

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 4th Meeting of the 2023 Interim

September 20, 2023

Call to Order and Roll Call

The fourth meeting of the Interim Joint Committee on Appropriations and Revenue was held on September 20, 2023, at 1:00 p.m. 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 Jason Petrie co-chair; Senators Gary Boswell, Matthew Deneen, Donald Douglas, Shelley Funke Frommeyer, David P. Givens, Amanda Mays Bledsoe, Michael J. Nemes, and Robin L. Webb; Representatives Kim Banta, Danny Bentley, Adam Bowling, Josh Branscum, Josh Bray, Myron Dossett, Patrick Flannery, Ken Fleming, Deanna Frazier Gordon, Chris Freeland, Al Gentry, DJ Johnson, Shawn McPherson, Ruth Ann Palumbo, Josie Raymond, Brandon Reed, Steve Riley, Cherlynn Stevenson, and Ken Upchurch.

Guests: Beau Barnes, deputy executive secretary and general counsel, Kentucky Teachers' Retirement System; David Eager, executive director, Kentucky Public Pensions Authority; Dr. Bob Jackson, president, Murray State University; Dr. Kim Schatzel, president, University of Louisville; Gex Williams, state senator, Senate District 20; Dr. Eli Capilouto, president, University of Kentucky; Bart Hardin, director of government relations, University of Kentucky; Lacey Gero, manager of state policy, National Diaper Bank Network; Cassie Chambers Armstrong, state senator, Senate District 19; and Deanna Hornback, director, St. Bernadette Diaper Bank.

LRC Staff: Jennifer Hays, Cynthia Brown, Katy Jenkins, Adam Johnson, Sarah Watts, and Fantasia Tackett.

Approval of Minutes

Representative Bowling made a motion, seconded by Senator Douglas, to approve the minutes from the August 2, 2023, meeting.

University of Kentucky Update

Dr. Eli Capilouto and Bart Hardin provided the committee with an update on the University of Kentucky (UK).

Dr. Capilouto testified UK has made strides in its graduation rates, particularly the six-year graduation rate, which now stands at 70 percent. This places the university among the top 20 percent of similar institutions in the United States. Moreover, there has been a notable increase in the number of graduates and certificates awarded annually, reaching nearly 9,500, a substantial increase from 2010.

The adoption of the performance funding model by the General Assembly in 2019 played a pivotal role in aligning the university's priorities with the state's needs. This model led to a more significant focus on producing additional bachelor's degrees, particularly in STEM and health-

related fields, and supporting underrepresented students.

UK has also made substantial advancements in research, with grants and contracts reaching \$500 million. Research efforts have concentrated on addressing critical issues facing Kentucky such as cancer, opioid misuse, energy, and advanced manufacturing.

UK Health Care has witnessed an expansion, effectively doubling the number of patients treated over the past two decades. Investments in facilities like the Chandler Hospital Pavilion A have been instrumental in this progress.

The university has adopted innovative approaches to improve campus infrastructure, including collaborations with private entities and philanthropic donors to construct modern residence halls and dining facilities.

The institution has worked to minimize tuition and fee increases for students, with a particular emphasis on supporting students from low-income backgrounds. Initiatives like UK Leads and the provision of iPads to all students have enhanced the overall student experience.

Dr. Capilouto concluded with an anecdote about a first-generation college student whose life was transformed by the opportunities offered at UK.

Senator McDaniel thanked Dr. Capilouto for his leadership and acknowledged his significant role in advancing UK over the past decade.

Representative Palumbo thanked Dr. Capilouto for his leadership at UK and thanked Tommy Lewis for funding the Lewis Honors College under Dr. Capilouto's recruitment efforts. In response, Dr. Capilouto credited the collective efforts of the university's 25,000 faculty and staff for their achievements.

