

Financial Outlook Report

Interim Joint Committee on Appropriations and Revenue

July 26, 2018

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Overview

Introduction

Fiscal Year 2018 General Fund Year-End

Fiscal Year 2018 Tobacco Funds Year-End

Fiscal Year 2018 Road Fund Year-End

Fiscal Year 2019 Outlook

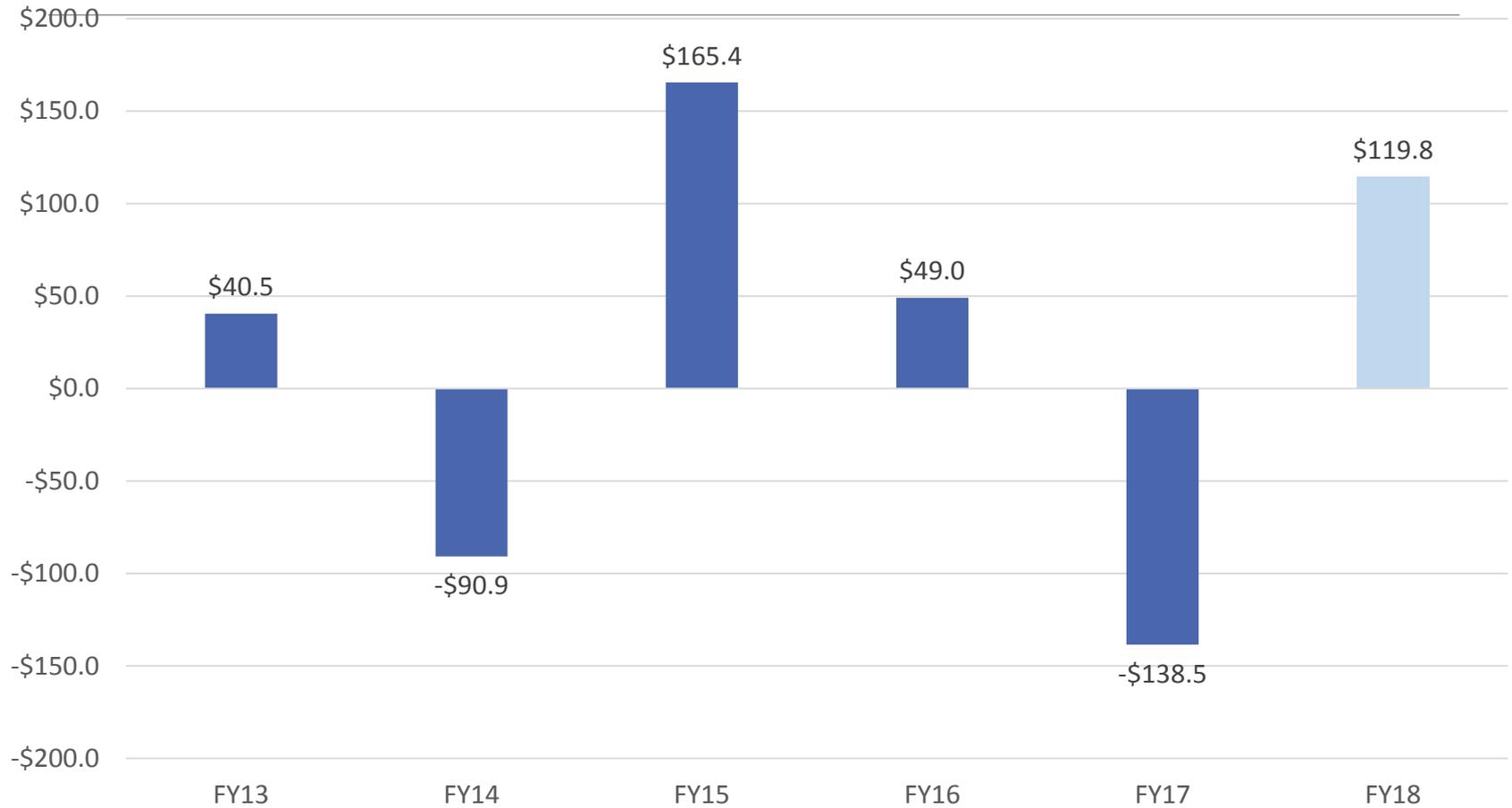
Q & A

FY 2018 General Fund Receipts

Actual Receipts	\$10,838,200,000
December 2017 Official CFG Estimate	<u>10,718,400,000</u>
FY 2018 General Fund Revenue Surplus	\$ 119,800,000

Past GF Forecasting Accuracy

(Actual Receipts Minus the Enacted Estimates)



FY18 General Fund Receipts vs. Official Estimate (\$ millions)

	Actual	Estimate	Diff (\$)	Diff (%)
Sales and Use	3,605.7	3,611.9	-6.2	-0.2%
Individual Income	4,603.6	4,509.0	94.6	2.1%
Corporation Income	511.4	558.6	-47.2	-8.5%
LLET	238.1	186.2	51.9	27.9%
Coal Severance	89.6	88.5	1.1	1.3%
Cigarette Tax	211.8	214.3	-2.5	-1.2%
Property	621.3	607.9	13.4	2.2%
Lottery	253.0	243.0	10.0	4.1%
Other	<u>703.7</u>	<u>699.0</u>	<u>4.7</u>	<u>0.7%</u>
TOTAL	10,838.2	10,718.4	119.8	1.1%

FY18 General Fund Receipts vs. FY17 (\$ millions)

