INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 4th Meeting
of the 2019 Interim

September 10, 2019

Call to Order and Roll Call

The 4th meeting of the Interim Joint Committee on Appropriations and Revenue was held on Tuesday, September 10, 2019, at 1:00 PM, in Room 149 of the Capitol Annex. Senator Christian McDaniel, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Christian McDaniel, Co-Chair; Representative Steven Rudy, Co-Chair; Senators Matt Castlen, Rick Girdler, David P. Givens, Alice Forgy Kerr, Morgan McGarvey, Stephen Meredith, Gerald A. Neal, Dennis Parrett, Dan "Malano" Seum, Robin L. Webb, Stephen West, and Phillip Wheeler; Representatives Lynn Bechler, Danny Bentley, Joseph M. Fischer, Kelly Flood, David Hale, Mark Hart, Angie Hatton, Jason Nemes, Ruth Ann Palumbo, Phillip Pratt, Melinda Gibbons Prunty, Brandon Reed, Steve Riley, Sal Santoro, Wilson Stone, James Tipton, and Susan Westrom.

Guests: Robin Fields Kinney, Associate Commissioner, Office of Finance and Operations; Donna Duncan, Director, Division of District Support Services, Office of Finance and Operations; Steve Bechtel, Chief Financial Officer, Kentucky Department for Medicaid Services; Lee Guice, Director, Policy and Operations, Kentucky Department for Medicaid Services; Amy Barnes, Executive Director, Office of Federal and State Grants, Department for Local Government (DLG); and Laura Redmon, Budget Analyst, Office of Federal and State Grants, DLG

LRC Staff: Jennifer Hays, Cynthia Brown, Morgan King, and Chase O'Dell

Approval of Minutes

A motion was made, and seconded, to approve the minutes of the August 20, 2019 meeting. The minutes were approved by voice vote.

Kentucky Facilities Inventory and Classification System (KFICS) Project

Robin Fields Kinney, Associate Commissioner, Office of Finance and Operations; and Donna Duncan, Director, Division of District Support Services, Office of Finance and Operations, discussed the Kentucky Facilities Inventory and Classification System (KFICS) project.

Robin Kinney testified that the statutory authority to do an inventory of school buildings on their condition and quality is found in KRS 157.420. KFICS is the new iteration of the 'Parsons' report that was done in 2011. The Parsons report focused on the worst, to the best, school buildings in Kentucky. Funding was not continued for the report. In 2016, the General Assembly appropriated additional funds to implement KFICS. Part of the goal is to build a sustainable assessment process of the physical condition of school buildings using industry standard methodology.

The Kentucky Department of Education (KDE) is required to submit a KFICS report to the Legislative Research Commission (LRC) by October of every odd-numbered year.

Donna Duncan testified that 169 school districts participated in the condition assessment of one school building per district during phase one of KFICS. Six school districts did not participate, five of which were independent districts. The improvements made to KFICS since phase one in 2017 were reviewed by Ms. Duncan. There are now four components that are a part of the conditions report. KDE has communicated to school districts regarding KFICS.

Ms. Duncan said that the facilities construction process is set out by statute, and implemented through regulation. The regulation establishes the process that districts use. KDE has made enhancements to the processes to improve efficiency and transparency. In 2017, KDE converted over to an automated workflow system known as the Facilities Planning and Construction (FACPAC) system. Beginning in 2018, KDE formalized a tier process for projects. Tier one projects are major renovations or new schools. Tier four projects are usually small athletic projects. The majority of projects are tier three and four.

The construction process includes KDE, school districts, boards of education, design professionals, construction vendors, and more. Ms. Duncan reviewed the pre-construction and construction processes.

Ms. Duncan testified that one of the biggest challenges faced by the District Facilities Branch is staffing. The staff consists of one branch manager, four staff architects, and one analyst. There are 1,492 active projects being managed. In Fiscal Year (FY) 2018-2019, 115 school districts initiated 331 projects, with an estimated cost of over $622 million. The projects included 14 new buildings, 51 major renovations, and more. The impact of the new initiatives in 2019 Senate Bill 1 is also a challenge to the District Facilities Branch. Another challenge is the implementation of KFICS.

