



Office of State Budget Director

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John E. Chilton
State Budget Director

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
Governor's Office for Policy Research

September 8, 2017

Contact: John E. Chilton
502-564-1218

Dear Agency Director,

When the FY '18 budget was adopted in early 2016, budgeted revenues were based on the revenue estimate that was approved by the Consensus Forecasting Group (CFG) in December 2015. The CFG made that "official estimate" in collaboration with the Governor's Office for Economic Analysis, which is part of my office. In August 2017, the CFG met twice to begin preparing their official forecast for the next biennium. As part of that process and in light of the FY '17 revenue shortfall, the CFG revised their revenue forecast for the current fiscal year, projecting a \$200 million shortfall in FY '18.

In addition, the Budget Reserve Trust Fund ("Rainy Day Fund") balance was \$150.5 million as of July 1, 2017. The current FY '18 budget provides for a significant level of unappropriated expenditures and necessary government expenses. Consequently, we expect the Rainy Day fund balance to be depleted before the end of this fiscal year – therefore, the Rainy Day Fund will not be available to help balance the budget at the end of FY '18. We fully expect that a zero balance in the state's Rainy Day Fund will be viewed negatively by bond rating agencies.

We must start preparing now for the ongoing financial challenges facing the state. I am writing to ask you take the necessary action to minimize your agency's general fund expenditures for FY '18. The goal of this action is to close the \$200 million projected shortfall for this fiscal year and re-establish a \$150 million fund balance in the Rainy Day Fund – a total of \$350 million. In order to accomplish this goal, the Commonwealth must reduce non-exempt General Fund expenditures by 17.4% in this fiscal year (FY '18). Your agency's target to meet this objective is included as an attachment to this letter.

While challenging, the current fiscal constraints present a unique opportunity to evaluate the effectiveness and necessity of programs within state government. Limited resources must be allocated to programs providing critical services and a strong return on investment. As an agency head, you are best positioned to make critical judgements about which programs deserve full funding, and which should be

significantly reduced. This effort will also be important as you prepare your budget request for the upcoming biennium. We will be providing additional guidance and tools in the near future to help you with this task.

Please provide to our office a draft plan describing the actions you will take by appropriation unit to implement the proposed expenditure reductions for FY '18, including:

- Possible fund source replacement from recurring or non-recurring sources;
- Impact on programs and services, including any potential program eliminations;
- Impact on federal funds;
- Acknowledgement of legal mandates;
- Impact on facilities; and
- Amount of spending reductions applicable to contracts (interpreted broadly to include any type of contract, agreement, or grant related to services or goods).

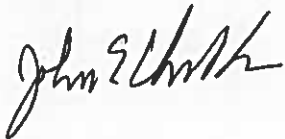
We would like to have your plan by the close of business, Monday September 25. Indicate the appropriation unit within your agency, the allotment program, and object code information where expenditures will be reduced or eliminated.

Please send your plan to the Deputy State Budget Directors and your GOPM Policy and Budget Analyst, with a copy to me. We will schedule a follow-up meeting with you and/or your staff to discuss the details of your plan.

We appreciate all the effort you have made to date to meet the financial challenges facing the Commonwealth. My office and our staff stand ready to assist you as we move forward with shoring up Kentucky's financial foundation.

Please don't hesitate to contact me or our office with any questions or requests you might have.

Cordially,



John E. Chilton
State Budget Director

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
030A	Commonwealth Attorneys	49,024,300	(8,512,900)
030B	County Attorneys	42,647,000	(7,405,500)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
066N	Registry of Election Finance	1,231,700	(213,900)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
074D	Veterans' Affairs	19,083,000	(3,313,700)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
082K	Kentucky Infrastructure Authority	2,087,000	(211,300)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
084J	Kentucky River Authority	258,200	(44,800)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
0940	Homeland Security	231,800	(40,300)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
095K	Military Affairs	9,912,800	(1,721,300)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
100H	Kentucky Retirement Systems	87,574,300	-

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
185F	Board of Elections	3,989,300	-

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
345A	School Facilities Construction Commission	134,918,000	-

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
354A	Executive Branch Ethics Commission	450,200	(78,200)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
370C	Commission on Human Rights	1,781,800	(309,400)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
400V	Commission on Women	237,400	(41,200)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
560R	Teachers' Retirement System	744,837,200	-

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
765A	Office of State Budget Director	3,165,500	(549,700)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
765Y	State Planning Fund	137,200	-

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
GOV0	Office of the Governor	5,516,800	(958,000)

AP	AP Name	FY18 Revised Appropriation	FY18 Reduction
LDA0	Department for Local Government	15,705,300	(2,727,200)
LDD0	Local Government Economic Assistance Fund	45,193,400	-
LDE0	Local Government Economic Development Fund	11,400,000	-
LDH0	Area Development Fund	431,000	(74,800)