

2016-2018 Executive Budget Presentation to House A & R

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Biennial Budget Preview

Challenges:

- Billions in unfunded pension liabilities
- Runaway cost of Medicaid

Objective: Long-term fiscal stability

- Prelude: An honest analysis of Kentucky's current financial situation.

Possible alternatives:

- Increase taxes
- Decrease spending
- Wait until next year
- Borrowing

The Governor is taking immediate action to stabilize Kentucky's future. This is no longer an option – it is a necessity.

- Addressing current needs: Governor Bevin's budget adequately funds needed state services leading to:
 - more jobs,
 - better educational opportunities, and
 - better access to quality healthcare for all Kentuckians.

Official General Fund Estimates

(\$ millions)

<u>CFG Official</u>	<u>FY15</u>		<u>FY16</u>		<u>FY17</u>		<u>FY18</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Individual Income	4,069.5	8.5	4,233.5	4.0	4,411.1	4.2	4,588.6	4.0
Sales and Use	3,267.3	4.3	3,420.5	4.7	3,539.8	3.5	3,638.4	2.8
Property	563.4	0.2	573.0	1.7	585.2	2.1	598.7	2.3
Corporation Income	528.1	11.2	531.7	0.7	579.4	9.0	553.1	-4.5
LLET	223.8	12.3	219.8	-1.8	223.7	1.8	221.6	-0.9
Coal Severance	180.3	-8.7	138.4	-23.2	120.7	-12.8	107.6	-10.9
Cigarette	220.9	-3.2	225.8	2.2	222.5	-1.5	220.5	-0.9
Lottery	221.5	0.9	232.0	4.7	236.0	1.7	241.0	2.1
Other	691.8	-1.0	715.2	3.4	698.8	-2.3	706.0	1.0
Total General Fund	9,966.6	5.3	10,289.9	3.2	10,617.2	3.2	10,875.5	2.4

Official Road Fund Estimates

(\$ millions)

<u>CFG Official</u>	<u>FY15</u>		<u>FY16</u>		<u>FY17</u>		<u>FY18</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Motor Fuels	850.3	-4.0	742.9	-12.6	747.3	0.6	749.8	0.3
Motor Vehicle Usage	432.8	-2.3	463.1	7.0	469.5	1.4	485.7	3.5
Motor Vehicle License	107.6	5.6	107.9	0.3	105.0	-2.6	105.6	0.6
Motor Vehicle Operators	16.0	-1.2	16.2	1.5	16.1	-0.6	16.3	1.2
Weight Distance	79.1	2.9	79.9	1.0	82.1	2.8	83.8	2.1
Investment	2.9	-27.1	1.2	-58.8	1.4	16.7	1.5	7.1
Other	38.1	18.0	34.7	-8.9	35.5	2.2	35.5	0.0
Total Road Fund	1,526.7	-2.2	1,445.9	-5.3	1,456.9	0.8	1,478.2	1.5

Official MSA Tobacco Fund Estimates

(\$ millions)

Fiscal Year 2016 \$ 88.1 Million

Fiscal Year 2017 \$ 87.0 Million

Fiscal Year 2018 \$ 92.8 Million

Governor's Priorities

1. Strengthen Kentucky's Financial Foundation
2. Invest in Education and Workforce Development
3. Keep Commitment to All Public Servants
4. Safeguard Kentucky's Most Vulnerable
5. Protect Those Who Protect Us
6. Fight Substance Abuse
7. Transform Kentucky's Healthcare Delivery System
8. Build Infrastructure for the Future

1. Strengthen Kentucky's Financial Foundation

No Longer Budgeting to Zero

(millions of \$)

General Fund	FY 2017	FY 2018
Official Estimate (100% Control)	\$10,617.2	\$10,875.5
50% Control/50% Pessimistic	10,489.0	10,735.2
Difference	\$128.2	\$143.2

Contingent Appropriations if Actual Revenues exceed lower threshold - up to the Official Estimates

- Pensions receive 50% (half to KTRS, half to KERS)
- Rainy Day Fund 50%

1. Strengthen Kentucky's Financial Foundation

Contingent Appropriations to Pensions and Rainy Day Fund

	<u>FY 2017</u>	<u>FY 2018</u>
KTRS Pension Liability	\$32.1	\$35.8
KERS Pension Liability	32.0	35.8
Rainy Day Fund	64.1	71.6
Total	\$128.2	\$143.2

1. Strengthen Kentucky's Financial Foundation

On Inauguration Day

- \$500 million budget shortfall
- Underfunded & underperforming pension system
- End of the federal government's 100% financing of Medicaid expansion.

