FY 10 Budget Balancing Plan and the Impact of the American Recovery and Reinvestment Act

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American Recovery and Reinvestment Act of 2009

Funds Flowing Through State Government

Federal Objectives

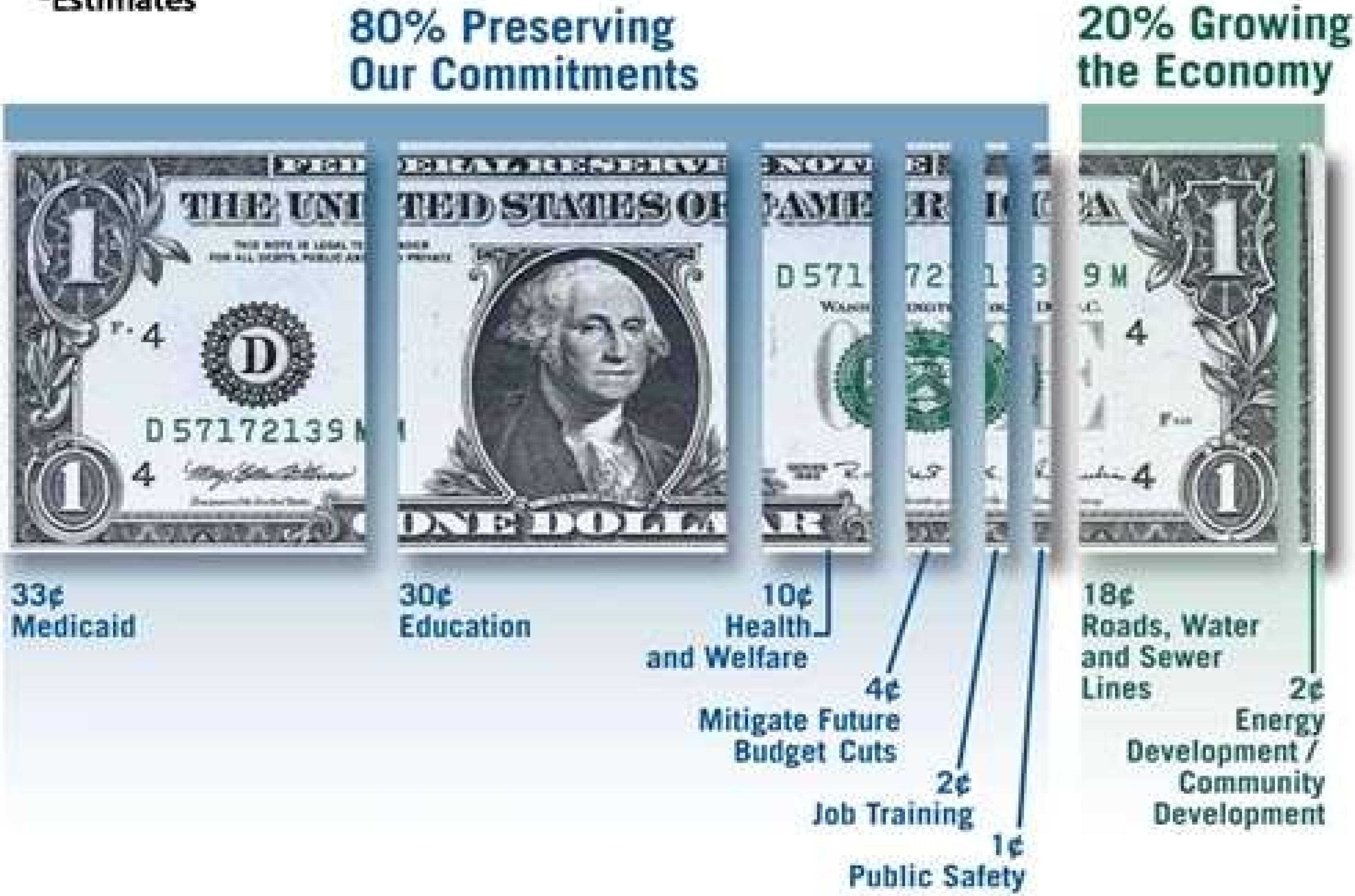
1. Put money in the pockets of consumers
2. Create jobs in the near term
3. Make investments in areas that will create jobs for the future
4. Advance policy objectives
5. Provide unprecedented accountability and transparency

State Objectives

1. Put money in the pockets of consumers
2. Create jobs in the near term
3. Make investments in areas that will create jobs for the future
4. Advance policy objectives
5. Provide unprecedented accountability and transparency
6. **Use funds wisely – they are temporary**

How much money will Kentucky be receiving?

