

**Governor Fletcher's
Budget Related Recommendations**

2007 First Extraordinary Session

July 5, 2007

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General Fund Impact of Recommendations

	<u>FY 08</u>
Appropriations	
Debt Service for Vetoed General Fund Projects	\$0
Debt Service for New General Fund Projects	\$3,195,500
Private Child Caring Reimbursements	\$4,500,000
School Condition Study	\$1,000,000
Lincoln Bicentennial Exhibit at Frazier Museum	\$220,000
Presidential Debate Grant	<u>\$1,000,000</u>
General Fund Additional Appropriations	<u>\$9,915,500</u>
Reduction in Revenues	
Exempt Military Pay from Income Tax	\$8,800,000
Total General Fund Budgetary Impact	<u>\$18,715,500</u>

Energy Proposal

Proposal:

The proposed energy bill includes a recommended designation of \$5 million of coal severance funds (LGEDF Multi-County Funds) to the Governor's Office for Energy Policy for a contract with the Kentucky Geological Survey to conduct research on the potential for carbon dioxide capture and sequestration in the eastern and western Kentucky coalfields.

Fiscal Impact:

No budgetary impact – redesignation of funds already appropriated

Background:

A key component of the energy proposal supported by the Governor is a feasibility study to quantify the potential for enhanced oil recovery and enhanced coal bed methane recovery using carbon dioxide, as well as the capacity for permanent sequestration of carbon dioxide. The research project will include the drilling of wells in both coal fields (Illinois and Appalachian) in Kentucky. Experts have testified as to the importance of this research and related demonstration projects to address the carbon dioxide issues that arise related to alternative fuel facilities.

Restoration of Vetoed Projects

- With the improved revenue forecast as compared to when the biennial budget was enacted, vetoed projects are now recommended for funding.
- In consultation with Presidents of the Universities, project adjustments have been made to accommodate changed circumstances within approximately the same funding levels.

Restoration of Vetoed General Fund Projects

Appropriation Unit	Project Description	Recommended Amount
Eastern Kentucky University	EKU-UK Dairy Research Project-Meadowbrook Farm	\$5,300,000
Kentucky State University	Expand and Renovate Betty White Nursing Building	\$4,900,000
Morehead State University	Business Continuance Datacenter	\$2,500,000
University of Kentucky	Expand and Upgrade Livestock Disease Diagnostic Center-Phase II	\$13,500,000
Western Kentucky University	Renovate Science Campus-Phase III	\$9,000,000
Western Kentucky University	Construct Materials Characterization Center/CSET-Ph II	\$4,500,000
Western Kentucky University	Replace Ford College of Business-Grise Hall Phase I	\$5,800,000
KCTCS	Cynthiana-Licking Valley Campus-Phase II-Maysville CTC	\$1,000,000
KCTCS	Construct Carrollton Campus-Jefferson CTC	\$12,000,000
KCTCS	Energy and Advanced Technology Center-Madisonville CTC	\$4,000,000
KCTCS	Expansion of Owensboro Community and Technical College	\$14,055,000
KCTCS	Rowan County Campus-Planning and Design	\$1,500,000
KCTCS	Capital Renewal and Maintenance Pool	\$13,927,000
Council on Postsecondary Education	Information Technology and Equipment Acquisitions	\$10,000,000
Council on Postsecondary Education	Research Support/Lab Renovation & Equipment	\$6,000,000
Kentucky River Authority	Kentucky River Locks and Dams Maintenance and Renovations Pool	\$17,500,000
Department of Education	On-Line Assessment	\$15,000,000
Department of Education	Knowledge Management Portal	\$3,250,000
Community Based Services	Brooklawn Child and Family Services	\$2,000,000
State Fair Board	Upgrade HVAC Systems	\$2,500,000
Agriculture	Animal Shelters	\$6,000,000
Governor's Office for Local Development	The Louisville Zoo- Glacier Run	
Governor's Office for Local Development-	Pike County Fiscal Court-Pikeville Medical Center-Planning, Design and Construction	\$1,500,000
Community Development		
Subtotal-Restoring General Fund Supported Vetoed Projects		\$157,732,000