Solution: Spending Reductions

- 4.5% spending reduction in FY 2016
- 9% reduction to baseline spending in FY 2017 & 2018

<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
\$100.0	\$100.0	\$100.0
<u>(4.5)</u>	<u>(9.0)</u>	<u>(9.0)</u>
\$95.5	\$ 91.0	\$ 91.0

- Total reductions over 30 months = \$650,000,000

1. Strengthen Kentucky's Financial Foundation

Exemptions from Spending Reductions

- The SEEK Formula – the primary financing mechanism for local schools
- School District Health Insurance
- Medicaid
- Retirement Systems
- Student Financial Aid
- Heroin Bill Funding - SB 192
- Dedicated Coal Severance Programs (LGEDF & LGGEAF)
- Frontline Public Safety Employees (State Police, Corrections, Juvenile Justice)
- Frontline Social Worker Employees (Community Based Services, Aging & Independent Living Services)
- Commonwealth Attorneys, County Attorneys, Public Defenders
- Debt Service
- Board of Elections – State Share of Elections
- Department of Veterans Affairs
- Necessary Government Expenses

1. Strengthen Kentucky's Financial Foundation

Additional General Fund Spending

Compared to FY 2016

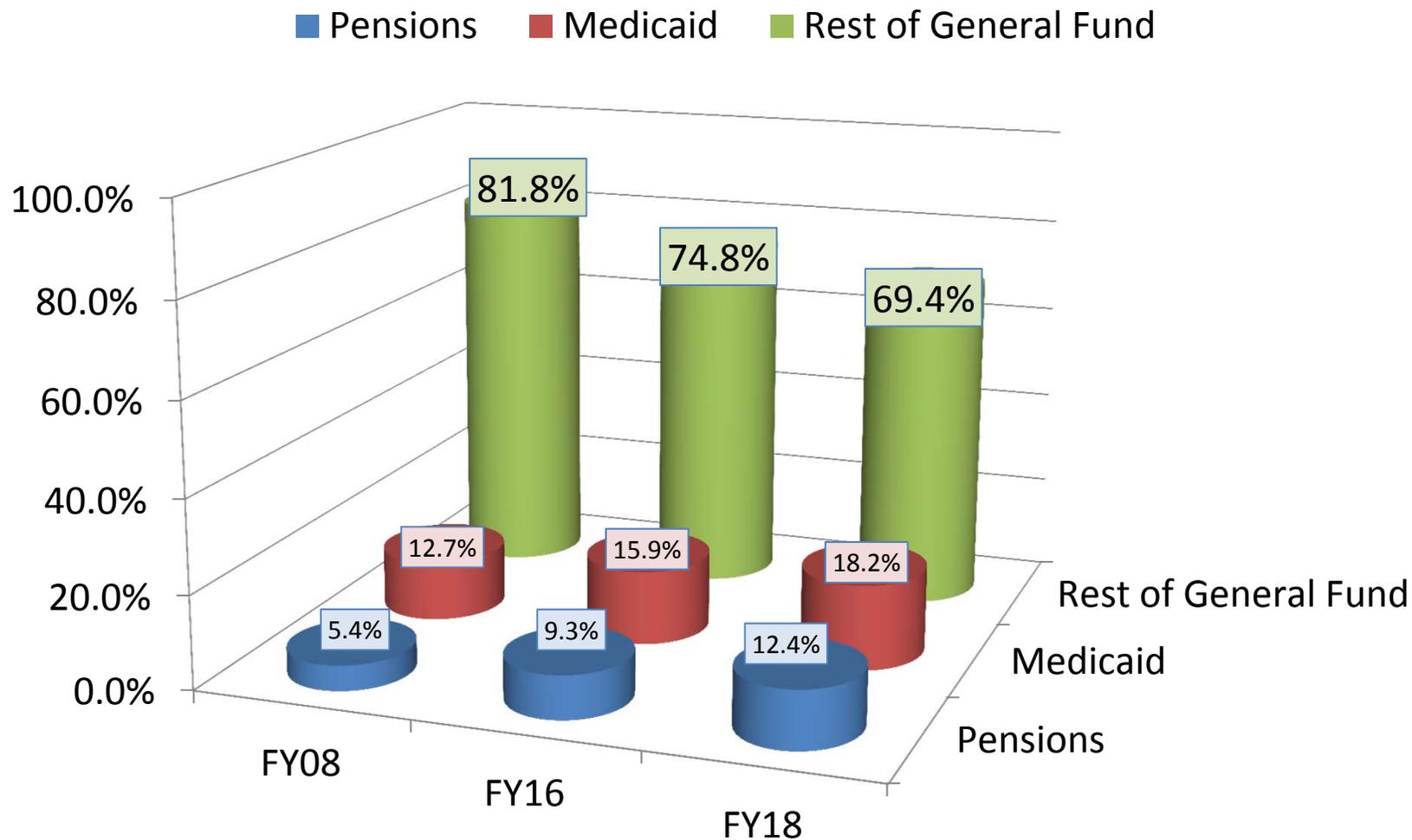
FY 2017 additional \$827 million - 81% for Pensions and Medicaid

