

OPENING REMARKS

CONSENSUS FORECASTING GROUP

GREG HARKENRIDER
MAY 22, 2020

Office of State Budget Director

Request for Revised Estimates

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- 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 and request a revision from the consensus forecasting group. The revision shall become the official revenue estimates.
- State Budget Director John Hicks made a determination that a revision to the FY 2020 General and Road Fund revenue estimates is needed and requested the Consensus Forecasting Group in an April 30, 2020 letter.

Consequences of New Estimates

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- KRS 48.130 & 48.600 address revenue shortfalls
 - A Budget Reduction Plan is included in the budget bill (HB 352) for a revenue shortfall of five percent or less
 - All 3 branches of state government prepare a specific plan that can be comprised of appropriation reductions, fund transfers, and use of the Budget Reserve Trust Fund to balance the budget
 - An actual or projected revenue shortfall in the General Fund or Road Fund greater than five percent difference from the enacted estimate requires action by the General Assembly; meaning a Special Session given there is less than 6 weeks left in FY20

Evolution of the FY20 General Fund Estimate

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- The official CFG estimate from December 17, 2019
 - \$11,576,200,000
 - Based on Optimistic Forecast
- The enacted estimate from Part VI of HB 352 from RS20
 - \$11,448,237,100
 - Based on Pessimistic Scenario from December CFG
- No bills passed in the 2020 Regular Session of the General Assembly that had a fiscal impact on the GF in FY20

Evolution of the FY20 Road Fund Estimate

5

- The official CFG estimate from December 17, 2019
 - ▣ \$1,572,800,000
 - ▣ Based on Control Forecast
- The enacted estimate from Part VIII of HB 352 from RS20
 - ▣ \$1,551,800,000
 - ▣ Based on modified Pessimistic Scenario from December CFG
- No bills passed in the 2020 Regular Session of the General Assembly that had a fiscal impact on the RF in FY20

FY20Q3 Quarterly Report

(Comparison to the May Estimates for Today)

6

- OSBD produced control and pessimistic estimates
- The FY20 GF official enacted estimate \$11,448,237,100
 - ▣ FY20Q3 Interim Control: \$11,129.5 million (down \$318.7 million from enacted)
 - ▣ May Control: \$11,124.1 million (down \$324.1 million, or 2.8%)
 - ▣ FY20Q3 Interim Pessimistic: \$10,952.5 million (down \$495.7 M from enacted)
 - ▣ May Pessimistic: \$11,0008.4 million (down \$439.8 million, or 3.8%)
- The FY20 RF official enacted estimate \$1,551.8 million
 - ▣ FY20Q3 Interim Control: \$1,435.4 million (down \$116.4 million from enacted)
 - ▣ May Control: \$1,441.4 million (down \$110.4 million, or 7.1%)
 - ▣ FY20Q3 Interim Pessimistic: \$1,357.2 million (down \$194.6 M from enacted)
 - ▣ May Pessimistic: \$1,390.0 million (down \$161.8 million, or 10.4%)

Third Quarter GF Receipts

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- Third quarter collections grew 6.4%
- Individual Income was up 12.2%
- Withholding was trending higher
- Sales tax grew 7.6%
- Year-to-date GF growth was 3.9% after March, as compared to the official enacted needs of 0.5%
- Year-to-date GF growth was -1.2% after April

April 2020 General Fund Receipts

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- Total General Fund receipts fell 33.6 percent, a decline of \$432.9 million
 - Economic Effects:
 - Sales Tax was only down 6.4 percent
 - Regular Withholding was flat
 - Total Withholding (including NRW) was down 7.5 percent
 - Sales tax and withholding primarily based on March activity
 - Potential Timing or Policy Effects
 - Individual Declarations fell from \$172.8 million to \$29.8 million (-\$143.0 mil)
 - Individual Net Returns fell from \$75.7 million to -8.7 million (-\$84.4 mil)
 - Corporation Declarations fell from \$55.2 million to \$16.6 million (-\$38.7)
 - Corporate Net Returns fell from \$72.3 million to \$7.4 million (-\$64.9 mil)
 - Total net difference in April was \$331.0 million

