

RECENT REVENUE ESTIMATES

(A PRESENTATION TO THE INTERIM JOINT COMMITTEE ON
APPROPRIATIONS AND REVENUE)

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OCTOBER 26, 2017

10/26/2017

Office of State Budget Director

Outline for Today's Presentation

- Updates since July 27, 2017
 - ▣ CFG meetings for planning estimates
 - August 4, 2017
 - August 11, 2017
 - ▣ CFG meeting for preliminary estimates
 - October 13, 2017
 - Official revision to FY18 General Fund
 - ▣ First Quarter Receipts
 - ▣ How does the economic and revenue information affect the FY18 budget and beyond?


The Big Picture Since July A&R

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- We ended FY17 with a \$138.5 million GF revenue shortfall
- CFG met in August for planning estimates, forecasting a FY18 shortfall of \$206.2 million
- Governor Bevin put Cabinets on alert that budget cuts were imminent, asked for reduction plans
- Budget Director Chilton asked the CFG for an official revision to the enacted FY18 General Fund estimate
- First quarter GF receipts grew by 2.9 percent
- CFG met in October for preliminary budget estimates and an official revision to FY18 General Fund enacted estimate. Verdict: -\$155.6 million less than budgeted

FY 2017 General Fund Receipts

(\$ millions)



- Official Estimate \$10,616.4
 - Actual Receipts \$10,477.8
 - Revenue Shortfall \$ 138.5
-
- 1.3% below estimate

FY17 General Fund Receipts vs. Official Estimate (\$ millions)

	<u>Actual</u>	<u>Estimate</u>	<u>Diff (\$)</u>	<u>Diff (%)</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 Tax	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	<u>690.1</u>	<u>698.0</u>	<u>-7.8</u>	<u>-1.1%</u>
TOTAL	10,477.8	10,616.4	-138.5	-1.3%

FY17 General Fund Receipts vs. Previous Years

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	Million \$			Growth Rate (%)		
	FY17	FY16	FY15	FY17	FY16	FY15
Sales and Use	3,485.2	3,462.7	3,267.3	0.7	6.0	4.4
Individual Income	4,393.9	4,282.1	4,069.5	2.6	5.2	8.5
Corporation Income	497.5	526.6	528.1	-5.5	-0.3	11.2
LLET	245.6	203.0	223.8	21.0	-9.3	12.3
Coal Severance	100.5	120.6	180.3	-16.7	-33.1	-8.7
Cigarette Tax	221.4	224.3	220.9	-1.3	1.5	-3.1
Property	602.1	577.5	563.4	4.2	2.5	0.2
Lottery	241.6	241.8	221.5	-0.1	9.2	0.9
<u>Other</u>	<u>690.1</u>	<u>700.2</u>	<u>691.8</u>	<u>-1.4</u>	<u>1.2</u>	<u>-1.0</u>
TOTAL	10,477.8	10,338.9	9,966.6	1.3	3.7	5.3

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August Planning Estimates

□ KRS 48.120 (1)

■ By August 15 of each odd-numbered year, the Office of State Budget Director shall provide to each branch of government preliminary revenue estimates made by the consensus forecasting group.

- A baseline analysis and projections of economic conditions;
- Any potential consequences of the analysis for the Commonwealth's fiscal condition;
- The revenue estimates and implications for the General Fund and Road Fund for the current fiscal year and next four (4) fiscal years; and
- Projections of personal income, employment, and economic indicators that reflect economic conditions.

CFG Membership

- Dr. Frank O'Connor (Chair), ECU
- Dr. Bruce Johnson, Centre College
- Dr. Alan Bartley, Transylvania University
- Dr. James McCoy, Murray State University
- Ms. Janet Harrah, Northern Kentucky -- Center for Economic Analysis and Development
- Mr. David Sinclair, LG&E and KU Energy
- Dr. Christopher Bollinger, UK

CFG Meetings

- CFG protocol and assumptions
 - ▣ Kentucky revenues are structurally related to the Kentucky economy (OSBD revenue models)
 - ▣ The Kentucky economy is structurally related to the U.S. economy (OSBD MAK model)
 - ▣ OSBD has a contract with IHS Global Insight for a U.S. economic forecast with three possible scenarios
 - ▣ CFG chooses among the three scenarios from IHS and OSBD uses the structural relationships to get back to a Kentucky revenue forecast

CFG Findings

- August Planning Estimates
 - ▣ Pessimistic outlook for the General Fund
 - ▣ Control outlook for the Road Fund
 - ▣ Reasons for the outlook
- October Preliminary Estimates
 - ▣ Maintained the Pessimistic outlook for the General Fund, including the official revision
 - ▣ Kept the Control outlook for the Road Fund

August Planning Estimates

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	General Fund	Road Fund	Tobacco MSA
FY18	\$10,668,200,000	\$1,504,800,000	\$109,300,000
FY19	\$10,952,900,000	\$1,513,000,000	\$119,500,000
FY20	\$11,267,900,000	\$1,516,900,000	\$118,100,000
FY21	\$11,551,300,000	\$1,507,900,000	\$116,800,000
FY22	\$11,844,200,000	\$1,519,400,000	\$115,500,000

