

2018-2020 Executive Budget Presentation to House and Senate A & R

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The Budget in Context

- The budget has been reduced multiple times in recent years
- FY 2017 revenue shortfall was \$138.5 million
- FY 2018 revenue shortfall of \$158 million was addressed in the Budget Reduction Order
- Projections indicate revenue growth in FY 2019 and FY 2020 will be modest — growth of 2.7% (\$287.5 million) and 2.6%, (\$284.1 million) respectively.
- Need to fully fund pensions which are still severely underfunded

The Budget in Context

- Growth in prison population
- Growth in Medicaid population
- Additional needs in social services, Commonwealth and County Attorneys, Public Advocates
- Proper budgeting for recurring expenditures (NGE's)
- New borrowing must be limited
- No changes to pensions or tax structures
- Limited resources require difficult choices!

Official General Fund Estimates

(\$ millions)

<u>Official Estimate</u>	<u>FY17</u>		<u>FY18</u>		<u>FY19</u>		<u>FY20</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Individual Income	4,393.9	2.6	4,509.0	2.6	4,649.5	3.1	4,793.2	3.1
Sales and Use	3,485.2	0.7	3,611.9	3.6	3,699.4	2.4	3,791.7	2.5
Property	602.1	4.3	607.9	1.0	620.7	2.1	635.1	2.3
Corporation Income	497.5	-5.5	558.6	12.3	600.6	7.5	632.3	5.3
LLET	245.6	21.0	186.2	-24.2	200.2	7.5	210.8	5.3
Coal Severance	100.5	-16.7	88.5	-11.9	77.9	-12.0	65.1	-16.4
Cigarette	221.4	-1.3	214.3	-3.2	207.9	-3.0	202.0	-2.8
Lottery	241.6	-0.1	243.0	0.6	249.0	2.5	256.0	2.8
Other	690.1	-2.6	699.0	1.3	700.7	0.2	703.8	0.4
Total General Fund	10,477.8	1.7	10,718.4	2.3	11,005.9	2.7	11,290.0	2.6

Per Consensus Forecasting Group

Official Road Fund Estimates

(\$ millions)

<u>Official Forecast</u>	FY17		FY18		FY19		FY20	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Motor Fuels	760.5	1.4	761.2	0.1	759.2	-0.3	761.2	0.3
Motor Vehicle Usage	499.8	3.2	493.9	-1.2	494.0	0.0	492.6	-0.3
Motor Vehicle License	111.9	-1.0	113.4	1.3	115.2	1.6	116.3	1.0
Motor Vehicle Operators	16.1	-1.3	16.6	3.0	16.7	0.6	16.8	0.6
Weight Distance	82.9	1.9	81.4	-1.8	82.1	0.9	83.2	1.3
Investment	1.6	-35.9	2.0	26.5	3.1	55.0	3.3	6.5
Other	35.1	0.7	34.8	-0.9	35.0	0.6	35.1	0.3
Total Road Fund	1,508.0	1.7	1,503.3	-0.3	1,505.3	0.1	1,508.5	0.2

Per Consensus Forecasting Group

Official MSA Tobacco Fund Estimates

(\$ millions)

Fiscal Year 2018 \$ 114.6 Million

Fiscal Year 2019 \$ 119.5 Million

Fiscal Year 2020 \$ 118.1 Million

Governor's Priorities

1. Put Our Financial House in Order
2. Fully Fund Pensions
3. Focus on K-12 Classroom Instruction
4. Workforce Development & Economic Development
5. Safeguarding Kentucky's Most Vulnerable
6. Public Safety
7. Building & Maintaining Infrastructure

1. Put Our Financial House in Order

Necessary Government Expense (NGE) items included in
Base
(millions \$)

	<u>FY 2019</u>	<u>FY 2020</u>
Corrections - Budget to Consensus Forecast	\$ 49.3	\$ 54.0
ANOC-Guardian Ad Litem	9.5	9.5
Military Affairs - Disasters and Planned Events	4.5	4.5
County Costs - Courthouse Security and Public Defender	4.0	4.0
Fire Suppression	<u>2.3</u>	<u>2.3</u>
TOTAL	\$ 69.6	\$ 74.3

