
HB 1 - Amendment to FY 2010-12 Executive Branch Budget

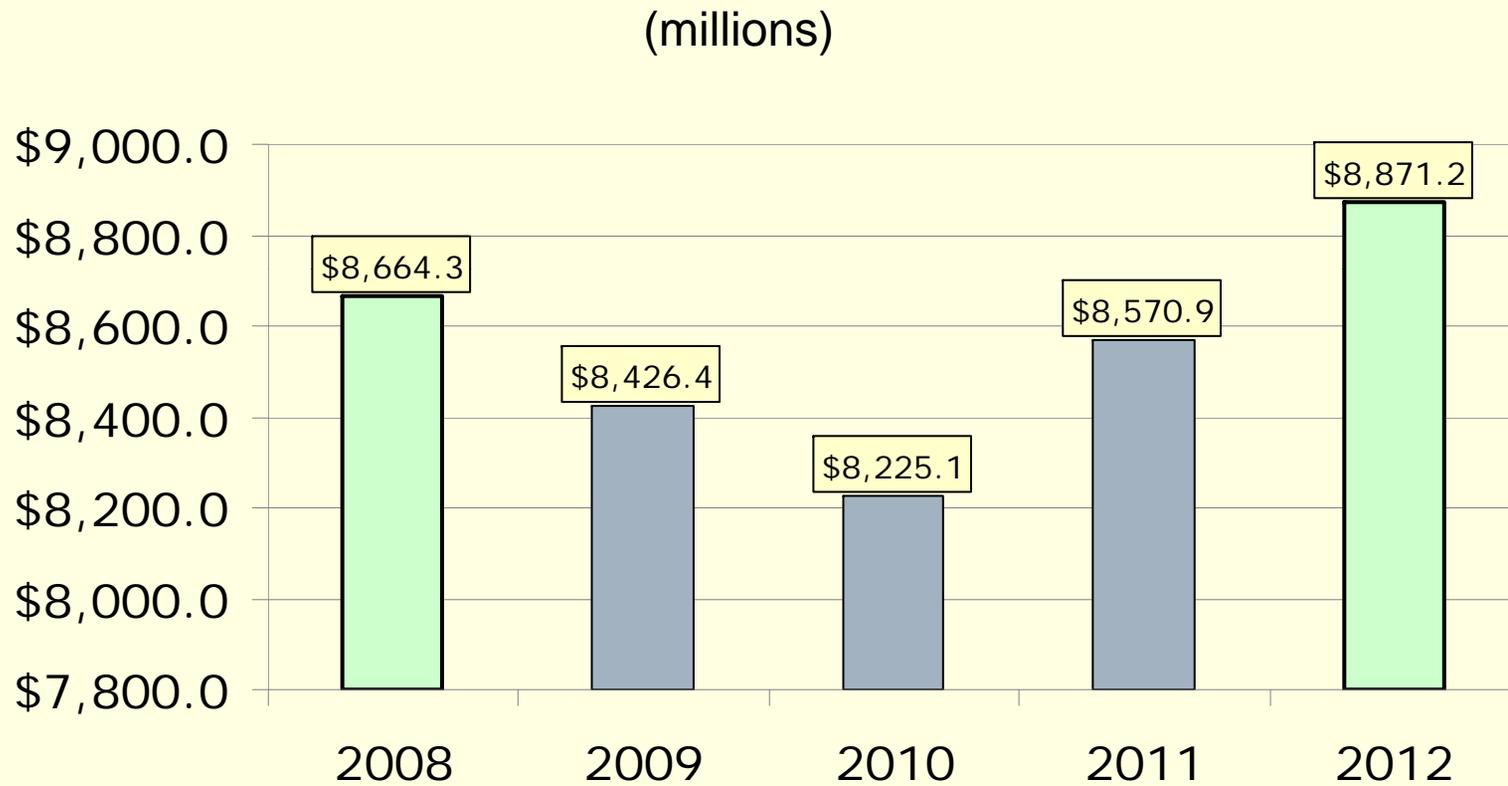
**Presentation to House Appropriations
and Revenue Committee**

March 17, 2011

Overview of Budget Reductions

- What has happened over the last 4 years?
- What have other states done?
- What are the impacts of cuts already made?
- What are the impacts of additional cuts?
- What is the impact of debt restructuring?

