

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 3rd Meeting of the 2020 Interim

August 19, 2020

Call to Order and Roll Call

The 3rd meeting of the Interim Joint Committee on Appropriations and Revenue was held on Wednesday, August 19, 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, Rick Girdler, David P. Givens, 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, Russ A. Meyer, Jason Nemes, Ruth Ann Palumbo, Melinda Gibbons Prunty, Brandon Reed, Steve Riley, Rob Rothenburger, John Sims Jr, Jim Stewart III, Wilson Stone, James Tipton, and Susan Westrom.

Guests: John Hicks, State Budget Director.

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

Approval of Minutes

A motion was made by Senator Parrett, seconded by Representative Rothenburger, to approve the minutes of the June and July meetings. The motion was approved by voice vote.

Closeout of Fiscal Year 2019-2020

John Hicks, State Budget Director, discussed the closeout of fiscal year 2019-2020.

John Hicks testified that the Fiscal Year (FY) 2020 budget was enacted in 2018 with a revenue growth rate of 2.6 percent and a 2.4 percent spending growth rate. For the 2020 session, the Consensus Forecasting Group (CFG) in December, 2019, revised revenue estimates upward by \$102 million. Through March, 2020, revenues grew 3.9 percent.

The CFG's pessimistic scenario from December, 2019, was used as the basis for the remaining FY 2020 budget, as well as for the FY 2021 budget. Revenues in April were

down significantly, in-part due to delayed income tax filings. In May, the CFG was asked to revise the FY 2020 revenue estimate. Mr. Hicks reviewed the reductions in FY 2020 general fund revenue estimates and the actual FY 2020 general fund revenues.

There was a 1.5 percent growth rate in FY 2020 revenues over FY 2019 revenues. Individual income tax revenues were up 4.9 percent from FY 2019. Withholding on individual income was only up because Kentucky taxes unemployment insurance benefits. Sales and use tax revenues were up 3.4 percent from FY 2019. Corporate income and limited liability tax revenues fell by \$123 million, for a 16.2 percent drop from FY 2019 totals. Corporate income tax revenues were the lowest seen since 2011. Property tax revenues were also down from last year. Actual revenues for FY 2020 were \$104 million greater than the enacted estimate.

FY 2020 ended with a \$177.5 million general fund surplus. This was a result of revenues above the enacted estimate and spending lapses. Spending lapses contributed \$71.7 million to the general fund surplus for FY 2020. Of this surplus, \$162.5 million was deposited to the budget reserve trust fund. This was the largest ever deposit from a year-ending surplus. The current balance of the budget reserve trust fund is \$465.7 million, roughly four percent of FY 2020's revenue. This is the highest ratio in the fund's history. For several budgets, the fund has been used as an appropriation source for certain budgetary expenses.

Mr. Hicks reviewed the various enacted and revised FY 2020 road fund revenue estimates. Actual road fund revenues in FY 2020 totaled \$1,491,500,000. Actual revenues were higher than the CFG's revised May, 2020 estimate, but lower than the estimate enacted during the 2020 regular session. FY 2020 motor fuels revenues were down \$31.6 million, or 4.1 percent, from FY 2019. Motor vehicle usage revenues were down three percent from last fiscal year. The revenue shortfall from the enacted budget totaled \$60.3 million, or 3.9 percent. The shortfall was balanced through reduced revenue sharing from the motor fuels tax with local governments, coronavirus relief fund replacement, and spending lapses.

There are many strong signals that FY 2021 will be a significant budget challenge with lower revenues than in FY 2020. Federal stimulus relief to individuals and businesses has supported Kentucky's economy in the last few months, but most of that has expired.

Mr. Hicks testified that \$15.4 billion from federal stimulus has been put into Kentucky's economy through businesses and individuals from March through July. Almost four billion dollars of economic impact payments came into Kentucky. Another \$3.9 billion in unemployment insurance benefits came to Kentucky. Other funds came to Kentucky through programs such as the paycheck protection program and the provider relief fund.

From March through April, over 283,000 non-farm jobs were lost in Kentucky. Roughly 125,000 jobs have been recovered.

FY 2020 fourth quarter revenues declined by 4.5 percent compared to fourth quarter FY 2019. Sales and use tax revenues declined by almost six percent. Withholding, excluding unemployment insurance benefits, declined by 5.5 percent. Individual estimated payments were down 12 percent. Business taxes were down 16.5 percent. Wages and salaries were down 16 percent in the fourth quarter. Coal severance tax revenues were the worst ever recorded.

Fourth quarter FY 2020 road fund revenues declined by almost 24 percent from FY 2019 fourth quarter revenues. Motor fuels revenues dropped 19 percent. Motor vehicle usage revenues dropped 28 percent.

In response to a question from Representative Rudy, Mr. Hicks testified that around 200-300 hundred million dollars in government assistance has come from the federal government. Representative Rudy cautioned members of the committee when asking for more federal bailout.

In response to a question from Senator Nemes, Mr. Hicks stated that there was an uptick in July of motor vehicle operators and motor vehicles licensing revenues. He added that the withholding revenue from unemployment insurance will continue.

In response to a question from Representative Tipton, Mr. Hicks testified that the Office of State Budget Director (OSBD) will soon release information that looks ahead at employment, income, and other economic factors.

In response to a question from Senator McDaniel, Mr. Hicks stated that it is difficult to measure the level of unemployment associated with remote learning and a lack of available childcare. He continued to say that the federal government gave Kentucky additional money to help keep some childcare agencies afloat during the spring.

In response to a question from Senator Wheeler, Mr. Hicks testified that the Governor's office has been in touch with the federal government to completely understand the parameters of the extended unemployment benefits offered by President Trump. He continued to say that an announcement would be made soon regarding Kentucky's choice regarding participation in the program.

In response to a question from Representative Dossett, Mr. Hicks testified that leisure and hospitality in Kentucky saw a loss of 32,000 jobs from June of 2019 to June of 2020, equating to a 15 percent drop. Calculations related to the personal income loss associated with those job losses are done. He continued to say that the Department of Parks was unable to meet its budget last year. OSBD is working with Secretary Berry and

Department of Parks staff to try to get a good estimate of the fiscal difficulty looking forward. In response to another question from Representative Dossett, Mr. Hicks stated that the coronavirus relief fund was used to pay the Department of Parks to hold certain lodges as locations for quarantining. State government has not devoted any coronavirus relief funds to a business sector in Kentucky's economy. In response to a final question, Representative Rudy said that \$1.16 million was paid to the Department of Parks to hold lodges for quarantining.

In response to a question from Senator West, Mr. Hicks testified that Kentucky has committed roughly 45 percent of the \$1.6 billion it received in coronavirus relief funds from the federal government. Three hundred million dollars was committed to cities and counties. Another \$46.2 million went to local health departments. Over a quarter-billion dollars has gone through the emergency management function for the purchase of personal protective equipment and medical supplies that have been distributed throughout the state. Roughly \$60 million-plus through FY 2020 has gone towards reimbursements to state agencies. In response to a follow-up question, Mr. Hicks testified that the unspent funds are housed in the OSBD, which is acting on behalf of the governor.

Senator Meredith commented on the impact of COVID-19 on tourism.

Representative Rudy commented on how some of the money borrowed from the federal government will have to be repaid.

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