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General Fund receipts fell 0.3 percent in June
Road Fund receipts fell 5.7 percent in June

FRANKFORT, Ky. (Monday, July 10, 2017) The Office of State Budget Director reported today that Kentucky's General Fund receipts rose for the seventh consecutive year while the Road Fund grew after two consecutive declining years. For the fiscal year that ended June 30, 2017 (FY17), General Fund receipts totaled \$10,477.8 million or 1.3 percent more than FY16 collections. Final FY17 General Fund revenues were \$138.5 million, or 1.3 percent, less than the official revenue estimate which projected 2.7 percent growth. General Fund collections declined 0.3 percent in June, as the two major revenue sources, the sales tax and individual income tax, were essentially unchanged from a year ago.

State Budget Director John Chilton noted that General Fund collections continued their upward trend as receipts rose for the seventh consecutive year. However, the rate of growth has weakened in each of the past three years. "While I am pleased with the sustained growth, collections for FY17 were below forecasted levels by 1.3 percent. Looking back to February, General Fund revenues were right on pace to hit the estimate with year-to-date growth of 2.8 percent. However, the period between March and June saw nominal revenues decline by \$50.2 million, due in large part to March's plunge in corporate revenues. The forecasting challenge going forward will be predicting when revenues will reverse the current four-month slide and resume collections more closely aligned with underlying economic growth. We have now closed the books on revenues and will close the books on the expenditure side later this month."

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General Fund revenue collections grew in three of the four quarters in fiscal year 2017 with the third quarter as the outlier. The first two quarters exhibited relatively strong growth; however, receipts took a downturn in the third quarter before rebounding slightly in the final three months. Growth rates for the four quarters were 3.4 percent, 3.3 percent, -3.2 percent and 1.7 percent.

A summary of General Fund collections for FY17 and FY16 is shown in Table 1.

Table 1
Summary of General Fund Receipts
FY17 and FY16

	Actual FY17	Actual FY16	Difference (\$ mil)	Difference (%)
Sales and Use	3,485.2	3,462.7	22.5	0.7
Individual Income	4,393.9	4,282.1	111.8	2.6
Corporation Income	497.5	526.6	-29.2	-5.5
LLET	245.6	203.0	42.6	21.0
Coal Severance	100.5	120.6	-20.2	-16.7
Cigarette Taxes	221.4	224.3	-2.9	-1.3
Property	602.1	577.5	24.5	4.3
Lottery	241.6	241.8	-0.2	-0.1
Other	<u>690.1</u>	<u>700.2</u>	<u>-10.1</u>	<u>-1.4</u>
TOTAL	10,477.8	10,338.9	138.9	1.3

Individual Income Tax:

Individual income tax receipts posted the largest increase over FY16 levels, growing \$111.8 million. Withholding was the only component of the tax to increase, rising \$138.7 million. The remaining components; declarations, net balances on returns and fiduciary showed small declines. Growth in this tax of 2.6 percent is the lowest since FY14. Growth rates for the four quarters were 4.8 percent, 3.7 percent, -1.7 percent and 3.1 percent.

Sales and Use Taxes:

Sales and use tax receipts grew \$22.5 million, or 0.7 percent, in FY17. Collections in this account have grown for four consecutive years but the rate of growth for FY17 is the lowest since a decline in FY13. Receipts grew strongly in Q1 but were weak for the remaining three quarters of the fiscal year. Quarterly growth rates were 4.2 percent, -0.5 percent, -2.1 percent and 0.9 percent.

Tobacco Taxes:

Cigarette tax receipts reverted to their long-run downward trend, after increasing in FY16. Collections fell \$2.9 million, or 1.3 percent in FY17. Quarterly growth rates for the year were -1.5 percent, -5.5 percent, 0.7 percent and 1.2 percent.

Business Taxes:

Corporation income tax collections declined \$29.2 million compared to last year. This is the second consecutive annual decline after five years of extremely strong growth. A poor second half of the year offset stout first half growth. Quarterly growth rates were 9.3 percent, 32.5 percent, -71.6 percent and -3.7 percent.

