

Financial Outlook Report

Interim Joint Committee on Appropriations and Revenue

August 20, 2019

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Overview

Introduction

Fiscal Year 2019 General Fund Year-End

Fiscal Year 2019 Tobacco Funds Year-End

Fiscal Year 2019 Road Fund Year-End

Fiscal Year 2020 Outlook

Q & A

FY 2019 General Fund Receipts

Actual Receipts	\$ 11,392,698,460
December 2017 Official CFG Estimate	11,198,200,000
FY 2019 General Fund Revenue Surplus	\$ 194,498,460

Summary Display of Official Estimates

(General Fund, Millions \$)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY2020</u>
CFG December Estimate	\$10,718.4	\$11,005.9	\$11,290.0
Plus: Legislative Impacts	0	192.3	172.0
Official Estimate	10,718.4	11,198.2	11,462.0
Actual Receipts	10,838.2	11,392.7	
Difference (from Official)	+\$119.8	+\$194.5	

FY19 General Fund Summary

- General Fund total: \$11,392.7 million
- General Fund nominal growth: \$554.5 million
- General Fund percentage growth: 5.1%
- Needed growth: 3.3%
- Revenue in Excess of Official Estimate: \$194.5 million

Composition of the 2019 Variation

(Actual Revenue minus Enacted Estimates, \$ millions)

FY19 General Fund Revenues Compared to Official Estimate				
(Millions \$)				
	Actual	Estimate	Diff (\$)	Diff (%)
Sales and Use	\$ 3,937.6	\$ 3,907.6	30.0	0.8%
Individual Income	4,544.7	4,531.2	13.5	0.3%
Corporation Income	556.0	573.0	-17.0	-3.0%
LLET	206.7	200.2	6.5	3.2%
Coal Severance	92.9	77.9	15.0	19.3%
Cigarette Tax	374.7	337.9	36.8	10.9%
Property	647.0	620.7	26.3	4.2%
Lottery	263.9	249.0	14.9	6.0%
Other	769.1	700.7	68.4	9.8%
TOTAL	\$11,392.7	\$11,198.2	194.5	1.7%

Explanation of + \$194.5 million in FY19

We exceeded the estimate by \$119.8 million in FY18 (unanticipated base from 2018)

- That lowered the growth needed to hit the FY19 estimate
- Implies that the economy was better than projected in December, 2017

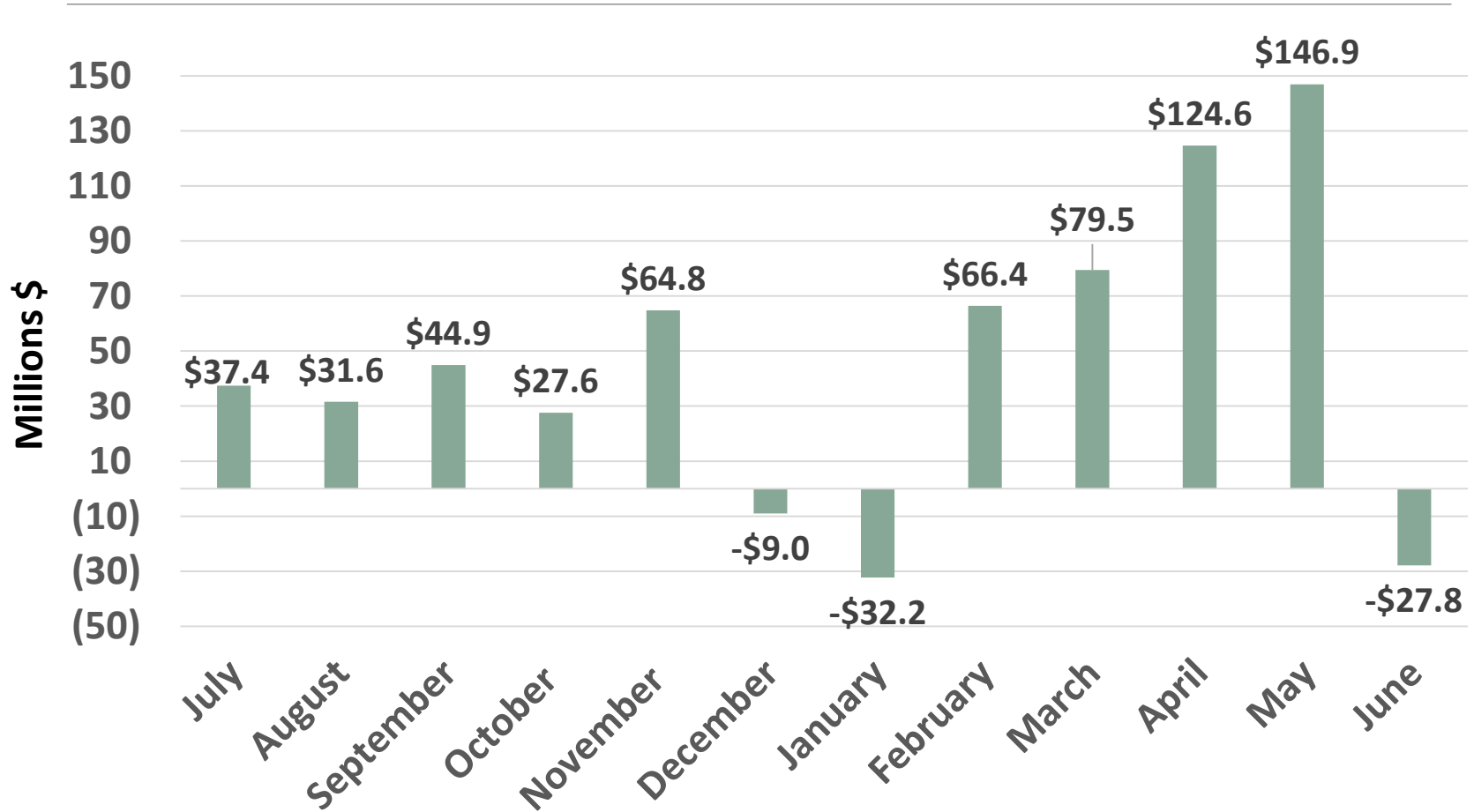
Tax reform added another source of variation

