

Financial Outlook Report

Capital Planning Advisory Board

September 9, 2019

Janice Tomes, Deputy State Budget Director

Kevin Cardwell, Deputy State Budget Director

Greg Harkenrider, Deputy Executive Director,

Governor's Office of Economic Analysis

J. Michael Jones, Deputy Executive Director,

Governor's Office for Policy Research

Overview

Introduction

Fiscal Year 2019 General Fund Year-End

Fiscal Year 2019 Tobacco Funds Year-End

Fiscal Year 2019 Road Fund Year-End

Fiscal Year 2020 Outlook

Q & A

FY 2019 General Fund Receipts

Actual Receipts	\$ 11,392,698,460
December 2017 Official CFG Estimate	11,198,200,000
FY 2019 General Fund Revenue Surplus	\$ 194,498,460

Summary Display of Official Estimates

(General Fund, Millions \$)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY2020</u>
CFG December Estimate	\$10,718.4	\$11,005.9	\$11,290.0
Plus: Legislative Impacts	0	192.3	172.0
Official Estimate	10,718.4	11,198.2	11,462.0
Actual Receipts	10,838.2	11,392.7	
Difference (from Official)	+\$119.8	+\$194.5	

FY19 General Fund Summary

- General Fund total: \$11,392.7 million
- General Fund nominal growth: \$554.5 million
- General Fund percentage growth: 5.1%
- Needed growth: 3.3%
- Revenue in Excess of Official Estimate: \$194.5 million

Composition of the 2019 Variation

(Actual Revenue minus Enacted Estimates, \$ millions)

FY19 General Fund Revenues Compared to Official Estimate				
(Millions \$)				
	Actual	Estimate	Diff (\$)	Diff (%)
Sales and Use	\$ 3,937.6	\$ 3,907.6	30.0	0.8%
Individual Income	4,544.7	4,531.2	13.5	0.3%
Corporation Income	556.0	573.0	-17.0	-3.0%
LLET	206.7	200.2	6.5	3.2%
Coal Severance	92.9	77.9	15.0	19.3%
Cigarette Tax	374.7	337.9	36.8	10.9%
Property	647.0	620.7	26.3	4.2%
Lottery	263.9	249.0	14.9	6.0%
Other	769.1	700.7	68.4	9.8%
TOTAL	\$11,392.7	\$11,198.2	194.5	1.7%

Explanation of + \$194.5 million in FY19

We exceeded the estimate by \$119.8 million in FY18 (unanticipated base from 2018)

- That lowered the growth needed to hit the FY19 estimate
- Implies that the economy was better than projected in December, 2017

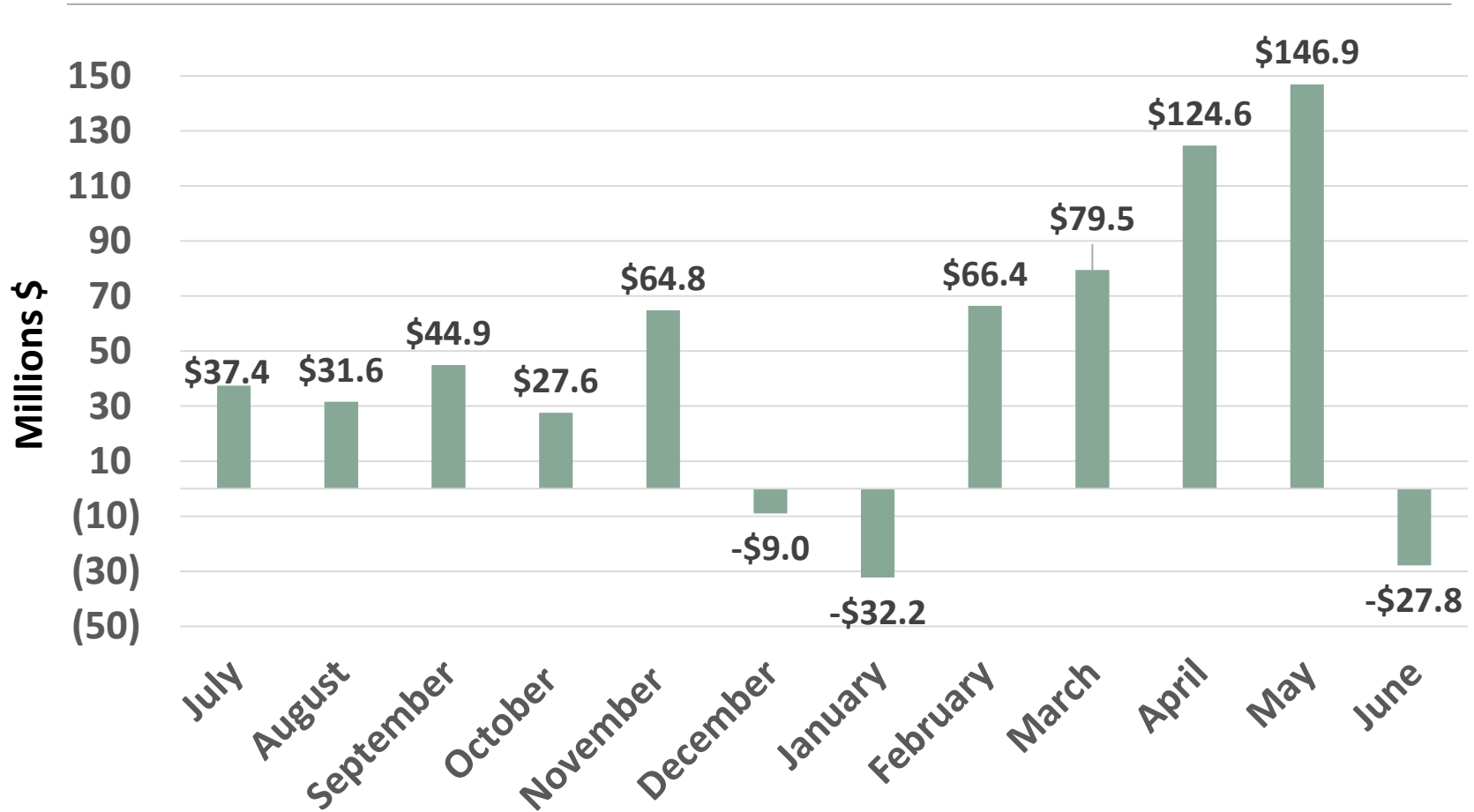
Tax reform added another source of variation

