

April 1, 2014

General Assembly Passes Budget Containing 14th Round of Cuts Since 2008

The General Assembly has passed an austere budget that includes further cuts, flat-level funding or modest increases to the education, health and safety, human services and other programs that Kentucky relies on. Most of these areas have been cut deeply through the 13 previous rounds of budget cuts that the legislature has made since 2008.

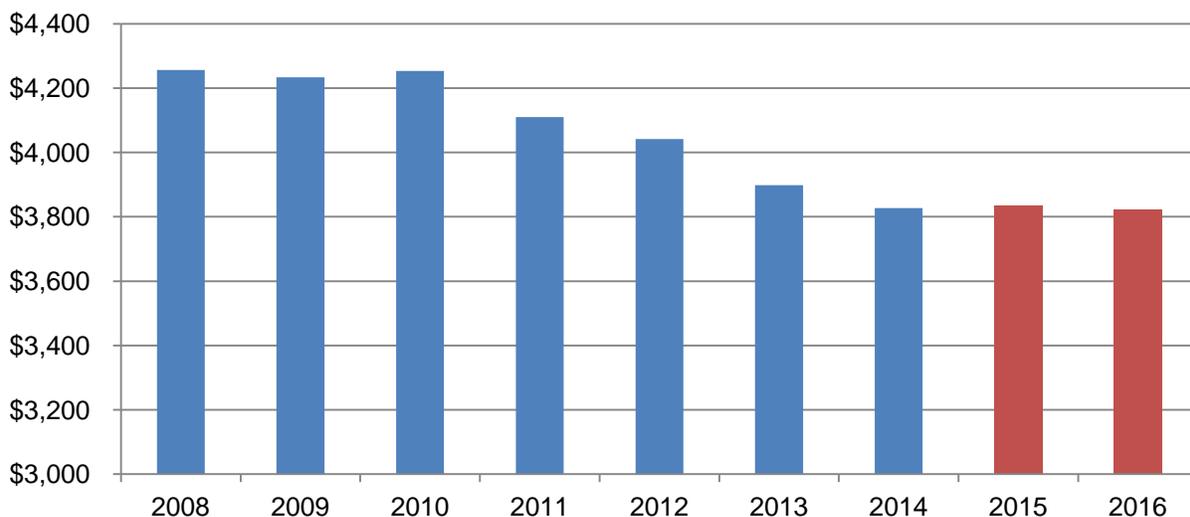
Here's a rundown of major aspects of the new budget:

A few areas get reinvestment, but are trading water

While many areas of the budget are cut, some do receive additional funds. The biggest notable injection of new dollars is the acceptance of \$2.5 billion from the federal government over the biennium to implement the Medicaid expansion in the Affordable Care Act (ACA). The [Senate ultimately chose not to fight](#) the expansion despite adding language in the budget suggesting lack of approval of the ACA. In terms of General Fund dollars, however, in most cases new funds are just enough for program areas to tread water and keep up with inflation over the next two years, and not enough to expand services.

