

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the Third Meeting of the 2023 Interim

August 2, 2023

Call to Order and Roll Call

The third meeting of the Interim Joint Committee on Appropriations and Revenue was held at 1 p.m. Wednesday, August 2, 2023, 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: 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, George Brown Jr., Myron Dossett, Patrick Flannery, Ken Fleming, Deanna Frazier Gordon, Chris Freeland, Chris Fugate, Al Gentry, Mark Hart, DJ Johnson, Bobby McCool, Shawn McPherson, Ruth Ann Palumbo, Josie Raymond, Brandon Reed, Cherlynn Stevenson, and Ken Upchurch.

Guests: Scott Young, executive director, Kentucky Rural Water Association; Brian Wright, president/CEO, Owensboro Riverport Authority, chair, Kentucky Association of Riverports; Jennifer Kirchner, executive director, Kentuckians for Better Transportation; Rachel Bayens, partner, Government Strategies; William Downey, chair, Kentucky Rail Association; John Hicks, Executive Cabinet secretary and state budget director, Commonwealth of Kentucky; and Ryan Barrow, Office of Financial Management, Commonwealth of Kentucky.

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

Approval of the July 19, 2023 Minutes

Representative Reed made a motion, seconded by Representative Bowling, to approve the minutes from the July 19, 2023, meeting.

Kentucky Water Needs

Scott Young was given an opportunity to discuss water needs in Kentucky.

Mr. Young testified the Kentucky Rural Water Association (KRWA) represents 95 percent of the water and waste water utilities in Kentucky. Kentucky has 432 public water systems, 213 water treatment plants, approximately 64,000 miles of water mains, and an estimated 40,207 lead service lines that need to be replaced.

In 2019, the American Society of Civil Engineers published its infrastructure report card which rated Kentucky's drinking water system as a C+ and waste water infrastructure as a C-. Challenges facing Kentucky's rural water systems are aging infrastructure, regulatory compliance, funding and financial constraints, and lack of technical expertise and workforce.

In April 2023, the United States Environmental Protection Agency (USEPA) published the Drinking Water Infrastructure Needs Survey and Assessment which estimated Kentucky's 20-year infrastructure investment need at \$7.84 billion. Kentucky's rural water utility needs include infrastructure investment, technological upgrades, technical assistance, asset management and planning, regional cooperation and consolidation, workforce development, and non-capital utility investment.

In response to a question from Representative Petrie, Mr. Young testified the KRWA has over 360 utility members across Kentucky.

In response to an additional question from Representative Petrie, Mr. Young testified the Appropriations and Revenue Committee may also want to speak to the Kentucky Municipal Utility Authority regarding water needs in Kentucky.

In response to a question from Representative McCool, Mr. Young testified apprentices hired through the KRWA's apprenticeship program will be on the pathway to become a certified operator. Mr. Young added 70 percent of utilities have lost employees, some of which were lost to bigger utilities as people tend to migrate where there is better pay, benefits, and opportunities.

In response to a question from Representative Nemes, Mr. Young testified the pathway for recruiting certified operators is currently limited due to lack of interest in the industry and lack of funds. Representative Nemes commented the state used to and should be able to help with that.

In response to a question from Representative Stevenson, Mr. Young testified the 20-year infrastructure investment need at \$7.84 billion is for existing infrastructure exclusively.

In response to a question from Representative Gentry, Mr. Young testified from a capacity standpoint, assistance is needed to help some water systems identify available funding opportunities.

In response to a question from Senator Webb, Mr. Young testified the USEPA's projection is based on the water systems current status and laws, not potential new laws regarding emerging contaminants in water, which would increase the monetary need tremendously if passed.

Representative Petrie commented moving forward he would like to focus on trying to plan for emergency requests before they occur.

Kentucky Reserves

John Hicks and Ryan Barrow were given an opportunity to discuss Kentucky reserves.

