

Fiscal initiatives for 2007 legislative session

Governor Ernie Fletcher

February 13, 2007



Introduction and Summary
by Governor Fletcher

S&P and Moody's raise state's bond outlook

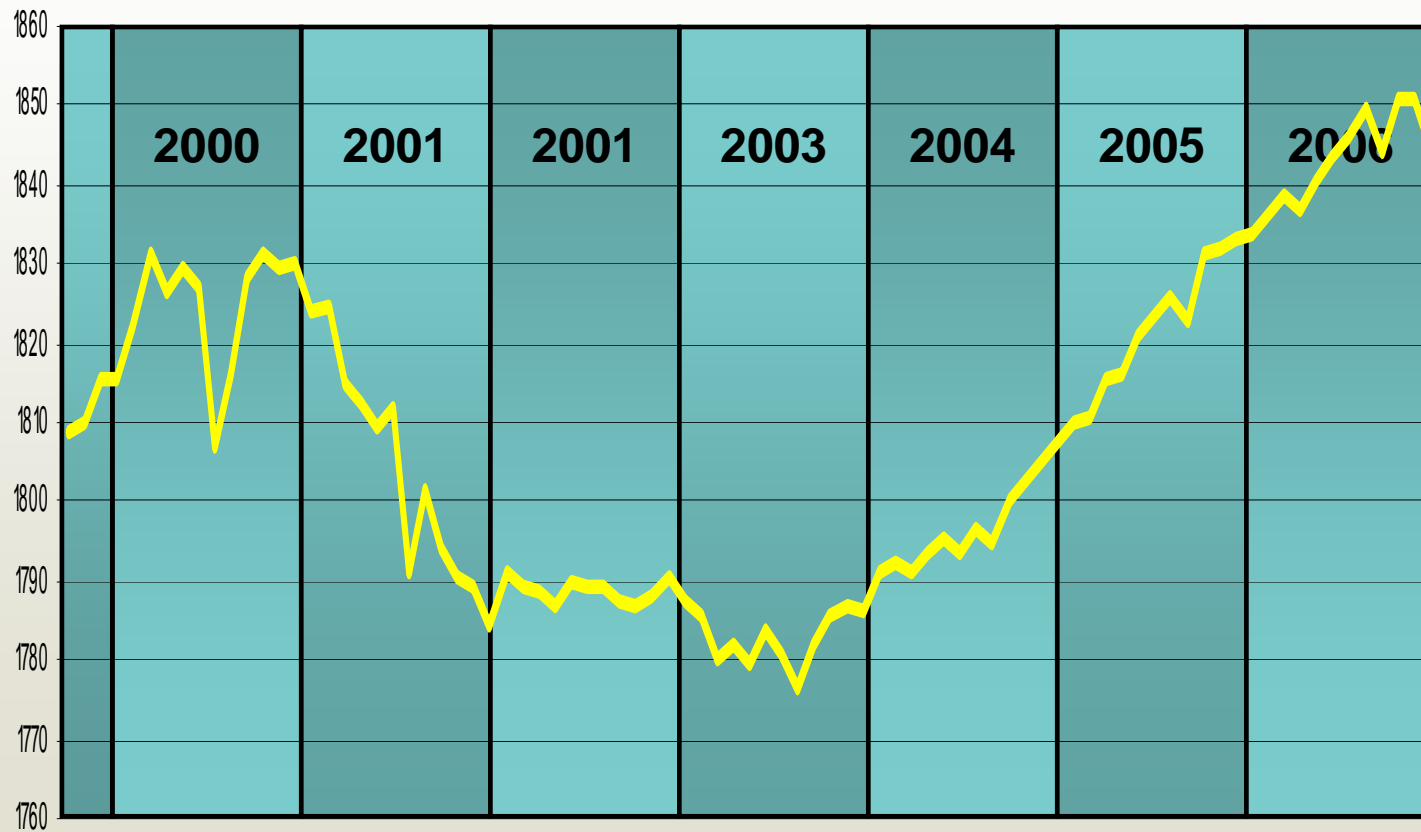
Kentucky's Bond Rating Outlook Improves

(FRANKFORT, Ky.)— Standard and Poor's (S&P) and Moody's, two of three prominent bond rating services, have both announced improved outlooks for the commonwealth's credit picture, Governor Ernie Fletcher announced today.

Both agencies noted that the improved outlook is the result of favorable trends in Kentucky's economy, corresponding revenue performance and strong budget balancing measures, which have resulted in a projected \$401 million dollar surplus for the current biennial budget period; and the replenishment of reserves, including a recommended deposit of nearly \$152 million into the Budget Reserve Trust Fund, which would bring the state's Rainy Day

- ✓ Cited factors:
 - Economic strength
 - Replenished reserves
 - Budget balancing measures
- ✓ Moody's: first improvement since June 10, 2002
- ✓ S&P: first improvement since October 9, 2002

Kentucky nonfarm employment



Bureau of Labor Statistics, seasonally adjusted, in thousands

Additional revenue

Consensus General Fund Revenue Estimate (million \$)

	<u>FY07</u>	<u>FY08</u>	<u>Biennial Total</u>
	Estimate	Estimate	Estimate
January 2007 CFG	\$ 8,609.7	\$ 8,902.3	\$ 17,512.0
December 2005 CFG*	\$ 8,377.9	\$ 8,733.0	\$ 17,110.9
Difference	\$ 231.9	\$ 169.3	\$ 401.2

*as modified by 2006 Regular and Special Legislative Sessions

Policy questions

1. Principles

What principles should guide the Governor and General Assembly in the 'short sessions?'

