

# An Economic Agenda for a Thriving Commonwealth



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**BY THE KENTUCKY CENTER FOR ECONOMIC POLICY**

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## **ABOUT US**

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, KCEP is a project of the Mountain Association for Community Economic Development (MACED). For more information, please visit KCEP's website [www.kypolicy.org](http://www.kypolicy.org).

# An Economic Agenda for a Thriving Commonwealth

The way to build a prosperous Kentucky is to create thriving communities that unlock potential in our people. Every Kentuckian—no matter where they come from, their economic background, health, race, ethnicity, age or gender—is an asset to our commonwealth. The healthier, more educated and financially secure we are as individuals, families and communities, the more prosperous we will be as a state.

To get there requires public policies that build capacities, open up opportunities

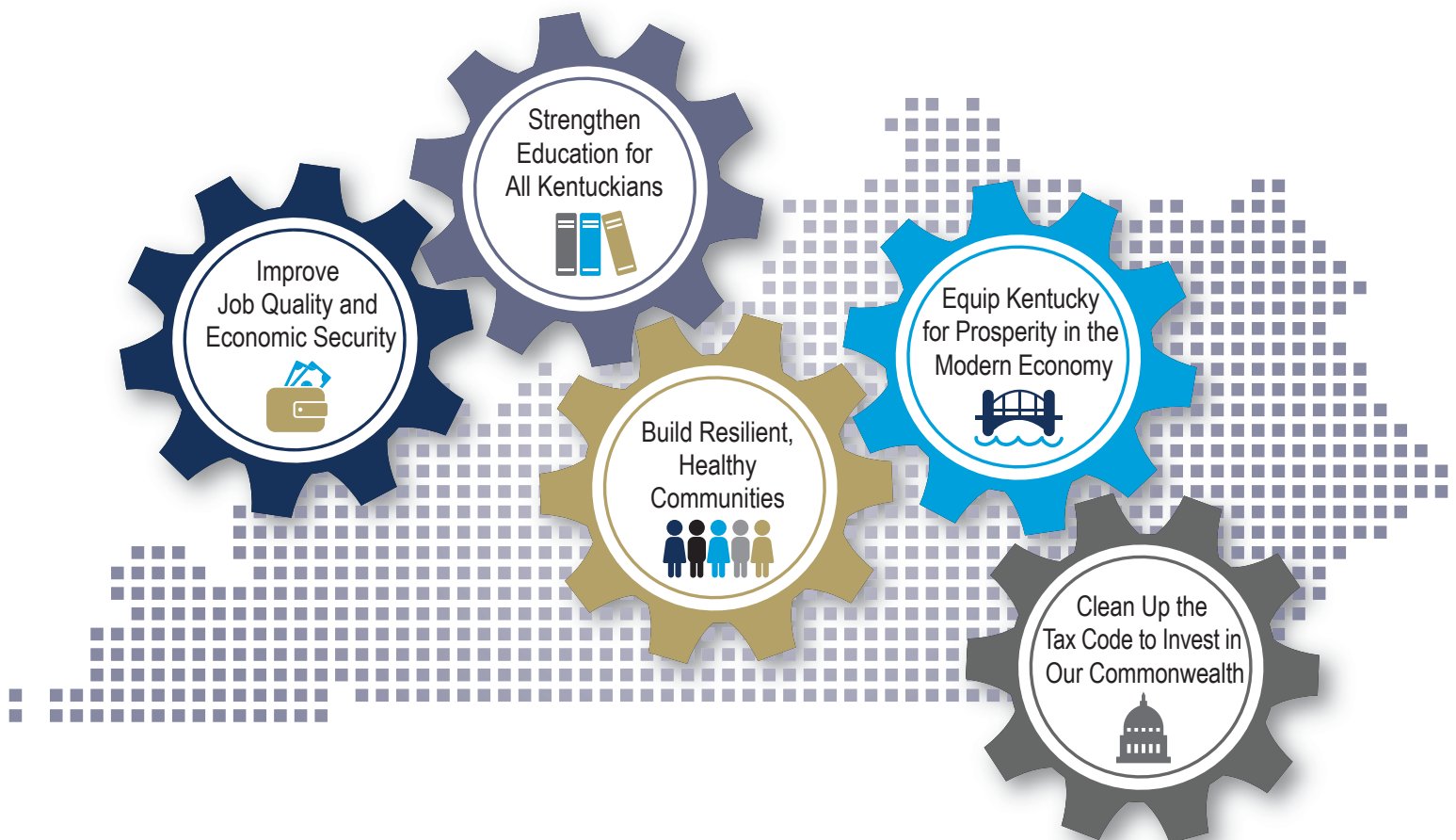
and promote equity. The approach outlined in *An Economic Agenda for a Thriving Commonwealth* recognizes we build an economy from the bottom up and the middle out.

Unfortunately, Kentucky's economic policy choices are too often made with misguided tunnel vision, focusing narrowly on an ineffective attempt to lure corporations by sacrificing our quality of life through lower wages and corporate tax breaks. By undermining families' economic well-being and our ability to invest in education, infrastructure and

other vital public goods, these failed trickle-down strategies erode, rather than enhance, our economy.

We have the tools we need—evidence-based strategies that build on and reinforce each other, creating momentum toward economic growth and a higher quality of life for us all. By building a stronger foundation for development through education, a modern infrastructure, greater community health and resilience and more economic security, we create shared prosperity.

## STRATEGIES FOR A THRIVING COMMONWEALTH



# Strategies for a Thriving Commonwealth

## IMPROVE JOB QUALITY AND ECONOMIC SECURITY



When good jobs are a policy priority and job quality standards are strong, the entire economy benefits. There are many ways to stimulate our economy by making sure Kentuckians have money in their pockets, such as a higher minimum wage, paid sick and family leave, and protection from discrimination. These policies will also raise workers' standard of living, reduce poverty and lessen disparities between demographic groups. In turn, greater economic security leads to better health, education and employment outcomes for future generations, and increases tax revenues.

