

Financial Outlook Report

Interim Joint Committee on Appropriations and Revenue

July 27, 2017

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Governor's Office of Economic Analysis



Overview

- Introduction
- Fiscal Year 2017 General Fund Year-End
- Fiscal Year 2017 Tobacco Funds Year-End
- Fiscal Year 2017 Road Fund Year-End
- Fiscal Year 2018 Outlook
- KY Permanent Pension Fund
- Q & A

FY 2017 General Fund Receipts

- Official Estimate \$10,616,375,000
 - Actual Receipts 10,477,848,874
 - Revenue Shortfall \$ 138,526,126
-
- Actual receipts were 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. FY16 (\$ millions)

	Million \$		Difference	
	FY17	FY16	(mil. \$)	(%)
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 Tax	221.4	224.3	-2.9	-1.3
Property	602.1	577.5	24.5	4.2
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

FY17 General Fund Receipts vs. Previous Years

	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
Other	<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

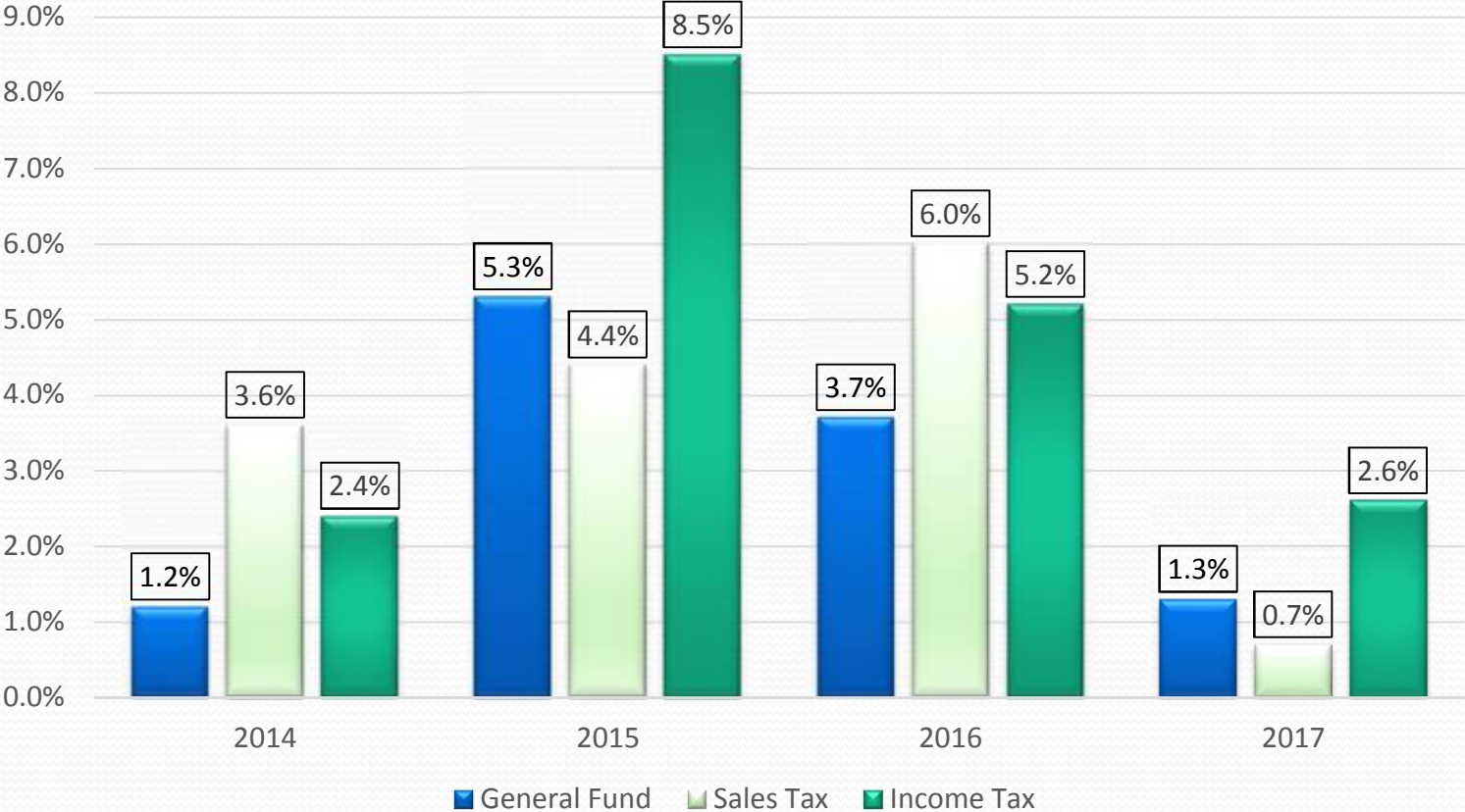


FY17 General Fund Receipts-Summary

- Kentucky's top two revenue sources (75% of GF) underperformed relative to the last two fiscal years
 - Individual Income taxes (41.9% of General Fund)
 - 8.5% in FY15
 - 5.2% in FY16
 - 2.6% in FY17
 - Sales tax (33.3% of the General Fund)
 - 4.4% in FY15
 - 6.0% in FY16
 - 0.7% in FY17

