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GENERAL AND ROAD FUND RECEIPTS REPORTED FOR FISCAL YEAR 2023

General Fund revenue surplus of \$1.4 billion
Road Fund revenue surplus over \$32 million
General Fund receipts increased 3.0 percent
Road Fund receipts increased 4.7 percent

FRANKFORT, KY – (Monday, July 10, 2023) - The Office of State Budget Director reported today that General Fund receipts for fiscal year 2023 (FY23) totaled \$15.1 billion, exceeding budgeted estimates by \$1.4 billion, the largest revenue surplus in history. The final budget surplus amount will be known once the accounting records for expenditures are completed later this month. This will be the third consecutive year with a General Fund budget surplus in excess of \$1 billion. Road Fund revenues totaled \$1.75 billion, 4.7 percent over last year, resulting in a \$32.3 million revenue surplus.

State Budget Director John Hicks stated, "General Fund revenues substantially exceeded the expectations used in putting together the budget for the third straight year. The underlying strength of Kentucky's economy is borne out by this revenue report: more jobs, higher wages and salaries, another year of double-digit growth in sales tax revenues, and continued business profits. The \$15.1 billion in revenues also incorporated six months of a 10 percent individual income tax rate cut that went into effect in January 2023. All the major taxes contributed to the \$1.4 billion revenue surplus: individual income taxes by \$504.3 million, sales and use taxes by \$299.4 million, major business taxes by \$311.9 million, and property taxes by \$99.5 million."

The percentage growth rate for FY23 revenues was 3.0 percent. This follows two years of historically high growth rates. As with June receipts, year-over-year monthly revenue declines are now to be expected given the reduction to the individual income tax rate. An additional tax rate cut, from 4.5 percent to 4.0 percent will become effective next fiscal year starting in January 2024.

Table 1 compares General Fund collections to the budgeted amounts.

Table 1
Summary of FY23 General Fund Receipts
Actual vs. Budgeted Estimate

	FY23 <u>Actual</u>	FY23 <u>Budgeted</u>	FY23 <u>Diff (\$)</u>	FY23 <u>Diff (%)</u>
Sales and Use	5,576.3	5,276.9	299.4	5.7
Individual Income	5,843.9	5,339.6	504.3	9.4
Corp Inc & LLET	1,221.6	909.8	311.9	34.3
Coal Severance	96.6	76.6	20.0	26.0
Cigarette Tax	299.3	318.6	-19.3	-6.1
Property	774.4	674.9	99.5	14.7
Lottery	337.0	335.0	2.0	0.6
Other	<u>998.7</u>	<u>818.7</u>	<u>180.0</u>	<u>22.0</u>
TOTAL	15,147.7	13,750.0	1,397.7	10.2

A summary of General Fund collections for FY23 and FY22 is shown in Table 2. For the year, receipts grew 3.0 percent, or \$445.2 million over FY22 levels. The sales and use tax, the second largest revenue category, increased by 10.1 percent, the third consecutive year of double-digit growth. After two straight years of significant growth in the major business taxes, they grew by 3.0 percent in FY23, totaling a record \$1.2 billion, the highest annual amount ever. Property tax receipts grew by 7.0 percent, the second largest growth rate in at least 25 years. Lottery receipts continued to perform well with a 14.2 percent increase over last year. The decline in the individual income tax was entirely due to the reduction in the tax rate from 5 percent to 4.5 percent.

