

Beshear to outline plan for revenue shortfall

By TOM LOFTUS
Kentucky Lantern

FRANKFORT — The committee of economists that forecasts Kentucky government revenues slightly upgraded its outlook on Tuesday, but still anticipates a revenue shortfall this fiscal year and only modest revenue growth through the middle of 2028.

The committee, called the Consensus Forecasting Group, officially predicted that Kentucky's General Fund will take in \$15.5 billion for the fiscal year that ends June 30, 2026.

That's down a bit from actual revenues of \$15.7 billion taken in by the General Fund in the fiscal year that ended on June 30. But it's about \$150 million more than the Consensus Forecasting Group predicted three months ago in a preliminary forecast for the current fiscal year. Also Tuesday, the group predicted sluggish revenue growth for the next two fiscal years — 2.5% in 2026-27 to about \$15.9 billion and then 2.2% in 2027-28 to about \$16.2 billion.

Tuesday's forecast will be the foundation upon which the 2026 Kentucky General Assembly will build Kentucky's budget covering the two-year period beginning July 1, 2026 and ending June 30, 2028.

Gov. Andy Beshear, whose concerns about downward revenue trends



Gov. Andy Beshear delivers his 2025 State of the Commonwealth speech to a joint session of the House and Senate on Jan. 8, 2025.

caused him to ask for the preliminary forecast in September, released a statement later Tuesday saying he will announce a plan for dealing with the shortfall later this week.

"After a strong couple of months for our Kentucky economy, the Consensus Forecasting Group has reduced the commonwealth's projected revenue shortfall from \$305 million to \$156 million," Beshear said. "Kentucky law still requires a budget reduction, which I will announce this Thursday during our Team Kentucky Update at 12 noon ET. Overall, we will be able to manage the shortfall and still provide necessary services to Kentuckians."

But Sen. Chris McDaniel, a Ryland Heights Republican who

chairs the Senate budget committee, had a different take on Tuesday's forecast. "What's clear is that this forecast appears far less severe than what the governor projected in September. His earlier outlook was extremely pessimistic and today's data suggests a more measured and realistic picture of Kentucky's fiscal position."

House Speaker David Osborne, a Prospect Republican, released a statement later Tuesday that called the revised forecast "far better informed than the one received months ago."

Osborne's statement also said "the General Assembly will continue to rely on actual data and demonstrable evidence instead of political rhetoric and pandering. I

would ask the governor to take the same thoughtful and balanced approach."

Tuesday's forecast comes as the impact of soaring revenues for nearly all states triggered by Covid-era stimulus spending by the federal government continues to fade. (Annual revenue growth for the Kentucky General Fund was 10.9% in 2021 and 14.6% in 2022.) Kentucky's Republican-controlled General Assembly responded to the windfall in part by reducing the state's income tax rate, a priority for Republican lawmakers. It also socked away savings into Kentucky's Budget Reserve Trust Fund, more commonly known as the "rainy day" fund.

The rainy day fund is expected to have a balance

of about \$3.1 billion at the end of this fiscal year. Beshear could propose to cover the entire \$156 million shortfall with money from the rainy day fund, or he could decide it's more prudent to order immediate spending cuts to meet the shortfall.

Jason Bailey, executive director of the Kentucky Center for Economic Policy said, "While the forecast is a little better, the outlook is not good. ... Overall the outlook is poor because of the impact of big cuts to the income tax rate, plus a weakening of the economy."

The Kentucky Center for Economic Policy, a progressive group headquartered in Berea, has opposed the income tax-reduction approach taken by the legislature's Republican supermajorities.

In 2022 the legislature enacted a law that allows lawmakers to reduce Kentucky's income tax rate by one-half of a percentage point per year — but only during years when the state's fiscal condition is healthy enough to withstand the rate cut. The goal of that law is to eventually reduce the Kentucky income tax rate — which was 5% in 2022 — to zero.

The law allows for a reduction in the rate by one-half of one percentage point if two conditions are met at the end of a fiscal year. First, the balance in the rainy day fund must be at least 10% of

General Fund revenues in that prior year. The second and more difficult condition is that revenue in the just-ended fiscal year would have exceeded spending in that year even had the income tax rate been a full percentage point lower.

Both conditions have been met in some years, most recently at the end of the 2024 fiscal year, which opened the door for the General Assembly early this year to cut the rate down to 3.5%. (That new reduced rate does not take effect until Jan. 1, 2026.)

But the second condition was not met (by the tiniest of margins: \$7.5 million) when the 2025 fiscal year ended this summer, according to the Office of State Budget Director. Nonetheless, some Republican lawmakers, particularly on the House side, have indicated they may push for a tax cut by the 2026 legislature.

Bailey said a further tax cut would be disastrous for Kentucky's ability to fund public schools and all other state government programs. In addition to low revenue growth predicted Tuesday, he said Kentucky's 2026-28 budget will need to fund new obligations to pay for hefty administrative costs shifted by the federal government to states, especially for the Supplemental Nutrition Assistance Program.

See What's Taking Shape Locally

Your local newspaper keeps you informed about important local events and community developments. Subscribe today, and stay in the loop!

**New Businesses • Real Estate
Jobs Market • Public Notices
Local Government
Community Health
Dining & Entertainment
Events & Activities • Local Shopping
and so much more**

The Advocate-Messenger

YOUR TOWN. YOUR NEWS. 150 YEARS AND COUNTING

Subscribe Today By Phone or Online
859-236-2551 | www.amnews.com

Home for the Holidays

Ask About Our Holiday Specials!

Assisted Living and two levels of structured memory care—helping residents thrive and families have peace of mind.

Our Deluxe Suites offer extra space to decorate, host, and truly settle in, with full-size refrigerators and stackable washer dryer for everyday convenience. Enjoy meals in our dining room, concierge-style support, and a vibrant community just steps from your door. Experience the comfort of home with the peace of mind you deserve.

DANVILLE

MorningPointe

Assisted Living & Memory Care

Assisted Living
100 Birney Place
(859) 306-0202

Memory Care
1375 Perryville Road
(859) 965-1008

morningpointe.com