

2004 - 2006 BUDGET of the COMMONWEALTH

Ernie Fletcher
Governor

Bradford L. Cowgill
State Budget Director



Budget in Brief
2005 REGULAR SESSION

2004-2006 BUDGET OF THE COMMONWEALTH

ERNIE FLETCHER
GOVERNOR

BRADFORD L. COWGILL
STATE BUDGET DIRECTOR

STAN CAVE
CHIEF OF STAFF

R.B. RUDOLPH, JR.
SECRETARY OF THE FINANCE
AND ADMINISTRATION CABINET



PREFACE

The Budget of the Commonwealth for the 2004-2006 biennium is the financial plan for Kentucky State Government as enacted by the Regular Session of the 2005 General Assembly. It is published by the Office of the State Budget Director, Governor's Office for Policy and Management in accordance with KRS Chapter 48.

The 2004-2006 budget is presented in four volumes:

- **Volume I:** State agency program budget detail
- **Volume II:** Capital projects
- **Budget in Brief:** Budget overview and summary data
- **JOBS:** Jobs and Opportunity Bipartisan Solution for Kentucky

These documents provide the detail to support the budget in legislative form as presented in the budget bill.

ACKNOWLEDGMENTS

OFFICE OF STATE BUDGET DIRECTOR	
Bradford L. Cowgill	State Budget Director
GOVERNOR'S OFFICE FOR POLICY AND MANAGEMENT	
William H. Hintze, Jr.	Deputy State Budget Director
Beth Jurek	Deputy State Budget Director
Carla Blanton	Communications Director
Kyle Bosh	Intern
Tammy Broyles	Internal Policy Analyst
Mark Coleman	Policy and Budget Analyst
Colyer, Donna	Administrative Specialist
Farris, Christina	Policy and Budget Analyst
Ryan Green	Policy and Budget Analyst
Mike Grisham	Network Analyst
Terry Haines	Technology and Budget Analyst
Donna Hammond	Executive Secretary
Diane Hancock	Policy and Budget Analyst
Traci Hedrick	Receptionist
John Hicks	Policy and Budget Analyst
Allen Holt	Policy and Budget Analyst
Kim Link	Policy and Budget Analyst
Kathi Marshall	Policy and Budget Analyst
Jim McWilliams	Policy and Budget Analyst
Marty Miller	Administrative Specialist
Jeanie Perry	Internal Policy Analyst
Geoff Pinkerton	Policy and Budget Analyst
Sharon Presley	Administrative Specialist
Susan Raisor	Administrative Secretary
Janet Rivers	Executive Staff Advisor
Bob Shimer	Policy and Budget Analyst
Jonathan Thompson	Policy and Budget Analyst
Janice Tomes	Policy and Budget Analyst
Larissa Watson	Administrative Specialist
Rachelle Wilkins	Programmer Analyst
Lori Woodside	Policy and Budget Analyst
GOVERNOR'S OFFICE FOR ECONOMIC ANALYSIS	
Bob Cox	Deputy Executive Director
Martha Armstrong	Internal Policy Analyst
Jennifer Hays	Financial Investment and Forecasting Program Specialist
Thomas Jones	Financial Investment and Forecasting Program Specialist
Manoj Shanker	Financial Investment and Forecasting Program Specialist
Gene Brown-Zaparanick	Financial Investment and Forecasting Program Analyst
GOVERNOR'S OFFICE FOR POLICY RESEARCH	
Mary Lassiter	Deputy Executive Director
Greg Harkenrider	Policy Research Consultant
Michael Jones	Policy Research Consultant
Chuck Martie	Policy Research Consultant

TABLE OF CONTENTS

	<u>PAGE</u>
Overview of House Bill 267	1
2004-2006 Budget Summary of the General Fund	3
2004-2006 Budget Summary of the Road Fund	4
General Fund Revenue Receipts.....	5
General Fund Expenditures	6
Tobacco Settlement – Phase I.....	7
Distribution of General Fund Appropriations.....	9
Distribution of All Funds Appropriations.....	10
Programs Funded by Lottery Receipts	11
Capital Construction Summary	12
Enacted Agency Bond and Bond Fund Capital Project Summary	15
Budget of the Commonwealth	
Commonwealth of Kentucky	23
Executive Branch	25
House Bill 267	27
House Bill 350	370
House Bill 497	380
Executive Order 2004-650	412
Executive Order 2004-1092	417
Executive Order 2004-1373	424
Legislative Budget	
Legislative Branch.....	430
House Bill 397	432
Judicial Budget	
Judicial Branch.....	438
House Bill 396	440
2004 First Extraordinary Session	
House Bill 1	448
Governor Fletcher’s 2005 State of the Commonwealth Address	481
Governor Fletcher’s 2004 Budget Address.....	493

OVERVIEW OF HOUSE BILL 267 AS ENACTED BY THE 2005 GENERAL ASSEMBLY

The Regular Session of the General Assembly convened in January 2005 with the primary focus of enacting a biennial budget. The 2004 Regular Session of the General Assembly adjourned in April of 2004, unable to agree on a budget for the Executive Branch. The Legislative Branch Budget, House Bill 397 and the Judicial Branch Budget, House Bill 396, were enacted during the 2004 Regular Session.

Governor Ernie Fletcher subsequently issued Executive Order 2004-650, the First Quarter Public Services Continuation Plan for fiscal year 2004-2005, in order to continue day-to-day operations of state government until the General Assembly reconvened to enact a biennial budget. This plan was followed by Executive Order 2004-1092, the Second Quarter Public Services Continuation Plan and Executive Order 2004-1373, the Third Quarter Public Services Continuation Plan. House Bill 395, the Executive Branch Appropriations Act as recommended by the Governor from the 2004 Regular Session, served as the basis for the expenditure limits contained in the Public Services Continuation Plans. House Bill 267, the Executive Branch Appropriations Act, enacted in the 2005 Regular Session superseded the quarterly Public Services Continuation Plans, effectively rendering them moot.

During the interim, the Governor called the General Assembly into special legislative session to consider the issue of public employee health insurance. The First Extraordinary Session of the General Assembly convened in October 2004. During the Special Session, the General Assembly enacted House Bill 1, which provided appropriations for employee health insurance, including an explicit subsidy for dependent coverage. Employee salary increases that had been included in the quarterly Public Services Continuation Plans for Executive Branch employees and the Support Education Excellence in Kentucky (SEEK) program budget were provided in House Bill 1 as well. Additionally, increased funding for employee health insurance was provided for Judicial Branch and Legislative Branch employees also.

Following is a summary of the major policy and budget framework contained in House Bill 267:

- Appropriations in fiscal year 2003-2004 were reduced by \$300 million from the appropriations enacted for fiscal year 2003-2004 by the 2003 General Assembly as a result of a projected revenue shortfall. General Fund Budget Reduction Order 04-01 was signed by Governor Fletcher on January 5, 2004. Additionally, a \$110 million Budget Stability Initiative was effected by the Fletcher administration further reducing fiscal year 2003-2004 spending thereby reserving the \$110 million in unspent resources for ongoing but unfunded services and programs in fiscal year 2004-2005 so as to prevent further, even more significant budget cuts in fiscal year 2004-2005. Fiscal year 2004-2005 appropriations were generally straight-lined off of the reduced fiscal year 2003-2004 appropriations. Certain priority areas were held harmless from these reductions such as the General Fund per pupil guarantee for K-12 as contained in the SEEK budget, Medicaid Benefits and certain elements of the criminal justice system.
- After several years of limited capital investment due to a stagnant economy, the capital budget provided for the largest investment in state infrastructure, capital investment, information technology modernization, and road and bridge work over a two year period in state history—totaling nearly \$2 billion in authorized spending.
- Agencies were directed to continue to implement cost saving measures in areas including state utility costs, printing, travel expenditures and cellular phones and electronic devices.
- Fund transfers totaling over \$345 million over the biennium (almost \$161 million in fiscal year 2004-2005 and \$184 million in Fiscal Year 2005-2006) were utilized to supplement General Fund revenues.



- In lieu of the statutory annual salary increment of five percent, a two percent pay increase was provided in fiscal year 2004-2005 with an additional one percent increase to base salary and wages of eligible state and school district employees on January 1, 2005. For fiscal year 2005-2006 an increment of three percent was provided for eligible state employees to be applied on the employee's anniversary date. A three percent pay increase was also provided for school district employees. Additionally, the enacted budget incorporated the provisions of House Bill 1 of the 2004 Extraordinary Session relating to salary and employee health insurance benefits.
- Special parts of House Bill 267 included permanent revenue-related provisions including revisions to the Motor Vehicle Usage Tax, Driver's License Fees, Sales and Use Tax, Motor Fuels Tax, Individual Income Tax and Property Tax Exemption Reciprocity. Additional parts of the bill permanently amended statutes related to the Kentucky Affordable Prepaid Tuition Program (KAPT), a data research initiative, Phase II Tobacco Settlement Payments, Tourism Development and the Tobacco Surtax for Cancer Research Institutions.

Two subsequently enacted bills by the 2005 General Assembly served to supplement and amend some provisions of House Bill 267. House Bill 350 included a provision that amended several fund transfers previously authorized in House Bill 267 as well as providing for funding of three capital projects. House Bill 497 included provisions that amended language in House Bill 267 relating to funding of several capital construction projects, Enterprise Zone tax incentives, the term of state equalization for local school funding, the Tobacco Research Trust Fund and inter-local agreements with the Transportation Cabinet.

Finally, House Bill 267 was enacted in conjunction with, and depended upon the net fiscal impact of House Bill 272, the tax modernization bill offered by Governor Fletcher as his *JOBS for Kentucky* tax package. House Bill 272 included a broad range of tax changes which resulted in a revenue-neutral stream of state revenues as measured over a five year period. For the fiscal year 2005-2006, the tax modernization bill resulted in additional projected revenues of \$110 million which were appropriated in House Bill 267. For additional details on the enacted tax modernization provisions, see the volume entitled *JOBS for Kentucky*.

2004-2006 BUDGET SUMMARY OF THE GENERAL FUND

	Enacted FY 2005	Enacted FY 2006
RESOURCES		
Beginning Balance	249,475,100	254,576,300
Consensus Revenue Forecast	7,433,000,000	7,665,000,000
Tax Modernization		109,950,000
Tobacco Settlement - Phase I	108,800,000	108,600,000
Continuation of Revenue Measures		18,000,000
Other Resources	16,855,500	32,786,700
Fund Transfers	159,010,400	184,197,100
Total Revenues	7,967,141,000	8,373,110,100
 Continued Appropriations Reserve		
Budget Reserve Trust Fund	50,764,800	28,764,800
Tobacco Settlement - Phase I	41,289,000	5,252,400
Executive Branch	5,882,500	7,126,300
Legislative Branch	11,598,100	6,251,800
Judicial Branch	9,004,600	0
Total Continued Appropriations Reserve	118,539,000	47,395,300
 TOTAL RESOURCES	 8,085,680,000	 8,420,505,400
 APPROPRIATIONS		
Executive Branch:		
Regular Operating	7,340,894,600	7,995,294,800
Tobacco Settlement - Phase I	108,800,000	108,600,000
Special Bills	424,800	428,000
Budgeted Lapse	(15,074,800)	(14,500,000)
Capital Projects	38,325,000	6,140,700
Subtotal	7,473,369,600	8,095,963,500
 Judicial Branch	 220,255,700	 232,048,900
 Legislative Branch	 40,939,400	 41,370,500
 TOTAL APPROPRIATIONS	 7,734,564,700	 8,369,382,900
 BALANCE	 351,115,300	 51,122,500
 Continued Appropriations Reserve		
Budget Reserve Trust Fund	28,764,800	28,764,800
Tobacco Settlement - Phase I	41,289,000	5,252,400
Executive Branch	5,882,500	7,126,300
Legislative Branch	11,598,100	6,251,800
Judicial Branch	9,004,600	0
Total Continued Appropriations Reserve	96,539,000	47,395,300
 ENDING BALANCE	 254,576,300	 3,727,200

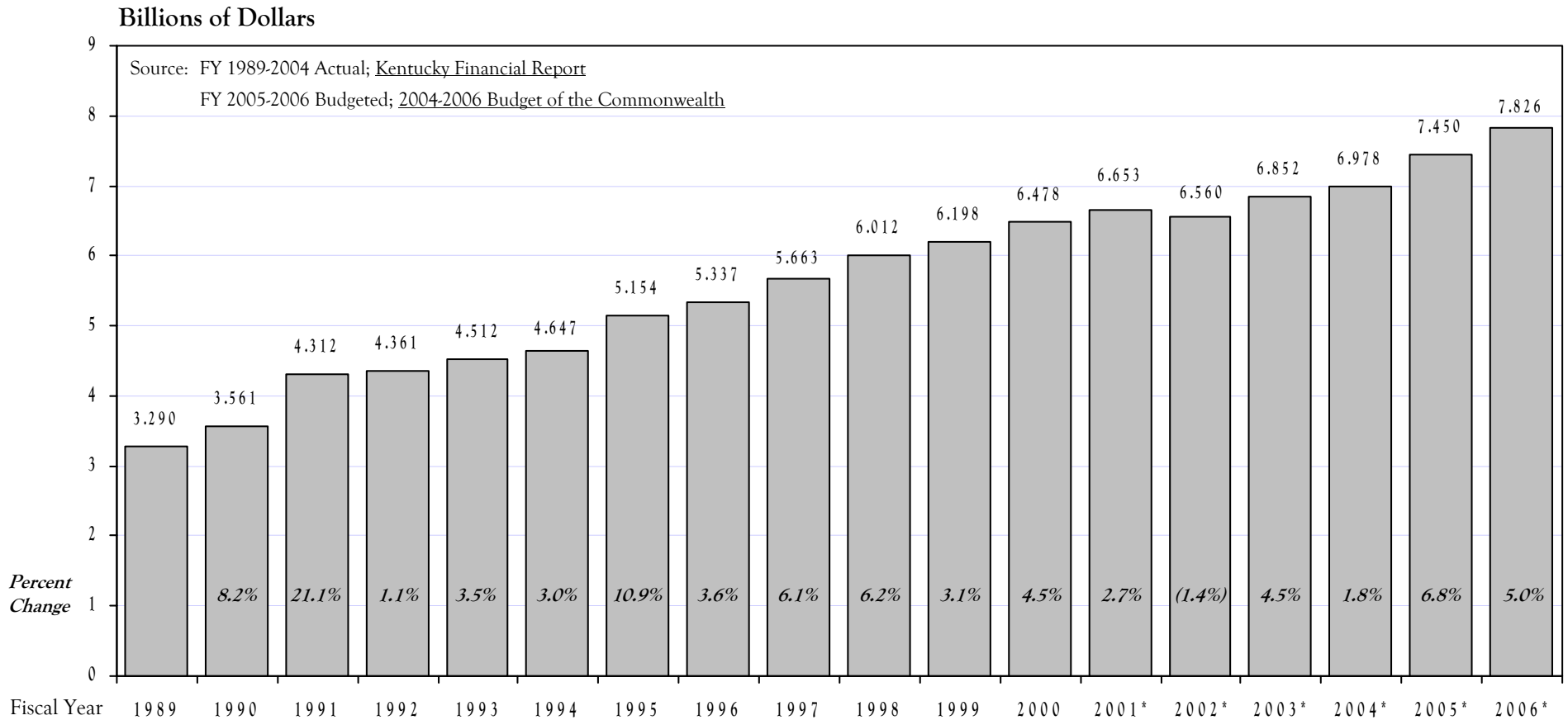
2004-2006 BUDGET SUMMARY OF THE ROAD FUND

	Enacted FY 2005	Enacted FY 2006
RESOURCES		
Beginning Balance	23,011,700	
Revenue Estimate: January 19, 2005	1,119,702,900	1,127,126,500
Non-Revenue Receipts		
Road Fund Revenue Initiative		28,842,700
Fund Transfers		
TOTAL RESOURCES	1,142,714,600	1,155,969,200
APPROPRIATIONS		
Transportation Cabinet		
Revenue Sharing	236,928,500	229,080,600
Highways	637,266,800	625,672,600
Vehicle Regulation	15,834,000	15,898,000
Debt Service	116,113,500	166,840,900
General Administration and Support	64,956,100	66,530,000
Capital Construction	13,794,000	4,248,000
Subtotal	1,084,892,900	1,108,270,100
Justice & Public Safety Cabinet		
State Police	39,769,100	29,769,100
Vehicle Enforcement	12,696,600	12,999,000
Subtotal	52,465,700	42,768,100
Finance and Administration Cabinet		
Debt Service	2,930,000	2,505,000
General Administration	283,000	283,000
Commonwealth Office of Technology	125,000	125,000
Revenue	1,418,000	1,418,000
Subtotal	4,756,000	4,331,000
Kentucky State Treasurer		
Homeland Security	250,000	250,000
	350,000	350,000
TOTAL APPROPRIATIONS	1,142,714,600	1,155,969,200
ENDING BALANCE	0	0

