



Office of State Budget Director

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Andy Beshear
Governor

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John T. Hicks
State Budget Director

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
Governor's Office for Policy Research

August 24, 2021

Mr. J. Michael Brown
Secretary of the Governor's Cabinet
Office of the Governor
Frankfort, Kentucky 40601

Mr. Jay Hartz
Director
Legislative Research Commission
Room 300, State Capitol
Frankfort, Kentucky 40601

Ms. Laurie Dudgeon
Administrative Office of the Courts
1001 Vandalay Drive
Frankfort, Kentucky 40601

Dear Secretary Brown, Mr. Hartz and Ms. Dudgeon:

Pursuant to Kentucky Revised Statutes 48.120(1), by August 15 of each odd-numbered year, the Office of State Budget Director, in conjunction with the consensus forecasting group (CFG), shall provide to each branch of government a budget planning report. The budget planning report shall include:

- (a) A baseline analysis and projections of economic conditions and outlook;
- (b) Any potential consequences of the analysis and projections for the Commonwealth's fiscal condition;
- (c) The revenue estimates and implications for the general fund and road fund for the current fiscal year and next four fiscal years; and
- (d) Projections of personal income, employment, and economic indicators that reflect economic conditions.

The CFG met on August 13, 2021, to reach a consensus on the most probable economic and revenue outlook for fiscal years (FY) 2022 through 2026. A letter with attachments from Dr. Frank O'Connor, Chairman of the CFG, memorializes the agreement reached by the members of the CFG at the August meeting. The Office of State Budget Director (OSBD) hereby incorporates the CFG letter with attachments and certifies these results as complete and accurate.

Detailed revenue estimates may be found as an attachment to this letter. The revenue estimates agreed to by the CFG were based on the control, or baseline, forecast from IHS Markit. Some of the assumptions that formed the basis of the control forecast include the following:

- GDP growth rises to 6.7% in FY2022 and 3.0% in FY2023
 - Previous pre-pandemic peak in real GDP reached in FY2021Q4
 - COVID-19 vaccination rates outpace spread of new strains
 - Previous stimulus efforts and \$1.9 trillion American Recovery Plan included in baseline.
 - Forecast does not include \$4 trillion American Jobs Plan or American Family Plan
- Consumer spending surges 6.4% in FY2022 and 4.1% in FY2023, as spending on services continues to increase
- Federal Reserve maintains Federal Funds rates near 0%
- Several assumptions in the control scenario were assumed to be transitory
 - Inventory building – Disrupted supply chains have led to record low ratio of inventories to sales, and rebuilding inventories will significantly add to GDP over first two quarters of FY2022
 - Inflation – Recent inflation pressures expected to slow, or even reverse, as supply chains recover, and labor force participation increases
 - Motor Vehicles – Resolving of supply chain issues will allow production levels to return to normal levels, resulting in decrease in PCE price index for vehicles, vehicle parts, and used vehicles
 - Federal Fiscal Policy –
 - Enhanced unemployment ends for all states on September 6, 2021; half of the states have already withdrawn from emergency unemployment programs
 - ARP expanded child tax credit and IRS is sending half of the credit in monthly installments through December 2021

When these national economic assumptions were used in the Kentucky Macro Model, the following growth rates were generated for the Kentucky economy through the forecasting horizon.

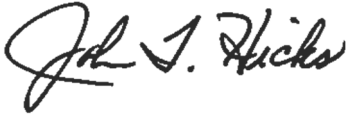
KENTUCKY					
	Personal Income	Wage & Salary	Transfer Payments	Nonfarm Employment	Mfg Employment
FY20	5.9%	0.8%	21.5%	-2.4%	-3.9%
FY21	7.6%	5.5%	17.0%	-2.0%	-0.8%
FY22	0.0%	7.8%	-15.7%	4.1%	3.9%
FY23	3.7%	4.5%	1.7%	2.1%	1.2%
FY24	3.6%	3.6%	3.9%	0.8%	-0.1%
FY25	4.2%	3.7%	5.4%	0.5%	0.0%
FY26	4.3%	3.6%	5.6%	0.4%	-0.1%

The consensus revenue estimates that were agreed upon in the August 2021 meeting are not official estimates and do not constitute revisions to the enacted official estimates from the 2021 regular session of the General Assembly. For comparison purposes, however, the official enacted General Fund estimate for FY22 is \$11,849.8 million. The unofficial August CFG estimate for FY22 equaled \$12,940.5 million, which is \$1,090.7 million higher than the official estimate.

Mr. Brown, Mr. Hartz, Ms. Dudgeon
August 24, 2021
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The CFG will meet on or before October 15, 2021, pursuant to KRS 48.120(2) to reach a consensus on the preliminary estimates for FY2022 through 2024. Official estimates will be generated by the CFG later in the year in accordance with KRS 48.120(3).

Sincerely,

A handwritten signature in black ink that reads "John T. Hicks". The signature is written in a cursive, flowing style.

