

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

FOR KIDS, FOR COMMUNITIES, FOR KENTUCKY

*A Fiscal Policy Research Brief
By Kentucky Youth Advocates*

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Fiscal Year 2002 State Budget Cuts: Round One

In September, Gov. Paul Patton announced \$59.7 million in budget cuts for the current fiscal year, which ends June 30, 2002. These cuts affected most state agencies, including three which have a direct impact on children in Kentucky – the cabinets for Families and Children, Health Services, and Justice (Department of Juvenile Justice). Other budget changes will affect the KIDS Now early-childhood-development initiative passed by the General Assembly in 2000. What follows are the details of these cuts and changes as well as a discussion of the context in which they were made.

What's the problem?

The slowdown of the economy over the past year has meant that Kentucky isn't taking in as much tax revenue as it expected. In fact, state analysts project that the state will take in \$326.7 million *less* revenue in the current fiscal year (July 2001 through June 2002) than was originally budgeted by the 2000 legislature. Because Gov. Patton is required by law to keep the budget balanced if revenue projections change, he shifted \$267 million in state funds (including part of the state's rainy-day fund) to the General Fund budget. He then cut \$57.4 million in spending by executive-branch agency budgets. Cuts by the legislative and judicial branches brought total agency cuts to \$59.7 million (**Table 1**).

Of the \$267 million in unappropriated state funds, the governor tapped \$120 million from the rainy day fund, or about one-half of it, which is the most the law allows. He also wrote off \$112 million in "excess appropriations" – money that agencies didn't spend in past years – and \$34 million from sources such as unspent tobacco settlement funds appropriated for KIDS Now and funds left over from the high-risk pool health-insurance program last year. For KIDS Now, the "excess" appropriation represents money that could have been carried over in the KIDS Now trust fund account and used in later years for child care initiatives and health improvement programs for children. First year start up costs are predictably less than ongoing costs of established programs.

FY 2002 Budget Reduction Plan

Announced September 2001

(In millions of \$)

FY 02 Projected Budget Shortfall	326.7
<u>Revenue Sources*</u>	
Budget Reserve	120.0
Excess General Fund Appropriations	86.0
Excess Unappropriated Restricted Funds	26.6
Other Actions	<u>34.4</u>
Subtotal	267.0
<u>Spending Cuts</u>	
Executive Branch	57.4
Legislative Branch	1.0
Judicial Branch	<u>1.3</u>
Subtotal	59.7
Total Revenue and Expenditure Changes	326.7

This does not refer to new revenue but to existing money that had not been previously appropriated or was no longer needed as intended.

Table 1

The governor then cut agency budgets on a case-by-case basis (**Table 2**). The cuts range from about a quarter of 1 percent in the Finance and Administration Cabinet to 18 % in the Transportation Cabinet. The state Department of Education was essentially exempted from this round of cuts, but other agencies that directly affect children were not. The Cabinet for Families and Children’s (CFC) General Fund budget was cut by 2.67 percent, the sixth highest cut among the 14 agencies in the governor’s executive cabinet; Health Services was cut by 0.79 percent, placing it ninth; and Justice was cut by 3.07 percent, ranking second.

**FY 02 State Budget Reduction Plan:
By Branch of Government
(Announced September 2001)**

	General Fund Appropriations Only			
	FY 02 Budget	Sept. 2001 Budget Cut	% Cut	Revised Appropriation
Governor				
Governor’s Office	8,521,000	278,600	3.27%	8,242,400
Post-Secondary Education	124,558,400	125,000	0.10%	124,433,400
All Others	115,548,200	9,838,400	4.88%	105,709,800
<u>Cabinets</u>				
Economic Development	13,535,800	387,700	2.86%	13,148,100
Education, Arts, & Humanities	209,836,700	4,941,100	2.35%	204,895,600
Education	2,861,097,500	1,563,700	0.07%	2,859,157,800
Families & Children	322,239,500	8,600,000	2.67%	313,639,500
Finance & Administration	290,634,300	740,500	0.25%	289,893,800
Health Services	1,072,618,000	8,464,700	0.79%	1,064,153,300
Justice	505,487,800	15,523,400	3.07%	489,964,400
Labor	21,639,400	86,300	0.40%	21,553,100
Natural Resources & Protection	62,415,000	310,000	0.50%	62,105,000
Personnel	3,920,200	115,500	2.95%	3,804,700
Public Protection & Regulation	52,503,500	419,000	0.80%	52,084,500
Revenue	93,546,000	3,059,000	3.27%	90,487,000
Tourism Development	40,124,000	699,300	1.74%	39,424,700
Transportation	6,097,200	1,100,000	18.04%	4,997,200
Workforce Development	54,290,200	1,092,900	2.01%	53,197,300
Cabinet Subtotal	5,609,985,100	47,103,100	0.84%	5,562,882,000
General Fund Total				
Executive	5,858,612,700	57,345,100	0.98%	5,801,267,600
Legislature	40,049,400	1,300,000	3.25%	38,749,400
Judiciary	192,590,500	1,000,000	0.52%	191,590,500

