

# INTRODUCTORY REMARKS

CONSENSUS FORECASTING GROUP

Office of State Budget Director

GREG HARKENRIDER  
DECEMBER 16, 2025

## Introduction and Updates Since December 2023

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- Welcome back to Frankfort!
- Today's mission is to reach a consensus on the official revenue estimates for FY26-FY28 that will be used in the formation of branch budget bills in the upcoming legislative session. {KRS 48.120 (2 & 3)}
  - "By December 20 of each odd-numbered year, the Office of State Budget Director shall certify and present to the Legislative Research Commission the official revenue estimates made by the consensus forecasting group for the general fund and road fund for the current and next two (2) fiscal years".
  - "Appropriations made in the branch budget bills enacted for each branch of government shall be based upon the official revenue estimates presented to the Legislative Research Commission by the Office of State Budget Director under subsection (2) of this section, as modified by the General Assembly".

## General Fund Receipts in FY26 through October

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- General Fund declined by 1.5% in September FY26, -2.8% FY26 Q1
  - ▣ Sales tax grew 3.5% with collections of \$494.0 million. 3.9% growth in FY26 Q1
  - ▣ Individual Income tax fell 1.1%, but up 7.2% for the first quarter due to w/h +7.5%
  - ▣ Major Business Taxes fell \$44.5 million, down 41.8% for the first quarter
- General Fund declined by only 0.5% in October
  - ▣ Sales and use tax up 6.5% year-to-date
  - ▣ Individual Income tax increased 5.7%, Year-to-date 6.9%
    - Withholding rose 3.0%, Year-to-date 6.4%
    - Pass-Through Entity Tax (PTET) fell by \$5.8 million
  - ▣ Major business declined by \$118.4 million. The large drop in major business taxes was primarily attributable to the nonrecurring revenues of over \$80.0 million received in October of 2024.
- The two largest accounts, individual income tax withholding and the sales and use tax, are up 6.4% and 6.5% respectively, YTD

## General Fund Receipts November 2025

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- General Fund receipts rose 9.2 percent in November
  - ▣ The individual income tax jumped 21.9% during the month, aided in part by the Executive order allowing affected taxpayers in all 120 counties to file tax returns by November 3 instead of April 15 because of severe storms in February
  - ▣ Sales tax receipts increased 3.4 percent in November. Year-to-date up 5.9%
  - ▣ Major business tax receipts declined 20.6 percent to \$32.0 million in November. Year-to-date collections have decreased 50.6%
- November's increase brings year-to-date receipts up to level par with the first five months of FY25
- GF collections can fall 3.8 percent over the final seven months of the fiscal year and still meet the official revenue estimate of \$15,349.7 million
- Year-to-date growth in the sales tax (up \$143.7 million) and the individual income tax (up \$194.9 million) has been nullified by the \$360 million decline in major business taxes

# INDIVIDUAL INCOME TAX

(CONSENSUS FORECASTING GROUP)

THOMAS JONES, PH.D.

DECEMBER 16, 2025

Office of State Budget Director

## Individual Income Tax Receipts History

(\$ millions, nominal)

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FY	PTE	NETR	WITH	DECL	FID	IIT	% chg
FY21		3.3	4,530.2	611.1	-0.8	5,143.8	7.9
FY22		222.2	5,031.1	792.2	2.0	6,047.5	17.6
FY23	0.9	105.5	5,108.7	634.5	-5.7	5,843.9	-3.4
FY24	791.9	-188.1	4,774.7	448.4	-19.5	5,807.5	-0.6
FY25	510.1	-112.2	4,585.6	342.4	-6.7	5,319.2	-8.4
FY26 Q1	83.8	-4.4	1,159.6	90.6	1.2	1,330.8	7.2

## Methodology

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- 1) Generate policy-neutral WITH series.
- 2) Withholding =  $f(\text{KY Wages and Salaries})$ 
  - \* Seasonally Adjusted, First Diffs, correct AR
- 3) Forecast series
- 4) subtract taxmod from WITH\_hat

## Methodology cont.

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PTE:

- \* Estimate based solely on current year payments

Declarations:

- \* ARIMA(1,1,2)
- \* 10% of legislative adjustments

Net Returns:

- \* simple MA(3), included seasonal dummies

Fiduciary:

- \* MA(2); eliminated all FY24 quarters

## Withholding Forecasts

(\$ millions, nominal)

