

Financial Outlook Report

Interim Joint Committee on Appropriations and Revenue

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John E. Chilton, State Budget Director

Janice Tomes, Deputy State Budget Director

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

Overview

- Introduction
- Fiscal Year 2016 General Fund Year-End
- Fiscal Year 2016 Tobacco Funds Year-End
- Fiscal Year 2016 Road Fund Year-End
- Fiscal Year 2017 Outlook
- Q & A

FY 2016 General Fund Receipts

- | | |
|---------------------|-----------------------|
| ● Actual Receipts | \$10,338,884,795 |
| ● Official Estimate | <u>10,289,900,000</u> |
| ● Revenue Surplus | \$ 48,984,795 |
- Actual receipts were 0.5% above estimate

FY16 General Fund Receipts vs. Official Estimate

	(Million \$)			
	Actual	Estimate	Diff (\$)	Diff (%)
Sales and Use	\$ 3,462.7	\$ 3,420.5	\$ 42.2	1.2
Individual Income	4,282.1	4,233.5	48.6	1.1
Corporation Income	526.6	531.7	-5.1	(1.0)
LLET	203.0	219.8	-16.8	(7.6)
Coal Severance	120.6	138.4	-17.8	(12.9)
Cigarette Tax	224.3	225.8	-1.5	(0.7)
Property	577.5	573.0	4.5	0.8
Lottery	241.8	232.0	9.8	4.2
Other	700.2	715.2	-15.0	(2.1)
TOTAL	\$ 10,338.9	\$ 10,289.9	\$ 49.0	0.5%

FY16 General Fund Receipts vs. Prior Year

	Million \$			
	FY16	FY15	Diff (\$)	Diff (%)
Sales and Use	\$ 3,462.7	\$ 3,267.3	\$ 195.4	6.0
Individual Income	4,282.1	4,069.5	212.6	5.2
Income	526.6	528.1	-1.5	-0.3
LLET	203.0	223.8	-20.8	-9.3
Coal Severance	120.6	180.3	-59.7	-33.1
Cigarette Tax	224.3	220.9	3.4	1.5
Property	577.5	563.4	14.1	2.5
Lottery	241.8	221.5	20.3	9.2
Other	700.2	691.8	8.5	1.2
TOTAL	\$ 10,338.9	\$ 9,966.6	\$ 372.3	3.7%