General Fund Revenue Receipts

Fiscal Years 1989-2006

(Billions of dollars – rounded)

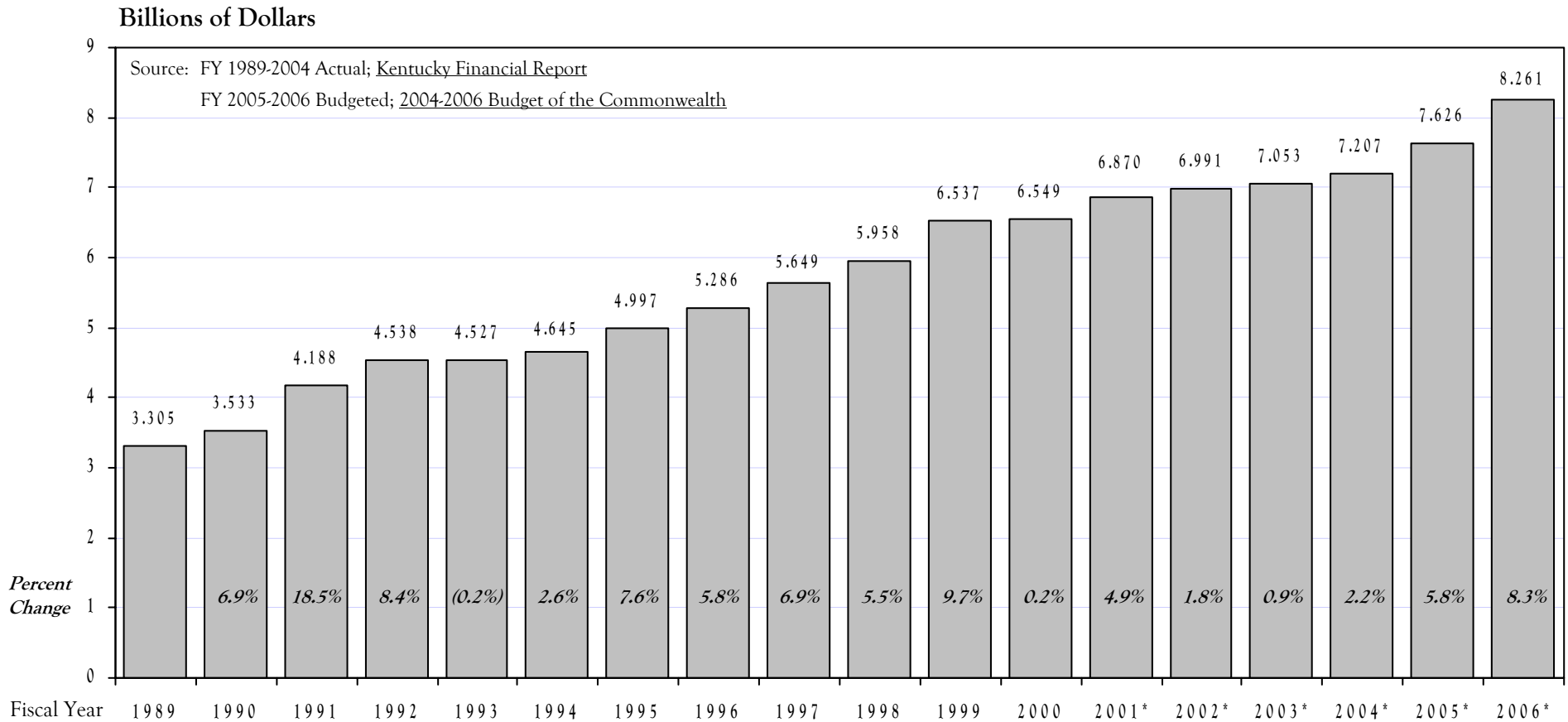


- Excludes Tobacco Settlement – Phase I Funds
- Excludes Fund Transfers

General Fund Expenditures

Fiscal Years 1989-2006

(Billions of dollars – rounded)



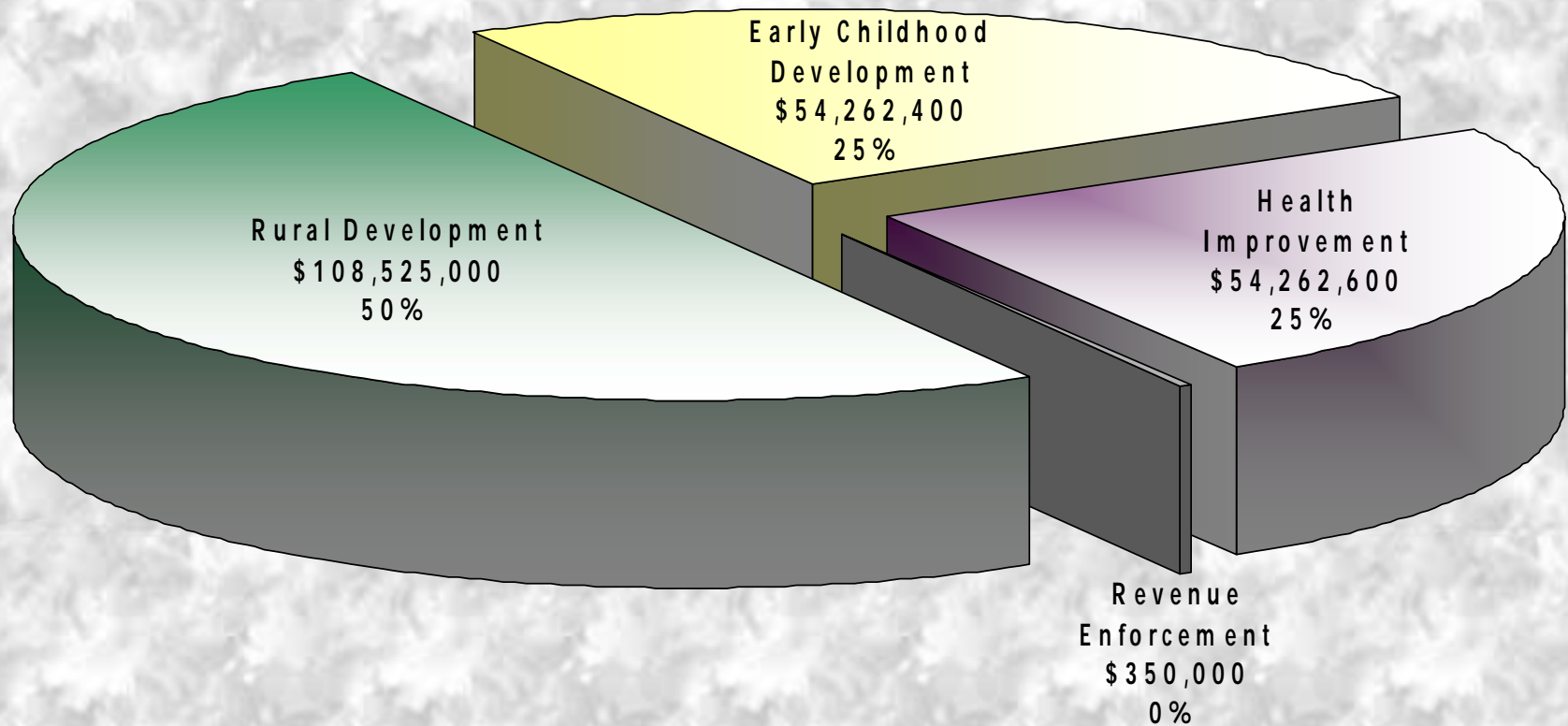
* Excludes Tobacco Settlement – Phase I Funds

TOBACCO SETTLEMENT - PHASE I

	FY 2005	FY 2006
Revenue Cabinet *	175,000	175,000
Rural Development - (50%)		
Governor's Office of Agricultural Policy	39,195,900	24,541,300
Finance and Administration Debt Service	6,116,600	15,313,200
Kentucky Infrastructure Authority Debt Service		5,358,000
Environmental and Public Protection - Natural Resources	9,000,000	9,000,000
Subtotal	54,312,500	54,212,500
Health Improvement - (25%)		
Kentucky Agency for Substance Abuse Policy (ASAP)	2,226,800	2,222,700
Health and Family Services - Public Health	2,715,600	2,710,600
Council on Postsecondary Education - Lung Cancer Research Program	5,431,300	5,421,300
Environmental and Public Protection - Insurance (Kentucky Access)	16,782,600	16,751,700
Subtotal	27,156,300	27,106,300
Early Childhood Development - (25%)		
Division of Early Childhood Development Services	1,888,400	1,888,400
Health and Family Services - Community Based Services	8,300,400	8,300,400
Health and Family Services - Public Health	14,712,400	14,662,400
Health and Family Services - Mental Health/Mental Retardation	900,000	900,000
Health and Family Services - Children with Special Health Care Needs	455,000	455,000
Postsecondary Education - Kentucky Higher Education Assistance Authority	900,000	900,000
Subtotal	27,156,200	27,106,200
TOTAL TOBACCO SETTLEMENT - PHASE I	108,800,000	108,600,000

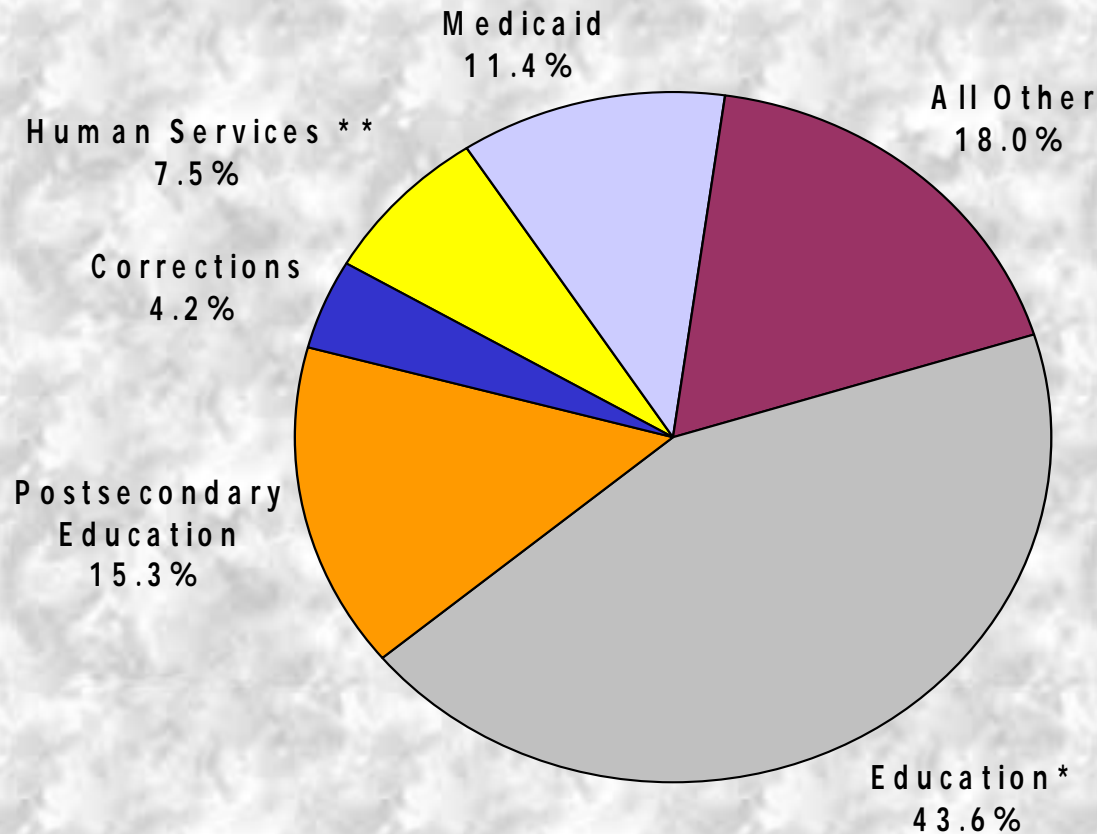
* House Bill 390, as enacted by the 2003 General Assembly, appropriated \$175,000 of Phase I Tobacco Funds to carry out the provisions of KRS 131. This amount is deducted before the allocations to Rural Development, Health Improvement, and Early Childhood are made.

2004-2006 Biennium Tobacco Settlement Appropriations – Phase I \$217,400,000



2004-2006 Biennium Distribution of General Fund Appropriations

Total = \$15.9 Billion



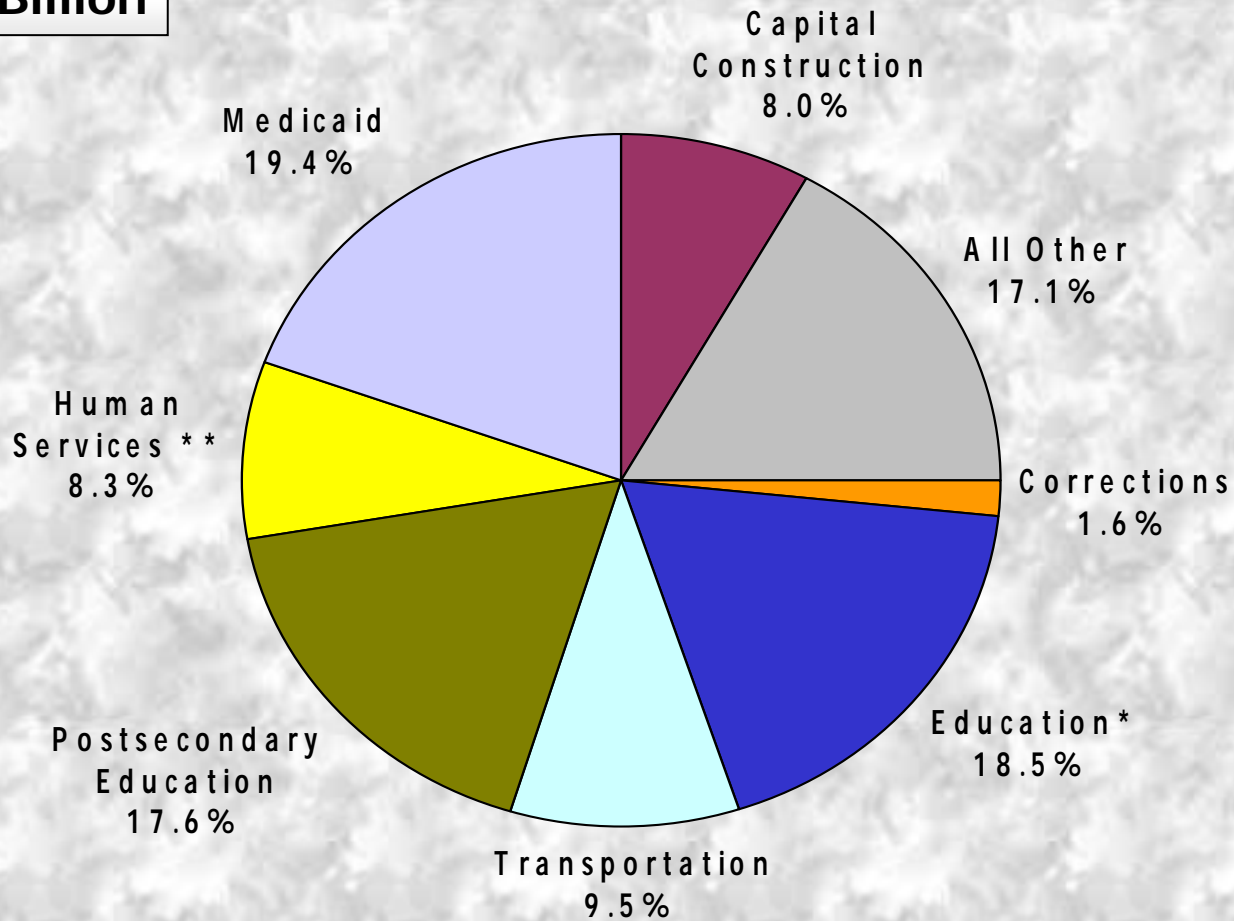
Excludes Tobacco Settlement – Phase I Funds