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	<b>CON</b>	<b>% chg</b>	<b>PES</b>	<b>% chg</b>	<b>OPT</b>	<b>% chg</b>
<b>FY25</b>	4,585.6	-4.0	4,585.6	-4.0	4,585.6	-4.0
<b>FY26</b>	4,676.5	2.0	4,675.2	2.0	4,678.1	2.0
<b>FY27</b>	4,852.0	3.8	4,815.0	3.0	4,864.7	4.0
<b>FY28</b>	4,993.4	2.9	4,915.5	2.1	5,026.9	3.3

## Withholding Growth

(\$ millions, nominal)

10

	<b>WITH</b>	<b>% chg</b>
<b>FY26</b>	4,676.5	2.0
<b>Q1</b>	1,159.6	7.5
<b>Q2</b>	1,210.6	8.0
<b>Q3</b>	1,181.0	-1.3
<b>Q4</b>	1,125.2	-5.4

## Pass-Thru Entity Tax

(\$ millions, nominal)

11

	<b>PTE</b>	<b>% chg</b>
<b>FY25</b>	510.1	-35.6
<b>FY26</b>	381.0	-25.3
<b>FY27</b>	381.0	0.0
<b>FY28</b>	381.0	0.0

## Declarations Forecast

(\$ millions, nominal)

12

	<b>DECL</b>	<b>% chg</b>
<b>FY25</b>	342.4	-23.6
<b>FY26</b>	406.3	18.7
<b>FY27</b>	364.7	-10.2
<b>FY28</b>	359.2	-1.5

## Net Returns Forecast

(\$ millions, nominal)

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	<b>NETR</b>	<b>% chg</b>
<b>FY25</b>	-112.2	NA
<b>FY26</b>	-77.0	NA
<b>FY27</b>	-74.9	NA
<b>FY28</b>	-72.6	NA

## Fiduciary Forecast

(\$ millions, nominal)

14

	<b>FID</b>	<b>% chg</b>
<b>FY25</b>	-6.7	NA
<b>FY26</b>	-3.9	NA
<b>FY27</b>	-1.3	NA
<b>FY28</b>	-1.1	NA

## IIT Forecasts

(\$ millions, nominal)

15

	CON	% chg	PES	% chg	OPT	% chg
<b>FY25</b>	5,319.2	-8.4	5,319.2	-8.4	5,319.2	-8.4
<b>FY26</b>	5,382.8	1.2	5,381.6	1.2	5,384.4	1.2
<b>FY27</b>	5,521.6	2.6	5,484.5	1.9	5,534.3	2.8
<b>FY28</b>	5,659.9	2.5	5,582.0	1.8	5,693.4	2.9

## Control Sep vs Dec IIT Forecasts

(\$ millions, nominal)

16

	Sep	Dec	diff
<b>FY26</b>	5,244.9	5,382.8	138.0
<b>FY27</b>	5,368.8	5,521.6	152.8
<b>FY28</b>	5,529.3	5,659.9	130.5



## Sep vs Dec Withholding Forecasts

(\$ millions, nominal)

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	Sep CON	Dec CON	diff
<b>FY25</b>	4,585.6	4,585.6	0.0
<b>FY26</b>	4,575.4	4,676.5	101.1
<b>FY27</b>	4,756.8	4,852.0	95.2
<b>FY28</b>	4,896.4	4,993.4	97.0

	Sep PES	Dec PES	diff
<b>FY26</b>	4,572.1	4,675.2	103.1
<b>FY27</b>	4,731.4	4,815.0	83.6
<b>FY28</b>	4,840.3	4,915.5	75.3

	Sep OPT	Dec OPT	diff
<b>FY26</b>	4,581.6	4,678.1	96.4
<b>FY27</b>	4,768.9	4,864.7	95.8
<b>FY28</b>	4,926.3	5,026.9	100.6

## FY26 Control Differences by Account

(\$ millions, nominal)

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	Sep	Dec	diff
<b>IIT</b>	5,244.9	5,382.8	138.0
<b>WITH</b>	4,575.4	4,676.5	101.1
<b>DECL</b>	359.6	406.3	46.7
<b>NETR</b>	-64.9	-77.0	-12.1
<b>FID</b>	-6.2	-3.9	2.4
<b>PTE</b>	381.0	381.0	0.0

