

# BUDGET AND REVENUE UPDATE

INTERIM JOINT COMMITTEE ON  
APPROPRIATIONS AND REVENUE

NOVEMBER 10, 2020

JOHN HICKS

STATE BUDGET DIRECTOR

Office of State Budget Director

# Overview

- Unofficial Revenue Forecast for FY 2021
- FY 2021 Revenue Receipts through October
- Requested Official Revenue Estimates for FY 2021 and FY 2022 by the Consensus Forecasting Group
- Preparation of Governor's FY 2022 Budget Recommendation
  - ▣ Major Spending Areas – What has Changed?
  - ▣ Other Considerations

# FY 2021 Quarterly Report

- Unofficial Revenue Forecast for FY 2021
  - ▣ General Fund revenue shortfall of \$99.0 million
  - ▣ Road Fund revenue overage of \$9.0 million
  - ▣ Revenue forecast based on IHS national forecast from September, before cases began to rise and when further Federal fiscal stimulus in the fall seemed more certain
- Expect no FY 2021 Budget Cuts
  - ▣ Better than expected revenues
  - ▣ More flexibility in the federal Coronavirus Relief Fund

# FY21 General Fund from Quarterly Report

**Table 7**  
**General Fund Interim Forecast**  
**\$ millions**

	FY21						FY21	
	Q1		Q2, Q3, & Q4		Full Year		Enacted	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff
Individual Income	1,184.7	4.5	3,645.0	0.4	4,829.7	1.4	4,770.9	58.8
Sales & Use	1,127.1	7.0	2,975.8	-1.4	4,102.9	0.8	4,190.5	-87.6
Corp. Inc. & LLET	165.1	-5.3	339.5	-27.0	504.6	-21.1	545.9	-41.3
Property	54.1	23.5	599.3	0.0	653.4	1.6	671.7	-18.3
Lottery	60.5	3.4	216.5	1.7	277.0	2.1	277.0	0.0
Cigarettes	87.9	-3.3	256.4	-2.9	344.3	-3.0	335.2	9.1
Coal Severance	12.1	-31.1	34.7	-15.8	46.8	-20.4	44.6	2.3
Other	162.8	30.1	582.6	-8.7	745.4	-2.3	767.4	-22.0
<b>General Fund</b>	<b>2,854.3</b>	<b>5.8</b>	<b>8,649.8</b>	<b>-2.5</b>	<b>11,504.1</b>	<b>-0.5</b>	<b>11,603.1</b>	<b>-99.0</b>

# FY21 Road Fund from Quarterly Report

**Table 8**  
**Road Fund Interim Forecast**  
**\$ millions**

	FY21						FY21	
	Q1		Q2, Q3, & Q4		Full Year		Enacted	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff
Motor Fuels	192.1	-5.3	563.7	4.6	755.8	1.9	786.6	-30.8
Motor Vehicle Usage	158.0	12.1	388.7	8.5	546.7	9.5	494.8	51.9
Motor Vehicle License	25.7	24.7	92.5	5.1	118.2	8.8	118.8	-0.6
Motor Vehicle Operators	5.3	26.1	10.6	21.4	15.9	23.0	18.3	-2.4
Weight Distance	18.9	-12.0	59.5	-3.9	78.4	-6.0	81.2	-2.8
Income on Investments	0.2	-88.9	0.3	-93.6	0.5	-92.5	2.4	-1.9
Other	9.3	-8.3	27.9	-3.4	37.2	-4.7	41.3	-4.1
<b>Road Fund</b>	<b>409.4</b>	<b>1.9</b>	<b>1,143.3</b>	<b>4.9</b>	<b>1,552.7</b>	<b>4.1</b>	<b>1,543.4</b>	<b>9.3</b>

# Economic Forecast in Quarterly Report

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- The September pessimistic scenario was selected for two reasons
  - ▣ The “control” forecast included federal fiscal stimulus that is unlikely to occur during the fall months
  - ▣ Second, the control scenario assumed COVID-19 cases were peaking in late August, an assumption that has proven false
- In contrast, the September pessimistic scenario assumes a resurgence of new cases into the fall months, which pushes any robust economic recovery back to calendar year 2021
- Updated national forecast will be available in November

