



The Commonwealth's Budget FY 2008-2010

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KENTUCKY YOUTH ADVOCATES
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The State Budget:

A Reflection of the Legislature's Agenda for the State

“Enacting the budget is the most powerful and effective means for legislators to set public policies and priorities”

- Kentucky Legislature

The Budget Process

Kentucky Budget Basics

- A balanced budget
 - The Kentucky Constitution requires that expenditures be balanced with expected revenues.
- A biennial fiscal year budget
 - Every other year Kentucky passes a two-year budget.
 - Each fiscal year runs from July 1 – June 30.
- Two main budgets
 - Operating Budget – programs and services
 - Capital Budget – buildings and infrastructure

The Budget Recommendation Process

- The Consensus Revenue Forecasting Group projects revenues based on the current or expected tax structure.
- With input from state agencies and government officials, the Governor submits budget recommendations to the General Assembly based on projected revenues.

The Legislative Process

- The budget starts in the House of Representatives
- The budget is assigned to the Appropriations and Revenue committee where it is amended to align with House priorities.
 - The budget is then given three readings by the full House and finally an approval vote by a majority of the members (51 Representatives)
- The budget then arrives in the Senate
 - Follows the same procedure as in the House; is amended and approved by a majority vote (20 Senators)

Conference Committee

House & Senate Budgets Don't Match

- A joint committee is appointed by the House Speaker and Senate President
 - Compromises are agreed to by committee members
 - The compromised budget bill is returned to both the House and the Senate for a vote – no amendments are allowed at this point.
- Upon final passage of the Chambers the budget is sent to the Governor for his signature.

Veto Power

- Upon receipt of the approved budget bill the governor can:
 - Sign the bill,
 - Allow the bill to become law without his signature, or
 - Eliminate items from the budget.
 - Kentucky's governor has line-item veto power.

- If the budget, or parts, are vetoed the General Assembly can override the veto with a majority vote of both Chambers.

Budget Implementation

- The budget is implemented in line with the appropriations made by the Governor and the General Assembly over the course of the following two fiscal years.
- Recall, the budget was based on a revenue estimate – should there be a shortfall in projected revenues, laws define the course of action for budget reductions.



Kentucky's Budget FY 2008 - 2010

Where Does the Money Come From?

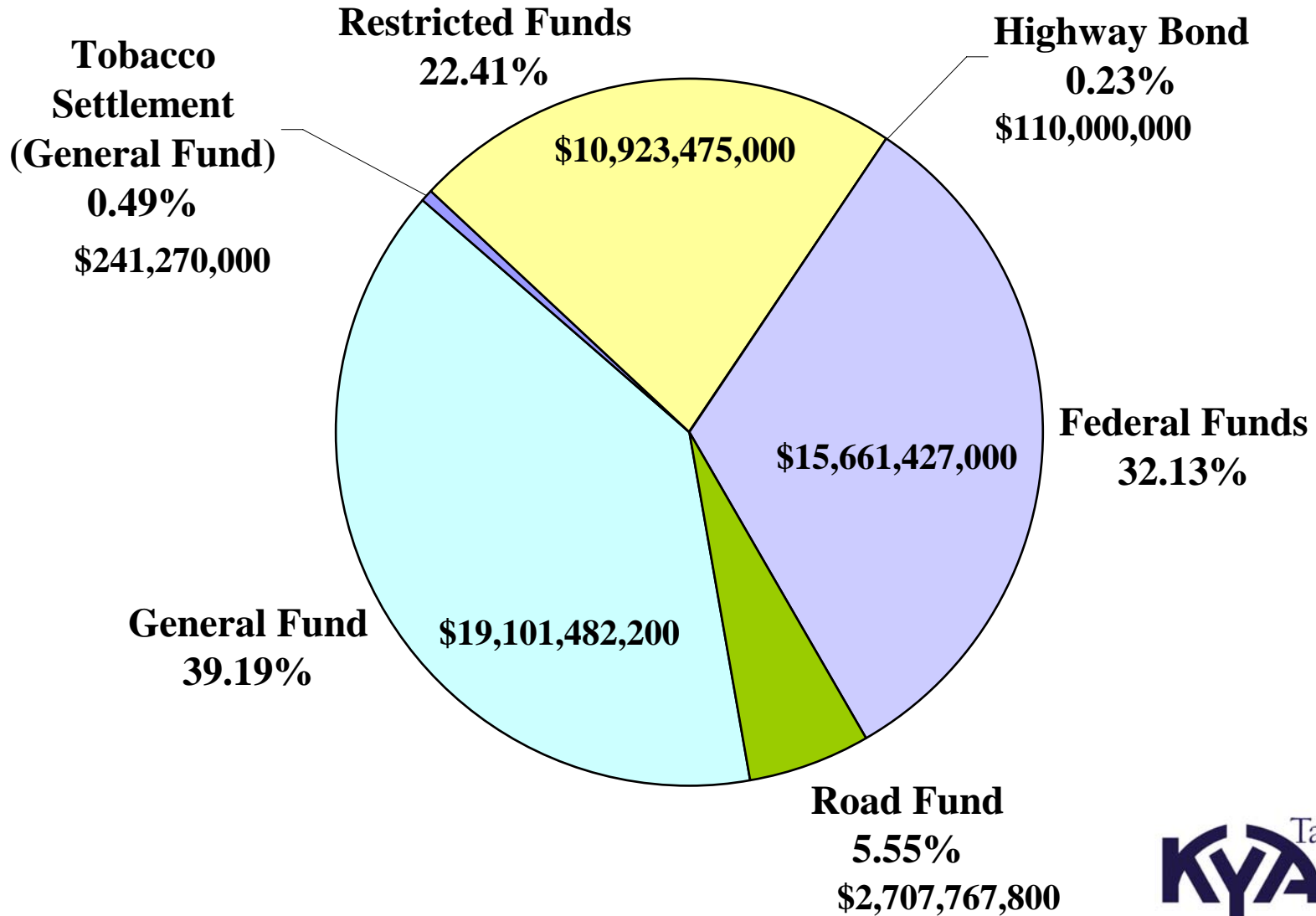
Operating Budget

All Funds

Fund Source	FY 09	FY 10	Total	%
General Fund	9,400,888,100	9,700,594,100	19,101,482,200	39.19%
Tobacco Settlement (General Fund)	119,690,000	121,580,000	241,270,000	0.49%
Restricted Funds	5,508,952,700	5,414,522,300	10,923,475,000	22.41%
Highway Bond	110,000,000		110,000,000	0.23%
Federal Funds	7,700,377,900	7,961,049,100	15,661,427,000	32.13%
Road Fund	1,306,814,400	1,400,953,400	2,707,767,800	5.55%
	\$ 24,146,723,100	24,598,698,900	48,745,422,000	100.00%

Source: LRC 2008-2010 Biennial Final Budget Memorandum

**Commonwealth of Kentucky
Operating Budget
Fiscal Years 2009 & 2010 Combined Total \$48.7 Billion**



Where Does the Money Go?

