Three Pillars
2021 – 2022 Budget Recommendation

- Immediate Relief to Small Business and Individuals
- Investment in Our People
- Bold Investments in our Future
Values in Governor Beshear’s
2021 – 2022 Budget Recommendation

- Public Education
- Health Care
- Children and Families
- Good-Paying Jobs
- Infrastructure
- Public Employees and Pensions
A Responsible Budget

- Is **balanced** and transparent
- **Adheres** to the revenue estimates of the Consensus Forecasting Group & all resources identified
- Is **structurally sound**
- **Fund transfer** amounts from state agency accounts – lowest in 20 years
- Protects the **Budget Reserve Trust Fund**, Kentucky’s rainy day fund, and adds to it
A Responsible Budget

- Builds a rational and affordable capital improvement plan focusing on maintaining our postsecondary education and state government physical assets

- The Commonwealth has a debt affordability policy where its debt payments stay within 6% of state revenues. This budget is significantly below that policy cap, at 5.23%.
Consensus Forecasting Group issued revised revenue estimates for FY 2021 and FY 2022 on Dec 4th

Based on November national economic forecast

National forecast:
- Real GDP growth of 3.1% in 2021 and 2.5% in 2022
- Personal consumption growth of 3.6% and 2.2%
- No additional federal relief
- Adopted the “Control” economic scenario
## General Fund Forecast FY 2021-22

(Millions $, Official CFG estimates from December 4, 2020)

<table>
<thead>
<tr>
<th></th>
<th>FY20</th>
<th>% Chg</th>
<th>FY21</th>
<th>% Chg</th>
<th>FY22</th>
<th>% Chg</th>
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## General Fund FY 21 Year-to-Date

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<th>Needed Change Last 6 Months</th>
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<td>Cigarettes</td>
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<td><strong>5.6%</strong></td>
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# Road Fund Forecast FY 2021-22

(Millions $, Official CFG estimates from December 4, 2020)

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<tr>
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<th>FY21</th>
<th></th>
<th>FY22</th>
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<tr>
<td></td>
<td>Actual % Chg</td>
<td>Estimate % Chg</td>
<td>Estimate % Chg</td>
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<td>Motor Fuels</td>
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<td>Motor Vehicle Usage</td>
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<td>Motor Vehicle License</td>
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<td>Motor Vehicle Operators</td>
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<td>17.2 33.0</td>
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<td>Weight Distance</td>
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<tr>
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<td>38.6 -1.1</td>
<td>39.8 3.1</td>
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<td><strong>Total Road Fund</strong></td>
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<td><strong>-4.8</strong></td>
<td><strong>1,577.7</strong></td>
<td><strong>5.8</strong></td>
<td><strong>1,609.2</strong></td>
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### Road Fund FY 21 Year-to-Date

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<tr>
<th>Source of Revenue</th>
<th>Estimate % Change from FY 20</th>
<th>Actual % Change Year-to-Date</th>
<th>Need Change % Change Last 6 Months</th>
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<tr>
<td>Motor Fuels</td>
<td>2.0%</td>
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<tr>
<td>Motor Vehicle Usage</td>
<td>13.9%</td>
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<td>17.0%</td>
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<tr>
<td>Motor Vehicle License</td>
<td>7.9%</td>
<td>7.0%</td>
<td>8.4%</td>
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<tr>
<td>Motor Vehicle Operators</td>
<td>33.0%</td>
<td>22.0%</td>
<td>52.0%</td>
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<tr>
<td>Weight Distance</td>
<td>-0.4%</td>
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<td>-1.8%</td>
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<tr>
<td>General Fund</td>
<td>5.8%</td>
<td>1.3%</td>
<td>10.7%</td>
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A Rare Opportunity Budget

- Kentucky is in a fortunate situation with this budget
- It is rare when the Commonwealth has resources during tough economic times
  - Typically revenues decline
  - Budget cuts are usually needed to balance
- We have the opportunity to deploy a large amount of one-time money for non-recurring uses that gives relief and provides strategic investments
Source of $613 Million One-Time Funds

