
FY 14 Year End Financial Report
Interim Joint Committee on Appropriations and Revenue
West Kentucky Community & Technical College
Paducah, Kentucky

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Overview

- Fiscal Year 2014 General Fund Year-End
- Fiscal Year 2014 Road Fund Year-End
- Fiscal Year 2015 Outlook
- Q & A

FY 2014 General Fund Receipts

■ Official Estimate	\$9,552,894,500
■ Actual Receipts	<u>9,462,035,017</u>
■ Revenue Shortfall	\$ 90,859,483

- Slightly less than 1% below estimate

FY 2014 General Fund Receipts

- The culprits:
 - Individual Income: \$63 million less than estimated
 - Largest revenue source – about 40% of receipts
 - Virtually flat from prior year
 - Estimated 2.4% growth
 - Corporate/LLET:\$17.7 million less than estimated
 - Growth less than anticipated (4.3% vs. 7%)

FY 2014 General Fund Receipts

- Culprits (continued)
 - Property Taxes: \$6.5 million less than estimated
 - Coal Severance and Cigarette Taxes - each \$3.1 million less than estimated
- Hero
 - Sales Tax: \$31.8 million more than estimated (grew 3.6% vs. 2.6% estimated)

The Economy Fiscal Year 2014

- The newest explanation for tepid growth:
 - A stubborn winter and inventory backlogs hampered growth in the first half of FY2014
 - The April “Surprise”. Overall state personal income tax collections fell by 7.1% in the January to April period and 33 states experienced declines—ten of those with double digit decreases from prior year. Many taxpayers took actions to shift income from tax year 2013 to tax year 2012 to minimize their expected federal tax liability and this year reflects the reversal of that effect.

Other states report on FY14 end

- Preliminary data for the fourth quarter FY14 show significant declines in personal income taxes and overall tax collection for the nation:
 - Weakest quarter since the third fiscal quarter in 2010.
 - Twenty nine states reported overall declines.
 - Personal income declined sharply by 7.1%.
 - Growth in sales tax collections were relatively strong at 4.2%.
 - Corporate income tax declined by 0.1%

FY14 General Fund Receipts Compared to Previous Years

(millions)

	Full Year Receipts			Growth Rates (%)		
	FY14	FY13	FY12	FY14	FY13	FY12
Individual Income	3,749.3	3,723.0	3,512.1	0.7	6.0	2.8
Sales and Use	3,131.1	3,021.8	3,052.2	3.6	-1.0	5.4
Property	562.4	558.4	529.6	0.7	5.4	2.9
Corporate Income	475.1	400.8	374.4	18.6	7.0	24.5
LLET	199.3	246.1	200.7	-19.0	22.6	-7.0
Coal Severance	197.5	230.5	298.3	-14.3	-22.7	0.8
Cigarette Taxes	228.1	238.7	254.8	-4.4	-6.3	-2.8
Lottery	219.5	215.3	210.8	2.0	2.1	5.1
Other	699.7	713.8	658.0	-2.0	8.5	0.4
Total	9,462.0	9,348.3	9,091.0	1.2	2.8	3.8

FY14 General Fund Receipts Compared to Official Estimate

(millions)

	FY14		Difference	
	Actual	Estimate	\$	%
Individual Income	3,749.3	3,812.3	-63.0	-1.7
Sales and Use	3,131.1	3,099.3	31.8	1.0
Property	562.4	568.9	-6.5	-1.1
Corporation Income	475.1	460.5	14.6	3.2
LLET	199.3	231.7	-32.4	-14.0
Coal Severance	197.5	200.6	-3.1	-1.5
Cigarette Tax	228.1	231.2	-3.1	-1.4
Lottery	219.5	224.0	-4.5	-2.0
Other	699.7	724.4	-24.7	-3.4
Total	9,462.0	9,552.9	-90.9	-1.0

FY14 General Fund Quarterly Growth Rates

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY14</u>
Individual Income	3.3	1.6	2.4	-3.1	0.7
Sales and Use	2.3	3.7	3.3	5.1	3.6
Property	-15.1	-7.6	10.3	72.9	0.7
Corporation Income	33.4	-2.4	15.6	19.9	18.6
LLET	2.8	-25.5	-27.1	-21.7	-19.0
Coal Severance	-20.9	-6.8	-16.0	-12.6	-14.3
Cigarette Tax	-2.1	-5.1	-3.8	-6.6	-4.4
Lottery	0.0	2.6	0.0	4.8	2.0
Other	8.9	-7.5	1.7	-10.5	-2.0
Total	3.3	-0.7	2.1	0.5	1.2