Caveat to April 2020 General Fund Receipts

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- Total GF receipts cannot be separated from the change in due dates for individual and corporate income taxes
 - On 3/20/2020, Governor Beshear mirrored the federal government income tax policy by delaying the filing deadline by three months from April 15th to July 15th.
 - SB150 was enacted to reinforce the COVID-19 actions. The bill was signed by the Governor on 3/30/2020
 - Changes from SB150
 - Final CY2019 final returns for individual or corporation filers due date change from April 15th to July 15th
 - Estimated payments for individual or corporation filers that were due either April 15th or June 15th are now due July 15th
 - July 15th due date payments will be vouchered back to FY20

April 2020 Road Fund Receipts

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- Total Road Fund receipts fell 30.1 percent, a decline of \$43.9 million
- Motor Fuels dropped \$7.5 million, or 11.8 percent
 - Based on March activity
- Motor Vehicle Usage plummeted \$29.9 million (60.1 percent)
 - Based primarily on April activity
- License and Privilege taxes fell 20.2 percent

INDIVIDUAL INCOME TAX

(CONSENSUS FORECASTING GROUP)

THOMAS JONES, PH.D.

MAY 22, 2020

Office of State Budget Director

First 3 Quarters of FY20

(\$ millions)

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	Q1	% chg	Q2	% chg	Q3	% chg	Q1-Q3	% chg
IIT	1,134.0	1.6	1,093.0	2.3	1,128.1	12.2	3,355.0	5.2
WITH	1,016.8	2.1	1,047.4	2.0	1,155.9	7.5	3,220.1	3.9
DECL	114.1	1.5	42.6	11.2	129.8	7.9	286.5	5.7
NETR	2.6	-67.7	4.0	33.2	-152.6	-17.0	-146.0	-15.5
FID	0.5	-6,762.6	-1.0	1,884.5	-5.0	-27.1	-5.5	-20.5

April 2020

(\$ millions)

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	Apr-19	Apr-20	% chg	\$ diff
IIT	625.8	361.7	-42.2	-264.2
WITH	367.3	339.9	-7.5	-27.5
DECL	172.8	29.8	-82.8	-143.0
NETR	75.7	-8.7	-111.5	-84.4
FID	10.0	0.7	-92.8	-9.2

Issues

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- On March 20, 2020, it was announced that the due date for Returns and Declarations payments would be extended to July 15th.
- Withholding and Declarations are expected to be significantly affected by the business shutdowns.
- NetReturns and Fiduciary are based on TY2019 activity.
- Small amount of “normal” money will be collected July 1 to July 15.

Non-Issue

- There were the same number of Fridays in FY19 Q4 as there were in FY20 Q4.

Methodology & Assumptions

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- WITH Control: April 2020 growth for all of Q4
- WITH Pessimistic: Same Meth. as December CFG
- DECL Control/Pessimistic: 20% of declarers stop doing business in the fourth quarter and make a \$0 payment. Another 20% of declarers experience a 25% reduction in business and pay 75% of what they would have. Net: -25%

IIT Control Forecast

(\$ millions)

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CON	FY20Q4 May Est	% chg	\$ diff	FY20 May Est	% chg	\$ diff	Apr-20	Apr-19	Current YTD	Prior YTD	Actual Growth Over Prior Year	Amount Needed During Rest of Year	May + Jun 2019	Growth Needed Rest of Year
IIT	1,203.8	-11.2	-151.3	4,558.8	0.3	14.2	361.7	625.8	3,716.7	3,815.4	-2.6	842.1	729.3	15.5
WITH	967.8	-7.5	-78.5	4,187.9	1.0	43.2	339.9	367.3	3,560.0	3,465.8	2.7	627.9	679.0	-7.5
DECL	201.9	-25.0	-67.3	488.3	-9.6	-51.8	29.8	172.8	316.2	443.7	-28.7	172.1	96.4	78.6
NETR	25.8	-13.3	-3.9	-120.2	-16.0	22.9	-8.7	75.7	-154.7	-97.1	59.3	34.5	-46.0	-175.0
FID	8.3	-16.0	-1.6	2.8	-5.4	-0.2	0.7	10.0	-4.8	3.0	-260.2	7.6	0.0	NA