- Hard to disentangle tax reform impacts from economic growth
- Certain tax changes we know were different than estimated (example: cigarette tax)
- All indications point to accurate tax estimates in aggregate

Very strong fourth quarter of FY19

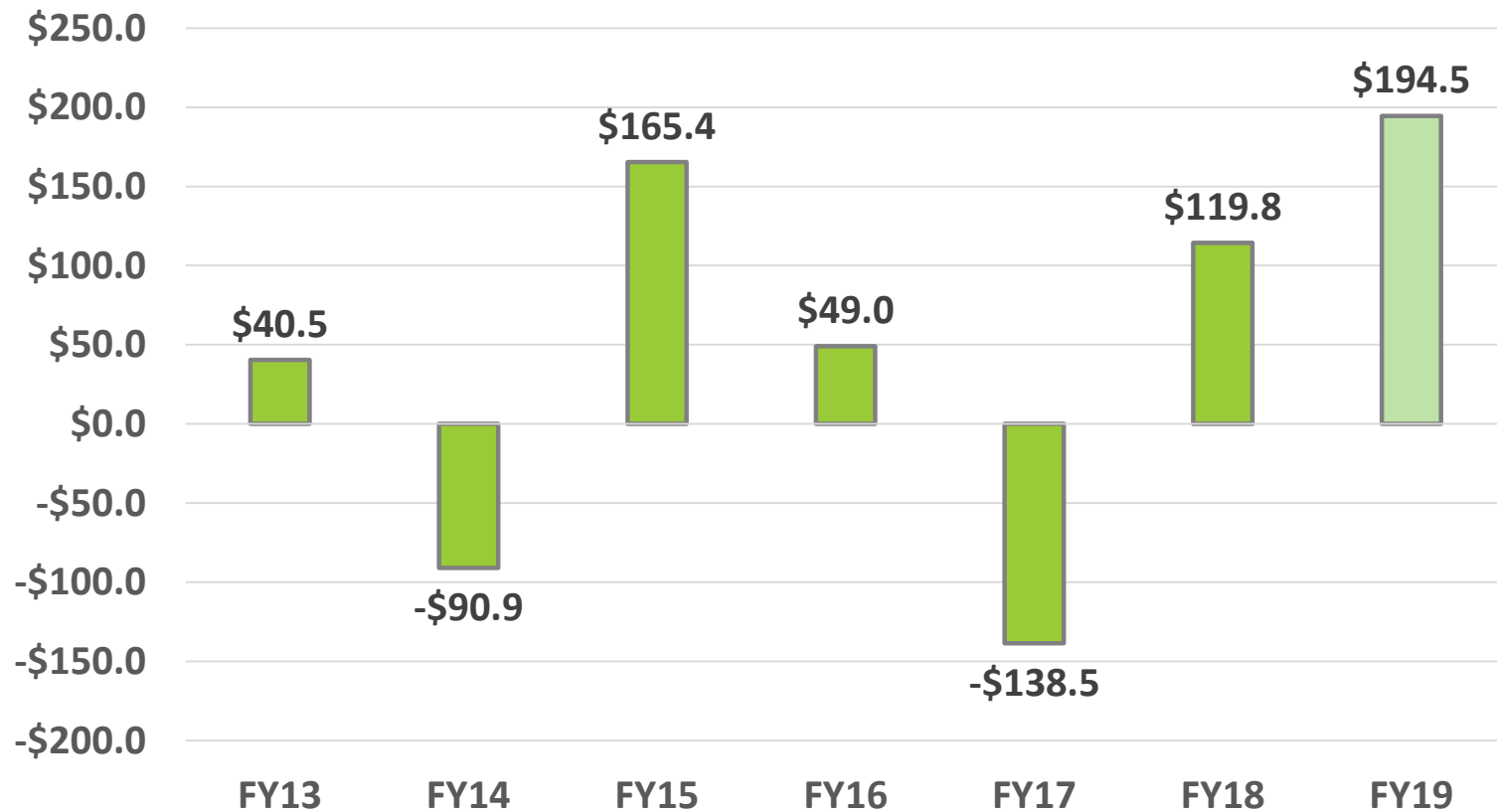
- Some of the largest positive elements of the 2018 tax reform were back loaded into the fourth quarter, non-recurring receipts in 4th quarter.