FY 2018 additional \$1.0 billion - 83% for Pensions and Medicaid

	(millions \$)	
<u>Top Seven</u>	FY 2017	FY 2018
Pensions	\$482.0	\$478.2
Medicaid	187.0	386.1
Student Financial Aid	29.9	34.9
SEEK	25.5	14.5
Corrections	19.7	25.6
Other Criminal Justice	22.9	22.6
School Facilities Debt Service	12.6	18.3

1. Strengthen Kentucky's Financial Foundation

(Pensions and Medicaid a growing share of General Fund spending)



1. Strengthen Kentucky's Financial Foundation

Saving for a Down Payment on Kentucky's Future

Rainy Day Fund Budget Reserve Trust Fund

(millions of \$)

Current Budgeted Balance	\$209.4
FY 17 Direct Appropriation	89.3
FY 17 Contingent Appropriation	64.1
FY 17 Possible Balance	\$362.9
FY 18 Direct Appropriation	89.3
FY 18 Contingent Appropriation	71.6
FY 18 Possible Balance	\$523.8

2. Invest in Education and Workforce Development

- Protecting the SEEK formula: Increasing SEEK funding by \$39 million to accommodate the projected increase in student population while holding the base per pupil the same.
- Entire lottery proceeds dedicated to student financial aid: KEES, Need-based aid will continue, plus funding for the National Guard Tuition Award program. Workforce development and training programs are a new focus.
- Investments in Kentucky's manufacturing & information technology workforce: A \$100 million bond pool for the Education and Workforce Development Cabinet – to meet job growth demand for high-skill jobs such as advanced manufacturing and information technology jobs.
- Performance funding for universities: “Outcomes based funding” - to be developed in collaboration with the leadership of the Council on Postsecondary Education and state universities. Phased in over a three-year period starting in FY 2018.

2. Invest in Education and Workforce Development

SEEK Budget

\$25.5 million General Fund increase in FY 2017

\$14.5 million General Fund increase in FY 2018

No cut in base per-pupil guarantee of \$3,981

Growth in Student Count Accommodated:

+4,050 students (to 606,986)

+4,296 exceptional children (to 89,001)

+1,920 limited English proficiency students (to 23,628)

Teachers' Retirement System cost increases

\$ 8.4 million General Fund increase in FY 2017

\$17.0 million General Fund increase in FY 2018

2. Invest in Education and Workforce Development

Postsecondary Education - Equity Adjustment

Equity Adjustment for NKU and WKU	<u>FY 2017</u>	<u>FY 2018</u>
Northern Ky University	\$5,334,200	\$10,668,000
Western Ky University	<u>2,588,000</u>	<u>5,176,000</u>
Total Equity Adjustment	\$7,922,200	\$15,844,000

NKU and WKU General Fund support has been well below the average funding per full-time equivalent student for the comprehensive universities

CPE proposed to address this disparity - this request was funded

2. Invest in Education and Workforce Development

Postsecondary Education Performance Fund

Governor proposes to phase-in Performance Funding for 100% of the General Fund over 3 years

33.3% of FY 2018 General Fund Subject to Performance Fund Allocations

33.3% of Each Institution's FY 2018 General Fund

Amounts:

	<u>FY 2018</u>
Eastern Ky University	\$20.6
Kentucky State University	7.1
Morehead State University	13.1
Murray State University	14.6
Northern Ky University	18.3
University of Kentucky	84.7
University of Louisville	42.1
Western Ky University	24.3
Ky Community & Technical College System	<u>57.6</u>
Postsecondary Education Performance Fund	\$282.5

3. Keep Commitment to All Public Servants' Pensions

Together, the Kentucky Retirement System & Kentucky Teachers Retirement System Plans are over \$30 billion in unfunded liabilities - more than **three times the Commonwealth's entire \$10 billion annual General Fund budget.**