- Hard to disentangle tax reform impacts from economic growth
- Certain tax changes we know were different than estimated (example: cigarette tax)
- All indications point to accurate tax estimates in aggregate

Very strong fourth quarter of FY19

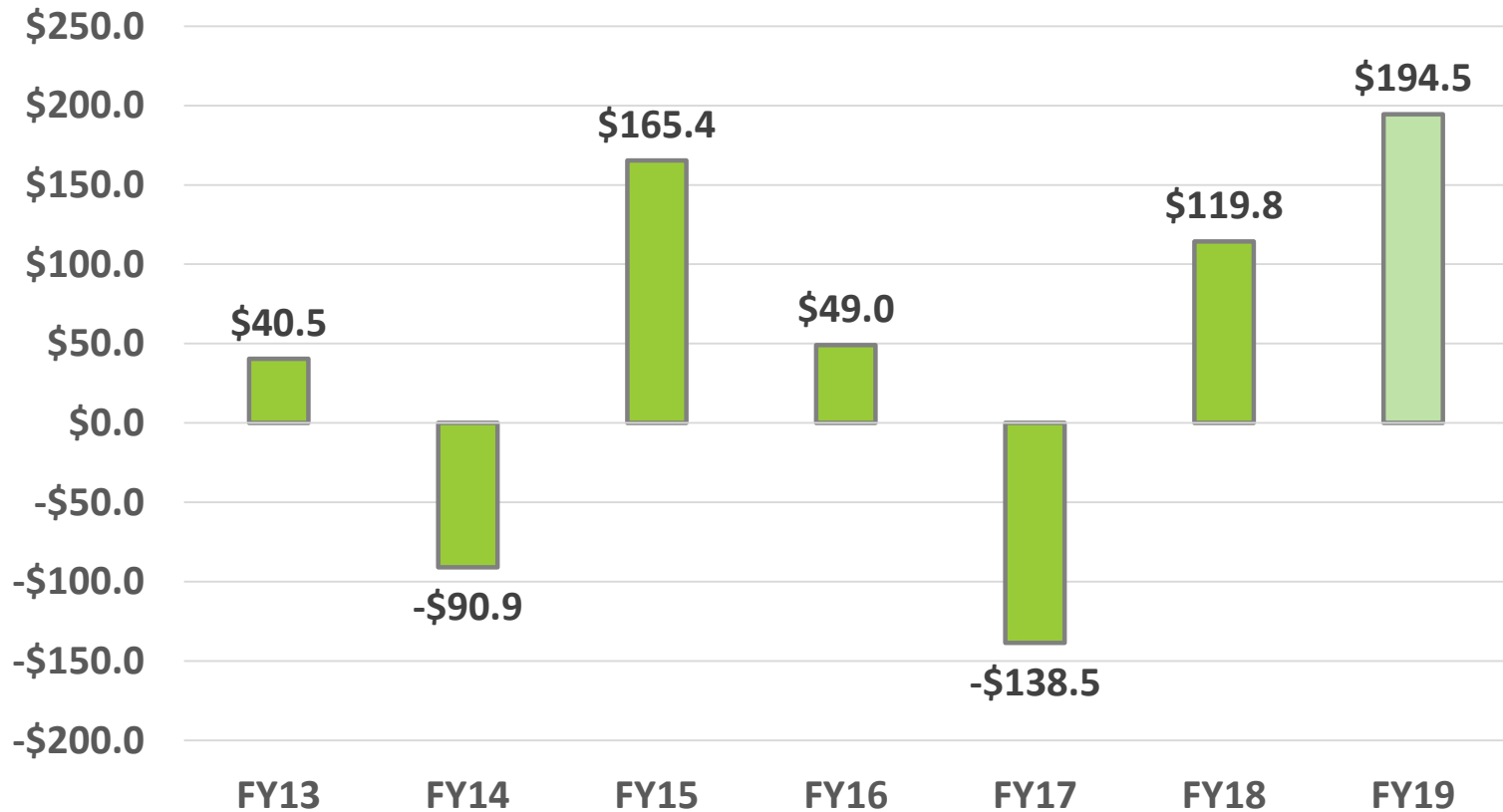
- Some of the largest positive elements of the 2018 tax reform were back loaded into the fourth quarter, non-recurring receipts in 4th quarter.

