

April 24, 2014

To: Governor Sam Brownback and Legislative Budget Committee
From: Kansas Division of the Budget and Kansas Legislative Research Department
Re: State General Fund Receipt Revisions for FY 2014 and FY 2015

Estimates for the State General Fund (SGF) are developed using a consensus process that involves the Division of the Budget, Legislative Research Department, Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget. The Consensus Group met on April 17, 2014, and increased the overall estimate for both fiscal years by a combined \$177.6 million relative to the previous estimate made in November. The revised estimates incorporate the fiscal effect of all 2014 legislation signed into law through April 15, 2014. However, no bills that have been signed into law through this date are estimated to have a significant fiscal effect on SGF revenues.

For FY 2014, the estimate was increased by \$103.3 million, or 1.8 percent, above the November estimate. The estimate for total taxes was increased by \$106.5 million, while the estimate for other revenues was decreased by \$3.2 million. The overall revised SGF estimate of \$5.960 billion represents a 6.0 percent decrease below final FY 2013 receipts.

The revised estimate for FY 2015 of \$5.991 billion was increased by \$74.3 million, or 1.3 percent above the November estimate. The estimate for total taxes was increased by \$75.0 million, while the estimate for other revenues was decreased by \$700,000. The new forecast for FY 2015 represents a 0.5 percent increase above the newly revised FY 2014 figure.

Table 1 compares the new FY 2014 and FY 2015 estimates with actual receipts from FY 2013.

Economic Forecast for Kansas Summary

While the U.S. and Kansas economies continue to grow, the growth has not been as strong as previous post-recession recoveries. Uncertainty remains as a number of economic indicators are estimated to show only modest improvements over the next few years. Significant

FY 1996 (largely as a result of depleting reserves in the Hugoton Field). Production is estimated to continue to decrease in the future and is expected to be 290.0 million cubic feet in FY 2014 and 285.0 million cubic feet in FY 2015. Approximately 11.0 percent of natural gas produced is expected to be exempt from severance taxation in FY 2014; and 12.0 percent in FY 2015.

Interest Rates

The Pooled Money Investment Board is authorized to make investments in U.S. Treasury and agency securities; highly rated commercial paper and corporate bonds; as well as repurchase agreements and certificates of deposit at Kansas banks. In FY 2013, the state earned 0.18 percent on its SGF portfolio (compared with a 0.13 percent rate in FY 2012). The average rate of return forecasted for FY 2013 is now estimated to be 0.14 percent (up slightly from the 0.12 percent estimated in November). For FY 2014, the average rate of return is now estimated to be 0.13 percent (up slightly from the 0.12 percent estimated in November). Low balances and historically low interest rates have required the PMIB to maintain a highly liquid portfolio, which reduces the amount of return available to the pool. SGF interest earnings are estimated to be \$12.0 million in FY 2014 and \$10.0 million in FY 2015, which are both unchanged from the amounts estimated in November.

Economic Forecasts

	<u>CY 13</u>	<u>CY 14*</u>	<u>CY 15*</u>
KPI Growth	2.4%	3.8%	4.2%
Inflation (CPI-U)	1.5%	1.9%	2.1%
	<u>FY 13</u>	<u>FY 14*</u>	<u>FY 15*</u>
SGF Interest	0.18%	0.14%	0.13%
Oil and Gas			
Oil Price per bbl	\$85.01	\$85.00	\$85.00
Gross Prod. (000)	44,629	48,000	52,000
Gas Price per mcf	\$3.01	\$4.05	\$3.75
Gas Taxable Value (000)	\$736,743	\$1,045,305	\$940,500

* Estimated

State General Fund Receipt Estimates

FY 2014. The revised estimate of SGF receipts for FY 2014 is \$5.960 billion, an increase of \$103.3 million from the previous estimate made in November. Total SGF receipts through March were running \$140.9 million above the previous estimate. The revised estimate is \$381.3 million or 6.0 percent below actual FY 2013 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.

The estimate of total taxes was increased by \$106.5 million, while the estimate of other revenue was decreased by \$3.2 million. Total taxes in FY 2014 are now expected to be \$359.9 million or 5.7 percent below FY 2013 collections, which were \$172.7 million or 2.8 percent above FY 2012 collections. Other revenues are estimated to be \$21.4 million below the amount collected in FY 2013.