- $49 million – FY 21 budget’s ending balance
- $126 million – Increase in Revenue estimate
- $319 million – Freed up from CARES Act money reimbursing state government expenses
- $119 million – largely from a higher federal share of Medicaid expenses
Relief from One-Time Funds

- $220 million Aid to Small Business
- $20 million Aid to non-profit organizations
- $100.9 million to repay Unemployment Insurance (UI) loan ($252.9 million when combined with use of CARES Act funds) – suspends statutory surcharge to fund interest payments for 2021
- Special Appropriations Bill
- Using $48 million in CARES Act funds for one-time payments to UI claimants
Investments with One-Time Funds

- $100 million – School Building Renovation & Replacement Fund
- $50 million – Broadband Deployment Fund
- $22 million – Emerging Industries Fund
- $100 million – Budget Reserve Trust Fund
Prioritizing Public Education

- **$1,000 Teacher & Classified Salary Increase** $109.4 million. One-time base increase to FY 22 cohort. Direct funding to all school districts – not through SEEK formula
- **SEEK Per Pupil Base 1% Increase** $31.9 million in FY 22. Increases base per pupil by $40 from $4,000 to $4,040
- **Retired Teachers’ Medical Benefits** $73.2 million in FY 22 to fully fund State’s portion of Shared Responsibility plan
- **Retired Teachers’ Pensions** fully funded after using expiring debt service of $27.6 million in FY 22
Prioritizing Public Education

- **Textbooks** $11 million for textbooks and instructional resources. Current budget has no funding.

- **Preschool** $5 million each year for preschool & early learning programs in disadvantaged areas

- **Teacher Loan Forgiveness/Teacher Scholarships**
  - Reinstitutes both programs: $3.1 million
Prioritizing Public Education

- **Mental Health Services in Schools** continues the $7.4 million added in the FY 21 budget

- **School Facilities** offers of assistance raised from $58 to $100 million

- **Ky School for the Blind and School for the Deaf**
  Operating cost increase of $1.5 million each year

- **Area Technology Center** New regional, secondary center in Estill County - 54th in the State
Education New Federal Relief Response to COVID-19

- **Elementary and Secondary School Emergency Relief Fund**
  - $928 million through FY 22
  - Almost 5 times the CARES Act award
  - Broad usage

- **Higher Education Emergency Relief Fund**
  - $261 million through FY 22
  - Almost 2.5 times the CARES Act award
  - More flexibility
Postsecondary Education

- **Increase Funding for Postsecondary Education Institutions by 2%** $17.3 million - half as a permanent base increase and half through the performance funding model using recommendations of the Performance Funding Working Group. First base increase since 2006-08.

- **Better Kentucky Promise Scholarship Program** $16.4 million from Lottery funds – expands the Work Ready program to include all Associate degree and certificate seeking students – fills the gap between tuition costs and federal/state student aid. For new full-time and part-time students of all ages – expect 6,300. Provides affordable access to valuable education and training, especially people disrupted by COVID.
Postsecondary Education

- **Higher Education Resurgence Fund**  $50 million in bond funds for asset preservation and maintenance with a matching requirement bringing the total to $75 million

- **Student Financial Aid**  $24.6 million more in lottery funds in FY 22. Dedicates lottery funds to student financial aid. KEES is fully funded.
Postsecondary Education

- **University Agency Bonds**  $336.9 million including $320 million for Northern Ky University’s opting out of Ky Retirement System

- **Optometry & Veterinary School Spaces** maintain current reserved spaces

- **University Mandated Programs** Additional funding to support several mandated programs
  - More students at Craft Academy at Morehead State
  - Ky State University’s need to match land grant funds
Health Care

- **Medicaid**
  - Fully funds the Medicaid program, including Expansion
  - Assumes the additional +6.2% Federal match increase through June 30, 2021
  - Shifts in state matching rates-KCHIP, FMAP, Expansion

- **Additional Medicaid Waiver Slots**
  - Additional $3.5 million
  - Michelle P. 250 additional slots
  - Supports for Community Living 50 additional slots
FY 20-22 Medicaid Benefits Enrollment