The limited liability entity tax (LLET) just missed reaching an all-time high with gross collections of \$245.6 million. The 21.0 percent, or \$42.6 million increase was concentrated in the second and third quarters. Growth rates for the four quarters were -16.8 percent, 69.4 percent, 44.4 percent and 11.1 percent. The LLET is allowed as a non-refundable payment credit against corporate and individual income tax, so the net benefit to the General Fund is much less than gross LLET collections.

Coal Severance Taxes:

Coal severance tax collections declined for the fifth consecutive year, reaching an all-time low of \$100.5 million. The decline has been dramatic considering this account reached an all-time high in FY12 with collections of \$298.3 million. We hope that we may have reached a turning point in this tax as collections were positive in the second half of the year. Quarterly growth rates for this account were -36.6 percent, -24.3 percent, 7.7 percent and 0.3 percent.

Property Taxes:

Property tax receipts increased 4.3 percent or \$24.5 million, in FY17. The public service and tangible personal property components were the primary drivers for the increase. Growth rates for the four quarters were 11.7 percent, 2.5 percent, 0.5 percent and 16.7 percent.

Lottery and Other Revenues:

Dividends from the Kentucky Lottery Corporation declined \$200,000, or 0.1 percent, compared to FY16. However, the Lottery dividend exceeded the official estimate by \$5.6 million. The “other” category, which includes multiple other taxes and fees such as investment income, bank franchise taxes, and insurance premium taxes, decreased 1.4 percent or \$10.1 million compared to FY16. Quarterly growth rates for the “Other” account were -3.7 percent, -2.5 percent, 1.2 percent and -2.6 percent.

Table 2 compares General Fund collections to the official revenue forecast that the Commonwealth uses for budgeting purposes. Actual receipts were \$138.5 million or 1.3 percent less than the official estimate.

Table 2
Summary of FY17 General Fund Receipts
Actual vs. Official Estimate

	FY 17	FY 17	Difference	Difference
	<u>Actual</u>	<u>Estimate</u>	<u>(\$ mil)</u>	<u>(%)</u>
Sales and Use	3,485.2	3,539.8	-54.6	-1.5%
Individual Income	4,393.9	4,411.1	-17.2	-0.4%
Corporation Income	497.5	579.4	-81.9	-14.1%
LLET	245.6	223.7	21.9	9.8%
Coal Severance	100.5	120.7	-20.2	-16.8%
Cigarette Taxes	221.4	222.5	-1.1	-0.5%
Property	602.1	585.2	16.9	2.9%
Lottery	241.6	236.0	5.6	2.4%
Other	690.1	698.0	-7.8	-1.1%
TOTAL	10,477.8	10,616.4	-138.5	-1.3%

the year, six accounts were below estimated totals while three exceeded forecasted values. The deviations ranged from -\$81.9 million to \$16.9 million. The two largest revenue sources, sales and use and individual income, were extremely close to budgeted levels as each were within 1.5 percent of the mark. Combined, the deviation from the estimate was less than 1.0 percent. The remaining seven accounts were below the official estimate by a combined \$66.7 million. On a percentage basis, six of the nine accounts were within 3 percent of the estimate.

Sales and use tax receipts were below the estimate by 1.5 percent. The individual income tax was below the forecasted level by \$17.2 million, or 0.4 percent. Corporation income tax receipts were below forecasted levels by \$81.9 million, or 14.1 percent. Limited liability entity tax receipts exceeded the forecasted level by \$21.9 million. Cigarette taxes were below the estimate by \$1.1 million, or -0.5 percent. The coal severance tax was \$20.2 million percent below the official estimate while property taxes were 2.9 percent more than forecasted. Lottery receipts exceeded the official forecast by 2.4 percent while all other taxes were 1.1 percent below the official estimate.