# Kentucky Employment

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	July 2019 to	April 2020 to	July 2020 to	April-June 2020	July-Sept 2020	April-June 2020	July-Sept 2020
	Sept 2019	June 2020	Sept 2020	loss from	loss from	loss from	loss from
Sector	Quarter	Quarter	Quarter	July-Sept 2019	July-Sept 2019	July-Sept 2019	July-Sept 2019
	(in thousands)						
Non-farm employment	1,942.4	1,757.7	1,789.4	(184.7)	(153.0)	-9.5%	-7.9%
Goods-producing	343.1	317.7	312.9	(25.4)	(30.2)	-7.4%	-8.8%
Construction	80.7	76.0	78.8	(4.7)	(1.9)	-5.8%	-2.4%
Mining	9.7	7.9	6.6	(1.8)	(3.1)	-18.6%	-32.0%
Manufacturing	252.7	233.7	227.5	(19.0)	(25.2)	-7.5%	-10.0%
Service-providing	1,288.0	1,137.9	1,179.2	(150.1)	(108.8)	-11.7%	-8.4%
Trade, Transportation & Utilities	404.9	362.9	381.5	(42.0)	(23.4)	-10.4%	-5.8%
Information	21.5	20.3	20.3	(1.2)	(1.2)	-5.6%	-5.6%
Finance	93.6	90.9	92.0	(2.7)	(1.6)	-2.9%	-1.7%
Business Services	216.6	201.7	194.3	(14.9)	(22.3)	-6.9%	-10.3%
Educational & Health Services	283.7	270.8	266.1	(12.9)	(17.6)	-4.5%	-6.2%
Leisure and Hospitality Services	201.6	135.0	163.2	(66.6)	(38.4)	-33.0%	-19.0%
Other Services	66.0	56.2	61.7	(9.8)	(4.3)	-14.8%	-6.5%
Government	311.3	302.2	297.3	(9.1)	(14.0)	-2.9%	-4.5%

# Year-to-Date General Fund Receipts

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	October Growth	YTD Growth
General Fund	3.0%	5.1%
Sales Tax	6.3%	6.8%
Individual Income	4.7%	4.5%
Corporation	19.9%	-1.1%
All Others	-10.0%	4.6%



# Year-to-Date Road Fund Receipts

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	October Growth	YTD Growth
Road Fund	-0.4%	1.4%
Motor Fuels	-3.0%	-4.8%
MV Usage Tax	11.0%	11.8%
License and Privilege	-23.4%	-0.5%
All Others	21.4%	-15.1%

# Preparation of Governor's FY 2022 Budget Recommendation

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- Consensus Forecasting Group Official Estimates
- Governor's Budget introduced first week of January
- Context:
  - Lower amount of revenues expected – last week we requested official revenue estimates from the Consensus Forecasting Group for FY 2021 & 2022 in early December
  - Governor's original FY 2022 recommendation
  - The enacted FY 2021 budget
  - Major Cost Drivers in Spending-What has Changed?
  - Other Considerations

# Consensus Revenue Forecasting

Overseen by the State Consensus Forecasting Group

## IHS Macro Model

- U.S. Macro forecast
- Used in Kentucky models as exogenous variables

## Kentucky Macro Model

- OSBD Model
- Uses IHS Macro Model
- Forecasts state employment and income

## Kentucky Revenue Models

- Major taxes have separate models
- Uses U.S. and Kentucky macro variables

# Major Spending Areas – SEEK

## What has Changed?

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- SEEK School children population – SB 177 and Dept of Education Emergency Regulation
- Average daily attendance assumptions changed:
  - 590,036 – Revised FY 2020
  - 587,638 – FY 2021's 2020 Session Projection
  - 586,620 – FY 2022's 2020 Session Projection
  - 586,809 – Revised FY 2021 due to SB 177
  - 586,609 – Revised FY 2022 due to Dept. of Education Emergency Regulation