2. Problems and opportunities

What problems and opportunities do the People of Kentucky want us to address in this short session?

Principles for action in short sessions

- 1. Fiscal responsibility**
- 2. Urgency**
- 3. Unforeseen circumstances**
- 4. Acceleration of existing policy goals**
- 5. Economic development initiatives**

Problems and opportunities:

Town Hall Meetings



Problems and opportunities:

Governor Fletcher's Website

The screenshot shows the homepage of Governor Ernie Fletcher's website. At the top, there is a navigation bar with "Kentucky.gov" on the left, "KY Agencies | KY Services | Search" in the middle, and a search box with "Kentucky.gov" and a "Go" button on the right. Below this is a large banner featuring the text "GOVERNOR ERNIE FLETCHER COMMONWEALTH OF KENTUCKY" in white serif font on a dark blue background. To the right of the text is a photograph of Governor Fletcher in a suit and tie, standing next to a large gold coin. Below the banner is a horizontal menu with links: "Home | Welcome | Email Us | Proclamation Requests | Public Schedule" and "Governor Ernie Fletcher > Your Money, Your Priorities > Index". The main content area has a white background with the "Kentucky" logo on the left. The central headline reads "YOUR MONEY YOUR PRIORITIES" in large blue serif font, with a decorative blue wave graphic below it. On the left side, there is a vertical menu with links: "Home", "Biography", "Office of the Governor", "News Room", "Multimedia", "Email the Governor", and "Request a Proclamation". At the bottom, a news snippet begins with "On Thursday, November 2, 2006 Governor Ernie Fletcher announced that General Fund revenue for the current fiscal year is coming in higher than".

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GOVERNOR ERNIE FLETCHER
COMMONWEALTH OF KENTUCKY

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Commitment to Healthy Kentuckians & Strong Communities

• Home | Welcome | Email Us | Proclamation Requests | Public Schedule
• Governor Ernie Fletcher > Your Money, Your Priorities > Index

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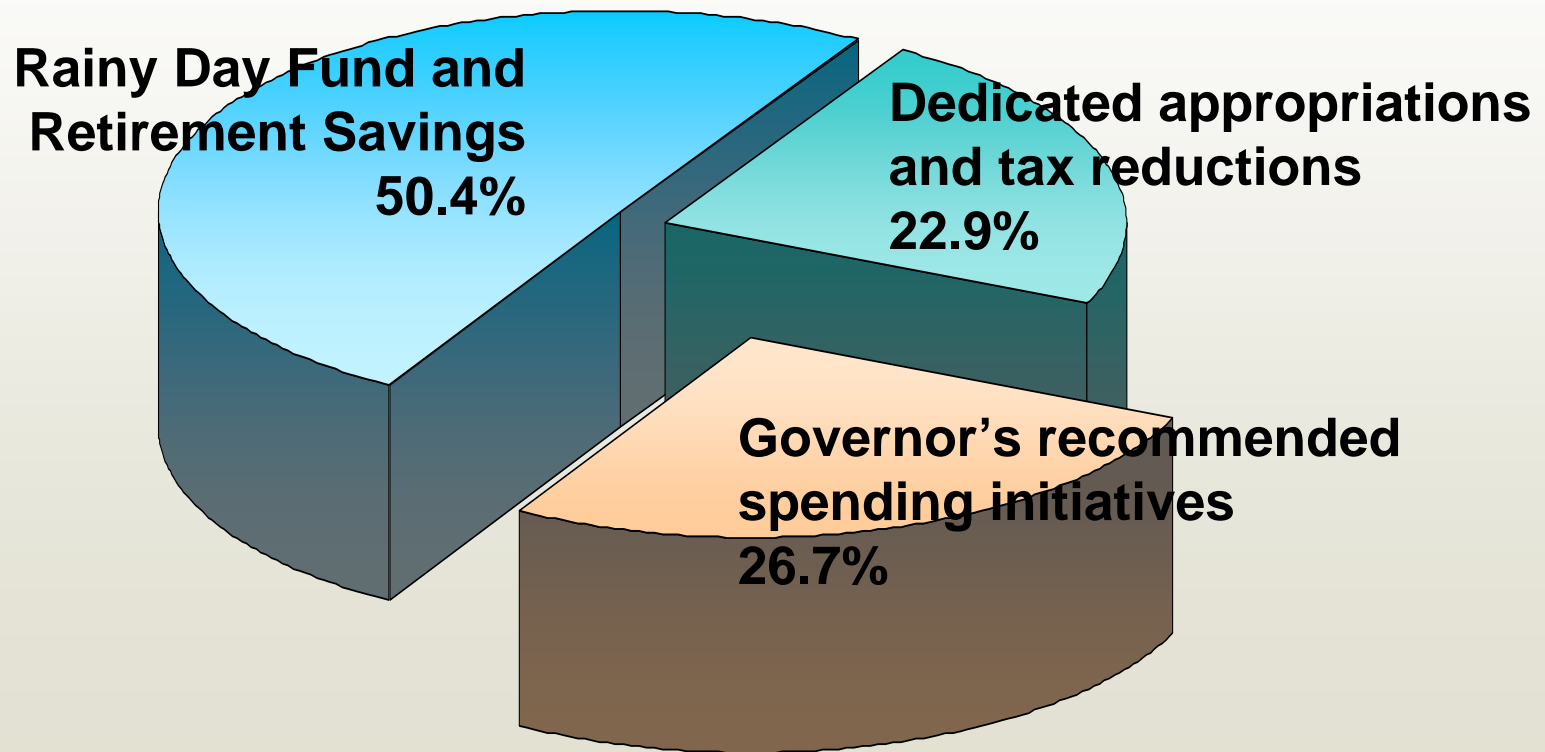
YOUR MONEY YOUR PRIORITIES