Mr. Hicks presented the general funds budget reserve trust fund 25-year balance history which showed a significant increase in the last three years, FY 2024 being the highest at \$3.71 billion. In June 2023, the National Association of State Budget Officers released a report ranking Kentucky's balance of budget reserve trust funds sixth highest of all states, a substantial improvement from being fourth lowest four years ago. In FY 2022 the budget reserve trust fund was primarily used for economic development opportunities in Hardin County and in FY 2023 it was primarily used in response to the eastern Kentucky flooding disaster.

Mr. Barrow testified KRS 42.500 establishes the state investment commission and outlines investment objectives and goals. Current cash is managed by the commission and invested in permissible instruments. There are regulations detailing trading limits, execution, and other factors.

Three key investment objectives were highlighted: preservation of principle, liquidity, and maximizing returns. Preservation ensures no risky investments that could result in losses. Liquidity is crucial for paying bills and accommodating budget changes. Maximizing returns follows, but within responsible limits. Mr. Barrow mentioned the different tiers of investment approach and explained that the state has moved from historically negative cash balances to positive ones due to budget surpluses and federal funding, leading to improved credit ratings.

A chart was shared indicating the change in cash balances over the years, showing a positive shift since 2021. This improvement in liquidity eliminated the need for inter-fund borrowing and positively impacted the state's financial position.

In response to a question from Representative Petrie, Mr. Barrow testified he would provide the FY 2020 report to the Appropriations and Revenue Committee at a later date.

Mr. Barrow testified the general fund now holds cash, unlike before, and historically, low interest rates led to modest earnings despite negative cash balances. The fund used a cost-effective repo rate for borrowing instead of issuing trans, resulting in improved financials. In 2023, the fund generated \$150 million in interest earnings due to larger cash balances and higher interest rates.

Mr. Barrow testified the short-term pool's investments were mainly in money market and repo agreements due to COVID-related uncertainties and budget projections. A treasury and agency cash match were introduced to align with future cash needs, resulting in longer duration investments with added yields. These investments adhere to statutes and regulations, focused on fixed income securities with minimal interest rate impact. By systematically laddering out securities since January, additional yields have been achieved, reflecting in monthly and fiscal year reports.

Mr. Hicks discussed monitoring monthly interest incomes, highlighting the positive impact of high budget reserve trust fund balance, and rising short-term rates on the general and road funds. He explained the impact of accounting standards on negative values and emphasized predictability challenges in investments, including the Capital Construction income pool. He noted how past fiscal years influenced budgeting and mentioned ongoing efforts to forecast revenues and interest rates with the Office of Financial Management for the next budget consensus forecasting.

Representative Petrie thanked Mr. Barrow for the collaboration on investment returns, expressing satisfaction with the current positive results seen in monthly reports.

In response to a question from Senator Boswell, Mr. Barrow clarified the investment process, involving live trading using Bloomberg compliance manager. Approved broker dealers bid on securities based on type, with quick settlements following terms of the securities. This process differs from state procurement and ensures efficiency.

In response to a question from Representative Bowling, Mr. Hicks testified the investments go to the general fund.

Kentucky Riverport Needs

Brian Wright, Jennifer Kirchner, and Rachel Bayens were given the opportunity to discuss riverport needs in Kentucky.

Mr. Wright testified Kentucky has 10 riverports (seven active, three developing). A 2018 Kentucky Transportation Cabinet (KYTC) study showed these riverports facilitated over 89 million tons of freight valued at over \$18 billion in trade, with 79 percent of transactions occurring outside Kentucky. This transportation saved significant ground travel resources and supported commodities like energy, chemical, agriculture/food/lumber, and metals/minerals.

Ms. Kirchner discussed state funding for public riverports, comparing Kentucky's support to neighboring states. Since 2013, Kentucky has allocated \$500,000 annually for riverport improvement through the Kentucky Riverport Improvement (KRI) Grant Program, requiring a 50 percent local match. KRI applications are due each year in May for the new fiscal year beginning July 1. Funds must be used by June 30 or returned. Funds are not to be used on routine maintenance, port operations, or plans/studies.

