

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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To: Governor Mark Parkinson and Legislative Budget Committee

From: Kansas Legislative Research Department
Kansas Division of the Budget

Re: State General Fund Receipts Estimates for FY 2010 and FY 2011

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 annual budget. The Consensus Group met on November 5, 2009, and decreased the estimate for FY 2010 and developed the first estimate for FY 2011.

For FY 2010, the estimate was decreased by \$235.2 million, or 4.2 percent, below the previous estimate (made in April and subsequently adjusted for legislation enacted during the veto session). The revised estimate of \$5.301 billion represents 5.2 percent decrease below final FY 2009 receipts.

The initial estimate for FY 2011 is \$5.179 billion, which is \$122.2 million, or 2.3 percent, below the newly revised FY 2010 figure. One major reason for the reduction relates to a significant increase in net transfers out of the SGF in compliance with current statutory requirements for FY 2011. Other factors influencing the growth rate include legislation enacted in 2005-2007 that continues to reduce the amount of severance, estate, corporation franchise, and motor carrier property tax receipts deposited in the SGF; and a revenue-enhancement package enacted in 2009 that is expected to produce significantly less in FY 2011 receipts than in FY 2010.

Table 1 compares the new FY 2010 and FY 2011 estimates with actual receipts from FY 2009. Table 2 shows the changes in the FY 2010 estimates.

Economic Forecast for Kansas

While the recent announcement of growth during the third quarter of 2009 may have signaled the end of the national economic downturn, a good deal of uncertainty remains for the Kansas economy and is underlined by very little projected growth in income and the expectation that unemployment will continue to increase during 2010. A recent study by the Federal Reserve indicates that Kansas since at least 1956 has exited every recession later than the nation-as-a-whole. While some of the weak economic indicators have prompted concerns of a double-dip recession, the assumptions are that modest growth will continue in the national and state economies in 2010 and 2011. Current forecasts call for nominal Gross Domestic Product to grow by 2.5 percent in 2010 and 4.3 percent in 2011 (coming off a 1.0 percent decline in 2009); and nominal Kansas Gross State Product to grow by 2.6 percent in 2010 and 3.0 percent in 2011 (after a 1.3 percent decline in 2009). Significant concerns nevertheless remain for many of the state's key

sectors, including aviation manufacturing and agriculture. The Consensus estimates contained in this memo are therefore premised on a leveling off of the state's economy during the balance of FY 2010 and the resumption of slow growth in FY 2011.

Kansas Personal Income

Kansas Personal Income (KPI) in 2009 is expected to fall by 2.7 percent below the 2008 level. The forecast calls for KPI to grow by 0.7 percent in 2010 and 2.7 percent in 2011. Overall US Personal Income growth is not expected to differ significantly from the pattern in Kansas, with national estimates currently at negative 2.1 percent, 1.5 percent, and 3.8 percent for the same three years, respectively.

Employment

Data obtained from the Kansas Department of Labor verify that employment has weakened considerably since the fall of 2008. The most recent monthly data show that total Kansas non-farm employment from September 2008 to September 2009 had decreased by about 60,000 jobs, or 4.3 percent. All major sectors showed losses, led by manufacturing, which had 26,400 fewer jobs. The current average estimates used by the Department indicate that the overall Kansas unemployment rate, which was 4.4 percent in CY 2008, is expected to jump to 6.95 percent in CY 2009; 7.3 percent in CY 2010; and fall to 6.75 percent for 2011. This trend is similar to national unemployment forecasts which suggest that the national rate, which is expected to remain up to 2.0 percent higher than the Kansas rate, will continue to increase throughout much of 2010, reaching a high of 10.2 percent.

Agriculture

Although net farm income in 2008 was significantly higher than 2007, the outlook for 2009 is much more uncertain as a result of higher input prices, especially energy and fertilizer costs, and significantly lower commodity prices. The All Farm Products Index of Prices received by Kansas farmers was 117 in September, down from 160 a year earlier. Weather conditions have contributed to a delay of up to five weeks in the 2009 harvest. Although the combined total production of the four major grain crops is expected to be 9 percent above the 2008 level, the overall value of production for those crops is forecast to be down by 19 percent. Livestock prices also remain lower this fall than they were in 2008.