Revenue Growth Throughout FY 2019



Past GF Forecasting Accuracy

(Actual Receipts Minus the Enacted Estimates, Millions \$)



\$130.1 Million FY19 General Fund Surplus

	Millions \$
FY 19 General Fund Year-End Balance	\$130.1
Budgeted Carryforward into FY 20	\$0.0
General Fund Surplus	\$130.1
Actual vs. Budgeted	
Revenues in Excess of Official Estimate	\$194.5
Necessary Government Expenses	(\$33.2)
Dedicated Revenue Adjustment	(\$32.7)
Spending Less than Budgeted	\$2.2
Fund Transfers differ from Budgeted	\$2.4
Other	(\$3.2)
General Fund Surplus	\$130.1

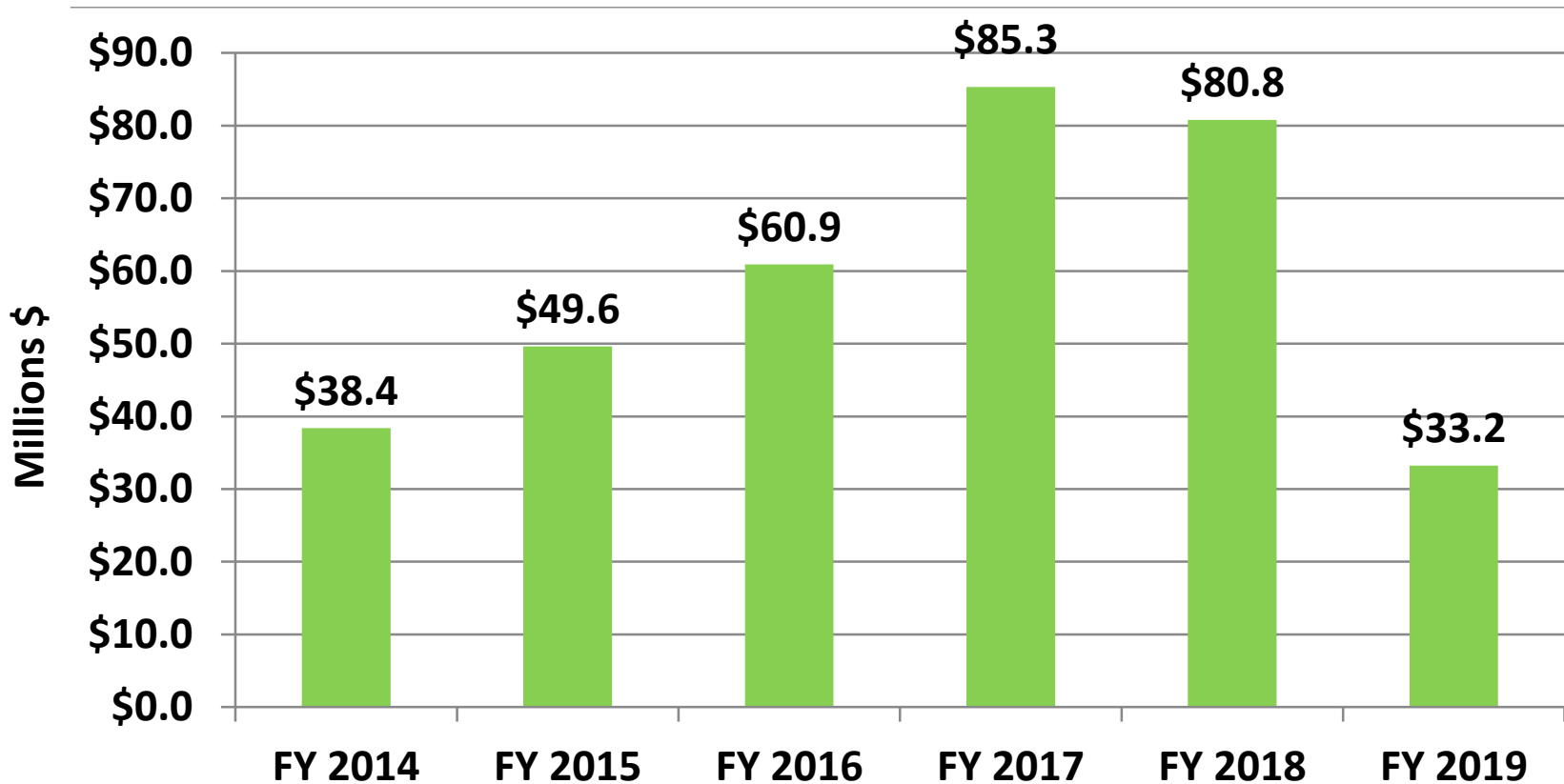
\$130.1 Million – FY 2019 General Fund Surplus Designation

	Millions \$
Teachers' Retirement System Medical Insurance Fund	\$ 70.0
Kentucky Retirement System Nonhazardous Unfunded Pension Liability Fund	60.1
Total FY 2019 General Fund Surplus	\$ 130.1

