

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 5th Meeting of the 2023 Interim

October 18, 2023

Call to Order and Roll Call

The 5th meeting of the Interim Joint Committee on Appropriations and Revenue was held on October 18, 2023, at 1:00 PM in Room 149 of the Capitol Annex. Representative Jason Petrie, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jason Petrie, Co-Chair; Senator Christian McDaniel, 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, George Brown Jr., Myron Dossett, Patrick Flannery, Ken Fleming, Chris Freeland, Chris Fugate, Al Gentry, Mark Hart, DJ Johnson, Bobby McCool, Shawn McPherson, Ruth Ann Palumbo, Josie Raymond, Brandon Reed, Steve Riley, Cherlynn Stevenson, and Ken Upchurch.

Guests: Dr. Jim Flynn, Executive Director, Kentucky Association of School Superintendents; Eric Kennedy, Kentucky School Boards Association; Chay Ritter, Division Director, Division of District Support; Andrea Day, Director, Department for Community Based Services, Division of Child Care; Lesa Dennis, Commissioner, Department for Community Based Services; Laura Begin, Staff Assistant, Department for Community Based Services; Sandy Williams, Executive Director, Kentucky Infrastructure Authority; Scott Young, Executive Director, Kentucky Rural Water Association; Chris Perry, President & CEO, Kentucky Electric Cooperatives; Alan Gates, President & CEO, Pennyrile Electric; and Joe Arnold, Vice-President of Strategic Communications, Kentucky Electric Cooperatives.

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

Approval of Minutes

Representative Reed made a motion, seconded by Representative Bowling, to approve the minutes from the September 20, 2023, meeting.

School Funding Approaches

Dr. Jim Flynn and Eric Kennedy provided an update on school funding approaches.

Mr. Kennedy testified the committee had passed a biannual budget bill a year ago that increased funding for K-12 education, including base funding. In 2022, the Kentucky School Boards Association (KSBA) conducted a survey on local school employee raises, with 95 percent of districts responding their local school boards had approved some form of raise. The survey revealed diverse approaches to compensation increases, including special raises for specific job positions.

In 2023, KSBA did not repeat the survey due to the complexity of the task. However, anecdotally,

it appears most districts gave some form of raises, with examples like Jessamine County approving additional raises for high-need positions. Some districts added new steps to their salary schedules to retain experienced staff.

KSBA believes in local discretion for compensation adjustments, allowing boards to address nuanced issues at the district level. Concerns were raised about competing with neighboring districts that offer higher salaries, a common issue reported by school board members.

Dr. Flynn expressed appreciation for the 2022 budget policy, highlighting the investment and discretion given to use funds based on local context. Superintendents face challenges, such as competing with neighboring districts, losing experienced teachers, and addressing issues specific to their regions.

Dr. Flynn testified about the importance of maximum discretion at the local level for deploying resources and hoped for a similar approach in the 2024 biannual budget policy. Shortages not only in teachers but also in bus drivers, student resource officers, custodians, and other roles were acknowledged.

SEEK & Student Transportation Funding Formulas

Mr. Ritter discussed the Support Education Excellence in Kentucky (SEEK) program and student transportation funding formulas.

The SEEK program originated from the 1989 *Rose v. Council for Better Education* lawsuit. SEEK is a significant budget item, collaboratively estimated by the department, LRC staff, and the governor's budget staff. The program draws funding from federal, state, and local sources, with state funding, particularly SEEK, being a substantial component at \$2.3 billion. The funding process involves demographic and student count calculations, as well as considerations for facilities. The formula ensures equitable treatment for districts of varying sizes and types.

In response to a question from Representative Petrie, Mr. Ritter testified the SEEK formula operates predominantly as a straight-line process. He illustrated this with an example involving average daily attendance (ADA), where attendance percentages contribute to the base guarantee amount, currently set at \$4,200 per pupil. Mr. Ritter explained various add-ons, including free lunch, exceptional child support, home hospital funding, and limited English proficiency funding, which are calculated on top of the base guarantee to provide additional financial support for specific student needs.