On Thursday, November 2, 2006 Governor Ernie Fletcher announced that General Fund revenue for the current fiscal year is coming in higher than

Summary of initiatives by subject

	Funds	
	Recommended	% of Total
Fiscal Responsibility	\$ 202,257,500	50%
Health and Family Services	\$ 42,422,900	11%
Economic and Community Development	\$ 32,687,700	8%
Education	\$ 32,500,000	8%
Other Initiatives	\$ 22,849,000	6%
Statutory Requirements	\$ 68,474,800	17%
Total	\$ 401,191,900	100%

Summary of initiatives by fund use



Projected FY07 year-end balance

Rainy Day Fund	383.2 m
Revenue Surplus	231.9 m
Other	<u>213.5 m</u>
Total	827.6 m

Fiscal responsibility



Fiscal responsibility

- ✓ **Deposit \$152 m to Budget Reserve Trust Fund**

To stabilize our credit rating, protect our citizens and provide funding for major new initiatives

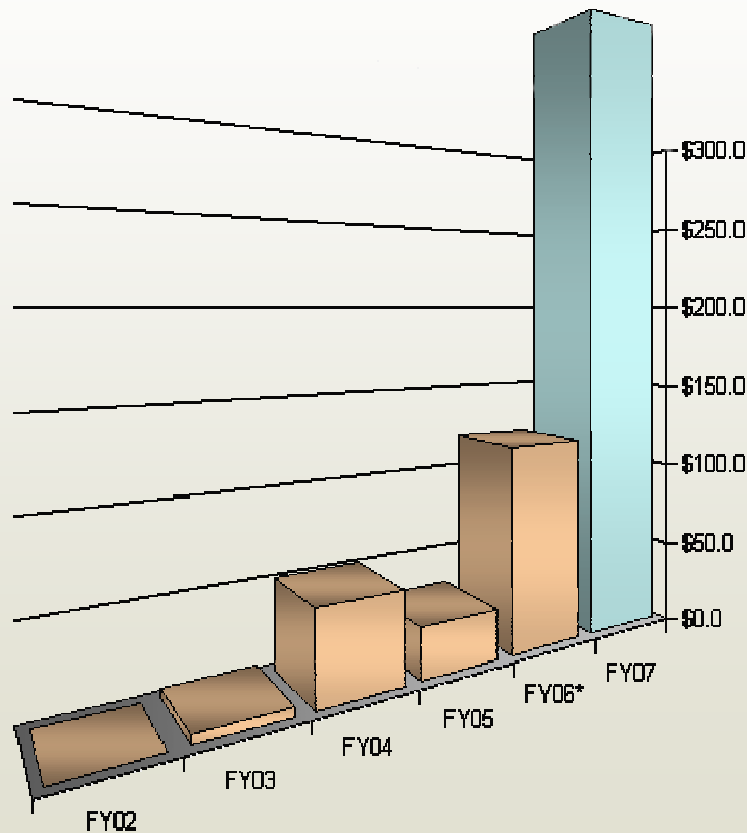
- ✓ **Contribute \$50 m to retirement systems**

To ensure that Kentucky can satisfy its legal and moral obligations to state employees and teachers

- ✓ **Increase telecom 'hold harmless' fund**

To compensate local governments, in the correct amount, for the repeal of certain property tax capabilities

Deposit \$152 m to Budget Reserve Trust Fund



Proposed deposit (\$152 m) will be largest in state's history

Will increase balance to \$383 m, more than 50% higher than any previous balance in history

Governor's deposit last summer (\$112.5 million) was then largest in state's history

Rainy day fund must occasionally be drawn down to avoid disruption of essential services

Deposit \$152 m to Budget Reserve Trust Fund

Proposal: Deposit \$151.8 million of the projected surplus revenue to the BRTF, or Rainy Day Fund.

Fiscal Impact:		<u>FY 07</u>	<u>FY 08</u>
	General Fund	\$151,757,500	\$0

Background: The balance of the BRTF when Governor Fletcher took office was \$5 million. The current balance of the BRTF is \$231.5 million, representing 2.8% of General Fund revenues. The recommended and target amount for Kentucky is 5% of revenues, a goal that has never been reached. This deposit would bring the balance to 4.5% of revenues, the highest level in history.

The purpose of the BRTF is to shield the budget from the impacts of economic downturns and unforeseen emergencies on the expenditure side. Governor Fletcher dedicated \$112 million to the BRTF from the FY 06 budget surplus, the largest deposit in the fund's history.

Contribute \$50 m to retirement systems

Proposal: Provide cash infusion to the Kentucky Employees Retirement System (KERS) and the Kentucky Teachers' Retirement System (KTRS) to help reduce the unfunded liabilities of the health insurance programs of the systems.

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$50,000,000	\$0

Background: The pension and medical insurance funds of both the KTRS and the KERS have significant documented unfunded liabilities which have grown in recent years due to increased health insurance costs, lower than expected investment returns, and inadequate employer contributions. Required changes in accounting methods have also resulted in additional increased medical costs being added to the unfunded liabilities of the systems.

\$25 million is recommended for the health insurance portion of each of the two systems.

On February 5, 2007 Governor Fletcher created a Blue Ribbon Commission on Public Employees Retirement Systems to study methods to address the current unfunded liabilities to fulfill the commitments to current retirees and employees and to ensure appropriate levels of benefits for future employees.

