

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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To: Governor Sam Brownback and Legislative Coordinating Council

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

Re: Legislative Adjustments to Consensus Estimates for FY 2014 and FY 2015

Pursuant to KSA 75-6701, the Legislative Research Department and the Division of the Budget have adjusted the most recent estimates of State General Fund (SGF) receipts for FY 2014 and FY 2015. These adjustments reflect the fiscal impact of legislation involving receipts to the SGF enacted during the 2014 Legislative Session subsequent to the Consensus Revenue Estimate made on April 17, 2014. The attached tables show changes by source and incorporate those changes into the overall FY 2014 and FY 2015 estimates. FY 2014 receipts were increased by \$26.681 million relative to the April estimate; while FY 2015 receipts were decreased by \$16.825 million.

An additional section of this report discusses the implications for SGF receipts in FY 2016 and subsequent years relative to legislation enacted in previous years, as well as 2014.

The Consensus Group will meet again prior to December 4 to consider revisions to the newly adjusted FY 2015 estimate and to make an initial estimate for FY 2016.

FY 2014

The following FY 2014 adjustments were made:

House Sub. for SB 245 reduced the net amount of severance tax receipts to the SGF (by increasing the amount credited to the Oil and Gas Valuation Depletion Trust Fund) by \$7.439 million. Of this amount, \$5.390 million of the decrease was from oil; and \$2.049 million from natural gas.

Senate Sub. for HB 2506, the school finance bill, increased net transfers by \$29.900 million. The largest of several adjustments relative to prior law was a \$24.0 million transfer to the SGF from the FICA Reimbursement Medical Resident Fund.

Senate Sub. for HB 2231, the omnibus budget bill, increased net transfers \$4.220 million. The largest adjustment was a \$5.0 million transfer to the SGF from the Court Cost Fund.

FY 2015

The following FY 2015 adjustments were made:

HB 2057, which extended expensing to financial institution privilege taxpayers and made a minor income tax law change, reduced the estimate by \$0.722 million. Of this amount, \$0.550 was attributable to a reduction in privilege tax receipts; and \$0.172 to a reduction in individual income taxes.

SB 265, which restored several individual income tax credits repealed in 2012 and enacted a new sales tax exemption for certain animal production and aquaculture businesses, reduced the estimate by \$6.230 million (\$4.240 million from the individual income tax; \$1.194 million from the sales tax; and \$0.796 million from the compensating use tax).

Senate Sub. for HB 2378, added a sales tax exemption for certain surface mining machinery and equipment and reduced the estimate by \$0.550 million (\$0.330 from sales and \$0.220 from use).

Senate Sub. for HB 2506, the school finance bill, increased net transfers by \$3.476 million. The largest of several adjustments was a transfer to the SGF of \$2.982 million from the Economic Development Initiative Fund.

SB 266 enacted new sales tax exemption for several not-for-profit entities and reduced the sales tax estimate by \$0.288 million.

HB 2643, which reduced certain income tax penalties and expanded the Rural Opportunity Zones program, reduced the individual income tax estimate by \$1.300 million.

HB 2548 reduced the amount of certain emission fees (agency earnings) deposited in the SGF by \$0.580 million.

SB 278 reduced agency earnings by an additional \$0.026 million by diverting a portion of certain animal health fees previously deposited in the SGF.

Senate Sub. for HB 2231, the omnibus budget bill, decreased net transfers \$3.951 million. Two of the major adjustments included an additional transfer from the SGF to the Expanded Lottery Act Revenues Fund of \$5.357 million; and a reduced transfer of \$3.0 million to the Bioscience Investment and Development Fund.

House Sub. for SB 245 reduced net severance tax receipts to the SGF by \$6.654 million (\$4.702 million from oil; and \$1.952 from gas).

FY 2016 and Thereafter

Individual Income Tax Individual income tax receipts will continue to be impacted by additional rate cuts and other changes being phased in over time pursuant to legislation approved in 2012 and 2013. Those upcoming changes in law are expected to reduce receipts by an additional \$112.7 million in FY 2016; \$100.6 million in FY 2017; \$163.5 million in FY 2018; and \$305.2 million in FY 2019. A special formula enacted in 2013 also could provide for

additional rate reductions beginning as early as tax year 2019 that further would reduce income tax collections.

An expansion of the Promoting Employment Across Kansas (PEAK) program enacted in Sub. for HB 2430 will divert an additional \$1.2 million in withholding tax receipts away from the SGF beginning in FY 2016. A second bill, HB 2440, allowing bioscience companies to become eligible for economic development programs outside of the Kansas Bioscience Authority is likely to further divert withholding taxes from the SGF, but that impact was not quantifiable.

Corporation Income Tax. Corporation income tax receipts are expected to be decreased by \$3.5 million annually beginning in FY 2016, pursuant to a new tax credit for low income student scholarships enacted by Senate Sub. for HB 2506.

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 \$43 million. Receipts from this source are expected to fall to about \$24 million in FY 2015 and, subsequently, grow more slowly than they had been under prior law.

Severance Tax. Beginning in FY 2017, an additional 7.59 percent of severance tax receipts will begin being diverted away from the SGF, pursuant to House Sub. for SB 245.

