INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 1st Meeting
of the 2020 Interim

June 3, 2020

Call to Order and Roll Call

The 1st meeting of the Interim Joint Committee on Appropriations and Revenue was held on Wednesday, June 3, 2020, at 1:00 PM, in Room 171 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 Tom Buford, Matt Castlen, David P. Givens, Alice Forgy Kerr, Morgan McGarvey, Stephen Meredith, Gerald A. Neal, Michael J. Nemes, Dennis Parrett, Robin L. Webb, Stephen West, and Phillip Wheeler; Representatives Lynn Bechler, Danny Bentley, Myron Dossett, Joseph M. Fischer, Kelly Flood, Jim Glenn, David Hale, Mark Hart, Angie Hatton, Jason Nemes, Ruth Ann Palumbo, Melinda Gibbons Prunty, Brandon Reed, Steve Riley, Rob Rothenburger, Sal Santoro, John Sims Jr, Jim Stewart III, Wilson Stone, James Tipton, and Susan Westrom.

Guests: John Hicks, State Budget Director, Office of State Budget Director; and Greg Harkenrider, Deputy Executive Director for Economic Analysis, Governor's Office for Economic Analysis

LRC Staff: Cameron Childress, Jennifer Hays, and Chase O'Dell

Actions Taken by the Consensus Forecasting Group--Executive Branch Response

John Hicks, State Budget Director, Office of State Budget Director (OSBD); and Greg Harkenrider, Deputy Executive Director for Economic Analysis, Governor's Office for Economic Analysis, reviewed actions taken by the Consensus Forecasting Group (CFG) and the Executive Branch response.

John Hicks testified that KRS 48.115(2) permits the Legislative Research Commission or the State Budget Director to determine that a revision to the enacted revenue estimates is needed. Based upon the inevitability of a reduction in state revenues, it was requested that the CFG convene and decide on a revision to the enacted forecast.

A budget reduction plan is included in Regular Session 2020 House Bill 352. The budget reduction plan calls for all three branches of state government to prepare a specific plan in the event of a revenue shortfall.

The delayed income tax filings made the forecast revision more difficult. Governor Beshear delayed the state personal and corporate income tax filing deadline until July 15. The Finance and Administration Cabinet's Department of Revenue (DOR) and Office of the Controller coordinated with OSBD to ensure that the delayed tax filing receipts would still be posted to Fiscal Year (FY) 2020. As a result, final general fund revenues will not be known until late July.

The General Assembly chose to use the CFG's pessimistic revenue estimate from December, 2019, as the enacted 2020-2021 budget. The May 2020 revised CFG revenue estimate is $456 million lower or a four percent decline than the enacted estimate for FY 2020. Most of the revenue estimate reductions are in individual income and sales and use taxes. Reductions in corporate income and limited liability entity tax (LLET) make up roughly 20 percent of the shortfall. The FY 2020 estimate is a 3.5 percent decline from FY 2019. The CFG's revised fourth quarter estimate for FY 2020 projects a 22.5 percent reduction in receipts from the fourth quarter of FY 2019.

The revised FY 2020 CFG estimate for road fund receipts is $161.8 million lower than the enacted estimate, or a 10.4 percent reduction. The bulk of the reduction in receipts comes from the motor fuels tax and the motor vehicle usage tax. The estimate for May and June FY 2020 tax receipts for motor fuels and motor vehicle usage are down 56.2 percent from the actual receipts from May and June FY 2019.

The CFG chose the pessimistic scenario for the purposes of the May and June revision. Real GDP contracted 16.4 percent in the fourth quarter of FY 2020. Kentucky non-farm employment growth was flat in January through March, and is expected to drop almost 11 percent in the fourth quarter of FY 2020. There is projected to be a 10.7 percent decline in Kentucky manufacturing employment in the fourth quarter of FY 2020. Kentucky wages and salaries are projected to be reduced by 24.3 percent in the fourth quarter.

Fund transfers, unexpended debt service, reduction in appropriations, and funds available in the budget reserve trust fund are all typically used to balance the budget. A fourth quarter revenue shortfall of four percent is unprecedented in recent times.

The Executive Branch has put in place hiring restrictions and imposed limits on discretionary spending unrelated to the COVID-19 response. The Executive Branch has also asked state agencies for preliminary spending reduction plans, with a target of 12.5 percent of remaining budgets. Statewide constitutional officers were also asked to provide spending reduction plans once the CFG revised the revenue estimate.

A road fund budget reduction plan is underway. Revenue sharing amounts with cities and counties is estimated to fall by $37.1 million. This amount is reduced automatically based on motor fuels tax receipts.

In response to a question from Representative Rudy, Mr. Hicks stated that the CFG met when it did in order to have more time to trigger some of the budget reduction authorities that the Governor has for the Executive Branch. He continued to say that the intention was to give state agencies more information as early as possible.

In response to a question from Senator McDaniel, Greg Harkenrider stated that the affiliated expenses related to Paycheck Protection Program, administered by the United States' Small Business Administration would no longer be deducted on the 2020 tax return, which would make cost of goods sold go down, and this would have a positive impact on the corporate income and LLET receipts. Mr. Harkenrider continued to say that corporate income receipts are not currently behaving in a traditional fashion. Representative Rudy added that Kentucky state returns are not tied to the current federal definition of cost of goods sold, so there may not be any benefit seen.

In response to a question from Representative Tipton, Mr. Hicks testified that the estimated individual and corporate income receipts for May and June of FY 2020 take into account anticipated revenue from delayed July tax filings. In response to a follow up question from Representative Tipton, Mr. Hicks stated that Transportation Secretary Jim Gray hopes that the letting process can begin again in July.

CARES Act Funding Received--How Funding Will Be Spent

John Hicks, State Budget Director, Office of State Budget Director, reviewed the funding Kentucky received from the CARES Act and how the funds will be spent.

Mr. Hicks testified that congress increased the share that the federal government pays on Medicaid benefits by another 6.2 percent. Through May 20, that increase in share has amounted to $204.2 million to the Kentucky Medicaid program. The Commonwealth has received almost $1.6 billion from the coronavirus relief fund for state and local government COVID-19 expenses. These funds cannot be used for revenue shortfalls. The funds can only be used for expenses incurred that are related to preparing for, and responding to, COVID-19. The governor is allocating $300 million from these funds to cities and counties. To date, Kentucky has spent over $30 million. More than $20 million has been spent on medical supplies, such as PPE and testing supplies. The Department of Education has allocated $173 million to school districts to assist with expenses incurred in response to COVID-19. Public postsecondary education in Kentucky has received $109 million. Universities and the Kentucky Community & Technical College System must use half of that money to assist students. The other half of the funds are for the institutions themselves to react to COVID-19. The funds will help replace lost revenues and cover expenses. The Commonwealth has received $113.5 million for testing and contact tracing.

In response to a question from Representative Rudy, Mr. Hicks testified that not much of the $300 million for cities and counties has been distributed yet. He continued to say that the Department for Local Government (DLG) is still in the process of receiving applications. The federal government has imposed some complexity upon the use of those funds. DLG has been advising cities and counties on eligible expenses.

With no further business before the committee, the meeting was adjourned at 1:50 p.m.