# Major Spending Areas – SEEK

## What has Changed?

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- Updated SEEK Projections – consensus process between the Department of Education and the Office of State Budget Director
- SEEK projections nearly completed

# Major Spending Areas – Medicaid

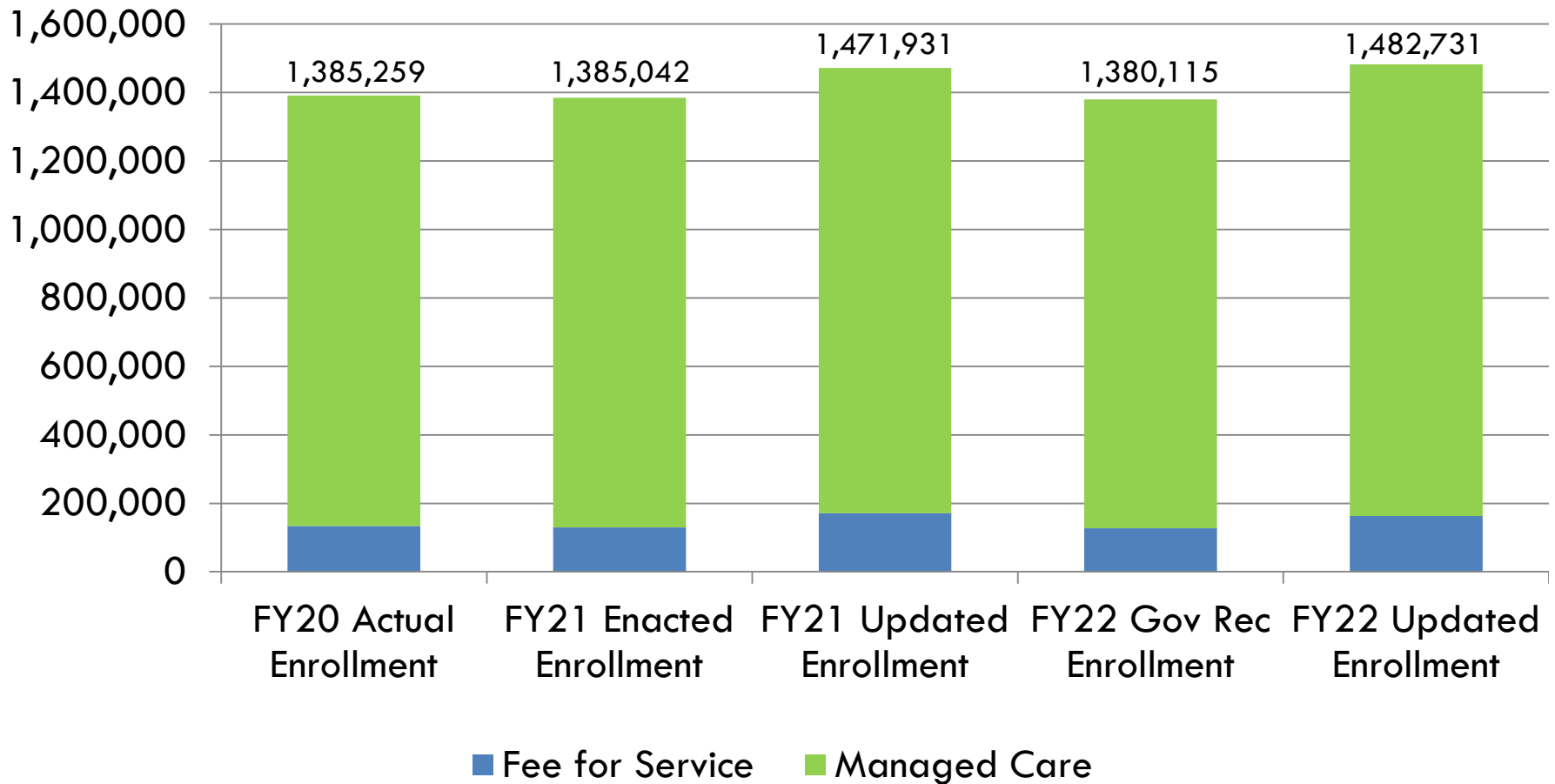
## What has Changed?