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).

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Table 1
Consensus Revenue Estimate for Fiscal Years 2014 and 2015 (Revised 6/9/14)
and FY 2013 Actual Receipts
(Dollars in Thousands)

	FY 2013 (Actual)		FY 2014		FY 2015	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax/Fee:						
Motor Carrier	\$ 28,855	16.3 %	\$ 43,000	49.0 %	\$ 24,000	(44.2) %
Income Taxes:						
Individual	\$ 2,931,168	0.8 %	\$ 2,525,000	(13.9) %	\$ 2,519,288	(0.2) %
Corporation	371,324	30.5	410,000	10.4	425,000	3.7
Financial Inst.	32,073	24.1	36,000	12.2	37,450	4.0
Total	\$ 3,334,565	3.6 %	\$ 2,971,000	(10.9) %	\$ 2,981,738	0.4 %
Excise Taxes:						
Retail Sales	\$ 2,184,573	2.3 %	\$ 2,110,000	(3.4) %	\$ 2,168,188	2.8 %
Compensating Use	340,044	4.5	345,000	1.5	358,984	4.1
Cigarette	91,928	(4.9)	90,000	(2.1)	89,000	(1.1)
Tobacco Products	7,057	1.1	7,100	0.6	7,200	1.4
Cereal Malt Bev.	1,855	(10.9)	1,800	(3.0)	1,800	--
Liquor Gallonage	19,057	2.8	18,700	(1.9)	19,200	2.7
Liquor Enforcement	60,512	2.8	65,000	7.4	66,000	1.5
Liquor Drink	9,802	2.9	10,100	3.0	10,300	2.0
Corp. Franchise	(4,167)	(142.4)	6,300	251.2	6,500	3.2
Severance	100,130	(6.6)	127,861	27.7	129,546	1.3
Gas	32,430	(19.5)	38,151	17.6	32,348	(15.2)
Oil	67,700	1.1	89,710	32.5	97,198	8.3
Total	\$ 2,810,791	1.4 %	\$ 2,781,861	(1.0) %	\$ 2,856,718	2.7 %
Other Taxes:						
Insurance Premiums	\$ 156,977	9.6 %	\$ 168,000	7.0 %	\$ 170,000	1.2 %
Miscellaneous	2,010	(26.0)	2,000	(0.5)	2,000	--
Total	\$ 158,987	9.0 %	\$ 170,000	6.9 %	\$ 172,000	1.2 %
Total Taxes	\$ 6,333,198	2.8 %	\$ 5,965,861	(5.8) %	\$ 6,034,456	1.1 %
Other Revenues:						
Interest	\$ 11,057	14.3 %	\$ 12,000	8.5 %	\$ 10,000	(16.7) %
Net Transfers	(60,994)	(133.8)	(41,280)	32.3	(120,175)	(191.1)
Agency Earnings	57,864	(6.8)	49,900	(13.8)	50,294	0.8
Total	\$ 7,927	(96.9) %	\$ 20,620	160.1 %	\$ (59,881)	(390.4) %
Total Receipts	\$ 6,341,125	(1.1) %	\$ 5,986,481	(5.6) %	\$ 5,974,575	(0.2) %

Table 2
State General Fund Receipts
FY 2014 Revised
Comparison of April 2014 Estimate to June 2014 Estimate
(Dollars in Thousands)

	FY 2014 CRE Est.	FY 2014 CRE Est.	Difference	
	04/17/14	Revised 06/09/14	Amount	% Change
Property Tax/Fee:				
Motor Carrier	\$ 43,000	\$ 43,000	\$ 0	-- %
Income Taxes:				
Individual	\$ 2,525,000	\$ 2,525,000	\$ 0	-- %
Corporation	410,000	410,000	0	--
Financial Institutions	36,000	36,000	0	--
Total	\$ 2,971,000	\$ 2,971,000	\$ 0	-- %
Excise Taxes:				
Retail Sales	\$ 2,110,000	\$ 2,110,000	\$ 0	-- %
Compensating Use	345,000	345,000	0	--
Cigarette	90,000	90,000	0	--
Tobacco Product	7,100	7,100	0	--
Cereal Malt Beverage	1,800	1,800	0	--
Liquor Gallonage	18,700	18,700	0	--
Liquor Enforcement	65,000	65,000	0	--
Liquor Drink	10,100	10,100	0	--
Corporate Franchise	6,300	6,300	0	--
Severance	135,300	127,861	(7,439)	(5.5)
Gas	40,200	38,151	(2,049)	(5.1)
Oil	95,100	89,710	(5,390)	(5.7)
Total	\$ 2,789,300	\$ 2,781,861	\$ (7,439)	(0.3) %
Other Taxes:				
Insurance Premiums	\$ 168,000	\$ 168,000	\$ 0	-- %
Miscellaneous	2,000	2,000	0	--
Total	\$ 170,000	\$ 170,000	\$ 0	-- %
Total Taxes	\$ 5,973,300	\$ 5,965,861	\$ (7,439)	(0.1) %
Other Revenues:				
Interest	\$ 12,000	\$ 12,000	\$ 0	-- %
Net Transfers	(75,400)	(41,280)	34,120	45.3
Agency Earnings	49,900	49,900	0	--
Total Other Revenue	\$ (13,500)	\$ 20,620	\$ 34,120	252.7 %
Total Receipts	\$ 5,959,800	\$ 5,986,481	\$ 26,681	0.4 %