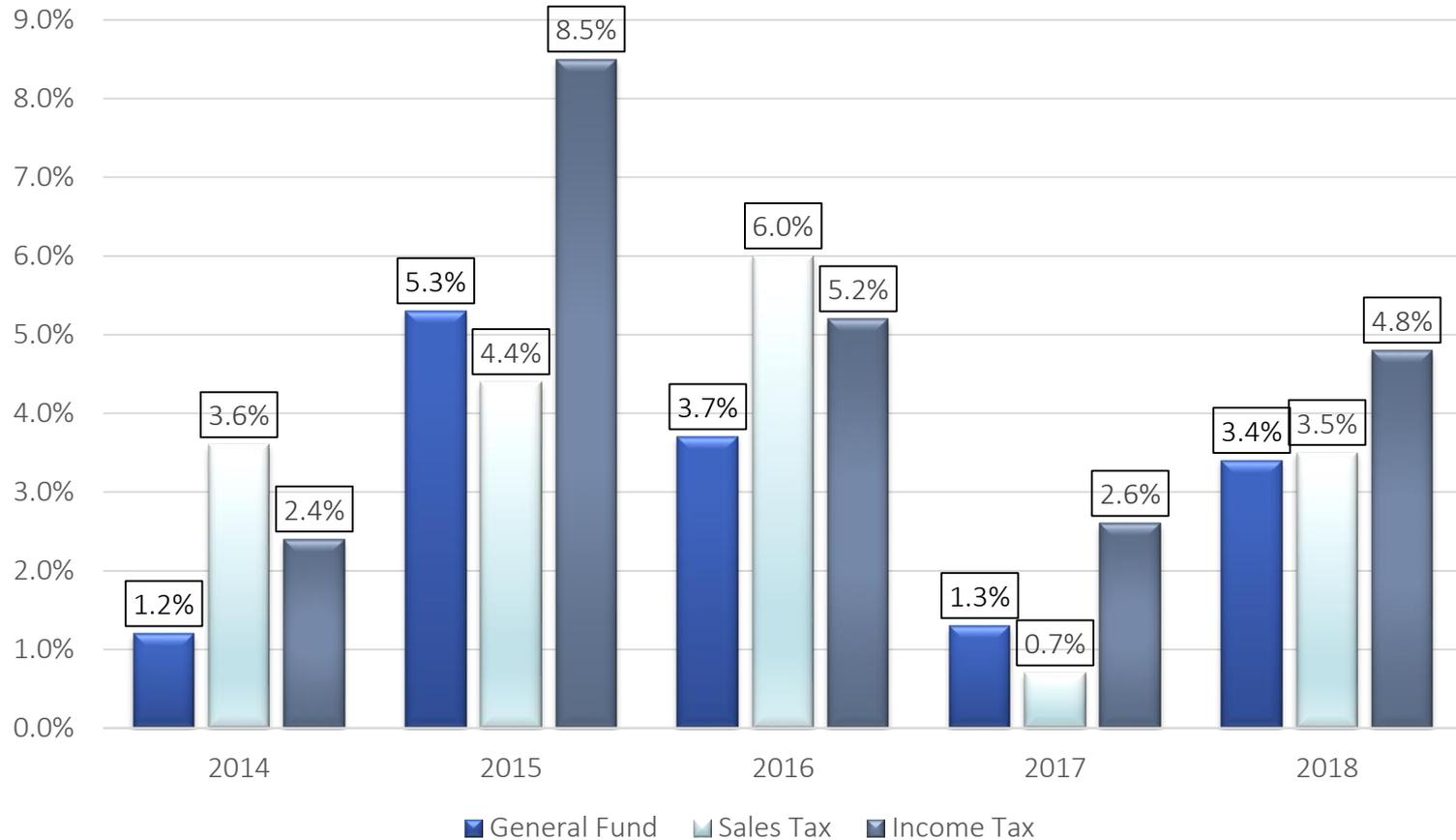
	Million \$		Difference	
	FY18	FY17	(mil. \$)	(%)
Sales and Use	3,605.7	3,485.2	120.4	3.5
Individual Income	4,603.6	4,393.9	209.7	4.8
Corporation Income	511.4	497.5	13.9	2.8
LLET	238.1	245.6	-7.5	-3.0
Coal Severance	89.6	100.5	-10.8	-10.8
Cigarette Tax	211.8	221.4	-9.5	-4.3
Property	621.3	602.1	19.2	3.2
Lottery	253.0	241.6	11.4	4.7
<u>Other</u>	<u>703.7</u>	<u>690.1</u>	<u>13.6</u>	<u>2.0</u>
TOTAL	10,838.2	10,477.8	360.4	3.4

FY18 General Fund Receipts vs. Previous Years

	Million \$			Growth Rate (%)		
	FY18	FY17	FY16	FY18	FY17	FY16
Sales and Use	3,605.7	3,485.2	3,462.7	3.5	0.7	6.0
Individual Income	4,603.6	4,393.9	4,282.1	4.8	2.6	5.2
Corporation Income	511.4	497.5	526.6	2.8	-5.5	-0.3
LLET	238.1	245.6	203.0	-3.0	21.0	-9.3
Coal Severance	89.6	100.5	120.6	-10.8	-16.7	-33.1
Cigarette Tax	211.8	221.4	224.3	-4.3	-1.3	1.5
Property	621.3	602.1	577.5	3.2	4.2	2.5
Lottery	253.0	241.6	241.8	4.7	-0.1	9.2
<u>Other</u>	<u>703.7</u>	<u>690.1</u>	<u>700.2</u>	<u>2.0</u>	<u>-1.4</u>	<u>1.2</u>
TOTAL	10,838.2	10,477.8	10,338.9	3.4	1.3	3.7