In response to a question from Senator McDaniel, Ms. Duncan stated that there are now more buildings per school district than just the original ones entered into KFICS during phase one.

In response to a question from Senator Givens, Ms. Duncan said that her branch is concerned with building safety.

In response to a question from Representative Bechler, Ms. Duncan testified that KDE allowed each school district to choose which building would be evaluated in phase one, although KDE encouraged the districts to choose the worst building in the district. The intent after the first report is to see the full inventory of school districts. Ms. Kinney testified that the goal is for all 1,200 school facilities to be in KFICS.

In response to a question from Senator Castlen, Ms. Duncan stated that the district facilities branch must give approval for property acquisitions.

In response to a question from Representative Rudy, Ms. Kinney stated that the Office of Finance and Operations would not be preparing a final dollar amount for 2019 Senate Bill 1, but that the office would be happy to help with questions related to it.

In response to another question from Senator McDaniel, Ms. Kinney stated that the deadline for school district input was June 30, 2019. However, districts will still be able to submit information.

Medicaid Funding

Steve Bechtel, Chief Financial Officer, Kentucky Department for Medicaid Services; and Lee Guice, Director, Policy and Operations, Kentucky Department for Medicaid Services, discussed Medicaid funding.

Steve Bechtel testified that in 1986, the first managed care program, the Kentucky Patient Access and Care (KenPAC) Program, a primary care case management program, was introduced. The program enrolled low income adults and children on a mandatory basis. KenPAC covered acute primary and specialty care coordinated by providers. In 1997, the Kentucky Health Partnership, a comprehensive risk-based managed care program was implemented. In 2011, the KenPAC program was terminated and Medicaid received approval to expand managed care statewide to cover beneficiaries in regions not served by the Kentucky Health Partnership. In 2013, the state began awarding contracts to additional Managed Care Organizations (MCOs) to manage care for beneficiaries in the regions served by the Kentucky Health Partnership. In 2014, Kentucky expanded Medicaid Managed Care to the expansion population through an Alternative Benefit Plan (ABP).

Mr. Bechtel stated that the actual managed care expenditures for FY 2019 added up to a little over $7.4 billion, totaling 71.5 percent of total Medicaid spending for Kentucky. The other 28.5 percent of expenditures are for the 10 percent of the Medicaid population known as the fee-for-service (FFS) population. This population is the more vulnerable and expensive population.

Mr. Bechtel testified that the federal matching rate changes every October for the traditional Medicaid population. The federal funding rate for traditional Medicaid is usually around 70 percent. The Affordable Care Act (ACA) expansion population is currently 93 percent funded by federal dollars. The Children's Health Insurance Program (CHIP) population is normally 80 percent federally funded. Mr. Bechtel gave a brief history of CHIP. Kentucky's Children's Health Insurance Program is referred to as (KCHIP).

In response to a question from Senator McDaniel, Mr. Bechtel testified that the difference in allocations needed for the ACA expansion population between this year and next year will be approximately an additional $45 million. In response to another question, Mr. Bechtel stated that approximately 40 to 50 million dollars from the general fund will need to go into KCHIP for each year of the next biennium.

In response to a question from Senator Meredith, Mr. Bechtel testified that the $15 million needed from the general fund for KCHIP in FY 2020 was determined by considering projections. The $15 million has been provided through the enacted budget.

In response to a question from Senator Givens, Mr. Bechtel stated that the Medicaid eligible population was on a downward trend from March of 2018 to January of 2019. It has since stabilized. In response to another question, Mr. Bechtel testified that if there were a recession, enrollment would be expected to increase. In response to further questioning, Mr. Bechtel said that the Medicaid eligible population is lower than in recent history. Most of the flux in eligible Medicaid population is within the expansion population.

In response to a question from Representative Gibbons Prunty, Mr. Bechtel testified that the 1115 waiver is not a part of forecasts.

Coal and Mineral Severance Tax Programs

Amy Barnes, Executive Director, Office of Federal and State Grants, Department for Local Government (DLG); and Laura Redmon, Budget Analyst, Office of Federal and State Grants, DLG, discussed the Coal and Mineral Severance Tax Programs.