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- COVID-19
- Rise in Medicaid Enrollment
- Increased Federal share of Medicaid spending related to the national Public Health Emergency
- Updated Medicaid Projections – consensus process between the Cabinet for Health and Family Services and the Office of State Budget Director
- Medicaid budget projections nearly completed
- FY 2021 revised budget forecast will be less than FY 2021 enacted

# FY 2020-22 Medicaid Enrollment

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# Major Spending Areas – Medicaid

## What has Changed?

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- Federal share of Medicaid spending related to the national Public Health Emergency
  - Additional 6.2% Federal share for regular Medicaid from January 2020 through March 31, 2021
  - Not applicable to Expansion population or KCHIP
  - Emergency due for extension by January 21, 2021
  - Budget benefit in FY 2020 was \$248.5 million
  - Through mid-October, the FY 2021 amount due to the enhanced Federal share is \$161.5 million



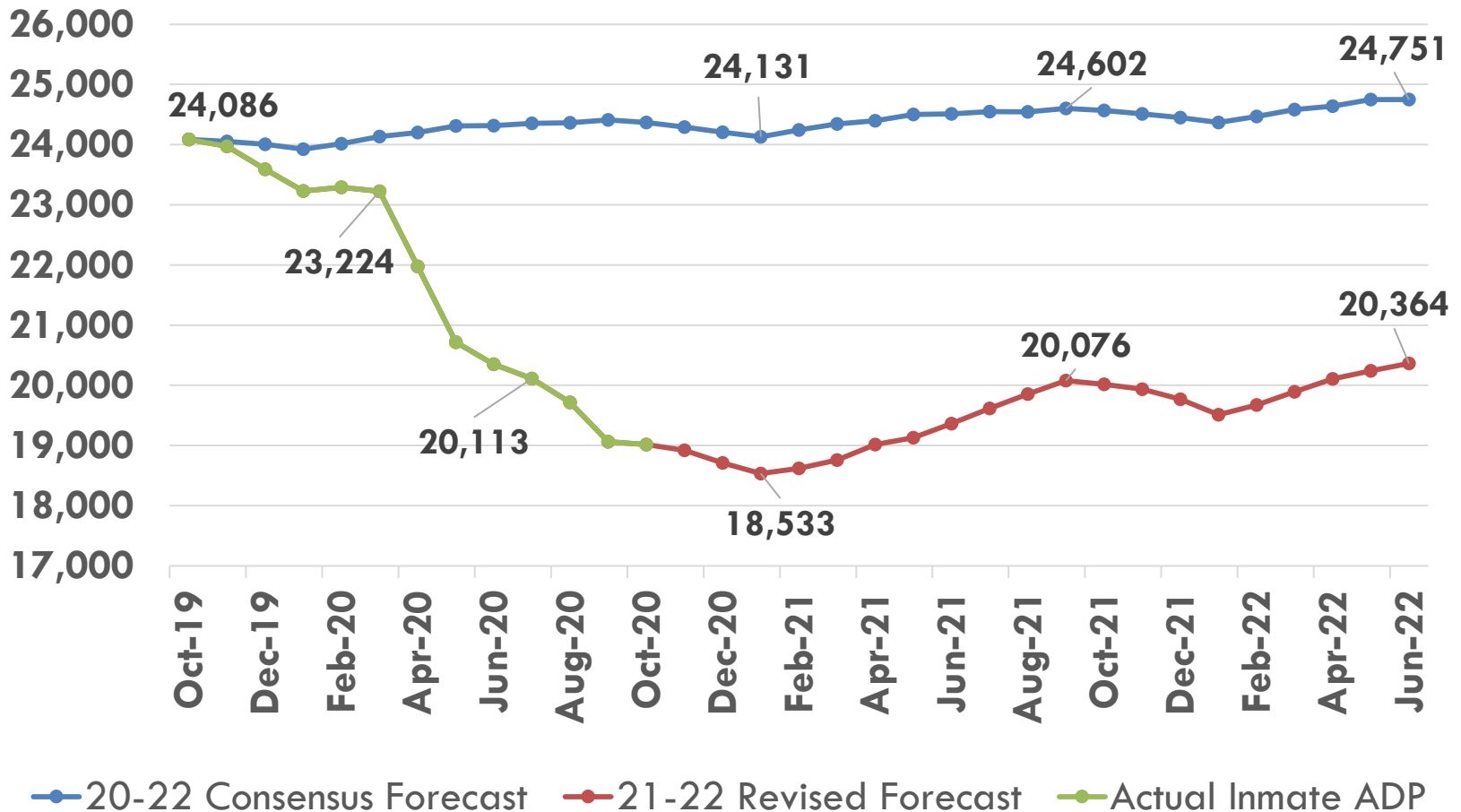
# Major Spending Areas – Inmate Population-What has Changed?