<table>
<thead>
<tr>
<th>FY20 Actual Enrollment</th>
<th>FY21 Enacted Enrollment</th>
<th>FY21 Updated Enrollment</th>
<th>FY22 Gov Rec Enrollment</th>
<th>FY22 Updated Enrollment</th>
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<tr>
<td>1,385,259</td>
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<td>1,578,296</td>
<td>1,380,11</td>
<td>1,487,660</td>
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Legend:
- Fee for Service
- Managed Care
Health Care

- Medicaid Enrollment Initiative
  - Additional $5 million ($1 million General Fund leverages $4 million federal funds)
  - Effort to fully enroll underrepresented populations

- Public Health
  - Adds $12 million for local health departments – a doubling of the current General Fund support – to shore up this critical area of public service
  - Pension Relief – adds $33.5 million to pay the full actuarially determined contribution with a shift to the Fixed Allocation funding policy
Behavioral Health

- Pension Relief – adds $18.8 million to pay the full actuarially determined contribution with a shift to the Fixed Allocation funding policy
Children and Families

- **76 New Social Workers to Fight Abuse & Neglect**
  - Additional $7 million
  - Raise current complement of Child Protective Services social workers from 1,325 to 1,401, a 6% increase in staffing
Children and Families

- **Preserving Child Support Enforcement**
  - Continues the $6.5 million from the General Fund preserving $13 million in federal funding

- **Supporting Programs that Assist Victims of Domestic Violence** Additional $1 million to for the Ky Coalition Against Domestic Violence to administer batterer intervention services
Children and Families

- **Personal Care Homes**
  - Continues the $2.2 million from the General Fund for increased reimbursements

- **Child Advocacy, Domestic Violence and Rape Crisis Centers**
  - Continues the $500,000 increase for each added in the FY 21 budget
Unemployment Insurance System

- **Modernizing UI System**
  - $47.5 million replacement project. Requires only $7.5 million in new bonds

- **Restore Staffing and Public Services Capacity**
  - $1.1 million in FY 21 and $8.4 million in FY 22 to restore 90 staff positions cut from the UI program to provide services at the 12 career centers across Kentucky.
Governor’s budget supports the shift of the KERS Non-hazardous plan to a Fixed Allocation funding policy in FY 22. Actuaries state this may be the most important change to ensure the viability of the plan.

- Adds $72 million to enable the Quasi-governmental entities to pay the full actuarially determined contribution rate for the first time in four years – the current rate of 49.47% has been frozen.
Pensions – Quasi Governmental Agencies & Fully Funding Pensions

- Local Health Departments, Community Mental Health Centers, Universities/KCTCS
  - Local Health Depts-100% of marginal cost $33.5 million
  - Community Mental Health Centers-100% $18.8 million
  - Universities/KCTCS-90% $19.9 million

- Child Advocacy Centers, Domestic Violence Centers, Rape Crisis Centers – pension costs drop substantially – by an average of 46%
Public Employees

- **Salary Increase for State Employees**
  - 1% Salary increase for State Employees - $9.6 million in FY 22 from the General Fund ($16.9 All Funds cost)

- **Pensions & Health Insurance**
  - Fully funds the pension contribution for state employees & school district employees (General Fund amounts below)
  - Non-hazardous Plan – Fixed allocation funding policy
  - $24.9 million in FY 22 for increased health insurance premium contributions
Public Safety and Victim Services

- **Improved Compensation for Law Enforcement and Firefighters**
  - Increase stipend by $600 from $4,000 to $4,600
  - Over 8,000 law enforcement officers
  - Over 3,800 firefighters

- **Kentucky State Police – Salary Increase**
  - $5.1 million additional funds for the Trooper/Sworn Personnel salary schedule

- **Firefighters – PTSD Treatment**
  - Continues the $1.25 million added in the FY 21 budget from the Firefighters Foundation Program Fund
Public Safety and Victim Services

- **Kentucky State Police – Crime Lab**
  - Continues Rapid DNA funding added in FY 21 budget - $3 million each year

- **State Prosecutors** - $3 million for additional staff

- **County Attorneys** – $840,000, additional $7,000 per county office to support operating expenses