Income and Sales Taxes Lead Growth

General Fund Major Revenue Sources

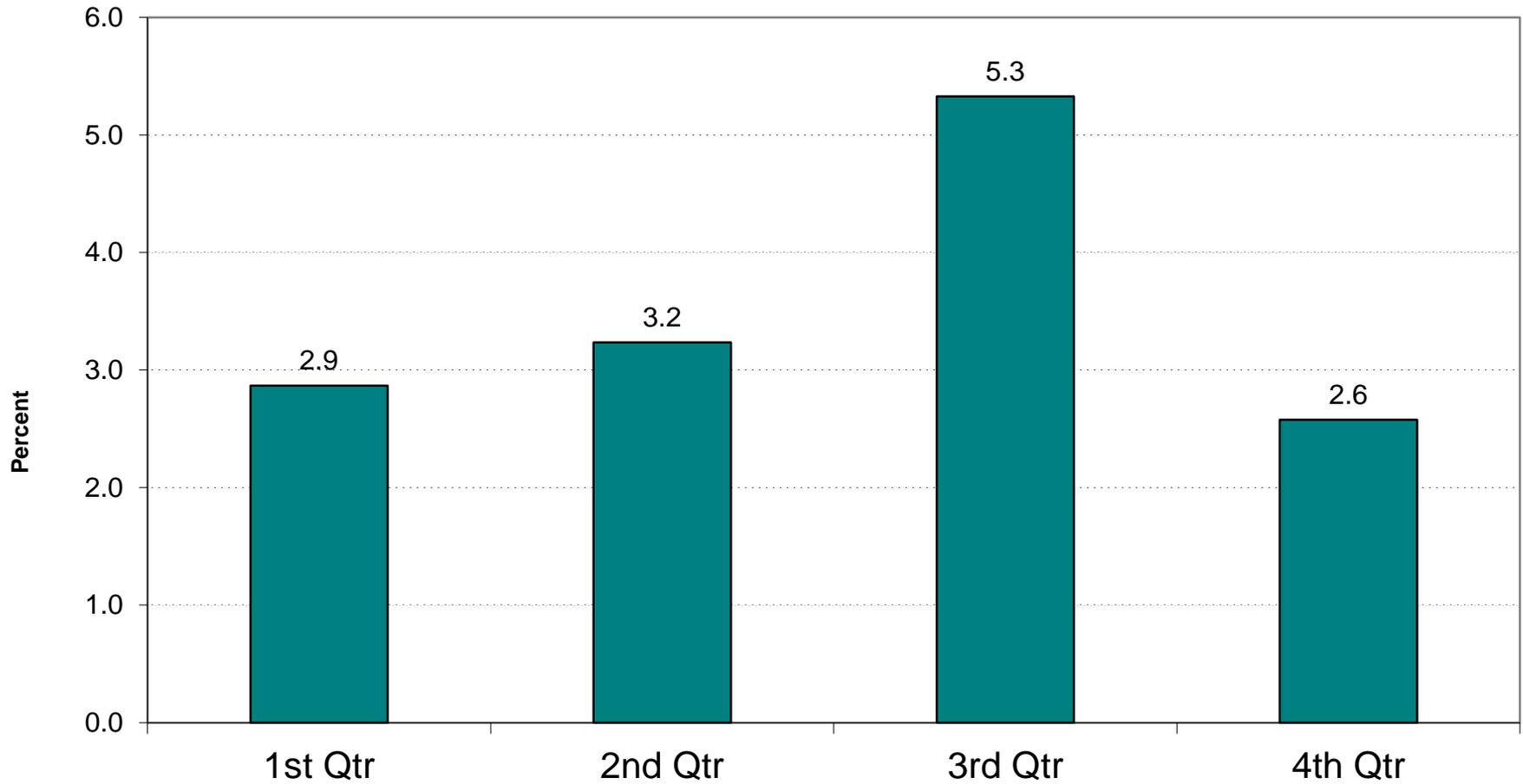


General Fund Receipts-Growth of Key Components

Individual Income Tax (IIT) for FY18

- Withholding grew by 3.3% (following 3.5% in FY17)
- Estimated payments grew by 13.8% (-2.8% in FY17)
- Overall growth in FY18 was 4.8% (+2.6% in FY17)
- The IIT contributed \$209.7 million of the total \$360.4 million in nominal General Fund growth
- The Sales tax contributed \$120.4 million of the total \$360.4 million in nominal General Fund growth
- Overall, growth was more balanced than FY17

FY18 Quarterly Growth Pattern



\$15.8 Million FY18 General Fund Surplus

	Millions \$
FY 18 General Fund Year-End Balance	\$29.0
Budgeted Carryforward into FY 19	(\$13.3)
General Fund Surplus	\$15.8
Actual vs. Budgeted	
Revenues in Excess of Official Estimate	\$119.8
Necessary Government Expenses	(\$80.8)
Spending Less than Budgeted	\$0.8
Tobacco Revenue Less than Budgeted	(\$20.5)
Fund Transfers Greater than Budgeted	\$0.3
Other	(\$3.9)
General Fund Surplus	\$15.8

Budget Reserve Trust Fund (BRTF) (Rainy Day Fund)

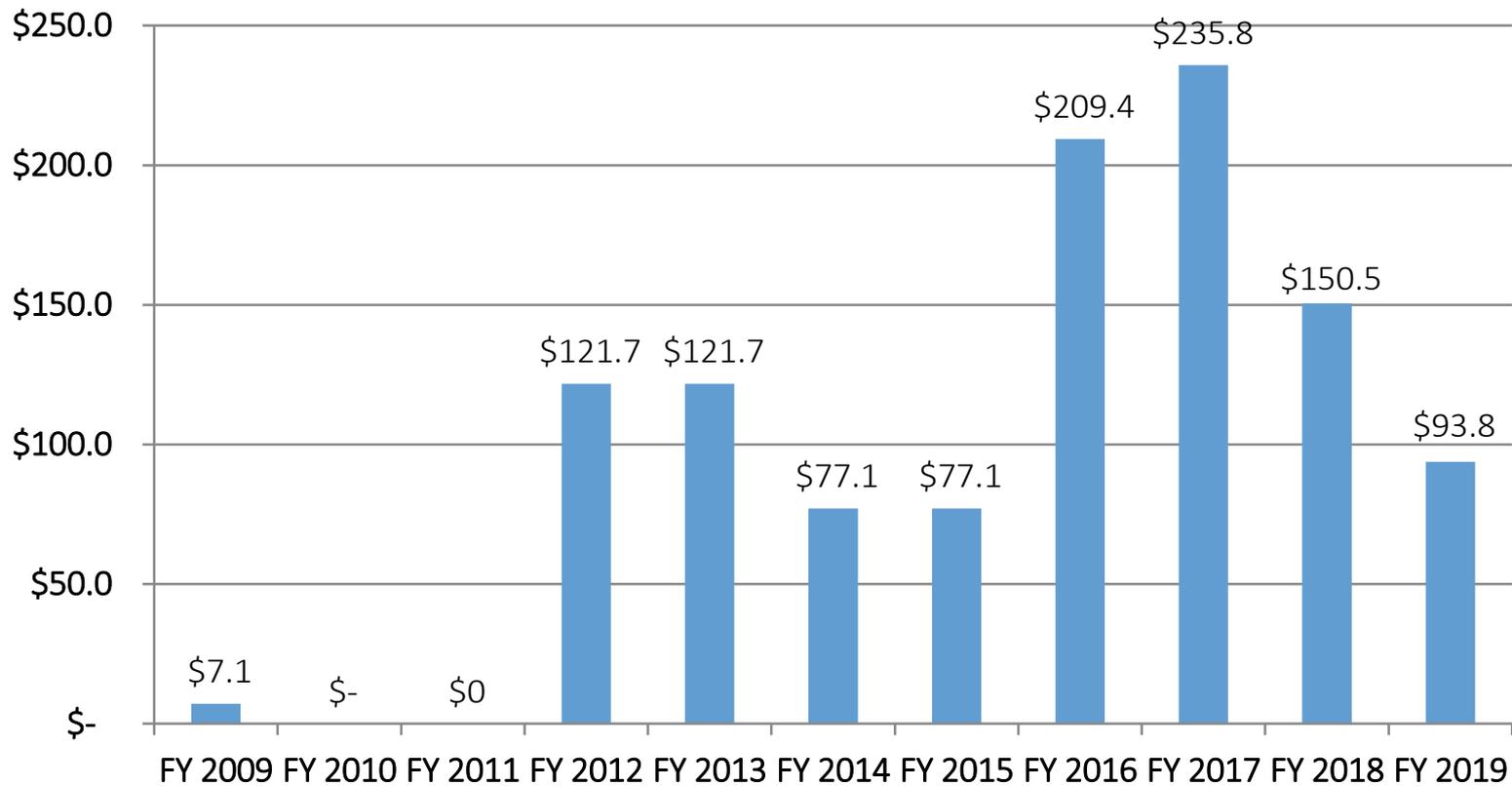
	<u>Millions \$</u>
FY 18 Beginning Balance	\$150.5
FY 18 NGE	-0-
FY 18 Appropriated Use of BRTF	<u>(56.7)</u>
FY 18 BRTF Ending Balance	\$ 93.8

- \$93.8 million is 0.9% of FY 18 General Fund Revenues. Common target of BRTF is 5% of General Fund Revenues (\$541.9 million).