Restoration of Vetoed Agency Bond Projects

Appropriation Unit	Project Description	Recommended Amount
Eastern Kentucky University	Construct New Student Housing	\$10,520,000
Kentucky State University	Construct Parking Structure	\$7,000,000
Morehead State University	Construct Student Recreation Center	\$24,500,000
Morehead State University	Renovate Student Housing Facilities	\$10,000,000
Murray State University	Replace Franklin Hall	\$13,077,000
Murray State University	Renovate Curris Center and T-Room	\$750,000
Northern Kentucky University	Acquire and Renovate New Residence Halls	\$23,500,000
University of Kentucky	Renovate Blazer Hall Cafeteria	\$3,010,000
University of Kentucky	Existing Dorm Upgrades for Housing	\$7,013,000
University of Louisville	Construct HSC Parking Structure II	\$30,700,000
University of Louisville	Construct Health Sciences Center Research Facility-Phase III-Additional	\$22,748,000
University of Louisville	Renovate Miller Hall	\$11,541,000
Western Kentucky University	Expand Preston Center	\$10,000,000
Western Kentucky University	Acquire Property & Construct Parking Lots	\$4,000,000
Western Kentucky University	Van Meter Hall Renovation	\$16,000,000
Western Kentucky University	Ivan Wilson Fine Arts Center Expansion	\$8,000,000
Subtotal-Restoring Agency Bond Vetoed Projects		\$202,359,000

New Capital Projects

- **Limited number of new projects considered during 2007 Regular Session**
- **Focus on economic development and community development**

New General Fund Projects

Appropriation Unit	Project Description	Recommended Amount
Horse Park Commission	Outdoor Stadium	\$24,000,000
Horse Park Commission	Indoor Arena-Additional Funding for Exhibit/Conference Space	\$4,000,000
Murray State	Planning/Design of New Breathitt Veterinary Center - Hopkinsville	\$1,000,000
Veterans Affairs	Western Ky Veterans' Center-Alzheimer's/General Care Unit Expansion- Additional to \$1,757,000 already appropriated	\$4,249,000
Economic Development	Economic Development Bond Pool	\$10,000,000
Governor's Office for Local Development	Wolf Creek Dam/Lake Cumberland Water Level Reduction Projects	\$25,000,000
Governor's Office for Local Development	Muhammad Ali Center	\$3,000,000
Subtotal-New General Fund Supported Bond Projects		\$71,249,000

New Agency Bond Projects

Appropriation Unit	Project Description	Recommended Amount
Military Affairs	Bluegrass Station Infrastructure Improvements	\$4,100,000
Military Affairs	Bluegrass Station-New Warehouse	\$1,800,000
Kentucky River Authority	Kentucky River Locks and Dams Maintenance and Renovations Pool	(\$9,600,000)
Subtotal-New Agency Bond Projects		(\$3,700,000)

Note: The Kentucky River Authority does not need all of the previously appropriated Agency Bond funds once the \$17.5 million General Fund supported bond project is restored, to renovate Dams 3 and 9, and Locks 3 and 4.

Western Kentucky Veterans' Nursing Home

Proposal:

Provide remaining funds needed to construct an Alzheimer's and General Care Unit at the Western Kentucky Veterans' Nursing Home in Hopkins County

Fiscal Impact:

Bond Funds	<u>FY 08</u>
	\$4,249,000

Background:

The 2006-08 budget included \$1,757,000 for the Commonwealth's share of constructing an Alzheimer's/General Care unit, a 40-bed wing addition to the 120-bed Western Kentucky Veterans' Center in Hanson, Kentucky (Hopkins County). The federal government contributes 65% of the costs of constructing veterans' nursing facilities, but due to this project's location on the federal priority list that funding will likely not be realized for a couple more years. The Governor proposes to advance \$4,249,000 in state bond funds to proceed with the construction of this expansion, and the federal government will reimburse Kentucky for their share of the costs in a future period. The waiting list for admission in the Western Kentucky Veterans' Center has averaged 62 veterans at any given time, and two-thirds of those have been special care/Alzheimer's patients. Moving forward now with the project will not only provide for our veterans in the Western part of the state, but will avoid construction cost increases to the project, saving tax dollars in the process.