Operating Budget

General Fund Appropriations

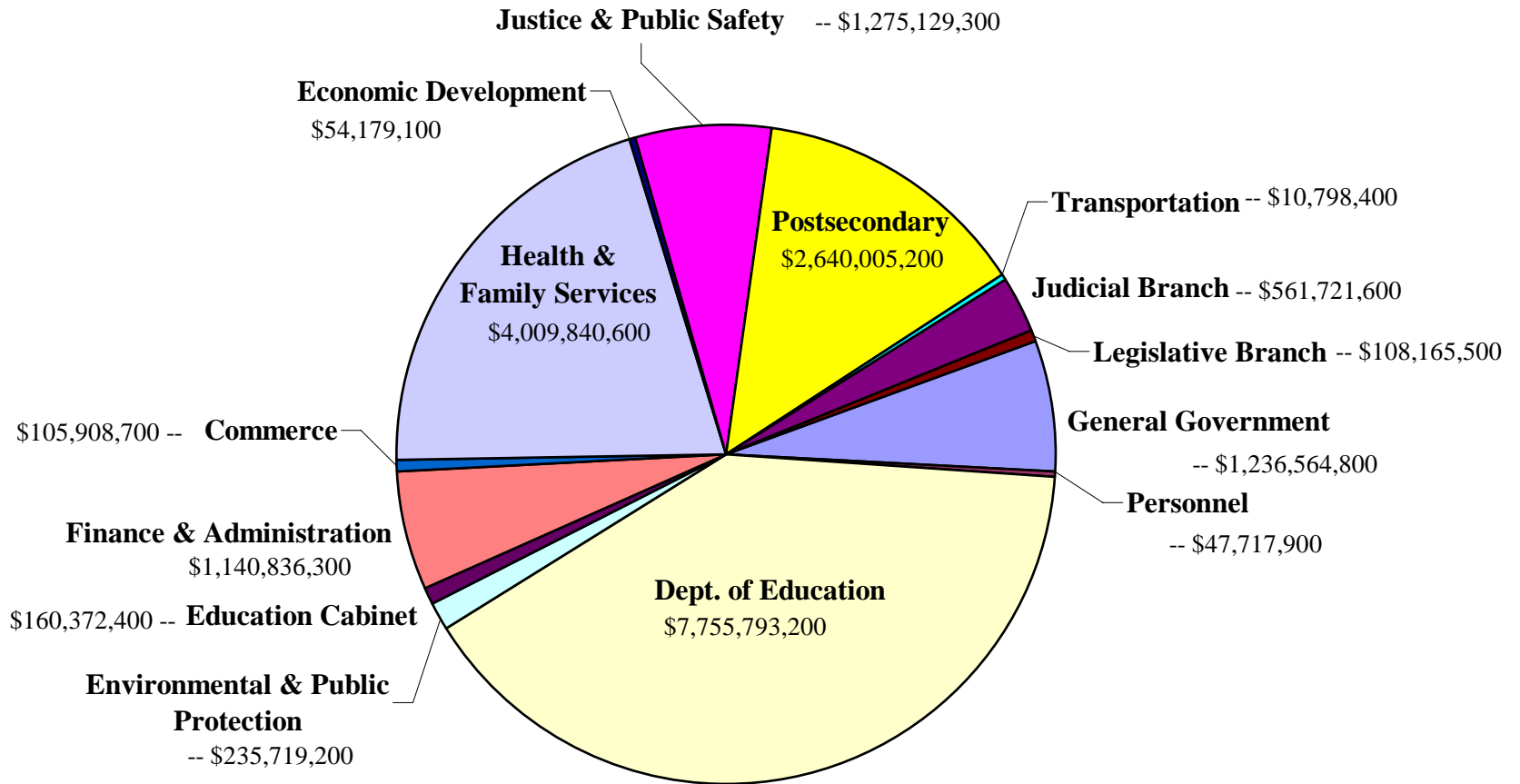
Cabinet/Agency	FY 09	FY 10	Total	%
General Government	601,365,800	635,199,000	1,236,564,800	6.39%
Personnel	16,075,000	31,642,900	47,717,900	0.25%
Dept. of Education	3,846,280,900	3,909,512,300	7,755,793,200	40.10%
Environmental & Public Protection	114,503,600	121,215,600	235,719,200	1.22%
Education Cabinet	80,075,400	80,297,000	160,372,400	0.83%
Finance & Administration	572,910,800	567,925,500	1,140,836,300	5.90%
Commerce	52,892,900	53,015,800	105,908,700	0.55%
Health & Family Services	1,954,258,500	2,055,582,100	4,009,840,600	20.73%
Economic Development	25,877,000	28,302,100	54,179,100	0.28%
Justice & Public Safety	623,828,100	651,301,200	1,275,129,300	6.59%
Postsecondary	1,308,783,200	1,331,222,000	2,640,005,200	13.65%
Transportation	5,178,200	5,620,200	10,798,400	0.06%
Judicial Branch	265,835,800	295,885,800	561,721,600	2.90%
Legislative Branch	52,712,900	55,452,600	108,165,500	0.56%
	\$ 9,520,578,100	9,822,174,100	19,342,752,200	100.00%

Source: LRC 2008-2010 Biennial Final Budget Memorandum

Commonwealth of Kentucky

Operating Budget - General Fund* - by Cabinet/Function

Fiscal Years 2009 & 2010 Combined Total \$19.3 Billion



*As Appropriated Pursuant to HB , 2008 KY General Assembly -- (HB 406 - HB 407 - HB 408)