Necessary Government Expenses

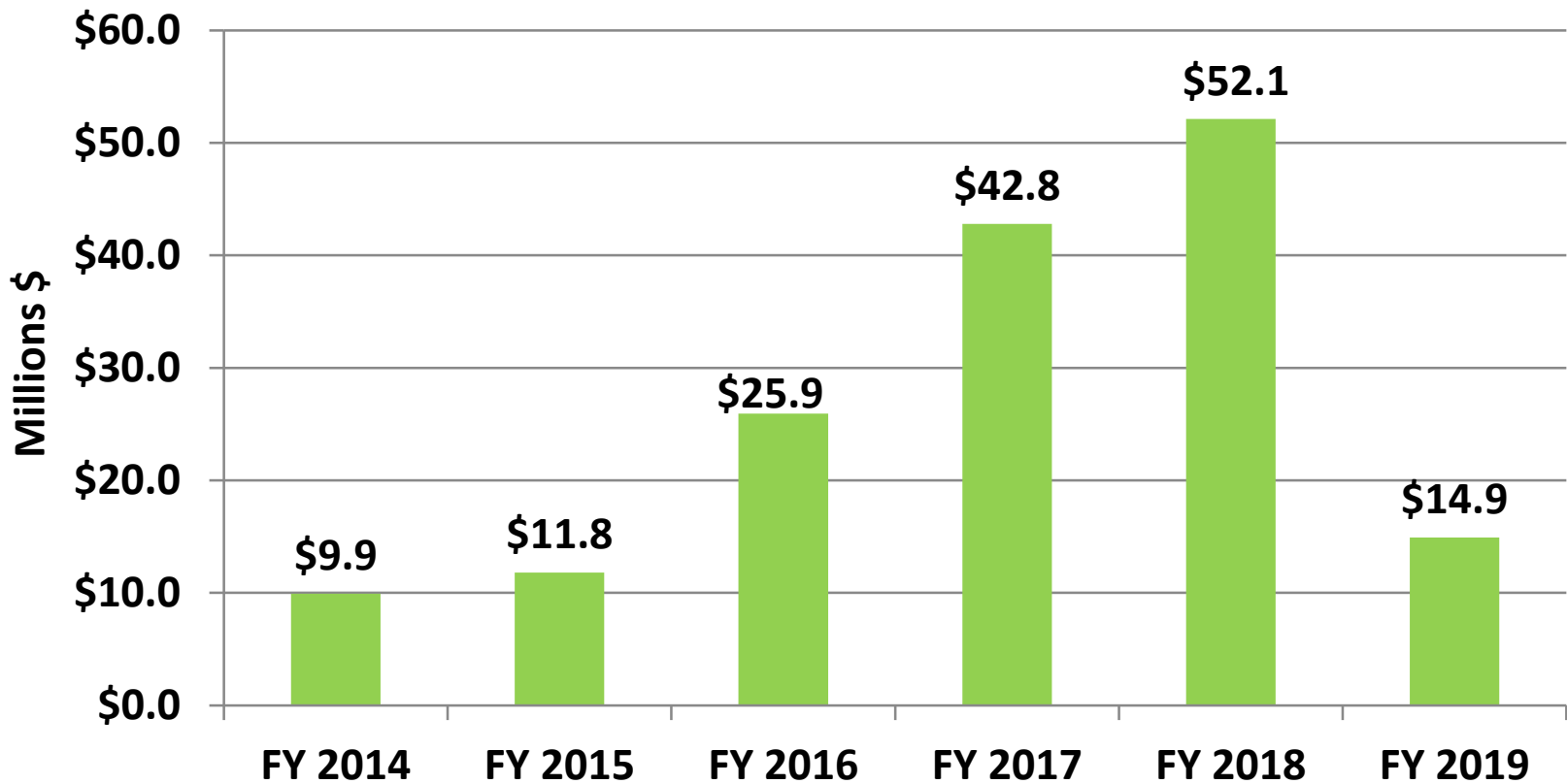
	Millions \$	
	FY 2018 Actual	FY 2019 Actual
Corrections	\$ 52.13	\$ 14.92
ANOC	14.71	11.24
Military Affairs	3.94	-
Judgments	0.53	4.38
County Costs	5.99	2.44
Natural Resources-Fire Suppression	3.27	0.07
Attorney General-Expert Witness	0.22	0.14
Board of Elections-Special Elections	-	0.02
Other		
Total	\$ 80.79	\$ 33.21
		\$ (47.57)

Necessary Government Expense FY 2014 – 2019 Actual



Estimated NGE's for FY 2020 is \$30 - \$35 million range

Corrections – NGE FY 2014 – 2019 Actual



Corrections – FY 2019 NGE Summary

Cost Drivers	Millions \$
Higher Prison Costs (Overtime / Operational)	\$ 10.9
Private Prison Costs (Secure Custody Level)	4.0
Total Corrections FY 2019 NGE	\$ 14.9

