

Interim Joint Committee on Appropriations and Revenue

October 28, 2010

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Overview

- FY 11 First Quarter Revenues
 - General Fund
 - Road Fund
- Budget Balancing Measures, including Contract Reductions

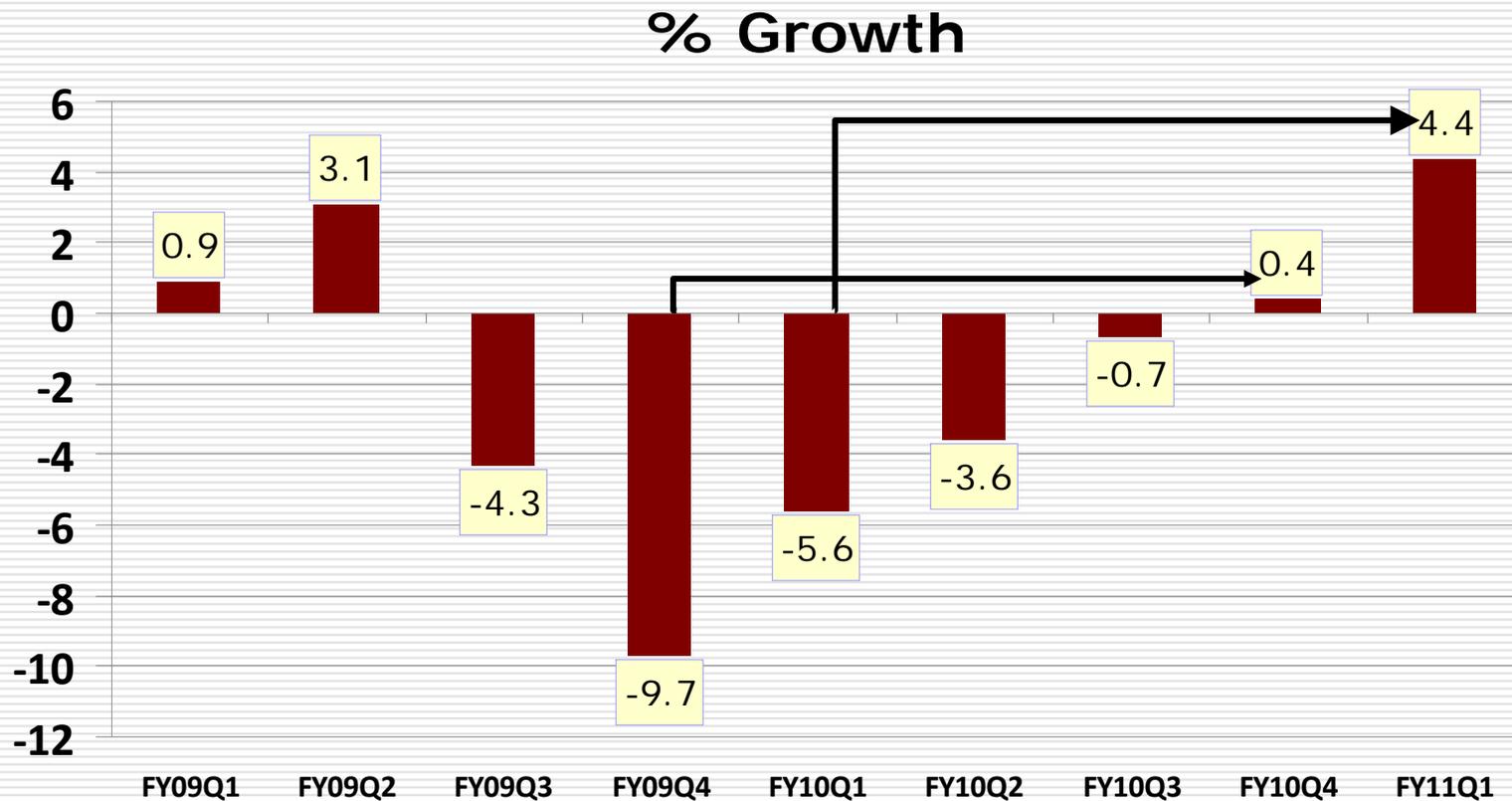
State Revenue Highlights

- ❑ Following two fiscal years with falling revenues, Kentucky has now posted 2 quarters of revenue growth after 5 consecutive quarterly declines
- ❑ General Fund revenue growth of 4.2% is budgeted for FY 11
- ❑ Individual Income and Sales Taxes have been slow to recover

State Revenue Highlights

- ❑ Corporation Taxes (income tax and the LLET) are trending higher due to higher profits and low refund inventories
- ❑ Coal Severance continues to show strength
- ❑ Road Fund is performing well

General Fund Growth by Quarter



Most Taxes Gathered Steam Heading into FY11

General Fund Growth Rates for the Four Quarters and Full Year FY10 (percent)