* Education includes the Department of Education, the Teachers' Retirement System, and the School Facilities Construction Commission and the Educational Professional Standards Board

** Human Services include the Health and Family Services Cabinet (net of Medicaid)

2004-2006 Biennium Distribution of All Funds Appropriations

Total = \$44.4 Billion



* Education includes the Department of Education, the Teachers' Retirement System, and the School Facilities Construction Commission and the Educational Professional Standards Board

** Human Services include the Health and Family Services Cabinet (net of Medicaid)

PROGRAMS FUNDED BY LOTTERY RECEIPTS

	Enacted FY 2005	Enacted FY 2006
Gross Lottery Estimate (Consensus Forecasting Group)	180,000,000	167,000,000
KEES Reserve Program Account	(9,500,000)	(9,500,000)
Net Lottery Revenues	170,500,000	157,500,000
Less: Collaborative Center for Literacy Development	1,200,000	1,200,000
Less: Early Reading Incentive Fund	1,800,000	1,800,000
Total Literacy Development Programs	3,000,000	3,000,000
Net Lottery Revenues (KEES receives 45%)	167,500,000	154,500,000
Less: Retained in the General Fund	19,500,000	9,200,000
Net Lottery Revenues (Needs-Based receives 45% in FY 05 and 55% in FY 06)	148,000,000	145,300,000
 Kentucky Educational Excellence Scholarship (KEES)	 75,375,000	 69,525,000
Need-Based Student Financial Aid:		
College Access Program	45,442,900	54,763,400
Kentucky Tuition Grant Program	19,475,500	23,470,000
Teacher Scholarships Program	1,681,600	1,681,600
Need-Based Student Financial Aid - Total	66,600,000	79,915,000
 KEES Total Funding:		
Lottery Dedicated Funds	75,375,000	69,525,000
Other Funds	97,900	97,900
Carry Forward Funds	91,500	
KEES Reserve Account (Unclaimed Lottery Prize funds)	4,968,800	12,990,000
Total - KEES	80,533,200	82,612,900
 Need-Based Student Financial Aid Funding:		
Lottery Dedicated Funds	66,600,000	79,915,000
Other General Funds / Continuing	5,309,500	5,000,000
Federal Funds	1,158,000	1,158,000
Other Funds	4,305,400	3,339,100
Carry Forward Funds	77,900	
Total Need-Based Student Financial Aid	77,450,800	89,412,100

**2004-2006 BUDGET OF THE COMMONWEALTH
CAPITAL CONSTRUCTION SUMMARY**

	FY 2005	FY 2006	New Authorization
SOURCE OF FUNDS			
Executive Branch			
General Fund	38,325,000	6,140,700	44,465,700
General Fund (Tobacco)	660,000		660,000
Restricted Funds	1,781,802,200	102,192,000	1,883,994,200
Federal Funds	99,075,000	14,703,000	114,341,000
Bond Fund	1,158,714,300	45,875,000	1,204,589,300
Road Fund	13,794,000	4,248,000	18,042,000
Agency Bond Fund	251,726,000		251,726,000
Capital Construction Surplus	1,892,400	63,000	1,955,400
Investment Income	23,844,000	4,720,000	28,564,000
Other Funds	21,800,000	4,300,000	26,100,000
TOTAL SOURCE OF FUNDS	3,391,632,900	182,241,700	3,574,437,600
EXPENDITURES BY CABINET			
Executive Branch			
General Government	302,766,100	10,253,700	313,019,800
Commerce	109,092,000	10,047,000	119,139,000
Economic Development	34,075,000	10,985,000	45,060,000
Department of Education	11,514,000	9,800,000	21,314,000
Education Cabinet	168,897,300	2,560,000	172,020,300
Environmental and Public Protection	34,050,000	7,450,000	41,500,000
Finance and Administration	270,683,400	12,374,000	283,057,400
Health and Family Services	27,964,000	16,000,000	43,964,000
Justice and Public Safety	9,172,000	6,825,000	15,997,000
Personnel	1,250,000	25,000,000	26,250,000
Postsecondary Education	2,408,375,100	66,699,000	2,475,074,100
Transportation	13,794,000	4,248,000	18,042,000
TOTAL EXPENDITURES	3,391,632,900	182,241,700	3,574,437,600

Capital Construction Overview

The Commonwealth's capital construction program for the Executive Branch for the 2004-2006 biennium is set out in this single volume – Volume II of the Budget of the Commonwealth. This overview section of the volume focuses on the capital construction priorities, policies, and fund sources recommended to be appropriated for the next two years.

Policy Emphasis – Bonds for Education, Economic Development, and Infrastructure

The capital budget for the Executive Branch includes \$1,456,315,300 in bond funded capital projects (exclusive of road and bridge construction) including \$1,204,589,300 supported from General Fund debt service with the remainder (\$251,726,000) to be financed with agency/restricted fund debt service. The largest proportion of new project activity, including bond-financed activity, is directed to Postsecondary Education. Collectively, the universities received authorization for \$397,041,000 in new General Fund bond support as well as \$229,706,000 for agency bond projects and pools for a total of \$626,747,000. These efforts reflect support for the top capital construction priorities at each of the eight public

universities and the Kentucky Community and Technical College System (KCTCS). Particular emphasis has been placed on research supporting facilities that complement the Bucks for Brains initiative launched shortly after the Postsecondary Improvement Act was approved in the 1997 Special Session. Both the University of Kentucky and the University of Louisville received state support for their top projects – the Biological/Pharmaceutical Complex at the University of Kentucky (\$40 million) and the Health Sciences Center Research Facility – Phase 3 at the University of Louisville (\$39.150 million), respectively. Major funding was also provided for the Business and Technology Center (\$32.850 million) at Eastern Kentucky University; the Science Campus Renovation (\$33 million) at Western Kentucky University; the New Science Complex (\$15 million) at Murray State University, the NASA Space Science Center (\$12.2 million plus anticipated federal funding) at Morehead State University; support for two projects at Kentucky State University related to the long-standing U.S. Office of Civil Rights agreement – Young Hall Renovation (\$5,339,000) and Hathaway Hall Renovation – Phase II (\$7.4 million) – the University’s top two priorities; and Northern Kentucky University received approval for a Regional Special Events Center (\$54 million) to meet a long-standing community priority and university need. Enhancing economic development activity in numerous regions of the state is the priority for the KCTCS projects including the Ashland Technical Center (\$18,030,000), Owensboro Technical Center (\$13,088,000), Franklin Technical Center (\$12 million), Warren County Technical Center (\$7.5 million), Somerset Aviation Facility (\$1.650 million), Madisonville Technical Center (\$14 million), Expansion of the Gateway Campus at Edgewood (\$15,477,000); and a new classroom/laboratory building at the burgeoning Lexington Community College (\$31,741,000). Other Postsecondary Education projects receiving support include the Math and Science Academy at Western Kentucky University (\$3.750 million in General Fund bonds and \$5 million in agency fund bonds); and the first phase of the new Hospital Patient Bed Tower at the University of Kentucky (\$100 million in agency bonds).

The second largest commitment of support is for local school construction which was previously authorized and encouraged, but not fully funded. The School Facilities Construction Commission (SFCC), which aids local school districts in new construction and renovation projects, received \$104.6 million in new bonds from the 2003 General Assembly to support offers of assistance to local school districts. In addition, two new bond programs under the auspices of the SFCC were authorized – an Urgent Need School Trust Fund (\$55,284,000) and a similarly sized program entitled Category 5 Buildings, which was predominantly for coal-producing counties, also targeted schools of the most urgent need as defined by the School Building Assessment program administered by the Department of Education. The 2004-2006 budget includes the necessary debt service support to fund the Offers of Assistance, Urgent Need, and Category 5 programs previously authorized. This funding moves the local school construction and renovation projects from the planning stage to the construction stage of development. In addition, the 2005 General Assembly authorized another \$91,536,000 for the Urgent Need School Trust Fund as well as \$6,811,300 for additional construction costs.

An \$80 million Water and Sewer Resource Development Fund is provided which will be administered by the Kentucky Infrastructure Authority (KIA). The program is directed toward coal-producing counties and is funded by a combination of Single County and Multi-County Coal Severance Local Government Economic Development funds. (This is the same approach approved for a new Water and Sewer program authorized by the 2003 General Assembly.) In addition, both the Federally Assisted Wastewater Matching program and the Federally Assisted Drinking Water Resources program (KIA Funds A and F) received appropriations of \$2.2 million and \$2.6 million in General Fund-supported debt, respectively, in order to continue to attract federal financial assistance. Moreover, the 2005 General Assembly authorized \$126 million for water and sewer projects for the tobacco-producing counties.

Economic Development authorizations include \$10 million in new Economic Development bond authorizations, and a \$5 million bond pool for Commercialization and Innovation initiatives. The Commercialization and Innovation initiatives will also be supported by previously issued Kentucky Economic Development Funding Authority (KEDFA) bond proceeds and Coal Severance Tax receipts. These authorizations were provided to “recapitalize” the Economic Development pools which had been depleted in budget balancing efforts as well as in support of the Commercialization and Innovation projects. Bonds are also authorized in order to renovate and revitalize the state parks including the necessary finishing work on the new or expanded State Park golf courses financed by previous bond

issues from the 1998, 2000, and 2003 General Assemblies. This investment will permit the golf courses and State Park system to generate income which will more than offset the cost of operations. It will help complete the new courses in terms of all of the appurtenances and amenities which are ultimately needed. In total, \$35 million in parks improvements and renovation projects are recommended.

Another significant investment is provided for information technology programs and upgraded business systems. In contemporary society, governments, businesses, and individual citizens are dependent upon and daily users of information technology systems (IT). State government IT systems need to keep pace and, in many cases, the IT system replacements recommended in this budget replace IT systems dating back ten, twenty, or more years. These include the first phase of the replacement of the public safety communications infrastructure known as KEWS (Kentucky Emergency Warning System) which was developed in the wake of the 1974 tornadoes that rampaged through Kentucky (\$13,768,000); the first phase of a replacement personnel and payroll system for the Commonwealth (\$25 million), replacing a system dating to the 1970s; upgrading the KASPER pharmaceutical/law enforcement tracking system through the Department of Public Health (\$5 million); keeping the MARS system current (\$11.5 million); upgrading the TWIST system to safeguard children at risk (\$2,205,000); and upgrading the Child Enforcement System (\$2,040,000). The latter projects all may also attract federal funding support. Information Technology improvements are also absolutely essential in the criminal justice system and the recommendations include the next phase of development in the Criminal History System project (\$4.5 million), the e-Warrant System for Criminal Justice Improvements (\$4.5 million); and the Electronic Offender Management System (\$5 million). Moreover, two critical systems to enhance revenue collection and administration, including the National Streamlined Sales Tax Simplification System (\$14.062 million) and the Business Refund Offset System (\$1,750,000), are recommended.

A number of other projects were also authorized from General Fund-supported bonds including \$17 million for the Agricultural Development Finance Authority involving a taxable bond issue which fully replaces tobacco funds previously needed to defray a revenue shortfall earlier this fiscal year; the next phase of the renovation of the State Office Building currently being vacated by the Transportation Cabinet in Frankfort (\$35 million); the next phase of the Capitol Complex Restoration and Renovation project including the relocation of the existing power plant (\$6 million); construction of a State Police Records Retrieval and Evidence Building replacing a trailer and substandard facility in Franklin County (\$6.075 million); renovation at the School for the Deaf; continued work on the Kentucky River dams and water storage project; deferred maintenance at the Boone Center; repair and replacement work at the Glasgow Mental Health/Mental Retardation facility; the Oakwood Mental Health/Mental Retardation facility; and the Perkins Rehabilitation Center in Johnson County. In addition, \$5 million is being recommended to continue and accelerate the voluntary relocation of neighborhood residents adversely affected by the Louisville International Airport expansion project.

The Budget of the Commonwealth also includes a renewed emphasis on maintaining and restoring state owned assets following the Capital Planning Advisory Board's recommendation to increase the maintenance and repair of existing public assets and to protect existing investments in important facilities. Cash maintenance pools fund construction projects costing less than \$400,000 each can keep minor problems from escalating into more costly major maintenance or renovation needs. For the first time, the Budget of the Commonwealth authorized a Statewide Repair, Maintenance and Replacement Pool Fund funded from Bond Funds. This fund replaces the cash funded maintenance pools typically approved for agencies with the largest dollar amounts and most widespread needs for maintenance funds. This pool, also for the first time, authorized individual maintenance pool projects to exceed \$400,000 when accompanied by proper reporting to the Capital Projects and Bond Oversight Committee of the Legislative Research Commission.

NOTE: The preceding discussion does not include a new bond program for interstate highway construction. This \$150 million GARVEE bond program is discussed in Volume I of the Budget of the Commonwealth in the Kentucky Transportation Cabinet descriptions.

2004 - 2006
Enacted Agency Bond and Bond Fund Capital Projects

	Fiscal Year 2004-2005	Fiscal Year 2005-2006
General Government		
Kentucky Infrastructure Authority		
KIA Fund A - Federally Assisted Wastewater Prog		
Bond Fund	2,200,000	
KIA Fund F Drinking Water Revolving Loan Prog		
Bond Fund	2,600,000	
KIA-Water & Sewer Dev. Fund-Coal-Prod. Counties		
Bond Fund	80,000,000	
Water & Sewer Dev Fund Tob-Prod Counties		
Bond Fund	126,000,000	
Military Affairs		
Hangar/Warehouse/Office Bldgs,Bluegrass Station		
Agency Bond Funds	12,020,000	
Various Facilities - Deferred Maintenance		
Bond Fund	2,300,000	
Governor's Office for Local Development		
Community Economic Growth Program		
Bond Fund	5,000,000	5,000,000
Southeast KY Agri Tech & Exhib Ctr		
Bond Fund	12,000,000	
Knox Partners Community Education Ctr		
Bond Fund	2,000,000	
Louisville Science Ctr		
Bond Fund	700,000	
EP Tom Sawyer		
Bond Fund	400,000	
Louisville Zoo		
Bond Fund	750,000	
Governor's Office of Agricultural Policy		
Agricultural Finance Corporation-Loan Bond Pool		
Bond Fund	17,000,000	
General Government Summary	<u>262,970,000</u>	
Bond Fund	250,950,000	5,000,000
Agency Bond Funds	12,020,000	
Commerce Cabinet		
State Fair Board		
Renovate East Wing/Hall		
Bond Fund	50,000,000	
Agency Bond Funds	5,000,000	

Commerce Cabinet

State Fair Board

Renovate East Wing/Hall

Bond Fund 50,000,000

Agency Bond Funds 5,000,000

2004 - 2006
Enacted Agency Bond and Bond Fund Capital Projects

	Fiscal Year 2004-2005	Fiscal Year 2005-2006
<hr/> Commerce Cabinet <hr/>		
Horse Park Commission		
New Indoor Arena - Design		
Bond Fund	1,500,000	
<hr/>		
Parks		
Parks Renovation Pool		
Bond Fund	35,000,000	
<hr/>		
Herrington Lake Area Dev Study		
Bond Fund	2,000,000	
<hr/>		
Kincaid Lake Land Acquisition		
Bond Fund	500,000	
<hr/>		
Commerce Cabinet Summary	<u>94,000,000</u>	
Bond Fund	89,000,000	
Agency Bond Funds	5,000,000	
<hr/>		
Economic Development Cabinet		
Secretary		
Airport Relocation Asstce.		
Agency Bond Funds	5,000,000	
<hr/>		
Crispus Attucks		
Bond Fund	250,000	
<hr/>		
Financial Incentives		
Economic Development Bond Reauthorization		
Bond Fund	15,000,000	
<hr/>		
Economic Development Cabinet Summary	<u>20,250,000</u>	
Bond Fund	15,250,000	
Agency Bond Funds	5,000,000	
<hr/>		
Department of Education		
Operations and Support Services		
Various Major Maintenance - KSD		
Bond Fund	3,839,000	
<hr/>		
Rockcastle Area Voc Tech School		
Bond Fund		8,000,000
<hr/>		
Facility for Education Arts Program		
Bond Fund		1,800,000
<hr/>		
Letcher County Central Vocational Ctr		
Bond Fund	2,000,000	
<hr/>		