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August Planning Estimate

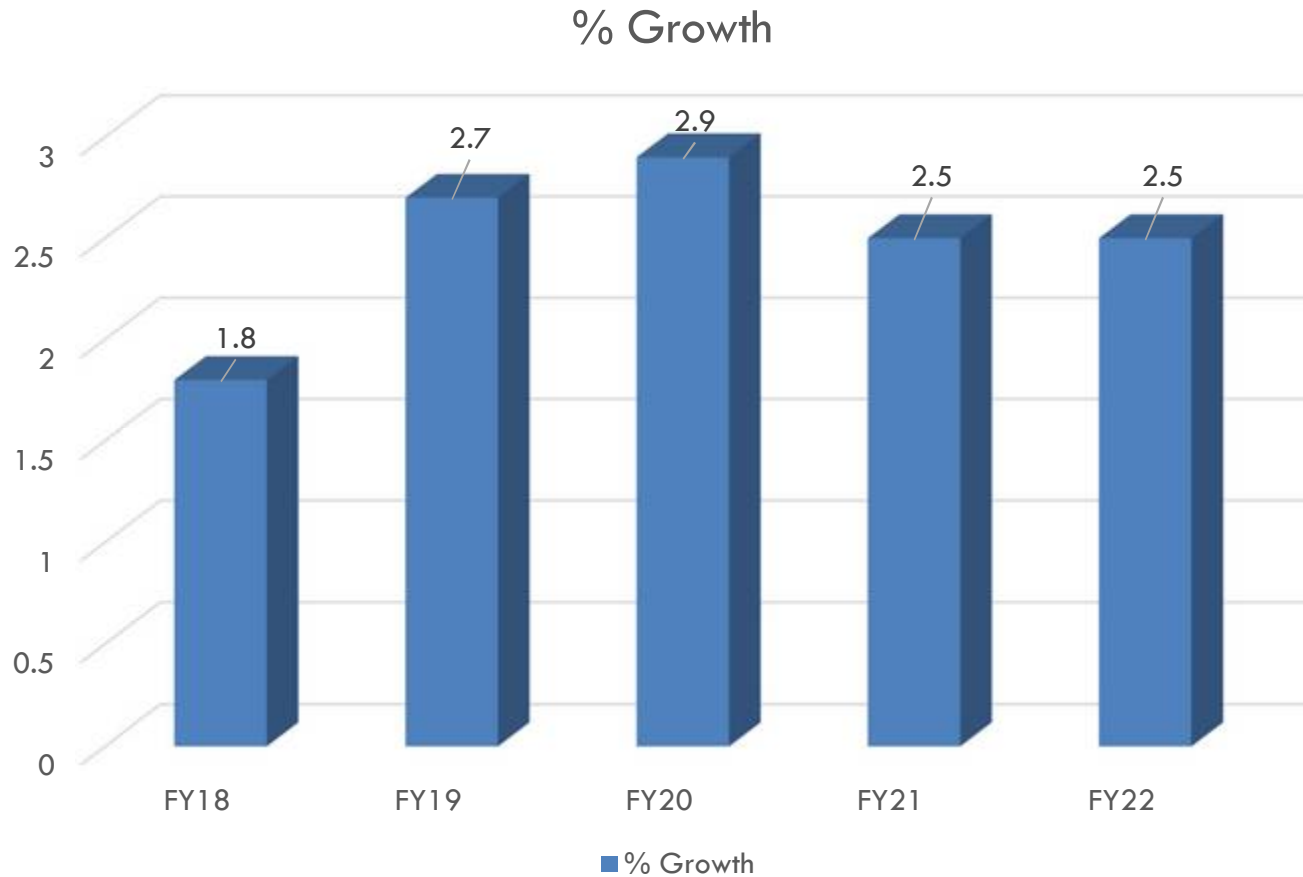
{KRS 48.120 (1) Estimate for FY18}

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<u>Pessimistic Scenario</u>	<u>FY17</u>		<u>FY18</u>		<u>FY18</u>		<u>Projected</u>
	Actual	%Chg	Estimate	%Chg	Official	%Chg	<u>Balance EOY</u>
Individual Income	4,393.9	2.6	4,554.7	3.7	4,588.6	4.6	(33.9)
Sales and Use	3,485.2	0.7	3,507.8	0.6	3,638.4	4.7	(130.6)
Property	602.1	4.3	600.8	-0.2	598.7	1.7	2.1
Corporation Income	497.5	-5.5	559.8	12.5	553.1	1.6	6.7
LLET	245.6	21.0	186.6	-24.0	221.6	-1.8	(35.0)
Coal Severance	100.5	-16.7	101.0	0.5	107.6	-22.4	(6.6)
Cigarette	221.4	-1.3	219.2	-1.0	220.5	-2.5	(1.3)
Lottery	241.6	-0.1	243.0	0.6	241.0	4.7	2.0
Other	690.1	-2.6	695.4	0.8	704.9	3.1	(9.5)
Total General Fund	10,477.8	1.7	10,668.2	1.8	10,874.4	2.4	(206.2)