Budget Reserve Trust Fund

FY2009-FY2019

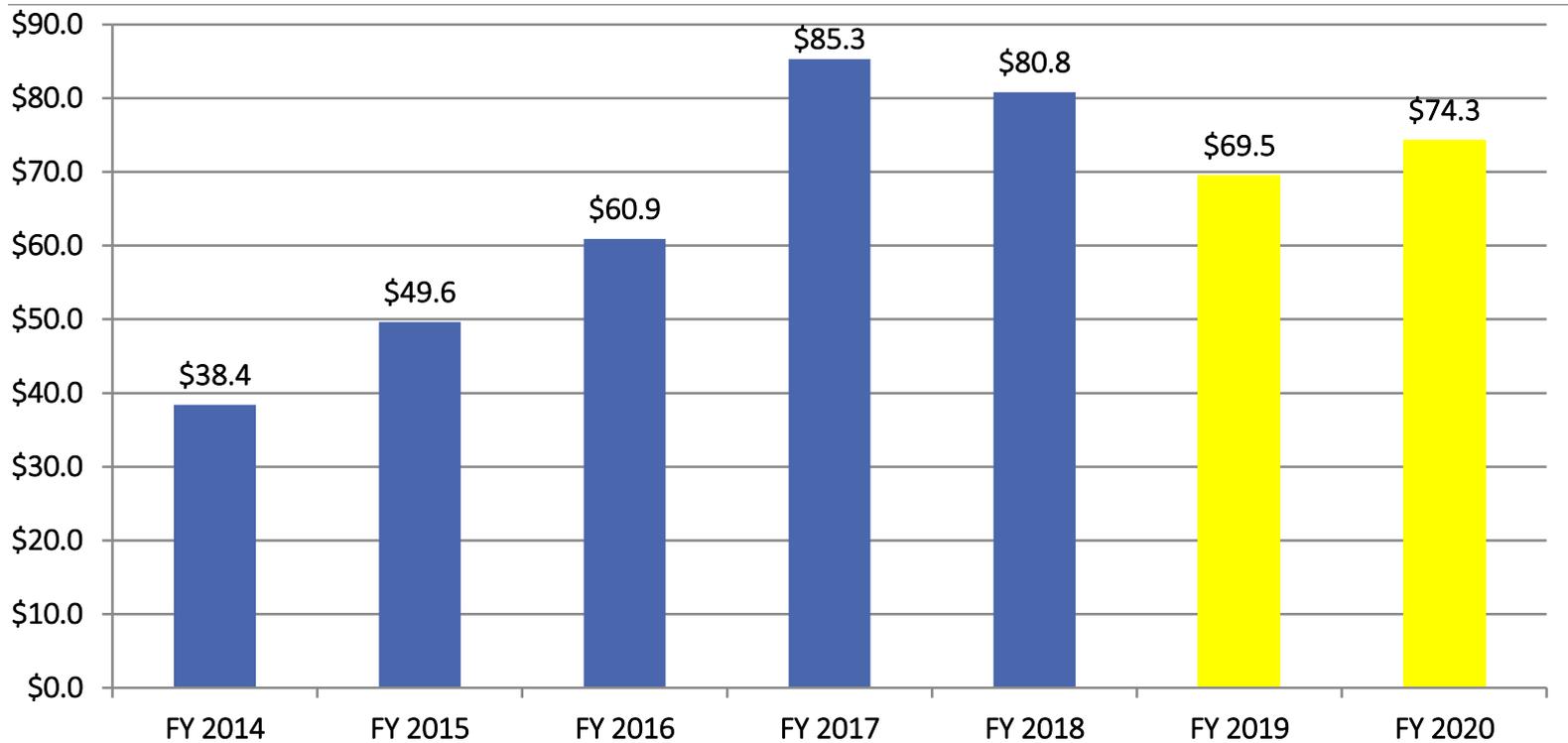
Beginning Balance Carry Forward



Necessary Government Expenses

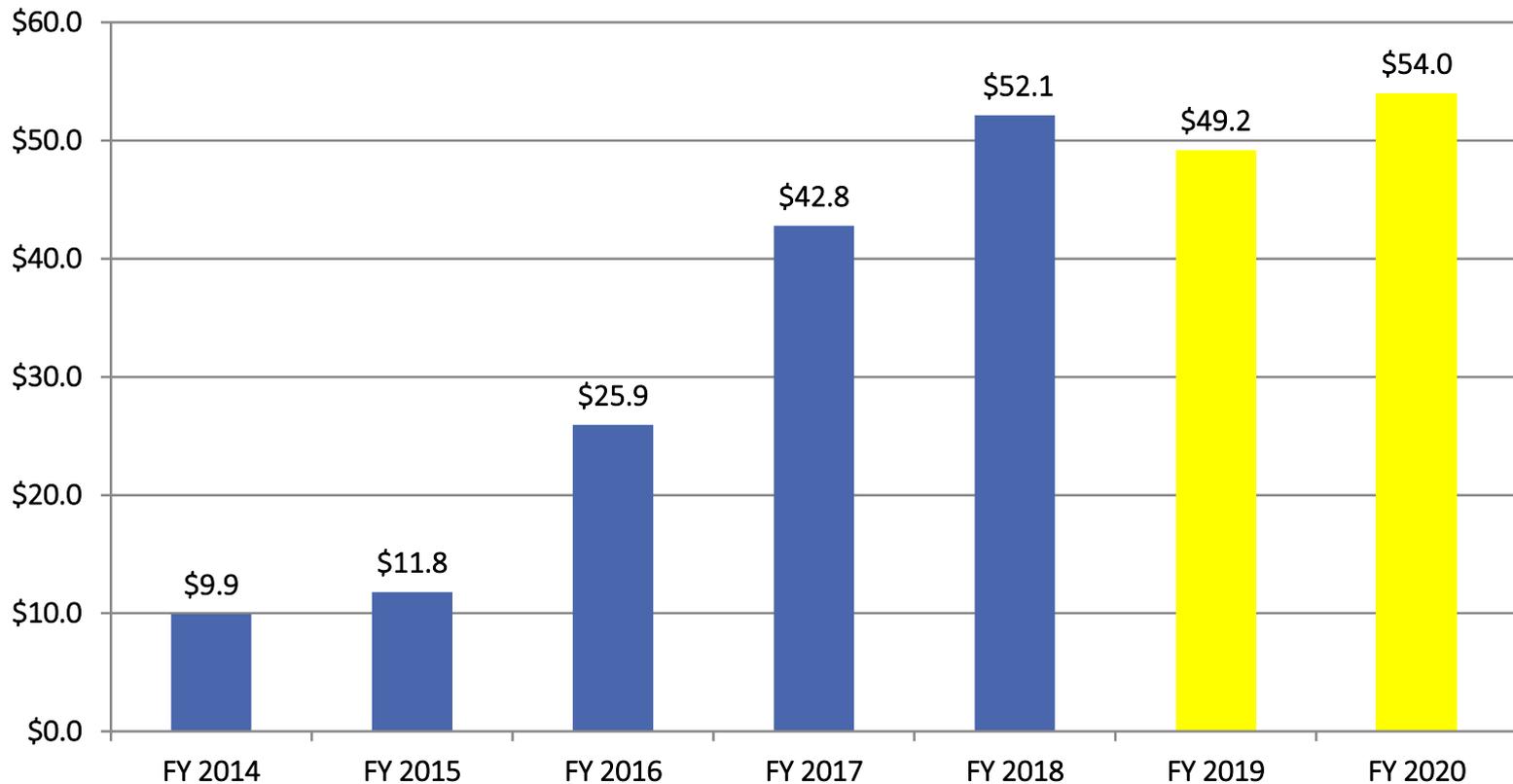
	Millions \$
	FY 2018 Actual
Corrections	51.1
Corrections-Jail Architecture and Engineering Fees	1.0
Guardian Ad Litem	14.1
Military Affairs-Disasters and Planned Events	3.9
Forest Fire Suppression	3.3
County Costs-Courthouse Security	6.0
ANOC-Prior Year Claims	0.6
Other	0.8
	\$80.8

Necessary Government Expense FY 2014 – 2018 Actual FY 2019 and FY 2020 Budgeted



Estimated NGE's for FY 2019 and FY 2020 is \$20 - \$30 million each fiscal year

Corrections Necessary Government Expense FY 2014 – 2018 Actual FY 2019 and FY 2020 Budgeted



