

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>

November 19, 2015
CORRECTED

To: Governor Sam Brownback and Legislative Coordinating Council

From: Kansas Legislative Research Department
Kansas Division of the Budget

Re: SGF Receipts Estimates for FY 2016 and FY 2017

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 budget. The Consensus Group met on November 6, 2015, to revise the estimates for both FY 2016 and FY 2017. The previous estimates were made in April but subsequently were adjusted over the summer for legislation enacted during the veto session.

For FY 2016, the estimate was decreased by \$159.1 million, or 2.5 percent, below the previous estimate. The revised estimate of \$6.166 billion represents 4.0 percent growth above final FY 2015 receipts.

The revised estimate for FY 2017 is \$6.286 billion, which is \$194.5 million, or 3.0 percent below the previous estimate. The amount of total taxes is estimated to increase by 2.8 percent in FY 2017, following a 5.7 percent increase in FY 2016.

Table 1 compares the revised estimates for FY 2016 and FY 2017 with actual receipts from FY 2015. Table 2 shows the changes for the FY 2016 estimates; while Table 3 shows the changes for FY 2017.

Economic Forecast for Kansas

Most major economic variables and indicators have been adjusted downward since the Consensus Group last convened in April. The estimated rate of expansion in the national and state economies has been reduced. Real U.S. Gross Domestic Product (GDP) is now expected to grow by 2.4 percent in 2015, down from the previous forecast of 3.0 percent growth; while real Kansas Gross State Product (GSP) growth for 2015 has been reduced to 1.2 percent from the previous estimate of 2.3 percent. At both the state and national levels, business investment appears to be slowing.

Personal Income

Kansas Personal Income (KPI), which has been growing more slowly than U.S. Personal Income (USPI) since the first quarter of 2014, is expected to continue to do so throughout the forecast period. The previous KPI growth estimate of 3.4 percent for 2015 has now been reduced to 2.2 percent; and estimated 2016 growth in this key indicator has been reduced from 4.4 to 3.9 percent. A reduction in farm income has been one factor influencing the decline in KPI growth since the start of 2014. The latest national estimates call for USPI growth of 4.3 percent in 2015 and 4.8 percent in 2016 (down from the previous forecast of 4.5 and 5.1 percent, respectively).

Kansas Individual Income Tax

No additional information was provided by the Department of Revenue that would significantly alter the fiscal notes that had been provided during the 2012, 2013 and 2015 sessions regarding the estimated impact of multiple changes to the individual income tax enacted during those three years. The vast majority of all new individual income tax revenue for FY 2016 associated with tax law changes enacted late last session is not expected to materialize until the latter part of the fiscal year. The Consensus Group will work with the Department of Revenue over the winter and spring to monitor monthly receipts from this tax source.

Employment

The most recent monthly data from the Kansas Department of Labor show that from September to September, Kansas private sector employment increased by about 10,100 jobs, or 0.9 percent. That growth is below the 1.5 percent figure that had been previously expected; and also less than the comparable 2.1 percent growth that occurred nationally over the same 12-month period. Specific to the Wichita area, neither total employment nor manufacturing employment has returned to pre-Great Recession levels. The Kansas unemployment rate of 4.3 percent in 2015 and 4.1 percent in 2016 is expected to remain well below the national unemployment rate forecast (5.0 percent and 4.8 percent, respectively).

Agriculture

In the agricultural sector, grain prices and projected net farm income have fallen throughout 2015. The relative strength of the U.S. dollar overseas also is having negative implications for all exports, including agriculture. Land values continue to climb across the state despite declining net farm income.

Oil and Gas

For both oil and gas, record levels of storage and major downward revisions in the estimated prices for these commodities have significantly reduced projected severance tax collection in both FY 2016 and FY 2017. The forecasted price per taxable barrel of Kansas crude has now been reduced to \$35 for FY 2016 and to \$45 for FY 2017. For perspective, the

final actual price as recently as FY 2014 was \$93.79 per barrel. Oil production, which had been increasing in recent years, is now expected to decline throughout the balance of the forecast period. The price of natural gas is expected to average \$2.05 per mcf for FY 2016 before increasing to \$2.50 per mcf for FY 2017, based on an industry source's analysis of futures markets.

Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) is expected to increase by only 0.1 percent in 2015. The latest forecast calls for inflation to remain at very moderate levels of 1.8 percent in 2016 and 2.1 percent in 2017.

Interest Rates

The Pooled Money Investment Board (PMIB) is authorized to make investments in U.S. 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 2016, the state is expected to earn only 0.28 percent on its SGF portfolio; and 0.30 percent for FY 2017 (compared with a 4.26 percent rate as recently as FY 2008). The current forecast contemplates the expected continuation of historically low interest rates.

Economic Forecasts			
	<u>CY 2015*</u>	<u>CY 2016*</u>	<u>CY 2017*</u>
KPI Growth	2.20%	3.90%	4.20%
Inflation (CPI-U)	0.10%	1.80%	2.10%
	<u>FY 2015</u>	<u>FY 2016*</u>	<u>FY 2017*</u>
SGF Interest	0.19%	0.28%	0.30%
Oil and Gas			
Oil Price per bbl (Kansas)	\$70.83	\$35.00	\$45.00
Gross Prod. (000)	49,400	47,000	46,000
Gas Price per mcf	\$3.87	\$2.05	\$2.50
Gross Gas Production (000)	297,302	270,000	260,000

* Estimated

State General Fund Receipts Estimates

FY 2016. The revised estimate of SGF receipts for FY 2016 is \$6.166 billion, a decrease of \$159.1 million below the previous estimate. The estimate for total taxes was reduced by

\$181.2 million. Total taxes had been running \$77.9 million below the previous forecast through October.

The sales tax, which was down through October by \$34.3 million, was cut by \$90.9 million for the fiscal year. Corporation income taxes, down \$25.5 million through October, were cut by \$35.0 million, based on the Department of Revenue's expectations that certain previously unanticipated refunds paid out during the early part of the fiscal year will not continue at the same level over the next eight months. Severance taxes were reduced by \$34.8 million as a result of the aforementioned decreases in price and production forecasts. Compensating use taxes, down \$7.1 through the first four months of the fiscal year, were reduced by \$20.3 million.

The estimate for net transfers, which reflects some administrative action taken earlier this fall, was increased by \$28.0 million. The estimate for cigarette taxes also was increased by \$11.1 million.

The overall revised estimate is approximately \$237.1 million, or 4.0 percent, above actual FY 2015 receipts. The FY 2016 estimates reflect a number of new revenue enhancement provisions enacted by the 2015 Legislature which were designed to produce an estimated \$384.4 million in additional SGF tax 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.

FY 2017. SGF receipts are estimated to be \$6.286 billion in FY 2017, a figure that is 1.9 percent above the new FY 2016 forecast. The FY 2017 growth is generally lower than FY 2016 because the current year's growth rate is more heavily influenced by a number of tax rate increases that occurred on July 1. A reduced amount of net transfers into the SGF also is scheduled to occur under current law in FY 2017.

Accuracy of Consensus Revenue Estimates

For 41 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, Lance Bachmeier 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 6, 2015, 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	--
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	5,693.3	(7.0)	(0.1)	(42.9)	(0.7)
2009	6,185.7	5,709.7	5,587.4	(598.3)	(9.7)	(122.3)	(2.1)
2010	5,974.2	5,291.0	5,191.3	(782.9)	(13.1)	(99.7)	(1.9)
2011	5,851.0	5,775.0	5,882.1	31.1	0.5	107.1	1.9
2012	6,098.9	6,404.3	6,412.8	313.9	5.1	8.5	0.1
2013	6,414.2	6,250.4	6,341.1	(73.1)	(1.1)	90.7	1.5
2014	5,947.0	5,986.5	5,653.2	(293.8)	(4.9)	(333.3)	(5.6)
2015	5,922.3	5,944.4	5,928.8	(63.5)	(1.1)	(15.6)	(0.3)

* 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 by the courts. These estimates will be further adjusted in mid-April prior to the conclusion of the 2016 Legislative Session.