FY16 General Fund Receipts vs. Previous Years

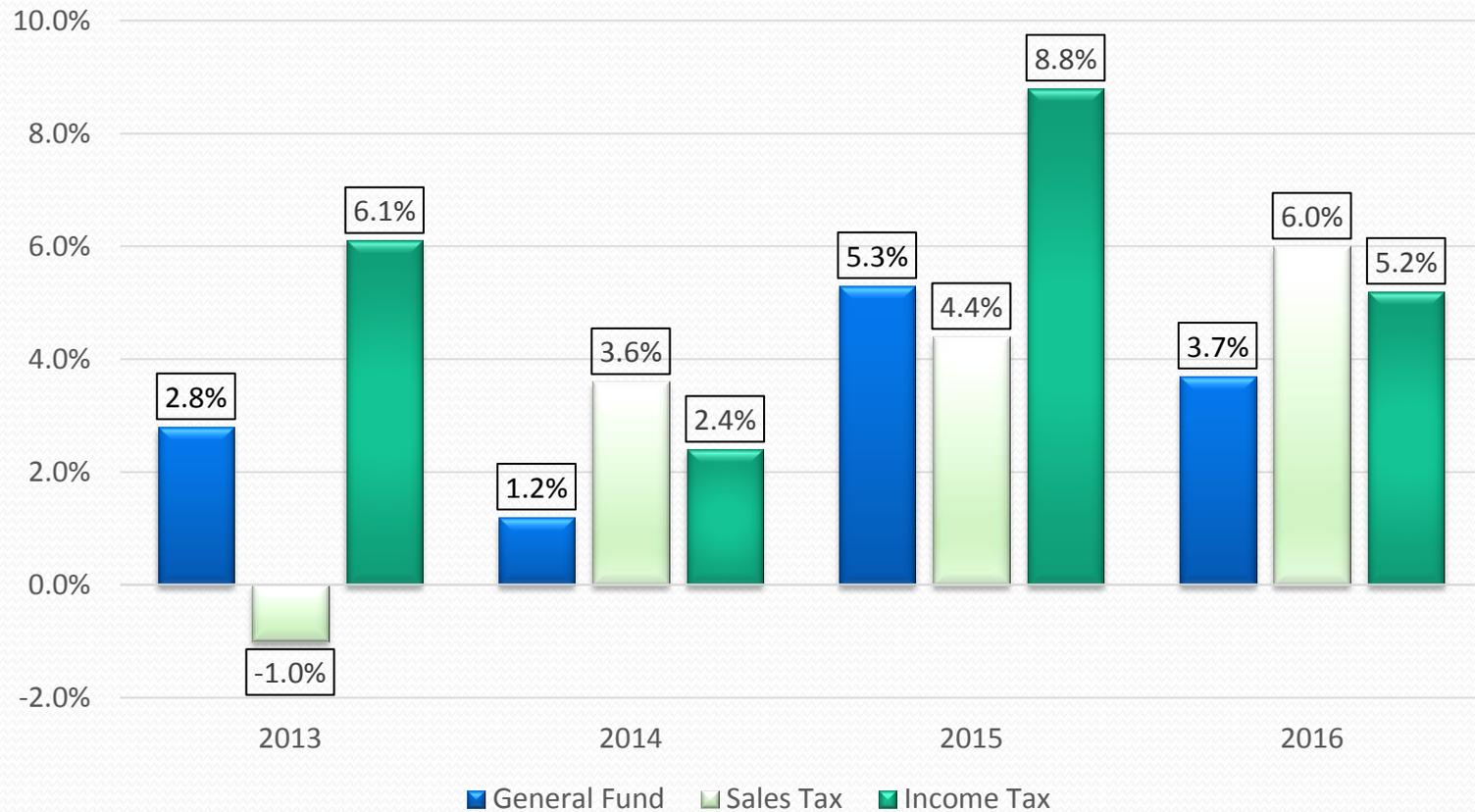
	Million \$			Growth Rate (%)		
	FY16	FY15	FY14	FY16	FY15	FY14
Sales and Use	\$ 3,462.7	\$ 3,267.3	\$ 3,131.1	6.0	4.4	3.6
Individual Income	4,282.1	4,069.5	3,749.3	5.2	8.5	0.7
Corporation Income	526.6	528.1	475.1	-0.3	11.2	18.6
LLET	203.0	223.8	199.3	-9.3	12.3	-19.0
Coal Severance	120.6	180.3	197.5	-33.1	-8.7	-14.3
Cigarette Tax	224.3	220.9	228.1	1.5	-3.1	-4.4
Property	577.5	563.4	562.4	2.5	0.2	0.7
Lottery	241.8	221.5	219.5	9.2	0.9	2.0
Other	700.2	691.8	698.9	1.2	-1.0	-2.1
TOTAL	\$ 10,338.9	\$ 9,966.6	\$ 9,462.0	3.7	5.3	1.2

General Fund Receipts-Summary

- Kentucky's most elastic revenue sources performed very well in creating "new" money (\$408.0 million more than FY15).
 - Individual Income Tax – \$212.6 million
 - Sales Tax – \$195.4 million
 - Total General Fund – \$372.3 million
- The remaining General Fund revenue sources fell a collective **\$35.7** million
 - Coal Severance decreased **\$59.7** million
 - Other taxes grew by a slight **\$24.0** million

Income and Sales Taxes Lead Growth

General Fund Major Revenue Sources



General Fund Receipts-Individual Income

- Individual Income Tax (IIT)
 - Withholding grew by 4.8%
 - Estimated payments grew 10.2%
 - Overall growth in FY16 was 5.2% on the heels of 8.5% growth in FY15
 - The IIT contributed \$212.6 million of the total \$372.3 million in nominal General Fund growth