Revenue Growth Throughout FY 2019



Past GF Forecasting Accuracy

(Actual Receipts Minus the Enacted Estimates, Millions \$)



\$130.1 Million FY19 General Fund Surplus

	Millions \$
FY 19 General Fund Year-End Balance	\$130.1
Budgeted Carryforward into FY 20	\$0.0
General Fund Surplus	\$130.1
Actual vs. Budgeted	
Revenues in Excess of Official Estimate	\$194.5
Necessary Government Expenses	(\$33.2)
Dedicated Revenue Adjustment	(\$32.7)
Spending Less than Budgeted	\$2.2
Fund Transfers differ from Budgeted	\$2.4
Other	(\$3.2)
General Fund Surplus	\$130.1

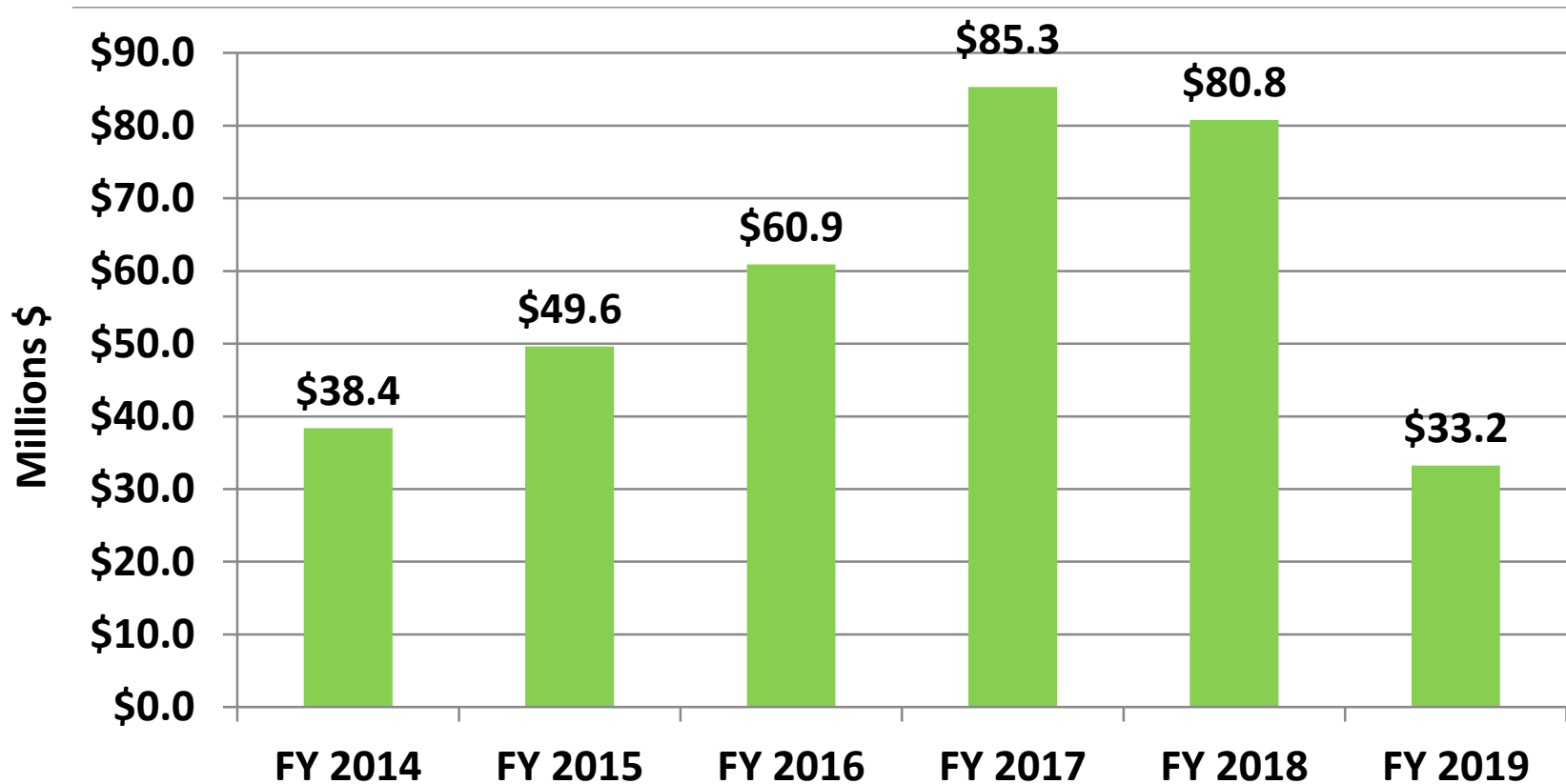
\$130.1 Million – FY 2019 General Fund Surplus Designation

	Millions \$
Teachers' Retirement System Medical Insurance Fund	\$ 70.0
Kentucky Retirement System Nonhazardous Unfunded Pension Liability Fund	60.1
Total FY 2019 General Fund Surplus	\$ 130.1

