

# **Kentucky's 2022-2024 Executive Budget**

## **SUMMARY – SECTION 1**

### **THE FUTURE IS NOW**

Kentucky's economy is surging. The Commonwealth is experiencing a rapid recovery from the economic impacts of the COVID-19 pandemic and saw record new private sector investment in 2021. These successes have vaulted Kentucky's finances to a historic position, and sets the table for game-changing and state-changing investments.

Fiscal year 2021 saw an all-time record-setting revenue surplus. The revenue estimates for the 2022-2024 biennium is bright, with \$1.9 billion more in General Fund revenues than budgeted in the current year, and a growth rate of 7.5 percent that follows the 10.9 percent growth rate last year. These are the best back-to-back years since 2005-2006. General Fund receipts have grown over 15 percent in the first half of the current fiscal year. The Consensus Revenue Forecasting Group predicts growth rates for fiscal years 2023 and 2024 to be 2.1 and 4.2 percent, respectively; in line with historical patterns.

For the past several decades, Kentucky has faced painful cuts. With the exception of funding full-day kindergarten last year, Kentucky has not invested in its education systems in meaningful ways. Fixed costs, such as pension liabilities have dominated the use of marginal revenue growth but only after exacting to-the-bone budget cuts to much of Kentucky state government year after year. The budgets for postsecondary education institutions were cut by nearly \$250 million from 2008 to 2020. In ten of the last twelve years, state employees have had no salary increment at all.

Governor Beshear's 2022-2024 budget recommendation embodies game-changing and state-changing investments. He proposes to deploy historic levels of resources to build the world-class education system that creates the world-class workforce. Such a workforce will continue Kentucky's success at attracting world-class companies.

This budget infuses a record amount of badly needed resources into education, funding universal pre-school for all four year olds and authorizing another round of bucks-for-brains in higher education. It shores up the system of protecting abused and neglected children. It directs funding to continue access to health care for the low-income and disabled. It establishes economic development initiatives to improve preparation for additional mega-investments and the growth in the economy. It targets workforce readiness to align with business needs and investments. It pays down our liabilities in pensions and deferred maintenance. It is responsible and disciplined in using one-time money for one-time uses. It fully funds our pension systems. It provides relief and recovery from the devastating storms and tornadoes of December 10, 2021 and prepares for future natural disasters. It raises pay for all state and school district employees, with higher amounts for those in critical shortage and public safety areas.

## **A RESPONSIBLE AND REAL BUDGET**

Governor Beshear's 2022-2024 budget is both responsible and real. The Governor's budget:

- Is based on sound economic assumptions agreed to by the ten-member Consensus Forecasting Group of outside economists and financial experts who under state statute determine the official revenue estimates
- Devotes non-recurring resources solely to non-recurring uses
- Pays down on the Commonwealth's largest pension liability
- Creates the largest Budget Reserve Trust Fund, or rainy day fund, in state history
- Pays down on the deferred maintenance debt of the Commonwealth
- Is more than structurally balanced, with less recurring spending than recurring revenues, setting up positive outlooks and flexibility for future budgets
- Establishes a disaster relief and recovery fund to be better prepared for future natural disasters
- Stays significantly below the Commonwealth's debt service to revenue policy cap of 6% with a ratio of just 3.68%, the lowest debt ratio since the policy was adopted

## **PUBLIC EDUCATION**

### **PRESCHOOL THROUGH HIGH SCHOOL EDUCATION**

The Governor's budget adds nearly \$2 billion over the biennium to the current education budget, providing \$915 million in fiscal year 2023 and \$983 million in fiscal year 2024 more than the current budget amounts.

#### **SEEK Funding - \$441.8 million in FY 2023 and \$517.5 million in FY 2024 – a 16.9% increase**

The Governor's 2022-2024 budget provides a 16 percent increase in funding for SEEK. Only the 1990 Education Reform Act and associated tax increases provided a larger percentage increase in the formula funding for Kentucky's education system.

#### **Increases the Base Per Pupil by 12.5%**

Kentucky's formula funding program for elementary and secondary schools, the SEEK program, had the same base per-pupil of \$4,000 for the last four years. The Governor's budget raises that to \$4,300 in fiscal year 2023 and to \$4,500 in fiscal year 2024, a 12.5 percent increase. This provides an additional \$159.7 million in fiscal year 2023 and \$237.3 million in fiscal year 2024 over the current budget.