Increase telecom 'hold harmless' fund

Proposal: Increase General Fund allocations of state tax revenue collected from telecommunications companies to local governments to hold them harmless to amounts previously collected under the old tax structure.

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$1,698,000	\$6,792,000

Background: The Tax Modernization bill enacted in 2005 included a reform of how state and local taxes are collected on telecommunications companies. Local public service property taxes and franchise fees were replaced with a state-level tax, designed to generate a minimum return to the local jurisdictions equal to their existing revenue streams. Upon implementation of the bill, the "hold harmless amount" in the statute was, on average, only 84% of the amount needed to honor the pledge made to assure the local jurisdictions that they would not lose revenue under the new structure. The additional annual cost of honoring the "hold harmless" pledge is \$6.9 million. This includes additional funds for 42 communities that increased franchise fees after the effective date of the Tax Modernization bill.

Urgency



Urgency

- ✓ **Enact Boni Frederick social worker safety bill**
To ensure the safety of state employees and attract qualified applicants to these positions
- ✓ **Purchase antiviral for pandemic influenza**
To avoid suffering and death among Kentuckians in the event of a pandemic
- ✓ **Provide training for Ford employees**
To equip Ford employees with needed skills at a time of challenging economic conditions
- ✓ **Authorize HPV vaccine against cervical cancer**
To provide voluntary protection for girls and young women against potentially fatal disease

Enact Boni Frederick social worker safety bill

Proposal: Improve the safety of front-line social services workers and improving the quality of services provided by adding front-line staff; establishing visitation centers; contracting with parent advocates for paraprofessional support; providing GPS technology providing access to immediate emergency assistance; enhancing safety measures at local offices; and providing immediate criminal record access.

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$1,905,300	\$18,963,200

Background: A social service aide was murdered in October 2006 while conducting a home visit with a birth mother. This tragic incident provoked a thorough review of the whole child welfare system in Kentucky to determine how to provide a safer environment for staff and children in care. The proposals highlighted in the Boni Frederick Memorial Safety Bill will establish a stronger culture of safety and will also provide better and quicker outcomes for the children served.

Purchase antiviral for pandemic influenza

Proposal: Purchase antiviral drugs to prepare for a possible pandemic influenza event.

Fiscal Impact:		<u>FY 07</u>	<u>FY 08</u>
	General Fund	\$2,912,400	\$2,912,300

Background: If a pandemic influenza occurs, the need for antiviral drugs would likely be inadequate early in a pandemic. The Centers for Disease Control and Prevention have strongly urged each state to stockpile antiviral drugs to prepare for a possible pandemic influenza event.

At least 36 states are ahead of Kentucky in their supplies of antiviral drugs. The Federal Government offers a 25% subsidy toward the purchase of the recommended antiviral drugs (Tamiflu and Relenza) for the Strategic National Stockpile (SNS).

This appropriation coupled with available federal funding will allow Kentucky to meet the federally recommended level of pandemic influenza preparedness.

Authorize HPV vaccine against cervical cancer

Proposal: Make available a new vaccine to uninsured females that can prevent them from becoming infected with a virus that causes certain types of cervical cancer.

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$ 4,116,000

Background: Kentucky has the **12th highest cervical cancer rate** in the U.S. and the **2nd highest cervical cancer death rate** in the U.S.

Each year 223 women are diagnosed with cervical cancer and 54 women die every year of cervical cancer.

This funding will enable the state to provide vaccine for approximately 14,000 uninsured females, age 9-26, at no cost to them.

Vaccines will be **voluntary**.

Vaccine will also be provided to Medicaid eligible females as well using current budget dollars.

Provide training for Ford employees

Proposal: Additional funding to the Cabinet for Economic Development to be used to support worker training programs at the two Ford Motor Company facilities in Jefferson County.

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$10,000,000

Background: Ford Motor Company’s two manufacturing plants in Jefferson County - the Louisville Assembly Plant (LAP) and Kentucky Truck Plant (KTP) – currently employ over 8,000 workers. Ongoing corporate programs to reduce workforce levels through early retirement are expected to lower total hourly employment by the end of 2007. The addition of new vehicle model work is projected to raise total hourly jobs by a modest number by 2010. This planned reduction of employment will result in multiple reassignments of new job duties among remaining employees. The training of Ford employees for these new and changing job duties is essential to the long-term presence of these jobs in Kentucky.

Both short and long term on-the-job training needs have been identified for both plants, with a total projected cost of \$20.1 million. These training efforts do not include additional training that Ford expects to undertake at both plants over a 5-year period, at a total estimated cost of \$89.4 million.

**Unforeseen
Circumstances**



Unforeseen circumstances

- ✓ **Create Military Pay Exemption**

To honor the men and women who have defended our country

- ✓ **Authorize projects for World Equestrian Games**

To prepare the Horse Park to host the World Equestrian Games

- ✓ **Fund the Human Rights Commission**

To implement Blue Ribbon Commissions' recommendations

- ✓ **Fund the Kentucky Horse Racing Authority**

To facilitate important regulatory and investigative functions

- ✓ **Make Needed Budget Adjustments**

To conform the budgets of five agencies to fiscal conditions

Create Military Pay Exemption

Proposal: Exempt all military pay received by active duty members of the Armed Forces of the United States, reserve components of the Armed Forces of the United States, and the Kentucky National Guard, including compensation for state active duty as described in KRS 38.205 from state income tax.