Corrections – FY 2018 NGE Summary

Cost Drivers	Millions \$
More Inmates – 2,400 Higher ADP	25.6
Higher Medical and Staffing Costs	25.5
Local Correctional Facilities Design Fees	<u>1.0</u>
Total FY 2018 NGE	<u><u>52.1</u></u>

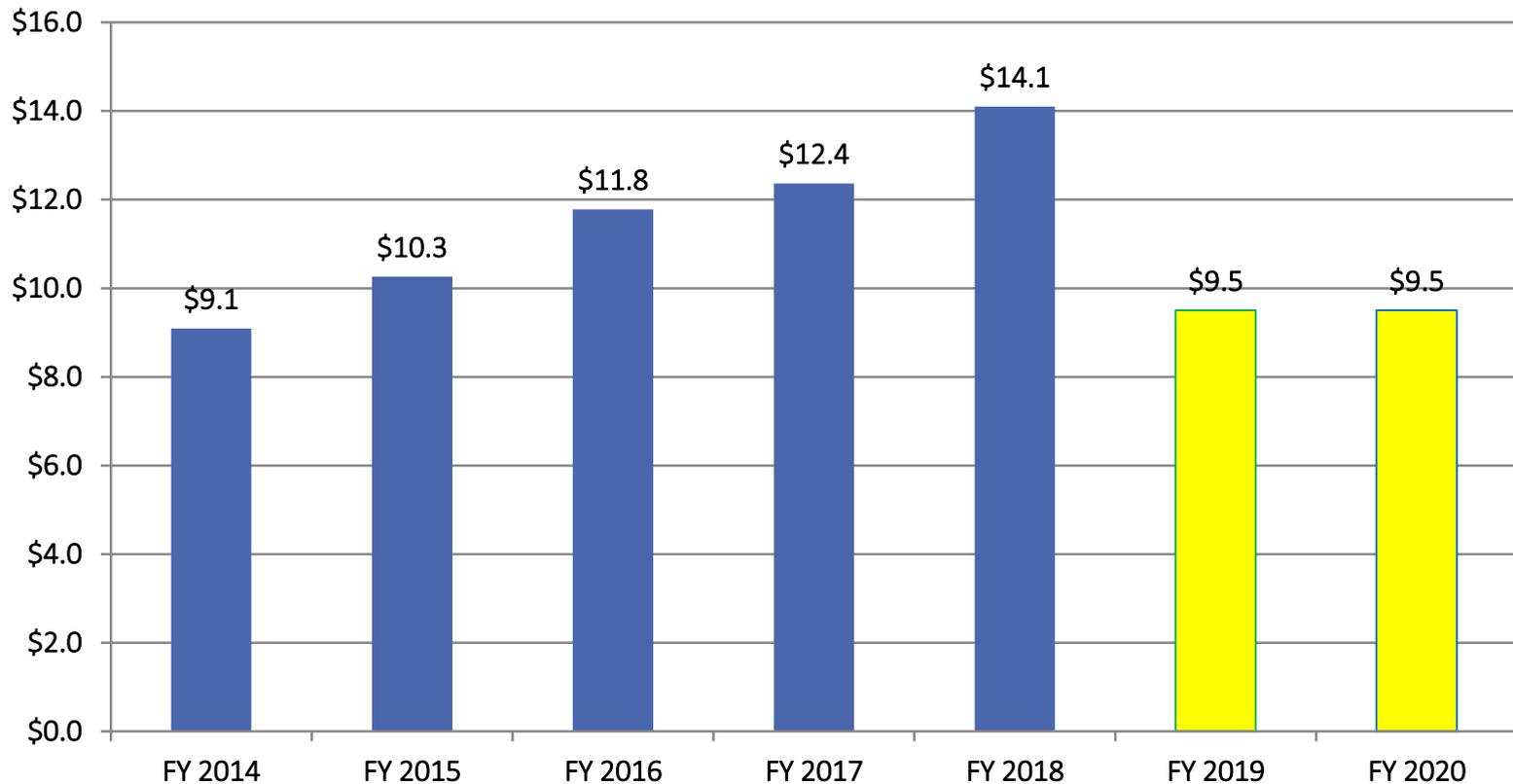
Factors Impacting Higher Average Daily Population than Budgeted:

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

Local Correctional Facilities Design Fees:

Laurel \$511,600
Knox \$474,900

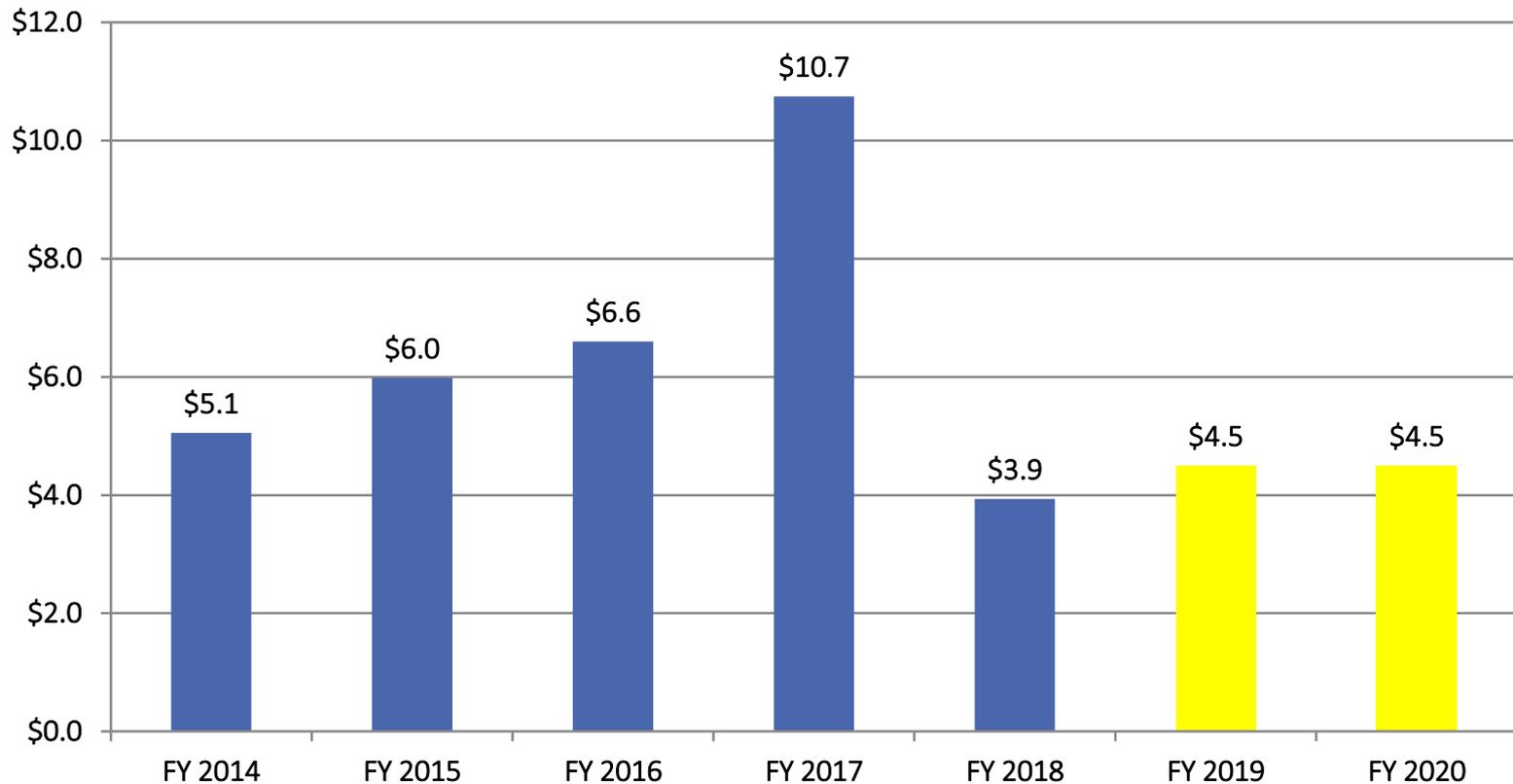
Guardian Ad Litem Necessary Government Expense FY 2014 – 2018 Actual FY 2019 and FY 2020 Budgeted



