
FY 13 Year End Financial Report

Interim Joint Committee on
Appropriations and Revenue

August 22, 2013

Jane Driskell, State Budget Director

John Hicks, Deputy State Budget Director

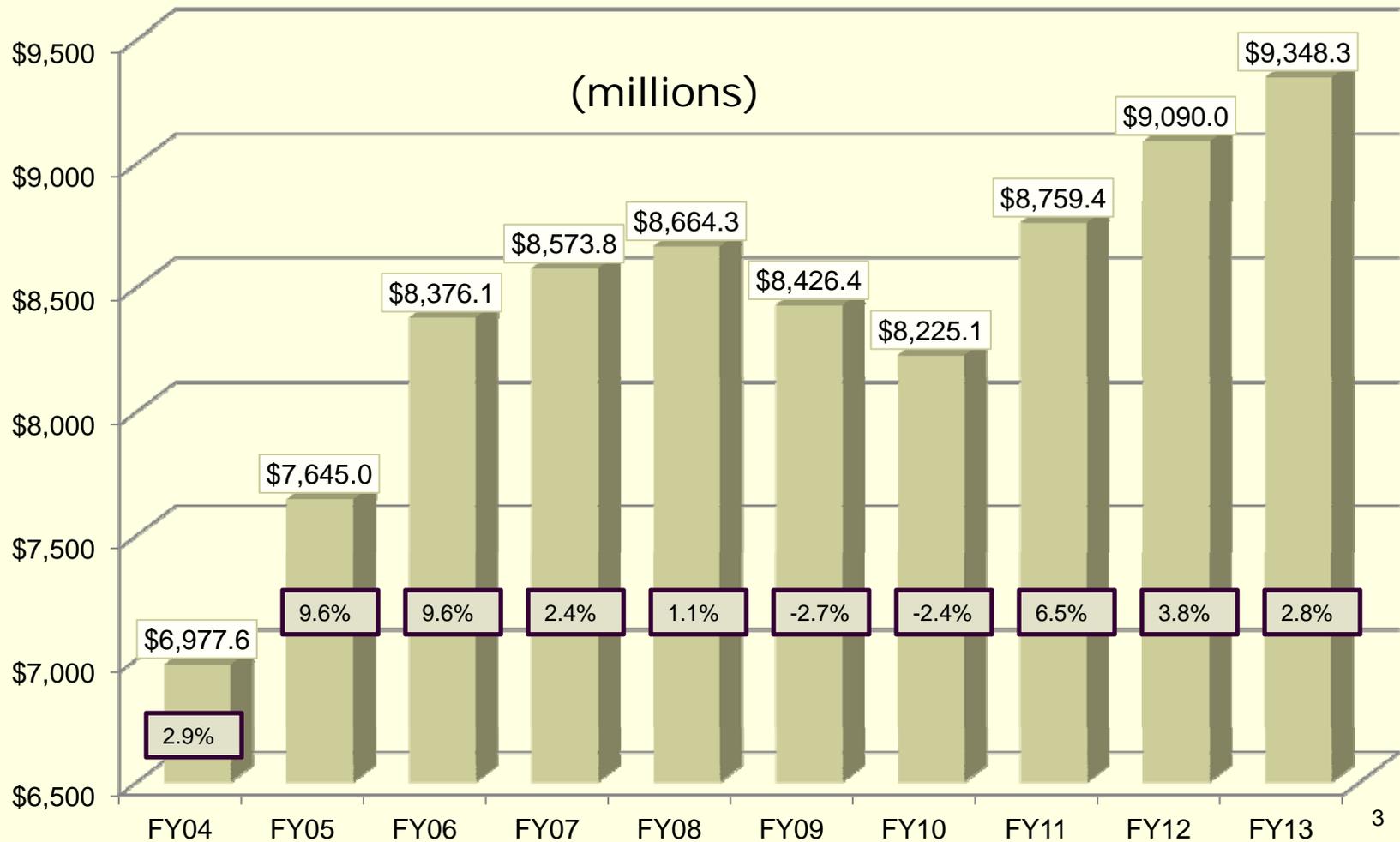
Greg Harkenrider, Deputy Exec. Director,
Governor's Office of Economic Analysis