IIT Pessimistic Forecast

(\$ millions)

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PES	FY20Q4			FY20			Apr-20	Apr-19	Current YTD	Prior YTD	Actual Growth Over Prior Year	Amount Needed During Rest of Year	May + Jun 2019	Growth Needed Rest of Year
	May Est	% chg	\$ diff	May Est	% chg	\$ diff								
IIT	1,171.0	-13.6	-184.1	4,526.1	-0.4	-18.6	361.7	625.8	3,716.7	3,815.4	-2.6	809.4	729.3	11.0
WITH	935.0	-10.6	-111.3	4,155.2	0.3	10.4	339.9	367.3	3,560.0	3,465.8	2.7	595.2	679.0	-12.3
DECL	201.9	-25.0	-67.3	488.3	-9.6	-51.8	29.8	172.8	316.2	443.7	-28.7	172.1	96.4	78.6
NETR	25.8	-13.3	-3.9	-120.2	-16.0	22.9	-8.7	75.7	-154.7	-97.1	59.3	34.5	-46.0	-175.0
FID	8.3	-16.0	-1.6	2.8	-5.4	-0.2	0.7	10.0	-4.8	3.0	-260.2	7.6	0.0	NA

COAL SEVERANCE TAX

(CONSENSUS FORECASTING GROUP)

THOMAS JONES, PH.D.

MAY 22, 2020

Office of State Budget Director

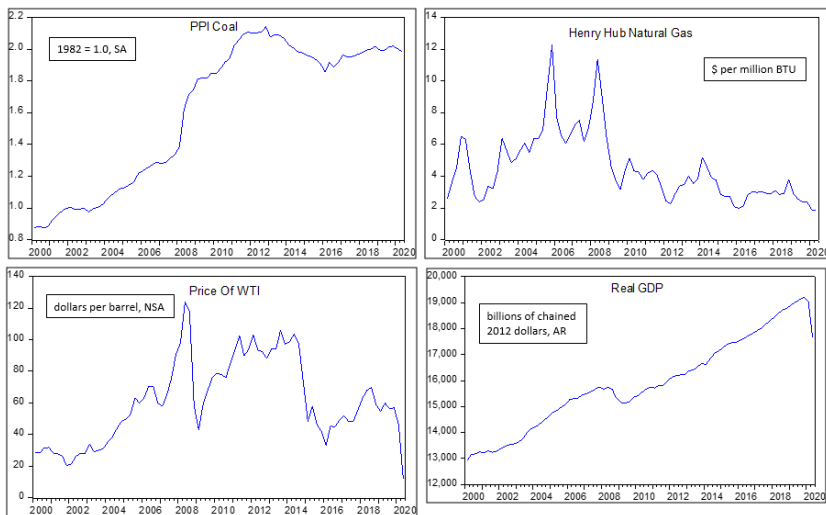
Methodology

19

- Same as December 2019
- Coal receipts = $f(\text{PPI - Coal, Henry Hub Price of Natural Gas, WTI Price of Oil, real GDP})$

Coal Regressors

20



Coal Severance Forecast

(\$ millions)

21

	FY20Q4			FY20			Apr-19	Apr-20	Current YTD	Prior YTD	Actual Growth Over Prior Year	Amount Needed During Rest of Year	May + Jun 2019	Growth Needed Rest of Year
	May Est	% chg	\$ diff	May Est	% chg	\$ diff								
CON	14.6	-45.9	-12.4	62.7	-32.5	-30.2	8.9	4.1	52.3	74.8	-30.2	10.5	18.1	-42.0
PES	14.6	-46.0	-12.4	62.7	-32.5	-30.2	8.9	4.1	52.3	74.8	-30.2	10.4	18.1	-42.2

SALES TAX

CONSENSUS FORECASTING GROUP

GREG HARKENRIDER
MAY 22, 2020

Office of State Budget Director

Sales and Use Tax Forecast Progression

(FY 20, Millions \$)