# SALES TAX

CONSENSUS FORECASTING GROUP

Office of State Budget Director

GREG HARKENRIDER  
DECEMBER 16, 2025

## Comparing December vs September

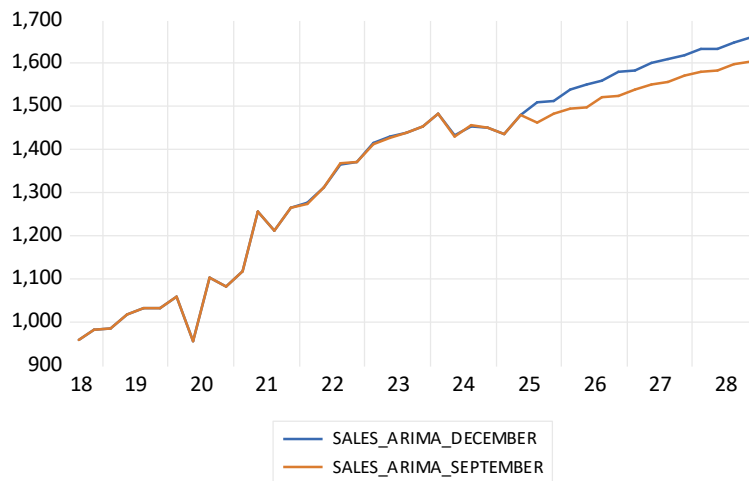
20

- The sales tax model used in September underpredicted FY26Q1 growth of 3.9% by \$38.6 million.
- December estimates are higher in all three scenarios
- The two major changes between September, 2025 and December are the addition of an extra historical quarter of sales tax data and a new economic forecast for the exogenous variables in structural models
- Several key exogenous structural variables changed negligibly
- One measure of the effect of the extra quarter of historical data is in the performance of the ARIMA models (see next slide)
- Working conclusion: Extra quarter of historical sales tax receipts was more important than the new economic forecast

## Difference in ARIMA Models

(One measure of the effect of adding an additional quarter of historical data)

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## Model Specifications, Sales Tax

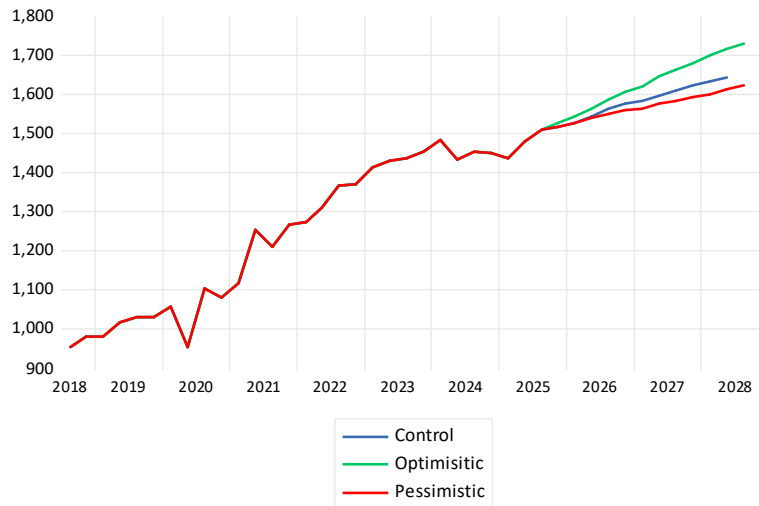
22

- Same model specifications as were used in September, added a quarter of history on the dependent variable (sales tax receipts)
- Time Series for Estimation: Calendar Quarters 2003q1 to 2025q3
- All models use seasonally-adjusted data
- Arima 3,1,16 {AR (1,3); 1<sup>st</sup> difference; MA (1,16)}
- VAR (Sales and KY Wages & Salaries; Nominal Retail Sales exogenous)
- Structural Models – 2 models using these variables in differences
  - ▣ SRTAFS (Nominal Retail Sales)
  - ▣ CPI (Consumer Price Index, all urban consumers)
  - ▣ CPIXFAE (Core consumer prices less food and energy)
  - ▣ TXPGSL (State and Local Personal Taxes)
  - ▣ KYYP (Kentucky Personal Income)

## Sales Tax Structural Models

(Calendar Quarters, Millions \$)

