

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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To: Legislative Coordinating Council and Governor Sam Brownback

From: Kansas Legislative Research Department and Division of the Budget

Re: Legislative Adjustments to Consensus Estimates for FY 2017 thru FY 2019

Pursuant to KSA 75-6701, the most recent estimates of State General Fund (SGF) receipts for FY 2017, FY 2018 and FY 2019 have been adjusted to reflect the fiscal impact of legislation involving receipts to the SGF enacted during the 2017 Legislative Session subsequent to the Consensus Revenue Estimate made on April 20, 2017 (see Table 1). Additional tables (Tables 2-4) show changes by source and incorporate those changes into the overall estimates for each fiscal year. Estimated receipts for the three fiscal years combined were increased by just over \$1.992 billion. FY 2017 receipts were decreased by \$22.750 million relative to the April estimate. FY 2018 receipts were increased by \$917.097 million; while FY 2019 receipts were increased by approximately \$1.098 billion. Tables 5-7 provide information on the adjustments by bill and by source for each fiscal year.

An additional section of this report discusses the implications for SGF receipts in FY 2020 and subsequent years relative to certain upcoming changes in law.

Table 8 provides additional detail from the Department of Revenue's disaggregation of various components of the new individual income tax law.

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

FY 2017

The following FY 2017 adjustments were made:

Sub. for HB 2230, which delayed the implementation of and decreases the rate of the electronic cigarette tax, reduced miscellaneous tax receipts by \$0.900 million.

Senate Sub. for HB 2002, the omnibus budget bill, decreased net transfers and other receipts by \$21.850 million when accounting for certain adjustments occurring late in the fiscal year as a result of allotment authority exercised by the executive branch. Other receipts were decreased by \$18.000 million to account for the actual FY 2017 Pooled Money Investment Board (PMIB) bridge loan amount of \$198.400 million, \$18.000 million lower than had been assumed in April due to stronger than anticipated fourth quarter revenue.

FY 2018

The following FY 2018 adjustments were made:

SB 30, the individual income tax reform and restructuring legislation, increased total SGF receipts by \$591.000 million. An analysis by the Department of Revenue indicated that of this amount, \$270.100 million is attributable to the restoration of the tax to certain non-wage business income that had been exempt since tax year 2013; and \$320.900 million is attributable to increases in individual income tax rates and the restoration of the third income tax bracket. Other provisions of the bill enacting changes in law relative to sales tax and revenue bonds also could affect SGF receipts, but that impact was not immediately quantifiable.

Senate Sub. for HB 2002, the omnibus budget bill, increased net transfers and other receipts by \$338.280 million. Major adjustments included a transfer of \$288.298 million from the State Highway Fund (SHF) to the SGF; and a \$19.200 million sweep from the Economic Development Initiatives Fund (EDIF) to the SGF. Other receipts were increased by \$18.000 million to account for the FY 2018 PMIB bridge loan amount of \$118.800 million, which is \$18.000 million higher than had been assumed in April.

SB 19, the Kansas School Equity and Enhancement Act, provided for a \$1.100 million transfer from the Department of Education's State Safety Fund (SSF) to the SGF. That legislation also reduced the individual income tax estimate by \$9.000 million as a result of an expansion of the Tax Credit for Low Income Students Scholarship Program.

Sub. for HB 2230, the electronic cigarette tax bill, reduced miscellaneous tax receipts by \$1.600 million.

HB 2212, which decelerates the sales tax remittance schedule for a number of retailers, reduced the sales tax estimate by \$2.683 million.

FY 2019

The following FY 2019 adjustments were made:

SB 30, the individual income tax bill, increased total SGF receipts by \$633.000 million. The Department of Revenue's analysis indicated that \$230.400 million in additional receipts is expected to be attributable to the taxation of non-wage business income during tax year 2018; and \$403.500 million is expected to be attributable to the fully implemented rate increases in tax year 2018. Provisions restoring a portion of the medical expense itemized deduction and child and dependent care credits available under pre-2013 law are expected to reduce FY 2019 receipts by \$11.400 million and \$4.500 million, respectively. An additional provision reducing the low-income exclusion threshold in tax year 2018 is expected to increase FY 2019 receipts by \$15.000 million.