Income and Sales Taxes Lead Growth

General Fund Major Revenue Sources





General Fund Receipts-Individual Income

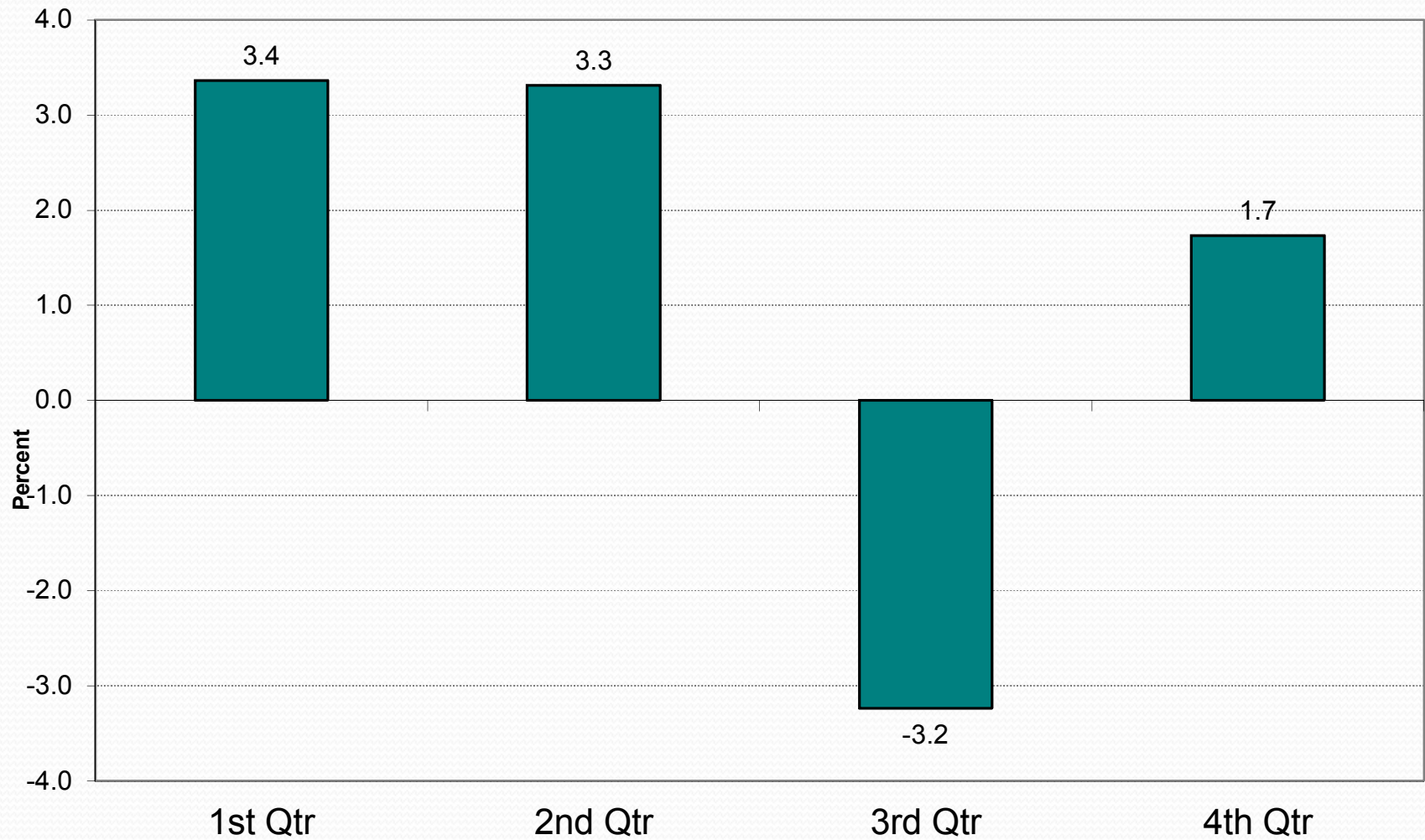
- Individual Income Tax (IIT) for FY17
 - Withholding grew by 3.5% (following 4.8% in FY16)
 - Estimated payments fell by 2.8% (+10.2% in FY16)
 - Overall growth in FY17 was 2.6% (+5.2% in FY16)
 - The IIT contributed \$111.8 million of the total \$138.9 million in nominal General Fund growth
 - In FY16, the IIT contributed \$212.6 million in nominal General Fund growth



General Fund Receipts-Sales and Use Tax

- Sales Tax
 - Growth in FY17 was 0.7% following 6.0% in FY16 and 4.4% in FY15
 - The 0.7% mark in FY17 was the lowest growth since FY13 when the sales tax fell 1.0%
 - The sales tax contributed \$22.5 million of the total \$138.9 million in nominal General Fund growth
 - Since withholding grew 3.5% and the sales tax only 0.7%, clearly households are saving a little more or deleveraging past debt

FY17 Quarterly Growth Pattern



\$152.2 Million FY17 General Fund Shortfall

	Millions \$
FY 17 General Fund Revenue Shortfall	\$138.5
Expenditures Greater than Appropriated	13.7
General Fund Budget Shortfall	\$152.2
Solutions	
Restricted Fund Transfers - Executive Branch	(\$77.4)
Lapses/Fund Transfers in Excess of Budgeted	(15.5)
General Fund Appropriation Reductions	
Executive Branch	(55.5)
Judicial Branch	(3.5)
Legislative Branch	(0.4)
Total General Fund Appropriation Reductions	(59.4)
Total Solutions	(\$152.2)

