



Commonwealth of Kentucky
OFFICE OF THE GOVERNOR

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June 6, 2017

Kentucky General Assembly
702 Capitol Avenue
Frankfort, KY 40601

Dear Legislator,

I would like to briefly share my thoughts on the Commonwealth's need for pension and tax reform, and ask for your input as we move towards a special session sometime later this year.

As you know, Kentucky's severe pension underfunding threatens the retirement security of our teachers and state workers, as well as employees of most of the postsecondary institutions, counties, cities and over 1,000 other government-related agencies. As I stated during my campaign for Governor, we have a moral and legal obligation to fulfill our pension promises to current employees and retirees.

Due to incorrect, overly optimistic assumptions about payroll growth and investment returns, prior administrations did not ask the General Assembly to budget sufficient dollars from the General Fund to keep our pension plans solvent. Those days are over. We have to use honest, realistic assumptions if we are going to come up with solutions that do not merely continue to kick the pension can down the road.

In my administration's initial budget last year, I included a line item to hire a pension consultant to take a hard, honest look at our pension crisis. I appreciate the General Assembly's commitment — on a strong, bipartisan basis — to include this funding in the final compromise budget.

The Commonwealth retained the PFM Group, a consulting firm that previously worked with the City of Lexington, the State of Tennessee, and many other municipalities on pension reforms. After a nearly 10-month study and analysis, PFM presented their second report at the May meeting of the Public Pension Oversight Board. That report describes the causes and extent of our pension crisis. I would encourage you (and your interested constituents) to read the entire [report](#).

Later this summer, and in advance of the special session, PFM will provide a final report on its recommended structural changes to allow our pension plans to be on strong financial footing and keep our commitments to retirees.

The pension crisis also threatens Kentucky's ability to provide important basic services to our citizens. PFM estimates that Kentucky will have to find at least an additional \$700 annually (approximately 7 percent of our annual budget) in the next budget just to meet the Actuarial Required Contributions for our pension funds. This is in addition to the extra \$1.44 billion we are investing in the pension plans during the current biennium. Finding another additional \$1.4 billion over the next biennium will put significant pressure on Kentucky's ability to fund K-12 education, public safety, higher education, and many other government services that all of us support.

Working together, I believe we can make Kentucky's tax code simpler and more competitive with surrounding states like Indiana and Tennessee by lowering or eliminating certain taxes, while at that same time generating sufficient revenue through economic growth and closing special-interest tax loopholes. This will allow us to meet our state's pension commitment to retirees and invest in Kentucky's future. We simply cannot afford inaction on the tax or pension front if we want to make necessary investments in education and workforce.

Ultimately, the best solution to Kentucky's financial challenges is economic growth. That means more private sector businesses hiring more employees that pay more taxes. With only five months into the calendar year, Kentucky has already broken the previous annual record by securing commitments for \$5.8 billion in new investments that will create nearly 10,000 jobs in Kentucky. We will not let up, but we need your help on the legislative front.

Our administration, led by State Budget Director John Chilton, has begun planning for a special session on pension and tax reform. Out of respect to our families and summer schedules, I do not intend to call a special session prior to August 15, 2017. Prior to the special session, Director Chilton and his staff will continue meeting with Kentuckians interested in pension and tax reform, and soliciting comments and suggestions from individuals and organizations. Director Chilton and my entire administration are interested in hearing proposed solutions to the pension problem as well as ways to make Kentucky's tax code more competitive.

I encourage you to make your voice, and the voice of your constituents, heard as part of this important process. I want to make it crystal clear that, despite the rumblings of the Frankfort rumor mill, our administration has made no final decisions with respect to any changes to the tax code or pension structures. Anybody that suggests otherwise is either completely misinformed or is deliberately misinforming you and your constituents.

In order to ensure we have enough time to consider your input on taxes and pensions well in advance of the special session, I hope you will consider meeting with Director Chilton and his staff prior to July 15. You can reach out to Director Chilton (John.Chilton@ky.gov) or my Legislative Director, Bryan Sunderland (Bryan.Sunderland@ky.gov). I also welcome your thoughts in writing. Please email any correspondence to Bryan and John to ensure that I receive your input.

Of particular interest would be your thoughts on any of the many tax exemptions that do not have a strong return on investment for the Commonwealth and you think deserve consideration for repeal.

While taxes and pensions are inherently complex issues, I look forward to working with you to make the tough decisions that our constituents demand of us. Thank you for your service to Kentucky.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew G. Bevin". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.

Matthew G. Bevin
Governor