Senate Sub. for HB 2002, the omnibus budget bill, increased net transfers and other receipts by \$527.960 million. Major adjustments included a transfer from the SHF of \$293.126 million; elimination of a previously scheduled \$60.000 million transfer out of the SGF for bioscience initiatives; elimination of \$72.600 million in revenue sharing transfers to cities and counties; elimination of \$54.000 million in local property tax relief transfers; and another sweep of \$19.200 million from the EDIF. An additional section of the bill that caps a diversion of certain

withholding taxes to the Job Creation Program Fund also increased the net individual income tax estimate by \$18.700 million.

SB 19, the new school finance law, again provided for a \$1.100 million transfer from the SSF to the SGF; as well as a subsequent reduction of \$9.000 million in individual income tax receipts attributable to the tax credit expansion.

Sub. for HB 2230, the electronic cigarette tax bill, reduced miscellaneous tax receipts by \$1.500 million.

HB 2079 reduced insurance premiums taxes by \$72.500 million as a result of a change in law providing that a privilege fee on HMOs will no longer be deposited in the SGF.

FY 2020 and Thereafter

Individual Income Tax. Individual income tax receipts will continue to be impacted by provisions being phased in, especially the restoration of certain itemized deductions and dependent care credits. The combined provisions of the new legislation are expected to reduce SGF receipts in FY 2020 by \$15.600 million relative to the amount they would have otherwise been expected to grow during that fiscal year absent any changes in state income tax law; and growth in FY 2021 receipts (over FY 2020) is now expected to be \$33.000 million less than it otherwise would have been had there been no changes in law.

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 2021 at \$54.000 million annually; and of County and City Revenue Sharing Fund transfers beginning in FY 2021 (at 2.823 percent of sales and use taxes credited to the SGF).

Table 1
State General Fund Receipts
(Dollars in Thousands)

	Consensus Estimate Adjusted for Legislation (June 30, 2017)							
	FY 2016 (Actual)		FY 2017 (Revised)		FY 2018 (Revised)		FY 2019 (Revised)	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax/Fee:								
Motor Carrier	\$ 11,376	2.1 %	\$ 11,800	3.7 %	\$ 12,000	1.7 %	\$ 12,200	1.7 %
Income Taxes:								
Individual	\$ 2,248,936	(1.3) %	\$ 2,305,000	2.5 %	\$ 2,927,000	27.0 %	\$ 3,017,700	3.1 %
Corporation	354,726	(15.0)	270,000	(23.9)	275,000	1.9	280,000	1.8
Financial Inst.	37,151	(8.4)	40,000	7.7	41,000	2.5	42,000	2.4
Total	<u>\$ 2,640,812</u>	<u>(3.5) %</u>	<u>\$ 2,615,000</u>	<u>(1.0) %</u>	<u>\$ 3,243,000</u>	<u>24.0 %</u>	<u>\$ 3,339,700</u>	<u>3.0 %</u>
Excise Taxes:								
Retail Sales	\$ 2,273,941	6.6 %	\$ 2,272,000	(0.1) %	\$ 2,282,317	0.5 %	\$ 2,305,000	1.0 %
Compensating Use	384,992	9.3	380,000	(1.3)	385,000	1.3	390,000	1.3
Cigarette	138,512	55.9	130,000	(6.1)	127,000	(2.3)	124,000	(2.4)
Tobacco Products	8,040	7.5	8,400	4.5	8,500	1.2	8,600	1.2
Cereal Malt Bev.	1,410	(10.0)	1,500	6.4	1,400	(6.7)	1,300	(7.1)
Liquor Gallonage	19,714	2.0	19,700	(0.1)	19,900	1.0	20,100	1.0
Liquor Enforcement	67,730	(1.1)	71,500	5.6	72,500	1.4	73,500	1.4
Liquor Drink	10,941	3.8	11,000	0.5	11,200	1.8	11,400	1.8
Corp. Franchise	6,884	(5.5)	6,600	(4.1)	6,700	1.5	6,800	1.5
Severance	22,395	(76.0)	41,500	85.3	36,400	(12.3)	32,500	(10.7)
Gas	5,975	(77.3)	13,200	120.9	11,200	(15.2)	9,100	(18.8)
Oil	16,420	(75.5)	28,300	72.4	25,200	(11.0)	23,400	(7.1)
Total	<u>\$ 2,934,559</u>	<u>5.5 %</u>	<u>\$ 2,942,200</u>	<u>0.3 %</u>	<u>\$ 2,950,917</u>	<u>0.3 %</u>	<u>\$ 2,973,200</u>	<u>0.8 %</u>
Other Taxes:								
Insurance Prem.	\$ 170,202	(9.3) %	\$ 174,500	2.5 %	\$ 177,500	1.7 %	\$ 184,000	3.7 %
Miscellaneous	1,395	(0.1)	1,300	(6.8)	1,600	23.1	1,800	12.5
Total	<u>\$ 171,598</u>	<u>(9.2) %</u>	<u>\$ 175,800</u>	<u>2.4 %</u>	<u>\$ 179,100</u>	<u>1.9 %</u>	<u>\$ 185,800</u>	<u>3.7 %</u>
Total Taxes	\$ 5,758,345	0.7 %	\$ 5,744,800	(0.2) %	\$ 6,385,017	11.1 %	\$ 6,510,900	2.0 %
Other Revenues:								
Interest	\$ 28,121	128.3 %	\$ 63,700	126.5 %	\$ 200	(99.7) %	\$ 100	(50.0) %
Net Transfers	239,330	66.7	381,550	59.4	269,380	(29.4)	102,260	(62.0)
Agency Earnings	47,667	(14.1)	76,700	60.9	50,900	(33.6)	48,900	(3.9)
Total	<u>\$ 315,118</u>	<u>49.0 %</u>	<u>\$ 521,950</u>	<u>65.6 %</u>	<u>\$ 320,480</u>	<u>(38.6) %</u>	<u>\$ 151,260</u>	<u>(52.8) %</u>
Total Receipts	<u><u>\$ 6,073,463</u></u>	<u><u>2.4 %</u></u>	<u><u>\$ 6,266,750</u></u>	<u><u>3.2 %</u></u>	<u><u>\$ 6,705,497</u></u>	<u><u>7.0 %</u></u>	<u><u>\$ 6,662,160</u></u>	<u><u>(0.6) %</u></u>

