



March 2008

Kentucky House of Representatives Makes Substantial Changes to Governor's Recommended Budget

Summary

The Kentucky House of Representatives passed its version of the executive budget. [HB 406](#) cleared the House on an 84-14 vote. The House also passed the legislative budget, [HB 407](#) and the judicial budget, [HB 408](#). With only 13 days left in the session, the budget bills now await Senate review and action. The House's version spends \$19 billion over the biennium, which includes projected new revenue to be raised in [HB 262](#), which also passed the House by a much slimmer margin than the budget bill, with a vote of 50-45.

[HB 262](#) includes an increase in the cigarette tax of 25 cents per pack and includes a 13.75 percent tax on other tobacco products such as snuff and cigars. Also, the bill would extend the state's sales tax on five specific services: air charters (including hot air balloons), armored cars, commercial linen, janitorial services and security firms.

The House's budget provides an additional \$292.3 million to the state's General Fund through increases in the state's cigarette tax, adding state sales tax to selected services, and projected additional savings through operational efficiencies and the return of unused or "lapsed" General Fund appropriations.

The House's budget realizes additional savings primarily through three items: not filling vacant positions resulting from the retirement of state employees taking advantage of the January 31, 2009 retirement window; restructuring the state's debt payments and returning (lapsing) unused debt service requirements to the General Fund; and requiring other savings through agency operating efficiencies.

The House's proposed tax package is expected to generate nearly \$300 million in new revenue over the biennium. Of that, \$230 million is from the increased tobacco tax.

The House budget restores \$483.4 million over the biennium. The restoration is accomplished by the new taxes and several adjustments to the Governor's proposed budget. Included in the House budget is funding to restore monies captured as a result of the Governor's Budget Reduction Order.

Nearly \$150 million a year for the next 2 years is projected to be saved by restructuring debt. An additional \$350 million is to be realized through retirement of state employees.

One of the most significant restorations of funds is to the postsecondary education community with \$253.4 million. \$126.7 million is allocated for each year of the biennium for the base operating budgets of the universities.

The House also extends Beshear's allocation to Bucks for Brains from an additional \$60 million to \$115 million in funding.

While the Governor did not provide additional money to SEEK, the House added an additional \$42 million in base SEEK funding. This is a 1.6 percent increase in FY 2009 and a 5.6 percent increase in FY 2010. The House also restored \$33.1 million in KEES scholarships that had been eliminated under the Governor's plan. The House also included salary increase for teachers of 1 percent for the first year and 3 percent for the second year of the biennium.

The House budget also provided money to continue the update of the Medicaid Modernization system.

The following information details the differences between the House budget and the Governor's Recommended budget.

Additional General Fund Revenues – \$802.3 Million

The House budget increases the state's General Fund revenues by approximately \$802.3M by increasing the state's cigarette tax and adding selected services to the state's sales tax requirements as follows:

Increase in Cigarette Taxes – \$230 Million

The House budget includes additional General Fund revenues to be received from its adoption of HB 262 that increases the state's cigarette tax by twenty-five cents per pack (from 30 cents per pack to 55 cents per pack) and increases the tax on other tobacco products by 6.25% (13.75% total).

HB 262 also expands the category of other tobacco products to be taxable to include moist snuff, cigarette papers, and other consumable products not currently subject to the cigarette tax and implements a tax on the inventories of floor stocks of cigarettes and other tobacco products as of July 31, 2008. The House estimates the General Fund would receive an additional \$230 million during the two-year budget period. (See Chart below for detail of tax receipts.)

Sales Taxes on Selected Services – \$62.3 Million

The House also proposed adding the state's sales tax to the following services: air charters, armored car services, security services, commercial janitorial services, and selected commercial linen services. The House estimates charging state sales taxes on these services will increase the state's General Fund by approximately \$62.3 million over the next two years.