- **Replace Firing Range at Criminal Justice Training**
  - $23 million bond project with debt service from KLEFPF fund as a fund transfer to General Fund
Corrections

Inmate Population Updated Forecast

- 20-22 Consensus Forecast
- 21-22 Revised Forecast
- Actual Inmate ADP
Corrections

- FY 21 Budget for jail and community beds decreases by about $40 million due to a decline in the forecasted inmate population
  - 5,200 fewer inmates in FY 21 than prior forecast
  - 4,600 fewer inmates in FY 22

- Continues FY 21 cost increases for Adult Institutions
Planning for replacement of Kentucky State Reformatory (KSR)

- Facility age and deteriorating conditions and inability to recruit and retain staff in a competitive labor market
- Capital design funds for expansion of Little Sandy Correctional Complex
- Capital design funds for relocation of system-wide Medical Services unit located at KSR
Tourism

- **Tourism Business Enterprises**
  - State Parks
  - State Fair Board
  - Kentucky Horse Park

- **Lost revenues** in FY 2020 and FY 2021 exceed reduction in costs due to response to COVID-19. Looking at amount needed to cover those deficits
Tourism

- **Parks**
  - $11 million in FY 21 to address prior year shortfall
  - $5 million for major maintenance
  - $5 million for wastewater treatment plant improvements

- **State Fair Board**
  - $15.2 million in FY 21 to address prior & current year shortfall

- **Kentucky Horse Park**
  - $7.6 million in FY 21 to address prior & current year shortfall
Local Governments

- **Return Coal Severance Revenues to Coal Counties**
  - Similar to the FY 21 budget, after Debt Service on past Water/Sewer and School Facilities funding and administrative costs, return Coal Severance tax revenues to Coal-producing Counties
  - Higher revenue estimates add $5 million in FY 21 for the Local Government Economic Development Fund

- **Equal Pay Audits** – $1 million to provide resources for local governments to voluntarily conduct equal pay for equal work audits
Local Governments

- **Flood Control Infrastructure Funding**
  - $6 million in Bond Funds to replenish the State fund that matches various Federal funding streams

- **Water and Sewer Infrastructure**
  - $7.7 million bond funds to match $38.7 million in federal funds to improve local drinking water and wastewater infrastructure
Economic Development

- **Economic Development Capacity**
  - $30 million in bond funds for three investment programs to recapitalized financial resources and expand jobs with good pay

- **Urban Venture Fund**  $2 million to support small business and distressed urban areas

- **Louisville Waterfront**  $400,000 for the Louisville Waterfront Development
Transportation

- **Highways**
  - Higher revenue estimates, use of CARES Act funds and Revenue Sharing adjustments result in $78.9 million more in FY 21 for the Biennial Highway Construction Plan.
  - Higher revenue estimate and Revenue Sharing adjustment results in $38 million more in FY 22.

- **Lost Toll Credits - Public Transportation Funding for Local Governments**
  - $8.4 million for matching support for federal public transit grants.
  - Exhausted toll credits must be replaced with state funds.
Investing in Veterans

- **Bowling Green Veterans Center**
  - Fully Funds the new veterans center project without drawing from the Rainy Day Fund
  - Completion of the design is a prerequisite to draw federal funds for the construction of the facility

- **Military Pension – Full Exclusion**
  - The Governor’s budget supports the full exclusion of military pensions from state income tax – estimated revenue reduction of $9 million in FY 22. Expected to provide nearly 8,700 Kentuckians with tax relief.
Other Government Areas

- **Commission on Women**
  - Reinstates the Commission

- **Commission on Human Rights**
  - Restores the FY 21 budget cut and adds $200,000 to reinvest in human rights

- **Office of Minority Empowerment**
  - Reinstates the Office
Fiscal Responsibility

- **Largest “Rainy Day Fund” Balance Ever**
  - Governor’s budget adds $100 million from One-Time funds to the Rainy Day Fund
  - Brings the balance up to $565.7 million, 4.7% of the General Fund revenue estimate – both highest ever
  - From FY 14-20, $247 million drawn down – none for a revenue shortfall
  - In fiscal 2020, 15 states made withdrawals and another 10 have done so already in fiscal 2021
Questions