

# 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 2010 and FY 2011

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 2010 and FY 2011. These adjustments reflect the fiscal impact of legislation involving receipts to the SGF enacted during the 2010 Legislative Session subsequent to the Consensus Revenue Estimate made on April 16, 2010. The attached tables show changes by source and incorporate those changes into the overall estimates for FY 2010 and FY 2011. FY 2010 receipts were increased by \$36.731 million relative to the April estimate, attributable to several changes in transfers enacted in the omnibus appropriations bill. FY 2011 receipts were increased by \$672.529 million, with much of the difference attributable to a sales and use tax rate increase and numerous adjustments to transfers.

An additional section has been added to this report discussing the implications for SGF receipts in FY 2012 relative to certain legislation enacted in 2010 and prior years.

The Consensus Group will meet again prior to December 4 to consider revisions to the newly adjusted FY 2011 estimate and to make an initial estimate for FY 2012.

## FY 2010

The following FY 2010 adjustment was made:

**House Sub. for SB 572**, the omnibus bill, increased the estimate for net transfers by \$36.731 million, with the major change attributable to an additional \$38.0 million transfer from the State Highway Fund (SHF) to the SGF (\$10.0 million of which will be additional federal funds received as a result of enactment of a primary safety belt law in HB 2130).

## FY 2011

The following FY 2011 adjustments were made:

**SB 430** contains a number of provisions that will impact FY 2011 receipts, including various changes to 2009 legislation designed to provide a "haircut" for selected income tax credits; amendments to a number of different tax statutes relative to the definition of the term "willfully"; and the imposition of a small fee under certain circumstances for taxpayers' entering into installment payment plans. In addition, the Department of Revenue is expected to use the new fee revenues to hire additional personnel to enhance delinquent tax collections. The combined provisions of the

bill increase SGF receipts by \$0.588 million. Relative to specific tax sources, the individual income tax estimate is increased by \$0.775 million; the sales tax estimate is increased by \$2.043 million; and the financial institutions privilege tax estimate is decreased by \$2.230 million.

**Senate Sub. for HB 2360**, which raises the sales and use tax rate on July 1 from 5.3 to 6.3 percent, also adjusts several disposition of revenue provisions, expands the food sales tax rebate program, and expands the earned income tax credit program -- all of which combine to increase SGF receipts by a total of \$303.636 million. The sales tax estimate is increased by \$277.568 million; the use tax estimate is increased by \$41.068 million; and the individual income tax estimate is decreased by \$15.000 million.

**House Sub. for SB 572**, the omnibus bill, increases SGF receipts by a total of \$368.185 million. Of this amount, an \$8.0 million (\$6.4 million individual income tax and \$1.6 million sales tax) increase is attributable to a tax amnesty that will run from September 1 to October 15; and \$360.185 million is attributable to numerous changes in transfers. Notable transfer adjustments include a new transfer of \$149.3 million from the SHF; elimination of a \$44.0 million "slider" payment to local units of government; reduction of \$35.0 million in a transfer to the Biosciences Initiatives Fund; elimination of a \$10.1 million transfer to the Special City and County Highway Fund; and inclusion of \$33.0 million in additional transfers from the Expanded Lottery Act Revenues Fund (\$8.0 million of which will come from expanded gaming proceeds; and \$25.0 million of which come as a result of the South Central gaming zone privilege fee originally expected to have been received in FY 2010).

**Senate Sub. for HB 2226**, which increased traffic fines but provided for a lesser distribution to the SGF, will reduce agency earnings by \$0.220 million.

**Senate Sub. for HB 2356**, which diverts certain child care facility registration fees away from the SGF to a new fee fund, will reduce agency earnings by \$0.160 million.

**SB 452**, which provides for an acceleration of certain liquor license fees, will increase agency earnings by \$0.500 million.

Two additional pieces of legislation are expected to have an impact on FY 2011 receipts but could not be quantified. Any civil penalties levied under the Kansas Civil Protection Act for violations of the new Musical Performance Advertising Act (House Sub. for SB 269) will have a slightly positive (but indeterminate) impact on agency earnings. Certain new fees associated with the Naturopathic Doctor Licensure Act (House Sub. for SB 83) also will increase agency earnings by a slightly positive (but indeterminate) amount, as 20 percent of such fees are earmarked for deposit in the SGF.

