



KANSAS

DIVISION OF THE BUDGET
DUANE A. GOOSSEN, DIRECTOR

KATHLEEN SEBELIUS, GOVERNOR

November 20, 2006

To: Governor Kathleen Sebelius and the Legislative Budget Committee

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

Re: State General Fund Receipts for FY 2007 (Revised) and FY 2008

Estimates for the State General Fund are developed using a consensus process that involves the Division of the Budget, the Legislative Research Department, the Department of Revenue, and three consulting economists from state universities. These estimates are the base from which the Governor and the Legislature build the annual budget. The Consensus Group met on November 3, 2006, to revise the FY 2007 estimate and to develop the first estimate for FY 2008.

For FY 2007, the estimate was increased by \$299.4 million, or 5.7 percent, above the previous estimate (made in April and subsequently adjusted for legislation in June). The overall revised SGF estimate of \$5,592.3 million is 3.7 percent above FY 2006 receipts.

The initial estimate for FY 2008 is \$5,700.4 million, which is \$108.1 million, or 1.9 percent, above the newly revised FY 2007 figure. It should be noted that sales and compensating use taxes are affected by 2004 legislation that deposits additional amounts in the State Highway Fund, rather than the State General Fund. Without this legislation, the State General Fund would receive an additional \$175.0 million in FY 2008.

Table 1 compares the new FY 2007 and FY 2008 estimates with actual receipts from FY 2006. Table 2 shows the detailed changes in the FY 2007 estimate.

Economic Forecast for Kansas

The Kansas economy is expected to continue the trend of positive growth through calendar year 2008. Several key factors that affected the consensus estimates include high energy prices; increased business activities; a lower unemployment rate; an improved agricultural sector; and stabilizing retail sales.

The national economy is expected to grow at a slower pace over the next two years. Nominal Gross Domestic Product (GDP) is expected to finish 2006 at an annual nominal growth rate of 6.5 percent, then drop to 5.5 percent in 2007 and 2008. Real GDP is expected to grow by 3.4 percent, 2.9 percent, and 3.0 percent, respectively. U.S. personal income is expected to finish 2006 with a growth rate of 6.8 percent, but fall to 5.4 percent in 2007. In 2008, the growth rate is expected to be 5.3 percent. A listing of the key economic indicators is shown in the following table:

Key Economic Indicators

	2005	2006	2007	2008
Consumer Price Index for All Urban Consumers	3.4 %	3.4 %	2.6 %	2.5 %
Real U.S. Gross Domestic Product	3.2	3.4	2.9	3.0
Nominal U.S. Gross Domestic Product	6.3	6.5	5.5	5.5
Nominal U.S. Personal Income	5.2	6.8	5.4	5.3
Corporate Profits before Taxes	32.7	13.0	--	4.7
Nominal Kansas Gross State Product	6.6	5.6	4.8	4.7
Nominal Kansas Personal Income:				
Dollars in Millions	\$90,433	\$96,200	\$101,300	\$106,550
Percentage Change	5.7 %	6.4 %	5.3 %	5.2 %
Nominal Kansas Disposable Income:				
Dollars in Millions	\$81,133	\$86,100	\$90,575	\$95,200
Percentage Change	4.8 %	6.1 %	5.2 %	5.1 %
Interest Rate for State General Fund <i>(based on fiscal year)</i>	2.27	4.25	5.23	4.76
Kansas Unemployment Rate <i>(based on fiscal year)</i>	5.3	4.8	4.6	4.8

Inflation Rate

The rate of inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), for 2006 is expected to finish the year at 3.4 percent. The inflation rate in 2007 is forecast to be lower at 2.6 percent and drop to 2.5 percent in 2008.

Kansas Personal Income

Nominal Kansas Personal Income (KPI) is expected to realize an annual growth rate of 6.4 percent in 2006. The growth rate is expected to decrease to 5.3 percent in 2007 and to decrease slightly again in 2008 to 5.2 percent.