Table 1
State General Fund Receipts
(Dollars in Thousands)

	Consensus Estimate November 6, 2015					
	FY 2015 (Actual)		FY 2016 (Revised)		FY 2017 (Revised)	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax/Fee:						
Motor Carrier	\$ 11,145	(68.8) %	\$ 10,500	(5.8) %	\$ 10,500	-- %
Income Taxes:						
Individual	\$ 2,277,541	2.7 %	\$ 2,450,000	7.6 %	\$ 2,485,000	1.4 %
Corporation	417,400	4.5	410,000	(1.8)	420,000	2.4
Financial Inst.	40,546	25.0	45,000	11.0	47,000	4.4
Total	\$ 2,735,486	3.2 %	\$ 2,905,000	6.2 %	\$ 2,952,000	1.6 %
Excise Taxes:						
Retail Sales	\$ 2,132,777	1.5 %	\$ 2,300,000	7.8 %	\$ 2,380,000	3.5 %
Compensating Use	352,176	2.4	375,000	6.5	395,000	5.3
Cigarette	88,821	(2.0)	140,000	57.6	135,000	(3.6)
Tobacco Products	7,482	3.9	8,000	6.9	8,200	2.5
Cereal Malt Bev.	1,566	(7.1)	1,600	2.2	1,600	--
Liquor Gallonage	19,319	1.2	19,300	(0.1)	19,500	1.0
Liquor Enforcement	68,505	6.1	67,000	(2.2)	69,000	3.0
Liquor Drink	10,537	3.8	10,800	2.5	11,000	1.9
Corp. Franchise	7,287	9.9	6,900	(5.3)	7,100	2.9
Severance	93,213	(25.9)	39,000	(58.2)	58,200	49.2
Gas	26,302	(28.9)	10,100	(61.6)	16,600	64.4
Oil	66,911	(24.6)	28,900	(56.8)	41,600	43.9
Total	\$ 2,781,683	0.4 %	\$ 2,967,600	6.7 %	\$ 3,084,600	3.9 %
Other Taxes:						
Insurance Prem.	\$ 187,643	8.6 %	\$ 157,500	(16.1) %	\$ 159,600	1.3 %
Miscellaneous	1,397	(14.6)	1,200	(14.1)	3,200	166.7
Total	\$ 189,039	8.4 %	\$ 158,700	(16.0) %	\$ 162,800	2.6 %
Total Taxes	\$ 5,717,353	1.5 %	\$ 6,041,800	5.7 %	\$ 6,209,900	2.8 %
Other Revenues:						
Interest	\$ 12,320	6.9 %	\$ 21,000	70.5 %	\$ 9,200	(56.2) %
Net Transfers	143,597	459.4	55,400	(61.4)	17,600	(68.2)
Agency Earnings	55,512	12.0	47,700	(14.1)	49,000	2.7
Total	\$ 211,428	901.2 %	\$ 124,100	(41.3) %	\$ 75,800	(38.9) %
Total Receipts	\$ 5,928,781	4.9 %	\$ 6,165,900	4.0 %	\$ 6,285,700	1.9 %

Table 2
State General Fund Receipts
FY 2016 Revised
Comparison of November 2015 Estimate to June 2015 Estimate
(Dollars in Thousands)