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY10</u>
Sales and Use	-7.7	-3.5	-1.4	4.2	-2.2
Individual Income	-7.1	-8.3	1.8	-4.0	-4.9
Corporation Income	-40.5	-32.7	-6.0	41.1	-11.2
LLET	156.8	19.6	1.7	-1.3	19.9
Coal Severance	-8.0	-14.0	-10.0	3.6	-7.1
Cigarette Taxes	79.5	70.0	62.0	-11.9	37.0
Property	-5.7	8.0	-4.7	-13.1	0.6
Lottery	2.3	1.0	3.0	6.7	3.4
Other	<u>-4.6</u>	<u>-1.1</u>	<u>-11.1</u>	<u>-0.8</u>	<u>-5.3</u>
TOTAL	-5.6	-3.6	-0.7	0.4	-2.4

First Quarter General Fund Receipts on Target

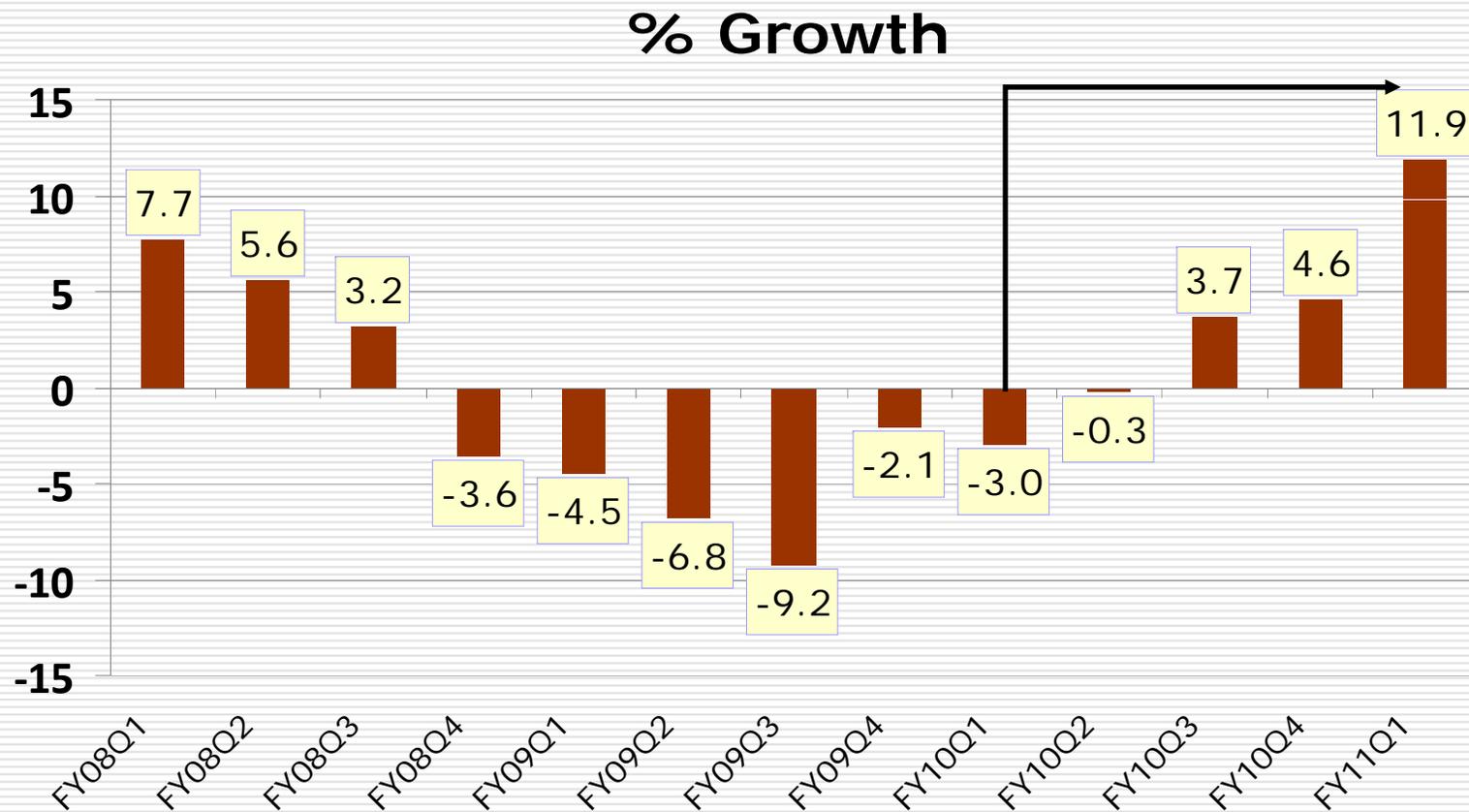
Budgeted Revenue Growth for the year is 4.2%
(\$ millions)