Overview

- FY 13 General Fund report
- FY 13 Road Fund report
- FY 13 Tobacco settlement funds
- Economic outlook for FY 14

General Fund Revenues 2004-2013

(nominal and percentage growth)



General Fund Receipts Increased 2.8% in FY 13

	(millions)		<u>Difference</u>	
	<u>FY 13</u>	<u>FY 12</u>	<u>(\$ million)</u>	<u>(%)</u>
Sales and Use	\$3,021.8	\$3,052.2	-\$30.4	-1.0
Individual Income	3,723.0	3,512.1	210.9	6.0
Corporation Income	400.8	374.4	26.4	7.0
LLET	246.1	200.7	45.4	22.6
Coal Severance	230.5	298.3	-67.8	-22.7
Cigarette Taxes	238.7	254.8	-16.1	-6.3
Property	558.4	529.6	28.8	5.4
Lottery	215.3	210.8	4.5	2.1
Other	<u>713.8</u>	<u>658.1</u>	<u>55.6</u>	<u>8.5</u>
TOTAL	\$9,348.3	\$9,091.0	\$257.3	2.8

FY 13 General Fund Receipts Exceeded Official Estimates by \$40.5 million (0.4%)

	(millions)		
	<u>Actual</u>	<u>Estimate</u>	<u>Difference</u>
Sales and Use	\$3,021.8	\$3,089.2	-\$67.4
Individual Income	3,723.0	3,587.7	135.3
Corporation Income	400.8	370.3	30.5
LLET	246.1	222.9	23.2
Coal Severance	230.5	337.0	-106.5
Cigarette Taxes	238.7	252.3	-13.6
Property	558.4	538.4	20.0
Lottery	215.3	214.0	1.3
Other	<u>713.7</u>	<u>696.0</u>	<u>17.7</u>
TOTAL	\$9,348.3	\$9,307.8	\$40.5

\$70.6 Million FY 13 General Fund Surplus

	<u>millions</u>
FY 13 General Fund Year-End Balance	\$122.7
Budgeted Carryforward	<u>(\$52.1)</u>
General Fund Surplus	\$70.6
 Actual vs. Budgeted	
Revenues in Excess of Official Estimate	\$40.5
Necessary Gov't Expenses Greater than Budgeted	(\$3.9)
Spending Less than Budgeted	\$33.0
Fund Transfers in Excess of Budget	<u>\$1.0</u>
General Fund Surplus	\$70.6

FY 13 Necessary Government Expenses

	<u>millions</u>
FY 12 General Fund Surplus	\$45.7
Description	
Military Affairs-Disasters and Planned Events	\$5.9
Natural Resources-Fire Suppression	\$4.7
Corrections-Higher Felon Population than Budgeted	\$22.4
Courthouse Security/Court Ordered Public Defense	\$4.6
ANOC-Guardian Ad Litem	\$9.3
Judgments	\$0.6
Other	\$2.1
Total	<hr/> \$49.6

What is a NGE?

- **Necessary Government Expense**
- Authority to spend funds on certain expenses is provided in the budget; but no funds are appropriated
- Funds come from the General Fund Surplus Account, the Budget Reserve Trust Fund, or other cuts must be made to accommodate the expenses