HB 262 - Increases in Cigarette & Sales Taxes					
Product	Current Rate	Increase	General Fund Receipts (\$ Millions)		
			FY 2009	FY 2010	Total
Cigarettes & Other Tobacco					
Cigarettes (per pack)	30 Cents	25 Cents	\$93.8	\$102.3	\$196.1
Other Tobacco Products	7.50%	6.25%	\$ 9.5	\$ 10.4	\$ 19.9
Floor Stock (Cigarettes)		25 Cents	\$12.5		\$ 12.5
Floor Stock (Other Tobacco Products)		6.25%	\$ 1.5		\$ 1.5
Total Tax Increase - Cigarettes & Other Tobacco			\$117.3	\$112.7	\$230.0
Sales Tax on Selected Services			\$ 27.2	\$ 35.1	\$ 62.3
Total - Additional General Fund Revenues - HB 262			\$144.5	\$147.8	\$292.3

Budget Lapses and Savings – \$510 Million

In addition to the adoption of increased taxes, the House budget directs state agencies to implement various internal savings and efficiencies resulting in additional General Fund receipts totaling \$255 million each fiscal year as follows:

Savings from Restructuring General Fund Supported Debt – \$300 Million

The House estimates \$150 million in debt service savings each fiscal year of the biennium will be realized by restructuring all current General Fund supported debt. Any debt service savings resulting from the restructuring that is included in an agency's budget will be returned (lapse) to the General Fund.

Savings from Vacant Positions Due to January 31, 2009 Retirement Window – \$170 Million

The House estimates personnel savings totaling \$85 million each fiscal year will be realized as a result of not extending the current retirement window beyond January 31, 2009 and prohibiting agencies from filling vacant positions resulting from employee retirements. The Kentucky Retirement Systems estimates 5,463 state employees will retire as a result of the incentives offered through the retirement window that ends on January 31, 2009.

However, the House budget assumes 3,418 state employees will take advantage of the retirement window. In addition, the House directs that savings resulting from the retirements of state employees in non-hazardous positions totaling be transferred to the General Fund. The House budget permits the Governor to use any savings in excess of \$85M each fiscal year where he deems appropriate.

Other Operating Efficiencies & Debt Service Lapse Amounts – \$40 Million

The House estimates state agencies can save \$20 million each fiscal year through implementing various operating efficiencies and debt services savings due to timing on bond issuances. Mandated operating efficiency savings and unused debt service savings will be returned (lapse) to the credit of the General Fund.

Other General Fund Revenue – Additional Agency Fund Transfers – \$4.5 Million

Transfer of Agency (Restricted) Funds to the State General Fund

The House budget increases the total amount of the Governor’s recommended level of agency funds to be transferred to the state General Fund by \$4.5 million (\$416.1 million total).

Summary of Increased Spending Authorizations

The budget adopted by the House of Representatives increases the spending authority recommended by the Governor for the executive branch by \$793.9 million. One of the primary increases included in the House budget is the restoration of the reduced funding incurred by state agencies as a result of the execution of the Governor’s FY 2008 General Fund Budget Reduction Order. This is evidenced by the fact that \$472.4million of the increased funding to state agencies is to restore the funding reductions implemented during the current fiscal year. (See Chart below). A few of the agencies and programs receiving restoration of funding include the state’s postsecondary institutions; child placement and care programs, juvenile justice programs, mental health and mental retardation programs, and the state’s elementary and secondary education programs.

The following Chart identifies the agencies that will receive restoration of General Fund amounts (biennial totals):

Current Year Budget Reductions Restored in House Budget	
Agency/Department	Amount Restored (\$ Millions)
Office of the Governor	\$0.6
Department of Military Affairs	\$0.3
Commission on Human Rights	\$0.2
Office of the Attorney General	\$1.4
Commonwealth & County Attorneys	\$11.1
School Facilities Construction Commission	\$(11.0)
Commerce Cabinet	\$1.0
Education Cabinet	\$2.5
Kentucky Department of Education (KDE)	\$91.9
Environmental & Public Protection Cabinet	\$0.2
Finance Cabinet	\$2.0
Cabinet for Health & Family Services (CHFS)	\$95.7
Justice & Public Safety Cabinet	\$21.8
Postsecondary Education	\$253.4
Transportation Cabinet	\$1.3
Grand Total – General Fund Restorations	\$472.4

In addition to restoring the loss of General Fund dollars as a result of the FY 2008 General Fund Reduction Order, the House budget also increased the General Fund support for the purposes of providing salary increases for local school district personnel, including teachers; increasing the state's per pupil funding for elementary and secondary education; increasing funding for the "Bucks for Brains" program; and increasing funding for other state programs. The following Chart identifies the agencies that received increased General Fund appropriations:

Increased General Fund Appropriations for Executive Branch Agencies	
Agency/Department	General Fund Increase (\$ Millions)
Energy Policy	\$2.0
Veterans Affairs	\$0.4
KY Infrastructure Authority (KIA)	\$4.4
Department of Military Affairs	\$0.2
Governor's Office for Local Government	\$0.6
Special Funds - (Area Development Fund)	\$5.8
Department of Agriculture	\$0.3
Appropriations Not Otherwise Classified	\$(12.0)
Commerce Cabinet	\$3.2
Economic Development Cabinet	\$4.0
Education Cabinet	\$5.2
Kentucky Department of Education (KDE)	\$250.0
Finance Cabinet	\$2.8
Cabinet for Health & Family Services (CHFS)	\$36.7
Justice & Public Safety Cabinet	\$(18.0)
Personnel Cabinet	\$(0.6)
Postsecondary Education	\$37.8
Transportation Cabinet	\$(1.3)
Grand Total - General Fund Increases	\$321.5

As noted above, in some instances the House budget reduces the agencies General Fund budget allocations to provide for other House priorities, usually within the same cabinet or program area. Where available, the House supplanted the General Fund reductions with Agency (Restricted) Funds, or in the case of the Transportation Cabinet, the General Fund reduction was supplanted with Road Fund dollars.

Increased General Fund Support Bond Authority – \$211 Million

The House budget increases the state's bond authorization that is supported with General Fund debt service payments by budget by \$211 million. The House authorizes additional bonds to construct the state's fourth (4th) State Veterans' Nursing Home, create a Kentucky Agriculture Heritage Center, construct the Hazelwood Intermediate Care Facility, provide for the expansion of the Lexington Community College Classroom/Laboratory Building, and provide for maintenance and renovation of state facilities.

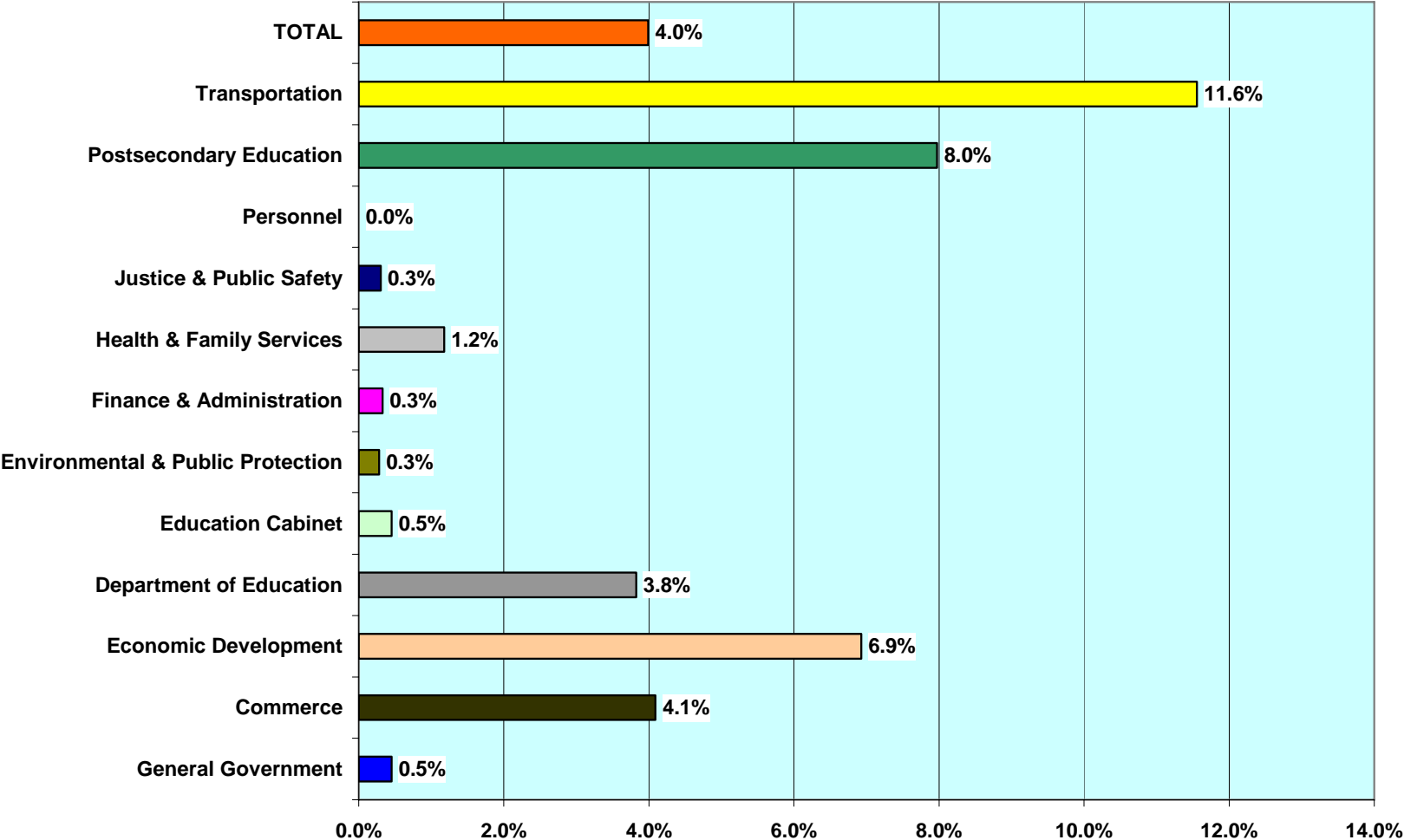
In addition to the these projects, the House authorizes \$100 million in bonding authority to provide for the infrastructure (water and sewer projects) in non-coal producing counties and \$10 million in bonding authority to provide an infrastructure

