

Executive Branch Budget FY 2010 - 2012

House Appropriations and Revenue
Committee

January 26, 2010

Mary Lassiter, State Budget Director

John Hicks, Deputy State Budget Director

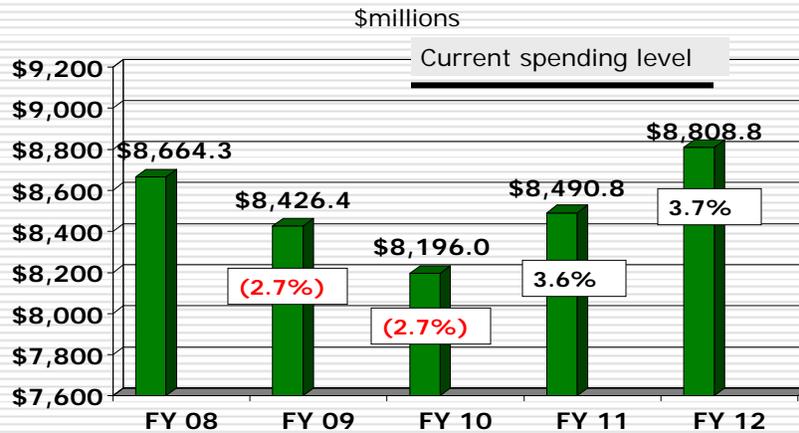
Kevin Cardwell, Deputy State Budget Director

Greg Harkenrider, Deputy Exec. Director, Governor's Office of
Economic Analysis

Governor's Goals

- Job creation and retention
 - No broad-based tax increases
 - Preserve SEEK funding
 - Provide healthcare for most vulnerable
 - Protect the public's safety
 - Increase recurring revenues
 - Make critical investments for the future
 - Continue to reduce costs
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FY08 Revenue Levels Will Not Return until FY12



Solutions to Address the Shortfall

- No Broad Based Tax Increases
- Revenue Growth
- Remaining Federal Stimulus Funds
- Debt Restructuring
- Limited Expansion of Gaming
- Alternative Financing
- Fund Transfers
- Revenue Collection Enhancements
- Kentucky Smart Government Initiative
- Continue to Reduce Spending

Revenue Growth

- Despite record unemployment and lagging current revenues, revenue growth is predicted for the next two years, reflecting signs of recovery from the recession

 - FY 11: 3.6% growth = \$295 million
 - FY 12: 3.7% growth = \$318 million
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Remaining Federal Stimulus Funds

- \$268 million State Fiscal Stabilization Funds
 - Six months of higher federal match rate in Medicaid
 - Will be exhausted in FY 11
 - Causes the General Fund need to be higher for:
 - SEEK
 - Postsecondary Education Institutions
 - Corrections
 - State Police
 - Medicaid
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Debt Restructuring

- ❑ Restructuring outstanding liabilities to realize debt service savings in the biennium.
- ❑ Upfront savings used to keep from cutting priorities – long term increased costs.
- ❑ FY 11: \$73 million
- ❑ FY 12: \$130 million

Gaming Revenues Prevent Deeper Cuts

	Biennial Total With Gaming Revenues (millions)	Biennial Total Without Gaming Revenues (millions)
Shortfall Between Resources and Spending Needs		
Previously Identified Shortfall	\$1,446	\$1,446
FY 10 Cuts and Other Adjustments	(\$64)	(\$64)
Medicaid Management Initiatives and Funding Gap	(\$205)	(\$205)
Debt Restructuring	(\$203)	(\$203)
Additional Recommended Spending	\$587	\$587
Revised Shortfall	<u>\$1,561</u>	<u>\$1,561</u>
Balancing Solutions to Fund Needs		
Expanded Gaming Revenues	\$780	\$0
Alternative Financing	\$488	\$488
Fund Transfers	\$116	\$116
Revenue Collection Enhancements	\$66	\$66
Budgeted Lapse for Smart Government Initiative	\$33	\$33
Budget Cuts	<u>\$78</u>	<u>\$858</u>
Total Solutions	\$1,561	\$1,561
Additional Percentage Cuts to Agencies Not Exempted	2% FY 11	14% FY 11
	2% FY 12	34% FY 12