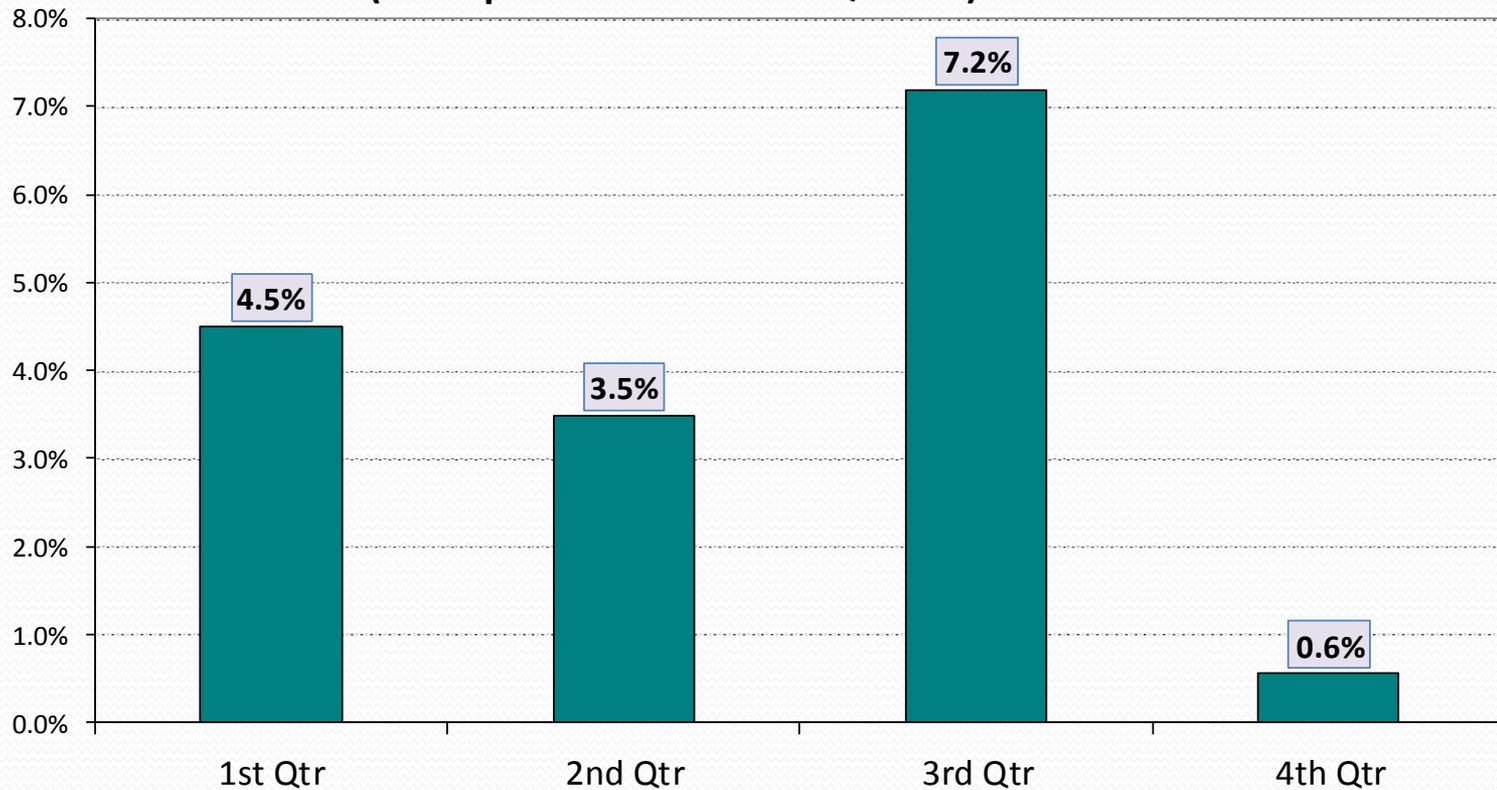
General Fund Receipts-Sales and Use Tax

- Sales Tax
 - Growth in FY16 was 6.0% following 4.4% in FY15 and 3.6% growth in FY14
 - The 6.0% mark in FY16 was the highest growth since FY06
 - The sales tax contributed \$195.4 million of the total \$372.3 million in nominal General Fund growth
 - Sales tax growth in excess of income growth is clearly not sustainable

FY16 Revenue Growth

Quarterly General Fund Growth

(*Compared to Prior Year Quarter)