## STRENGTHEN EDUCATION FOR ALL KENTUCKIANS



Preparing for the commonwealth's future means giving Kentucky kids a strong start and adults a chance to get ahead. By increasing access to high-quality child care and preschool, reinvesting in K-12 schools, and making higher education and skills training more affordable we can provide all residents, regardless of where they are from, the education they deserve. Kentuckians equipped with knowledge and a love of learning will thrive in the labor force and become innovators and entrepreneurs who move our state forward.

## BUILD RESILIENT, HEALTHY COMMUNITIES



Illness, addiction, financial challenges and incarceration touch all Kentuckians, whether directly or indirectly, but particularly harm families and communities already facing structural barriers to opportunity. Individuals and families can weather challenges and communities can thrive when we all have access to high-quality, affordable health care, secure housing and support for disabled family members or those struggling with addiction, and when our laws are just and our criminal justice system is focused on rehabilitation.

## EQUIP KENTUCKY FOR PROSPERITY IN THE MODERN ECONOMY



Having a modern, well-functioning infrastructure is vital to the health and well-being of our communities and our businesses. We need to invest in clean water, renewable energy resources, access to broadband, effective financial systems, and roads and bridges. These investments will make us safer, improve our quality of life, protect our natural assets and support modern economic activity and growth. In addition, prioritizing high-quality infrastructure across our state creates good employment opportunities for Kentuckians and can bridge gaps between poor and wealthy communities.

## CLEAN UP THE TAX CODE



Taxes are how we work together to invest in the foundations of thriving communities. By cleaning up costly, ineffective tax breaks, and making sure those at the top contribute their fair share, we can create a Kentucky that works for all of us. More resources will allow us to reinvest in our schools, provide adequate community services, upgrade our infrastructure and more.



# Improve Job Quality and Economic Security

## OPPORTUNITY:

Kentucky can make real progress on job quality and economic security by updating existing and enacting new commonsense job quality standards. The successful experience of states that raise standards shows businesses benefit through increased productivity, reduced turnover and stronger consumer spending. Our whole commonwealth will benefit when paychecks better reflect the contributions Kentuckians make through work every day, and when work supports rather than detracts from leading healthy, fulfilling lives.

## CHALLENGE:

When work doesn't work for Kentuckians, our economy suffers as well. Kentucky wages are low and have been largely stagnant for too long. Nearly 30 percent of Kentuckians make wages that would put them below the poverty line for a family of four. In addition, low- and middle-income workers have seen little to no real wage growth for the last couple of decades. These challenges disproportionately impact women, people of color and economically distressed regions of our state.



## **GIVE KENTUCKIANS A PAY RAISE WITH A HIGHER MINIMUM WAGE**

Because lawmakers have allowed the value of the minimum wage to erode for decades—even as worker productivity has grown—today a full-time job paying minimum wage is not enough to keep one worker and their dependent out of poverty. Raising the state’s minimum wage to \$15 an hour by 2025 would give a much-needed and well-deserved boost in income to 638,000, or 1 in 3, Kentucky workers. This population includes those currently making less than \$15 per hour and some just above that amount who would also see a wage bump. The state should also index the minimum wage to inflation to preserve its value over time and eventually eliminate the wage penalty for tipped workers—who face higher rates of poverty—by allowing them the same minimum wage other workers earn.

## **REPEAL WAGE-REDUCING LAWS PASSED IN RECENT YEARS**

“Right to work” (RTW) laws harm workers’ ability to collectively bargain for better job quality, lowering the bar for union and non-union employers and reducing workers’ wages across our economy—all without spurring job or economic growth. Kentucky should repeal RTW and also reinstate prevailing wage requirements on public works projects, ensuring a skilled and fairly-compensated workforce is building our schools and other public infrastructure.

## **LIFT WORKING FAMILIES OUT OF POVERTY WITH A STATE EITC**

The federal Earned Income Tax Credit (EITC) reduces poverty and enhances

opportunity for low- to moderate-income families through a tax credit that supplements low wages. By enacting a refundable EITC at 15 percent of the federal credit, Kentucky could join 29 other states and D.C. that build on the successes of the federal credit—which evidence shows has lasting benefits for kids including improved long-term health, educational and employment outcomes.

## **IMPROVE KENTUCKIANS’ RETIREMENT SECURITY**

Nearly half of private sector employees ages 25 to 64 in Kentucky work for a company that does not offer a retirement plan, and low-income workers are the least likely to have access to such plans. To address this issue, Kentucky should follow a model now being implemented in other states by creating a state-sponsored retirement option that automatically enrolls employees in most private firms without employer-sponsored plans, allowing employees who do not wish to participate to opt out. These plans have low fees and portable benefits, are easy to administer for employers, provide a more even playing field for small businesses to recruit and retain workers, and are self-sustaining after an initial start-up investment from the state. The resulting boost in economic security for Kentucky seniors means lower poverty and more retirement income circulating in our economy.

## **ENACT PAID LEAVE AND FAMILY-FRIENDLY FAIR SCHEDULING**

Illnesses, major life events such as childbirth and the demands of caring for children and aging parents affect how much we can work and when. These challenges are especially present for women and for low-wage workers whose employers are less

likely to provide paid leave and more likely to demand grueling schedules. To keep workers in their jobs and improve health and economic security, the state should enact paid sick leave so workers can accrue paid leave over time and provide family/parental leave at a share of one’s normal wages. We can also help expectant and new moms and their babies stay healthy by requiring employers to provide these workers with reasonable, temporary accommodations such as extra bathroom breaks and light duty. Further, to help workers plan for child care and other family needs the state should require employers to give workers adequate two-week notice of their work schedules, the ability to decline hours that are requested outside the fair notice period and protection from retaliation for requesting changes to work schedules.

## **CLOSE GENDER AND RACE PAY GAPS**

Women in Kentucky typically make 83 cents for every dollar men make, while black workers make 83 cents and Hispanic workers 65 cents for every dollar white workers make. To help close these gaps, Kentucky should strengthen its existing pay discrimination prohibition so all Kentuckians are paid fairly for doing work of comparable worth, even if not in the same jobs as their colleagues, and especially in jobs dominated by workers of a particular sex, race or national origin. To prevent former discrimination from influencing pay in new jobs, and to put employers and employees on more equal footing as pay is negotiated, the state should prohibit employers and employment agencies from asking questions about applicants’ pay history and require employers to provide more information about employee pay.



