

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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July 5, 2016

To: Legislative Coordinating Council and Governor Sam Brownback

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

Re: Legislative Adjustments to FY 2017 Consensus Estimates Enacted During Special Session

The most recent estimates of State General Fund (SGF) receipts for FY 2017 (see attached memo regarding adjustments as of June 10 to reflect legislation enacted during the 2016 veto session) have been further adjusted to reflect legislation enacted during the 2016 special session that concluded June 24. Estimated receipts to the SGF from transfers were increased by an additional \$22.1 million relative to the June 10 estimate.

That special session legislation, Sub HB 2001, provides for an additional \$5.0 million transfer from the State Highway Fund; a new \$4.1 million transfer from the Children's Initiative Fund; and earmarks an additional \$13.0 million from the sale of Kansas Bioscience Authority assets.

The Consensus Group will meet again prior to December 4 to consider revisions to the newly adjusted FY 2017 estimates and to make the initial estimates for FY 2018 and FY 2019.

Table 1
State General Fund Receipts
FY 2017 Revised
Comparison of June 10 Estimate to July 5 Estimate
(Dollars in Thousands)

	FY 2017 CRE Est.	FY 2017 CRE Est.	Difference	
	06/10/16	Revised 07/5/16	Amount	Pct. Chg.
Property Tax/Fee:				
Motor Carrier	\$12,000	\$12,000	\$0	-- %
Income Taxes:				
Individual	\$2,377,000	\$2,377,000	\$0	-- %
Corporation	396,000	\$396,000	0	--
Financial Inst.	40,000	\$40,000	0	--
Total	2,813,000	\$2,813,000	\$0	-- %
Excise Taxes:				
Retail Sales	\$2,349,912	\$2,349,912	\$0	-- %
Compensating Use	405,000	\$405,000	0	--
Cigarette	133,000	\$133,000	0	--
Tobacco Product	8,200	\$8,200	0	--
Cereal Malt Beverage	1,200	\$1,200	0	--
Liquor Gallonage	19,500	\$19,500	0	--
Liquor Enforcement	71,000	\$71,000	0	--
Liquor Drink	11,200	\$11,200	0	--
Corporate Franchise	7,300	\$7,300	0	--
Severance	33,900	\$33,900	0	--
Gas	10,700	\$10,700	0	--
Oil	23,200	\$23,200	0	--
Total	\$3,040,212	\$3,040,212	\$0	-- %
Other Taxes:				
Insurance Premiums	\$170,500	\$170,500	0	-- %
Miscellaneous	2,400	\$2,400	0	--
Total	\$172,900	\$172,900	0	-- %
Total Taxes	\$6,038,112	\$6,038,112	\$0	-- %
Other Revenues:				
Interest	\$13,400	\$13,400	\$0	-- %
Net Transfers	210,560	\$232,660	22,100	10.5
Agency Earnings	41,800	\$41,800	0	--
Total Other Revenue	\$265,760	\$287,860	\$22,100	8.3 %
Total Receipts	\$6,303,872	\$6,325,972	\$22,100	0.4

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June 10, 2016

To: Legislative Coordinating Council and Governor Sam Brownback
From: Kansas Legislative Research Department and Kansas Division of the Budget
Re: Legislative Adjustments to Consensus Estimates for FY 2016 and FY 2017

Pursuant to KSA 2015 Supp. 75-6701, the most recent estimates of State General Fund (SGF) receipts for FY 2016 and FY 2017 have been adjusted. These adjustments reflect the fiscal impact of legislation involving receipts to the SGF enacted during the 2016 Legislative Session subsequent to the Consensus Revenue Estimate made on April 20, 2016. The attached tables show changes by source and incorporate those changes into the overall estimates for each fiscal year. Estimated receipts for the two fiscal years combined were increased by \$230.502 million. FY 2016 receipts were increased by \$77.630 million relative to the April estimate; while FY 2017 receipts were increased by \$152.872 million.

Additional sections of this report discuss the estimated impact on receipts from certain authority granted to the executive branch or other entities; and the implications for SGF receipts in FY 2018 and subsequent years relative to legislation enacted in previous years (as well as in 2016).