FY 2016 General Fund Budget Stabilization Plan

● Total Planned Lapse		\$52,924,400
● Actual Lapse		<u>52,313,600</u>
● Difference		\$ <u>610,800</u>
● Attorney General *		\$ 478,000
● Agriculture (inadvertent error)		112,000
● Executive Branch Ethics Commission		<u>20,800</u>
		\$ <u>610,800</u>
<p>● Universities – Cash representing 2% of FY 2016 General Fund appropriations in the amount of \$17,828,700 is maintained in a separate account; will not transfer until further order of the court.</p>		

*All Constitutional Officers except the Attorney General voluntarily agreed to 4.5% budget reductions

\$52.7 Million FY16 General Fund Surplus

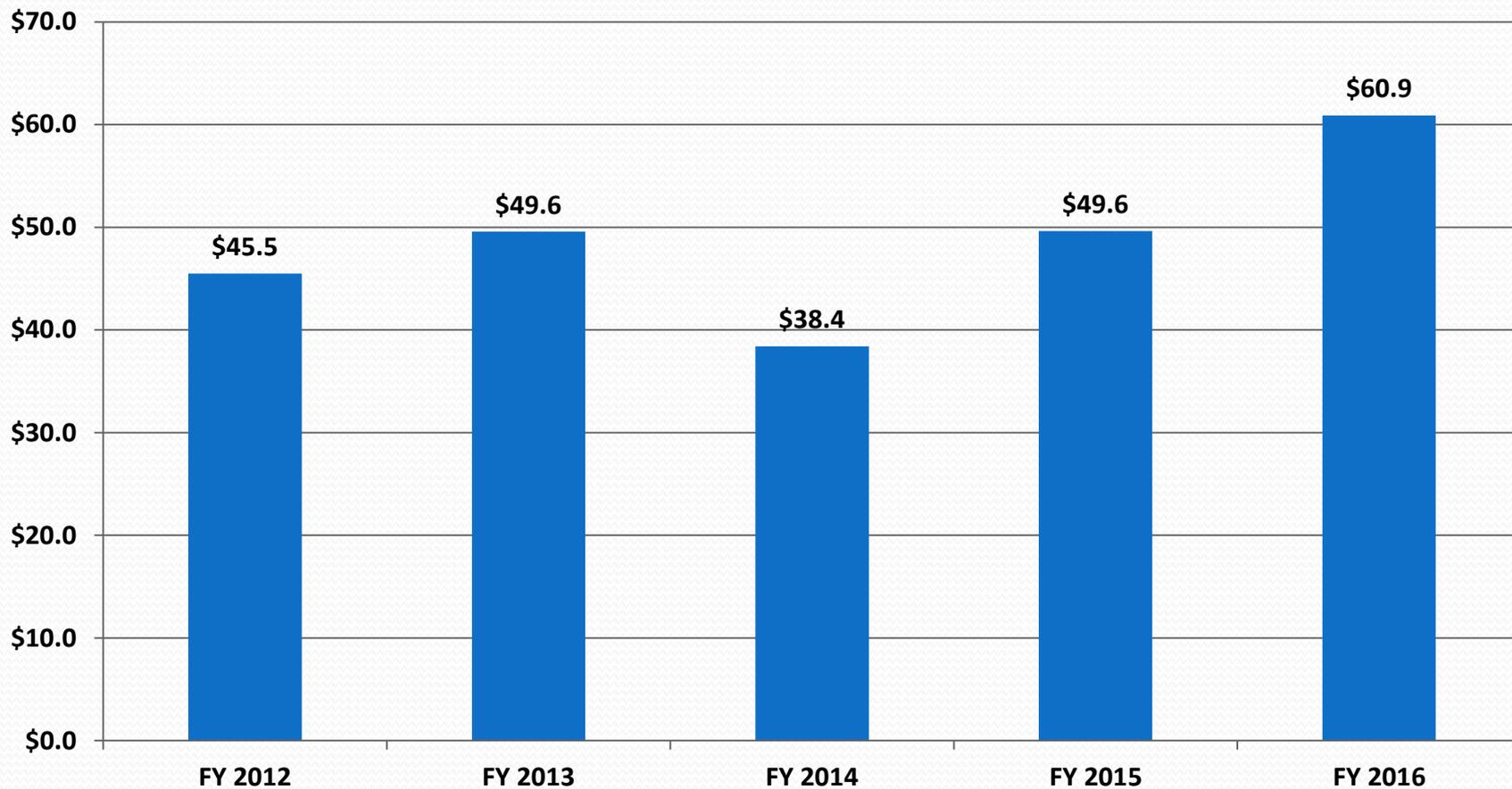
(Thanks to the Budget Stabilization Plan)