Senator Boswell agreed with the efforts to support Kentucky undergraduate students from low-income families, emphasizing the importance of not overlooking those in the middle or moderately high income brackets who may face financial challenges. Dr. Capilouto acknowledged the concern and mentioned the LEADS program, which addresses unmet financial need across income levels. He also highlighted half of UK's graduates have no debt. For the other half with debt, it is typically around \$30,000, emphasizing their commitment to ensuring a college education at UK does not burden students and their families financially.

Senator McDaniel expressed concerns about the fragmented nature of name, image, and likeness (NIL) legislation in college athletics. He stressed the need for a uniform national solution to address this issue, acknowledging it was beyond UK's control.

Cybersecurity

Dr. Bob Jackson, Dr. Kim Schatzel, and Senator Gex Williams discussed cybersecurity.

Senator Williams testified the need for cybersecurity in Kentucky is urgent. He emphasized the increasing cybersecurity threats faced by cities and organizations, including ransomware attacks, and stressed the importance of addressing the issue.

Dr. Jackson testified the significance of cybersecurity at a personal, state, national, and global

level, emphasizing its daily impact on individuals and organizations. He stressed the need for Kentucky to play a more prominent role in this field, given its projected growth and the abundance of job opportunities.

The history of cybersecurity efforts at Murray State University (MSU) was noted, highlighting its commitment to cybersecurity education and the recent accreditation from the National Security Agency (NSA). Statistics on the increased enrollment in cybersecurity programs and the rising interest among freshmen were shared. There is a collaborative effort between MSU, the University of Louisville (UofL), and other institutions to draft a proposed bill for the upcoming legislative session. The bill aims to establish a statewide Cyber Center Network, uniting institutions with cyber-related programs to better enhance and expand cybersecurity initiatives across Kentucky. The proposal also involves the Council on Post-Secondary Education as an intermediary for statewide funding allocation, ensuring efficient resource distribution.

Dr. Schatzel testified about recent cybersecurity incidents, including Clorox and MGM Resorts, to emphasize the growing threat of cyberattacks on businesses and organizations. Fifty-seven percent of small and medium-sized companies have experienced a cyberattack in the past year, with over 90 percent lacking the necessary resources, training, and skills to address such incidents promptly.

Insights were provided into UofL's cybersecurity efforts, emphasizing its status as a Carnegie research one university with national recognition in cyber excellence from both the NSA and the Department of Homeland Security. UofL has contributed to cybersecurity research and training, securing more than \$16 million in funding over the past three years. The university developed a Department of Defense-backed cybersecurity workforce certificate program, offering various cybersecurity programs, and facilitating partnerships with law enforcement and K-12 institutions. There is an urgent need for a Kentucky Cyber Consortium to centralize resources and support for addressing the escalating cybersecurity threat.

In response to a question from Senator McDaniel, Dr. Jackson testified the information presented addresses concerns related to involvement with the NSA and the potential for assistance and funding from that source. The bill, which was collaboratively developed over the summer and has received approval from various institutions will pave the way for progress in this regard.

Senator Nemes opted not to comment now but expressed the intention to have an abundance of comments and questions later.

Pension Update

Beau Barnes and David Eager provided an update on the pension.

Mr. Barnes presented an updated on the financial status of the Teachers' Retirement System (TRS), focusing on key financial aspects. He used four slides to provide a comprehensive overview.

In the presentation, the structure of the cash flow presentation was explained. Member contributions for FY 23 were \$368.2 million, slightly up from the previous year, while employer contributions for FY 23 amounted to \$1.146 billion, down due to a one-time lump sum payment of \$479 million in FY 22. Investment income increased for FY 23, resulting in a total cash inflow

of \$1.898 billion.

Cash outflows were discussed in the second slide. Benefit payments constituted the largest outflow, totaling \$2.418 billion. Administrative expenses increased slightly due to an across-the-board 8 percent increase for state employees and one-time IT system upgrades. The total outflows for FY 23 amounted to \$2.432 billion, resulting in a negative cash flow of \$534.6 million. Negative cash flows were manageable due to consistent additional funding over the past eight years.