Economic Development Bonds

Proposal: Provide additional \$10 million in Economic Development Bond Authorization to the Cabinet for Economic Development

Fiscal Impact:

	<u>FY 08</u>
Bond Funds	\$10,000,000

Background: An additional \$10 million in Economic Development bonds is needed to accommodate prospective job-creating opportunities for Kentucky. The Economic Development Cabinet uses economic development bonds as one part of their array of economic development incentives in attracting industry to our State. Our new Economic Development Cabinet Secretary, John Hindman, is working on a number of potential industrial prospects, and needs an infusion of funds to ensure that the Cabinet can deliver, and keep Kentucky competitive in providing economic opportunity for the State.

Muhammad Ali Center

Proposal: Provide additional \$3 million in funds to the Muhammad Ali Center in Louisville

Fiscal Impact:

Bond Funds	<u>FY 08</u>
	\$3,000,000

Background: The Commonwealth of Kentucky provided \$10 million from the 2000-02 biennial budget toward the construction of the Muhammad Ali Center in Louisville. Governor Patton committed to providing another \$10 million in the 2002-04 budget if the Center's fundraising was sufficient. The Center fulfilled its promise by raising over \$80 million in donations and in-kind gifts, with significant amounts of donations from out-of-state donors. Difficult fiscal times became the barrier to fulfilling the Governor's pledge. In recently completing the Center, the construction budget ran over by \$6 million. The Center is seeking \$3 million to be matched by donations so that the cost overrun can be fully settled. Governor Fletcher wants to assist the Muhammad Ali Center in settling its construction debts for far less than the original commitment.

Kentucky Horse Park Improvements

Proposal: Invest in additional capital improvements to the Kentucky Horse Park to host the 2010 Alltech FEI World Equestrian Games

Fiscal Impact:

	<u>FY 08</u>
Bond Funds	\$28,000,000
Road Fund	\$10,285,000

Background: **Outdoor Stadium** - This \$24 million stadium will have 10,000 permanent seats and have the capability of being expanded up to 30,000 seats utilizing temporary structures.

Indoor Arena Enhancement - The \$4 million in enhancements needed, beyond that which was anticipated in the 2006 session, are to provide sufficient exhibit/conference space to accommodate the 2010 Games and large trade fairs that accompany major equine events.

Roadway Improvements -. An additional \$10.3 million of roadway improvements are recommended in FY 08 from additional Road Funds.

Replacement of Breathitt Veterinary Center

Proposal:

Provide \$1 million for the planning and design for the replacement of the Breathitt Veterinary Center in Hopkinsville, Kentucky.

Fiscal Impact:

Bond Funds	<u>FY 08</u>
	\$1,000,000

Background:

This animal diagnostic laboratory facility is operated by Murray State University. The 39 year old facility is outdated and too small to accommodate the increased animal diagnostic needs of the western region of the Commonwealth. It will provide the necessary elements to ensure the lab's designation as a level 3 biosafety lab for homeland security purposes, to conduct research on avian flu, mad cow disease and other communicable diseases that could threaten food supplies. Beginning the design process now, will advance both the timing of the project, and provide more exact cost estimates for constructing the facility to assist in the 2008-10 budget process. A completed facility would also provide useful redundancy of equine-related services in time for the 2010 World Equestrian Games.

Wolf Creek Dam Projects

Proposal:

Provide \$25 million for water, sewer, and infrastructure projects made necessary due to the lowering of Lake Cumberland for the repair of Wolf Creek Dam

Fiscal Impact:

	<u>FY 08</u>
Bond Funds	\$25,000,000

Background:

On April 13, 2007, Governor Fletcher signed an executive order to authorize money to assist communities affected by the lowering of the water level of Lake Cumberland. The order makes available up to \$25 million from the Commonwealth's General Fund surplus to cities, counties, and special districts that draw drinking water from the lake and will have to move or alter that infrastructure as a result of the lowering of the water table.

This proposal will replace the fund source of the \$25 million from General Fund surplus "cash" resources to bonds. The projects to be financed from these funds are capital in nature and bond funding is an appropriate method of financing them.