FY08 GF Revenue Levels Will Not Return until FY12



Appropriation Reductions During Beshear Administration

	(millions)
1. FY 08 Budget reductions	\$ 76
2. FY 09 Enacted reduced appropriations	\$176
3. FY 09 Expenditure reductions mandated by Budget Bill	\$180
4. FY 09 Budget reductions	\$147
5. FY 10 Round 1 budget reductions	\$273
6. FY 10 Round 2 budget reductions	\$ 49
7. FY 11 Enacted reduced appropriations	\$ 61
8. FY 11 Expenditure reductions mandated by Budget Bill	\$131
FY 12 Enacted reduced appropriations	\$ 81
FY 12 Expenditure reductions mandated by Budget Bill	\$169
Total	\$1.3 billion

Impact of 8 Budget Reductions

- Cumulative Impact of Reductions
- Reduced Number of State Employees
- Reduced Contracts
- Reduced Operating Expenses

Areas Exempted from Most Cuts

- SEEK
- Medicaid
- Corrections
- Mental Health
- Student Financial Aid
- School District Health Insurance
- Teachers' Retirement System
- Kentucky Retirement Systems
- Public Advocacy
- Prosecutors
- Parks
- Coal Severance Programs

Most State Agencies Have Been Cut 25 – 30% over 4 Years

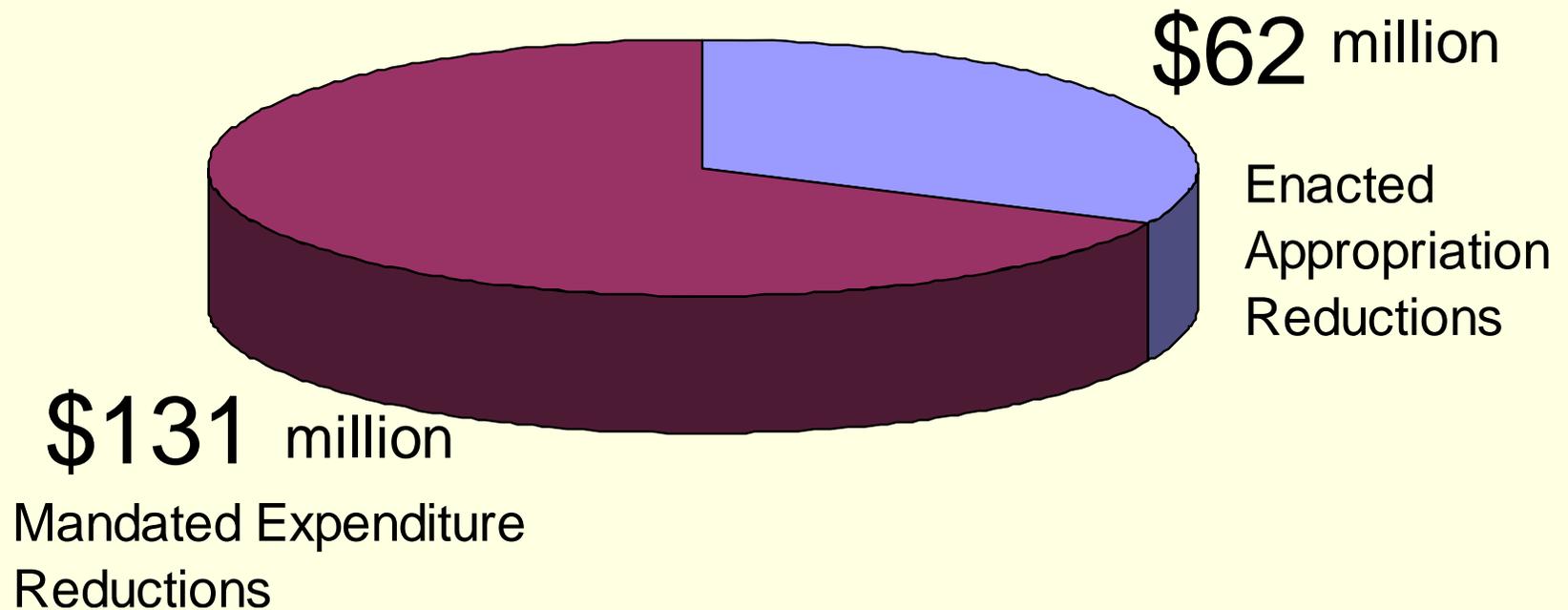
		(millions)
Finance-Controller's Office	-40%	\$4.3
Alcohol Beverage Control	-38%	\$0.4
Labor	-34%	\$0.8
Area Development Fund-ADDs	-31%	\$0.3
Ky Education Television	-22%	\$3.2
Constitutional Officers	-24 to -29%	
Tourism, Arts & Heritage Agencies	-23%	\$13.5
Ky Historical Society	-27%	\$2.2
Environmental Protection	-25%	\$6.5
Economic Development	-21%	\$6.1

