

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 2nd Meeting of the 2018 Interim

July 26, 2018

Call to Order and Roll Call

The 2nd meeting of the Interim Joint Committee on Appropriations and Revenue was held on Thursday, July 26, 2018, at 1:00 PM, in Room 154 of the Capitol Annex. Representative Steven Rudy, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Christian McDaniel, Co-Chair; Representative Steven Rudy, Co-Chair; Senators Ralph Alvarado, Rick Girdler, David P. Givens, Morgan McGarvey, Dennis Parrett, Wil Schroder, and Robin L. Webb; Representatives Rocky Adkins, Tim Couch, Myron Dossett, Ken Fleming, Kelly Flood, David Hale, Regina Huff, Russ A. Meyer, Suzanne Miles, Rick G. Nelson, Jason Nemes, Ruth Ann Palumbo, Jody Richards, Sal Santoro, Arnold Simpson, Jim Stewart III, James Tipton, Jim Wayne, Russell Webber, Susan Westrom, and Jill York.

Guests: John E. Chilton, Budget Director; Kevin Cardwell, Deputy State Budget Director; Greg Harkenrider, Deputy Executive Director; J. Michael Jones, Deputy Executive Director.

LRC Staff: Jennifer Hays, Cynthia Brown, Katy Jenkins, Micah Johnson, and Chase O'Dell.

Introduction of New Appropriations and Revenue Committee Staff

Chairman Rudy introduced Chase O'Dell, Committee Assistant, as new committee staff.

Approval of the Minutes

Representative Simpson moved that the minutes of the June 28, 2018, meeting be approved. Representative Flood seconded the motion, and the minutes were approved by voice vote.

Closeout of Fiscal Year 2017-2018

John E. Chilton, State Budget Director; Kevin Cardwell, Deputy State Budget Director; Greg Harkenrider, Deputy Executive Director; and Dr. J. Michael Jones, Deputy Executive Director, reviewed the budget and revenues for Fiscal Year 2017-2018 and the financial outlook for Fiscal Year 2018-2019.

The FY 2018 General Fund experienced a Revenue Surplus of \$119,800,000, with actual receipts coming in at \$10,838,200,000.

Sales and Use tax receipts for FY 18 were \$6.2 million below the official estimate. Individual Income tax receipts were \$94.6 million above the official estimate. The Coal Severance Tax exceeded the official estimate by 1.3 percent. However, receipts for the Coal Severance Tax are down to \$89.6 million from a high of \$296 million.

Greg Harkenrider testified that the Sales and Use Tax brought in \$120.4 million of new revenues in FY 18. The Individual Income Tax brought in \$209.7 million of new revenues in FY 18. In total there was \$360.4 million dollars of new revenues brought in during FY 18 – with Sales and Use Tax and Individual Income Tax making up most of that amount.

Greg Harkenrider stated that from FY 14-FY 18, the Income Tax growth exceeded the General Fund growth during each year. Mr. Harkenrider explained that the General Fund growth relies on the Sales Tax and Income Tax. Director Chilton stated that the Sales Tax and Individual Income Tax account for 75 percent of the General Fund total revenue. Overall growth in Individual Income Tax in FY 18 was 4.8 percent.

FY 18 ended with a \$15.8 million General Fund Surplus. Revenues in excess of the official revised estimate came in at \$119.8 million. Necessary Government Expenses (NGEs) for FY 18 amounted to \$80.8 million. Tobacco Revenue was \$20.5 million less than budgeted for FY 18.

Kevin Cardwell stated that the Budget Reserve Trust Fund (BRTF) had a beginning balance of \$150.5 million for FY 18. HB 303 appropriated use of \$56.7 million from the BRTF. The BRTF had a FY 18 ending balance of \$93.8 million. Director Chilton explained that funds from the BRTF were not pulled to pay for the NGEs; NGEs for FY 18 were paid for by the surplus that was generated during the year.

