

2026-2028 EXECUTIVE BUDGET PRESENTATION TO SENATE A & R

Date: January 28, 2026

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General Fund Revenues

	Enacted	Revised *		
	<u>FY 2026</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
General Fund Revenues	\$16,017.8	\$15,654.9	\$15,882.0	\$16,232.2
General Fund Appropriations		\$15,830.2		

* 2025 Session Revision

BUILDING A BETTER FUTURE TOGETHER

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Fiscal Condition:

- The last two biennial budgets provided needed investments
- The Commonwealth's rainy day fund grew to historic high
- Current unobligated balance of the Budget Reserve Trust Fund is over \$3.7 billion, 24 percent of current year revenues
- Reducing the individual income tax rate from 5 percent in 2022 to 3.5 percent in 2026 has moderated the growth in General Fund revenues

BUILDING A BETTER FUTURE TOGETHER

Fiscal Condition:

- General Fund revenue estimate for FY 27 is almost one percent less than the originally enacted estimate for FY 26
- Federal actions have pushed costs onto all states and made it harder on families to afford health care or remain eligible for Medicaid
- The 2026-28 budget will be challenging - modest revenue outlook & hundreds of millions of dollars in known teacher pension obligations, increasing costs of health care, the need to invest in education, maintain public safety, and grow good jobs

BUILDING A BETTER FUTURE TOGETHER

This budget infuses needed resources:

- **Education** - increasing funding for the SEEK formula, pay raises for all school employees, beginning the path toward Pre-K for All
- **Health Care** - funding to continue access to health care for the low-income and disabled
- **Economic Development** - continues economic development initiatives
- **Fully funds our pension systems**

FISCAL APPROACH IN DEVELOPING THE BUDGET RECOMMENDATION

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- ❑ **General Fund Spending Reductions and Leveraging Other Resources**

- ❑ **Spending Less than Currently Budgeted**
(\$421) million in FY 27 and (\$293) million in FY 28
 - Budget Cuts from FY 26 (\$78) million
 - Spending reductions of various types (\$54) million in FY 27 and (\$59) million in FY 28
 - Lower debt service (\$136) million in FY 27
 - Lower retirement contribution rates (\$91) million in FY 27 and (\$100) million in FY 28
 - A few one-time funding items (\$30) million
 - Lower internal service costs (\$8) million each year
 - Lower severance tax dedications (\$12) million in FY 27 and (\$20) million in FY 28

FISCAL APPROACH IN DEVELOPING THE BUDGET RECOMMENDATION

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□ **Leveraging Other Resources**

\$537 million in FY 27 and \$84 million in FY 28

- Unappropriated, excess Restricted funds used to replace General Fund
- Primarily used within the same agency in FY 27 and replaced with General Fund in FY 28
- \$350 million in the Department of Insurance – transferred to Medicaid's FY 27 budget

□ **Priority Areas Exempted from Budget Cuts**

K-12 Education, Medicaid, Postsecondary Education, Ky State Police, Juvenile Justice, Pension Contributions, Student Financial Aid

HELPING KENTUCKIANS WITH RISING COSTS

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To help Kentucky families with rising cost pressures the Governor proposes to use \$500 million from the Budget Reserve Trust Fund for:

- **Affordable Housing** – \$150 million dollar investment in Kentucky's Affordable Housing Trust Fund. Combined with private dollars, that would create a billion dollars of new housing
- **Rural Hospital Assistance** – \$125 million to assist rural and certain urban hospitals in reaction to Congress' H.R. 1 with one national study estimating that up to 35 rural Kentucky hospitals will be at-risk of closing
- **Supplementing the ACA Federal Premium Tax Credit** – \$100 million for the thousands of Kentuckians who lost federal assistance in purchasing health insurance for their families
- **Utility Assistance** – \$75 million to assist low-income Kentuckians to afford their utility bills
- **Food Assistance** – \$50 million to Feeding Kentucky to help Kentuckians with rising food costs

EDUCATION FIRST

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Over \$1.4 billion in additional funding from the General Fund over two years

Pre-K for All

- \$40.5 million in FY 28 for the initial phase of Pre-K for All
- A planning year in FY 27 for the school districts to prepare
- Provides for almost 9,700 additional four-year olds to attend pre-K for school districts that express their readiness
- Funding from the sports wagering excise tax
- The start of multi-year phase-in to achieve Pre-K for All

EDUCATION FIRST

School Employee Pay Increases-Educators to get a 6.9% Pay Increase over Two Years