Limited Areas with Additional Spending - Not Expanding Programs

	(millions)		
	FY 11	FY 12	Biennial Total
Health Insurance	\$62	\$111	\$173
Debt Service - New	\$30	\$112	\$142
Retirement Contributions	\$37	\$55	\$92
Judicial Branch	\$26	\$50	\$76
Teachers' Retirement	\$15	\$42	\$57
Education - SB 1 Implementation	\$12	\$10	\$22
Corrections	\$3	\$10	\$12
Other	\$8	\$5	\$13
Total	\$192	\$395	\$587

VLT's at the Horse Racing Tracks

- Virtually the same proposal adopted by the House in the Special Session
 - Creates recurring revenues to keep from cutting deeper and more areas, such as education – keeps proceeds in the General Fund
 - License fees advanced in year 2
 - Preserve the Horse Industry
 - Protect 100,000 jobs
 - FY 11: \$204 million
 - FY 12: \$576 million
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Alternative Financing

- Bond fund long-term expenditures to minimize impact of cuts to priority areas
 - Underground Storage Tank Program
 - Maintenance Pools
 - KY Heritage Land Conservation projects
 - Wetland / Stream Mitigation projects
 - Student Financial Aid
 - Aviation Economic Development Trust Fund
 - FY 11: \$224 million FY 12: \$264 million
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Fund Transfers

- Biennial review of funds that can be transferred to the General Fund
- FY 11: \$54 million*
- FY 12: \$62 million*

*Note: Does not include fund transfers being replaced with bond funds

Revenue Collection Enhancements

- Expedite collection of tax bills in protest
 - Require estimated payments for non-resident pass-through returns
 - Implement federal vendor offset program
 - Contract for collections and new data sources to improve compliance
 - Broaden existing state vendor offset program
 - Pilot abandoned real property escheatment
 - FY 10: \$23 million
 - FY 11: \$ 9 million
 - FY 12: \$33 million
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Kentucky Smart Government Initiative

- Comprehensive Review of:
 - Property Management
 - Sale of non-essential assets
 - Review of all leases
 - Business Solutions
 - Information Technology
 - Transportation Services
 - Postal Services
 - Contracts
 - Targeted Savings

	FY 11	FY 12
■ All Funds	\$37.3 M	\$40.1 M
■ General Fund	\$16.3 M	\$17.0 M
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Continue Spending Reductions

- 2% further reductions for most agencies in FY 11
 - Straight-lined in FY 12
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85% of General Fund Spending spared from cuts FY 11; 80% in FY 12

- | | |
|-----------------------------|---|
| ▪ SEEK | ▪ Coal Severance Funds |
| ▪ Medicaid | ▪ Horse Park |
| ▪ Universities* | ▪ Behavioral Health |
| ▪ Corrections (bed related) | ▪ State Police |
| ▪ Debt Service | ▪ Public Advocacy |
| ▪ Health Insurance | ▪ Prosecutors |
| ▪ Teachers' Retirement | ▪ Mine Permitting, Safety & Reclamation |
| ▪ Student Financial Aid | ▪ Revenue |
| ▪ Economic Development | ▪ Others |

*Exempt in FY 11

K-12 Education Highest Priority

Preserves SEEK

- Same total General Fund appropriation in FY 11 and FY 12 as FY 10
- Base per-pupil guarantee increases to \$3,891 in FY 11 and \$3,927 in FY 12

Funds SB 1 Implementation

- Standards, Assessments and Professional Development; KDE & CPE
- \$11.5 M in FY 11 \$10.4 M in FY 12