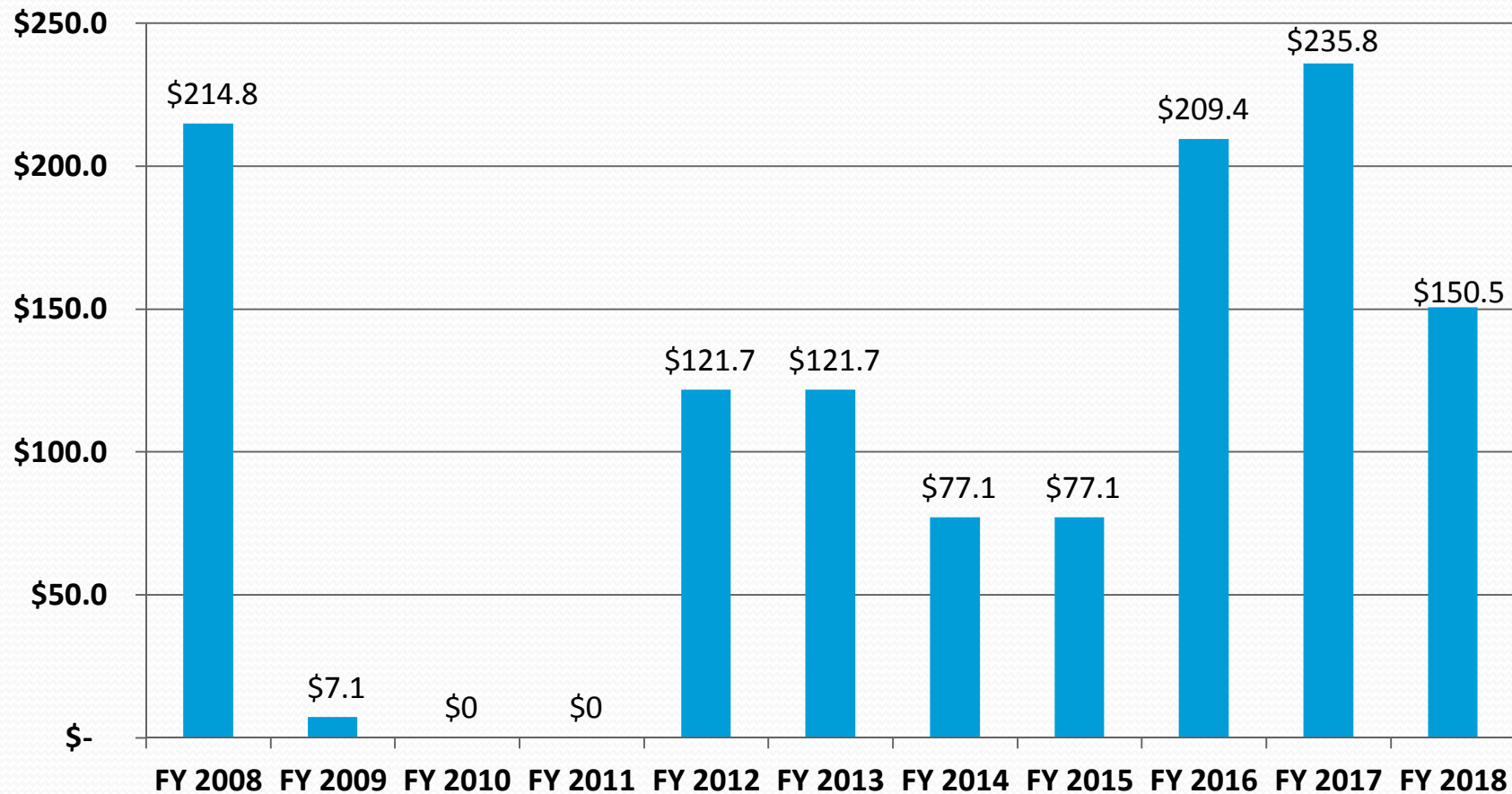
Budget Reserve Trust Fund (BRTF)

	<u>Millions \$</u>
● FY 17 Beginning Balance	\$235.8
● FY 17 NGE	(85.3)
● FY 17 General Fund Excess	<u>0.0</u>
● FY 17 Ending BRTF Balance	150.5
● FY 18 Appropriated Use of BRTF	<u>(56.7)</u>
● FY 18 BRTF Available before NGEs	\$ 93.8
● FY 18 NGEs	????
● FY 18 Revenue shortfall	????

- \$150.5 million is 1.3% of FY 18 General Fund Revenues. Common target of BRTF is 5% of General Fund Revenues (\$543.7 million).