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Date	Estimate	% Chg Prior Year
December (Optimistic)	\$4,193.6	6.5%
Official Enacted (Pessimistic)	\$4,129.8	4.9%
April Interim (Control)	\$3,943.0	0.1%
May (Control)	\$3,967.1	0.7%
April Interim (Pessimistic)	\$3,919.1	-0.5%
May (Pessimistic)	\$3,931.6	-0.2%

Updating the Sales Tax Estimate

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- Turning points are difficult!
- YTD growth was 6.7% through March, Needs 5.8% in 4th Quarter
- Re-ran the structural models that we used in December
 - ▣ Still using the policy neutral series as the dependent variable
 - ▣ US State and Local Personal Taxes, Consumer spending – Durables, Non-durables, Kentucky wages and salaries
- When adding in the effects of the tax law changes, re-estimated the fiscal impacts that were used in December
 - ▣ Some of the new services that were added in 2018 will be dormant for at least part of FY20 Q4 (Admissions, tanning beds, pet grooming, etc.)
 - ▣ A few of the tax law changes should have higher fiscal impacts than before the outbreak of COVID-19 (janitorial services, marketplace providers)
- Did not explicitly use the data from April, except to help calibrate the effects of tax reform and fine tune the estimates

FY19 & FY20 Q4 Sales Tax

25

- The fourth quarter has the highest multiplicative seasonal factor (historically the most revenue of any quarter)
- Sales Tax grew 11.5% in the fourth quarter of FY19
 - ▣ April \$364.2 million (12.3% growth over FY18)
 - ▣ May \$339.9 million (16.8% growth over FY18)
 - ▣ June \$341.8 million (5.9% growth over FY18)
- Sales Tax in the fourth quarter of FY20
 - ▣ April \$340.6 million (6.5% decline), but April receipts are primarily March retail sales
 - ▣ Top 20 – Up 9.4% (Stockpiling essentials, expected to level off)
 - ▣ Marketplace Providers -- \$14.2 million (second highest month ever)
 - ▣ Restaurant, Hotels, Admissions down \$25.9 million (27% drop)

Needed Growth to Hit May Estimate

(Percent changes versus prior year receipts)

26

- | | |
|--|--------------------------|
| □ May Control Estimate 4 th Qtr | \$880.5 million (-15.8%) |
| □ April Receipts | \$340.9 million (-6.4%) |
| □ Needs for May & June | \$539.6 million (-20.8%) |
| □ May Pessimistic Estimate 4 th Qtr | \$845.0 million (-19.2%) |
| □ April Receipts | \$340.9 million (-6.4%) |
| □ Needs for May & June | \$504.1 million (-26.0%) |

CORPORATION & LLET TAX FORECASTS

(CONSENSUS FORECASTING GROUP)

GENE ZAPARANICK-BROWN

MAY 22, 2020

Office of State Budget Director

Corporate & LLET Forecast Progression

(Millions \$)

28

Date	Estimate	% Chg
December (Optimistic)	\$636.7	-16.5%
Official Enacted (Pessimistic)	\$581.1	-23.8%
April Interim (Control)	\$473.3	-37.9%
May (Control)	\$540.3	-29.2%

April and May Control Estimates

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- April IHS forecast called for large drop in corporate profits in Q2 (38.3%)
- Kentucky forecast was additionally lowered to adjust for tax reform from prior years
- Needs for May and June were \$49.8M (66.0%)
- However, tax due on returns and estimated payments were extended from April 15 to July 15 and that money will be booked in the current fiscal year
- Increased forecast by \$67.0M compared to the April interim estimate.

Summary of Changes to May Control Estimate

30

- | | |
|--------------------------------|------------------|
| □ Needs for May & June | \$49.8 (-66.0%) |
| □ April Receipts | \$52.1 (-70.1%) |
| □ Revision to Interim forecast | \$67.0 |
| □ New Needs | \$116.8 (-20.3%) |

What Happened in April?