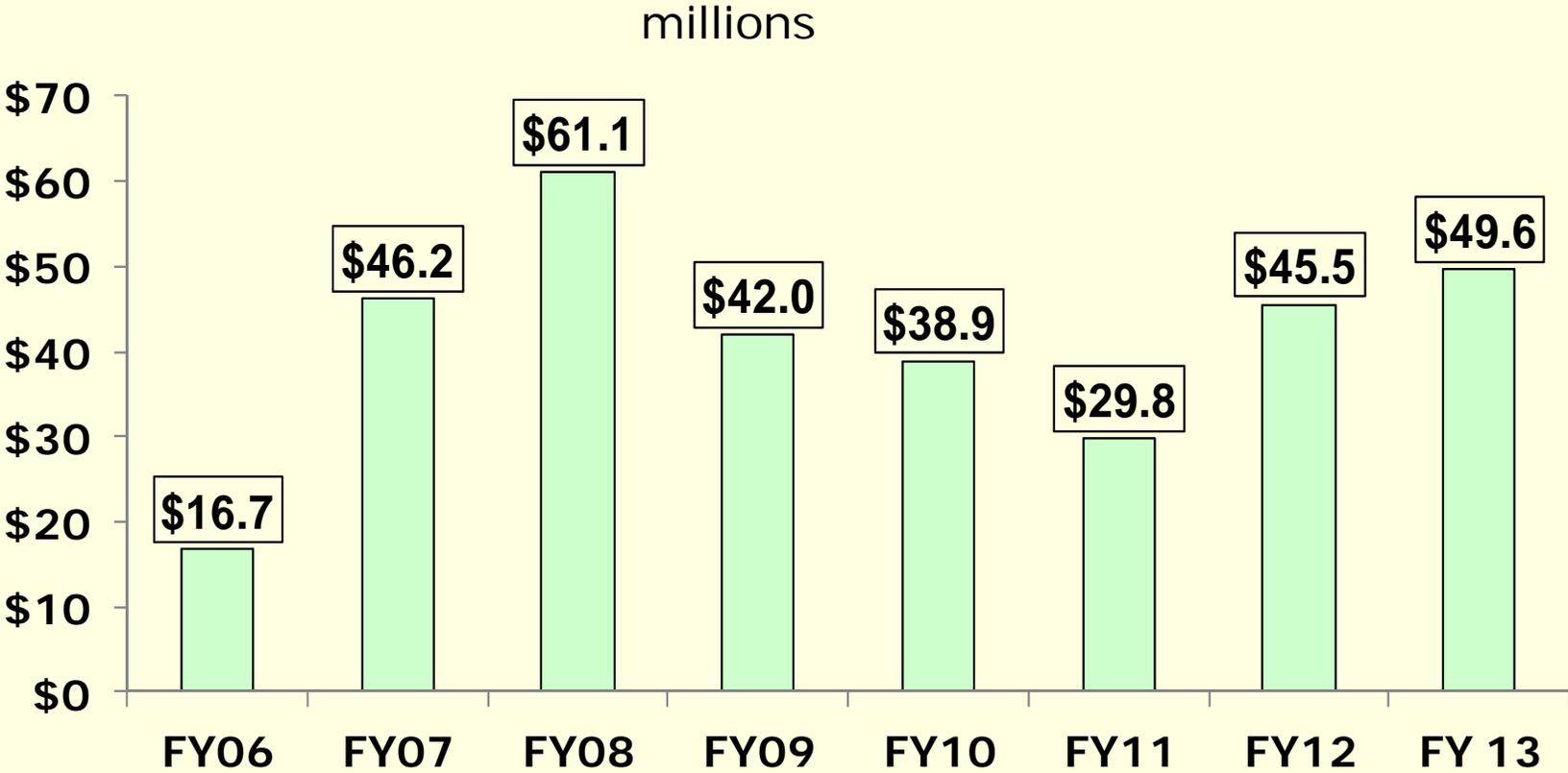
FY 12-14 Authorized NGE

- Veterans' Affairs - debt service for the state share in case the federal government funds the 4th State Veterans' nursing home capital project
- Military Affairs-Disaster Match and Calling out the Guard
- Board of Elections - state share of special elections, additional precincts, additional new registered voters
- Attorney General Expert Witnesses –up to \$275,000 for biennium
- Judgments
- Appropriations Not Otherwise Classified: Attorney General Expense, Board of Claims awards, Guardian Ad Litem, Prior Year Claims, Unredeemed Checks refunded, Survivor benefits for Police/Firefighter/National Guard and Reserve deaths in line of duty

FY 12-14 Authorized NGE

- Forest Fire suppression
- Bluegrass State Skills – to make payments on prior obligations
- Lyon County Middle School Debt Service – KRS 157.623
- Social Security contingent liability fund
- County Costs: Sheriff's Fees, Jury Fund, Access to Justice, Fugitives from Justice, Witnesses Fund, Sheriffs' Expense Allowance, DUI Service Fees, and others
- Kentucky State Police - call to extraordinary duty
- Payments to County Jails for state felons in excess of the amount budgeted
- Capital Construction and Equipment Purchase Contingency account - sufficient funds
- Emergency Repair, Maintenance, and Replacement account