Fiscal Impact:		<u>FY 07</u>	<u>FY 08</u>
	General Fund tax impact	\$0	\$8,600,000*

*(half year tax impact)

Background: Approximately 10,700 Kentuckians are serving in an active duty capacity in the Armed Forces of the United States, and another approximately 12,700 are serving in the reserve components and the Kentucky National Guard. The proposed tax exemption would, on average, result in tax savings to active duty members of over \$950, and to reserve members of over \$450 per year.

Authorize projects for World Equestrian Games

Proposal: Invest in additional capital improvements to the Kentucky Horse Park to host the 2010 Alltech FEI World Equestrian Games

Fiscal Impact:

	<u>FY 07</u>	<u>FY 08</u>
Bond Funds	\$28,000,000	\$0
Road Fund		\$10,285,000

Background:

Outdoor Stadium - This \$24 million stadium will have 10,000 permanent seats and have the capability of being expanded up to 30,000 seats utilizing temporary structures.

Indoor Arena Enhancement - The \$4 million in enhancements needed, beyond that which was anticipated in the 2006 session, are lighting, acoustical roof decking for superior sound quality and sufficient exhibit/conference space to accommodate the 2010 Games and large trade fairs that accompany major equine events.

Roadway Improvements - An additional \$10.3 million of roadway improvements are recommended in FY 08 from additional Road Funds.

Fund the Human Rights Commission

Proposal: In support of the Governor's Blue Ribbon Panel that studied the Commission on Human Rights, provide additional funding to add staff sufficient to meet the mission of the Commission.

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$220,000	\$300,000

Background: The Kentucky Commission on Human Rights is required to encourage fair treatment for, to foster mutual understanding and respect among, and to discourage discrimination against any racial or ethnic group or its members' treatment.

Governor Fletcher established the Blue Ribbon Panel to study the Kentucky Commission on Human Rights by Executive Order in March of 2005. The Panel found that the staffing level of the Commission was inadequate to meet its mission and made several recommendations to improve the effectiveness and efficiency of the agency. The Panel recommended adding staff to decrease the backlog of open cases and effectively carry out its mission. The Commission has begun phasing in the additional staff who will receive, consult, and enforce discrimination cases to fulfill the needs of complainants in a timely manner, and enable the Commission to be in compliance with Federal Regulations.

Fund the Kentucky Horse Racing Authority

Proposal: Increase funding to meet statutory requirements

Fiscal Impact:		<u>FY 07</u>	<u>FY 08</u>
	General Fund	\$0	\$ 1,200,000

Background: A higher level of service by the Kentucky Horse Racing Authority is required by Kentucky's laws, racing industry, racetracks, and the public. This fact has become apparent after the Authority conducted a self-examination of its operations and is supported by a management and financial audit conducted by the Auditor of Public Accounts performed at the direction of the General Assembly.

Among the areas targeted for attention: improved drug testing and veterinary services; increased vigilance over the criminal history background checks of licensees; independent assurance of pari-mutuel wagers and racetrack tote operations; and improved financial monitoring and oversight. Additional staffing is necessary to address these areas, and enable the Authority to provide the oversight required by KRS Chapter 230.

Make Needed Budget Adjustments

Proposal: Reallocate FY 07 General Fund appropriations to address urgent and unforeseen cost increases in a limited number of state agencies.

Fiscal Impact:

	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0*	\$0

*Increase of \$23,032,000 for five agencies and decrease of \$23,032,000 from Finance and Administration Cabinet debt service appropriation unit resulting mainly from the timing of debt issuances for 2005 Session bond projects.

Background:

Several state agencies have experienced significant cost increases in the areas of health care, fuels, utilities, and the loss of revenues. The agencies include the Department of Corrections, the State Police, the Department of Juvenile Justice, the Department of Parks, and the Department of Veterans' Affairs.

Existing resources are available to address these issues without utilizing the additional revenues forecasted by the Consensus Forecasting Group.

**Accelerate
existing policy
goals**



Accelerate existing policy goals

- ✓ **Increase need-based aid by \$25 million**

To keep Kentucky on track to its 2020 goal

- ✓ **Support Kentucky's veterans**

To ensure essential care for veterans of all ages

- ✓ **Increase support to vulnerable children**

To provide financial support for private childcare providers

Accelerate existing policy goals

- ✓ **Expand the Math Achievement Fund**

To extend its encouragement to more Kentucky students

- ✓ **Advance Kentucky's E-Health initiative**

To improve quality and access to medical information

- ✓ **Sponsor the Ryder Cup Tournament**

To showcase Kentucky to worldwide audience

- ✓ **Fund the drug interdiction initiative**

To rid Kentucky communities of dangerous drugs

Increase need-based aid by \$25 million

Proposal: Increase funding for and expand need-based student financial aid programs

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$25,000,000

Background: There is a waiting list of over 30,000 Kentuckians who are eligible for need-based state student financial aid, have applied, but due to lack of funds will not receive state aid. Adding \$20 million to the CAP and KTG programs will provide need-based student financial aid to an additional 11,800 Kentuckians, about 2,400 of whom would not have otherwise enrolled.

Expanding Eligibility of Need-based Student Aid Programs for Adult Part-Time Students: There are no need-based student aid programs for adult, part-time students (less than half-time) funded by the Commonwealth. This proposal will expand eligibility to adults, age 24 or older with at least 15 credit hours already achieved, but have not yet attained a bachelor's degree. Aid will be available for those taking as little as three credit hours. At a \$5 million funding level, this program will provide assistance to about 5,000 to 9,000 recipients, depending upon the number of credit hours taken.

