



Statement
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**Message to Senate: Smart Budgeting Today is Key
to Building Prosperous Future for Kentuckians**

**Statement by Terry Brooks,
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There is no doubt that the budget crafting done by the House and now passed to the Senate is extremely difficult. Kentucky is in the midst of the worst recession since the Great Depression. Unemployment remains consistently higher than the national rate, need for government assistance is unusually high evidenced by the growing demand for food stamps, and revenue coming into the state remains exceptionally low. Kentucky policymakers do not have an easy job when it comes to balancing the next two year budget, and if it's not done with extreme care choices made today could not only make the impact of the recession worse but could stall our progress as a state – making us less economically competitive in the future.

Budgeting during difficult times presents its own set of challenges. By adhering to the following smart budgeting practices, policymakers can minimize harm to individuals, families, and businesses and can avoid further damage to our economy already made fragile by the recession.

- **Efficient Use of State Tax Dollars:** The recession provides an opportune time to focus on how to achieve our priorities in the most efficient manner by utilizing best practices, the latest research, and new technologies. For example, efforts to decrease the prison population while providing the necessary support structure to ensure the successful rehabilitation of nonviolent offenders is a forward-thinking policy measure that will save the state money.
- **Using All Available Resources:** Through the recession Kentucky's leaders appropriately used the Rainy Day Fund as intended to help fill the gap when state revenues were lower than projected. The Governor and the legislature put the American Recovery and Reinvestment dollars to work in a responsible way to help sustain important programs when state money was not available to do so. Similarly, they have redirected agency reserve funds, which would not impact service delivery, to the general fund to help balance the budget.
- **Scrutinizing All Spending – Including Tax Breaks:** When times are tough, we all take a hard look at our spending to identify areas where we can cut back or change our spending habits without completely doing away with the things we want and need. State government is no different. When revenues are low, all spending must be scrutinized to ensure it is serving an intended purpose. Tax breaks that essentially spend Kentucky's tax dollars in return for some benefit to the state must receive the same scrutiny. Legislators are not only justified in asking if tax incentives are working as intended – it is their duty to do so.

- **Prioritizing Goals:** Kentucky has many admirable goals but they are not all equal. Some goals are simply more important than others, especially when revenues are scarce. For example, with the bipartisan passage of Senate Bill 1 in 2009, legislators sent a clear message that education reform is a priority in Kentucky. Clearly identifying priorities that must be adequately funded to keep the state on track and priorities that can be put on hold until revenues increase is a necessary part of budgeting during difficult times.
- **Improving the Collection of Taxes:** Ensuring that taxes owed are paid is important all the time, but even more so when revenue is short. The Governor and House have agreed that there is room to enhance tax collections by making sure the proper systems are in place and adequate personnel are available. This is a smart decision that will pay off. Advances in technology impact sales tax collections in both negative and positive ways. Kentucky policymakers need to be aware of these impacts and adjust collection efforts accordingly.
- **Increasing Revenue:** As the recession impacts household incomes, families are necessarily looking for ways to lower their bills, but they also look for ways to increase the amount of income coming into their household. State government must do the same in a way that has a less negative impact on the economy than spending cuts. Spending cuts can harm Kentucky's economy by increasing unemployment and by cutting or eliminating services that people impacted by the recession need now more than ever. This can make it even harder for Kentucky to recover when the recession ends. On the other hand, targeted revenue increases as proposed by the House can be a less damaging alternative.
- **Identifying the Future Impact of Today's Decisions:** Kentucky has been severely impacted by the national recession and it is yet unclear how long it will take for the economy to fully recover. This experience provides an opportune time for legislators to put in place a structure for the long-term fiscal health of our commonwealth. This would include spending reforms so revenue is freed up to be invested in priority areas; evaluations of tax expenditures to ensure tax breaks are resulting in the expected net benefit to the state; and tax reform that reflects 21st century economic activity and results in dependable state revenues to keep us moving toward our goals.

In an effort to balance political feasibility and the preservation of state priorities, House members made some unusually tough decisions in this budget session, like seriously taking up the call made by the media this winter to carefully examine tax breaks and looking for ways to raise additional revenue. We hope the Senate stays the course by supporting and identifying true efficiencies – not just reductions in cost; scrutinizing spending to make sure it aligns with Kentucky's priorities; and by ensuring that our highest priorities are adequately funded even in the midst of a recession.

We also hope that all legislators will recognize and seize the opportunity presented by the recession to truly focus on Kentucky's future by leading the way for 21st century tax reform. Doing so would put the state in a position to quickly recover from the national recession and give us the necessary resources to grow ever more economically competitive in the future.

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Kentucky Youth Advocates is the home of Kentucky's Tax and Budget Initiative, a member of the nationwide State Fiscal Analysis Initiative.