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Table 2
Summary of General Fund Receipts
FY23 and FY22

	Actual <u>FY23</u>	Actual <u>FY22</u>	Diff <u>(\$ mil)</u>	Diff <u>(%)</u>
Sales and Use	5,576.3	5,062.9	513.4	10.1
Individual Income	5,843.9	6,047.5	-203.6	-3.4
Corp Inc & LLET	1,221.6	1,186.6	25.0	3.0
Coal Severance	96.6	70.7	25.9	36.7
Cigarette Taxes	299.3	324.5	-25.2	-7.8
Property	774.4	723.9	50.5	7.0
Lottery	337.0	295.0	42.0	14.2
Other	<u>998.7</u>	<u>991.5</u>	<u>7.2</u>	<u>0.7</u>
TOTAL	15,147.7	14,702.5	445.2	3.0

Sales and Use Taxes:

Sales and use tax receipts had double-digit growth for the third consecutive year, growing 10.1 percent, or \$513.4 million in FY23. The three-year span of more than 10 percent growth marks the only three fiscal years in which the sales tax has grown by double-digits since the rate was raised from five to six percent in 1991. Quarterly growth rates for the sales and use tax in FY23 were 12.8 percent, 8.2 percent, 11.2 percent, and 8.2 percent.

Individual Income Tax:

Individual income tax receipts declined due to the tax rate reduction from 5.0 percent to 4.5 percent, effective January 2023, after exhibiting strong growth the past two years. The impact of the rate reduction on revenues is apparent by examining the quarterly growth rates. Collections grew in the 8 percent range in each of the first two quarters of the year but then fell after the rate cut became effective in January. Growth rates for the four quarters were 8.4 percent, 8.8 percent, -3.3 percent and -17.8 percent. Withholding tax receipts grew by 1.5 percent for the year, but were up 7.7 percent during the first six months, then down by -3.9 percent during the last six months of the fiscal year, despite a 10 percent reduction in the withholding tables.

Business Taxes:

Combined corporation income and the Limited Liability Entity taxes (LLET) collections grew 3.0 percent, or \$25.0 million, compared to last year. After a strong start to the year, receipts either fell or were weak for the remaining three quarters of the year. Quarterly growth rates for the taxes were 16.0 percent, -9.2 percent, -0.1 percent and 2.9 percent. These business taxes have grown by 91 percent over the past three years.

Coal Severance Taxes:

Coal severance tax revenues have seen demonstrable growth over the past two years, nearly doubling FY21 levels. Collections moderated in the final quarter as the rate of growth was in the single digits for the first time since the second quarter of FY22. Receipts in FY23 grew \$25.9 million dollars, or 36.7 percent. Quarterly growth rates were 72.2 percent, 41.0 percent, 43.7 percent and 5.6 percent.

Tobacco Taxes:

Revenues from the cigarette tax declined again in FY23, falling \$25.2 million, or 7.8 percent as smoking rates continue to fall. Growth rates for this account were negative in all four quarters. The rates of growth were -3.4 percent, -9.5 percent, -8.9 percent and -9.4 percent.

Property Taxes:

Property tax receipts had an unexpected surge in FY23, increasing 7.0 percent. Real and tangible property as well as motor vehicles all grew strongly. Growth was strongest in the first half of the year before moderating in the last six months. Growth rates for the four quarters were 7.8 percent, 7.9 percent, 5.3 percent and 4.9 percent.

Lottery and Other Revenues:

Dividend payments from the Kentucky Lottery Corporation to the General Fund rose \$42.0 million, or 14.2 percent for the year just ended. The “other” category, which includes multiple taxes and fees such as investment income, inheritance, and insurance premium taxes grew only 0.7 percent for the year. Growth in the “other” account was limited by a \$225 million legal settlement in the first quarter of FY22. Quarterly growth rates for the “other” account were -48.7 percent, 25.9 percent, 46.4 percent and 32.2 percent. The historically high amount in “other” income is directly attributable to the investment income earned by the state. Growth in investment income was nearly \$150 million higher than last year since interest rates have increased on short-term assets.

Road Fund

Road Fund revenues for FY23 totaled \$1.75 billion, an increase of 4.7 percent from the previous fiscal year, resulting in a \$32.3 million revenue surplus. Total receipts were \$78.1 million more than FY22 levels as all the major accounts had increases. After a slow start to the year, collections accelerated in the last nine months of the year. Growth rates for the four quarters were -0.3 percent, 7.3 percent, 5.7 percent and 6.1 percent.