Budget Reserve Trust Fund FY2008-FY2018

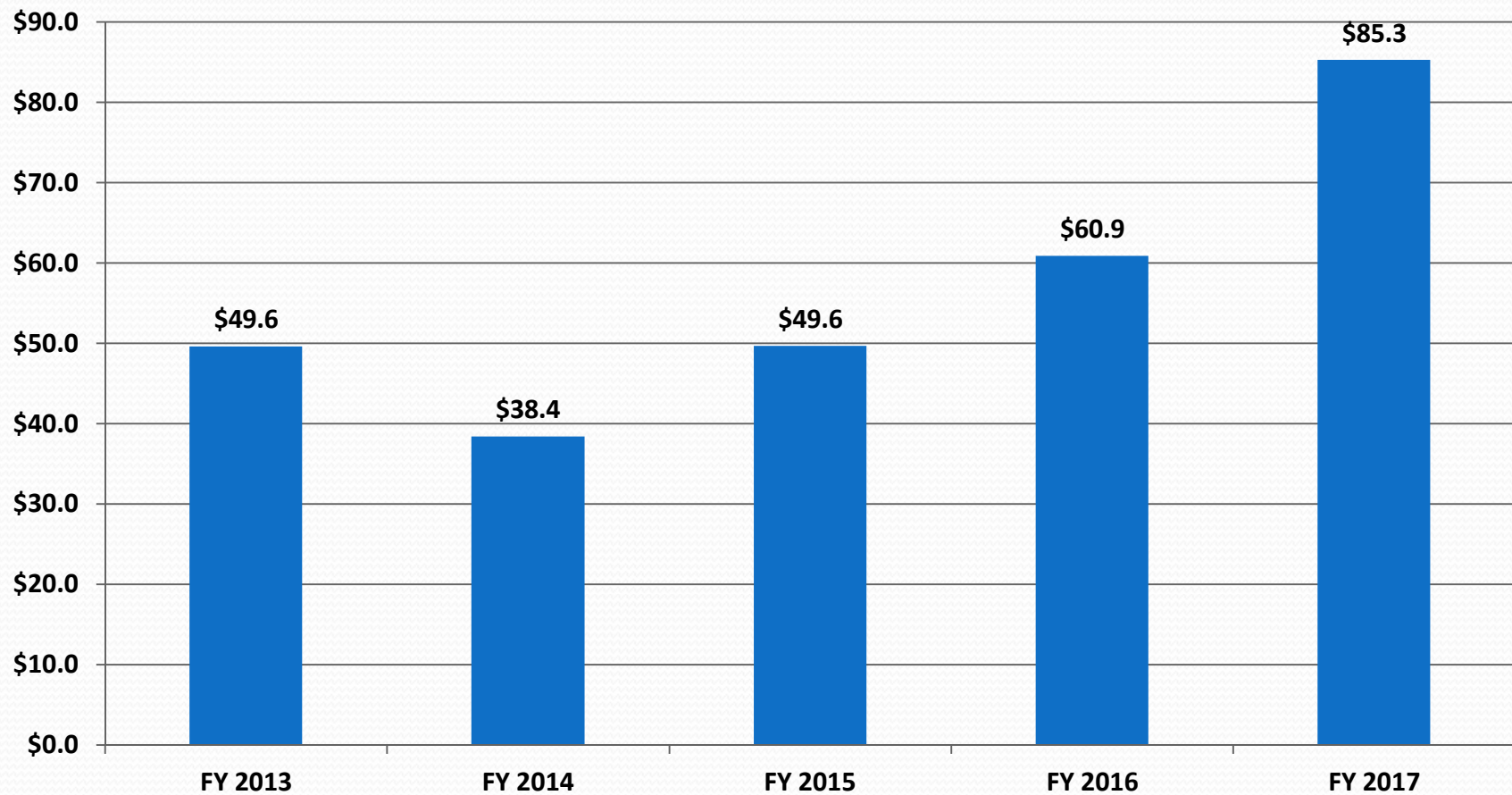
Beginning Balance Carry Forward



Necessary Government Expenses

	Millions \$
	FY 2017 Actual
Corrections	39.1
Corrections-Jail Architecture and Engineering Fees	3.7
Guardian Ad Litem	12.4
Military Affairs-Disasters and Planned Events	10.7
Forest Fire Suppression	5.7
Dept of Education - SEEK	4.6
County Costs-Courthouse Security	3.4
County Costs-Public Defender	2.0
ANOC-Unredeemed Checks	1.6
ANOC-Prior Year Claims	1.6
Other	0.4
	\$85.3

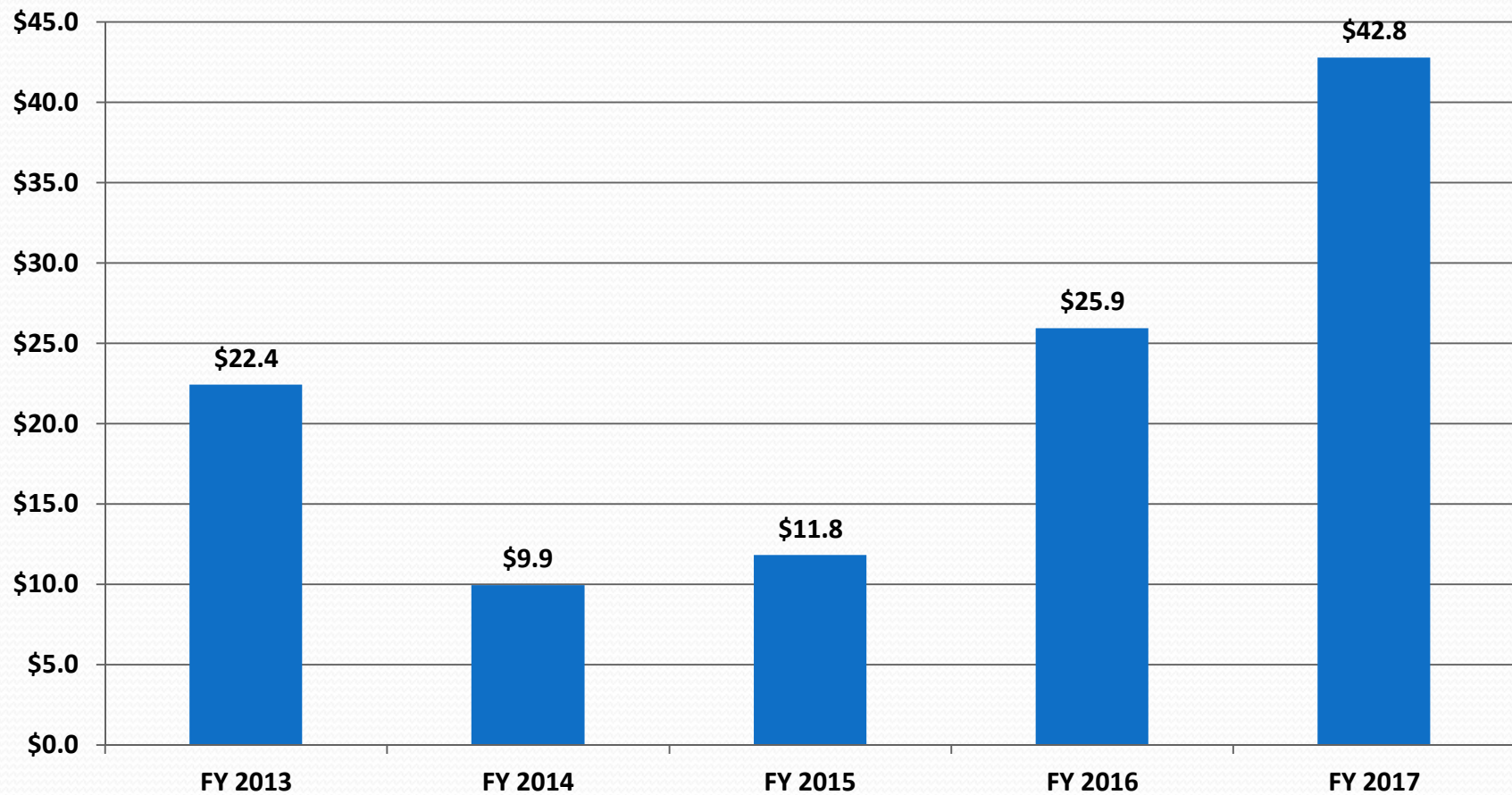
Necessary Government Expense FY 2013 - 2017



Corrections

Necessary Government Expense

FY 2013 - 2017



Corrections – FY 2017 NGE Summary

Cost Drivers	Millions \$
More Inmates - 1,836 Higher ADP	19.6
Higher Medical and Staffing Costs	19.5
Local Correctional Facilities Design Fees	3.7
Total FY 2017 NGE	42.8