NGE Recent Historical Amounts



\$70.6 Million FY 13 General Fund Surplus

HB 265 General Fund Surplus Expenditure Plan

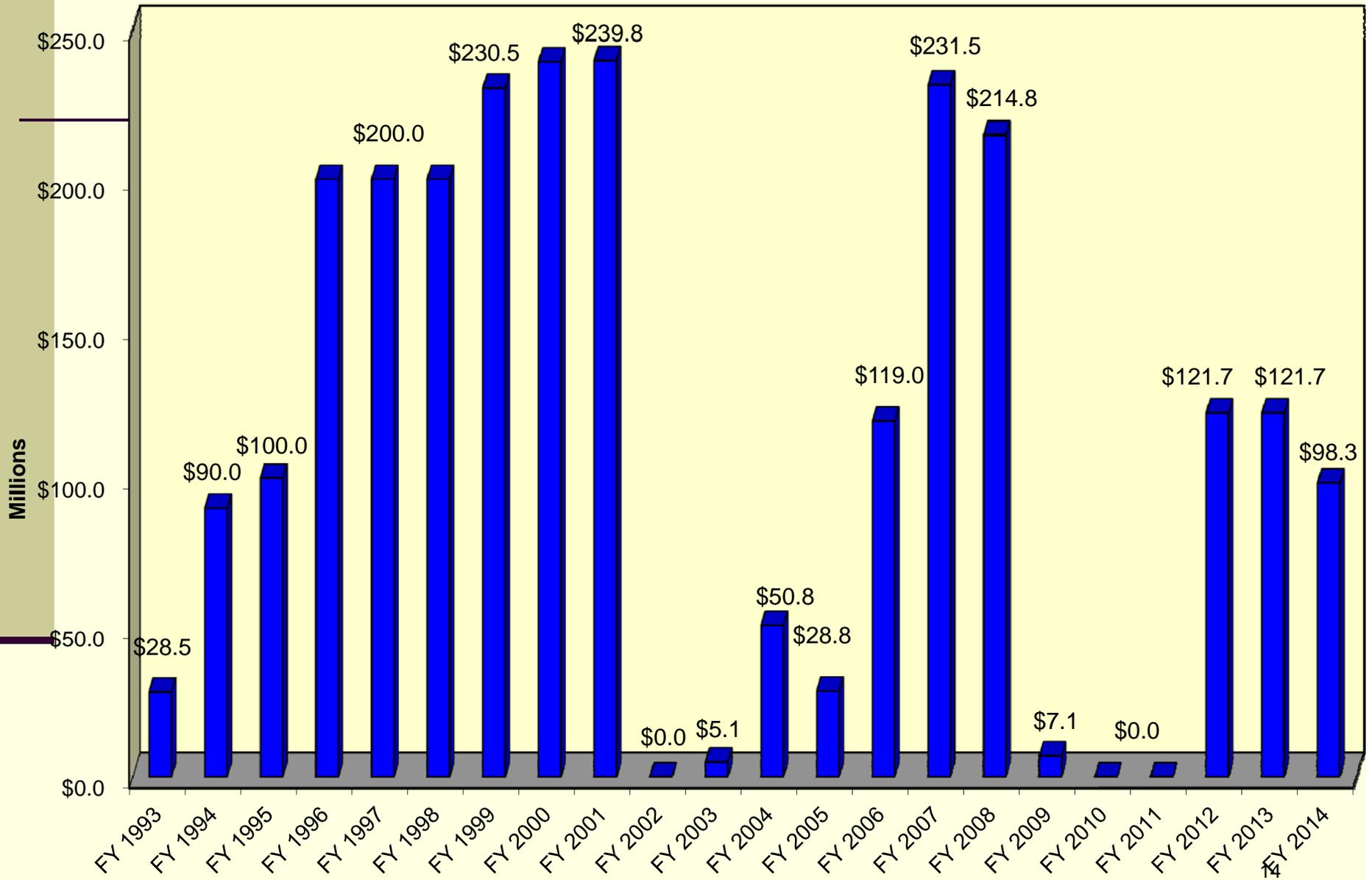
	(millions)
FY 14 Necessary Government Expenses Estimate	\$45.0
Budget Reserve Trust Fund Deposit	<u>\$25.6</u>
FY 13 General Fund Surplus Disposition	\$70.6

