

BESHEAR PROPOSAL TO RESOLVE BUDGET STALEMATE

The two primary areas of difference between the House and Senate are:

- The levels of education funding; and
- The levels of debt.

The proposal offers:

- **No new taxes:** The proposal does not raise taxes, which families and small businesses cannot handle during this deep economic recession.
- **Maintains certain spending priorities rather than making across-the-board cuts:** While budget cuts are necessary in all areas because no significant new recurring revenue is created, the proposal sets priorities of funding for education, health care for our most vulnerable, public safety and job creation.
 - Consistent with the Senate's budget proposal, many state agency budgets would be reduced by 3.5 percent in FY 2011 and 4.5 percent in FY 2012 compared to FY 2010.
 - Reflecting Beshear priorities, agencies with lesser cuts include K-12 Education, Postsecondary Education, State Police, Prosecutors, Public Defenders, Economic Development, KET, Vocational Rehabilitation, Deaf and Hard of Hearing, Office for the Blind, Career and Technical Education, Natural Resources, Medicaid, Behavioral Health, Public Health, Community Based Services, Juvenile Justice, and Corrections.
- **Education days maintained:** The proposal maintains the current 177 instructional days for Kentucky children.
- **Bonds for a limited number of projects to create jobs, honor prior commitments and address critical needs:** The proposal provides the lowest level of General Fund-supported debt since the 1996 biennial budget.
- **A biennial budget:** The proposal is a biennial budget, needed by schools, universities, state agencies and other entities in order to plan and make better decisions when making budget reductions. In addition, an enacted budget that does not conform to the Commonwealth's statutory budgeting framework would cause grave concern to credit-rating agencies and unnecessary uncertainty in the credit markets. The Commonwealth will be in the market to sell bonds authorized in prior budgets, as well as in this budget, and the market uncertainty would result in higher borrowing costs and decreased value on outstanding bonds held by investors. Any sort of continuation budget is unacceptable. We have received no indication that revenue estimates are going to get any better. And though these are tough decisions, making tough decisions in tough times is what the people of Kentucky elected us to do – and we cannot delay simply because it is an election year. This must be a management decision, not a political decision. A continuation budget reeks of the worst tactics of Washington, D.C., where decisions are pushed off to meet political objectives and they are able to print money to fill a hole. We can't go down that path. If revenue estimates do improve, we can always revise the budget in next year's regular session.

- **A smaller state government:** The proposal includes spending reductions in most areas of state government and specifically relies on significant reductions to be achieved through efficiencies, contract spending cuts, reduction in non-merit employee spending, and other strategies. Flexibility will be needed to meet these efficiency goals of \$126 million in FY 2011 and \$164 million in FY 2012.
- **A smaller structural imbalance:** This proposal significantly improves the structural imbalance of the budget in FY 2012, by approximately \$400 million.
- **A carry-forward to mitigate deeper cuts:** This proposal doesn't spend all the available funds in the first year of the biennium, but carries over \$279 million into the second year to mitigate deeper cuts.

Education

- **Primary education funding formula:** Funds the House-proposed SEEK per pupil guarantee of \$3,845 in FY11 and \$3,881 in FY12, plus the value of one instructional day.
- **Instructional days:** Keeps required instructional days at 177 days in both years. The state would fund one of the two days and local school districts would fund the other.
- **Postsecondary education:** Makes moderate reductions of 1.4 percent in FY 2011 and 2.4 percent in FY 2012.

Levels of Debt/Job creation

- **General Fund-supported Bond Projects:** Proposes all projects that the House and Senate budgets had in common during negotiations. Total General Fund Bond Projects of \$441 million – the lowest amount of General fund supported bonds in a biennial budget since 1996.
 - It honors prior commitments from prior budgets, including:
 - \$150 million for K-12 buildings through the School Facilities Construction Commission,
 - \$17 million for 42 water and sewer projects previously authorized but not adequately funded.
 - Authorization of the replacement of Eastern State Hospital.
 - It funds critical needs projects, including:
 - Replacement of Glasgow State Nursing Facility.
 - Special Needs unit at Western Kentucky Veterans State Nursing Home.
 - State-owned dam repair.
 - State match for flood-control projects.
 - State match for federal clean water and drinking water revolving funds.
 - BRAC-related water and sewer projects.
 - Critical projects at our correctional facilities including:
 - Rebuilding Northpoint Training Center.

- Retrofitting Western Kentucky Correctional Complex to accommodate the movement of female inmates from Otter Creek
 - Upgrading the electrical system at the Kentucky State Reformatory
- Expansion of the Oakwood Specialty Clinic.
 - Renovation of the Spindletop facility to accommodate the Advanced Battery Research lab.
 - Completion of the Comprehensive Tax System and the Human Resources System for state government.
 - Economic development bond programs to focus on job creation and retention.
- Includes funding for all Category 5 schools by providing state equalization of local school districts and \$100 million in new offers of assistance for school buildings over the next two years.
- **Agency Fund Bond Projects** of \$525 million agreed to by both the House and Senate (no debt service from General Fund required), including:
 - \$396 million for university projects supported with university funds including housing, dining, parking and other receipts.
 - \$125 million for water and sewer project loans supported with loan repayments to the Kentucky Infrastructure Authority
- **Summer jobs program:** Funds the WorkNow Ky proposal that will create 9,000 to 12,000 summer jobs through the ARRA TANF bonus grant.

All of these projects, when combined with an additional \$2.7 billion estimated to be spent over the next two years on projects that have been authorized in prior budgets, will create many new opportunities for job creation over this period.

Health care

- **Medicaid:** This proposal funds the Medicaid program as proposed by the House. The Medicaid rolls have been increasing due to the bad economy, and the cost of health care continues to skyrocket. This proposal accounts for the state's higher costs but it also includes the significant cost containment measures that were included in my original budget proposal.

Additional Revenue

- The proposal includes revenue-related items that both Chambers agreed to.
- Because of fewer kids in school than previously forecasted, updated estimates of the cost of funding the SEEK formula result in lower costs of about \$14 million in Fiscal Year 2011 and \$26 million in Fiscal Year 2012.
- An additional \$25 million would be transferred in FY 2011 from the Petroleum Storage Tank Environmental Assurance Fund.