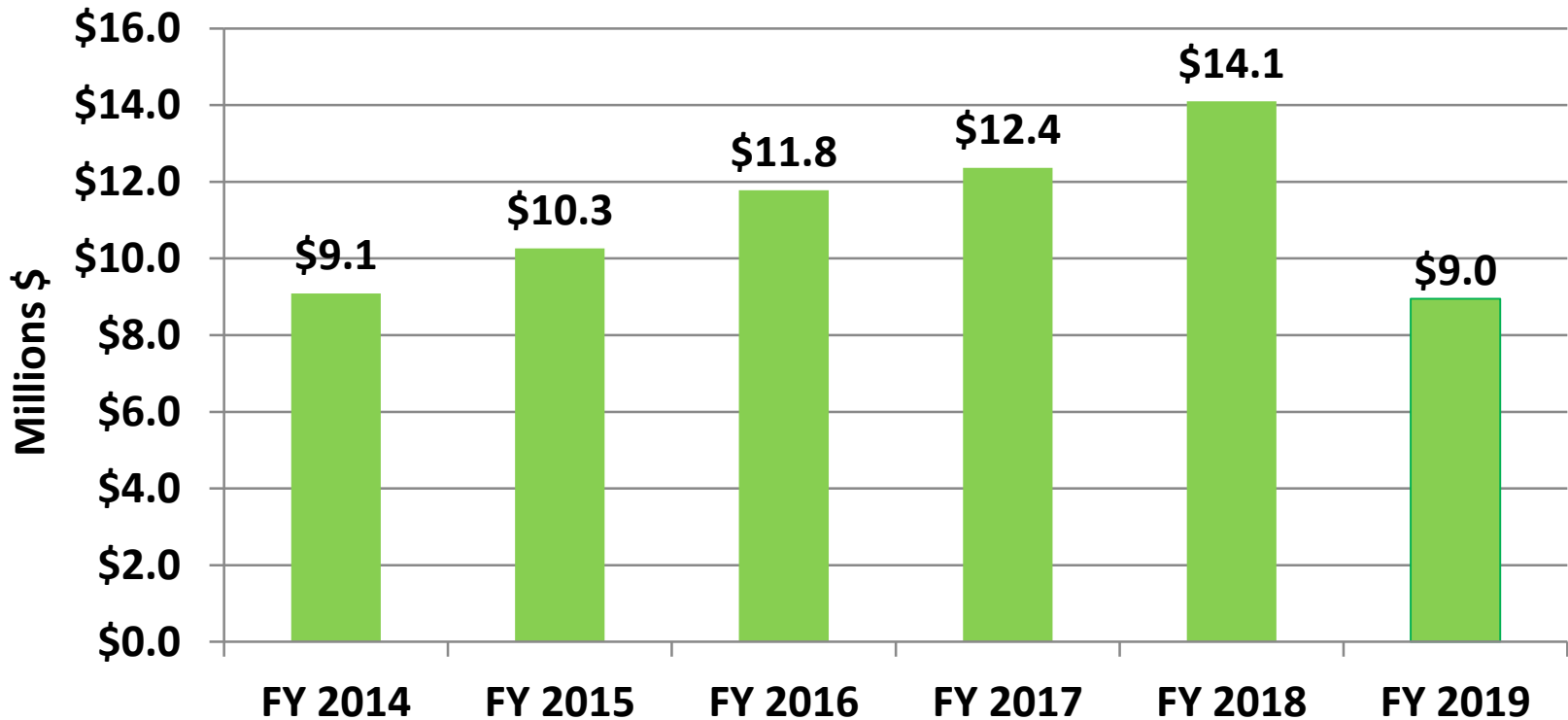
Notes:

- Additional double bunking at Eastern Kentucky Correctional Complex due to custody levels. All state facilities are double bunked within physical capabilities.
- Diverted savings from the Jail's budget because the population trended lower due to increased use of Probation & Parole graduated sanctions

FY 2019 NGE - Appropriations Not Otherwise Classified (ANOC)

	Millions \$	
	FY 2019	
Guardian Ad Litem	\$	9.0
Unredeemed Checks		1.7
Prior Year Claims		0.5
Total ANOC	\$	11.2

Guardian Ad Litem – NGE FY 2014 – 2019 Actual



KRS 387.305 and KRS 311.732 – Attorneys appointed by the court to represent minors. Budget language states the fee shall be fixed by the court and shall not exceed \$500.

FY 2019 Dedicated Revenue

Excess Lottery Receipts		
College Assistance Program (CAP) (75%)	\$	11,209,512
KY Tuition Grant Program (KTG) (25%)		3,736,505
Total Excess Lottery Receipts	\$	14,946,017
Coal Severance / Minerals		
Severance (Counties)	\$	15,006,947
Minerals (Counties)		2,698,157
Total Coal Severance / Minerals	\$	17,705,104
Total Dedicated Revenue	\$	32,651,121