3. Keep Commitment to All Public Servants' Pensions

Kentucky Employees Retirement System (KERS)		
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	FY 2017	FY 2018
Current State Government Contributions*	\$628,000,000	\$628,000,000
Increased Cost of Full ARC	132,000,000	154,000,000
New General Fund Appropriation (ARC +)	<u>44,668,000</u>	<u>44,668,000</u>
Total Budgeted Funding	804,668,000	826,668,000
Contingent Appropriation	<u>32,050,000</u>	<u>35,812,500</u>
Total Possible Funding	<u>836,718,000</u>	<u>862,480,500</u>
Increase in funding compared to FY 2016	<u><u>\$208,718,000</u></u>	<u><u>\$234,480,500</u></u>

* All Fund sources-State Government

3. Keep Commitment to All Public Servants' Pensions

Kentucky Teachers Retirement System (KTRS)

	FY 2017	FY 2018
Current State Government Contributions-All Funds	\$665,500,000	\$665,500,000
Appropriation for Unfunded ARC	300,054,900	291,465,200
Additional SEEK budget increase for pensions	8,400,000	17,000,000
Total Budgeted Funding	973,954,900	973,965,200
Contingent Appropriation	32,050,000	35,812,500
Total Possible Funding	<u>1,006,004,900</u>	<u>1,009,777,700</u>
Increase in funding compared to FY 2016	<u>\$340,504,900</u>	<u>\$344,277,700</u>

3. Keep Commitment to All Public Servants' Pensions

KERS and KTRS Combined

	FY 2017	FY 2018
Total Possible Pension Funding	<u>\$1,842,722,900</u>	<u>\$1,872,258,200</u>
Current State Government Contributions-All Funds	1,293,500,000	1,293,500,000
Increase in funding compared to FY 2016	\$549,222,900	\$578,758,200
Two-Year Increase in funding		<u>\$1,127,981,100</u>

3. Keep Commitment to All Public Servants' Pensions

KERS Employer Contribution Rates - Pension and Medical Combined

<u>Plan</u>	<u>(in % terms) Employer Rate</u>	<u>Annual Change</u>
<u>Non-Hazardous</u>		
FY 2014-15 Full ARC	38.77	44.7%
FY 2015-16 Full ARC	38.77	0.0%
FY 2016-17 Full ARC - 6.75%	48.59	25.3%
FY 2017-18 Full ARC - 6.75%	49.47	1.8%
<u>Hazardous Duty</u>		
FY 2014-15 Full ARC	26.34	-18.2%
FY 2015-16 Full ARC	26.34	0.0%
FY 2016-17 Full ARC	23.82	-9.6%
FY 2017-18 Full ARC	23.70	-0.5%
<u>State Police</u>		
FY 2014-15 Full ARC	75.76	6.5%
FY 2015-16 Full ARC	75.76	0.0%
FY 2016-17 Full ARC - 6.75%	89.21	17.8%
FY 2017-18 Full ARC - 6.75%	91.24	2.3%

3. Keep Commitment to All Public Servants' Pensions

- **Audit to determine:**
 - Current financial status
 - Projected future liabilities under consistent assumptions
 - Plan for future options

4. Safeguard Kentucky's Most Vulnerable

Additional Funding

- **Children's Advocacy Centers** – These centers provide essential care and resources to child victims.
 - Invests \$1,563,800 over the biennium
- **Social Workers and Clinicians** – These public servants are on the front lines protecting citizens from abuse and neglect.
 - Additional \$4,800,500 over the biennium
 - Positively affects 2,030 social workers
 - Increase salary for mid-level social workers
- **Guardianship** – These public servants take responsibility for care of people who do not have the capacity to make their own health and financial decisions due to mental or physical issues.
 - Additional \$964,100 into caseload management

4. Safeguard Kentucky's Most Vulnerable

Additional Funding

- **Eliminate Testing Backlog at State Laboratories –**
DNA, rape and sexual assault kits, blood alcohol, toxicology, drugs, gunshot residue, arson fingerprint, polygraph
- **Provides funding to take action now**
 - Operating Budget: \$1,100,000 in Fiscal Year 2016 and \$3,479,700 over the next two years
 - Capital Budget: Fiscal Year 2018 - Lab equipment \$1,750,000 for Gas Chromatograph/Mass Spectrometers and Ion Trap Chromatograph/Mass spectrometers

