

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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May 31, 2018

To: Legislative Coordinating Council and Governor Jeff Colyer, M.D.

From: Kansas Legislative Research Department and Division of the Budget

Re: Legislative Adjustments to Consensus Estimates for FY 2018 and FY 2019

Pursuant to KSA 2017 Supp. 75-6701, the most recent estimates of State General Fund (SGF) receipts for FY 2018 and FY 2019 have been adjusted to reflect the fiscal impact of legislation involving receipts to the SGF enacted during the 2018 Legislative Session subsequent to the Consensus Revenue Estimate (CRE) made on April 20, 2018 (see Table 1).

Estimated receipts for both fiscal years combined were decreased by \$96.8 million relative to the April 20 estimate (all in FY 2019).

Table 3 shows changes by source for FY 2019 and incorporates those changes into the overall estimate for that fiscal year, establishing the new baseline estimate that will be revised again in the fall. Estimated receipts were decreased by \$96.8 million relative to the April 20 estimate. Of this amount, \$3.4 million is attributable to adjustments in total taxes; and \$93.3 million is attributable to changes in the estimate for other revenues. Table 4 provides more specific information on the adjustments by bill and by source for FY 2019.

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

The Consensus Group will meet again prior to December 4 to consider revisions to the FY 2019 estimates and make the initial forecast for FY 2020 and FY 2021.

FY 2018

For FY 2018, there were offsetting changes in transfers made in **House Sub. for SB 109**, the omnibus budget bill, leaving the net estimate for the fiscal year unchanged.

FY 2019

The following FY 2019 adjustments were made:

House Sub. for SB 109, the omnibus budget bill, decreases net transfers by \$93.1 million. Major adjustments include an \$82.0 million repayment to the Kansas Public Employees

Retirement Fund; and enactment of a new \$5.0 million transfer to the School Safety and Security Fund.

SB 415 enacts a diversion away from the SGF of certain sales tax receipts collected by the Kansas State Fair and on the fairgrounds by other retailers; and also repeals a previously scheduled transfer that had been scheduled to occur from the SGF. The net impact to the SGF is a reduction in receipts of \$193,000. Sales tax receipts are reduced by \$293,000; while net receipts from transfers are increased by \$100,000.

HB 2067 expands individual income tax subtraction modifications available for certain contributions made to qualified savings accounts established under federal law and reduces the individual income tax estimate by \$30,000.

HB 2111 excludes the amount of certain manufacturers' cash rebates associated with motor vehicle purchases from the sales price and reduces the sales tax estimate by \$3.3 million.

HB 2470 makes a number of changes relative to liquor laws and generates an additional \$161,000 in liquor enforcement tax receipts.

HB 2577 creates the Kansas Right-to-Know Fee Fund and diverts to that fund \$312,000 in agency earnings that previously would have accrued to the SGF.

FY 2020 and Thereafter

Individual income tax. Individual income tax receipts will continue to be impacted by provisions being phased-in pursuant to legislation enacted in 2017, especially the restoration of certain itemized deductions and dependent care credits. Those combined provisions are expected to reduce SGF receipts in FY 2020 by \$15.6 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 expected to be an additional \$33.0 million less than it otherwise would have been had there been no changes in law.

Property tax relief and revenue sharing. Current law also provides for reinstatement of Local *Ad Valorem* Tax Reduction Fund transfers from the SGF beginning in FY 2021 at \$54.0 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).

Sales tax. The sales tax exclusion for certain manufacturers' car rebates sunsets on June 30, 2021. FY 2022 SGF sales tax receipts are expected to increase by an additional \$3.7 million as a result of that sunset.