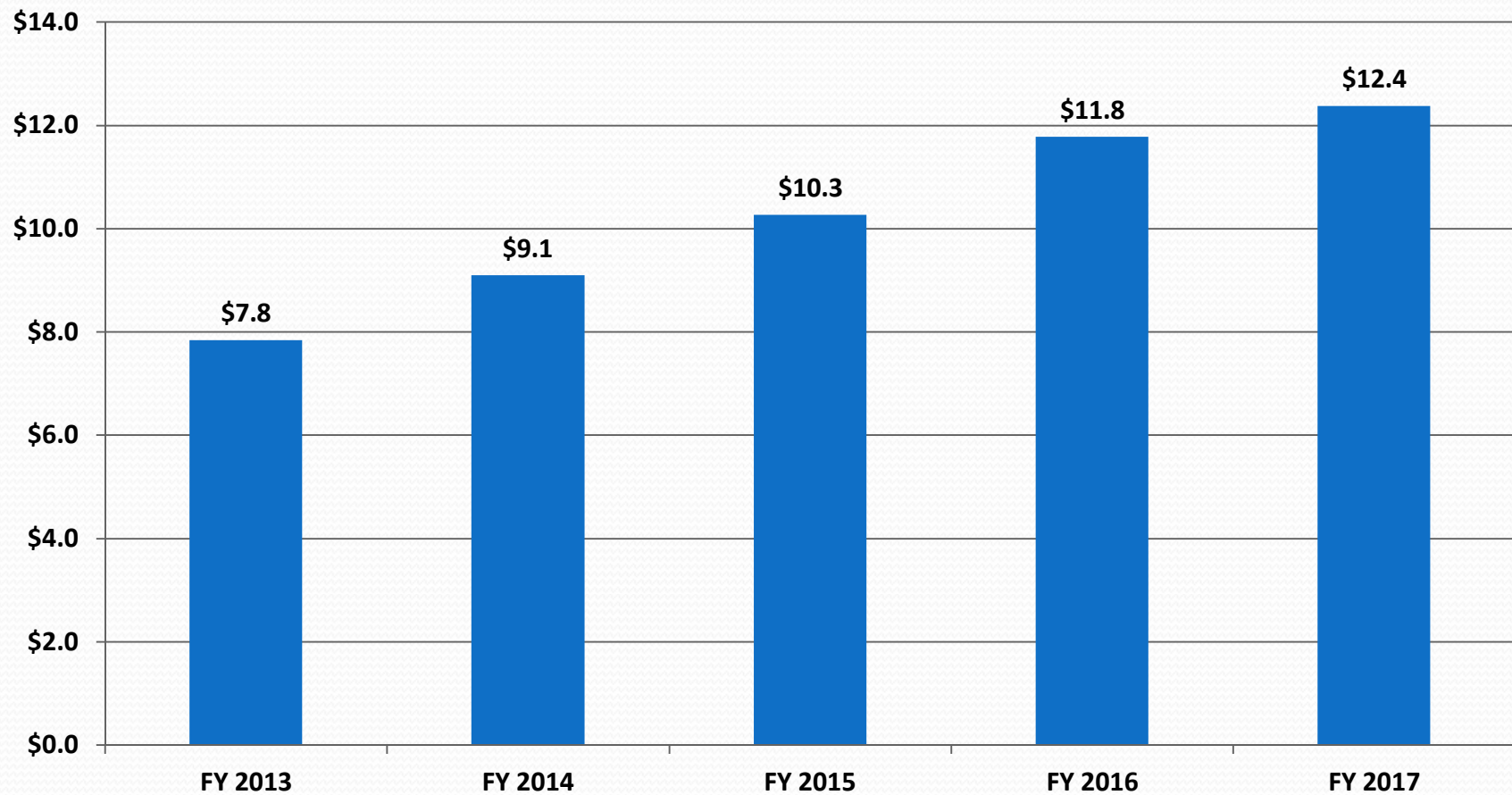
Factors Impacting Higher Average Daily Population than Budgeted:

- Higher Admissions
- Lower Parole Grant Rate
- Enacted Budget Reduced from Governor's Recommended

Local Correctional Facilities Design Fees:

Oldham	\$1,223,097
Rowan	\$931,771
Laurel	\$1,000,000
Knox	\$559,532

Guardian Ad Litem Necessary Government Expense FY 2013 - 2017

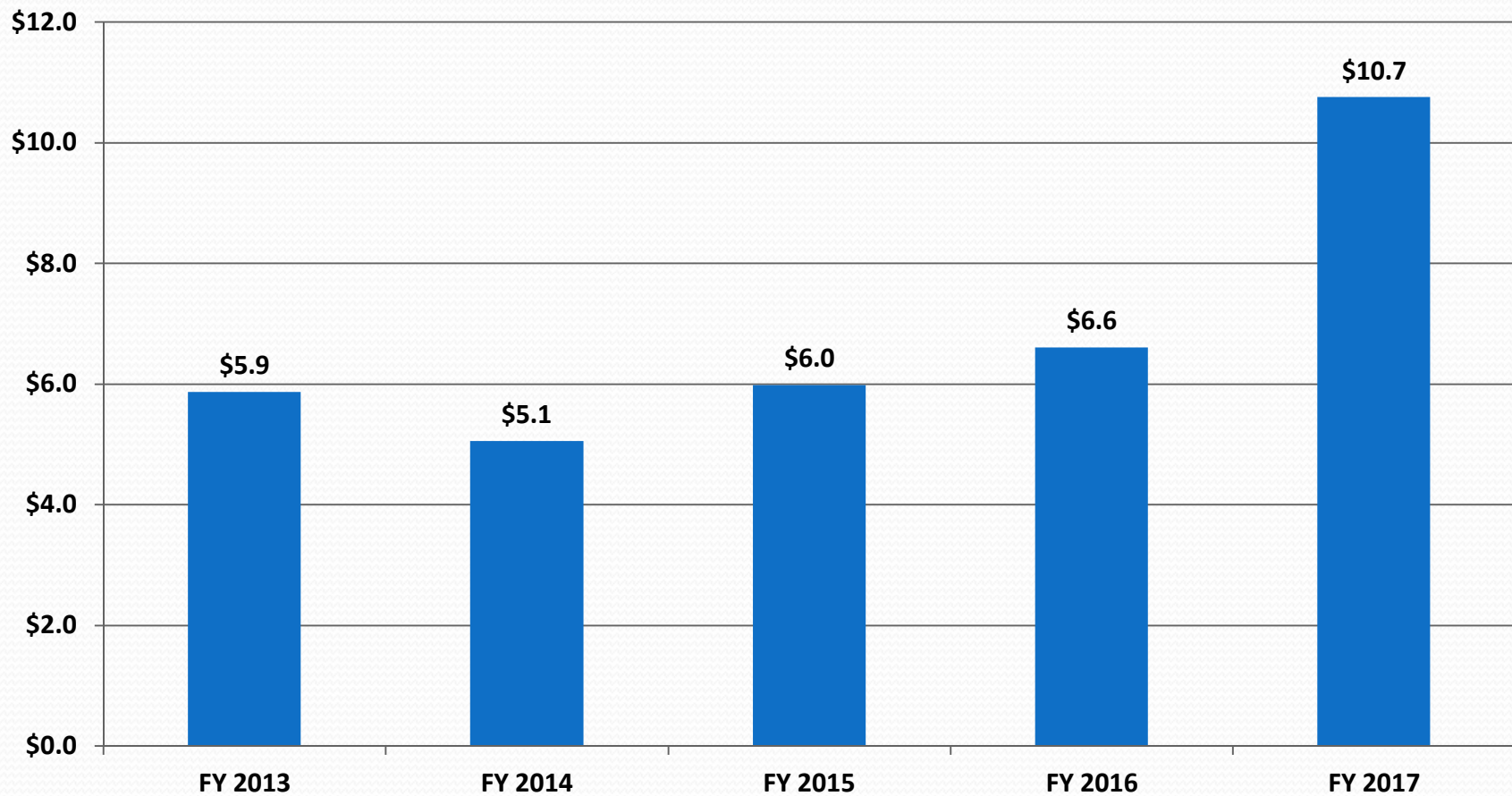




Guardian Ad Litem – NGE Summary

- KRS 387.305 and KRS 311.732 – Attorneys appointed by the court to represent minors
- KRS 620.100 – Attorney fee set in statute not to exceed
 - \$500 in Circuit Court
 - \$250 in District Court
- Expenditures have risen steadily
- The fee has been the same since 2005

Military Affairs Necessary Government Expense FY 2013 - 2017



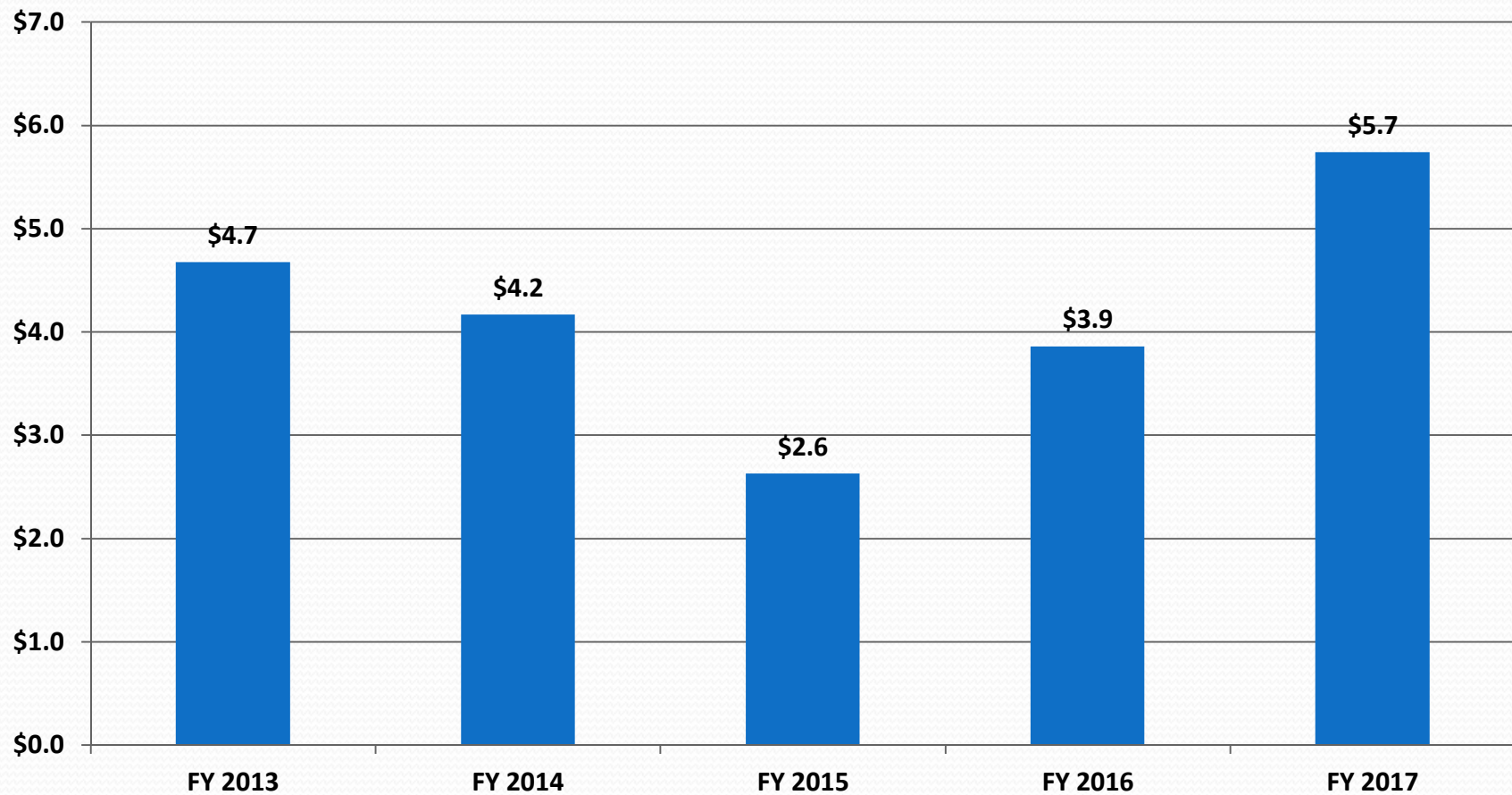
Military Affairs – FY 2017 NGE Summary

	Millions \$
Disaster Grants	7.0
Emergency Operations	2.7
Planned Events	<u>1.0</u>
Total	10.7

Examples:

- Disaster Grants are for mitigation and public assistance. These result when a disaster is declared. We match this at 25% and typically the feds will fund 75%.
- Emergency Operations-Call to Duty by the Governor declared state of emergency like floods, storms, etc.
- Planned Events such as Derby, Thunder Over Louisville, Local Parades/Festivals, Breeders Cup, Drug Eradication

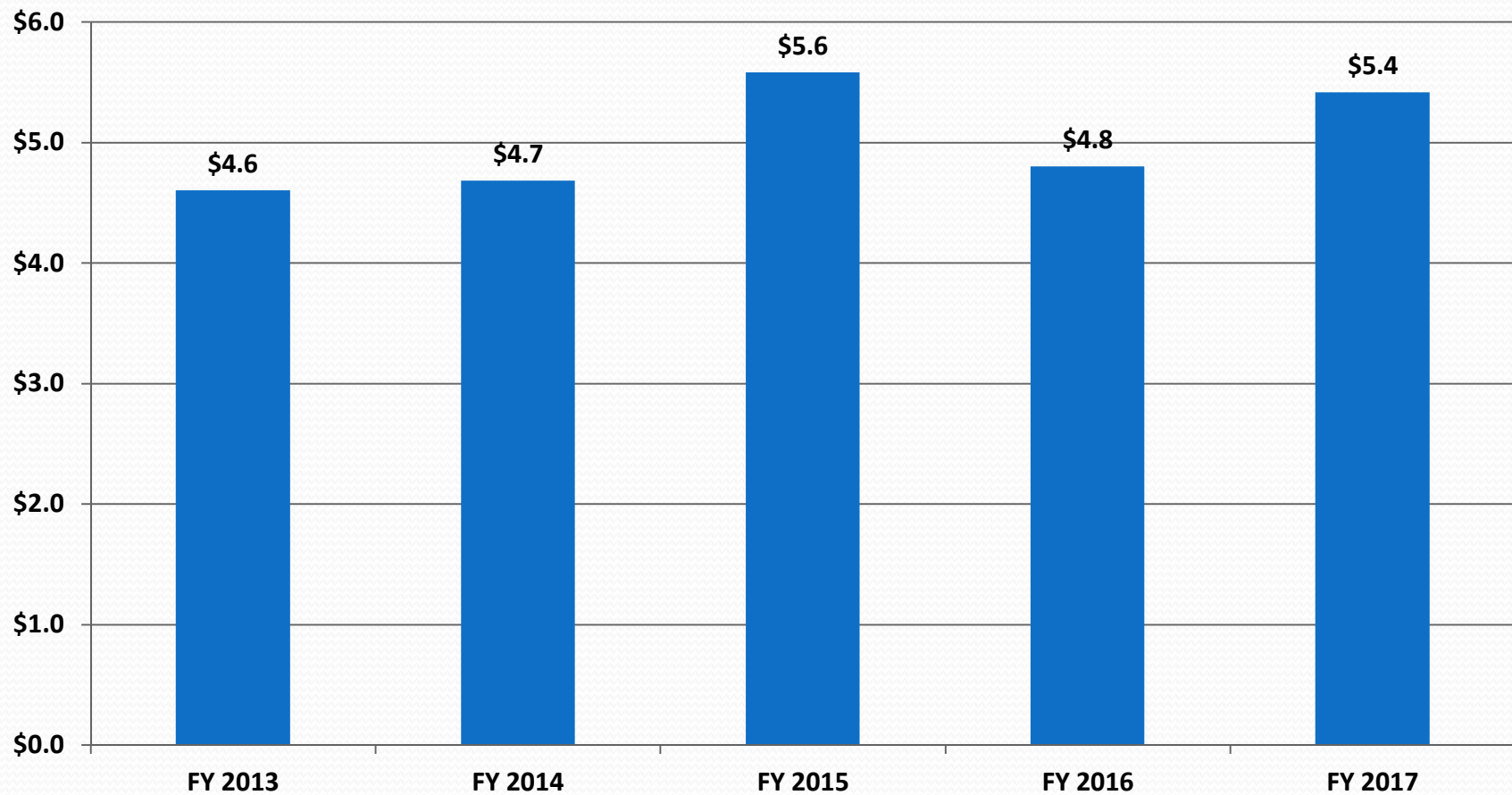
Natural Resources – Fire Suppression Necessary Government Expense FY 2013 - 2017



County Costs

Necessary Government Expense

FY 2013 - 2017



County Costs – FY 2017 NGE Summary

	Millions \$
Sheriffs' Fees	3.4
Public Defender	<u>2.0</u>
Total	5.4

Sheriffs' Fees:

- Various statutes require payment of fees to the county sheriffs and other law enforcement personnel for services rendered to the circuit/district courts and for prisoner expenses.
- KRS 64.092 is the largest line-item in this program for courthouse security, which requires compensation of \$9/hour of service.
- The statutory fee is \$8/hour of service, but this has been suspended and increased to \$9/hour in appropriations acts since the 2012-14 biennium.
- The hourly increase along with the Judicial branch's courthouse construction program have increased costs in this program.

Public Defender:

- KRS 31.185 requires each fiscal court to appropriate \$0.125 per capita to a special account in the Finance Cabinet for use in paying court orders for needy defendants. If funding from this source is not sufficient, the General Fund is used to pay such court orders.



Tobacco Funds

Tobacco Funds

- | | |
|-----------------------------|-------------------|
| ● FY 2017 Actual Receipts | \$93,415,538 |
| ● FY 2017 Official Estimate | <u>87,000,000</u> |
| ● Receipts Above Estimate | \$ 6,415,538 |
- If MSA payments received exceed the official estimates, Part X of HB 303 allocates 50% to Agricultural Development Fund, 36% to Early Childhood Development Fund, and 14% to the Health Care Improvement Fund.