## **SUPPORT WORKERS FACING HARD TIMES WITH MODERNIZED UNEMPLOYMENT INSURANCE**

Only 19 percent of Kentucky workers between jobs receive unemployment insurance (UI) payments that are designed to help smooth the transition, harming jobless workers and communities that experience loss of industry. The state can help more Kentuckians access UI by simplifying income eligibility standards, extending assistance to part-time workers and those who quit for reasons such as domestic violence and offering benefits to long-term unemployed workers who need access to training to improve skills. Another, related policy that would especially help in weak economies is providing UI subsidies to workers who lose work hours in firms that, instead of laying people off, cut hours for a larger group of people. These “work-sharing” programs, which more than half of states have, keep people employed and help employers retain experienced workers.

## **SUPPORT SECOND CHANCES THROUGH FELONY EXPUNGEMENT**

After Kentuckians who have been charged with a crime pay their debt to society, removing this blemish from their record makes it easier to get a job and achieve economic security. It also enables voting and helps address

economic and other disparities that stem from the fact Kentuckians of color are arrested and locked up at disproportionate rates compared to whites. In 2016, Kentucky passed a felony expungement law that was an important step in providing second chances to people formerly involved in the criminal justice system. However, too few expungements are being granted, compared to the hundreds of thousands of Kentuckians with records. Moving forward, access to felony expungement needs to be expanded by reducing the \$500 fee—the second-highest in the nation—and making more crimes eligible.

## **PROTECT WORKERS FROM MISCLASSIFICATION**

Employees misclassified as independent contractors (ICs) in Kentucky lack protection under our state’s minimum wage, overtime, anti-discrimination and other wage and hour laws without the freedom and control that legitimate ICs enjoy over their work. The state also loses much-needed employer payments into our workers’ compensation and unemployment insurance (UI) systems. Kentucky’s current classification tests, which are unpredictable and easy to abuse, should be replaced with a three-prong “ABC” test—currently used in 27 states to determine UI

liability and in a handful of states to determine worker protections under wage and hour laws. This test makes it harder to classify workers as ICs by requiring employers to prove an IC’s work is outside the regular course of the employer’s business and that the worker is free from control and direction in how they perform the work.

## **TARGET WORKFORCE AND ECONOMIC DEVELOPMENT PROGRAMS TO EMPLOYERS PROVIDING HIGH-QUALITY JOBS**

State and federal workforce development funds and economic development incentives should be reserved for “high-road” businesses that provide family-friendly employment, have low rates of employee turnover, do not participate in wage theft or have other wage and hour violations, and offer wages and benefits in the top 20 percent for their industry. The state should also implement a “good jobs certification” for Kentucky employers who employ these high-road jobs practices, establishing a minimum qualification for businesses to receive public dollars and making it easy for both the public and private sectors to identify and engage employers that provide good jobs.



# Strengthen Education for All Kentuckians

## OPPORTUNITY:

When we adequately invest in education, we make progress on all of our goals for the commonwealth. A good education can increase individuals' and families' economic security and health, strengthen our workforce and plant seeds for ideas and businesses that move our state forward. By investing more in high-quality educational opportunities—from early care through higher education—we can unleash our potential for prosperity and achieve the thriving communities we all desire.

## CHALLENGE:

Inadequate state funding for education holds back our kids' academic success and stifles our economic potential while increasing financial pressure on local sources of funding, which worsens inequalities between poor and wealthy school districts. In fact, the state needs to put about 26 percent more into primary and secondary education than we are today to follow best practices and achieve our goals, according to an important 2014 report. Furthermore, tuition increases at state universities and community colleges, along with inadequate financial aid, burdens young people with skyrocketing student debt, if not pricing them out of higher education altogether. In addition to forcing tuition increases, state budget cuts to higher education have led to reduced student supports for degree completion, making it less likely that struggling students will be successful.





## HELP MORE KENTUCKY FAMILIES AFFORD QUALITY CHILD CARE

Half of Kentuckians live in a child care desert—an area either without a child care center or where there are at least three times more children than child care capacity. The state should raise the income limit to qualify for child care assistance from 160 percent of the federal poverty level to 200 percent, substantially increase provider reimbursement rates and eliminate the family co-pay for those below the poverty line. These measures will allow more Kentucky families to afford quality care and will protect the viability of child care facilities.

## EXPAND PRESCHOOL AND KINDERGARTEN FOR ALL KENTUCKY KIDS

Research shows that full-day preschool and kindergarten have important advantages over partial day programs. However, Kentucky provides only enough state funding for partial day preschool for disabled 3- and 4-year-olds and all 4-year-olds up to

160 percent of the federal poverty line; and only for half-day kindergarten for all Kentucky kids. Further, the state provides no transportation funding for preschool. To ensure our children have a strong foundation, the state should fund full-day preschool for all 4-year-olds up to 200 percent of the federal poverty line, universal full-day kindergarten and transportation for preschool. Some of the preschool funding should be used in partnership with local child care centers to coordinate full-day care between private providers and public school districts.