Data for the SEEK formula is reported by districts through various systems, with a focus on ensuring data quality. Several factors, including property assessments, transportation costs, and local effort through property wealth, are considered in the formula. Transportation funding has seen a notable increase, and local effort, tied to property assessments, can affect state funding. Districts may also levy various local taxes, with some being restricted for facilities. Certain "nickels" are mandated or equalized by the general assembly, addressing specific needs like facility growth and improvements. The "recallable nickel" is a current option for districts, subject to local petition, to fund facility goals.

In response to a question from Representative Petrie, Mr. Ritter testified the equalization of the "nickels" by the General Assembly is specified in the budget bill every two years.

In response to an additional question from Representative Petrie, Mr. Ritter testified that, to the best of his knowledge, there is no statute mandating the equalization of "nickels."

Mr. Ritter testified about SEEK funding tiers, underscoring the role of tier one in incentivizing local tax levies, and contributing approximately \$180 million. The equalization process linked to property wealth was discussed, along with budgeting challenges tied to fluctuating student populations and potential SEEK shortfalls. Post-COVID, there was a decline of about 4.6 percent in average daily attendance. Initiatives like open enrollment and a legislative change allowing FEMA districts to recover funds for substantial student losses were highlighted. Projections suggest a minimal increase in attendance for FY25 and FY26, emphasizing the need to address losses to avert fiscal challenges.

In response to a question from Representative Fleming, Mr. Ritter testified that currently the bulk of transportation costs in the formula is marked through a specific code. He expressed uncertainty about whether including parents transporting their kids in this cost would qualify, suggesting a need for a closer examination of the accounting details.

In response to an additional question from Representative Fleming, Mr. Ritter testified he has not been contacted about the specific question regarding Jefferson County Public Schools' transportation issue.

In response to questions from Senator Boswell, Mr. Ritter testified figures regarding property tax increases for all school districts last year were submitted to the board for approval. He assured that the information, including the count of districts surpassing the four percent allowable increase without recall petition, would be provided to the committee.

22RS HB 499 Implementation & Social Worker Employment Status

Ms. Day and Ms. Dennis discussed 22RS HB 499 implementation and social worker employment status.

Representative Petrie provided an overview of 2022 Regular Session House Bill 499, designed to support child care in Kentucky. Sponsored by Representative Heavrin, the bill allocated \$15 billion in funding with a one-year delay for implementation. The goal was to extend state government assistance to smaller employers offering child care benefits to their employees. Representative Petrie sought information on the current status of the program, the path taken to reach this point, and any challenges or suggestions for improvement encountered during the rollout.

Ms. Day testified about the Employee Child Care Assistance Partnership Program, highlighting that 25 percent of the \$15 million allocation targeted small businesses with fewer than 50 employees. Eligible entities must operate in Kentucky, prioritize child care deserts, and contribute at least 33 percent to costs. Employees working in Kentucky, not eligible for federal subsidies, and child care providers regulated by Kentucky were deemed eligible. Introduced on February 15, 2022, the program became effective a year later, drawing insights from other state programs. Extensive marketing efforts were made, resulting in 181 applications, with 82 approved. Challenges included its pilot program status, statewide child care capacity issues, and concerns about benefit equity. Successes involved family child care startup grants. Future steps include improving benefit equity, developing an online portal, and seeking feedback from early adopters.

Representative Raymond expressed support for 2022 Regular Session House Bill 499 but voiced concerns about its effectiveness, emphasizing a focus on affordability over expanding access and quality. She criticized excessive marketing expenses; suggested extending successful initiatives, such as providing free child care for childcare workers, to other in-demand professions; and emphasized the importance of direct cash assistance as a more impactful measure for supporting families, children, and providers.

In response to a question from Representative Johnson, Ms. Day testified benefit equity involves ensuring fairness in providing benefits to employees, considering those without children or ineligible for the child care assistance program. The goal is to maintain an equitable distribution of benefits across all employees within an organization.

