



Office of State Budget Director

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John T. Hicks
State Budget Director

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
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May 27, 2020

Kentucky Revenue Forecast Revision for fiscal year 2019-2020

The Kentucky State Budget Director in late April, in accordance with KRS 48.115(2), determined that a revision to the official fiscal year 2019-2020 revenue estimate was needed for the General Fund and the Road Fund. The exigent situation the Commonwealth is facing required an immediate revision. The urgency related to the Governor's authority to take certain actions to balance the fiscal year's budget which first requires a downward revision in the official revenue estimate.

At the end of April, the Office of State Budget Director released its Quarterly Economic and Revenue report which revealed an unofficial forecast for the final quarter of the current fiscal year. The General Fund revenue shortfall for fiscal year 2019-2020 is projected to be up to \$495.7 million, and the Road Fund, up to \$194.6 million.

Individual and corporate income tax receipts further complicate the analysis. The Governor issued an Order that delayed the deadline for income tax filings and estimated payments from April 15 to July 15. As expected, April's receipts from those two sources were down significantly. Those amount will remain unknown until July. The necessary administrative processes have been put in place so that those tax receipts will post to the current fiscal year.

Revised Revenue Forecast

The Consensus Forecasting Group (CFG), which met on May 22, 2020, revised the enacted revenue estimate for fiscal year 2019-2020 for the General Fund and the Road Fund. The enacted estimate for the General Fund was revised from \$11,448.2 million to \$10,991.5 million, a reduction of \$456.7 million, representing a 4.0 percent revenue shortfall. The enacted estimate for the Road Fund was revised from \$1,551.8 million to \$1,390.0 million, a reduction of \$161.8 million, representing a 10.4 percent shortfall.

Economic Outlook

When the CFG met, they came to an agreement that the pessimistic scenario was the most likely outcome for the state and national economies in the short run. Nationally, both the control and pessimistic forecasts assume a three quarter recession, starting in the third quarter of FY20. Additionally, the pessimistic forecast assumes consumers are more reticent to bounce back to normal consumption patterns. Year over-year GDP growth in the pessimistic scenario is anticipated to drop to 16.4 percent in the fourth quarter of FY20. The

key revenue driver from the state economy is Kentucky Wages and Salaries. For the fourth quarter of FY20, Kentucky Wages and Salaries are expected to decline 24.3 percent.

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May 22, 2020

John Hicks
 State Budget Director
 Office of the State Budget Director
 Room 284, Capitol Annex
 Frankfort, Kentucky 40601

Dear Mr. Hicks:

In accordance with KRS 48.115(2), in the attached letter dated April 30, 2020, you requested the Consensus Forecasting Group (CFG) assemble to revise the official General Fund (GF) and Road Fund (RF) revenue estimates for FY 2020.

Members of the CFG met on May 22, 2020, and revised the official enacted FY 2020 GF and RF revenue estimates. The estimates adopted by the CFG at the May 22, 2020, meeting are listed in the table below.

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Road Fund</u>
2020	\$10,991,500,000	\$1,390,000,000

The FY 2020 GF estimate adopted by the CFG (\$10,991.5 million) is \$456.7 million less than the FY 2020 enacted GF estimate (\$11,448,237,100). The revised FY 2020 GF estimate reflects a 4.0 percent reduction when compared to the enacted GF estimate.

The FY 2020 RF estimate adopted by the CFG (\$1,390.0 million) is \$161.8 million less than the FY 2020 enacted RF estimate (\$1,551,800,000). The revised FY 2020 RF estimate reflects a 10.4 percent reduction when compared to the enacted RF estimate.

In summary, the General Fund and Road Fund revenue estimates adopted by the Consensus Forecasting Group represent an agreement among the members as the most likely outcome for revenues for the current fiscal year given the information available on May 22, 2020.

Sincerely,

A handwritten signature in blue ink that reads "Frank O'Connor". The signature is written in a cursive, flowing style.