Most State Agencies Have Been Cut 25 – 30% over 4 Years

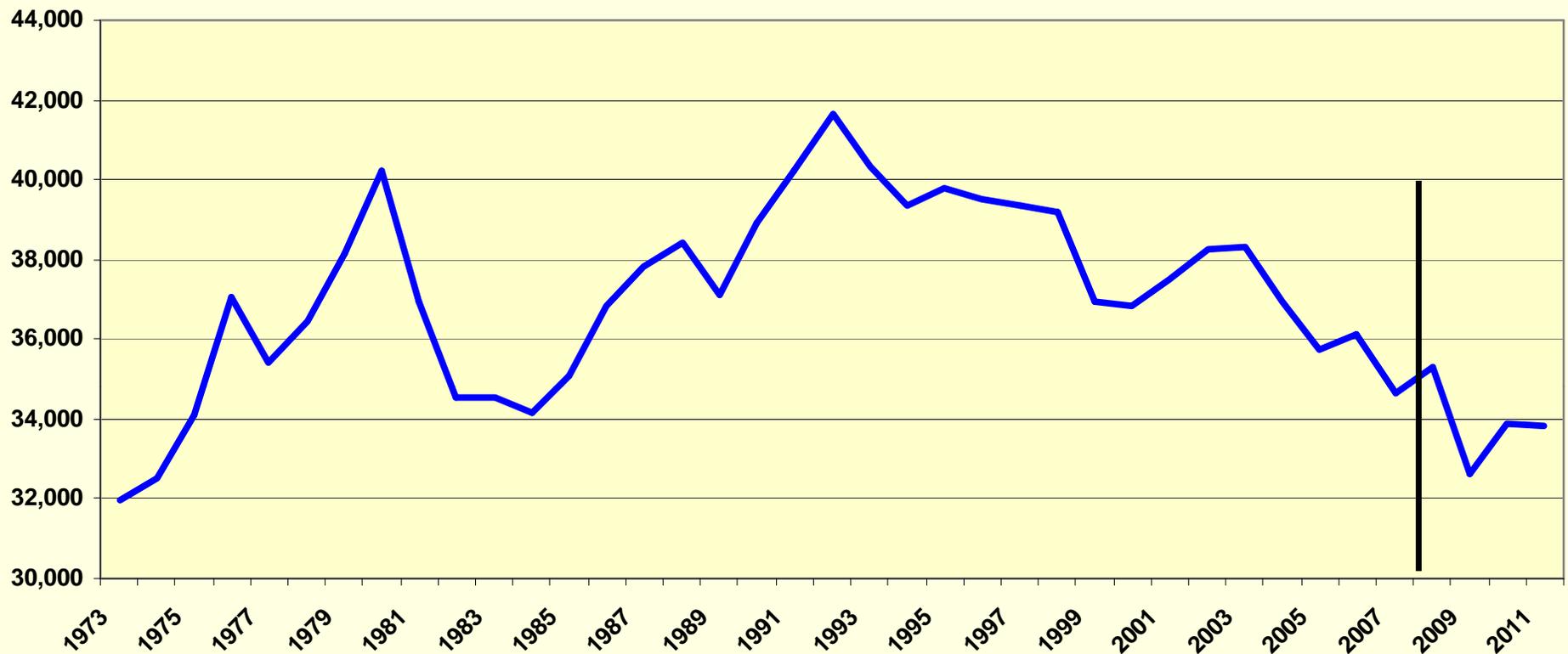
		(millions)
Housing, Buildings, & Construction	-26%	\$0.7
Military Affairs	-27%	\$3.1
Non-SEEK K-12	-22%	\$88.8
Public Health	-20%	\$14.4
Career & Technical Education	-18%	\$5.5
Public Transportation	-14%	\$0.7
Juvenile Justice	-11%	\$9.7
Community Based Services	-11%	\$37.4
Universities	-10%	\$107.4