Road Fund

Road Fund revenues for FY17 totaled \$1,508.0 million, an increase of 1.7 percent from the previous fiscal year. Total receipts were \$25.5 million more than FY16 levels as no single account had a significant change. Motor vehicle usage and motor fuels tax collections increased a combined \$25.9 million. On net, the five remaining accounts decreased \$500,000 compared to FY16 levels.

Total Road Fund collections grew in three of the four quarters and halted a two-year decline in revenues. Growth rates for the four quarters were 3.6 percent, -3.6 percent, 5.4 percent and 1.5 percent.

Details of Road Fund collections for FY17 and FY16 are shown in Table 3.

Table 3
Summary of Road Fund Receipts
FY17 vs. FY16

	Actual <u>FY17</u>	Actual <u>FY16</u>	Difference <u>(\$ mil)</u>	Difference <u>(%)</u>
Motor Fuels	760.5	750.0	10.5	1.4
Motor Vehicle Usage	499.8	484.4	15.4	3.2
Motor Vehicle License	111.9	113.1	-1.2	-1.1
Vehicle Operators	16.1	16.3	-0.2	-1.3
Weight Distance	82.9	81.4	1.5	1.9
Investment Income	1.6	2.4	-0.8	-34.6
Other	<u>35.1</u>	<u>34.9</u>	<u>0.3</u>	<u>0.8</u>
TOTAL	1,508.0	1,482.5	25.5	1.7

Motor fuels tax receipts rebounded from their \$100.2 million decline in FY16 to increase \$10.5 million in FY17. The FY16 decline was the result of a lower tax rate but with a constant rate throughout FY17, collections reflected only a change in the consumption of motor fuels. Quarterly growth rates for motor fuels taxes were 1.1 percent, 3.3 percent, 0.5 percent and 0.7 percent.

Motor vehicle usage taxes grew \$15.4 million, or 3.2 percent, in FY17. Growth rates for the four quarters were 7.3 percent, -10.6 percent, 15.5 percent and 2.0 percent as timing issues affected the quarterly growth rates.

Motor vehicle license receipts fell \$1.2 million while motor vehicle operators' receipts declined by \$200,000. Investment income declined \$800,000 and "other" income rose \$300,000.

Road Fund collections for FY17 exceeded the official consensus estimate by \$51.1 million, or 3.5 percent, as shown in Table 4.

Table 4
Summary of FY17 Road Fund Receipts
Actual vs. Official Estimate

	FY 17 <u>Actual</u>	FY 17 <u>Estimate</u>	Difference <u>(\$ mil)</u>	Difference <u>(%)</u>
Motor Fuels	760.5	747.3	13.2	1.8
Motor Vehicle Usage	499.8	469.5	30.3	6.5
Motor Vehicle License	111.9	105.0	6.9	6.6
Motor Vehicle Operators	16.1	16.1	0.0	0.1
Weight Distance	82.9	82.1	0.8	1.0
Investment Income	1.6	1.4	0.2	12.9
Other	<u>35.1</u>	<u>35.5</u>	<u>-0.4</u>	<u>-1.0</u>
TOTAL	1,508.0	1,456.9	51.1	3.5

Six of the seven of the Road Fund accounts were above forecasted levels with only one account slightly below target. The motor vehicle usage tax had the largest deviation from the estimate. It was \$30.3 million, or 6.5 percent, over the official estimate. Motor fuels receipts had the second largest deviation (in dollar terms) exceeding the estimate by \$13.2 million or 1.8 percent. All other accounts, taken together, were \$7.6 million over forecasted levels. As with the General Fund, the Road Fund ending balance for FY17 will be determined later in July.

