
Financial Outlook Report

Interim Joint Committee on Appropriations and Revenue

July 23, 2015

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Overview

- Introduction
- Fiscal Year 2015 General Fund Year-End
- Fiscal Year 2015 Road Fund Year-End
- Fiscal Year 2016 Outlook
- Q & A

FY 2015 General Fund Receipts

■ Actual Receipts	\$9,966,630,897
■ Official Estimate	<u>9,801,229,200</u>
■ Revenue Surplus	\$ 165,401,697
■ 1.7% above estimate	

General Fund Receipts-Summary

- Kentucky's most elastic revenue sources performed very well in creating "new" money (\$504.6 million more than FY14).
 - Individual Income Tax – \$320.2 million
 - Sales Tax – \$136.2 million
 - Business Taxes – \$77.4 million
 - Total – \$533.8 million
- The remaining General Fund revenue sources fell a collective \$29.2 million

General Fund Receipts-Individual Income

- Individual Income Tax (IIT)
 - \$92.2 million over estimate following FY14, where the IIT was \$63.0 million below the enacted estimate.
 - Growth in FY15 was 8.5% on the heels of 0.7% growth in FY14
 - Growth accelerated throughout the course of FY15 (1.1% in QTR1 up to 11.5% in QTR4)
 - The IIT contributed \$320.2 million of the total \$504.6 million in nominal General Fund growth

General Fund Receipts-Sales and Use Tax

■ Sales Tax

- Growth in FY15 was 4.4% following 3.6% percent growth in FY14
- At time of official estimate approval, the sales tax had fallen 3 of the previous 5 years
- The sales tax contributed \$136.2 million of the total \$504.6 million in nominal General Fund growth

General Fund Receipts-Business Taxes

- Corporation Income Tax
 - FY15 growth of 11.2% produced receipts of \$528.1 million
 - The corporation income tax generated double-digit growth in 4 of the past 5 years
 - When combined with the LLET, business taxes contributed \$77.4 million of the total \$504.6 million in nominal General Fund growth

Under-Producing General Fund Revenue

- Property Tax
 - Flat since FY13
 - \$17.8 million less than estimate
- Coal Severance
 - Fallen for three consecutive fiscal years
 - \$17 million less than FY14
 - \$50 million less than FY13
- Cigarette Taxes
 - Fifth consecutive annual decline
 - Consistent with national trends of falling pack sales
 - \$7 million less than FY14
- Lottery
 - Jackpot fatigue per the Lottery Corporation
 - \$16.5 million less than official estimate but \$2 million more than FY14

FY15 General Fund Receipts vs. Previous Years (millions \$)