FY 11 Budget Balancing Measures

\$193 million in total Reduced Spending Required

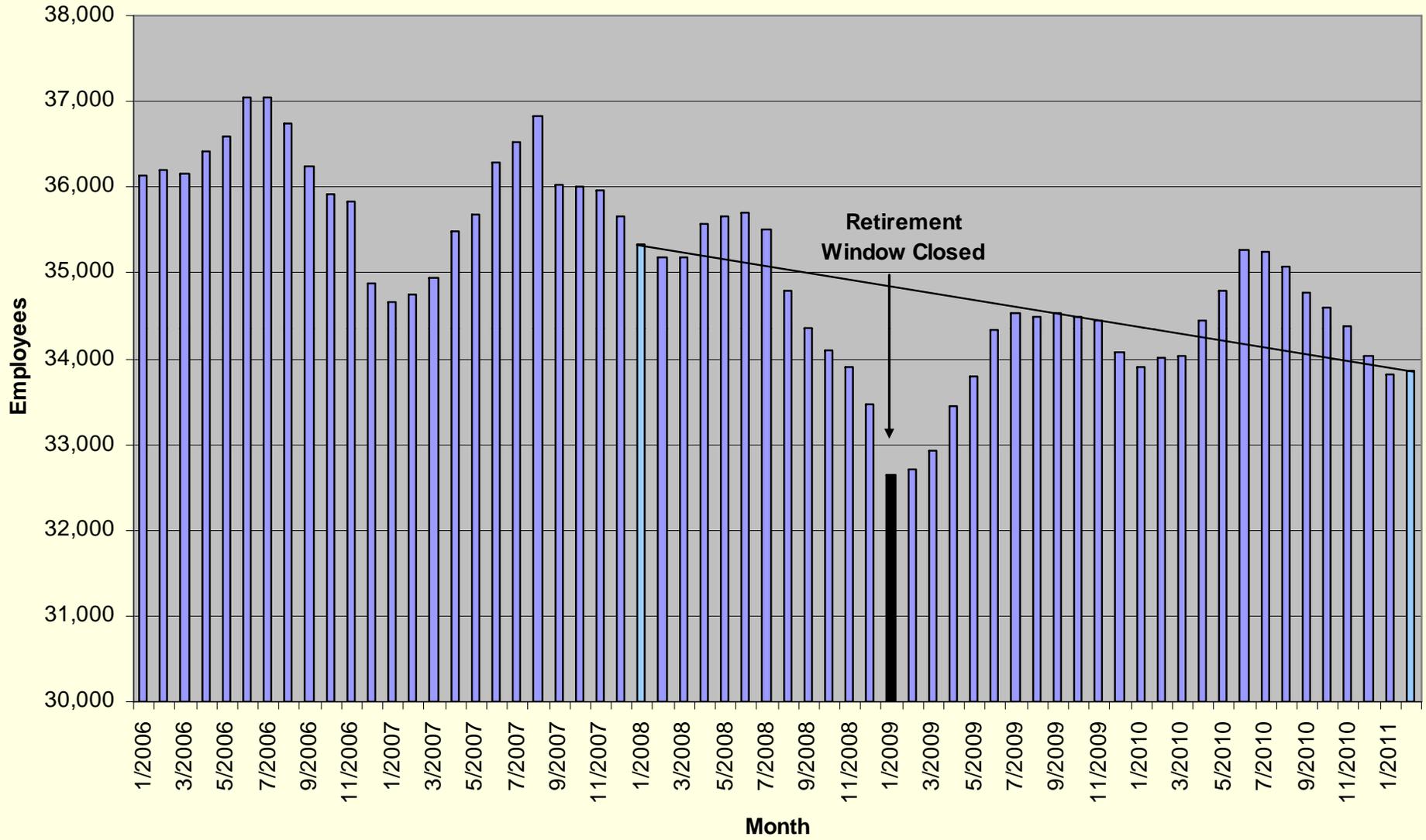


Executive Branch Employees 1973 - 2011



- The Executive Branch currently has the fewest employees it has had since the mid-seventies
- State employment has declined over the past three years by about 1,465

Total Executive Branch Employees (Jan 2006 - Feb 2011)



