

# INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

## Minutes of the 6th Meeting of the 2020 Interim

November 10, 2020

### Call to Order and Roll Call

The 6th meeting of the Interim Joint Committee on Appropriations and Revenue was held on Tuesday, November 10, 2020, at 1:00 PM, in Room 171 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 Tom Buford, Matt Castlen, David P. Givens, Morgan McGarvey, Stephen Meredith, Gerald A. Neal, Michael J. Nemes, Dennis Parrett, Robin L. Webb, Stephen West, and Phillip Wheeler; Representatives Lynn Bechler, Danny Bentley, Myron Dossett, Joseph M. Fischer, David Hale, Angie Hatton, Jason Nemes, Ruth Ann Palumbo, Melinda Gibbons Prunty, Brandon Reed, Steve Riley, Sal Santoro, John Sims Jr, Wilson Stone, James Tipton, and Susan Westrom.

Guests: John Hicks, State Budget Director; Janice Tomes, Deputy State Budget Director, Governor's Office for Policy and Management; Kevin Cardwell, Deputy State Budget Director, Governor's Office for Policy and Management; Greg Harkenrider, Deputy Executive Director, Governor's Office for Economic Analysis; and Michael Jones, Deputy Executive Director, Governor's Office for Policy and Research.

LRC Staff: Jennifer Hays, Cynthia Brown, Cameron Childress, Sarah Watts, and Chase O'Dell

### Approval of Minutes

A motion was made by Representative Santoro, seconded by Representative Rudy, to approve the minutes of the October 21, 2020, meeting. The motion passed by voice vote.

### Most Recent Revenue Estimates and Expected Budgetary Needs for Fiscal Year 2022

John Hicks, State Budget Director; Janice Tomes, Deputy State Budget Director, Governor's Office for Policy and Management; Kevin Cardwell, Deputy State Budget Director, Governor's Office for Policy and Management; Greg Harkenrider, Deputy Executive Director, Governor's Office for Economic Analysis; and Michael Jones, Deputy

Executive Director, Governor's Office for Policy and Research were present to testify or answer questions from the committee.

John Hicks testified that the administration has agreed to deliver the Governor's budget recommendation on a fast-track basis so that it will be available in the first week of January.

The Office of State Budget Director (OSBD) forecasts a general fund revenue shortfall of \$99 million compared to the enacted revenue estimate. OSBD also forecasts a \$9 million overage in road fund revenue. No budget cuts are expected for fiscal year 2021. This is because of better than expected revenues and more flexibility in the federal Coronavirus Relief Fund.

General fund revenues for fiscal year 2021 are expected to total roughly \$11.5 billion. Individual income and sales and use tax revenues are expected to see small growth. Corporate income tax and limited liability entity tax revenues will see a substantial decline. A significant reduction is expected in coal severance revenues.

Revenues for the road fund are expected to reach \$1.55 billion in fiscal year 2021, which is nine million dollars more than the enacted estimate for the year. Motor fuels revenues were down five percent in the first quarter, but are expected to recover to reflect a two percent growth for the full year. Motor vehicle usage revenues have bounced back after April and May.

July to September of 2020, saw a loss of 153,000 non-farm employment jobs compared to the same time last year. The bulk of these were service-providing jobs.

October general fund receipts are up three percent compared to last year. Sales tax revenues are up almost seven percent year-to-date. Individual income receipts are up over four percent year-to-date. This increase would only be over one percent with the exclusion of unemployment insurance. Corporation income revenues are down one percent year-to-date. The remaining tax revenues are up over four percent year-to-date.

Road fund receipts are up more than one percent year-to-date. Motor fuels revenues have declined almost five percent year-to-date. Motor vehicle usage revenues have grown almost 12 percent year-to-date.

Lower revenues are expected in fiscal year 2022 than what was originally considered in the 2020 regular session.

In response to a question from Senator Wheeler, Mr. Hicks stated that revenue in the last several months has been lifted by additional unemployment benefits, the paycheck

protection program, and the \$1,200 and \$500 federal stimulus payments. A weakening of state revenues is expected from the termination of these programs.

