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Governor's Austere Budget Gives Small Bump to K-12, Cuts Funding for Many Areas

Governor Beshear's Executive Budget proposal provides a small amount of additional funding to K-12 education but not enough to fully restore the impact of six years of cuts and frozen funding levels. It pays for that increase and others by transferring a large amount of money from various state accounts and by cutting higher education and additional budget areas that had already been reduced substantially through the recession and its aftermath.

The budget plan includes bright spots in other areas, including restored funding for child care after deep previous cuts and increased funding for preschool. However, it also contains painful trade-offs and further retrenchment in many public systems that improve health and economic well-being.

How the Budget Is Balanced

The Consensus Forecasting Group projects only \$246 million in new General Fund revenue the first year of the budget and \$252 million in additional revenue the second. The governor's proposal finds a large amount of additional dollars, including substantial fund transfers—\$253 million in 2015 and \$117 million in 2016 compared to \$89 million in 2014 and \$108 million in the enacted 2013 budget. The details of all of these fund transfers are not provided in the budget documents, although they will be outlined in the budget bill. The plan also uses a currently-forecasted fund balance of \$69 million in 2016 and identifies other monies.

Those resources help the plan pay for \$390 million or 4 percent more in spending in 2015 than in 2014. In 2016 it includes an additional \$181 million or a 1.8 percent increase in appropriations compared to 2015.

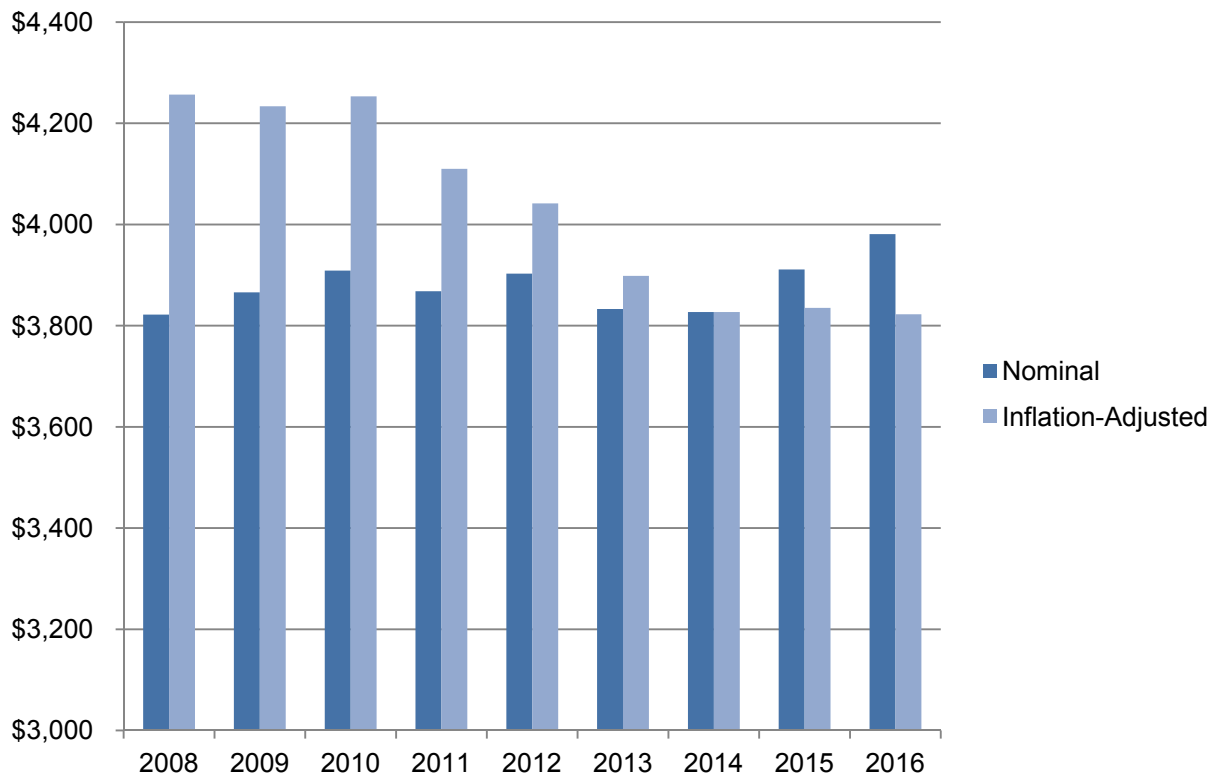
Also, the governor's plan identifies expected General Fund savings of \$166 million over the biennium because of implementation of the Affordable Care Act. That involves savings from health services previously provided through the Department of Behavioral Health, Public Health and other areas. Those costs will now be covered by Medicaid under the expansion, which will be 100 percent funded by the federal government for the next three years for those newly eligible, and by private insurance.