Necessary Government Expenses

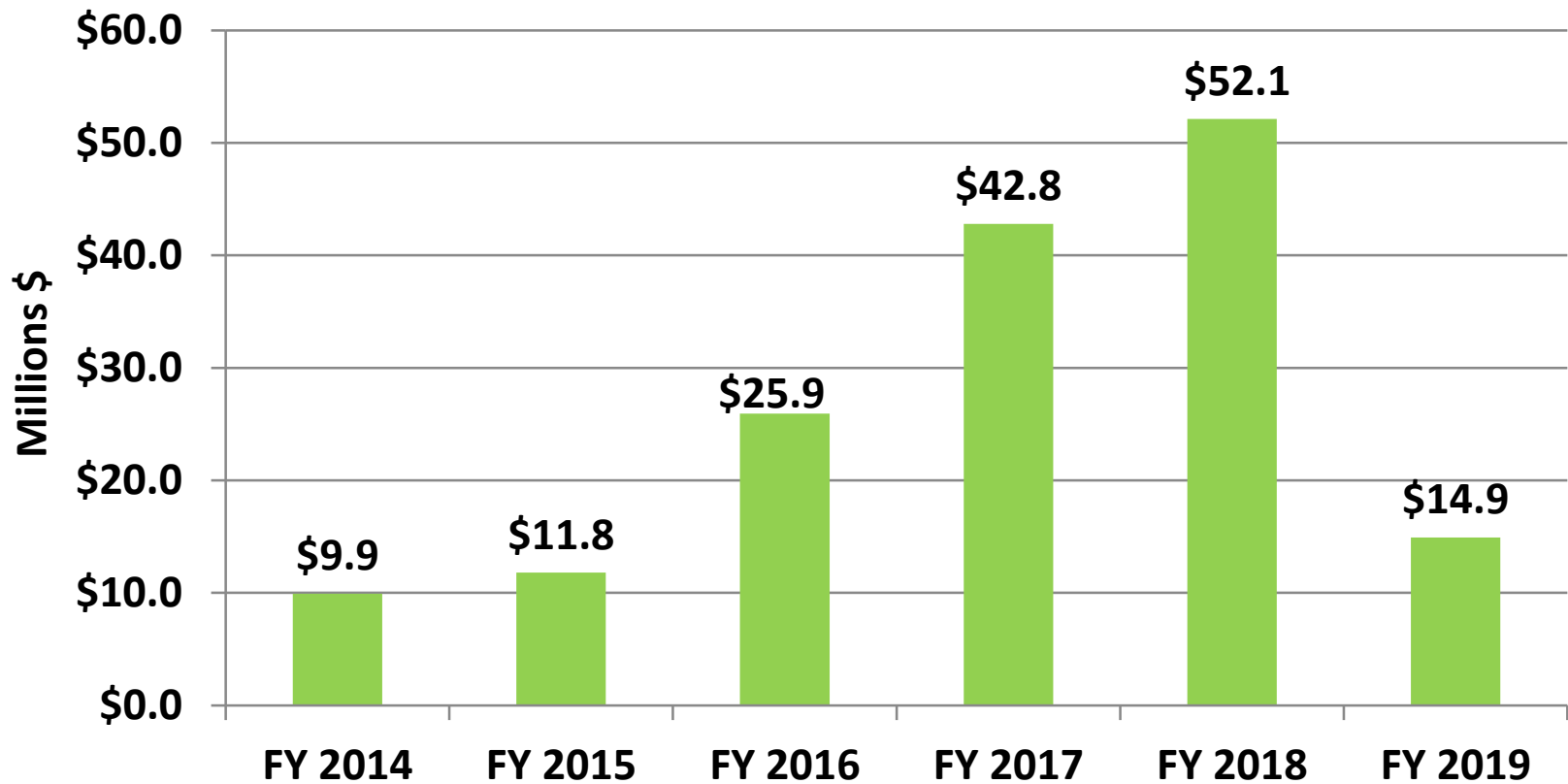
	Millions \$	
	FY 2018 Actual	FY 2019 Actual
Corrections	\$ 52.13	\$ 14.92
ANOC	14.71	11.24
Military Affairs	3.94	-
Judgments	0.53	4.38
County Costs	5.99	2.44
Natural Resources-Fire Suppression	3.27	0.07
Attorney General-Expert Witness	0.22	0.14
Board of Elections-Special Elections	-	0.02
Other		
Total	\$ 80.79	\$ 33.21
		\$ (47.57)

Necessary Government Expense FY 2014 – 2019 Actual



Estimated NGE's for FY 2020 is \$30 - \$35 million range

Corrections – NGE FY 2014 – 2019 Actual



Corrections – FY 2019 NGE Summary

Cost Drivers	Millions \$
Higher Prison Costs (Overtime / Operational)	\$ 10.9
Private Prison Costs (Secure Custody Level)	4.0
Total Corrections FY 2019 NGE	\$ 14.9