In response to a question from Senator McDaniel, Mr. Hicks testified that GDP is not expected to recover to its prior peak until the later part of fiscal year 2022. A number of states are forecasting reduced revenues in fiscal year 2022 compared to fiscal year 2021.

Mr. Hicks testified that the base calculation of Support Education Excellence in Kentucky (SEEK) is not expected to change much. Additionally, Medicaid enrollment has risen. The federal government increased its share of Medicaid spending as a result of the national public health emergency. Medicaid enrollment has increased by six percent from the fiscal year 2021 enacted enrollment. No reduction in enrollment is expected through fiscal year 2022. The additional six percent federal share of Medicaid spending is effective through March 31, 2020. Through the enhanced federal share, Kentucky has received a budget benefit of \$450 million.

In response to a question from Senator McDaniel, Mr. Hicks stated that roughly 100,000 more people would be enrolled in the Medicaid system than was anticipated by the fiscal year 2021 budget.

In response to a question from Representative Tipton, Mr. Hicks stated that most of the increased Medicaid enrollment is within the expansion population.

Mr. Hicks testified that in fiscal year 2021 the average daily population of inmates is expected to be 5,200 fewer than was initially considered during the 2020 regular session and for fiscal year 2022 there is expected to be 4,600 fewer. This will result in a decrease in the Community Services and Local Facilities' county jail bed budgets for fiscal years 2021 and 2022 compared to the 2020 regular session budget.

In response to a question from Senator McDaniel, Mr. Hicks stated that the new correctional facility in Wheelwright, Kentucky, is nearly ready but not yet running. In response to another question, Mr. Hicks stated that the facility will have an effect in the budgets for the current year and in fiscal year 2022.

Mr. Hicks testified that the Kentucky Employees Retirement System (KERS) non-hazardous employer contribution rate will slightly increase for fiscal year 2022. The employer rate will slightly decrease for the KERS hazardous plan. The rate will slightly increase for the state police.

In fiscal year 2020, the combined cash deficits of state parks, the State Fair Board, and the Kentucky Horse Park, totaled more than \$15 million. The lost revenues exceed the reduction in costs.

Coronavirus relief fund dollars will cease on December 30. There will still be costs associated with testing, contact tracing, and distributing vaccines.

Kentucky received \$1.6 billion from the federal government for the Coronavirus Relief Fund. The funds were prohibited from being used to replace lost revenues. Initial flexibility allowed for these funds to be used for payroll expenses for employees that were substantially dedicated as well as total payroll expenses of front-line state police. New flexibility was added that permits the use of these funds for total payroll expenses of correctional officers and their supervisors.

In response to a question from Senator McDaniel, Mr. Hicks testified that the \$99 million shortfall is simply a revenue number, and that the application of Coronavirus Relief Fund dollars will put the state in a much better year-ending situation. In response to another question, Mr. Hicks stated that a team in the OSBD works with agencies to assist with the application for relief funds and how those funds can be expended. Mr. Hicks continued to say that agencies report expenses to the OSBD monthly and quarterly.

In response to a question from Representative Santoro, Mr. Hicks testified that just under \$500 million of Coronavirus Relief Fund dollars have been expended. The Governor has announced that all \$1.6 billion have been committed or allocated. Of this, \$300 million has been allocated to cities and counties for COVID-19 response. At a minimum, \$200 million will be reserved to repay the unemployment insurance trust fund's federal borrowing.

In response to a question from Senator McDaniel, Mr. Hicks stated that the unemployment insurance trust fund has borrowed \$475 million thus far. The number of initial claimants for unemployment insurance has declined in recent weeks. In response to another question, Mr. Hicks testified that it is uncertain how much more money the trust fund will need to borrow. In response to a final question, Mr. Hicks said that OSBD advises agencies on which expenses can be reimbursed during the application process.

In response to a question from Representative Santoro, Mr. Hicks testified that Coronavirus Relief Funds not spent will go back to the federal government. He added that Kentucky will spend all of the funds.

With no further business before the committee, the meeting was adjourned at 2:00 p.m.