

AN ACT relating to debt and making an appropriation therefor.

***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

➔Section 1. KRS 48.010 is amended to read as follows:

As used in this chapter, unless the context requires otherwise:

- (1) "Account" is a technical accounting term meaning a formal record in which related transactions and events, (i.e., expenditures, receipts, encumbrances, and inter-account charges or credits) which occur during a specific period of time, are summarized and accumulated;
- (2) "Activities" means those actions or services performed by a budget unit which depict in a quantitative manner the fulfillment of lawful purposes;
- (3) Appropriation-related terms are defined for procedures prescribed by this chapter as follows:
  - (a) "Appropriation" means an authorization by the General Assembly to expend a sum of money not in excess of the sum specified, for the purposes specified in the authorization and under the procedure prescribed in this chapter;
  - (b) "Appropriation provision" means a section of any enactment by the General Assembly which is not provided for by this chapter and which authorizes the expenditure of funds other than by a general appropriation bill; and
  - (c) "General appropriation bill" means an enactment by the General Assembly that authorizes the expenditure of funds in a branch budget bill as provided for by this chapter;
- (4) "Biennial highway construction plan" means the specifically identified individual transportation projects or portions thereof identified for funding during the upcoming biennium, which correspond to the first two (2) years of the six (6) year road plan;
- (5) "Budget" means the complete financial plan for each fiscal year contained in a branch budget bill provided for by this chapter;

- (6) "Branch budget bill" or "branch budget" means an enactment by the General Assembly which provides appropriations and establishes fiscal policies and conditions for the biennial financial plan for the judicial branch, the legislative branch, and the executive branch, which shall include a separate budget bill for the Transportation Cabinet;
- (7) "Branch budget recommendation" means the recommendations made to the General Assembly by:
  - (a) The Governor for the executive branch, including a separate recommendation for the Transportation Cabinet;
  - (b) The Chief Justice for the judicial branch; and
  - (c) The Legislative Research Commission for the legislative branch;
- (8) "Budget unit request" means a detailed statement of the financial requirements of a budget unit by principal budget class, and an estimate of its receipts and expenditures for the next two (2) fiscal years, with the accompanying explanations provided for by this chapter;
- (9) "Budget unit" or "appropriation unit" means any subdivision of any branch of government, however designated in any branch budget bill;
- (10) "Capital outlay" means the exchange of values involved in acquiring lands, buildings, equipment, or other permanent properties, or in their construction, development, or permanent improvement;
- (11) "Consensus forecasting group" means the group established by KRS 48.115 that is responsible for developing consensus revenue forecasts for the Commonwealth;
- (12) "Disbursement" means cash actually paid out for any purpose;
- (13) "Enacted estimates" means the revenue estimates used by the General Assembly as the basis for appropriations made in the enacted branch budget bills;
- (14) "Expenditure" means cash actually paid out or an exchange of value for any purpose;

- (15) "Fund" means an independent fiscal and accounting entity with a self-balancing set of accounts recording cash or other resources or both together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities in accordance with legal restrictions or other limitations, to include:
- (a) "General Fund." This fund shall consist of all moneys, not otherwise restricted, available for the general operations of state government;
  - (b) "Bond Debt Related Fund." This fund shall consist of all outstanding bonded debt liability and related funds of state government, including all revenue bonds issued by or approved by the State Property and Buildings Commission. Accounts necessary to assure integrity of trust indentures shall be maintained. Funds appropriated for debt service shall be allotted to these accounts and any excess of appropriation over net requirements for principal, interest, and reserves for any issue shall lapse to the surplus account of the general fund if general funds are a part of the appropriation for that budget unit;
  - (c) "Capital Construction Fund." This fund shall consist of moneys appropriated under the provision of KRS 45.750 to 45.800 for capital construction projects, except road construction projects, for all budget units of state government;
  - (d) "Federal Fund." This fund shall include all receipts from the federal government for any purpose;
  - (e) "Fiduciary Fund." This fund shall consist of moneys held by a budget unit in a trustee capacity;
  - (f) "Restricted Fund." This fund shall consist of budget unit receipts restricted as to purpose by statute; and
  - (g) "Road Fund." This fund shall consist of money derived from excise or license taxation relating to gasoline and other motor fuels, and moneys derived from fees, excise or license taxation relating to registration, operation, or use of

vehicles for use on public highways. A separate record of each source of receipt within this fund group shall be maintained;

