

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

68-West-Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 • FAX (785) 296-3824

kslegres@klrd.ks.gov

<http://www.kslegislature.org/klrd>

June 28, 2013

To: Governor Sam Brownback and Legislative Coordinating Council

From: Chris W. Courtwright, Principal Economist

Re: Legislative Adjustments to Consensus Estimates for FY 2013 and FY 2014

Pursuant to KSA 75-6701, the Legislative Research Department has adjusted the most recent estimates of State General Fund (SGF) receipts for FY 2013 and FY 2014. These adjustments reflect the fiscal impact of legislation involving receipts to the SGF enacted during the 2013 Legislative Session subsequent to the Consensus Revenue Estimate made on April 19, 2013. The attached tables show changes by source and incorporate those changes into the overall FY 2013 and FY 2014 estimates. FY 2013 receipts were increased by \$51.394 million relative to the April estimate; while FY 2014 receipts were increased by \$431.256 million.

An additional section of this report discusses the implications for SGF receipts in FY 2015 and subsequent years relative to legislation enacted in previous years (as well as 2013).

The Consensus Group will meet again prior to December 4 to consider revisions to the newly adjusted FY 2014 estimate and to make an initial estimate for FY 2015.

FY 2013

The following FY 2013 adjustments were made:

- **SB 171**, the omnibus budget bill, increases net transfers by \$39.213 million. Major changes relative to the April estimate included \$22.713 million in funds that otherwise would have been transferred for biosciences initiatives; \$15.000 million in a transfer from the Insurance Department's Service Regulation Fund; and \$9.500 million in tobacco settlement monies originally earmarked for the Kansas Endowment for Youth Fund. An additional provision of the bill increases net individual income tax receipts to the SGF by an additional \$12.181 million by reducing the amount that otherwise would have been credited to the Job Creation Program Fund. The combined overall SGF impact of the bill is therefore a positive \$51.394 million.

FY 2014

The following FY 2014 adjustments were made:

- **HB 2059**, the tax bill, increases receipts by \$307.900 million. Individual income taxes are increased by \$114.700 million; sales taxes are increased \$167.500 million; and compensating use taxes are increased by \$25.700 million. The

legislation implements a number of changes to both itemized and standard deductions beginning in tax year 2013; and increases from 5.7 percent to 6.15 percent the sales and use tax rate imposed on and after July 1, 2013.

- **SB 171**, the omnibus bill, increases overall SGF receipts by \$123.356 million. Net transfers are increased by \$98.696 million, with major changes relative to the April estimate including the repeal of a previously scheduled \$27.000 million transfer earmarked for local property tax relief; a reduction of \$25.000 million to a transfer for biosciences initiatives; and enactment of a previously unscheduled transfer into the SGF of \$15.000 million from the State Highway Fund. An additional section of the bill will increase net SGF severance tax receipts by reducing the amount credited to the Oil and Gas Valuation Depletion Trust Fund by \$7.577 million. (Of this amount, \$5.580 million of the increase will be from oil; and \$1.997 million from gas.) Docket fees and Kansas Corporation Commission fines associated with other provisions in the bill will increase agency earnings by \$7.098 million. Finally, another reduction in the amount that would otherwise have been credited to the Job Creation Program Fund increases net individual income tax receipts by \$9.985 million.
- **Senate Sub. for HB 2199**, which makes a number of amendments to liquor laws, has the potential to have a modest impact on liquor drink and liquor excise tax receipts, but that impact was not quantifiable.

FY 2015 and Thereafter

Individual Income Tax. Individual income tax receipts, which will be impacted significantly by a new round of rate cuts (HB 2059) beginning in tax year 2014, will have been reduced relative to prior law by \$1.6 million in FY 2015; \$74.4 million in FY 2016; \$131.3 million in FY 2017; and \$248.9 million in FY 2018. The cumulative income tax changes enacted by both 2012 and 2013 legislation will have reduced receipts by an estimated \$5.229 billion from FY 2013 to FY 2018. A special formula enacted by HB 2059 also could provide for additional rate reductions beginning as early as tax year 2019 that further would reduce income tax collections.

Motor Carrier Property Tax. Changes in the motor carrier property tax and fee structure enacted in 2012 provided for a one-time acceleration of receipts into FY 2014, when the current estimate is \$41 million. Receipts from this source are expected to fall to about \$23 million in FY 2015 and subsequently grow more slowly than they had been under prior law.