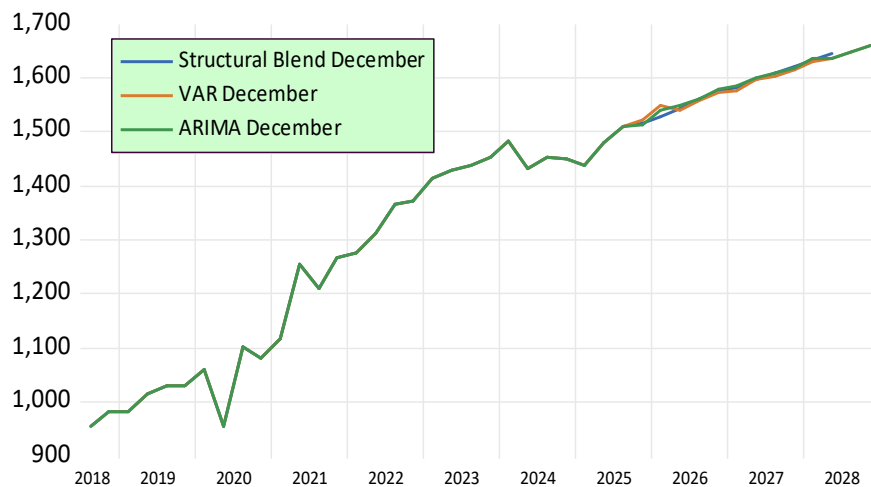
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## Sales Tax Final Blending Models December 2025

(Control Scenario, Calendar Quarters, Millions \$)

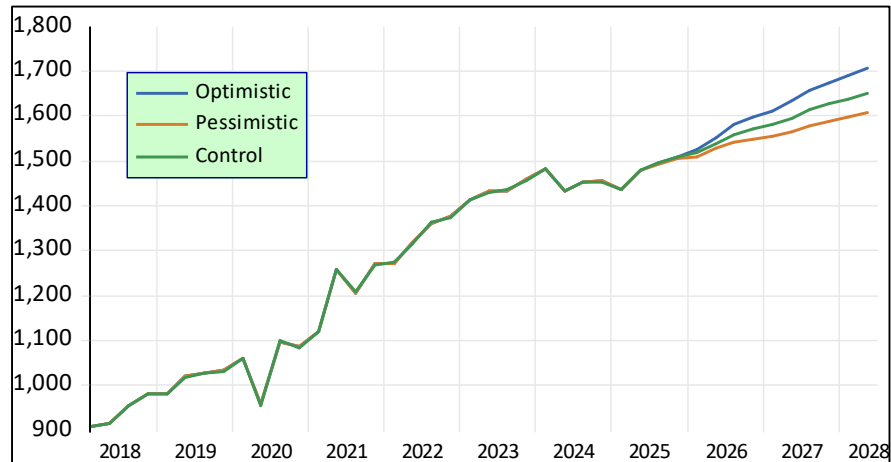
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## Sales Tax Scenarios December 2025

(Calendar Quarters, Millions \$)

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## Sales Tax Projections

(Millions \$)

26

Fiscal Year	Control	Optimistic	Pessimistic
FY 2026	\$6,047.7 3.9%	\$6,078.6 4.4%	\$6,000.5 3.1%
FY 2027	\$6,236.0 3.1%	\$6,298.5 3.6%	\$6,125.9 2.1%
FY 2028	\$6,414.5 2.9%	\$6,546.8 3.9%	\$6,267.8 2.3%

## Sales Tax Projections

(Millions \$)

27

Fiscal Year	Control	Optimistic	Pessimistic
FY 2026	S: \$5,970.9 D: \$6,047.7	S: \$5,992.2 D: \$6,078.6	S: \$5,944.3 D: \$6,000.5
FY 2027	S: \$6,162.3 D: \$6,236.0	S: \$6,278.0 D: \$6,298.5	S: \$6,063.1 D: \$6,125.9
FY 2028	S: \$6,328.2 D: \$6,414.5	S: \$6,524.5 D: \$6,546.8	S: \$6,169.4 D: \$6,267.8

## Control September vs December Sales Tax

(\$ millions, nominal)

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	September	December	Difference
<u>FY26</u>	\$ 5,970.9	\$ 6,047.7	\$ 76.8
<u>FY27</u>	\$ 6,162.3	\$ 6,236.0	\$ 73.7
<u>FY28</u>	\$ 6,382.2	\$ 6,414.5	\$ 32.3

# MAJOR BUSINESS TAX FORECAST

(CONSENSUS FORECASTING GROUP)