John T. Hicks
State Budget Director

Copy with attachments to:

Senator Robert Stivers, Senate President
Representative David Osborne, Speaker of the House
Senator Chris McDaniel, Chair, Interim Joint Committee on A&R
Representative Jason Petrie, Chair, Interim Joint Committee on A&R

SENATE MEMBERS

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Majority Whip

Dennis Parrett
Minority Whip



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Jay D. Hartz
Director

HOUSE MEMBERS

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Speaker, LRC Co-Chair

David Meade
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Joni L. Jenkins
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Minority Caucus Chair

Chad McCoy
Majority Whip

Angie Hatton
Minority Whip

August 16, 2021

John Hicks
State Budget Director
Office of the State Budget Director
Room 284, Capitol Annex
Frankfort, Kentucky 40601

Dear Mr. Hicks:

Pursuant to KRS 48.120, this memo contains the budget planning revenue estimates for the General Fund, Road Fund, and Master Settlement Agreement (MSA) for the FY 2022 – FY 2026 period. The planning estimates were developed by the Consensus Forecasting Group (CFG) in conjunction with the Office of the State Budget Director in accordance with KRS 48.120(1) and were adopted at the CFG meeting held on August 13, 2021.

The budget planning revenue estimates for the current fiscal year (FY 2022) and the next four fiscal years (2023 – 2026) are listed below.

Fiscal Year	General Fund	Road Fund	MSA
FY 2022	\$12,940,500,000	\$1,685,800,000	\$109,800,000
FY 2023	\$13,240,600,000	\$1,701,100,000	\$105,600,000
FY 2024	\$13,758,100,000	\$1,694,200,000	\$97,200,000
FY 2025	\$14,135,800,000	\$1,723,300,000	\$91,400,000
FY 2026	\$14,532,600,000	\$1,748,500,000	\$88,700,000

By October 15, 2021, the Consensus Forecasting Group, in accordance with their statutory responsibilities, will adopt the preliminary revenue estimates for the current fiscal year and the upcoming biennium. On or before the fifteenth legislative day of the upcoming 2022 Regular Session of the General Assembly, the Consensus Forecasting Group will adopt the final detailed revenue estimates for the General Fund, the Road Fund, and the MSA for the current and next two fiscal years.

Inherent in any revenue forecast is the risk that actual receipts may differ from their forecasted values. The Kentucky economic and revenue forecasts adopted by the CFG are directly linked to the national forecast provided by IHS Markit and represent an agreement as to the most likely outcome for revenues for the current fiscal year and the next two bienniums, given the information available on August 13, 2021.

Sincerely,

A handwritten signature in blue ink that reads "Frank O'Connor". The signature is written in a cursive, flowing style.

Frank O'Connor
Chairman, Consensus Forecasting Group
Professor Emeritus of Economics
Eastern Kentucky University

**General Fund
GOEA Control Forecast FY22 - FY26
(Millions of Dollars)
August 2021**

<u>Control Scenario</u>	<u>FY21</u>		<u>FY22</u>		<u>FY23</u>		<u>FY24</u>		<u>FY25</u>		<u>FY26</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Individual Income	5,143.8	7.9	5,189.2	0.9	5,362.1	3.3	5,564.8	3.8	5,737.2	3.1	5,920.8	3.2
Sales & Use	4,561.0	12.0	4,780.9	4.8	4,871.0	1.9	5,036.0	3.4	5,157.8	2.4	5,291.6	2.6
Corp. Inc. & LLET	882.8	38.1	751.6	-14.9	760.4	1.2	859.0	13.0	894.6	4.1	938.4	4.9
Property	702.5	9.3	711.0	1.2	735.7	3.5	759.9	3.3	783.2	3.1	807.3	3.1
Lottery	289.1	6.5	319.3	10.4	335.0	4.9	347.0	3.6	355.0	2.3	360.0	1.4
Cigarettes	349.9	-1.4	342.1	-2.2	335.8	-1.8	329.6	-1.8	323.9	-1.7	316.7	-2.2
Coal Severance	56.1	-4.7	67.7	20.8	61.0	-9.9	59.1	-3.1	56.9	-3.7	50.2	-11.8
Other	842.2	10.4	778.7	-7.5	779.6	0.1	802.7	3.0	827.2	3.1	847.6	2.5
Total General Fund	12,827.4	10.9	12,940.5	0.9	13,240.6	2.3	13,758.1	3.9	14,135.8	2.7	14,532.6	2.8

Road Fund
GOEA Control Forecast FY22 - FY26
(Millions of Dollars)
August 2021

<u>Control Forecast</u>	<u>FY21</u>		<u>FY22</u>		<u>FY23</u>		<u>FY24</u>		<u>FY25</u>		<u>FY26</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Motor Fuels	748.4	0.9	782.9	4.6	812.5	3.8	835.3	2.8	847.2	1.4	861.3	1.7
Motor Vehicle Usage	620.9	24.4	636.5	2.5	612.6	-3.8	580.7	-5.2	591.3	1.8	602.2	1.8
Motor Vehicle License	125.5	15.5	116.3	-7.3	121.5	4.5	119.9	-1.3	124.1	3.5	120.4	-3.0
Motor Vehicle Operators	22.1	70.8	20.4	-7.6	22.2	8.8	24.3	9.5	25.0	2.9	26.7	6.8
Weight Distance	83.2	-0.2	89.1	7.1	91.0	2.1	92.1	1.2	93.2	1.2	94.4	1.3
Investment	-0.1	NA	0.2	-269.5	0.4	100.0	0.5	25.0	0.6	20.0	1.0	66.7
Other	42.5	8.8	40.4	-4.8	40.9	1.2	41.4	1.2	41.9	1.2	42.5	1.4
Total Road Fund	1,642.3	10.1	1,685.8	2.6	1,701.1	0.9	1,694.2	-0.4	1,723.3	1.7	1,748.5	1.5