



Office of State Budget Director
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John E. Chilton
State Budget Director

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

October 25, 2017

Mr. Scott Brinkman
Secretary of the Executive Cabinet
Office of the Governor
Frankfort, Kentucky 40601

Mr. David Byerman
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 Mr. Brinkman, Mr. Byerman and Ms. Dudgeon:

Pursuant to Kentucky Revised Statutes 48.120(2), on or before October 15th of each odd-numbered year, the Office of State Budget Director (OSBD), in conjunction with the Consensus Forecasting Group (CFG or Group), shall provide to each branch of government preliminary budget estimates. The statute requires a report containing the preliminary estimates that contains:

- Preliminary estimates for the General Fund, Road Fund, Tobacco Fund
- Preliminary projections for the current year and next two fiscal years
- Explanatory statements
- A comparative record of actual revenues for each of the last two fiscal years.

The General Fund, Road Fund, and MSA Tobacco Fund estimates were prepared in cooperation with the CFG, and represent an agreement by the Group as to the most likely outcome for revenues in the current fiscal year and the upcoming two years. The CFG consists of individuals knowledgeable about the state and national economies and the revenue and financial conditions of the Commonwealth. Appointed jointly by the State Budget Director and the Legislative Research Commission, the members are: Dr. Frank O'Connor (Chair), Dr. Bruce Johnson, Dr. Alan Bartley, Dr. James McCoy, Ms. Janet Harrah, Mr. David Sinclair, and Dr. Christopher Bollinger. Major assistance was provided by the Office of State Budget Director: Gregory Harkenrider, Gene Zaparanick-Brown, Dr. Thomas Jones, Dr. Michael Jones, and Ghada El-Dabbagh.

The Consensus Forecasting Group met on October 13, 2017 to consider an official revision to the enacted revenue estimates for FY 2018 and to develop preliminary revenue estimates for FY 2019 and FY 2020. The official revision to the General Fund in FY18 was added to the CFG agenda in response to the letter received from the State Budget Director requesting a KRS 48.115(2) revision to the enacted FY 2018 General Fund estimate. The revenue estimates adopted by the CFG during the October 2017 meeting are listed in the table below.

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Road Fund</u>	<u>Tobacco Fund</u>
2018	\$10,718,800,000	\$1,506,100,000	\$109,300,000
2019	\$11,011,100,000	\$1,515,200,000	\$119,500,000
2020	\$11,306,300,000	\$1,520,400,000	\$118,100,000

The official revised FY 2018 General Fund estimate adopted by the CFG is \$155.6 million lower than the FY 2018 enacted estimate. Growth of 2.3 percent for FY 2018, compared to FY 2017, is required to hit the revised target. Given the growth of 2.9 percent, which has already occurred in the first quarter of FY 2018, growth needed in the remainder of the year is 2.1 [2.3%??] percent, as shown below.

General Fund Official Revision, October 13, 2017
\$ millions

	FY18					
	Q1		Q2, Q3, & Q4		Full Year	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg
Individual Income	1,123.3	3.0	3,464.6	4.9	4,587.9	4.4
Sales & Use	903.0	0.8	2,625.7	1.4	3,528.7	1.2
Property	53.7	2.5	554.2	0.8	607.9	1.0
Corporation Income	153.6	12.6	407.2	12.8	560.8	12.7
Coal Severance	25.3	5.9	67.1	-12.4	92.4	-8.0
Cigarettes	55.1	-3.7	162.1	-1.2	217.3	-1.8
LLET	43.5	16.9	143.4	-31.2	186.9	-23.9
Lottery	55.0	-5.4	188.0	2.5	243.0	0.6
Other	141.1	7.5	552.8	-1.1	693.9	0.5
General Fund	2,553.6	2.9	8,165.2	2.1	10,718.8	2.3

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All three scenarios from IHS Markit (Control, Optimistic, and Pessimistic) were used as inputs in the OSBD's MAK model, an analytical model that takes US trends in employment and income as predetermined variables in order to estimate Kentucky-specific forecasts for employment and personal income. Of highest importance is the Kentucky wages and salary forecast, which has a direct impact on the Kentucky individual income tax projections and the sales tax estimates.

The OSBD staff prepared three scenarios for consideration by the CFG – optimistic, control and pessimistic. The CFG reviewed and debated the General Fund revenue scenarios and, after a spirited and productive session, the CFG adopted the pessimistic forecast as the most likely outcome for the US and Kentucky economies for purposes of the General Fund revenue models. The General Fund amount FY 2018 was their official estimate. The General Fund amounts for FY 2019 and FY 2020 were their preliminary estimates.

With regard to the Road Fund, CFG members debated between the control and pessimistic forecasts. Ultimately, consensus was reached around the control forecast, as the Road Fund is less connected to the economic and political assumptions made by IHS. The Road Fund forecast is a preliminary estimate that will be reconsidered and made official in the CFG's December meeting.

Included with this letter are the following:

- Attachment 1: Letter from the CFG
- Attachment 2: General Fund estimates in detail
- Attachment 3: Road Fund estimates in detail

Please feel free to contact my office if you have any questions regarding the material included in this packet.

