

GOVERNOR'S 2016-2018 RECOMMENDED BUDGET

- General Fund reduction of 4.5% in the current year (Fiscal Year 2016) from existing appropriation.
- General Fund reduction of 9% in Fiscal Years 2017 and 2018 from existing appropriation.
- In total, the Governor's budget reduces baseline spending by approximately \$650 million.
- Many agencies, covered by about 70% of General Fund appropriations, are not subject to the cuts. Areas exempted include: the SEEK formula, Department of Veterans Affairs, Local School District Health Insurance, Medicaid, KTRS & KERS, Student Financial Aid, SB 192 Heroin Bill Funding, Dedicated Coal Severance Programs (LGEDF & LGEAF), Front Line Public Safety Employees (State Police, Corrections, Juvenile Justice), Front Line Social Worker Salaries (Department for Community Based Services, Aging and Independent Living Services) Commonwealth Attorneys, County Attorneys, Public Defender's headcount, Debt Service Payments, Board of Elections – State Share of Elections, and Necessary Government Expenses.
- Includes provisions that suspend prevailing wage and prohibit the distribution to and use of public funds by entities that provide abortions or abortion services.
- Creates a new permanent fund within the Finance Cabinet and transfers \$500 million in FY 2018 from the Public Employee Health Insurance Trust Fund from excess prior health insurance plan years to the new fund.
- No "across the board" pay increases for staff in either year.
- Health insurance contribution is 1% in the first year, 0.5% increase in second year.

PENSIONS

- The Governor stated that he plans to retain external auditors to audit the pension systems.
- General Fund support of \$8.4 million in FY 2017 and \$17 million in FY 2018 is provided to cover increases in the statutory employer contribution rates for school district employees for the Kentucky Teachers' Retirement System. In addition, it includes General Fund above the statutory employer contribution for KTRS in the amount of \$300 million in FY 2017 and \$291.5 million in FY 2018. This represents roughly two-thirds of what was requested.
- Includes \$60.2 million in FY 2017 and \$70.5 in FY 2018 in General Fund to fully fund the ARC for the Kentucky Retirement System based on an employer contribution rate (48.59%) that assumes a lower investment return assumption of 6.75%. Additional General Fund of \$44.7 million is provided in each fiscal year as a direct appropriation to KRS. This is often referred to as ARC-Plus.
- In addition to the above stated amounts, the recommendation includes "contingent appropriations" for the retirement systems contingent on General Fund revenue receipts meeting the official estimate in each year of the biennium. Total budgeted appropriations are less than the official forecast by \$128.2 million in FY 2017 and \$143.25 million in FY 2018. If the state meets the official forecast, these amounts would allocated as follows:

	FY 2017	FY 2018
KTRS (25%)	32.1	35.8
KERS (25%)	32.1	35.3
Budget Reserve Trust Fund (50%)	<u>64.1</u>	<u>71.6</u>
Total	128.2	143.2

BUDGET RESERVE TRUST FUND

- Includes \$89.3 million to the Rainy Day fund in each fiscal year plus the contingent appropriations just mentioned which would bring the balance to \$523.8 million at the end of the biennium, 4.8% of the FY 2018 General Fund revenue estimate. The current balance is \$209.4 million.

GENERAL GOVERNMENT

- Coal Severance:
 - No money in single county coal severance accounts except for Regional Strategic Development Fund.
 - Trover Clinic included in 9% cuts.
 - Osteopathic Medicine and Pharmacy scholarships were sized for demand.
- Tobacco:
 - Treated similarly to last biennium: 50% to Ag Development Fund, 36% to Early Childhood Development, and 14% to Healthcare Improvement Fund, all after debt service is taken off the top.
- Prosecutors exempted from cuts, and receive an automatic adjustment due to CPI.

K-12 EDUCATION

- SEEK exempt from cuts. Per-pupil base straight-lined at \$3,981, but enrollment growth and KTRS employer match means an increase of \$25.5 million in the first year and \$14.5 million in the second year.
- No state-mandated raises for teachers.
- School Facilities Construction Commission debt service on previous biennium offers of assistance reduced by 9% to result in \$91 million bond authorization. New offers of assistance in the 2016-2018 biennium are reduced by 9% to \$91 million.
- Operations & Support Services and Learning & Results Services (including Extended School Services, Family Resource and Youth Service Centers, and Preschool) are included in cuts after Local District Health Insurance is exempted.

FINANCE AND ADMINISTRATION

- Kentucky Wired funded through Restricted Funds derived from user fees.
- PVAs receive an automatic adjustment due to CPI.