Amy Barnes testified that coal and mineral severance tax funds are distributed on a quarterly basis through two programs. The programs are the Local Government Economic Assistance Fund (LGEAF) and the Local Government Economic Development Fund (LGEDF).

Ms. Barnes stated that 50 percent of gross mineral severance tax revenue goes to the state's general fund, while the other 50 percent goes to the LGEAF. Eligible counties are producers of non-coal minerals such as limestone, clay, oil, or natural gas. Funds are distributed based on the taxes collected and reported for each individual county. Ten percent of each county's allocation goes to the cities within that county. The distribution to cities is based upon population. In FY 2019, the LGEAF mineral program allocated over

$17 million to participating counties and cities. The amount projected for FY 2020 is a little over $16 million.

Ms. Barnes said that in statute, coal severance tax revenues are to be split evenly, with 50 percent of revenues going to the General Fund, and the remaining 50 percent of revenues going to the LGEDF. According to statute, funds in the LGEDF program are divided into thirds. Two thirds comprise the "single county" coal severance program. The other third is comprised of the "multi-county" coal severance fund.

In FY 2019, "off the top" appropriations deducted from the gross coal severance tax revenues totaled a little over $29 million.

Ms. Barnes testified that under Regular Session 2018 House Bill 200, a set appropriation goes to the LGEDF each year. In FY 2019, that appropriation totaled a little over $15 million. The appropriation will total $7.5 million in FY 2020. Per statute, of the funds transferred from the LGEDF to the LGEAF, 60 percent are distributed to the counties based on the taxes collected in that county. Thirty percent of funds are distributed based upon per capita income, ton miles, and population. These funds together go to producer counties. The remaining 10 percent of LGEAF moneys are distributed to each coal-impacted county based on geographic area, ton miles, and per capita income.

Ms. Barnes stated that LGEAF funds cannot be used for the general administration of government.

The projected coal severance tax revenue for FY 2019 totaled $77.9 million. Actual revenues for the year were over $92.9 million, creating an excess of $15,006,946.91. Gross coal severance tax revenue is estimated to reach a little over $65 million in FY 2020.

Ms. Barnes testified that in FY 2019, over $17 million in LGEDF funds were distributed to the 33 participating counties in the single county program. A county is a participant in the single county program if it has coal production in any quarter during the last four years. In FY 2020, the distribution will drop to $13.5 million. LGEDF funds are being expended in a variety of ways, including in public infrastructure, water, sewer, road improvements, and more.

In response to a question from Senator Webb, Ms. Barnes testified that a variety of jail expenses are being paid for with coal severance money. In response to another question from Senator Webb, Ms. Barnes stated that jail expenses have been included over the past several years.

In response to a question from Senator McDaniel, Ms. Barnes said that the language regarding recurring expenses from a previous budget bill was not included in the current budget bill. Ms. Barnes continued to say that the intent of the statute is for funds to be spent on industrial and economic development.

In response to a question from Representative Gibbons Prunty, Ms. Barnes testified that libraries are a statutorily eligible use for LGEAF funds. In response to another question, Ms. Barnes stated that many counties have bought equipment to implement meals on wheels for senior centers. She also stated that many counties have bought exercise equipment for senior centers.

In response to a question from Senator West, Ms. Barnes said that the highest coal severance revenues occurred in FY 2012, when gross revenues were $313 million. She continued to say that revenues are now at the lowest they have ever been, at $65.1 million. In response to another question, it was testified that there have been no education projects completed using coal severance money under 2018 Regular Session House Bill 200.

In response to a question from Senator Webb, Ms. Barnes testified it is not yet known how the $15 million in excess funds were spent by the recipient counties. The counties will report how the money was spent in their budget reports filed with the Office of Federal and State Grants.

In response to a question from Representative Bentley, Ms. Barnes stated that 10 percent of each county’s allocation go to the cities within that county, based on population.

List of Reports Received Since August, 2019

Senator McDaniel encouraged members to review the list of reports received since August, 2019.

Adjournment

With no further business before the committee, the meeting was adjourned at 2:27 p.m.