- 3 percent salary increase in FY 27 for all full-time school personnel - \$158.8 million per year
- Guarantees enough money for every school district
- In FY 28 another 3.75 percent that educators now pay into the Teachers' Retirement System's medical insurance trust fund from their paycheck as a part of the Shared Responsibility plan that began in 2010 will be retained by them
- Results in a 6.9 percent increase in compensation over the two years

EDUCATION FIRST

Fully funds the teachers' pension and retiree medical benefits

\$563 million additional funding over two years through KTRS and SEEK budget

SEEK Funding: \$327 million over two years

- Raise the base per pupil amount by 2.5 percent each year – over 5% over two years
- Costs of equalizing school district local tax levies dedicated to capital improvements

Career and Technical Education Facilities

\$50 million pool of funding for the renovation and improvements of secondary career and technical education centers

School Facilities Construction Commission

\$100 million in Additional Offers of Assistance

PROTECTING HEALTH CARE

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Fully Funds Medicaid - additional \$420 million General Fund in FY 2028

- MCO 4.5% Rate Change-Actuarially Sound
- Nursing Facility Cost Increase
- Waiver Rate Increase
- Pharmacy Cost Increase
- Behavioral Health Costs

PROTECTING HEALTH CARE

H.R. 1 Impact on the Medicaid Program

- Work/community engagement requirements for the Medicaid expansion members to remain eligible – January 2027
- Changed the frequency of eligibility determination from one year to every six-months – January 2027
- Changes reduce enrollment by 4,295 in FY 27 and 28,539 in FY 28
- Future Medicaid program income reductions from provider taxes – phasing the maximum tax rate down over five years from 6% to 3.5% by 2032, starting January 1, 2028
- Imposes significant limits on state directed payments, mostly to Kentucky's hospitals
- \$8.1 million in FY 27 & \$1.5 million in FY 28 to modify information technology systems and other systems - \$35 million & \$11 million all funds

PROTECTING HEALTH CARE

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Medicaid Waiver Slot Increases

- 500 additional slots in the Michelle P. waiver program
- 250 additional slots in the Supports for Community Living program
- 500 additional slots in the Home and Community Based Services program
- \$76.3 million each year, with \$21.7 million from the General Fund

PROTECTING HEALTH CARE

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Nursing student loan forgiveness program - \$25 million over two years to supplement the new federal cap on nursing student loans

Central Public Health Laboratory Expansion - \$276.3 million in bond funds for the Central Lab Expansion capital project

Preserving the Operations of Psychiatric Hospitals and Facilities for Individuals with Disabilities - additional \$20 million each year to meet the needs of increased census numbers and higher costs of operating residential facilities

CREATING AND ATTRACTING JOBS

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Three initiatives from the Budget Reserve Trust Fund

- **Build-Ready Economic Development Sites** - \$70 million for site development to create build-ready, job-ready sites. This is the Kentucky Product Development Initiative (KPDI)
- **Mega Project Funding** - \$100 million dollars to support approved mega projects. Funding will be used to ensure sites and infrastructure are attractive to projects considering no more than two other states, and at least one site in the Commonwealth.
- **A New Rural Economic Development Fund** - \$25 million for a new rural economic development fund to bring jobs to rural areas

CREATING AND ATTRACTING JOBS

Talent Attraction - \$2.5 million each year to attract talent to Kentucky's workforce to promote and market Kentucky's employment opportunities throughout the United States

South Korea Office - \$225,000 in each year for representation in South Korea to assist with the attraction of new projects, expansion opportunities, and retention of South Korean companies located in or considering Kentucky.

POSTSECONDARY EDUCATION

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Improving Budget Certainty for Postsecondary Education

- No General Fund budget reductions to the postsecondary education institutions
- Retain the \$115 million from the Postsecondary Education Performance Fund distributions in each institution's base General Fund appropriation

POSTSECONDARY EDUCATION

Capital Funding

- \$768 million from Bond Funds for capital projects for the nine public postsecondary education institutions to add to \$3.1 billion over the last two budgets
- A combination of priorities expressed by the institutions, including both new construction/major renovation and asset preservation
- 45% of the total General Fund supported bond projects recommended in the Governor's budget

POSTSECONDARY EDUCATION

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Student Financial Aid and Lottery Funds - 100 percent of lottery funds are devoted to student financial aid

Kentucky's Affordable Prepaid Tuition (KAPT) Program

The KAPT program has an unfunded liability of \$17.9 million and the budget fully pays down that liability from the Budget Reserve Trust Fund, avoiding \$6.8 million in annual General Fund obligations

Eastern Kentucky University – Escrow Requirements for the Osteopathic Medicine Program - \$42 million

The university is required to retain a \$42 million escrow reserve to be able to move forward with an accredited osteopathic medicine program. These funds will be from the Budget Reserve Trust Fund and will eventually be returned once the program has met the accreditation agency's performance requirements.

