

# MONEY MATTERS...\$...\$...\$

FOR KIDS, FOR COMMUNITIES, FOR KENTUCKY

A Fiscal Policy Research Brief  
By Kentucky Youth Advocates

Vol. 4 No.1  
January 2002

## Fiscal Year 2002 State Budget Cuts: Round Two

### Introduction

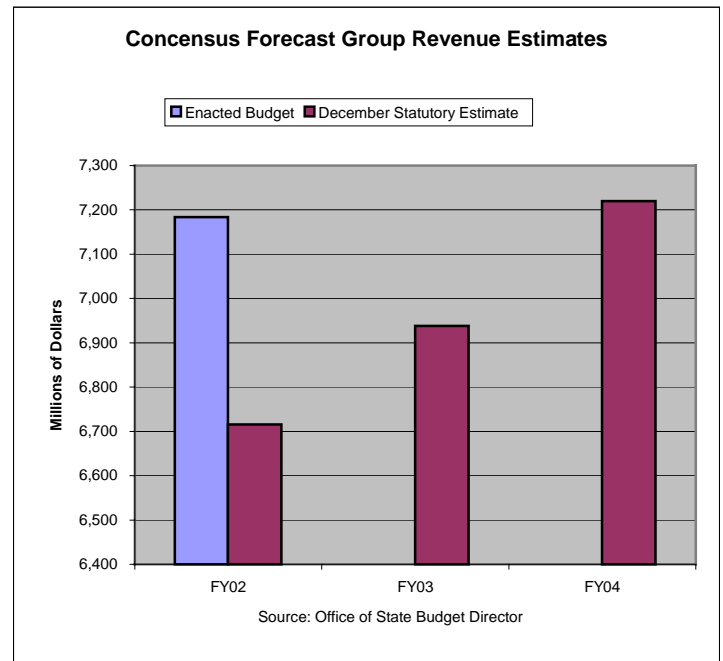
In the arena of budget cuts there are no “winners.” Despite the best efforts of the executive branch to protect services, the \$533 million current fiscal year budget shortfall only produced different degrees of “losers.” In fact, on December 17, 2001, when Governor Patton announced the details of the state’s second round of budget cuts he noted, with visible anguish, how cutting programs like post-secondary education really hurt. Although the governor did not convey similar sentiment about cuts to other state agencies, it is not difficult to reach such a conclusion after examining the breadth and depth of those cuts.

This article highlights the cuts to all agency budgets. In addition, we show that the legislative branch took a larger budget cut percentage wise than either the executive or judicial branch. We begin with a brief overview of the budget cuts.

### How Did We Get Here?

The road to our present fiscal crisis was paved with missed state revenue targets. Revenue projections made nearly two years ago when the fiscal year 2002 budget was developed have since significantly missed their targets.<sup>1</sup> The graph to the right depicts the FY02 budget shortfall along with the projection that state revenues will not reach the enacted FY02 level until the year 2004! Lower than expected personal income, corporate income, and sales tax revenue have led this decline. Fortunately, it appears that outside of overspending in the Medicaid program, state expenditures have remained in line with the 2000 General Assembly enacted appropriation levels.

Consequently, Kentucky faces a revenue crisis, not an overspending crisis. A sustained rise in the number of unemployed people or another external shock to our economy could, however, push spending higher.



<sup>1</sup> At the national level, the Business Cycle Dating Committee of the National Bureau of Economic Research declared that the country entered a recession in March 2001.

## Overview of Budget Shortfall

As of December 2001, the fiscal year 2002 budget shortfall stands at \$533 million. This consists of a \$326 million shortfall announced in September 2001 and another \$206 million shortfall announced in October.