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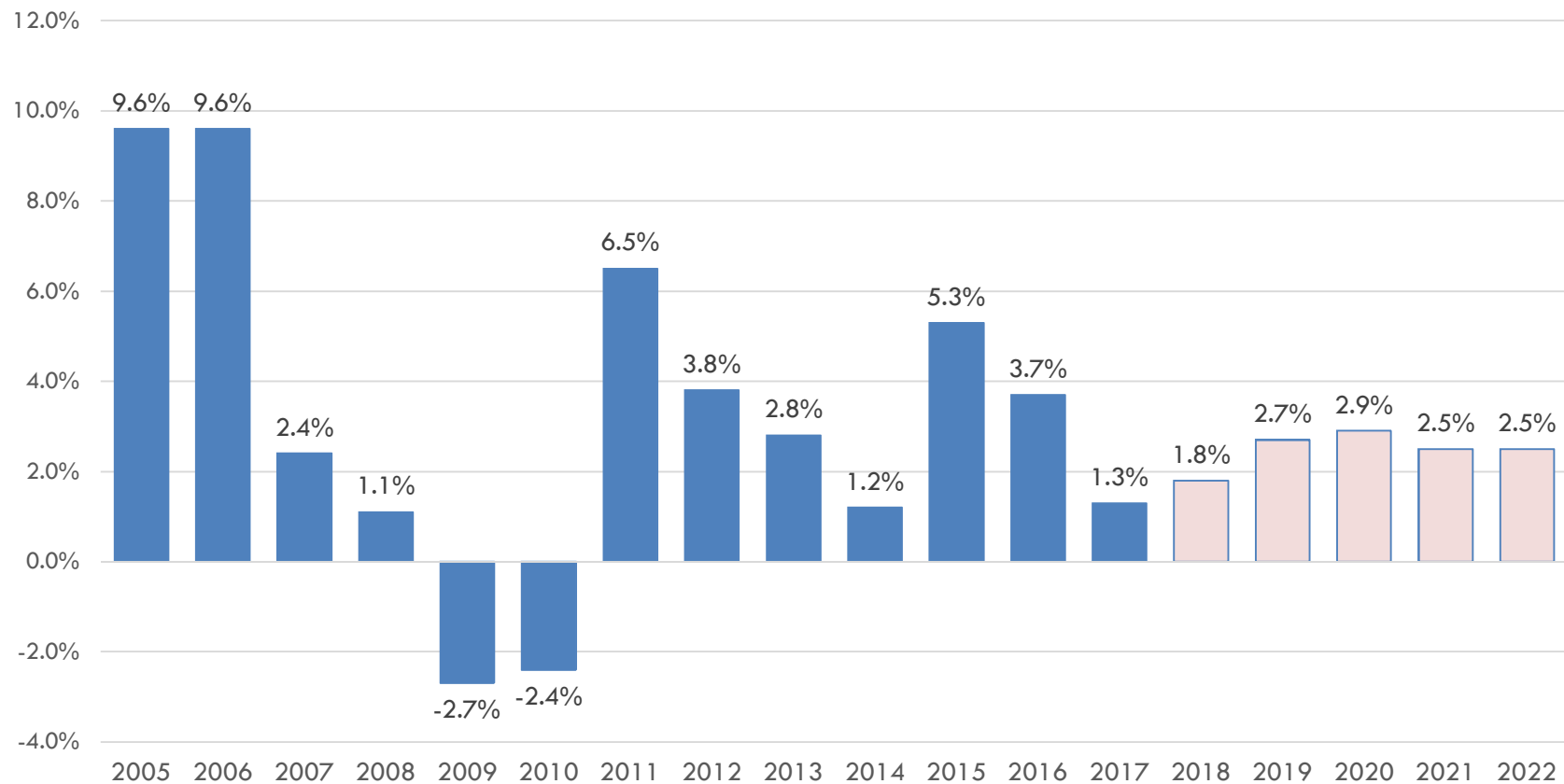
GF Five-Year Planning Estimates