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 2014 – 2018 Actual FY 2019 and FY 2020 Budgeted



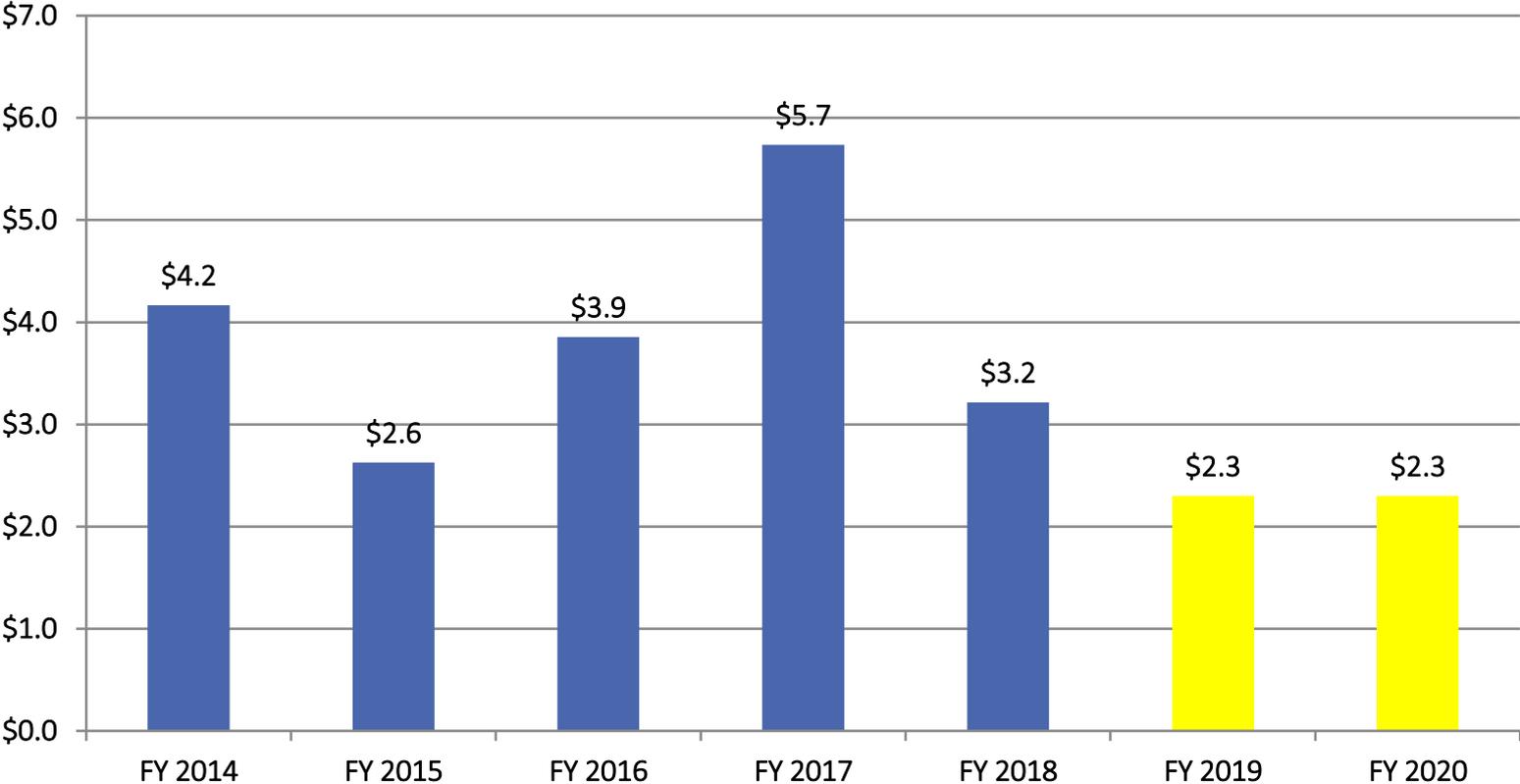
Military Affairs – FY 2018 NGE Summary

	Millions \$
Disaster Grants	1.7
Emergency Operations	0.9
Planned Events	<u>1.3</u>
Total	3.9

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

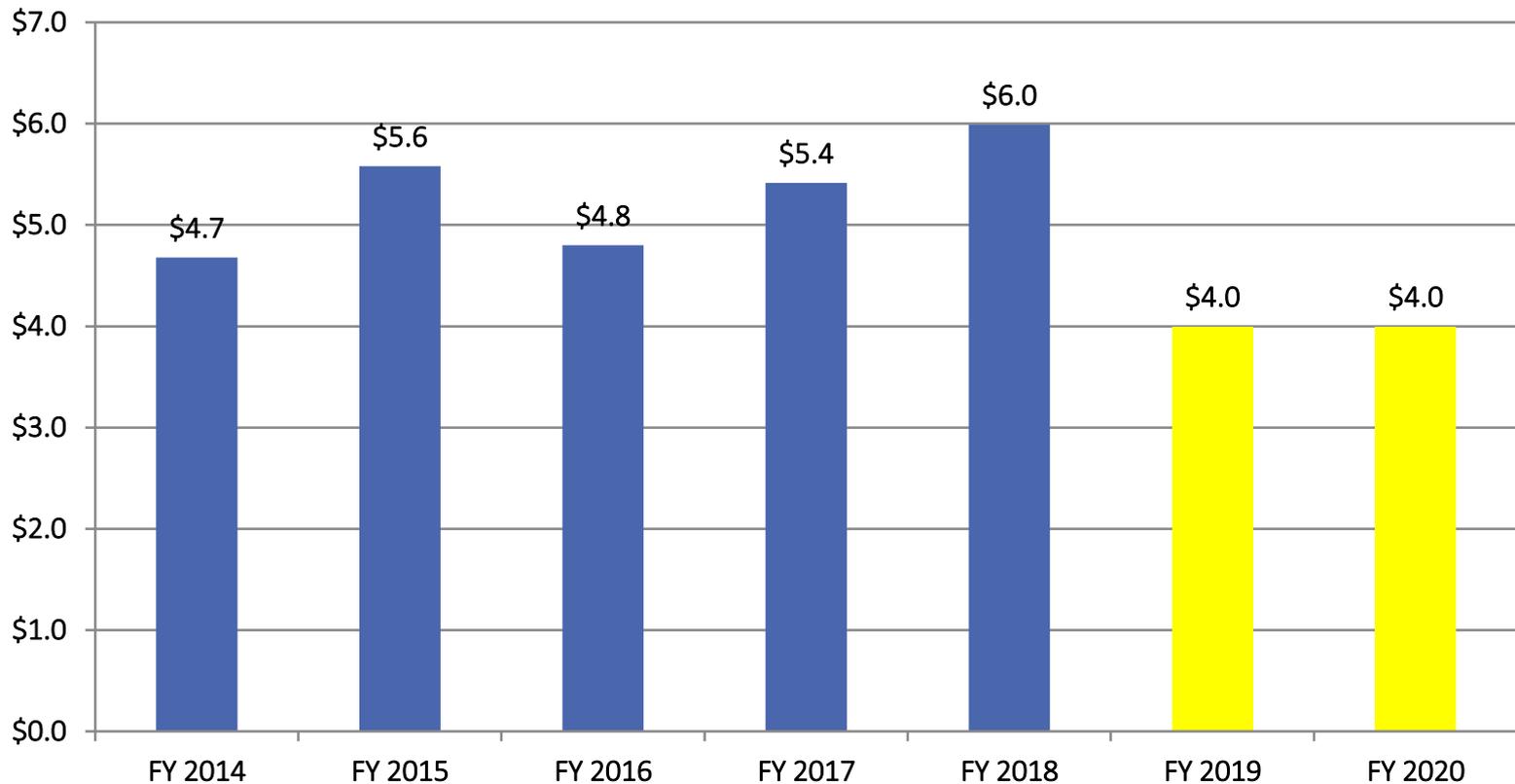
Natural Resources – Fire Suppression Necessary Government Expense FY 2014 – 2018 Actual FY 2019 and FY 2020 Budgeted



