

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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To: Governor Sam Brownback and Legislative Budget Committee

From: Kansas Legislative Research Department
Kansas Division of the Budget

Re: State General Fund Receipts Estimates for FY 2012 and FY 2013

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 4, 2011, and increased the estimate for FY 2012 and developed the initial estimate for FY 2013.

For FY 2012, the estimate was increased by \$199.1 million, or 3.3 percent, above the previous estimate (made in April and subsequently adjusted for legislation enacted during the veto session). The revised estimate of \$6.245 billion represents 6.2 percent growth above final FY 2011 receipts.

The first estimate for FY 2013 is \$6.291 billion, which is \$46.3 million, or 0.7 percent, above the newly revised FY 2012 figure. Various factors influencing this growth rate in addition to the state of the economy include a net change of \$245.9 million in transfers out of the SGF (in compliance with current statutory requirements for FY 2013); and recent changes in state tax law that will affect the four major SGF revenue sources in a variety of different ways. The FY 2013 estimate for tax receipts only reflects an increase of \$292.8 million or 4.9 percent above the FY 2012 tax receipts only estimate.

Table 1 compares the new FY 2012 and FY 2013 estimates with actual receipts from FY 2011. Table 2 shows the changes in the FY 2012 estimates.

Economic Forecast for Kansas

Although the US economy has been growing for two years and is expected to continue to do so, the anticipated rate of growth has decelerated somewhat relative to expectations in the spring. Significant events for the global and US economies since the April estimate have included additional energy price volatility as a result of political upheavals in the Middle East, the possibility of a US debt downgrade, and the European Union debt crisis. 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 2011 (the April estimate had been 4.1 percent) and 4.2 percent in 2012 (the April estimate was 5.6 percent); and nominal Kansas Gross State Product is now forecast to grow by 4.2 and 4.3 percent for the two years, respectively (whereas the prior forecast had used 4.0 and 5.3 percent). Although various economic indicator indices also suggest a continued -- if slowing -- expansion, a good deal of uncertainty remains as a result of the aforementioned international situations and a sluggish domestic residential housing market. The estimates contained in this memo for FY 2012 and FY 2013 are premised on this general economic forecast.

Kansas Personal Income

Kansas Personal Income (KPI) in 2011 is expected to increase by a relatively healthy 5.7 percent above the 2010 level, although it is important to note that this figure would have been 4.9 percent but for the enactment of a Social Security payroll tax cut by the federal government. Additional personal income generated from that provision is not subject to the income tax. Both figures are nevertheless higher than the 4.1 percent KPI growth for 2011 that had been estimated in April. The new forecast calls for additional KPI growth of 5.0 percent in 2012 and 4.8 percent in 2013.

Employment

Data obtained from the Kansas Department of Labor verify that employment has begun to rebound. The most recent monthly data from the Kansas Department of Labor show that total Kansas non-farm private sector employment from September 2010 to September 2011 increased by about 7,800 jobs; while public sector jobs fell by 2,600. From its peak in April of 2008 to its low point in February of 2011, the state lost 89,100 jobs. Sectors with the biggest percentage increases over the last year include manufacturing; professional and business services; and private education and health services. The current average estimates used by the Department indicate that the overall Kansas unemployment rate, which was 7.0 percent in CY 2010, is expected to be 6.7 percent in CY 2011 before further declining to 6.4 percent in CY 2012. One positive sign relates to initial unemployment claims data, which throughout 2011 have been well below the same time periods studied for 2010. The national unemployment rate is expected to remain well above the Kansas rate, with the US rate now expected to be 9.1 percent in 2011 and 8.7 percent in 2012.

Agriculture

Although net farm income increased significantly in 2010, the outlook for 2011 has been significantly affected by drought. Subsoil moisture supplies as of late October were rated as short or very short in 75 percent of the state. Wheat production alone is expected to have fallen by 23 percent below 2010 levels, with the fewest number of acres harvested since 1957. The availability of crop insurance has helped mitigate some of the losses, and grain and livestock prices are generally higher than a year ago. 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 2012 has remained higher than the price forecasted last April. The average price per taxable barrel of Kansas crude in FY 2012 is now estimated to be \$84, higher than the previous forecast of \$82 (and higher than the \$78.57 final average price for FY 2011). The FY 2013 price is expected to remain at \$84 per barrel. As always, significant political tensions around the world provide a great deal of uncertainty about forecasting the price of this commodity. Gross oil production in Kansas, which had been declining steadily for more than a decade until FY 2000, reversed that trend about six years ago and began increasing. The current forecast of 42.0 million barrels for FY 2012 compares favorably to the 33.5 million barrels produced in FY 2005. Approximately half of all Kansas oil produced is not subject to severance taxation because of various exemptions in that law.

The price of natural gas is expected to average \$4.10 per mcf for FY 2012 before increasing to \$4.15 per mcf for FY 2013, based on an industry source's analysis of futures markets. Only about 10 percent of natural gas production is exempt from the severance tax. Factors considered for these estimates included the relationship between crude oil and gas prices, the current relatively 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 2011 of 325 million cubic feet represented a significant decrease from the modern era peak of 730 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 305 million cubic feet for FY 2012; and to 285 million cubic feet for FY 2013.

Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) is expected to increase by 3.4 percent in 2011, driven largely by energy price increases. The latest forecast calls for inflation to return to very moderate levels of 2.0 percent in 2012 and 2.2 percent in 2013.

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 2011, the state earned only 0.44 percent on its SGF portfolio (compared with a 4.26 percent rate in FY 2008, 2.20 percent in FY 2009, and 0.96 percent in FY 2010). The average rate of return forecast for both FY 2012 and FY 2013 is a miniscule 0.10 percent and reflects the expected continuation of historically low interest rates and idle-fund balances that remain low in historic terms but which are projected to be higher than in the past three years.

Economic Forecasts			
	CY 11*	CY 12*	CY 13*
KPI Growth	5.7 %	5.0 %	4.8 %
Inflation (CPI-U)	3.4 %	2.0 %	2.2 %
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	FY 11	FY 12*	FY 13*
SGF Interest	0.44 %	0.10 %	0.10 %
Oil and Gas			
Oil Prices per bbl	\$ 78.57	\$ 84.00	\$ 84.00
Gross Prod. (000)	40,873	42,000	43,000
Gas Price per mcf	\$ 3.74	\$ 4.10	\$ 4.15
Gas Taxable Value (000)	\$ 1,153,187	\$ 1,125,450	\$ 1,064,475
*Estimated			

State General Fund Receipts Estimates

FY 2012. The revised estimate of SGF receipts for FY 2012 is \$6.245 billion, an increase of \$199.1 million above the previous estimate. Receipts through October from tax sources had been running \$63.6 million above that forecast. The overall revised estimate is approximately \$363.0 million, or 6.2 percent, above actual FY 2011 receipts.

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 individual income tax estimate was increased by \$173.2 million and accounted for most of the \$205.3 million increase from all tax sources. Healthy growth in withholding and estimated payments thus far in FY 2012 had the individual income tax running \$51.1 million ahead of the previous estimate through October. Moreover, receipts from this source exceeded the final FY 2011 estimate by \$114.7 million, and the CY 2012 KPI growth forecast has been increased since April. The sales and use tax estimates also were increased by \$14.7 million and \$14.5 million, respectively, to reflect strong fiscal-year-to-date collections in these sources.

On the negative side, the motor carrier property tax estimate was reduced by \$4.5 million to more accurately account for the impact of a property tax exemption enacted in 2006; and the SGF interest forecast was reduced by \$5.0 million because of the reduced interest rate for idle state funds.

Details of the current year's revised estimate are reflected in Table 2.

FY 2013. SGF receipts are estimated to be \$6.291 billion in FY 2013, a figure that is 0.7 percent above the new FY 2012 forecast. This result is heavily influenced by an increase of \$245.9 million in net transfers from the SGF which will occur absent any change in current law. The current estimate for net transfers for FY 2012 of \$155.6 million includes a \$205 million transfer from the State Highway Fund and \$39.3 million in Expanded Lottery Act receipts that are not scheduled to be repeated under current law for FY 2013.

A number of changes in state tax law enacted in 2011 which will be implemented on January 1 also influenced the FY 2013 estimates more heavily than the FY 2012 estimates, including repeal of a sales tax exemption for projects that had previously qualified for a business and job development income tax credit program; and creation of a new expensing deduction for Kansas income taxpayers.

Total tax receipts only are expected to grow by \$292.8 million, or 4.9 percent, to reflect the continuing but slowing economic recovery. Another factor taken into account for FY 2013 is the continued phasing out and ultimate repeal of the estate and corporation franchise taxes.

Accuracy of Consensus Revenue Estimates

For 37 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 4, 2011, 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	0.0
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)	0.0	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	5,694.9	(5.5)	(0.1)	(41.4)	(0.7)
2009	6,185.7	5,709.7	5,589.0	(596.7)	(9.6)	(120.7)	(2.1)
2010	5,974.2	5,291.0	5,192.4	(781.8)	(13.1)	(98.6)	(1.9)
2011	5,851.0	5,775.0	5,882.1	31.1	0.5	107.1	1.9

*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 2012 Legislative Session.

Table 1
State General Fund Receipts
(Dollars in Thousands)