Interest Rates

The Pooled Money Investment Board is authorized to make investments in U.S. Treasury and agency securities; highly rated commercial paper; as well as repurchase agreements and certificates of deposit of Kansas banks. In FY 2006, the state finished the year with an earned interest rate of 4.25 percent on its State General Fund portfolio. The average rate of return forecasted for FY 2007 is 5.23 percent. For FY 2008, the forecasted rate is 4.76 percent.

Employment

Labor market statistics indicate that unemployment in Kansas is down and experts believe that the employment outlook generally is expected to stabilize. The statewide unemployment rate for FY 2006 was 4.8 percent. The forecast for FY 2007 is 4.6 percent. In FY 2008, the unemployment rate is expected to increase back up to 4.8 percent.

Agriculture

The national All Farm Products Index of Prices Received in October was 117.0 percent of the 1990-92 base, down two points from September, but six points above October 2005. The All Farm Products Index of Prices Received by Kansas farmers was 123 percent, which was up by 1 point from September and up 14 points from October 2005. The All Crops Index in October, at 133 percent, was down 1 point from September, but up 34 points from 2005. The Meat Animals Index, at 119 percent base, was down 2 points from both September and last year.

Wheat prices in mid-October, at \$4.99 per bushel, were up \$0.48 from September and \$1.51 above last October. Corn prices, at \$2.99 per bushel, were up \$0.56 from September and \$0.82 above last October. Farmers received an average of \$5.12 per hundred weight (cwt.) for sorghum grain in mid-October, which is up \$1.19 from September and \$2.22 above last October. Soybean prices, at \$5.38 per bushel, were up \$0.21 from September, but \$0.11 below last October.

All hay prices averaged \$102.00 per ton, which is down \$2.00 from September, but \$38.00 higher than last year. Alfalfa hay averaged \$115.00 per ton, up \$6.00 from September and \$44.00 higher than last October and other hay, at \$78.00 per ton, was up \$9.00 from September and \$28.00 above last October.

All beef cattle brought an average of \$91.90 per cwt., which is down \$1.50 from September and \$1.20 below the price from last October. Steers and heifers averaged \$93.30 per cwt., and calf prices were \$132.00 per cwt., down \$5.00 from September and down \$8.00 from October 2005. The all hog price of \$43.70 per cwt. was down \$1.10 from September and down \$0.30 cents from last October.

Oil and Gas

The average price per taxable barrel of Kansas crude oil is estimated to be \$55 in FY 2007 and to remain at that level in FY 2008. Gross oil production in Kansas is expected to continue to remain steady at 35.0 million barrels throughout the forecast period (FY 2007 and FY 2008).

The price of natural gas is expected to decrease from the FY 2006 level of \$6.81 per mcf to \$5.50 per mcf in FY 2007 and then increase to \$6.00 per mcf in FY 2008. Natural gas production in FY 2006 was 373.9 million cubic feet. Production is expected to continue to decline for the foreseeable future as natural gas reserves, especially those in the Hugoton field, are depleted. The forecast is for 355.0 million cubic feet in FY 2007 and 335.0 million cubic feet in FY 2008.

State General Fund Receipts Estimates

Each individual SGF source was evaluated independently and consideration was given to revised and updated economic forecasts, and year-to-date receipts. Additional information was provided by the Department of Revenue, the Insurance Department, the State Treasurer's Office, the Pooled Money Investment Board, the Kansas Department of Labor, and Kansas Agricultural Statistics.

Tax Receipts

FY 2007. Estimated tax receipts for FY 2007 were increased by \$299.4 million. Individual income tax receipts account for \$146.3 million of the total increase, while corporation income tax receipts account for \$68.7 million, and financial institutions income tax accounts for \$4.0 million. Retail sales and compensating use account for \$62.5 million. The remaining \$17.9 million of the increase is attributable to receipts from financial institutions income tax (\$4.0 million), estate tax (\$3.0 million), motor carrier property tax (\$0.5 million), several excise taxes (\$2.0 million), and miscellaneous taxes (\$2.0 million). Other revenue sources also were increased.