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

General Fund Forecast FY 2020

(Million \$, Official CFG estimates from May 22, 2020)

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Revised Official Estimate - May 22, 2020

	FY 2019	Enacted FY 2020	Revised FY 2020	Difference from Enacted	% Change from
	Actuals	Estimate	Estimate	FY 2020	FY 2019
General Fund	(in millions of \$)				
Individual Income	\$4,544.7	\$4,664.4	\$4,526.0	(\$138.4)	-3.0%
Sales & Use	3,937.6	4,129.8	3,931.6	(198.2)	-4.8%
Corporate Income and LLET	762.7	581.1	488.4	(92.7)	-16.0%
Property	647.0	657.1	632.4	(24.7)	-3.8%
Lottery	263.9	271.0	262.4	(8.6)	-3.2%
Cigarette	353.5	344.9	352.0	7.1	2.1%
Coal Severance	92.9	55.9	62.7	6.8	12.2%
Other	790.4	744.0	736.0	(8.0)	-1.1%
General Fund Total	\$11,392.7	\$11,448.2	\$10,991.5	(\$456.7)	-4.0%

General Fund Forecast FY 2020

(Million \$, Official CFG estimates from May 22, 2020)

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Revised Official Estimate - May 22, 2020

	FY 2020 May- June Estimate	% Change from FY 2019	FY 2020 4th Qtr. Estimate	% Change from Q4 FY 19	FY 2020 Full Year Estimate	% Change from FY 2019
General Fund						
Individual Income	\$809.3	11.0%	\$1,171.0	-13.6%	\$4,526.0	-0.4%
Sales & Use	504.2	-26.0%	\$845.1	-19.2%	3,931.6	-0.2%
Corporate Income and LLET	65.0	-55.6%	\$117.1	-63.5%	488.4	-36.0%
Property	20.4	-53.7%	\$37.7	-48.1%	632.4	-2.3%
Lottery	39.0	-33.7%	\$61.0	-24.0%	262.4	-0.6%
Cigarettes	59.4	-3.3%	\$84.1	-9.3%	352.0	-0.4%
Coal Severance	10.4	-42.4%	\$14.5	-46.2%	62.7	-32.5%
Other	108.4	-33.0%	\$142.7	-27.5%	736.0	-6.9%
General Fund Total	\$1,616.1	-15.0%	\$2,473.2	-22.5%	\$10,991.5	-3.5%

Road Fund Forecast FY 2020

(Million \$, Official CFG estimates from May 22, 2020)

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	FY 2019 Actuals	Enacted FY 2020 Estimate	Revised FY 2020 Estimate	Difference from Enacted FY 2020	% Change from FY 2019
Road Fund	(in millions of \$)				
Motor Fuels	\$773.2	\$773.2	\$696.2	(\$77.0)	-10.0%
Motor Vehicle Usage	514.5	518.6	458.1	(60.5)	-11.7%
Motor Vehicle License	120.9	115.4	105.7	(9.7)	-8.4%
Motor Vehicle Operators	16.6	17.1	14.0	(3.1)	-18.1%
Weight Distance	83.7	83.8	73.9	(9.9)	-11.8%
Other	57.1	43.7	42.1	(1.6)	-3.7%
Road Fund Total	\$1,566.1	\$1,551.8	\$1,390.0	(\$161.8)	-10.4%

Road Fund Forecast FY 2020

(Million \$, Official CFG estimates from May 22, 2020)

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	FY 2020	% Change	FY 2020	% Change	FY 2020	% Change
	May-June	from	4th Qtr.	from	Full Year	from
Road Fund	Estimate	FY 2019	Estimate	Q4 FY 19	Estimate	FY 2019
Motor Fuels	\$58.8	-56.2%	\$114.9	-41.9%	\$696.2	-10.0%
Motor Vehicle Usage	38.7	-56.2%	58.5	-57.6%	458.1	-11.0%
Motor Vehicle License	16.1	-30.2%	28.4	-34.0%	105.7	-12.6%
Motor Vehicle Operators	1.1	-59.4%	2.0	-54.4%	14.0	-15.8%
Weight Distance	4.4	-71.4%	10.4	-49.4%	73.9	-11.7%
Other	2.3	-85.1%	8.9	-57.3%	42.1	-26.2%
Road Fund Total	\$121.4	-56.5%	\$223.1	-47.5%	\$1,390.0	-11.2%