	Consensus Estimate November 4, 2011					
	FY 2011 (Actual)		FY 2012 (Revised)		FY 2013	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$ 23,167	(7.3) %	\$ 22,500	(2.9) %	\$ 21,000	(6.7) %
Income Taxes:						
Individual	\$ 2,709,717	12.1 %	\$ 2,900,000	7.0 %	\$ 3,065,000	5.7 %
Corporation	224,865	(0.0)	225,000	0.1	240,000	6.7
Financial Inst.	21,651	31.1	22,000	1.6	24,000	9.1
Total	<u>\$ 2,956,234</u>	<u>11.2 %</u>	<u>\$ 3,147,000</u>	<u>6.5 %</u>	<u>\$ 3,329,000</u>	<u>5.8 %</u>
Excise Taxes:						
Retail Sales	\$ 1,965,388	19.0 %	\$ 2,100,000	6.8 %	\$ 2,200,000	4.8 %
Compensating Use	287,730	40.0	315,000	9.5	335,000	6.3
Cigarette	95,923	(3.9)	93,000	(3.0)	92,000	(1.1)
Tobacco Products	6,573	3.5	6,800	3.5	6,900	1.5
Cereal Malt Bev.	1,905	(4.2)	1,900	(0.3)	1,900	--
Liquor Gallonage	18,276	1.8	19,000	4.0	19,000	--
Liquor Enforcement	56,120	2.4	58,000	3.3	59,000	1.7
Liquor Drink	9,003	0.8	9,100	1.1	9,200	1.1
Corp. Franchise	30,283	(27.0)	8,000	(73.6)	6,000	(25.0)
Severance	98,666	20.5	110,200	11.7	102,800	(6.7)
Gas	41,228	3.1	41,600	0.9	36,900	(11.3)
Oil	57,437	37.1	68,600	19.4	65,900	(3.9)
Total	<u>\$ 2,569,868</u>	<u>18.4 %</u>	<u>\$ 2,721,000</u>	<u>5.9 %</u>	<u>\$ 2,831,800</u>	<u>4.1 %</u>
Other Taxes:						
Insurance Prem.	141,707	17.7 %	\$ 137,000	(3.3) %	\$ 139,000	1.5 %
Miscellaneous	2,029	(79.8)	2,500	23.2	2,000	(20.0)
Total	<u>\$ 143,735</u>	<u>10.2 %</u>	<u>\$ 139,500</u>	<u>(2.9) %</u>	<u>\$ 141,000</u>	<u>1.1 %</u>
Total Taxes	<u>\$ 5,693,003</u>	<u>14.2 %</u>	<u>\$ 6,030,000</u>	<u>5.9 %</u>	<u>\$ 6,322,800</u>	<u>4.9 %</u>
Other Revenues:						
Interest	\$ 19,764	(19.8) %	\$ 8,000	(59.5) %	\$ 7,400	(7.5) %
Net Transfers	118,879	(6.7)	155,600	30.9	(90,300)	(158.0)
Agency Earnings	50,441	(5.5)	51,500	2.1	51,500	--
Total	<u>\$ 189,084</u>	<u>(7.9) %</u>	<u>\$ 215,100</u>	<u>13.8 %</u>	<u>\$ (31,400)</u>	<u>(114.6) %</u>
Total Receipts	<u><u>\$ 5,882,087</u></u>	<u><u>13.3 %</u></u>	<u><u>\$ 6,245,100</u></u>	<u><u>6.2 %</u></u>	<u><u>\$ 6,291,400</u></u>	<u><u>0.7 %</u></u>

Table 2
State General Fund Receipts
FY 2012 Revised
Comparison of November 2011 Estimate to June 2011 Estimate
(Dollars in Thousands)

	FY 2012 CRE Est. as Adj. for Legis.	FY 2012 CRE Estimate	Difference	
			Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$ 27,000	\$ 22,500	\$ (4,500)	(16.7) %
Income Taxes:				
Individual	\$ 2,726,818	\$ 2,900,000	\$ 173,182	6.4 %
Corporation	226,050	225,000	(1,050)	(0.5)
Financial Inst.	21,500	22,000	500	2.3
Total	\$ 2,974,368	\$ 3,147,000	\$ 172,632	5.8 %
Excise Taxes:				
Retail Sales	\$ 2,085,264	\$ 2,100,000	\$ 14,736	0.7 %
Compensating Use	300,550	315,000	14,450	4.8
Cigarette	92,000	93,000	1,000	1.1
Tobacco Product	6,700	6,800	100	1.5
Cereal Malt Beverage	1,850	1,900	50	2.7
Liquor Gallonage	19,200	19,000	(200)	(1.0)
Liquor Enforcement	58,000	58,000	--	--
Liquor Drink	9,100	9,100	--	--
Corporate Franchise	8,000	8,000	--	--
Severance	107,700	110,200	2,500	2.3
Gas	41,600	41,600	--	--
Oil	66,100	68,600	2,500	3.8
Total	\$ 2,688,364	\$ 2,721,000	\$ 32,636	1.2 %
Other Taxes:				
Insurance Premium	\$ 133,000	\$ 137,000	\$ 4,000	3.0 %
Miscellaneous	2,000	2,500	500	25.0
Total	\$ 135,000	\$ 139,500	\$ 4,500	3.3 %
Total Taxes	\$ 5,824,732	\$ 6,030,000	\$ 205,268	3.5 %
Other Revenues:				
Interest	\$ 12,996	\$ 8,000	\$ (4,996)	(38.4) %
Net Transfers	158,900	155,600	(3,300)	(2.1)
Agency Earnings	49,401	51,500	2,099	4.2
Total Other Revenue	\$ 221,297	\$ 215,100	\$ (6,197)	(2.8) %
Total Receipts	\$ 6,046,029	\$ 6,245,100	\$ 199,071	3.3 %