

APPROPRIATIONS AND REVENUE COMMITTEE PRESENTATION

2021 – 2022 GOVERNOR'S RECOMMENDED BUDGET

JANUARY 8, 2021

Office of State Budget Director

Three Pillars

2021 – 2022 Budget Recommendation

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- 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

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

A Responsible Budget

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- 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

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- 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%**.

Revenue Estimates

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- 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)

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	FY20		FY21		FY22	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg
Individual Income	4,765.2	4.9	4,818.0	1.1	5,034.1	4.5
Sales & Use	4,070.9	3.4	4,232.8	4.0	4,346.0	2.7
Corp. Inc. & LLET	639.2	-16.2	567.5	-11.2	589.6	3.9
Property	643.0	-0.6	663.7	3.2	681.7	2.7
Lottery	271.4	2.8	286.1	5.4	292.0	2.1
Cigarettes	355.0	0.4	345.2	-2.8	335.7	-2.8
Coal Severance	58.8	-36.7	52.4	-10.9	51.9	-1.0
Other	763.1	-3.5	763.3	0.0	665.3	-12.8
General Fund	11,566.6	1.5%	11,729.0	1.4%	11,996.3	2.3%

General Fund FY 21 Year-to-Date

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	Estimate % Change from from FY 20	Actual % Change Year-to-Date First 6 Months	Needed Change Last 6 Months
General Fund			
Individual Income	1.1%	5.0%	-2.3%
Sales & Use	4.0%	5.9%	1.9%
Corporate Inc. & LLET	-11.2%	17.4%	-43.7%
Property	3.2%	3.8%	1.9%
Lottery	5.4%	-0.6%	11.6%
Cigarettes	-2.8%	0.6%	-6.2%
Coal Severance	-10.9%	-11.1%	-10.7%
Other	0.0%	-2.1%	1.5%
General Fund	1.4%	5.6%	-2.7%

Road Fund Forecast FY 2021-22

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

	FY20		FY21		FY22	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg
Motor Fuels	741.6	-4.1	756.2	2.0	769.2	1.7
Motor Vehicle Usage	499.3	-3.0	568.6	13.9	581.4	2.3
Motor Vehicle License	108.6	-10.2	117.2	7.9	119.6	2.0
Motor Vehicle Operators	12.9	-22.2	17.2	33.0	17.6	2.3
Weight Distance	83.4	-0.4	79.7	-4.4	81.2	1.9
Investment	6.7	-43.9	0.2	-97.0	0.4	100.0
Other	39.0	-13.6	38.6	-1.1	39.8	3.1
Total Road Fund	1,491.5	-4.8	1,577.7	5.8	1,609.2	2.0

Road Fund FY 21 Year-to-Date

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	Estimate	Actual	
	% Change	% Change	Needed
	from	Year-to-Date	Change
	from FY 20	First 6 Months	Last 6 Months
Road Fund			
Motor Fuels	2.0%	-5.1%	10.2%
Motor Vehicle Usage	13.9%	11.2%	17.0%
Motor Vehicle License	7.9%	7.0%	8.4%
Motor Vehicle Operators	33.0%	22.0%	52.0%
Weight Distance	-0.4%	-5.1%	-3.7%
Other	15.1%	2.1%	-1.8%
General Fund	5.8%	1.3%	10.7%

A Rare Opportunity Budget

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- 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

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- \$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

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- \$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

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- \$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

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- **\$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

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- **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**
 - ▣ Reinstates both programs: \$3.1 million

Prioritizing Public Education

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- ❑ **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

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- **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

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- **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

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- **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

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- **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