1. Put Our Financial House in Order

Rainy Day Fund

Budget Reserve Trust Fund

(millions of \$)

FY 18 Beginning Balance	\$150.5
FY 18 Appropriated Use	(56.7)
FY 18 Projected NGE	(85.7)
FY 18 Projected Balance	\$8.1
FY 19 Direct Appropriation	62.4
FY 20 Direct Appropriation	183.4
FY 20 Projected Balance	\$253.8

1. Put Our Financial House in Order

Setting Priorities

- Program Eliminations
 - Funding for 70 programs not included in Governor's Recommended Budget
 - \$85 million General Fund savings each fiscal year
- Spending Reductions
 - 6.25% reductions with annual General Fund savings over \$300 million each fiscal year
 - Compared to past budgets, there are limited exemptions from spending reductions

1. Put Our Financial House in Order

Exemptions from Spending Reductions – FY 2019 and FY 2020

- The SEEK Formula – per pupil classroom funding
- Retirement Systems
- Student Financial Aid
- Heroin Bill Funding - SB 192
- Dedicated Coal Severance Programs (LGEDF & LGEAF)
- Justice - Corrections
- Department for Community Based Services
- Commonwealth Attorneys, County Attorneys, Public Defenders
- Economic Development
- Debt Service
- Board of Elections
- Registry of Election Finance
- Executive Branch Ethics Commission
- Necessary Government Expenses

