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December 11, 2023

John T. Hicks
State Budget Director
Office of the State Budget Director
200 Mero Street, 5th Floor
Frankfort, Kentucky 40622

Dear Mr. Hicks:

In accordance with KRS 48.115(1) and KRS 48.120(2), the Consensus Forecasting Group (CFG) met on December 8, 2023, to revise the enacted FY 2024 General Fund (GF) and Road Fund (RF) revenue estimates and to adopt the official GF and RF revenue estimates for FY 2025 and FY 2026. The estimates adopted by the CFG are listed below.

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Road Fund</u>
2024	\$15,554,500,000	\$1,881,700,000
2025	\$15,549,500,000	\$1,825,000,000
2026	\$16,002,600,000	\$1,894,300,000

The revised FY 2024 GF estimate adopted by the CFG (\$15,554.5 million) is \$436.8 million more than the FY 2024 enacted GF estimate (\$15,117.7 million). The revised FY 2024 GF estimate suggests revenues will grow by \$406.8 million (2.7 percent) when compared to FY 2023 actual GF receipts (\$15,147.7 million).

The official GF estimates adopted by the CFG for the upcoming biennium reflect slower growth in FY 2025 compared to FY 2024 and FY 2026. GF revenues are estimated to decline 0.03 percent (\$5.0 million) in FY 2025, followed by 2.9 percent growth (\$453.1 million) in FY 2026.

GF revenues in FY 2025 are expected to decline by \$5.0 million due to a decline in the number of jobs in Kentucky relative to FY 2024. The other primary contributor to the minor retrenchment in FY 2025 is the reduction in the individual income tax rate (i.e., FY 2025 will be the first full fiscal year the individual income tax rate is 4.0 percent).

GF growth is estimated to rebound in FY 2026 due to a small estimated increase in employment (2,000 jobs), a 3.0 percent (\$3.8 billion) increase in Kentucky wages and salaries, and no further reductions in the individual income tax rate.

The revised FY 2024 RF estimate adopted by the CFG (\$1,881.7 million) is \$199.5 million more than the FY 2024 enacted RF estimate (\$1,682.2 million). The revised FY 2024 RF estimate suggests RF revenues will grow by \$128.4 million when compared to FY 2023 actual RF receipts (\$1,753.3M). The year-over-year increase in the RF in FY 2024 is primarily due to the 2.1 cent per gallon increase in the motor fuels tax rate which took effect on July 1, 2023.

The official RF estimates for the upcoming biennium forecast uneven growth over the forecast horizon. Compared to FY 2024, RF revenues are estimated to decline by 3.0 percent (\$56.7 million) in FY 2025. In FY 2026, RF revenues are expected to increase by 3.8 percent (\$69.3 million) relative to FY 2025. The decline in the FY 2025 RF estimate is based on a lower motor fuels tax rate (i.e., 1.8 cents per gallon decline), lower motor fuels consumption and a softening in consumer spending on light vehicles. The 3.8 percent growth in the RF in FY 2026 is predicated on a 2.2 cents per gallon increase in the motor fuels tax rate.

Attachment A contains a summary of the General Fund estimates and Attachment B contains a summary of the Road Fund estimates. Detailed tables of the General Fund and Road Fund revenue estimates are included in Attachment C and Attachment D.

In addition to providing estimates for the General Fund and the Road Fund, the CFG provides estimates of the receipts the Commonwealth receives from the Phase I Tobacco Master Settlement Agreement (MSA).

The revised FY 2024 MSA estimate adopted by the CFG (\$103.1 million) is \$900,000 more than the FY 2024 enacted MSA estimate (\$102.2 million). FY 2024 MSA receipts are estimated to be \$15.2 million less than FY 2023 actual MSA receipts (\$118.3 million).

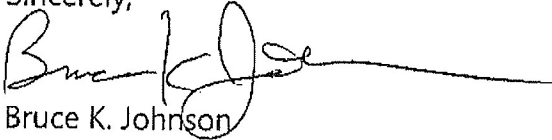
The table below contains the revised FY 2024 and the official MSA estimates for FY 2025 and FY 2026 adopted by the CFG at the December 8, 2023 meeting. MSA receipts,

relative to FY 2023, are expected to decline on an annual basis over the forecast horizon primarily due to the continued reduction in US cigarette sales.

<u>Fiscal Year</u>	<u>MSA Revenue</u>
2024	\$103,100,000
2025	\$97,800,000
2026	\$93,100,000

Inherent in any revenue forecast is the risk that actual receipts may differ from their forecasted values. The Kentucky economic and revenue forecasts adopted by the CFG are directly linked to the national forecast provided by S&P Global, the Kentucky MAK model, and the revenue models utilized by staff in the Governor's Office for Economic Analysis. In summary, the General Fund, Road Fund and MSA revenue estimates adopted by the Consensus Forecasting Group represent an agreement among the members as to the most likely outcome for revenues for fiscal years 2024, 2025 and 2026, given the information available on December 8, 2023.

