

# Fiscal Year 2025 Closeout

Interim Joint Committee on Appropriations and Revenue

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**August 20, 2025**

**Capitol Annex Room 149**

**John Hicks, State Budget Director**

# Fiscal Year 2025 Overview

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General Fund Year-End

Road Fund Year-End

# FY2025 General Fund Revenues

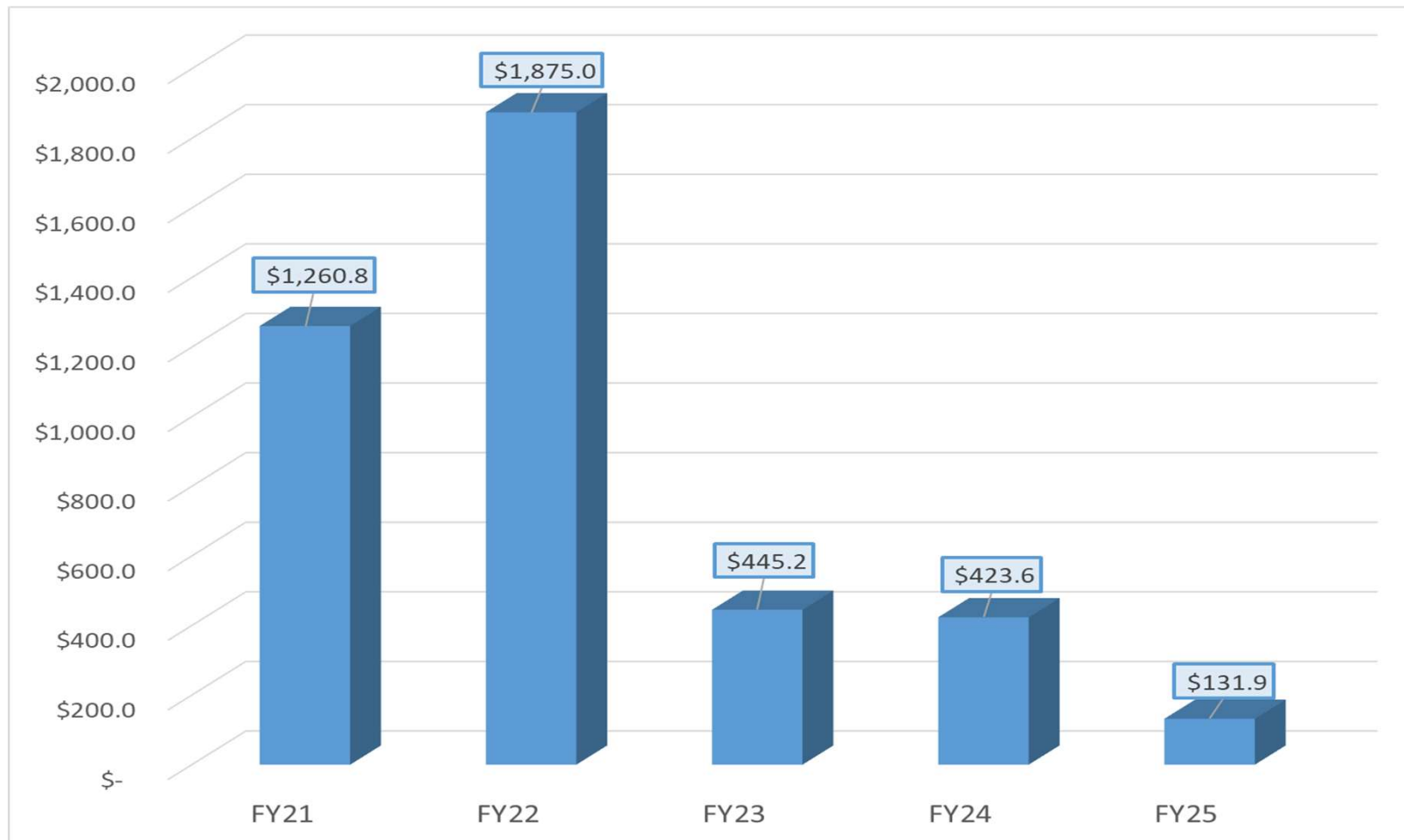
(\$ millions)