The importance of investment gains and losses was emphasized on the third slide. Realized gains occurred when selling stocks at a profit, while unrealized gains represented the increased value of TRS assets. The pension trust fund increased from \$22.9 billion on July 1, 2022, to \$24.248 billion on June 30, 2023, a gain of \$1.348 billion.

In the fourth slide, the budget needs for the current fiscal year and projected figures for the next two fiscal years was outlined. The fixed statutory rates for pension and health insurance contributions and their budget implications were explained. Additional funding was requested for the pension fund to implement a funding plan aimed at paying off the legacy unfunded liability. Reaching 100 percent funding would significantly reduce TRS costs. The strong growth and funding prospects of the retiree health insurance trust was discussed. A thorough understanding of TRS's financial status and budgetary needs was provided, emphasizing the positive developments in both the pension and health insurance trusts.

In response to a question from Representative Johnson, Mr. Barnes stated the state appropriations needs for FY's 27, 28, and 29 were approximately \$1.6 billion, \$1.7 billion, and \$1.863 billion, respectively.

In response to questions from Senator Boswell, Mr. Barnes testified that he did not have immediate access to specific information regarding the highest-paid member, including administrators, and the number of individuals receiving annual benefits exceeding \$100,000 within the TRS. He expressed his commitment to providing this data while ensuring privacy by withholding individual names. Senator Boswell stressed the importance of transparency in disclosing such information to the public, to which Mr. Barnes agreed.

In response to a question from Representative Stevenson, Mr. Barnes testified concerns raised by retirees regarding increasing health care costs. Retirees under 65 or Medicaid-eligible participate in the Kentucky Employees Health Plan (KEHP), overseen by the Personnel Cabinet's Department of Employee Insurance. There are approximately 9,300 retirees in this plan, with about 3,000 opting for family coverage. The KEHP rates for 2024 are expected to rise by 10 to 16 percent, depending on the specific coverage and plan selected by retirees.

Mr. Eager testified the Kentucky Public Pension Authority (KPPA) oversees assets for 10 plans, consisting of five pension and five retirement plans, including K-2K, K-2C, and state police. There was an additional appropriation of \$215 million in fiscal year 2022 for the state police plan, significantly impacting its financial outlook. The positive trajectory of the K-9 HAZ pension plan was emphasized, highlighting key dates in 2019 and 2049 when significant financial improvements are expected.

A robust cash flow in FY 23 was attributed to high contribution levels and substantial investment

gains. The contribution rates for pensions and insurance were detailed, showcasing a budgetary improvement for 2025 and 2026. Actuarial conditions were discussed, indicating a declining unfunded liability trend and an expected full funding of most plans by 2049. Historical assumptions and structural changes, such as House Bill 8, are contributors to the system's enhanced financial condition. Changes in mortality assumptions reflects a decrease in life expectancy, which, in turn, reduces costs by lowering liabilities.

Representative Johnson commended the board for maintaining the 5.25 percent rate and acknowledged past challenges. He urged everyone to stay the course despite potential difficulties, emphasizing the importance of perseverance for long-term success.

In response to comments from Senator McDaniel about positive changes and actuarial recommended reduction in contributions, Mr. Eager testified the reduction was not a deliberate action but a result of the actuarial process.

Senator McDaniel emphasized the need to maintain funding levels and suggested considering actuarial implications tied to sustained payroll growth after the budget session.

Sales and Use Tax Exemption for Diapers

Senator Cassie Chambers Armstrong, Lacey Gero, and Deanna Hornback discussed sales and use tax exemption for diapers.

Senator Chambers Armstrong thanked the committee for considering Bill Request 178, which proposes exempting sales and use tax on diapers. Drawing from personal experience, she highlighted the financial strain families face, spending up to \$2,000 annually on diapers. The bill's potential to alleviate diaper costs was emphasized, acknowledging the limitations of existing assistance programs and the reliance on charitable organizations like Deanna Hornback's Saint Bernadette Diaper Bank.