	Millions \$
FY 16 General Fund Year-End Balance	\$333.6
Budgeted FY 16 Carryforward into FY 17	(280.9)
General Fund Surplus	\$52.7
Actual vs. Budgeted	
Revenues in Excess of Official Estimate	\$49.0
Necessary Government Expenses	4.1
Spending Less than Budgeted	2.5
Fund Transfers Less than Budgeted	(2.7)
Other	(0.2)
General Fund Surplus	\$52.7

Necessary Government Expenses

	Millions \$
	FY 2016 Actual
	\$60.9
Corrections	25.9
Guardian Ad Litem	11.8
Military Affairs-Disasters and Planned Events	6.6
County Costs-Courthouse Security	4.8
Forest Fire Suppression	3.9
UofL Quality and Charity Care Trust	2.7
Judgments	2.0
Benefind	1.6
ANOC-Unredeemed Checks	1.1
All Others	0.5

Necessary Government Expense FY 2012 - 2016

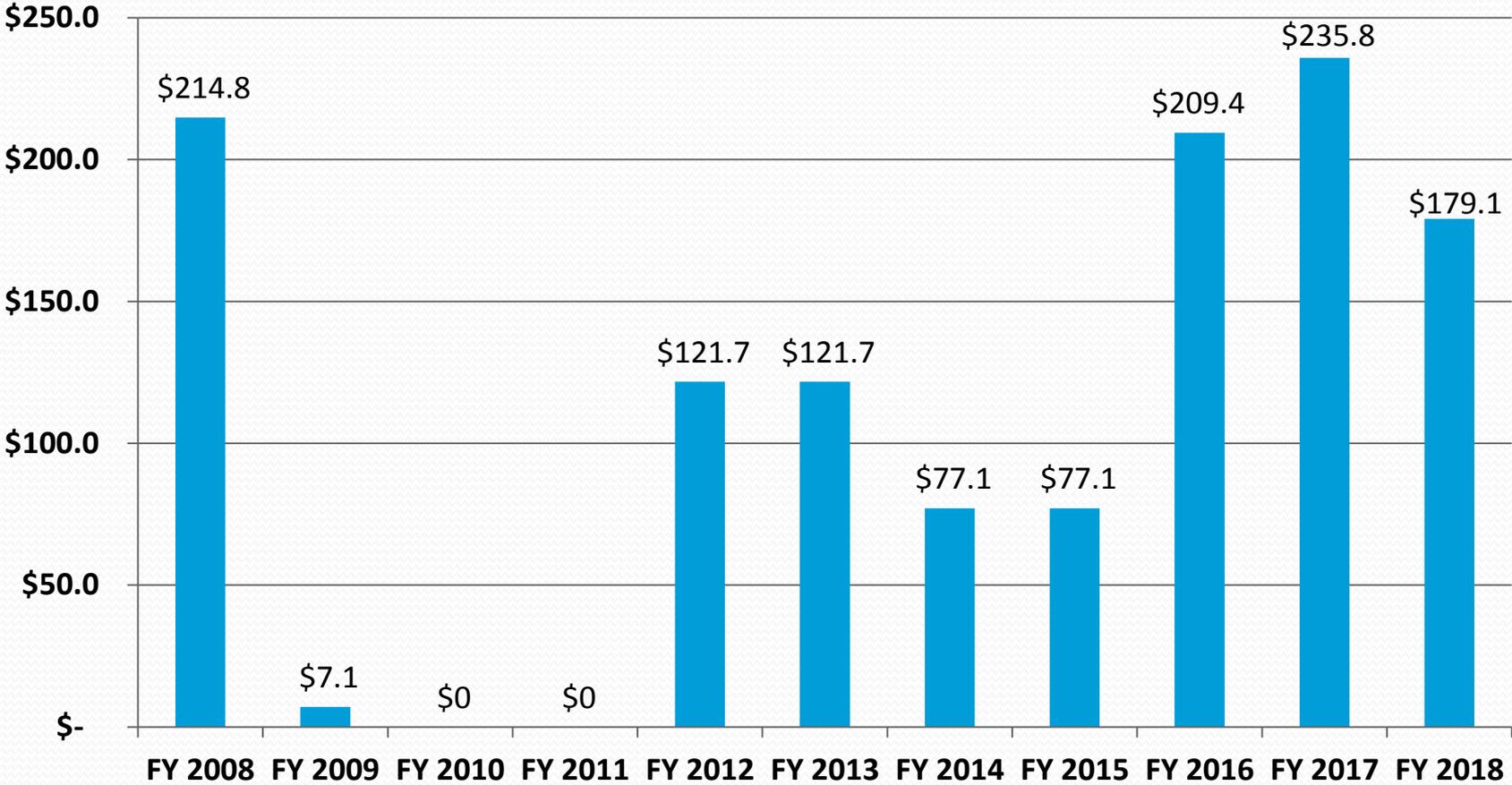


Budget Reserve Trust Fund (BRTF)

	<u>Millions \$</u>
● FY 16 Beginning Balance	\$ 77.1
● Appropriated for Use in FY 16	(\$13.7)*
● Deposit from FY 15 Surplus	\$ 82.5
● 2015 Session Increase –HB 510 2015 Regular Session	<u>\$ 63.5</u>
● FY 16 Balance to Continue Forward into FY 17	\$209.4
● Deposit from FY 16 Surplus	\$ 26.4
● FY 17 BRTF Balance (Before 2017 NGE's)	\$235.8
● \$235.8 million is 2.2% of FY 17 General Fund Revenues. Recommended level of BRTF is 5% of General Fund Revenues.	

* (2014-16 Enacted Budget)

Budget Reserve Trust Fund FY2008-FY2018





Tobacco Funds

Tobacco Funds

● FY 2016 Enacted*	\$ 98,086,100
● Current Year Appropriation**	23,146,100
