

State Budget Address
House Chambers
Tuesday, January 29, 2008
7p.m.
Governor Steve Beshear

Mr. President, Mr. Speaker, distinguished members of the Kentucky General Assembly, Lt. Governor Mongiardo, Constitutional Officers, Honorable Members of the Court of Justice, honored guests, including my First Lady as well as Kentucky's, and my fellow Kentuckians.

Last year while running for governor, I envisioned this first budget address to be a night where I unveiled a plan brimming with bold and creative new programs.

However, that evening will have to wait. Because tonight, we deal with cold, harsh reality.

During the last month, I've outlined the problems I've inherited – first, a budget shortfall of about \$434 million for the current fiscal year.

I have already eliminated a major portion of that shortfall by issuing a budget reduction order, and I am recommending the remaining steps to be taken to solve that problem in the revised budget for the current fiscal year I am submitting to you tonight.

But even more daunting are anticipated shortfalls in both years of the next biennium.

Last October, the Consensus Forecasting Group, an independent body statutorily created to estimate revenues upon which my budget, by law, must be based, revised its revenue estimates down for the current year and for the next two years.

On December 18, and then again on January 16 of this year, this group reduced their estimates even further.

To be more specific, projected revenues are now \$580 million less in the first year of the biennium than what we are spending this year, and \$306 million less in the second year.

Budget Director Mary Lassiter has worked on seven state budgets. She says that while our Commonwealth has faced revenue shortfalls before, we are in an unprecedented position – facing revenues in the next two fiscal years far below our spending levels of today.

Now, we are not alone.

Some thirty-five to forty other states are facing shortfalls and budget reductions, too.

Florida, for example, sliced sixty-five million dollars from its public universities in December.

Maine is eliminating seventy million dollars from health and human services.

Virginia has asked its three leading universities to cut seven point five percent of their budgets and Rhode Island plans to remove one thousand state jobs while eighteen thousand people could lose health insurance.

In Kentucky, we are dealing with inherited numbers so dire that were we to allow it, they could cast a deep, dark cloud over this Commonwealth for an immeasurable period.

But dark clouds are for the weak, the timid, the narrow thinkers and those unwilling to roll up their sleeves to work smarter, harder and more efficiently.

This night we do not shrink from the task. Rather, we accept this challenge to lead! This night we unveil a budget that – albeit austere to the point of pain – will once and for all start us on a path toward financial stability.

Based on projected revenues for the next two years, our spending plan is logical, well-reasoned and strategic.

This is a budget in which state government and all of its organizations must prove that they can be better stewards of the taxpayers' hard-earned money.

A dilemma facing most new governors as they hurriedly cobble together their first spending plan is figuring out where to spend new money.

But for this new governor, there is no new money.

There is less.

Must we severely tighten our belts? Yes. But in spite of that, my friends, this is not a budget of retreat.

In this budget, we have laid the groundwork for regaining our financial footing.

And, although difficult decisions have been forced upon us, we have carefully identified ways to advance, areas in which we can improve the lives of Kentuckians on several levels, often with little spending.

Though limited, such actions can lead to real achievements. As Ralph Waldo Emerson penned, “The creation of a thousand forests is in one acorn.”

Let's take a look at some of the acorns in this proposed budget.

FIRST, K-12 EDUCATION.

My commitment to the education of children in elementary and secondary schools remains steadfast. K-12 education is our highest priority, as it should be.

Our founding fathers said exactly that when they constitutionally mandated an adequate system of education for children.

Without providing our children a proper foundation at the elementary and secondary levels, the role of colleges and universities is diminished because of remedial requirements placed upon them.

So, while most of the rest of government will have to make do with significantly less, this budget provides the funding to maintain the SEEK base per pupil guarantee for the next two years.

I fully recognize that protecting the education of our children by sparing SEEK from cuts has serious consequences elsewhere, since it represents thirty-three percent of the General Fund. But it is the right choice.

Furthermore, although we cannot do all that I would like in the field of early childhood education and development, we must take steps forward.

To begin that process, I will create an early education and care coordination committee.

This committee will bring all providers – the public school sector, the private sector and Head Start – to the table to increase service efficiency, reduce duplication and produce common standards of practice.

As conditions improve, we must expand the availability of early care and education to more Kentucky children.

HIGHER EDUCATION.

In postsecondary education, I am deeply disturbed by the agonizing position in which we find ourselves.

I strongly believe in the missions and goals of our colleges and universities, and I regret offering a budget with reductions in this area.