General Fund Budget Reduction Plan Requirements

- **House Bill 265-Part VI General Fund Budget Reduction Plan**
- 1. Any adjustments to Coal Severance appropriations based on actual receipts
- 2. Transfers of excess unappropriated Restricted Funds
- 3. Use of any unappropriated balance of General Fund Surplus
- 4. General Fund appropriation reductions
- 5. Up to 50% of the Budget Reserve Trust Fund
- 6. Other necessary actions to balance the budget

General Fund Budget Reduction Actions - Context

- FY 14 Budget Adjustments from the Original Enacted version were made in the 2014 Session
 - The 2014-16 Budget already built in \$97 million in Expected Spending Lapses (\$20 million) and Coal Severance receipt adjustments (\$77 million). These would normally be the first solutions to a shortfall

- Revenue Shortfall Came Late in the Fiscal Year
 - Last time: the 2nd budget cut of FY09 & the 4th budget cut of FY02
 - The April 3rd Quarter Report predicted a \$27.7 million shortfall
 - The 4th quarter usually represents 27% to 28% of Annual receipts

General Fund Budget Reduction Actions – Context (con't)

- Most Spending Already Occurred or Obligated
- Governor did not want to impact the FY 15 & FY 16 Enacted Budget which counted on the use of an \$80.5 million FY 14 ending balance
- Very little flexibility because of the timing of shortfall

Actions Taken to close the \$90.9 Million General Fund Shortfall

	<u>(millions \$)</u>
■ Transfers of Excess Unappropriated Restricted Funds	\$50.0
■ General Fund Appropriation Reductions:	
■ Executive Branch	3.0
■ Judicial Branch	1.5
■ Legislative Branch	<u>0.3</u>
■ Total Appropriation Reductions	\$4.8
■ General Fund Lapses (mostly lower NGE spending)	\$11.9
■ Authorized Fund Transfers in Excess of Budget	\$ 3.0
■ Budget Reserve Trust Fund	\$21.2
■ GRAND TOTAL	\$90.9

Budget Reserve Trust Fund

	<u>(millions \$)</u>
■ Balance after FY 13	\$121.7
■ Deposit from FY 13 Surplus	<u>\$ 25.6</u>
■ Balance during FY 14	\$147.3
■ 2012-14 Appropriated Use in FY 14	(\$ 49.0)
■ 2014-16 Appropriated Use in FY 16	<u>(\$ 13.7)</u>
■ Unbudgeted Balance	\$ 84.6
■ Use for FY 14 Revenue Shortfall	<u>(\$ 21.2)</u>
■ Unbudgeted Balance	\$ 63.4*
■ *Only available source for Necessary Government Expense Appropriations, since there was no FY 14 Surplus	

Transfers from Unappropriated Excess Restricted Funds – Top Ten

	(millions \$)
■ Behavioral Health-Residential Institutions	\$15.0
■ Ky Access Fund	\$ 8.6
■ Dept. of Insurance	\$ 2.5
■ Underground Storage Tank Fund	\$ 2.1
■ Finance Cabinet Property Management Fund	\$ 2.0
■ Firefighters Foundation Program Fund	\$ 2.0
■ Reflectorized License Plate Fund	\$ 1.8
■ Finance Cabinet Fleet Management Fund	\$ 1.4
■ Dept. of Financial Institutions	\$ 1.4
■ Dept. of Revenue	\$ 1.2

FY 2014 Road Fund Receipts

■ FY14 Enacted	\$1,582,600,000
■ FY14 Actual	<u>1,560,441,246</u>
■ Revenue Shortfall	\$ 22,158,754
■ 1.4% below estimate	

Road Fund Budget Reduction Plan Requirements

- **House Bill 265-Part VIII Road Fund Budget Reduction Plan**
- “The Governor shall implement sufficient reductions as may be required to protect the highest level of service.”