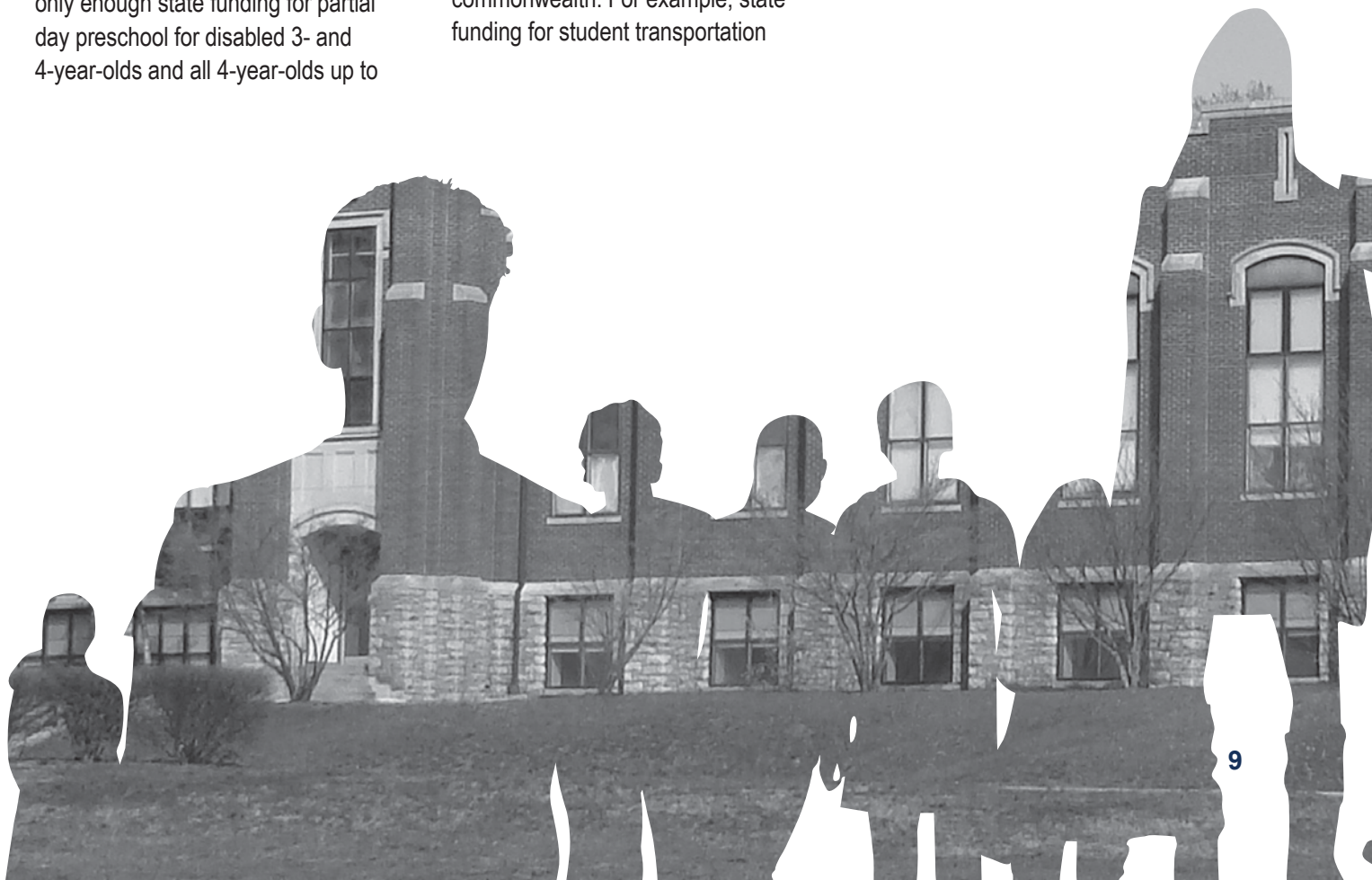
## REINVEST IN KENTUCKY CLASSROOMS

Per-student funding for Support Education Excellence in Kentucky (SEEK)—our core K-12 school funding formula—has been declining in inflation-adjusted terms since the Great Recession and is inadequate to meet our education goals and ensure equitable opportunities across our commonwealth. For example, state funding for student transportation

was just 63 percent of the need in 2018, rather than the 100 percent the statute requires—with local districts left footing the remainder of the bill. Though just a down-payment on what is needed, an additional \$400 million a year in state SEEK funding would begin to restore transportation funding, allow for smaller class sizes and pay for additional necessary staff to support kids who need extra help.

## RESTORE SUPPORTS FOR STUDENT SUCCESS

Extended school services (ESS) like tutoring and after-school programs promote students' success; instructional materials like textbooks facilitate learning; and teacher professional development (PD) ensures educators have the training it takes to teach and lead effectively. These funding streams, which are outside of core SEEK funding, are inadequate, with instructional materials and PD receiving no funding in the most recent



state budget. This lack of funding especially impacts students from low-income families as well as less-wealthy school districts that struggle to make up the difference when state funding is cut. An additional \$70 million in state funding for ESS would move us toward adequacy, and \$38 million is needed to begin reinvesting in instructional materials, PD and Family Resource and Youth Services Centers (which work to minimize the impacts of hunger and poverty on student learning).

## PROVIDE TWO YEARS OF TUITION-FREE COLLEGE

To put a higher education within reach for all Kentuckians, the state should provide the equivalent of two years of free community college to students attending public higher education institutions. This program would pay full community college tuition and fees—or the same dollar amount toward the first two years at a Kentucky public university—for Kentucky students who do not already have a degree. Covering four semesters for full-time students and eight for students attending half-time would support

completion for traditional and non-traditional students alike. Providing tuition and fees would enable students to use other forms of need-based financial aid (such as Pell Grants) and scholarships to cover many of the additional college costs necessary to completion such as housing, food and transportation. As part of the program, the state's need-based scholarship College Access Program (CAP) should be fully funded so that all eligible students receive it. Currently, inadequate state funding means many eligible students do not receive CAP. Additional investments in higher ed institutions, particularly the state's community colleges, would help provide adequate student support services to assist degree completion.





# Build Resilient, Healthy Communities



## **OPPORTUNITY:**

For communities to thrive, all people need access to affordable health care, secure housing, supports for people with disabilities, and protection from predatory lending and destructive criminal justice policies. By improving policies in these areas, we can build pathways out of poverty, address racial and geographic disparities, alleviate the root causes of crime and addiction, save the state money and make us all stronger together.

## **CHALLENGE:**

Kentucky has high rates of cancer, heart disease, addiction, incarceration, and household debt, all of which especially hurt communities facing structural barriers to health and economic prosperity. These diminish our ability to move forward together as a commonwealth.