5. Protect Those Who Protect Us

- **Kentucky Law Enforcement Foundation Program Fund (KLEFPF):**
 - **Increase** Training “stipend” from \$3,100 to \$4,000
 - **New Entrants** - An additional 200 state certified peace officers will now receive the \$4,000 training stipend (School Resource Officers, Parks rangers, Agriculture investigators, Charitable Gaming investigators, Alcoholic Beverage Control investigators, Horse Park mounted patrol, Insurance Fraud investigators, and Attorney General investigators)
 - \$10 million each year
- **Base Salary Increases for Kentucky State Police:**
 - **\$4,000** (\$900 stipend increase plus \$3,100 addition to base) for Trooper Seniors and above
 - **\$2,000** (\$900 stipend increase plus \$1,100 addition to base) for Police Troopers
 - \$6 million each year

5. Protect Those Who Protect Us

- **Recruitment and Retention Raises for Correctional Officers**
 - \$15.8 million in Fiscal Year 2016 to fund the July 2015 across-the-board pay increases
 - Further invests an additional \$4.5 million over the biennium to improve recruitment of new officers to resolve the overtime issues
- **Supporting Criminal Justice System:**
 - Provides \$6.2 million over the biennium to support 44 additional Public Defenders to reduce caseloads

5. Protect Those Who Protect Us

Corrections – Felon Population

	<u>Actuals /</u> <u>Estimates</u>	
FY 2013 - Actual	23,920	
FY 2014 - Actual	22,885	
FY 2015 - Actual	23,823	
FY 2016 - Budget	23,222	
FY 2016 – Estimate	24,149	
FY 2017 - Estimate	24,433	+\$8,800,000
FY 2018 - Estimate	24,523	+\$10,700,000

6. Fight Against Substance Abuse

- **Fully funding Heroin Legislation Programs**
 - Continues funding in effort to prevent/reduce the trafficking and abuse of heroin and other opiates
 - \$15.7 million in FY 2017
 - \$16.3 million in FY 2018
- **Ongoing Support for the KASPER System**
 - \$6.4 million over the biennium – to replace one-time funding
- **Operation UNITE**
 - Continues the current level of \$4.0 million over the biennium

7. Transform Kentucky's Healthcare Delivery System

- The Governor has taken action to transition from the Kentucky Health Benefit Exchange known as “kynect,” to the federal government’s health insurance exchange, **Healthcare.gov**.
- A portion of the 1% assessment revenues currently used to operate kynect will be used to fund the transition.
- No General Fund money will be required.
- Exempts those participating insurers selling individual policies on the federal exchange who are subject to the federal 3.5% assessment from also being subject to the broad based 1% assessment.

7. Transform Kentucky's Healthcare Delivery System

Medicaid Benefits – FY 2016

- **\$109.1 million estimated shortfall FY 2016**
 - Current Year Restricted Fund Appropriation in Budget Bill
 - Higher costs in long-term care and waiver programs
 - Increase in traditional Medicaid eligibles (woodwork)
- **FY 2016 Balancing Plan**
 - \$23.5 million – Health Benefit Exchange excess cash
 - \$54.9 million – Excess Funds elsewhere in the CHFS
 - \$16.5 million – Managed Care Organizations -1% assessment funds
 - \$14.2 million – Reductions in spending due to Federal changes

7. Transform Kentucky's Healthcare Delivery System

Medicaid Benefits	(millions \$)	
	FY 2017	FY 2018
General Fund - Baseline	\$1,578.20	\$1,578.20
Traditional Population - Cost Growth	117.4	230.1
Expansion Population - New state share (2.5% and 5%)	54.3	133.3
Expansion Population - Cost Growth	8.0	16.0
Additional General Fund Need	\$179.70	\$379.40
Total General Fund	\$1,757.90	\$1,957.60

8. Build Infrastructure for the Future

Road Fund

At least 15% of the state-funded portion of the Road Plan will be for maintenance and repair of existing bridges. (400 have been identified as structurally deficient.)

- Kentucky's road plan places great focus on its trunk system including I-65 and I-75.
- A new interchange in Shepherdsville (Bullitt County)
- Widening I-75 in Rockcastle County
- Improvements to the Brent Spence Corridor (Boone, Kenton, and Campbell counties)
- Accelerates the planning phase of the I-69 Henderson-Evansville Ohio River Bridge and related projects
- Widening of US 641 from the Tennessee line to Murray in Calloway County.
- Continue the Mountain Parkway enhancements with particular focus on critical sections in Magoffin County.
- Paint the Second Street Bridge in downtown Louisville.
- Includes the Natcher Parkway into the federal interstate highway system.
- Increase funding by \$10 million per year for maintenance, repair, and expansion of airports and aviation needs.