	FY25				
	Actual	% Chg	Estimate	\$ Diff	% Diff
Individual Income	5,319.2	-8.4	5,546.3	-227.1	-4.1
Sales & Use	5,821.3	0.3	6,080.1	-258.8	-4.3
Corp. Inc. & LLET	1,834.5	46.9	1,327.8	506.7	38.2
Property	839.3	3.9	837.2	2.1	0.3
Lottery	350.7	2.1	350.7	0.0	0.0
Cigarettes	243.6	-9.9	249.5	-5.9	-2.4
Coal Severance	56.1	-28.0	65.4	-9.3	-14.3
Other	1,238.6	2.2	1,114.9	123.7	11.1
<b>Total</b>	<b>15,703.2</b>	<b>0.8</b>	<b>15,571.9</b>	<b>131.3</b>	<b>0.8</b>

# General Fund Growth over Prior Year

(\$ Millions)

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# General Fund Levels, FY25 vs. FY24

(\$ Millions)

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	<b><u>Actual FY25</u></b>	<b><u>Actual FY24</u></b>	<b><u>Difference (\$ mil)</u></b>	<b><u>Difference (%)</u></b>
Sales and Use	5,821.3	5,802.6	18.8	0.3
Individual Income	5,319.2	5,807.5	-488.3	-8.4
Corp Inc & LLET	1,834.5	1,249.1	585.4	46.9
Coal Severance	56.1	77.8	-21.8	-28.0
Cigarette Taxes	243.6	270.5	-26.9	-9.9
Property	839.3	808.2	31.1	3.9
Lottery	350.7	343.6	7.1	2.1
Other	<u>1,238.6</u>	<u>1,212.0</u>	<u>26.6</u>	<u>2.2</u>
<b>TOTAL</b>	<b>15,703.2</b>	<b>15,571.3</b>	<b>131.9</b>	<b>0.8</b>

# FY 2025 General Fund Revenues

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- Largest 2 taxes underperformed
  - Individual income and sales taxes fell from a combined 74.6% of General Fund revenues in FY24 to 70.9% in FY25
  - Individual Income tax fell 8.4%, largest decline since we began retaining data in FY 1979
  - Sales Tax grew 0.3%
- Individual Income Tax
  - PTET receipts declined \$282.8 million (\$791.9 million to \$510.1)
  - Income tax rate fell from 4.5% to 4.0% effective 1/1/24
  - Despite the 11.1% rate decline, withholding only declined 4.0%

# \$313 Million – FY 2025 General Fund Surplus

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- **\$131.3** million revenue surplus
- **\$ 35.3** million in fund transfers more than budgeted (mostly FEMA reimbursements)
- **\$ 14.2** million lower severance tax revenue sharing
- **\$132.7** million in net lower spending than budgeted

# \$313 Million – FY 2025 General Fund Surplus

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- Implemented the General Fund Surplus Expenditure Plan. Moneys are appropriated:
- **\$62.1 million** for the FY 25 Necessary Government Expense uses
- **\$251.3 million** deposit to the Budget Reserve Trust Fund



# Budget Reserve Trust Fund

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- **\$5.2 billion** balance at end of FY 24
- **\$2.6 billion** in FY 24 and FY 26 budgeted uses
- **\$15.0 million** deposit from FY 24 surplus
- **\$873.7 million** FY 25 appropriated deposit
- **\$251.3 million** deposit from FY 25 surplus
- Unobligated Balance of **\$3.76 billion** (24% of General Fund revenue estimate for FY 26)

# FY2025 Road Fund Revenues

(FY25 revenue totals, \$ million)

	FY25				
	Actual	% Chg	Estimate	\$ Diff	% Diff
Motor Fuels	836.4	-7.6	866.8	-30.4	-3.5
Motor Vehicle Usage	719.5	7.2	650.1	69.4	10.7
Motor Vehicle License	117.3	-1.9	128.1	-10.8	-8.4
Motor Vehicle Operator	33.7	3.1	32.0	1.7	5.3
Weight Distance	86.3	-0.6	89.7	-3.4	-3.8
Income on Investments	19.0	29.7	9.5	9.5	99.6
Other	51.4	15.3	48.8	2.6	5.3
<b>Road Fund</b>	<b>1,863.5</b>	<b>-0.6</b>	<b>1,825.0</b>	<b>38.5</b>	<b>2.1</b>

# Road Fund Levels, FY25 vs. FY24

(\$ Millions)

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	<b><u>Actual</u></b> <b><u>FY25</u></b>	<b><u>Actual</u></b> <b><u>FY24</u></b>	<b><u>Difference</u></b> <b><u>(\$ mil)</u></b>	<b><u>Difference</u></b> <b><u>(%)</u></b>
Motor Fuels	836.4	905.4	-69.0	-7.6
Motor Vehicle Usage	719.5	671.0	48.5	7.2
Motor Vehicle License	117.3	119.5	-2.2	-1.9
Motor Vehicle Operator	33.7	32.7	1.0	3.1
Weight Distance	86.3	86.8	-0.5	-0.6
Investment Income	19.0	14.6	4.3	29.7
Other	<u>51.4</u>	<u>44.5</u>	<u>6.8</u>	<u>15.3</u>
<b>TOTAL</b>	<b>1,863.5</b>	<b>1,874.6</b>	<b>-11.1</b>	<b>-0.6</b>