	FY11	FY10	Diff	Diff
	<u>Q1</u>	<u>Q1</u>	<u>(\$)</u>	<u>(%)</u>
Sales and Use	717.2	693.9	23.3	3.4
Individual Income	845.7	814.4	31.3	3.8
Corp Income	69.9	49.0	20.9	42.5
LLET	44.3	30.5	13.7	45.0
Coal Severance	72.8	66.8	6.0	9.0
Cigarette Taxes	69.0	74.2	-5.2	-7.0
Property	51.6	60.1	-8.5	-14.1
Lottery	45.0	44.0	1.0	2.3
Other	<u>139.5</u>	<u>135.4</u>	<u>4.1</u>	<u>3.1</u>
TOTAL	2,055.1	1,968.5	86.6	4.4

Road Fund Highlights

- ❑ Fuels taxes are leading a robust recovery in the Road Fund
- ❑ The entire Motor Vehicle Usage Tax credit has been exhausted, paving the way for solid growth in FY11 and beyond
- ❑ Improvements in the weight distance tax signal increased shipment of goods, signifying a rebound in manufactured goods

Road Fund Recession Started Earlier, Lasted Longer, but Recovered Strongly



Road Fund Recovery Began in FY10

Road Fund Growth Rates for the Four Quarters and Full Year FY10 (percent)

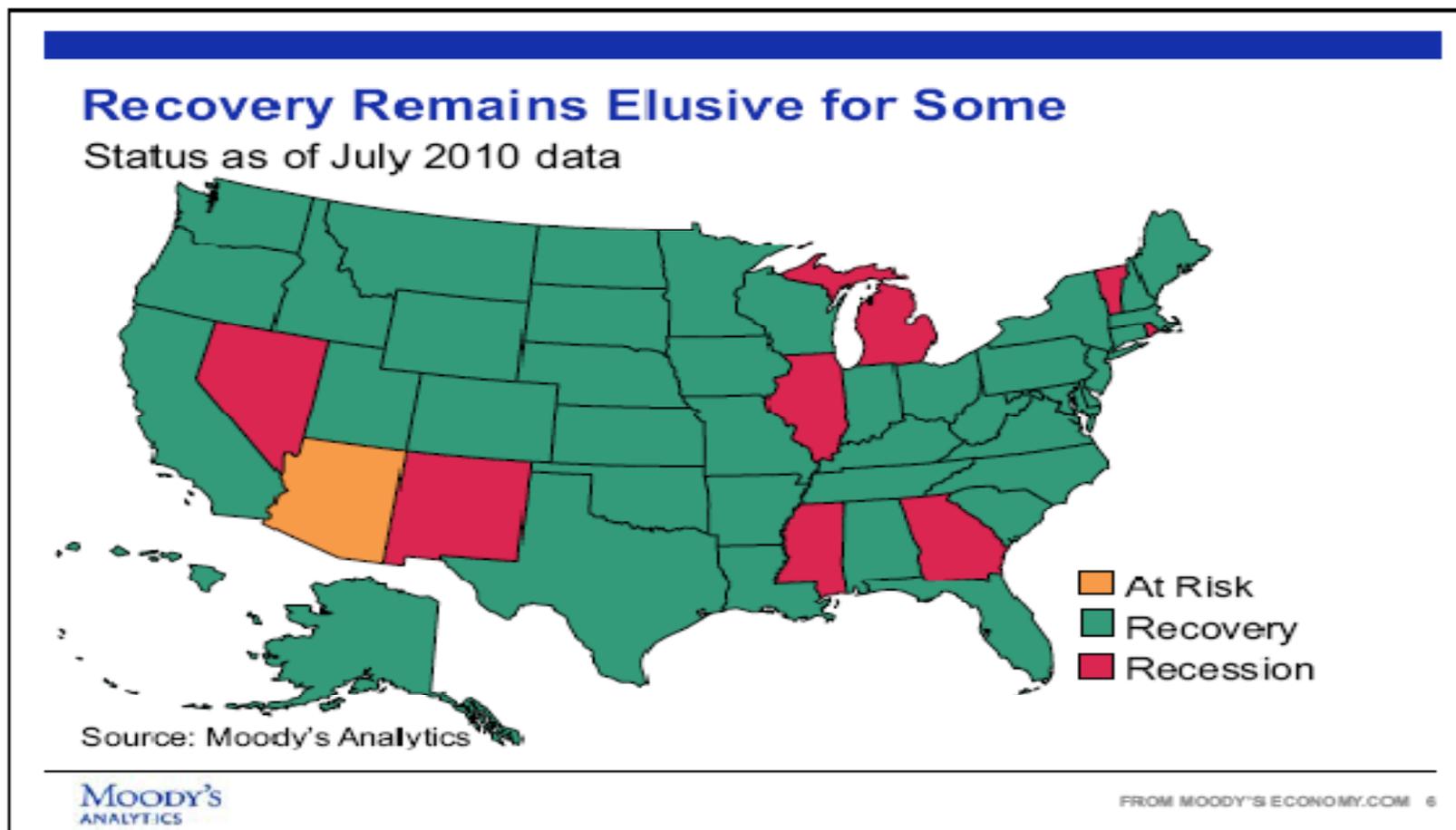
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY10</u>
Motor Fuels	2.7	0.6	8.8	9.5	5.3
Motor Vehicle Usage	-6.3	-2.0	0.8	4.3	-1.0
Motor Vehicle License	-3.5	5.4	5.7	-8.2	-1.4
Motor Vehicle Operators	-0.3	2.5	6.2	2.9	2.7
Weight Distance	-16.1	-10.4	0.3	2.4	-6.6
Investment Income	-51.3	-54.7	-79.8	-75.4	-65.9
Other	<u>-21.9</u>	<u>28.4</u>	<u>-34.8</u>	<u>8.5</u>	<u>-6.7</u>
TOTAL	-3.0	-0.3	3.7	4.6	1.2

