

KENTUCKY'S MONEY PROBLEMS?



**Kentucky State and
Local Government Revenue
Impacts from Covid-19 Episode**

A Pegasus Institute Report

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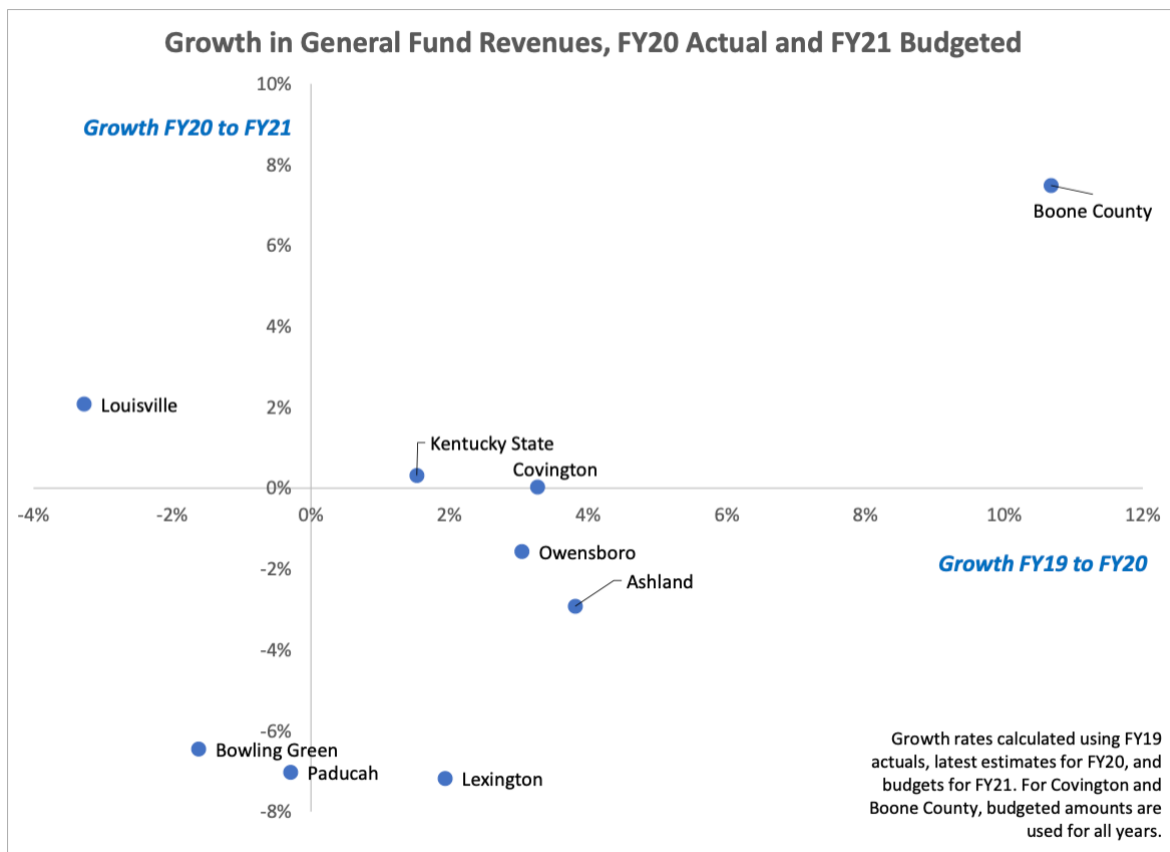
Kentucky State and Local Government Revenue Impacts from Covid-19 Episode

This note summarizes the recent fiscal impacts of the Covid-19 on Kentucky state government and selected major local governments in the state. We obtained General Fund revenues and major tax components for eight large local governments, plus state government, for the last three fiscal years (all on a July to June basis). While not comprehensive, the fiscal data do point to some defensible conclusions.

The economic news was ominous during the Spring, with Kentucky posting the highest proportion of workers filing for unemployment benefits of any state. This and the various government mandates to close stores and cancel events led to widespread fear among fiscal analysts that major tax revenues would plummet. But the predicted severe loss of tax revenue in Fiscal Year 2019-2020 simply did not occur. In retrospect, there were several causes.

1. While the virus-related shutdowns began in March, tax receipts were growing strongly up to that point in the fiscal year. Moreover, tax payments lag economic activity, so that the expected drop in occupational and net profits taxes at the local level, and income and sales taxes at the state level, did not really show up until May. At that point, the fiscal year was already ten months old.
2. The unprecedented unemployment levels in the Spring were primarily concentrated in industries relying on part-time, low-pay, occupations. Thus, the job losses were much worse than the payroll losses. Most of the important tax receipts are related to payroll growth, not jobs.
3. Property tax receipts provided stability to all governments' General Funds, growing steadily throughout. Also, insurance premiums taxes, a major source of revenues to municipal governments, proved to be insensitive to the economic downturn.
4. There were also some mitigating factors. For example, Kentucky state government received a windfall in individual income tax receipts due to withholdings from the huge unemployment insurance payments, including the \$600 weekly federal supplement. State government also received sales taxes on the Spring-spike in online retail shopping. State and local governments were able to use some of their rainy day funds to balance their FY20 budgets, as well as some payments from the \$1.5 billion federal relief payments to Kentucky governments for Covid-related expenses.
5. Beginning in March, local and state governments watched expenses carefully for the remainder of the fiscal year. This did not help the revenue picture, but did help governments handle necessary expenditures. Kentucky state government actually increased its rainy day fund.