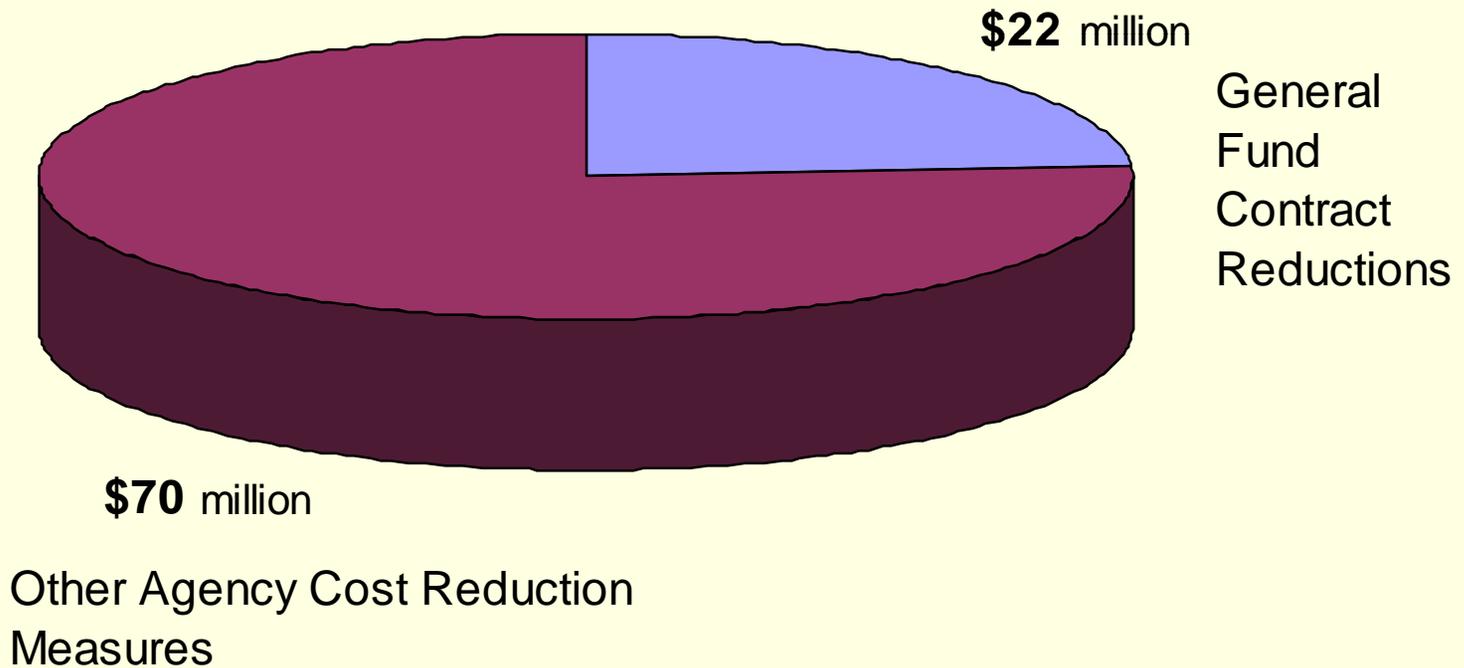
Every Cabinet Has Fewer Workers

The Executive Branch has 1,465 less state employees than 3 years ago

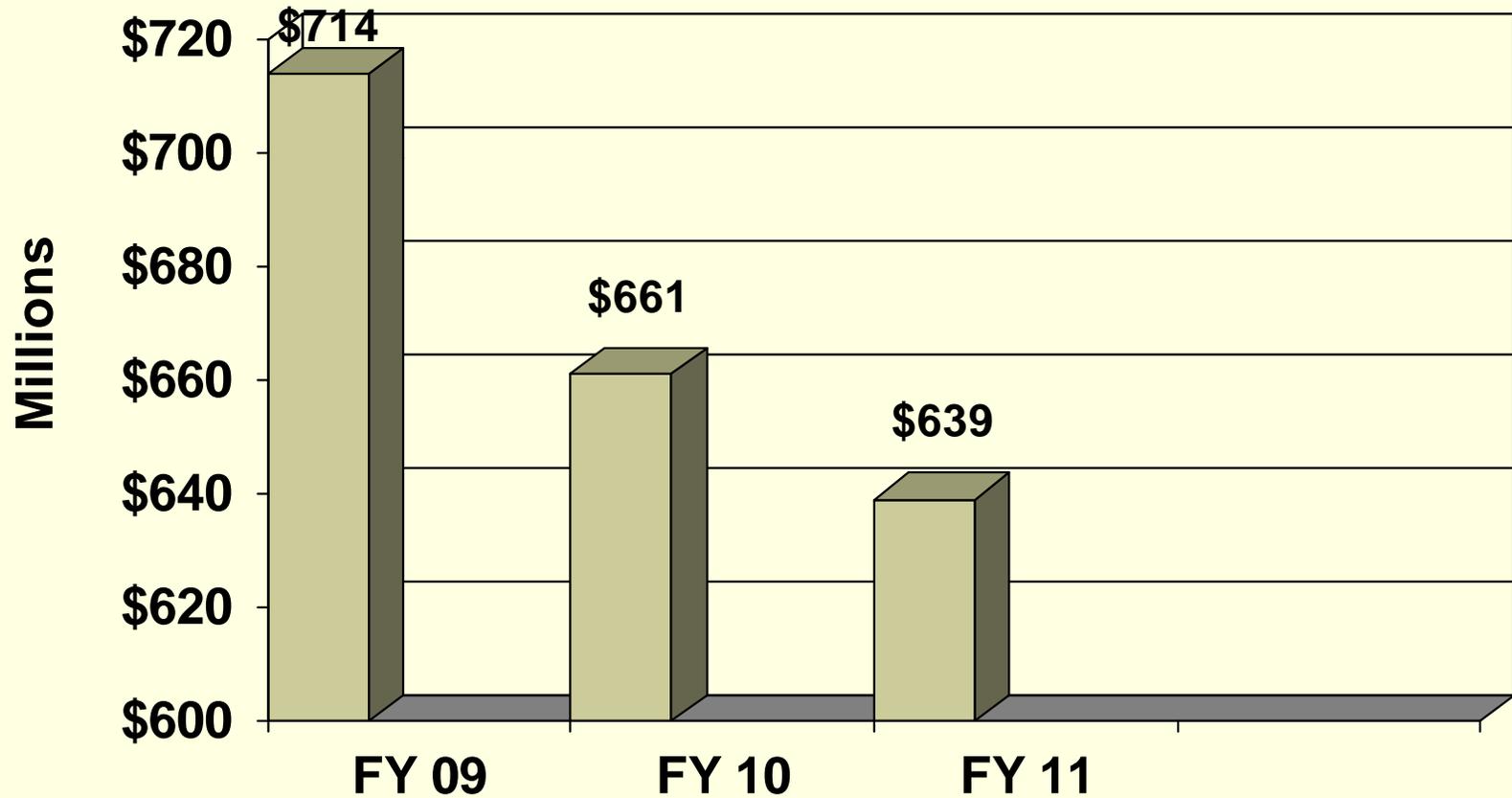
Cabinet / Agency		Cabinet / Agency	
Constitutional Officers	-62	Labor	-53
Dept. of Education	-89	Libraries & Archives	-23
Economic Development	-34	Military Affairs	-54
Energy & Environment	-46	Personnel	-10
Finance	-42	Public Protection	-56
Health & Family Services	-183	Tourism	-266
Justice & Public Safety	-242	Transportation	-97
KET	-40	Veterans' Affairs	-11
		Other	-157