1. Put Our Financial House in Order

Additional General Fund Spending

Compared to FY 2018

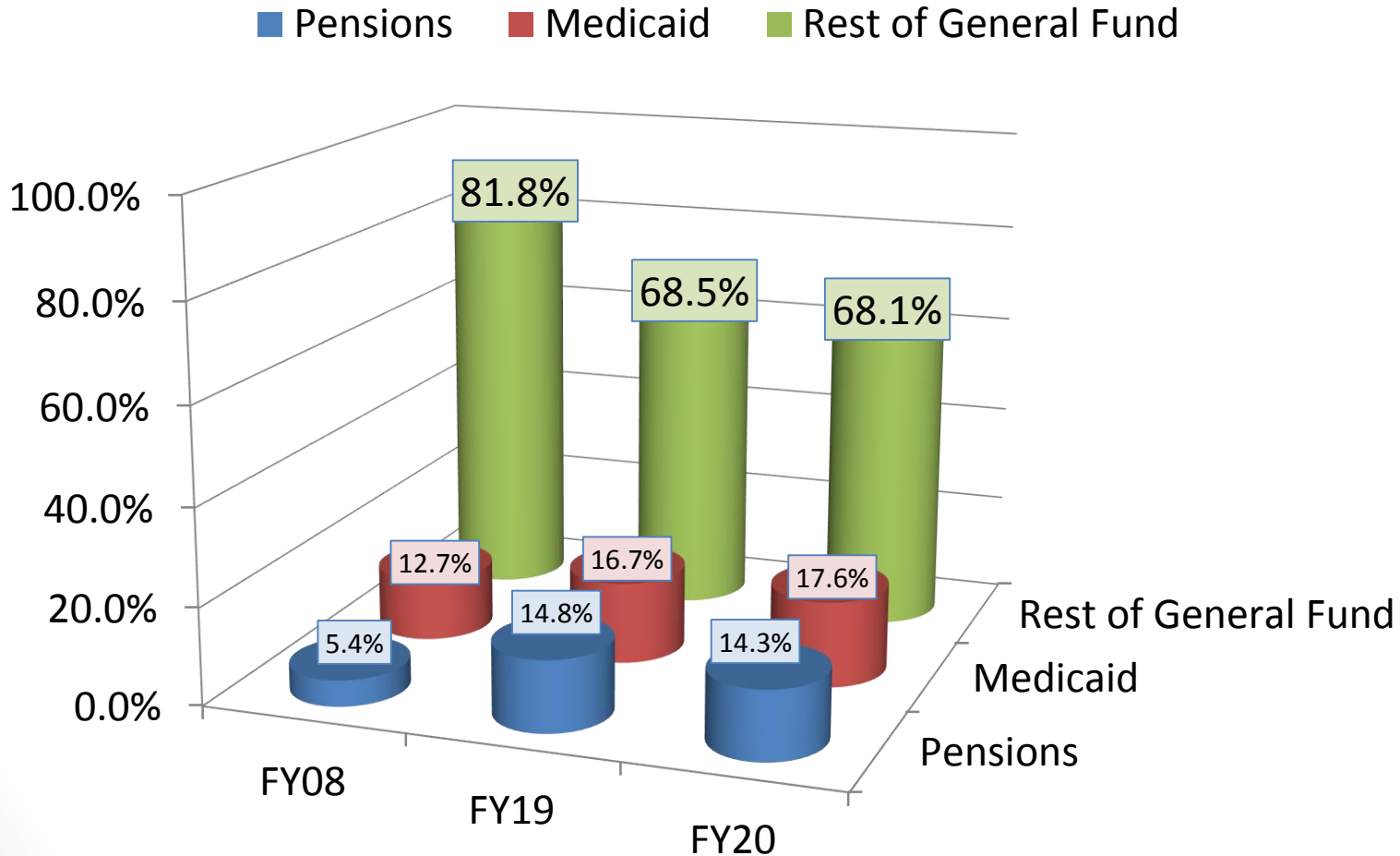
FY 2019 Additional \$317.4

FY 2020 Additional \$457.3

	(millions \$)	
<u>Top Five</u>	<u>FY 2019</u>	<u>FY 2020</u>
Pensions	\$161.3	\$150.3
Medicaid	0.0	143.7
Corrections	78.1	97.2
Community Based Services	55.0	54.2
Other Criminal Justice	23.0	11.9

1. Put Our Financial House in Order

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



2. Fully Fund Pensions

Governor's Proposed Budget 2018-2020						
All funds in State Government - Millions				General Fund		
KERS				KERS		
	FY 2019	FY 2020	Total	FY 2019	FY 2020	Total
Contribution base - FY 2018	864.6	864.6	1,729.2	361.2	361.2	722.4
Increase in funding	366.5	408.0	774.5	138.3	158.7	297.0
Total budgeted funding	1,231.1	1,272.6	2,503.7	499.5	519.9	1,019.4
			-			-
KTRS				KTRS		
Contribution base - FY 2018	1,142.3	1,142.3	2,284.6	1,142.6	1,142.3	2,284.9
Increase in funding	23.0	(8.4)	14.6	23.0	(8.4)	14.6
Total budgeted funding	1,165.3	1,133.9	2,299.2	1,165.6	1,133.9	2,299.5
			-			-
KERS and KTRS Combined				KERS and KTRS Combined		
Total pension funding	2,396.4	2,406.5	4,802.9	1,665.1	1,653.8	3,318.9
Contribution base - FY 2018	2,006.9	2,006.9	4,013.8	1,503.8	1,503.5	3,007.3
Increase in funding	389.5	399.6	789.1	161.3	150.3	311.6
Total pension funding	2,396.4	2,406.5	4,802.9	1,665.1	1,653.8	3,318.9

2. Fully Fund Pensions

KERS Employer Contribution Rates - Pension and Medical Combined

<u>Plan</u>	<u>(in % terms)</u> <u>Employer Rate</u>	<u>Annual</u> <u>Change</u>
<u>Non-Hazardous</u>		
FY 2016-17 Full ARC – 6.75%	48.59	25.3%
FY 2017-18 Full ARC – 6.75%	49.47	1.8%
FY 2018-19 Full ARC – 5.25%	83.43	68.6%
FY 2019-20 Full ARC – 5.25%	83.43	0.0%
<u>Hazardous Duty</u>		
FY 2016-17 Full ARC – 7.50%	23.82	- 9.6%
FY 2017-18 Full ARC – 7.50%	23.70	- 0.5%
FY 2018-19 Full ARC – 6.25%	36.85	55.5%
FY 2019-20 Full ARC – 6.25%	36.85	0.0%
<u>State Police</u>		
FY 2016-17 Full ARC – 6.75%	89.21	17.8%
FY 2017-18 Full ARC – 6.75%	91.24	2.3%
FY 2018-19 Full ARC – 5.25%	146.28	60.3%
FY 2019-20 Full ARC – 5.25%	146.28	0.0%