Representative Petrie commented on the difficulty employers face in ensuring equality in benefit packages, particularly when extending different levels of benefits to distinct employee groups.

Representative Johnson acknowledged the complexity of this issue, expressing the need for further consideration and reflection on the matter in the future.

In response to a question from Representative Bentley, Ms. Day testified the marketing was carried out statewide and did not overlook the eastern region of Kentucky (East of I-75).

Representative Petrie commented child care is a complex issue targeted at specific needs within a particular sector, emphasizing that the bill could not be leveraged for broader child care issues.

In response to a question from Representative Bowling, Ms. Day testified the 113 children who signed up are still receiving the benefit, with only a few terminations, often due to the employee no longer working for the employer.

Representative Petrie commented the Cabinet for Economic Development and local economic authorities at county or city levels might find interest in using this type of program for recruitment and expansion of businesses. Ms. Day affirmed his suggestion.

Ms. Dennis testified about the current status of social work recruitment and retention. As of October 9, the Department for Community Based Services (DCBS) had 4,678 full-time employees, marking the highest staffing level ever recorded.

In response to a question from Representative Petrie, Ms. Dennis testified the mentioned figure includes the entire department and not just social workers.

Challenges faced by social workers were outlined, such as exposure to traumatic events and burnout. Turnover rates for the years 2020, 2021, and 2022 were discussed. An increase in case load carrying social worker positions from December 2022 to September 2023 indicates a slow and steady gain in hiring and retention within the department.

In response to a question from Representative Petrie, Ms. Dennis testified there was a net gain of approximately 150 social workers from December 2022 to September 2023.

In response to an additional question from Representative Petrie, Ms. Dennis testified there was a slow start in the first year of the biennium but acknowledged hiring had picked up speed in the second year.

Ms. Dennis thanked the General Assembly and Governor Beshear for their efforts on salary improvements, highlighting the increase in staffing. The starting salary for social workers rose from \$33,644 in 2021 to the current \$50,754, a gain of over \$17,000. Retention efforts include compensation work, shift and locality premiums, training, flexible work schedules, and initiatives to reduce case loads.

In response to comments from Representative Petrie, Ms. Dennis testified about the allocation of \$22.35 million for recruitment in FY 23 and FY 24, with an additional \$1.5 million.

In response to a question from Representative Bowling, Ms. Dennis testified she did not have the exact number for full staffing but mentioned the DCBS is nearing its personnel cap. She noted plans to request an additional hundred social workers to address staffing needs.

In response to a question from Representative Petrie, Ms. Dennis testified achieving the optimal number of social workers would, in an ideal scenario, reduce the case load per social worker to around 18 to 19 cases. This number, while still on the higher end, would represent a significant improvement.

In response to an additional question from Representative Petrie, Ms. Dennis agreed to provide the committee with details on current case load numbers, including the individuals managing case loads, recent additions over the past two years, the present figures, the recommended optimal amount, and the necessary steps to achieve that optimal level.

In response to a question from Senator McDaniel, Ms. Dennis confirmed the 10 percent salary adjustment mentioned on slide 12 was specifically allocated for social work positions and was part of the budget bill.

In response to an additional question from Senator McDaniel, Ms. Dennis testified while the 10 percent salary adjustment was not specifically within the recruitment appropriation, it significantly contributed to attracting new social workers and was instrumental in the overall recruitment effort.

In response to a question from Senator Boswell, Ms. Dennis testified when the entry-level salaries were increased, all employees, including those with five or 10 years of experience, were brought up to the new salary level if they were earning less than the new entry-level rate. This adjustment aimed to address concerns about retention for existing employees.

In response to an additional question from Senator Boswell, Ms. Dennis testified under current regulations with the Personnel Cabinet, it is possible for someone with five years of experience to be making the same as an entry-level employee due to the salary adjustments made.

Representative Petrie commented if the Personnel Cabinet completes the salary schedule as required by statute by November 1, 2023, it should help address some of the compression issues.

Water Management Assistance Fund

Ms. Williams and Mr. Young discussed the Water Management Assistance Fund.