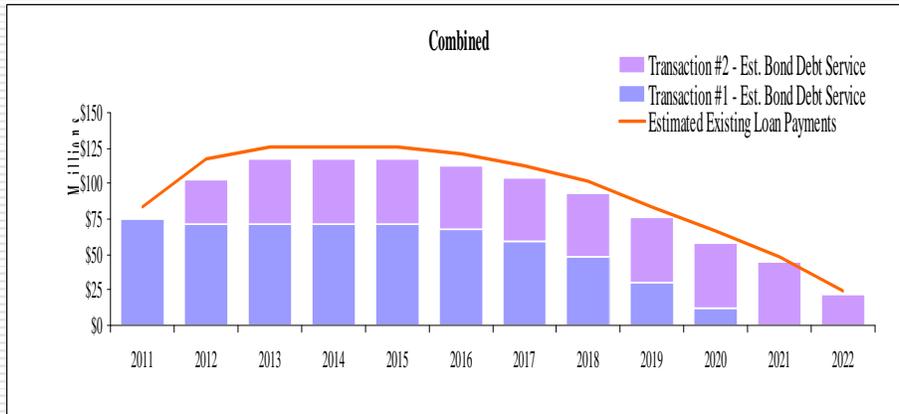
Funds \$150 million School Facilities Bonds

- Authorizes additional \$100 million Offers of Assistance
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K-12 Education Highest Priority

- Provides increase in health insurance funding to support 7% increase in calendar plan costs each year
 - 2% reduction in FY 11 for Non-SEEK appropriations; straight-lined in FY 12
 - Repay the \$476 million KTRS pension fund and realize \$96 million in savings by refinancing the loans used to pay teacher retiree health insurance
 - 1% annual raises each year if additional federal stimulus funds are available
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Refinancing KTRS loan saves \$96 million over 12 years



Postsecondary Education

- ❑ No reductions in FY 11 to institution budgets; 2% reduction in FY 12 when stimulus funds exhausted
- ❑ 27% increase in need-based student financial aid over the biennium
- ❑ \$584 million General Fund bonds
 - highest priority project for each institution
- ❑ \$323 million Agency Fund bonds
 - priority projects on which institutions have identified debt service and plan to move forward

Student Financial Aid

- Use 100% of value of Lottery revenues required for student financial aid
 - FY 11: \$203 million FY 12: \$209 million
 - Fully funds KEES program
 - Increases funding for need-based aid by 27%
 - Approx. 9,800 more student awards for CAP
 - Approx. 500 more student awards for KTG
 - Fully funds National Guard Tuition Assistance Program
 - Bond funds used to support expenditures
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Education and Workforce

- Agencies
 - Education Professional Standards Board
 - Kentucky Comm. on Deaf and Hard of Hearing
 - Office for the Blind
 - Office of Employment and Training
 - Office of Career and Technical Education
 - Office of Vocational Rehabilitation
 - Kentucky Educational Television
 - Kentucky Dept. of Libraries and Archives
 - 2% reduction in FY 11
 - Straight-lined funding in FY 12
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Health and Family Services

- Medicaid program exempt from reductions
 - Increasing costs; federal match decreases in FY 11
 - Management initiatives proposed to contain cost increases
 - Behavioral Health exempt from reductions
 - Balance of Cabinet cut 2% in FY 11; straight-lined in FY 12
 - Replace Glasgow State Nursing Facility - \$18 million
 - Replace Eastern State Hospital - \$129 million
 - Expand Oakwood Specialty Clinic – \$2 million
 - Restore cuts to DCBS if additional federal stimulus funds are available
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Medicaid

- Increased General Fund need because:
 - Increasing healthcare costs
 - Loss of higher federal match rate from ARRA on 12/31/10
 - Increasing enrollment due to the recession
 - Almost 3,400 more eligibles per month currently compared to 930 more per month last biennium
 - Recommended General Fund increase
 - FY 11: \$189 million FY 12: \$593 million
 - Implementing measures to limit growth in costs
 - Underfunding program \$50 million per year - General Funds**
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Medicaid Management Measures