The Consensus Group will meet again prior to December 4 to consider revisions to the newly adjusted FY 2017 estimates and to make the initial estimates for FY 2018 and FY 2019.

FY 2016

House Sub. for SB 249, an omnibus budget bill, increases net transfers by \$77.585 million. Of this amount, \$1.002 million is attributable to a specifically reduced transfer earmarked for bioscience initiatives. Additional transfer adjustments of \$76.583 million are assumed to occur as a result of authority exercised by the executive branch.

SB 318, which abolishes the Kansas Electric Transmission Authority (KETA), provides for the transfer of \$0.045 million from the KETA Administrative Fund at the Kansas Corporation Commission to the SGF.

FY 2017

House Sub. for SB 149, which contains various tax provisions, reduces the estimate by \$1.088 million. Of this amount, \$1.000 million is attributable to a six-month delay (from July 1 to January 1, 2017) in the implementation of a new excise tax on electronic cigarettes; and \$0.088

million is attributable to a sales tax exemption for certain purchases by or on behalf of the Gove County Healthcare Endowment Foundation. The Department of Revenue indicated it was unable to determine how much another sales tax exemption applicable to an estimated \$27.2 million in fire damage-related purchases (foregoing about \$1.5 million in SGF receipts) would otherwise have been spent on goods and services subject to sales taxation.

HB 2632, which relates to the sale of Kansas Bioscience Authority (KBA) assets and to sales tax and revenue (STAR) bonds, increases transfers by an estimated \$34.942 million under the assumption that the State Finance Council ultimately will utilize the authority provided in the bill to sell KBA assets. The legislation also generally places additional restrictions on the prospective usage of STAR bonds and therefore could increase SGF receipts relative to prior law by an indeterminate amount.

HB 2456, which imposes additional fines on certain tanning facilities and for certain violations by persons subject to licensure by the Kansas Barbering Board, is expected to increase agency earnings by a small but indeterminate amount.

HB 2615, which establishes certain licensure fees under the Acupuncture Practice Act and the Independent Practice of Midwifery Act, is expected to increase agency earnings by a negligible amount.

House Sub. for SB 249, the budget bill, assumes transfer adjustments of \$119.018 million as a result of authority granted to the executive branch. The legislation also contains language providing that certain tax revenues in FY 2017 certified to be in excess of the final April 2017 estimate for that fiscal year will be earmarked for transfer to the Kansas Public Employee Retirement Fund (KPERF).

A Note on Impact on Receipts from Certain Granted Authority

House Sub. for SB 161 and House Sub. for SB 249 grant special allotment authority to the executive branch in both FY 2016 and FY 2017 if the unencumbered ending balance of the SGF is projected to be less than \$100.0 million. In addition to lapsing SGF appropriations, the special allotment authority also allows special revenue fund transfers into the SGF that would affect net transfers. Pursuant to this authority granted by the Legislature, the executive branch has authorized transfers to the SGF in FY 2016 of \$70.0 million from the State Highway Fund (SHF) and approximately \$6.6 million from the Expanded Lottery Act Revenues Fund for delayed employer contributions to the Kansas Public Employee Retirement System (KPERF). For FY 2017, the proposed changes announced thus far include a transfer of \$115.0 million from the SHF, a \$3.4 million transfer from the Children's Initiatives Fund, and a transfer of \$0.7 million from the Economic Development Initiatives Fund.

FY 2018 and Thereafter

Individual Income Tax. Individual income tax receipts will continue to be impacted by an additional rate reduction scheduled to occur in tax year 2018, when the bottom bracket will be reduced from 2.7 to 2.6 percent (see KSA 2015 Supp. 79-32,110); and by a special formula that could provide for further reductions beginning as early as tax year 2021 (see KSA 2015 Supp. 79-32,269). An extension by five years (from tax year 2017 to tax year 2022) in the sunset on

the angel investor tax credit program also will reduce receipts by \$4.2 million per year below where they would have been had the sunset not been extended.