Projected General Fund Growth

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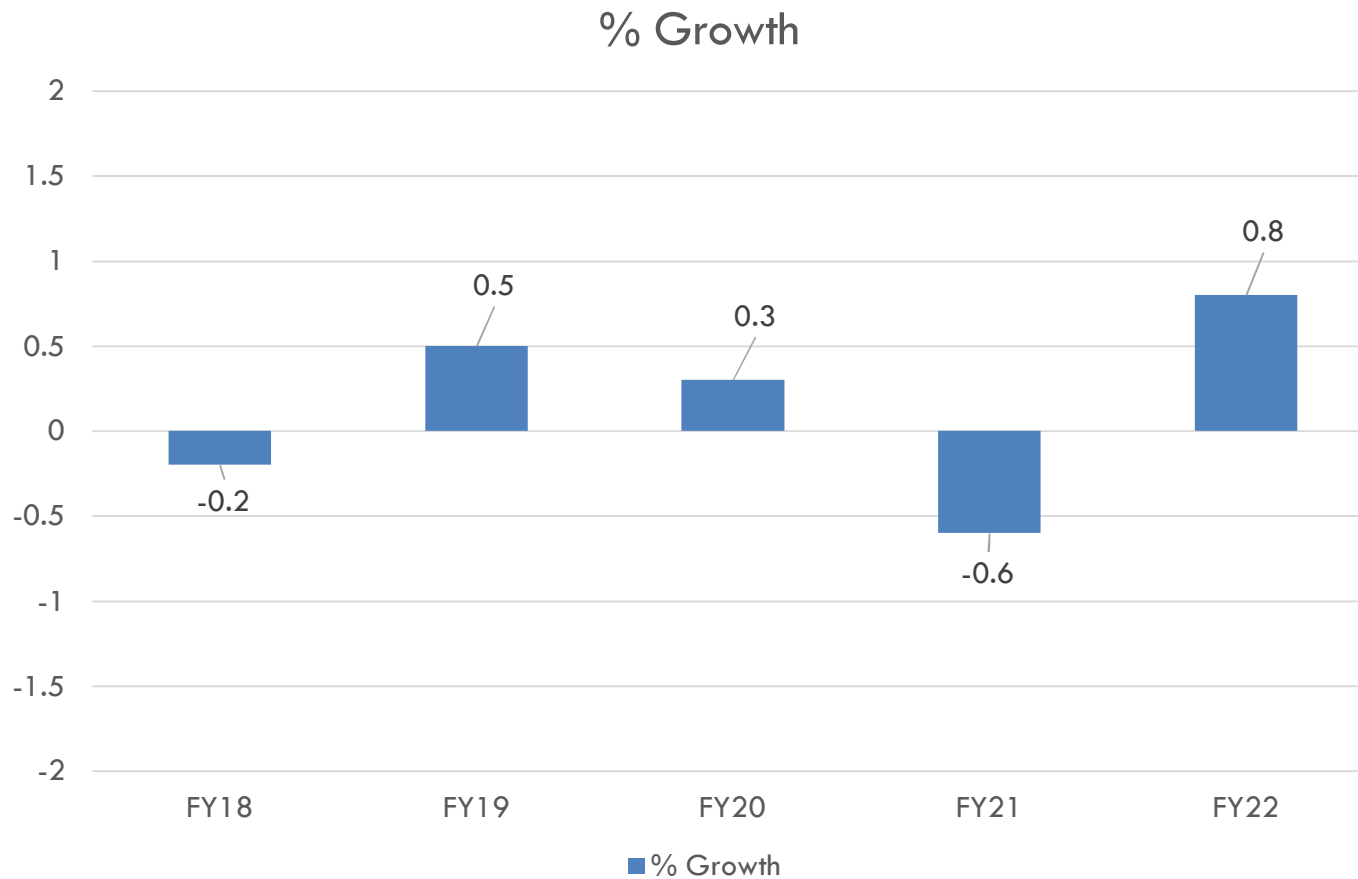
General Fund Growth FY05-FY22



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Road Fund Planning Estimates