In response to a question for Representative Petrie, Ms. Kirchner clarified Indiana and Tennessee lack recent state grant programs.

Ms. Kirchner testified \$12.3 million is needed for asset preservation based on the 2018 KYTC study.

In response to a question from Representative Petrie, Mr. Wright stated the federal fund limits vary each year.

Ms. Baynes proposed a one-time \$15 million allocation to address infrastructure, facility, and equipment needs identified by the 2018 KYTC study.

In response to a question from Representative Petrie, Ms. Baynes testified needs from all 10 riverports were expressed and included in the \$12.3 million KYTC assessment.

Ms. Baynes testified the \$15 million projects could be accomplished within a two-year budget period without a local match. The goal is sustained annual funding beyond the current \$500,000 potentially sourced from the state general fund portion of the commercial watercraft property tax, which was around \$5 million in 2021.

Ms. Baynes proposed the utilization of the Riverport Financial Assistance Trust Fund instead of the KRI Grant Program. The benefits of the trust fund include carrying forward unused funds and reducing the local matching requirement from 50 percent to 20 percent. Riverports also can participate in the Kentucky Product Development Initiative and House Bill 9.

In response to a question from Representative McPherson, Mr. Wright testified he is unsure what the financial impact was for each port during the Mississippi River's low water levels. He noted the biggest issue was the dock inaccessibility due to drought.

In response to a question from Representative Johnson, Mr. Wright testified the primary limitation in using state funds to match federal funds is the lengthy process of obtaining and securing federal funds, which requires strategic planning for fund usage within the fiscal year.

Representative Johnson commented on the availability of funds and emphasized the importance of making wise decisions regarding their use. He expressed a preference for utilizing the funds for one-time impactful projects rather than creating new programs that require ongoing funding.

Representative Petrie commented reserve funds should be regarded as one-time resources and not used for recurring expenses.

In response to a question from Senator Boswell, Mr. Wright testified there are over 100 private ports in Kentucky.

In response to an additional question from Senator Boswell, Mr. Wright testified many public ports are striving to break even, maintain assets, and sustain day-to-day operations, especially smaller ports lacking growth opportunities.

In response to a question from Representative Bentley, Mr. Wright testified a minimum pull for barge drafting is ensured between Olmsted Locks and Dam and Hallsville in the western part of Kentucky. Drafting is influenced by goods' travel paths, with the Mississippi's water level dictating draft restrictions during peak summer.

In response to a question from Representative Petrie, Mr. Wright testified he is confident all active ports have rail connections.

Kentucky Railroad Needs

William Downey was given the opportunity to discuss railroad needs in Kentucky.

Mr. Downey testified the Kentucky Rail Association includes four primary carriers: RJ Corman Railroad Group, P&L, CSX Transportation, and Norfolk Southern. Kentucky carload data from 2021 indicated significant rail freight impact, equating to over one million trucks on roads.

Railroads invest 25 percent of revenues back into the network yearly, totaling approximately \$160 million in Kentucky. Recent investments include an Infrastructure for Rebuilding America (INFRA) grant and Consolidated Rail Infrastructure and Safety Improvements (CRISI) grant, alongside ongoing programs like the Kentucky Rail Crossing Improvement (KRCI).

State funding programs from Ohio, Tennessee, Indiana, Virginia, North Carolina, and Pennsylvania were proposed as models for Kentucky. The Kentucky Transportation Cabinet and HDR Engineering are conducting a rail assessment study and considering funding mechanisms like the Kentucky Freight Investment Program and Kentucky Federal Freight Fund to improve the rail network.

Adjournment

The meeting adjourned at 2:43 p.m. The next meeting will be at 1 p.m. Wednesday, September 20.