### **FY 2012 and Thereafter**

Although the Consensus Group will not make its initial estimate for FY 2012 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 eliminated the Kansas tax altogether in 2010 will reduce receipts relative to the prior law by an estimated \$52.0 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 \$48.0 million in FY 2012.
- Legislation enacted in 2006 relative to a property tax exemption for business machinery and equipment is expected to reduce motor carrier property tax receipts to the SGF relative to the prior law by \$7.4 million in FY 2012.
- Additional legislation enacted in 2005 to divert severance tax receipts away from the SGF to a special trust fund will reduce the SGF share by \$13.354 million relative to the pre-2005 law (and by \$6.290 million more than the current estimated FY 2011 diversion of \$7.064 million). The trust fund diversion is expected to increase to \$13.550 million in FY 2013 and remain at that level in subsequent years.
- Current estimates are that "slider" transfer payments (originally enacted in 2006) to local units, which are scheduled to resume in FY 2012, will reduce SGF receipts by \$25.5 million.
- Receipts attributable to the tax amnesty provisions in the omnibus bill (expected to produce \$8.0 million in FY 2011 receipts) will not be repeated in FY 2012 or any subsequent year.
- The sunseting of a portion of the sales and use tax increase (on July 1, 2013 the rate will be reduced from 6.3 to 5.7 percent), as well as disposition of revenue language that diverts an increasing share of receipts to the State Highway Fund, will reduce SGF receipts in FY 2014 by \$351.703 million less than such receipts in FY 2013. SGF receipts in FY 2015 will decline by an additional \$29.399 below the FY 2014 level.

**Table 1**  
**Consensus Revenue Estimate for Fiscal Years 2010 and 2011**  
**and FY 2009 Actual Receipts**  
*(Dollars in Thousands)*

	FY 2009 (Actual)		FY 2010 (Revised 6/8)		FY 2011 (Revised 6/8)	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$ 29,257	0.8 %	\$ 24,000	(18.0) %	\$ 24,000	0.0 %
Income Taxes:						
Individual	\$2,682,000	(7.4) %	\$ 2,510,000	(6.4) %	\$2,577,175	2.7 %
Corporation	240,258	(44.4)	250,000	4.1	255,000	2.0
Financial Inst.	26,192	(21.0)	20,000	(23.6)	20,770	3.9
Total	\$2,948,450	(12.3) %	\$ 2,780,000	(5.7) %	\$2,852,945	2.6 %
Estate Tax	\$ 22,530	(49.1) %	\$ 9,000	(60.1) %	\$ 5,000	(44.4) %
Excise Taxes:						
Retail Sales	\$1,689,516	(1.3) %	\$ 1,640,000	(2.9) %	\$1,971,211	20.2 %
Compensating Use	235,026	(4.6)	205,000	(12.8)	271,068	32.2
Cigarette	107,216	(4.9)	99,000	(7.7)	95,000	(4.0)
Tobacco Products	5,728	3.2	6,300	10.0	6,600	4.8
Cereal Malt Bev.	2,089	(6.2)	2,100	0.5	2,100	0.0
Liquor Gallonage	18,215	3.6	18,200	(0.1)	18,800	3.3
Liquor Enforcement	53,794	7.6	56,500	5.0	58,000	2.7
Liquor Drink	9,141	2.7	9,100	(0.4)	9,300	2.2
Corp. Franchise	41,720	(10.6)	34,000	(18.5)	17,000	(50.0)
Severance	124,249	(16.1)	84,000	(32.4)	98,400	17.1
Gas	73,814	(19.3)	41,400	(43.9)	50,900	22.9
Oil	50,436	(11.0)	42,600	(15.5)	47,500	11.5
Total	\$2,286,693	(2.7) %	\$ 2,154,200	(5.8) %	\$2,547,479	18.3 %
Other Taxes:						
Insurance Prem.	\$ 119,590	1.7 %	\$ 118,800	(0.7) %	\$ 123,000	3.5 %
Miscellaneous	1,794	(65.7)	1,800	0.3	1,800	0.0
Total	\$ 121,384	(1.2) %	\$ 120,600	(0.6) %	\$ 124,800	3.5 %
Total Taxes	\$5,408,314	(8.4) %	\$ 5,087,800	(5.9) %	\$5,554,224	9.2 %
Other Revenues:						
Interest	\$ 64,199	(42.3) %	\$ 23,000	(64.2) %	\$ 25,000	8.7 %
Net Transfers	35,582	109.4	127,731	259.0	131,694	3.1
Agency Earnings	80,879	50.1	52,500	(35.1)	56,320	7.3
Total	\$ 180,660	185.0 %	\$ 203,231	12.5 %	\$ 213,014	4.8 %
Total Receipts	<u>\$5,588,974</u>	<u>(1.9) %</u>	<u>\$ 5,291,031</u>	<u>(5.3) %</u>	<u>\$5,767,238</u>	<u>9.0 %</u>

**Table 2**  
**State General Fund Receipts**  
**FY 2010 Revised**  
**Comparison of April 2010 Estimate to June 2010 Estimate**  
*(Dollars in Thousands)*