3. Focus on K-12 Classroom Instruction

Funding for K-12 education

- The budget fully funds the SEEK “Per Pupil” allocation at \$3,981 — the same as in FY 2017 and FY 2018 – the highest it has ever been in Kentucky history.
- The state will fund a smaller amount of school district transportation costs.
- A portion of school district health insurance will be shifted to the local school districts.
- To help address the increased financial burden:
 - school districts will be required to reduce administrative and support costs by 12% in FY 2019. Those costs will be reduced by an additional 12% in FY 2020 unless those costs are less than 15% of instruction (classroom) costs.
 - school districts will be allowed to use part of their financial reserves.

4. Workforce Development & Economic Development

- 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.

- 100% of lottery funds will continue to go to scholarships

5. Safeguard Kentucky's Most Vulnerable

- **Social Workers and Clinicians** – These public servants are on the front lines protecting citizens from abuse and neglect.
 - Additional \$68 million over the biennium
 - Over 340 additional staff
 - Increase salary for over 1,300 staff
- **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 \$3.2 million over the biennium into caseload management
- **Kinship Care** – funding for financial support for relatives caring for children
 - Additional \$1.8 million in FY 19 and \$3.3 million in FY 20
 - Financial support for placement of 3,000 children
- **Adoption and Foster Care Supports**
 - \$10.8 million over biennium from Tobacco Settlement Funds

6. Public Safety

Additional Funding to State Police

- **Capital Budget:**
 - **Two-Way Radio System:** \$35.1m to replace statewide emergency radio communication network Phase I
 - **Lab Equipment:** \$2.8m for Microscopes, Gas Chromatograph/Mass Spectrometers, and various laboratory equipment
- **Vehicles:** \$8.4m to purchase 200 new vehicles

6. Public Safety

- **Kentucky Law Enforcement Foundation Program Fund (KLEFPF):**
 - **Funding to support Law Enforcement and Firefighters**
 - Law Enforcement
 - \$26.8 million additional over the biennium
 - Firefighters
 - \$3.6 million additional over the biennium
 - **\$4,000 Training “stipend”**
 - State Troopers, Commercial Vehicle Enforcement Officers, Local Municipal Officers, School Security Officers, Parks Rangers, Agriculture Investigators, Charitable Gaming Investigators, Alcoholic Beverage Control Investigators, Horse Park Mounted Patrol, Insurance Fraud Investigators, and Attorney General Investigators

6. Public Safety

- **Supporting Criminal Justice System:**
 - **Prosecutors:** Provides \$14.5 million over the biennium to support 75 attorney positions
 - \$6m for 30 additional Commonwealth Attorneys
 - \$8.5m for 45 additional County Attorneys
 - **Public Defenders:** Provides \$12 million over the biennium to support 51 additional Public Defenders to reduce caseloads

6. Public Safety

Department of Corrections - Felon and Community Beds Forecast

	(millions \$)		
Cost Factors:	FY 2018	FY 2019	FY 2020
- More Inmates, Medical, Staffing	\$ 53.6	\$ 49.4	\$ 54.0
- Private Prisons	4.5	28.7	43.2
Total Additional General Fund	\$ 58.1	\$ 78.1	\$ 97.2

6. Public Safety

Department of Corrections - Felon and Community Beds Forecast

	FY 2018	FY 2019	FY 2020
Felon	24,467	25,670	26,300
Other*	2,114	2,120	2,120
Average Daily Population	26,581	27,790	28,420
Percent Growth over FY 18 Enacted	8.4%	13.3%	15.9%
Percent Growth over biennium		4.5%	6.9%

* The "Other" category is the remaining population under the custody of the Department located in Halfway Houses and Recovery Kentucky beds for parolees and probationers, as well as others serving time in jails under alternative sentence arrangements with the Courts.