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Budgets for FY21 were enacted earlier in the summer, based on recent experience and tax revenue forecasts for the next twelve months. In general, the governments were cautious in their outlooks, given the ubiquitous uncertainty about the virus, the economy, and future public policies. A common theme is that budgets would need to be reviewed regularly throughout this fiscal year, as revenue forecasts evolve due to new information. As one can see from the chart, Bowling Green and Paducah were the only two governments to report General Fund revenue declines in both FY20 and FY21. Kentucky state government and Boone County report expected revenue growth in both fiscal years.

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Kentucky State Government

One can see in the table that state government was able to post slight growth in its General Fund in the fiscal year that ended in June, and has enacted a budget for FY21 showing also a very slight growth. Corporate income taxes were the only major component that had a significant decline in the FY20.

Kentucky State Government, Major Revenue Sources			
	FY19 actual	FY20.actual	FY21 budget
General Fund Total	\$11,392,700,000	\$11,566,600,000	\$11,603,136,800
<i>growth</i>		1.5%	0.3%
Individual Income Tax	\$4,544,676,175	\$4,765,200,000	\$4,770,900,000
Sales and Use Tax	\$3,937,610,039	\$3,934,600,000	\$4,190,500,000
Corp. Inc. & LLET	\$762,681,723	\$488,400,000	\$545,900,000
Property Tax	\$647,009,309	\$632,400,000	\$671,700,000

Source: page 8 of FY21 budget document, <https://osbd.ky.gov/Publications/Pages/Budget-Documents.aspx> , updated with FY20 actuals from powerpoint by State Budget Director, "Financial Outlook Revised", August 19, 2020.

Louisville-Jefferson County

Louisville estimates a 3.3 percent decline in General Fund revenues for FY20, and slight growth for FY21. Part of this is due to the timing of net profits receipts, which were delayed in line with the postponement of the federal corporate income tax filing deadline from April to July. One can see that employee withholdings actually grew in FY20, again due to the strong start to the fiscal year and the fact that so many of the job losses were in lower-paid occupations. As of this writing, employee withholdings (occupational tax receipts) and insurance premium taxes are up so far in FY21, and net profits receipts are flat.

Louisville-Jefferson County, Major Revenue Sources			
	FY19 actual	FY20.estimate	FY21 budget
General Fund Total	\$656,443,530	\$634,971,000	\$648,200,700
<i>growth</i>		-3.3%	2.1%
Employee Withholding	\$293,612,070	\$301,920,000	\$290,300,000
Net Profits	\$68,130,306	\$44,620,000	\$55,700,000
Insurance Premiums Tax	\$64,238,545	\$65,750,000	\$64,720,000
Property Tax	\$170,599,787	\$173,453,900	\$180,880,000

Source: pages 64-65 of FY21 budget document, https://louisvilleky.gov/sites/default/files/management_budget/fy21/2020-2021_louisville_metro_approved_executive_budget.pdf . FY20 estimates are as of June 15.

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Lexington-Fayette County

Lexington was also able to weather the storm in FY20, due to the five factors listed above, but is anticipating a rough revenue picture for FY21. In fact, Lexington has the most pessimistic revenue forecast of the nine governments analyzed here, due to significant revenue declines expected for employee withholdings and net profits.

Lexington-Fayette County, Major Revenue Sources			
	FY19 actual	FY20.estimate	FY21 budget
General Fund Total	\$369,363,720	\$376,514,300	\$349,493,779
<i>growth</i>		1.9%	-7.2%
Employee Withholding	\$200,985,809	\$207,282,370	\$185,951,110
Net Profits	\$43,584,527	\$43,507,074	\$36,110,870
Insurance Premiums Tax	\$34,086,330	\$35,830,662	\$34,830,660
Property Tax	\$25,221,927	\$26,022,000	\$26,975,990

Source: page 3 of FY21 budget document,
www.lexingtonky.gov/sites/default/files/organization-page/2020-06/FY%202021%20CAB%5B1%5D.pdf

Bowling Green

Revenue estimates for Bowling Green are negative for both FY20 and FY21. One can see that employee withholdings fell significantly in FY20. Their latest budget document says the City is being conservative in its outlook for the current fiscal year, a theme we detect at all the governments surveyed there.