FY14 Road Fund Receipts Compared to Previous Years

(millions)

	Full Year Receipts			Growth Rates (%)		
	FY14	FY13	FY12	FY14	FY13	FY12
Motor Fuels	886.2	838.3	790.2	5.7	6.1	7.8
Motor Vehicle Usage	443.0	426.8	416.9	3.8	2.4	9.2
Motor Vehicle License	101.9	102.3	107.8	-0.4	-5.2	10.2
Motor Vehicle Operators	16.2	16.0	15.7	0.6	2.0	0.0
Weight Distance	76.9	74.9	75.1	2.6	-0.2	1.5
Income on Investments	4.0	-0.4	3.1	NA	-112.9	54.3
Other	32.3	33.6	34.9	-3.9	-3.8	0.7
Total	1,560.4	1,491.6	1,443.8	4.6	3.3	7.8

FY14 Road Fund Receipts Compared to Official Estimate

\$ millions

	FY14		Difference	
	Actual	Estimate	\$	%
Motor Fuels	886.2	900.7	-14.5	-1.6
Motor Vehicle Usage	443.0	448.4	-5.4	-1.2
Motor Vehicle License	101.9	101.3	0.6	0.6
Motor Vehicle Operators	16.2	16.1	0.0	0.3
Weight Distance	76.9	76.1	0.8	1.0
Income on Investments	4.0	2.8	1.2	NA
Other	32.3	37.2	-4.9	-13.1
Total	1,560.4	1,582.6	-22.1	-1.4

Actions Taken to close the \$22.2 Million Road Fund Shortfall

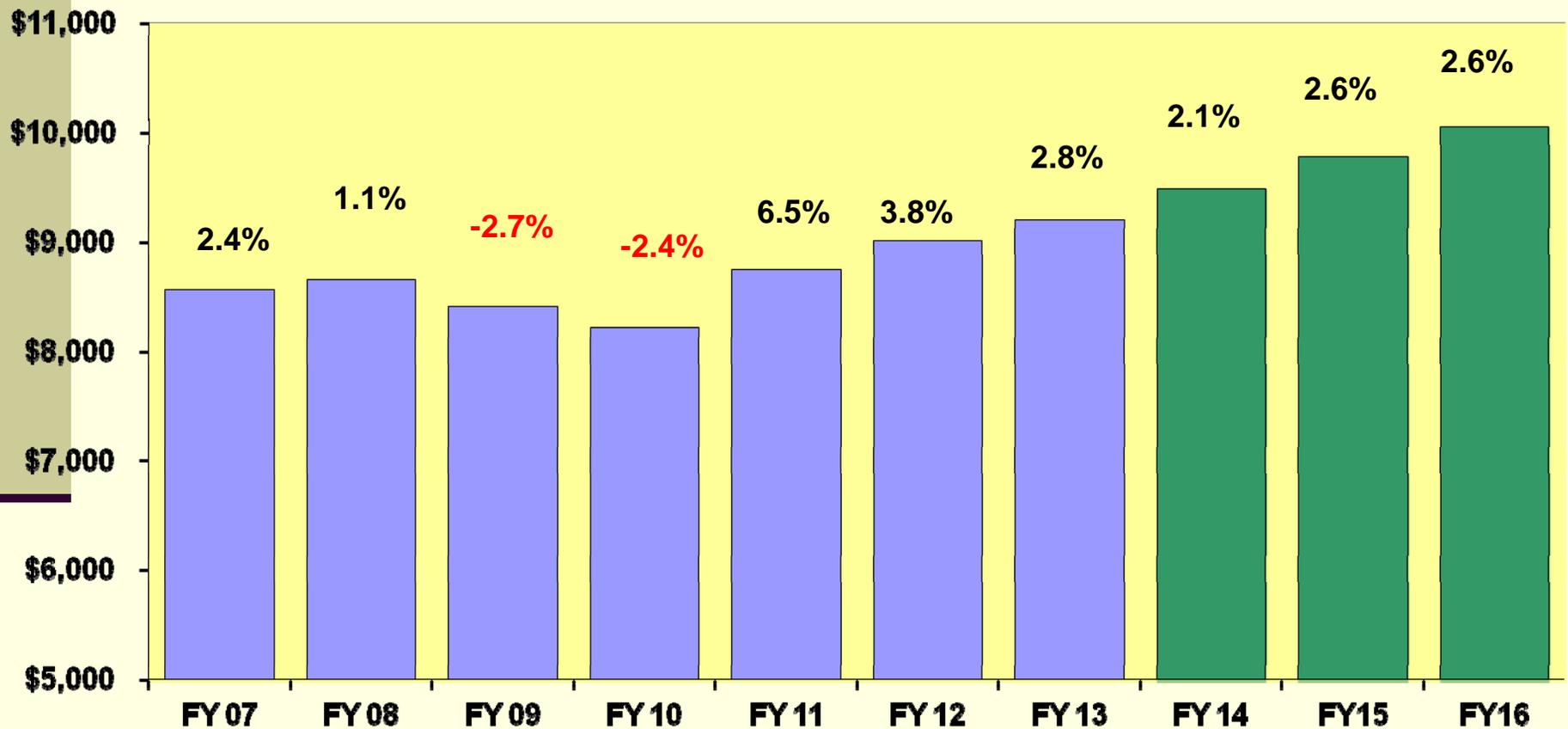
	(millions \$)
■ Dedicated Fuels Tax Adjustment	\$ 4.5
■ Road Fund Appropriation Reductions	\$ 3.7
■ Authorized Fund Transfers in Excess of Budget	\$ 1.8
■ Road Fund Lapses	<u>\$12.2</u>
■ GRAND TOTAL	\$22.2