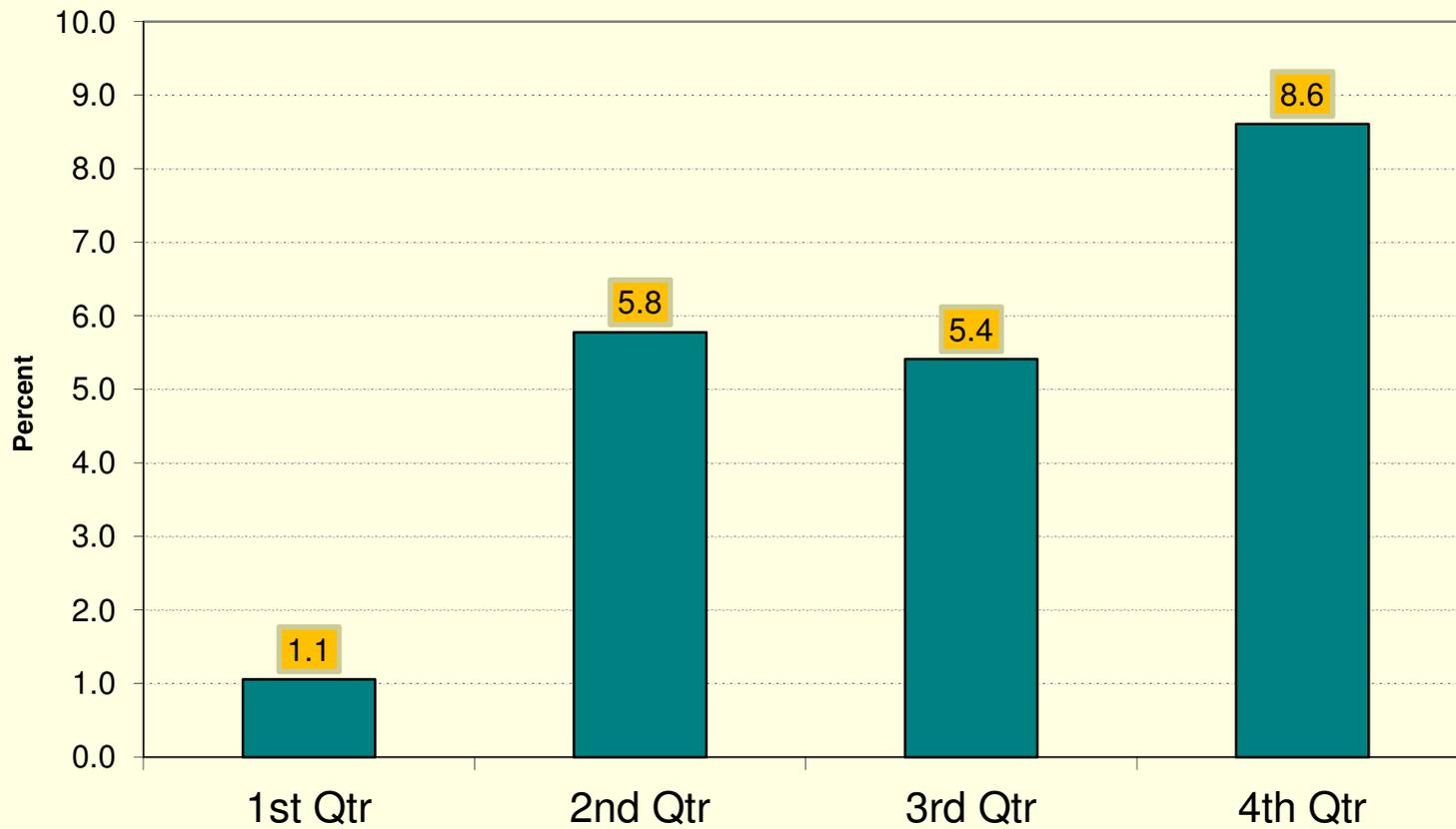
	Million \$			Growth Rate (%)		
	FY15	FY14	FY13	FY15	FY14	FY13
Sales and Use	3,267.3	3,131.1	3,021.8	4.4	3.6	-1.0
Individual Income	4,069.5	3,749.3	3,723.0	8.5	0.7	6.0
Corporation Income	528.1	475.1	400.8	11.2	18.6	7.0
LLET	223.8	199.3	246.1	12.3	-19.0	22.6
Coal Severance	180.3	197.5	230.5	-8.7	-14.3	-22.7
Cigarette Tax	220.9	228.1	238.7	-3.1	-4.4	-6.3
Property	563.4	562.4	558.4	0.2	0.7	5.4
Lottery	221.5	219.5	215.3	0.9	2.0	2.1
Other	691.8	698.9	713.8	-1.0	-2.1	8.5
TOTAL	9,966.6	9,462.0	9,348.3	5.3	1.2	2.8

FY15 General Fund Receipts vs. Official Estimate (millions \$)