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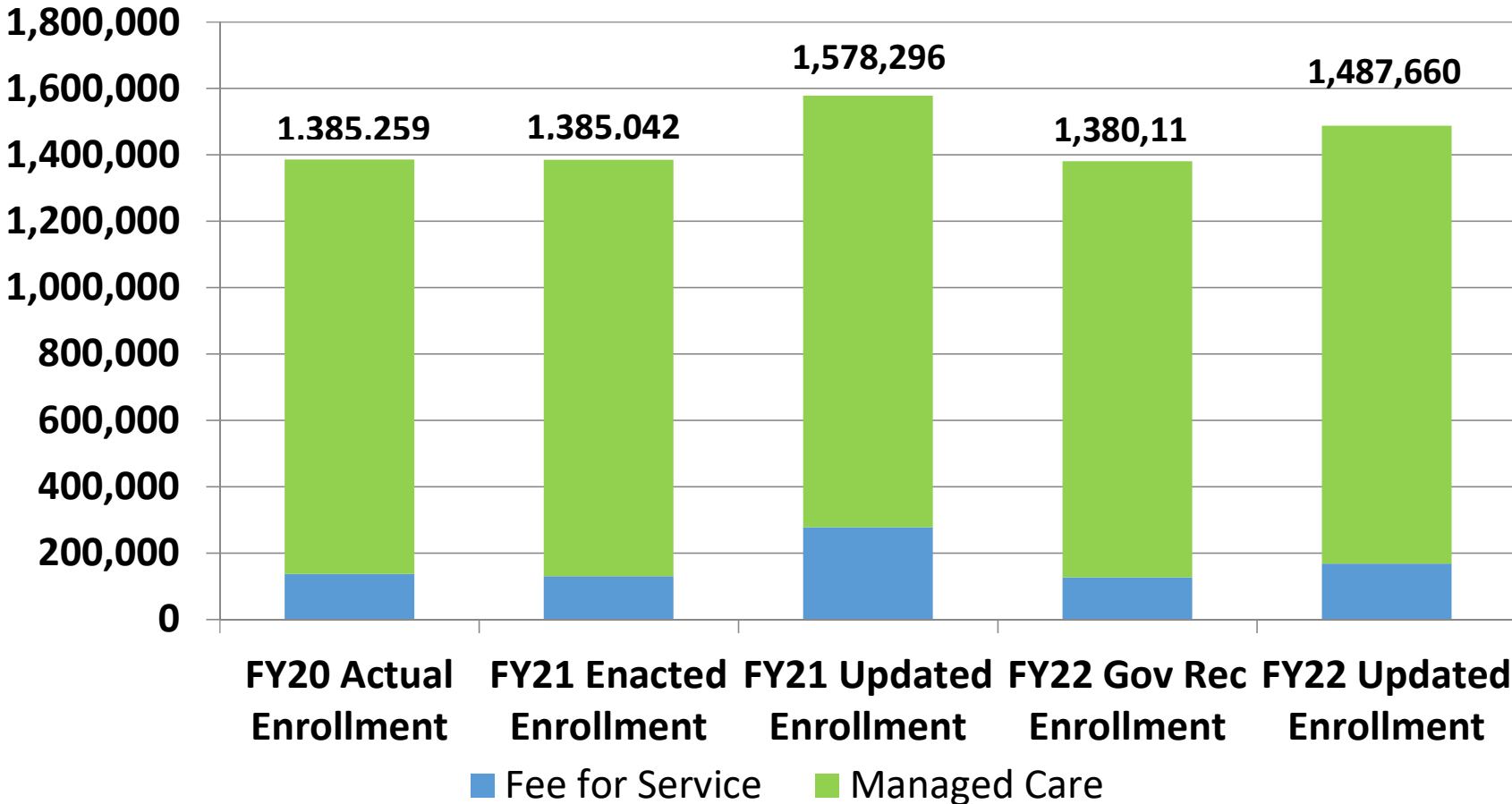
□ **Medicaid**

- 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



Health Care

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□ **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

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□ 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

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- **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

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- **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

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- **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

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- **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.