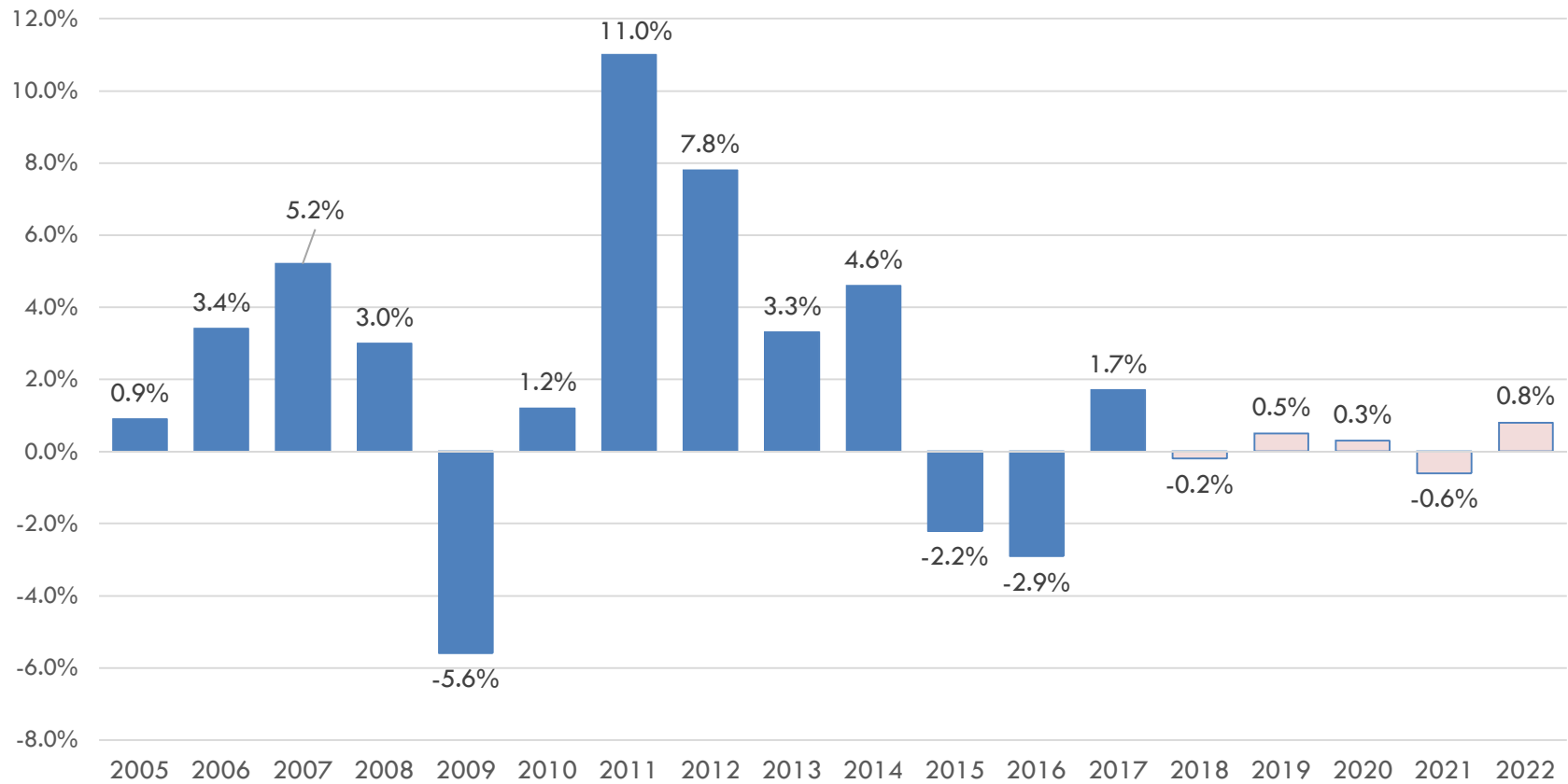
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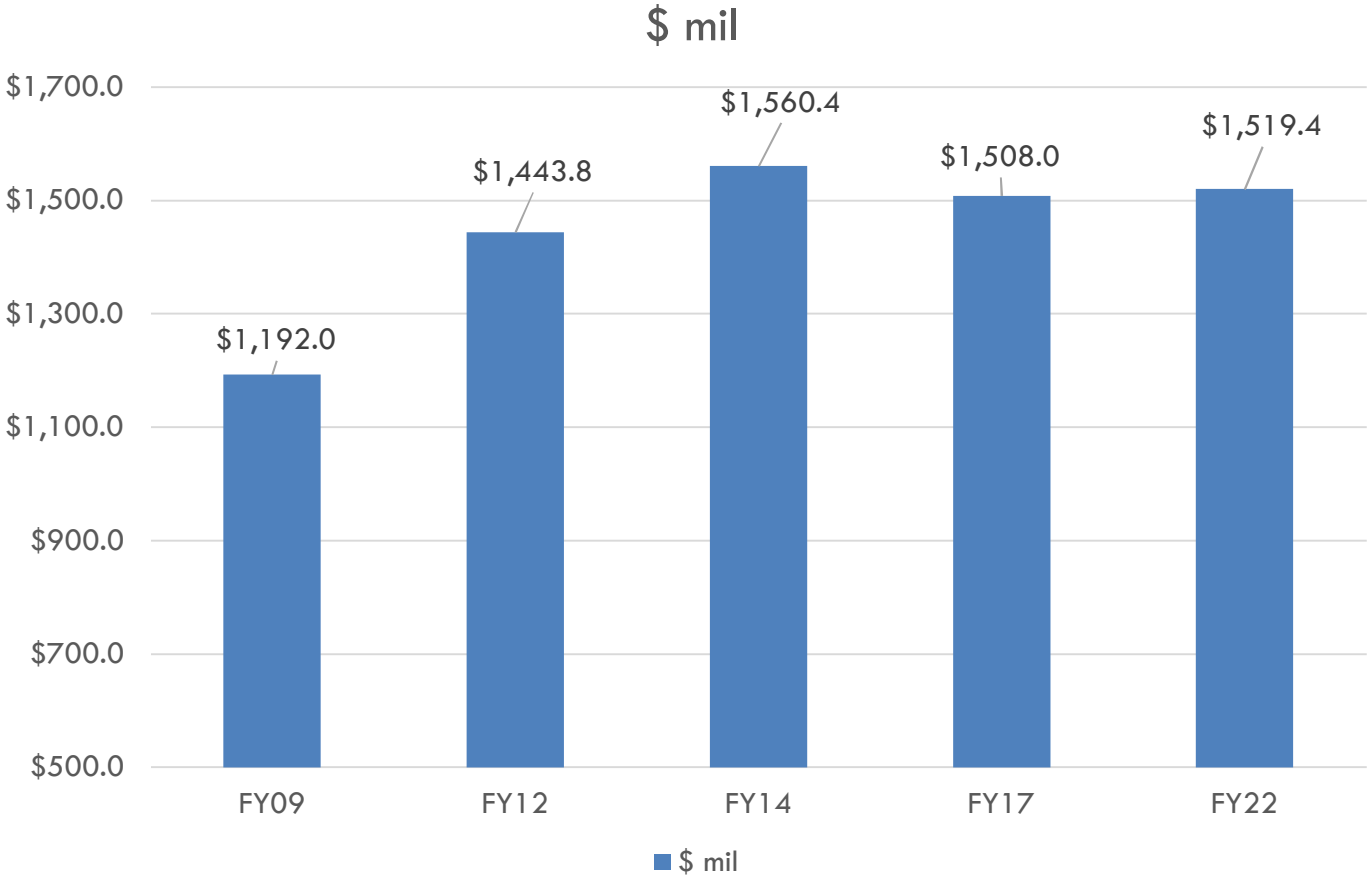
Projected Road Fund Growth