Budget Reserve Trust Fund

	(millions)
■ Balance at End of FY 12	\$121.7
■ Deposit from FY 13 Surplus	<u>\$ 25.6</u>
■ Current Balance	\$147.3
■ FY 14 Enacted Budget Uses	<u>(\$ 49.0)</u>
■ End of FY 14 Balance	\$ 98.3*

* 1.0% of FY 14 Enacted Budget

Budget Reserve Trust Fund FY 1993 - FY 2014



FY 13 Agencies in Fiscal Difficulty

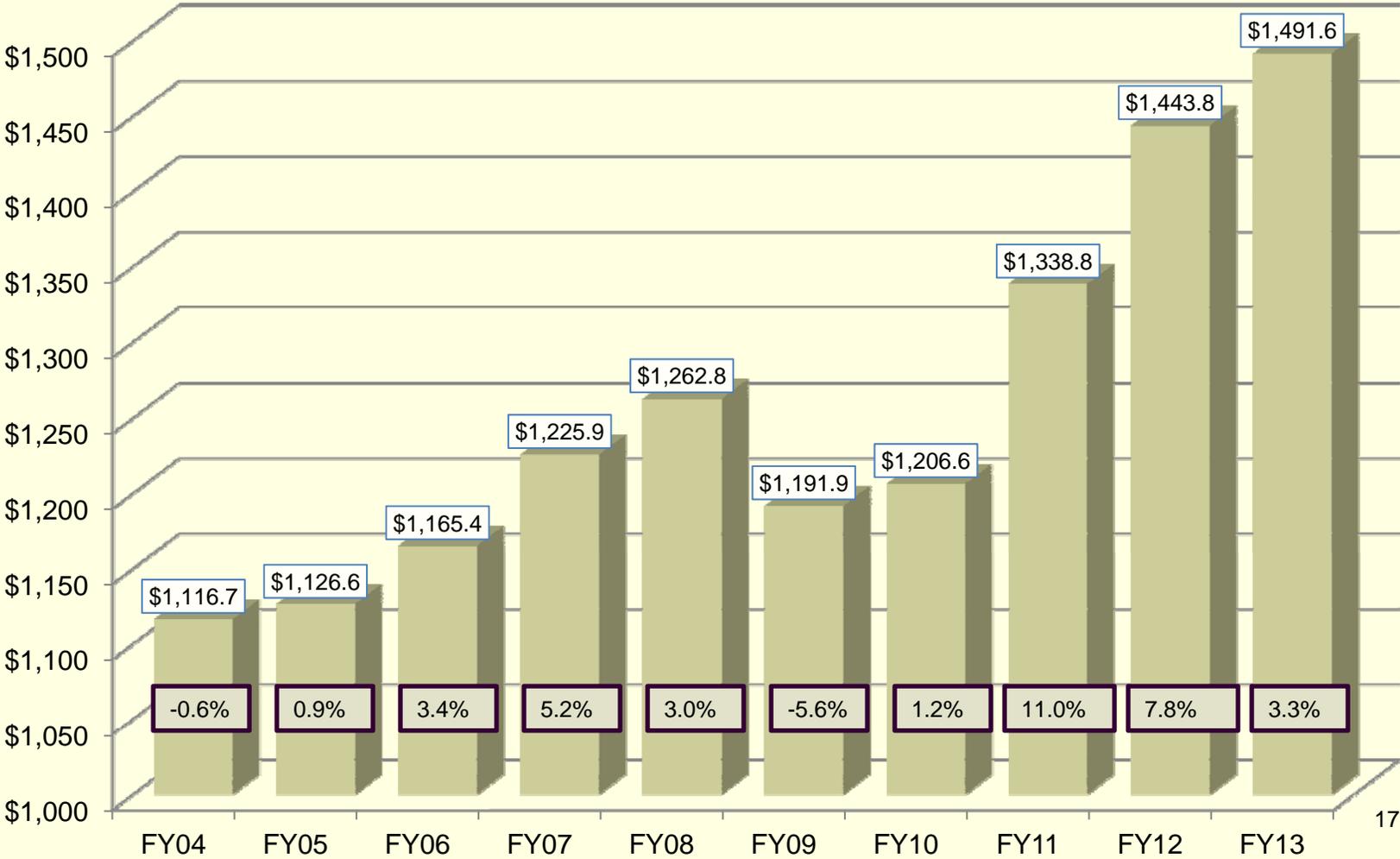
Agency	FY 13 Shortfall (millions)
Kentucky State Fair Board	(\$7.0)
Kentucky State Police	(\$7.0)
Department of Parks	(\$5.5)
Department for Public Advocacy	(\$1.7)
Department for Natural Resources	(\$0.7)