Table 2

Which children's programs were cut?

Here are the details:

Families and Children

The biggest chunk of this cabinet's \$8.6 million budget cut was \$5.9 million from the welfare program, specifically the Temporary Assistance to Needy Families (TANF) "maintenance of effort" fund. The federal government requires states to commit between 75 and 80 percent as much as it does to the states' welfare programs. Kentucky had budgeted 85 percent. The \$5.9 million reduction puts Kentucky at 80 percent.

Another \$1 million comes from eliminating the state's matching funds for local or regional welfare-to-work programs. Clients will get similar services through other programs.

Also eliminated was \$1 million in funding for the Central Kentucky Re-ED Center in Lexington, which the state closed this past summer. The residential center educated and housed troubled boys ages 7 to 12 during the week; they went home on the weekends. About 24 boys participated last year. The cabinet justified closing the center by arguing that school districts, not the state, are legally obligated to educate children with special needs.

Finally, the cabinet cut spending by reducing two contracts. Because of fewer child placements than expected at a Caritas psychiatric facility in Louisville, that contract was cut by about \$400,000. Because demand for services by the Institute for Family Centered Services (IFCS) in Lexington decreased last year, its state contract for FY 2002 was cut by \$300,000. The institute provides in-home counseling and other services to families living in the Lexington and Louisville metropolitan areas that have children with behavioral problems.



Cabinet for Families & Children Budget Cuts

Reduce TANF Maintenance of Effort:	\$5,900,000
Discontinue Welfare-to-Work Match:	\$1,000,000
Close Central KY Re-Ed:	\$1,000,000
Reduce Caritas Contract:	\$ 400,000
Reduce IFCS Contract/Other:	\$ 300,000
Total	\$8,600,000

Cabinet for Health Services

Most of the \$8.5 million cut from the Cabinet for Health Services comes from mental health/mental retardation (\$4.2 million) and public health programs (\$3.7 million). The state trimmed its contracts with community mental-health centers by \$2 million. At a September meeting of the legislature's Interim Committee on Health and Welfare, Rep. Bob Heleringer of Louisville estimated that these cuts would reduce services to 2,018 people. Another \$1.8 million comes from the elimination of some repair projects, as well as reductions in overtime and operating costs, at various state mental-health facilities. The remaining \$475,000 comes from central office administration.

The cuts in public-health programs occur in several areas, including \$1 million from training for employees and \$1 million from personal-service contracts and administrative costs

Cabinet for Health Services Budget Cuts

Mental Health/Retardation:	\$4,198,900
Public Health:	\$3,717,200
Aging Services:	\$ 255,800
Children w/ Special Needs Comm.:	\$ 61,800
Administrative Services:	\$ 231,000
Total	\$8,464,700

in the Division of Adult and Child Health. Administration officials note that while there may be some reductions in services, less state money is required because of lower-than-expected activity levels and more available federal money. In addition, public health administrative expenditures were reduced by almost \$1.2 million, including nearly \$880,000 for operating and equipment expenses and \$280,000 in credits for unfilled vacancies. Finally, \$72,000 came from the elimination of an unfilled immunization-nurse position and a pool inspector position at the Barren River District Health Department.

The Commission on Children with Special Health Care Needs budget was cut by \$61,800 through the elimination of funding for vacant positions. As a percent of total personnel costs, this budget cut represents less than 1%.