GENE ZAPARANICK-BROWN

DECEMBER 16, 2025

Office of State Budget Director

## Competing Factors that influenced the MBT Estimates

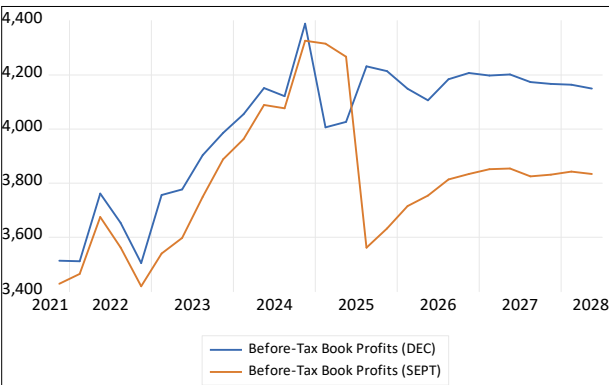
30

- On the positive side:
  - ▣ S&P December US profits forecast increased over the September level
- On the negative side:
  - ▣ October receipts were \$118.4M less than last October and November receipts were down \$8.3M
  - ▣ First quarter receipts were approximately \$20M less than estimated in September

# US Corporate Profits, Before Tax

(Billions \$, S&P Global, Control Scenario)

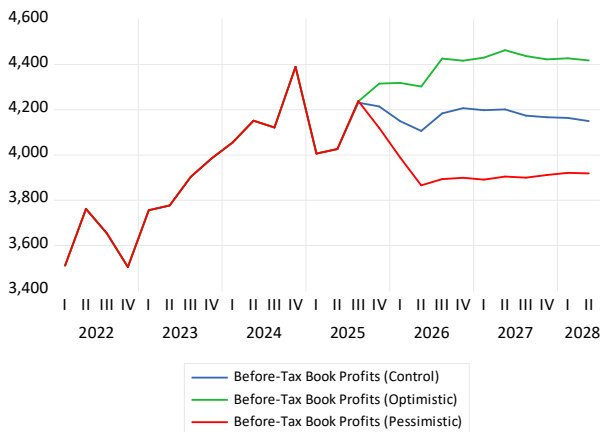
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# US Corporate Profits, Before Tax

(Billions \$, S&P Global, December Forecast)

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## Major Business Taxes Forecast

Millions \$

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<u>December Estimate</u>	FY25		FY26		FY27		FY28	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Control	1,834.5	46.9	1,347.1	-26.6	1,448.1	7.5	1,458.3	0.7
Optimistic	1,834.5	46.9	1,380.9	-24.7	1,516.2	9.8	1,532.9	1.1
Pessimistic	1,834.5	46.9	1,310.8	-28.5	1,359.3	3.7	1,383.8	1.8
<u>September Estimate</u>								
Control	-		1,401.6		1,436.2		1,461.8	
Optimistic	-		1,401.6		1,500.1		1,536.1	
Pessimistic	-		1,401.6		1,364.1		1,397.7	
<u>Difference</u>								
Control			(54.5)		11.9		(3.5)	
Optimistic			(20.7)		16.1		(3.2)	
Pessimistic			(90.8)		(4.8)		(13.9)	

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## PROPERTY TAX FORECAST

(CONSENSUS FORECASTING GROUP)

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## Minor Changes to the Property Tax Forecast

FY26-FY28

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- Not enough information to make meaningful adjustments
- Much of the property tax revenue is collected during the November – January period
- Changes to three accounts:
  - ▣ Tangible
  - ▣ Motor vehicle
  - ▣ Other
- Reductions to the estimates range between \$4.1 and \$5.6 million across the forecast period
  - ▣ Motor vehicle tax accounted for the majority of the revisions:
  - ▣ \$3.2M in FY26; \$3.9M in FY27 and \$4.1M in FY28

## Property Tax Forecast

FY26 – FY28

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	FY25		FY26		FY27		FY28	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
REAL	368.5	2.0	381.4	3.5	394.7	3.5	408.5	3.5
TANGIBLE	151.4	10.0	155.7	2.8	159.7	2.6	164.2	2.8
MOTOR VEHICLE	210.4	6.0	214.0	1.7	220.2	2.9	227.2	3.2
DELINQUENT	9.9	40.9	8.0	-19.2	8.5	6.3	8.5	0.0
OMITTED TANGIBLE	6.6	-51.8	10.0	51.5	11.0	10.0	11.0	0.0
PUBLIC SERVICE	88.0	2.2	90.5	2.8	92.3	2.0	93.8	1.6
OTHER	4.5	10.1	4.6	2.2	4.7	2.2	4.7	0.0
<b>TOTAL</b>	<b>839.3</b>	<b>3.9</b>	<b>864.2</b>	<b>3.0</b>	<b>891.1</b>	<b>3.1</b>	<b>917.9</b>	<b>3.0</b>

