

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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To: Governor Mark Parkinson and Legislative Budget Committee
From: Chris W. Courtwright, Principal Economist
Re: Legislative Adjustments to Consensus Estimates to FY 2009 and FY 2010

Pursuant to KSA 75-6701, the Legislative Research Department and Division of the Budget have adjusted the most recent estimates of State General Fund (SGF) receipts for FY 2009 and FY 2010. These adjustments reflect the fiscal impact of legislation involving receipts to the SGF enacted during the 2009 Legislative Session subsequent to the Consensus Revenue Estimate made on April 17, 2009. The attached tables show changes by source and incorporate those changes into the overall estimates for FY 2009 and FY 2010. FY 2009 receipts were increased by \$43.862 million relative to the April estimate, attributable to several changes in transfers enacted in the omnibus bill. FY 2010 receipts were increased by \$155.103 million, with much of the difference attributable to various tax law changes and additional adjustments to transfers.

An additional section has been added to this report discussing the implications for SGF receipts in FY 2011 and subsequent years relative to certain legislation enacted in 2009 and prior years.

The Consensus Group will meet again prior to December 4 to consider revisions to the newly adjusted FY 2010 estimate and to make an initial estimate for FY 2011.

FY 2009

The following FY 2009 adjustments were made:

- Senate Sub. for HB 2373, the omnibus bill, increased the estimate for net transfers by \$43.862 million, with the major change attributable to the elimination of a previously scheduled “slider” transfer (\$25.0 million) to local units of government that had been intended to help reduce property tax levies.

FY 2010

The following FY 2010 adjustments were made:

- SB 160, which increases the state’s minimum wage from \$2.65 per hour to \$7.25 per hour on January 1, 2010, increased the individual income tax estimate by \$2.500 million.
- SB 97, which authorizes a diversion of employee withholding taxes under certain circumstances to “qualified” companies or third parties performing services on behalf of such companies, reduced the individual income tax estimate by \$1.950 million.

- Senate Sub. for HB 2373, the omnibus bill, increased the estimate for net transfers by \$89.440 million, with the major changes related to the transfer of privilege fees from the Expanded Lottery Act Revenue Fund (\$50.0 million) to the SGF; a transfer from the State Highway Fund (\$25.3 million) to the SGF relative to certain bond payments; and elimination of a previously scheduled transfer (\$5.0 million) from the SGF to the Special City and County Highway Fund.
- Senate Sub. for House Sub. for HB 2365, a major tax bill dealing with disputed liability settlement authority; tax credits; the statute of limitations relative to certain refund claims; and other provisions, increased total estimated SGF receipts by \$65.113 million. Of this amount, \$35 million in increases is attributable to the new settlement authority (\$30 million in corporation income taxes; \$2 million in individual income taxes; \$2 million in sales taxes; and \$1 million in gas severance taxes). Various statute-of-limitation provisions also increased the compensating use tax estimate by \$11.2 million; the sales tax estimate by \$2.5 million; and the individual income tax estimate by \$3.0 million.

An additional piece of legislation is expected to have an impact on FY 2010 SGF receipts but could not be quantified. SB 212, which provides for the direct shipments to Kansas residents by wineries, is expected to have a slightly positive (but indeterminate) impact on both liquor gallonage and liquor enforcement tax receipts.

FY 2011 and thereafter

Although the Consensus Group will not make its initial estimate for FY 2011 until the fall, worthy of note is the fact that a number of provisions in previously enacted legislation will further reduce SGF receipts:

- Legislation enacted in 2006 that decoupled the Kansas estate tax from the federal law beginning in 2007 and eliminates the Kansas tax altogether in 2010 will reduce receipts relative to the prior law by an estimated \$47 million in FY 2011; and \$52 million in FY 2012.
- Legislation enacted in 2007 that phases out the franchise tax will reduce receipts relative to the prior law by an estimated \$37.0 million in FY 2011; and \$48.0 million in FY 2012.
- Legislation enacted in 2006 relative to a property tax exemption for business machinery and equipment is expected to further reduce motor carrier property tax receipts to the SGF by \$5.6 million in FY 2011; and \$7.4 million in FY 2012.
- Additional legislation enacted in 2005 will reduce severance tax receipts to the SGF by \$6.3 million in FY 2011; and \$10.7 million in FY 2012; and \$13.4 million in FY 2013.