2004 - 2006
Enacted Agency Bond and Bond Fund Capital Projects

	Fiscal Year 2004-2005	Fiscal Year 2005-2006
Department of Education		
Operations and Support Services		
Russell County Learning Ctr		
Bond Fund	3,500,000	
Butler County Area Vocational Ctr		
Bond Fund	1,500,000	
Department of Education Summary	<u>10,839,000</u>	
Bond Fund	10,839,000	9,800,000
Education Cabinet		
Kentucky Educational Television		
Replace Roof at Network Center		
Bond Fund	1,000,000	
School Facilities Construction Commission		
Category 5 School Buildings - Reauthorized		
Bond Fund	6,811,300	
Urgent Need School Trust Fund Reauthorization		
Bond Fund	91,536,000	
Reauthorization for School Construction Comm.		
Bond Fund	67,735,000	
Vocational Rehabilitation		
Replace Roof - Perkins Rehabilitation Center		
Bond Fund	1,320,000	
Education Cabinet Summary	<u>168,402,300</u>	
Bond Fund	168,402,300	
Environmental and Public Protection Cabinet		
Environmental Protection		
State-Owned Dam Repair		
Bond Fund	1,000,000	
Petroleum Storage Tank Environmental Assur. Fund		
Petrol Storage Tank Env Assurance Fund		
Bond Fund	25,000,000	
Environmental and Public Protection Cabinet Summary	<u>26,000,000</u>	
Bond Fund	26,000,000	

2004 - 2006
Enacted Agency Bond and Bond Fund Capital Projects

	Fiscal Year 2004-2005	Fiscal Year 2005-2006
<hr/> Finance and Administration Cabinet <hr/>		
Governor's Office for Technology		
UCJIS-Court Improvements (E-Warrants)		
Bond Fund	4,500,000	
<hr/>		
Public Safety Comm. Infrastructure-KEWS		
Bond Fund	13,768,000	
<hr/>		
Facilities Management		
Improve Site Infra.-KY Capitol Complex, Phase II		
Bond Fund	6,000,000	
<hr/>		
Renovate Ky State Office Building-Phase II		
Bond Fund	35,000,000	
<hr/>		
Statewide Repair,Maint&Repl Pool Fund		
Bond Fund	18,225,000	
<hr/>		
Revenue		
Streamlined Sales Tax Simplification System		
Bond Fund	14,062,000	
<hr/>		
Business Refund Off-Set System		
Bond Fund	1,750,000	
<hr/>		
Collection System Interface Phase I		
Bond Fund	1,500,000	
<hr/>		
Controller		
Phase II Tobacco Settlement Payments		
Bond Fund	87,000,000	
<hr/>		
Finance and Administration Cabinet Summary	<u>181,805,000</u>	
Bond Fund	<u>181,805,000</u>	
<hr/>		

Health and Family Services Cabinet

Public Health

Upgrade KASPER System

Bond Fund 5,000,000

Mental Health/Mental Retardation Services

Upgrade HVAC Pipes & Electric-Glasgow

Bond Fund 2,200,000

Replace Roof Oakwood

Bond Fund 2,200,000

General Administration and Program Support

Safeguarding Children At Risk (TWIST Re-Write)

Bond Fund 2,205,000

2004 - 2006
Enacted Agency Bond and Bond Fund Capital Projects

	Fiscal Year 2004-2005	Fiscal Year 2005-2006
Health and Family Services Cabinet		
General Administration and Program Support		
Network Infrastructure Upgrade		
Bond Fund	782,000	
Child Support Enforcement (KASES II)		
Bond Fund	2,040,000	
Health and Family Services Cabinet Summary	<u>14,427,000</u>	
Bond Fund	14,427,000	
Justice and Public Safety Cabinet		
State Police		
Replacement of Records & Secure Evidence Facility		
Bond Fund		6,075,000
Corrections Management		
Replace Electronic Offender Mgt Systems Ph I		
Bond Fund	5,000,000	
Justice and Public Safety Cabinet Summary	<u>5,000,000</u>	
Bond Fund	5,000,000	6,075,000
Personnel Cabinet		
General Operations		
Replace Personnel Payroll System - Phase I		
Bond Fund		25,000,000
Personnel Cabinet Summary		
Bond Fund		25,000,000
Postsecondary Education		
Council on Postsecondary Education		
Biotechnology Building-Shrimp Production		
Bond Fund	1,700,000	
Eastern Kentucky University		
Renovate Residence Hall		
Agency Bond Funds	7,500,000	
Construct New Intramural Fields		
Agency Bond Funds	2,300,000	
Construct Business/Technology Center, Phase II		
Bond Fund	32,850,000	

2004 - 2006
Enacted Agency Bond and Bond Fund Capital Projects

	Fiscal Year 2004-2005	Fiscal Year 2005-2006
Postsecondary Education		
Eastern Kentucky University		
Construct Manchester Postsecondary Ed. Center		
Bond Fund	9,000,000	
Science Complex		
Bond Fund	5,000,000	
Kentucky State University		
Renovate Young Hall		
Bond Fund	5,339,000	
Hathaway Hall Renovation Phase II		
Bond Fund	7,400,000	
Various Projects Pool		
Agency Bond Funds	1,000,000	
Morehead State University		
Expand Student Wellness Center		
Agency Bond Funds	1,000,000	
Construct MSU-NASA Space Science Center		
Bond Fund	12,200,000	
Clay Community Center-Eight Additional Classroom		
Bond Fund	1,500,000	
Design Health Science Classroom Building		
Bond Fund	1,500,000	
Design Residence Hall Renovation/Improvement		
Agency Bond Funds	5,000,000	
Murray State University		
Construct New Science Complex - Phase II		
Bond Fund	15,000,000	
Construct New Residential College Facility		
Agency Bond Funds	13,077,000	
Northern Kentucky University		
Regional Special Events Center		
Bond Fund	54,000,000	
Construct New Student Union		
Agency Bond Funds	14,750,000	
University of Kentucky		
Expand & Upgrade Livestock Disease Diag. Center		
Bond Fund	8,500,000	
Construct Biological/Pharmaceutical Complex		
Bond Fund	40,000,000	

2004 - 2006
Enacted Agency Bond and Bond Fund Capital Projects

	Fiscal Year 2004-2005	Fiscal Year 2005-2006
Postsecondary Education		
University of Kentucky		
Construct Student Health Facility		
Agency Bond Funds	24,000,000	
Construct Patient Bed Tower - Hospital		
Agency Bond Funds	100,000,000	
Basketball Practice Facility		
Agency Bond Funds	7,000,000	
University of Louisville		
Construct - HSC Research Facility, Phase III		
Bond Fund	39,150,000	
Renovate/Purchase-Home of the Innocents Property		
Agency Bond Funds	8,031,000	
Expand Cardinal Arena for Basketball		
Agency Bond Funds	9,548,000	
Construct - Multipurp Field House and Prac. Fac.		
Agency Bond Funds	8,000,000	
Western Kentucky University		
Renovate Science Campus - Phase II		
Bond Fund	33,000,000	
South Campus-Parking & Dining Improvements		
Agency Bond Funds	7,000,000	
Construct Student Health Services Building		
Agency Bond Funds	4,000,000	
Renovate Academic Athletic #2, Design		
Agency Bond Funds	9,500,000	
Math and Science Academy Renovation		
Bond Fund	3,750,000	
Agency Bond Funds	5,000,000	
Prepare IT Infrastructure		
Agency Bond Funds	3,000,000	
Kentucky Community and Technical College System		
Renov. Aircraft Maint Lab, Smst CC, South Campus		
Bond Fund	1,650,000	
Const. Owensboro Advanced Techology Ctr.		
Bond Fund	13,088,000	
Const. Tech Bldg, Madisonville CC		
Bond Fund	14,000,000	
Const. Ashland Reg Postsecondary Ed Ctr		
Bond Fund	18,030,000	

**2004 - 2006
Enacted Agency Bond and Bond Fund Capital Projects**

	Fiscal Year 2004-2005	Fiscal Year 2005-2006
Postsecondary Education		
Kentucky Community and Technical College System		
Const. Franklin/Simpson Technology Ctr. Bond Fund	12,000,000	
Henderson CC Technology Center Bond Fund	13,066,000	
Gateway CTC-Expand Edgewood Campus Bond Fund	15,477,000	
Warren County Technology Center Bond Fund	7,500,000	
Lexington Comm. College-Classroom/Lab Building Bond Fund	31,741,000	
Jefferson Community College Building-Design Bond Fund	600,000	
Postsecondary Education Summary	<u>626,747,000</u>	
Bond Fund	397,041,000	
Agency Bond Funds	229,706,000	

Fund Summary	Fiscal Year 2004-2005	Fiscal Year 2005-2006
Bond Fund	1,158,714,300	45,875,000
Agency Bond Funds	251,726,000	
Grand Total	<u>1,410,440,300</u>	<u>45,875,000</u>

Commonwealth of Kentucky

	<u>Requested FY 2005</u>	<u>Requested FY 2006</u>	<u>Enacted FY 2005</u>	<u>Enacted FY 2006</u>
SOURCE OF FUNDS				
General Fund				
Regular Appropriation	8,525,445,500	9,225,006,900	7,602,089,700	8,268,714,200
Special Appropriation			424,800	428,000
Continuing Appropriation	100,659,700	74,593,800	66,525,700	41,142,900
Total General Fund	<u>8,626,105,200</u>	<u>9,299,600,700</u>	<u>7,669,040,200</u>	<u>8,310,285,100</u>
Tobacco Settlement-Phase I				
Tobacco Settlement - I	113,704,800	114,790,100	108,140,000	108,600,000
Continuing Appropriation	35,349,200	38,208,600	35,874,300	5,252,400
Fund Transfers			-27,043,900	
Total Tobacco Settlement-Phase I	<u>149,054,000</u>	<u>152,998,700</u>	<u>116,970,400</u>	<u>113,852,400</u>
Restricted Funds				
Balance Forward	272,544,447	215,018,494	308,817,500	209,563,850
Current Receipts	3,321,445,000	3,425,564,800	3,505,171,200	3,430,384,300
Non-Revenue Receipts	648,119,100	672,397,300	675,942,300	701,830,200
Fund Transfers			-57,739,200	-91,843,200
Total Restricted Funds	<u>4,242,108,547</u>	<u>4,312,980,594</u>	<u>4,432,191,800</u>	<u>4,249,935,150</u>
Federal Funds				
Balance Forward	22,715,099	12,386,199	62,375,000	10,643,600
Current Receipts	6,056,348,500	6,299,846,600	6,223,692,800	6,150,433,600
Non-Revenue Receipts	648,742,200	647,695,700	648,946,100	647,493,900
Total Federal Funds	<u>6,727,805,799</u>	<u>6,959,928,499</u>	<u>6,935,013,900</u>	<u>6,808,571,100</u>
Road Fund				
Regular Appropriation	1,146,605,100	1,169,931,700	1,128,920,600	1,151,721,200
Total Road Fund	<u>1,146,605,100</u>	<u>1,169,931,700</u>	<u>1,128,920,600</u>	<u>1,151,721,200</u>
Highway Bonds				
Highway Bonds			450,000,000	
Total Highway Bonds			<u>450,000,000</u>	
TOTAL SOURCE OF FUNDS	<u>20,891,678,646</u>	<u>21,895,440,193</u>	<u>20,732,136,900</u>	<u>20,634,364,950</u>
EXPENDITURES BY CLASS				
Personnel Cost	4,755,682,403	5,091,078,174	4,497,405,100	4,763,764,500
Operating Expenses	2,176,839,450	2,252,998,350	2,024,610,700	2,062,906,600
Grants, Loans or Benefits	11,958,054,500	12,480,495,200	11,866,416,700	11,892,502,700
Debt Service	642,408,700	749,526,500	555,524,100	726,768,400
Capital Outlay	160,689,600	157,158,100	146,684,900	142,759,200
Construction	853,949,100	846,135,600	1,351,144,000	859,667,600
TOTAL EXPENDITURES	<u>20,547,623,753</u>	<u>21,577,391,924</u>	<u>20,441,785,500</u>	<u>20,448,369,000</u>
EXPENDITURES BY FUND SOURCE				
General Fund	8,551,511,400	9,239,275,600	7,604,090,000	8,271,395,700
Tobacco Settlement-Phase I	110,855,400	111,452,500	111,718,000	113,852,400
Restricted Funds	4,027,090,053	4,113,857,824	4,222,686,600	4,112,538,800
Federal Funds	6,712,259,900	6,942,981,600	6,924,370,300	6,798,860,900
Road Fund	1,146,605,100	1,169,931,700	1,128,920,600	1,151,721,200
Highway Bonds			450,000,000	
TOTAL EXPENDITURES	<u>20,548,321,853</u>	<u>21,577,499,224</u>	<u>20,441,785,500</u>	<u>20,448,369,000</u>
EXPENDITURES BY UNIT				

Executive Branch	20,245,569,953	21,235,731,524	20,159,455,900	20,153,717,800
Legislative Branch	45,358,100	47,068,200	45,681,100	46,822,300
Judicial Branch	257,393,800	294,699,500	236,648,500	247,828,900
TOTAL EXPENDITURES	<u>20,548,321,853</u>	<u>21,577,499,224</u>	<u>20,441,785,500</u>	<u>20,448,369,000</u>

EXECUTIVE BRANCH

**2004-2006 BUDGET OF THE COMMONWEALTH
2005 REGULAR SESSION**



Executive Branch

	<u>Requested FY 2005</u>	<u>Requested FY 2006</u>	<u>Enacted FY 2005</u>	<u>Enacted FY 2006</u>
SOURCE OF FUNDS				
General Fund				
Regular Appropriation	8,243,828,100	8,905,471,000	7,340,894,600	7,995,294,800
Special Appropriation			424,800	428,000
Continuing Appropriation	89,781,200	68,342,000	56,647,200	35,891,100
Total General Fund	<u>8,333,609,300</u>	<u>8,973,813,000</u>	<u>7,397,966,600</u>	<u>8,031,613,900</u>
Tobacco Settlement-Phase I				
Tobacco Settlement - I	113,704,800	114,790,100	108,140,000	108,600,000
Continuing Appropriation	35,349,200	38,208,600	35,874,300	5,252,400
Fund Transfers			-27,043,900	
Total Tobacco Settlement-Phase I	<u>149,054,000</u>	<u>152,998,700</u>	<u>116,970,400</u>	<u>113,852,400</u>
Restricted Funds				
Balance Forward	264,988,147	210,800,594	301,261,200	205,345,950
Current Receipts	3,317,096,800	3,421,087,300	3,500,253,100	3,424,729,100
Non-Revenue Receipts	642,394,400	666,716,900	670,787,500	697,327,500
Fund Transfers			-57,739,200	-91,843,200
Total Restricted Funds	<u>4,224,479,347</u>	<u>4,298,604,794</u>	<u>4,414,562,600</u>	<u>4,235,559,350</u>
Federal Funds				
Balance Forward	22,715,099	12,386,199	62,375,000	10,643,600
Current Receipts	6,053,252,000	6,298,242,400	6,220,596,300	6,148,829,400
Non-Revenue Receipts	648,742,200	647,695,700	648,946,100	647,493,900
Total Federal Funds	<u>6,724,709,299</u>	<u>6,958,324,299</u>	<u>6,931,917,400</u>	<u>6,806,966,900</u>
Road Fund				
Regular Appropriation	1,146,605,100	1,169,931,700	1,128,920,600	1,151,721,200
Total Road Fund	<u>1,146,605,100</u>	<u>1,169,931,700</u>	<u>1,128,920,600</u>	<u>1,151,721,200</u>
Highway Bonds				
Highway Bonds			450,000,000	
Total Highway Bonds			<u>450,000,000</u>	
TOTAL SOURCE OF FUNDS	<u>20,578,457,046</u>	<u>21,553,672,493</u>	<u>20,440,337,600</u>	<u>20,339,713,750</u>
EXPENDITURES BY CLASS				
Personnel Cost	4,558,144,203	4,875,980,074	4,305,587,800	4,558,310,200
Operating Expenses	2,076,113,150	2,129,366,650	1,936,877,700	1,974,839,000
Grants, Loans or Benefits	11,958,054,500	12,480,495,200	11,866,416,700	11,892,502,700
Debt Service	642,408,700	749,526,500	555,524,100	726,768,400
Capital Outlay	156,702,200	154,120,200	143,905,600	141,629,900
Construction	853,949,100	846,135,600	1,351,144,000	859,667,600
TOTAL EXPENDITURES	<u>20,245,371,853</u>	<u>21,235,624,224</u>	<u>20,159,455,900</u>	<u>20,153,717,800</u>
EXPENDITURES BY FUND SOURCE				
General Fund	8,265,267,300	8,913,487,900	7,338,268,200	7,992,724,500
Tobacco Settlement-Phase I	110,855,400	111,452,500	111,718,000	113,852,400
Restricted Funds	4,013,678,753	4,099,482,024	4,209,275,300	4,098,163,000
Federal Funds	6,709,163,400	6,941,377,400	6,921,273,800	6,797,256,700
Road Fund	1,146,605,100	1,169,931,700	1,128,920,600	1,151,721,200
Highway Bonds			450,000,000	
TOTAL EXPENDITURES	<u>20,245,569,953</u>	<u>21,235,731,524</u>	<u>20,159,455,900</u>	<u>20,153,717,800</u>
EXPENDITURES BY UNIT				
General Government	657,916,953	677,304,924	695,757,400	660,759,100
Commerce Cabinet	217,880,700	238,102,200	196,631,200	206,929,700
Economic Development Cabinet	32,615,900	33,325,800	20,769,200	27,611,400