Includes Tobacco Settlement Funds

Excludes General Fund Continuing Appropriations



How we compare to other states

Kentucky's Taxes & Revenues Relative to Other States (2006)

		Rank
State and Local Taxes as a Percent of Personal Income	11.1%	23
Federal Revenue as Percent of Personal Income	5.5%	14
Total Revenue as Percent of Personal Income	25.6%	29
State and Local Taxes Per Capita	\$3,225	39
Federal Revenue Per Capita	\$1,604	16
Total Revenue Per Capita	\$7,409	46

Source: Census Bureau and Bureau of Economic Analysis 2006

The Budget Reserve Trust Fund

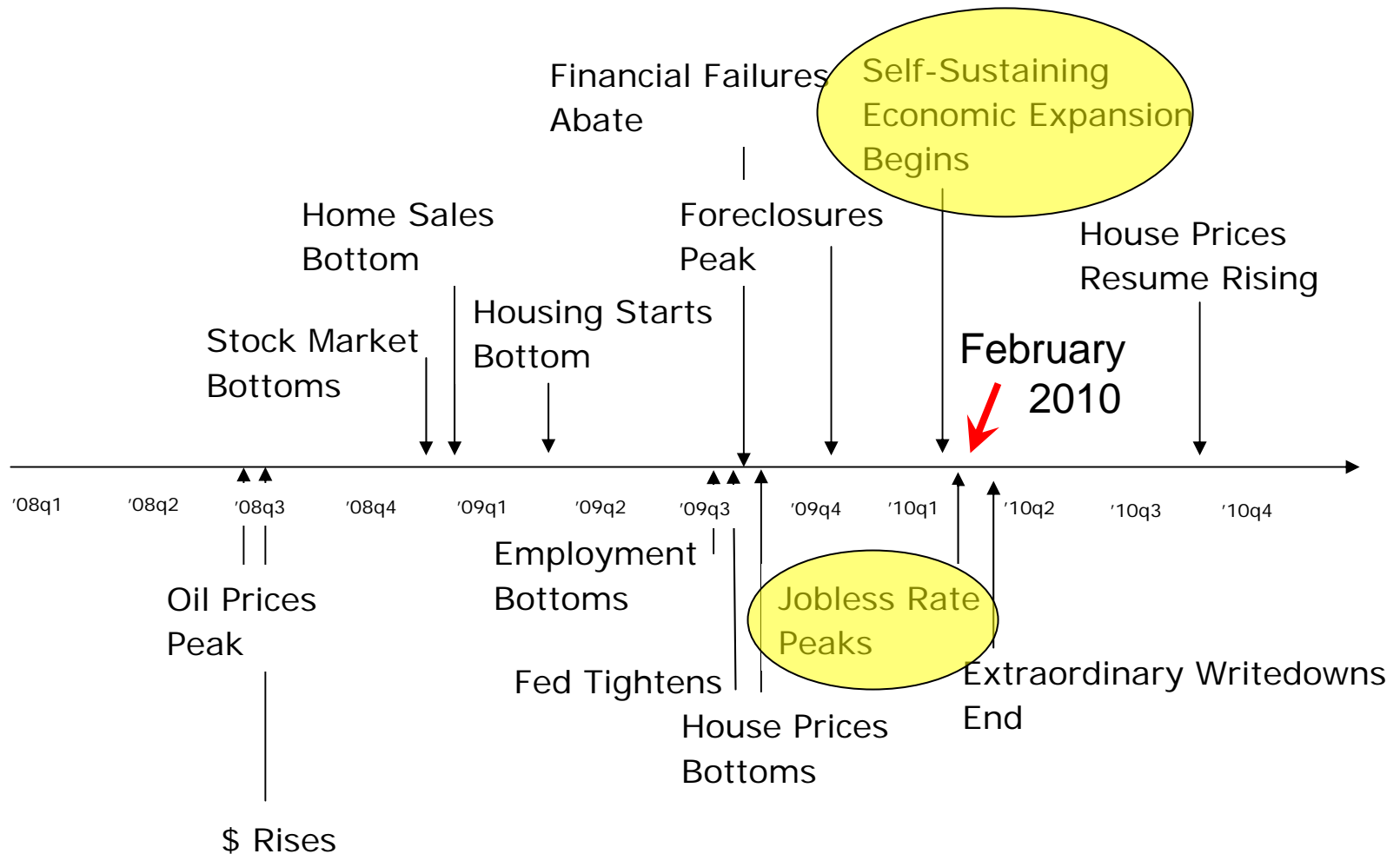
- Also known as the “rainy day fund” is basically a state savings account to be used when tax revenues are less than projected.
- The BRTF was established in 1988 with a \$2 million appropriation.
 - The fund can accumulate up to 5% of annual General Fund Revenues
 - Since 1999 withdraws and deposits from the fund have been nearly equal.
 - Current balance in the fund is \$226 mil. of which \$191 mil. was appropriated in FY 2010, leaving \$35 mil.

Budget Realities - FY 2009-2010

- Kentucky faces a revenue shortfall of \$456 million in FY 2009 – a 5.1% reduction.
 - This, on top of a \$432 million reduction in FY 2008.
 - 44 states face similar budget shortfalls.

- The revised revenue estimate is based on the weak economy and lower than expected tax receipts to date. As of November 2008:
 - Sales & use tax receipts down 8.1%
 - Corporate income tax receipts down 56.1%
 - Individual income tax receipts up 13.7%

A Timeline to Recovery



Source: Mark Zandi, Chief Economist, Moody's – Economy.com
November 18, 2008

The Governor's Proposal

- \$147.1 million in spending cuts
 - Protect SEEK and Medicaid*
 - 2% cuts to education
 - 2% cut to state police
 - 4% cut to rest of state government
- \$8 million in three-day furloughs
- \$40.6 million transfer from restricted funds
 - One-time money
- \$178.9 million from the “rainy day” fund
 - Will need to be replaced in FY 2010
- **\$81.5 million in tobacco tax revenue**
 - **ONLY new revenue proposed!**

*Also Mental Health/Mental Retardation, Correction Beds, Juvenile Justice Facilities, Teacher's Retirement, and Student Financial Aid.