## REMOVE NEW BARRIERS TO CARE IN MEDICAID

When Kentuckians are healthy and can get to a doctor as needed, their quality of life and their contributions to our commonwealth improve. Removing barriers to health care can move us forward as a more productive and prosperous state. Yet the policy barriers to health care coverage being pursued by the current administration would reduce enrollment in Medicaid by nearly 100,000 people, while increasing state administrative costs. This means the state would pay more to cover fewer people. Kentucky must immediately abandon these barriers to Medicaid coverage, including the work requirement, unaffordable premiums and burdensome reporting requirements. Furthermore, the state should not remove access to benefits, such as dental and vision coverage and transportation assistance.

## MAKE HEALTH INSURANCE MORE AFFORDABLE

For Kentuckians who earn too much to qualify for Medicaid or adequate federal subsidies but who still struggle to afford health coverage, the state can implement policies that will reduce the cost of health care. By introducing a state-developed Medicaid buy-in option for those seeking coverage on the exchanges, Kentucky could provide an additional alternative for consumers and potentially lower premiums overall. The state should also work with the federal government to create a reinsurance program that helps insurers cover those with especially costly conditions. This program will have the effect of lowering premiums for everyone,

whether covered by a Medicaid buy-in option or private insurers. Such programs save the federal government money on the cost of premium subsidies, and those savings could be used by the state to reduce its contribution to reinsurance. Combined, these two programs would make coverage more affordable for Kentuckians.

## SUPPORT HEALTHY COMMUNITIES AND LOCAL ECONOMIES THROUGH AGRICULTURE

Agriculture in Kentucky is an essential component of economic development, especially in our rural communities. As revenue from the Master Settlement Agreement declines with reduced tobacco consumption, the state should ensure continued robust funding for local agricultural development and diversification efforts, health initiatives and marketing through the Kentucky Proud brand (the latter of which the state should strengthen to improve direct farm impact). The state should also protect funding needed to match federal programs supporting farmers and our food economy — many of which also address hunger and health/nutritional needs in our communities such as the Senior Farmers' Market, Kentucky Double Dollars, Summer Feeding and Farms to Food Banks programs.

## PROVIDE COMMUNITY-BASED CARE FOR SENIORS AND KENTUCKIANS WITH DISABILITIES

Many Kentuckians who need specialized care due to the complexity and seriousness of their medical needs are left without it because of inadequate state resources. There are currently 8,000 individuals on waiting lists for the Supports for Community Living and Michelle P. waiver programs serving Kentuckians with disabilities who require frequent and routine care and wish to remain in their home or community. The state should reduce these waiting lists and ensure more Kentuckians receive the care they need in the communities they call home by providing additional funding to open up more slots. Similarly, many older Kentuckians who need nursing care are in institutional settings but could be cared for at home. Because institutions are more expensive, Kentucky could



shift more of its elder care spending to community-based care through a Home and Community Based Services (HCBS) Medicaid waiver and actually save money. Currently, we rank second from last in the nation in the share of state spending devoted to community-based care.

### **PROVIDE TREATMENT FOR KENTUCKIANS WITH MENTAL ILLNESS AND ADDICTION**

Our state's community mental health centers (CMHCs), a major provider of mental health including addiction services, are chronically underfunded. In recent years, at the same time they have been expected to radically increase pension contributions, CMHCs' state funding through the Department for Behavioral Health and Intellectual Disabilities has been cut, with the Department experiencing a nearly 25 percent overall cut since 2008 after adjusting for inflation. Restoring funding would increase opportunities for Kentuckians to get the care they need. Going further,

Kentucky could provide services through a new Medicaid waiver program for those with serious mental illness and addiction who have an income up to 150 percent of the federal poverty line and would like to remain and receive support in the community. Kentucky should also increase funding for evidence-based residential and outpatient drug treatment and dedicate public funding for needle exchange sites across the commonwealth, which serve as an opportunity for treatment referral and can limit the spread of Hepatitis C and HIV. Health care costs associated with these two conditions are particularly expensive, so spending more on prevention will likely save the state resources overall.

### **SAFELY REDUCE INMATE POPULATION THROUGH COMMONSENSE REFORMS**

Kentucky's criminal justice policies too often increase incarceration without making our communities any safer. To reduce the prison population, the state should reduce criminal penalties for low-level, nonviolent crimes such as drug possession, low-level trafficking, theft and failure to pay child support. We should also repeal the ineffective gang law passed in 2018, cap the time

served by probationers or parolees for technical violations—such as a missed appointment or for substance abuse treatment setbacks—and decriminalize and regulate marijuana use. Juvenile justice reforms are needed to keep youth out of the adult system and expand opportunities for diversion from the court system. These policies would also begin to address racial disparities in our criminal justice system and right-size punishments to fit crimes in order to focus on rehabilitation and stronger, safer communities.

### **EXPAND ALTERNATIVES TO INCARCERATION**

Incarceration carries its own costs and consequences for individuals and their families, for communities and our commonwealth. When the state can safely pursue justice and rehabilitation through alternatives, it should. In order to prevent the incarceration of low-risk, low-income Kentuckians awaiting trial, money bail should be eliminated in most cases. Restorative justice practices should be used whenever possible by engaging victims, offenders and community members in an effort to put things right. The state should also expand drug court and mental



health and veterans courts, which provide Kentuckians with needed treatment rather than incarceration. Greater investment should be made in intervention programs, especially for youth, which have been shown to reduce gang activity and violence. To increase the likelihood that those with few economic resources are able to access sentencing alternatives and receive a high-quality defense, public defenders need to have more manageable caseloads and adequate salaries.

### **ALLOW UNDOCUMENTED IMMIGRANTS TO DRIVE SAFELY AND LEGALLY**

Removing barriers that Kentuckians face getting to work, school and the grocery store each day can help

strengthen our economy and our communities. Allowing undocumented Kentuckians to apply for and receive Kentucky drivers' licenses would increase the number of tested, insured drivers on our roads and make it easier for people to participate in their communities and contribute to our economy each day. Such licenses can be fully compliant with federal REAL ID laws, and should be used to enforce traffic and not immigration laws.

