Interim Joint Committee on Appropriations and Revenue

November 29, 2011

FY 12 Budget Balancing Measures

Mary Lassiter, State Budget Director
John Hicks, Deputy State Budget Director
Kevin Cardwell, Deputy State Budget Director
FY 12 Budget Updates

- Agencies have been planning for reductions – additional 2% reductions
- Improved revenue outlook continues in the current year
- Necessary Government Expenses are covered by FY 11 surplus expenditure plan
- Kentucky still faring better than many states
- No furloughs of state employees planned this year
- FY 13 & 14 will be very challenging
- Impact of pending federal budget cuts
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFG Estimated Revenues in Excess of Budget</td>
<td>$137.7</td>
</tr>
<tr>
<td>Dedicated Revenues for Severance Programs</td>
<td>$(31.0)</td>
</tr>
<tr>
<td>Net Estimated Excess Revenues</td>
<td>$106.7</td>
</tr>
</tbody>
</table>
## Draft Plan to Balance FY 12 Budget Gap

($millions)

### Problem:
- Budget Gap between Appropriations and Resources: $168.9
- Additional Spending Reductions: $21.0

Total: $189.9

### Solution:
- Spending Reductions: $114.4
- Partial Use of Current Year Estimated Excess Revenues: $75.5

Total: $189.9
## FY 12 Budget Balancing Plans

### FY 12 Additional Spending Reductions

<table>
<thead>
<tr>
<th>Description</th>
<th>($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring FY 2011 1.5% and Non-merit Reductions</td>
<td>$27.5</td>
</tr>
<tr>
<td>Debt Service Lapse Estimate</td>
<td>$57.9</td>
</tr>
<tr>
<td>Additional 2% Budget Reductions</td>
<td>$29.0</td>
</tr>
<tr>
<td>Total</td>
<td>$114.4</td>
</tr>
</tbody>
</table>
### Exemptions from Additional 2% Reductions – Same as FY 11

- Debt Service
- SEEK
- School District Health Insurance
- Medicaid
- Community Based Services
- Behavioral Health
- Corrections
- Teachers' Retirement System
- Universities and Student Financial Aid
- Severance Tax Dedicated Funds
- Parks
- Prosecutors
- Public Advocacy
- Juvenile Justice
- Executive Branch Ethics Commission
- Kentucky Horse Park Commission
- Board of Elections–State Share of Elections
- Necessary Government Expense Areas
Nearly $300 million in FY 12 Required Budget Balancing Measures

- $190 million Budgeted Gap
- $100 million Enacted Appropriation Reductions
FY 12 Budget Balancing Plans

- Most Agencies have 8.0% reductions from FY 10 appropriation levels
  - 4.5% enacted reductions for FY 12
  - 1.5% additional reductions in FY 11 as part of budget balancing actions
  - 2.0% additional reductions for FY 12
General Fund Contract Spending Has Decreased $115 Million Since FY 09

*Excludes Passport and Disaster expenses*
General Fund Revenue Changes - Kentucky and All 50 States
FY 2008 to FY 2012

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>All States</th>
<th>Kentucky</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2008 Actuals</td>
<td>4.2%</td>
<td>1.0%</td>
</tr>
<tr>
<td>FY 2009 Actuals</td>
<td>-10.0%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>FY 2010 Actuals</td>
<td>-1.8%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>FY 2011 Actuals</td>
<td>6.6%</td>
<td>6.5%</td>
</tr>
<tr>
<td>FY 2012 Budgeted</td>
<td>4.4%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>
### How have we weathered the Recession?

<table>
<thead>
<tr>
<th></th>
<th>FY 2007 Actual</th>
<th>FY 2012 Revised</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Branch</td>
<td>$8,384.4</td>
<td>$8,967.6</td>
<td>$583.2</td>
<td>7.0%</td>
</tr>
<tr>
<td>Judicial Branch</td>
<td>$244.3</td>
<td>$316.3</td>
<td>$72.0</td>
<td>29.5%</td>
</tr>
<tr>
<td>Legislative Branch</td>
<td>$45.8</td>
<td>$53.8</td>
<td>$8.0</td>
<td>17.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,674.5</strong></td>
<td><strong>$9,337.7</strong></td>
<td><strong>$663.2</strong></td>
<td><strong>7.6%</strong></td>
</tr>
</tbody>
</table>

#### Executive Branch:

- **Medicaid**: $1,039.1 → $1,372.8, $333.7, 32.1%
- **SEEK**: $2,670.3 → $2,900.1, $229.8, 8.6%
- **School District Health Insurance**: $461.9 → $614.8, $152.9, 33.1%
- **Teachers' Retirement System**: $169.3 → $238.6, $69.3, 40.9%
- **State Agency Pension Contributions**: $80.0 → $140.0, $60.0, 75.0%
- **Debt Service**: $394.1 → $451.1, $57.0, 14.5%
- **Corrections**: $335.0 → $378.4, $43.4, 13.0%
- **Student Financial Aid**: $166.3 → $190.5, $24.2, 14.6%
- **Dedicated Severance Taxes**: $114.7 → $136.0, $21.3, 18.6%
- **State Agency Health Insurance**: $99.4 → $113.9, $14.5, 14.6%
- **Prosecutors**: $50.9 → $52.5, $1.5, 3.0%
- **Universities and KCTCS**: $1,028.6 → $979.4, ($49.2), -4.8%
- **Rest of Executive Branch**: $1,774.8 → $1,399.5, ($375.3), -21.1%
- **Total-Executive Branch**: **$8,384.4** → **$8,967.6**, **$583.2**, **7.0%**

* Figures exclude pension and health insurance.
The Next Biennium Will Be Very Challenging

General Fund Revenues
(Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Enacted</th>
<th>October Preliminary Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1.1%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>-2.7%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>-2.4%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>6.5%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2012</td>
<td>2.8%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>1.8%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>2.4%</td>
<td></td>
</tr>
</tbody>
</table>
Impact of Federal Sequestration

- **The Budget Control Act of 2011:**
  - Set caps on discretionary spending for 2012 to 2021
  - Established the “Supercommittee”
  - Put in place automatic procedures called Sequestration to reduce spending by $1.2 trillion through 2021 if Congress doesn’t enact at least $1.2 trillion in deficit reduction by January 15, 2012
Impact of Federal Sequestration

• Sequestration is the automatic, across-the-board cancellation of budgetary resources
• The across-the-board cuts take effect January, 2013: 50% from defense, 50% from non-defense
• **Exempt from sequestration:**
Impact of Federal Sequestration

• **Largest areas not exempt:**
  - Education, Women, Infants and Children (WIC), Workforce Investment, Head Start, Vocational Rehabilitation, CDBG, National Guard, Substance Abuse, Clean & Drinking Water Revolving Funds, Transit grants, Vocational-technical, Aging programs, Adult Education, Community Services block grant, Homeland Security, Employment Services, LIHEAP

• One estimate is a -8.8% cut.
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