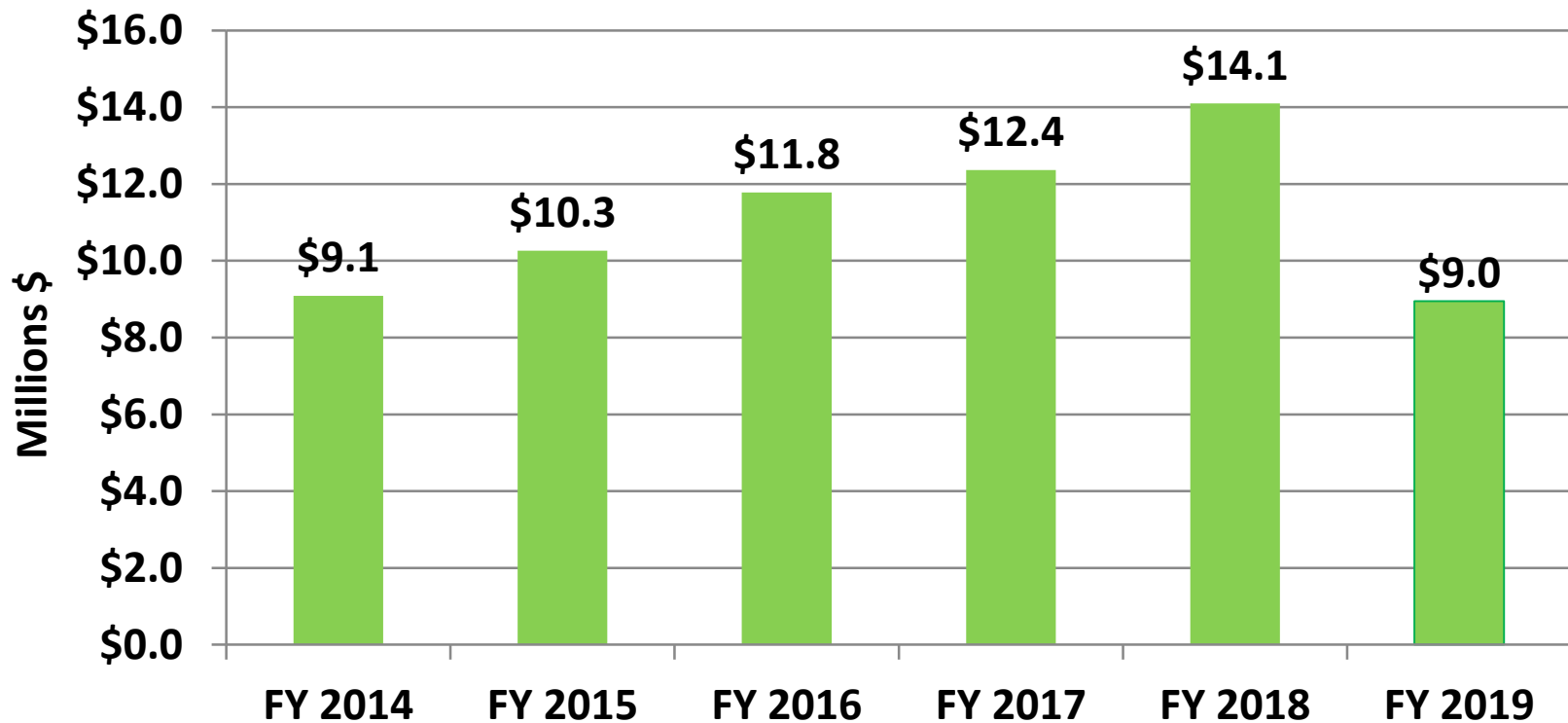
Notes:

- Additional double bunking at Eastern Kentucky Correctional Complex due to custody levels. All state facilities are double bunked within physical capabilities.
- Diverted savings from the Jail's budget because the population trended lower due to increased use of Probation & Parole graduated sanctions

FY 2019 NGE - Appropriations Not Otherwise Classified (ANOC)

	Millions \$	
	FY 2019	
Guardian Ad Litem	\$	9.0
Unredeemed Checks		1.7
Prior Year Claims		0.5
Total ANOC	\$	11.2

Guardian Ad Litem – NGE FY 2014 – 2019 Actual



KRS 387.305 and KRS 311.732 – Attorneys appointed by the court to represent minors. Budget language states the fee shall be fixed by the court and shall not exceed \$500.

FY 2019 Dedicated Revenue

Excess Lottery Receipts		
College Assistance Program (CAP) (75%)	\$	11,209,512
KY Tuition Grant Program (KTG) (25%)		3,736,505
Total Excess Lottery Receipts	\$	14,946,017
Coal Severance / Minerals		
Severance (Counties)	\$	15,006,947
Minerals (Counties)		2,698,157
Total Coal Severance / Minerals	\$	17,705,104
Total Dedicated Revenue	\$	32,651,121