● Additional Receipts	<u>2,025,600</u>
● FY 2016 Total	\$ 123,257,800

*HB 235 of 2014 Regular Session as modified by HB 510 of 2015 Regular Session.

**Governor's Office for Agricultural Policy received \$21,099,500 and Department for Community Based Services received \$2,046,600.

Tobacco Funds

- | | |
|-----------------------------|-------------------|
| ● FY 2016 Actual Receipts | \$90,125,600 |
| ● FY 2016 Official Estimate | <u>88,100,000</u> |
| ● Receipts Above Estimate | \$ 2,025,600 |
- If MSA payments received exceed the official estimates, Part X of HB 303 sets forth 50% to Agricultural Development Fund, 36% to Early Childhood Development Fund, and 14% to the Health Care Improvement Fund after exempting debt service and the Department of Revenue.



Road Fund

FY 2016 Road Fund Receipts

- | | |
|-------------------|----------------------|
| ● FY16 Enacted | \$1,445,900,000 |
| ● FY16 Actual | <u>1,482,541,978</u> |
| ● Revenue Surplus | \$ 36,641,978 |
- Actual receipts were 2.5% above revised estimate

FY16 Road Fund Receipts vs. Prior Year

	Millions \$			
	FY16	FY15	Diff (\$)	
Motor Fuels	\$ 750.0	\$ 850.3	\$ (100.2)	-11.8
Motor Vehicle Usage	484.4	432.8	51.6	11.9
Motor Vehicle License	113.1	107.6	5.6	5.2
Operators	16.3	16.0	0.4	2.3
Weight Distance	81.4	79.1	2.2	2.8
Investment Income	2.4	2.9	-0.5	-17.0
Other	34.9	38.1	-3.2	-8.5
TOTAL	\$ 1,482.5	\$ 1,526.7	\$ (44.2)	-2.9%