County Costs

Necessary Government Expense

FY 2014 – 2018 Actual
FY 2019 and FY 2020 Budgeted



County Costs – FY 2018 NGE Summary

	Millions \$
Sheriffs' Fees	4.0
Public Defender	<u>2.0</u>
Total	6.0

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 2018 Official Estimate	\$114,600,000
FY 2018 Actual Receipts	<u>102,552,540</u>
Receipts Below Estimate	\$ 12,047,460

Per 2018 HB 200, notwithstanding KRS 248.703(6), MSA receipts in fiscal year 2017-2018 greater than \$92.8 million, but less than \$114.6 million shall lapse to the General Fund. FY18 lapse to General Fund \$9.6 million.

Road Fund

FY 2018 Road Fund Receipts

- ❑ The official Road Fund estimate was \$1,503.3 million
- ❑ Actual revenues were \$1,511.0 million
- ❑ Road Fund revenue surplus of \$7.7 million
- ❑ If not for 3.6% Road Fund growth in June, the CFG estimate would have been spot on

FY18 Road Fund Receipts vs. Prior Year

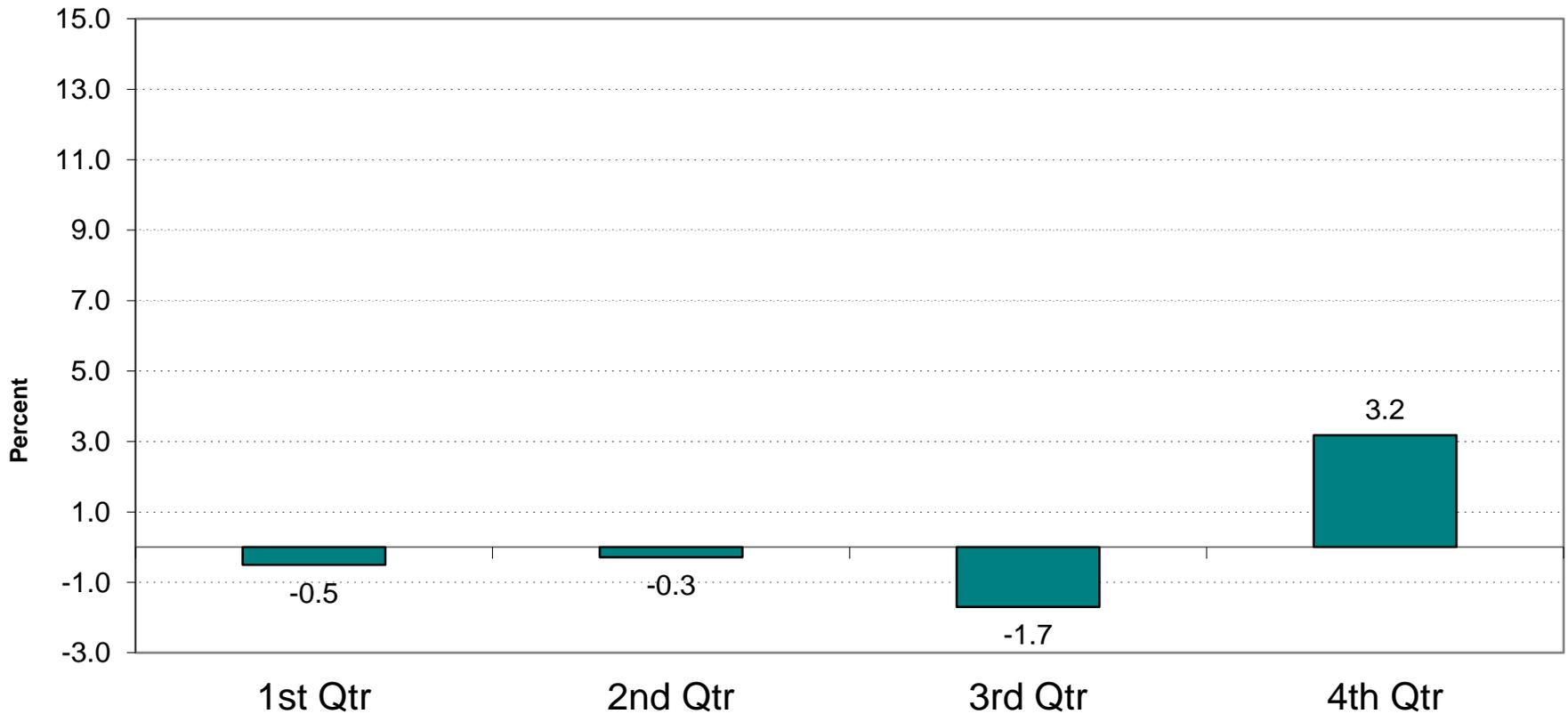
	Million \$		Difference	
	FY18	FY17	(mil. \$)	(%)
Motor Fuels	764.9	760.5	4.4	0.6
Motor Vehicle Usage	493.1	499.8	-6.7	-1.3
Motor Vehicle License	112.9	111.9	0.9	0.8
Motor Vehicle Operators	16.8	16.1	0.7	4.2
Weight Distance	81.7	82.9	-1.2	-1.4
Investment Income	2.8	1.6	1.3	79.5
<u>Other</u>	<u>38.7</u>	<u>35.1</u>	<u>3.6</u>	<u>10.2</u>
TOTAL	1,511.0	1,508.0	3.0	0.2