Road Fund is Demonstrating Healthy Growth

Summary Road Fund Receipts (\$ millions)

	FY11	FY10	Diff	Diff
	<u>Q1</u>	<u>Q1</u>	<u>(\$)</u>	<u>(%)</u>
Motor Fuels	193.0	162.2	30.8	19.0
Motor Vehicle Usage	95.1	93.7	1.4	1.5
Motor Vehicle License	17.9	17.0	0.9	5.2
Motor Vehicle Operators	4.2	4.2	-0.1	-2.1
Weight Distance	18.8	17.4	1.4	7.9
Investment Income	0.5	1.3	-0.8	-63.3
Other	<u>9.3</u>	<u>6.8</u>	<u>2.5</u>	<u>36.6</u>
TOTAL	338.7	302.6	36.1	11.9

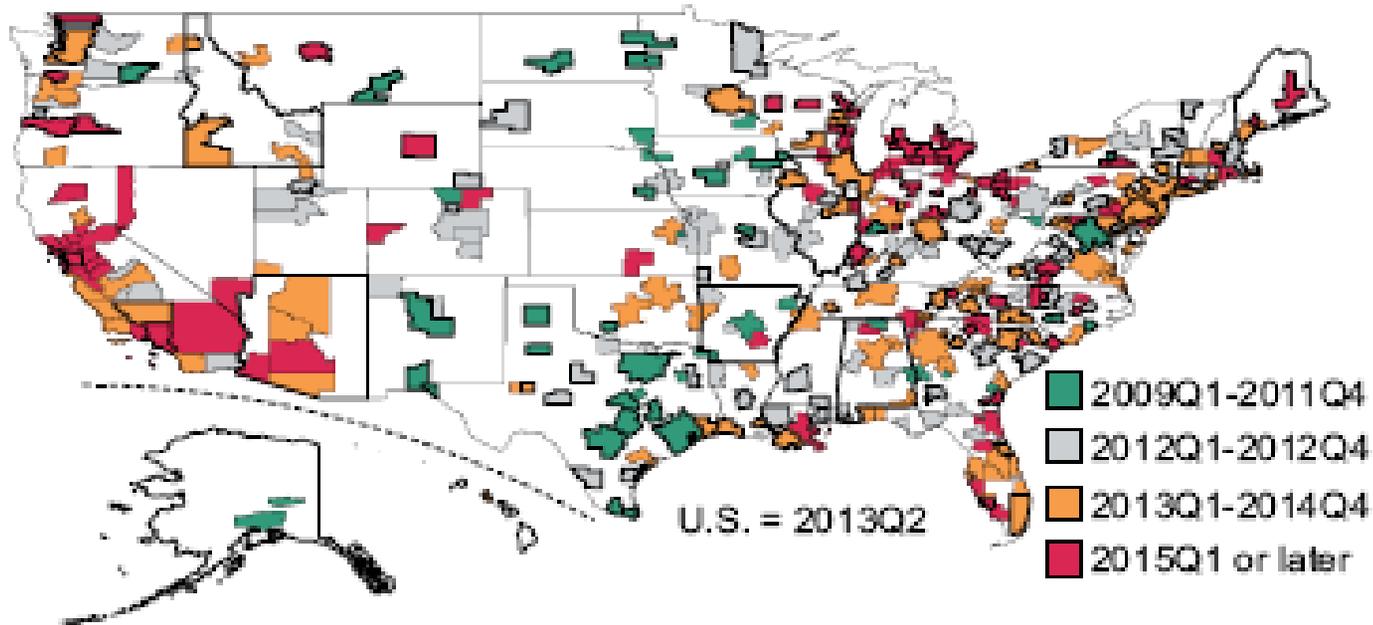
Recoveries by Region



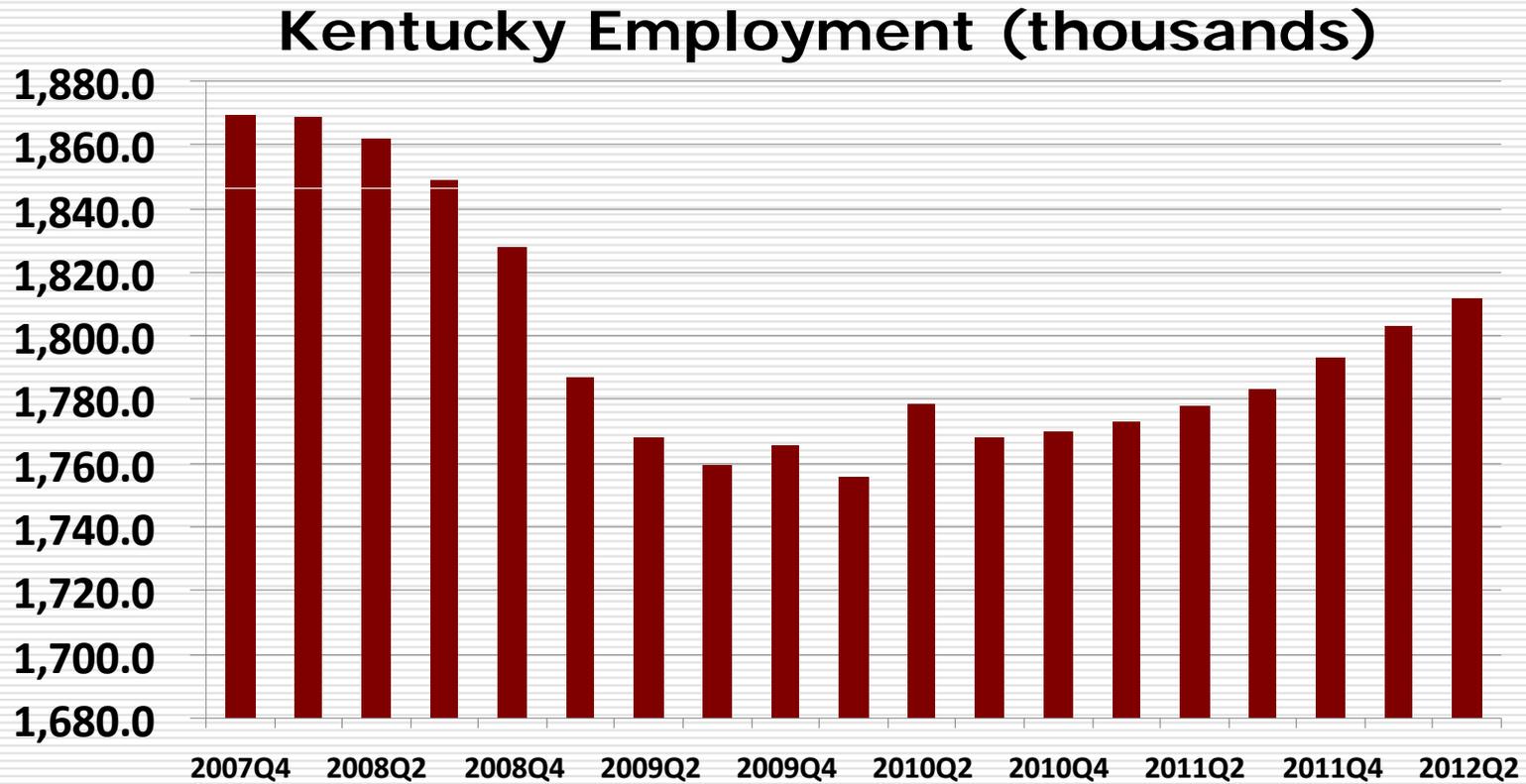
When Will Peak Employment Rebound?