- Cost containment
 - Utilization management
 - Pharmacy program adjustments
 - Benefit management
 - Revenue Enhancement
 - Total Funds Savings:
 - \$244 million FY 11 \$117 million FY 12
 - General Fund Savings:
 - \$75 million FY 11 \$33.5 million FY 12
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Medicaid Investments

- Cover Smoking Cessation services for Medicaid recipients to reduce long-term costs associated with smoking
 - \$1.5 million per year General Funds
 - Remove barrier to KCHIP by suspending requirement for premium payments to assure continuous care for eligible children
 - \$370,000 per year General Funds
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Public Employees and Retirees / Personnel Cabinet

- Fully fund the HB 1 increase in KERS and SPRS employer contribution rates

	KERS Non- Haz	KERS Haz	SPRS
FY 10 actual	11.62%	24.69%	33.08%
FY 11 - HB 1 Schedule	16.98%	26.12%	45.54%
FY 12 - HB 1 Schedule	19.82%	28.98%	52.13%
Biennial Increase	70.75%	17.36%	57.59%

- \$35 million FY 11
 - \$52 million FY 12

- Provide funding to support 7% increase each plan year for health insurance costs

- \$60 million FY 11
 - \$108 million FY 12

- Provide 1% raises each year if additional federal stimulus funds are available

- Provide capital funding of \$23 million to complete the Kentucky Human Resource Information System, the replacement to the 1982 personnel and payroll system
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Economic Development

- Reinvest in programs to retain and create jobs

- \$35 million KEDFA loan funds – bond funds
 - \$15 million Economic Development Bonds
 - \$10 million High-Tech grants and loans – bond funds

- Support Ft. Knox BRAC development

- Significant influx of economic activity in Ft. Knox area
 - \$112 million in Road Fund Bonds to finish projects initiated in FY 08 – 10 budget
 - \$38 million in General Fund Economic Development Bonds to fund infrastructure needs

- Amend Kentucky Environmental Stewardship Act
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Energy & Environment

- Mining programs exempt from cuts
 - Mine Permitting
 - Mine Safety and Licensing
 - \$671,000 each year to support staffing increases to meet mine inspection requirements
 - \$1.3 million coal severance funding for state-sponsored mine rescue teams to meet federal requirements in FY 11; \$1.4 million FY 12
 - Mine Reclamation and Enforcement
 - Legal services exempt from cuts to preserve enforcement capacity
 - Balance of Cabinet cut 2% in FY 11; straight-lined funding in FY 12
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Finance and Administration

- Revenue
 - No cuts to operating funds to support additional revenue collection efforts
 - \$1.6 million provided to support participation in federal vendor offset program and compliance initiatives
 - \$4.5 million bond funds to support completion of Comprehensive Tax System
 - Debt Service on Existing Debt
 - Net new funds of \$149 M in FY 11 \$106 M in FY 12
 - Impact of debt restructuring
 - Payments on bonds previously authorized
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Justice & Public Safety

- Agencies exempt from cuts
 - State Police
 - Corrections (bed-related costs)
 - Department for Public Advocacy
 - 2% reductions in FY 11 – straight-lined in FY 12
 - Juvenile Justice
 - Justice Administration
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Corrections

- Growing inmate population
 - Top priority: Ensure the public's safety by maintaining safety and security in the institutions
 - Evaluation of practices resulted in cost-saving measures
 - Cost avoidance savings:
 - FY 11: \$4.6 million FY 12: \$7.1 million
 - Recommended additional funds:
 - FY 11: \$2.7 million FY 12: \$9.6 million
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Corrections – Continued measures

- Continue to implement measures included in current biennial budget
 - Parole credit for non-sexual, non-violent offenders
 - Increased use of home incarceration aided by technology
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Corrections – New measures

- Improve efficiency
 - Safely optimize capacity in institutions
 - Expand the home incarceration program
 - Move female inmates from Otter Creek to WKCC
 - Increase use of community-based Substance Abuse Programs
 - Recovery Kentucky Centers
 - Halfway Houses
 - Increase use of evidence-based parole actions
 - Cost avoidance savings:
 - FY 11: \$4.6 million FY 12: \$7.1 million
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Labor