Severance Tax. After having been reduced by the 2013 omnibus bill for FY 2014 and 2015, the amount of the prior year's severance tax receipts earmarked for transfer to the Oil and Gas Valuation Depletion Trust Fund will return its previously scheduled level of 12.41 percent in FY 2016 (up from 6.0 percent in FY 2014 and 8.0 percent in FY 2015).

Property Tax Relief/Revenue Sharing. Current law also provides for reinstatement of Local Ad Valorem Tax Reduction Fund transfers from the SGF beginning in FY 2016 at \$54 million annually; and of County and City Revenue Sharing Fund transfers beginning in FY 2017 (at 2.823 percent of sales and use taxes credited to the SGF).

Sales and Use Tax. Also notable is the original policy intent of 2010 legislation (continued by HB 2059 in 2013) to provide a larger amount of sales and use tax receipts to the State Highway Fund beginning in FY 2014, which effectively reduces the SGF's relative share of these two taxes from 88.767 percent in FY 2013 to 82.927 percent for FY 2014 and all subsequent years.

Table 1
Consensus Revenue Estimate for Fiscal Years 2013 and 2014 (Revised 6/28/13)
and FY 2012 Actual Receipts
(Dollars in Thousands)

	FY 2012 (Actual)		FY 2013		FY 2014	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$24,814	7.1 %	\$29,000	16.9 %	\$41,000	41.4 %
Income Taxes:						
Individual	\$2,908,029	7.3 %	\$2,862,181	(1.6) %	\$2,524,685	(11.8) %
Corporation	284,466	26.5	360,000	26.6	370,000	2.8
Financial Inst.	25,849	19.4	30,000	16.1	31,000	3.3
Total	\$3,218,344	8.9 %	3,252,181	1.1 %	\$2,925,685	(10.0) %
Excise Taxes:						
Retail Sales	\$2,136,353	8.7 %	\$2,190,000	2.5 %	\$2,087,500	(4.7) %
Compensating Use	325,339	13.1	335,000	3.0	320,700	(4.3)
Cigarette	96,661	0.8	90,000	(6.9)	90,000	0.0
Tobacco Products	6,978	6.2	6,900	(1.1)	7,100	2.9
Cereal Malt Bev.	2,081	9.2	1,900	(8.7)	1,900	0.0
Liquor Gallonage	18,543	1.5	18,900	1.9	19,100	1.1
Liquor Enforcement	58,862	4.9	61,000	3.6	62,000	1.6
Liquor Drink	9,528	5.8	9,600	0.8	9,900	3.1
Corp. Franchise	9,817	(67.6)	(4,500)	(145.8)	6,000	(233.3)
Severance	107,253	8.7	97,900	(8.7)	140,377	43.4
Gas	40,276	(2.3)	25,000	(37.9)	35,297	41.2
Oil	66,977	16.6	72,900	8.8	105,080	44.1
Total	\$2,771,417	7.8 %	\$2,806,700	1.3 %	\$2,744,577	(2.2) %
Other Taxes:						
Insurance Prem.	\$143,180	1.0 %	\$155,000	8.3 %	\$160,000	3.2 %
Miscellaneous	2,718	34.0	2,000	(26.4)	2,000	0.0
Total	\$145,898	1.5 %	\$157,000	7.6 %	\$162,000	3.2 %
Total Taxes	\$6,160,474	8.2 %	\$6,244,881	1.4 %	\$5,873,262	(6.0) %
Other Revenues:						
Interest	\$9,677	(51.0) %	\$12,750	31.8 %	\$10,400	(18.4) %
Net Transfers	180,521	51.9	(63,217)	(135.0)	(61,234)	(3.1)
Agency Earnings	62,079	23.1	56,000	(9.8)	63,098	12.7
Total	\$252,277	33.4 %	\$5,533	(97.8) %	\$12,264	121.7 %
Total Receipts	\$6,412,751	9.0 %	\$6,250,414	(2.5) %	\$5,885,526	(5.8) %