New Employment Peaks Will Come Slowly

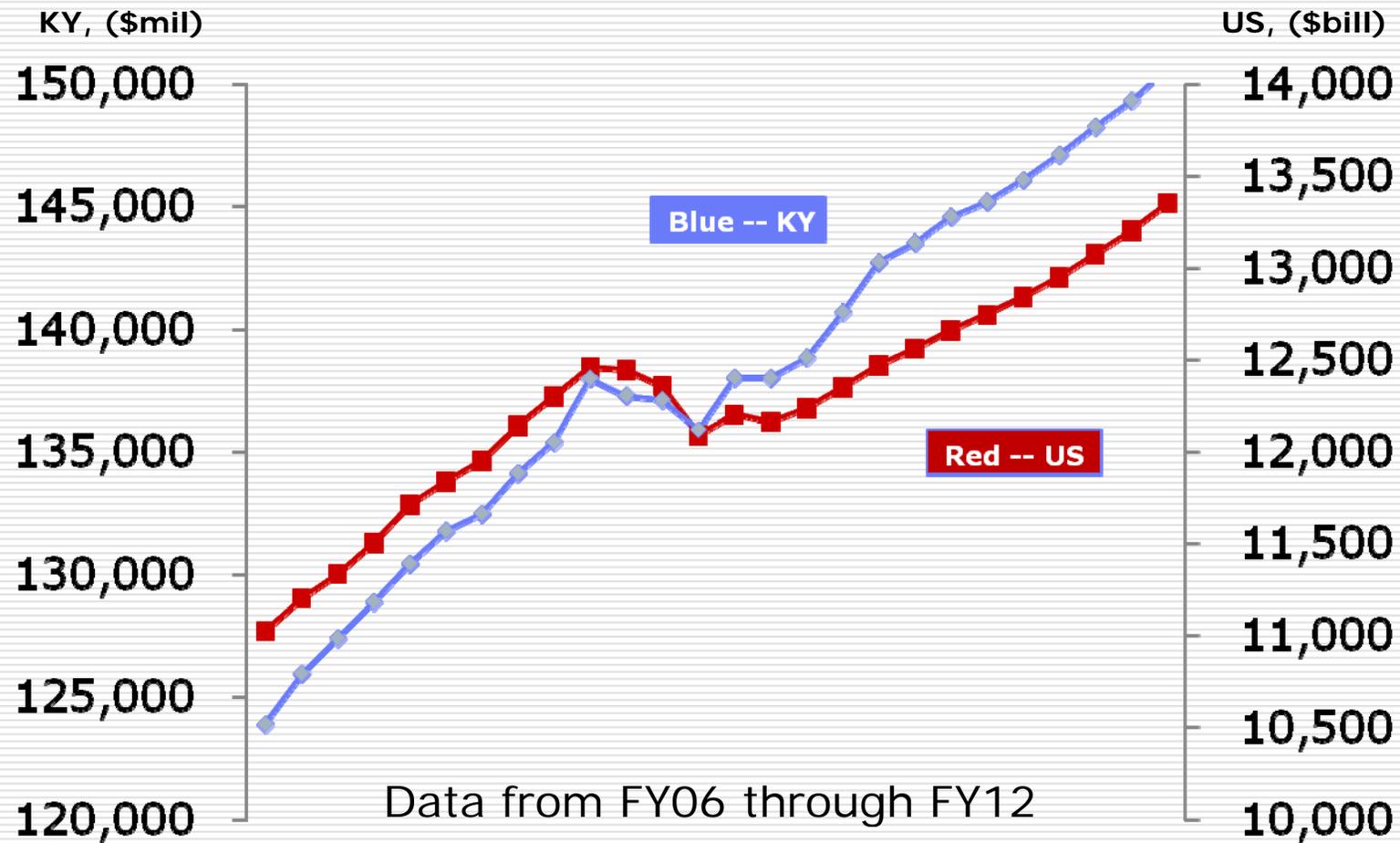
Projected quarter of new peak in employment, August forecast