General Fund Growth FY05-FY22



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Road Fund Nominal Collections



October Preliminary Estimates

- KRS 48.120 (2)
 - By October 15 of each odd-numbered year, the Office of State Budget Director shall provide to each branch of government preliminary revenue estimates made by the consensus forecasting group.
 - General Fund, Road Fund, Tobacco Fund
 - Current year and next two fiscal years
 - Explanatory statements
 - A comparative record of actual revenues for each of the last two years completed.

Official Revision {KRS 48.115 (2)}

- If the Legislative Research Commission (LRC) or state budget director (OSBD) determines that a revision to the official estimates is needed, then the LRC or OSBD shall request a revision from the consensus forecasting group.
- The revised revenue estimates shall become the official revenue estimates.
- State Budget Director John Chilton made a written request to the CFG for an official revision to the FY18 official estimate.

Preliminary Budget Estimates

KRS 48.120 (2)

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<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

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New Official Estimate

{KRS 48.115 (2) Estimate}

<u>Pessimistic Scenario</u>	<u>FY18</u>	
	<u>New Official</u>	<u>%Chg</u>
Individual Income	4,587.9	4.4
Sales and Use	3,528.7	1.2
Property	607.9	1.0
Corporation Income	560.8	12.7
LLET	186.9	-23.9
Coal Severance	92.4	-8.0
Cigarette	217.3	-1.9
Lottery	243.0	0.6
Other	693.9	0.6
Total General Fund	10,718.8	2.3

Minus

<u>FY18</u>
<u>Old Official</u>
4,588.6
3,638.4
598.7
553.1
221.6
107.6
220.5
241.0
704.9
10,874.4

Equals

<u>Projected</u>
<u>Balance EOY</u>
(0.7)
(109.7)
9.2
7.7
(34.7)
(15.2)
(3.2)
2.0
(11.0)
(155.6)