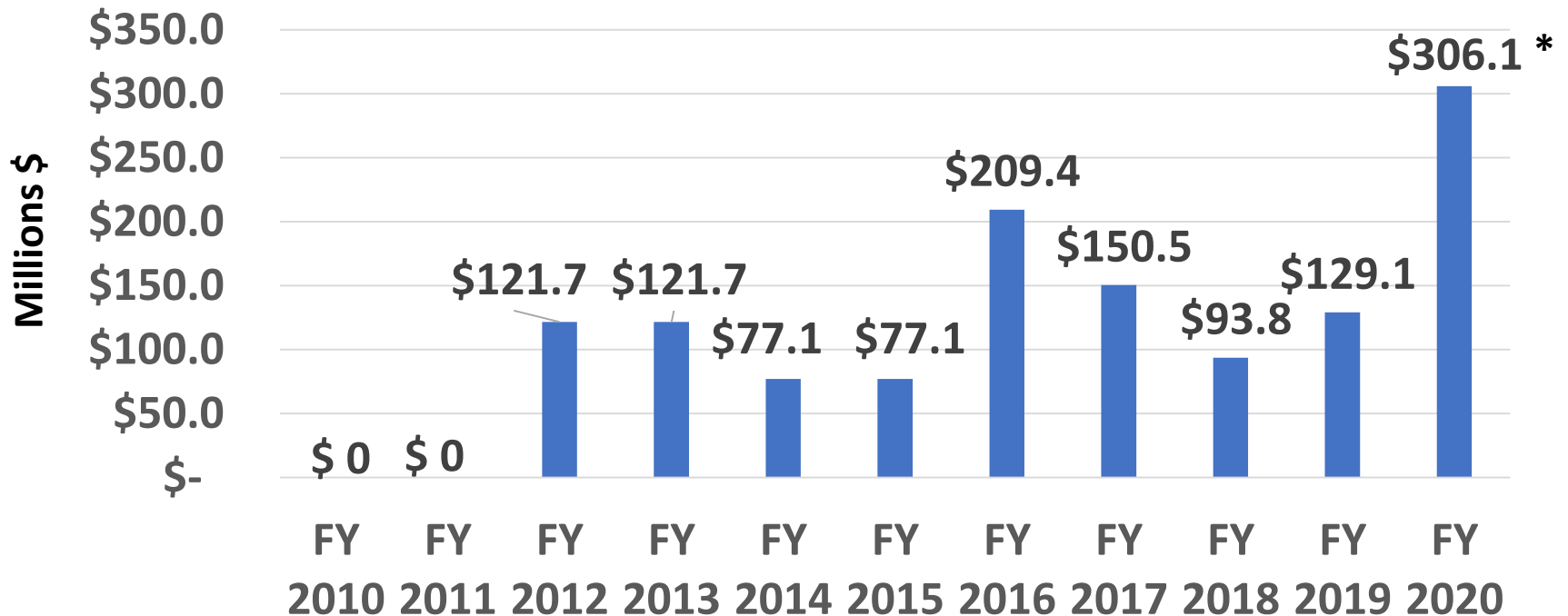
Budget Reserve Trust Fund (Rainy Day Fund)

FY 2018	Enacted	Revised
Beginning Balance	\$ 150,491,500	\$ 150,491,500
Regular Appropriation	(56,711,500)	(56,711,500)
NGEs	(85,725,800)	-
FY 2018 Net Balance	\$ 8,054,200	\$ 93,780,000
FY 2019	Enacted	Revised
Beginning Balance	\$ 8,054,200	\$ 93,779,983
Regular Appropriation	33,455,100	33,455,100
Appropriated Use - HB268 2019 RS		(290,000)
Judicial Unexpended Use Allowance		2,132,700
FY 2019 Balance	\$ 41,509,300	\$ 129,077,783
Net Increase		\$ 121,023,583

Budget Reserve Trust Fund

FY2010 - FY2020

Actual Ending Balance Carry Forward



* FY 2020 estimated amount assumes enacted direct appropriation of \$195.1 million; appropriated uses of -\$14.5 million as enacted by HB 268 2019RS; and 2019RS HB 346/458 Revenue Measure \$-3.6 million

Budget Reserve Trust Fund as a % of General Fund

Fiscal Year	BRTF Balance	GF Revenue	BRTF % of GF
FY 2010	\$ -	\$ 8,225.1	0.0%
FY 2011	-	8,759.4	0.0%
FY 2012	121.7	9,091.0	1.3%
FY 2013	121.7	9,348.3	1.3%
FY 2014	77.1	9,462.0	0.8%
FY 2015	77.1	9,966.6	0.8%
FY 2016	209.4	10,338.9	2.0%
FY 2017	150.5	10,447.8	1.4%
FY 2018	93.8	10,838.2	0.9%
FY 2019	129.1	11,392.7	1.1%
FY 2020*	306.1	11,462.0	2.7%

* FY 2020 Year-end BRTF estimated amount assumes enacted direct appropriation of \$195.1 million; less appropriated uses of -\$14.5 million as enacted by HB 268 2019RS and 2019RS HB 346/458 Revenue Measure \$-3.6 million. CFG Revenue estimate \$11,290 million plus net Revenue measures of +\$172 million.

Tobacco Funds

Tobacco Funds

FY 2019 Official Estimate	\$119,500,000
FY 2019 Actual Receipts	<u>117,586,775</u>
Receipts Below Estimate	\$ 1,913,225

- Per 2018 HB 200, lower MSA receipts in fiscal year 2018-2019 of \$119.5 million resulted in appropriation reductions of \$1.91 million. These reductions were allocated as 50% to the Agricultural Development Fund, 30% to the Early Childhood Development Fund, and 20% to the Health Care Improvement Fund.
- Receipts declined by 4% in FY 2019.
- Lower MSA receipts are expected in the future.