Previous-peak employment not projected to occur during the biennium

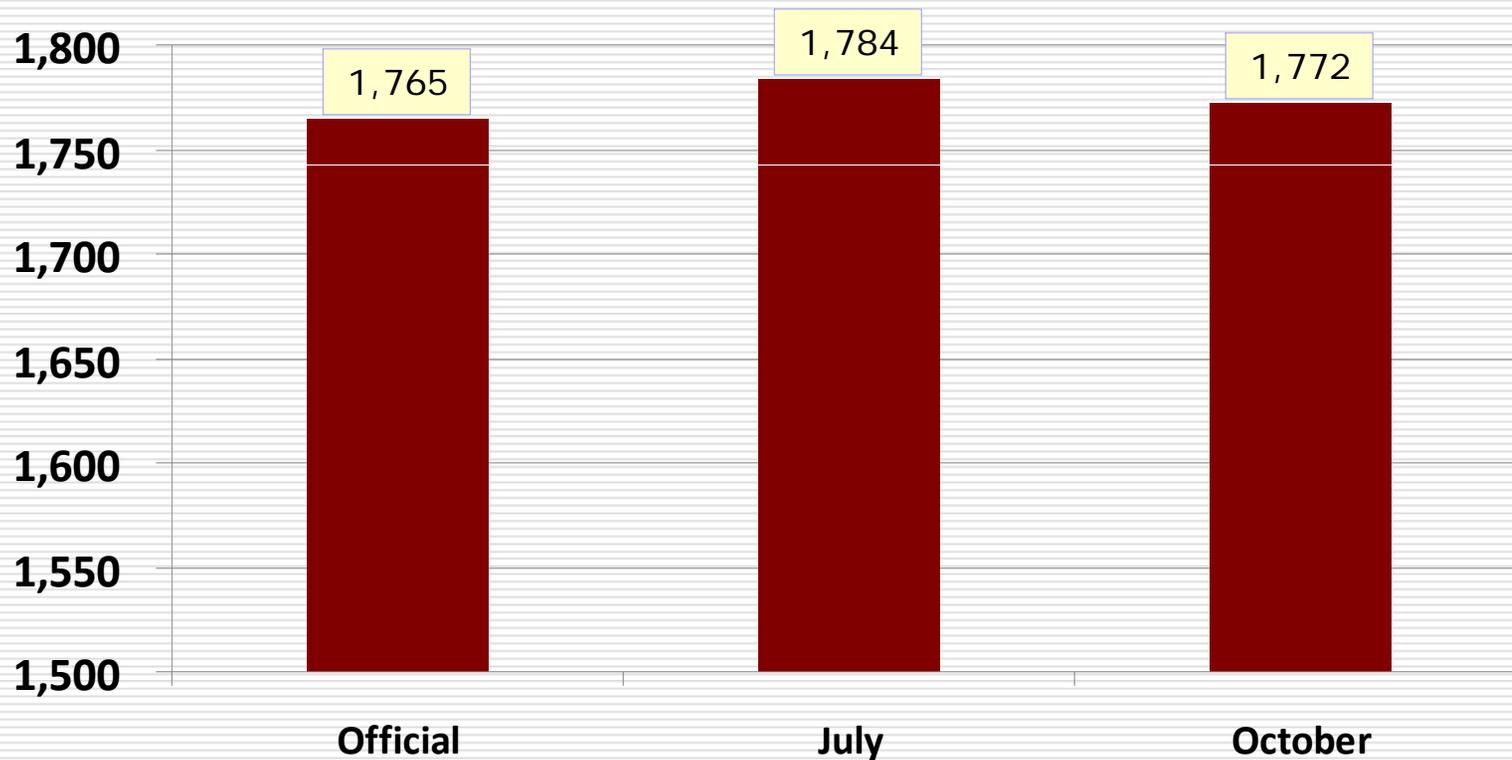


Kentucky's Recovery on Personal Income is More Robust



Employment Outlook Consistent with CFG Assumptions

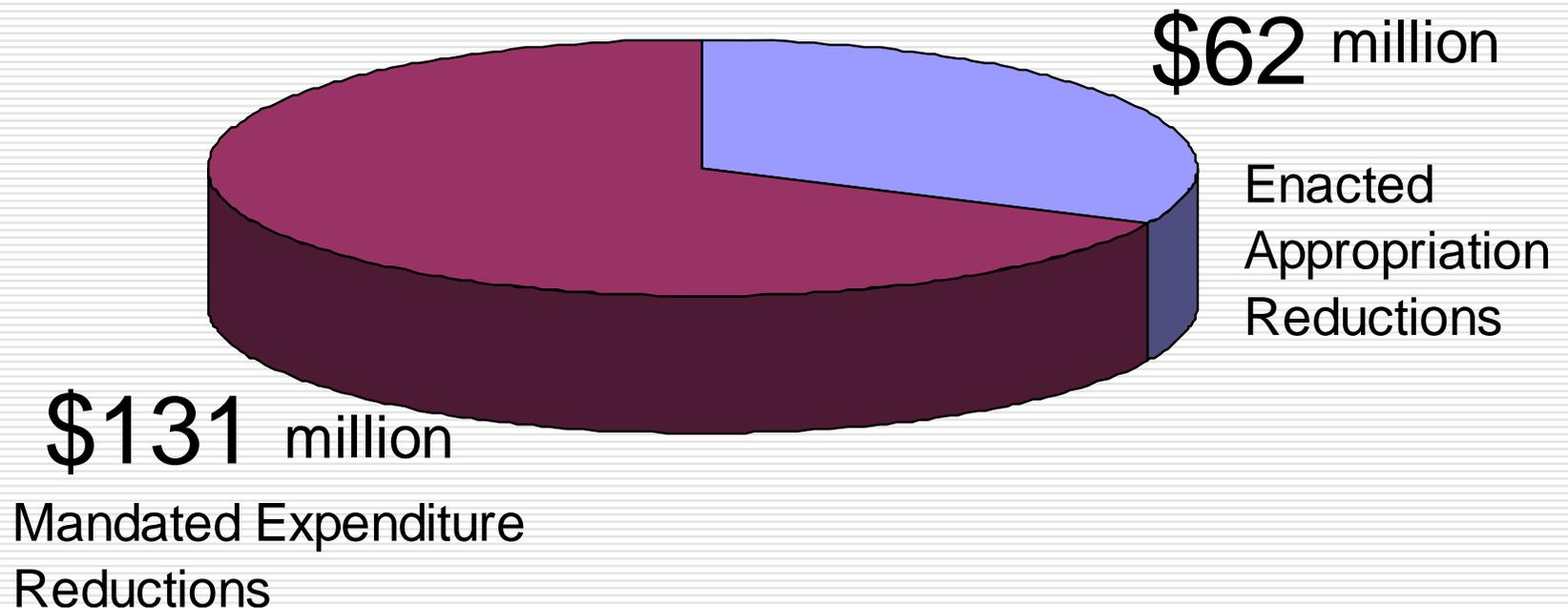
Projected FY11 Employment Estimates, Thousands



Updates on Budget Balancing Measures

FY 11 Budget Balancing Measures

\$193 million in total Reduced Spending Required



FY 11 Additional Budget Balancing Measures

	<u>millions</u>
Problem:	
Mandated Expenditure Reductions	\$ 131
Solution:	
Debt Restructuring	\$ 67
Operational Cost Reductions	\$ 30
Furlough of State Employees	\$ 24
Non-Merit Personnel Reductions	\$ 5
Asset Sales & Rebates	\$ 5
Subtotal	<u>\$ 131</u>

Operational Cost Reductions

- Contracts
- Fleet Management
- Leases
- Information Technology
- Other Efficiency Measures

Contract Reductions

- ❑ Contract expenditures include the purchase of goods and services, and the granting of funds to other entities.
- ❑ Reducing contract spending has been a component of agencies' budget reduction measures over the series of 8 budget cuts over the last four fiscal years, FY 08 – FY 11.
- ❑ Every agency is unique in the amount of goods and services it acquires through contracts.

