

# INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

## Minutes of the 3rd Meeting of the 2019 Interim

August 20, 2019

### Call to Order and Roll Call

The 3rd meeting of the Interim Joint Committee on Appropriations and Revenue was held on Tuesday, August 20, 2019, at 1:00 PM, in Room 149 of the Capitol Annex. Representative Steven Rudy, 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 Tom Buford, 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, Myron Dossett, Joseph M. Fischer, David Hale, Mark Hart, Angie Hatton, Dennis Keene, Russ A. Meyer, Jason Nemes, Ruth Ann Palumbo, Phillip Pratt, Melinda Gibbons Prunty, Brandon Reed, Steve Riley, Sal Santoro, John Sims Jr, Jim Stewart III, Wilson Stone, James Tipton, and Susan Westrom.

Guests: Trish Mazzoni, President and CEO, Special Olympics Kentucky; Ryan Barts, Special Olympics Kentucky Athlete; DesaRae Nickell, Special Olympics Kentucky Athlete; John E. Chilton, State Budget Director; Janice Tomes, Deputy State Budget Director; Kevin Cardwell, Deputy State Budget Director; Greg Harkenrider, Deputy Executive Director, Governor's Office of Economic Analysis; J. Michael Jones, Deputy Executive Director, Governor's Office for Policy Research; Jason Nemes, State Representative, District 33; and Gary Riley, General Manager, H.T. Hackney.

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

### Special Olympics

Trish Mazzoni, President and CEO, Special Olympics Kentucky; Ryan Barts, Special Olympics Kentucky Athlete; and DesaRae Nickell, Special Olympics Kentucky Athlete; discussed the Special Olympics in Kentucky.

Trish Mazzoni stated that Special Olympics programs have been changing the lives of individuals with intellectual disabilities for more than 50 years. Special Olympics Kentucky began as a one-day event and has grown into a program of year-round sports that now offers 15 sports options and serves more than 10,000 athletes across the state. Sports

help the athletes build confidence, self-esteem, and life skills. Special Olympics athletes are 52 percent more likely to hold a job than their peers who do not participate.

Ms. Mazzoni testified that Special Olympics Kentucky serves its athletes and the state at-large through more than just sports. In 1997, the healthy athletes program was introduced. Studies show that people with intellectual disabilities are a medically underserved population. The healthy athletes program helps fill the care gap by offering athletes medical screenings provided by trained medical professionals. Last year, more than 1,300 individual screenings were provided. Healthy athlete screenings can make a positive impact on state budgets. According to the Centers for Disease Control (CDC), people with intellectual disabilities make up five percent of the Medicaid population, while using 15 percent of all Medicaid services.

The Unified Champion Schools (UCS) program, adopted in Kentucky in 2009, seeks to build stronger and more inclusive school communities by fostering understanding and bridging the gaps between students with and without disabilities. The program now reaches 76,000 students, 86 schools, and 40 counties. Ms. Mazzoni stated that 94 percent of Unified Champion Schools teacher liaisons say that UCS programs reduce bullying, teasing, and offensive language in schools.

Special Olympics Kentucky operates on a budget of slightly more than two million dollars a year. Income is primarily through fundraising events and direct donations. Forty percent of revenue comes from individuals, 47 percent comes from corporate support, with the remainder of revenue coming from civic organizations. Ms. Mazzoni stated that Special Olympics Kentucky does not receive direct state funding. Twenty-six states provide funding for their Special Olympics programs. Special Olympics Kentucky is requesting \$50,000 in state funding for each year of the 2020-2021 biennium.

Ryan Barts stated that the Special Olympics has changed his life because he has made a lot of friends, travelled to places he had never been to, and gained confidence. Special Olympics has given him the opportunity to compete in the sports that he loves.

DesaRae Nickell said that she got the chance to play many sports when she joined Special Olympics Kentucky. She has met many lifelong friends through playing sports. Ms. Nickell found strengths she never knew she had as an athlete ambassador.

Representative Stone thanked Special Olympics Kentucky for presenting before the committee.

In response to a question from Representative Bechler, Ms. Mazzoni testified that the annual budget for Special Olympics Kentucky is just over two million dollars.

In response to a question from Representative Westrom, Ms. Mazzoni stated that there are an average 2,500 coaches who volunteer through Special Olympics Kentucky, with another four or five thousand one-day volunteers throughout the year.