# CIGARETTE TAX

## CONSENSUS FORECASTING GROUP

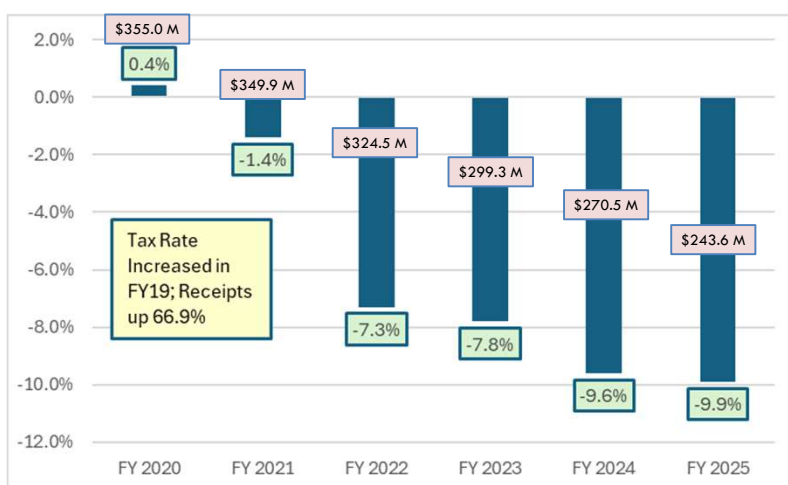
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## Recent Declines in Cigarette Taxes

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# Cigarette Tax Forecast

(Millions \$)

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Fiscal Year	Control
FY 2026	Sep -- \$223.8 <b>Dec -- \$224.7</b>
FY 2027	Sep -- \$204.6 <b>Dec -- \$205.0</b>
FY 2028	Sep -- \$186.9 <b>Dec -- \$186.1</b>

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## KENTUCKY LOTTERY CONSENSUS FORECASTING GROUP

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## Recent Lottery Trends

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- FY25 sales total sales were \$2.16 billion
  - Nominal growth of \$58.4 million, or 2.8% more than FY24
  - Continue to innovate in order to bring competitive products to the market
  - Broke the \$2.0 billion sales mark in FY25
- Scratch-off ticket sales were \$914.2 million, down 2.8% from FY24
- Draw games sales were \$443.2 million, down 15.1% from FY24
  - Fewer large jackpots in the multi-state jackpot games
  - Several big jackpots accumulated in FY23 and FY24, elevating the baseline
- iLottery Instant Play sales were \$798.9 million in FY25
  - Up \$164.0 million, or 25.8%, over FY25
  - Higher prize expense on these games – higher percentage payout to players relative to any other lottery product

## What has changed from September?

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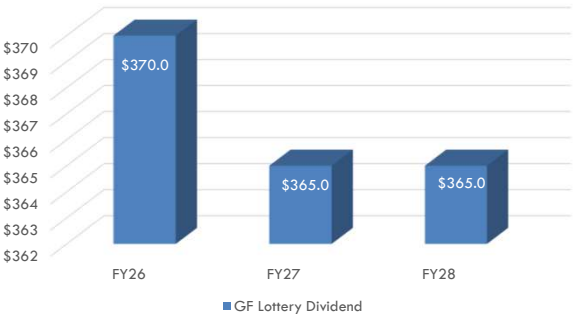
- Dividend projections for FY27 and FY28 have been lowered from \$370 million to \$365 million each year.
- Recent further evidence that the Mega Millions online draw game is underperforming due to game changes in April, 2025. Jackpot dependent (\$980 million jackpot earlier in FY26)
- Powerball sales up year-to-date, but jackpot driven from earlier this fiscal year (\$1.8 Billion jackpot earlier in FY26)
- Further evidence that scratch products are softening (down 8.9% FY26 YTD). Below budget in scratch-off sales by \$34.5 million.
- Recurring growth leader is iLottery Instant Play, but iLottery has the lowest gross profits per sales ratio.

