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Division of the Budget

Sam Brownback, Governor

April 24, 2013

To: Governor Sam Brownback and Legislative Budget Committee

From: Kansas Division of the Budget and Kansas Legislative Research Department

Re: State General Fund Receipt Revisions for FY 2013 and FY 2014

Estimates for the State General Fund (SGF) are developed using a consensus process that involves the Division of the Budget, Legislative Research Department, 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 April 19, 2013, and increased the overall estimate for both fiscal years by a combined $19.9 million relative to the previous estimate made in November. The revised estimates incorporate the fiscal effect of all 2013 legislation signed into law by April 19, 2013.

For FY 2013, the estimate was increased by $29.9 million, or 0.5 percent, above the November estimate. The estimate for total taxes was increased by $30.2 million, while the estimate for other revenues was decreased by $280,000. The overall revised SGF estimate of $6.199 billion represents a 3.3 percent decrease below final FY 2012 receipts.

The revised estimate for FY 2014 of $5.454 billion was decreased by $10.0 million, or 0.2 percent below the November estimate. The estimate for total taxes was decreased by $7.7 million, while the estimate for other revenues was decreased by $2.3 million. The new forecast for FY 2014 represents a 12.0 percent decrease below the newly revised FY 2013 figure.

Table 1 compares the new FY 2013 and FY 2014 estimates with actual receipts from FY 2012.

Economic Forecast for Kansas Summary

While the Kansas economy continues to grow, uncertainty remains as a number of economic indicators are estimated to show only modest improvements over the next few years. Significant concerns persist on the effect of slow employment growth, drought conditions for the agricultural sector, and the uncertainty of federal government fiscal policies. The nominal Kansas Gross State Product is expected to grow by 3.8 percent in 2013 (the November estimate had been 3.9 percent) and 4.1 percent in FY 2014 (unchanged from the November estimate). Current forecasts call for the nominal U.S. Gross Domestic Product to grow by 3.7 percent in

Senate Ways and Means Committee
Date: 04-25-2013
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recorded in March 2012. The higher costs for feed and continuing drought conditions have reduced the livestock and hog inventories in the state. Cattle and pork prices are estimated to remain above the prices from a year earlier.

Oil and Gas

The average price per taxable barrel of Kansas crude oil is now estimated to be $82 in FY 2013 (down slightly from the $84 estimate used in November) and reflects the annualized effect of the recent decrease in world prices since the November estimate. The estimated average price of $86 per barrel for FY 2014 (down from $92 in November) takes into account current oil futures price expectations that have been impacted by weaker U.S. and world demand and increasing domestic production. A great deal of uncertainty remains about forecasting the price of this commodity; however, it appears that high prices will continue in the foreseeable future.

Kansas gross oil production levels reached 42.3 million barrels in FY 2012 (compared with 40.9 million barrels in FY 2011). The current forecast of 44.5 million barrels for FY 2013 is down slightly from the 45.0 million barrels that was estimated in November. For FY 2014, Kansas gross oil production is estimated to increase to 49.0 million barrels, which is up from the 48.0 million barrels estimated in November. It is estimated that Kansas gross oil production levels will continue to experience substantial growth in the future as additional oil drilling activity continues in south central Kansas. It is estimated that 44.0 percent of all Kansas oil produced will not be subject to severance taxation because of various exemptions in state law in FY 2013 which will decrease to 35.0 percent in FY 2014.

The price of natural gas is expected to average $3.10 per mcf for FY 2013 (up slightly from the $2.80 estimated in November). For FY 2014, the price estimate remains unchanged at $3.75 per mcf. The estimates are based on an industry source's analysis of futures markets. Factors considered in revising the price forecasts included the relationship between crude oil and gas prices, lower than previously estimated storage levels for gas, industrial demand, 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 730.0 million cubic feet in FY 1996 (largely as a result of depleting reserves in the Hugoton Field). Production is estimated to continue to decrease in the future and is expected to be 295.0 million cubic feet in FY 2013 and decreasing to 285.0 million cubic feet in FY 2014. Approximately 20.0 percent of natural gas produced is expected to be exempt from severance taxation in FY 2013 and 12.0 percent in FY 2014.

Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) increased by 2.1 percent in 2012, which is a slight decrease from the 2.2 percent that was estimated in November. The current forecasts of 1.9 percent in 2013 and 2.1 percent in 2014 indicate that inflation will likely continue to be held in check by aggressive Federal Reserve monetary policy. The inflation expectations have decreased since the forecast reported in November, which showed that inflation would increase by 2.1 percent in 2013 and by 2.2 percent in 2014.

million or 1.2 percent above FY 2012 collections, which were $467.5 million or 8.2 percent above FY 2011 collections. Other revenues are estimated to be $286.0 million below the amount collected in FY 2012, primarily from not repeating a $205.0 million transfer to the State General Fund from the State Highway Fund that was made in FY 2012.

The individual income tax estimate was increased by $40.0 million reflecting stronger fiscal year-to-date collections and the assumptions that modest employment growth will continue over the remainder of the fiscal year. The estimate for corporation income tax was increased by $20.0 million. Corporate income tax receipts through March were running only $1.9 million above the fiscal year-to-date estimate; however, strong growth was estimated with preliminary data from the Department of Revenue showing this source has received much higher than anticipated receipts in April which is estimated to continue for the remaining months of the fiscal year. The insurance premiums tax was increased by $15.0 million based on fewer refunds than were estimated in November and stronger growth. Other receipt estimates that were increased by at least $1.0 million include motor carrier (increased by $3.0 million), SGF interest earnings (increased by $2.8 million), and the financial institutions income tax (increased by $1.0 million).