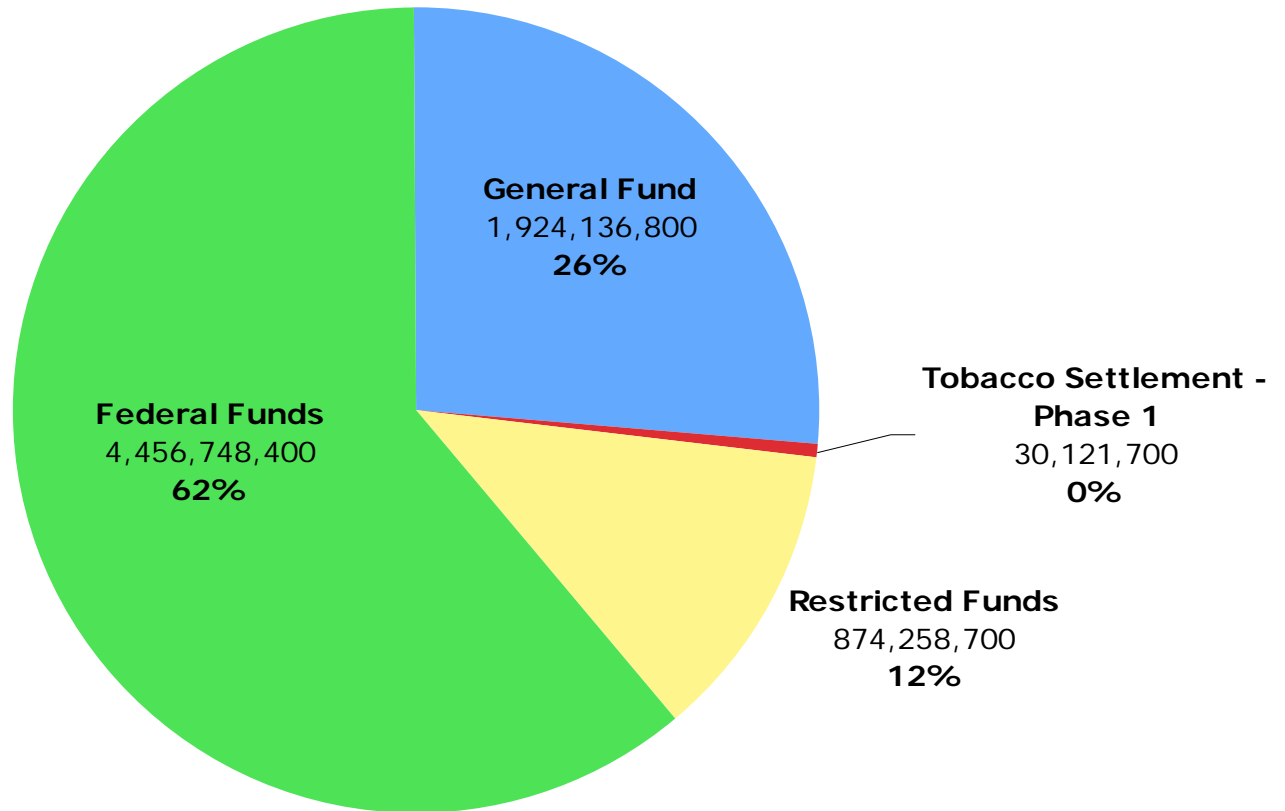
Outlook for 2010

- Not good – given the following:
 - The economy may not bounce back until late in 2010.
 - Economist's project shortfalls into FY 2010.
 - The cigarette tax revenue, even at 70 cents, does not fill the current budget gap.
 - Cigarette tax revenue in FY 2010 will be used to repay the 'rainy day fund' which was appropriated in the FY 2010 budget.
- = No new revenue to compensate for predicted shortfall in FY 2010.



Selected Cabinet & Department Budgets FY 2008-2010

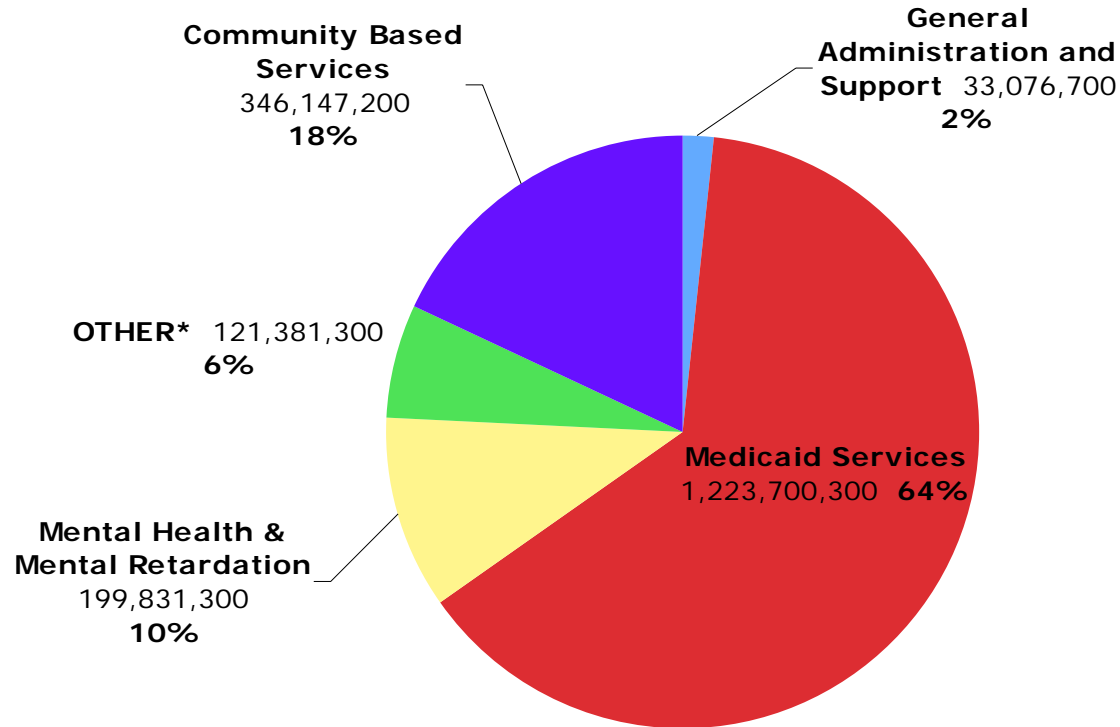
Cabinet for Health and Family Services Expenditures by Revenue Source FY 2008-2010



Expenditures by Unit

General Fund Only FY 2008-2010

Cabinet for Health and Family Services



* Other includes Public Health, Health Policy, Human Support Services, Ombudsman, Aging & Independent Living, & Commission on Children with Special Health Care Needs.

