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Push the Governor to think broadly

It looks increasingly likely that Gov. Steve Beshear will soon be required to call the legislature back to Frankfort for a special session to deal with a state budget deficit projected to reach a staggering \$1 billion.

The governor sets the agenda for special sessions. Without his authorization, lawmakers cannot take up any issue.

That means the governor's official call for a special session must be broad enough to allow the General Assembly to consider a range of solutions to the state's budget mess, including both revenue increases and spending cuts.

The projected shortfall could well exceed 10 percent of the state's general fund dollars — nearly 4 percent of the total budget. If lawmakers close such a gap solely through spending cuts, many will feel the pain.

Over the past two years, the state has already made significant cuts to many vital programs, including efforts to keep juveniles out of trouble, mental health services and support for the disabled. The next round will go much deeper and will end up hurting the quality of life in this state.

Cuts in public safety will hinder Kentucky's ability to respond to emergencies and decrease the number of state police patrolling our highways. Cuts in health programs will disrupt the lives of many who can not afford necessary care, such as those who recently have lost their jobs. And cuts at colleges will push higher education out of reach for more families looking to build better lives. There is even concern that continued budget cuts will limit the state's ability to conduct mandated mine safety inspections, which are critically important to those who dig coal for a living.

Over the past two years, the legislature used a range of budgetary maneuvers, including tapping into the rainy day fund and transferring money between accounts to stave off even deeper spending cutbacks.

Now budgetary tricks have been used up, and state government is leaner than it has been in years. The next round of reductions will inflict real damage to programs that are critically important to many, particularly those most vulnerable during an economic downturn.

Given that reality, the legislature must also look at the revenue side of the budget.

To date, the discussion about new revenue has centered on efforts to legalize video slot machines and the funds coming to the state from the recent federal stimulus legislation. However, it's clear that these two revenue sources would fall far short of closing the budget deficit.

Instead of focusing on one or two ideas, Kentucky must look at a wider menu of options. There are in fact revenue possibilities that would help strengthen Kentucky's economic landscape.

For example, it's time we close loopholes that allow large, multi-state corporations to shift profits made here onto the books of their operations in other states.

This would help local businesses that pay their share of taxes because currently they operate at a competitive disadvantage with multi-state companies that take advantage of this tax loophole. Passing

this so-called combined reporting legislation would increase Kentucky's revenues from corporate taxes between 10 and 20 percent a year.

Over the long term, Kentucky faces a significant structural budget problem: necessary expenditures are growing faster than revenues. The main reason for this imbalance is that our tax system is more suited to the state's industrial past than to today's emerging service-dominated economy. Without a broader, updated revenue stream, our fiscal problems will continue to intensify.

The special session will largely focus on responding to the immediate fiscal emergency. But lawmakers should also seize the opportunity to consider additional revenue sources that will help address the current shortfall while planning for future thoughtful discussion about tax reform to correct the fiscal structural.

That's a debate that is critically important to Kentucky's future, and it should begin during the looming special session.

It's time for all of us to acknowledge that the state's fiscal challenges require a broad approach. Last November when facing a gap half the size, the governor's office said that nothing should be off the table in order to address the deficit in a fiscally responsible manner. We agree. Governor Beshear can demonstrate that good government is good politics by directing the legislature to consider the full range of budget solutions.

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