Contract Reductions total 24% of Agency Budget Cuts for FY 11

Agency Specific Budget Cutting Actions total \$92 million for FY 11



General Fund Contract Spending Has Decreased \$75 Million Since FY 09



Top 10 General Fund Contract Spenders (FY 2010)

	(millions)
■ Behavioral Health	\$142
■ Corrections	107
■ Dept. of Education	85
■ FRYSC's	54
■ Community Based Services	51
■ Public Health	46
■ Aging & Independent Living	38
■ Council on Postsecondary Ed	38
■ Medicaid Administration	21
■ Economic Development	9

(90% of General Fund contract spending)

Note: Does not include Medicaid
Benefits

Largest Contracts in FY 2010

Contract Vendor	Description	Agency	FY 2010 Spending
UNIVERSITY HEALTH CARE INC	Passport Health Plan	Medicaid	\$ 854.6
HUMANA HEALTH INSURANCE	Public Employee Health Insurance	Personnel	\$ 66.9
UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION	CorrectCare – Integrated Health (CCIH), medical and dental services for inmates	Corrections	\$ 50.4
HP ENTERPRISE SERVICES, LLC	Medicaid Management Information System	Medicaid	\$ 48.4
BLUEGRASS REGIONAL MH MR	Operation and management of Eastern State Hospital	Behavioral Health, Developmental & Intellectual Disabilities	\$ 30.4
FLEET ONE	FLEET ONE FLEET FUEL FOR FLEET MGMT	ALL STATE	\$ 23.6
CANNON COCHRAN MGMT SERV	Workers' Comp Third Party Administrator	Personnel	\$ 19.7
BLUEGRASS REGIONAL MH MR	Operation and Management Oakwood ICF	Behavioral Health, Developmental & Intellectual Disabilities	\$ 18.5
BELLSOUTH TELECOMMUNICATIONS, INC.	KY Information Highway 2	ALL STATE	\$ 14.1
MEASURED PROGRESS	CATS Core Contract	Dept. of Education	\$ 11.5
CORRECTIONS CORPORATION OF AMERICA	Marion County 590 Bed Minimum and 236 Bed Medium Bed Security Prison	Corrections	\$ 11.2
EXPRESS SCRIPTS INC	Public Employee Health Insurance	Personnel	\$ 10.1
RES CARE INC	Outwood Management and Operation	Behavioral Health, Developmental & Intellectual Disabilities	\$ 8.9
ARAMARK CORRECTIONAL SERVICES, LLC	Corrections Food service	Corrections	\$ 8.7

Note: Total funds

Measures taken by other states

■ Education

- **Michigan** has cut per-pupil funding by \$165.
- **Maryland** cut per-pupil funding by \$150.
- **Georgia** cut \$112 million from their equalization.
- **Arizona** eliminated preschool for 4,328 children.
- **Hawaii** shortened the 2009-10 school year by 17 days and furloughed teachers for those days.

■ Postsecondary Education

- **Florida's** 11 public universities raised tuition by 15 percent for the 2010-11 academic year. This tuition hike, combined with a similar increase in 2009-10, results in a total two-year increase of 32 percent.
- In **Minnesota**, as a result of higher education funding cuts, approximately 9,400 students lost their state financial aid grants entirely, and the remaining state financial aid recipients will see their grants cut by 19 percent.

Measures taken by other states

■ Justice

- The **South Carolina** Department of Juvenile Justice has lost almost one-fourth of its state funding, resulting in over 260 layoffs and the closing of five group homes, two dormitories, and 25 after-school programs.
- Academy/Cadet Classes were cut in **Washington, New Jersey, New York, Illinois.**
- **Indiana** State Police permanently laid off half their commercial vehicle inspectors.