FY 15 General Fund Receipts Outlook

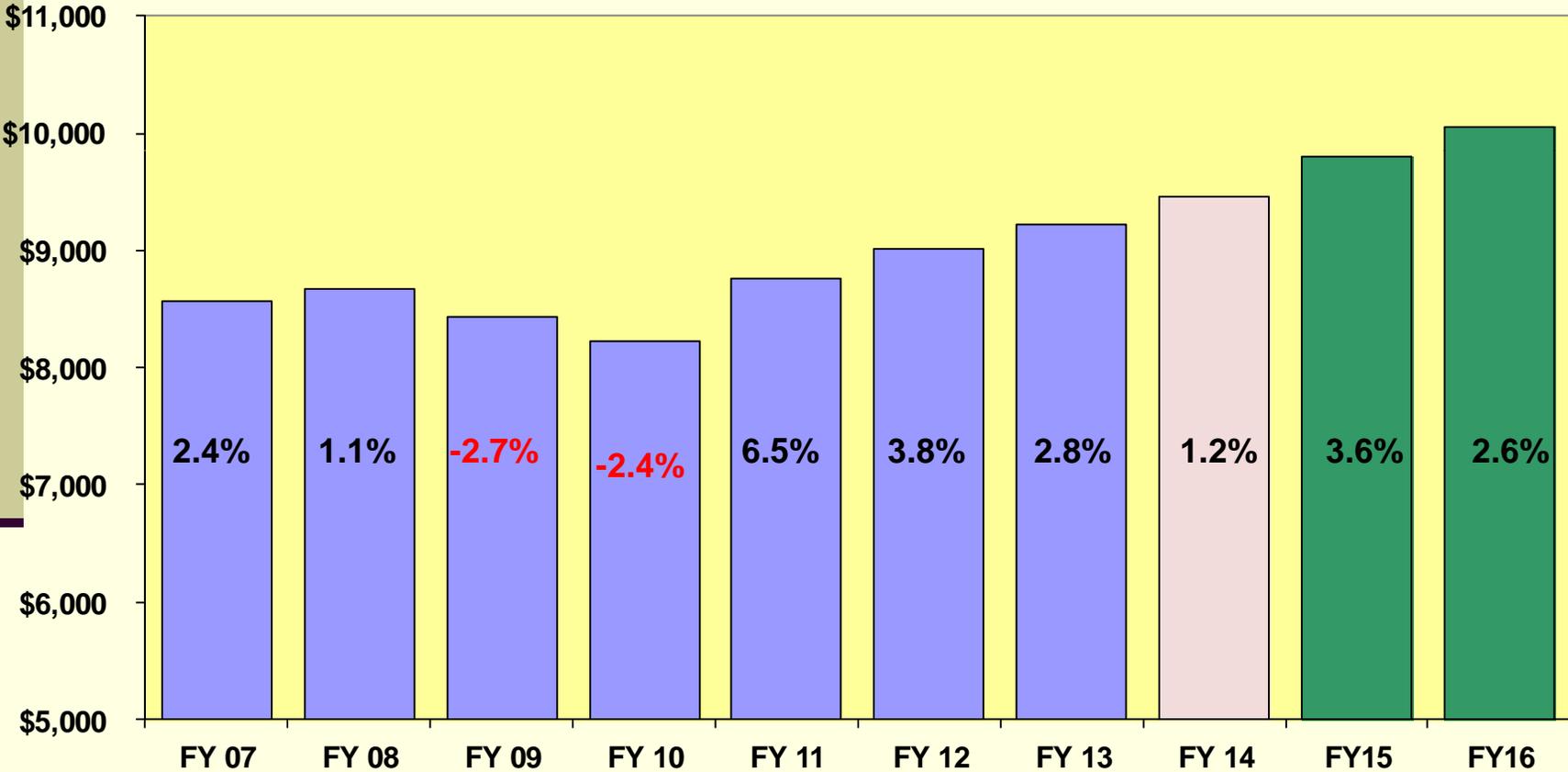
- First Two Months of General Fund Receipts
 - July, 2014 2.2%
 - August, 2014 1.2%
- Growth Needed to Meet Enacted Revenue Estimate 3.9%
- Individual Income Tax: 7.5% increase in first two months
 - Withholding: 8.1% increase in first two months
- Sales Tax: 4.4% increase in first two months; 4.3% increase since January
- Corporation Income Tax: Potential area of weakness
 - September first month in FY15 where estimated quarterly payments are due.