8. Build Infrastructure for the Future

Capital Budget Highlights

New Debt	(millions \$)
General Fund Bonds	\$451.2
Agency Fund Bonds	<u>164.4</u>
Total Bonds	\$615.6

- Lowest amount of new debt since the 1996-98 budget
- Last 6 budgets averaged \$1.6 billion in new debt
- 2016 -18 Proposed Debt Capacity Ratio = 5.88%
- under the 6.00% "rule of thumb" policy

8. Build Infrastructure for the Future

Capital Budget Highlights

(millions \$)

General Fund Bonds

Elementary and Secondary Education	\$194.1
Workforce Development	100.0
Economic & Community Development	93.0
Asset Preservation	59.5
Ky Infrastructure Authority	13.6
De-authorized Debt	(9.0)
Total-General Fund Bonds	\$451.2

Agency Fund Bonds

Ky Infrastructure Authority	\$125.0
Ky River Authority	39.4
Total-Agency Fund Bonds	\$164.4

Total - All Bonds

\$615.6

Tobacco Settlement Phase I budget – FY 2016

	<u>FY 2016</u>
Official Estimate	\$88.1
Previous Official Estimate	72.4
Increased Estimate	15.7
FY 2014 Receipts not Yet Appropriated	7.4
Balance to be Appropriated	\$23.1
 Governor's Recommendation:	
Governor's Office for Agricultural Policy-	
Statewide Grants	21.1
Child Care Program	2.0
	\$23.1

Tobacco Settlement Phase I budget – FY 2017 and FY 2018

	<u>FY 2017</u>	<u>FY 2018</u>	
Official Revenue Estimate	\$87.0	\$92.8	
Department of Revenue	0.3	0.3	
Debt Service	24.8	24.4	
Remaining Amount	\$61.9	\$68.1	
 Appropriations:			
Agricultural Development	31.0	34.1	50%
Early Childhood Development	22.3	24.5	36%
Health Care Improvement	8.7	9.5	14%
	\$61.9	\$68.1	

Tobacco Settlement Phase I budget – FY 2017 and FY 2018

	<u>FY 2017</u>	<u>FY 2018</u>
Agricultural Development:		
Statewide Grants and Administration	16.5	18.5
Counties Accounts	8.9	10.0
Conservation Cost Share Program	5.0	5.0
Farms to Food Banks	0.6	0.6
Total Agricultural Development	\$31.0	\$34.1
Early Childhood Development:		
Public Health Programs	11.6	11.6
Child Care	6.7	8.9
Early Childhood Scholarships	1.1	1.1
Early Childhood Advisory Councils	2.1	2.1
Substance Abuse Prevention/Treatment	0.9	0.9
Total Early Childhood Development	\$22.3	\$24.5
Health Care Improvement:		
Lung Cancer Research Trust Fund	2.4	2.6
Smoking Cessation Programs	4.7	5.2
Substance Abuse Programs	1.6	1.8
Total Health Care Improvement	\$8.7	\$9.5

Current Year Appropriations

Current Year Appropriations

	FY 16	FY 17	FY 18
Corrections-July, 2015 Pay Increase	\$15.8	\$15.5	\$15.5
Parks-Cumulative Deficit	12.4	-	-
Fair Board-Cumulative Deficit	2.3	1.9	1.9
KHEAA-National Guard Tuition	2.3	2.5	2.5
Public Advocacy-Forced Central Office Move	<u>\$0.4</u>	<u>\$ -</u>	<u>\$ -</u>
Total	\$33.2	\$19.9	\$19.9

What's not in the Budget?

- Tax reform
- Medicaid Transformation
- Broadly applied performance funding across government
- Analysis of tax credits & incentives
- Attracting new businesses
- Encouraging business expansion
- Long-term Plan for Parks

Savings Accounts – Governor’s Proposal

- Sets aside \$500 million from the Kentucky Employees Health Insurance Fund
- Actuary estimates used in analysis of the Fund
- Limit the use of the permanent fund to shoring up the ailing pension systems
- Contributes a long-term revenue stream for pensions
- No longer “budgeting to zero” will enable the Rainy Day fund to possibly reach \$524 million by the end of FY 2018
- Together, the Permanent Fund and the Rainy Day fund could result in \$1 billion being available to help the Commonwealth navigate the difficult road ahead
- Opposed to using the \$1 billion to support General Fund operations