

March 15, 2016

## House Budget Uses Set-Aside Money to Reduce Cuts and Fully Fund Teachers' Pensions

The House budget reduces proposed cuts to education and selected other areas and provides additional money to fully fund the actuarially required contribution to the Kentucky Teachers' Retirement System. It does that by using resources that the governor set aside in his budget for a \$500 million permanent fund and for extra contributions to the state's rainy day fund.

### How the Budget is Built

The budget begins with revenue growth of 3.2 percent in 2017 and 2.4 percent in 2018 and relies on revenues for 2016 that are currently expected to end the year \$243 million above what was originally forecast.

In addition to those monies, the House budget transfers \$638 million from a variety of funds across state government over the biennium, including \$500 million from the Public Employees' Health Insurance Trust Fund.<sup>1</sup> That's slightly more than the \$611 million in transfers contained in the governor's plan and much higher than the average of \$340 million over the last eight biennia.

The budget uses those resources for the spending outlined below as well as an additional contribution of \$74 million to the rainy day fund, growing its balance to \$283 million. That contribution is \$241 million less than the governor's plan added to the rainy day fund, which would have brought the fund to a balance of \$524 million. The House budget also includes less new debt for capital projects than the governor's budget, \$549 million compared to \$625 million in the governor's budget.

### Fully Funds Pensions Now, Doesn't Create New Permanent Fund

The House plan, unlike the governor's proposal, provides the full actuarially required contribution to the Kentucky Teachers' Retirement System (KTRS). The governor's budget included only two-thirds of the required contribution to KTRS, meaning that the House plan puts \$345 million more into the pension system over the biennium. The House does not propose issuing a bond to make these additional contributions, but instead does so through General Fund appropriations.

Like the governor's plan, the House plan includes the actuarially required contribution to the Kentucky Employees Retirement System (KERS) plus an additional \$90 million over the biennium above that amount because of concerns about the risk that plan faces without more money. The House budget does not include another \$67 million in additional funding to KERS that was part of the governor's budget.

The House plan also does not include the governor's proposed permanent fund, a set-aside of \$500 million that he said was intended to be used for pensions in future years. The source of that funding in the governor's plan, the \$500 million from the employees' health insurance trust fund, is instead used to help fund the pension plans directly.

### **Removes Governor's Cuts to P-12, Higher Education and a Few Other Areas**

The House plan eliminates proposed cuts in the governor's budget of 9 percent next year in P-12 education, higher education and a few other areas.

The governor's budget did not shield from those cuts the Learning and Results Services part of the education budget that includes programs like Family Resource and Youth Service Centers, textbooks and afterschool programs. The House budget instead freezes funding to these programs at 2016 levels over the next two years. It also expands eligibility for public preschool from 160 percent to 200 percent of the federal poverty level.

In higher education, the House plan eliminates the proposed nine percent cuts to the universities. It also eliminates the provision in the governor's plan that made one-third of university funding subject to performance in 2018 and instead proposes a new work group to develop a comprehensive funding model for the institutions.

The budget funds the House's proposed new Work Ready scholarship program that fills the gap in providing free tuition to traditional age students at the state's community colleges, at a cost of \$33 million over two years. It also provides \$57 million more than in the governor's budget over the biennium for the need-based, lottery-funded scholarship programs — the College Access Program and the Kentucky Tuition Grant program — which have had dollars diverted from them in recent budgets. The House budget does not fund the governor's proposed new workforce scholarship program and doesn't include the proposed \$100 million in bonding for workforce training.

Outside of education, the House budget deletes cuts in a few other areas, including the constitutional offices (Attorney General, Secretary of State, Auditor, Treasurer, Agriculture), Kentucky Educational Television, Office for the Blind, Vocational Rehabilitation, Property Valuation Administrators, Commission on Human Rights, Commission on Women, the Executive Branch Ethics Commission and Military Affairs. The budget increases eligibility for child care assistance from 150 percent to 160 percent of the poverty level.

### **Maintains Cuts to Many Vital Services**

Despite this easing of reductions, cuts of nine percent remain for many agencies and programs across state government, including agencies addressing health, family services, environmental protection, and tourism, arts and heritage. Funding for many of these investments has been reduced 15 to 50 percent since 2008, once inflation is taken into account.<sup>2</sup>

It's also important to remember that flat funding of programs and services is a cut after inflation. For example, like the governor's budget the House budget essentially freezes funding for SEEK, the core funding formula for schools. That would make SEEK funding 12 percent below 2008 dollars in 2018 once inflation is taken into account. Kentucky already ranks sixth-worst among states in cuts to its core formula funding with a 10.6 percent cut since 2008 after inflation.<sup>3</sup> Also, our inflation-adjusted cuts to higher education rank among the worst in the country.<sup>4</sup>

As in the governor's proposal, there are again no raises for employees in the budget other than selected raises for a few occupations such as social workers and state police.

### **Makes Other Significant Changes**

Other elements of the House budget include:

- It begins to shift more coal severance tax dollars back to counties and local spending, with a plan to make that transition complete over four years. Some of the programs previously funded with

coal severance dollars, like Operation Unite and the SOAR initiative, are funded through other parts of the budget.

- Budget does not repeal prevailing wage as the governor’s budget proposed, and neither did the House minority budget released today.
- Budget is accompanied by a revenue bill that includes tax breaks for animal pharmaceuticals, 529 college savings accounts and beekeeping as well as some nominal additional revenue measures.

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<sup>1</sup> Jason Bailey, “Shifting Health Costs to Employees Has Become Way State Plugs Budget,” Kentucky Center for Economic Policy, January 28, 2016, <http://kypolicy.org/shifting-health-costs-employees-become-way-state-plugs-budget/>.

<sup>2</sup> Ashley Spalding, et al., “Investing in Kentucky’s Future: A Preview of the 2016-2018 Kentucky State Budget,” Kentucky Center for Economic Policy, January 4, 2016, <http://kypolicy.org/investing-in-kentuckys-future-a-preview-of-the-2016-2018-kentucky-state-budget/>.

<sup>3</sup> Michael Leachman, et al., “Most States Have Cut School Funding and Some Continue Cutting,” Center on Budget and Policy Priorities, January 25, 2016, <http://www.cbpp.org/research/state-budget-and-tax/most-states-have-cut-school-funding-and-some-continue-cutting>.

<sup>4</sup> Michael Mitchell, et al., “Years of Cuts Threaten to Put College Out of Reach for More Students,” Center on Budget and Policy Priorities, May 13, 2015, <http://www.cbpp.org/research/years-of-cuts-threaten-to-put-college-out-of-reach-for-more-students>.