- Current estimates are that the slider transfer payments (originally enacted in 2006) to local units, which are scheduled to resume in FY 2011, will reduce SGF receipts by \$44.0 million in that year; and by \$25.5 million in FY 2012 before sunseting altogether in FY 2013.
- Legislation enacted in 2009 expanding the ability of retail businesses to qualify for sales tax exemptions when locating or expanding in unincorporated areas of certain low-population counties will reduce sales tax receipts to the SGF by approximately \$0.4 million beginning in FY 2011.

Also worth remembering is the fact that many of the provisions of the 2009 revenue enhancement package are ephemeral in nature. The total estimated amount of additional revenues provided by that legislation are expected to be \$53.230 million less in FY 2011 and \$61.020 million less in FY 2012 than the amount provided in FY 2010.

Table 1
Consensus Revenue Estimate for Fiscal Years 2009 and 2010
and FY 2008 Actual Receipts
(Dollars in Thousands)

	FY 2008 (Actual)		FY 2009 (Revised 6/8)		FY 2010 (Revised 6/8)	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$29,032	12.5 %	\$29,500	1.6 %	\$28,000	(5.1) %
Income Taxes:						
Individual	\$2,896,653	6.9 %	\$2,775,000	(4.2) %	\$2,755,335	(0.7) %
Corporation	432,078	(2.3)	255,000	(41.0)	268,200	5.2
Financial Inst.	33,160	0.2	26,000	(21.6)	26,000	0.0
Total	\$3,361,891	5.6 %	\$3,056,000	(9.1) %	\$3,049,535	(0.2) %
Estate Tax	\$44,247	(20.4) %	\$25,000	(43.5) %	\$14,500	(42.0) %
Excise Taxes:						
Retail Sales	\$1,711,398	(3.1) %	\$1,705,000	(0.4) %	\$1,699,428	(0.3) %
Compensating Use	246,277	(13.6)	235,000	(4.6)	231,200	(1.6)
Cigarette	112,705	(2.2)	106,000	(5.9)	102,000	(3.8)
Tobacco Products	5,548	4.6	5,600	0.9	5,800	3.6
Cereal Malt Bev.	2,228	6.6	2,200	(1.3)	2,200	0.0
Liquor Gallonage	17,579	3.1	18,500	5.2	18,500	0.0
Liquor Enforcement	49,983	6.0	54,000	8.0	57,000	5.6
Liquor Drink	8,903	3.9	9,500	6.7	9,700	2.1
Corp. Franchise	46,659	(2.6)	35,000	(25.0)	22,000	(37.1)
Severance	148,172	27.7	129,100	(12.9)	74,500	(42.3)
Gas	91,511	14.9	78,400	(14.3)	43,200	(44.9)
Oil	56,662	55.7	50,700	(10.5)	31,300	(38.3)
Total	\$2,349,452	(2.6) %	\$2,299,900	(2.1) %	\$2,222,328	(3.4) %
Other Taxes:						
Insurance Prem.	\$117,588	3.3 %	\$119,700	1.8 %	\$117,300	(2.0) %
Miscellaneous	5,233	(4.7)	2,000	(61.8)	2,000	0.0
Total	\$122,821	3.0 %	\$121,700	(0.9) %	\$119,300	(2.0) %
Total Taxes	\$5,907,443	1.9 %	\$5,532,100	(6.4) %	\$5,433,663	(1.8) %
Other Revenues:						
Interest	\$111,258	20.6 %	\$56,000	(49.7) %	\$24,000	(57.1) %
Net Transfers	(377,653)	(172.0)	40,222	(110.7)	23,610	(41.3)
Agency Earnings	53,875	(16.4)	81,400	51.1	54,600	(32.9)
Total	(\$212,521)	---	\$177,622	(183.6) %	\$102,210	(42.5) %
Total Receipts	<u>\$5,694,924</u>	<u>(2.0) %</u>	<u>\$5,709,722</u>	<u>0.3 %</u>	<u>\$5,535,873</u>	<u>(3.0) %</u>

Table 2
State General Fund Receipts
FY 2009 Revised
Comparison of April 2009 Estimate to June 2009 Estimate
(Dollars in Thousands)

