

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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To: Senate Commerce Committee
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 to exist involving the global

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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.

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.