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

	FY 2013 CRE Est.	FY 2013 CRE Est.	Difference	
	04/19/13	Revised 06/28/13	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$29,000	\$29,000	\$0	-- %
Income Taxes:				
Individual	\$2,850,000	\$2,862,181	\$12,181	0.4 %
Corporation	360,000	\$360,000	0	--
Financial Inst.	30,000	\$30,000	0	--
Total	3,240,000	\$3,252,181	\$12,181	0.4 %
Excise Taxes:				
Retail Sales	\$2,190,000	\$2,190,000	\$0	-- %
Compensating Use	335,000	\$335,000	0	--
Cigarette	90,000	\$90,000	0	--
Tobacco Product	6,900	\$6,900	0	--
Cereal Malt Beverage	1,900	\$1,900	0	--
Liquor Gallonage	18,900	\$18,900	0	--
Liquor Enforcement	61,000	\$61,000	0	--
Liquor Drink	9,600	\$9,600	0	--
Corporate Franchise	(4,500)	(\$4,500)	0	--
Severance	97,900	\$97,900	0	--
Gas	25,000	\$25,000	0	--
Oil	72,900	\$72,900	0	--
Total	\$2,806,700	\$2,806,700	\$0	-- %
Other Taxes:				
Insurance Premiums	\$155,000	\$155,000	0	-- %
Miscellaneous	2,000	\$2,000	0	--
Total	\$157,000	\$157,000	0	-- %
Total Taxes	\$6,232,700	\$6,244,881	\$12,181	0.2 %
Other Revenues:				
Interest	\$12,750	\$12,750	\$0	-- %
Net Transfers	(102,430)	(\$63,217)	39,213	(38.3)
Agency Earnings	56,000	\$56,000	0	--
Total Other Revenue	(\$33,680)	\$5,533	\$39,213	(116.4) %
Total Receipts	\$6,199,020	\$6,250,414	\$51,394	0.8

Table 3
State General Fund Receipts
FY 2014 Revised
Comparison of April 2013 Estimate to June 2013 Estimate
(Dollars in Thousands)

	FY 2014 CRE Est.	FY 2014 CRE Est.	Difference	
	04/19/13	Revised 06/28/13	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$41,000	\$41,000	\$0	-- %
Income Taxes:				
Individual	\$2,400,000	\$2,524,685	\$124,685	5.2 %
Corporation	370,000	\$370,000	0	--
Financial Inst.	31,000	\$31,000	0	--
Total	2,801,000	\$2,925,685	\$124,685	4.5 %
Excise Taxes:				
Retail Sales	\$1,920,000	\$2,087,500	\$167,500	8.7 %
Compensating Use	295,000	\$320,700	25,700	8.7
Cigarette	90,000	\$90,000	0	--
Tobacco Product	7,100	\$7,100	0	--
Cereal Malt Beverage	1,900	\$1,900	0	--
Liquor Gallonage	19,100	\$19,100	0	--
Liquor Enforcement	62,000	\$62,000	0	--
Liquor Drink	9,900	\$9,900	0	--
Corporate Franchise	6,000	\$6,000	0	--
Severance	132,800	\$140,377	7,577	5.7
Gas	33,300	\$35,297	1,997	6.0
Oil	99,500	\$105,080	5,580	5.6
Total	\$2,543,800	\$2,744,577	\$200,777	7.9 %
Other Taxes:				
Insurance Premiums	\$160,000	\$160,000	0	-- %
Miscellaneous	2,000	\$2,000	0	--
Total	\$162,000	\$162,000	0	-- %
Total Taxes	\$5,547,800	\$5,873,262	\$325,462	5.9 %
Other Revenues:				
Interest	\$10,400	\$10,400	\$0	-- %
Net Transfers	(159,930)	(\$61,234)	98,696	--
Agency Earnings	56,000	\$63,098	7,098	12.7
Total Other Revenue	(\$93,530)	\$12,264	\$105,794	(113.1) %
Total Receipts	\$5,454,270	\$5,885,526	\$431,256	7.9

Table 4

Legislative Adjustments by Bill by Source to FY 2013 Estimates
(\$ in millions)

	<u>transfers</u>	<u>ind inc</u>	<u>total</u>
SB 171	\$39.213	\$12.181	\$51.394
Total by Source	\$39.213	\$12.181	\$51.394

Table 5

Legislative Adjustments by Bill by Source to FY 2014 Estimates
(\$ in millions)

	<u>transfers</u>	<u>ag earn</u>	<u>sales</u>	<u>use</u>	<u>ind inc</u>	<u>sev</u>	<u>total</u>
SB 171	\$98.696	\$7.098			\$9.985	\$7.577	\$123.356
HB 2059			\$167.500	\$25.700	\$114.700		\$307.900
Total by Source	\$98.696	\$7.098	\$167.500	\$25.700	\$124.685	\$7.577	\$431.256