# FY2025 Road Fund Revenues

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- Motor Fuels and Motor Vehicle Usage make up 83.5% of Road Fund revenues
- Motor Vehicle Usage Set a New Record in FY25
  - \$719.5 million beat FY24 total of \$671.0 million
  - 5<sup>th</sup> consecutive record-setting year
- Motor Fuels fell \$69.0 million due to rate decline
  - Total Motor Fuels state taxes and fees on gasoline fell from 30.1 cents per gallon in FY24 to 27.8 cents in FY25, a 7.7% decline

# **\$61.6 Million – FY 2025 Road Fund Surplus**

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- **\$38.5** million revenue surplus
  - **\$12.8** million lower motor fuels tax revenue sharing
  - **\$ 8.3** million in net lower spending than budgeted
  - **\$ 2.0** million in fund transfers more than budgeted
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- **\$61.6** million deposit to the Highways-State Construction Account per the Road Fund Surplus Expenditure Plan

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# Questions

# H.R. 1 – 119th Congress

## Economic Impacts

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### **Medicaid Spending Reductions—National Ten-Year Scores \$911 Billion**

1. Work/Community Engagement Requirements for expansion population - \$326 billion
  - The cost savings are based on lower enrollments
2. Limits on State-Directed Payments - \$149 billion
  - Phasing payments down 10 percentage points each year to match Medicare rates
3. Eligibility Redeterminations every 6 months instead of annually for expansion population - \$63 billion
  - The costs savings are based on lower enrollments

# H.R. 1 – 119th Congress

## Economic Impacts

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- Kentucky estimated State-Directed Payments - \$5.4 billion  
Phasing payments down 10 percentage points each year to match Medicare rates
- Economic Impact of a significant decline in health care spending
- Ky Hospital Association referencing the prospect of 20,000 fewer health care workers with full phase down
- Sheps Center (Univ North Carolina) risk analysis of closing rural hospitals - 35 in Kentucky



# H.R. 1 – 119th Congress

## Kentucky 2026-28 Budget Issues

**SNAP Administrative Costs** – State Share Increase from 50% to 75%, effective October 1, 2026 – about \$50 million more General Fund in FY 27 and about \$66 million more General Fund in FY 28

**SNAP Benefit Costs** –the federal government has shifted from a 100% federally funded program to one requiring a state share

**Medicaid** – new work/community engagement requirements for expansion population – effective Jan 1, 2027. Information technology changes at 90% federal; other resources 50% federal/50% state

**Medicaid** – eligibility re-determination every 6 months instead of annually – effective Jan 1, 2027 - other resources 50% federal/50% state

**Rural Health Transformation Fund** – each state will get at least \$100 million/year for 5 years beginning federal fiscal year 2026. Application by Dec 31, 2025 – awaiting federal guidance. The other \$25 billion allocated by CMS with no guarantees of receipt.



CABINET FOR HEALTH  
AND FAMILY SERVICES

**H.R.1**  
**SNAP Payment Error Rates**

# SNAP Payment Error Rate – Cost Sharing Requirement

- Starting in federal FY 2028: For the first time, the federal government will impose on states a share of SNAP benefit costs based on each state's payment error rate.
  - Error rate under 6%: Federal government pays 100% (state pays nothing).
  - Error rate 6%–7.99%: Federal pays 95%, state pays 5%.
  - Error rate 8%–9.99%: Federal pays 90%, state pays 10%.
  - Error rate 10% or more: Federal pays 85%, state pays 15%.
- Federal FY 2028: use either 2025 or 2026 error rate
- Federal FY 2029: use FY 2026 error rate (i.e., “X minus 3 years”)

# H.R.1 Payment Error Match

Payment Error Rate	Kentucky Match		Federal Match	
	Match %	Estimated Match Amount	Match %	Estimated Match Amount
less 6%	0%	\$0.00	100%	\$1,252,476,404
6% to 8%	5%	\$62,623,820	95%	\$1,189,852,584
8% to 10%	10%	\$125,247,640	90%	\$1,127,228,764
10% and up	15%	\$187,871,461	85%	\$1,064,604,943

Based on FFY 2024 SNAP benefits of \$1,252,476,404

Kentucky's FFY 2024 PER is 9.1%

# Payment Error

- A Payment Error occurs when a household receives more or less than the correct benefit amount set at a \$57 tolerance level. CFR 275(c)
- The USDA calculates each State's Payment Error Rate (PER) for each Federal Fiscal Year (FFY).
- Every June, USDA analyzes the final data collected from the states and uses that to determine national and state payment error rates.
- SNAP Payment Errors are identified through a Quality Control Process.