Oil and Gas

After historic levels of volatility in the price of oil over the last 15 months, the price thus far in FY 2010 has remained much higher than the price estimated in April. The average price per taxable barrel of Kansas crude in FY 2010 is now estimated to be \$70, significantly higher than the previous forecast of \$45. As always, significant political tensions in the Middle East and elsewhere provide a great deal of uncertainty about forecasting the price of this commodity. Gross oil production in Kansas, which had been declining steadily for more than a decade until FY 2000, has recently reversed that trend and been increasing slightly since FY 2005. The current forecast of 40 million barrels for FY 2010 represents a level not seen since FY 1997. Approximately half of all Kansas oil produced is not subject to severance taxation because of various exemptions in that law.

The price of natural gas is expected to average \$3.75 per mcf for FY 2010 before increasing to \$5.25 per mcf for FY 2011, based on an industry source's analysis of futures markets. Factors considered for these estimates included the relationship between crude oil and gas prices, the current relatively high storage levels for gas, overall weakness of the economy, and the impact of

enhanced production from shale formations elsewhere in the United States. Kansas natural gas production in FY 2009 of 376 million cubic feet represented a significant decrease from the modern era peak of 730 million cubic feet in FY 1996 (largely as a result of depletion of reserves in the Hugoton Field). Production is expected to continue to decrease to 360 million cubic feet for FY 2010; and 345 million cubic feet for FY 2011.

Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) is expected to fall by 0.5 percent in 2009. Despite the continuation of aggressive monetary policy by the Federal Reserve, the latest forecast calls for inflation to remain at very moderate levels of 1.5 percent in 2010 and 1.7 percent in 2011.

Interest Rates

The Pooled Money Investment Board (PMIB) is authorized to make investments in US 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 require PMIB to maintain a highly liquid portfolio, which reduces the amount of return available to the pool. In FY 2009, the state earned 2.20 percent on its SGF portfolio (compared with a 4.26 percent rate in FY 2008). The average rates of return forecasted for FY 2010 and FY 2011 are 1.05 percent and 1.22 percent, respectively, and reflect the expected continuation of historically low interest rates.

Economic Forecasts

	<u>CY 09*</u>	<u>CY 10*</u>	<u>CY 11*</u>
KPI Growth	(2.7)%	0.7%	2.7%
Inflation (CPI-U)	(0.5)%	1.5%	1.7%
	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>
SGF Interest	2.20%	1.05%	1.22%
Oil and Gas			
Oil Prices per bbl	\$ 73.44	\$ 70.00	\$ 75.00
Gross Prod. (000)	39,731	40,000	40,000
Gas Price per mcf	\$ 6.64	\$ 3.75	\$ 5.25
Gas Tax Val. (000)	1,816,868	1,231,875	1,657,294

*Estimated

State General Fund Receipts Estimates

FY 2010. The revised estimate of SGF receipts for FY 2010 is \$5.301 billion, a decrease of \$235.2 million from the previous estimate. Receipts through October had been running \$109.9 million below that forecast. The revised estimate is approximately \$288.3 million, or 5.2 percent, below actual FY 2009 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 decreased by \$241.3 million, while the estimate of other revenue was increased by \$6.1 million. Total taxes in FY 2010 are now expected to be \$215.9 million below FY 2009 collections, which were \$499.1 million below the FY 2008 figure.

The estimate for individual income taxes was decreased by \$195.3 million. Deferred capital losses from the stock market upheavals in 2008 are expected to influence tax year 2009 receipts in addition to the historically weak employment and personal income indicators. Final FY 2009 receipts from this source were \$93.0 million below the final estimate for that year and would have been almost \$120 million below the estimate had the state not deferred payment of a number of refunds to the early part of FY 2010.