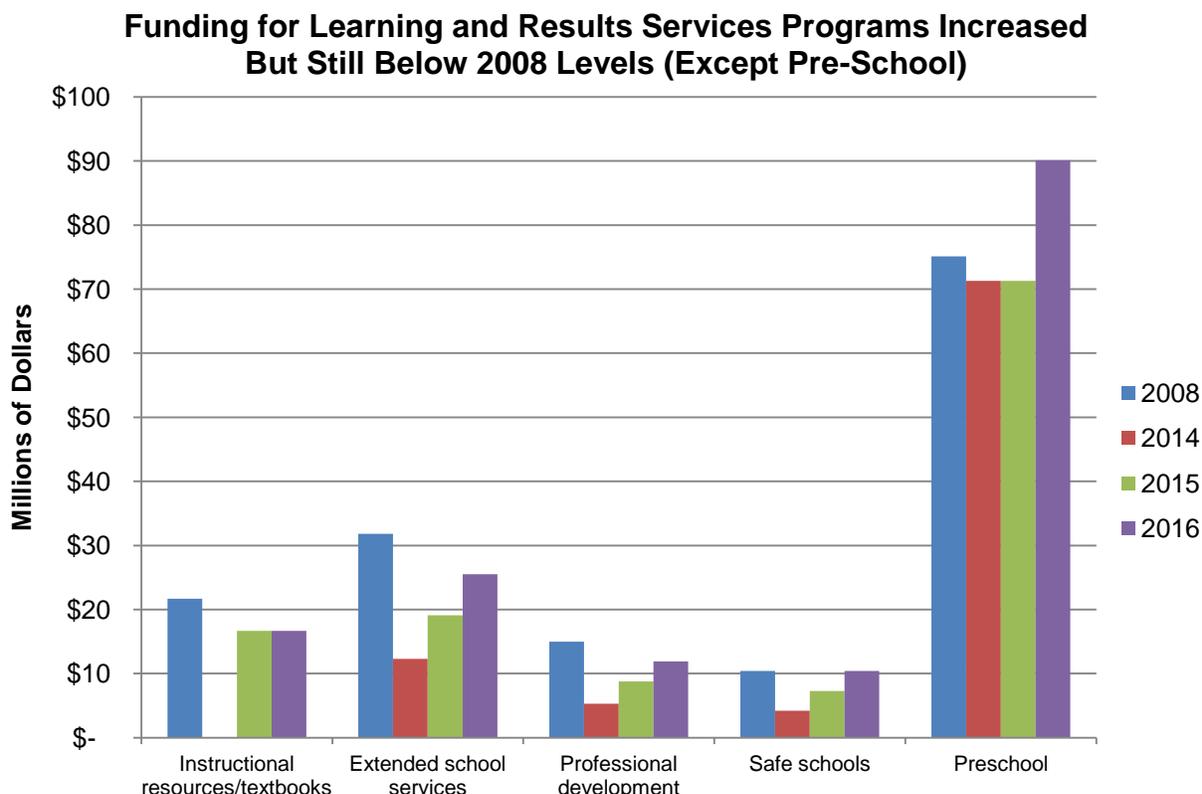
The SEEK formula, Kentucky's main funding formula for K-12 schools, is increased by \$92 million or 3.2 percent the first year of the budget and \$37 million or 1.3 percent the second year. That's just enough to maintain existing funding over the next two years once inflation is taken into account, and not enough to roll back prior cuts. SEEK base funding per pupil would still be 10 percent below 2008 levels in 2016 after adjusting for inflation (see graph).

**SEEK Guaranteed Base Funding Per Pupil
(2014 Dollars)**



Source: KCEP analysis of state budget data.

Funding goes up in Learning and Results Services, which includes a range of support programs that are the other main way the state funds local schools. In most cases, however, the increase is not enough to get back to 2008 levels (not even taking inflation into account) and includes a smaller increase in the first year as the Senate had proposed (see graph below). Also, the budget includes \$35 million less in this area than the governor had recommended. Notably, however, the budget contains \$18 million more or [a 25 percent increase in funding for public pre-school in 2016](#) and an increase in eligibility guidelines to 160 percent of poverty.



Source: KCEP analysis of budget data. Dollars not adjusted for inflation. 2008 is originally enacted budget.

The budget adds \$39 million to partially restore funding for child care assistance in 2015 that was cut last summer when federal funding ran out. It fully restores the lost funding in the second year of the budget at the cost of \$58 million.

Cuts to a range of public services, many at 5 percent

Many other agencies are cut by five percent—for a net cumulative decrease in funding since 2008 of as much as 41.5 percent. Most of these cuts in the final budget match what the governor had proposed in January. According to the state budget director’s presentation at that time, [this new round of cuts is likely to result in](#) “service delays, more employee attrition, possible layoffs, loss of federal funds [and] possible facility closures.”

Areas receiving the five percent cuts include all cabinets’ administrative offices, the Attorney General, Departments of Agriculture and Local Government, Military Affairs, Energy and Environment, Juvenile Justice, the Public Protection Cabinet, Public Transportation and some divisions in the Cabinet for Health and Family Services. Already struggling under past cuts, the new round will exacerbate challenges. For example, according to a presentation to a budget subcommittee in February, the Energy and Environment

Cabinet predicts that cuts will force the state to consider eliminating its wildfire fighting program—relying on local fire departments as a substitute—and will jeopardize its ability to respond to other types of environmental emergencies such as chemical leaks and natural gas spills.