ENHANCING PUBLIC SAFETY

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Improved Compensation for State Police

- \$5.5 million each year to convert worked overtime from compensatory time to paid overtime for sworn Troopers which will improve recruitment and retention
- \$5.6 million in FY 27 and \$11.1 million in FY 28 for the costs of the statutory salary schedule

Expansion of Drivers Testing Locations - \$1.3 million in FY 27 and \$3.4 million in FY 28 to support new drivers testing locations at six new locations and three existing locations

Crime Labs - funding for the relocated and expanded Northern Kentucky Crime, additional forensic biologists for the Central Lab to reduce sexual assault examination backlog

ENHANCING PUBLIC SAFETY

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State Police Emergency Radio System Replacement

\$107.4 million in bond funds for the final phase of the project to replace the State Police's emergency radio system

Juvenile Detention Centers – two female detention centers and a high-acuity treatment facility

Operations of Jefferson County Detention Centers

\$6.5 million in FY 27 and \$12 million in FY 28 to operate the downtown Louisville detention center and the expansion of the Lyndon detention center – projects are under construction

ENHANCING PUBLIC SAFETY

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Corrections New Reentry Campus

\$42 million project to construct a reentry campus at Northpoint Training Center, near Burgin, Kentucky to be operated by KCTCS

Western Kentucky Regional Training Center

\$64.8 million from the KLEFP fund to construct the remaining elements of the Training Center in Madisonville – indoor firing range and a flat track for driver training

Kentucky Cyber Resilience Task Force - funding to establish a Kentucky Cyber Resilience Task Force to enhance the ability to detect, respond to, and recover from cyber incidents statewide

PROTECTING CHILDREN & FAMILIES

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Relative and Fictive Kin Funding

\$14.6 million each year to fully fund the Relative and Fictive kin foster care reimbursements passed, but not funded, in the 2024 legislative session through Senate Bill 151

Out of Home Care - an additional \$22 million each year to maintain out of home care services for youth, partially replacing TANF grant funds previously used for the program

SNAP Administrative Costs – Federal Mandate

\$43.5 million in FY 27 and \$58 million in FY 28 for the increase in the state share of SNAP administrative costs due to H.R. 1

Senior Meals

\$9.1 million each year to continue providing nutritional meals for senior citizens in the community

INFRASTRUCTURE INVESTMENT & TRANSPORTATION

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Governor's 2026-2028 Biennial Highway Construction Plan

- The 2026-2028 biennial highway construction plan is based on \$3.88 billion in anticipated state and federal highway program revenues
- Much of this funding is committed to continuing the development and construction of projects carried forward from the 2024-2026 Highway Plan
- Highlighted in the plan is a recommendation of about \$570 million annually for investment in Kentucky's existing pavements and bridges

INFRASTRUCTURE INVESTMENT & TRANSPORTATION

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- **Better Kentucky Cleaner Water Program**
\$319 million for Kentucky's drinking water and wastewater
- **Major Transportation Infrastructure Projects**
 - \$125 million from the Budget Reserve Trust Fund for the Brent Spence bridge project
 - Release the \$150 million already appropriated for the I-69 Ohio River crossing project in Henderson
- **County and City Bridge Improvement Program**
 - \$40 million over the biennium for the County Priority project program
 - \$50 million for the County Bridge program
- **Driver Licensing Location Expansion** - six new driver licensing locations and increased staffing at existing locations

INVESTING IN OUR PUBLIC EMPLOYEES & RETIREES

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- **2% Salary Increases for State Employees each year**
- **Fully Funds Pensions**
- **Health Insurance for State Employees**
\$32.5 million in FY 2027 and \$58 million in FY 2028 increase in health insurance employer contributions
- **Replace Human Resources Information Technology System**

OTHER CAPITAL PROJECTS

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- **Maintenance Pools for State Agencies - \$250 million cash funded**
- **Expansion of Central Lab Facility for Public Health**
- **Major Repair/Other Projects**
 - Radcliff Veterans Center – HVAC completion
 - State Owned Dam Repair
 - Ky State Penitentiary – Utilities infrastructure
 - Demolition of Ky State Reformatory
 - Renovation of CHR Building – Phase 2
 - Oakwood Cottages Renovations – Phase 4
- **Capitol Renovation – Reconstruction of Other 3 Terraces – updated cost estimate of \$40 million**
- **Debt Capacity Calculation – 4.99% of Revenues**

QUESTIONS

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