Modest General Fund Revenue Growth Predicted

(\$ millions and % change from prior fiscal year)



What It Looks Like Now...



That Stubborn Economy

- When will “next year” finally get here?
 - We are now approaching the sixth year of a recovery but employment and earnings growth remains well below previous recoveries
 - Recent employment reports, a reduction in the unemployment rate, and increase in household earnings all suggest better days lies ahead; but we have heard this before ...

Other States' Trends

- According to several national sources our environment is consistent with a number of states:
 - State budgets are not growing fast enough to make up for recession impacts and inflation.
 - States expect average FY15 General Fund spending growth to be 2.9%.
 - Many states continue to face difficult budgetary choices as the economy continues along a trajectory of relatively slow growth .

Other State Trends in Forecasted Collections for FY15

- Collectively, states' revenue estimates depict an increase in sales, personal and corporate income taxes (approximately 80% of states' revenue sources) compared to FY14.
- Specific tax projections:
 - Personal Income tax—5.1% growth
 - Sales tax—4.5% growth
 - Corporate Income tax—1.6% growth

Budget Balancing Measures During Beshear Administration

	Fiscal Year	Description	Amount (millions)	Most Common % Cut
1	2008	Budget Reduction	\$ 76	3.0%
2	2009	Enacted Reduction	\$ 176	12.0%
3		Mandated Budget Gap	\$ 180	4.5%
4		Budget Reduction	\$ 147	4.0%
5	2010	Budget Reduction - Round 1	\$ 273	4.0%
6		Budget Reduction - Round 2	\$ 49	3.0%
7	2011	Enacted Reduction	\$ 61	3.5%
8		Mandated Budget Gap	\$ 131	1.5%
9	2012	Enacted Reduction	\$ 81	1.0%
10		Mandated Budget Gap	\$ 169	2.0%
11	2013	Enacted Reduction	\$ 140	8.4%
12		Mandated Budget Gap	\$ 40	TBD
13	2014	Enacted Reduction	\$ 6	NA
14	2015	Enacted Reduction	\$ 60	5.0%
15	2016	Enacted Reduction	\$ 12	NA
Total			\$1.6 billion	41.5%

Biennial Outlook

- **Impact of Cumulative Cuts \$1.6 billion cut over last seven years**
 - With new recommended 5% cuts, many agencies to be cut a cumulative 41% since FY2008
 - Impact of the additional cuts will be real:
 - service delays
 - more employee attrition
 - loss of federal funds