The estimate for corporation income tax was increased by \$50.0 million. Corporation income tax receipts through March were running \$38.3 million above the fiscal year-to-date estimate, and preliminary data from the Department of Revenue has shown that this source has already received much higher than anticipated receipts thus far in April and is expected to continue for the remaining months of the fiscal year. The individual income tax estimate was increased by \$25.0 million to reflect stronger fiscal year-to-date collections. Income tax receipts were up \$89.4 million year-to-date; however, refunds and smaller balance due payments are expected to reduce the year-to-date gains over the balance of the fiscal year. The insurance premiums tax was increased by \$10.3 million based largely on higher premiums from managed care organizations than were estimated in November and overall strong growth for the insurance industry. The retail sales tax estimate was increased by \$10.0 million based on anticipated growth in consumer spending over the final three months of the fiscal year.

The severance tax estimate was increased by a net total of \$7.1 million (\$9.4 million increase attributable to gas which was partially offset by a \$2.3 million decrease attributable to oil). The estimate was increased largely as a result of higher prices for gas, which was partially offset by slightly lower prices and production for oil than had been assumed in the fall. Severance tax receipts were nearly \$1.5 million above the previous estimate through March; however, with higher sustained gas prices, it is anticipated that severance tax receipts will increase substantially in the remainder of the fiscal year. Other receipt estimates that were increased by at least \$1.0 million include the financial institutions privilege tax (increased by \$3.0 million), compensating use tax (increased by \$3.0 million), and agency earnings (increased by \$1.0 million).

The estimate for net transfers was decreased by \$4.2 million, which includes a revised estimate from the Department of Education for additional funds to be transferred to the School District Capital Improvements Fund for the state's share of capital improvement projects that have recently been passed by local elections (\$2.0 million); increased estimate of expenses for tort claims from the Attorney General (\$1.0 million); and various other net transfers (\$1.2 million). The motor carrier property tax/fee (decreased by \$2.0 million) was the only other receipt estimate that was decreased by at least \$1.0 million. The transition of the motor carrier property tax to a fee-based system had generated \$1.7 million below the fiscal year-to-date estimate through March. Details of the current year's revised estimate are reflected in Table 2.

FY 2015. SGF receipts are estimated to be \$5.991 billion in FY 2015, an increase of \$74.3 million relative to the November estimate. The new FY 2015 figure is \$31.6 million or 0.5 percent above the newly revised FY 2014 estimate. The estimate of total taxes was increased by \$75.0 million or 1.3 percent above the previous estimate made in November. Total taxes in FY 2015 are now projected to increase by 1.3 percent above the newly revised FY 2014 amount.

The estimate for corporation income tax was increased by \$45.0 million based on the expectations of continued growth in corporate profits before taxes. The insurance premiums tax was increased by \$10.3 million based on stronger growth in insurance premiums from managed care organizations than were estimated in November. The retail sales tax estimate was increased by \$10.0 million and the compensating use tax was increased by \$5.0 million to reflect slightly stronger consumer and business spending than was estimated in November. Other receipt estimates that were increased by at least \$1.0 million include financial institutions privilege tax (increased by \$3.5 million), severance tax (increased by \$1.2 million), and agency earnings (increased by \$1.0 million).

The estimate for net transfers was decreased by \$1.7 million, which includes an additional \$2.5 million to the Department of Education for additional expenditures for the state's share of school district capital improvement projects, which is partially offset by a transfer to the SGF of an additional \$800,000 from the PMIB Investment Portfolio. No other receipt estimates were reduced by at least \$1.0 million. Details of the revised estimate for FY 2015 are reflected in Table 3.

Accuracy of Consensus Revenue Estimates

For 39 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 April 17, 2014, to discuss estimates and come to a consensus for each fiscal year.

The table on the next page 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.

STATE GENERAL FUND ESTIMATES

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from:			
				Original Estimate		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)	--	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	5,693.4	(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

* 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 or April 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.

Concluding Comments

Consensus revenue estimates are based on current federal and state laws and their current interpretation. These estimates will be further adjusted at the conclusion of the 2014 Legislative Session to reflect state legislation enacted after April 15, 2014 which affects SGF receipts.