FY18 Road Fund Receipts vs. Official Estimate (\$ millions)

FY18 Road Fund Revenues Compared to Official Estimate				
(million \$)				
	Actual	Estimate	Diff.	Diff. (%)
Motor Fuels	764.9	761.2	3.7	0.5
Motor Vehicle Usage	493.1	493.9	-0.8	-0.2
Motor Vehicle License	112.9	113.4	-0.6	-0.5
Motor Vehicle Operators	16.8	16.6	0.2	1.2
Weight Distance	81.7	81.4	0.3	0.4
Investment Income	2.8	2.0	0.8	41.9
Other	<u>38.7</u>	<u>34.8</u>	<u>3.9</u>	<u>11.3</u>
TOTAL	1,511.0	1,503.3	7.7	0.5

Quarterly RF Revenue Pattern

(Percentage Change)



Tax Rate on Motor Fuels (¢ per gallon)

Total tax rate for FY18 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

\$19.6 Million FY 18 Road Fund Surplus

	Millions \$
FY 18 Road Fund Year-End Balance	\$47.2
Budgeted Carryforward into FY 19	(27.6)
Road Fund Surplus	\$19.6
Actual vs. Budgeted	
Revenues More than Official Estimate	\$7.7
Other Spending Lapse	13.2
Revenue Sharing Reduction	(2.5)
Fund Transfers in Excess of Budgeted	1.2
Road Fund Surplus	\$19.6

Fiscal Outlook

A Look Ahead to FY19

	FY18	FY19 CFG	FY19 CFG	FY19 GA	FY9 GA
	Actual	Estimate	Growth	Estimate	Growth
Sales and Use	3,605.7	3,699.4	2.6%	3,907.6	8.4%
Individual Income	4,603.6	4,649.5	1.0%	4,531.2	-1.6%
Corporation Income	511.4	600.6	17.5%	573.0	12.1%
LLET	238.1	200.2	-15.9%	200.2	-15.9%
Coal Severance	89.6	77.9	-13.1%	77.9	-13.1%
Cigarette Tax	211.8	207.9	-1.9%	337.9	59.5%
Property	621.3	620.7	-0.1%	620.7	-0.1%
Lottery	253.0	249.0	-1.6%	249.0	-1.6%
Other	<u>703.7</u>	<u>700.7</u>	<u>-0.4%</u>	<u>700.7</u>	<u>-0.4%</u>
TOTAL	10,838.2	11,005.9	1.5%	11,198.2	3.3%

Fiscal Impact of House Bill 487 SCS

There was no official score for FY18 due to the effective date of HB 487 being July 14th. However, there could be some minor changes in FY18:

- Withholding tables changed May 1st
- Estimated income tax payments in June (FY18)

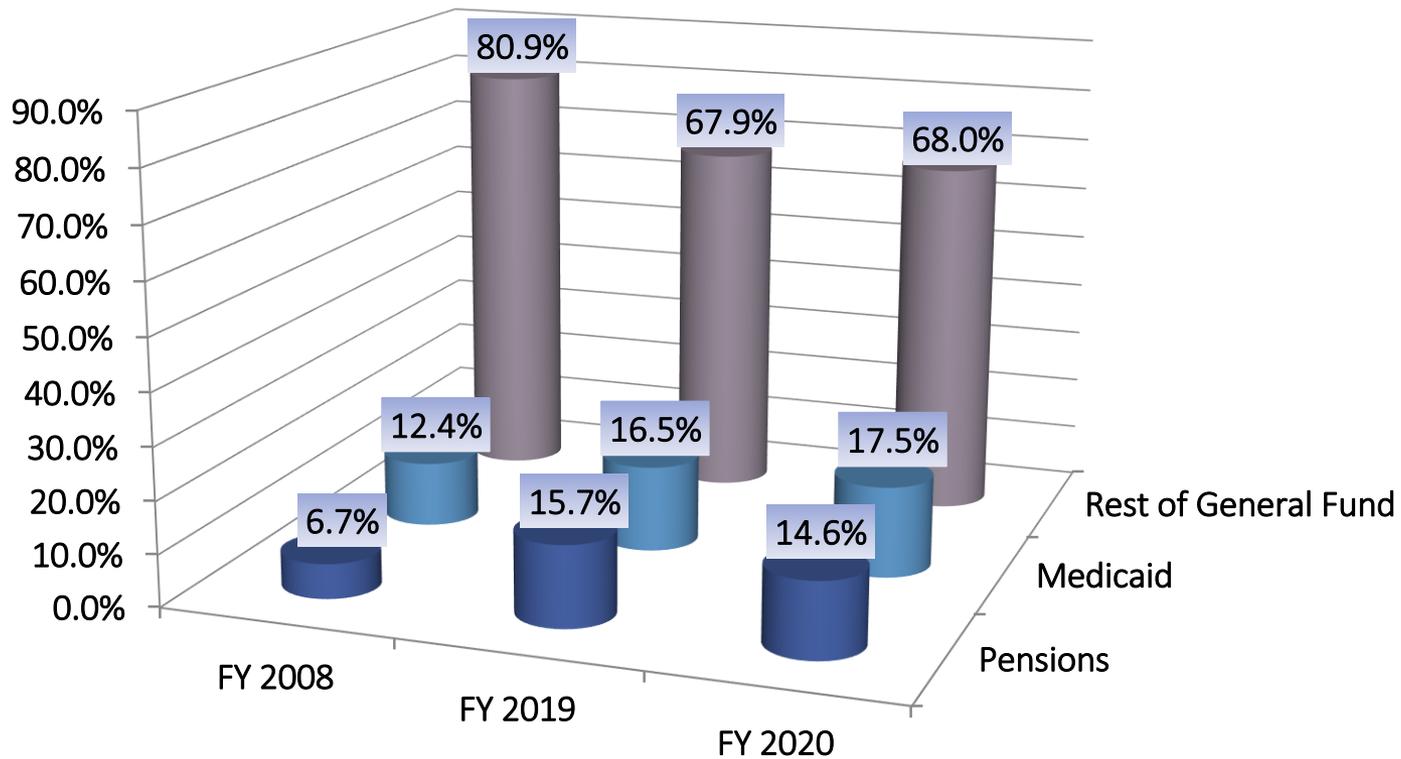
FY19 fiscal impact was +192.3 million

- Sales Tax +\$208.2 million
- Corporate income -\$27.6 million
- Individual income -\$118.3 million
- Tobacco Taxes +\$128.6 million

FY20 fiscal impact was +197.5 million

- Sales Tax +\$277.7 million
- Corporate income -\$71.9 million
- Individual income -\$118.3 million
- Tobacco Taxes +\$110 million

Executive Branch Pensions and Medicaid a growing share of General Fund Spending



Take-away Messages

- ❑ FY18 GF revenue surplus of \$119.8 million
- ❑ FY19 estimated NGE's will exceed the \$15.8 million GF surplus from FY18
- ❑ FY18 RF revenue on target – but no growth
- ❑ Revenue growth is inadequate to meet pension and other obligations
- ❑ Budget Reserve Trust Fund (Rainy Day Fund) is far below the 5% common target

Questions

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