Measures taken by other states

■ Health and Family Services

- **Arizona** cut mental health services more than \$57 million between 2009 and 2010, reducing or cutting services for about 14,000 people.
- California has 373 fewer social workers.
- Child care subsidies have been cut in **Maine, Maryland, Massachusetts, and Texas.**
- Foster care reimbursement rates have been cut in **Utah, Maryland, and Maine.**
- Home care programs that allow elderly residents to receive community long-term care have been cut in **Alabama and Massachusetts.**

Measures taken by other states

- **State Employee Compensation**

- State employee proposed pay reductions: **California** 14%, **Nevada** 5%, New York 4%, **New Mexico** 2%, **Arizona** has enacted a 2.75% pay cut.
- **Mississippi** has proposed state employees pay 9% instead of 7.25% towards their pension contributions, **West Virginia** has raised retirement contributions by 1.5% up to 12.5%.
- 24 states are using furloughs, ranging from 4 to 36 days.

Measures taken by other states

- **Tourism**

States that have closed or are closing State Parks: **Oklahoma, Washington, Arizona, Georgia** and **Illinois**.

- **Arizona sells Capitol, Legislative Chambers, Supreme Court Building, Prisons**

Arizona has sold over 20 state buildings over the last year to generate up front cash to plug budget holes. The state will incur interest costs to buy the buildings back from investors over a period of anywhere from 20 to 30 years.

- **California issues IOUs to businesses, taxpayers, and county governments**

California began issuing IOUs in July 2009, mostly for personal income tax refunds. In the end, the state issued more than 450,000 IOUs totaling \$2.6 billion between July 2 and September 4.

Appropriation Reductions During Beshear Administration

	(millions)
1. FY 08 Budget reductions	\$ 76
2. FY 09 Enacted reduced appropriations	\$176
3. FY 09 Expenditure reductions mandated by Budget Bill	\$180
4. FY 09 Budget reductions	\$147
5. FY 10 Round 1 budget reductions	\$273
6. FY 10 Round 2 budget reductions	\$ 49
7. FY 11 Enacted reduced appropriations	\$ 61
8. FY 11 Expenditure reductions mandated by Budget Bill	\$131
FY 12 Enacted reduced appropriations	\$ 81
FY 12 Expenditure reductions mandated by Budget Bill	\$169
Total	\$1.3 billion

Measures taken by Kentucky

- **Department of Education**

- State funding for Textbook replacement has been eliminated.
- Funds to support technology in K-12 schools have been reduced by 9.7% since FY 2009.
- Extended school services funds have been cut 60% since FY 2008. Fewer at-risk students receive additional instructional time
- Staff development funds have also been cut 60% since FY 2008.

- **Education and Workforce Development Cabinet**

- KET terminated 21 employees: decreased technical support to local school districts and hampered KET's local production capacity.
- Career and Technical Education has 24 teaching positions that have not been filled since FY 2008, impacting 720 to 2,400 students per day. The equipment and instructional tools budget has been reduced by 75%.

Measures taken by Kentucky

- **Postsecondary Education**

- Average Tuition Increases directly related to level of state appropriations

	FY 08	FY 09	FY 10	FY 11
UK / UL	9.4%	9.5%	5.0%	6.0%
Comprehensives	8.8%	7.6%	4.3%	5.4%
KCTCS	5.5%	5.2%	3.3%	4.0%

Measures taken by Kentucky

■ **Economic Development Cabinet**

- Kentucky's economic development offices in Brussels and Santiago have been closed, reducing the Commonwealth's outreach to potential investors and global trading partners.

■ **Energy and Environment Cabinet**

- Department for Environmental Protection has seen an increase in backlogs for water permits.
- Lack of enforcement/inspection staff has resulted in delayed or no enforcement actions regarding wastewater discharge of the Clean Water Act

Measures taken by Kentucky

- **Cabinet for Health and Family Services**

- The elimination of Diversion services in Community Based Services resulted in about 100 additional children entering the foster care system instead of receiving intensive services and remaining in the family home.
- Aging programs had a loss of services for 140 clients, such as Meals on Wheels which served 279,532 fewer meals from FY 2008 to FY 2010.
- Reduced funding for Local Health Departments has resulted in fewer women receiving prenatal care, fewer children receiving immunizations, and fewer Kentuckians with diabetes receiving comprehensive care.

Measures taken by Kentucky

■ **Justice and Public Safety Cabinet**

- Closed the Bluegrass Youth Development Center in Fayette County which provided 36 beds and specialized treatment for sex offenders.
- Cancelled all 45 prevention programs that served more than 4,355 youth at-risk of delinquency and their families in 2008-2009.
- Cancelled Kentucky Intensive Services Program which provided community based services in 30 counties across the state impacting 185 youth and their families.
- State Police Mileage Restrictions: limit some patrols and traffic enforcement and could result in only emergency response calls such as crime in progress, injury accidents, or other life threatening crimes.
- Public Advocacy caseloads are at 460 newly opened cases per attorney, considered too high by benchmark standards, risking the ability to provide competent representation to clients.