Sincerely,



John E. Chilton
State Budget Director

Copy with attachments to:

- Senator Robert Stivers, Senate President
- Representative Jeff Hoover, Speaker of the House
- Senator Chris McDaniel, Chair A&R Committee
- Representative Steven Rudy, Chair A&R Committee

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October 16, 2017

John E. Chilton
 State Budget Director
 Office of the State Budget Director
 Room 284, Capitol Annex
 Frankfort, Kentucky 40601

Dear Mr. Chilton:

In accordance with KRS 48.120 and 48.115, the Consensus Forecasting Group (CFG) met on October 13, 2017 to consider an official revision to the enacted revenue estimates for FY 2018 and to develop preliminary revenue estimates for FY 2019 and FY 2020. In response to the letters received on October 11, 2017, and September 29, 2017, an official revision to the FY 2018 General Fund was considered by the CFG. The revenue estimates adopted by the CFG during the October 2017 meeting are contained in the table below.

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Road Fund</u>
2018	\$10,718,800,000	\$1,506,100,000
2019	\$11,011,100,000	\$1,515,200,000
2020	\$11,306,300,000	\$1,520,400,000

The official revised FY 2018 General Fund estimate adopted by the CFG is \$155.6 million lower than the FY 2018 official enacted estimate. The FY 2018 Road Fund preliminary estimate adopted by the CFG is \$27.9 million more than the FY 2018 official enacted estimate due to FY 2017 Road Fund receipts being higher than forecasted. The FY 2018

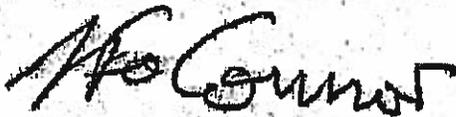
General Fund estimates adopted by the CFG on October 13, 2017 represent an official revision to the enacted estimate, whereas the Road Fund estimates adopted by the CFG are preliminary and do not represent an official revision to the FY 2018 revenue estimates.

In addition to providing estimates for the General Fund and the Road Fund, the Consensus Forecasting Group provides estimates of the receipts the Commonwealth may receive from the Phase I Tobacco Master Settlement Agreement (MSA). The estimates below represent the MSA revenue estimates adopted by the CFG at the October 2017 meeting and are not included in the General Fund totals. The MSA estimates adopted by the CFG incorporate the effects of the recent completion of the June 2014 Non-Participating Manufacturers settlement.

<u>Fiscal Year</u>	<u>MSA Revenue</u>
2018	\$109,300,000
2019	\$119,500,000
2020	\$118,100,000

In summary, the General Fund, Road Fund, and MSA revenue estimates adopted by the Consensus Forecasting Group represent an agreement as to the most likely outcome for revenues for the current fiscal year and the upcoming biennium, given the information available on October 13, 2017. In the coming months, the CFG will have an opportunity to revisit the General Fund, Road Fund, and MSA estimates, and will provide the official revenue estimates on or before the fifteenth legislative day of the 2018 Regular Session of the General Assembly as required by KRS 48.120.

Sincerely,



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

**General Fund
CFG Forecast FY18 - FY20
(Millions of Dollars)
October 2017**

<u>Pessimistic Scenario</u>	<u>FY16</u>		<u>FY17</u>		<u>FY18</u>		<u>FY19</u>		<u>FY20</u>	
	Actual	%Chg	Actual	%Chg	New Official	%Chg	Estimate	%Chg	Estimate	%Chg
Individual Income	4,282.1	5.2	4,393.9	2.6	4,587.9	4.4	4,722.5	2.9	4,836.2	2.4
Sales and Use	3,462.7	6.0	3,485.2	0.7	3,528.7	1.2	3,602.6	2.1	3,680.3	2.2
Property	577.5	2.5	602.1	4.3	607.9	1.0	620.7	2.1	635.1	2.3
Corporation Income	526.6	-0.3	497.5	-5.5	560.8	12.7	610.4	8.8	677.0	10.9
LLET	203.0	-9.3	245.6	21.0	186.9	-23.9	203.5	8.9	225.7	10.9
Coal Severance	120.6	-33.1	100.5	-16.7	92.4	-8.0	92.1	-0.3	79.1	-14.1
Cigarette	224.3	1.5	221.4	-1.3	217.3	-1.9	214.5	-1.3	211.2	-1.5
Lottery	241.8	9.2	241.6	-0.1	243.0	0.6	249.0	2.5	256.0	2.8
Other	700.2	1.2	690.1	-2.6	693.9	0.6	695.8	0.3	705.7	1.4
Total General Fund	10,338.9	3.7	10,477.8	1.7	10,718.8	2.3	11,011.1	2.7	11,306.3	2.7

<u>Compared to</u>	<u>FY16</u>		<u>FY17</u>		<u>FY18</u>	
	Official		Official	%Chg	Old Official	
Individual Income	4,233.5		4,411.1	3.0	4,588.6	
Sales and Use	3,420.5		3,539.8	4.3	3,638.4	
Property	573.0		585.2	0.2	598.7	
Corporation Income	531.7		579.4	11.2	553.1	
LLET	219.8		223.7	12.3	221.6	
Coal Severance	138.4		120.7	0.1	107.6	
Cigarette	225.8		222.5	-3.2	220.5	
Lottery	232.0		236.0	0.9	241.0	
Other	715.2		698.0	-1.0	704.9	
Total General Fund	10,289.9		10,616.4	2.7	10,874.4	

<u>Difference</u>	<u>FY16</u>	<u>FY17</u>	
Individual Income	48.6	(17.2)	(0.7)
Sales and Use	42.2	(54.6)	(109.7)
Property	4.5	16.9	9.2
Corporation Income	(5.1)	(81.9)	7.7
LLET	(16.8)	21.9	(34.7)
Coal Severance	(17.8)	(20.2)	(15.2)
Cigarette	(1.5)	(1.1)	(3.2)
Lottery	9.8	5.6	2.0
Other	(15.0)	(7.9)	(11.0)
Total General Fund	49.0	(138.5)	(155.6)