Support Kentucky's veterans

Proposal: Capitalize the Veterans Personal Loan Program, provide funding for Veterans Preference Staff, establish a Conservator Program and fund the expansion of West KY Veterans Center in Hanson (Hopkins County)

Fiscal Impact:		<u>FY 07</u>	<u>FY 08</u>
	General Fund budgetary impact	\$0	\$2,831,100

Background:

Personal Loan Program: \$2.5 million is provided to capitalize the loan program created by the 2006 General Assembly.

Veterans Preference Personnel: This staff position will assist the Personnel Cabinet in assuring and facilitating compliance with the state merit system's veterans preference requirements.

Conservator Program: This program allows the Department to serve as conservator for any veteran who does not have a close relative or friend capable and willing to properly administer the veteran's financial affairs.

Expansion of West KY Veterans' Center: \$1.8 million was provided in the enacted budget for the state match to add a 40-bed wing to the WKVC. \$4.3 million in bonds are recommended to complete the project which will partially be reimbursed from Federal funds in the future.

Increase support to vulnerable children

Proposal: Increase payments to private child care providers for vulnerable children.

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$7,500,000

Background: This funding will ensure a growing number of at-risk children continue to receive the intensive services they need.

Many rates for the Private Child Caring Providers have not been increased since July 1, 2000. This proposal, in addition to the \$3/day increase enacted by the 2006 General Assembly, will establish new rates that are commensurate with the cost of the services being provided.

CHFS will use a portion of the funding to create specialized programs to address more intensive care needs for vulnerable children.

This \$7.5 million General Fund commitment will match approximately \$2.6 million in Federal Funds from the Title IV-E Foster Care grant and \$6.3 million in Restricted Funds from Medicaid Services for a total program increase of \$16.4 million.

This will assist CHFS and its partners with providing greater permanency in placements.

Expand the Math Achievement Fund

Proposal: Increase Mathematics Achievement Fund Grants to Schools

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$7,000,000

Background: In accordance with legislation passed by the 2005 General Assembly, the Mathematics Achievement Fund was created to provide developmentally appropriate diagnostic assessment and intervention services to students, primary through grade twelve, to help them reach proficiency in mathematics. The use of funds may include: pay for extended time for teachers, released time for teachers to serve as coaches and mentors or to carry out other responsibilities needed in the implementation of intervention services, payment of substitute teachers needed for the support of mathematics teachers, purchase of materials needed for modification of instruction, and other costs associated with diagnostic and intervention services or to cover other costs deemed appropriate by the Kentucky Board of Education.

Funding in the enacted budget provides grant funds for approximately 85 schools by the 2007 – 2008 school year. This additional funding could support grants for approximately 105 additional schools.

Advance Kentucky's E-Health initiative

Proposal: Develop basic infrastructure for a statewide e-Health Network in Kentucky and support public-private partnerships initiated by the Kentucky e-Health Network Board

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$ 4,113,700

Background: Funding would bring lower cost, higher quality health care to Kentucky families.

Health care is the only industry of its size that is still dominated by paper; the greater use of technology would improve the quality and efficiency of health care and improve health outcomes.

Funding will go to:

- 1) support **development of a statewide Web portal for providers and enable the exchange of health information;**
- 2) Provide **grant funding to promote the use of electronic medical records by physicians and hospitals;** and
- 3) Provide **additional funding for the Kentucky e-Health Network Board** to perform a statewide e-Health survey, hold state and regional meetings, and other projects.

Sponsor the Ryder Cup Tournament

Proposal: Required Sponsorship Expenses

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$ 1,300,000

Background: The Professional Golfers Association of America (PGA) has picked Louisville, Kentucky's Valhalla Golf Club to be host to the 2008 Ryder Cup. This is an international competition with the best golfers from America competing against the best golfers from Europe. The Governor named a 16-member panel to make sure the state is fully engaged in making the tournament a success. This panel worked with the PGA on a first time ever state sponsorship for the event. To commit the Commonwealth to required sponsorship expenses in a timely manner, the funding needs to be secured in the 2007 legislative session. The Commonwealth will receive a number of high value items from the PGA that can be used to market the state to existing or new business. The economic impact of the Ryder Cup has been estimated at \$115 million for the 5 day event. This is a unique opportunity to market KY to an estimated 500 million worldwide television audience, the 210,000 on-site spectators, and 1,500 expected international journalists.

Fund the drug interdiction initiative

Proposal:

The Justice and Public Safety Cabinet will coordinate a collaborative effort among the Office of Drug Control Policy, Kentucky Vehicle Enforcement, Kentucky State Police, and various local and federal agencies to implement a plan for intercepting drugs, apprehending those who traffic, and keeping a significant volume of drugs from reaching the citizens of Kentucky and being transported through the Commonwealth.

Fiscal Impact:

	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$2,600,000

Background:

Multiple law enforcement agencies and officials will direct interdiction activities of all criminal activity on Kentucky highways, with local and federal partners. The initiative will reduce the drug supply and identify and disrupt Drug Trafficking Organizations with the interception of controlled substance / currency transported by couriers traveling into and through Kentucky. This type of collaboration has been successfully utilized by the Office of National Drug Control Policy through High Intensity Drug Trafficking Area programs across the nation. All initiatives will include a local, state, and federal prosecution component. The funding will provide the required staffing, training and equipment for the agencies involved in the effort.

**Economic
development**



Fund Lincoln Bicentennial and Ryder Cup Exhibits

Proposal: Provide \$626,000 General Fund in Fiscal Year 2008 to the Kentucky Historical Society to support the Abraham Lincoln Bicentennial Programs and exhibits for the 2008 Ryder Cup.