Road Fund

FY19 Road Fund Summary

- Road Fund total Revenue: \$1,566.0 million
- Road Fund nominal growth: \$55.0 million
- Road Fund percentage growth: 3.6%
- Needed growth: -0.3%
- Revenue in Excess of Official Estimate: \$59.5 million

Road Fund Summary Display

(Millions \$)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY2020</u>
CFG December Estimate	\$1,503.3	\$1,505.3	\$1,508.5
Plus: Legislative Impacts	0	1.25	1.25
Official Estimate	1,503.3	1,506.6	1,509.8
Actual Receipts	1,511.0	1,566.1	
Difference (from Official)	+\$7.7	+\$59.5	

Composition of the 2019 Variation

(Actual Road Fund Revenue minus Enacted Estimates, \$ millions)

	FY19		Difference	
	Actual	Estimate	\$	%
Motor Fuels	\$ 773.2	\$ 759.2	14.0	1.9
Motor Vehicle Usage	514.5	494.0	20.5	4.2
Motor Vehicle License	120.9	116.5	4.5	3.8
Motor Vehicle Operators	16.6	16.7	-0.1	-0.4
Weight Distance	83.7	82.1	1.6	2.0
Income on Investments	11.9	3.1	8.8	284.6
Other	45.1	35.0	10.1	29.0
Total	\$ 1,566.1	\$ 1,506.6	59.5	4.0

FY 19 Road Fund Surplus \$75.2 Million

	Millions \$
FY 19 Road Fund Year-End Balance	\$472.7
Budgeted Carryforward into FY 19	(397.5)
Road Fund Surplus	\$75.2
Actual vs. Budgeted	
Revenues More than Official Estimate	\$59.5
2018 Legislation (HB 81)	\$1.3
Other Spending Lapse	17.6
Revenue Sharing Reduction	(7.0)
Fund Transfers in Excess of Budgeted	1.7
Debt Service Lapse Beyond Budgeted Lapse	2.2
Road Fund Surplus	\$75.2

Fiscal Outlook

August 2019 Planning Estimates – General Fund

<u>Blended Estimate</u>	<u>FY19</u>		<u>FY20</u>		<u>FY21</u>		<u>FY22</u>		<u>FY23</u>		<u>FY24</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Individual Income	\$4,544.7	-1.3	\$4,656.5	2.5	\$4,801.2	3.1	\$4,965.2	3.4	\$5,087.1	2.5	\$5,237.2	3.0
Sales & Use	3,937.6	9.2	4,119.0	4.6	4,198.7	1.9	4,296.4	2.3	4,375.6	1.8	4,476.7	2.3
Corp. Inc. & LLET	762.7	1.8	684.7	-10.2	698.1	2.0	781.4	11.9	818.2	4.7	816.6	-0.2
Property	647.0	4.1	657.1	1.6	671.7	2.2	695.0	3.5	708.8	2.0	729.5	2.9
Lottery	263.9	4.3	271.0	2.7	277.0	2.2	283.0	2.2	289.0	2.1	295.0	2.1
Cigarettes	353.5	66.9	339.5	-4.0	328.7	-3.2	318.7	-3.0	302.6	-5.1	293.6	-3.0
Coal Severance	92.9	3.6	99.6	7.2	88.7	-10.9	75.9	-14.4	67.5	-11.1	56.4	-16.4
Other	790.4	12.3	736.2	-6.9	753.2	2.3	641.5	-14.8	653.4	1.9	671.4	2.7
Total General Fund	\$ 11,392.7	5.1	\$ 11,563.6	1.5	\$11,817.3	2.2	\$12,057.2	2.0	\$12,302.2	2.0	\$12,576.4	2.2
New Money	\$554.5		\$170.9		\$253.8		\$239.9		\$245.0		\$274.2	

