

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 5th Meeting of the 2024 Interim

October 16, 2024

Call to Order and Roll Call

The fifth meeting of the Interim Joint Committee on Appropriations and Revenue was held on October 16, 2024, 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: 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, Gerald A. Neal, Michael J. Nemes, and Robin L. Webb; Representatives Kim Banta, Adam Bowling, Josh Bray, George Brown Jr., Stephanie Dietz, Myron Dossett, Patrick Flannery, Ken Fleming, Deanna Frazier Gordon, Chris Freeland, Al Gentry, Mark Hart, DJ Johnson, Shawn McPherson, Ruth Ann Palumbo, Josie Raymond, Steve Riley, Cherlynn Stevenson, and Ken Upchurch.

Guests: John T. Hicks, State Budget Director, Office of the State Budget Director; Mary Elizabeth Bailey, Secretary, Personnel Cabinet; Jamie Caldwell, Commissioner, Department of Human Resource Administration; Rosemary Holbrook, General Counsel, Personnel Cabinet; Taffy Ratcliff, Field Services Supervisor, Department for Community Based Services (DCBS); Terri Noe, Case Management Specialist, DCBS; Frances Renee Yates, Social Service Clinician II, DCBS; Tim Eifler, Member, Stoll Keenon Ogden PLLC; Chief Zion "Jason" Meiman, Pleasure Ridge Park Fire District; Chief Stephen Fante, Ballardsville Fire and Rescue; Deputy Chief Chris Haunz, Pewee Valley Fire Department; Jennifer Hancock, President & CEO, Volunteers of America Mid-States; and Jarrod Koski, Director of Data and Analytics, IP SecureTech, LLC.

LRC Staff: Jennifer Hays, Cynthia Brown, Katy Jenkins, and Heather Hamilton.

Approval of Minutes

Senator Neal made a motion, seconded by Representative Fleming, to approve the minutes from the September 18, 2024, meeting. The motion passed by voice vote.

Tax Expenditure Report Update

Representative Petrie highlighted correspondence from the state budget director.

John T. Hicks, State Budget Director, Office of the State Budget Director, discussed the bi-annual reports on tax expenditures prepared by his office. He explained the task of estimating the revenue effects to the general fund and the road fund. He stated the Volker Alliance, which grades states on their budget processes, graded Kentucky a “B” on budget processes and transparency. He discussed tax expenditures, new items added by House Bill 8 from the 2024 Regular Session, how other states review and analyze tax expenditures, and steps involved in an evaluation of a tax expenditure. He recommended using a legislative entity or an independent outside entity to analyze tax expenditures.

In response to questions from Representative Petrie, Mr. Hicks stated that he would like to have outside expertise on analyzing returns on investments (ROI) of tax expenditures.

Representative Fleming commented that it was time to reevaluate past tax expenditures and offered his help.

Current Process for Position Compression Study

Representative Petrie discussed correspondence regarding the Personnel Cabinet’s compression study.

In response to questions from Representative Petrie, Elizabeth Bailey, Secretary, Personnel Cabinet, stated that a tier approach based on an employee’s months of service is recommended and that she could get the payroll modeling information to the committee. She stated that an updated analysis on the cost of the tiers needs to be done. She estimated that a new payroll analysis could be completed in a month.

Ms. Bailey discussed other tools used to regulate and adjust pay. Representative Petrie requested information explaining the relative impact of these tools.

In response to a question from Senator Boswell, Ms. Bailey stated that a comprehensive review of the job classification system was performed and the new salary ranges were determined by market analysis, job classification, and the need and the rate for a specific job in a certain area. Annual increases, promotional and reclassification opportunities, and awards aid in new employee retention.

In response to a question from Senator McDaniel, Ms. Bailey stated that the salary schedule includes everyone in state government right now. Everyone is required to make

the minimum of the grade and salary. Current employees are raised to five percent more than the new entry level rate to ensure new hires coming off probation are not making more than the existing employees.

In response to a question from Representative Petrie, Ms. Bailey stated that they handle 30,000 state employees, payroll for 42,000, along with 22 county offices, and administer the health plan for 290,000 employees.

Ms. Bailey commented that over the past two years, employment has increased by 2,500 employees and turnover has been reduced from 22 to 14 percent.

Taffy Ratcliff, Field Services Supervisor, Department for Community Based Services (DCBS), presented DCBS' mission and said there is a problem with long-term employee wages. Employees who remain in the same job classification for years are making less money than newly hired employees.

Terri Noe, Case Management Specialist, DCBS, commented they are grateful for the new entry level raises that are needed to attract quality employees; however, this has created a negative impact on existing employees. These employees have become discouraged because they are still making less, even after salary adjustments, than new hires who have no experience.

Frances Renee Yates, Social Service Clinician II, DCBS, explained how newly hired entry level workers make the same as her. She highlighted that a new hire will make more than her once the employee receives the five percent pay increase awarded after completion of the six-month probation period.