*Estimates



Where is the money going?
*Estimates

Kentucky at work= $3 Billion

Categories of Funding

- Countercyclical funds
- Increased funding for existing federal programs
- Safety net funding
- Foundations for economic development

Countercyclical Funds

- Reduce the need for states to cut services or raise taxes
- Preserves existing jobs and services
  - Medicaid - $990 million
    - Higher federal match rate for temporary period
  - State Fiscal Stabilization - $651 million
    - Education (81.8%)
    - General Services (18.2%)

Increases for Existing Federal Programs

- Very specific uses dictated
  - Education funding (Title I and IDEA)
  - Infrastructure improvements
    - Transportation - $421 million
    - Water & Sewer modernization - $71 million
    - Transit - $50 million
  - State energy programs - $52 million
  - Weatherization - $71 million
  - Housing - $84 million
  - Justice and Public Safety - $28 million
  - Community Development - $12 million
  - Many others – formula and competitive

Increased Education Funding

	(millions)
Education Funding:	
Title I, Part A - Grants to Local Educational Agencies	$155.35
Title I-School Improvement Grants	$47.29
Individuals with Disabilities Education Act-Part B-Grants to States	$157.57
Individuals with Disabilities Education Act Part B-Preschool	$10.60
Individuals with Disabilities Education Act Part C-Infants and Toddlers	$5.46
Education Technology State Grants	$9.90
Education for the Homeless	$1.32
School Lunch Equipment Assistance	$1.77
Head Start	$11.51
Education Funding Total	$400.76

Safety net funding

- Direct, time-limited aid for individuals in need due to economic conditions
  - Food stamps (SNAP)
  - Unemployment insurance
  - Workforce training
  - Employment assistance

Foundations for economic development

- Long run investments with the potential for economic growth
  - Alternative energy
  - Smart grid technology
  - Health IT
  - Broadband deployment
  - Research & development

Additional Opportunities

- Competitive applications
  - Transportation
  - Education
  - Energy
  - Justice
  - Universities
  - Workforce development
  - Others

Resources

1. www.Recovery.gov
2. www.Kentuckyatwork.ky.gov

Sizing the Revenue Shortfall

General Fund	Enacted Estimate (millions)	Official Revenue Estimate * (millions)	Revenue Shortfall ($millions)	Revenue Shortfall (%)
General Fund	$9,296	$8,300	-$996	-10.7%
Tobacco Fund	$122	$112	-$9	-7.7%
Total General Fund	$9,418	$8,412	-$1,005	**-10.7%**
Road Fund	$1,405	$1,166	-$239	**-17.0%**

*CFG Estimates dated 5/29/09

Proposal to Balance FY 10

- No new taxes
- Use Stimulus funds to avert severe cuts
- Reduce spending from budgeted levels
- Restructure outstanding debt
- Enhance revenue collections
- Suspend pay for certain state holidays
- Add required funding in limited areas

FY 10 General Fund Budget Problem

	(millions)
Sources of the Shortfall:	
Revenue Shortfall	**$996.0**
Increased Requirements	
Dedications to Local Governments due to Higher Severance Tax Revenues	$19.8
Impact of FY 2009 Balancing Actions on FY 2010	$32.3
Necessary Governmental Expenses - required obligations	$22.9
Limited Spending Increases	$12.8
Total Amount of Problem	**$1,083.8**

Plan to Balance FY 10

	(millions)
Solutions to the Shortfall:	
Stimulus Funding	$741.7
Spending Reductions from Enacted FY 2010 Appropriations	$200.0
Debt Restructuring	$113.0
Enhanced Tax Collection Efforts	$18.5
Suspension of 3 to 5 Paid Holidays for State Employees	$10.6
Total Solutions	**$1,083.8**