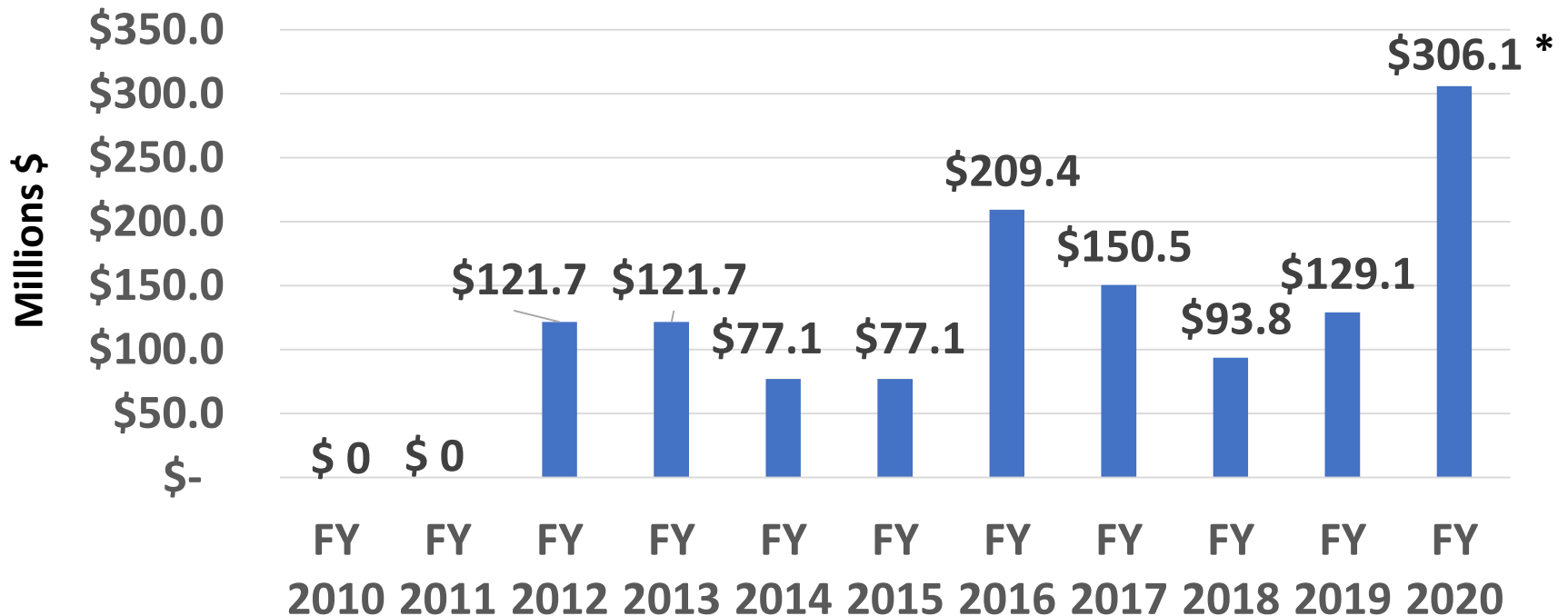
Budget Reserve Trust Fund (Rainy Day Fund)

FY 2018	Enacted	Revised
Beginning Balance	\$ 150,491,500	\$ 150,491,500
Regular Appropriation	(56,711,500)	(56,711,500)
NGEs	(85,725,800)	-
FY 2018 Net Balance	\$ 8,054,200	\$ 93,780,000
FY 2019	Enacted	Revised
Beginning Balance	\$ 8,054,200	\$ 93,779,983
Regular Appropriation	33,455,100	33,455,100
Appropriated Use - HB268 2019 RS		(290,000)
Judicial Unexpended Use Allowance		2,132,700
FY 2019 Balance	\$ 41,509,300	\$ 129,077,783
Net Increase		\$ 121,023,583

Budget Reserve Trust Fund

FY2010 - FY2020

Actual Ending Balance Carry Forward



* FY 2020 estimated amount assumes enacted direct appropriation of \$195.1 million; appropriated uses of -\$14.5 million as enacted by HB 268 2019RS; and 2019RS HB 346/458 Revenue Measure \$-3.6 million

Budget Reserve Trust Fund as a % of General Fund

Fiscal Year	BRTF Balance	GF Revenue	BRTF % of GF
FY 2010	\$ -	\$ 8,225.1	0.0%
FY 2011	-	8,759.4	0.0%
FY 2012	121.7	9,091.0	1.3%
FY 2013	121.7	9,348.3	1.3%
FY 2014	77.1	9,462.0	0.8%
FY 2015	77.1	9,966.6	0.8%
FY 2016	209.4	10,338.9	2.0%
FY 2017	150.5	10,447.8	1.4%
FY 2018	93.8	10,838.2	0.9%
FY 2019	129.1	11,392.7	1.1%
FY 2020*	306.1	11,462.0	2.7%

* FY 2020 Year-end BRTF estimated amount assumes enacted direct appropriation of \$195.1 million; less appropriated uses of -\$14.5 million as enacted by HB 268 2019RS and 2019RS HB 346/458 Revenue Measure \$-3.6 million. CFG Revenue estimate \$11,290 million plus net Revenue measures of +\$172 million.

Tobacco Funds

Tobacco Funds

FY 2019 Official Estimate	\$119,500,000
FY 2019 Actual Receipts	<u>117,586,775</u>
Receipts Below Estimate	\$ 1,913,225

- Per 2018 HB 200, lower MSA receipts in fiscal year 2018-2019 of \$119.5 million resulted in appropriation reductions of \$1.91 million. These reductions were allocated as 50% to the Agricultural Development Fund, 30% to the Early Childhood Development Fund, and 20% to the Health Care Improvement Fund.
- Receipts declined by 4% in FY 2019.
- Lower MSA receipts are expected in the future.

Road Fund

FY19 Road Fund Summary

- Road Fund total Revenue: \$1,566.0 million
- Road Fund nominal growth: \$55.0 million
- Road Fund percentage growth: 3.6%
- Needed growth: -0.3%
- Revenue in Excess of Official Estimate: \$59.5 million

Road Fund Summary Display

(Millions \$)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY2020</u>
CFG December Estimate	\$1,503.3	\$1,505.3	\$1,508.5
Plus: Legislative Impacts	0	1.25	1.25
Official Estimate	1,503.3	1,506.6	1,509.8
Actual Receipts	1,511.0	1,566.1	
Difference (from Official)	+\$7.7	+\$59.5	

Composition

of the

2019 Variation

(Actual Road Fund Revenue minus Enacted Estimates, \$ millions)