Bluegrass Station Infrastructure

Proposal:

Provide \$5.9 million in Agency Bond authorization to finance two capital projects needed to sustain the facility as an economic development entity

Fiscal Impact:

	<u>FY 08</u>
Agency Bond Funds	\$5,900,000

Background:

Bluegrass Station, located in Fayette County, is an industrial park converted from an Army Depot into a commercial office and warehouse site for light industry operated by the Department of Military Affairs. For Bluegrass Station to be sustained as a viable economic development entity, upgrades in the facility's infrastructure are urgently necessary. Additionally, demand for a new warehouse is strong. The Governor proposes \$5,900,000 in bonds backed by Bluegrass Station's operations, rather than from the General Fund, to get these two capital improvements underway. Bluegrass Station has 49 tenants and its space is 99.8% occupied, with 2,049 full-time jobs paying \$82 million in payroll. The largest tenant is the Special Operation Forces Support Activity (SOSFA), an element of the United States Special Operations Command, which administers contracts and subcontracts in excess of \$1.5 billion to rebuild military helicopters for special operations forces.

U of L Athletic and Health Science Projects

Proposal: Expansion of Papa John's Stadium
Construction of Ambulatory Care Building on the Health Sciences Campus

Fiscal Impact:

	<u>FY 08</u>
Restricted Funds (stadium)	\$30,000,000
Other Funds (stadium)	\$37,000,000
Other Funds (HSC)	\$60,000,000

Background: The expansion of Papa John's Cardinal Stadium is a \$67 million project financed by university and athletic funds, and may involve the issuance of industrial revenue bonds by the Louisville Metro government. The approval of this project will prevent the stadium expansion from being delayed for another year.

The expansion of the Ambulatory Care Building project is a \$60 million project to be constructed by a private developer that will be competitively sought and leased to the University. The Health Sciences campus has grown significantly with the research facilities and other programs, but the addition of office space for research faculty and related support has not grown with it. This project will address a strategic element of the University's master plan for health sciences through an innovative financing mechanism that must be approved by the General Assembly.

Relocation of Runway at Bluegrass Field

Proposal: Dedicate \$9 million in Road Funds to match federal funds for the construction of runway 9-27 at Bluegrass Field in Lexington to replace runway 8-26

Fiscal Impact: No budgetary impact – dedication of previously appropriated funds

Background: The Governor is proposing that authorization be granted by the General Assembly to use \$9 million in state Road Fund resources as the state match for the construction of runway 9-27 at Bluegrass Field in Lexington to replace runway 8-26, which will then be permanently closed. These funds will match \$9 million in available federal funds, and will be combined with \$9 million in funding from the Airport Board for an overall project that includes relocating Terminal Drive and constructing additional surface parking, and the relocation of smaller general aviation aircraft facilities to allow for the construction of additional corporate aviation facilities. The Airport Board needs the state funding from the 2007 Special Session to be prepared for the increased general aviation traffic that will come with the 2010 Alltech FEI World Equestrian Games. The design for the new runway is underway. The relocated runway will be shifted west of the current 8-26 runway and will eliminate the existing intersection with runway 4-22. The state funding is needed before the Airport Board can authorize the final phase of design of the relocated runway, and be able to issue construction contracts in the spring of 2008.

Murray State University Science Building

Proposal: Allow Murray State University to utilize previously authorized bond funds for the completion of the physics and chemistry building to prevent work stoppage

Fiscal Impact: No budgetary impact – dedication of previously appropriated funds

Background: Proposed language to enable Murray State University to utilize the \$15,000,000 in bond funds appropriated by the 2006 Regular Session of the General Assembly to be applied toward the physics and chemistry building construction and to reimburse the University for funds advanced by them as a bridge source of funding to prevent work stoppage.

Gateway Community and Technical College

Proposal: Allow KCTCS to convey title of land occupied by the Gateway Community and Technical College in Covington to the College's foundation

Fiscal Impact: No budgetary impact

Background: Proposed language to enable the President of KCTCS to convey title to land in Covington, Kentucky currently occupied by Gateway Community and Technical College to the Gateway Community and Technical College Foundation for future consideration.