Representative Rudy urged people to go to a Special Olympics event.

Representative Gibbons Prunty urged people to go to the summer games held in Richmond.

### **Approval of Minutes**

A motion was made by Representative Tipton, and seconded, to approve the minutes of the July 9, 2019 meeting. The minutes were approved by voice vote.

### **Closeout of Fiscal Year 2018-2019**

John E. Chilton, State Budget Director; Janice Tomes, Deputy State Budget Director; Kevin Cardwell, Deputy State Budget Director; Greg Harkenrider, Deputy Executive Director, Governor's Office of Economic Analysis; and J. Michael Jones, Deputy Executive Director, Governor's Office for Policy Research, reviewed the closeout of Fiscal Year (FY) 2018-2019.

Greg Harkenrider testified that the general fund experienced actual receipts of \$11,392,698,460 in FY 2019. The actual receipts were \$194,498,460 higher than the official Consensus Forecasting Group (CFG) estimate. The general fund revenues grew \$554.5 million in FY 2019 – the most since FY 2015. Additionally, general fund revenues grew 5.1 percent.

Mr. Harkenrider stated that the individual income tax and the sales and use tax make up 75 percent of general fund revenues. The revenue surplus of \$194.5 million in FY 2019 was mostly due to the smaller taxes. Abandoned property brought in \$35 million more than expected. The bank franchise tax brought in \$119 million instead of the projected \$105 million. There was also a surplus in FY 2019 due to the estimates being exceeded by \$119.8 million in FY 2018. February, March, April, and May of FY 2019 brought in \$417.4 million in new revenue.

Kevin Cardwell testified that FY 2019 ended with a general fund surplus of \$130.1 million. There were \$33.2 million in Necessary Government Expenses (NGEs) in FY 2019. Dedicated revenue adjustments accounted for another \$32.7 million in general fund expenses. The general fund spent \$2.2 million less than budgeted during the fiscal year. Fund transfers to the general fund also added \$2.4 million to the general fund. Other miscellaneous items cost the general fund \$3.2 million.

Per HB 200, the FY 2019 general fund surplus was appropriated for FY 2020. \$70 million of the surplus went to the Teachers' Retirement System Medical Insurance Fund,

and \$60.1 million went to the Kentucky Retirement System's Nonhazardous Unfunded Pension Liability Fund.

There was \$47.57 million less in NGEs during FY 2019 than FY 2018. The top two expenditures were corrections and appropriations not otherwise classified (ANOC). NGEs were lower in FY 2019 than in FY 2014. The NGE estimate for FY 2020 is in the range of \$30 million to \$35 million. Corrections NGEs accounted for \$14.9 million in FY 2019. Higher prison costs and private prison costs led to the NGEs for corrections. Nine million dollars for Guardian Ad Litem made up the majority of ANOC NGEs. Director Chilton stated that more NGEs had been built into the budget to reduce the unbudgeted amounts spent.

Mr. Cardwell testified that FY 2019 began with \$93.8 million in the budget reserve trust fund. A regular appropriation of \$33.45 million was also made to the trust fund. Two hundred and ninety thousand dollars were appropriated from the trust fund in the 2019 Regular Session. An additional \$2.1 million was added to the trust fund due to the judicial unexpended use allowance. The budget reserve trust fund had a balance of \$129.1 million at the end of FY 2019. It is estimated that the balance will be \$306.1 million at the end of FY 2020. The trust fund balance is estimated to be 2.7 percent of the general fund in FY 2020.

Michael Jones stated that Master Settlement Agreement (MSA) revenues for FY 2019 were \$1.9 million below the estimate. Lower MSA revenue estimates are being forecasted going forward. Last year alone, the total number of cigarettes subject to the MSA fell by seven percent.

Mr. Harkenrider testified that road fund revenues for FY 2019 totaled \$1,556.0 million. Road fund percentage growth for the year totaled 3.6 percent. Motor fuels revenues were \$14 million higher than expected in FY 2019. Motor vehicle usage revenues brought in a record \$514.5 million, exceeding the estimate by \$20 million.

Janice Tomes stated that the year-end balance for the road fund was \$472.7 million. The total budgeted carryforward into FY 2020 totaled \$397.5 million. As a result, the road fund surplus amounted to \$75.2 million.