Official Revision to FY18

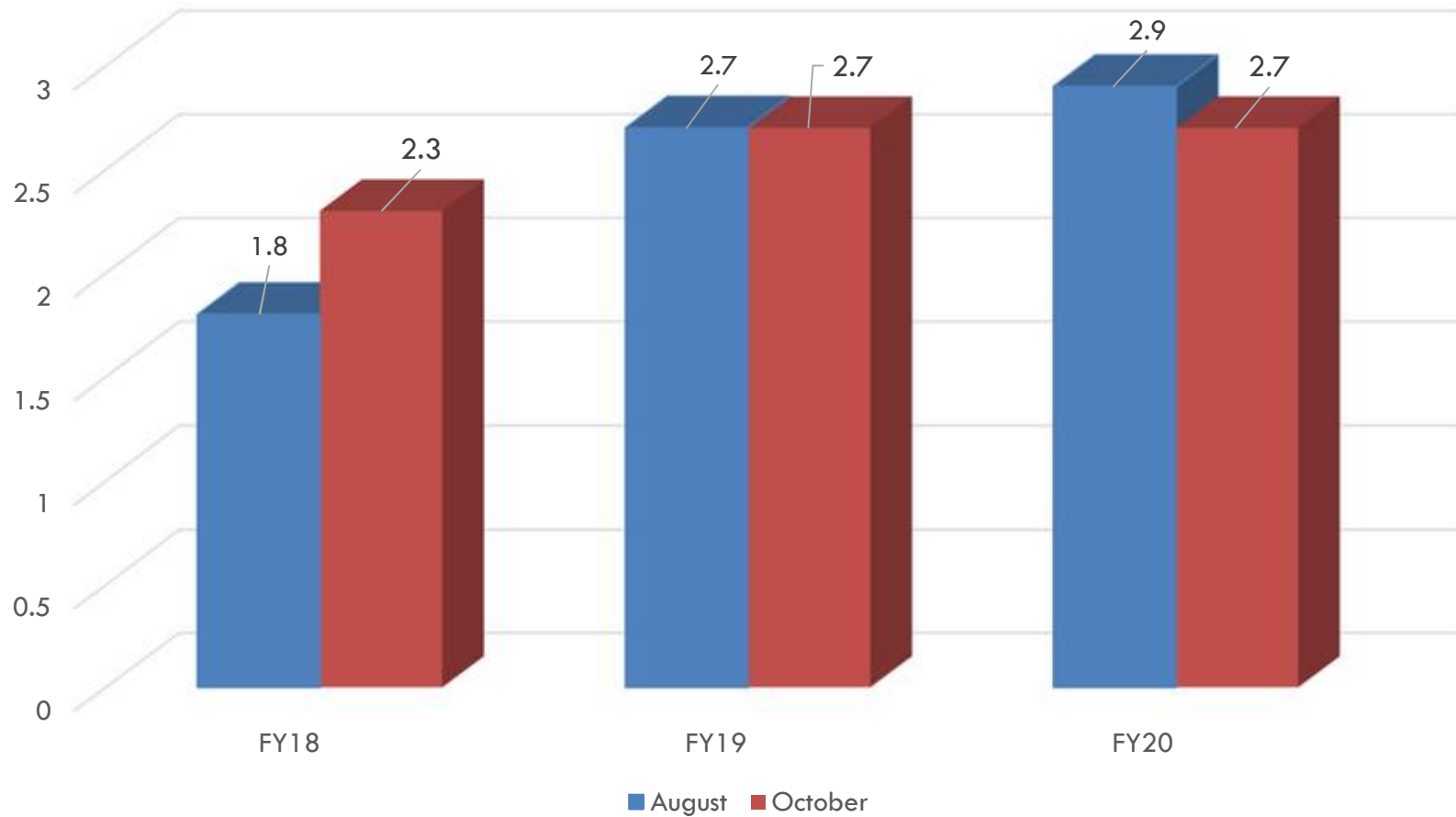
General Fund Official Revision, October 13, 2017						
\$ millions						
FY18						
	Q1		Q2, Q3, & Q4		Full Year	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg
Individual Income	1,123.3	3.0	3,464.6	4.9	4,587.9	4.4
Sales & Use	903.0	0.8	2,625.7	1.4	3,528.7	1.2
Property	53.7	2.5	554.2	0.8	607.9	1.0
Corporation 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	-1.9
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	0.6
General Fund	2,553.6	2.9	8,165.2	2.1	10,718.8	2.3

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GF Comparison of August to October

(Growth Rates)

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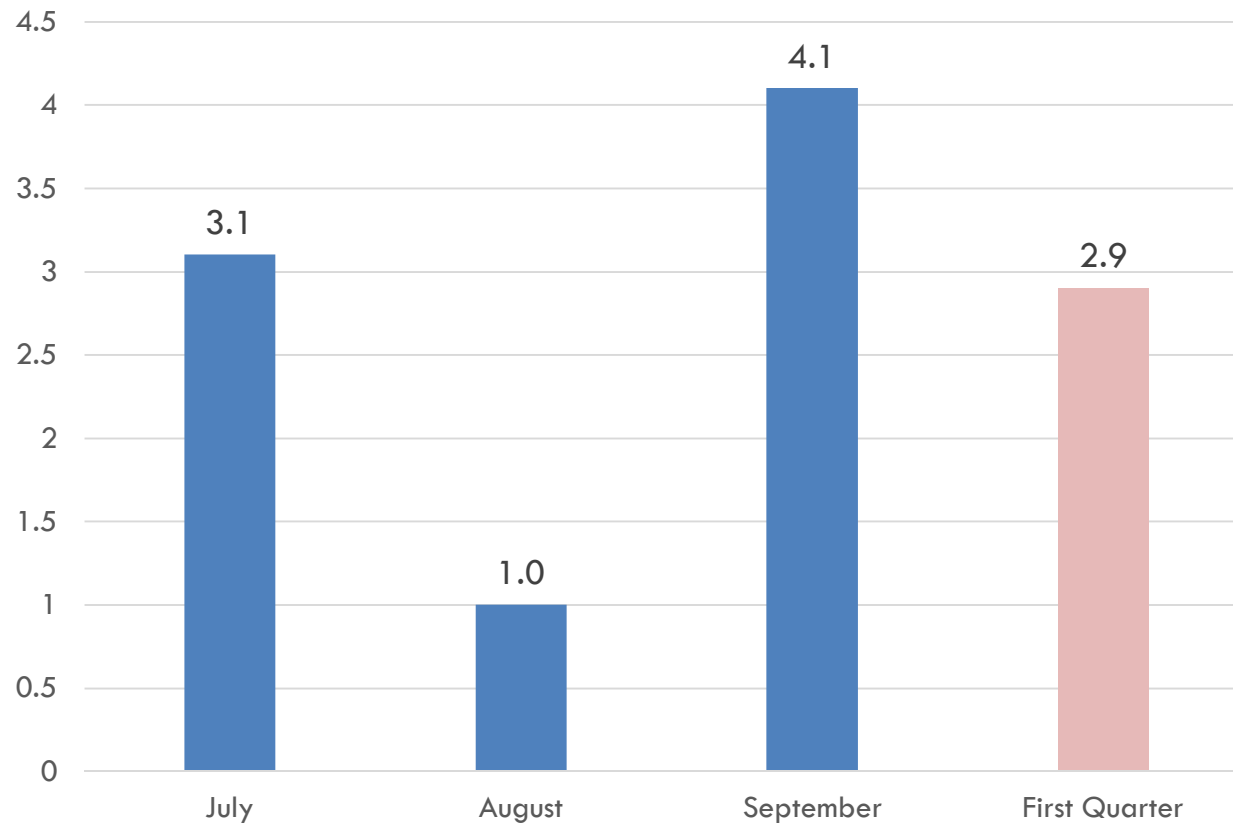
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FY18 COLLECTIONS THROUGH SEPTEMBER