# Kentucky General Fund Lottery Forecast

(\$ millions)

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FY2026	FY2027	FY28
\$370.0	\$365.0	\$365.0



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## MISCELLANEOUS “OTHER” TAXES (CONSENSUS FORECASTING GROUP)

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## Other General Fund Revenues

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- The “Other” category of revenues contains roughly 60 accounts that are not otherwise classified in the major accounts
- Given the recent declines in the coal severance tax, all of the extraction taxes (mineral severance, natural gas severance, oil production, and the coal severance tax) are presented as extraction taxes in the “other” category of revenues.
- Income on investments, insurance premiums taxes, alcohol taxes, extraction taxes, and telecommunication taxes are the five largest ongoing accounts
- Many of these revenue sources are estimated with annual data instead of quarterly data given the irregular collection cycles

## Largest Taxes Classified as “Other”

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	<u>FY24</u>	<u>FY25</u>	<u>Growth</u>
Income on Investments	\$300,188,056	\$322,995,930	7.6%
Insurance Premiums	\$221,184,299	\$239,227,488	8.2%
Alcohol Taxes	\$195,087,025	\$178,755,932	-8.4%
Extraction Taxes	\$115,048,798	\$93,593,346	-18.6%
Telecom Taxes	\$80,709,719	\$79,821,646	-1.1%
Inheritance Taxes	\$75,635,004	\$77,705,686	2.7%
Pari-mutuel	\$65,586,754	\$74,157,769	13.1%
Abandoned Property	\$61,439,095	\$65,815,339	7.1%
<b>Subtotal</b>	<b>\$1,114,878,751</b>	<b>\$1,132,073,136</b>	<b>1.5%</b>
Remaining 55 Accounts	\$97,131,209	\$106,507,971	9.7%

## Forecast for Income on Investments

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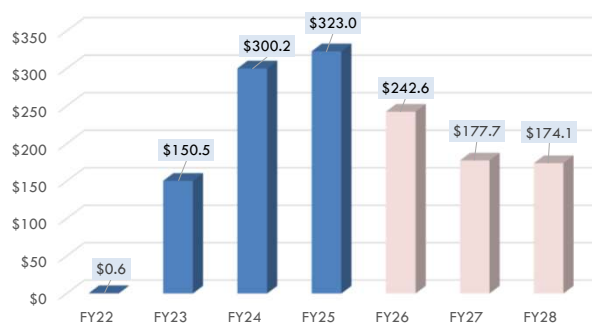
- Income from investments, while not a perennial source of significant income before FY23, recorded receipts of \$323.0 million in FY25
- The dramatic increase on the income on investments stems from prior year surpluses that were deposited into the State's "Rainy Day Fund"
- That fund is invested in a short-term pool that has benefited from increased interest rate on short-term investment instruments, even more so than the intermediate pool with an inverted yield curve

## Income on Investments Forecast

(\$ Millions)