Table 3
State General Fund Receipts
FY 2015 Revised
Comparison of April 2014 Estimate to June 2014 Estimate
(Dollars in Thousands)

	FY 2015 CRE Est.	FY 2015 CRE Est.	Difference	
	04/17/14	Revised 06/09/14	Amount	% Change
Property Tax/Fee:				
Motor Carrier	\$ 24,000	\$ 24,000	\$ 0	-- %
Income Taxes:				
Individual	\$ 2,525,000	\$ 2,519,288	\$ (5,712)	(0.2) %
Corporation	425,000	425,000	0	--
Financial Institutions	38,000	37,450	(550)	(1.4)
Total	\$ 2,988,000	\$ 2,981,738	\$ (6,262)	(0.2) %
Excise Taxes:				
Retail Sales	\$ 2,170,000	\$ 2,168,188	\$ (1,812)	(0.1) %
Compensating Use	360,000	358,984	(1,016)	(0.3)
Cigarette	89,000	89,000	0	--
Tobacco Product	7,200	7,200	0	--
Cereal Malt Beverage	1,800	1,800	0	--
Liquor Gallonage	19,200	19,200	0	--
Liquor Enforcement	66,000	66,000	0	--
Liquor Drink	10,300	10,300	0	--
Corporate Franchise	6,500	6,500	0	--
Severance	136,200	129,546	(6,654)	(4.9)
Gas	34,300	32,348	(1,952)	(5.7)
Oil	101,900	97,198	(4,702)	(4.6)
Total	\$ 2,866,200	\$ 2,856,718	\$ (9,482)	(0.3) %
Other Taxes:				
Insurance Premiums	\$ 170,000	\$ 170,000	\$ 0	-- %
Miscellaneous	2,000	2,000	0	--
Total	\$ 172,000	\$ 172,000	\$ 0	-- %
Total Taxes	\$ 6,050,200	\$ 6,034,456	\$ (15,744)	(0.3) %
Other Revenues:				
Interest	\$ 10,000	\$ 10,000	\$ 0	-- %
Net Transfers	(119,700)	(120,175)	(475)	(0.4)
Agency Earnings	50,900	50,294	(606)	(1.2)
Total Other Revenue	\$ (58,800)	\$ (59,881)	\$ (1,081)	(1.8) %
Total Receipts	\$ 5,991,400	\$ 5,974,575	\$ (16,825)	(0.3)

Table 4
Legislative Adjustments by Bill by Source to FY 2014 Estimates
(\$ in millions)

		<u>Fin Inst Priv</u>	<u>Ind Inc</u>	<u>Sales</u>	<u>Use</u>	<u>Oil Sev</u>	<u>Gas Sev</u>	<u>Transfers</u>	<u>Ag Earn</u>	<u>Total</u>
S Sub HB 2231	Omnibus Budget Bill	\$	\$	\$	\$	\$	\$	\$ 4.220	\$	\$ 4.220
S Sub HB 2506	School Finance							29.900		29.900
H Sub SB 245	Sev Tax Revenues					(5.390)	(2.049)			(7.439)
Total		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (5.390)</u>	<u>\$ (2.049)</u>	<u>\$ 34.120</u>	<u>\$</u>	<u>\$ 26.681</u>

Table 5
Legislative Adjustments by Bill by Source to FY 2015 Estimates
(\$ in millions)

		<u>Fin Inst Priv</u>	<u>Ind Inc</u>	<u>Sales</u>	<u>Use</u>	<u>Oil Sev</u>	<u>Gas Sev</u>	<u>Transfers</u>	<u>Ag Earn</u>	<u>Total</u>
HB 2057	Expensing for Banks	\$ (0.550)	\$ (0.172)	\$	\$	\$	\$	\$	\$	\$ (0.722)
SB 265	Various Income, Sales		(4.240)	(1.194)	(0.796)					(6.230)
S Sub HB 2378	Surface Mining			(0.330)	(0.220)					(0.550)
S Sub HB 2506	School Finance							3.476		3.476
SB 266	Various Non-Profit Sales			(0.288)						(0.288)
HB 2643	Inc Tx Penalties, ROZ		(1.300)							(1.300)
HB 2548	Emission Fees								(0.580)	(0.580)
SB 278	Animal Health								(0.026)	(0.026)
S Sub HB 2231	Omnibus Budget Bill							(3.951)		(3.951)
H Sub SB 245	Sev Tax Revenues					(4.702)	(1.952)			(6.654)
Total		<u>\$ (0.550)</u>	<u>\$ (5.712)</u>	<u>\$ (1.812)</u>	<u>\$ (1.016)</u>	<u>\$ (4.702)</u>	<u>\$ (1.952)</u>	<u>\$ (0.475)</u>	<u>\$ (0.606)</u>	<u>\$ (16.825)</u>