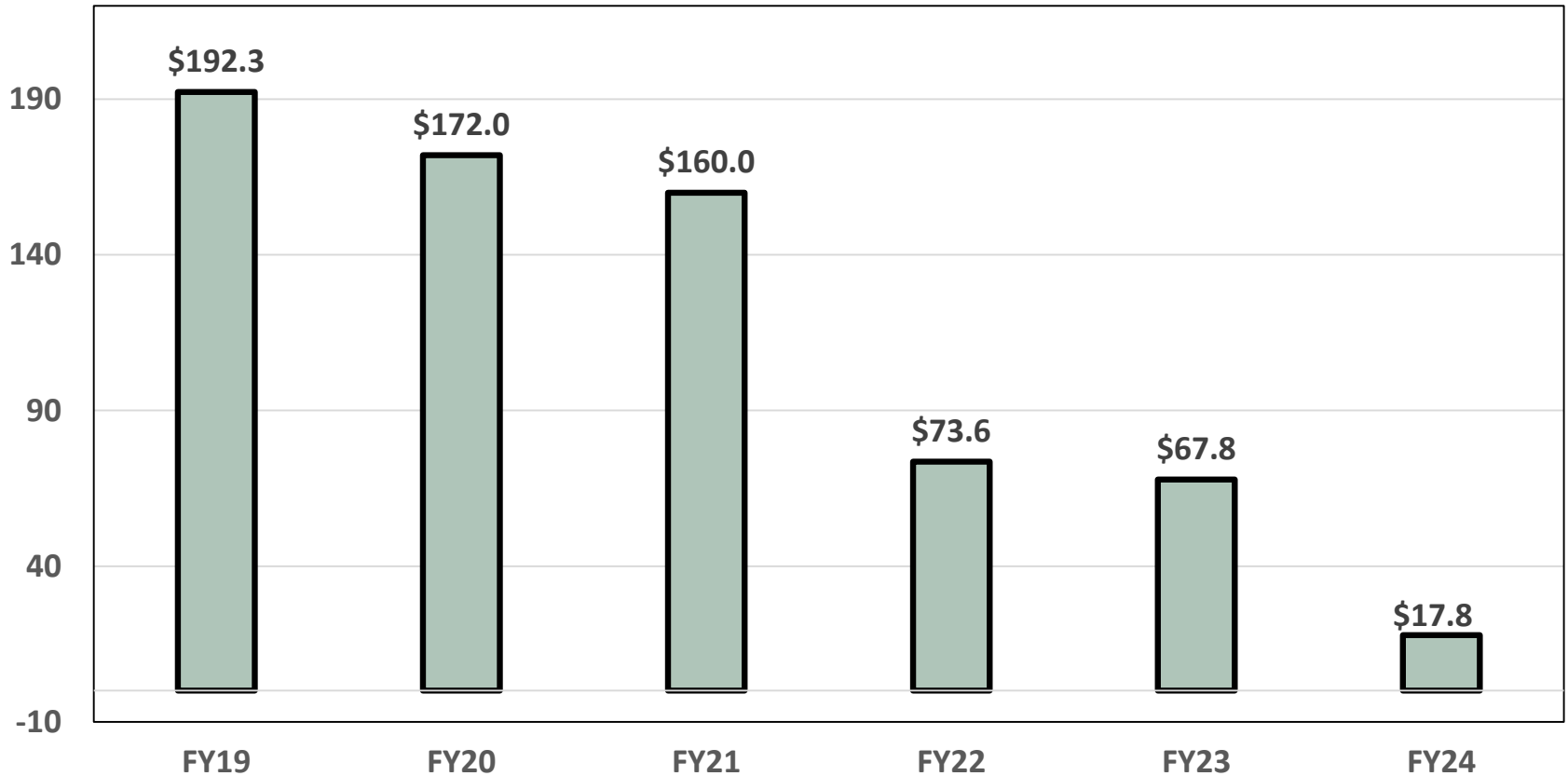
August 2019 Planning Estimates – Road Fund

Control Weight:	70%													
Optimistic Weight	0%													
Pessimistic Weight:	30%													
	FY19		FY20		FY21		FY22		FY23		FY24			
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Motor Fuels	\$ 773.2	1.1	\$ 778.9	0.7	\$ 781.0	0.3	\$ 781.8	0.1	\$ 783.6	0.2	\$ 786.0	0.3		
Motor Vehicle Usage	514.5	4.3	502.5	-2.3	498.2	-0.9	514.7	3.3	531.5	3.3	543.0	2.2		
Motor Vehicle License	120.9	7.1	118.2	-2.2	122.3	3.4	127.4	4.2	129.4	1.6	131.7	1.8		
Motor Vehicle Operators	16.6	-1.0	18.4	10.6	23.9	29.9	25.2	5.4	25.3	0.4	25.4	0.4		
Weight Distance	83.7	2.5	83.8	0.1	83.8	0.0	84.6	1.0	85.4	1.0	86.2	0.9		
Investment	11.9	320.2	10.0	-16.1	8.0	-20.0	6.0	-25.0	5.0	-16.7	4.0	-20.0		
Other	45.1	16.5	40.7	-9.8	44.5	9.3	42.8	-3.8	45.8	7.0	43.8	-4.4		
Total Road Fund	\$ 1,566.1	3.6	\$ 1,552.5	-0.9	\$ 1,561.6	0.6	\$ 1,582.5	1.3	\$ 1,606.0	1.5	\$ 1,620.1	0.9		

Estimated Fiscal Impacts of Legislative Changes

Total For All Tax Bills 2018 & 2019	Fiscal Impact (\$ million)				
	FY20	FY21	FY22	FY23	FY24
Sales Tax	\$ 264.3	\$ 274.6	\$ 275.8	\$ 276.3	\$ 276.8
Cigarette Tax	110.0	104.5	99.3	94.3	89.6
Individual Income Tax	(132.0)	(148.4)	(144.3)	(144.3)	(144.3)
Corporate Income Tax	(75.5)	(71.0)	(37.3)	(36.5)	(80.2)
LLET	-	(1.3)	(1.3)	(1.3)	(1.3)
Bank Franchise Tax	-	-	(120.0)	(122.0)	(124.0)
Telecomm Tax	5.5	6.0	6.0	6.0	6.0
Wine Wholesale	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Property Tax	-	(4.1)	(4.2)	(4.3)	(4.4)
	\$ 172.0	\$ 160.0	\$ 73.6	\$ 67.8	\$ 17.8

Estimated Fiscal Impacts of Legislative Changes



Questions

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