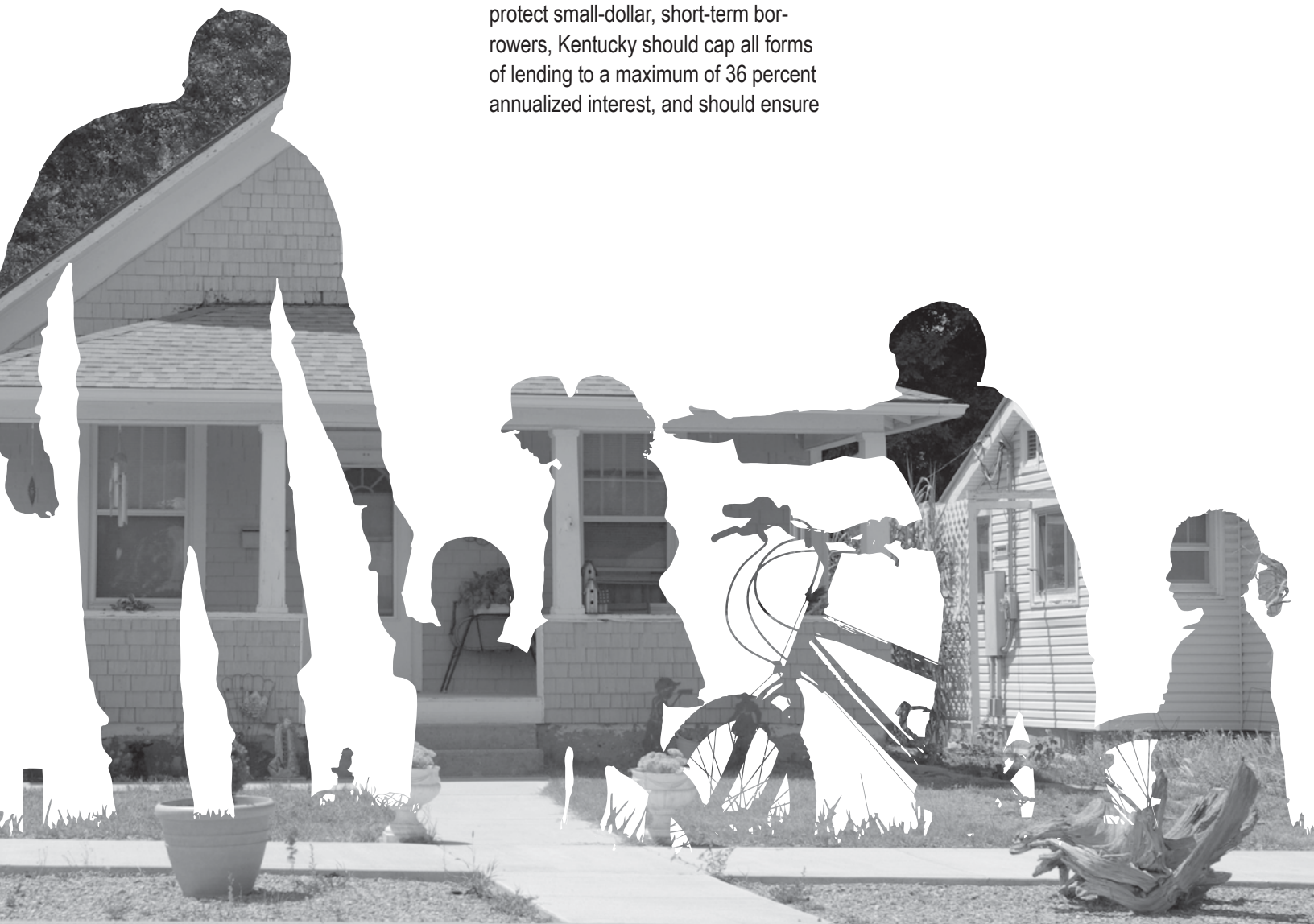
### **PROTECT KENTUCKIANS FROM PREDATORY LENDING PRACTICES**

Nearly 200,000 Kentuckians are caught in debt traps caused by payday loans which charge interest and fees of up to 391 percent when annualized. Over 6,000 Kentuckians take out 30 or more of these loans per year. To protect small-dollar, short-term borrowers, Kentucky should cap all forms of lending to a maximum of 36 percent annualized interest, and should ensure

that all charges associated with lending are considered interest for purposes of the cap.

### **PROTECT KENTUCKIANS FROM UNNECESSARY EVICTION AND UNLIVABLE RENTAL HOUSING**

Safe and secure housing is foundational to the success of each and every Kentuckian. However, there is no statewide standard of quality for rental housing or process for eviction, leading to disruptions in housing security which can send families into a tailspin. Kentucky should pass a statewide Uniform Residential Landlord and Tenant Act to provide consistent protections from poor living conditions and unwarranted evictions for renters, and to limit the associated financial burdens for landlords.







# Equip Kentucky for Prosperity in the Modern Economy

## **OPPORTUNITY:**

Kentucky's location, geography and climate make us a great state in which to live and do business. By investing in infrastructure, we can build upon and steward these assets, better support economic activity and increase the quality of life for all Kentuckians. We can also take advantage of creative financing solutions and put more people to work improving our commonwealth. By strengthening the very building blocks of our communities, we can unleash our economic potential.

## **CHALLENGE:**

Across the commonwealth, falling behind on investments in our infrastructure makes life and work more difficult, expensive and dangerous. Too often, one's location within Kentucky determines whether there is access to clean water, affordable electricity and internet, and safe and accessible roads and bridges.



## **ACHIEVE UNIVERSAL, AFFORDABLE BROADBAND INTERNET ACCESS**

The internet is essential for communicating in the modern world, but many Kentucky communities are struggling to access and maintain adequate connections. The state can support access to broadband across the commonwealth by completing the Kentucky Wired project in a timely manner, and where feasible cutting inappropriate private sector profiteering that was unwisely built into the project. Kentucky must also support affordable last-mile broadband access in local communities across the state by assisting the public provision of that service. Municipal services already exist in Glasgow, Frankfort and other cities, and through rural cooperatives like the People's Rural Telephone Cooperative in Jackson and Owsley counties.