31

	2020	2019	\$ Diff
Corporate Declarations	\$16.6	\$55.2	(\$38.6)
Corporate Returns	\$7.4	\$72.3	(\$64.9)
LLET	<u>\$28.1</u>	<u>\$46.9</u>	<u>(\$18.8)</u>
Total	\$52.1	\$174.4	(\$122.3)

Summary of Changes to May Pessimistic Estimate

32

- Needs for May & June \$14.9 (-89.9%)
- April Receipts \$52.1 (-70.1%)
- Revision to interim forecast \$50.0
- New Needs \$64.9 (-55.7%)

Comparison of Control & Pessimistic Forecasts

33

	YTD		May/June		FY 20		Official Estimate	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff
Control	423.5	-31.3	116.8	-20.3	540.3	-29.2	581.1	-40.8
Pessimistic	423.5	-31.3	64.9	-55.7	488.4	-36.0	581.1	-92.7

PROPERTY TAX FORECAST

(CONSENSUS FORECASTING GROUP)

GENE ZAPARANICK-BROWN

MAY 22, 2020

Office of State Budget Director

Property Tax Revenue

35

- Through March, property tax collections were \$594.7M, an increase of 3.5%
- This was 90% of the official forecast
- April revenue was down 39.5%, primarily in tangible property
- MV property tax makes up the majority of Q4 tangible property total. 90% in FY19 total of \$54.2M

Property Tax Forecast Progression

36

□ Official Enacted	\$657.1
□ April Interim	\$656.9
□ May (Control)	\$641.9
□ May (Pessimistic)	\$632.4

Adjustments to Property Tax Estimate

37

- Motor vehicle property tax paid with vehicle registration renewal
- County Clerks are accepting renewals but taxpayers have a 90-day extension to pay
- Because of social distancing and safety requirements, there will be a lag in collecting revenue once offices reopen to public

Comparison of Control & Pessimistic Forecasts

38

	YTD		May/June		FY 20		Official Enacted	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff
Control	612.0	1.5	29.9	-32.2	641.9	-0.8	657.1	-15.2
Pessimistic	612.0	1.5	20.4	-53.7	632.4	-2.3	657.1	-24.7

CIGARETTE TAX

CONSENSUS FORECASTING GROUP

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MAY 22, 2020

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Cigarette Trends

40

- Year-to-date cigarette tax in FY20: 0.2%
- March was up 52.5% versus prior year
- April was down 21.1% compared to prior year
- Big monthly swings in the cigarette tax all fiscal year
- Some evidence of hoarding in March
- Last fiscal year ended mixed in May and June
 - May was up 67.9 percent
 - June saw a 36.1 percent increase
 - FY2019 grew 66.9 percent
- Expect the end of FY20 to be about flat (1.4% in May and June) for the control, -3.4 percent for the pessimistic

Cigarette Tax Forecast Progression

(FY 20, Millions \$)

41

Date	Estimate	% Chg Prior Year
December (Optimistic)	\$344.9	-2.4%
Official (Pessimistic)	\$344.9	-2.4%
April Interim (Control)	\$357.9	1.3%
May (Control)	\$354.9	0.4%
April Interim (Pessimistic)	\$357.9	1.3%
May (Pessimistic)	\$352.0	-0.4%