Department of Education	3,913,292,600	4,023,999,300	3,721,883,800	4,023,169,000
Education Cabinet	1,257,136,200	1,268,733,100	1,205,284,100	1,252,790,500
Environmental and Public Protection Cabinet	676,139,200	688,804,100	627,238,400	620,848,600
Finance and Administration Cabinet	570,438,200	590,434,800	504,237,500	544,183,700
Health and Family Services Cabinet	6,344,196,300	6,703,390,200	6,223,131,500	6,113,034,700
Justice and Public Safety Cabinet	816,445,000	870,817,300	709,989,600	733,018,700
Personnel Cabinet	48,415,700	53,486,600	72,368,000	105,728,900
Postsecondary Education	3,939,977,800	4,291,384,800	3,789,674,900	4,040,964,000
Transportation Cabinet	1,771,115,400	1,795,948,400	2,392,490,300	1,824,679,500
TOTAL EXPENDITURES	<u>20,245,569,953</u>	<u>21,235,731,524</u>	<u>20,159,455,900</u>	<u>20,153,717,800</u>

Budget of the Commonwealth

Executive Branch

House Bill No. 267

As Enacted and Vetoed In Part

Tuesday, March 8, 2005 – As Enacted

Saturday, March 19, 2005 – Vetoed In Part

House Bill 267 can be found at the link address below

<http://www.lrc.ky.gov/record/05RS/HB267/bill.doc>



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER
2004-650

June 28, 2004

Secretary of State
Frankfort
Kentucky

RELATING TO TEMPORARY EMERGENCY EXPENDITURES PROVIDING FINANCING FOR THE OPERATIONS, MAINTENANCE, SUPPORT, AND FUNCTIONING OF THE EXECUTIVE BRANCH OF THE GOVERNMENT OF THE COMMONWEALTH OF KENTUCKY AND ITS VARIOUS OFFICERS, CABINETS, DEPARTMENTS, BOARDS, COMMISSIONS, INSTITUTIONS, SUBDIVISIONS, AGENCIES, AND OTHER STATE-SUPPORTED ACTIVITIES FOR THE PERIOD BEGINNING JULY 1, 2004, AND ENDING SEPTEMBER 30, 2004.

WHEREAS, under KRS 48.300, KRS 48.950, and Section 171 of the Kentucky Constitution, the General Assembly is empowered to raise and appropriate revenue and approve and adopt a balanced budget for the operation, maintenance, support, and functioning of the Government of the Commonwealth of Kentucky; and

WHEREAS, the Regular Session of the General Assembly convened on January 6, 2004, and thereafter enacted a budget for the Legislative and Judicial Branches but adjourned sine die on April 13, 2004, without enacting a budget for the Executive Branch for the fiscal year beginning July 1, 2004; and

WHEREAS, there is no express comprehensive statutory plan directing how the Commonwealth is to proceed in the event that the General Assembly fails or refuses to enact an Executive Branch budget; and

WHEREAS, the absence of an Executive Branch budget imperils the health, safety, and welfare of the Commonwealth by, *inter alia*:

- (1) putting at risk billions of federal fund dollars, the receipt of which is conditioned upon the availability of state matching funds;
- (2) curtailing the economic prosperity and growth potential of the Commonwealth, and potential employment opportunities for Kentuckians;
- (3) endangering the land, water, and air resources of the Commonwealth;
- (4) imperiling state emergency and disaster response systems, including local 911 operators;



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER
2004-650

June 28, 2004

Secretary of State

Frankfort
Kentucky

- (5) disrupting operations of a myriad of facilities including but not limited to prisons, schools, mental hospitals, children's homes, and veterans' nursing home facilities;
- (6) obstructing the revenue collection processes of state and local governments;
- (7) jeopardizing the bond rating of the Commonwealth;
- (8) impeding timely payments from the State Treasury for goods received and services performed that are necessary for the day-to-day operations and maintenance of the programs and facilities of the Commonwealth; and
- (9) endangering the continuity and availability of services to all citizens of the Commonwealth; and

WHEREAS, pursuant to Sections 69 and 81 of the Kentucky Constitution, the supreme executive power of the Commonwealth is vested in the Governor and the Governor is explicitly empowered and mandated to "take care that the laws be faithfully executed"; and

WHEREAS, the expenditure of public funds is necessary in order for the Governor to fulfill his constitutionally mandated duty to faithfully execute the laws of the Commonwealth as its Chief Magistrate; and

WHEREAS, because the General Assembly failed to carry out its duty to enact a Executive Branch budget during the 2004 Regular Session, the Commonwealth is now confronted with an emergency requiring action by the Executive Branch to continue the operation of the government of the Commonwealth of Kentucky, including providing financing from available revenue for the continued operation of government; and

WHEREAS, the state budgeting and accounting system is predicated upon a system of quarterly allotments of funds to be expended in the manner authorized in this Executive Order; and



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER
2004-650

June 28, 2004

Secretary of State

Frankfort
Kentucky

WHEREAS, this temporary plan shall remain in effect only until such time as the General Assembly enacts a biennial budget and appropriations bill which could occur as early as the first quarter of fiscal year 2005 which ends September 30, 2004;

NOW, THEREFORE, I, ERNIE FLETCHER, Governor of the Commonwealth of Kentucky, by virtue of authority vested in me by the Kentucky Constitution and in particular Sections 69 and 81, and as further vested in me by the laws of the Commonwealth, do hereby **FIND, DECLARE, ORDER, AND DIRECT** the following:

1. That a state of emergency exists in the Commonwealth due to the failure of the General Assembly to enact a budget for the Executive Branch for the fiscal period beginning July 1, 2004, and ending June 30, 2005.
2. The declared emergency poses a direct and serious imminent risk of harm to the preservation of order, the administration of justice, and the protection of the public health and property, all of which are fundamental purposes of government.
3. The sound and orderly management of the people's business mandates that any disruption of services due to the failure of the General Assembly to enact an Executive Branch budget should be minimized, and that state services must therefore be provided on a predictable, regular, and established schedule.
4. These services should and must be provided to the extent possible within the reasonable boundaries of anticipated revenues which, for the fiscal year beginning July 1, 2004, and ending June 30, 2005, have been forecasted pursuant to statutorily recognized estimating procedures.
5. Through its adoption of House Bill 396, the General Assembly has made appropriations for the use of the Judicial Branch totaling \$234,648,400,



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER
2004-650

June 28, 2004

Secretary of State
Frankfort
Kentucky

and in House Bill 397 for the Legislative Branch totaling \$40,731,400, leaving \$20,739,752,600 in previously estimated revenues identified for use by the Executive Branch, as modified by the Consensus Forecasting Group estimates of June 8, 2004, for the operation and function of the Executive Branch of government.

6. The authority of the Governor, pursuant to Sections 69 and 81 of the Kentucky Constitution, to cause the expenditure from the State Treasury of such available funds as may be necessary for the operation of government and the execution of the laws of the Commonwealth by the Executive Branch is hereby recognized. Accordingly, the Secretary of the Finance and Administration Cabinet is hereby authorized to issue warrants for the payment of all claims as may be made by the Executive Branch of government in accordance with the Public Services Continuation Plan outlined in Attachment A and incorporated herein by reference, taking into consideration the available financial resources and the competing financial obligations of the Commonwealth.
7. Executive Branch agencies are hereby directed to operate beginning July 1, 2004, within the monetary parameters set forth in Attachment A and incorporated herein by reference.
8. Pursuant to this Order and in accordance with KRS 48.400 *et seq.*, the Secretary of the Finance and Administration Cabinet shall also have the authority, after consultation with the State Budget Director, to make adjustments to the First Quarter Spending Authorizations as provided in Attachment A, including the authority to move funds from one account to another, as may be necessary to protect the financial interests of the state.
9. In addition to the monthly reports as to the financial condition of the state and its budget units required by KRS 48.400, the Secretary of the Finance



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER
2004-650

June 28, 2004

Secretary of State
Frankfort
Kentucky

and Administration Cabinet shall make monthly reports to the Governor, the Chief Justice, and the Legislative Research Commission on all expenditures authorized pursuant to this Order.

10. Unless otherwise directed by the issuance of a subsequent Executive Order, all state personnel normally scheduled for duty shall continue to report for service at their usual duty station at their regularly scheduled hours pursuant to state law.
11. All state agencies and department heads are hereby authorized to perform such lawful acts as may be undertaken to implement the provisions of this Order.
12. The provisions of this Order shall remain in full force and effect until September 30, 2004, unless sooner rescinded or superseded by subsequent Executive Order or by legislative enactment of a budget.
13. **This Order shall become effective immediately upon filing with the Secretary of State.**


ERNIE FLETCHER
GOVERNOR


TREY GRAYSON
SECRETARY OF STATE



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

2004-1092

September 30, 2004

RELATING TO TEMPORARY EMERGENCY EXPENDITURES PROVIDING FINANCING FOR THE OPERATIONS, MAINTENANCE, SUPPORT, AND FUNCTIONING OF THE EXECUTIVE BRANCH OF THE GOVERNMENT OF THE COMMONWEALTH OF KENTUCKY AND ITS VARIOUS OFFICERS, CABINETS, DEPARTMENTS, BOARDS, COMMISSIONS, INSTITUTIONS, SUBDIVISIONS, AGENCIES, AND OTHER STATE-SUPPORTED ACTIVITIES FOR THE PERIOD BEGINNING OCTOBER 1, 2004, AND ENDING DECEMBER 31, 2004.

WHEREAS, under KRS 48.300, KRS 48.950, and Section 171 of the Kentucky Constitution, the General Assembly is empowered to raise and appropriate revenue and approve and adopt a balanced budget for the operation, maintenance, support, and functioning of the Government of the Commonwealth of Kentucky; and

WHEREAS, the Regular Session of the General Assembly convened on January 6, 2004, and thereafter enacted a budget for the Legislative and Judicial Branches but adjourned sine die on April 13, 2004, without enacting a budget for the Executive Branch for the fiscal year beginning July 1, 2004; and

WHEREAS, the General Assembly still has not enacted a budget for the Executive Branch for the fiscal year beginning July 1, 2004; and

WHEREAS, there is no express comprehensive statutory plan directing how the Commonwealth is to proceed in the event that the General Assembly fails or refuses to enact an Executive Branch budget; and

WHEREAS, the absence of an Executive Branch budget imperils the health, safety, and welfare of the Commonwealth by, *inter alia*:



**ERNIE FLETCHER
GOVERNOR**

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

- (1) putting at risk billions of federal fund dollars, the receipt of which is conditioned upon the availability of state matching funds;
- (2) curtailing the economic prosperity and growth potential of the Commonwealth, and potential employment opportunities for Kentuckians;
- (3) endangering the land, water, and air resources of the Commonwealth;
- (4) imperiling state emergency and disaster response systems, including local 911 operators;
- (5) disrupting operations of a myriad of facilities including but not limited to prisons, schools, mental hospitals, children's homes, and veterans' nursing home facilities;
- (6) obstructing the revenue collection processes of state and local governments;
- (7) jeopardizing the bond rating of the Commonwealth;
- (8) impeding timely payments from the State Treasury for goods received and services performed that are necessary for the day-to-day operations and maintenance of the programs and facilities of the Commonwealth; and
- (9) endangering the continuity and availability of services to all citizens of the Commonwealth; and

WHEREAS, pursuant to Sections 69 and 81 of the Kentucky Constitution, the supreme executive power of the Commonwealth is vested in the Governor and the Governor is explicitly empowered and mandated to "take care that the laws be faithfully executed"; and

WHEREAS, the expenditure of public funds is necessary in order for the Governor to fulfill his constitutionally mandated duty to faithfully execute the laws of the Commonwealth as its Chief Magistrate; and

WHEREAS, because the General Assembly still has failed to carry out its duty to enact an Executive Branch budget for the fiscal year beginning July 1, 2004, the Commonwealth remains confronted with an emergency requiring action by the Executive Branch to continue the operation of the government of the Commonwealth, including



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

providing financing from available revenue for the continued operation of government;
and

WHEREAS, the state budgeting and accounting system is predicated upon a system of quarterly allotments of funds to be expended in the manner authorized in this Executive Order; and

WHEREAS, this temporary plan shall remain in effect only until such time as the General Assembly enacts a biennial budget and appropriations bill which may occur as early as the second quarter of fiscal year 2005 which ends December 31, 2004;

NOW, THEREFORE, I, ERNIE FLETCHER, Governor of the Commonwealth of Kentucky, by virtue of authority vested in me by the Kentucky Constitution and in particular Sections 69 and 81, and as further vested in me by the laws of the Commonwealth, do hereby **FIND, DECLARE, ORDER, AND DIRECT** the following:

1. That a state of emergency continues to exist in the Commonwealth due to the failure of the General Assembly to enact a budget for the Executive Branch for the fiscal period beginning July 1, 2004, and ending June 30, 2005.
2. The declared emergency continues to pose a direct and serious imminent risk of harm to the preservation of order, the administration of justice, and the protection of the public health and property, all of which are fundamental purposes of government.
3. The sound and orderly management of the people's business mandates that any disruption of services due to the failure of the General Assembly to enact an Executive Branch budget should be minimized, and that state services must therefore continue to be provided on a predictable, regular, and established schedule.



**ERNIE FLETCHER
GOVERNOR**

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

4. These services should and must be provided to the extent possible within the reasonable boundaries of anticipated revenues which, for the fiscal year beginning July 1, 2004, and ending June 30, 2005, have been forecasted pursuant to statutorily recognized estimating procedures.
5. Through its adoption of House Bill 396, the General Assembly has made appropriations for the use of the Judicial Branch totaling \$234,648,400, and in House Bill 397 for the Legislative Branch totaling \$40,731,400, leaving \$20,739,752,600 in previously estimated revenues identified for use by the Executive Branch, as modified by the Consensus Forecasting Group estimates of June 8, 2004, for the operation and function of the Executive Branch of government.
6. The authority of the Governor, pursuant to Sections 69 and 81 of the Kentucky Constitution, to cause the expenditure from the State Treasury of such available funds as may be necessary for the operation of government and the execution of the laws of the Commonwealth by the Executive Branch is hereby reaffirmed. Accordingly, the Secretary of the Finance and Administration Cabinet is hereby authorized to issue warrants for the payment of all claims as may be made by the Executive Branch of government in accordance with the Public Services Continuation Plan outlined in Attachment A and incorporated herein by reference, taking into consideration the available financial resources and the competing financial obligations of the Commonwealth.
7. Executive Branch agencies are hereby directed to operate beginning October 1, 2004, within the monetary parameters set forth in Attachment A and incorporated herein by reference.
8. Pursuant to this Order and in accordance with KRS 48.400 *et seq.*, the Secretary of the Finance and Administration Cabinet shall also have the authority, after consultation with the State Budget Director, to make



**ERNIE FLETCHER
GOVERNOR**

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

adjustments to the First and Second Quarter Spending Authorizations as provided in Attachment A, including the authority to move funds from one account to another, as may be necessary to protect the financial interests of the Commonwealth.

9. Pursuant to Order of the Franklin Circuit Court dated July 15, 2004, no funds shall be spent for new programs or capital projects not authorized by the General Assembly, nor shall funds be expended in excess of the appropriation made by the General Assembly for the Executive Branch for Fiscal Year 2004.
10. In addition to the monthly reports as to the financial condition of the state and its budget units required by KRS 48.400, the Secretary of the Finance and Administration Cabinet shall make monthly reports to the Governor, the Chief Justice, and the Legislative Research Commission on all expenditures authorized pursuant to this Order.
11. Unless otherwise directed by the issuance of a subsequent Executive Order, all state personnel normally scheduled for duty shall continue to report for service at their usual duty station at their regularly scheduled hours pursuant to state law.
12. All state agencies and department heads are hereby authorized to perform such lawful acts as may be undertaken to implement the provisions of this Order.
13. The provisions of this Order shall remain in full force and effect until December 31, 2004, unless sooner rescinded or superseded by subsequent Executive Order or by legislative enactment of a budget.