## **ACCELERATE THE TRANSITION TO CLEAN POWER**

Clean, renewable energy and increased energy efficiency can diversify our grid, improve air and water quality, create jobs and achieve energy savings. Kentucky should join 29 other states in establishing a Renewable Portfolio Standard and expanded energy efficiency measures to support a transition to more sustainable energy sources, create economic benefits from new industries and lower energy use. Research suggests that Kentucky

can begin a meaningful transition by requiring utilities to provide 25 percent of electricity from renewable sources within 15 years and achieve a cumulative 17 percent in savings from energy efficiency improvements.

## **INVEST IN ROADS AND BRIDGES**

Kentucky needs funding to modernize and improve its road and bridge infrastructure. The list of projects for which there is no funding has increased due to anemic Road Fund revenues caused by a drop in Kentucky's gas tax rate, a recent new exemption from the motor vehicle usage tax for trade-in vehicles, and a lack of federal funding for infrastructure. According to one estimate, the state has more than 1,100 structurally deficient bridges and more than 3,700 miles of roads that need significant repairs. The backlog of needed pavement improvements alone totals approximately \$1 billion and is growing at a rate of 500 miles of roadway each year. Road and bridge improvements facilitate growth in our economy, increase safety and reduce what Kentuckians spend on automobile repair. Furthermore, putting Kentuckians to work rebuilding these structures can help provide jobs, especially in economically distressed regions.

## **UPGRADE KENTUCKY'S WATER INFRASTRUCTURE**

Kentucky's drinking water infrastructure needs are estimated at \$6.2 billion

over the next 20 years according to the American Society of Civil Engineers, and the state faces significant wastewater needs. Ranking 4th in the U.S. for miles of inland waterways, Kentucky has an outdated dam infrastructure and needs improvement in water quality through stream protection and restoration. Through increased investments, we could put people to work on improvements that would enhance public health and the state's natural beauty and ecological integrity.

## **EXPAND LOW-COST FINANCING OPTIONS**

Kentucky residents, businesses and governments would benefit from tools to finance investments and limit the cost of debt while keeping more dollars circulating within the state. Two important needs are to reduce the cost of student loans—now totaling \$16.2 billion in Kentucky—and to avoid unnecessary public borrowing costs stemming from the state's now-low bond rating. Kentucky should examine the potential for a state bank, as has operated successfully in North Dakota for a hundred years. The Bank of North Dakota partners with community banks to expand financing options, directly provides low-cost alternatives for financing needs like student loans and community infrastructure, and actually sends revenue back to the state's General Fund.





HOW DO WE PAY FOR IT ALL?

# Clean Up the Tax Code to Invest in Our Commonwealth

## **OPPORTUNITY:**

Investments in good schools, robust services for communities and families, an efficient transportation network and more make Kentucky a good place to live, work, run a business and raise a family. By cleaning up tax breaks—especially those that lower taxes for the wealthiest Kentuckians who currently have the lowest effective state and local tax rate—we generate the revenue it takes to invest in thriving communities. With commonsense steps toward an adequate, sustainable and equitable tax code, we can build a state that works for us all.

## **CHALLENGE:**

Kentucky's tax code is upside-down, meaning we rely more heavily on low- and middle-income Kentuckians than the wealthy to fund the public services that benefit everyone. In 2018, policymakers used revenue generated from greater reliance on consumption taxes and other changes to pay for huge tax cuts for the wealthy through flattened 5 percent individual and corporate income tax rates—changes that made our tax system even more upside-down than it already was. Too many tax breaks that especially help those at the top, and the recent shift from income taxes to slower-growing consumption taxes, mean we will continue to face structural deficits and budget cuts. Worse, tax breaks typically provide less economic return than direct investments through the budget in areas like high-quality education and modern infrastructure.



## **FIX OUR UPSIDE-DOWN TAX CODE**

To move our tax code in the right direction, Kentucky should rejoin 32 other states with a graduated income tax based on ability to pay. Income below \$37,500 single/\$75,000 married should still be taxed at 5 percent, between that point and \$75,000 single/\$150,000 married at 6 percent and above those incomes at 7 percent, phasing out the lower rates for filers with taxable income of more than \$200,000. The state should also cap the amount of deductions filers can take at 2.5 times their standard deduction, and phase out the retirement income exclusion and the standard deduction for wealthier filers. To offset rate increases for low- and middle-income Kentuckians, preserve the value of the standard deduction and hold married couples harmless, the standard deduction should be increased to \$4,000, doubled for married filers and indexed to inflation. These changes combined would raise over \$700 million and hold the bottom 60 percent of Kentuckians harmless on average, ask the next 20 percent to chip in just \$68 more a year while requiring more of the wealthiest 20 percent who have received enormous state and federal tax cuts.

## **TRIM CORPORATE TAX BREAKS**

Kentucky's corporate income tax rate, which was also cut in 2018, should be increased to the same 7 percent rate as the proposed top rate of the individual income tax. To clean up

other ineffective business tax breaks, the state should return to using a three factor formula to determine corporate income tax liability (as opposed to the single sales factor formula which creates an uneven playing field for businesses), enact a "throwback rule" that would allow the state to tax the profits of in-state corporations not taxed in other states, and reduce the limited liability entity tax exemption so that fewer corporations can get by just paying the minimum tax. Additional reporting, transparency, and oversight should be required for all business tax break programs, with regular reauthorization contingent on their fully scrutinized value to our state, and two especially costly breaks that show very little in return—the Film Industry Tax Credit and Angel Investor Tax Credit program—should be repealed.

## **LIMIT SALES TAX EXEMPTIONS**

As part of a progressive package of tax changes that, overall, asks more of wealthy people and large corporations, broadening the sales tax base is good tax policy. Exceptions to this rule include sales tax exemptions for essential items like groceries and prescription medications. There are other exemptions that drain revenue from the General Fund without achieving critical policy goals. For example, Kentucky should remove sales tax exemptions for large trucks and boats, and expand the sales tax to additional services such as storage, garment alteration, installation not related to

the sale of tangible personal property, pool cleaning, photography, investment counseling and interior decorating.