The only tax source that decreased was the severance tax. Experts provided information that points to lower prices for both oil and gas during the forecast period. These lower prices translated to a \$5.9 million reduction in the natural gas severance tax

receipts. However, this decrease was partially offset by an expected \$3.8 million increase in oil severance tax receipts.

FY 2008. The initial estimate for FY 2008 is \$5,700.4 million, which is \$108.1 million, or 1.9 percent, above the newly revised FY 2007 figure. It should be noted that retail sales and compensating use tax receipts are affected by 2004 legislation that deposits additional amounts in the State Highway Fund, rather than the State General Fund. Without this legislation, the State General Fund would receive an additional \$175.0 million in FY 2008.

Other legislation also played a role in the growth between FY 2007 and FY 2008. A new transfer, referred to as “the slider,” will begin in FY 2008. The slider is a transfer from the State General Fund that is intended to partially offset any reduction in property tax receipts to local governments that result from removing investment machinery and equipment from the tax roles. The slider will increase transfers made out of the State General Fund by \$28.3 million in FY 2008. In addition, other legislation affecting the deposit of certain taxes associated with water will reduce miscellaneous tax receipts by \$3.0 million. Legislation intended to begin the phase out the estate tax begins in FY 2008, as well. The effect of this new law is a reduction of \$9.0 million.

Accuracy of Consensus Revenue Estimates

For 31 years, State General Fund 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 Dr. Joe Sicilian from the University of Kansas, Dr. Ed Olson from Kansas State University (emeritus), and Dr. John Wong from Wichita State University.

The table on page 6 presents estimates compared to actual receipts since FY 1975, the fiscal year for which the current process was initiated. The process involves comparing the adjusted original estimate 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. The group will meet again in April to revise these estimates. Developments which occur between the November and April meetings will be taken into account at that time.

ACCURACY OF 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	4,595.8	4,320.6	4,108.7	(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	4,450.0	4,518.7	(56.8)	(1.9)	68.2	1.5
2005	4,490.5	4,793.8	4,844.3	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

* 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.

Table 1
State General Fund Receipts

(Dollars in Thousands)

	FY 2006 (Actual)		Consensus Estimate November 3, 2006			
			FY 2007 (Revised)		FY 2008	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$22,056	7.8 %	\$23,500	6.5 %	\$24,000	2.1 %
General Property	55					
Motor Vehicle	1,875					
Total	\$23,986	7.8 %	\$23,500	(2.0) %	\$24,000	2.1 %
Income Taxes:						
Individual	\$2,371,253	15.6 %	\$2,585,000	9.0 %	\$2,750,000	6.4 %
Corporation	350,200	54.9	375,000	7.1	355,000	(5.3)
Financial Inst.	31,058	40.8	31,000	(0.2)	31,000	--
Total	\$2,752,511	19.7 %	\$2,991,000	8.7 %	\$3,136,000	4.8 %
Estate Tax	\$51,806	(0.1) %	\$55,000	6.2 %	\$46,000	(16.4) %
Excise Taxes:						
Retail Sales*	\$1,736,048	5.4 %	\$1,775,000	2.2 %	\$1,745,000	(1.7) %
Compensating Use*	269,250	10.0	290,000	7.7	290,000	--
Cigarette	117,899	(0.9)	115,000	(2.5)	115,000	--
Tobacco Products	5,093	1.1	5,200	2.1	5,400	3.8
Cereal Malt Bev.	2,090	0.6	2,000	(4.3)	2,100	5.0
Liquor Gallonage	16,676	6.0	17,000	1.9	17,500	2.9
Liquor Enforcement	44,234	5.6	46,500	5.1	47,500	2.2
Liquor Drink	8,009	7.6	8,500	6.1	8,700	2.4
Corp. Franchise	46,898	(0.4)	47,000	0.2	48,000	2.1
Severance	133,432	29.1	111,100	(16.7)	113,500	2.2
Gas	96,539	28.0	72,300	(25.1)	74,700	3.3
Oil	36,893	31.9	38,800	5.2	38,800	--
Total	\$2,379,629	6.5 %	\$2,417,300	1.6 %	\$2,392,700	(1.0) %
Other Taxes:						
Insurance Prem.	\$112,207	5.0 %	\$113,000	0.7 %	\$115,000	1.8 %
Miscellaneous	5,118	19.3	5,000	(2.3)	2,000	(60.0)
Total	\$117,325	5.6 %	\$118,000	0.6 %	\$117,000	(0.8) %
Total Taxes	\$5,325,257	12.9 %	\$5,604,800	5.2 %	\$5,715,700	2.0 %
Other Revenues:						
Interest	\$54,335	133.6 %	\$89,000	63.8 %	\$104,000	16.9 %
Net Transfers	(42,243)		(161,096)		(181,308)	
Demand to Revenue	(75,810)		(72,014)		(86,964)	
Other Transfers	33,567		(89,082)		(94,344)	
Agency Earnings	57,018	(24.9)	59,554	4.4	62,000	4.1
Total	\$69,110	(47.9) %	(\$12,542)	(118.1) %	(\$15,308)	42.0 %
Total Receipts	\$5,394,367	11.3 %	\$5,592,258	3.7 %	\$5,700,392	1.9 %