POSTSECONDARY EDUCATION

- Provides \$282.5 million from the General Fund in FY 2018 for the Postsecondary Education Performance Fund for a new outcomes-based funding approach. This amount represents one-third of the recommended total General Fund appropriations (after 9% cuts) for the nine public postsecondary institutions. One-third of institutions FY 2018 appropriation will be based on outcomes-based funding from this new fund. The goal is apply outcomes-based funding to 100% of universities base appropriation by FY 2020.

- Includes total funding of \$7.92 million in FY 2017 and \$15.84 million in FY 2018 for Northern Kentucky University and Western Kentucky University to address disparities in the allocation of state appropriations among the comprehensive education institutions.
- National Guard Tuition Assistance Program is increased to meet demand.
- All lottery funds will be dedicated to student financial aid through the Kentucky Higher Education Assistance Authority (KHEAA), including a new program for workforce development, education, and training.
- The need-based CAP and KTG programs are straight-lined from existing appropriation. Increased lottery funding (General Fund) of \$27.44 million in FY 2017 and \$31.55 million in FY 2018 will support student financial aid for participation in workforce development and training programs.
- KEES is fully funded.

EDUCATION AND WORKFORCE DEVELOPMENT

- Authorizes a bond pool of \$100 million for the Education and Workforce Development Cabinet to finance in whole or in part, capital investments in workforce development education and training facilities. The governor says this pool would address employer needs to recruit a more skilled workforce and boost manufacturing.
- Includes \$868,600 in fiscal year 2016-2017 and \$885,000 in fiscal year 2017-2018 to fund operations of the Kentucky Business One Stop Portal.

JUSTICE AND PUBLIC SAFETY

- The following Kentucky State Police Personnel are provided a \$4,000 proficiency grant to be reimbursed from Kentucky Law Enforcement Foundation Program Fund (KLEFPF): Troopers, Arson Investigators, Hazardous Develop Investigators, Legislative Security Specialists, and Commercial Vehicle Enforcement Officers.
- Personnel outside of the KSP that are newly authorized to receive a \$4,000 proficiency grant from KLEFPF include: Horse Park mounted patrol, Park Rangers, Agriculture Investigators, Charitable Gaming Investigators, Alcoholic Beverage Control Investigators, Insurance Fraud Investigators, and Attorney General Investigators.
- Effective July 2016, KSP Trooper receive a \$1,100 base salary increase.
- Effective July 2016, KSP Trooper Seniors, Sergeants, Lieutenants, Captains, Majors, Lieutenant Colonels, Trooper Rs, Executive Security Officer IS and Executive Security Officer IIs receive a \$3,100 base salary increase.
- KLEFPF funds are transferred to the KSP to be used to upgrade equipment and capacity for various law enforcement functions, including DNA testing backlogs, and fingerprint ID.
- No KLEFPF fund transfer to the General Fund.
- Retains the 2015 correctional system salary increases and invests additional funds in retention raises over the biennium for a 10% increase entry level correctional officer salaries in an effort to minimum cost caused by excessive turnover.
- Includes funding to support 44 new public defenders.
- Includes funding to support 32 new positions for Probation and Parole.

- Provides full funding of SB 192 anti-heroin legislation. The budget includes \$15.7 million in FY 2017 and \$16.3 in FY 2018 from savings realized as a result of the passage of HB 463 (2011 Regular Session).
- Includes \$6.4 million over the biennium as a fund source replacement of General Fund for the Kentucky All Schedule Prescription Electronic Reporting System (KASPER).
- Includes General Fund (coal severance) in the amount of \$2 million in each fiscal year for Operation UNITE.
- Medical contract for inmate services increases by \$11 mill in each year.

HEALTH AND FAMILY SERVICES

- The First Lady's Initiative invests an additional \$1.56 million in Children's Advocacy Centers over the biennium.
- Provides an additional \$4.8 million over the biennium for an increase in entry level and new hire salaries for social workers and clinicians. This investment will positively affect 2,030 social workers.
- DCBS social workers are approved for a 40-hour work week.
- Includes an additional \$964,100 for guardianship caseload management. This equates to an increase of 6% relative to projected growth in caseloads over the biennium.
- Provides additional funding for the state labs to test backlogged kits and increase the quality of these services.
- \$23.5 million from the 1% Kynect assessment transferred to Medicaid Services.
- Medicaid portion of Kynect remains as-is, but the rest migrates to the federal exchange.
- A portion of the 1% assessment revenues on all insurers currently used to operate Kynect will be used to fund the transition to Healthcare.gov – the federal exchange. Kynect was built with \$200 million-plus in federal funds. There is dispute whether this will ultimately lead to savings.
- Federal funding of Kynect continues. One percent assessment on insurers continues, but will not be imposed on plans offered through the federal exchange.
- The administration has initiated an effort to pursue a demonstration waiver that will allow it to redesign and revamp the Medicaid program. The Governor's budget contains transitional funding to maintain Medicaid services during the waiver negotiations with Centers for Medicare and Medicaid Services, including the required match for Medicaid expansion.
- Includes \$109 million current year Restricted Fund appropriation to resolve the Medicaid shortfall.
- Includes one-time increases of \$7.3 million in the first year and \$6.7 million in the second year for the Medicaid Management Information Systems contract.