Biennial Outlook

- Budget Reduction Plans Assumed in Budget
 - Additional 5% for many agencies
 - Additional 2.5% for select agencies
 - Additional 1.5% for universities

Biennial Outlook

- Challenges include:
 - Revenue growth from lower base
 - Additional items “assigned” to NGE by General Assembly
 - Loss of flexibility as a result of additional budget reduction actions for FY14
 - Impact on reserves

Budget Challenges

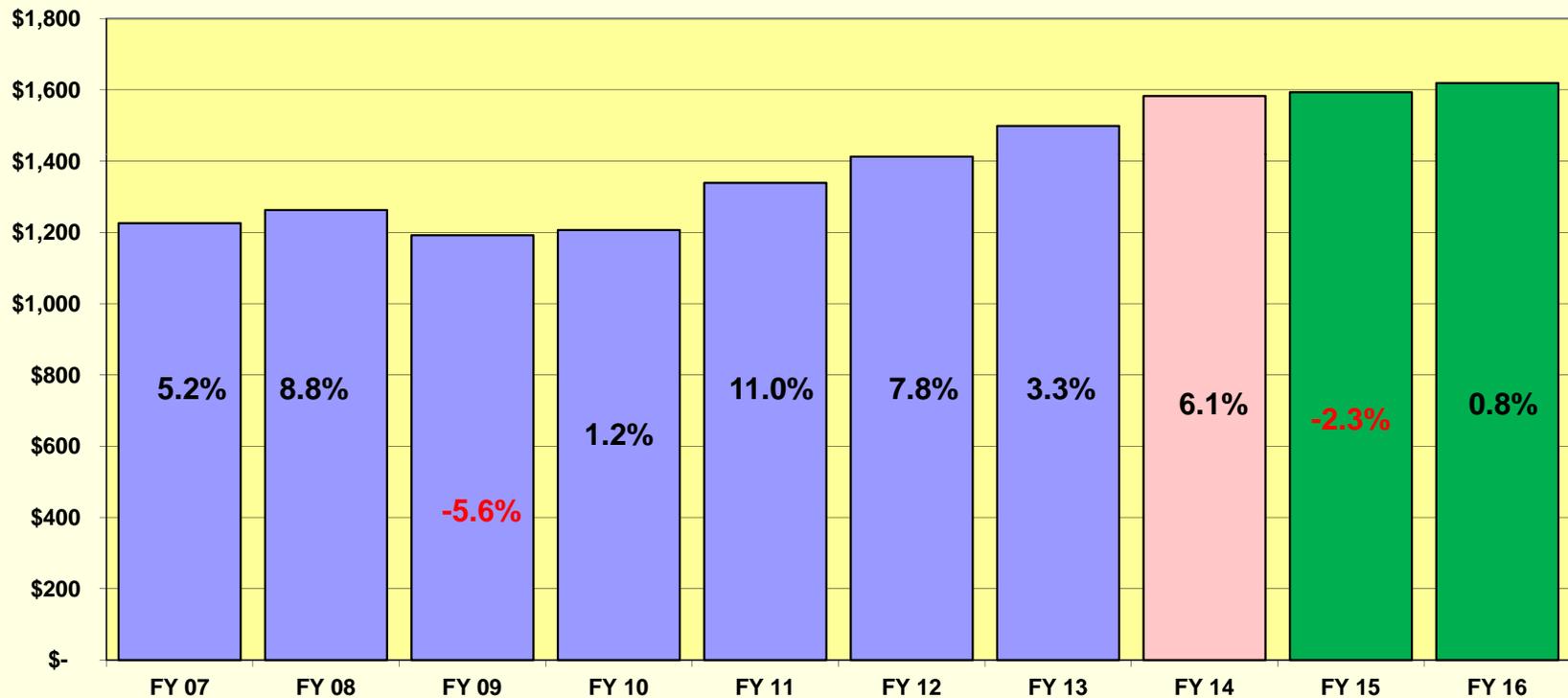
- Increasing, but modest revenues
- Increasing costs to maintain same services
- Cumulative impact of seven consecutive years of budget cuts
- Tight fiscal conditions lie ahead.