pool for Local & District Health Departments. Also, the House increases the \$60 million bonding authority recommended by the Governor for the postsecondary education “Bucks for Brains” program by \$55 million.

The following chart describes the increased bonding authority included in the House budget that is supported with General Fund debt service payments. Although the House increased bonding authority supported with other funding sources, such as Restricted Funds or university funds, the chart below addresses only the bonding authority supported with General Fund debt service payments:

Increased Bond Authorizations (Supported with General Fund Debt Service Payments)		
Agency/Department	Program/Initiative – Purpose of General Fund Restoration	New Bonding Authority (\$ Millions)
Veterans' Affairs	4th State Veterans' Nursing Home	\$10.5
Agriculture	KY Agriculture Heritage Center	\$10.0
KY Infrastructure Authority	Infrastructure for Non-Coal Producing Counties - Also \$8.8M Tobacco Funds	\$100.0
Agriculture	Animal Shelters	\$0.5
Commerce	KY Center for the Arts - Provide debt for maintenance & renovation	\$9.0
KY Dept. for Education (KDE)	Operations & Support Services - FFA Leadership Training Center Renovation The House also realigned the \$7M Bond Authorization for On-Line Assessment to provide additional Bond Authority for Knowledge Management Portal/KIDS (\$3M) & Student Data Management System - Phase 2 (\$4M)	\$2.0
Cabinet for Health & Family Services (CHFS)	Mental Health & Mental Retardation - Construct Hazelwood Intermediate Care Facility	\$10.0
Cabinet for Health & Family Services (CHFS)	Public Health - Local & District Health Department Infrastructure Pool	\$10.0
Postsecondary Education	Additional bond authority for the Bucks for Brains Program	\$55.0
Postsecondary Education	KY Community & Technical College System - Additional bond authority for the Lexington Community College Classroom/Laboratory Building	\$4.0
Grand Total - General Fund Supported Increased Bond Authority		\$211.0

BUDGET COMPARISON
Change in House Budget Over Governor's Recommendation
Fiscal Years 2009 & 2010