	<u>Actual</u>	<u>Estimate</u>	<u>Diff (\$)</u>	<u>Diff (%)</u>
Sales and Use	3,267.3	3,154.0	113.3	3.6%
Individual Income	4,069.5	3,977.3	92.2	2.3%
Corporation Income	528.1	462.4	65.7	14.2%
LLET	223.8	233.7	-9.9	-4.2%
Coal Severance	180.3	204.6	-24.3	-11.9%
Cigarette Tax	220.9	223.5	-2.6	-1.2%
Property	563.4	581.2	-17.8	-3.1%
Lottery	221.5	238.0	-16.5	-6.9%
Other	<u>691.8</u>	<u>726.5</u>	<u>-34.7</u>	<u>-4.8%</u>
TOTAL	9,966.6	9,801.2	165.4	1.7%

FY15 Revenue Growth Acceleration

Quarterly General Fund Growth



\$139.1 Million FY15 General Fund Surplus

	millions
FY 15 General Fund Year-End Balance	\$220.8
Budgeted Carryforward into FY 16	(\$81.7)
General Fund Surplus	\$139.1
Actual vs. Budgeted	
Revenues in Excess of Official Estimate	\$165.4
Necessary Government Expenses	(\$49.6)
Spending Less than Budgeted	\$33.1
Fund Transfers Less than Budgeted	(\$5.0)
HB 510 Budget Actions	(\$4.8)
General Fund Surplus	\$139.1

\$139.1 Million FY15 General Fund Surplus

- HB 235 General Fund Surplus Expenditure Plan

- FY 16 Necessary Government Expense \$56.6 million
- Budget Reserve Trust Fund \$82.5 million

FY15 Necessary Government Expenses

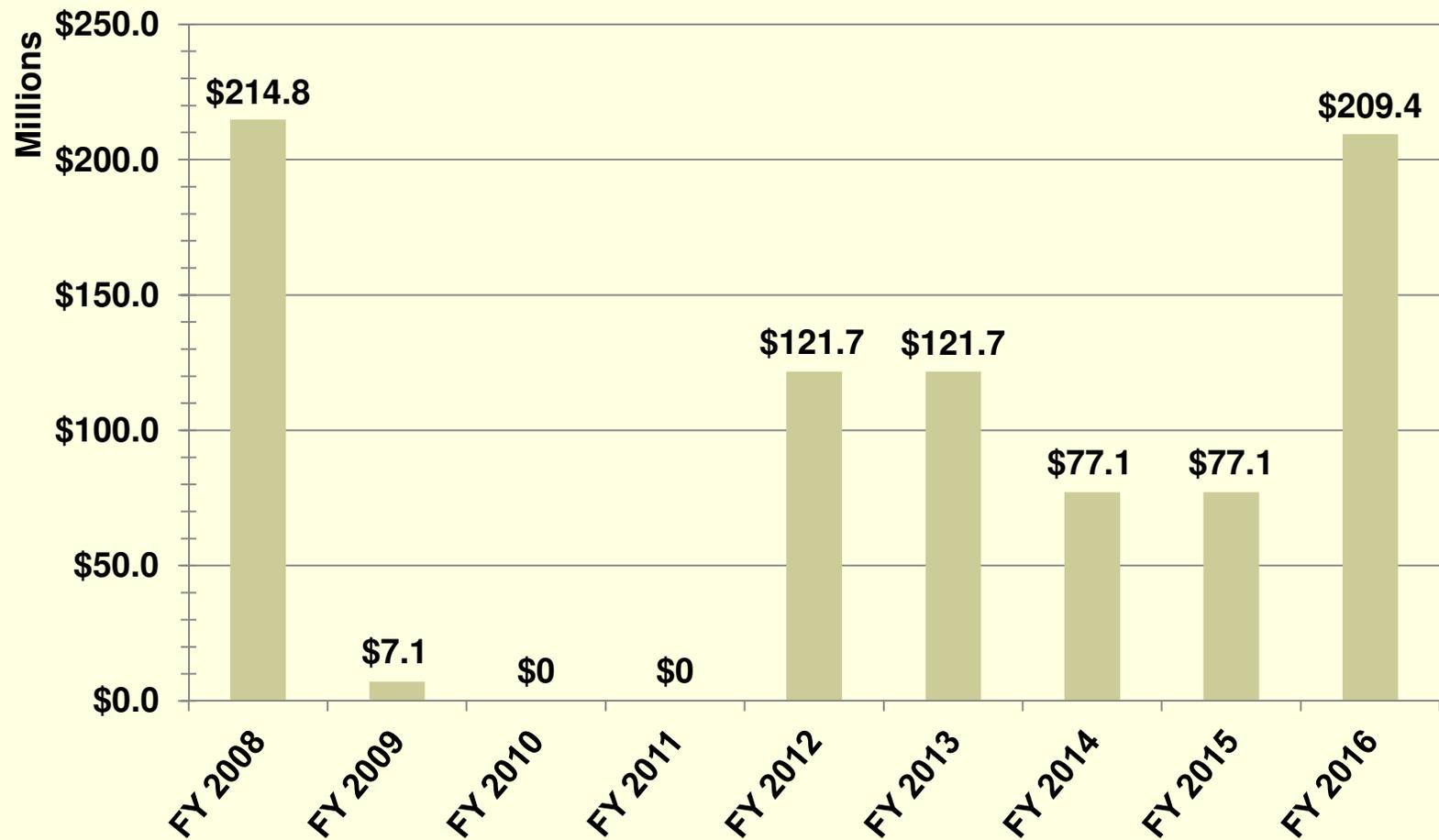
	millions
Total for FY 15	\$49.6
Corrections	\$11.8
Guardian Ad Litem	\$10.3
SEEK Shortfall	\$8.6
Military Affairs-Disasters and Planned Events	\$6.0
County Costs-Courthouse Security	\$5.6
Forest Fire Suppression	\$2.6
Judgments	\$1.5
ANOC-Unredeemed Checks	\$1.4
Quality and Charity Care Trust Fund	\$0.6
All Others	\$1.2