Representative Petrie provided an overview of the Water Management Assistance Fund, mentioning assistance given in 2022 for operational aid to distressed water districts, not capital construction. He noted the infusion of \$10 million into the program and sought an update on its status, along with any suggestions for improvement or streamlining.

Ms. Williams testified about the criteria used to identify financially at-risk utilities, encompassing factors such as median household income, rate affordability index, audits, deficit retained earnings, debt service coverage ratio, and compliance. While underscoring the critical importance of safe drinking water and waste water services, Ms. Williams emphasized the challenge of assisting systems that struggle to repay funds. The fund prioritizes low-interest or zero-interest loans over grants, focusing on non-capital expenditures like audits, staffing, and maintenance. Collaborative efforts with entities such as the Environmental Protection Agency (EPA), Energy and Environment Cabinet (EEC), Kentucky Rural Water Association (KRWA), Rural Community Assistance Partnership (RCAP) and others were outlined to assess factors leading to financial instability and potential systems for assistance. The approval criteria were tabled at the October Kentucky Infrastructure Authority (KIA) board meeting, with further consideration planned for the November meeting.

In response to a question from Representative Petrie, Ms. Williams testified the Water Management Assistance Fund is currently in the development rollout stage, with coordination efforts involving about half a dozen utilities. No funds have been distributed thus far, as they are ensuring a comprehensive plan is in place to address the negative impacts before proceeding.

In response to a question from Representative Bray, Ms. Williams testified the funds can be used to assist with the acquisition of smaller districts by another entity.

Mr. Young testified, recognizing the current need, and commending the KIA and Ms. Williams for their diligent efforts to establish a performance matrix, ensuring purposeful allocation of funds. He emphasized ongoing collaboration and suggested developing a performance matrix and clearer criteria for efficient fund distribution, underscoring the importance of evaluating utility performance to ensure appropriate fund utilization.

Representative Petrie agreed with Mr. Young's suggestion, proposing the implementation of a target list or performance metrics for loans in capital construction. He emphasized the importance of clear guidelines to facilitate the effective use of state and federal assistance, particularly on the state side.

In response to a question from Representative McCool, Ms. Williams testified, while still in the planning stage, the KIA board's approval is required. The timeline for approval is expected in November 2023.

In response to a comment from Representative Petrie, Ms. Williams testified they have already engaged with approximately half a dozen districts and are working through the process. Once the final criteria are outlined, they will be able to distribute funds.

Senator Webb commented on the prolonged discussions about water management issues,

recalling her involvement in a task force. She mentioned the task force's two-year efforts and expressed concern about limited progress, questioning the current focus on six districts and suggesting the possibility of restarting the task force.

Provision of Utilities to Kentucky State Parks

Representative Petrie clarified this presentation was not related to tourism, state park funding, or bonds. Instead, it focused on the ongoing issue of state-owned electric utilities at various parks with outdated equipment and no clear means of operation. Electric cooperatives had previously assisted, but the sustainability of this approach was in question. Information was requested on understanding the issue, addressing it, and the associated costs for future consideration.

Mr. Perry testified about concerns regarding the deteriorating electric infrastructure at state parks. Images were presented illustrating safety and reliability issues in the right of way as well as deteriorating equipment. Electric cooperatives have assisted in emergencies but are increasingly worried about the safety risks posed by the current state of infrastructure.

In response to a question from Representative Petrie, Mr. Perry testified the equipment shown in one of the images is typically suspended in the air.

Highlighting the significance of adhering to the National Electric Safety Code for clearance issues, Mr. Perry emphasized the need for engineering work. Key areas included the necessity of clearing right of way, addressing aged infrastructure, and implementing new construction and safety measures. Preliminary cost estimates for various state parks amounted to \$43 million. Concerns were expressed about safety, reliability, and the economic development of the parks.

In response to a question from Representative Petrie, Mr. Perry testified if no action is taken, challenges may arise, especially if safety concerns lead to difficulties in maintaining service.