- (16) (a) "General fund appropriation-supported debt" means any bond, note, mortgage, or evidence of indebtedness issued by or on behalf of any agency, entity, or division of state government that is:
1. For a period of longer than one (1) year;
  2. A general obligation debt or a lease revenue obligation; and
  3. Supported in whole or in part by the appropriation of funds by the General Assembly from the general fund;
- regardless of whether the full faith and credit of the Commonwealth is pledged in support of the debt.
- (b) "General fund appropriation-supported debt" includes the use allowance directly attributed to debt service payments for courthouses.
- (c) "General fund appropriation-supported debt" does not include bonds that are secured by a portfolio of loans that will be repaid in their entirety by a local government or private borrowers or bonds issued by state postsecondary institutions under their general receipts trust indentures;
- (17) "General fund appropriation-supported debt service" means the amount appropriated by the General Assembly for interest or other required periodic payments associated with general fund appropriation-supported debt, whether or not the debt has actually been issued;
- (18) "General fund revenues" means, as required by KRS 48.120, the official revenue estimates made by the consensus forecasting group for the general fund, as modified by the General Assembly;
- (19) "Principal budget class" includes the following:
- (a) "Capital outlay" means the exchange of values involved in acquiring lands, buildings, or other permanent properties, or in their construction,

development, or permanent improvement estimated to cost less than six hundred thousand dollars (\$600,000), and items of equipment or other capital items estimated to cost less than two hundred thousand dollars (\$200,000);

- (b) "Debt service" means the amount of money required to pay the interest, principal, and required contributions to accumulate moneys for future retirement of lawfully incurred debt;
- (c) "Grants, loans, or benefits" means expenditures for any grant, aid, loan, or relief payment to individuals, organizations, or jurisdictions not otherwise classified pursuant to this chapter;
- (d) "Operating expenses" means expenditures directly attributable to the operation of state government not otherwise classified pursuant to this chapter; and
- (e) "Personnel costs" means the salaries, wages, benefits (including but not limited to, employer share of FICA, retirement contributions, insurance, unemployment insurance, workers' compensation), and increments of all officers and employees, and payment to persons awarded personal service contracts;

(20)~~(17)~~ "Receipts" includes the following:

- (a) "Nonrevenue receipts" means values accruing that either decrease an asset or create a liability;
- (b) "Operating receipts" means cash received by a budget unit for services rendered, or from the sale of materials, goods, or supplies created by the budget unit or of items held for resale; and
- (c) "Revenue receipts" means values accruing as a result of taxation or revenues, or both, and without resultant increase in liabilities or decrease in assets, whether such values are represented by cash actually received or by amounts due and payable, or partly by each;

(21)~~(18)~~ "Revenue shortfall" means either:

- (a) An official revenue estimate for either the general fund or road fund that is less than the enacted estimates; or
- (b) Actual receipts at the end of the fiscal year for either the general fund or road fund that are less than the enacted estimates, as determined by the Office of State Budget Director;

~~(22)~~~~(19)~~ "Surplus" means the undesignated fiscal year ending fund balance for the general fund or road fund, reduced by amounts designated to carry forward for appropriation in a subsequent fiscal year;

~~(23)~~~~(20)~~ "Six (6) year road plan" means the road plan developed under KRS 176.430; and

~~(24)~~~~(21)~~ "Writing" or "written" means letters, words, or numbers, or their equivalent, set down by handwriting, typewriting, printing, photostating, photographing, magnetic impulse, mechanical or electronic recording, or other form of data compilation.

➔SECTION 2. A NEW SECTION OF KRS CHAPTER 48 IS CREATED TO READ AS FOLLOWS:

**(1) Notwithstanding any other provision of the Kentucky Revised Statutes, the General Assembly may authorize the issuance of general fund appropriation-supported debt only as provided in this section.**

**(2) The authorization of general fund appropriation-supported debt service by the General Assembly shall not at any time result in a ratio of general fund appropriation-supported debt service to general fund revenues of greater than six percent (6%).**

**(3) If the amount of general fund appropriation-supported debt service exceeds the limitation established by subsection (2) of this section on the effective date of this Act, no new general fund appropriation-supported debt shall be authorized by the General Assembly until the level of general fund appropriation-supported debt**

service falls below the limitation established by subsection (2) of this section.

(4) Notwithstanding the debt limitation established by subsection (2) of this section, if the Governor:

(a) Declares an emergency due to a situation which poses a major threat to public safety so as to cause, or threaten to cause, loss of life, serious injury, significant damage to property, or major harm to public health or the environment; and

(b) Determines that to adequately address the emergency situation it will be necessary for the General Assembly to authorize general fund appropriation-supported debt service that results in a ratio of general fund appropriation-supported debt service to general fund revenues of greater than six percent (6%);

then, upon an affirmative vote of a majority of the members of the Senate and a majority of the members of the House of Representatives, the General Assembly may authorize the level of general fund appropriation-supported debt service necessary to address the emergency situation, unless the vote occurs in any part of the session in an odd-numbered year in which case the authorization shall be agreed to by three-fifths (3/5) of all the members elected to each chamber. General fund appropriation-supported debt service authorized under this subsection shall not be included in calculating the ratio established by subsection (2) of this section.