Table 2
State General Fund Receipts
FY 2017 Revised
Comparison of June 2017 Estimate to April 2017 Estimate
(Dollars in Thousands)

	FY 2017 CRE Est.	FY 2017 CRE Est.	Difference	
	Revised 04/20/17	Revised 06/30/17	Amount	Pct. Chg.
Property Tax/Fee:				
Motor Carrier	\$ 11,800	\$ 11,800	\$ --	-- %
Income Taxes:				
Individual	\$ 2,305,000	\$ 2,305,000	\$ --	-- %
Corporation	270,000	270,000	--	--
Financial Inst.	40,000	40,000	--	--
Total	<u>\$ 2,615,000</u>	<u>\$ 2,615,000</u>	<u>\$ --</u>	<u>-- %</u>
Excise Taxes:				
Retail Sales	\$ 2,272,000	\$ 2,272,000	\$ --	-- %
Compensating Use	380,000	380,000	--	--
Cigarette	130,000	130,000	--	--
Tobacco Product	8,400	8,400	--	--
Cereal Malt Beverage	1,500	1,500	--	--
Liquor Gallonage	19,700	19,700	--	--
Liquor Enforcement	71,500	71,500	--	--
Liquor Drink	11,000	11,000	--	--
Corporate Franchise	6,600	6,600	--	--
Severance	41,500	41,500	--	--
Gas	13,200	13,200	--	--
Oil	28,300	28,300	--	--
Total	<u>\$ 2,942,200</u>	<u>\$ 2,942,200</u>	<u>\$ --</u>	<u>-- %</u>
Other Taxes:				
Insurance Premium	\$ 174,500	\$ 174,500	\$ --	-- %
Miscellaneous	2,200	1,300	(900)	(40.9)
Total	<u>\$ 176,700</u>	<u>\$ 175,800</u>	<u>\$ (900)</u>	<u>(0.5) %</u>
Total Taxes	\$ 5,745,700	\$ 5,744,800	\$ (900)	(0.0) %
Other Revenues:				
Interest	\$ 63,700	\$ 63,700	\$ --	-- %
Net Transfers	403,400	381,550	(21,850)	(5.4)
Agency Earnings	76,700	76,700	--	--
Total Other Revenue	<u>\$ 543,800</u>	<u>\$ 521,950</u>	<u>\$ (21,850)</u>	<u>(4.0) %</u>
Total Receipts	<u><u>\$ 6,289,500</u></u>	<u><u>\$ 6,266,750</u></u>	<u><u>\$ (22,750)</u></u>	<u><u>(0.4) %</u></u>