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- COVID-19
- Slowdown in Criminal Justice System in spring now ramping back up to pre-COVID activity
- Commutations in response to COVID-19 particularly to improve the health conditions of local jails
- Updated Inmate Population Projections – consensus process between the Department of Corrections and the Office of State Budget Director
- Inmate projections completed

# Department of Corrections

## Inmate Average Daily Population



# Major Spending Areas – Inmate Population-What has Changed?

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- The updated projections will reflect a lower Average Daily Inmate Population
- It will result in a decrease in the Community Services and Local Facilities' county jail bed budgets for FY 2021 and FY 2022 compared to the 2020 Session
- Due to health prevention measures, the decrease will be also dependent upon the timing and ability to move Controlled Intake inmates from the county jails to the Adult Correctional Institutions
- Working with the Department of Corrections on those assumptions for the upcoming budget

# Major Spending Areas – Pension Rates-What has Changed?

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- KERS Pension Rates: KERS has provided updated employer contribution rates for FY 2022:
  - ▣ Non-hazardous: 84.35% to 84.84%
  - ▣ Hazardous: 36.07% to 35.51%
  - ▣ State Police: 143.71% to 143.80%
  
- Kentucky State Agency Payroll around \$1.4 billion

# Major Spending Areas – Other Consideration-What has Changed?

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- Tourism Business Enterprises:
  - ▣ State Parks
  - ▣ State Fair Board
  - ▣ Kentucky Horse Park
- Lost revenues in FY 2020 and FY 2021 exceed reduction in costs due to response to COVID-19. Looking at amount needed to cover those deficits
- Reviewing any other areas where revenues have been affected

# Major Spending Areas – Other Consideration-What has Changed?

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- Other Changes due to the public health emergency
- Cost of testing and contact tracing after Dec 30 as federal funds expire
- Cost of distributing vaccines – no funding has been provided to States

# Coronavirus Relief Fund – Budget Impacts

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- The Federal CARES Act provided \$1.6 billion to Kentucky for the Coronavirus Relief Fund (CRF)
- Prohibited States from using it to replace lost revenues
- Initial flexibility allowed to use CRF funds for payroll expenses for employees that were substantially dedicated as well as total payroll expenses of front-line State Police. Reported the use of \$46.9 million to help balance the FY 2020 General and Road Fund budgets to this Committee in August.

# Coronavirus Relief Fund – Budget Impacts

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- New flexibility was added around Labor Day
- Permits the use of the CRF funds for total payroll expenses of correctional officers and their supervisors, as well as similar staff in state juvenile facilities. It also permits the use for payroll expenses of some Department for Public Health employees.
- Detailed work is underway to determine the full value of qualified state expenditures for which the CRF funds can be used to balance the budget.



# Questions