Sincerely,



Bruce K. Johnson

Chairman, Consensus Forecasting Group
Professor of Economics
Centre College

ATTACHMENT A
FISCAL YEAR 2024, FISCAL YEAR 2025 AND FISCAL YEAR 2026 CFG GENERAL FUND ESTIMATES
ADOPTED ON DECEMBER 8, 2023
(Millions Of Dollars)

Major Tax Category	FY23		FY24		FY25		FY26	
	Actual Receipts	CFG Estimate	Percent Change	CFG Estimate	Percent Change	CFG Estimate	Percent Change	
Individual Income	\$5,843.9	\$5,778.3	-1.1%	\$5,548.1	-4.0%	\$5,742.1	3.5%	
Sales & Use	\$5,576.3	\$5,828.4	4.5%	\$6,082.1	4.4%	\$6,315.9	3.8%	
Corporate Income & Limited Liability Entity Tax (LLET)	\$1,221.6	\$1,277.4	4.6%	\$1,283.3	0.5%	\$1,313.4	2.3%	
Property	\$774.4	\$808.6	4.4%	\$837.2	3.5%	\$861.9	3.0%	
Lottery	\$337.0	\$343.6	2.0%	\$360.0	4.8%	\$370.0	2.8%	
Cigarettes	\$299.3	\$272.2	-9.1%	\$249.5	-8.3%	\$231.7	-7.1%	
Coal Severance	\$96.6	\$84.9	-12.1%	\$74.4	-12.4%	\$57.7	-22.4%	
Other	\$998.7	\$1,161.2	16.3%	\$1,114.9	-4.0%	\$1,110.0	-0.4%	
Total General Fund	\$15,147.7	\$15,554.5	2.69%	\$15,549.5	-0.03%	\$16,002.6	2.91%	
Year-over-Year General Fund Growth		\$406.8		(\$5.0)		\$453.1		

Comparison Of CFG And Enacted Estimates

Major Tax Category	FY 2024			Percent Change
	CFG Estimate	Enacted Estimate	Difference	
Individual Income	\$5,778.3	\$5,384.4	\$393.9	7.3%
Sales & Use	\$5,828.4	\$6,037.4	-\$209.0	-3.5%
Corporate Income & Limited Liability Entity Tax (LLET)	\$1,277.4	\$1,298.3	-\$20.9	-1.6%
Property	\$808.6	\$784.6	\$24.0	3.1%
Lottery	\$343.6	\$343.6	\$0.0	0.0%
Cigarettes	\$272.2	\$291.4	-\$19.2	-6.6%
Coal Severance	\$84.9	\$58.2	\$26.7	45.9%
Other	\$1,161.2	\$919.8	\$241.4	26.2%
Total General Fund	\$15,554.5	\$15,117.7	\$436.8	2.9%

ATTACHMENT B

FISCAL YEAR 2024, FISCAL YEAR 2025 AND FISCAL YEAR 2026 CFG ROAD FUND ESTIMATES

ADOPTED ON DECEMBER 8, 2023

(Millions Of Dollars)

Major Tax Category	FY23		FY24		FY25		FY26	
	Actual Receipts	CFG Estimate	Percent Change	CFG Estimate	Percent Change	CFG Estimate	Percent Change	
Motor Fuels Taxes	\$798.3	\$905.1	13.4%	\$866.8	-4.2%	\$923.6	6.6%	
Motor Vehicle Usage	\$660.3	\$672.2	1.8%	\$650.1	-3.3%	\$660.3	1.6%	
Motor Vehicle License	\$126.7	\$126.8	0.1%	\$128.1	1.0%	\$130.9	2.2%	
Motor Vehicle Operators	\$29.7	\$31.2	5.1%	\$32.0	2.6%	\$32.3	0.9%	
Weight Distance	\$87.7	\$87.7	0.0%	\$89.7	2.3%	\$91.7	2.2%	
Investment	\$6.3	\$11.8	87.3%	\$9.5	-19.5%	\$6.2	-34.7%	
Other	\$44.2	\$46.8	5.9%	\$48.7	4.1%	\$49.3	1.2%	
Total Road Fund	\$1,753.3	\$1,881.7	7.3%	\$1,825.0	-3.0%	\$1,894.3	3.8%	
Year-over-Year Road Fund Growth		\$128.4		(\$56.7)		\$69.3		

Comparison Of CFG And Enacted Estimates

FY 2024

Major Tax Category	CFG Estimate	Enacted Estimate	Difference	Percent Change
Motor Fuels Taxes	\$905.1	\$817.2	\$87.9	10.8%
Motor Vehicle Usage	\$672.2	\$572.5	\$99.8	17.4%
Motor Vehicle License	\$126.8	\$122.9	\$4.0	3.2%
Motor Vehicle Operators	\$31.2	\$28.3	\$2.9	10.2%
Weight Distance	\$87.7	\$96.6	-\$8.9	-9.2%
Investment	\$11.8	\$2.1	\$9.7	461.9%
Other	\$46.8	\$42.7	\$4.1	9.6%
Total Road Fund	\$1,881.7	\$1,682.2	\$199.5	11.9%