	FY19		Difference	
	Actual	Estimate	\$	%
Motor Fuels	\$ 773.2	\$ 759.2	14.0	1.9
Motor Vehicle Usage	514.5	494.0	20.5	4.2
Motor Vehicle License	120.9	116.5	4.5	3.8
Motor Vehicle Operators	16.6	16.7	-0.1	-0.4
Weight Distance	83.7	82.1	1.6	2.0
Income on Investments	11.9	3.1	8.8	284.6
Other	45.1	35.0	10.1	29.0
Total	\$ 1,566.1	\$ 1,506.6	59.5	4.0

FY 19 Road Fund Surplus \$75.2 Million

	Millions \$
FY 19 Road Fund Year-End Balance	\$472.7
Budgeted Carryforward into FY 19	(397.5)
Road Fund Surplus	\$75.2
Actual vs. Budgeted	
Revenues More than Official Estimate	\$59.5
2018 Legislation (HB 81)	\$1.3
Other Spending Lapse	17.6
Revenue Sharing Reduction	(7.0)
Fund Transfers in Excess of Budgeted	1.7
Debt Service Lapse Beyond Budgeted Lapse	2.2
Road Fund Surplus	\$75.2

Fiscal Outlook

Control Scenario

(Probability – 55%)

- Growth slows to 2.0% in CY2019
 - Slowing global growth
 - Fading fiscal stimulus
 - Continued uncertainty in tariff policy
- Housing starts and residential fixed investment downgraded
- Federal Reserve will pause increases in Federal Funds rate, hold at 2.38% through end of calendar 2019
- Increases in Brent oil prices, as oil expected to rise to \$69/bbl in calendar 2019 and fall back to \$67/bbl by 2020

Pessimistic Scenario

(Probability – 35%)

- Three quarter recession beginning in Q4 of FY20
 - Broad loss in confidence and growing risk aversion
 - Declines in wide range of investment and consumer spending categories
 - Current expansion ends after 131 consecutive months of growth
- Real consumer spending in CY19 manages only 1.5% growth, falls to 0.2% in CY20
- Unemployment rate starts rising, reaching 6.0% by 2021
- Stock market drops 9.8% during CY20

August 2019 Planning Estimates – General Fund

<u>Blended Estimate</u>	<u>FY19</u>		<u>FY20</u>		<u>FY21</u>		<u>FY22</u>		<u>FY23</u>		<u>FY24</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Individual Income	\$4,544.7	-1.3	\$4,656.5	2.5	\$4,801.2	3.1	\$4,965.2	3.4	\$5,087.1	2.5	\$5,237.2	3.0
Sales & Use	3,937.6	9.2	4,119.0	4.6	4,198.7	1.9	4,296.4	2.3	4,375.6	1.8	4,476.7	2.3
Corp. Inc. & LLET	762.7	1.8	684.7	-10.2	698.1	2.0	781.4	11.9	818.2	4.7	816.6	-0.2
Property	647.0	4.1	657.1	1.6	671.7	2.2	695.0	3.5	708.8	2.0	729.5	2.9
Lottery	263.9	4.3	271.0	2.7	277.0	2.2	283.0	2.2	289.0	2.1	295.0	2.1
Cigarettes	353.5	66.9	339.5	-4.0	328.7	-3.2	318.7	-3.0	302.6	-5.1	293.6	-3.0
Coal Severance	92.9	3.6	99.6	7.2	88.7	-10.9	75.9	-14.4	67.5	-11.1	56.4	-16.4
Other	790.4	12.3	736.2	-6.9	753.2	2.3	641.5	-14.8	653.4	1.9	671.4	2.7
Total General Fund	\$ 11,392.7	5.1	\$ 11,563.6	1.5	\$11,817.3	2.2	\$12,057.2	2.0	\$12,302.2	2.0	\$12,576.4	2.2
New Money	\$554.5		\$170.9		\$253.8		\$239.9		\$245.0		\$274.2	

