

## Principles for State Fiscal Decisions

Legislators continually face tough decisions that are marked by tradeoffs as they engage in the budgeting process. In making those decisions, policymakers need to be mindful of both the short-term impact as well as the long-term future of the state and its citizens. Adhering to the following principles will ensure the best budget-balancing decisions are made.

### Always...

- Engage* Budget-balancing should be informed by experts who understand current needs as well as the impact of policy decisions on Kentucky's residents and the state economy.
- Stabilize* One-time revenues should not be the basis for long-term commitments. Use one-time revenues for non-recurring expenses.
- Anticipate* Many policy decisions have long-term fiscal implications. Ensure adequate revenues are in place to fund long-term investments.
- Adjust* Ensure structures are capable of adjusting if revenues fall below forecasts or if expenditures are greater than anticipated.
- Measure* Spend money only on programs that achieve desired outcomes. As with spending, tax credits and deductions must demonstrate effective results.

### In times of shortfall...

- Protect* The state's budget-balancing decisions should not make the impact of economic recessions worse for vulnerable Kentuckians least able to weather the downturn, including low-income families, laid-off workers, and other vulnerable populations. Policymakers also need to protect long term policies that contribute to a stronger Kentucky.
- Deliberate* When balancing the budget, the Commonwealth should consider all options, including raising revenue, tapping reserves, and deferring or cutting spending.
- Examine* Periods of fiscal stress require a focus on policies that move Kentucky forward. Spending cuts should be done cautiously and deliberately, taking into account all needs of the Commonwealth, evidence of effective performance, and long-term budget implications.

### In times of surplus...

- Withstand* During periods of budget surplus, government should resist the urge to overspend and to reduce revenue through tax cuts. Policymakers should build reserves to support the state in times of recession, infuse money where needed into state pension funds and other long-term underfunded obligations, and undertake needed one-time spending projects that do not create long-term spending commitments.