FY16 Road Fund Receipts vs. Official Estimate

	(Millions \$)			
	Actual	Estimate	Diff (\$)	Diff. (%)
Motor Fuels	\$ 750.0	\$ 742.9	\$ 7.1	1.0
Motor Vehicle Usage	484.4	463.1	21.3	4.6
Motor Vehicle License	113.1	107.9	5.2	4.8
Motor Vehicle Operators	16.3	16.2	0.1	0.8
Weight Distance	81.4	79.9	1.5	1.8
Investment Income	2.4	1.2	1.2	101.4
Other	34.9	34.7	0.2	0.5
TOTAL	\$ 1,482.5	\$ 1,445.9	\$ 36.6	2.5%

Tax Rate on Motor Fuels (¢ per gallon)

- Total Tax rate for FY16 was 26¢:
 - Variable Rate is 19.6¢ (9% of the Average Wholesale Price)
 - 5¢ Supplemental Highway Fee
 - 1.4¢ Underground Storage Tank Fee
 - Rate will remain at 19.6¢ until wholesale price reaches \$2.17 (approx. \$ retail)

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 grew 11.9% in FY16
- Motor Vehicle Usage tax expenditure (trade in credit) of \$46.5 million
- New car and truck purchases have been unusually strong, topping 17 million units nationally for the first time since the recession

\$38 Million FY 16 Road Fund Surplus

	Millions \$
Actual vs. Budgeted	
Revenues More than Official Estimate	\$36.6
Other Spending Lapse	5.4
Revenue Sharing Reduction	(4.9)
Fund Transfers in Excess of Budgeted	0.5
Debt Service Lapse Beyond Budgeted Lapse	0.4
Road Fund Surplus	\$38.0



Fiscal Outlook

A Look Ahead to FY17

- CFG estimate called for growth of 3.2%
- Due to receipts in excess of the revenue estimates in FY16, growth needed to hit the FY17 estimate falls to 2.7%
- The most recent interim projections call for growth of 2.8 % in FY17 (slightly ahead of the enacted estimate)
 - Individual income, sales, and property taxes are expected to outpace the 2.8% average General Fund growth
 - Remaining accounts are expected to lag average growth
 - Coal is expected to slide another 31.5%

The National Economy

- The UK exit from the European Union will continue to have a small negative impact on the U.S. economy via trade channels
- Uncertainty in the UK leads to weaker UK currency vis-à-vis the US dollar
- Strong dollar leads to
 - Weaker demand for US exports
 - Lower commodity prices (oil is priced in US dollars)
 - Lower bond yields (flight to safety)

The National Economy (continued)

- Emerging Trends in US GDP
 - Professional forecasters and economic experts have consistently lowered their forecasts for GDP growth to around 2.0%
 - Consumer spending expected to stabilize GDP growth in the near term
 - Growth in excess of 4.0%
 - Good growth in disposable income
 - Housing market wealth effect
 - Low energy prices
 - Stronger housing markets