FY15 Road Fund Outlook

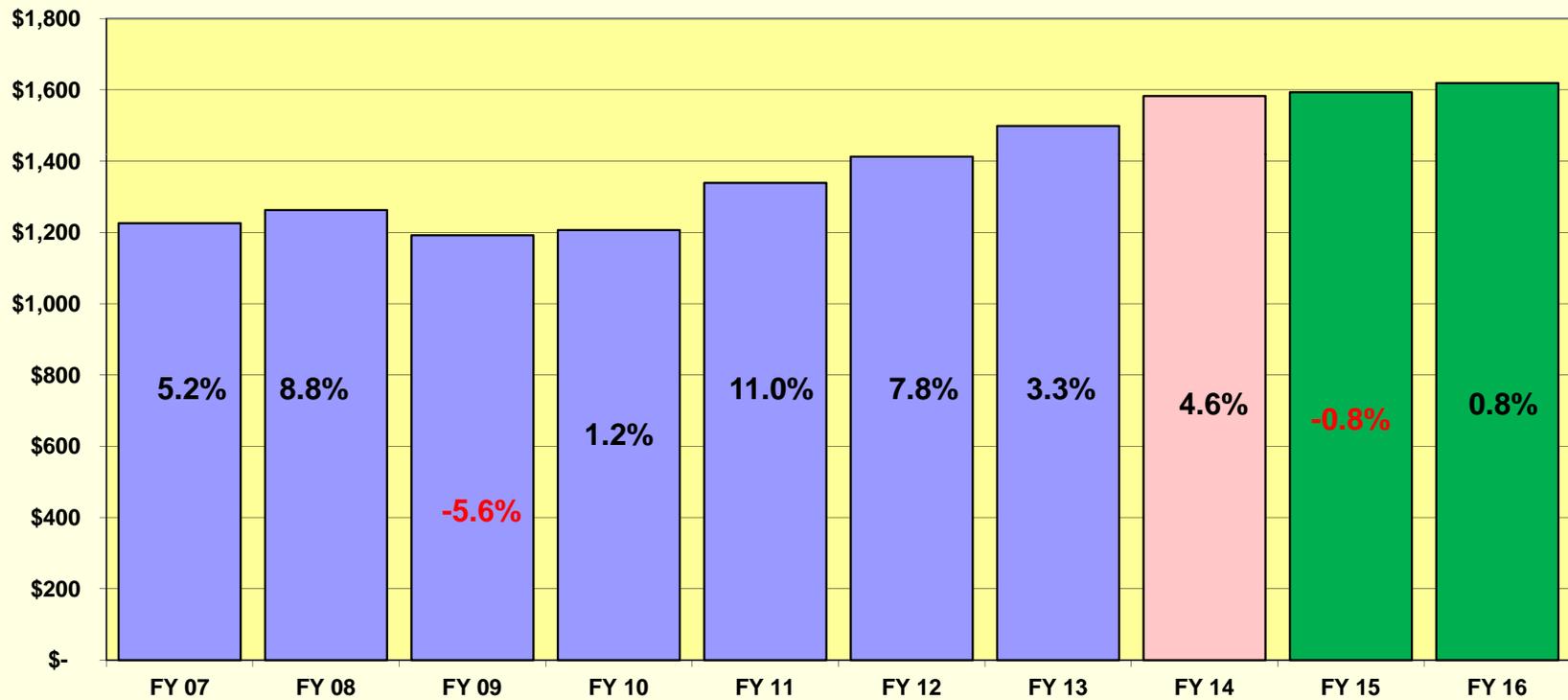
- Forecasted to decline in FY15—first decline since FY09
 - Fuels decline attributed to decreasing levels of taxable gallons
 - Variable portion of the tax can at best increase only 0.2 cents per gallon this fiscal year
 - Motor vehicle usage will be affected by implementation of the new car trade-in credit (estimated decrease of \$34 million)
 - First time since FY01 that both fuels and motor vehicle usage expected to decline.
 - Through August, Road Fund has grown 2.3% compared to this time last fiscal year.

Road Fund Revenue Growth Predicted

(\$ millions and % change from prior fiscal year)



What It Looks Like Now...



Continuous Monitoring

- Review revenue projections after first quarter
- Timeline for Medicaid expansion projections
- Work with agencies on managing resources
- Necessary Government Expenses



Questions

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