City of Bowling Green, Major Revenue Sources			
	FY19 actual	FY20.estimate	FY21 budget
General Fund Total	\$72,707,503	\$71,528,417	\$66,916,000
<i>growth</i>		-1.6%	-6.4%
Employee Withholding	\$45,000,000	\$41,766,000	\$35,395,500
Net Profits	\$8,600,000	\$9,175,000	\$8,009,775
Insurance Premiums Tax	\$4,500,000	\$4,663,000	\$4,500,000
Property Tax	\$13,800,000	\$14,132,000	\$14,475,000

Source: Page65,66, 79, 83 and text, City of Bowling Green Annual Operating Budget 2020/2021, www.bgky.org/files/udp998uT.pdf

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Boone County

We could only find budgeted revenues for Boone County fiscal court the last three fiscal years. Nevertheless, the budgets show steady growth each year. Because the County collects occupational taxes on a quarterly, rather than a monthly, basis the fiscal impact of the Covid-related downturn will not be evident until September. The County does report that its property tax base rose by over \$1 billion this last year. (County governments do not levy an insurance premiums tax).

Boone County, Major Revenue Sources			
	FY19 budget	FY20.budget	FY21 budget
General Fund Total	\$50,959,105	\$56,398,246	\$60,620,341
<i>growth</i>		10.7%	7.5%
Employee Withholding	\$26,400,000	\$28,500,000	\$25,890,000
Net Profits	\$1,250,000	\$1,250,000	\$1,305,000
Insurance Premiums Tax			
Property Tax	\$11,000,000	\$11,250,000	\$11,600,000

Source: www.boonecountky.org/departments/finance/fiscal_court_budget.aspx

Owensboro

The City of Owensboro has been fairly immune from the Covid-related economic downturn. Revenues in FY20 were up or flat in every major category. The City adopted a cautious budget for FY21, given the lingering uncertainties about health and economic issues.

Owensboro, Major Revenue Sources			
	FY19 actual	FY20.estimate	FY21 budget
General Fund Total	\$58,307,385	\$60,081,196	\$59,141,075
<i>growth</i>		3.0%	-1.6%
Employee Withholding	\$18,754,225	\$19,455,071	\$18,364,560
Net Profits	\$4,247,292	\$4,191,949	\$3,644,000
Insurance Premiums Tax	\$5,941,195	\$6,671,813	\$6,615,500
Property Tax	\$11,064,301	\$11,393,759	\$12,051,531

Source: spreadsheet from Owensboro City Manager.

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Covington

We could only locate budgeted, not actual, revenues for the City of Covington. But, given the FY21 budgeted figures below, apparently the City has come through the downturn fairly well. Revenues are projected to be constant compared to the FY20 budget, with growth in property taxes just offsetting slight declines in employee withholdings, net profits, and insurance premium taxes. We will update the table when the City releases actual receipt data for FY19 and FY20.

City of Covington, Major Revenue Sources			
	FY19 budget	FY20.budget	FY21 budget
General Fund Total	\$54,184,082	\$55,955,000	\$55,971,932
<i>growth</i>		3.3%	0.0%
Employee Withholding	\$26,608,000	\$27,406,240	\$26,563,662
Net Profits	\$3,582,000	\$3,724,182	\$3,677,630
Insurance Premiums Tax	\$7,313,000	\$7,605,520	\$7,510,451
Property Tax	\$7,629,000	\$7,781,580	\$8,015,027

Source: www.covingtonky.gov/forms-documents/view/annual-city-budget-2020-2021

Paducah

The City of Paducah ended up with FY20 revenues almost identical to those for FY19, for reasons outlined at the beginning of this report. All four major tax sources posted either very slight increases or declines. Like other governments, it has adopted a cautious budget for FY21.

City of Paducah, Major Revenue Sources			
	FY19 actual	FY20.estimate	FY21 budget
General Fund Total	\$37,019,731	\$36,911,620	\$34,318,580
<i>growth</i>		-0.3%	-7.0%
Employee Withholding	\$16,349,044	\$16,620,000	\$14,400,000
Net Profits	\$4,367,410	\$4,590,000	\$3,800,000
Insurance Premiums Tax	\$4,486,038	\$4,400,000	\$4,800,000
Property Tax	\$7,390,284	\$7,143,000	\$7,292,000

Source: <http://paducahky.gov/sites/default/files/FY2021-Budget-Book-Final.pdf>

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Ashland

The City of Ashland is expected to show modest growth in General Fund revenues for FY20, but a decline in FY21. Employee withholdings actually grew last fiscal year, and net profit fees were stable, unlike for most other jurisdictions covered here.

City of Ashland, Major Revenue Sources			
	FY19 actual	FY20 actual	FY21 budget
General Fund Total	\$24,307,546	\$25,234,176	\$24,497,021
<i>growth</i>		3.8%	-2.9%
Employee Withholding	\$9,786,427	\$10,439,092	\$8,045,460
Net Profits	\$1,543,470	\$1,413,424	\$887,097
Insurance Premiums Tax	\$4,084,582	\$4,188,278	\$4,002,300
Property Tax	\$3,549,367	\$3,549,367	\$5,226,106

Source: Final Budget Report FY21.pdf . Actual property tax receipts were not available for FY20, so I made them the same as FY19, and adjusted the General Fund total to account for the missing entry.

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