KENTUCKY LOTTERY CONSENSUS FORECASTING GROUP

GREG HARKENRIDER

MAY 22, 2020

Office of State Budget Director

Lottery Dividends FY20

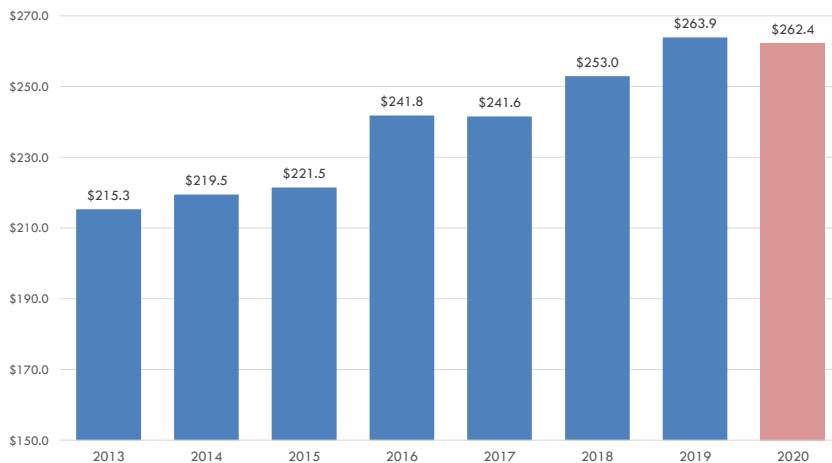
43

- Based on actual April sales and revised sales estimates for May and June, the KLC FY20 dividend transfer is estimated to be \$262.4 million
 - ▣ \$8.6 million short of the official estimate, but
 - ▣ \$7.0 million more than April estimate of \$255.4 million.
- Negative impacts on April sales:
 - ▣ Social distancing and KLC retailer closures or reduced hours of operations.
 - ▣ Retailer closures had the greatest impact on Keno, with sales down \$4.2 million or 48.8% in April.
 - ▣ A decrease in US Treasury yields is impacting the cost of financing Powerball and Mega Millions jackpots.
 - ▣ Sales of Powerball and Mega Millions were down \$3.9 million or 40% in April.

Kentucky Lottery Forecast

(Fiscal Years, Millions \$)

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MISCELLANEOUS “OTHER” TAXES

(CONSENSUS FORECASTING GROUP)

GREG HARKENRIDER

MAY 22, 2020

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Other Tax Forecast Progression

(FY 20, Millions \$)

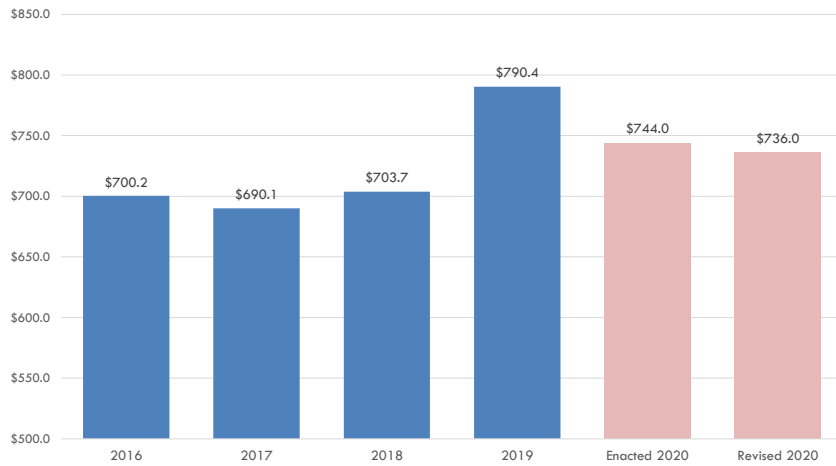
46

Date	Estimate	% Chg Prior Year
December (Optimistic)	\$744.0	-5.9%
Enacted (Pessimistic)	\$744.0	-5.9%
April Interim (Control)	\$735.0	-7.0%
May (Control)	\$736.0	-6.9%
April Interim (Pessimistic)	\$735.0	-7.0%
May (Pessimistic)	\$736.0	-6.9%

“Other” Receipts

(Millions \$)

47



GF Estimates for the Largest “Other Taxes”

(Million of Dollars)

48

	FY19	FY20	FY20
	Actual	Enacted Estimate	Revised Estimate
Insurance premium taxes	165.5	168.8	167.7
Bank franchise taxes	119.8	120.2	122.8
Abandoned Property	72.2	31.2	30.0
Alcohol Taxes	147.1	154.2	157.1
Telecommunication taxes	55.8	59.9	66.5
Inheritance taxes	44.4	44.9	45.2
Floor Stocks Tax	21.3	0.03	.03

Other Downward Revisions

49

- Natural Gas Severance
- Oil Production Tax
- Pari-Mutuel
- Court Costs

May and June Expected Decline

50

- May and June are expected to decline 32.9%
 - ▣ Abandoned Property will not get the \$32 million boost we got in May of FY19 with the sale of securities
 - ▣ Pari-mutuel taxes will be much lower (-\$3.5 million)
 - ▣ Court Cost and Fees will be much lower
 - ▣ Public service assessments June payment (-\$3.5 million)
 - ▣ Oil production and natural gas severance will be down