Current Year Budget Reductions Restored in House Budget

Agency/Department	Program/Initiative - Purpose of General Fund Restoration	Amount Restored (\$ Millions)
Governor's Office	Governor's Scholars Program	\$0.6
Military Affairs	Search & Rescue Grant Program	\$0.3
Commission on Human Rights	Personnel costs	\$0.2
Attorney General	Partially restore personnel costs	\$1.4
Unified Prosecutorial System	Commonwealth and County Attorneys	\$11.1
School Facilities Construction Commission	Reduce base due to debt service needs	\$(11.0)
Commerce Cabinet	Secretary-s Office - Outdoor Drama Programs	\$0.6
Commerce Cabinet	KY Arts Council - Arts Council Grants	\$0.4
Education Cabinet	Office for the Blind	\$0.2
Education Cabinet	Vocational Rehabilitation	\$2.3
KDE	Learning & Results Services - Reduce base funding	\$(5.0)
KDE	Learning & Results Services - Extended School Services	\$37.3
KDE	Learning & Results Services - Textbook Funding	\$25.4
KDE	Learning & Results Services - Professional Development & Growth Programs	\$20.6
KDE	Learning & Results Services - Safe Schools & Individual Learning Plan Programs	\$13.6
Environmental & Public Protection	KY Nature Preserves Commission & Mine Safety Review Commission (\$100K each)	\$0.2
Finance	Revenue - Personnel Expenses	\$2.0
Health & Family Services (CHFS)	General Administration & Support & Ombudsman	\$4.7
CHFS	Commission for Children with Special Health Care Needs	\$0.7
CHFS	Mental Health & Mental Retardation	\$19.9
CHFS	Public Health (Including Local Health Departments)	\$18.1
CHFS	Community Based Services - (Social Workers, Child Care Programs, etc.)	\$45.5
CHFS	Aging & Independent Living - (Meals on Wheels & Adult Day Care, etc.)	\$5.8
CHFS	Human Support Services - (Domestic Violence/Rape/Child Advocacy Programs)	\$1.0
Postsecondary Education	Base Funding for the State's Universities & Community & Technical College System (KCTCS)	\$253.4
Justice & Public Safety	Juvenile Justice Programs	\$8.0
Justice & Public Safety	Kentucky State Police	\$10.0
Justice & Public Safety	Local Jail Support	\$3.8
Transportation Cabinet	Public Transportation	\$1.3
Grand Total - General Fund Restorations		\$472.4

House Budget -- Increased General Fund Appropriations for Executive Branch Agencies

Agency/Department	Program/Initiative - Purpose of General Fund Restoration	General Fund Increases (\$ Millions)
Energy Policy	Provide funds for Carbon Management Research at the UK Center for Applied Energy Research	\$2.0
Veterans' Affairs	Provide funds to expand various Veteran Affairs programs - Also \$300K for FY 2008	\$0.4
KY Infrastructure Authority	Provide debt service requirement for \$100M bond authorization - Also \$4.4M Tobacco Funds	\$4.4
Military Affairs	Flood Warning System - Provide for loss of Restricted Funds	\$0.2
Local Government	Provide matching funds for Joint Funding Administration Grant	\$0.6
Special Funds	Area Development Fund - Provide increase based on General Fund Severance Tax estimates	\$5.8
Agriculture	Provide funds for personnel, county fairs, & debt service for bonds for animal shelters	\$0.3
Appropriations Not Otherwise Classified	Reduces total funding support	\$(12.0)
Commerce Cabinet	Secretary's Office - Provide funds to complete parking infrastructure at the KY Fair & Exposition Center for the 2008 Ryder Cup	\$2.4
Commerce Cabinet	KY Center for the Arts - Provide debt service requirement for \$9M bond authorization for maintenance & renovation	\$0.8
Economic Development Cabinet	Financial Incentives - Provide funds for the Metropolitan Scholar Program at U of L or Jefferson Community & Technical College	\$4.0
Education Cabinet	Education & Professional Standards Board - Provide for the KY Teacher Internship Program	\$5.2
KY Dept. for Education (KDE)	Operations & Support Services - Provide debt service for \$2M bond authorization for FFA Leadership Training Center Renovation	\$0.1
KDE	Learning & Results Services - Provide for Parent Involvement Initiative	\$1.0
KDE	Support Education Excellence in KY (SEEK) - Provide stipends for teachers pursuing National Board Certification	\$0.7
KDE	SEEK - Increase per pupil base from \$3,822 to \$3,884 in FY 2009 & to \$4,037 in FY 2010	\$42.0
KDE	SEEK - Provides 1% salary increase for certified (teachers) & classified local school board employees in FY 2009 & an additional 3% in FY 2010	\$194.7
KDE	SEEK - Adjusts SEEK funding based on assessment, average daily attendance, & facilities support	\$11.5
Finance Cabinet	General Administration & Support - Reduce base funding level	\$(2.0)
Finance Cabinet	Property Valuation Administrators (PVAs) - Provide for increased personnel costs	\$4.8

House Budget -- Increased General Fund Appropriations for Executive Branch Agencies