	FY 2016 CRE Est. as Adj. for Legis.	FY 2016 CRE Revised 11/6/15	Difference		
			Amount	Pct. Chg.	
Property Tax/Fee:					
Motor Carrier	\$ 11,000	\$ 10,500	\$ (500)	(4.5) %	
Income Taxes:					
Individual	\$ 2,461,800	\$ 2,450,000	\$ (11,800)	(0.5) %	
Corporation	445,000	410,000	(35,000)	(7.9)	
Financial Inst.	44,000	45,000	1,000	2.3	
Total	\$ 2,950,800	\$ 2,905,000	\$ (45,800)	(1.6) %	
Excise Taxes:					
Retail Sales	\$ 2,390,900	\$ 2,300,000	\$ (90,900)	(3.8) %	
Compensating Use	395,300	375,000	(20,300)	(5.1)	
Cigarette	128,900	140,000	11,100	8.6	
Tobacco Product	7,700	8,000	300	3.9	
Cereal Malt Beverage	1,600	1,600	--	--	
Liquor Gallonage	19,100	19,300	200	1.0	
Liquor Enforcement	68,000	67,000	(1,000)	(1.5)	
Liquor Drink	10,700	10,800	100	0.9	
Corporate Franchise	7,100	6,900	(200)	(2.8)	
Severance	73,800	39,000	(34,800)	(47.2)	
Gas	16,900	10,100	(6,800)	(40.2)	
Oil	56,900	28,900	(28,000)	(49.2)	
Total	\$ 3,103,100	\$ 2,967,600	\$ (135,500)	(4.4) %	
Other Taxes:					
Insurance Premium	\$ 156,848	\$ 157,500	\$ 652	0.4 %	
Miscellaneous	1,271	1,200	(71)	(5.6)	
Total	\$ 158,119	\$ 158,700	\$ 581	0.4 %	
Total Taxes	\$ 6,223,019	\$ 6,041,800	\$ (181,219)	(2.9) %	
Other Revenues:					
Interest	\$ 17,800	21,000	\$ 3,200	18.0 %	
Net Transfers	27,374	55,400	28,026	102.4	
Agency Earnings	56,840	47,700	(9,140)	(16.1)	
Total Other Revenue	\$ 102,014	\$ 124,100	\$ 22,086	21.6 %	
Total Receipts	\$ 6,325,033	\$ 6,165,900	\$ (159,133)	(2.5) %	

Table 3
State General Fund Receipts
FY 2017 Revised
Comparison of November 2015 Estimate to June 2015 Estimate
(Dollars in Thousands)

	FY 2017 CRE Est. as Adj. for Legis.	FY 2017 CRE Revised 11/6/15	Difference	
			Amount	Pct. Chg.
Property Tax/Fee:				
Motor Carrier	\$ 11,000	\$ 10,500	\$ (500)	(4.5) %
Income Taxes:				
Individual	\$ 2,494,700	\$ 2,485,000	\$ (9,700)	(0.4) %
Corporation	455,000	420,000	(35,000)	(7.7)
Financial Inst.	46,000	47,000	1,000	2.2
Total	\$ 2,995,700	\$ 2,952,000	\$ (43,700)	(1.5) %
Excise Taxes:				
Retail Sales	\$ 2,489,900	\$ 2,380,000	\$ (109,900)	(4.4) %
Compensating Use	416,800	395,000	(21,800)	(5.2)
Cigarette	123,400	135,000	11,600	9.4
Tobacco Product	7,900	8,200	300	3.8
Cereal Malt Beverage	1,600	1,600	--	--
Liquor Gallonage	19,200	19,500	300	1.6
Liquor Enforcement	68,500	69,000	500	0.7
Liquor Drink	10,800	11,000	200	1.9
Corporate Franchise	7,300	7,100	(200)	(2.7)
Severance	81,300	58,200	(23,100)	(28.4)
Gas	18,900	16,600	(2,300)	(12.2)
Oil	62,400	41,600	(20,800)	(33.3)
Total	\$ 3,226,700	\$ 3,084,600	\$ (142,100)	(4.4) %
Other Taxes:				
Insurance Premium	\$ 159,524	\$ 159,600	\$ 76	0.0 %
Miscellaneous	3,271	3,200	(71)	(2.2)
Total	\$ 162,795	\$ 162,800	\$ 5	0.0 %
Total Taxes	\$ 6,396,195	\$ 6,209,900	\$ (186,295)	(2.9) %
Other Revenues:				
Interest	\$ 8,600	9,200	\$ 600	7.0 %
Net Transfers	17,230	17,600	370	2.1
Agency Earnings	58,140	49,000	(9,140)	(15.7)
Total Other Revenue	\$ 83,970	\$ 75,800	\$ (8,170)	(9.7) %
Total Receipts	\$ 6,480,165	\$ 6,285,700	\$ (194,465)	(3.0) %