NGEs for Corrections totaled \$52.1 million in FY 18. Additionally, \$49.2 million has been included in the base budget for Corrections NGEs in FY 2019, with \$54 million being budgeted for FY 20. Kevin Cardwell reported that higher admissions, lower parole grant rate, and a reduction from the Governor's recommended budget all contributed to the \$52.1 million Corrections NGEs for FY 18.

NGEs for Guardian Ad Litem totaled \$14.1 million in FY 18. In addition, \$9.5 million has been included in the base budget for Guardian Ad Litem NGEs for FY 19 and FY 20.

NGEs for Military Affairs totaled \$3.9 million in FY 18. FY 19 and FY 20 both have a base budget of \$4.5 million for Military Affairs NGEs.

NGEs for Natural Resources and Fire Suppression totaled \$3.2 million in FY 18. Additionally, \$2.3 million was allocated to the base budget for Natural Resources and Fire Suppression NGEs for FY 19 and FY 20.

NGEs for County Costs totaled \$6 million in FY 2018. \$4 million was allocated to the base budget for NGEs for County Costs for FY 19 and FY 20.

Dr. Michael Jones testified that actual receipts for the Tobacco Fund in FY 18 were \$12,047,460 below the official estimate. Dr. Jones explained that in part, a national drop in the volume of cigarettes sold caused actual receipts to be lower than the official estimate for FY 18.

The Road Fund had a revenue surplus of \$7.7 million in FY 18. Road fund growth from FY 17 to FY 18 was 0.2 percent. Greg Harkenrider stated that the Motor Fuels tax and Motor Vehicle Usage Tax make up over 80 percent of the road fund. Kevin Cardwell reported that the FY 18 Road Fund Surplus totaled \$19.6 million.

Greg Harkenrider testified that the Sales Tax is projected to grow \$208.2 million in FY 19, while Tobacco Taxes are projected to grow \$128.6 million.

Director Chilton reported that FY 19 estimated NGEs will exceed the \$15.8 million reserved from the General Fund surplus from FY 18. While the FY 18 Road Fund revenue is on target, there will probably be no significant growth. The revenue growth is inadequate to meet pension and other obligations. Over 30 percent of the FY 19 General Fund dollars will be spent on Medicaid and Pensions.

In response to a question from Representative Rudy, Kevin Cardwell and Director Chilton explained that there was some unspent tobacco money from FY 17 that carried forward to FY 18.

In response to a question from Representative Tipton, Greg Harkenrider stated that the extra \$10 million received by the lottery in FY 18 was unexpected, and that the smaller estimate for FY 19 was not due to the Consensus Forecasting Group expecting the lottery to experience a decline in receipts.

Representative Wayne expressed a desire to know the fiscal impact of the expansion of Medicaid on local economies. While spending on Medicaid had increased, he was curious to know if it also had boosted the economy with money coming in.

In response to a question from Representative Richards, Greg Harkenrider stated that his belief was that the Weight Distance tax fell from FY 17 due to the timing of the receipts coming in. In response to a second question from Representative Richards, Dr. Jones testified that the Tobacco Fund expects to receive \$4.5 million from the Master Settlement Agreement, which will be received partially over the next two years. Dr. Jones continued to say that the significant shortfall was due to the overall decline in consumption of cigarettes nationwide.

In response to a question from Representative Rudy, Kevin Cardwell stated that in the current budget, for the first time ever, significant dollars that would have normally been a Necessary Government Expense were included in a base budget. In response to another question by Representative Rudy, Director Chilton said that the FY 18 General Fund Surplus of \$15.8 million was being reserved for the NGEs for FY 19.

In response to a question from Representative Flood, Director Chilton explained that a change in the funding formula for the pension plans will be implemented in the next biennium; this change will require more money than is committed to pensions.

In response to a question from Representative Nemes, Director Chilton stated that the Consensus Forecasting group will not meet again for another year and a half, but that prospects look good for the next 18 months. Mr. Harkenrider added that the economy currently has a lot of upside risk.

Correspondence Received

Representative Rudy reviewed correspondence received since the last meeting.

List of Reports Received Since June, 2018

Representative Rudy reviewed reports received since the last meeting.

With no further business before the committee, the meeting was adjourned.