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER

Secretary of State
Frankfort
Kentucky

14. This Order shall become effective immediately upon filing with the Secretary of State.


ERNIE FLETCHER
GOVERNOR


TREY GRAYSON
SECRETARY OF STATE



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

2004-1373

December 29, 2004

RELATING TO TEMPORARY EMERGENCY EXPENDITURES PROVIDING FINANCING FOR THE OPERATIONS, MAINTENANCE, SUPPORT, AND FUNCTIONING OF THE EXECUTIVE BRANCH OF THE GOVERNMENT OF THE COMMONWEALTH OF KENTUCKY AND ITS VARIOUS OFFICERS, CABINETS, DEPARTMENTS, BOARDS, COMMISSIONS, INSTITUTIONS, SUBDIVISIONS, AGENCIES, AND OTHER STATE-SUPPORTED ACTIVITIES FOR THE PERIOD BEGINNING JANUARY 1, 2005, AND ENDING MARCH 31, 2005.

WHEREAS, under KRS 48.300, KRS 48.950, and Section 171 of the Kentucky Constitution, the General Assembly is empowered to raise and appropriate revenue and approve and adopt a balanced budget for the operation, maintenance, support, and functioning of the Government of the Commonwealth of Kentucky; and

WHEREAS, the Regular Session of the General Assembly convened on January 6, 2004, and thereafter enacted a budget for the Legislative and Judicial Branches but adjourned sine die on April 13, 2004, without enacting a budget for the Executive Branch for the fiscal year beginning July 1, 2004; and

WHEREAS, the Extraordinary Session of the General Assembly convened on October 5, 2004, and thereafter enacted House Bill 1, which provides appropriations for the Support Education Excellence in Kentucky program and salaries and benefits including health insurance for active and retired public employees, but adjourned sine die on October 19, 2004, without enacting a budget for the remainder of the Executive Branch of Government for the fiscal year beginning July 1, 2004; and

WHEREAS, there is no express comprehensive statutory plan directing how the Commonwealth is to proceed in the event that the General Assembly fails or refuses to enact an Executive Branch budget; and



**ERNIE FLETCHER
GOVERNOR**

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

WHEREAS, the absence of an Executive Branch budget imperils the health, safety, and welfare of the Commonwealth by, *inter alia*:

- (1) putting at risk billions of federal fund dollars, the receipt of which is conditioned upon the availability of state matching funds;
- (2) curtailing the economic prosperity and growth potential of the Commonwealth, and potential employment opportunities for Kentuckians;
- (3) endangering the land, water, and air resources of the Commonwealth;
- (4) imperiling state emergency and disaster response systems, including local 911 operators;
- (5) disrupting operations of a myriad of facilities including but not limited to prisons, schools, mental hospitals, children's homes, and veterans' nursing home facilities;
- (6) obstructing the revenue collection processes of state and local governments;
- (7) jeopardizing the bond rating of the Commonwealth;
- (8) impeding timely payments from the State Treasury for goods received and services performed that are necessary for the day-to-day operations and maintenance of the programs and facilities of the Commonwealth; and
- (9) endangering the continuity and availability of services to all citizens of the Commonwealth; and

WHEREAS, pursuant to Sections 69 and 81 of the Kentucky Constitution, the supreme executive power of the Commonwealth is vested in the Governor and the Governor is explicitly empowered and mandated to "take care that the laws be faithfully executed"; and

WHEREAS, the expenditure of public funds is necessary in order for the Governor to fulfill his constitutionally mandated duty to faithfully execute the laws of the Commonwealth as its Chief Magistrate; and

WHEREAS, because the General Assembly still has failed to carry out its duty to enact an Executive Branch budget for the fiscal year beginning July 1, 2004, the Commonwealth remains confronted with an emergency requiring action by the Executive



**ERNIE FLETCHER
GOVERNOR**

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

Branch to continue the operation of the government of the Commonwealth, including providing financing from available revenue for the continued operation of government; and

WHEREAS, the state budgeting and accounting system is predicated upon a system of quarterly allotments of funds to be expended in the manner authorized in this Executive Order; and

WHEREAS, this temporary plan shall remain in effect only until such time as the General Assembly enacts a biennial budget and appropriations bill which may occur as early as the third quarter of fiscal year 2005 which ends March 31, 2005;

NOW, THEREFORE, I, ERNIE FLETCHER, Governor of the Commonwealth of Kentucky, by virtue of authority vested in me by the Kentucky Constitution and in particular Sections 69 and 81, and as further vested in me by the laws of the Commonwealth, do hereby **FIND, DECLARE, ORDER, AND DIRECT** the following:

1. That a state of emergency continues to exist in the Commonwealth due to the failure of the General Assembly to enact a budget for the Executive Branch for the fiscal period beginning July 1, 2004, and ending June 30, 2005.
2. The declared emergency continues to pose a direct and serious imminent risk of harm to the preservation of order, the administration of justice, and the protection of the public health and property, all of which are fundamental purposes of government.
3. The sound and orderly management of the people's business mandates that any disruption of services due to the failure of the General Assembly to enact an Executive Branch budget should be minimized, and that state services must therefore continue to be provided on a predictable, regular, and established schedule.
4. These services should and must be provided to the extent possible within the reasonable boundaries of anticipated revenues which, for the fiscal year



ERNIE FLETCHER
GOVERNOR

EXECUTIVE ORDER

Secretary of State

Frankfort
Kentucky

beginning July 1, 2004, and ending June 30, 2005, have been forecasted pursuant to statutorily recognized estimating procedures.

5. The authority of the Governor, pursuant to Sections 69 and 81 of the Kentucky Constitution, to cause the expenditure from the State Treasury of such available funds as may be necessary for the operation of government and the execution of the laws of the Commonwealth by the Executive Branch is hereby reaffirmed. Accordingly, the Secretary of the Finance and Administration Cabinet is hereby authorized to issue warrants for the payment of all claims as may be made by the Executive Branch of government in accordance with the Public Services Continuation Plan outlined in Attachment A and incorporated herein by reference, taking into consideration the available financial resources and the competing financial obligations of the Commonwealth.
6. Executive Branch agencies are hereby authorized to operate beginning January 1, 2005, within the monetary parameters set forth in Attachment A and incorporated herein by reference, in combination with the provisions of House Bill 1 as enacted during the 2004 Extraordinary Session of the General Assembly.
7. Pursuant to this Order and in accordance with KRS 48.400 *et seq.*, the Secretary of the Finance and Administration Cabinet shall also have the authority, after consultation with the State Budget Director, to make adjustments to the First, Second and Third Quarter Spending Authorizations as provided in Attachment A, including the authority to move funds from one account to another, as may be necessary to protect the financial interests of the Commonwealth.
8. No funds shall be spent in contravention of the Order of the Franklin Circuit Court dated December 15, 2004.



ERNIE FLETCHER
GOVERNOR

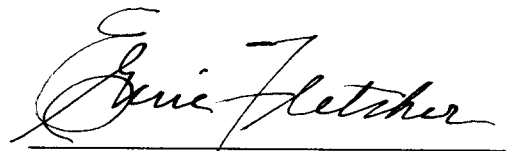
EXECUTIVE ORDER

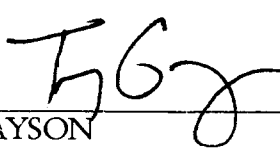
Secretary of State

Frankfort
Kentucky

9. In addition to the monthly reports as to the financial condition of the state and its budget units required by KRS 48.400, the Secretary of the Finance and Administration Cabinet shall make monthly reports to the Governor, the Chief Justice, and the Legislative Research Commission on all expenditures authorized pursuant to this Order.
10. Unless otherwise directed by the issuance of a subsequent Executive Order, all state personnel normally scheduled for duty shall continue to report for service at their usual duty station at their regularly scheduled hours pursuant to state law.
11. All state agencies and department heads are hereby authorized to perform such lawful acts as may be undertaken to implement the provisions of this Order.
12. The provisions of this Order shall remain in full force and effect until March 31, 2005, unless sooner rescinded or superseded by subsequent Executive Order or by legislative enactment of a budget.
13. **This Order shall become effective immediately upon filing with the**

Secretary of State.


ERNIE FLETCHER
GOVERNOR


TREY GRAYSON
SECRETARY OF STATE

LEGISLATIVE BRANCH

**2004-2006 BUDGET OF THE COMMONWEALTH
2005 REGULAR SESSION**



Legislative Branch

	<u>Requested FY 2005</u>	<u>Requested FY 2006</u>	<u>Enacted FY 2005</u>	<u>Enacted FY 2006</u>
SOURCE OF FUNDS				
General Fund				
Regular Appropriation	40,616,400	40,616,400	40,939,400	41,370,500
Continuing Appropriation	10,878,500	6,251,800	9,878,500	5,251,800
Total General Fund	<u>51,494,900</u>	<u>46,868,200</u>	<u>50,817,900</u>	<u>46,622,300</u>
Restricted Funds				
Current Receipts	115,000	200,000	115,000	200,000
Total Restricted Funds	<u>115,000</u>	<u>200,000</u>	<u>115,000</u>	<u>200,000</u>
TOTAL SOURCE OF FUNDS	<u>51,609,900</u>	<u>47,068,200</u>	<u>50,932,900</u>	<u>46,822,300</u>
EXPENDITURES BY CLASS				
Personnel Cost	35,702,800	38,733,300	36,424,000	38,487,400
Operating Expenses	7,276,200	8,084,900	7,357,100	8,084,900
Capital Outlay	1,879,100	250,000	1,900,000	250,000
TOTAL EXPENDITURES	<u>44,858,100</u>	<u>47,068,200</u>	<u>45,681,100</u>	<u>46,822,300</u>
EXPENDITURES BY FUND SOURCE				
General Fund	45,243,100	46,868,200	45,566,100	46,622,300
Restricted Funds	115,000	200,000	115,000	200,000
TOTAL EXPENDITURES	<u>45,358,100</u>	<u>47,068,200</u>	<u>45,681,100</u>	<u>46,822,300</u>

The legislative powers of the Commonwealth of Kentucky are vested in the General Assembly and found in Sections 29 through 62 of the Kentucky Constitution. The purpose of the Legislature is to make the state's laws, to determine the duties and services of government, to provide for their execution, and to levy taxes and appropriate funds for the support of government operations.

The General Assembly, as specified by the Constitution, consists of 38 Senators and 100 Representatives, each representing districts as nearly equal as possible as prescribed by Section 33 of the Kentucky Constitution. Members of the House of Representatives are elected for two-year terms. Members of the Senate serve four-year terms, with one-half of the Senate elected every two years.

The Legislative Research Commission is a fact-finding and service agency for the Kentucky General Assembly. It is a statutory body created and maintained since 1948. The Commission is bipartisan and is composed of the leadership of both the House and Senate with the Senate President and House Speaker serving as co-chairman. The LRC staff provides research, bill drafting, and other administrative functions for the legislature.

House Bill 397 authorized funding for the major programs operating within the Legislative Branch of government. The appropriation units are the General Assembly and the Legislative Research Commission. The General Assembly appropriation is comprised of three programs, General Assembly, Kentucky Legislative Ethics, and Kentucky Long Term Planning and Research. The Legislative Research Commission appropriation is comprised of a single element, the Legislative Research Commission.

The above appropriation includes funds for the Legislators Retirement Plan in each fiscal year and provides for the continuation of the annual cost of living adjustment authorized for the 2004-2006 biennium. Notwithstanding KRS 6.190, and 6.213, the daily compensation provided by KRS 6.190 and the interim expenses allowance provided by KRS 6.213 for members of the General Assembly shall be authorized for the 2004-2006 biennium and shall continue as adjusted on January 1, 2005, and January 1, 2006, by the all urban consumer price index (CPI-U) not to exceed the cost-of-living provided to state employees in the state/executive branch budget but not less than zero percent per annum. Notwithstanding KRS 6.220, in lieu of stationery, there shall be allowed to each member of the House of Representatives the sum of \$250 and to each member of the Senate the sum of \$500. This allowance shall be paid out of the State Treasury at the beginning of the session.

Notwithstanding the provisions of KRS 45.229, any unexpended balance remaining at the close of fiscal year 2005 shall not lapse but shall continue into the 2006 fiscal year and any unexpended balance in any succeeding fiscal year shall not lapse, but shall continue into the following fiscal year.

House Bill 1, enacted in 2004 Special Session of the General Assembly, provided an additional General Fund appropriation of \$323,000 in fiscal year 2005 and \$646,000 in fiscal year 2006 for health insurance. Additionally, House Bill 267, enacted by the 2005 General Assembly, provided additional General Fund dollars of \$108,100 in fiscal year 2006 for health insurance.

Budget of the Commonwealth

Legislative Branch

House Bill No. 397

Tuesday, March 9, 2004

House Bill 397 can be found at the link address below

<http://www.lrc.ky.gov/record/04rs/HB397/bill.doc>

JUDICIAL BRANCH

**2004-2006 BUDGET OF THE COMMONWEALTH
2005 REGULAR SESSION**

Judicial Branch

	<u>Requested FY 2005</u>	<u>Requested FY 2006</u>	<u>Enacted FY 2005</u>	<u>Enacted FY 2006</u>
SOURCE OF FUNDS				
General Fund				
Regular Appropriation	241,001,000	278,919,500	220,255,700	232,048,900
Total General Fund	241,001,000	278,919,500	220,255,700	232,048,900
Restricted Funds				
Balance Forward	7,556,300	4,217,900	7,556,300	4,217,900
Current Receipts	4,233,200	4,277,500	4,803,100	5,455,200
Non-Revenue Receipts	5,724,700	5,680,400	5,154,800	4,502,700
Total Restricted Funds	17,514,200	14,175,800	17,514,200	14,175,800
Federal Funds				
Current Receipts	3,096,500	1,604,200	3,096,500	1,604,200
Total Federal Funds	3,096,500	1,604,200	3,096,500	1,604,200
TOTAL SOURCE OF FUNDS	261,611,700	294,699,500	240,866,400	247,828,900
EXPENDITURES BY CLASS				
Personnel Cost	161,835,400	176,364,800	155,393,300	166,966,900
Operating Expenses	93,450,100	115,546,800	80,375,900	79,982,700
Capital Outlay	2,108,300	2,787,900	879,300	879,300
TOTAL EXPENDITURES	257,393,800	294,699,500	236,648,500	247,828,900
EXPENDITURES BY FUND SOURCE				
General Fund	241,001,000	278,919,500	220,255,700	232,048,900
Restricted Funds	13,296,300	14,175,800	13,296,300	14,175,800
Federal Funds	3,096,500	1,604,200	3,096,500	1,604,200
TOTAL EXPENDITURES	257,393,800	294,699,500	236,648,500	247,828,900

The judicial powers of the Commonwealth of Kentucky are vested in one Court of Justice under Section 109 of the Kentucky Constitution. Fully implemented in 1978, the Court constitutes a Unified Judicial System for operation and administration. The purpose of the Kentucky Judicial Branch of government is to provide equal justice for all persons who become involved in the Kentucky court system through due process of law, administered without favor, denial or delay, and to carry out all provisions of the Judicial Article of the Constitution.

The Kentucky court system is a four-tiered system of adjudication including a Supreme Court, Court of Appeals, Circuit Court, and District Court. Moreover, in 2002, a constitutional amendment was approved formally sanctioning the creation of Family Courts. The goal of these courts is to hear and determine expeditiously all cases which may come before the Court of Justice to interpret the laws of the Commonwealth, make decisions and issue opinions related thereto.

The Circuit Clerks' offices in each county have as their goal the provision of an effective and manageable system of clerical support and maintenance of court records for the circuit and district courts.

The Administrative Office of the Courts, Juvenile Services, Pretrial Services, State Law Library, the ancillary boards and commissions, and the local court facilities program have the following goals:

- To provide the administrative support necessary to carry on the operation of the Court of Justice and to have adequate personnel, facilities, equipment, and operating expenditures to carry out the Judicial Branch's constitutional and statutory responsibilities.

- To ensure a system of financial management and accountability for the Court of Justice.

- To carry on a continuous survey of the organization, operation, and other aspects of the Court of Justice and to make improvements thereof.