	FY 2009 CRE Est.	FY 2009 CRE Est.	Difference	
	04/17/09	Revised 06/08/09	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$29,500	\$29,500	\$0	-- %
Income Taxes:				
Individual	\$2,775,000	\$2,775,000	0	-- %
Corporation	255,000	\$255,000	0	--
Financial Inst.	26,000	\$26,000	0	--
Total	3,056,000	\$3,056,000	0	-- %
Estate Tax	\$25,000	\$25,000	\$0	-- %
Excise Taxes:				
Retail Sales	\$1,705,000	\$1,705,000	\$0	-- %
Compensating Use	235,000	\$235,000	0	--
Cigarette	106,000	\$106,000	0	--
Tobacco Product	5,600	\$5,600	0	--
Cereal Malt Beverage	2,200	\$2,200	0	--
Liquor Gallonage	18,500	\$18,500	0	--
Liquor Enforcement	54,000	\$54,000	0	--
Liquor Drink	9,500	\$9,500	0	--
Corporate Franchise	35,000	\$35,000	0	--
Severance	129,100	\$129,100	0	--
Gas	78,400	\$78,400	0	--
Oil	50,700	\$50,700	0	--
Total	\$2,299,900	\$2,299,900	\$0	-- %
Other Taxes:				
Insurance Premiums	\$119,700	\$119,700	0	-- %
Miscellaneous	2,000	\$2,000	0	--
Total	\$121,700	\$121,700	0	-- %
Total Taxes	\$5,532,100	\$5,532,100	\$0	-- %
Other Revenues:				
Interest	\$56,000	\$56,000	\$0	-- %
Net Transfers	(3,640)	\$40,222	43,862	--
Agency Earnings	81,400	\$81,400	0	--
Total Other Revenue	\$133,760	\$177,622	\$43,862	32.8 %
Total Receipts	\$5,665,860	\$5,709,722	\$43,862	0.8

Table 3
State General Fund Receipts
FY 2010 Revised
Comparison of April 2009 Estimate to June 2009 Estimate
(Dollars in Thousands)

	FY 2010 CRE Est.	FY 2010 CRE Est.	Difference	
	04/17/09	Revised 06/08/09	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$28,000	\$28,000	\$0	-- %
Income Taxes:				
Individual	\$2,745,000	\$2,755,335	10,335	0.4 %
Corporation	230,000	\$268,200	38,200	16.6
Financial Inst.	25,000	\$26,000	1,000	4.0
Total	3,000,000	\$3,049,535	49,535	1.7 %
Estate Tax	\$15,000	\$14,500	(\$500)	(3.3) %
Excise Taxes:				
Retail Sales	\$1,695,000	\$1,699,428	\$4,428	0.3 %
Compensating Use	220,000	\$231,200	11,200	5.1
Cigarette	102,000	\$102,000	0	--
Tobacco Product	5,800	\$5,800	0	--
Cereal Malt Beverage	2,200	\$2,200	0	--
Liquor Gallonage	18,500	\$18,500	0	--
Liquor Enforcement	57,000	\$57,000	0	--
Liquor Drink	9,700	\$9,700	0	--
Corporate Franchise	22,000	\$22,000	0	--
Severance	73,500	\$74,500	1,000	1.4
Gas	42,200	\$43,200	1,000	2.4
Oil	31,300	\$31,300	0	--
Total	\$2,205,700	\$2,222,328	\$16,628	0.8 %
Other Taxes:				
Insurance Premiums	\$117,300	\$117,300	0	-- %
Miscellaneous	2,000	\$2,000	0	--
Total	\$119,300	\$119,300	0	-- %
Total Taxes	\$5,368,000	\$5,433,663	\$65,663	1.2 %
Other Revenues:				
Interest	\$24,000	\$24,000	\$0	-- %
Net Transfers	(65,830)	\$23,610	89,440	--
Agency Earnings	54,600	\$54,600	0	--
Total Other Revenue	\$12,770	\$102,210	\$89,440	700.4 %
Total Receipts	\$5,380,770	\$5,535,873	\$155,103	2.9

TABLE 4
Legislative Adjustments by Bill by Source to FY 2009 Estimates
(\$ in millions)

	<u>Transfers</u>	<u>Total</u>
Senate Sub. for HB 2373	\$43.862	\$43.862

TABLE 5
Legislative Adjustments by Bill by Source to FY 2010 Estimates

	Sales	Use	Ind. Inc.	Corp. Inc.	Estate	Sev.	Priv.	Transfers	Total
SB 160			\$2.500						\$2.500
SB 97				(\$1.950)					(\$1.950)
S. Sub HB 2373								\$89.440	\$89.440
S. Sub. H. Sub. HB 2365	\$4.428	\$11.200	\$9.785	\$38.200	(\$0.500)	\$1.000	\$1.000		\$65.113
Total by Source	\$4.428	\$11.200	\$12.285	\$36.250	(\$0.500)	\$1.000	\$1.000	\$89.132	\$155.103