Contract Reductions

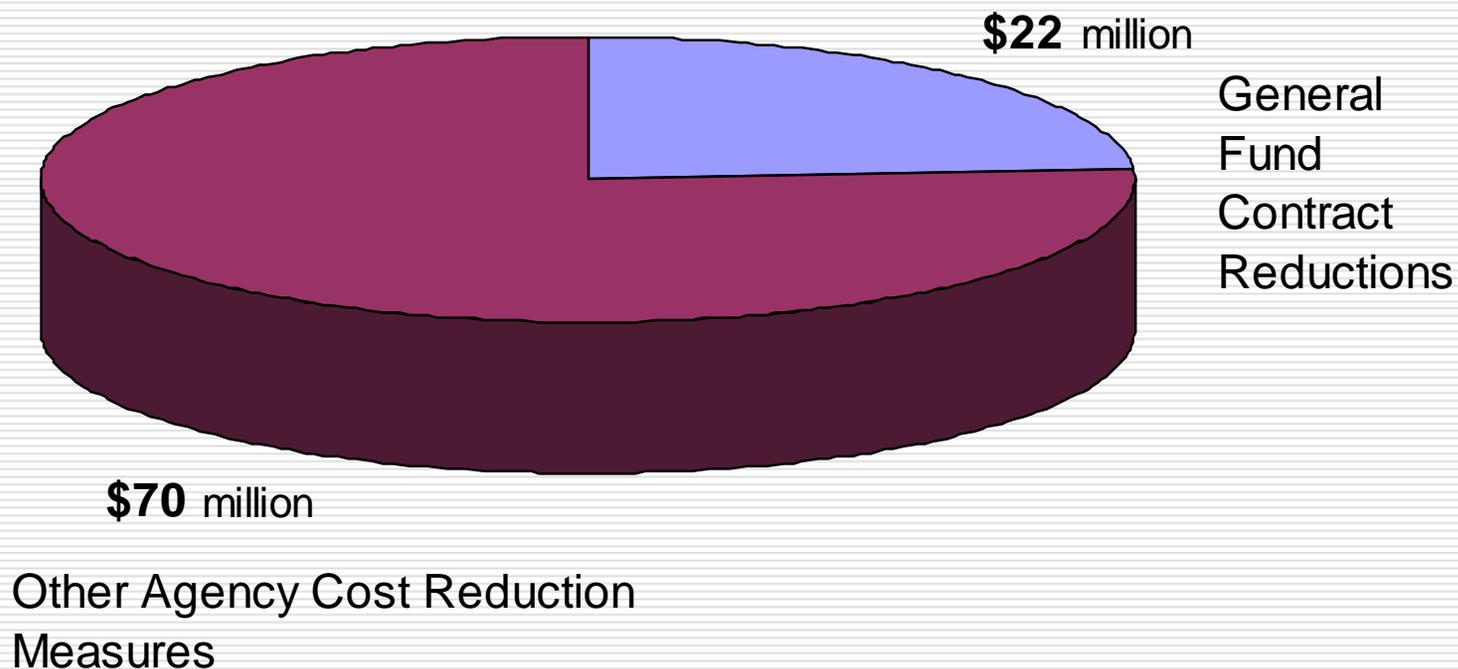
- ❑ In FY 11, most state agency General Fund budgets were reduced 3.5%, totaling \$62 million.
- ❑ Additional budget reductions of 1.5% were required to achieve mandated expenditure reductions of \$30 million.

Contract Reductions

- ❑ Finance Cabinet is rebidding and renegotiating contracts for savings.
- ❑ All agencies are reviewing contracts, grants, and purchases to identify cost savings.

Contract Reductions total 24% of Agency Budget Cuts for FY 11

Agency Specific Budget Cutting Actions total \$92 million for FY 11



FY 11 Cabinet Contract Reductions

Cabinet	General Fund Contract Reductions
Council on Postsecondary Education	\$ 1,839,400
Department of Education	\$ 7,241,600
Economic Development	\$ 823,000
Education and Workforce Dev.	\$ 1,009,600
Energy and Environment	\$ 267,100
Finance and Administration	\$ 966,300
General Government	\$ 392,200
Health and Family Services	\$ 6,829,800
Justice and Public Safety	\$ 2,703,500
Public Protection	\$ 43,000
Tourism, Arts and Heritage	\$ 306,600
Transportation	\$ 48,500
Executive Branch Total	\$ 22,470,600

Efficiency Measures Under Way

- Fleet management
 - **Take home cars**
 - **Replacement schedules for older vehicles**
 - **Maintenance costs**
- Leases
 - **Target of 5% reduction**
- Information Technology
 - **Enterprise view of efficiencies**
- Other Measures Being Reviewed

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