#### **Other SEEK Funding Components**

School districts have not received the funding intended by the statutory formula for pupil transportation. This budget adds **\$175 million** each year to fully fund school district costs for **pupil transportation**, an 81 percent increase in funding. Another \$3 million each year is provided to fully fund vocational education transportation. The SEEK budget pays for all but the federal fund share of the teachers' retirement employer contributions for school districts, including the 5 percent pay raise: an additional \$25.5 million and \$35.9

million. The equalization of school district local tax levies dedicated to capital improvements continues to be a growing part of the SEEK budget. An additional \$49.2 million and \$38.1 million is funded. The budget also fully funds the national board certification salary supplement, which has been capped for many years.

### **Universal Preschool for all Four-Year-Olds and Full-Day Kindergarten**

The Governor's budget includes \$172 million each year to fund universal preschool for all four-year-old children, and continues the funding for full-day kindergarten. Combined with the \$140 million provided in the last budget for full-day kindergarten, Kentucky has now provided school districts with the state resources to fully implement a Preschool to 12<sup>th</sup> grade system. The Department of Education estimates that over 34,000 four-year-old children are not enrolled in public preschool or Head Start.

### **Teacher/School Employee Salary Increases, Benefits & Student Loan Forgiveness**

The Governor's budget calls for a minimum 5 percent salary increase for all school personnel, in addition to the regular rank and step salary schedule increases for certified staff. This is the first identified pay increase in a state budget since the 2006-08 budget.

The Governor's budget fully funds the teachers' pension and medical benefits. An additional \$145,234,200 is provided in addition to the current budget in fiscal year 2023 and an additional \$137,312,900 in fiscal year 2024, primarily to cover the assumption changes made due to the five-year experience study. For years, the sick leave credit benefit liability has been amortized for up to 20 years. This budget pre-funds this benefit with an additional \$39,325,100 in each fiscal year. The Commonwealth's "shared responsibility" portion of funding the medical benefits requires \$71,200,000 in fiscal year 2023 and \$77,700,000 in fiscal year 2024.

There will be no health insurance premium increases for school employees. An additional \$24.4 million in fiscal year 2023 and \$96 million in fiscal year 2024 for a ten percent increase in employer contributions that will prevent any premium increases for school employees.

The Governor's budget provides \$26.3 million each year for a student loan forgiveness program that will provide a maximum \$3,000 annual award for student loan forgiveness for each year of employment in a public school as a teacher. This funding will provide at least 4,700 teachers this benefit.

### **Early Learning Initiative**

An **early learning initiative** is funded at \$11 million each year to provide statewide professional learning for early literacy and numeracy and to implement a regional coaching program. Regional coaches will be focused in districts and schools with greatest need and will provide training and support for teachers, schools, and districts. Almost \$1.0 million is included each year for regional training centers to provide general education supports for at-risk children participating in the state's early learning programs.

### **Career and Technical Education**

The budget includes **\$97.4 million** as a current year supplemental funding item to finance the renovation of another **11 local area vocational centers**. The funding is in the School Facilities

Construction Commission. These centers applied for a \$75 million competitive pool in the current year, but scored closely to the ones that were funded. This will provide timely resources for center renovations at the following school districts: Boyd County, Carter County, Edmonson County, Fleming County, Grayson County, Lewis County, Livingston County, McCreary County, Marshall County, Nelson County, and Union County.

The Governor included an additional pool of **\$75 million** for a new round of applications to renovate area vocational centers.

An additional \$8.0 million each year provides funding to **12 locally operated vocational education centers** that have not been a part of the formula funding in the last 12 years due to lack of funding. They include centers in the following school districts: Ashland Independent, Bardstown Independent, Boone County, Boyle County, Hardin County, Hopkins County, Hart County, Laurel County, Oldham County, Spencer County, Washington County, and Whitley County. Additional funding is provided for **state operated area technical schools** in the amount of \$3.2 million in fiscal year 2023 and \$3.6 million in fiscal year 2024.

### **Professional Development and Textbooks/Instructional Resources**

Past budget cuts have nearly eliminated state funding for professional development and textbooks/instructional resources. The budget includes \$11.9 million each year for professional development and \$11 million each year for textbooks/instructional resources.

### **Social Emotional Learning/Mental Health**

Funding of \$6.2 million each year is included to address social emotional learning and mental health for students and school staff through statewide staff and eight regional Social Emotional Learning institutes for access to training of educators. Two new grant programs for school districts to provide wrap-around services to students impacted by violence, substance abuse, child abuse or parental incarceration, and training, resources and technical assistance to reduce exclusionary discipline.