Details of Road Fund collections for FY23 and FY22 are shown in Table 3.

Table 3
Summary of Road Fund Receipts
FY23 vs. FY22

	Actual		Difference	
	<u>FY23</u>	<u>FY22</u>	<u>(mil \$)</u>	<u>(%)</u>
Motor Fuels	798.3	774.6	23.6	3.0
Motor Vehicle Usage	660.3	629.1	31.3	5.0
Motor Vehicle License	126.7	123.7	3.1	2.5
Motor Vehicle Operators	29.7	28.5	1.2	4.3
Weight Distance	87.7	87.2	0.5	0.6
Investment Income	6.3	-11.0	17.3	NA
Other	<u>44.2</u>	<u>43.3</u>	<u>0.9</u>	<u>2.2</u>
TOTAL	1,753.3	1,675.4	78.0	4.7

Road Fund collections for FY23 exceeded the official revenue forecast by \$32.3 million, or 1.9 percent, as shown in Table 4.

Motor fuels tax receipts were relatively flat for the first three quarters of FY23 as gasoline and special fuels consumption and tax rates stayed static. Governor Beshear prevented a two-cent tax increase through an emergency regulation in response to inflation and surging gas prices. The Kentucky legislature chose not to extend the tax rate freeze and the tax rate rose two cents effective March 2023. Motor fuels tax revenue increased accordingly by 8.9 percent from April through June. Quarterly growth rates for motor fuels taxes were -0.7 percent, 4.3 percent, -.06 percent and 8.9 percent.

Motor vehicle usage taxes, which are imposed at the time of sale, have continued to exceed expectations, reaching an all-time high of \$660.3 million, surging past last year’s high of \$629.1 million. Growth rates for the four quarters were 2.2 percent, 5.7 percent, 10.0 percent and 2.4 percent.

Motor vehicle license receipts rose \$3.0 million while motor vehicle operators’ receipts increased by \$1.2 million. Weight distance revenues were unchanged, increasing only \$0.5 million compared to FY22 levels. Investment income had an unexpected turnaround when receipts increased from -\$11.0 million in FY22 to \$6.5 million this year. Lastly, “other” income grew \$0.9 million.

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Table 4
Summary of FY23 Road Fund Receipts
Actual vs. Official Estimate

	FY23	FY23	Diff	Diff
	<u>Actual</u>	<u>Estimate</u>	<u>(\$ mil)</u>	<u>(%)</u>
Motor Fuels	798.3	833.8	-35.5	-4.3
Motor Vehicle Usage	660.3	603.7	56.6	9.4
Motor Vehicle License	126.7	119.4	7.4	6.2
Motor Vehicle Operators	29.7	27.1	2.6	9.7
Weight Distance	87.7	94.6	-6.9	-7.3
Investment Income	6.3	0.1	6.2	NA
Other	<u>44.2</u>	<u>42.4</u>	<u>1.8</u>	<u>4.3</u>
TOTAL	1,753.3	1,721.0	32.3	1.9

Five of the seven of the forecasted Road Fund accounts exceeded the estimated amounts and the fund as a whole was above the estimate by \$4.7 million. The motor vehicle usage tax was \$56.6 million above estimate while motor fuels revenues were \$35.5 million below the estimate. All other accounts, taken together, were \$11.3 million above forecasted levels.