## **CLEAN UP OTHER TAX BREAKS TO BOOST REVENUE**

Cleaning up other costly tax expenditures will allow us to make investments in a more prosperous state. For example, Kentucky's property tax rate has been eroding for decades as the property tax base has grown, but collections have been capped. Instead, the current property tax rate should be frozen, which would allow revenues to grow over time as property values increase. Similarly, the cap on provider taxes paid by hospitals, which has been frozen at 2.5 percent of their 2006 revenues, should be lifted and the rate applied to current revenues going forward. Taxing advanced deposit wagering and instant racing on horse races at the same rate as live betting at race tracks, and taxing fantasy sports and sports betting commensurate with other forms of gambling, would generate a modest amount of revenue and improve equity across gaming. The state should also restore the estate tax on Kentucky's wealthiest heirs, get rid of the postsecondary education tuition tax credit which disproportionately benefits wealthier families, regulate and tax recreational marijuana and increase cigarette taxes by an additional 50 cents (which would bring Kentucky's tax up to the national average).

## **MODERNIZE ROAD FUND REVENUE SOURCES TO STRENGTHEN INFRASTRUCTURE**

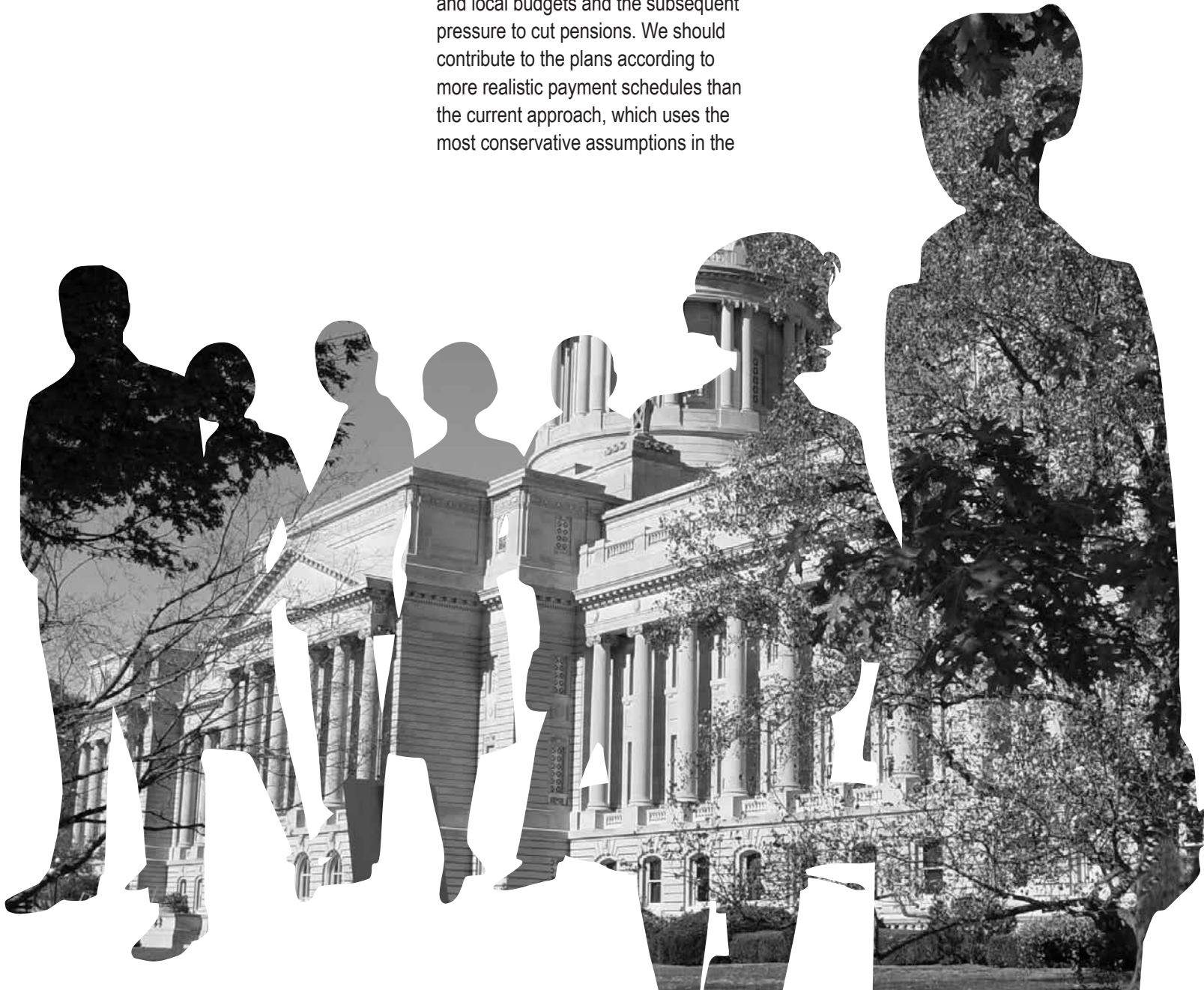
Kentucky should update the revenue sources that support the Road Fund to raise additional revenue for road and bridge upgrades, repairs and maintenance. Doing so will both increase jobs in the construction sector and modernize Kentucky's physical infrastructure to promote economic growth. Kentucky should increase its artificially-low motor fuels taxes, index them in the future to growth in construction costs so their value does not erode, collect additional fees on hybrid and

electric vehicles, and increase costs and fees associated with the licensing and registration of vehicles.

## **EASE PRESSURE ON BUDGETS AND PROTECT PENSIONS THROUGH COMMONSENSE FUNDING SCHEDULE**

Kentucky's pension discussion has been plagued by exaggerations about the extent of the problem along with proposals that harm public employees and our economy. Instead, we need a strategy to protect benefits and steadily grow the health of our plans over time while also easing the costs to state and local budgets and the subsequent pressure to cut pensions. We should contribute to the plans according to more realistic payment schedules than the current approach, which uses the most conservative assumptions in the

country and requires all 16 pension and retiree health plans to achieve 100 percent funded in less than 30 years. Full funding is never actually necessary when it comes to public plans since states like Kentucky are at no risk of disappearing. Additionally, Kentucky already overfunds its retiree health plans compared to many states that do not pre-fund retiree health at all. Kentucky's retiree health plans have a 48 percent funded ratio in the aggregate compared to just 7 percent for the U.S. as a whole.



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