



Office of State Budget Director

284 Capitol Annex, 702 Capitol Avenue
Frankfort, Kentucky 40601

(502) 564-7300
Internet: osbd.ky.gov

John E. Chilton
State Budget Director

Matthew G. Bevin
Governor

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
Governor's Office for Policy Research
Governor's Office for Policy Research

VIA Email and Hand Delivery

August 24, 2018

The Honorable Christian McDaniel, Co-Chairman
The Honorable Steven Rudy, Co-Chairman
Interim Joint Committee on Appropriations and Revenue
Legislative Research Commission
Capitol Annex
Frankfort, Kentucky 40601

Dear Senator McDaniel and Representative Rudy, and Members of the Committee:

During the July 26, 2018 meeting of the Interim Joint Committee on Appropriations and Revenue there were questions asked that the Office of State Budget Director was to follow up on.

Please find attached Schedule 1 to answer the questions from Co-chair Rudy concerning slide 11 and slide 26. In response to Co-chair Rudy's question concerning the difference between Tobacco Revenue Less than Budgeted we are providing recently updated information that would replace the information previously reported on slide 11.

Schedule 1 also provides the information requested by Co-chair Rudy as to the breakout of the items included in the "Other" category on slide 11.

In response to question from Representative Tipton in which he requested General Fund Spending related to pensions and Medicaid from fiscal year 2008 through enacted fiscal year 2020 please find attached Schedule 2.

In response to question from Representative Wayne, we have attached Schedule 3 to provide the requested spending in Medicaid from fiscal year 2008 through enacted fiscal year 2020.

In response to question from Representative Richards, attached is Schedule 4 to provide the requested information concerning weight distance tax.

Please let us know if there are additional questions or concerns.

Cordially,



John E. Chilton
State Budget Director

Schedule 1 response to question from IJC A&R July 26, 2018 meeting
Revised presentation for slide 11
Explanation of "Other" from slide 11

1. Chairman Rudy did not completely understand the answer given related to the difference between the line on slide 11 titled "Tobacco Revenue Less than Budgeted" and the amounts shown on slide 26. He requested additional information.

\$15.8 Million FY18 General Fund Surplus

FY 18 General Fund Year-End Balance	\$ 29.0
Budgeted Carryforward into FY 19	\$ (13.3)
General Fund Surplus	\$ 15.8

Actual vs Budgeted

Revenues in Excess of Official Estimate	\$ 119.8
Necessary Government Expenses	\$ (80.8)
Spending Less than Budgeted	\$ 0.8
Tobacco Revenue less than Budgeted	\$ (12.0)
Fund Transfers Greater than Budgeted	\$ 0.6
Dedicated Revenue Adjustments - Lottery and Coal	\$ (10.1)
Other	\$ (2.5)
General Fund Surplus	\$ 15.8

2. Chairman Rudy requested a breakout of the items that makes up the "Other" category related to the General Fund Surplus.

Response to Question 2 from IJC A&R July 26, 2018 meeting

Abandoned Property off-budget	\$ (2.4)
Other (rounding)	\$ (0.1)
	\$ (2.5)

Schedule 2 Response to question from UC A&R July 26, 2018 meeting

3. Representative Tipton requested information related to General Fund spending on pensions and Medicaid for each biennium between 2008 and 2020.