The combined forecast for sales and compensating use taxes was decreased by \$48.1 million. This result is attributable in part to new information about an additional \$28 million in refunds to one taxpayer beyond the level that had been assumed in the previous estimate. Consumer confidence and forecasts of weak holiday spending also influenced the revision.

The corporation income tax estimate was reduced by \$23.2 million as a result of weak estimated payments thus far and the assumption that refunds will again be close to \$100 million by the end of the fiscal year. Receipts from this source through October were \$8.2 million below the previous estimate.

Other reductions of note based on new information included \$4.0 million cuts to both the motor carrier property tax and interest estimates.

The overall severance tax estimate was increased by \$27.2 million, with \$22.7 million attributable to an increase in the oil estimate. As noted previously, the estimated price per barrel has been increased substantially since April. The forecast for net transfers to the SGF also was increased by \$10.1 million.

Details of the current year's revised estimate are reflected in Table 2.

FY 2011. SGF receipts are estimated to be \$5.179 billion in FY 2011, a figure that is 2.3 percent below the new FY 2010 forecast. This result is heavily influenced by an increase of more than \$255 million in net transfers from the SGF which will occur absent any change in current law. Total tax receipts are expected to grow by \$131.6 million, or 2.5 percent, to reflect the modest economic recovery. Other factors taken into account for FY 2011 include the continued phasing out of the estate and corporation franchise taxes; and the fact that a temporary revenue enhancement package enacted in 2009 is expected to produce nearly \$60 million less in FY 2011 receipts than it will in FY 2010.

Accuracy of Consensus Revenue Estimates

For 35 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, Ed Olson from Kansas State University, and John Wong from Wichita State University. Each of the agencies and individuals involved in the process prepared independent estimates and met on November 5, 2009, 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	0.0
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)	(9.3)	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	5,694.9	(5.5)	(0.1)	(41.4)	(0.7)
2009	6,185.7	5,709.7	5,589.0	(596.7)	(9.6)	(120.7)	(2.1)

* 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. These estimates will be further adjusted in mid-April prior to the conclusion of the 2010 Legislative Session.

Table 1
State General Fund Receipts
(Dollars in Thousands)

	Consensus Estimate November 5, 2009					
	FY 2009 (Actual)		FY 2010 (Revised)		FY 2011	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$ 29,257	0.8 %	\$ 24,000	(18.0) %	\$ 24,000	-- %
Income Taxes:						
Individual	\$ 2,682,000	(7.4) %	\$ 2,560,000	(4.5) %	\$ 2,610,000	2.0 %
Corporation	240,258	(44.4)	245,000	2.0	245,000	--
Financial Inst.	26,192	(21.0)	24,000	(8.4)	25,000	4.2
Total	<u>\$ 2,948,450</u>	<u>(12.3) %</u>	<u>\$ 2,829,000</u>	<u>(4.1) %</u>	<u>\$ 2,880,000</u>	<u>1.8 %</u>
Estate Tax	\$ 22,530	(49.1) %	\$ 14,500	(35.6) %	\$ 5,000	(65.5) %
Excise Taxes:						
Retail Sales	\$ 1,689,516	(1.3) %	\$ 1,660,500	(1.7) %	\$ 1,710,000	3.0 %
Compensating Use	235,026	(4.6)	222,000	(5.5)	250,000	12.6
Cigarette	107,216	(4.9)	102,000	(4.9)	100,000	(2.0)
Tobacco Products	5,728	3.2	6,000	4.7	6,200	3.3
Cereal Malt Bev.	2,089	(6.2)	2,200	5.3	2,200	--
Liquor Gallonage	18,215	3.6	18,500	1.6	19,100	3.2
Liquor Enforcement	53,794	7.6	57,000	6.0	59,000	3.5
Liquor Drink	9,141	2.7	9,500	3.9	9,700	2.1
Corp. Franchise	41,720	(10.6)	26,000	(37.7)	15,000	(42.3)
Severance	124,249	(16.1)	101,700	(18.1)	118,800	16.8
Gas	73,814	(19.3)	47,700	(35.4)	62,800	31.7
Oil	50,436	(11.0)	54,000	7.1	56,000	3.7
Total	<u>\$ 2,286,693</u>	<u>(2.7) %</u>	<u>\$ 2,205,400</u>	<u>(3.6) %</u>	<u>\$ 2,290,000</u>	<u>3.8 %</u>
Other Taxes:						
Insurance Prem.	119,590	1.7 %	\$ 117,500	(1.7) %	\$ 123,000	4.7 %
Miscellaneous	1,794	(65.7)	2,000	11.5	2,000	--
Total	<u>\$ 121,384</u>	<u>(1.2) %</u>	<u>\$ 119,500</u>	<u>(1.6) %</u>	<u>\$ 125,000</u>	<u>4.6 %</u>
Total Taxes	\$ 5,408,314	(8.4) %	\$ 5,192,400	(4.0) %	\$ 5,324,000	2.5 %
Other Revenues:						
Interest	\$ 64,199	(42.3) %	\$ 20,000	(68.8) %	\$ 22,000	10.0 %
Net Transfers	35,582	109.4	33,700	(5.3)	(223,700)	(763.8)
Agency Earnings	80,879	50.1	54,600	(32.5)	56,200	2.9
Total	<u>\$ 180,660</u>	<u>185.0 %</u>	<u>\$ 108,300</u>	<u>(40.1) %</u>	<u>\$ (145,500)</u>	<u>(234.3) %</u>
Total Receipts	<u><u>\$ 5,588,974</u></u>	<u><u>(1.9) %</u></u>	<u><u>\$ 5,300,700</u></u>	<u><u>(5.2) %</u></u>	<u><u>\$ 5,178,500</u></u>	<u><u>(2.3) %</u></u>