Error Tolerance: <https://www.fns.usda.gov/snap/qc/ett>

QC Process: <https://www.fns.usda.gov/snap/qc>

# Payment Error Measurement Process

- Quality Control (QC) randomly selects a sample of SNAP cases for review.
- Each technical and financial factor of eligibility is examined by a QC reviewer for accuracy.
- Any identified errors are addressed and resolved by staff.
- Resolution may involve recoupment or supplement of benefits.
- Error data is analyzed to identify opportunities to prevent repeated error types.

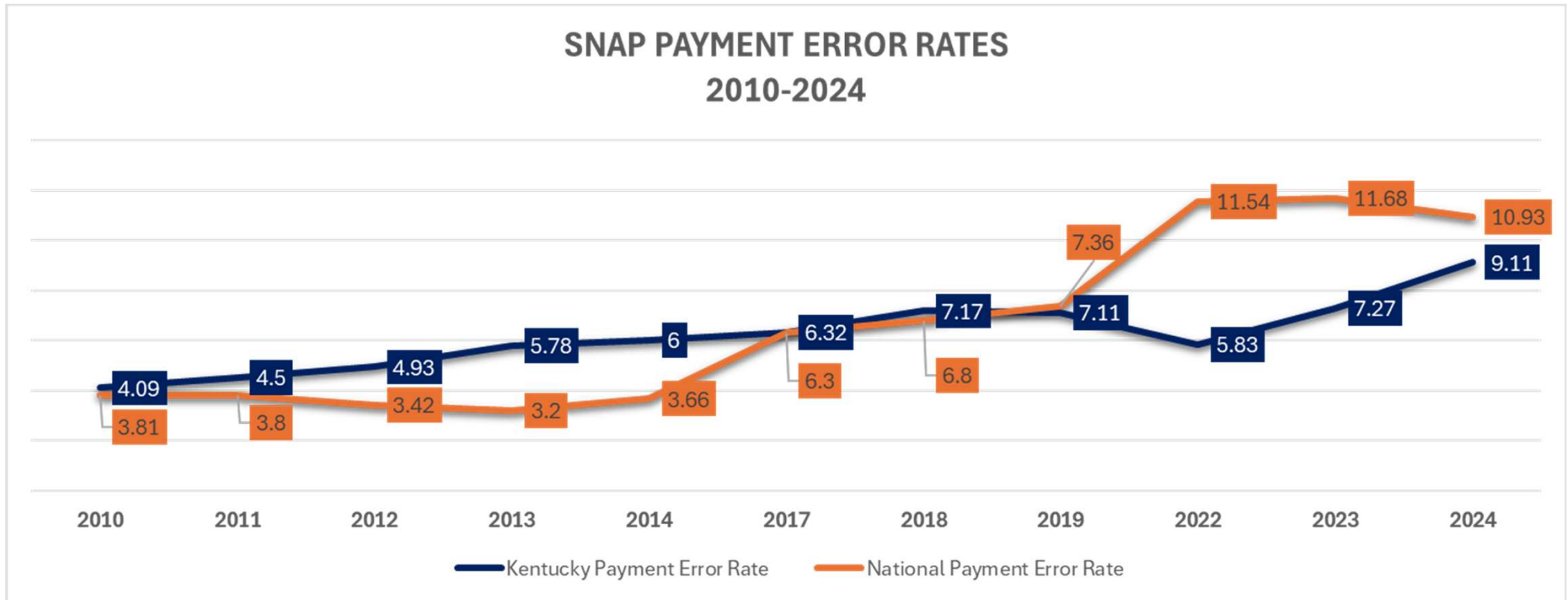
# Payment Error Rate - QC Process

## THE SNAP QC PROCESS CONSISTS OF FOUR STEPS:

- 1 State Review:** Each month state agencies randomly select a sample of households participating in SNAP in their state—a total of about 50,000 cases nationwide a year—to confirm whether the household is eligible and received the correct amount of benefits. This review includes an interview and a detailed examination of household circumstances.
- 2 Federal Re-Reviews:** Federal SNAP staff select a sub-sample of each state's reviews—about 25,000 cases—for re-review to verify the accuracy of the states' findings.
- 3 Corrections:** Errors are corrected—overpayments must be paid back to the state and the state must reimburse participants for underpayments—so each household gets exactly the amount for which they were eligible.
- 4 Analysis:** Federal SNAP staff analyze the data, taking into consideration the size of a state's caseload and other variables, to establish national and state error rates.