- Agencies:
 - Workplace Standards
 - General Administration and Program Support – Shared Services
 - 2% reduction in FY 11
 - Straight-lined funding in FY 12
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Public Protection

- Agencies
 - Office of the Secretary
 - Alcoholic Beverage Control
 - Housing, Buildings and Construction
 - Board of Claims/Crime Victims Compensation Board
 - Board of Tax Appeals
 - Horse Racing Commission
 - 2% reduction in FY 11; straight-lined funding in FY 12
 - Dept. of Insurance
 - Continue the Insurance Coverage Affordability and Relief to Small Employers (ICARE) Pilot program for employers that are approved for participation as of May 15, 2010. This was a pilot program included in the past two biennial budgets that was set to expire on June 30, 2010.
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Cumulative Impact of Cuts over Last Two Years Plus Proposed 2%

• Finance Agencies	25 - 32%	• CHFS Non-Medicaid Agencies	12 - 20%
• Area Development Fund	26%	• Non- SEEK K-12	18%
• Constitutional Officers	24 - 27%	• Natural Resources	19%
• Public Protection Agencies	8 - 26%	• Environmental Protection	16%
• Economic Development	24%	• Veterans' Affairs	16%
• KET	23%	• Juvenile Justice	13%
• Military Affairs	23%	• State Police	12%
• Horse Park	22%	• Labor	11%
• Tourism Arts & Heritage Agencies	15 - 26%	• Prosecutors	7 - 9%
• Education & Workforce Agencies	15 - 20%	• Universities	7 - 8%

Reduction in Executive Branch State Workforce

Rank	Agencies with More than 700 Employees	FY 10 Permanent Full-Time Employees*	Change in Number of Employees Since FY 08 Budget Cut	
			All Funds	General Fund
1	Community Based Services	4,279	(246)	(177)
2	Highways	4,054	(142)	0
3	Adult Correctional Institutions	3,134	(50)	(48)
4	State Police	1,820	(159)	(73)
5	Juvenile Justice	1,435	(92)	(68)
6	Behavioral Health	1,062	(78)	(21)
7	Parks	1,030	(88)	(17)
8	Revenue	874	59	57
9	Natural Resources	775	26	21
10	Veterans' Affairs	756	(8)	(4)
11	Environmental Protection	738	(45)	(20)
	Subtotal	19,959	(823)	(350)
	The Other 116 Appropriation Units	12,114	(813)	(470)
	Total**	32,073	(1,636)	(820)

* Average for FY 10 to-date

** PVAs information not available

Judicial Branch

Judicial Branch

- Fund additional use allowance for courthouses coming on-line:
 - \$23 million FY 12
 - Partially address shortfall in court operations
 - \$25.7 million per year increase
 - Fund increases in health insurance and retirement contributions
 - \$3.4 million FY 11 \$5.8 million FY 12
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Capital Budget Highlights

- Create jobs and economic opportunities
 - Continue to make investments in the future, especially in education
 - Take advantage of stimulus opportunities – Build America Bonds
 - General Fund Bonds
 - New investments \$1,064 million
 - Alternative financing \$ 491 million
 - Road Fund Bonds \$ 412 million
 - Agency Fund Bonds \$ 327 million
 - Total \$2,294 million
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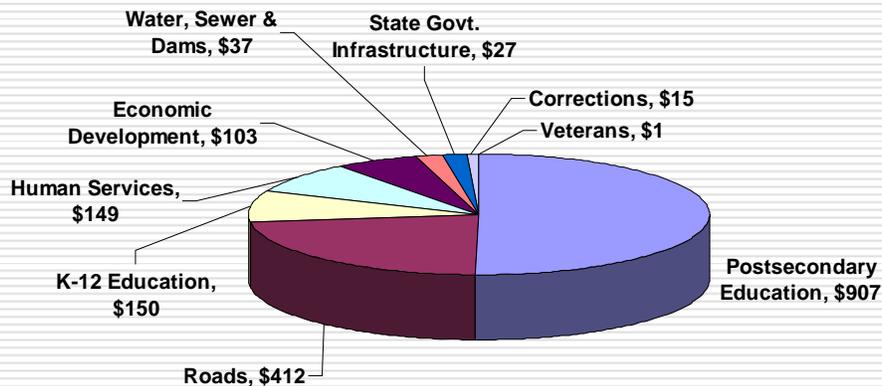
Capital Budget Highlights