TOURISM

- Department of Parks and Fair Board exempted from cuts due to existing deficits.
- Provides a current year appropriation of \$12.38 million for the Department of Parks to cover a cumulative shortfall that has accrued since FY 2014 resulting from declining or flat revenues and rising fixed costs.
- Provides a current year General Fund appropriation of \$2.3 million and \$1.9 million in FY 2017 and FY 2018 to the Fair Board to cover the cumulative and ongoing revenue shortfall due to the closure of the Kentucky International Convention Center for construction.

TRANSPORTATION

- Proposes to use no less than 15% of the state-funded portion of the Road Fund for maintenance and repair of existing bridges.
- Includes the following:
 - A new interchange in Shepherdsville (Bullitt County)
 - Widening I-75 in Rockcastle County
 - \$38 million for a study and analysis of flow changes as well as existing bridge maintenance, repair, and painting to improve the Brent Spence Bridge Corridor (Boone, Kenton, and Campbell Counties)
 - Complete widening of US 641 from Tennessee line to Murray in Calloway County
 - Continue Mountain Parkway enhancements with particular focus on critical areas in Magoffin County
 - Paint the Second Street Bridge in downtown Louisville to match its appearance with the new Lincoln Bridge between Louisville and Southern Indiana
 - Furthers the ultimate inclusion of the Natcher Parkway into the federal highway system in order to add Owensboro to the system.
 - \$10 million per year for maintenance, repair, and expansion of airports and aviation needs.
 - Accelerates the planning phase of the I-69 Henderson-Evansville Ohio River Bridge, as well as future I-69 tie-in projects such as the extension of KY 80 from KY 303 to future I-69 in Graves County.

CAPITAL PROJECTS

- Authorizes \$460.3 million in General Fund supported bonds and \$164.4 million in Agency Bonds for a total of \$624.6 million in bonds.
- \$9 million to be deauthorized for Maxey Flats project – funds are unneeded.
- No new bond-funded projects for higher educations and no funding for land acquisition.
- Specific General Fund supported bond financed projects include:
 - \$103.1 million for prior “Special” School Facilities Construction Commission (SFCC) Offers of Assistance
 - \$91 million for prior “Regular” SFCC Offers of Assistance
 - \$7.5 million for the KIA Fund A – Federally Assisted Wastewater Loan Program
 - \$6.1 million for the KIA Fund F – Drinking Water Revolving Loan Program
 - \$7 million for the Economic Development Bond Program
 - \$7 million for the High-Tech Construction/Investment Pool
 - \$7 million for the Kentucky Economic Development Finance Authority Loan Pool
 - \$100 million Workforce Development Construction Pool
 - \$4 million for State-Owned Dam Repair
 - \$60 million for the Lexington Convention Center Replacement (These funds represent a loan that shall be repaid over a term of 30 years)
 - \$12 million for Phase III of the Business One-Stop Portal
 - \$5.7 for a Maintenance Pool for the Finance Cabinet’s Facilities and Support Services
 - \$4.5 million for HVAC Replacement at the CHR Building

- \$4.37 million to Upgrade L&N Building in Louisville
- \$4.75 for a Maintenance Pool for the Health and Family Services Cabinet
- \$4.87 million for Phase I Electrical Upgrade for Western State Hospital.
- \$5.22 million for a Maintenance Pool for the Justice and Public Safety Cabinet
- \$4.15 million for Stabilization of Dorm 9 Kentucky State Reformatory
- \$3.79 million to Repair and Stabilize Tower at Kentucky State Reformatory
- \$2.56 million for Kentucky Correctional Institution for Women-Sewer Plant/Line
- \$7.6 million for a Maintenance Pool for Parks
- \$8 million for Kentucky Exposition Center Roof Repair

Specific Agency Bond projects include:

- \$100 million for KIA Fund A – Federally Assisted Wastewater Loan Program
- \$25 million for the KIA Fund F – Drinking Water Revolving Loan Program KIA
- \$34 million for the Kentucky River Authority to Construct Lock and Dam 10
- \$3.08 million for the Kentucky River Authority to Design and Repair Dam 7
- \$2.23 million for the Kentucky River Authority to Design and Repair Dam 6

DEBT CAPACITY

- The ratio of appropriation-supported debt service to total revenues is 5.88%