	FY 2008	Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual
General Fund Spending: Pensions and Medicaid								
KRS*	94,468,062		109,210,792	108,221,326	148,187,323	173,047,933	200,765,667	219,093,055
KTRS	183,323,100		177,360,200	201,252,600	219,491,900	238,637,000	244,670,100	299,692,100
SEEK	346,100,400		353,283,000	362,692,700	349,899,700	347,017,500	347,037,500	347,037,500
Sub-total Pensions	623,891,562		639,853,992	672,166,626	717,578,923	758,702,433	792,473,267	865,822,655
Medicaid Benefits	1,153,097,000		1,051,161,045	843,183,922	944,691,900	1,354,310,500	1,301,697,300	1,477,525,000
Executive Branch Rest of General Fund	7,252,870,213		7,023,807,193	6,512,817,769	6,671,096,108	6,863,071,777	6,975,530,165	6,987,286,522
Executive Branch (exclude Tobacco expense)	\$ 9,029,858,775		\$ 8,714,822,230	\$ 8,028,168,318	\$ 8,333,366,932	\$ 8,976,084,709	\$ 9,069,700,732	\$ 9,330,634,177
Legislative	\$ 50,452,539		\$ 46,843,338	\$ 51,751,738	\$ 47,873,586	\$ 48,982,015	\$ 48,527,400	\$ 52,703,836
Judicial	\$ 254,386,527		\$ 269,370,793	\$ 266,302,002	\$ 308,003,358	\$ 308,436,226	\$ 307,477,686	\$ 321,287,422
TOTAL General Fund Spending	\$ 9,334,697,841		\$ 9,031,036,361	\$ 8,346,222,058	\$ 8,689,243,875	\$ 9,333,502,950	\$ 9,425,705,818	\$ 9,704,625,434

	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Enacted	FY 2020 Enacted
General Fund Spending: Pensions and Medicaid						
KRS*	283,206,232	294,109,647	353,133,200	366,710,400	499,816,500	517,571,600
KTRS	326,772,500	299,318,400	779,247,969	744,837,123	828,160,500	719,474,400
SEEK	372,278,100	380,489,300	388,817,000	397,482,500	408,500,000	417,600,000
Sub-total Pensions	982,256,832	973,917,347	1,521,198,169	1,509,030,023	1,736,477,000	1,654,646,000
Medicaid Benefits	1,525,524,400	1,578,193,200	1,707,980,043	1,880,812,400	1,825,369,800	1,983,649,500
Executive Branch Rest of General Fund	7,149,560,101	7,279,944,211	7,430,772,712	7,429,998,630	7,528,529,200	7,723,271,200
Executive Branch (exclude Tobacco expense)	\$ 9,657,341,333	\$ 9,832,054,758	\$ 10,659,950,923	\$ 10,819,841,053	\$ 11,090,376,000	\$ 11,361,566,700
Legislative	\$ 55,098,915	\$ 58,858,721	\$ 57,782,800	\$ 60,076,855	\$ 68,607,700	\$ 70,162,500
Judicial	\$ 334,032,617	\$ 339,252,239	\$ 357,468,981	\$ 356,770,534	\$ 384,897,100	\$ 388,377,700
TOTAL General Fund Spending	\$ 10,046,472,866	\$ 10,230,165,718	\$ 11,075,202,704	\$ 11,236,688,442	\$ 11,543,880,800	\$ 11,820,106,900

*Includes State Police Retirement Systems (SPRS)

Schedule 3 Response to question from IJC A&R July 26, 2018 meeting

1. Representative Wayne requested information on fiscal impacts of expanded Medicaid.

Medicaid Benefits Spending-Actual and Enacted	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual
General	1,153,097,000	1,051,161,045	843,183,922	944,691,900	1,354,310,500	1,301,697,300	1,477,525,000
Restricted	409,761,014	339,560,392	382,664,067	359,634,259	373,011,396	436,401,645	448,660,830
-ederal	3,361,621,318	4,152,418,974	4,619,822,334	4,667,531,611	4,230,589,475	4,058,508,044	5,179,331,600
Total	4,924,479,331	5,543,140,411	5,845,670,323	5,971,857,771	5,957,911,371	5,796,606,989	7,105,517,430
Medicaid Benefits Spending-Actual and Enacted	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Enacted	FY 2020 Enacted	
General	1,525,524,400	1,578,193,200	1,707,980,043	1,880,812,400	1,825,369,800	1,983,649,500	
Restricted	505,812,666	509,663,735	491,271,729	500,620,647	536,245,100	521,341,800	
-ederal	7,609,302,191	7,804,711,021	7,928,095,466	8,149,996,236	8,920,198,300	9,298,956,300	
Total	9,640,639,257	9,892,567,956	10,127,347,238	10,531,429,284	11,281,813,200	11,803,947,600	