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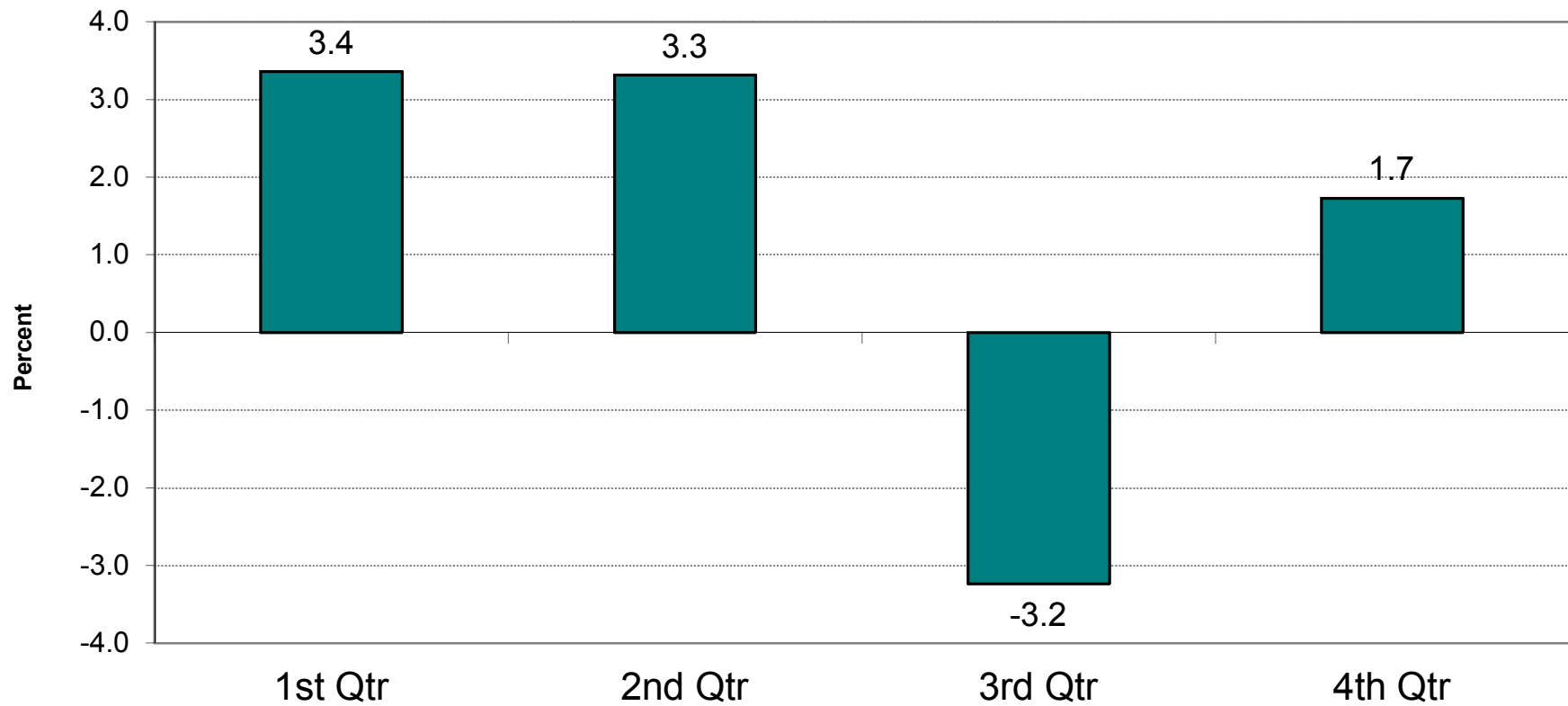
FY18 First Quarter (percentage growth)



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FY17 Quarterly Growth

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QUESTIONS ?

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Thank You!