The retail sales tax estimate was decreased by $35.0 million, which takes into account that actual year-to-date receipts through March were down $26.1 million and receipts are estimated to continue to be lower for the remaining three months of the fiscal year. The compensating use tax was decreased by $10.0 million, agency earning was decreased by $2.5 million, and the cigarette tax was decreased by $2.0 million. The severance tax estimate was decreased by a net total of $2.2 million ($3.8 million increase attributable to gas which was offset by a $6.0 million decrease attributable to oil). The estimate was decreased largely as a result of lower prices for oil, which was partially offset by slightly higher prices for gas than had been assumed in the fall. Severance tax receipts were nearly $4.9 million below the previous estimate through March; however, with higher sustained gas prices and increasing oil production, it is anticipated that severance tax receipts will increase substantially in the remainder of the fiscal year. Details of the current year's revised estimate are reflected in Table 2.

FY 2014. SGF receipts are estimated to be $5.454 billion in FY 2014, a decrease of $10.0 million relative to the November estimate. The new FY 2014 figure is $744.8 million or 12.0 percent below the newly revised FY 2013 estimate. This result is heavily influenced by 2012 legislation that implemented major rate and structural changes to the individual income tax; the reduction in the state retail sales and compensating use tax rates from 6.3 to 5.7 percent with additional revenue being distributed to the State Highway Fund and less to the State General Fund beginning on July 1, 2013; and an increase of $57.5 million in net transfers from the SGF which will occur absent any change in current law. The estimate of total taxes was decreased by $7.7 million or 0.1 percent below the previous estimate made in November. Total taxes in FY 2014 are now projected to decrease by 11.0 percent below the newly revised FY 2013 amount.

The individual income tax estimate was increased by $15.0 million based on the expectation of continued positive growth in KPI and employment. The new individual income tax estimate includes a reduction of $10.5 million for the fiscal effect of SB 83, which makes adjustments to various income tax provisions enacted in 2012. The insurance premiums tax was increased by $11.0 million based on stronger growth in insurance premiums than were estimated

STATE GENERAL FUND ESTIMATES

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from: Original Estimate Amount	Original Estimate Percent	Final Estimate Amount	Final Estimate 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	4,674.5	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	5,693.4	(7.0)	(0.1)	(42.9)	(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	5,191.3	(782.9)	(13.1)	(99.7)	(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	6,412.8	313.9	5.1	8.5	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 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.

Concluding Comments

Consensus revenue estimates are based on current federal and state laws and their current interpretation. These estimates will be further adjusted at the conclusion of the 2013 Legislative Session to reflect state legislation enacted after April 19, 2013 which affects SGF receipts.

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

	FY 2013 CRE Est. Revised 11/06/12	FY 2013 CRE Est. Revised 04/19/13	Difference Amount	Difference Pct. Chg.
Property Tax/Fee:				
Motor Carrier	$ 26,000	$ 29,000	$ 3,000	11.5 %
Income Taxes:				
Individual	$ 2,810,000	$ 2,850,000	$ 40,000	1.4 %
Corporation	340,000	360,000	20,000	5.9
Financial Inst.	29,000	30,000	1,000	3.4
Total	$ 3,179,000	$ 3,240,000	$ 61,000	1.9 %
Excise Taxes:				
Retail Sales	$ 2,225,000	$ 2,190,000	$ (35,000)	(1.6) %
Compensating Use	345,000	335,000	(10,000)	(2.9)
Cigarette	92,000	90,000	(2,000)	(2.2)
Tobacco Products	7,000	6,900	(100)	(1.4)
Cereal Malt Beverage	1,900	1,900	--	--
Liquor Gallonage	19,000	18,900	(100)	(0.5)
Liquor Enforcement	60,500	61,000	500	0.8
Liquor Drink	9,500	9,600	100	1.1
Corporate Franchise	(5,000)	(4,500)	500	10.0
Severance	100,100	97,900	(2,200)	(2.2)
Gas	21,200	25,000	3,800	17.9
Oil	78,900	72,900	(6,000)	(7.6)
Total	$ 2,855,000	$ 2,806,700	$ (48,300)	(1.7) %
Other Taxes:				
Insurance Prem.	$ 140,000	$ 155,000	$ 15,000	10.7 %
Miscellaneous	2,500	2,000	(500)	(20.0)
Total	$ 142,500	$ 157,000	$ 14,500	10.2 %
Total Taxes	$ 6,202,500	$ 6,232,700	$ 30,200	0.5 %
Other Revenues:				
Interest	$ 10,000	$ 12,750	$ 2,750	27.5 %
Net Transfers	(101,900)	(102,430)	(530)	(0.5)
Agency Earnings	58,500	56,000	(2,500)	(4.3)
Total Other Revenue	$ (33,400)	$ (33,680)	$ (280)	(0.8) %
Total Receipts	$ 6,169,100	$ 6,199,020	$ 29,920	0.5 %