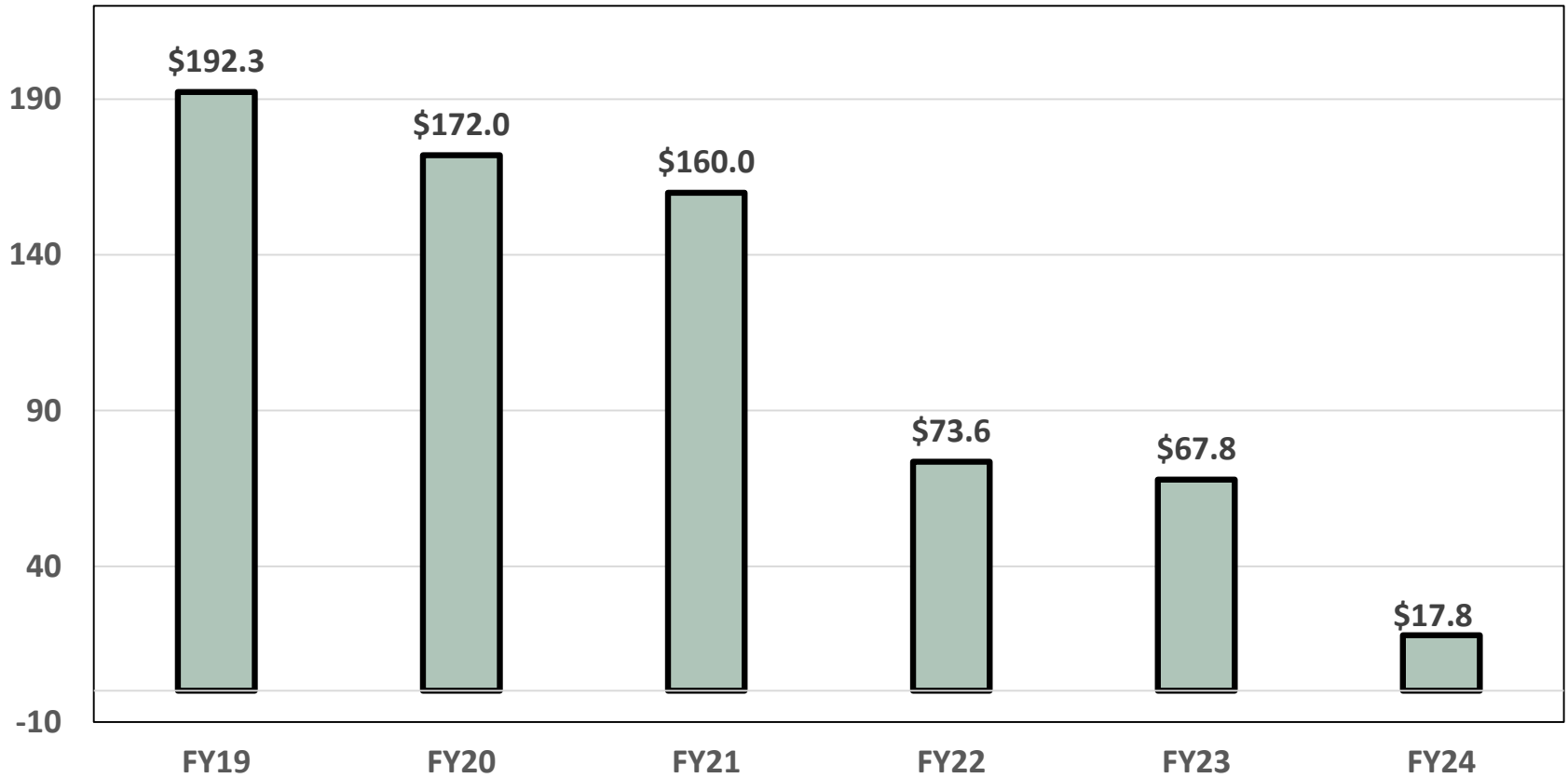
August 2019 Planning Estimates – Road Fund

Control Weight:	70%													
Optimistic Weight	0%													
Pessimistic Weight:	30%													
	FY19		FY20		FY21		FY22		FY23		FY24			
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Motor Fuels	\$ 773.2	1.1	\$ 778.9	0.7	\$ 781.0	0.3	\$ 781.8	0.1	\$ 783.6	0.2	\$ 786.0	0.3		
Motor Vehicle Usage	514.5	4.3	502.5	-2.3	498.2	-0.9	514.7	3.3	531.5	3.3	543.0	2.2		
Motor Vehicle License	120.9	7.1	118.2	-2.2	122.3	3.4	127.4	4.2	129.4	1.6	131.7	1.8		
Motor Vehicle Operators	16.6	-1.0	18.4	10.6	23.9	29.9	25.2	5.4	25.3	0.4	25.4	0.4		
Weight Distance	83.7	2.5	83.8	0.1	83.8	0.0	84.6	1.0	85.4	1.0	86.2	0.9		
Investment	11.9	320.2	10.0	-16.1	8.0	-20.0	6.0	-25.0	5.0	-16.7	4.0	-20.0		
Other	45.1	16.5	40.7	-9.8	44.5	9.3	42.8	-3.8	45.8	7.0	43.8	-4.4		
Total Road Fund	\$ 1,566.1	3.6	\$ 1,552.5	-0.9	\$ 1,561.6	0.6	\$ 1,582.5	1.3	\$ 1,606.0	1.5	\$ 1,620.1	0.9		

Estimated Fiscal Impacts of Legislative Changes

Total For All Tax Bills 2018 & 2019	Fiscal Impact (\$ million)				
	FY20	FY21	FY22	FY23	FY24
Sales Tax	\$ 264.3	\$ 274.6	\$ 275.8	\$ 276.3	\$ 276.8
Cigarette Tax	110.0	104.5	99.3	94.3	89.6
Individual Income Tax	(132.0)	(148.4)	(144.3)	(144.3)	(144.3)
Corporate Income Tax	(75.5)	(71.0)	(37.3)	(36.5)	(80.2)
LLET	-	(1.3)	(1.3)	(1.3)	(1.3)
Bank Franchise Tax	-	-	(120.0)	(122.0)	(124.0)
Telecomm Tax	5.5	6.0	6.0	6.0	6.0
Wine Wholesale	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Property Tax	-	(4.1)	(4.2)	(4.3)	(4.4)
	\$ 172.0	\$ 160.0	\$ 73.6	\$ 67.8	\$ 17.8

Estimated Fiscal Impacts of Legislative Changes



Questions

Financial Outlook Report

Capital Planning Advisory Board

September 9, 2019

Janice Tomes, Deputy State Budget Director

Kevin Cardwell, Deputy State Budget Director

Greg Harkenrider, Deputy Executive Director,
Governor's Office of Economic Analysis

J. Michael Jones, Deputy Executive Director,
Governor's Office for Policy Research