Transportation Cabinet Initiatives

Proposal: Authorize the Transportation Cabinet to make adjustments to its enacted budget for economic development and safety projects

Fiscal Impact: No budgetary impact – dedication of funds already appropriated

Background: The Governor is seeking the approval of the General Assembly for three transportation initiatives that were considered during the 2007 Regular Session of the General Assembly:

- 1) the authority to begin design, engineering and right-of-way acquisition for the Crittenden Drive/Louisville Regional Airport Authority project,
- 2) upgrade and improve sections of US 68 where all rights-of-way have already been obtained, and
- 3) using up to \$10 million for safety-related projects such as guardrails, pedestrian walkways, and sight distance improvements. These three initiatives will be advanced using already appropriated Road Funds.

Comprehensive Study of School Buildings

Proposal: Authorize a comprehensive assessment of the condition of elementary and secondary education school facilities in the Commonwealth

Fiscal Impact:

General Fund	<u>FY 08</u>
	\$1,000,000

Background: The Commonwealth continues to commit substantial resources and policy priority to ensuring adequate and safe school buildings for our children's education. In the past round of funding decisions the need for a comprehensive assessment of the condition of the Commonwealth's elementary and secondary school facilities became quite evident. The Governor wants to allocate funding for this assessment now so that future funding decisions in this critical area are informed by up-to-date, objective information that provide policy makers consistent and equitable data.

Abraham Lincoln Bicentennial

Proposal: Provide \$220,000 General Fund in Fiscal Year 2008 to the Kentucky Historical Society to support the Abraham Lincoln Bicentennial Programs

Fiscal Impact:
General Fund FY 08
\$220,000

Background: The Frazier International History Museum in Louisville, Kentucky serves the Commonwealth as a nationally acclaimed historical arms museum. It showcases arms, armor, and historical objects from the last 1,000 years.

To celebrate the Abraham Lincoln Bicentennial, the Frazier Museum would like to stage an exhibit, "*Liberty on the Border*", in collaboration with the Kentucky Historical Society. The exhibit will focus on the concept of physical, cultural, and ideological borders experienced in the Civil War. Lincoln's leadership and struggles with slavery and ideas of personal liberty will be highlighted.

Private Child Caring Providers

Proposal: Increase payments to private child caring providers for vulnerable children.

Fiscal Impact: FY 08
General Fund \$4,500,000

Background: The Governor has worked with the General Assembly and the Cabinet for Health and Family Services to raise reimbursement rates for private child caring providers, which were recently announced, the first increase for some providers since 2000. This will boost aid to private residential centers for some of Kentucky's most severely abused or neglected children. This initiative also will establish some programs for additional services required for children with intensive needs. To that end the Governor is proposing additional General Fund resources that will be combined with federal and other funds to ensure sufficient funding to finance these program improvements.

Presidential Debate Funding Assistance

Proposal: Provide funding to support the attraction of a 2008 Presidential debate to Kentucky

Fiscal Impact:
FY 08
General Fund \$1,000,000

Background: An appropriation of \$1,000,000 is proposed to assist in the financing of landing one of the 2008 Presidential campaign debates in Kentucky. The cost of the event fee to host a Presidential debate has increased by \$1,000,000 since the Vice-Presidential debate was held at Centre College in Danville in 2000. If Kentucky is selected as a site by the Commission on Presidential Debates, then the \$1,000,000 will aid in the financing of this opportunity to showcase Kentucky.

Military Pay Exemption

Proposal:

Exempt all military pay received by active duty members of the Armed Forces of the United States, reserve components of the Armed Forces of the United States, and the Kentucky National Guard, including compensation for state active duty as described in KRS 38.205 from state income tax.

Fiscal Impact:

General Fund tax impact	<u>FY 08</u>
	\$8,800,000*

*(half year tax impact)

Background:

Approximately 10,700 Kentuckians are serving in an active duty capacity in the Armed Forces of the United States, and another approximately 12,700 are serving in the reserve components and the Kentucky National Guard. The proposed tax exemption would, on average, result in tax savings to active duty members of over \$950, and to reserve members of over \$450 per year.