Funding for the Judiciary has been authorized via House Bill 396. House Bill 396 is the Judicial Appropriations Bill authorizing funds for major programs, Court Operations and Administration, Local Facilities Fund, and the Judicial Retirement Plan portion of the Judicial Form Retirement System.

In House Bill 1, enacted in the 2004 Special Session of the General Assembly, the Judicial Branch received an additional General Fund appropriation of \$2,000,100 in fiscal year 2005 and \$3,761,000 in fiscal year 2006 for health insurance and an additional cost-of-living adjustment effective January 1, 2005. Additionally, House Bill 267, enacted by the 2005 General Assembly, provided additional General Fund dollars of \$1,077,400 in fiscal year 2006 for health insurance.

Budget of the Commonwealth

Judicial Branch

House Bill No. 396

As Enacted And Vetoed In Part

Tuesday, March 9, 2004

Friday, April 23 – Vetoed In Part

House Bill 396 can be found at the link address below

<http://www.lrc.ky.gov/record/04rs/HB396/bill.doc>

State of the Commonwealth Address

Governor Ernie Fletcher
Tuesday, February 01, 2005
07:00 PM

Governor Fletcher's 2005 State of the Commonwealth Address in the House Chambers of the State Capitol.

First Lady, Lieutenant Governor Pence, President Williams and Speaker Richards, Legislators, Constitutional Officers, Justices and my fellow Kentuckians, it is a time-honored tradition that brings me here tonight to reflect upon our great Commonwealth.

I want to first recognize Representative Bruce as the longest serving member. He could not be here.

We are thankful he is now home from the hospital and watching us tonight.

The people of Kentucky vest in us the responsibility of determining the character of state government. Only those who have served in this chamber know the sense of that responsibility.

Every challenge we are willing to confront in a humble, bipartisan manner is an opportunity for progress -- a moment that can make us stronger, healthier, more prosperous and more united.

Let me congratulate and welcome the new members of the General Assembly and Justice Scott. Your service is an esteemed duty you have well earned.

Candor acknowledges that partisanship inflamed by election year politics characterized this past year.

We did have a record turnout on Election Day, as Secretary of State Trey Grayson will attest. Participation was so high in fact, that 39 Senators showed up for work in January.

On a more serious note let me welcome Senator Julian Carroll our 52nd Governor and former Speaker of the House back to these chambers.

This is a new year and we have a new opportunity. We are all Kentuckians and we all want Kentucky to flourish and prosper.

We are especially proud of Kentucky's National Guard and the other armed services. We currently have 1,532 National Guard soldiers serving overseas whose dedication allowed historic elections in Iraq this past weekend.

With honor and bravery, these sons and daughters fight for our safety by helping spread the God-given right of freedom. In the gallery tonight are Captain Adrian Wheeler, Master Sergeant Jonathan Rosa and Staff Sergeant Kelly Reeves. All have returned from Iraq where they served valiantly.

Please join me in saluting them and all our troops.

Let me also recognize Bill Hintze for his decades of service in the state budget director's office. He will be retiring soon. Bill, thanks for your devotion and service.

A year ago, I reported that the state of the Commonwealth was "as challenging as it has ever been in the modern age."

Yet, in many ways we have had a good year.

Our economy is recovering. The unemployment rate is lower at 4.5 percent.

The test scores of our students continue to improve.

We established the Office of Drug Control Policy - and let me recognize Lieutenant Governor Pence for his outstanding work along with Attorney General Stumbo.

We launched Recovery Kentucky, a program to establish ten rehabilitation centers across our state to combat the addiction crisis.

We saved over 74 million dollars in the transportation cabinet alone.

We reduced the number of cabinets from fourteen to nine, and with your help, passing the appropriate reorganization bills, we will complete that effort.

We cancelled over 2000 state credit cards and lowered the annual

credit limit by 285 million dollars.

We implemented many other cost-saving ideas, some of which came from state employees themselves, to save millions of dollars and to fulfill our promise to operate government more efficiently.

And the people have chosen a new brand for our state, "Unbridled Spirit".

As we enter a new year, we are at a crossroad.

One way is the timid status quo, with a budget that bridles our future.

The other way is a courageous course that unbridles opportunity and prosperity. But to forge that path we must pass tax modernization.

There is another choice – doing nothing – but that is not an option. As we all learned in high school civics, a Governor doesn't have a vote when it comes to passing a budget. And Judge Crittenden recently opined that a Governor doesn't have the authority to spend money the General Assembly hasn't appropriated.

Although I disagree and believe that the inaction of one branch of government should not prevent another from fulfilling its responsibilities, we will respect the orders of the judiciary.

To that end, I have asked my administration to begin reviewing the steps which may be necessary to comply with the Courts' order. I sincerely hope that a government shutdown will not be required, but that's in your hands.

Tonight, I present to you two options.

The budget I present is based on our current tax code, a system rooted in an economy nearly 100 years old.

This is not the path I prefer, but if you cannot summon the will to reform our taxes then it is the path we are destined to take.

This budget only provides for the immediate needs for Medicaid and healthcare for our teachers and employees.

This budget allocates 57 percent of new anticipated revenue to education, 30 percent to Medicaid, 2 percent to Corrections and 11 percent to cover state workers and retirees under House Bill 1.

Let me now introduce the First Lady Glenna.

Within this budget, I have again included Read to Achieve, an effort led by the First Lady along with Senators Kelly and Westwood.

It also begins my effort to make our teacher's pay competitive by providing 26 million dollars in addition to the two percent raise for all state workers. This money will fund a flexible compensation plan aimed at retaining and recruiting quality teachers.

This is a priority of the Prichard Committee and I share this worthwhile goal.

I'm pleased to have Elaine Farris, Superintendent of Shelby County Schools, Kentucky's first African-American Superintendent and Jo Biehle, a nationally certified, Miliken award winning teacher with us here tonight.

Please join me in recognizing them.

This budget provides for a 20 percent increase for state and teacher health insurance, keeping the current benefits of HB1 intact for an additional 6 months under a self insured structure.

We will work with your Blue Ribbon Commission to address the rising, unsustainable costs.

Additionally, by expanding the use of coal severance tax to education and infrastructure, we can better serve the future of those families in some of our poorest counties.

I propose a three year pilot program where we will invest a portion of the economic development severance money in the 24 lowest performing school districts in coal counties – recognizing that education is an essential element for economic development.

We will help secure a solid foundation for life-long learning by utilizing early childhood health and readiness assessments, technology, targeted intervention, longitudinal student tracking and end of course assessments for students and professional development for educators.

To ensure efficiency and public safety, I will fund those projects that update our neglected information technology and early warning

systems.

I have also included 350 million dollars of road bonds and 150 million dollars of federal Garvey bonds to help meet our six year road plan needs.

The budget also calls for almost 2 million dollars annually for state trooper training stipends, because they deserve it.

I am pleased to have Trooper Rick Conn in the gallery tonight. Though he would deny it, Trooper Conn is a true hero who proved himself by helping to save a mother and her child from a burning house after he himself had already been severely burned by the fiery explosion.

Please join me in saluting Trooper Conn and all our law enforcement personnel.

I've expanded Kentucky's newborn screening process to include testing for 29 different illnesses, bringing Kentucky in line with the March of Dimes' national standard.

But, the budget based upon our current tax system does not contain the general fund career building projects at our universities that you and I want and that were contained in last year's budget.

Last year, in the House budget projects were included without debt service funding.

We cannot issue bonds or begin projects without appropriated debt service and we cannot afford future debt without modernizing our tax system.

Some will say that I could have included other projects that would not require general fund money. They are right and I hope we can agree to build those projects.

But I am cautious about our bond rating because our reserves are only seven-tenths of 1 percent under this budget.

This budget will allow us to continue government services, but it is not the vibrant vision we share for Kentucky.

Currently, too many of our best and brightest college graduates leave

Kentucky every year. We raise, train and educate them only to benefit employers in other states.

My vision for Kentucky is a Commonwealth where there is so much economic opportunity, and our quality of life is so high, that people who are born here can stay here, and people who aren't fortunate enough to be born in Kentucky, can look forward to locating here.

I believe the only responsible way to build a brighter future is to bring our outdated tax system into the 21st Century.

Why? Because our existing tax code doesn't attract or keep our young talent in Kentucky.

It is unreliable, unfair, and in some parts unconstitutional.

It is a tax system that has brought us to a point where the number of Medicaid recipients exceeds the number of students in our public schools.

And it is holding us back to the point where our per capita income is 20 percent below the national average.

Think of what a disaster that spells for the future and what burden that will place on the next generation.

Our current tax system will not provide tomorrow's support for education and healthcare.

It will not substantially reduce the poverty level.

The current telecom tax structure was designed in the era of the crank phone and Alexander Graham Bell. That was even before Rep Bruce was first elected.

Our corporate license tax was established in 1906 - eleven years before the Soviet Union was established. Superpowers may come and go, but Kentucky's tax code is apparently forever.

Let me outline some of the specifics of our JOBS for Kentucky Plan.

First, support of this plan is consistent with the tax pledge many have taken.

It is tax neutral over the period required for full implementation. That means that tax increases are offset by tax reductions.

Within that period there is positive revenue for this budget cycle due to the timing of the closing of loopholes and implementation of the cigarette tax.

All the while, the burden on small Kentucky businesses is reduced and loopholes for larger out-of-state businesses are closed.

That early boost will help us bridge the challenges we currently face.

My plan will cut income tax rates on virtually all working Kentuckians, attract high-quality businesses and bring more stability to the budgeting process.

Most importantly, my plan will BRING JOBS TO KENTUCKY - more than 10,000 additional jobs by its first full year of implementation.

That's 3000 more jobs than last year's plan because we reduce the income tax levels.

This plan will lower the individual income tax rate by 9 percent, and 99 percent of working Kentuckians will have more take home pay.

The need for lower income tax rates became obvious during the 17 forums we held across the state.

From our Hopkinsville forum, Senator Pendleton and Rep. Carr will tell you that when you leave Fort Campbell, you turn right to Tennessee or left to Kentucky.

Unfortunately, over eighty percent of the soldiers turn right and choose Tennessee instead of Kentucky as their home.

Why? It isn't for the barbecue.

Tennessee doesn't have an income tax.

We will attract more people to Kentucky by lowering our income tax rate.

In fact, lowering the income tax rate is the single most important thing we can do to create opportunity.

If you don't believe me, just ask the soldiers who go home to Tennessee

My plan removes 211,000 filers, representing 485,000 Kentucky family members from the tax rolls altogether.

We tax the poor more than any state. It is time to stop.

Our current system encourages out of state companies doing business here to move their profits, operations, and most importantly, jobs, out of state to avoid paying Kentucky taxes.

In 1994 you passed a good law for small businesses that allowed the formation of limited liability companies. The law never anticipated that large out of state companies would use that structure as a way of avoiding corporate tax.

These loopholes are neither fair nor responsible.

By requiring out-of-state companies to pay their fair share, the tax burden for Kentuckians is reduced.

Other portions of the current tax code have been declared unconstitutional. We fix those problems.

I propose a fair, simple and uniform tax on all communications services, holding local governments and school districts harmless.

We will continue to work with you to ensure that a level playing field exists for companies providing these like services.

Raising the cigarette tax is also a matter of fairness and sound public policy. A tax on cigarettes is purely voluntary. If you don't buy cigarettes, you don't pay the tax.

Kentucky has the highest incidence of smoking in the country. Nationally we rank first in deaths from cancer and fourth from heart disease.

And it's undeniable that smoking contributes to increased health insurance and Medicaid costs.

Raising the cigarette tax will send a healthier message to our children.

Frankly, the support for a cigarette tax at our forums surprised me.

There was overwhelming support for greater than a 50 cent increase.

My plan starts at 34 cents a pack and establishes a formula that will allow it to increase at a competitive rate with surrounding states.

I also propose to extend the sales tax to packaged alcohol. When you buy a glass of wine in a restaurant you pay sales tax, but when you buy a bottle of wine at the store you do not. We are simply harmonizing that sales tax.

The tax plan I offer tonight includes incentives to help promote education and economic growth.

I'm proposing a tuition tax credit of up to 500 dollars for each student going to Kentucky colleges and universities. This will help working families cope with the rising cost of tuition.

It includes Rep. Damron's "Back to School Sales Tax Holiday".

I've included deductions to help small businesses take advantage of federal health savings accounts.

Additionally, several other incentives are included: a Kentucky enterprise initiative to give tax credits for hard construction and research and development costs, an equine breeder incentive development program to grow our equine industry and keep Kentucky the Horse Capital of the World.

I've also proposed Brownfield credits, clean coal technology credits, environmental stewardship credits and alternative fuel credits. This plan promotes economic development while being environmentally responsible.

This plan also allows for historic preservation credits to help us keep our heritage.

I have now outlined a budget without tax modernization as well as most of the details of my tax plan.

My preference is that you pass a budget with the bridge supplied by tax modernization.

It is a better path that allows us to invest more for today and build more for tomorrow.

With the passage of the JOBS for Kentucky Plan you will have more revenue for the budget you are charged to enact.

I propose that we invest the extra money to grow opportunity, build careers and strengthen education. I prefer and I believe Kentuckians will prefer this unbridled path.

This requires you to pass the tax modernization plan. The JOBS for Kentucky Plan provides more revenue for the current budget cycle without raising taxes and provides for dynamic growth as our economy grows in the years to come.

Let me be specific how I would like the extra money to be spent:

- 35 million dollars to primary and secondary education.
- 10 million dollars additional to our flexible teacher pay program for a total of almost 36 million dollars.
- An additional 10 million dollars for a total of 22 million dollars to post-secondary education to help restore the funding cuts they've suffered over the last few years.
- 26 million to our reserve fund along with additional funding of debt service, which allows us to maintain our bond rating while building pharmacy and research buildings at UK and U of L as well as 500 million dollars worth of other projects that will build careers and create opportunity all across this Commonwealth.

It is embarrassing that graduates from Northern Kentucky University receive their diploma in Ohio. We need an adequate place for NKU to host their special events. It will better serve those students and be an important tool for economic development.

Additionally as we move into advanced agriculture and natural product technology, I would like to encourage you to protect Phase I tobacco money for those purposes as we pay our farmers the Phase II money they are relying on. Our tax plan assumes this will happen.

I also propose 6.8 million dollars to increase the per diem by 3 dollars for our county jails. It is neither fair nor sustainable for us to ask our counties to keep our prisoners at below their cost.

The budget we can have under a more stable, modern tax system meets more needs.

Let me now thank Representative Jimmy Lee and Senator Julie Denton for their refreshing bipartisan work on one of our most daunting challenges for the years to come-our Medicaid program.

With their help we have begun the work to address the Medicaid crisis. The pharmacy benefit alone will consume 820 million dollars of the 4.6 billion dollars we will spend on Medicaid this year.

We had 33,000 Medicaid recipients on twenty or more medications in a six month period. One individual received 108 separate medications per month.

As this demonstrates, we have a problem called "polypharmacy". We're doing something about it.

In December, we modernized the processing of prescriptions to ensure that dangerous drug combinations were identified. The result is a safer, more cost effective Medicaid program.

We joined eight other states to form the National Medicaid Pooling Initiative saving over 38 million dollars a year.

We've asked pharmacists to do their part.

Now, I also call upon my fellow physicians, who treat Medicaid patients, to review the medications they are prescribing and resist the pressure to over prescribe. We cannot overcome this problem without your help.

Another major danger to Kentucky's health care system is medical lawsuit abuse. The rising cost of medical liability insurance forces many talented doctors to leave Kentucky, jeopardizing quality of care.

We must have comprehensive reform to include independent boards for evaluating claims, tougher insurance oversight and a constitutional amendment that will allow reasonable caps.

Let me thank President Williams for his leadership on this issue.

Again, I ask you to pass the constitutional amendment that will allow voters to choose to keep their doctors in Kentucky.

Tonight I have presented two options to you, as I see them.

One is to continue to do what we've always done, knowing we'll get what we've always gotten.

Though the overwhelming need for a budget compels me to offer it, I do not prefer the type of budget that we must adopt without tax modernization.

History is filled with epic moments where a state is faced with enormous obstacles or daunting challenges.

This is such a moment.

Allow me to say this again, every challenge we are willing to confront in a humble, bipartisan manner is an opportunity for progress -- a moment that can make us stronger, healthier, more prosperous and more united.

In the remaining 25 days of this session, I challenge you to take the plans I have presented here, debate them, improve them if you will and present to me a budget and JOBS for Kentucky plan so our Commonwealth may be stronger.