(5) (a) On August 1, 2015, the Finance and Administration Cabinet shall certify to the Office of State Budget Director and the General Assembly an initial debt service amount, which shall be equal to the total amount of authorized general fund appropriation-supported debt service for fiscal year 2015-2016 as provided in:

1. 2014 Ky. Acts ch. 117, including the estimated debt service associated

with the one hundred million dollars (\$100,000,000) in offers of assistance authorized to be made by the School Facilities Construction Commission pursuant to Pt. I, A., 28., (3) of that chapter;

2. 2014 Ky. Acts ch. 122;
3. 2014 Ky. Acts ch. 123; and
4. 2014 Ky. Acts ch. 127.

(b) On August 1, 2015, and annually thereafter, the Finance and Administration Cabinet shall certify to the Office of State Budget Director and the General Assembly the current debt service amount, which shall be equal to the total amount of general fund appropriation-supported debt service for the next fiscal year.

(c) If the current debt service amount determined in paragraph (b) of this subsection:

1. Exceeds the debt limitation established by subsection (2) of this section; and
2. Is less than the initial debt service amount certified in paragraph (a) of this subsection;

then, the Finance and Administration Cabinet shall determine the amount of savings created by the debt limitation by subtracting the current debt service amount determined in paragraph (b) of this subsection from the initial debt service amount certified in paragraph (a) of this subsection.

(d) The amount of savings determined under paragraph (c) of this subsection shall be appropriated by the General Assembly for the fiscal year 2017-2018, the fiscal year 2018-2019, and for each biennium thereafter, to the nonhazardous employee unfunded liability trust fund created in Section 3 of this Act.

➔SECTION 3. A NEW SECTION OF KRS CHAPTER 61 IS CREATED TO



READ AS FOLLOWS:

(1) The nonhazardous employee unfunded liability trust fund is created and shall be administered by the Finance and Administration Cabinet.

(2) The trust fund shall consist of:

(a) The amount of savings created by the debt limitation established by Section 2 of this Act and annually appropriated by the General Assembly into the fund;

(b) Contributions, gifts, and donations made to the fund; and

(c) Any other proceeds from grants, appropriations, or other moneys made available for the purposes of the fund.

(3) (a) Moneys in the fund shall only be used to offset the supplemental contribution required by subsection (1)(a)2. of Section 4 of this Act and are hereby appropriated for that purpose.

(b) Moneys in the fund shall be allocated annually to each employer by determining the ratio of general fund-supported payroll for nonhazardous employees participating in the Kentucky Employees Retirement System of the employer to total general fund-supported payroll for nonhazardous employees participating in the Kentucky Employees Retirement System of the Commonwealth and applying that ratio to the total funds in the fund.

(4) Notwithstanding KRS 45.229, any moneys remaining in the fund at the close of the fiscal year shall not lapse but shall be carried forward into the succeeding fiscal year.

(5) Interest earned on moneys in the fund shall accrue to the fund.

➔Section 4. KRS 61.565 is amended to read as follows:

(1) (a) 1. Each employer participating in the State Police Retirement System as provided for in KRS 16.505 to 16.652, each employer participating in the County Employees Retirement System as provided for in KRS

78.510 to 78.852, and each employer participating in the Kentucky Employees Retirement System as provided for in KRS 61.510 to 61.705 shall contribute annually to the respective retirement system an amount equal to the percent, as computed under subsection (2)(a) of this section, of the creditable compensation of its employees to be known as the "normal contributions," and an additional amount to be known as the "actuarially accrued liability contribution" which shall be computed by amortizing the total unfunded actuarially accrued liability over a period of thirty (30) years using the level-percentage-of-payroll amortization method. This method shall be used beginning with the 2007 actuarial valuation. The initial thirty (30) year amortization period shall begin with the 2007 actuarial valuation, except as provided by paragraph (b) of this subsection.

**2. In addition to the contributions required by subparagraph 1. of this paragraph, each employer participating in the Kentucky Employees Retirement System as provided for in KRS 61.510 to 61.705, having at least one (1) nonhazardous employee, shall make a supplemental contribution annually to that system in an amount equal to the percent, as computed under subsection (2)(b) of this section, of the creditable compensation of its nonhazardous employees.**

- (b) Effective with the 2013 actuarial valuation, the amortization period for the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System shall be reset to a new thirty (30) year period for purposes of calculating the actuarially accrued liability contribution prescribed by this subsection.
- (c) Any significant increase in the actuarially accrued liability due to benefit improvements after the 2007 valuation shall be amortized using the level-

percentage-of-payroll amortization method over a separate thirty (30) year period commencing in the year of the actuarial valuation in which the benefit improvements are first reflected.