General Fund Cuts to Selected Agencies from Original 2008 Budget to 2016

	2008 Enacted	2016	Percent change	Inflation adjusted percent change
Kentucky Arts Council	4,182,500	2,796,200	-33%	-42%
Secretary of State	2,298,100	1,662,800	-28%	-37%
Attorney General's Office	14,113,100	10,622,700	-25%	-35%
Kentucky Educational Television	16,816,100	13,245,000	-21%	-32%
Professional Development	15,034,700	11,927,700	-21%	-31%
Auditor	5,828,300	4,775,300	-18%	-29%
Universities	881,434,300	726,042,600	-18%	-28%
Environmental Protection	26,118,000	21,846,400	-16%	-27%
Community and Technical College System	226,331,100	190,162,300	-16%	-27%
Libraries and Archives	14,689,300	12,543,400	-15%	-26%
Commission on Women	266,200	232,000	-13%	-24%
Vocational Rehabilitation	13,134,400	11,709,100	-11%	-23%
Kentucky Nature Preserves Commission	1,166,500	1,086,400	-7%	-19%
Commission on Human Rights	1,859,100	1,738,800	-6%	-19%
State Police	80,305,900	75,788,600	-6%	-18%
Commission for Children with Special Health Care Needs	5,917,000	5,587,200	-6%	-18%
Deaf and Hard of Hearing	933,000	883,200	-5%	-18%
Public Health	73,823,000	71,111,300	-4%	-16%

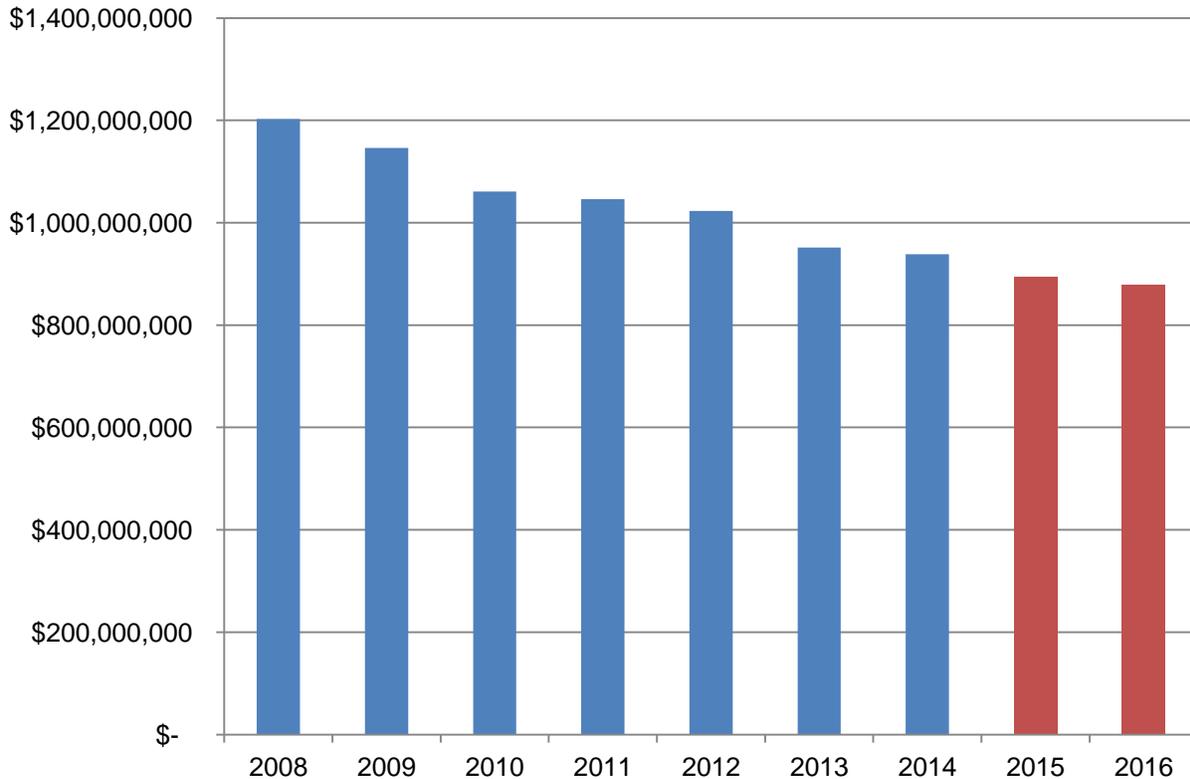
Source: KCEP analysis of budget data. 2016 numbers are slightly inflated because they include the cost of paying the full contribution to the employees' pension system; factoring that out results in a larger cut to the program.

Instead of the full five percent cut, the Kentucky State Police will be cut by 2.5 percent, slightly mitigated by \$1.8 million to reinstate a program that would allow the agency to hire back 15 retired officers. But at their February presentation to the House Budget Review Subcommittee on Justice and Judiciary, the state police estimated that overall, coverage is about 125 troopers below what is needed.