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KENTUCKY STATE GOVERNMENT REVENUE
1. GENERAL FUND REVENUE

	<u>JUNE</u> <u>2023</u>	<u>JUNE</u> <u>2022</u>	<u>% Change</u>	<u>JULY THROUGH JUNE</u>		<u>% Change</u>
				<u>FY 2023</u>	<u>FY 2022</u>	
TOTAL GENERAL FUND	\$1,363,472,960	\$1,375,456,526	-0.9%	\$15,147,662,170	\$14,702,460,458	3.0%
Tax Receipts	\$1,298,103,991	\$1,349,399,853	-3.8%	\$14,527,687,760	\$14,072,971,696	3.2%
Sales and Gross Receipts	\$574,575,717	\$523,590,762	9.7%	\$6,453,385,746	\$5,909,080,340	9.2%
Beer Consumption	518,587	478,049	8.5%	6,064,945	6,278,125	-3.4%
Beer Wholesale	6,486,349	5,506,069	17.8%	69,440,398	66,130,324	5.0%
Cigarette	29,547,475	24,321,828	21.5%	299,280,936	324,467,835	-7.8%
Distilled Spirits Case Sales	21,417	26,719	-19.8%	234,898	227,893	3.1%
Distilled Spirits Consumption	1,736,242	1,615,939	7.4%	18,828,726	18,524,507	1.6%
Distilled Spirits Wholesale	6,797,873	6,161,335	10.3%	73,923,974	70,704,041	4.6%
Insurance Premium	16,627,650	27,202,850	-38.9%	195,995,018	167,305,684	17.1%
Pari-Mutuel	5,867,346	4,465,933	31.4%	56,281,309	47,733,411	17.9%
Race Track Admission	0	29,980	-100.0%	63,820	135,855	-53.0%
Sales and Use	491,464,996	441,680,552	11.3%	5,576,312,025	5,062,877,350	10.1%
Wine Consumption	266,620	251,410	6.0%	3,159,312	3,336,159	-5.3%
Wine Wholesale	1,796,225	1,613,614	11.3%	20,382,672	20,558,087	-0.9%
Telecommunications Tax	5,787,910	6,283,949	-7.9%	75,663,030	76,442,296	-1.0%
Other Tobacco Products	3,939,774	3,952,412	-0.3%	41,979,246	44,383,010	-5.4%
Floor Stock Tax	24	123	-80.5%	2,666	(24,238)	---
Car Rental & Ride Sharing	3,717,230	0	---	15,772,771	0	---
Natural Resources	\$10,222,366	\$10,717,163	-4.6%	\$147,031,423	\$109,019,465	34.9%
Coal Severance	6,353,314	6,886,143	-7.7%	96,553,542	70,653,864	36.7%
Oil Production	847,742	817,940	3.6%	7,565,799	7,547,757	0.2%
Minerals Severance	2,458,909	1,848,706	33.0%	26,321,853	21,366,602	23.2%
Natural Gas Severance	562,402	1,164,374	-51.7%	16,590,229	9,451,241	75.5%
Individual Income Tax	\$481,534,308	\$565,895,914	-14.9%	\$5,843,883,534	\$6,047,528,270	-3.4%
Withholding	405,164,668	450,962,900	-10.2%	5,108,675,646	5,031,080,045	1.5%
Declarations	77,448,618	115,847,351	-33.1%	634,549,279	792,235,265	-19.9%
Net Returns	(1,165,830)	(177,870)	---	105,541,005	222,234,154	-52.5%
Fiduciary	(589,805)	(736,467)	---	(5,734,074)	1,978,806	---
Pass-Through Entity Tax	676,657	0	---	851,678	0	---
Major Business Taxes	\$203,148,182	\$217,706,788	-6.7%	\$1,221,612,834	\$1,186,604,333	3.0%
Corporation Income	180,531,876	191,467,430	-5.7%	1,006,250,613	932,591,148	7.9%
LLET	22,616,306	26,239,358	-13.8%	215,362,221	254,013,185	-15.2%
Property	\$22,118,099	\$22,557,341	-1.9%	\$774,375,669	\$723,856,929	7.0%
General - Real	26,349	(181,454)	---	338,783,090	325,304,164	4.1%
General - Tangible	648,797	325,319	99.4%	136,505,807	124,381,606	9.7%
Tangible - Motor Vehicle	17,510,072	17,278,034	1.3%	197,506,861	179,189,332	10.2%
Omitted & Delinquent	4,013,872	4,571,694	-12.2%	17,215,367	17,426,030	-1.2%
Public Service	(80,946)	601,698	---	80,924,768	74,646,765	8.4%
Other	(45)	(37,950)	---	3,439,776	2,909,032	18.2%
Inheritance Tax	\$5,577,915	\$8,012,032	-30.4%	\$71,809,112	\$81,264,890	-11.6%
Miscellaneous	\$927,403	\$919,852	0.8%	\$15,589,443	\$15,617,470	-0.2%
License and Privilege	\$520,002	\$183,793	182.9%	2,268,760	1,832,117	23.8%
Bank Franchise	(\$1,004,755)	(\$523,858)	---	(1,240,636)	622,154	---
Legal Process	429,100	483,151	-11.2%	9,173,850	9,879,393	-7.1%
T. V. A. In Lieu Payments	969,576	769,618	26.0%	5,018,465	3,208,136	56.4%
Other	13,479	7,147	88.6%	369,004	75,670	387.6%
Nontax Receipts	\$65,141,214	\$25,556,625	154.9%	\$611,879,618	\$623,610,826	-1.9%
Departmental Fees	2,412,645	1,929,976	25.0%	15,961,962	13,891,710	14.9%
PSC Assessment Fee	1,696,005	2,317,896	-26.8%	11,910,522	15,819,870	-24.7%
Fines & Forfeitures	1,553,458	1,434,272	8.3%	19,798,963	18,644,760	6.2%
Income on Investments	23,769,014	1,853,907	1182.1%	150,510,534	585,342	---
Lottery	29,683,817	8,657,312	242.9%	336,974,700	295,000,000	14.2%
Miscellaneous	6,026,274	9,363,261	-35.6%	76,722,937	279,669,144	-72.6%
Redeposit of State Funds	\$227,755	\$500,048	-54.5%	\$8,094,791	\$5,877,936	37.7%