Impact on family dynamics and potential job losses are severe consequences of diaper need. While recognizing the bill's partial impact, Senator Chambers Armstrong presented her personal contribution of purchased diapers, revealing the associated state sales tax. Drawing on positive outcomes from states with similar exemptions, she advocated for the bill as a common-sense policy, benefitting families during a crucial transitional period. The bill will also extend benefits to people with disabilities and exempt adult diapers from sales and use tax.

Ms. Gero provided insights into the National Diaper Bank Network's mission, comprising over 300 basic need banks across the country. In Kentucky, Saint Bernadette's Diaper Bank stands as the sole organization addressing diaper need, relying on donations and volunteers.

The surge in demand for diaper bank services was highlighted, reporting a 200 to 600 percent increase since 2020. Notably, one in two U.S. families with young children is experiencing diaper need. The prevalence spans income levels, with 66 percent of affected families being low income. Advocating for the exemption of diapers from state sales tax, Ms. Gero cited positive economic outcomes linked to diaper assistance.

Ms. Hornback testified about the Saint Bernadette Diaper Bank's decade-long effort to address diaper need in Louisville. Noting one in two families face diaper need, she highlighted the 28 percent of single-parent households in Kentucky. Despite the significant increase in agencies

served, from 13 to 30, and a rise in distributed diapers from 195,000 to an anticipated 500,000 annually, the demand still outpaces the supply.

A family could save \$64.80 per year for one child by eliminating the 6 percent sales tax on diapers. The lack of timely diaper changes was connected to potential health issues for babies, affecting not only physical well-being but also mental health, leading to stress-related problems.

Ms. Hornback urged the committee to consider the removal of the sales tax on diapers, highlighting the potential positive impact on families, the economy, and vulnerable populations.

Senator Chambers Armstrong thanked Ms. Hornback for her volunteer work at the Saint Bernadette Diaper Bank, emphasizing her impactful contribution. Senator McDaniel expressed gratitude to Ms. Hornback, recognizing individuals like her who contribute without compensation. Ms. Hornback thanked her volunteers and the supporting church, highlighting the collaborative effort needed to address diaper need.

In response to a question from Senator Douglas, Ms. Hornback testified "low income" includes those on public assistance.

Senator Chambers Armstrong testified that public assistance programs like Medicaid or WIC do not cover diaper needs, imposing a significant financial burden on families. There is an increasing trend among states, including Texas, Florida, and Indiana, to address this gap and support vulnerable residents and families during the transition of welcoming a child.

In response to a question from Representative Fleming, Senator Chambers Armstrong testified there is a fiscal note indicating a \$6.1 million estimate for diaper need. She suggested this figure might be high and highlighted the expected positive impact on families' finances during the financial strain of having a new child.

Representative Fleming brought attention to a cost disparity between blue and pink diapers, to which Senator Chambers Armstrong acknowledged the concern and committed to looking into it.

In response to a question from Senator Boswell, Senator Chambers Armstrong testified the proposed tax exemption for diapers is designed to benefit anyone purchasing diapers, regardless of income. The essential nature of diapers for health reasons was emphasized, comparing them to other exempted items like groceries or prescriptions. The exemption aims to benefit all families, particularly those most vulnerable, due to the potential health implications of inadequate diaper access.

Correspondence Received

Senator McDaniel encouraged committee members to review the follow-up information and correspondence received. The follow-up information consisted of an updated PowerPoint slide from the Office of Financial Management. Correspondence received included FY 2023 Necessary Government Expenses from John Hicks; Interim Emergency Appropriation Increases for FY 2024 and Interim Allotment Adjustments for FY 2024 from Jenny Bannister; and Reports Received Since August 2, 2023 from Jennifer Hays.

Adjournment

The next meeting will be Wednesday, October 18 at 1:00 p.m. With there being no further business, the meeting was adjourned at 2:40 p.m.