### **Education Technology**

Funding is included to restore previous cuts and account for inflation for the Ky Education Technology system, \$4.6 million each year. The system funds technology, sets standards, and provides technical services for public schools.

### **Turnaround Schools**

Under the current turnaround model for schools that are designated as needing improvement, schools in the state that chose the Department of Education to serve as the turnaround team require a three-member team to support leadership, literacy, and numeracy. This \$14.4 million each year will support all 48 schools identified as Comprehensive Support and Improvement schools.

### **Family Resource and Youth Service Centers (FRYSCs)**

The Governor included almost \$6 million more each year to increase funding for Family Resource and Youth Service Centers. There are 874 Family Resource and Youth Services

Centers for 1,200 schools, serving 649,000 students and families. Funding for FRYSC’s has not been increased for many years.

### **Library Grants**

The General Assembly eliminated the longstanding library grant program. The Governor’s budget restores the \$2.5 million annually for grants to local libraries.

## **POSTSECONDARY EDUCATION – 11.7% INCREASE**

### **Base Funding Increases**

From 2008 to 2020, about \$250 million in General Fund has been cut from the nine public postsecondary education institutions. The Governor’s budget adds **\$67.5 million** in fiscal year 2023 and **\$90 million** in fiscal year 2024 to their base budgets, a nearly 12 percent increase over the biennium. While performance funding has its merits, the hollowing out of state funds from past budget cuts has led to tuition increases and retrenchment as Kentucky aspires to meet the goal of 60 by 30 (60% of Kentuckians have a postsecondary degree or credential by 2030). Restoring a significant share of past budget cuts will better position these institutions with the fiscal capacity to achieve that and other performance goals.

### **Bucks for Brains Endowment Match**

The budget includes \$60 million in bond funds for the Bucks for Brains program to be matched dollar-for-dollar with private donations. Funds are endowed, with investment proceeds used to provide a perpetual source of funding for research related activities, but can also be used to support research related capital projects. Funds would be distributed as follows:

University of Kentucky	\$33.3 million
University of Louisville	\$16.7 million
Comprehensive Universities	\$10.0 million

### **Asset Preservation**

The Governor’s budget includes **\$500 million** from the General Fund to pay down the debt of deferred maintenance for the Commonwealth’s largest physical plant, the nine postsecondary education institutions. This has been an unfunded top priority of the postsecondary education system for years, and will provide the first significant funding for this since \$103 million was included 20 years ago. Each institution, with some exceptions for fiscal capacity, will match each General Fund dollar with 50 cents, bringing the potential investment in asset preservation to \$750 million. The distribution to each institution is based on a consensus formula developed by the Council on Postsecondary Education with the institutions.

### **Better Kentucky Promise Scholarship – Free Tuition & Fees for up to Associates Degree**

The Governor’s budget combines the Work Ready Scholarship with a new program – the Better Kentucky Promise Scholarship, which fills the gap between tuition and federal and other state aid for all new Associate degree and certificate-seeking students. The scholarship is available to new Associate degree and certificate seeking students at public universities and private, non-profit Kentucky institutions, capped at the KCTCS tuition rate. Included in fiscal year 2023 is \$16,270,000 and \$27,725,000 in fiscal year 2024. The new program will provide aid for approximately 6,000 additional recipients in the first year and 9,700 in the second year.

### **Need-Based Student Financial Aid**

Kentucky's need-based aid programs, the College Access Program (CAP) and the Kentucky Tuition Grant program, have benefitted from the dedication and growth of Lottery receipts in the past several years, **funding all eligible applicants for the first time ever** in the most recent application cycle. The maximum grant award for CAP has increased from \$2,000 to \$2,900 last biennium. When leveraging federal Pell Grant dollars, the CAP program now covers full-time tuition and fees at KCTCS and nearly covers the average tuition and fees at four-year institutions. However, tuition and fees are only part of the total cost of attendance. Additional General Fund will allow an increase in the maximum cap award to \$3,100 and \$3,300 in fiscal years 2023 and 2024 respectively while continuing to fund all eligible applicants.

### **Optometry and Veterinary School Contract Spaces**

The budget ensures that Kentucky's reserved spaces in out-of-state veterinary and optometry professional degree programs are intact with sufficient additional funding for their increased prices.