Justice Cabinet, Juvenile Justice Department:

Of \$15.5 million in cuts from the Justice Cabinet, \$4.3 million comes from the Department of Juvenile Justice. Construction and environmental delays for two regional juvenile detention centers (in Boyd and Laurel counties) allowed the department to reduce spending by \$1.6 million. The 48-bed center in Laurel is expected to open by the spring of 2002.

The Boyd center is not expected to be complete for another year.

The state will also reduce its total subsidy for county juvenile detention facilities by \$1.2 million. This is because lower youth arrest and crime rates have led to fewer detentions than the state anticipated.



Juvenile Justice Department Budget Cuts	
New Juvenile Center Delays:	\$1,600,000
County Subsidy Reduction:	\$1,200,000
Lower Private Contract Costs:	\$1,500,000
Total	\$4,300,000

Also cut from the Juvenile Justice budget were contracts for residential placement of juveniles who are committed by the courts to state care and treatment. The state originally budgeted for about 31 more juveniles per day than are actually being served and has reduced that part of the budget by \$1.5 million.

What else was cut?

Non-cabinet agency budgets were also cut. Trimming their costs by 3.3 percent were the Office of the Governor, Office of the State Budget Director, the Agriculture Department, the Attorney General's Office, the Auditor's Office, the Secretary of State, the state Treasurer, the Department of Military Affairs and the Commission on Human Rights. In total, \$4.6 million was cut from these and other general government agency expenditures.

The legislature also reduced its general fund budget by 3.3% or \$1.3 million. The judicial branch reduced its fiscal year 2002 general fund budget by 1% or \$1 million.

Other Agency Budget Cuts	
General Government:	\$4,617,000
Legislative Branch:	\$1,300,000
Judicial Branch:	\$1,000,000
Total	\$6,917,000

What wasn't cut?

The governor's budget reduction plan specifically exempted non-administrative education expenditures, Medicaid benefits, and debt-service payments. That placed about 71% of the executive branch's FY 2002 General Fund budget off limits.

Of these areas, education represented the most significant exemption. The General Fund budget for primary, secondary and post-secondary education in FY 2002 is \$4 billion, or 56% of the total \$7 billion executive-branch budget. Medicaid spends \$764 million from the General Fund. This is the match for nearly \$2.4 billion in federal funds. (Even though Medicaid benefits were exempt from this round of budget cuts, the program faces its own deficit. In FY 2001, spending exceeded state and federal appropriations by about \$62 million; this year the gap is \$280 million. Recently state Medicaid officials announced they would put emergency regulations in place that would curb what the program spends on the most costly, brand-name drugs.) Debt service appropriations totaled \$244.7 million in FY 2002 and also were not cut.

In addition, the governor unsuccessfully attempted to shift responsibility for paying Title I teacher health-insurance premiums to local school districts, arguing that Title I teacher salaries are funded by the federal government so the state should not have to provide their health insurance. Various school associations and districts convinced the governor to reverse this part of his budget-cutting plan.

What does the future hold?

Policy makers expect that the state may have to make even more cuts to balance the current-year budget. Revenues for August were essentially stagnant: receipts totaled \$455.6 million compared to \$458.7 million a year ago. Furthermore, total revenue growth for FY 2002 has been flat. Given revenue growth projections of 3.5%, this extremely slow start has many government officials concerned.

The flat revenue growth also does not bode well for the upcoming biennial budget to be considered by the General Assembly when it convenes in January 2002. At the very least, there will be very little "new" money for budget expansion. At worst, covering inflationary growth in some programs may require cuts in other programs unless the state finds a way to raise more revenue.



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Kentucky's State Budget Cuts: Round One

- *Which Cabinets were affected the most?*
- *How did the budget cuts affect children and family services?*
- *What's next? Are more budget cuts expected?*



These questions and more are explored in the October 2001 issue of Money Matters.

This research brief is produced by Kentucky Youth Advocates, through the State Fiscal Analysis Initiative. Any questions or requests for further information concerning Money Matters should be directed to Rick Grayce, Senior Analyst – SFAI, at (502) 875-4865 or rgrayce@kyyouth.org. Additional budget information can be found at our website at www.kyyouth.org.

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