KENTUCKY STATE GOVERNMENT REVENUE
1. GENERAL FUND REVENUE

	<u>JUNE</u> <u>2017</u>	<u>JUNE</u> <u>2016</u>	<u>% Change</u>	<u>JULY THROUGH</u> <u>FY 2017</u>	<u>JULY THROUGH</u> <u>FY 2016</u>	<u>% Change</u>
TOTAL GENERAL FUND	\$1,038,435,403	\$1,042,036,869	-0.3%	\$10,477,848,874	\$10,338,884,795	1.3%
Tax Receipts	\$987,576,554	\$983,833,360	0.4%	\$10,132,685,779	\$9,988,342,493	1.4%
Sales and Gross Receipts	\$356,923,741	\$356,146,096	0.2%	\$4,086,441,364	\$4,062,700,416	0.6%
Beer Consumption	578,306	704,947	-18.0%	6,205,443	6,557,744	-5.4%
Beer Wholesale	5,786,792	5,662,201	2.2%	59,525,060	61,161,655	-2.7%
Cigarette	20,896,078	19,434,147	7.5%	221,375,451	224,303,658	-1.3%
Distilled Spirits Case Sales	13,516	11,632	16.2%	153,781	136,488	12.7%
Distilled Spirits Consumption	1,248,253	1,081,156	15.5%	14,237,920	12,823,273	11.0%
Distilled Spirits Wholesale	3,969,984	3,329,266	19.2%	44,064,952	38,886,865	13.3%
Insurance Premium	18,178,567	19,347,840	-6.0%	148,188,827	145,250,375	2.0%
Pari-Mutuel	754,624	721,668	4.6%	6,807,535	4,993,574	36.3%
Race Track Admission	32,365	33,927	-4.6%	174,356	229,316	-24.0%
Sales and Use	296,572,320	296,909,534	-0.1%	3,485,215,349	3,462,704,116	0.7%
Wine Consumption	265,453	238,042	11.5%	3,084,190	3,102,163	-0.6%
Wine Wholesale	1,491,837	1,398,058	6.7%	18,289,377	16,583,413	10.3%
Telecommunications Tax	5,166,446	5,446,645	-5.1%	57,540,002	64,681,001	-11.0%
Other Tobacco Products	1,969,201	1,827,034	7.8%	21,573,080	21,278,667	1.4%
Floor Stock Tax	0	0	---	6,040	8,108	-25.5%
License and Privilege	\$475,353	\$946,331	-49.8%	\$107,690,065	\$111,094,998	-3.1%
Alc. Bev. License Suspension	40,250	32,700	23.1%	367,853	480,675	-23.5%
Corporation License	280	52,290	-99.5%	7,423	135,698	-94.5%
Corporation Organization	10,800	35,575	-69.6%	982,251	136,720	618.4%
Occupational Licenses	44,708	60,267	-25.8%	229,579	289,193	-20.6%
Race Track License	37,500	40,000	-6.3%	276,596	324,375	-14.7%
Bank Franchise Tax	282,298	669,621	-57.8%	105,129,792	109,049,728	-3.6%
Driver License Fees	59,517	55,879	6.5%	696,570	678,609	2.6%
Natural Resources	\$10,393,836	\$9,430,250	10.2%	\$130,063,924	\$149,405,137	-12.9%
Coal Severance	7,685,395	7,249,032	6.0%	100,455,465	120,610,311	-16.7%
Oil Production	417,173	393,681	6.0%	5,120,700	4,748,862	7.8%
Minerals Severance	1,464,738	1,537,478	-4.7%	16,923,270	17,596,331	-3.8%
Natural Gas Severance	826,530	250,059	230.5%	7,564,489	6,449,632	17.3%
Income	\$595,489,442	\$593,582,786	0.3%	\$5,136,952,770	\$5,011,709,475	2.5%
Corporation	166,808,865	161,725,157	3.1%	497,479,037	526,637,870	-5.5%
Individual	392,077,464	390,745,439	0.3%	4,393,862,556	4,282,080,975	2.6%
Limited Liability Entity	36,603,113	41,112,190	-11.0%	245,611,177	202,990,630	21.0%
Property	\$17,867,905	\$16,841,056	6.1%	\$602,095,597	\$577,548,052	4.3%
Building & Loan Association	1,834,380	1,630,246	12.5%	2,369,893	2,191,706	8.1%
General - Real	285,425	43,031	563.3%	273,935,818	268,087,934	2.2%
General - Tangible	11,587,538	10,607,081	9.2%	244,469,542	237,464,692	2.9%
Omitted & Delinquent	2,525,201	2,247,533	12.4%	15,966,205	11,991,240	33.1%
Public Service	1,634,972	2,308,331	-29.2%	63,680,782	56,210,797	13.3%
Other	390	4,834	-91.9%	1,673,358	1,601,684	4.5%
Inheritance Tax	\$4,404,973	\$4,821,453	-8.6%	\$44,699,808	\$51,247,149	-12.8%
Miscellaneous	2,021,303	2,065,387	-2.1%	24,742,251	24,637,267	0.4%
Legal Process	1,191,231	1,216,831	-2.1%	13,299,585	14,479,452	-8.1%
T. V. A. In Lieu Payments	830,072	848,556	-2.2%	11,350,177	10,119,811	12.2%
Other	0	0	---	92,490	38,005	143.4%
Nontax Receipts	\$49,445,331	\$57,813,204	-14.5%	\$335,817,562	\$344,822,276	-2.6%
Departmental Fees	3,561,451	3,103,349	14.8%	21,805,380	21,891,588	-0.4%
PSC Assessment Fee	752,470	3,498,542	-78.5%	13,784,610	14,367,915	-4.1%
Fines & Forfeitures	1,841,450	1,644,588	12.0%	19,676,290	21,204,392	-7.2%
Income on Investments	657,906	1,032,114	-36.3%	(1,129,875)	287,789	---
Lottery	25,000,000	32,500,000	-23.1%	241,627,129	241,778,429	-0.1%
Sale of NOx Credits	0	0	---	0	0	---
Miscellaneous	17,632,053	16,034,611	10.0%	40,054,028	45,292,162	-11.6%
Redeposit of State Funds	\$1,413,518	\$390,305	262.2%	\$9,345,533	\$5,720,026	63.4%