Fiscal Impact:	<u>FY 07</u>	<u>FY 08</u>
General Fund	\$0	\$626,000

Background: The Frazier International History Museum in Louisville serves the Commonwealth as a nationally acclaimed historical arms museum. \$583,000 of General Fund support would aid two programs in conjunction with the national celebration for the Bicentennial of Abraham Lincoln's birth. A touring production entitled, "*Abraham Lincoln: A Kentucky Memory*," would be supported. In addition, an innovative exhibit entitled, "*Liberty on the Border*," focuses on the concept of physical, cultural, and ideological borders experienced in the Civil War.

\$43,000 of General Fund support would produce an exhibit in conjunction with the 37th Ryder Cup to be hosted in Louisville. Following tradition, memorabilia from the 1929 Ryder cup will be showcased; and in cooperation with the Royal Armories, display artifacts and other memorabilia from Leeds and England.

Authorize high-tech investment

Proposal: Funding for Small Business Innovation Research and the High-Tech Investment/Construction Pools

Fiscal Impact:		<u>FY 07</u>	<u>FY 08</u>
	General Fund	\$2,000,000	\$5,000,000

Background: The 2006-2008 budget for the Economic Development Cabinet's New Economy-Commercialization and Innovation programs included funding for a unique program that matches awards made to Kentucky firms through the Federal government's Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) initiatives. The Cabinet reports that the program has been so successful that 100% of the \$2 million in funding appropriated for Phase I grants in FY 2007 has already been claimed. An additional \$2 million will enable the Cabinet to award additional Phase I grants in FY 07, and another \$2 million for Phase II grants in FY 08. The Phase II funds would be in addition to the \$4.3 million that was appropriated in the enacted budget.

An additional \$3 million is provided in FY 08 for the High-Tech Investment/Construction Pools which are used to build technology-driven industries, and finance projects with a special emphasis on creating high technology jobs.

Fund work of Area Development Districts

Proposal: Increase funding by \$1,500,000

Fiscal Impact:		<u>FY 07</u>	<u>FY 08</u>
	General Fund	\$0	\$1,500,000

Background: The fifteen Area Development Districts (ADD's) have performed their services with limited resources. Within the Commonwealth's current budget is approximately \$3 million that is distributed among the Area Development Districts to provide financial support. The ADD's use these state funds to promote community and economic development across the Commonwealth. This increase will provide additional support for administration of the Area Development Districts.

Advance Kentucky's energy goals

Proposal:

A comprehensive package of energy initiatives to build upon the Governor's Comprehensive Energy Strategy.

A combination of tax credits and inducements for the generation of energy with new technologies, use of Kentucky coal, construction of new industrial energy facilities, and generation of power with alternative energy sources is proposed. In addition, consumer tax credits are proposed to mirror and build on current federal tax credits adopted in the "EPAact" of 2005. Streamlined permitting, the ability to provide access to the bond market for energy projects, the development of a site bank, and incentives for ethanol production are also features of the proposal.

Expand Truck Driving Entrepreneurship

Proposal: Funding to continue/expand the truck driving entrepreneurship program at Jefferson Community and Technical College

Fiscal Impact:		<u>FY 07</u>	<u>FY 08</u>
	General Fund	\$0	\$971,200

Background: The KCTCS-Jefferson Community and Technical College (JCTC) received \$619,317 in July, 2006 from the Department of Workforce Investment from the Workforce Investment Act set-aside funds, to start a training program to prepare students to obtain a Commercial Drivers License. The purpose of the truck driving program is to offer career training, entrepreneurship education, job opportunities, and financial independence to individuals in at-risk communities in Louisville.

The program is an 8-week class and JCTC began with 40 students (5 classes of 8 students). In addition to the skills training, the JCTC truck driving program also offers job placement services and entrepreneurial training to any interested student. This funding would be sufficient to both continue the program and double the number of students participating from 40 to 80.

Capital projects



Restore the vetoed projects

- **With the improved revenue forecast, vetoed projects are now recommended for funding.**
- **In consultation with Presidents of the Universities, project adjustments have been made to accommodate changed circumstances within approximately the same funding levels.**