48

FY26	FY27	FY28
\$242.6	\$177.7	\$174.1

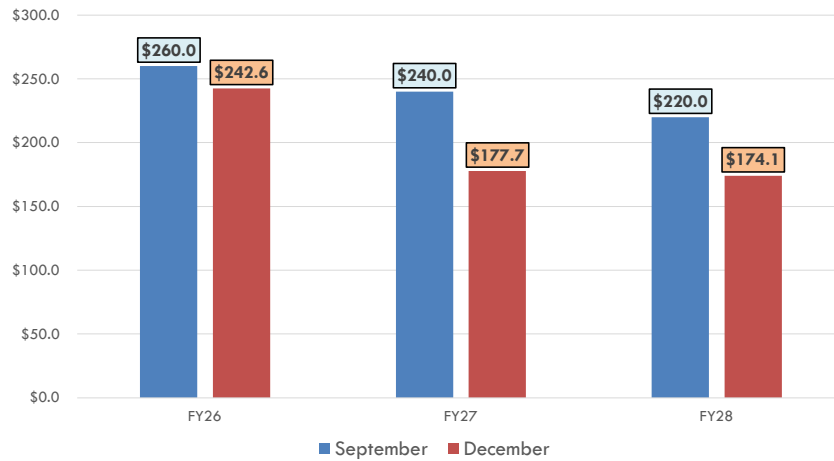




## Income on Investments Forecast

Comparison to September

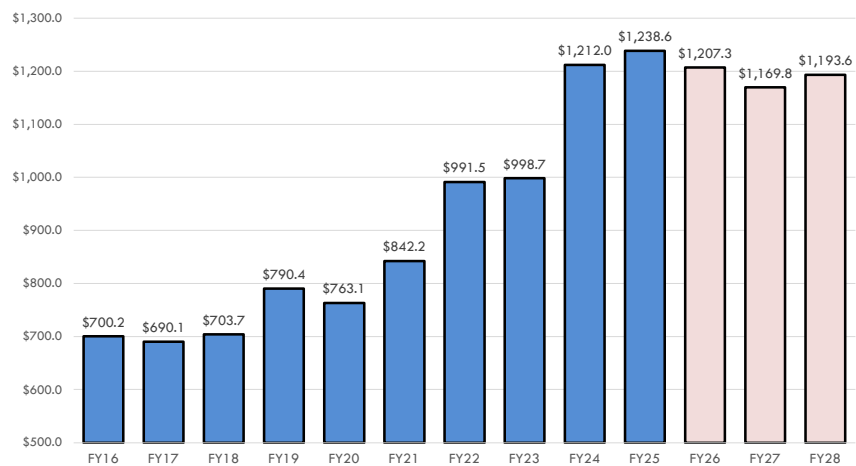
49



## “Other” Receipts Forecast, Control

(Millions \$, Fiscal Years)

50



## Methodology

51

Coal Receipts = f(PPI Coal, West Texas Intermediate Price of Oil, Henry Hub Price of Natural Gas, US Real GDP)

\* Range: 2000 Q1 to 2025 Q3

\* Seasonally-Adjusted Variables

\* First Differences

## Coal Forecasts

(\$ millions, nominal)

52

	CON	% chg	PES	% chg	OPT	% chg
<b>FY25</b>	56.1	-28.0	56.1	-28.0	56.1	-28.0
<b>FY26</b>	55.1	-1.6	55.4	-1.2	54.8	-2.3
<b>FY27</b>	45.4	-17.7	47.1	-14.8	44.3	-19.0
<b>FY28</b>	36.9	-18.6	40.1	-14.9	35.2	-20.7

# GENERAL FUND FINAL REMARKS

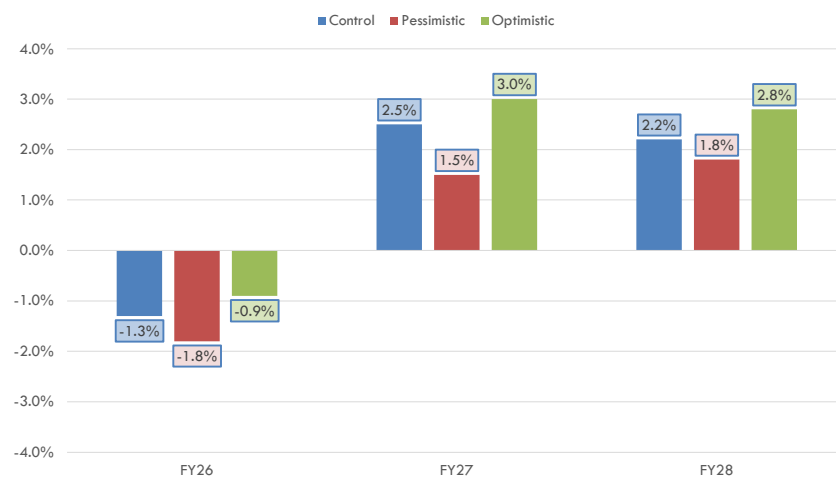
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DECEMBER 16, 2025

## Percentage Growth, All Scenarios

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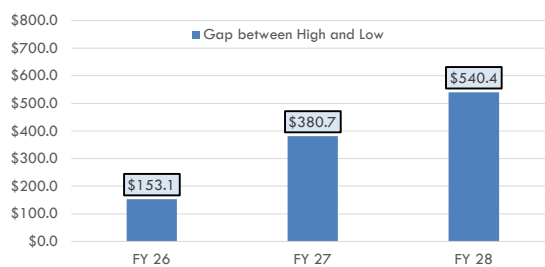


## Implied Variation Among Scenarios

(\$ millions)

55

	Pessimistic	Control	Optimistic
FY26	\$15,413.1	\$15,498.9	\$15,566.2
FY27	\$15,645.2	\$15,882.0	\$16,025.9
FY28	\$15,933.6	\$16,232.2	\$16,474.0



## Explanation of the Variation between C-O-P

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- Taxes with alternative scenarios
  - ▣ Individual income tax withholding component
  - ▣ Sales and use tax
  - ▣ Major business taxes
  - ▣ “Other” taxes, including severance taxes
- No meaningful alternative scenarios for the remaining revenue sources
  - ▣ Remaining taxes are not estimated with a structural or time series equation using a forecasted value from either MAK or S&P IHS Global