□ General Fund Debt Service on New Bond Authorizations*

	(millions)	
	FY 11	FY 12
New Projects	\$17.9	\$63.3
Alternative Borrowing	\$12.9	\$41.1
Acceleration of VLT License Fees	\$0.0	\$7.8
Total	\$30.8	\$112.2

*Build America Bonds subsidy reflected as budgetary lapse

\$1.083 Billion New Construction Investments



Does not include alternative financing bonds.

GENERAL FUND BONDS		Biennial Total
SFCC	School Facilities Construction Commission - Offers of Assistance	\$ 150,000,000
Veterans' Affairs	Western Ky Veterans Center-Special Needs Unit-Additional Funding	\$ 1,393,000
Kentucky Infrastructure Auth. (KIA)	Ky Infrastructure Authority-Clean Water Revolving Fund	\$ 20,000,000
Kentucky Infrastructure Auth. (KIA)	Ky Infrastructure Authority-Drinking Water Revolving Fund	\$ 12,000,000
Local Gov't	Flood Control - State Match	\$ 3,000,000
Economic Develop-Fin Incentives	BRAC Water/Sewer Projects - 11 projects	\$ 38,495,000
Economic Develop-Fin Incentives	Economic Development Bonds	\$ 15,000,000
Economic Develop-Fin Incentives	KEDFA	\$ 35,000,000
Economic Develop-Secretary	High-Tech Infrastructure/Investment Pool	\$ 10,000,000
Environmental Protection	State Owned Dam Repair	\$ 2,000,000
Finance-Facilities & Support Services	Spindletop Renovation for Advanced Battery Research	\$ 1,000,000
Revenue	Comprehensive Tax System - Additional Funding	\$ 4,500,000
CHFS-Behavioral Health	Eastern State Hospital Replacement	\$ 129,005,000
CHFS-Behavioral Health	Oakwood Specialty Clinic Expansion	\$ 2,164,000
CHFS-Behavioral Health	Glasgow Nursing Home Replacement	\$ 18,000,000
Corrections-Adult Institutions	Ky State Reformatory-Electrical System Upgrade	\$ 4,200,000
Corrections-Adult Institutions	Western Kentucky Correctional Complex - Retrofit for Female Inmates	\$ 370,000
Corrections-Adult Institutions	Northpoint Training Center - Rebuild	\$ 10,800,000
Personnel	Personnel/Payroll System Replacement - Additional Funding	\$ 22,900,000
Eastern Ky University	EKU - Construct Science Building, Phase II	\$ 65,040,000
Kentucky State University	Expand & Renovate Betty White Nursing Building	\$ 7,825,000
Morehead State University	Renovate & Expand Student Center, Phase II	\$ 52,921,000
Murray State University	Construct/Complete New Science Complex, Final Phase	\$ 30,000,000
Northern Kentucky University	Construct Health Innovation/Renovate Old Science	\$ 92,500,000
University of Kentucky	Construct Science Research Building 2	\$ 205,880,000
University of Louisville	Construct Belknap Classroom/Academic Building	\$ 75,000,000
Western Kentucky University	Renovate Science Campus, Phase IV	\$ 29,000,000
KCTCS	Construct JCTC Carrollton Campus, Phase I	\$ 12,000,000
KCTCS	Construct Owensboro Advanced Technology Center, Ph II	\$ 14,055,000
Total General Fund		\$ 1,064,048,000