$636 million less than FY 09 spending

	(millions)
FY 09 Spending Level	**$ 9,104.6**
Resources Available in FY 10	
Budgeted Beginning Balance	$ 39.5
Budgeted Fund Transfers	$ 129.2
Revised Official Revenue Estimate	$ 8,300.0
Total Resources Available	**$ 8,468.8**
Difference	**$ (635.9)**

Stimulus Funds Intended to Avert Severe Budget Cuts

- State Fiscal Stabilization Fund
  - $651 million available to be used over the next two years
  - 81.8% for education
  - 18.2% for general government services
  - Plan counts on **$358** million (55%)
  - Save $293 million (45%) to help balance FY 11

Stimulus Funds Intended to Avert Severe Budget Cuts

- Medicaid
  - Funds the projected General Fund deficit of $85 million
  - Funds increased levels of Medicaid recipients
  - Higher federal match rate results in temporary General Fund savings of **$383 million**
  - Program fully funded – no programmatic reductions necessary
  - Stimulus funds are temporary and are not to be used to expand the base

Enhanced Revenue Collections

- Reduced staffing level at Dept. of Revenue is jeopardizing collection of taxes owed to the Commonwealth, local governments and school districts
- Enhanced staffing results in:
  - Enhanced compliance efforts
  - Quicker billing
  - More and quicker audits
  - Reduced interest payments
  - Reduced processing time on returns
- FY 10 increase of $18.5 million projected
- FY 11 increase of $34.6 million projected

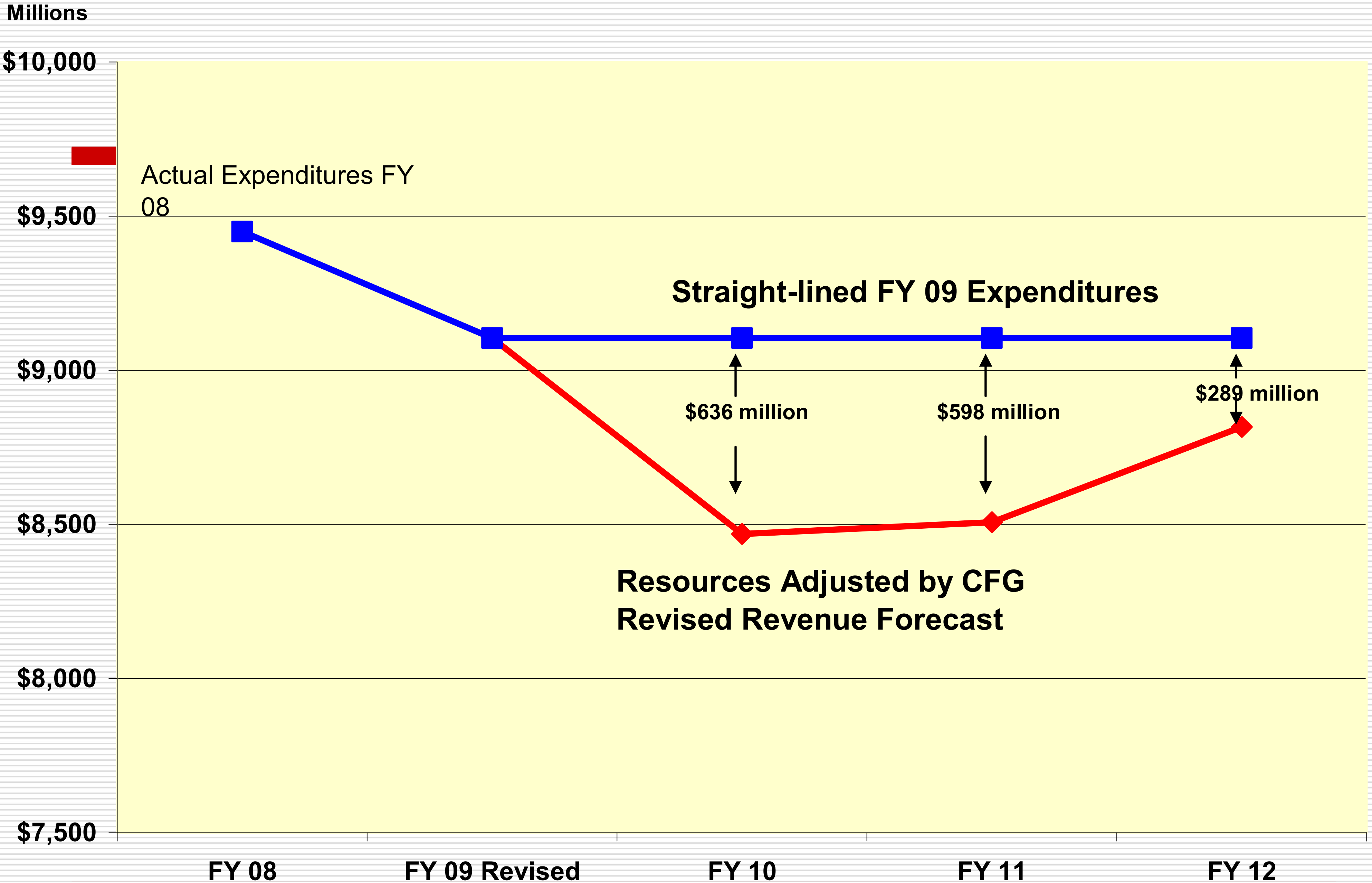
Suspension of Pay for Several State Holidays