FY 13 Road Fund Summary

- Revenues
- Surplus

Road Fund Receipts 2004-2013

(nominal and percentage growth)



Road Fund Receipts Increased 3.3% in FY 13

	(millions)		<u>Difference</u>	
	<u>FY 13</u>	<u>FY 12</u>	<u>(\$million)</u>	<u>(%)</u>
Motor Fuels	\$838.3	\$790.2	\$48.1	6.1
Motor Vehicle Usage	426.8	416.9	10.0	2.4
Motor Vehicle License	102.3	107.8	-5.6	-5.2
Motor Vehicle Operator	16.0	15.7	0.3	2.0
Weight Distance	74.9	75.1	-0.2	-0.2
Investment Income	-0.4	3.1	-3.5	-112.9
Other	<u>33.7</u>	<u>35.0</u>	<u>-1.3</u>	<u>-3.7</u>
TOTAL	\$1,491.6	\$1,443.8	\$47.8	3.3

FY13 Road Fund Receipts Fell Short of Enacted Estimate by \$8.0 Million (-0.5%)

	<u>Actual</u>	(millions) <u>Estimate</u>	<u>Difference</u>
Motor Fuels	\$838.3	\$850.4	-\$12.1
Motor Vehicle Usage	426.8	410.8	16.0
Motor Vehicle License	102.3	99.3	3.0
Motor Vehicle Operators	16.0	15.9	0.1
Weight Distance	74.9	86.0	-11.1
Investment Income	-0.4	2.3	-2.7
Other	<u>33.7</u>	<u>34.9</u>	<u>-1.2</u>
TOTAL	\$1,491.6	\$1,499.6	-\$8.0

\$17.7 Million FY 13 Road Fund Surplus

	<u>(millions)</u>
Actual vs. Budgeted	
Revenues Less than Official Estimate	(\$ 8.0)
Spending less than Budgeted	\$ 23.9
Fund Transfers in Excess of Budget	<u>\$ 1.8</u>
Road Fund Surplus	\$ 17.7

HB 265 Road Fund Surplus Expenditure Plan

All surplus funds deposited into State Construction Account

FY 13 Tobacco Settlement Funds

- Actual receipts \$9.6 million more than budgeted
- Proportionate increases made (50%, 25%, 25%)

	(millions)		
	Enacted	Actual	Difference
Rural Development Fund	\$45.9	\$50.7	\$4.8
Health Care Improvement Fund	\$23.0	\$25.4	\$2.4
Early Childhood Development Fund	\$23.0	\$25.4	\$2.4
Department of Revenue	\$0.2	\$0.2	
Total	\$92.1	\$101.7	\$9.6

Economic and Revenue Outlook

- Consensus Forecasting Group (CFG) met twice in August (in conjunction with OSBD) to prepare the 5-year planning estimates.
- The CFG adopted the “control forecast”, i.e., the baseline forecast prepared by OSBD
 - Leads to modest General Fund Growth during the forecast horizon
 - Produces a relatively flat Road Fund forecast due to motor fuels

5-Year Planning Estimates – General Fund

(Consensus Forecasting Group and OSBD, August 15, 2013)