But given severely limited resources, the fact that I have recommended no reduction in the formula which funds K-12 education, and the fact that we must provide for the basic health and human needs of the most vulnerable in our society, we will simply be unable to maintain the current level of increased spending for institutional operating budgets. I have been warned about the easy option of large tuition increases.

I urge all of the presidents and boards of our universities to scrutinize their own operational costs, as the rest of government has to do.

Now is the time for all of us to discover greater management efficiency and cost containment.

But I also believe that in spite of the necessity of reductions, this budget provides ways to continue the momentum begun by the 1997 higher education reform effort.

In this budget:

I recommend that the need-based student financial aid programs be held harmless from budget cuts.

In addition, I recommend funding of the Kentucky National Guard tuition award program.

The men and women serving our nation and our Commonwealth deserve no less.

What we also can do at this time is address some of the capital needs of our universities – both human capital and bricks and mortar needs – in helping meet 20 20 goals of excellence.

I recommend a sixty million dollar bond authorization for a new round of “Bucks for Brains.”

This program has attracted and retained some of the brightest faculty and research teams in the nation. In times like these, we simply must invest in the future.

I recommend restoration and funding of all previous vetoed bond projects that have not moved forward. These had the support of both the House and Senate in 2006. Many are on the campuses of our state universities. There should be no debate about moving forward now.

In addition, I recommend that the General Assembly authorize all of the agency bond projects requested by the universities for this biennium.

As you know, these projects require no debt service from the state. Rather, such bonds are paid for by the universities' own revenues.

By authorizing all such requested projects, the universities will have the flexibility they need to choose the ones most important to them.

As you will see when you review my entire recommended capital construction budget, we can authorize all such projects and still remain within our debt capacity policy.

We also must address two university projects that won't cost additional general funds.

Murray State University needs authorization to finish its Chemistry Building with funds previously authorized.

The University of Louisville requires authority to spend private funds to renovate Papa John's Cardinal Stadium. I recommend language which will allow both projects to proceed.

My friends, if and when additional resources become available, higher education should be a top priority for new funds.

HEALTH CARE.

The Medicaid program is receiving the largest amount of new funding in this budget.

Why? Because health care costs continue to rise, and new funding is required to simply maintain the program which provides the healthcare safety net for thousands of Kentuckians.

Through this budget, more than 722,000 Kentuckians each year will continue to receive coverage under the Kentucky Medicaid Program.

And we are not cutting eligibility for the program.

However, we must implement a strategy for coordination and improved oversight of many of the components of the Medicaid Program to live within the available dollars. We must manage this program better.

We will continue to implement components of the reforms in the Medicaid program that were contemplated in the last budget.

And, we will have to find ways to reduce expenditures in some areas.

There are other limited areas where we have to find ways to do more.

I recommend additional funding to increase alternatives to institutionalization for individuals so that they may choose consumer-directed program services in community based settings.

This budget adds 150 placements in the first year and 300 placements in the second year for the Supports for Community Living program and implements a new waiver to serve individuals with mental retardation and developmental disability who previously could not access community-based services.

This budget also contains increased funding for a new program of Long Term Care coverage to individuals with an Acquired Brain Injury, and proceeds with the “Money Follows the Person” initiative which allows individuals in a nursing facility or other institutions to return home to the community.

However, we cannot continue spending dollars in the same old way.

We must look across the continuum of the Medicaid program to ensure that we are getting good value for the dollars paid for health care services, and that the program itself is administered in the most cost-efficient manner.

I am committed to continuing the planning process for replacement of Eastern State Hospital. I have asked the Secretary of the Cabinet for Health and Family Services to evaluate options for the planning of, and financing for, the replacement of that facility.

The Secretary will propose a plan by December 2008 for the replacement of the facility.

I recommend issuing bonds to replace the Glasgow State Nursing Facility operated by the Department of Mental Health and Mental Retardation. The existing facility is deteriorating alarmingly, and will soon be unsafe for use.

JUSTICE.

Getting a handle on the soaring expenditures for this state's justice system is among our greatest challenges.

During the past thirty years, Kentucky's crime rate has remained virtually flat, increasing only about three percent.

But our incarceration rate has increased by 600 percent in the same timeframe.

In 1970, Kentucky had 2,838 state prisoners. As of last week, the state's inmate population stood at 22,442.

By the end of the upcoming biennium, that number is expected to easily top 23,000. Kentucky's corrections budget has swelled to nearly \$398 million in general funds. And it is still not enough.