Budget Impacts (selected)

Cabinet for Health and Family Services

- 2008 Impacts:
 - General reorganization resulting in 835 fewer employees
- Governor's 2009 Proposal – 4% reduction
 - \$18.6 million reduction
 - Cuts and elimination of programs within Community Based Services, Public Health, Aging & Independent Living, and Children with Special Health Care Needs.

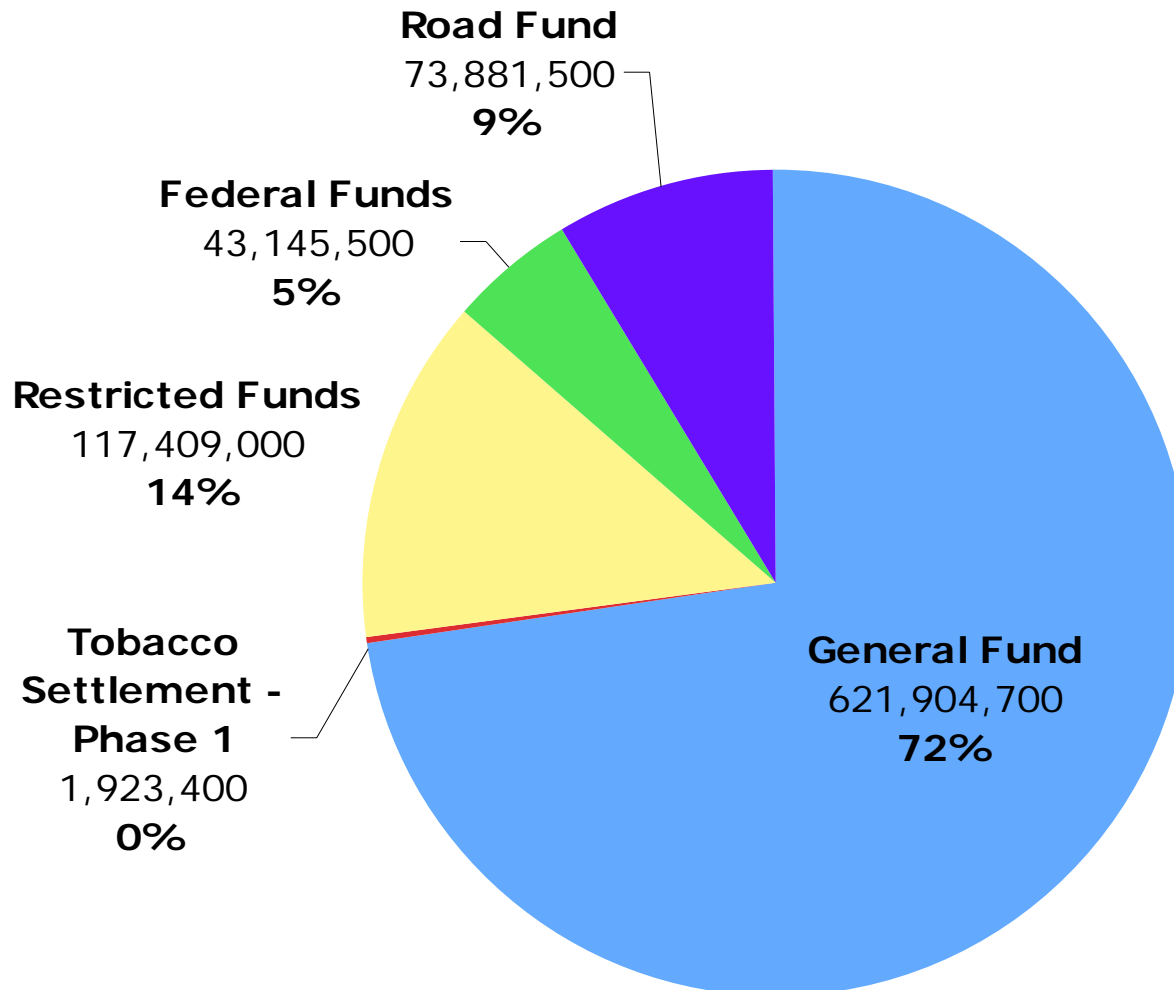
Budget Impacts (selected)

Cabinet for Health and Family Services

- More than a 4% cut:
 - Significant layoffs,
 - Loss of Federal Funds,
 - Reduction in domestic violence and rape crisis funding,
 - Increase in waiting lists,
 - Reduced public health services, and
 - Reduced mental health services.