Cuts to higher education

The budget cuts all of the state’s public higher education institutions by 1.5 percent. Between 2008 and 2016, the state has reduced funding for universities and community colleges by 27 percent after adjusting for inflation (see graph).

**General Fund Appropriations for Universities & Community Colleges
(2014 Dollars)**



Source: KCEP analysis of state budget data.

Declining state support for higher education has led tuition to more than triple at public universities and community colleges since 1998. It’s likely that additional tuition increases will result from this budget.

Community college students in particular will pay more as the budget includes construction projects throughout the Kentucky Community and Technical College System (KCTCS) financed in large part with an \$8 per credit hour student fee; students will be charged the fee for projects on the specific campuses in which they are enrolled. The fee alone translates to a 5.6 percent increase in tuition at KCTCS institutions. Kentucky’s community college tuition costs are already [the 11th highest in the nation](#).

The budget does include a tiny increase of \$750,000 a year for two of the state’s financial aid programs—the College Access Program (CAP) and the Kentucky Tuition Grant (KTG) program—but it is not enough to make much of a dent in [the large number of students \(more than 86,000 in 2012-2013\) who qualify for the scholarships but are denied aid due to lack of funds each year](#).

The budget also cuts adult education by an additional five percent. That drops funding to \$18.6 million compared to \$25 million in 2008. More than [one in seven Kentucky working-age adults lacks a high school credential](#).

Budget balanced through transfers and monies from rainy day fund

As in prior years, the budget is partially balanced through fund transfers. It contains \$285 million in General Fund transfers compared to \$341 million in the House budget. However, transfers are still higher than the \$205 million used in the 2013-2014 budget. The final budget reduces transfers from the professional licensing boards, the underground storage tank fund and Heritage Land Conservation Fund. But it does include \$93 million taken from the Public Employee Health Insurance Trust Fund from a balance created partially through employee premium payments, and \$11 million out of the lottery without allocating all of those monies to student financial aid as required by statute.

The budget is also built on an expected \$166 million in General Fund savings from implementing the ACA. Those savings result from more mental health, preventive health and emergency room care being covered by Medicaid and private insurance due to health reform. The budget, however, goes further than the governor and House had proposed in cutting funding for indigent care at University Hospital in Louisville, providing only \$10 million over the biennium compared to \$15 million in the House's budget.

The budget also depends on spending \$12 million out of the state's rainy day fund. The governor's budget and the House and Senate versions either maintained the \$98 million in the existing rainy day fund or added to it, but the final budget reduces the rainy day fund to \$86 million. The state's rainy day fund balance at the end of the biennium would be less than one percent of General Fund spending; experts recommend [building rainy day funds up to around 15 percent of the budget](#) to prepare for recessions.

Budget increases debt and includes new tax cuts

While the budget does make the full required payment to address the liability in the state employees' retirement system, it creates a challenge in terms of debt by not making the contributions to [address the unfunded liability in the Kentucky Teachers' Retirement System](#) (while including a provision for potential excess SEEK funds to go to the system). By not putting the actuarially required dollars into that system to earn returns, it compounds the problem making it harder to address that debt in future years.

The budget also increases the state's debt ratio from 5.95 percent at the end of the most-recent fiscal year to a projected 6.7 percent. That happens through \$1.5 billion in bonded projects, which is less than the \$2 billion the House had proposed but significantly more than the \$533 million in the Senate budget. The higher debt ratio means a larger share of expected future revenues will be locked up in debt payments on borrowed funds. It is true, as House leaders have noted, that historically low interest rates make it a good time to borrow for capital projects.

The revenue bill that accompanies the budget includes a number of new tax cuts that will harm revenue in future years. It includes a tax cut for the highly profitable bourbon industry and a reduction in the wholesale tax on beer and wine (taxes on alcohol were raised only a few years ago to help with budget problems). These cuts are phased in over four years—which limits the impact on the current budget but passes costs forward to future budgets. The bill also includes a tax credit for wealthy investors that make equity investments in small businesses (angel investors), a doubling of the New Markets tax credit and a historic preservation tax credit.

The Kentucky Center for Economic Policy is a non-profit, non-partisan initiative that conducts research, analysis and education on important policy issues facing the Commonwealth. Launched in 2011, the Center is a project of the Mountain Association for Community Economic Development (MACED). For more information, please visit KCEP's website at www.kypolicy.org.