In response to a series of questions from Representative Petrie, Mr. Perry testified if no action is taken and the electric infrastructure in state parks deteriorates, there may be challenges for electric cooperatives to continue assisting due to safety concerns. He clarified there is no statutory obligation. Regarding the duration of the situation, it is estimated to be as long as electric cooperatives have been serving the parks, possibly spanning 50 years. When asked who would service the infrastructure if not the cooperatives, Mr. Perry suggested the need for contract crews, citing challenges in finding qualified personnel.

In response to a question from Senator Funke Frommeyer, Mr. Gates testified some state parks, like Pennyriple State Park, are not facing the same issues because their electric systems are owned and operated by electric utilities. Mr. Perry added across the state, many parks were initially set up with utilities asked to run services, and they handle maintenance and operations in those parks. However, the highlighted parks in the presentation are exceptions where the state of Kentucky owns the infrastructure.

In response to an additional question from Senator Funke Frommeyer about potential benefits, Mr. Gates testified one significant advantage would be the conservation of limited lineman resources, especially during major storms. He emphasized addressing the infrastructure issues could reduce outage hours, benefiting both the utility and park visitors. Mr. Perry added while there might be minimal cost savings at present, the current setup does not include operation and maintenance costs. Mr. Gates expressed Pennyriple Electric's willingness to take over if the

parks are improved with the allocated funds, relieving the state of a business it may not have needed to be in. He highlighted the potential improvement in visitor experiences, citing the frustration caused by extended outages at Lake Barkley State Resort Park.

In response to a question from Representative McPherson, Mr. Perry testified the proposed agreement could be implemented within a two-year timeframe, considering variations in complexity among the parks. He emphasized Kentucky Electric Cooperatives's (KEC) capacity to handle engineering work efficiently, procure materials, and maintain transparency in communication.

In response to a question from Senator Boswell, Mr. Perry testified the bulk of the \$44 million was allocated to materials, particularly emphasizing the substantial expenses associated with right-of-way clearing, such as tree removal. He underscored that the perceived high costs were not driven by engineering expenses.

In response to a series of questions from Senator Nemes, Mr. Perry testified KEC's responsibility stops at the property line, similar to residential properties. He explained the practice of having a meter at the property boundary, and that the usage is metered at that specific point, even though it extends further into the park. Senator Nemes raised concerns about tree trimming, drawing parallels to personal property, and Mr. Perry highlighted KEC's scope does not extend beyond the metering point, mirroring practices with industrial customers.

In response to a question from Representative Dossett, Mr. Gates testified about the importance of addressing the infrastructure issue, particularly at Lake Barkley State Resort Park. The extensive acreage and safety concerns associated with deteriorating poles were discussed, emphasizing the challenges faced by linemen and sharing a specific incident of a state park employee being electrocuted. This highlighted the need to improve infrastructure for operational efficiency and employee safety.

Senator Webb expressed concern about potential challenges at Greenbo and Carter Caves state parks, emphasizing the impact on aesthetics. Exploring underground options to preserve the parks' integrity was suggested. The historical underfunding of state parks was highlighted, with a call for increased financial support to restore Kentucky's status as a leading park system. Prioritizing a working relationship between park officials and stakeholders before allocating funds for modernization was recommended.

Representative Petrie commented on the shift in focus from the parks' traditional development to essential utilities like electricity. The presentation aimed to address the pressing issue of aging infrastructure, emphasizing the need for a future solution. The intention was not to advocate for immediate action but to highlight the looming challenges and potential solutions for future consideration.

Correspondence Received

Representative Petrie encouraged committee members to review the follow-up information and correspondence received. The follow-up information consisted of Teachers' Retirement System annuities. Correspondence received included Interim Emergency Appropriation Increases for FY 2024, Interim Allotment Adjustments for FY 2024, Interim Appropriation Revisions for Second Quarter FY 2024 from Jenny Bannister, and Reports Received Since September 20, 2023 from Jennifer Hays.

Adjournment

The next meeting will be Thursday, November 2 at 1:00 p.m. With there being no further business, the meeting was adjourned at 2:42 p.m.