Table 3
State General Fund Receipts
FY 2018 Revised
Comparison of June 2017 Estimate to April 2017 Estimate
(Dollars in Thousands)

	FY 2018 CRE Est.	FY 2018 CRE Est.	Difference	
	Revised 04/20/17	Revised 06/30/17	Amount	Pct. Chg.
Property Tax/Fee:				
Motor Carrier	\$ 12,000	\$ 12,000	\$ --	-- %
Income Taxes:				
Individual	\$ 2,345,000	\$ 2,927,000	\$ 582,000	24.8 %
Corporation	275,000	275,000	--	--
Financial Inst.	41,000	41,000	--	--
Total	\$ 2,661,000	\$ 3,243,000	\$ 582,000	21.9 %
Excise Taxes:				
Retail Sales	\$ 2,285,000	\$ 2,282,317	\$ (2,683)	(0.1) %
Compensating Use	385,000	385,000	--	--
Cigarette	127,000	127,000	--	--
Tobacco Product	8,500	8,500	--	--
Cereal Malt Beverage	1,400	1,400	--	--
Liquor Gallonage	19,900	19,900	--	--
Liquor Enforcement	72,500	72,500	--	--
Liquor Drink	11,200	11,200	--	--
Corporate Franchise	6,700	6,700	--	--
Severance	36,400	36,400	--	--
Gas	11,200	11,200	--	--
Oil	25,200	25,200	--	--
Total	\$ 2,953,600	\$ 2,950,917	\$ (2,683)	(0.1) %
Other Taxes:				
Insurance Premium	\$ 177,500	\$ 177,500	\$ --	-- %
Miscellaneous	3,200	1,600	(1,600)	(50.0)
Total	\$ 180,700	\$ 179,100	\$ (1,600)	(0.9) %
Total Taxes	\$ 5,807,300	\$ 6,385,017	\$ 577,717	9.9 %
Other Revenues:				
Interest	\$ 200	\$ 200	\$ --	-- %
Net Transfers	(70,000)	269,380	339,380	484.8
Agency Earnings	50,900	50,900	--	--
Total Other Revenue	\$ (18,900)	\$ 320,480	\$ 339,380	1,795.7 %
Total Receipts	\$ 5,788,400	\$ 6,705,497	\$ 917,097	15.8 %

Table 4
State General Fund Receipts
FY 2019 Revised
Comparison of June 2017 Estimate to April 2017 Estimate
(Dollars in Thousands)

	FY 2019 CRE Est.	FY 2019 CRE Est.	Difference	
	Revised 04/20/17	Revised 06/30/17	Amount	Pct. Chg.
Property Tax/Fee:				
Motor Carrier	\$ 12,200	\$ 12,200	\$ --	-- %
Income Taxes:				
Individual	\$ 2,375,000	\$ 3,017,700	\$ 642,700	27.1 %
Corporation	280,000	280,000	--	--
Financial Inst.	42,000	42,000	--	--
Total	\$ 2,697,000	\$ 3,339,700	\$ 642,700	23.8 %
Excise Taxes:				
Retail Sales	\$ 2,305,000	\$ 2,305,000	\$ --	-- %
Compensating Use	390,000	390,000	--	--
Cigarette	124,000	124,000	--	--
Tobacco Product	8,600	8,600	--	--
Cereal Malt Beverage	1,300	1,300	--	--
Liquor Gallonage	20,100	20,100	--	--
Liquor Enforcement	73,500	73,500	--	--
Liquor Drink	11,400	11,400	--	--
Corporate Franchise	6,800	6,800	--	--
Severance	32,500	32,500	--	--
Gas	9,100	9,100	--	--
Oil	23,400	23,400	--	--
Total	\$ 2,973,200	\$ 2,973,200	\$ --	-- %
Other Taxes:				
Insurance Premium	\$ 256,500	\$ 184,000	\$ (72,500)	(28.3) %
Miscellaneous	3,300	1,800	(1,500)	(45.5)
Total	\$ 259,800	\$ 185,800	\$ (74,000)	(28.5) %
Total Taxes	\$ 5,942,200	\$ 6,510,900	\$ 568,700	9.6 %
Other Revenues:				
Interest	\$ 100	\$ 100	\$ --	-- %
Net Transfers	(426,800)	102,260	529,060	124.0
Agency Earnings	48,900	48,900	--	--
Total Other Revenue	\$ (377,800)	\$ 151,260	\$ 529,060	140.0 %
Total Receipts	\$ 5,564,400	\$ 6,662,160	\$ 1,097,760	19.7 %

