

November 5, 2009

To: Governor Mark Parkinson and Legislative Budget Committee
From: Kansas Division of the Budget and Kansas Legislative Research Department
Re: State General Fund Revenue Estimate for FY 2010 and FY 2011

The Consensus Estimating Group met today to revise the revenue estimates for FY 2010 and to make its first SGF estimates for FY 2011.

A detailed memo will be available next week which contains the economic forecast for Kansas upon which the estimates are based, as well as a discussion of other factors influencing the individual source estimates.

For FY 2010, the estimate was decreased by \$235.2 million, or 4.2 percent, below the previous estimate. The revised estimate of \$5.301 billion represents a 5.1 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. The primary reason for the reduction of revenues is a net change in over \$250.0 million for transfers out in compliance with statutory requirements. Excluding these transfers, FY 2011 receipts would have been increased 2.6 percent. Factors affecting tax receipts in addition to the state of the economy include several pieces of legislation enacted in 2005-2007 that are continuing to reduce the amount of severance, income, estate, corporation franchise, and motor carrier property tax receipts deposited in the SGF. Additional details will be provided in the more detailed memo.

Table 1 compares the new FY 2010 and FY 2011 estimates with actual receipts for FY 2009. Table 2 shows the changes in the FY 2010 estimates by revenue source.

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	18,214	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	(8.0) %	\$ 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	34,056	109.0	33,700	(1.0)	(223,700)	(763.8)
Agency Earnings	80,879	50.1	54,600	(32.5)	56,200	2.9
Total	<u>\$ 179,134</u>	<u>183.7 %</u>	<u>\$ 108,300</u>	<u>(39.5) %</u>	<u>\$ (145,500)</u>	<u>(234.3) %</u>
Total Receipts	<u><u>\$ 5,587,448</u></u>	<u><u>(1.9) %</u></u>	<u><u>\$ 5,300,700</u></u>	<u><u>(5.1) %</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) %

STATUS OF THE STATE GENERAL FUND
FY 2009-FY 2011 Based on November 2009 Consensus Revenue Estimates
(In Millions)

	Actual FY 2009	Estimated FY 2010	Estimated FY 2011
Revenue:			
Beginning Balance	\$ 526.6	\$ 51.2	\$ -
Receipts (Nov. 2009 Consensus Revenue Estimate)	5,589.0	5,300.7	5,178.5
Total Available	<u>\$ 6,115.6</u>	<u>\$ 5,351.9</u>	<u>\$ 5,178.5</u>
Expenditures:			
	6,064.4	5,612.9	5,354.8
Delay FY 2009 School Aid Payments to FY 2010	-	73.0	(73.0)
State General Fund Amounts Shifted to FY 2010	-	35.0	(35.0)
Governor's July 2009 State General Fund Allotments (generally 2.0 percent)	-	(90.1)	-
Additional Human Services Caseload Estimates	-	24.3	118.4
Additional School Finance Estimates	-	142.3	1.3
Additional Special Education Estimates	-	13.5	25.0
Additional Statutorily Required KPERs Increase	-	-	42.0
Previously Approved Undermarket Employee Salary Adjustments	-	-	8.5
Additional Adjustments to Achieve a Zero Ending Balance	<u>-</u>	<u>(459.0)</u>	<u>(263.5)</u>
Total Expenditures	<u>\$ 6,064.4</u>	<u>\$ 5,351.9</u>	<u>\$ 5,178.5</u>
Ending Balance	<u>\$ 51.2</u>	<u>\$ -</u>	<u>\$ -</u>
Ending Balance as a Percentage of Expenditures	0.8%	0.0%	0.0%
Receipts in Excess of Expenditures	\$ (475.4)	\$ (51.2)	\$ -
Across-the-Board Reduction Needed to Achieve a Zero Ending Balance		7.9%	4.8%

Two-Year Total Reduction Required to Achieve a Zero Ending Balance - \$722.5 million

Notes:

1. November 2009 Consensus Revenue Estimates for FY 2010 and FY 2011.
2. FY 2010 expenditures reflect approved expenditures, as adjusted for:
 - Delayed FY 2009 School Aid payments of \$73.0 million to FY 2010;
 - Shifting of FY 2009 State General Fund expenditures to FY 2010 (\$35.0 million);
 - Reflects Governor's July 2009 State General Fund allotments (generally 2.0 percent) of \$90.1 million; and
 - Revised consensus estimates for human services caseloads (\$24.3 million), school finance (\$142.3 million), and special education (\$13.5 million).
3. FY 2011 expenditures reflect:
 - FY 2010 estimated expenditures less the one-time delayed school aid payment (\$73.0 million) and shifting amounts (\$35.0 million);
 - Revised consensus estimates for human services caseloads (\$118.4 million), school finance (\$1.3 million), and special education (\$25.0 million).
 - Additional statutorily required KPERS employer contribution rate increase of 0.6 percent (\$42.0 million); and
 - Previously approved undermarket salary adjustments (\$8.5 million).
4. FY 2011 receipts include certain transfers reflected at their statutory amounts, not at FY 2010 capped amounts, including the Biosciences Initiative (\$70.0 million) local government property tax slider (\$44.0 million) Special City-County Highway Fund (\$10.1 million), and the State Water Plan (\$6.0 million); and budgeted repayments to the State Highway Fund, the Underground Petroleum Fund, and the Waste Tire Management Fund (\$34.7 million).
5. FY 2011 receipt estimates include transfer adjustments recommended as part of the Governor's July 2009 allotments, for which no legislative action is required. They do NOT include \$40.4 million in recommended transfer adjustments which would require legislative action. These include a \$30.0 million transfer from the State Highway Fund, a \$5.0 million transfer of a special settlement payment from the Office of the Securities Commissioner, a \$3.4 million transfer from the Economic Development Initiatives Fund, and a \$2.0 million transfer from the State Housing Trust Fund.

State General Fund Outlook
November Consensus Revenue Estimate
(Dollars in Millions)

	FY 2008 <u>Actual</u>	FY 2009 <u>Actual</u>	FY 2010 <u>Nov '09 CRE</u>
Beginning Balance	\$ 935.0	\$ 526.6	\$ 49.7
November 5, 2009 Updated Revenues	5,693.4	5,587.4	5,300.7
Governor's July Financial Plan	<u>--</u>	<u>--</u>	<u>40.4</u>
Total Available	\$ 6,628.4	\$ 6,114.0	\$ 5,390.8
Expenditures			
Approved Expenditures	\$ 6,101.8	\$ 6,137.4	\$ 5,634.9
School Payments Carried Over	--	\$ (73.0)	\$ 73.0
Governor's July Financial Plan	--	--	(90.6)
Address Judiciary Funding	--	--	8.0
Health/Human Svc Caseload Adj.	<u>--</u>	<u>--</u>	<u>24.3</u>
Total Expenditures	\$ 6,101.8	\$ 6,064.3	\$ 5,649.6
Ending Balance	\$ 526.6	\$ 49.7	\$ (258.8)
<i>As Percent of Expenditures</i>	8.6 %	0.8%	(4.6%)