I will appoint a criminal justice task force, comprised of representatives from all parts of the system, to undertake a comprehensive review of Kentucky's penal code, sentencing guidelines and related issues.

Its goal will be to ensure protection of the public and appropriate punishment of offenders, while developing ways to better control the costs of this system.

However, while reforms in this area could reduce the populations in our jails and minimum security facilities where large numbers of less serious offenders are now held, there is unfortunately already a demonstrated need for more space to house serious and violent offenders who cannot be held in those other facilities.

Therefore, I recommend the expansion of the Little Sandy Correctional Complex in Elliott County to accommodate that need.

The rest of the justice system will experience budget reductions.

However, because of their vital role in the protection of the public, I recommend smaller reductions to these areas of government than many other areas.

TRANSPORTATION.

Unfortunately, our road fund is not much better off than the General Fund over the next two years.

We do have some revenue growth predicted, primarily due to the increasing cost of gasoline.

The good news for local governments is that the revenue-sharing program will see some growth.

The bad news for state government is that almost all of the revenue growth predicted is already obligated to numerous prior commitments.

In fact, the last two years saw record spending on highway contracts, and when we arrived on December 11th, we found that of the \$65 million that had been placed in the Highway Contingency Fund, all but \$307,000 had already been spent.

The bottom line is there's little new money available for additional projects.

ECONOMIC DEVELOPMENT.

Refocusing Kentucky's economic development strategies and practices is of the utmost priority.

When our Economic Development Cabinet was created in the 1990s, it was given the task of creating a statewide economic development strategy.

However, over the years that strategy has become more and more limited and dated.

It is time to revitalize our economic development efforts, and as chair of the Economic Development Partnership Board, I will work with the Secretary of that cabinet to review and revise our strategy, giving it a new focus on the entire state and on twenty-first century jobs.

In addition, in tight times more than ever, Kentuckians deserve to know how state dollars are spent on economic development deals.

I have instructed the Cabinet to make all such incentive agreements available through a searchable database.

Finally, an immediate and major new economic development opportunity arises out of the federal government's decision to change and expand the mission of the Fort Knox military facility.

This effort will result in the Commonwealth becoming the beneficiary of hundreds of millions of dollars in federal investment as well as thousands of jobs.

Our response will likely require state investments in roads, schools, and other infrastructure.

But the return is enormous – in tax dollars, spending power, high-salaried twenty-first century jobs, construction benefits and the preservation of Fort Knox.

To be prepared to address these critical needs, I recommend:

Fifty million dollars in economic development road bonds to support pre-construction for road projects needed for the successful build-out of the new federal facilities.

Fifty million dollars in economic development bonds to address other potential infrastructure needs in the area.

I will also appoint an implementation team to move forward and build upon the good work carried out by the initial Base Realignment Task Force. We cannot afford to miss this opportunity.

CAPITAL INVESTMENTS.

Considerable thought has been given to the appropriateness of issuing debt when we face cutbacks in so many areas. Some will say that now is not the time to invest in infrastructure and other capital needs.

I believe that this is exactly the right time.

Carefully planned investments will allow us to continue the positive momentum we have built in several areas.

Fortunately, if we have to borrow, we can do so by capturing low interest rates. Furthermore, capital investments, where appropriate, have an added advantage of creating construction and related jobs.

My capital investment focus has three components:

Honoring prior commitments.

Investing in critical needs.

And giving the universities flexibility to issue debt that they will repay with their own money, a topic which I have already discussed.

In the area of honoring prior commitments, I recommend the following:

We should issue one hundred million dollars in bonds for the School Facilities Construction Commission.

The initial Offers of Assistance for these projects were authorized in the 2006-2008 budget.

Prior promises to our school districts have been made, and they should be honored.

I also recommend that we authorize an additional 100-million dollars in offers of assistance over the next biennium. We must provide adequate facilities in which our children can be educated.

We should complete the statewide public safety communications network.

We have deployed the system in eastern Kentucky; now we must finish deploying the technology in the western part of the state. This is a critical public safety issue.

Finally, as I have already mentioned, we should restore all 2006 vetoed bond projects that have not moved forward. The time to act on them is now.

In the area of investing in critical needs, I have already mentioned the investment we should make in a Bucks for Brains program, the Fort Knox expansion and realignment effort, the necessity of expanding the Little Sandy Correctional Complex and the need to pursue a replacement facility for Eastern State Hospital.

In addition, I recommend:

Additional bond funds for the Kentucky Infrastructure Authority, both to match federal funds and to address water and sewer needs in our coal-producing counties - a critical health and safety issue.