Measures taken by Kentucky

- **Labor Cabinet**

- Backlog of wage investigations has increased involving the areas of minimum wage, overtime, prevailing wage, child labor, and wage discrimination.

- **Public Protection Cabinet**

- Housing, Buildings and Construction has experienced a reduction in inspection staff resulting in delays in the review of building plans. Delays in building code inspections.

Measures taken by Kentucky

- **Tourism, Arts, and Heritage Cabinet**
 - Resort parks have begun seasonal closings.
 - Reduction of working hours for Parks employees
 - Seasonal closing of the Kentucky History Center to the public
- **Public Transportation**
 - Cut grants to local governments resulting in 33 fewer transit vehicles purchased - used to transport elderly, low income, and disabled persons.

Potential Items in Next Set of Budget Cuts

■ **Corrections**

- Suspend hiring and training of Probation and Parole staff
- Suspend jail substance abuse funding
- Reduce mental health treatment

■ **Juvenile Justice**

- Cancel contracts with Mary Kendall Home and Gateway Juvenile Diversion Program
- 50% reduction of 20 contracted day treatment programs

■ **State Police**

- Suspend vehicle purchases
- Regional driver's testing locations rather than local
- Eliminate hiring retired troopers, the Trooper "R" Program

■ **Public Advocacy**

- Not fill public defender positions

Potential Items in Next Set of Budget Cuts

- **Justice Administration**
 - Reduce funding for regional drug task forces
- **Community Based Services**
 - Not fill child welfare and public assistance workers
 - Relocate staff from Louisville satellite offices (Neighborhood Place) to the L&N Building
- **Parks**
 - Close park facilities
- **Agriculture**
 - Reduce subsidy provided to the 2 livestock and diagnostic disease centers at UK and Hopkinsville
- **Libraries**
 - Reduce library construction grants used by locals to pay debt service
- **Prosecutors**
 - Layoffs

Potential Items in Next Set of Budget Cuts

- **Revenue**
 - Closure of some taxpayer service centers
- **Student Financial Aid**
 - Reduction in KEES awards

Budgeted Cuts in FY 12

- Most agencies have 4.5% cuts in the enacted budget for FY 12
- Additional recurring 1.5% cuts were imposed as part of balancing FY 11
- \$169 million of additional reductions must be made to balance FY 12
 - If across the board – about 2%
 - If same exemptions as FY 11 – about 9.5%
 - Excludes SEEK, Universities, Mental Health, Corrections, Financial Aid, Prosecutors

Efficiency Measures Taken

- **Non-Merit Employees**

- \$5 million reduction in FY 11
- Cabinet Secretaries and Governor's Senior Staff 10% pay cuts

- **Fleet management**

- Take home cars – 523 fewer
- Replacement schedules for older vehicles
- Maintenance costs

- **Leases**

- Target of 5% reduction

- **Information Technology**

- Enterprise view of efficiencies

HB 1 Improves the Structural Imbalance of the General Fund by \$166.5 million

	FY 2010 Revised	FY 2012 Enacted	FY 2012 HB 1	Impact of HB 1
One-Time Resources or Expenditure Deferrals				
Beginning Balance	\$ 39.5	\$ 281.1	\$ 114.6	(166.50)
Stimulus-General Fund Replacement:				
State Fiscal Stabilization Fund	\$ 383.2			
Medicaid	\$ 329.3			
Debt Restructuring	\$ 167.5	\$ 130.0	\$ 130.0	-
Fund Transfers > \$40M	\$ 123.0	\$ 82.7	\$ 82.7	-
Defer Final FY 12 Payroll		\$ 72.0	\$ 72.0	-
Total One-Time Resources or Expenditure Deferrals	\$ 1,042.5	\$ 565.8	\$ 399.3	(166.50)

Debt Restructuring

- It is not an increase in the amount of debt
- The terms of the debt are changed to provide cash flow relief
- At least 16 states have implemented restructuring outstanding debt to provide budgetary relief – to keep from making deeper cuts to Education and other priorities

Debt Restructuring

- Enacted Budget for FY 08 – FY 10 Assumed \$100 million
 - Administration implemented \$92.8 million
- Enacted Budget for FY 10 – FY 12 Assumed \$203 Million
 - Administration has implemented \$139 million
 - Budget assumed \$130 million for FY 12
 - Impact of additional \$67 million in FY 13 is \$3 million

HB 1 - Amendment to 2010-12 Executive Branch Budget

**Presentation to House Appropriations
and Revenue Committee**

March 17, 2011