* 2004 legislation reduces the FY 2008 anticipated receipts by \$150.9 million for sales tax and \$24.1 million for compensating use tax.

Table 2
State General Fund Receipts
FY 2007 Revised
Comparison of November 2006 Estimate to June 2006 Estimate
(Dollars in Thousands)

	FY 2007 CRE Est. as Adj. for Legis.	FY 2007 CRE Estimate	Difference	
			Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$23,000	\$23,500	\$500	2.2 %
Income Taxes:				
Individual	\$2,438,740	\$2,585,000	\$146,260	6.0 %
Corporation	306,350	375,000	68,650	22.4
Financial Inst.	27,000	31,000	4,000	14.8
Total	\$2,772,090	\$2,991,000	\$218,910	7.9 %
Estate Tax	\$52,000	\$55,000	\$3,000	5.8 %
Excise Taxes:				
Retail Sales	\$1,731,806	\$1,775,000	\$43,194	2.5 %
Compensating Use	270,702	290,000	19,298	7.1
Cigarette	115,000	115,000	--	--
Tobacco Product	5,000	5,200	200	4.0
Cereal Malt Beverage	2,000	2,000	--	--
Liquor Gallonage	16,100	17,000	900	5.6
Liquor Enforcement	46,000	46,500	500	1.1
Liquor Drink	8,100	8,500	400	4.9
Corporate Franchise	47,000	47,000	--	--
Severance	113,200	111,100	(2,100)	(1.9)
Gas	78,200	72,300	(5,900)	(7.5)
Oil	35,000	38,800	3,800	10.9
Total	\$2,354,908	\$2,417,300	\$62,392	2.6 %
Other Taxes:				
Insurance Premium	\$113,000	\$113,000	\$ --	-- %
Miscellaneous	4,800	5,000	200	4.2
Total	\$117,800	\$118,000	\$200	0.2 %
Total Taxes	\$5,319,798	\$5,604,800	\$285,002	5.4 %
Other Revenues:				
Interest	\$84,200	\$89,000	\$4,800	5.7 %
Net Transfers	(172,290)	(161,096)	11,194	(6.5)
Demand to Revenue	(70,384)	(72,014)	(1,630)	2.3
Other Transfers	(101,906)	(89,082)	12,824	(12.6)
Agency Earnings	61,197	59,554	(1,643)	(2.7)
Total Other Revenue	(\$26,893)	(\$12,542)	\$14,351	(53.4) %
Total Receipts	\$5,292,905	\$5,592,258	\$299,353	5.7 %