- State employees receive 11.5 paid holidays each year
- Temporarily suspend pay for a limited number of days to mitigate deeper programmatic cuts and mass layoffs
  - 3 days for those with salaries below $50,000
  - 5 days for those with salaries $50,000 and above
- No impact to state services

Preserving our Priorities

- **Education – Our Pledge to Our Children**
  - Preserve SEEK
  - Preserve Postsecondary institutions
  - Preserve KET
  - Increase funding for student financial aid
  - Increase funding for Teachers’ Retirement
  - Fund health insurance for teachers and state employees
- **Health Care – Protecting Our Most Vulnerable**
  - Fully Fund Medicaid
  - Preserve Mental Health services
- **Public Safety – Keeping Kentuckians Safe**
  - Preserve State Police
  - Preserve Local jail support
  - Increase funding for Corrections
  - Increase funding for Prosecutors
  - Increase funding for Public Advocates
- **Economic Development – Investing in Our Future**
  - Preserve Economic Development
  - Maintain Funding for State Parks
- **Retirement - Keeping Budgeted Increase in Contribution Rates**

The Challenge Over the Next Three Years



Preserve Priorities With Stimulus Funds

- Maintain Existing Funding – No Reductions
  - SEEK per pupil guarantee
  - Postsecondary Education Institutions
- Medicaid

Preserve Existing Funding in Priority Areas

- Straight-line funding from current year (FY 09 revised)
  - Mental Health Services
  - Economic Development
  - State Police
  - Local Jail Support
  - KET
  - Kentucky Horse Park
  - Ethics Commission

Additional Funding over FY 09 revised – But Less than or equal to Enacted FY 10

- Debt Service on bonds previously authorized
- Health Insurance for School Districts and State Workers (enacted)
- Increased employer contribution rates for Ky Retirement Systems (enacted)
- Teachers' Retirement System (enacted)
- Corrections population-related expenses
- Public Advocacy (enacted)
- Veterans' Affairs
- Student Financial Aid for Higher Education (enacted)
- Judicial Branch – Local Facilities Fund

Proposed Funding Higher than FY 10 Enacted levels

	(millions)
Revenue	$ 3.1
State Parks	$ 4.9
Prosecutors	$ 2.1
Horse Racing Commission	$ 2.7
Total	$ 12.8

Dedicated Severance Tax Appropriation Increases (LGEAF & LGEDF)	$ 19.8

Balance of Government Reduced 2.6% from FY 09 Levels

- All efforts will be taken to minimize impact to services
- We have begun planning for reductions