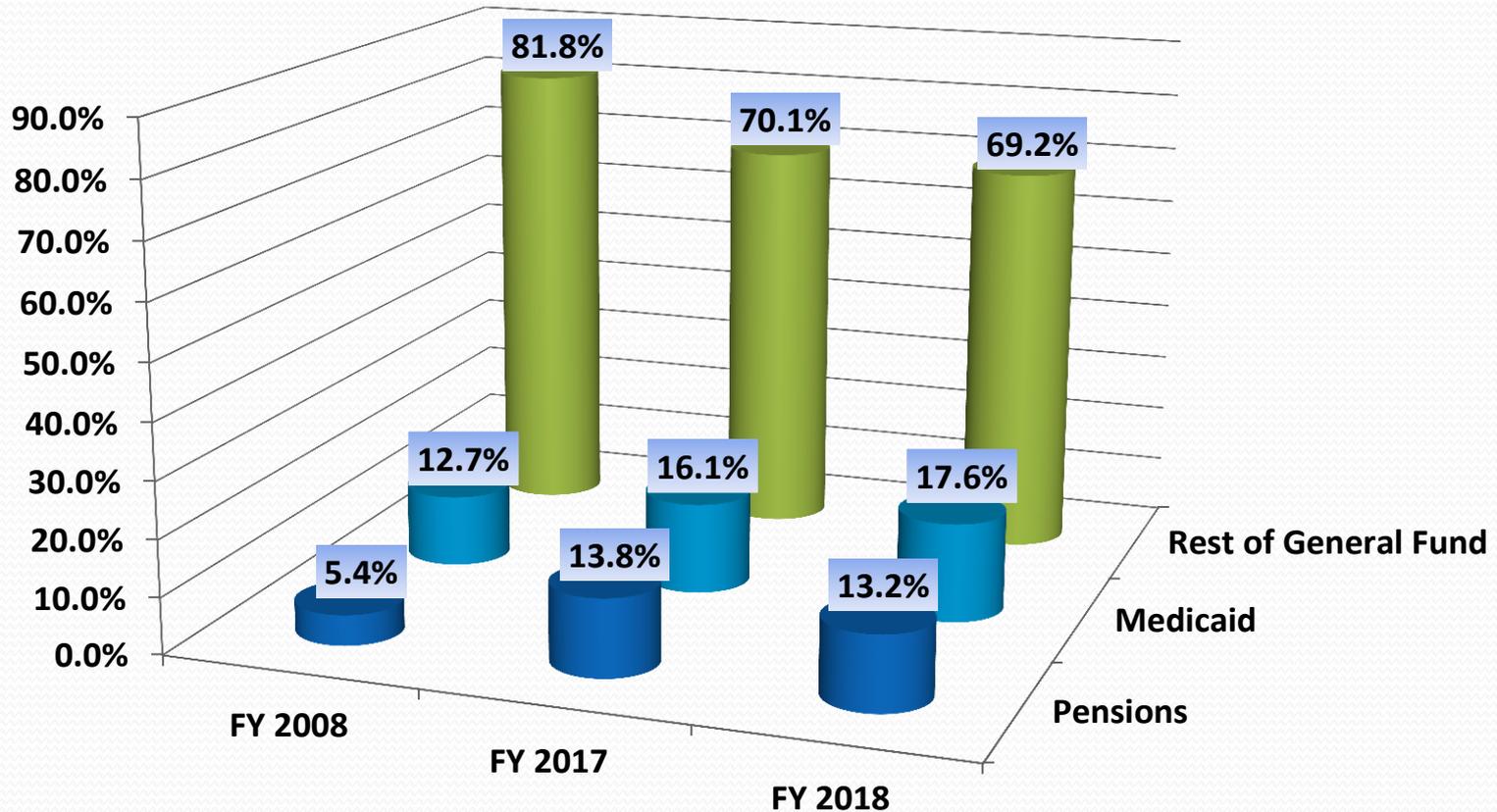
Kentucky Economy

- FY16 was a very favorable year for the Kentucky economy, but we are not immune from external shocks
- The Kentucky Cabinet for Economic Development recently expressed concerns about export growth due to the strong dollar and weaker international economies
- Kentucky currently ranks in the top-10 among US states for growth in international exports
- The United Kingdom has traditionally been the Commonwealth's second-largest destination for exports (auto parts, aerospace, and related industries)

Kentucky Economy (continued)

- Aside from export concerns, economic conditions remain fairly solid
 - Employment is plodding forward; wage growth is expected to exceed 5% in the first two quarters of FY17
 - The housing outlook remains positive
 - Gasoline, construction supplies, and interest rates are low – making housing more affordable
 - Construction growth continues as new permits to build single-family housing units in Kentucky up 12%
 - Construction employment is expected to increase 3.3% in the first three quarters of FY17

Pensions and Medicaid a growing share of General Fund Spending



Take Aways

- Pensions STILL severely underfunded (\$35,000,000,000 ?)
- Despite the small revenue surplus in FY16, there is uncertainty in the economic outlook for FY17 and FY18 that warrants great caution
- 2.2% Budget Reserve Trust Fund (Rainy Day Fund) is below the 5% recommended amount
- FY18 budget anticipates spending down a portion of the Budget Reserve Trust Fund
- Budget Stabilization Plan was Fiscally Responsible
- “Budgeting to Zero” ignores the reality of unbudgeted NGE’s



Questions

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