2. ROAD FUND REVENUE

	<u>JUNE</u>	<u>JUNE</u>	<u>% Change</u>	<u>JULY THROUGH JUNE</u>		<u>% Change</u>
	<u>2023</u>	<u>2022</u>		<u>FY 2023</u>	<u>FY 2022</u>	
TOTAL STATE ROAD FUND	\$163,542,694	\$157,541,788	3.8%	\$1,753,323,281	\$1,675,354,852	4.7%
Tax Receipts-	\$160,735,367	\$157,182,989	2.3%	\$1,717,417,646	\$1,657,098,864	3.6%
Sales and Gross Receipts	\$135,435,113	\$130,265,784	4.0%	\$1,458,609,862	\$1,403,734,092	3.9%
Motor Fuels Taxes	76,017,923	69,392,363	9.5%	798,263,863	774,647,395	3.0%
Motor Vehicle Usage	59,417,189	60,873,421	-2.4%	660,345,999	629,086,696	5.0%
License and Privilege	\$25,300,254	\$26,917,204	-6.0%	\$258,807,784	\$253,364,772	2.1%
Motor Vehicles	21,214,420	23,838,475	-11.0%	126,713,604	123,656,728	2.5%
Motor Vehicle Operators	2,830,627	1,877,139	50.8%	29,736,792	28,504,651	4.3%
Weight Distance	367,747	459,847	-20.0%	87,722,299	87,201,685	0.6%
Truck Decal Fees	20,320	10,800	88.1%	240,000	183,160	31.0%
Other Special Fees	867,140	730,943	18.6%	14,395,089	13,818,548	4.2%
Nontax Receipts	\$2,752,723	\$205,712	1238.1%	\$35,523,095	\$17,566,474	102.2%
Departmental Fees	1,865,511	2,238,635	-16.7%	24,785,707	24,699,775	0.3%
In Lieu of Traffic Fines	20,880	16,305	28.1%	443,040	227,990	94.3%
Income on Investments	478,912	(2,485,501)	---	6,308,931	(11,019,731)	---
Miscellaneous	387,419	436,273	-11.2%	3,985,418	3,658,440	8.9%
Redeposit of State Funds	\$54,604	\$153,089	-64.3%	\$382,540	\$689,514	-44.5%

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