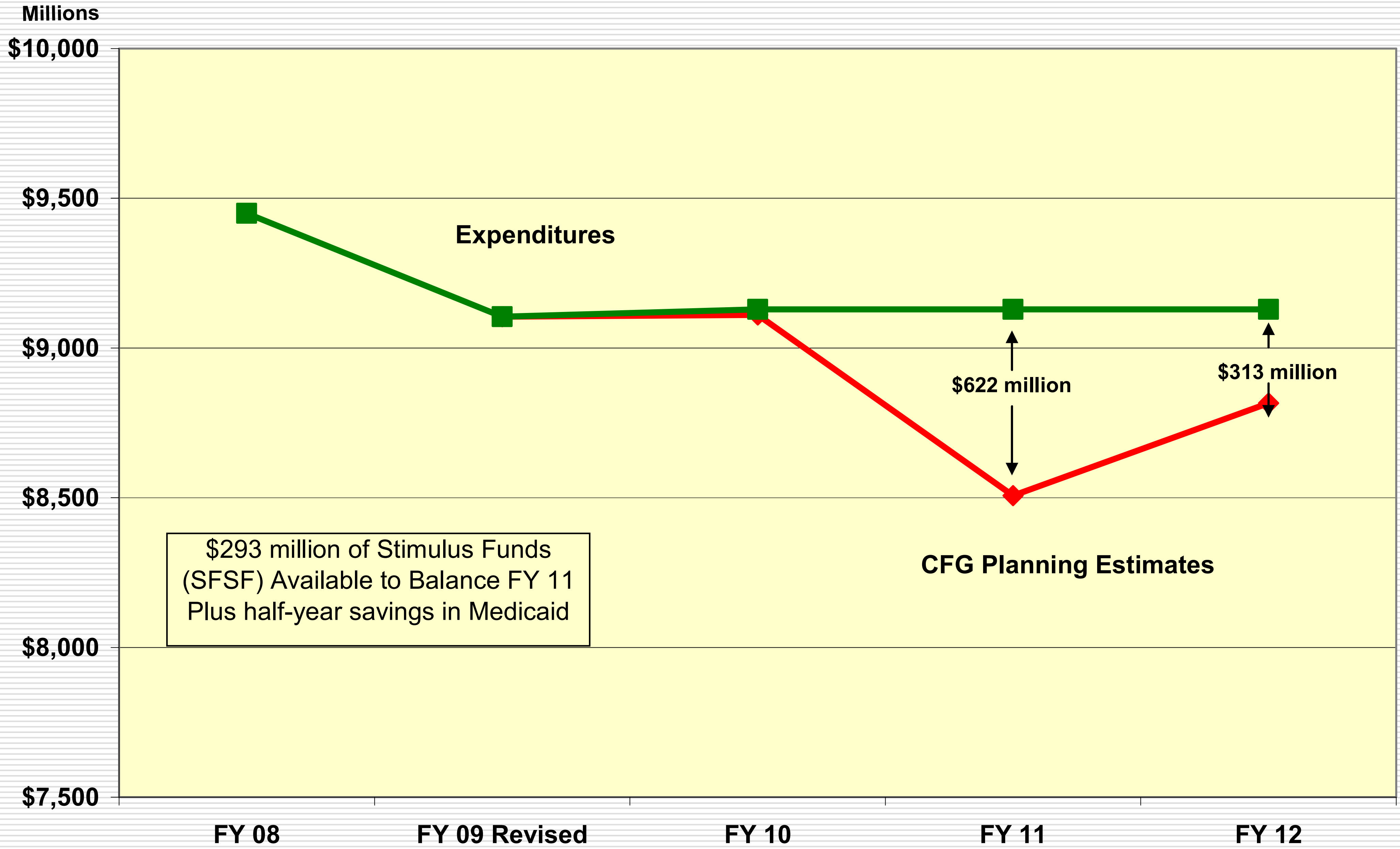
Planning Estimates for Next Biennium

- General Fund Revenues Won't Return to FY 08 levels until FY 12
- Slow growth in FY 11
  - General Fund = 1.9%
  - Road Fund = 3.0%
- Recovery stronger in FY 12
  - General Fund = 3.7%
  - Road Fund = 4.4%

A Three-Year Problem

- Almost $600 million has already been reduced over last year & half
- Forecasted economic recovery will not be sufficient to support existing spending levels
- The FY 10 – 12 biennial budget will be a significant challenge
- Need to reserve Stimulus funds to help balance next year

Outlook for the Next Biennium



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