Road Fund



FY 2017 Road Fund Receipts

- FY17 Official Estimate \$1,456,900,000
 - FY17 Actual 1,508,003,421
 - Revenue Surplus \$ 51,103,421
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- Actual receipts were 3.5% above official estimate

FY17 Road Fund Receipts vs. Prior Year

	Million \$		Difference	
	FY17	FY16	(mil. \$)	(%)
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
Motor 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

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

	<u>Actual</u>	<u>Estimate</u>	<u>Diff.</u>	<u>Diff. (%)</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

Tax Rate on Motor Fuels (¢ per gallon)

- Total tax rate for FY17 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. \$2.80 retail)

Variable Tax Rate (Cents per Gallon)								
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Q1	19.2	21.4	23.5	25.9	26.1	19.6	19.6	19.6
Q2	19.5	21.4	23.5	25.9	25.5	19.6	19.6	19.6
Q3	19.5	21.4	23.5	24.4	21.2	19.6	19.6	19.6
Q4	19.5	21.4	23.5	23.7	19.6	19.6	19.6	19.6

\$57 Million FY 17 Road Fund Surplus

	Millions \$
Actual vs. Budgeted	
Revenues More than Official Estimate	\$51.1
Other Spending Lapse	9.3
Revenue Sharing Reduction	(7.2)
Fund Transfers in Excess of Budgeted	0.4
Debt Service Lapse Beyond Budgeted Lapse	3.6
Road Fund Surplus	\$57.2



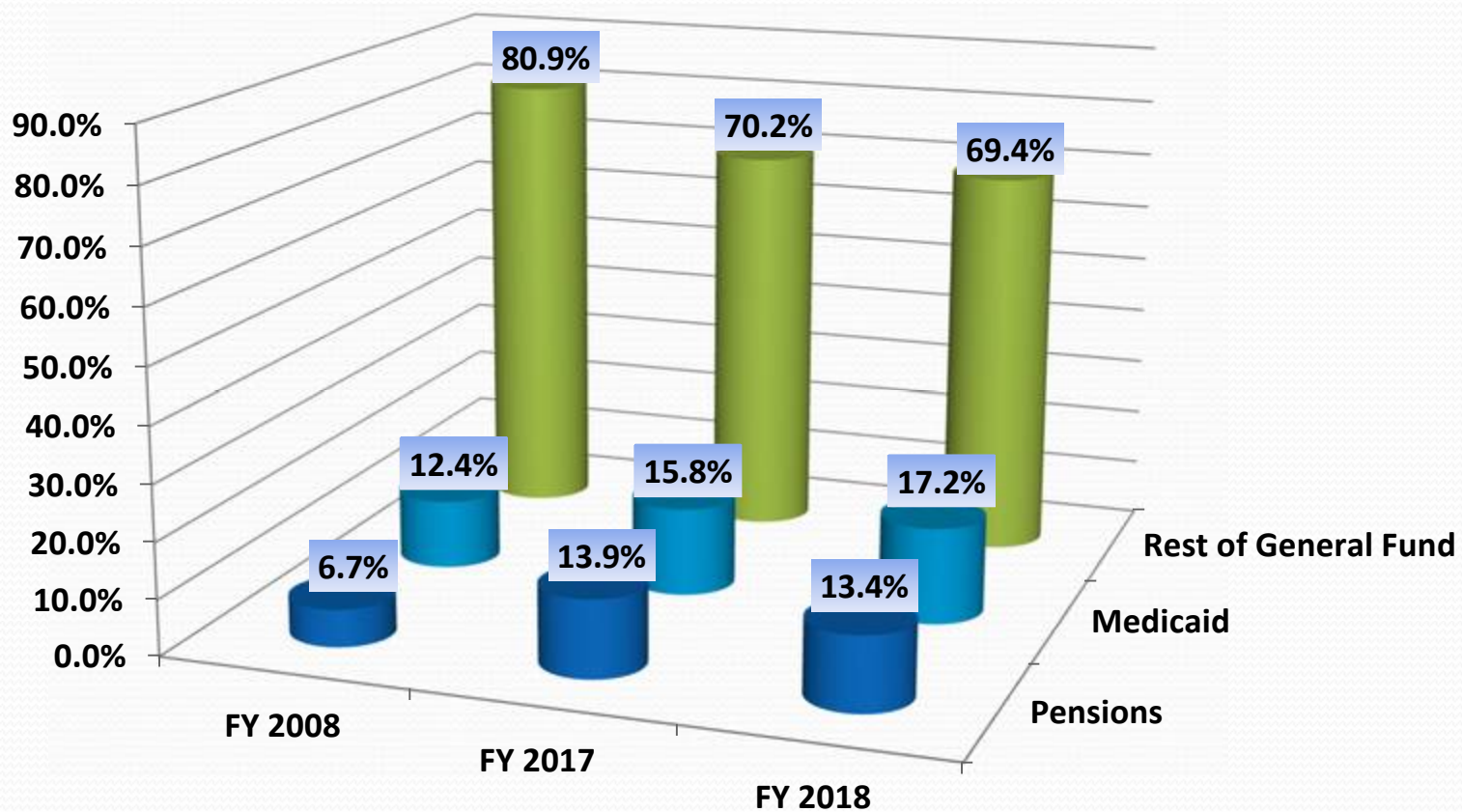
Fiscal Outlook



A Look Ahead to FY18

- CFG estimate called for growth of 2.4%
- Due to receipts not meeting the revenue estimates in FY17, growth needed to hit the FY18 estimate is 3.8%
- Interim estimates for the next three quarters will be released on July 31st
- The CFG will meet on August 11th to agree upon planning estimates that will extend from FY18 through FY22

Pensions and Medicaid a growing share of General Fund Spending



Take Aways

- Pensions STILL severely underfunded (\$35 Billion - \$82 Billion)
- There is uncertainty in the economic outlook for FY18 that warrants great caution
- Budget Reserve Trust Fund (Rainy Day Fund) is far below the 5% common target
- FY18 budget anticipates spending down the Budget Reserve Trust Fund by \$56.7 million
- Budget Stabilization Plan was Fiscally Responsible
- “Budgeting to Zero” ignores the reality of unbudgeted NGE’s and variations in revenue estimates

KY Permanent Pension Fund

(millions \$)

Source of Funds

• 50% of FY 16 Surplus	\$26.4
• FY 18 transfer from Public Health Insurance Trust Fund	125.0

Use of Funds

• Performance Audit of state-administered retirement systems (1.0 spent)	3.0
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Questions

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