- (2) **(a)** The normal contribution rate shall be determined by the entry age normal cost funding method. The actuarially accrued liability shall be determined by actuarial method consistent with the methods prescribed for determining the normal contribution rate. Normal contributions and the actuarially accrued liability contribution shall be determined on actuarial bases adopted by the board.

**(b) 1. The supplemental contribution rate shall be determined annually by the Finance and Administration Cabinet by dividing the amount in the nonhazardous employee unfunded liability trust fund created in Section 3 of this Act by the amount of general fund-supported payroll for nonhazardous members participating in the Kentucky Employees Retirement System for that year.**

**2. After calculating the supplemental contribution rate, the Finance and Administration Cabinet shall report that rate to the Kentucky Retirement Systems.**

**3. The supplemental contribution rate calculated in subparagraph 1. of this paragraph shall be applied to all nonhazardous payroll of the employer, regardless of the payroll funding source.**

- (3) (a) Normal contribution and the actuarially accrued liability contribution rates shall be determined by the board on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium.

(b) The board may amend contribution rates as of July 1 of the second year of a biennium for the County Employees Retirement System, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates

are necessary to satisfy the requirements of subsections (1) and (2) of this section.

- (c) Effective for employer contribution rates payable on or after July 1, 2014, the board shall not have the authority to amend contribution rates as of July 1 of the second year of the biennium for the Kentucky Employees Retirement System and the State Police Retirement System.
- (4) The system shall advise each employer prior to the beginning of each biennium, or prior to July 1 of the second year of a biennium for employers participating in the County Employees Retirement System, of any change in the employer contribution rate. Based on the employer contribution rate, each employer shall include in the budget sufficient funds to pay the employer contributions as determined by the board under subsections (1) to (3) of this section.
- (5) The General Assembly shall pay the full actuarially required contribution rate, as prescribed by this section, the Kentucky Employees Retirement System and the State Police Retirement System in fiscal years occurring on or after July 1, 2014.
- (6) Notwithstanding any other provision of KRS Chapter 61 to the contrary, the board shall establish employer contribution rates for the County Employees Retirement System that will phase in to the full actuarially required contribution for the health insurance fund over a ten (10) year period using the 2007-2008 fiscal year employer contribution for the health insurance fund as a base employer rate and incrementally increasing the employer rate from fiscal year 2008-2009 through fiscal year 2017-2018.

➔Section 5. KRS 56.063 is amended to read as follows:

- (1) As used in this section:
  - (a) "Asset/liability commission" means the Kentucky Asset/Liability Commission established by KRS 56.861;
  - (b) "Commission" means the State Property and Buildings Commission

- established by KRS 56.450;
- (c) "General fund" has the same meaning as in KRS 48.010(15)(a);
  - (d) "Present value savings" means the difference expressed in terms of current dollars between debt service on refunded bonds and debt service on refunding bonds;
  - (e) "Refunded bonds" means outstanding bonds, notes, or other obligations that were issued at any time, and that are refinanced through a refunding transaction;
  - (f) "Refunding bonds" means new bonds, notes, or other obligations issued to refund outstanding bonds, notes, or other obligations, including redemption premiums and any interest accrued or to accrue to the date of redemption as part of a refunding transaction;
  - (g) "Refunding transaction" means a transaction:
    - 1. Whereby outstanding bonds, notes, or other obligations are refunded by the issuance of new refunding bonds, notes, or other obligations; and
    - 2. That is directly supported in whole or in part by appropriations from the general fund or road fund;
  - (h) "Revenue shortfall" has the same meaning as in KRS 48.010~~(18)~~(21);
  - (i) "Road fund" has the same meaning as in KRS 48.010(15)(g); and
  - (j) "State agency":
    - 1. Includes:
      - a. Any state administrative body, agency, department, or division as defined in KRS 42.005; and
      - b. Any board, commission, institution, or division exercising any function of the state;
- with the authority to issue bonds, notes, or other obligations, and to enter into refunding transactions with respect to those bonds, notes, or other

obligations; but

2. Does not include universities that are part of the postsecondary education system, as defined in KRS 164.001.

(2) Notwithstanding any other provision of the Kentucky Revised Statutes, the savings generated from reduced debt service payments during a fiscal biennium as a result of any refunding transaction undertaken by the commission, the asset/liability commission, or any state agency that:

- (a) Results in a reduction in required debt service during the fiscal biennium; and
- (b) Does not result in positive net present value savings;

shall be deposited in the budget reserve trust fund account established by KRS 48.705, and shall not be used as part of any budget-balancing measures adopted or taken by the executive branch either in response to a revenue shortfall, or to address expenditure reductions required by an enacted biennial budget for the executive branch.