**Table 1
State General Fund Receipts
(Dollars in Thousands)**

	Consensus Estimate May 31, 2018					
	FY 2017 (Actual)		FY 2018 (Revised)		FY 2019 (Revised)	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax/Fee:						
<i>Motor Carrier</i>	\$ 10,863	(4.5) %	\$ 12,400	14.2 %	\$ 12,100	(2.4) %
Income Taxes:						
Individual	\$ 2,304,027	2.4 %	\$ 3,145,000	36.5 %	\$ 3,334,170	6.0 %
Corporation	324,956	(8.4)	330,000	1.6	351,000	6.4
Financial Institutions	41,138	10.7	42,000	2.1	43,000	2.4
<i>Total</i>	\$ 2,670,122	1.1 %	\$ 3,517,000	31.7 %	\$ 3,728,170	6.0 %
Excise Taxes:						
Retail Sales	\$ 2,285,870	0.5 %	\$ 2,330,000	1.9 %	\$ 2,361,427	1.3 %
Compensating Use	384,654	(0.1)	397,000	3.2	405,000	2.0
Cigarette	130,079	(6.1)	120,000	(7.7)	112,000	(6.7)
Tobacco Products	8,425	4.8	8,600	2.1	8,700	1.2
Cereal Malt Beverage	1,543	9.5	1,400	(9.3)	1,200	(14.3)
Liquor Gallonage	19,438	(1.4)	20,000	2.9	20,200	1.0
Liquor Enforcement	71,528	5.6	73,500	2.8	75,161	2.3
Liquor Drink	11,041	0.9	11,500	4.2	11,600	0.9
Corporate Franchise	7,631	10.9	6,800	(10.9)	6,900	1.5
Severance	42,090	87.9	41,200	(2.1)	36,300	(11.9)
Gas	14,879	149.0	11,800	(20.7)	7,800	(33.9)
Oil	27,211	65.7	29,400	8.0	28,500	(3.1)
<i>Total</i>	\$ 2,962,299	0.9 %	\$ 3,010,000	1.6 %	\$ 3,038,488	0.9 %
Other Taxes:						
Insurance Premiums	\$ 172,291	1.2 %	\$ 171,000	(0.7) %	\$ 163,000	(4.7) %
Miscellaneous	1,352	(3.1)	2,600	92.2	2,800	7.7
<i>Total</i>	\$ 173,644	1.2 %	\$ 173,600	0.0 %	\$ 165,800	(4.5) %
Total Taxes	\$ 5,816,927	1.0 %	\$ 6,713,000	15.4 %	\$ 6,944,558	3.4 %
Other Revenues & Receipts:						
Interest	\$ 65,633	133.4 %	\$ 18,500	(71.8) %	\$ 20,000	8.1 %
Transfers & Other Receipts	381,794	59.5	254,100	(33.4)	(7,800)	(103.1)
Agency Earnings	74,706	56.7	45,300	(39.4)	46,588	2.8
<i>Total</i>	\$ 522,132	65.7 %	\$ 317,900	(39.1) %	\$ 58,788	(81.5) %
Total Receipts	\$ 6,339,059	4.4 %	\$ 7,030,900	10.9 %	\$ 7,003,346	(0.4) %

Table 2
State General Fund Receipts
FY 2018 Revised
Comparison of May 2018 Estimate to April 2018 Estimate
(Dollars in Thousands)

	FY 2018 CRE Est. Revised 04/20/18	FY 2018 CRE Est. Revised 05/31/18	Difference		
			Amount	Percent Change	
Property Tax/Fee:					
<i>Motor Carrier</i>	\$ 12,400	\$ 12,400	\$ --	--	%
Income Taxes:					
Individual	3,145,000	3,145,000	--	--	%
Corporation	330,000	330,000	--	--	
Financial Institutions	42,000	42,000	--	--	
<i>Total</i>	\$ 3,517,000	\$ 3,517,000	\$ --	--	%
Excise Taxes:					
Retail Sales	\$ 2,330,000	\$ 2,330,000	\$ --	--	%
Compensating Use	397,000	397,000	--	--	
Cigarette	120,000	120,000	--	--	
Tobacco Products	8,600	8,600	--	--	
Cereal Malt Beverage	1,400	1,400	--	--	
Liquor Gallonage	20,000	20,000	--	--	
Liquor Enforcement	73,500	73,500	--	--	
Liquor Drink	11,500	11,500	--	--	
Corporate Franchise	6,800	6,800	--	--	
Severance	41,200	41,200	--	--	
Gas	11,800	11,800	--	--	
Oil	29,400	29,400	--	--	
<i>Total</i>	\$ 3,010,000	\$ 3,010,000	\$ --	--	%
Other Taxes:					
Insurance Premiums	\$ 171,000	\$ 171,000	\$ --	--	%
Miscellaneous	2,600	2,600	--	--	
<i>Total</i>	\$ 173,600	\$ 173,600	\$ --	--	%
Total Taxes	\$ 6,713,000	\$ 6,713,000	\$ --	--	%
Other Revenues & Receipts:					
Interest	\$ 18,500	\$ 18,500	\$ --	--	%
Transfers & Other Receipts	254,100	254,100	--	--	
Agency Earnings	45,300	45,300	--	--	
<i>Total</i>	\$ 317,900	\$ 317,900	\$ --	--	%
Total Receipts	\$ 7,030,900	\$ 7,030,900	\$ --	--	%