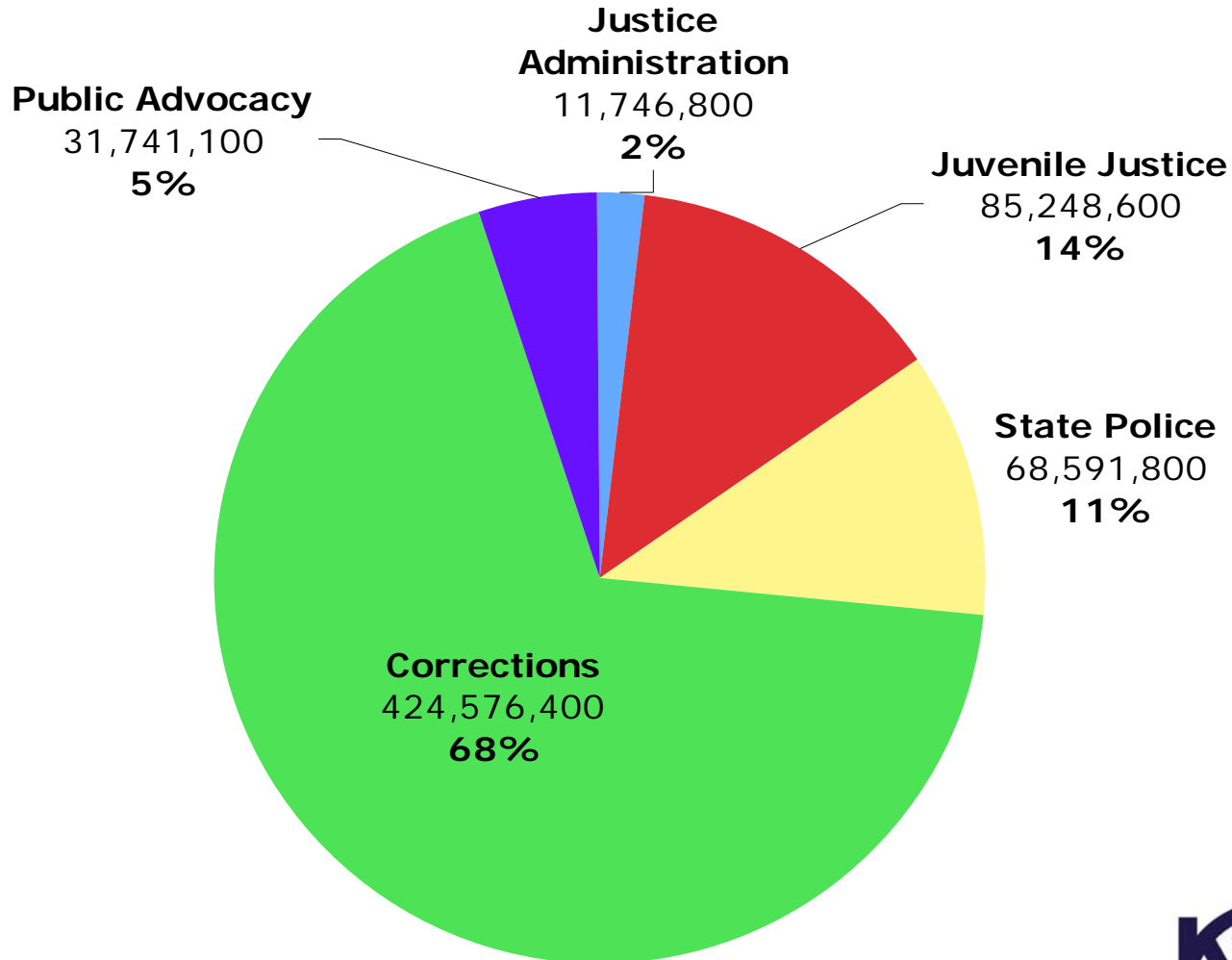
Source: Cabinet for Health and Family Services presentation to the Appropriations and Revenue Committee, January 14, 2009.

Justice & Public Safety Cabinet Expenditures by Revenue Source FY 2008-2010



Expenditures by Unit General Fund Only FY 2008-2010

Justice & Public Safety Cabinet



Budget Impacts (selected)

Justice & Public Safety Cabinet

- 2008 Impacts include:
 - Cuts to Civil Legal Services to Indigents, Jail Treatment Program, Drug Taskforce, Juvenile Day Treatment programs, Juvenile Prevention Contracts (34%), Kentucky Prevention Services Program (50%)
- Governor's 2009 Proposal – 4% reduction*
 - Further cuts to legal services, cuts to the Military Affairs CHALLENGE program, Gateway and Mary Kendell Home contracts, private child care placements, and the remainder of the prevention contracts for juveniles.

*Governor's proposal included protections for juvenile justice facilities and state police.

Source: Justice & Public Safety Cabinet presentation to the Appropriations and Revenue Committee, January 14, 2009

Budget Impacts (selected)

Justice & Public Safety Cabinet

- Impact of No New Revenue:
 - Cutting new class of state troopers,
 - Cuts to prison beds, and
 - Cuts to juvenile justice facilities.