Pensions – Quasi Governmental Agencies

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- 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 year – the current rate of 49.47% has been frozen

Pensions – Quasi Governmental Agencies & Fully Funding Pensions

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- 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

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□ **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

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- **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

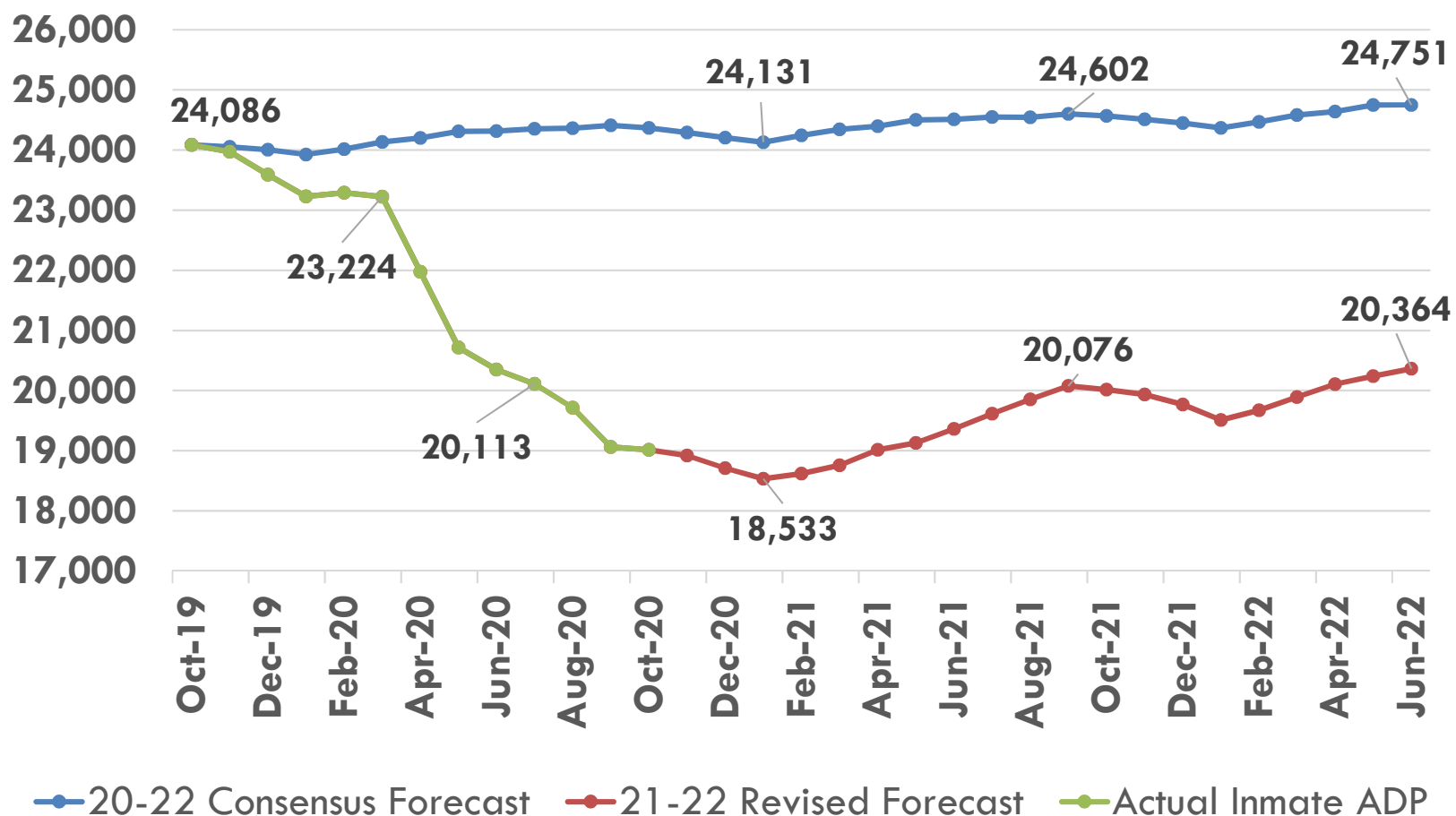
34

- **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

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Corrections

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- 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

Corrections

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- **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

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- **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

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□ 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

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- **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

42

- **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

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□ 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

44

□ **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

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- **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

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□ **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