6. Public Safety

Department of Corrections - Felon and Community Beds Forecast

- The blended forecast resulted in 145 more felons in FY 19 and 374 more in FY 20 than the Department of Corrections Budget Request. This is due to additional information and forecast data provided by the Kentucky Criminal Justice Policy Assessment Council (CJPAC) Justice Reinvestment Institute (JRI).
- The forecasted average daily felon population is higher than the FY 2018 Enacted budget by 2,206 in FY 18 revised; 3,409 in FY 2019; and 4,039 in FY 2020.
- Closure of six dorms at the Kentucky State Reformatory resulting in the transfer of 865 inmates to the Private Prisons and Local Jails

6. Public Safety

Department of Corrections - Felon and Community Beds Forecast

- The Lee Adjustment Center (LAC) in Beattyville, Marion Adjustment Center (MAC) in St. Mary, and the South East Correctional Complex (SECC) in Wheelwright provide additional capacity of 615 in FY 18; growing to 1,334 in FY 19; and 1,968 in FY 20.
- New Jail Construction: 1,250 new beds (550 March 2018 plus 700 more March 2019) - Rowan, Oldham, Knox, Laurel, Powell and Bourbon
- Parole Grant Rate – assumes an overall rate of 56.8%

6. Public Safety

- **Additional Tobacco Settlement Funds**
 - \$34 million in new funding from tobacco settlement funds to fight the opioid epidemic and substance abuse;
- **Fully Funding Heroin Legislation Programs**
 - Continues funding in effort to prevent/reduce the trafficking and abuse of heroin and other opiates
 - \$32.6 million over the biennium
- **Operation UNITE**
 - Continues the current level of \$4.0 million over the biennium

7. Building & Maintaining Infrastructure

Asset Preservation - Postsecondary Education	\$300.0
Asset Preservation - Other	\$94.9
Information Technology	112.5
Workforce Development	100.0
Elementary and Secondary Education	60.1
Public Safety	55.1
Economic & Community Development	21.0
Ky Infrastructure Authority	12.0
Total-General Fund Bonds	<hr/> \$755.6
 Agency Fund Bonds	
Ky Infrastructure Authority	\$60.0
Total-Agency Fund Bonds	<hr/> \$60.0
 Total - All Bonds	<hr/> \$815.6

7. Building & Maintaining Infrastructure

Road Fund

The Kentucky Transportation Cabinet (KYTC) is responsible for managing and maintaining over 27,500 miles of roadway and more than 14,000 bridges.

- Funding increase to address the backlog of deficient bridges from \$122 million annually to \$179 million annually
- Funding to address the backlog of deteriorated pavement from \$175 million annually to \$324 million annually

7. Building & Maintaining Infrastructure

Kentucky's highway Plan includes critical projects on the interstates, parkways, and state-maintained roadways including:

- A new interchange in Shepherdsville (Bullitt County) that will provide better access and encourage economic growth.
- Reconstruction of KY 30 in Jackson County and Owsley County to complete the corridor from London to Booneville
- Reconstruction of US 641 in Calloway County to complete the corridor to the Tennessee state line
- Widening of I-75 in Rockcastle County that will help to drive investment and growth, as well as deliver a safer route for tourism and development
- Painting the Brent Spence Bridge, representing an approximate \$30 million investment
- A planning study for a new corridor from I-71 in Gallatin County to the AA Highway in Campbell County

7. Building & Maintaining Infrastructure

- Continued preliminary engineering and early right-of-way activity for the I-69 Henderson-Evansville Ohio River Bridge to promote economic development efforts in Western Kentucky
- A planning study for the construction of a new corridor from I-65 in Bullitt County to I-71 in Oldham County
- Funding improvements to the Natcher Parkway for conversion to interstate standards (I-65 Spur)
- The proposal to maintain \$9.375 million per year in General Funds for maintenance, repair, and expansion of airports and aviation needs
- New interchange at the I-275/Graves Road in Boone County to provide access to the Amazon distribution facility
- Reconstruction of KY 237 from Valley View Drive to Rogers Lane in Boone County
- Reconstruction of KY 236 (Donaldson Road) from Houston Road to Mineola Pike in Boone County to provide improved access to new Amazon development