Table 2
State General Fund Receipts
FY 2010 Revised
Comparison of November 2009 Estimate to June 2009 Estimate
(Dollars in Thousands)

	FY 2010 CRE Est. as Adj. for Legis.	FY 2010 CRE Estimate	Difference	
			Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$ 28,000	\$ 24,000	\$ (4,000)	(14.3) %
Income Taxes:				
Individual	\$ 2,755,335	\$ 2,560,000	\$ (195,335)	(7.1) %
Corporation	268,200	245,000	(23,200)	(8.7)
Financial Inst.	26,000	24,000	(2,000)	(7.7)
Total	\$ 3,049,535	\$ 2,829,000	\$ (220,535)	(7.2) %
Estate Tax	\$ 14,500	\$ 14,500	\$ --	-- %
Excise Taxes:				
Retail Sales	\$ 1,699,428	\$ 1,660,500	\$ (38,928)	(2.3) %
Compensating Use	231,200	222,000	(9,200)	(4.0)
Cigarette	102,000	102,000	--	--
Tobacco Product	5,800	6,000	200	3.4
Cereal Malt Beverage	2,200	2,200	--	--
Liquor Gallonage	18,500	18,500	--	--
Liquor Enforcement	57,000	57,000	--	--
Liquor Drink	9,700	9,500	(200)	(2.1)
Corporate Franchise	22,000	26,000	4,000	18.2
Severance	74,500	101,700	27,200	36.5
Gas	43,200	47,700	4,500	10.4
Oil	31,300	54,000	22,700	72.5
Total	\$ 2,222,328	\$ 2,205,400	\$ (16,928)	(0.8) %
Other Taxes:				
Insurance Premium	\$ 117,300	\$ 117,500	\$ 200	0.2 %
Miscellaneous	2,000	2,000	--	--
Total	\$ 119,300	\$ 119,500	\$ 200	0.2 %
Total Taxes	\$ 5,433,663	\$ 5,192,400	\$ (241,263)	(4.4) %
Other Revenues:				
Interest	\$ 24,000	\$ 20,000	\$ (4,000)	(16.7) %
Net Transfers	23,610	33,700	10,090	42.7
Agency Earnings	54,600	54,600	--	--
Total Other Revenue	\$ 102,210	\$ 108,300	\$ 6,090	6.0 %
Total Receipts	\$ 5,535,873	\$ 5,300,700	\$ (235,173)	(4.2) %