August 2013 Official Planning Estimates													
Control Forecast	FY13		FY14		FY15		FY16		FY17		FY18		
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	
Individual Income	3,723.0	6.0	3,838.9	3.1	3,975.9	3.6	4,162.2	4.7	4,313.3	3.6	4,457.1	3.3	
Sales and Use	3,021.8	-1.0	3,065.2	1.4	3,102.3	1.2	3,166.3	2.1	3,242.0	2.4	3,332.3	2.8	
Property	558.4	5.4	573.1	2.6	589.0	2.8	605.8	2.9	625.8	3.3	646.9	3.4	
Corporation Income	400.8	7.1	416.0	3.8	444.7	6.9	437.1	-1.7	424.9	-2.8	411.3	-3.2	
LLET	246.1	22.6	238.9	-2.9	249.4	4.4	259.9	4.2	274.7	5.7	289.0	5.2	
Coal Severance	230.5	-22.7	210.3	-8.8	217.7	3.5	207.1	-4.9	204.0	-1.5	200.9	-1.5	
Cigarette Taxes	238.7	-6.3	235.3	-1.4	229.6	-2.4	226.5	-1.4	222.3	-1.8	219.3	-1.4	
Lottery	215.3	2.1	224.0	4.0	237.0	5.8	249.5	5.3	264.5	6.0	278.5	5.3	
Other	713.8	8.5	717.7	0.5	733.2	2.2	738.9	0.8	750.3	1.5	754.9	0.6	
Total General Fund	9,348.4	2.8	9,519.4	1.8	9,778.8	2.7	10,053.3	2.8	10,321.8	2.7	10,590.2	2.6	
			FY14										
			<u>Estimate</u>										
Individual Income			3,691.0										
Sales and Use			3,173.4										
Property			547.9										
Corporation Income			367.1										
LLET			227.3										
Coal Severance			353.4										
Cigarette Taxes			249.9										
Lottery			218.0										
Other			695.9										
Total General Fund			9,523.9										

5-Year Planning Estimates – Road Fund

(Consensus Forecasting Group and OSBD, August 15, 2013)

August 2013 Official Planning Estimates												
Control Forecast	FY13		FY14		FY15		FY16		FY17		FY18	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	% Chg
Motor Fuels	838.3	6.1	864.5	3.1	838.8	-3.0	818.9	-2.4	830.7	1.4	852.9	2.7
Motor Vehicle Usage	426.8	2.4	443.0	3.8	416.9	-5.9	431.3	3.5	445.3	3.2	455.3	2.2
Motor Vehicle License	102.3	-5.2	101.1	-1.1	102.0	0.9	103.1	1.1	104.4	1.3	105.7	1.2
Motor Vehicle Operators	16.0	2.0	16.2	0.9	16.2	0.2	16.8	3.2	17.2	2.6	17.3	0.6
Weight Distance	74.9	-0.2	77.1	2.9	79.4	3.0	83.4	5.0	87.5	4.9	91.3	4.3
Investment	-0.4	NA	2.8	-803.5	3.1	10.7	3.7	19.4	4.0	8.1	4.0	0.0
Other	33.6	-3.8	35.1	4.4	35.5	1.1	35.8	0.8	36.1	0.8	36.4	0.8
Total Road Fund	1,491.6	3.3	1,539.8	3.2	1,491.9	-3.1	1,493.0	0.1	1,525.2	2.2	1,562.9	2.5
			FY14									
Official Enacted Forecast			Estimate									
Motor Fuels			901.9									
Motor Vehicle Usage			421.1									
Motor Vehicle License			99.6									
Motor Vehicle Operators			16.1									
Weight Distance			90.0									
Investment			4.1									
Other			35.4									
Total Road Fund			1,568.2									

5-Year Planning Estimates – Tobacco Settlement Fund (Consensus Forecasting Group and OSBD, August 15, 2013)

August 2013 Official Planning Estimates

Fiscal Year 2014	\$94.6 Million
Fiscal Year 2015	\$92.5 Million
Fiscal Year 2016	\$85.1 Million
Fiscal Year 2017	\$95.1 Million
Fiscal Year 2018	\$88.9 Million

Challenges and Opportunities in the Planning Estimates

■ On the Revenue front:

- Weak points in the General Fund
 - Sales and Use tax
 - Severance Taxes
- Strong points in the General Fund
 - Individual Income Tax
 - Corporation Income Tax and LLET
- Road Fund
 - Weaker growth
 - High base from recent increases in fuels taxes

■ On the Economic Front

- “Optimistically Uncertain”
- Differences between KY and US growth factors
- Exports and Manufacturing vital engines of growth in Kentucky

Sales and Use Tax

(Recent History and Current Forecast Below Historical Trend)

- The decline in sales tax receipts for FY13 represents the third decline in the previous five fiscal years
- Before this recent run, sales taxes fell only one time since 1979
- Plausible links and explanations:
 - Kentucky has a narrow base for sales tax
 - Excluded items are sizable
 - Groceries, prescription pharmacy items, motor vehicles, motor fuels, residential utilities, and most services are excluded from the sales tax
 - Increasing share of business and household purchases
 - Muted inflation stymies growth on ad valorem taxes
 - Households and businesses have been guarded in spending

Historical Sales Tax Growth

	<u>Sales Tax Receipts</u>	<u>Annual Growth</u>		<u>Sales Tax Receipts</u>	<u>Annual Growth</u>
FY91	\$1,296,310,445	19.4%	FY03	\$2,364,182,478	2.8%
FY92	1,363,690,026	5.2%	FY04	2,447,584,698	3.5%
FY93	1,462,251,261	7.2%	FY05	2,594,966,373	6.0%
FY94	1,560,085,519	6.7%	FY06	2,749,765,011	6.0%
FY95	1,680,520,815	7.7%	FY07	2,817,652,253	2.5%
FY96	1,783,881,316	6.2%	FY08	2,877,814,014	2.1%
FY97	1,882,681,995	5.5%	FY09	2,857,665,168	-0.7%
FY98	1,981,297,580	5.2%	FY10	2,794,057,329	-2.2%
FY99	2,085,899,677	5.3%	FY11	2,896,251,816	3.7%
FY00	2,171,397,969	4.1%	FY12	3,052,236,048	5.4%
FY01	2,248,471,100	3.5%	FY13	3,021,794,387	-1.0%
FY02	2,299,990,621	2.3%			

Average Growth 1991-1999 **7.6%**

Average Growth 2000-2008 **3.6%**₂₈

Average Growth 2009-2013 **1.0%**

Sales Tax Projections

Fiscal Year	Control (\$ mil)	Optimistic (\$ mil)	Pessimistic (\$ mil)
2014	\$3,065.2 (1.4%)	\$3,099.7 (2.6%)	\$3,027.3 (0.2%)
2015	\$3,102.3 (1.2%)	\$3,153.3 (1.7%)	\$3,074.3 (1.6%)
2016	\$3,166.3 (2.1%)	\$3,199.0 (1.5%)	\$3,121.0 (1.5%)
2017	\$3,242.0 (2.4%)	\$3,274.0 (2.3%)	\$3,187.3 (2.1%)
2018	\$3,323.3 (2.8%)	\$3,375.3 (3.1%)	\$3,269.3 (2.6%)

Severance Taxes

- Severance taxes recorded all-time highs during the last recession (FY09, FY11, and FY12)
- Since then, the coal severance tax has posted five consecutive quarters of decline
- The \$67.8 million drop in coal severance tax for FY13 effectively erased all of the recessionary gains and returned the tax to pre-recession levels
- Uncertainty in the forecasting horizon further clouds the outlook for coal
 - Has the bottom formed, positioning the tax for a slight rebound? - or
 - Will severance taxes continue to decline due to high-tech advances in the extraction of substitute sources of energy?

Individual and Corporate Income Taxes

- Both the individual and corporate income taxes have grown rapidly during the last three fiscal years despite of lackluster growth in wages and salaries
- In addition, the LLET has doubled since the first full year of tax collections in FY08
 - Enhanced compliance efforts by the DOR have helped
 - Taxpayer education has also helped receipts to grow
- A general pattern has emerged whereby an increasing share of total taxes come from taxes based on income or gross receipts
- Consumption-based taxes, on the other hand, have weakened sharply and their share of the tax base has fallen

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