Ms. Ratcliff stated that many new employees are brought in at midpoint instead of at the minimum. Ms. Yates added many supervisors are stepping down to lower positions because they can make more money with less responsibility and less stress.

Senator McDaniel requested the document packets be given to the Personnel Cabinet and for the cabinet to provide a response. Ms. Bailey replied that the compensation system is very complex and she would like to review the packets to clarify any misunderstandings.

Property Tax on Mains, Conduits, Pipes, and Pipelines

Tim Eifler, member, Stoll Keenon Ogden PLLC, requested the legislature address the Department of Revenue's (DOR) interpretation of a court case that impacts the

classification of pipelines for Kentucky tax purposes. He discussed the effects of changing pipelines from real property to tangible personal property for property tax purposes. This has increased annual property taxes for utility companies because the tangible personal property rate is almost four times the real property rate.

In response to a question from Representative Petrie, Mr. Eifler said the increase would likely be passed on to rate payers.

Mr. Eifler discussed House Bill 122 from the 2024 Regular Session and its attempts to fix the issue temporarily. He requested the legislature provide a permanent solution to the issue and ensure that the solution applies retroactively to the 2023 tax year.

In response to a question from Representative Petrie, Mr. Eifler said he has talked with industry partners about adverse effects and requested that the 1938 classification of pipelines be reinstated.

Responding to a question from Representative McPherson, Mr. Eifler stated that the DOR assesses the value of the pipelines. Utility companies file a return every year with DOR.

Structure of Fire Departments Organized under KRS Chapter 75

Chief Zion “Jason” Meiman, Pleasure Ridge Park Fire District, discussed an initiative to increase the tax rate for Chapter 75 departments. He highlighted that the tax rate of 10 cents for every \$100 from property and motor vehicle taxes has not changed since 1944. He discussed the current source of income for the Kentucky Fire Commission, the challenges of inflation, and the rising costs on equipment, training, and maintenance of a fire department. He said call volume has increased but the number of volunteer firefighters has continued to decrease since 1984.

Responding to questions from Representative Petrie, Chief Meiman said there is a mutual aid agreement between departments to cover an area if a department closes. Last year legislation was passed stating if there is a reduction of services provided by any fire department, 30-day notice must be given.

Responding to question from Senator McDaniel, Deputy Chief Chris Haunz, Peewee Valley Fire Department, asked for the 10-cent cap to be increased.

Chief Meiman stated it is the responsibility of the board of trustees and the fire chief to decide whether to increase the tax rate.

In response to a question from Representative Hart, Chief Stephen Fante, Ballardsville Fire and Rescue, stated that, generally, there are two firefighter representatives elected by the fire department, three appointed from county government, and two property owners in the district elected to a local fire board.

Volunteers of America

Jennifer Hancock, President & CEO, Volunteers of America Mid-States (VOA), discussed Freedom House and its whole family approach to substance use disorder. Freedom House is designed for pregnant and parenting women and children under 18 can live with their mother. There are two program locations, Louisville and Manchester, with plans to add locations in Owensboro, Northern Kentucky, and Stanford. Ms. Hancock discussed the services provided and the cost savings of the program. In 2023, they partnered with Humana and began a \$1.3 million study of the value-based program.

Jarrold Koski, Director of Data and Analytics, IP SecureTech, LLC, explained how the study of the Freedom House program was conducted and its preliminary findings. The study has been going on for two years and will continue for three more years.

In response to a question from Representative Petrie, Ms. Hancock stated that grants fully cover the cost of the five-year study.

Ms. Hancock stated that the Kentucky Association of Health Plans has been a key partner. She stated they are involved in a study assessing the Access Justice initiative that will be used to ensure all black Kentuckians have access to treatment programs.

In response to questions from Senator Givens, Ms. Hancock stated there is a \$20,000 savings per healthy infant delivery. Almost 100% of the families, at the time of delivery, are Medicaid families. VOA is reimbursed through the value-based contract with a managed care organization, receiving a bonus payment for every healthy baby delivered.

In response to a question from Representative Petrie, Ms. Hancock explained that because VOA is a not-for-profit organization, it is important for them to get rewarded in order to incentivize quality over quantity. Value-based contracting is possible in the Medicaid space.

In response to a question from Senator Boswell, Ms. Hancock said families from Owensboro are being transported to Jefferson County's Freedom House program. They also work closely with Owensboro Health and the local DCBS office.

Responding to a question from Representative Fleming, Mr. Koski stated he was not aware of any other states using a value-based structure for similar programs.

Correspondence Received

Correspondence received included Interim Allotment adjustments for FY 2025, Interim Emergency Appropriation Increase for FY 2025, and Interim Appropriation Revisions for Second Quarter FY 2025, from Jenny Bannister, Deputy Director, Office of Budget Review.

Reports Received

Reports received included the September 2024 Reports from Jennifer Hays, Committee Staff Administrator, Appropriations and Revenue Committee.

Next Meeting - November 6, 2024 at 1:00 PM chaired by Senator McDaniel

Adjournment

With no further business, the meeting was adjourned at 2:45 PM.