Table 5 - Legislative Adjustments by Bill by Source to FY 2017 Estimates

(\$ in millions)

		<u>Ind Income</u>	<u>Sales</u>	<u>Ins Prem</u>	<u>Misc</u>	<u>Transfers</u>	<u>Total</u>
Sub HB 2230	Electronic Cigarette Tax				(\$0.900)		(\$0.900)
S Sub HB 2002	<u>Omnibus Budget Bill</u>					(\$21.850)	(\$21.850)
Total		\$0.000	\$0.000	\$0.000	(\$0.900)	(\$21.850)	(\$22.750)

Table 6 - Legislative Adjustments by Bill by Source to FY 2018 Estimates

(\$ in millions)

		<u>Ind Income</u>	<u>Sales</u>	<u>Ins Prem</u>	<u>Misc</u>	<u>Transfers</u>	<u>Total</u>
SB 30	Income Tax Reform	\$591.000					\$591.000
Sub HB 2230	Electronic Cigarette Tax				(\$1.600)		(\$1.600)
HB 2212	Sales Tax Deceleration		(\$2.683)				(\$2.683)
SB 19	K-12 Funding	(\$9.000)				\$1.100	(\$7.900)
S Sub HB 2002	<u>Omnibus Budget Bill</u>					\$338.280	\$338.280
Total		\$582.000	(\$2.683)	\$0.000	(\$1.600)	\$339.380	\$917.097

Table 7 - Legislative Adjustments by Bill by Source to FY 2019 Estimates

(\$ in millions)

		<u>Ind Income</u>	<u>Sales</u>	<u>Ins Prem</u>	<u>Misc</u>	<u>Transfers</u>	<u>Total</u>
SB 30	Income Tax Reform	\$633.000					\$633.000
Sub HB 2230	Electronic Cigarette Tax				(\$1.500)		(\$1.500)
HB 2079	HMO Privilege Fee			(\$72.500)			(\$72.500)
SB 19	K-12 Funding	(\$9.000)				\$1.100	(\$7.900)
S Sub HB 2002	<u>Omnibus Budget Bill</u>	\$18.700				\$527.960	\$546.660
Total		\$642.700	\$0.000	(\$72.500)	(\$1.500)	\$529.060	\$1,097.760

Cumulative FY 2017 + 2018 + 2019

\$1,992.107

Table 8 -- Fiscal Note Component Disaggregation of New State Income Tax Law Enacted by SB 30

(\$ in millions)

	Total Income Tax <u>Provisions</u>	Non-Wage Business Income Tax <u>Provisions</u>	Rate <u>Changes</u>	Medical Expense Deduction <u>Restored</u>	Mortgage Deduction Increased <u>to 100%</u>	Property Tax Deduction Increased <u>to 100%</u>	Child and Dependent Care Credit <u>Care Credit</u>	Low Income Exclusion <u>Change</u>
FY 2018	\$591.000	\$270.100	\$320.900	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
FY 2019	\$633.000	\$230.400	\$403.500	(\$11.400)	\$0.000	\$0.000	(\$4.500)	\$15.000
FY 2020	\$617.400	\$233.300	\$407.000	(\$17.100)	(\$8.000)	(\$6.000)	(\$6.800)	\$15.000
FY 2021	\$584.400	\$236.200	\$393.000	(\$22.800)	(\$16.000)	(\$12.000)	(\$9.000)	\$15.000
<u>FY 2022</u>	<u>\$590.300</u>	<u>\$239.100</u>	<u>\$396.600</u>	<u>(\$23.000)</u>	<u>(\$16.200)</u>	<u>(\$12.100)</u>	<u>(\$9.100)</u>	<u>\$15.000</u>
5-yr total	\$3,016.100	\$1,209.100	\$1,921.000	(\$74.300)	(\$40.200)	(\$30.100)	(\$29.400)	\$60.000

Source: Kansas Department of Revenue