Capital Budget – Road Fund Investments	
	millions
■ BRAC projects	\$112
■ State Highway projects	\$300
Total	\$412

Capital Budget – Agency Fund Investments

	millions
■ Postsecondary priorities	\$323
■ Military Affairs	<u>\$ 4</u>
Total	<u>\$327</u>

AGENCY BONDS	Project Description	Biennial Total
Military Affairs	Construct Hangar	\$ 4,000,000
Eastern Kentucky Univ.	Renovate Residence Hall	\$ 12,000,000
Eastern Kentucky Univ.	Construct New Student Housing	\$ 15,000,000
Eastern Kentucky Univ.	Construct North Campus Res. Dist. Retail Unit	\$ 2,250,000
Morehead State Univ.	Renovate East Mignon Residence Hall	\$ 4,948,000
Morehead State Univ.	Renovate West Mignon Residence Hall	\$ 4,948,000
Morehead State Univ.	Construct Food Svcs/Retail & Parking Structure in Housing Complex	\$ 14,786,000
Morehead State Univ.	Replace Exterior Precast Panels-Nunn Hall	\$ 3,000,000
Morehead State Univ.	Construct Residence Building-University Farm	\$ 2,524,000
Morehead State Univ.	Comply with ADA – Auxiliary	\$ 3,065,000
Morehead State Univ.	Capital Renewal and Maintenance Pool-Aux	\$ 2,284,000
Murray State Univ.	Renovate Elizabeth Hall	\$ 8,896,000
Murray State Univ.	Renovate College Courts	\$ 10,000,000
Murray State Univ.	Renovate Curris Center T-Room & Food Service Equipment	\$ 1,008,000
Northern Kentucky Univ.	Renovate Old Civic Center Building	\$ 3,700,000
Northern Kentucky Univ.	Repair University Drive Parking Garage	\$ 2,000,000
Northern Kentucky Univ.	Acquire Radio Communications	\$ 10,000,000
Northern Kentucky Univ.	Acquire/Renovate Gateway/Highland Heights Campus	\$ 7,500,000
Northern Kentucky Univ.	Acquire Land and Buildings/Master Plan	\$ 20,000,000
Univ. of Kentucky	Construct New Housing	\$ 30,000,000
Univ. of Kentucky	Guaranteed Energy Savings Contract	\$ 25,000,000
Univ. of Kentucky	Relocate & Expand Dentistry Faculty Practice	\$ 3,375,000
Univ. of Kentucky	Renovate Dentistry Clinic in Ky Clinic	\$ 7,615,000
Univ. of Kentucky	Upgrade Student Center Infrastructure	\$ 17,805,000
Western Kentucky Univ.	Renovate Downing University Ctr Phase III	\$ 33,500,000
Univ. of Louisville	Guaranteed Energy Savings Contract	\$ 40,000,000
Univ. of Louisville	Construct Student Recreation Center	\$ 37,500,000
Subtotal - Agency Bonds		\$ 326,704,000

Federal Assistance Contingency Plan

- House has passed the JOBS Act which included for Kentucky:
 - \$325 million additional state stabilization funds
 - 2 additional quarters of higher federal match for Medicaid
 - \$420 million additional federal highway project funding for shovel ready projects
 - Discussions ongoing about additional federal aid for states in the healthcare bill
 - 2 or 3 additional quarters of higher federal match for Medicaid
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Federal Assistance Contingency Plan

- If additional federal aid materializes:
 - Governor's priorities are:
 - Fund 1% pay increases for teachers & state employees
 - Restore cuts to higher education
 - Restore cuts to Department for Community Based Services
 - Buffer impact if revenues do not materialize
 - Begin to build the rainy day fund
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Transportation Cabinet

- Road Fund revenue growth predicted
 - \$71.5 million FY 11 (6%)
 - \$70.3 million FY 12 (5.5%)
 - Increase revenue sharing with local govts.
 - \$12.1 million FY 11 \$15.3 million FY 12
 - \$300 million new economic development road bonds
 - \$112 million road bonds for BRAC projects
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