Restore the vetoed General Fund projects

<u>Agency</u>	<u>Project</u>	<u>Vetoed Amounts</u>	<u>Recommended Amounts</u>
GOLD	The Louisville Zoo- Glacier Run	\$6,000,000	\$6,000,000
Agriculture	Animal Shelters	\$2,500,000	\$2,500,000
Ky River Authority	Kentucky River Locks and Dams Maintenance and Renovations	\$17,500,000	\$17,500,000
Parks	Parks Renovation Pool	\$8,000,000	\$8,000,000
Fair Board	Upgrade HVAC Systems	\$2,000,000	\$2,000,000
Dept. of Education	On-Line Assessment	\$15,000,000	\$15,000,000
Dept. of Education	Knowledge Management Portal	\$3,250,000	\$3,250,000
Community Based Svcs	Brooklawn Child and Family Services	\$2,000,000	\$2,000,000
Council on Post. Ed.	Capital Renewal and Maintenance Pool	\$13,927,000	\$13,927,000
Council on Post. Ed.	Information Technology and Equipment Acquisitions	\$10,000,000	\$10,000,000
Council on Post. Ed.	Research Support/Lab Renovation & Equipment	\$6,000,000	\$6,000,000
Eastern Ky. Univ.	EKU-UK Dairy Research Project-(Meadowbrook Farm)	\$5,300,000	\$5,300,000
Ky. State Univ.	Expand and Renovate Betty White Nursing Building	\$4,900,000	\$4,900,000
Morehead State	Construct Business Continuance Datacenter	\$2,500,000	\$2,500,000
University of Ky.	Expand and Upgrade Livestock Disease Diagnostic Center-Phase II	\$13,500,000	\$13,500,000
Western Ky. Univ.	Renovate Science Campus-Phase III	\$9,000,000	\$9,000,000
Western Ky. Univ.	Construct Materials Characterization Center/ICSET-Ph II	\$4,500,000	\$4,500,000
Western Ky. Univ.	Replace Building Ford College of Business-Grise Hall Phase I	\$5,800,000	\$5,800,000
KCTCS	Cynthiana-Licking Valley Campus-Phase II-Maysville CTC	\$1,000,000	\$1,000,000
KCTCS	Energy and Advanced Technology Center-Madisonville CTC	\$4,000,000	\$4,000,000
KCTCS	Construct Carrollton Campus-Jefferson CTC	\$12,000,000	\$12,000,000
KCTCS	Rowan County Campus-Planning and Design	\$1,500,000	\$1,500,000
KCTCS	Expansion of Owensboro CTC	\$14,055,000	\$14,055,000
GOLD-Comm. Dev.	Lake Malone State Park-Park Improvements	\$200,000	\$200,000
GOLD-Comm. Dev.	Pike County Fiscal Court-Pikeville Medical Center-Planning,	\$1,500,000	\$1,500,000
Total		\$165,932,000	\$165,932,000

Restore the vetoed agency fund projects

<u>Agency</u>	<u>Project</u>	<u>Vetoed Amounts</u>	<u>Recommended Amounts</u>
Eastern Ky. Univ.	Construct New Student Housing	\$10,520,000	\$10,520,000
Ky. State Univ.	Construct Parking Structure	\$7,000,000	\$7,000,000
Morehead State	Construct Student Recreation Center	\$17,000,000	\$17,000,000
Morehead State	Renovate Student Housing Facilities	\$10,000,000	\$10,000,000
Murray State	Replace Franklin Hall	\$13,077,000	\$13,077,000
Murray State	Renovate Curris Center T-Room	\$750,000	\$750,000
Northern Ky. Univ.	Acquire and Renovate New Residence Halls	\$23,000,000	\$23,500,000
Northern Ky. Univ.	Expand Norse Commons	\$1,400,000	\$0
University of Ky.	Renovate Blazer Hall Cafeteria	\$3,010,000	\$3,010,000
University of Ky.	Install HVAC-Keeneland Hall	\$7,013,000	\$0
University of Ky.	Existing Dorm Upgrades for Housing	\$0	\$7,013,000
University of Louisville	Construct HSC Parking Structure II	\$26,113,000	\$28,500,000
University of Louisville	Construct Basketball Practice Facility-Phase II	\$16,140,000	\$0
University of Louisville	Renovate Medical Dental Research Building-Phase IV	\$19,800,000	\$0
University of Louisville	Construct Health Sciences Center Research Facility-Phase III- Additional	\$0	\$15,800,000
University of Louisville	Renovate Miller Hall	\$11,541,000	\$11,541,000
Western Ky. Univ.	Expand Preston Center	\$10,000,000	\$10,000,000
Western Ky. Univ.	Acquire Property & Construct Parking Lots	\$4,000,000	\$4,000,000
Western Ky. Univ.	Van Meter Hall Renovation	\$16,000,000	\$16,000,000
Western Ky. Univ.	Ivan Wilson Fine Arts Center Expansion	\$8,000,000	\$8,000,000
Total		\$204,364,000	\$185,711,000

Authorize new capital projects

- **Limited number of new projects considered**
- **Focus on economic development and community development**
- **After the 2006 Session and the Governor's vetoes, debt service as a percent of revenue was 6.79%. With the addition of another \$439,192,000 in recommended bond appropriations, updated revenue estimates, and taking into account debt issuances since the 2006 Session, debt service as a percent of revenue is 6.75% for the Governor's recommendation to the 2007 Session.**

Authorize new General Fund projects

Agency	Project	Bond Amount
Kentucky Horse Park	Outdoor Stadium	\$24,000,000
Kentucky Horse Park	Indoor Arena-Additional Funding	\$4,000,000
Murray State University	Planning and Design of New Breathitt Veterinary Center - Hopkinsville	\$1,000,000
Veterans Affairs	Western Ky Veterans' Nursing Home- Alzheimer's/General Care Unit Expansion- Additional to \$1,757,000 already appropriated	\$4,249,000
Kentucky Infrastructure Authority	Fund B Loan Program	\$25,000,000
Economic Development	Economic Development Bonds	\$10,000,000
GOLD	Community Economic Growth Program	\$20,000,000
GOLD	Muhammad Ali Center	\$3,000,000
Total		<hr/> \$91,249,000

Authorize new agency fund projects

<u>Agency</u>	<u>Project</u>	<u>Bond Amount</u>
Military Affairs	Bluegrass Station Infrastructure Improvements	\$4,100,000
Military Affairs	Bluegrass Station-New Warehouse	\$1,800,000
Ky River Authority*	Kentucky River Locks and Dams Maintenance and Renovations Pool	(\$9,600,000)
Total		<u>(\$3,700,000)</u>

Note: The Kentucky River Authority does not need all of the previously appropriated Agency Bond funds once the \$17.5 million General Fund supported bond project is restored, to renovate Dams 3 and 9, and Locks 3 and 4.



Fiscal initiatives for 2007 legislative session

Governor Ernie Fletcher

February 13, 2007