Table 3
State General Fund Receipts
FY 2019 Revised
Comparison of May 2018 Estimate to April 2018 Estimate
(Dollars in Thousands)

	FY 2019 CRE Est. Revised 04/20/18	FY 2019 CRE Est. Revised 05/31/18	Difference	
			Amount	Percent Change
Property Tax/Fee:				
<i>Motor Carrier</i>	\$ 12,100	\$ 12,100	\$ 0	0.0 %
Income Taxes:				
Individual	\$ 3,334,200	\$ 3,334,170	\$ (30)	0.0 %
Corporation	351,000	351,000	0	0.0
Financial Institutions	43,000	43,000	0	0.0
<i>Total</i>	\$ 3,728,200	\$ 3,728,170	\$ (30)	0.0 %
Excise Taxes:				
Retail Sales	\$ 2,365,000	\$ 2,361,427	\$ (3,573)	(0.2) %
Compensating Use	405,000	405,000	0	0.0
Cigarette	112,000	112,000	0	0.0
Tobacco Products	8,700	8,700	0	0.0
Cereal Malt Beverage	1,200	1,200	0	0.0
Liquor Gallonage	20,200	20,200	0	0.0
Liquor Enforcement	75,000	75,161	161	0.2
Liquor Drink	11,600	11,600	0	0.0
Corporate Franchise	6,900	6,900	0	0.0
Severance	36,300	36,300	0	0.0
Gas	7,800	7,800	0	0.0
Oil	28,500	28,500	0	0.0
<i>Total</i>	\$ 3,041,900	\$ 3,038,488	\$ (3,412)	(0.1) %
Other Taxes:				
Insurance Premiums	\$ 163,000	\$ 163,000	\$ 0	0.0 %
Miscellaneous	2,800	2,800	0	0.0
<i>Total</i>	\$ 165,800	\$ 165,800	\$ 0	0.0 %
Total Taxes	\$ 6,948,000	\$ 6,944,558	\$ (3,442)	0.0 %
Other Revenues & Receipts:				
Interest	\$ 20,000	\$ 20,000	\$ 0	0.0 %
Transfers & Other Receipts	85,200	(7,800)	(93,000)	(109.2)
Agency Earnings	46,900	46,588	(312)	(0.7)
<i>Total</i>	\$ 152,100	\$ 58,788	\$ (93,312)	(61.3) %
Total Receipts	\$ 7,100,100	\$ 7,003,346	\$ (96,754)	(1.4) %

Table 4
Legislative Adjustments by Bill by Source to FY 2019 Estimates
(Dollars in Thousands)

	<u>Sales</u>	<u>Ind Inc</u>	<u>Ag Earnings</u>	<u>Liq Enf</u>	<u>Transfers</u>	<u>Total</u>
House Sub. Omnibus Budget for SB 109 Bill					\$ (93,100)	\$ (93,100)
SB 415 State Fair Funding	\$ (293)				\$ 100	\$ (193)
HB 2067 Qualified Savings Accounts		\$ (30)				\$ (30)
HB 2111 Car Rebates	\$ (3,280)	\$				\$ (3,280)
HB 2470 Liquor Law Changes				\$ 161		\$ 161
HB 2577 Right-to-Know Funding			\$ (312)			\$ (312)
Total	<u>\$ (3,573)</u>	<u>\$ (30)</u>	<u>\$ (312)</u>	<u>\$ 161</u>	<u>\$ (93,000)</u>	<u>\$ (96,754)</u>