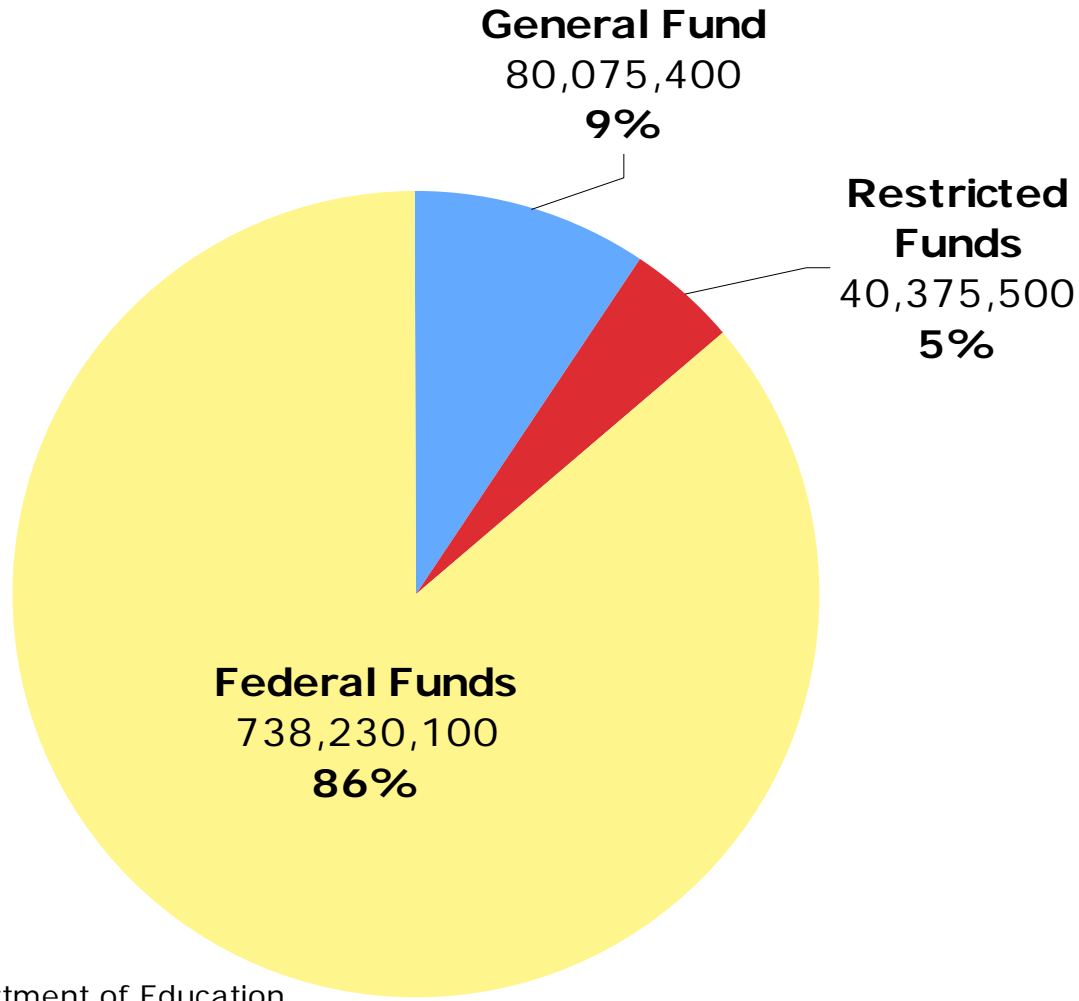
- Significant layoffs

Source: Governor Beshear's proposal to handle the revenue shortfall.