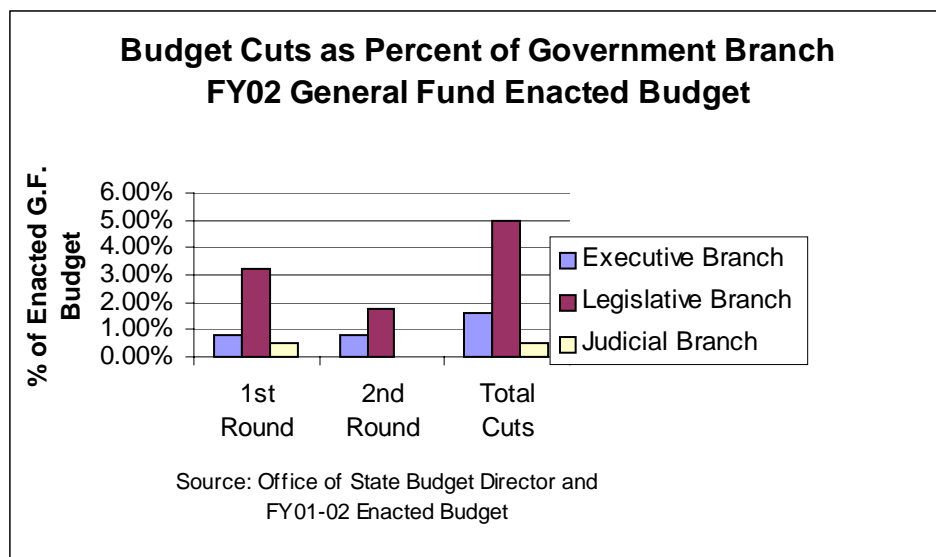
<b>Fiscal Year 2002 Budget Cuts by Category</b>			
<b>Category</b>	<b>1st Round Sept. 2001</b>	<b>2nd Round Oct. 2001</b>	<b>Total</b>
Executive budget cuts	57,345,100	66,525,200	123,870,300
Legislative budget cuts	1,300,000	700,000	2,000,000
Judicial budget cuts	1,000,000	-	1,000,000
Carry-over funds (FY01)	20,200,000	-	20,200,000
Lapsed funds (FY02)	86,000,000	65,700,000	151,700,000
Other	14,200,000	73,100,000	87,300,000
Rainy day fund	120,000,000	-	120,000,000
Excess unapprop. restricted funds	26,600,000	-	26,600,000
Investment income (unapprop)	-	400,000	400,000
<b>TOTAL</b>	<b>326,645,100</b>	<b>206,425,200</b>	<b>533,070,300</b>

Source: Office of State Budget Director and author analysis

The budget shortfall hit executive agencies particularly hard. Despite raiding the state's rainy day fund for one-half of its cache—\$120 million—the governor still needed to cut agency budgets by more than \$123 million. To balance the remaining shortfall, the governor used a combination of actions, all of which are outlined in the table above.

## Branch Budget Cuts

All three governmental branches cut their general fund budgets in response to the present fiscal shortfall. As noted, the executive branch cut their agency general fund budgets by \$123 million, or 1.6%. Legislative and judicial branch budget cuts could not be mandated, but each reduced their general fund budgets. The legislative branch cut \$3 million, or 5%, from their general fund budget. The judicial branch trimmed \$1 million, or 0.5% from their general fund budget. They did not offer any budget cuts in the second round.



## Agency Budget Cuts

Every cabinet general fund budget was cut—including the Department of Education (central office expenditures). These cuts ranged from \$28 million in the Cabinet for Health Services to \$115,000 in the Personnel Cabinet. Some of these agencies also had restricted fund budget cuts.

As a percent of total general fund dollars, we can see just how deep these budget cuts were. The Transportation Cabinet had the deepest general fund budget cut: 20%.<sup>2</sup> The Finance and Administration Cabinet and Education Cabinet had the shallowest cuts at 0.4% and 0.1%, respectively.

## Conclusion

Kentucky's economic downturn, similar to many other states, has led to a severe budget shortfall. As a result, agency expenditures were slashed and significant one-time dollars (e.g., rainy day fund and lapsed funds) were used to balance the books. Although it appears that great efforts were taken to dampen the effects of these budget cuts on service delivery, it would be inconceivable to assume only neutral consequences. The bottom line is: less money means fewer services. While these budget cuts may not have immediately transparent effects on services, reducing administrative expenses by slashing training and leaving vacant positions open, for example, certainly impedes the quality, if not the quantity, of those services.

Looking forward to the next biennium, the fiscal outlook remains bleak. In fact, revenues are not forecast to exceed the enacted FY2002 budget until FY2004. Under such economic conditions, direct services to families and children face the prospect of small or no appropriation increases during the next biennium.

<b>Executive Branch Cuts: Most to Least (Percent General Fund Enacted budget)</b>	
<b>Cabinet</b>	<b>% Cut</b>
Transportation	20.0%
General Government	8.5%
Economic Development	4.8%
Revenue	4.7%
Justice	4.6%
Tourism Development	3.7%
Workforce Development	3.0%
Personnel	2.9%
Education, Arts, & Humanities	2.9%
Families & Children	2.7%
Health Services	2.7%
Natural Resources & Protection	2.5%
Public Protection & Regulation	2.2%
Post-Secondary Education	1.6%
Labor	0.6%
Finance & Administration	0.4%
Education (K-12)	0.1%
Median	2.9%

Source: Office of State Budget Director and author analysis

<sup>2</sup> Most of the Transportation Cabinet's budget (99%) comes from the federal government and restricted state funds (e.g., motor fuels tax).