	<u>JUNE</u> <u>2017</u>	<u>JUNE</u> <u>2016</u>	<u>% Change</u>	<u>JULY THROUGH JUNE</u> <u>FY 2017</u>	<u>FY 2016</u>	<u>% Change</u>
TOTAL STATE ROAD FUND	\$126,398,977	\$134,074,668	-5.7%	\$1,508,003,421	\$1,482,541,978	1.7%
Tax Receipts-	\$124,696,956	\$130,012,619	-4.1%	1,484,228,925	\$1,458,382,671	1.8%
Sales and Gross Receipts	\$114,261,657	\$116,879,076	-2.2%	\$1,260,348,857	\$1,234,432,155	2.1%
Motor Fuels Taxes	70,341,698	68,739,706	2.3%	760,514,967	750,034,840	1.4%
Motor Vehicle Usage	43,919,959	48,139,370	-8.8%	499,833,891	484,397,314	3.2%
License and Privilege	\$10,435,299	\$13,133,543	-20.5%	\$223,880,068	\$223,950,517	0.0%
Motor Vehicles	7,809,574	10,087,178	-22.6%	111,927,466	113,114,908	-1.0%
Motor Vehicle Operators	1,387,623	1,388,564	-0.1%	16,120,127	16,331,496	-1.3%
Weight Distance	504,595	886,335	-43.1%	82,886,950	81,375,028	1.9%
Truck Decal Fees	11,862	7,800	52.1%	289,874	283,942	2.1%
Other Special Fees	721,645	763,666	-5.5%	12,655,651	12,845,142	-1.5%
Nontax Receipts	\$1,926,655	\$3,765,534	-48.8%	\$22,938,976	\$23,041,935	-0.4%
Departmental Fees	1,721,498	2,625,797	-34.4%	19,473,809	19,308,449	0.9%
In Lieu of Traffic Fines	41,441	39,880	3.9%	378,757	427,255	-11.4%
Income on Investments	117,282	961,610	-87.8%	1,581,851	2,468,620	-35.9%
Miscellaneous	46,435	138,246	-66.4%	1,504,559	837,611	79.6%
Redeposit of State Funds	(\$224,635)	\$296,515	---	835,520	1,117,372	-25.2%

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