Schedule 4 Response to question from IJC A&R July 26, 2018 meeting

5. Representative Richards requested information about the weight distance tax.

Included below is the last ten years of history for the weight distance tax. You can see from an inspection of the data that the weight distance tax has experienced only modest growth since the last recession. Also shown directly below is a citation for a study, cited below, that was conducted to investigate additional revenues in the commercial vehicles division of the Transportation Cabinet. OSBD has summarized the study on the following page of this memo. In general, a combination of economic factors and enforcement efforts have contributed to the slow growth in the weight distance tax.

	WD Receipts	% Change
FY09	75,444,283	-10.6%
FY10	70,498,757	-6.6%
FY11	73,983,781	4.9%
FY12	75,111,565	1.5%
FY13	74,935,016	-0.2%
FY14	76,894,805	2.6%
FY15	79,147,533	2.9%
FY16	81,375,028	2.8%
FY17	82,886,950	1.9%
FY18	81,711,920	-1.4%

Research Question: Why is the weight distance tax (KYU) growing so slowly?

Analysis:

Since FY10, the Kentucky weight distance tax (KYU) has exhibited only modest growth. Listed below are just a few potential reasons why the KYU might be expected to grow at a rate below the overall growth in the economy:

The economy is slowly shifting away from tangible goods and toward services. Several economists have documented the slow drift toward consumption of services and away from the consumption of goods. This global transformation of the consumption basket has a foreseeable impact on the truck miles required to move the overall quantity of goods – as services do not

generally require the use of vehicles with a load capacity in excess of 60,000 pounds. Fewer goods being transported translates directly into lower demand for trucking, which in turn leads to lower growth in the weight distance tax.

The collapse of the coal industry has led to fewer truck miles used for coal delivery. The coal severance tax has fallen from \$298.3 million in FY12 to \$89.6 million in FY18. Part of the decline in coal severance receipts is a collapse in the price of coal, but production has also profoundly shrunk. Coal is primarily transported over waterways or rail cars, but a small percentage of coal is shipped via coal trucks exceeding the 60,000-pound threshold for the weight distance tax. A decline in coal tons shipped over KY highways has a direct impact on the KYU revenues.

Enforcement of the KYU has not been a priority. The study, referenced previously, was an effort to examine how enforcement affected revenues. In particular, the study examined traditional methods, such as commercial vehicle enforcement (CVE) officers as well as the mechanized enforcement tool known as the Observation System. Below is an excerpt from that study:

"This study's primary objective was to determine how the Kentucky Transportation Cabinet (KYTC) can use its Observations System and related ITS architecture to enhance collection of commercial-vehicle-related taxes and fees. Specifically, the study examined potential revenue collection enhancements for Kentucky's weight-distance tax (known as KYU) for vehicles weighing more than 59,999 pounds. The Department of Motor Carrier's Observations System collects vehicle observations from inspection stations (colloquially referred to as weigh stations) and enforcement officers around the state, and compiles them in a single database with extensive information about the motor carrier, vehicle, and specific screening issues.

Based on the conclusions of the study, it was estimated that for the 18-month study period there was [an additional] \$7.9 million in potential revenue from enhanced tax collections, and [an additional] \$4.1 million in potential revenue from remote enforcement. (Remote enforcement refers to license plate cameras or electronic tolling). It is important to note that the revenue estimates are gross collections and do not take into account additional costs to operate the systems."

This study confirms that increased enforcement of the KYU would lead to a net windfall to the Road Fund, above and beyond the costs associated with more intense compliance efforts.

Research Report (KTC-16-24/SPR16-518-1F) ***Collecting Taxes and Fees Using the Observation System*** By: Andrew Martin, Ph.D. (Kentucky Transportation Center); Gray Forlines, (Kentucky Transportation Center); Valerie Keathley, Ph.D. (Kentucky Transportation Center); and Jennifer Walton, P.E. (Kentucky Transportation Center) in cooperation with the Kentucky Transportation Cabinet