Education Cabinet *

Expenditures by Revenue Source

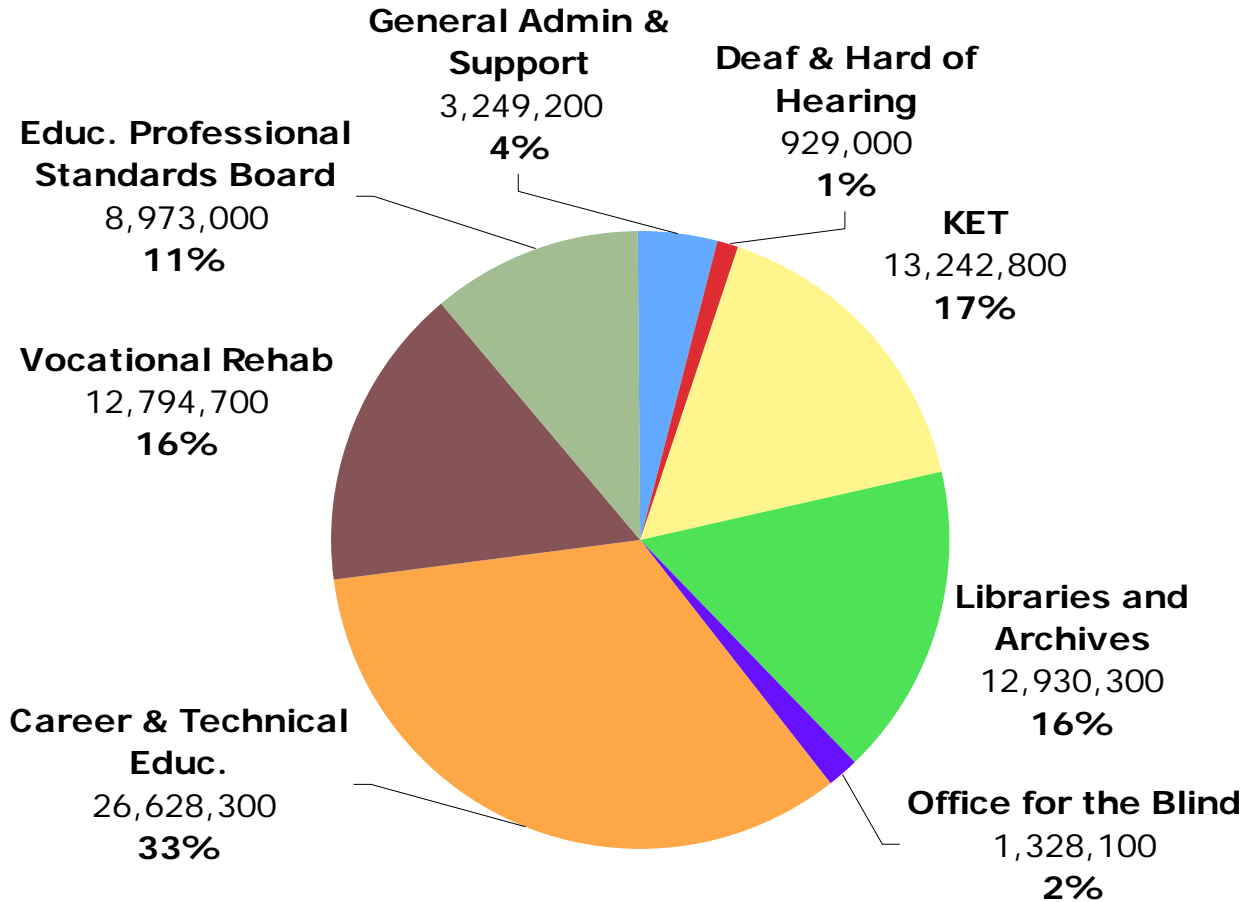
FY 2008-2010



*Excludes the Department of Education

Expenditures by Unit General Fund Only FY 2008-2010

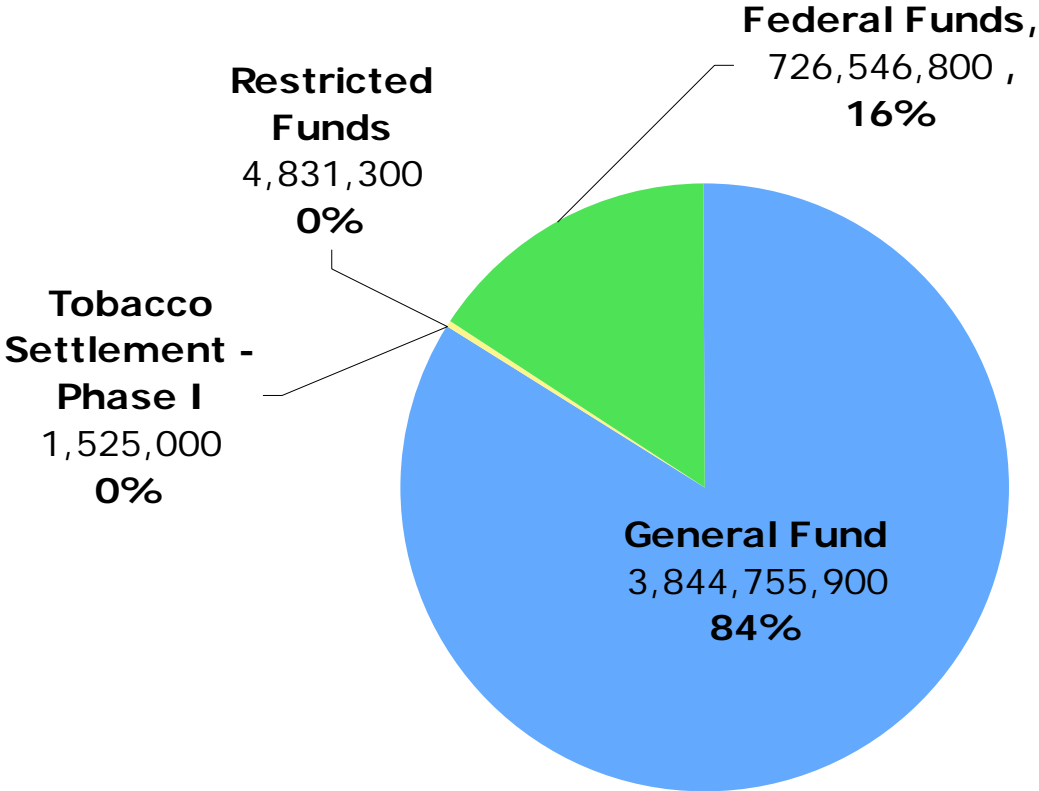
Education Cabinet



Budget Impacts Education Cabinet

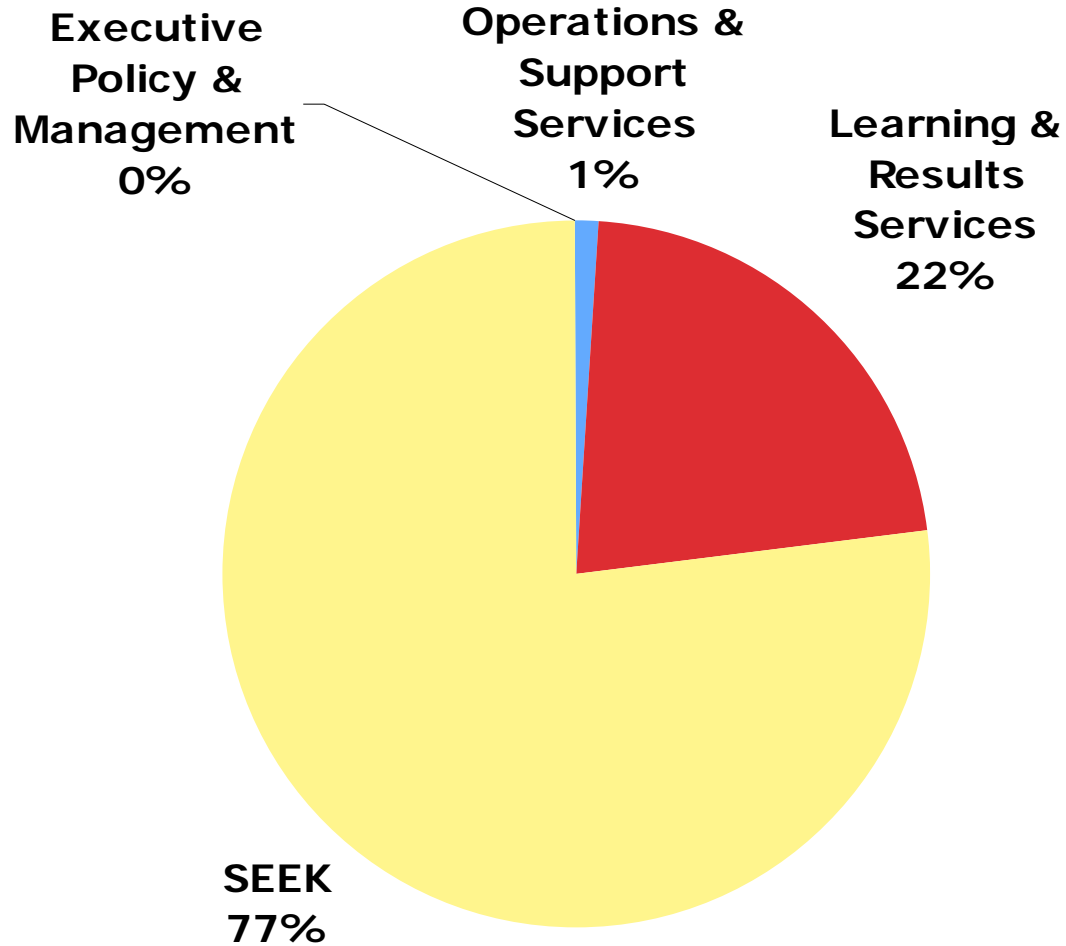
- 4% cut = \$3.2 million reduction
- Majority of revenue is federal funds.
 - Arguably, cuts will be less severe than other organizations that rely on general fund revenue.

Kentucky Department of Education Expenditures by Revenue Source FY 2008-2010



Expenditures by Unit General Fund Only FY 2008-2010

Department of Education



Budget Impacts (selected)

Department of Education

■ 2008 Impacts

- Reduction in funding for tutoring services, textbook allocations, and teacher professional development, reading and math grant cuts,
- Significant layoffs

■ Governor's Proposal – 2% reduction*

- Textbook cycle frozen
- Further reductions in KDE operations

*Governor protects SEEK – school district funding formula

Budget Impacts (selected)

Department of Education

■ No New Revenue

- Cuts to SEEK, kindergarten & pre-school, safe schools, gifted & talented, technology, transportation, career & technical education.
- Significant layoffs

Employment Impact

- Governor's Proposal –
 - 32.2% of budget shortfall plan is direct spending cuts.
 - Projected to result in the loss of an additional 2,000 jobs (on top of jobs lost in 2008).
- No New Revenue
 - 100% of the budget shortfall plan would be direct spending cuts.
 - Projected to result in the loss of an additional 6,000 jobs (on top of the jobs lost in 2008).

Links for More Information

- [Open Door: Kentucky's Portal to eTransparency](#)
- [Kentucky Office of the State Budget Director](#)
- [Kentucky Youth Advocates | Tax & Budget](#)

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Tax & Budget Initiative

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