Funds for flood control matching grants and state-owned dam repair.

Replacing the power plant at Morehead State University. It has been patched together and is operating with a very temporary solution.

\$3.7 million in agency bonds for infrastructure at Bluegrass Station. Two weeks ago a fire there destroyed a building the state leased to private enterprise. This is the second fire in the last year.

Unfortunately, the infrastructure is insufficient to supply adequate water pressure for fire suppression. This is unacceptable.

Although we have looked throughout state government for money to balance the General Fund, I recommend that we respect the integrity of two distinct funds.

First, I feel strongly about keeping our commitment to agriculture as we continue investing in the agricultural economy. We must increase net farm income.

I recommend that we honor the commitment made to the agriculture community to allocate fifty-percent of the Master Settlement Agreement funds to agriculture development.

In addition, restoring and funding the 2006 vetoed bond projects will allow for the expansion of the University of Kentucky Livestock Disease Diagnostic Center.

The additional space will help to meet the ever-increasing demands for disease diagnosis and research to safeguard the animal population.

Second, coal severance funds should continue to flow to the coal counties.

However, I am recommending two initiatives for use of some of these funds:

The mine safety inspection and training program is critical.

Legislation you enacted in the past two sessions calls for an increase in mine inspections and mine safety training.

Yet, that program has not been funded. I recommend that we fund those requirements from coal severance funds.

And, as I have already mentioned, we must concentrate on the pressing needs for adequate water and sewer infrastructure in our coal counties. Therefore, I am recommending a \$50 million bond pool to address these needs.

Another area we must address is our public pension systems. They have large unfunded liabilities.

This problem did not appear overnight, and Kentucky cannot and will not solve it overnight – particularly through some large infusion of cash. Again, right now, there is no cash!

What we can do now is address the increasing costs. These programs are not sustainable at current levels.

Therefore, I will offer a specific proposal on pension reform in the coming weeks and I look forward to working with you as we resolve this critical problem.

Presenting a budget with significantly less resources will force us to become more efficient.

It will force us to rethink how state government operates. And by doing so, we will be on a firmer financial footing.

This proposed budget relies on some one-time money, but not nearly as much as the current budget.

We have used most of our rainy-day fund to balance this budget, and we have identified many sources of non-General Fund money to help balance it.

By doing so, we will be able to bring authorized spending levels back to current levels by the end of the biennium.

But we have decreased our reliance on those one-time funds.

In fact, we have reduced our reliance on one-time funds to support recurring spending by more than fifty percent.

We should strive in the future to reduce that reliance even further, so that we don't find ourselves in this position ever again.

Yes, there will be future downturns in the economy, but our ability to withstand them will be enhanced once we balance our budget with recurring sources of revenue.

However, even when the economy turns around and our revenues begin to rise again, I know that we all want to move forward faster.

We want to more rapidly improve the quality of life for all Kentuckians in areas such as education, healthcare and better jobs.

And to do that, we need a major new source of revenue.

I have said many times that raising taxes is a last resort. But there is another option.

Other states' gaming facilities are on most of our borders, and each year thousands of Kentuckians visit them and spend over one billion dollars of their entertainment money.

Right now, those Kentucky dollars are educating Indiana's kids, providing healthcare for Illinois' seniors, and paving West Virginia's roads.

Do we want Kentucky money continuing to benefit the people of other states, or do we want to bring it home to improve the quality of life of our own people?

While estimates vary, it is safe to say that allowing limited expanded gaming in Kentucky would result in hundreds of million dollars in new tax revenue every year.

Kentuckians have overwhelmingly indicated that they want the right to vote on this issue, and it is time that you allow them to do so.

In the coming weeks, I will be submitting to this General Assembly a constitutional amendment which would allow the people of our state to vote on whether to allow limited expanded gaming in Kentucky.

I call upon you to pass that amendment and place it on November's ballot. I trust the people of this state to make the correct decision. It is time that you also place your trust in them.

So there you have it.

I commend this budget to you for your review and action. I understand that you may have somewhat different priorities, and I look forward to working with you as we finalize our plans for Kentucky's future.

Yes, we are in tough times, and just like Kentucky families who find themselves in a similar situation, we must tighten our belts and balance our checkbook.

But, my friends, if we work together we are going to come out of this in much better shape than we were before.

It is time to get our financial house in order. It is time to chart a new course. It is time that Kentucky once again rises to the top.

For Kentucky to become this nation's next frontier will require bold, honest and unflinching leadership. Together, we can provide that leadership, starting tonight.

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