Budget Reserve Trust Fund

	millions
■ Beginning Balance	\$ 77.1
■ Appropriated for Use in FY 16	(\$13.7)
■ Deposit from FY 15 Surplus	\$ 82.5
■ 2015 Session Increase	<u>\$ 63.5</u>
■ Balance	\$209.4

■ \$209.4 million is 2.1% of FY 16 General Fund Revenues
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Budget Reserve Trust Fund FY2008-FY2016



FY 2015 Road Fund Receipts

■ FY15 Enacted	\$1,546,700,000
■ FY15 Actual	<u>1,526,738,659</u>
■ Revenue Shortfall	\$ 19,961,341
■ 1.3% below estimate	

FY15 Road Fund Receipts vs. Previous Years

(millions \$)

	Million \$			Growth Rate (%)		
	FY15	FY14	FY13	FY15	FY14	FY13
Motor Fuels	850.3	886.2	838.3	-4.0	5.7	6.1
Motor Vehicle Usage	432.8	443.0	426.8	-2.3	3.8	2.4
Motor Vehicle License	107.6	101.9	102.3	5.6	-0.4	-5.2
Motor Vehicle Operators	16.0	16.2	16.0	-1.2	0.6	2.0
Weight Distance	79.1	76.9	74.9	2.9	2.6	-0.2
Investment Income	2.9	4.0	-0.4	-28.0	NA	-112.9
Other	38.1	32.3	33.6	18.0	-3.9	-3.8
TOTAL	1,526.7	1,560.5	1,491.6	-2.2	4.6	3.3

FY15 Road Fund Receipts vs. Official Estimate

(millions \$)