<https://www.fns.usda.gov/snap/qc>

# SNAP Payment Error Rates





# Sources of Payment Errors

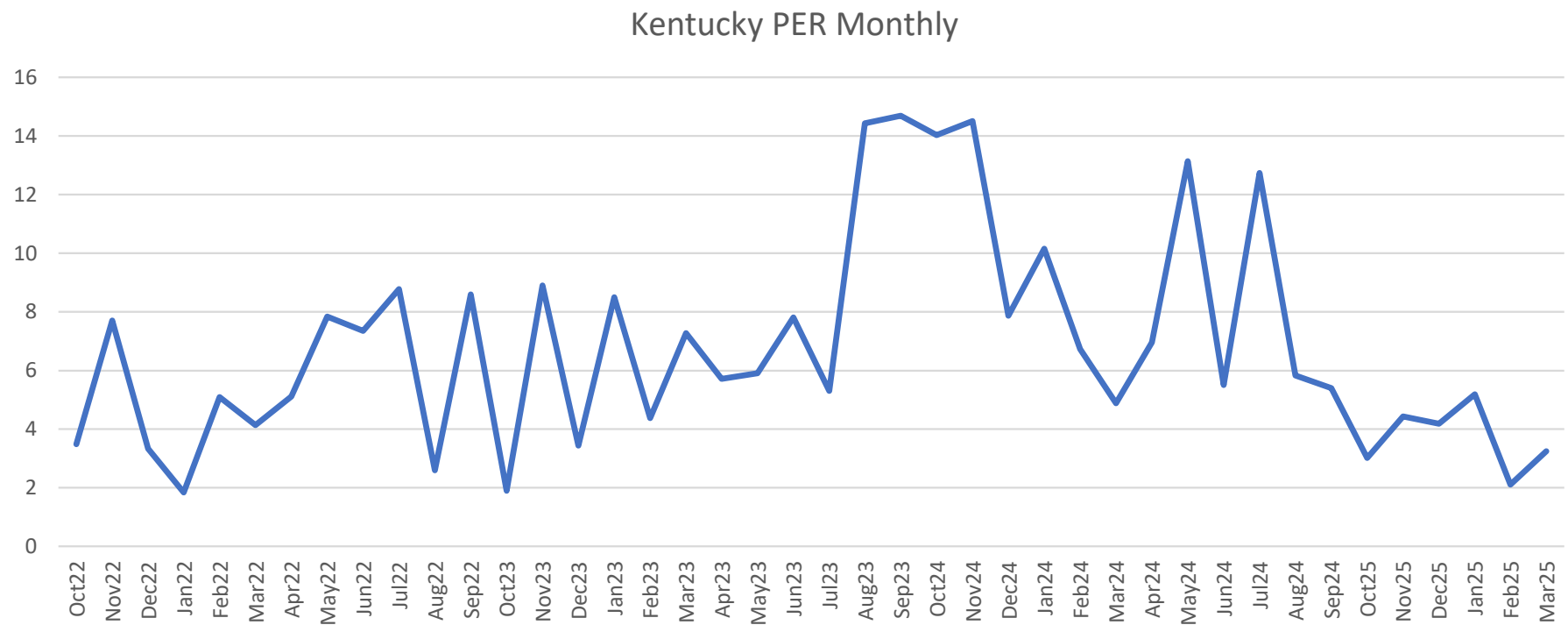
- The top two causes of payment errors are related to:
  - Household income (wages and salaries)
  - Shelter deductions
- Examples of Payment errors:
  - Households failing to report income accurately
  - Households failing to report changes that affect benefits
  - Staff entering verification incorrectly

# Payment Error Rates FFY 25

## October 2024 – March 2025

Sample Month	Error Rate FFY 25
October 2024	3.01%
November 2024	4.43%
December 2024	4.18%
January 2025	5.18%
February 2025	2.10%
March 2025	3.24%

# Kentucky PER monthly trend: FY 2022-24



# COVID Flexibilities and Impact

- Temporary pandemic federal policies contributed to an increase in SNAP error rates nationwide, including Kentucky (2020-2023).
- Federally approved waivers allowed cases to be automatically renewed and approved without a client interview and without requiring periodic change reporting.
- Quality Control interviews did not require face-to face-interviews with households.
- Waiver measures allowed cases to be worked with the best verification available.
- DCBS processed cases at significantly reduced staff levels, causing increased caseloads.