	FY 2010 CRE Est.	FY 2010 CRE Est.	Difference	
	04/16/10	Revised 06/08/10	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$ 24,000	\$ 24,000	\$ 0	-- %
Income Taxes:				
Individual	\$ 2,510,000	\$ 2,510,000	\$ 0	-- %
Corporation	250,000	250,000	0	--
Financial Inst.	20,000	20,000	0	--
Total	\$ 2,780,000	\$ 2,780,000	\$ 0	-- %
Estate Tax	\$ 9,000	\$ 9,000	\$ 0	-- %
Excise Taxes:				
Retail Sales	\$ 1,640,000	\$ 1,640,000	\$ 0	-- %
Compensating Use	205,000	205,000	0	--
Cigarette	99,000	99,000	0	--
Tobacco Product	6,300	6,300	0	--
Cereal Malt Beverage	2,100	2,100	0	--
Liquor Gallonage	18,200	18,200	0	--
Liquor Enforcement	56,500	56,500	0	--
Liquor Drink	9,100	9,100	0	--
Corporate Franchise	34,000	34,000	0	--
Severance	84,000	84,000	0	--
Gas	41,400	41,400	0	--
Oil	42,600	42,600	0	--
Total	\$ 2,154,200	\$ 2,154,200	\$ 0	-- %
Other Taxes:				
Insurance Premiums	\$ 118,800	\$ 118,800	\$ 0	-- %
Miscellaneous	1,800	1,800	0	--
Total	\$ 120,600	\$ 120,600	\$ 0	-- %
Total Taxes	\$ 5,087,800	\$ 5,087,800	\$ 0	-- %
Other Revenues:				
Interest	\$ 23,000	\$ 23,000	\$ 0	-- %
Net Transfers	91,000	127,731	36,731	40.4
Agency Earnings	52,500	52,500	0	--
Total Other Revenue	\$ 166,500	\$ 203,231	\$ 36,731	22.1 %
Total Receipts	\$ 5,254,300	\$ 5,291,031	\$ 36,731	0.7 %

**Table 3**  
**State General Fund Receipts**  
**FY 2011 Revised**  
**Comparison of April 2010 Estimate to June 2010 Estimate**  
*(Dollars in Thousands)*

	FY 2011 CRE Est.	FY 2011 CRE Est.	Difference	
	04/16/10	Revised 06/08/10	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$ 24,000	\$ 24,000	\$ 0	-- %
Income Taxes:				
Individual	\$ 2,585,000	\$ 2,577,175	\$ (7,825)	(0.3) %
Corporation	255,000	255,000	0	--
Financial Inst.	23,000	20,770	(2,230)	(9.7)
Total	\$ 2,863,000	\$ 2,852,945	\$ (10,055)	(0.4) %
Estate Tax	\$ 5,000	\$ 5,000	\$ 0	-- %
Excise Taxes:				
Retail Sales	\$ 1,690,000	\$ 1,971,211	\$ 281,211	16.6 %
Compensating Use	230,000	271,068	41,068	17.9
Cigarette	95,000	95,000	0	--
Tobacco Product	6,600	6,600	0	--
Cereal Malt Beverage	2,100	2,100	0	--
Liquor Gallonage	18,800	18,800	0	--
Liquor Enforcement	58,000	58,000	0	--
Liquor Drink	9,300	9,300	0	--
Corporate Franchise	17,000	17,000	0	--
Severance	98,400	98,400	0	--
Gas	50,900	50,900	0	--
Oil	47,500	47,500	0	--
Total	\$ 2,225,200	\$ 2,547,479	\$ 322,279	14.5 %
Other Taxes:				
Insurance Premiums	\$ 123,000	\$ 123,000	\$ 0	-- %
Miscellaneous	1,800	1,800	0	--
Total	\$ 124,800	\$ 124,800	\$ 0	-- %
Total Taxes	\$ 5,242,000	\$ 5,554,224	\$ 312,224	6.0 %
Other Revenues:				
Interest	\$ 25,000	\$ 25,000	\$ 0	-- %
Net Transfers	(228,491)	131,694	360,185	--
Agency Earnings	56,200	56,320	120	0.2
Total Other Revenue	\$ (147,291)	\$ 213,014	\$ 360,305	(244.6) %
Total Receipts	\$ 5,157,100	\$ 5,157,100	\$ -	-- %
Total Receipts	\$ 5,094,709	\$ 5,767,238	\$ 672,529	13.2 %

**Legislative Adjustments by Bill by Source to FY 2010 Estimates**

(\$ in millions)

	<u>Transfers</u>	<u>Total</u>
H Sub SB 572	\$ 36.731	\$ 36.731
Total by Source	<u>\$ 36.731</u>	<u>\$ 36.731</u>

**Legislative Adjustments by Bill by Source to FY 2011 Estimates**

(\$ in millions)

	<u>Individual Income</u>	<u>Sales</u>	<u>Use</u>	<u>Financial Institutions</u>	<u>Agency Earnings</u>	<u>Transfers</u>	<u>Total</u>
SB 430	\$ 0.775	\$ 2.043		\$ (2.230)			\$ 0.588
S Sub HB 2360	(15.000)	277.568	41.068				303.636
H Sub SB 572	6.400	1.600				360.185	368.185
S Sub HB 2226					(0.220)		(0.220)
S Sub HB 2356					(0.160)		(0.160)
SB 452					0.500		0.500
Total by Source	<u>\$ (7.825)</u>	<u>\$ 281.211</u>	<u>\$ 41.068</u>	<u>\$ (2.230)</u>	<u>\$ 0.120</u>	<u>\$ 360.185</u>	<u>\$ 672.529</u>