7. Building & Maintaining Infrastructure

- Improvement of freight mobility and reduce congestion on Mineola Pike from Donaldson Road to I-275 in Boone County
- Spot improvements and congestion mitigation in Boone County for Amazon Development
- Reconstruction of Mountain Parkway in Magoffin County to connect two ongoing construction segments
- Relocation of US 127 from the north bank of Cumberland River in Russell to Mantown Road in Clinton Counties
- Reconstruction of KY 641 in Calloway County from Tennessee state line to Murray
- Reconstruction of KY 641 in Lyon County from US 62 near Eddyville to south of the Lyon Caldwell county line
- Reconstruction of KY 641 in Lyon County south of the Lyon/Caldwell county line to Fredonia
- Funding for the Marion Branch Industrial Park access roads in Pike County

Medicaid-Administration and Benefits

General Fund	(millions \$)	
	<u>FY 2019</u>	<u>FY 2020</u>
Administration	\$57.3	\$59.9
Benefits	<u>1,823.9</u>	<u>1,967.5</u>
Total	\$1,881.2	\$2,027.4

Tobacco Settlement Phase I budget – FY 2018

(millions \$)

	FY 2018
Official Estimate	\$ 114.6
Previous Official Estimate	92.8
Increased Estimate	21.8
FY 2016 Receipts not Yet Appropriated	2.0
FY 2017 Receipts not Yet Appropriated	6.4
Balance to be Appropriated	\$ 30.2
 Governor's Recommendation:	
Governor's Office for Agriculture Policy - Statewide	2.3
Governor's Office for Agriculture Policy - County	1.7
Farm to Food Banks	0.2
Early Childhood Adoption and Foster Care Supports	5.8
Early Childhood Development	1.5
Early Childhood Oral Health	1.0
Pregnant Women Substance Abuse Supports	2.2
Substance Abuse Prevention/Treatment	14.0
Smoking Cessation	0.5
Smoking Cessation (1115 Waiver)	1.0
FY 2018 Current Year Appropriation	\$30.2

Tobacco Settlement Phase I budget

FY 2019 and FY 2020

	FY 2019	FY 2020
Official Revenue Estimate	\$119.5	\$118.1
Department of Revenue	0.3	0.3
Debt Service	26.8	29.8
Remaining Amount	\$92.4	\$88.0
 Appropriations:		
Agricultural Development	43.7	41.4
Early Childhood Development	30.2	28.9
Health Care Improvement	18.5	17.7
	\$ 92.4	\$ 88.0

Tobacco Settlement Phase I budget

FY 2019 and FY 2020

	<u>FY 2019</u>	<u>FY 2020</u>
Agricultural Development:		
Statewide Grants and Administration	23.7	22.5
Counties Accounts	16.9	15.8
Conservation Cost Share Program	2.5	2.5
Farms to Food Banks	0.6	0.6
Total Agriculture Development	<u>\$43.7</u>	<u>\$41.4</u>
 Early Childhood Development:		
Public Health Programs	12.1	12.1
Early Childhood Development	10.7	9.4
Adoption and Foster Care Supports	2.5	2.5
Early Childhood Advisory Council	2.1	2.1
Substance Abuse Programs	1.5	1.5
Save the Children	1.3	1.3
Total Early Childhood Development	<u>\$30.2</u>	<u>\$28.9</u>
 Health Care Improvement:		
Substance Abuse Programs	10.8	10.0
Smoking Cessation Programs	5.2	5.2
Pediatric Cancer Research	2.5	2.5
Total Health Care Improvement	<u>\$18.5</u>	<u>\$17.7</u>

Current Year Appropriations

(millions \$)

	<u>FY 2018</u>
Parks-Cumulative Deficit	\$ 8.8
Corrections-Private Prisons	4.5
Public Advocacy-Cumulative Deficit	3.8
Ky Communications Network Authority	<u>2.8</u>
Total	\$ 19.9

What will help alleviate the severe budget reductions?

- Restoration of funding for specific programs will require reductions in other programs – expenditures cannot exceed revenues.
- Meaningful Pension Reform during this Session
- Tax Reform – Focused on Making Kentucky Competitive

Governor Bevin's final comments

- This is a difficult but honest budget.
- Difficult decisions must be made.
- We must work together to make Kentucky the best version of itself.

Questions?