Mr. Harkenrider testified that the CFG's unofficial estimated growth for general fund revenues in FY 2020 is 1.5 percent. The CFG estimates tepid growth through FY 2024.

Mr. Harkenrider stated that cigarette tax revenues are forecast to decline in all of the next five fiscal years. Coal severance revenues are projected to grow by 7.2 percent in FY 2020, and then decline by double digits through FY 2024. Revenues for the road fund are projected to fall 0.9 percent in FY 2020.

Director Chilton testified that the economy has been doing well the past couple of years, and that the information received from the CFG indicates that growth is going to be moderate over the next few years.

In response to a question from Representative Gibbons Prunty, Mr. Jones stated that there is projected to be slight growth in the motor fuels revenues in the next few fiscal years.

In response to a question from Representative Nemes, Mr. Harkenrider stated that he had heard that because of lost federal toll credits, Kentucky would have to find \$130 million more in state money to allocate. In response to another question from Representative Nemes, Director Chilton testified that the target for many states is for the budget reserve trust fund to be 5.5 percent of the general fund. Kentucky's reserve fund has not reached that level in years.

### **Cigarette Tax and Compensation to Wholesalers**

Jason Nemes, State Representative, District 33; and Gary Riley, General Manager, H.T. Hackney, discussed the cigarette tax and compensation to wholesalers. Representative Nemes stated that wholesalers were requesting an increase in compensation to 1.5 cents per pack of cigarettes.

Gary Riley testified that as a wholesaler, his company distributes a wide array of products. For the distribution of cigarettes, his company is required to place tax stamps on each individual pack of cigarettes. This has been a function of wholesalers since 1955. The wholesaler must pre-pay for the tax stamps.

Mr. Riley stated that the stamping process is highly regulated – continuing to say that the equipment used is highly specialized and costly. Wholesalers are one of the largest collectors of tax revenue in Kentucky. Wholesalers are requesting two changes. The first request is for a 10-day credit term to pay the Department of Revenue (DOR) for tax stamps. The second request is for a reimbursement of 1.5 cents per pack of cigarettes for the collection and remittance of the cigarette tax. Wholesalers are currently reimbursed 0.3 cents per pack. The rate has not changed since 1955. Mr. Riley presented a video showcasing the stamping process.

Representative Nemes testified that when there is a blemish and not a full stamp on the product, wholesalers have to eat the cost.

In response to a question from Senator Girdler, Mr. Riley stated that the stamping machines in his wholesaling operation do not run 24 hours a day, but employees are paid a premium to run the machines and are specially trained by the manufacturers.

Representative Nemes stated that wholesalers are asking for a 10-day credit term after the purchase of the tax stamps.

In response to a question from Senator Wheeler, Representative Nemes stated that the tax stamps are applied by the wholesaler and not the manufacturer because of differing state tax rates. In response to a follow up question from Senator Wheeler, Mr. Riley stated that an extreme amount of forecasting would be required for manufacturers to pre-stamp packages and send different amounts to various states.

Representative Stone questioned how many cigarettes make it to smokers without being taxed. In response to another question from Representative Stone, Representative Nemes stated that the request for 1.5 cents in reimbursement per pack of cigarettes came from looking at the reimbursement rate in surrounding states. The median rate for surrounding states is 1.8 cents per pack. In response to another question from Representative Stone, it was stated that the reimbursement rate is based on the Kentucky cigarette tax.

In response to a question from Senator Givens, Representative Nemes stated that wholesalers are requesting to go from a 0.3 cents per pack reimbursement rate to 1.5 cents per pack. In response to another question, Mr. Riley testified that a wholesaler can send stamped nonsalable packages back to the manufacturer in order to recoup the cost. He stated however that if there is a damaged stamp that is incomplete, the wholesaler cannot be reimbursed. In response to another question from Senator Givens, Mr. Riley stated that he was not aware of any mechanism whereby a wholesaler could reclaim the money invested in stamps at an establishment.

In response to questions from Representative Rudy, Mr. Riley testified that each wholesaler facility stamps for their own areas. Mr. Riley stated that the only compensation for wholesalers to apply the stamps is 0.3 cents per pack, and that the \$10 million fiscal impact estimate was scored after the cigarette tax increase.

### **Adjournment**

With no further business before the committee, the meeting was adjourned at 2:35 pm.