in Kansas. The receipt adjustments also reflect decreases of \$7.0 million for projected reductions in casino revenues; and \$95,000 to reflect a tort claim paid in 2012.

The status of the State General Fund, based on the recommendations of the Governor, is reflected in the following profile.

State General Fund Profile-Governor's Recommendation (In Millions)

	Actual FY 2012	Gov. Rec. FY 2013	Gov. Rec. FY 2014	Gov. Rec. FY 2015
Beginning Balance	\$ 188.3	\$ 502.9	\$ 533.9	\$ 455.7
Receipts (Nov. 2012 Consensus)*	6,412.8	6,169.1	5,464.3	0.0
Adjustments in Governor's Rec.	0.0	60.3	540.5	6,152.5
Adjusted Receipts	6,412.8	6,229.4	6,004.8	6,152.5
Total Available	\$ 6,601.1	\$ 6,732.3	\$ 6,538.7	\$ 6,608.2
Expenditures	6,098.1	6,198.5	6,082.9	6,149.6
Ending Balance	\$ 502.9	\$ 533.9	\$ 455.7	\$ 458.6
Ending Balance as a % of Expenditures	8.2%	8.6%	7.5%	7.5%
Adj. Receipts in Excess of Expenditures	\$ 314.7	\$ 30.9	\$ (78.1)	\$ 2.9
Percent Change from Prior Year				
Adjusted Receipts	9.0%	(2.9%)	(3.6%)	2.5%
Expenditures	7.6%	1.6%	(1.9%)	1.1%

Additional information on the Governor's budget recommendation and the requests made by state agencies will be presented in the Legislative Budget Analysis to be presented to the Legislature after the legislative fiscal staff completes its analysis.

