

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

## **SUMMARY – SECTION 4**

### **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 set 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 are 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 Dec. 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

## **ENHANCING PUBLIC SAFETY AND VICTIM SERVICES**

### **Kentucky State Police – Salary Increase for Troopers and Telecommunicators**

The Kentucky State Police is experiencing an unprecedented shortage of troopers, with its lowest numbers in over 30 years, at 740 currently. Retirements and resignations are substantially above historic patterns, and the number of graduating cadets has declined. The Governor's budget supports an immediate pay increase of \$15,000 for troopers with a 10 percent difference between ranks by years of service on the salary schedule. This will assist in both recruitment and retention efforts by targeting the starting pay at \$55,888, to be among the top five in Kentucky with an annual inflator to salary schedule. The Governor's budget includes additional General Fund funding in the amount of \$3,106,400 in fiscal year 2022, \$34,942,800 in fiscal year 2023 and \$41,480,900 in fiscal year 2024.

Another area of critical staffing shortages due to low pay is State Police telecommunicators, the employees who provide dispatch services. It has become too commonplace for telecommunicators to learn the job at the State Police then move on to local government entities. An increase in pay of \$8,000 across-the-board is provided and moving to a 40-hour work week is supported in the Governor's budget through an additional \$334,700 in fiscal year 2022, \$3,902,600 in fiscal year 2023 and \$3,892,300 in fiscal year 2024 from the General Fund.

### **Returning State Police Retirement Plan to Previous Plan**

To further improve the ability to recruit and retain State Police troopers, the Governor's budget aligns funding with Representative Wheatley's proposed legislation to roll back the State Police Retirement system's Tier III hybrid cash balance plan to the Tier II plan. The Tier III plan started January of 2014. The less beneficial change in the retirement plan has contributed to the difficulty in competing with other law enforcement agencies in recruiting and retaining state troopers.

### **Accountability - State Police Body Cameras**

Funding for body cameras for state troopers is included for the first time in the Governor's budget. The costs are \$9,717,500 in fiscal year 2023 and \$2,429,800 in fiscal year 2024.

### **State Police Emergency Radio System Replacement**

The first two phases of replacing the State Police's emergency radio system were funded in the last two budgets totaling \$87.6 million. The final phase is funded at \$80.9 million in the 2022-24 budget. Overall, the project will replace the existing statewide emergency radio communications network which has reached the end of its life-cycle after 17 years. The new system will ensure a common technology platform and interoperable communications for those on the network.

### **Improved Compensation for Law Enforcement and Firefighters**

Local and state law enforcement officers and local firefighters will receive a \$600 stipend increase from the Kentucky Law Enforcement and Firefighters Foundation Program funds, bringing the stipend up to \$4,600. Over 8,000 law enforcement officers and over 3,800 firefighters will receive this increase.

### **Supporting State Prosecutors and Victim Services**

**Commonwealth Attorneys:** The Governor's budget provides over \$13 million each year for 139 additional positions to provide enhanced victim services including the implementation of Marsy's Law and to address case backlogs and additional workload due to recent legislative changes. It also funds the conversion of the final four part-time offices to full-time.

**County Attorneys:** The Governor's budget provides over \$15 million each year for 165 additional positions to provide enhanced victim services including the implementation of Marsy's Law and to address case backlogs and additional workload due to recent legislative changes. The budget also adds \$7,000 in operating expenses to each of the 120 County Attorney offices to supplement the \$3,000 per office currently provided for criminal justice related operating expenses.

### **Returning Corrections and Juvenile Justice Employees' Retirement Plan to Previous Plan**

The Departments of Corrections and Juvenile Justice have significant staffing gaps to run these critical institutions. The Governor has approved a 10 percent pay increase for the security staff of adult correctional institutions and the workers in juvenile justice facilities. To further improve the ability to recruit and retain staffing, the Governor's budget aligns funding with Representative Wheatley's proposed legislation to roll back the hazardous duty retirement plan's Tier III hybrid cash balance plan to the Tier II plan. The Tier III plan started January of 2014. The less beneficial change in the retirement plan has contributed to the difficulty in recruiting and retaining staff at these facilities. Maintaining public safety requires this multi-pronged approach.

### **Probation and Parole – Caseload Increase**

To accommodate an expected two percent increase in the probation and parole caseload, an additional 25 probation and parole officers are funded to maintain a caseload of 99 per officer; \$2,585,900 in fiscal year 2023 and \$2,490,900 in fiscal year 2024.

### **Public Advocacy – Conflict Cases**

An additional \$700,000 is added each year to the Department for Public Advocacy’s budget for conflict cases; cases where multiple defendants require representation and outside attorneys provide defense services. This is a nearly 40 percent increase in the budget for conflict cases.

### **Replacement of the Kentucky State Reformatory**

Due to the significant physical deterioration of the 84-year old Kentucky State Reformatory, and the inability to recruit and retain correctional staff in a competitive local labor market, the Governor’s budget includes \$106 million in construction funding for the expansion of the Little Sandy Correctional Complex to add 816 beds and a separate \$171 million project to construct the corrections system’s statewide medical facility currently housed at the Reformatory. Upon the completion of these two projects, the Kentucky State Reformatory will be closed. The multi-year design and construction timeline will enable the Department to transition Reformatory employees to other positions.

### **Court Security – Increase in Pay**

The Governor’s budget includes \$1.4 million each year for an increase in the hourly pay to sheriffs’ offices for providing security at courthouses.