Agency/Department	Program/Initiative - Purpose of General Fund Restoration	General Fund Increases (\$ Millions)
Cabinet for Health & Family Services (CHFS)	Medicaid - Administration - Provide for continuation of Medicaid Modernization & Information upgrades	\$5.0
CHFS	Medicaid - Benefits - Provide for continuation of Medical Assistance, Money Follows the Person, and Home & Community-Based Waiver Plus - provides for estimated changes in inflation, utilization, and placements - (House reduces General Fund support but inc	\$(3.0)
CHFS	Medicaid - Benefits - Provide for Preschool Dental Screenings	\$0.2
CHFS	Mental Health & Mental Retardation - Provide funds for site preparation for construction of the Hazelwood Intermediate Care Facility	\$0.4
CHFS	Mental Health & Mental Retardation - Provide debt service requirements for \$10M bonding authority to construct the Hazelwood Intermediate Care Facility	\$0.9
CHFS	Mental Health & Mental Retardation - Provide for increases in utilization & inflation	\$20.4
CHFS	Public Health - Provide funds to construct specialized Neonatal Facilities in Jefferson County	\$6.0
CHFS	Public Health - KY Prescription Drug Patient Assistance - Provide coordination of statewide implementation of drug patient assistance program with local partners	\$1.0
CHFS	Public Health - Provide funds for the Cardiovascular Innovation Institute	\$2.0
CHFS	Public Health - Provide for inflation increases of medically related services	\$1.6
CHFS	Human Support Services - Provide funds for 15 additional Family Resource & Youth Services Centers (FRYSCs) in FY 2009 & an additional 20 centers in FY 2010	\$2.0
CHFS	Community Based Services - Provide funds to establish the KY Center for Youth Policy	\$0.2
Justice & Public Safety Cabinet	Justice Administration - Funds to support 4 additional Parole Board members & related staff	\$1.0
Justice & Public Safety Cabinet	Adult Institutions - Reduces the base funding level and provides budget language increasing the number of days an inmate may earn as "good time"	\$(20.0)
Justice & Public Safety Cabinet	Community Based Services & Local Facilities - Reduces the base funding level for Local Jails and provides budget language that enables reductions in the time to be served based on specific criteria	\$(11.0)
Justice & Public Safety Cabinet	Community Based Services & Local Facilities - Provides funding to expand the Substance Abuse Treatment Program for state inmates housed in local jails	\$9.5
Justice & Public Safety Cabinet	Public Advocacy Office - Provide additional funding support to defend indigent clients	\$2.5

House Budget -- Increased General Fund Appropriations for Executive Branch Agencies

Agency/Department	Program/Initiative - Purpose of General Fund Restoration	General Fund Increases (\$ Millions)
Personnel Cabinet	General Operations - Reduces base funding & increases Restricted Funds support	\$(0.6)
Postsecondary Education	Council on Postsecondary Education - Reduce base funding level	\$(3.0)
Postsecondary Education	Council on Postsecondary Education - Provide additional for the Adult Education Program	\$3.0
Postsecondary Education	Council on Postsecondary Education - Provide debt service requirements for additional bonding authority totaling \$55M for the Bucks for Brains program and for a capital construction maintenance pool and projects previously vetoed in HB 380 (2006 Session)	\$2.9
Postsecondary Education	Council on Postsecondary Education - Provide for veterinary & optometry contract spaces	\$1.7
Postsecondary Education	Council on Postsecondary Education - Provide scholarships to the Washington D.C. Internship Program	\$0.2
Postsecondary Education	KY Higher Education Assistance Authority - Provide additional support for the KY Education Excellence Scholarship (KEES) Program	\$33.1
Postsecondary Education	KY Higher Education Assistance Authority - Replace Restricted Funds support for the Work Study Program	\$1.7
Postsecondary Education	University of Kentucky - Provide funds to continue Oenology & Viticulture Program	\$0.5
Postsecondary Education	University of Kentucky - Increase base funding	\$0.5
Postsecondary Education	University of Louisville - Provide operating funds for the Equine Industry Program	\$1.2
Postsecondary Education	University of Louisville - Reduce base funding	\$(4.0)
Transportation Cabinet	Aviation - Reduce base funding & realign 1 position to be funded from the Road Fund	\$(1.3)
Grand Total - General Fund Increases		\$321.5

The Kentucky Tax and Budget Initiative is part of the State Fiscal Analysis Initiative, a network of state level organizations coordinated through the Center on Budget and Policy Priorities. These organizations focus on budget and tax policies through public education and the encouragement of civic engagement.

Financial support for Kentucky Youth Advocates comes from the [Annie E. Casey Foundation](#), the [Open Society Institute](#) and the Stoneman Family Foundation.

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