	Actual	Estimate	Diff.	Diff. (%)
Motor Fuels	850.3	883.2	-32.9	-3.7
Motor Vehicle Usage	432.8	425.5	7.3	1.7
Motor Vehicle License	107.6	101.9	5.7	5.5
Motor Vehicle Operators	16.0	16.7	-0.7	-4.4
Weight Distance	79.1	79.9	-0.8	-0.9
Investment Income	2.9	3.1	-0.2	NA
Other	<u>38.1</u>	<u>36.4</u>	<u>1.7</u>	<u>4.7</u>
TOTAL	1,526.7	1,546.7	-20.0	-1.3

Road Fund: Financial Impact of Law Change

- Passage of HB299 will have a significant impact of motor fuels revenues for FY15, FY16 and beyond as shown below. The revenue preservation for FY15 is between \$20 million and \$50 million depending on the point of comparison. For FY16, the difference is larger still, ranging from more than \$105 million to nearly \$235 million.

- **Motor Fuels Revenue Estimates**

	(Millions \$)	
	<u>FY15</u>	<u>FY16</u>
Estimate With HB299 (Floor of 19.6)	853.8	743.2
Estimate Without HB299 (Floor of 16.1)	<u>834.0</u>	<u>636.1</u>
Impact of HB299	19.8	107.1

Tax Rate on Motor Fuels (¢ per gallon)

- Total Tax rate for FY16 is 26¢:
 - Variable Rate is 19.6¢ (9% of the AWP)
 - 5¢ Supplemental Highway Fee
 - 1.4¢ Underground Storage Tank Fee

Variable Tax Rate

	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Q1	16.1	19.2	21.4	23.5	25.9	26.1	19.6
Q2	16.8	19.5	21.4	23.5	25.9	25.5	19.6
Q3	17.7	19.5	21.4	23.5	24.4	21.2	19.6
Q4	17.7	19.5	21.4	23.5	23.7	19.6	19.6

Motor Vehicle Usage Tax

- Motor Vehicle Usage Tax fell 2.3% in FY15
- Motor Vehicle Usage tax expenditure (trade in credit) of \$45.8 million in FY15
- New car and truck purchases have been strong, but the trade-in credit eliminates the elasticity of this second-largest Road Fund revenue source

\$6.3 Million FY 15 Road Fund Surplus

	millions
Actual vs. Budgeted	
Revenues Less than Official Estimate	(\$20.0)
Spending Less than Budgeted	\$12.2
Revenue Sharing Reduction	\$13.7
Fund Transfers in Excess of Budgeted	\$0.4
Road Fund Surplus	\$6.3

The Economy

■ Emerging Trends

- Very solid labor statistics
 - More consistent job growth
 - Unemployment rate is lower
 - Wage growth as labor markets tighten
- Consumer spending expected to produce higher GDP growth in the near term
 - Higher consumer confidence
 - Higher incomes
 - Stronger housing markets

The Economy (continued)

- Business investment spending mixed
 - Strong dollar is dragging down investment, but ...
 - Capital spending is higher due to sales outlook
 - Consumption is driving investment
- Housing and Construction gaining momentum
 - Improvements in Affordability
 - Job prospects improving
- International Trade not helping GDP Growth

Kentucky Economy

- Unemployment rate in Kentucky down to 5.1% compared to a National rate of 5.5%
- Kentucky personal income is projected to grow faster than that of the U.S. as a whole over the next three quarters
- Home prices increased in Bowling Green, Louisville, Northern Kentucky and Owensboro in the third quarter and real estate contacts surveyed anticipate more industrial construction in these areas in the upcoming fiscal year.
- New home permits across the Commonwealth are showing a rebound, suggesting home construction this summer should outpace what was seen in calendar 2014.

Upcoming Forecasts

- Pursuant to KRS 48.120, economic and revenue forecasts will be prepared in the upcoming months
 - August 15th – Planning Estimates
 - October 15th – Preliminary Estimates
 - December – Official Estimates

Planning for next Biennial Budget Process

- Budget Instructions
- Capital Planning
- Budget Requests



Questions

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