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 2019 at \$54 million annually; and for County and City Revenue Sharing Fund transfers beginning in FY 2019 (at 2.823 percent of sales and use taxes credited to the SGF).

Additional Tax Receipts in Excess of Final Estimate. Certain tax revenues in FY 2018 certified to be in excess of the final April 2018 estimate for that fiscal year again will be earmarked for transfer to the KPERF.

Table 1
Consensus Revenue Estimate for Fiscal Years 2016 and 2017 (Revised 7/5/16)
and FY 2015 Actual Receipts
(Dollars in Thousands)

	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	16.3 %	\$11,500	3.2 %	\$12,000	4.3 %
Income Taxes:						
Individual	\$2,277,541	0.8 %	\$2,325,000	2.1 %	\$2,377,000	2.2 %
Corporation	417,400	30.5	390,000	(6.6)	396,000	1.5
Financial Inst.	40,546	24.1	37,000	(8.7)	40,000	8.1
Total	\$2,735,486	3.6 %	2,752,000	0.6 %	\$2,813,000	2.2 %
Excise Taxes:						
Retail Sales	\$2,132,777	2.3 %	\$2,270,000	6.4 %	\$2,349,912	3.5 %
Compensating Use	352,176	4.5	385,000	9.3	405,000	5.2
Cigarette	88,821	(4.9)	138,000	55.4	133,000	(3.6)
Tobacco Products	7,482	1.1	8,000	6.9	8,200	2.5
Cereal Malt Bev.	1,566	(10.9)	1,400	(10.6)	1,200	(14.3)
Liquor Gallonage	19,319	2.8	19,300	(0.1)	19,500	1.0
Liquor Enforcement	68,505	2.8	67,000	(2.2)	71,000	6.0
Liquor Drink	10,537	2.9	11,000	4.4	11,200	1.8
Corp. Franchise	7,287	(142.4)	7,100	(2.6)	7,300	2.8
Severance	93,213	(6.6)	24,000	(74.3)	33,900	41.3
Gas	26,302	(19.5)	4,000	(84.8)	10,700	167.5
Oil	66,911	1.1	20,000	(70.1)	23,200	16.0
Total	\$2,781,683	1.4 %	\$2,930,800	5.4 %	\$3,040,212	3.7 %
Other Taxes:						
Insurance Prem.	\$187,643	9.6 %	\$169,000	(9.9) %	\$170,500	0.9 %
Miscellaneous	1,397	(26.0)	1,400	0.2	2,400	71.4
Total	\$189,039	9.0 %	\$170,400	(9.9) %	\$172,900	1.5 %
Total Taxes	\$5,717,353	2.8 %	\$5,864,700	2.6 %	\$6,038,112	3.0 %
Other Revenues:						
Interest	\$12,320	14.3 %	\$26,300	113.5 %	\$13,400	(49.0) %
Net Transfers	143,597	(133.8)	217,630	51.6	210,560	(3.2)
Agency Earnings	55,512	(6.8)	41,000	(26.1)	41,800	2.0
Total	\$211,428	(96.9) %	\$284,930	34.8 %	\$265,760	(6.7) %
Total Receipts	\$5,928,781	(1.1) %	\$6,149,630	3.7 %	\$6,303,872	2.5 %