## **PROTECTING CHILDREN & FAMILIES**

### **350 New Social Workers to Fight Abuse and Neglect**

The Department for Community Based Services currently has 1,019 Social Service Worker staff and is funded for 1,246. Current average caseload is 21, with an average caseload including past due cases of 28. Adding 350 more staff would bring the average caseload to 16 and the average caseload including past due cases to 21.

### **Social Service Worker Student Loan Forgiveness**

The Governor’s budget provides \$2.1 million each year for a loan forgiveness program that will provide a maximum \$3,000 annual award for student loan forgiveness for each year of employment in the Department for Community Based Services as a social service worker.

## **INVESTING IN OUR PUBLIC EMPLOYEES**

### **Salary Increases for State Employees**

For the first time in over 20 years, state employees will receive a five percent salary increase, effective May 1, 2022. In ten of the last twelve years, state employees have had no salary increment at all. This increase applies to all state employees who were not a part of the other salary increases provided in November or December 2021, or January 2022, to social service and family support workers, correctional institution security staff, juvenile facility workers, unemployment insurance program employees, state police troopers and a few other state police personnel.

### **Fully Funding Pensions**

The Governor’s budget again fully funds the actuarially determined contributions for all state employees for all retirement system plans.

### **Paying Down Pension Liabilities**

The Governor includes substantial funding to pay down the pension liability of the Kentucky Retirement System's nonhazardous pension plan, which has a \$16.3 billion unfunded liability. The budget includes \$250 million in fiscal year 2023 and \$500 million in fiscal year 2024. The extra funding will be applied to reduce the amortization period that was extended by six years by the 2021 General Assembly. Actuaries have estimated that these payments will address two of the extra six years added to the amortization period.

### **Health Insurance – No Premium Increases for State Employees**

The Governor's budget includes additional \$13 million in fiscal year 2023 and \$29 million in fiscal year 2024 from the General Fund for a ten percent increase in employer contributions that will prevent any premium increases for state employees.

## **PARTNERING WITH LOCAL GOVERNMENTS**

### **Returning Coal Severance Tax Revenues to Counties**

The Governor's budget proposes to return 100% of state coal severance tax revenues back to coal-producing counties. Based on revenue estimates, a total of \$74.5 million will be appropriated in fiscal year 2023 and \$77.2 million in fiscal year 2024, substantial increases from the fiscal year 2022 budget which appropriated \$26.4 million.

### **County Clerks – \$50 Million of Investment**

The Governor's budget includes \$25 million from the General Fund for grants to County Clerks that will enable them to transition their processing of recorded instruments to electronic forms and processes. Another \$25 million is included for grants to County Clerks to acquire replacement election equipment.

### **Property Valuation Administrators**

The budget includes over \$2.8 million each year for an additional 45 positions across the 120 PVA offices that have been lost due to past budget cuts. A formula is used to allocate funding for positions in PVA office across the state. By statute, the minimum number of employees per county is two. There are 24 counties with only two employees.

### **Area Development Districts – Additional Funding to Match Federal Grant**

The Governor's budget includes additional funding of \$250,000 from the General Fund in each fiscal year for affected Area Development Districts to match the increase in the Appalachian Regional Commission grants.

## **ENHANCING FISCAL RESPONSIBILITY**

### **Preparing for Natural Disasters**

The Governor's budget includes a new financial structure to address the costs that Kentucky state government incurs in responding and recovering from natural disasters. Until now, Kentucky has relied on its savings account, the Budget Reserve Trust Fund, as the financial source to pay for activating the National Guard and paying the state match for FEMA disaster grants. Governor Beshear proposes a Disaster Relief and Recovery Fund to be managed by the Emergency

Management function of the Department for Military Affairs and provides \$100 million as initial seed funding. Many states have established such funds for this purpose. This fund will also include a no-and-low interest revolving loan program for local governments when their fiscal liquidity is strained by their response to a natural disaster as they await federal funding through FEMA or insurance claim proceeds. This action of fiscal responsibility will preserve the state's rainy day fund for addressing recessionary times and revenue shortfalls, and affirmatively budget for natural disaster response.

## **DOING WHAT IS RIGHT**

### **Commission on Women**

The budget reinstates funding for the Commission on Women, so that it can perform its statutory requirements to promote, encourage and provide advisory assistance in the establishment of local volunteer community improvement programs for, and of interest to, women.

### **Commission on Human Rights**

The Governor's budget restores the base cut of \$100,300 in the enacted in the current budget and provides an additional \$200,000 in General Fund to support the Commission on Human Rights.

### **Office of Minority Empowerment**

The budget reinstates the Office of Minority Empowerment, whose capacity to carry out their responsibilities were diminished in recent years, and provides \$185,000 each year.

## **REST OF GOVERNMENT**

### **Military Affairs**

The budget includes additional funding to replace other funds that have expired or reduced, but were supporting the primary missions of the Department of Military Affairs, to cover higher fixed costs, and to fully match federal grants.

### **Board of Elections**

The Governor's budget includes additional General Fund for to improve Kentucky's election process, including funding to maintain voter registration lists, to meet the state match for federal election security grants, to obtain electronic poll books and to cover the state share of the cost of local elections.

### **Enterprise-Wide Revenue and Financial Administration**

The Finance and Administration Cabinet includes the functions of revenue and taxation administration, controller and facilities support. All play critical central government roles in administering and managing the state's tax system, financial, procurement and budget systems, and manage its large physical plant. Funding is provided to ensure the proper implementation of the first comprehensive, modernized revenue information technology system, to restore unexplained budget cuts from the last budget, and to provide staffing to implement multiple tax law changes that were unfunded. Funding is also included for the costs associated with the abrupt

movement of 170 state employees from the Capitol Annex Building required by the legislative branch.