I am optimistic about our future because I know our people are good, our hope is unwavering, our faith is unshakable and our spirit is unbridled.

Thank you and God bless and may God Bless Kentucky.

2004 Budget Address

Governor Ernie Fletcher
Tuesday, January 27, 2004

Governor Fletcher Announces the Commonwealth's 2004 Budget.

Governor Fletcher Submits Balanced Budget to Legislature

Lean budget focuses on education, economic growth and making Kentucky Competitive with Neighboring States

Governor calls for reasonable sacrifice from all Kentuckians

My Fellow Kentuckians, Lt. Governor Steve Pence, President Williams, Speaker Richards, Chief Justice Lambert, Constitutional Officers, members of the General Assembly, and other distinguished guests it is my honor to address you this evening and to present the Administration budget for the next biennium.

Let me first thank my budget director, Brad Cowgill, and his staff for the tireless hours they have worked to prepare this budget for Kentucky.

They are an outstanding group of people who are truly public servants.

In one of our early budget meetings, my Budget Director reported on our fiscal condition.

He stated something like this, "Well, there is still a dim light at the end of the tunnel"

However, he followed that with, "But, if we don't do something immediately we can't afford to pay the light bill."

As you know, we took immediate action to ensure that we not only paid the bill but we brightened our way for the next challenging biennium.

The principles and strategies guiding my recommendations, reflect a singular goal,

to increase economic opportunity by making Kentucky competitive:

A Competitive Kentucky that provides a world class education and provides skills and lifelong learning,

That empowers citizens to choose healthy lifestyles,

Where families and government are not overwhelmed with the cost of healthcare,

A Competitive Kentucky that aggressively pursues business and career opportunities.

And makes strategic investments for the future,

And a Competitive Kentucky that doesn't solve its budget problems by overburdening people or businesses with higher taxes.

This budget is conservative, goal-driven and compassionate.

It reflects a lot of tough decisions.

And it calls on each of you and every Kentuckian to make reasonable sacrifices for a better future.

It is a path that will take us together to a place we all want to be.

Our travel along this path will begin on July 1.

Our time here is brief, well maybe with the exception of Rep. Bruce.

But the course we together choose determines the character of the distant future.

Before we chart the biennial course, let us examine the ground on which we stand. and the territory we have come through since the inauguration.

It's now clear that I took the oath of this office just in time for the perfect storm . . .

a storm with a \$302 million shortfall in the current fiscal year, and a deficit in the next fiscal year predicted to be \$710 million.

This meant that within the first eighteen months of this administration we would have to resolve a financial crisis exceeding one billion dollars.

We went to work immediately, realizing that action was urgently required on two fronts:

First, we needed to get current year spending under control to prevent our checks from bouncing and to avoid shutting down operations before the end of this year,

Second, we needed to reduce spending by an additional 2.5% in each cabinet in order to form a temporary savings account of at least \$100 million which we could spend in the next year.

I am pleased to report success on both fronts.

On January 5, I signed a budget reduction order bringing spending under control and bringing the current year budget into balance.

This goal has not been achieved entirely by the efforts of the Executive Branch.

I am grateful to Chief Justice Lambert for the spending reductions of nearly \$2 million which he has pledged on behalf of the Judicial Branch.

And I am grateful to President Williams and Speaker Richards, for the contribution of over \$800,000 from the legislative budget.

To all of you who have given time, energy, encouragement, and even criticism I say thank you.

Working together, we are going to make it.

Our goal of saving at least \$100 million before June 30 will be achieved without cutting Medicaid or SEEK funding of local school districts.

And that money will permit our government to avoid the more dramatic cuts next summer which so many Kentuckians have feared.

And it will permit us to examine the budget without reducing spending from its current levels, but as the continuation of a baseline that we have already right-sized to the available revenue.

On July 1, our Commonwealth will not step off into a chasm.

We will step forward on a firm and level spending path.

In recent years we have relied heavily on nonrecurring revenue sources to pay our bills.

We've been spending a lot more than we've been taking in.

Because of the upward trend in government spending, our state has been withdrawing from our savings accounts in large amounts.

They are now depleted, and we must stop this practice.

Eliminating the habit of regularly spending more than we take in and establishing what we call a structural balance is an important goal.

And I am pleased to report that in the second year of this budget, we will eliminate the structural imbalance.

We still spend relatively small amounts from the restricted funds and only amounts that represent new recurring dollars.

The suit we must wear now is smaller.

It may pinch at our sleeves and waistline.

But if we shape up and exercise discipline, become fit and trim, we will show our fitness and be more prepared and more competitive.

When I ran for Governor, I promised to balance our budget without increasing the burden of taxes on hardworking Kentuckians.

I have kept my promise.

I also made a second promise.

That I would manage government aggressively to increase efficiency and add value to government spending

Efficiency and value mean doing the most with the least.

In the private sector, competition demands efficiency.

But efficiency in government is achieved only through self discipline and diligent stewardship.

Even if our government was overflowing with a surplus, it would still be our duty to give the people of Kentucky the best value for every dollar they give us.

Budget cuts can be done quickly, but efficiency takes time.

Time means I need the flexibility that has been given in the past.

Without this flexibility, programs will suffer unnecessarily as our ability to manage and move resources would be restricted.

With this flexibility and your oversight we can make our government more effective and efficient.

For example we are stopping the newspaper clipping service that had been used for years, saving up to \$100,000 a year.

If we replaced impact printers with laser printers we could save almost \$2 million in local tax billing.

We have 40 different marketing divisions many of which can be merged.

We will look at every area but that takes time.

Together we can stop the wasteful spending, provide better services and make a more welcoming place for those who create jobs.

This budget reflects a streamlined government. It gives us the technology and modern management tools we need so that our government can do more with less.

But, our broader focus is on opportunity, that means careers . . . careers for Kentuckians so they can stay and prosper right here at home.

Building careers builds prosperity. That was the test which every line of this budget had to pass.

We will not overlook the pillars of our great Commonwealth.

But the global economy is changing rapidly.

To prosper we will change with it and we will seize the opportunities of the Knowledge Economy.

To do this, we will recognize our universities and our community colleges as essential economic engines.

They transfer technology from the laboratory to the work place.

They are the incubators of human capital.

And for our colleges and universities to fulfill this role, we must invest in their training, technology transfer and research.

That's why our budget makes the wise investment of expanding research space in both of our major universities.

We are building future careers by our investment in seven Community and Technical Colleges across the state.

We have invested in every regional University in our Commonwealth.

This strategic investment will build careers from the Purchase area to the Big Sandy and from Northern Kentucky to the Cumberland.

We are also investing in a math and science academy to keep the best and brightest minds in Kentucky.

We are in tough times but it is no time for timidity.

We must make these investments now.

Our budget supports a coal bed methane initiative and the advancement of clean coal technology projects, including seed money to position Kentucky to compete for a billion dollar federal pilot plant.

As we advance our knowledge economy we will also invest in our great tourism potential.

We are making significant investments in our state parks and investing in marketing Kentucky to foster a rebirth of tourism and convention business.

We also want our communities to be compassionate and fair and we are helping those families who live in the rumbling flight path of the Louisville International Airport.

And we recognize that no part of this state will be competitive without clean water and an adequate waste water system.

Therefore, we have included money for such projects and instructed that they be chosen based on need and economic development potential.

I have provided over \$25 million dollars for economic development to support our New Economy initiatives.

And we will keep our promise to the farming community that half of the tobacco settlement money will be set aside for advancing agriculture.

To accomplish this I will work with Commissioner Ritchie Farmer who cannot be here tonight while he's promoting Kentucky agriculture.

I am also doing everything we can to ensure that we preserve our outstanding military facilities. That's why my budget includes \$1.2 million for Kentucky's Base Realignment and Closure efforts.

The average family borrows more than 30% of their income for their homes and cars

To do the proposed projects, we are borrowing less than past years and obligating only a responsible 6% of revenue for debt service.

To keep a solid low interest bond rating I encourage us not to exceed this level.

And I will not support borrowing to meet our operational expenses.

Delaying these strategic investments will only delay us moving Kentucky forward.

I urge you to join me in support of them.

In addition to these economic opportunity investments, I want to increase student scholarships in accordance with the statutory dedications of Lottery funds.

Beginning in Fiscal Year 2006, our state will dedicate 100% of lottery funds to education investments.

Second, our Adjutant General Storm, which by the way is a most fitting name, is passionate about recruitment and taking care of our troops especially as they are pulled from their homes to protect our freedoms.

To that end he has persuaded me.

We are providing college tuition for those brave men and women of our National Guard.

Third, I have included in the second year \$5 million toward ending the funding disparity at our regional universities--without a reduction in any university's operating funds.

Fourth, funds are provided to Kentucky State University for its land grant match with the Federal Government to fund the renovation of Young and Hathaway Halls.

At long last, this brings our Commonwealth to full compliance with the partnership agreement with the Federal Office of Civil Rights.

Fifth, I want to provide our colleges and universities reasonable funding for the operation and repair of existing facilities.

I have studied closely the needs of higher education in Kentucky.

I am convinced that even in tight times these five initiatives will help make Kentucky competitive.

But we'll not be competitive until all have been empowered with the critical thinking and technology skills required in the Knowledge-Based economy.

To impart these skills it is more essential than ever that we retain and attract outstanding teachers in our classrooms.

My goal is to raise the salaries of Kentucky teachers to parity with the average of our neighboring states.

To achieve that goal we must press forward even when times are hard and money is tight.

Therefore, I will insist that we increase the salaries of Kentucky classroom teachers by 1.5% in the first year and 3% in the second year.

Classified employees should be provided compensation increases of the same percentages.

During my campaign, I spoke of the need to get more money into the classroom where the magic of learning occurs.

In the months ahead, we will be suggesting ways to reduce overhead and get more resources into the classroom and to reduce the bureaucracy of the paperwork that teachers face.

An initiative that our first Lady is very passionate about is reading.

We believe, and the statistics prove, that children who cannot read at grade level by the third grade are far more likely to fail in every aspect of life.

I am grateful to Senators Kelly and Westwood and Speaker Richards and Representative Moberly for their leadership on our Read to Achieve initiative.

Over the course of the next two years, I have increased the funding for our "Read to Achieve" initiative by \$4 million to address the achievement gap we have in specific counties, in addition to the current funding for reading initiatives across the state.

Additionally, I have made reading a priority in directives for surplus spending.

It is absolutely imperative that we move forward aggressively with this early reading initiative.

Without raising taxes we want to keep our educational gains growing.

To do that we feel it is prudent and appropriate that for one year we ask our local school districts to use their reserve funds held by law in reserve for tough times to help us reach our goal for our teachers.

The current reserves held for such a time as this is over \$255 million or about 5 times what the entire state has in reserves.

By comparison, the 1.5% increase in the salaries of teachers and classified personnel

will result in an expense of \$36 million.

To take us to the next level it is critical that we recognize that the single most important factor in the education of a child is the quality of the teacher in the classroom.

Thus, in the most difficult fiscal year '05 we have authorized local school districts to reduce their reserve requirements to provide for this modest increase in salaries.

For the handful of school districts for whom this would create an extraordinary problem, we have created a supplemental fund.

In the second year, the state will fully fund both the 1.5% increase and the additional 3% increase.

In their evaluation of this proposal, I encourage school administrators to remember this:

We have and will continue to permit no cuts in the state's SEEK funding of public schools.

In fact, I propose to increase the basic SEEK funding in the second year.

Finally, I have also protected Family Youth Service Centers to the greatest extent possible.

We wish we could do even more and we all know that tax modernization will make that possible in the future.

During this last year I committed to other goals as well:

To deliver a dollar's worth of service for every dollar of taxes, to resist pressures to raise taxes,

to make the government accountable to the will of the people, free of improper influences,

to bring efficiency, modern management and high technology to the delivery of essential services.

We are in the process of revising how we review personal services through a system that will focus on maximizing value when services are needed through outsourcing.

Fiscal responsibility involves particularly tough choices in the field of medical care and health insurance because of the exploding costs.

The state government's cost of healthcare benefits for state employees and local school districts, if left unmanaged, will rise at unprecedented rates-35% in the next two years.

That level far exceeds the current financial capacity of our government.

A bold new plan of action is required.

That plan will enable us to empower every participant to make meaningful choices which effect their own health . . .

A new plan with health education programs and healthy lifestyle incentives, exercise programs, obesity, smoking and disease management, and drug cost controls.

A plan with those components will create savings.

In addition, we will make available a larger selection of coverage options to move us toward a more consumer driven healthcare system.

That means we need to include increased personal responsibility in our plans.

In the short run, we must make the employee healthcare plan more similar to employee healthcare programs in the private marketplace.

That means there will be increased cost sharing on everyone's part.

To ensure fairness, we will provide reduced rates to employees at the lowest end of the compensation scale, and to employees who need to enroll family members in the plan.

No employer, who expects to receive the respect and loyalty of employees, should fail to show respect and loyalty to them in return.

Many people predicted that balancing the budget without raising taxes would force us to make drastic cuts in the number of state merit employees.

We have not done that.

But, instead we have given state government employees what we have done for teachers - a 1.5% raise in the first year and 3.0 % raise in the second.

We have also funded the technology government employees need to do their work.

And, we will continue funding the Kentucky Retirement System at its current rate.

For a competitive Kentucky we must also modernize Medicaid.

If Medicaid grows at the current rate and remains unmanaged it will provide neither quality healthcare nor remain sustainable for Kentucky.

To begin that work, I have included money to replace our 20-year-old computer system that is written in COBOL.

Only two living souls in state government possess the ability to maintain this antiquated system. We must upgrade our technology.

The bottom line is that we must establish better care, benefit and cash management of Kentucky's Medicaid program to ensure the best care possible for our patients.

We must remember that quality care is less expensive than poor care.

The goal of this Administration is to maintain and better deliver Medicaid services within the current budget.

We will ensure more education and preventive care.

One-quarter of the Medicaid budget goes toward helping Medicaid patients with diabetes and asthma - this will be eased with education and disease management.

Some patients receive over 160 prescription medications in one month under the current Medicaid system - that is simply bad medicine.

Kentucky's Medicaid patient's annual prescriptions are more than double the national average.

Modernizing Medicaid will bring us in line with the national average.

Opportunity cannot exist without safe homes and communities.

I will maintain among the State police a sworn compliment of officers at the current level.

We will also provide funding to replace the outdated and inadequate facility in which criminal evidence is retained.

We are going to provide budgetary relief to the offices of the Commonwealth's Attorneys and the County Attorneys.

Their work is essential to the law and order of our communities.

Sadly, our Corrections Department is confronted with increased populations creating new budgetary challenges.

We have proposed funding to open the Elliott County prison to provide for additional needed prison capacity.

But we have done so under the plan of outsourcing and privatization to insure that we can sustain its operation.

This will secure jobs for the region while not taking funds from other important programs.

I have also provided funds to open and operate three new juvenile detention centers.

We all know that our state has been ravaged by drugs.

Lieutenant Governor Pence, in his capacity as Secretary of Justice, has undertaken one of the state's most critical missions.

We will be increasing our emphasis on treatment as an important component of a long-term solution.

We will use \$24 million in federal funds for treatment programs, and we will be leveraging our treatment efforts by reaching out to appropriate faith-based programs as partners.

We will aggressively pursue federal grants, and we are confident this proactive approach will lead to greater federal support of our public safety programs.

But we have lost federal funding of our drug court program, and I propose that we appropriate, to the Judicial Branch, the funds needed to continue that program.

In fact, I have included in the second year of this budget at the request of Chief Justice Lambert and Senator Stivers sufficient funds to extend the drug court program to 61 new counties.

Now, before I conclude, I am aware that we have made tough decisions that will draw some criticism.

But, let me remind you that our current tax code deters economic development and does not reflect the new, knowledge-based economy.

By modernizing our tax system, we will be able to generate economic growth, expand opportunity and avoid such tough times in the future.

In my life as a doctor I have presented tough choices to troubled families facing the gravest days of their lives.

As a new physician filled with fresh knowledge I remember an early encounter with a patient, I gave him all the diagnostic conclusions, the "what ifs" and my most likely diagnosis.

I recommended a course of treatment.

He replied, "That's all well and good but am I going to make it, am I going to get better?"

I had failed to give him the most comforting salve.

I learned then that a patient needs more than medicine, they need hope.

Tonight I have presented to you my prescription for Kentucky's next two years.

It is more than medicine.

It is hope for Kentucky's future.

Thank you, may God bless you and may God Bless our great Commonwealth.