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

	FY 2016 CRE Est.	FY 2016 CRE Est.	Difference	
	04/20/16	Revised 06/3/16	Amount	Pct. Chg.
Property Tax/Fee:				
Motor Carrier	\$11,500	\$11,500	\$0	-- %
Income Taxes:				
Individual	\$2,325,000	\$2,325,000	\$0	-- %
Corporation	390,000	\$390,000	0	--
Financial Inst.	37,000	\$37,000	0	--
Total	2,752,000	\$2,752,000	\$0	-- %
Excise Taxes:				
Retail Sales	\$2,270,000	\$2,270,000	\$0	-- %
Compensating Use	385,000	\$385,000	0	--
Cigarette	138,000	\$138,000	0	--
Tobacco Product	8,000	\$8,000	0	--
Cereal Malt Beverage	1,400	\$1,400	0	--
Liquor Gallonage	19,300	\$19,300	0	--
Liquor Enforcement	67,000	\$67,000	0	--
Liquor Drink	11,000	\$11,000	0	--
Corporate Franchise	7,100	\$7,100	0	--
Severance	24,000	\$24,000	0	--
Gas	4,000	\$4,000	0	--
Oil	20,000	\$20,000	0	--
Total	\$2,930,800	\$2,930,800	\$0	-- %
Other Taxes:				
Insurance Premiums	\$169,000	\$169,000	0	-- %
Miscellaneous	1,400	\$1,400	0	--
Total	\$170,400	\$170,400	0	-- %
Total Taxes	\$5,864,700	\$5,864,700	\$0	-- %
Other Revenues:				
Interest	\$26,300	\$26,300	\$0	-- %
Net Transfers	140,000	\$217,630	77,630	55.5
Agency Earnings	41,000	\$41,000	0	--
Total Other Revenue	\$207,300	\$284,930	\$77,630	37.4 %
Total Receipts	\$6,072,000	\$6,149,630	\$77,630	1.3

Table 1
State General Fund Receipts
FY 2017 Revised
Comparison of June 10 Estimate to July 5 Estimate
(Dollars in Thousands)

	FY 2017 CRE Est.	FY 2017 CRE Est.	Difference	
	06/10/16	Revised 07/5/16	Amount	Pct. Chg.
Property Tax/Fee:				
Motor Carrier	\$12,000	\$12,000	\$0	-- %
Income Taxes:				
Individual	\$2,377,000	\$2,377,000	\$0	-- %
Corporation	396,000	\$396,000	0	--
Financial Inst.	40,000	\$40,000	0	--
Total	2,813,000	\$2,813,000	\$0	-- %
Excise Taxes:				
Retail Sales	\$2,349,912	\$2,349,912	\$0	-- %
Compensating Use	405,000	\$405,000	0	--
Cigarette	133,000	\$133,000	0	--
Tobacco Product	8,200	\$8,200	0	--
Cereal Malt Beverage	1,200	\$1,200	0	--
Liquor Gallonage	19,500	\$19,500	0	--
Liquor Enforcement	71,000	\$71,000	0	--
Liquor Drink	11,200	\$11,200	0	--
Corporate Franchise	7,300	\$7,300	0	--
Severance	33,900	\$33,900	0	--
Gas	10,700	\$10,700	0	--
Oil	23,200	\$23,200	0	--
Total	\$3,040,212	\$3,040,212	\$0	-- %
Other Taxes:				
Insurance Premiums	\$170,500	\$170,500	0	-- %
Miscellaneous	2,400	\$2,400	0	--
Total	\$172,900	\$172,900	0	-- %
Total Taxes	\$6,038,112	\$6,038,112	\$0	-- %
Other Revenues:				
Interest	\$13,400	\$13,400	\$0	-- %
Net Transfers	210,560	\$232,660	22,100	10.5
Agency Earnings	41,800	\$41,800	0	--
Total Other Revenue	\$265,760	\$287,860	\$22,100	8.3 %
Total Receipts	\$6,303,872	\$6,325,972	\$22,100	0.4

Table 4 - Legislative Adjustments by Bill by Source to FY 2016 Estimates
(\$ in millions)

		<u>Transfers</u>	<u>Total</u>
H Sub SB 249	Omnibus Budget Bill	\$ 77.585	\$ 77.585
SB 318	Abolishes KETA	0.045	0.045
Total		\$ 77.630	\$ 77.630

Table 5 - Legislative Adjustments by Bill by Source to FY 2017 Estimates
(\$ in millions)

		<u>Sales</u>	<u>Misc</u>	<u>Transfers</u>	<u>Total</u>
H Sub SB 249	Omnibus Budget Bill			\$ 119.018	\$ 119.018
HB 2632	Sale of KBA Assets			34.942	34.942
H Sub SB 149	Various Tax Provisions	\$ (0.088)	\$ (1.000)		(1.088)
Total		\$ (0.088)	\$ (1.000)	\$ 153.960	\$ 152.872

Cumulative FY 2016 + FY 2017

\$ 230.502