Where Additional Dollars Are Allocated

The governor's proposal provides additional funding to the SEEK formula of \$71 million in 2015, which increases the SEEK guaranteed base funding to local schools to the highest level it has been in actual dollars, as well as an increase of \$118 million in 2016. After adjusting for inflation, however, funding in 2016 is 10 percent lower than it was in 2008 (see graph on next page).

The budget provides funding to restore some cuts to other parts of K-12 education back to their 2008 levels not adjusting for inflation, including textbooks and school safety. It also provides \$18 million each year to slightly expand access to preschool from 150 percent to 160 percent of poverty. And the governor's budget restores funding from cuts that were made this year to the child care assistance program.

SEEK Guaranteed Base Funding Per Pupil: Increased but Still Down After Adjusting for Inflation



Source: KCEP analysis of Office of the State Budget Director and Department of Education data. Inflation-adjusted to 2014 dollars using the Consumer Price Index.

The budget proposal makes slight alterations to coal severance tax spending, including allocating \$2 million a year for a regional strategic development fund for eastern Kentucky associated with the Shaping Our Appalachian Region (SOAR) process.

The plan fully funds the costs associated with the state's full annual pension obligation for state employees including most quasi-governmental agencies. It provides raises of 1 percent to 5 percent in 2015 to state employees with lower-paid employees getting the largest increases, and 1 percent raises to all employees in 2016. And it gives school employees a raise of 2 percent the first year of the budget and 1 percent the second.

What's Being Cut or Neglected

Many agencies across state government are cut by 5 percent in the governor's budget plan. Universities and community colleges receive 2.5 percent cuts, but those are large cuts in terms of dollars. They total \$28 million next year and make funding for institutions more than 27 percent below 2008 levels after adjusting for inflation.

The higher education cuts will lead to more tuition hikes for students, and continue the trend by which the state's share of funding for higher education relative to students' share declined from 67 percent in 1999 to 37 percent in 2013.¹ Since 2000, tuition increases at state institutions have ranged from 184 percent at the University of Louisville to 256 percent for the community and technical college system.² Hardest-hit will be those low-income students who can least afford college. Yet the budget does not increase funding for the only true need-based financial aid program, the College Access Program, even though the

program has a huge unmet need. The biggest gaps in the state's higher education progress are for low-income and underrepresented minority students.³

The budget does not provide any additional resources to fully fund the annual required contribution to the teachers' retirement system. The actuarially required contribution is \$390 million the first year of the budget and \$400 million the second. The state has not made full contributions to that system since 2009, which will increase the long-term cost to pay back the debt owed to teachers.⁴

The cumulative impact of what will be eight years of budget cuts is substantial. The table below shows cuts in funding since 2008 for a range of state agencies. Cuts range from 17 percent to 42 percent after adjusting for inflation.

| General Fund Cuts to Selected Agencies from Original 2008 Budget to Proposed 2015 | | | | |
|--|--------------|------------------|--------------------------|---|
| | 2008 Enacted | 2015 Recommended | Percent Change 2008-2015 | Inflation Adjusted Percent Change 2008-2015 |
| Kentucky Arts Council | 4,182,500 | 2,767,300 | -34% | -42% |
| Division of Air Quality | 1,408,600 | 956,000 | -32% | -40% |
| Secretary of State | 2,298,100 | 1,634,500 | -29% | -37% |
| Attorney General's Office | 14,113,100 | 10,438,600 | -26% | -35% |
| Kentucky Educational Television | 16,816,100 | 13,037,900 | -22% | -32% |
| Auditor | 5,828,300 | 4,681,800 | -20% | -29% |
| Universities | 881,434,300 | 722,244,900 | -18% | -28% |
| Division of Water | 11,965,300 | 9,809,700 | -18% | -28% |
| Environmental Protection | 26,118,000 | 21,417,700 | -18% | -28% |
| Community and Technical College System | 226,331,100 | 188,231,700 | -17% | -27% |
| Libraries and Archives | 14,689,300 | 12,444,200 | -15% | -25% |
| Commission on Women | 266,200 | 226,400 | -15% | -25% |
| Vocational Rehabilitation | 13,134,400 | 11,385,200 | -13% | -24% |
| Kentucky Nature Preserves Commission | 1,166,500 | 1,061,700 | -9% | -20% |
| Commission for Children with Special Health Care Needs | 5,917,000 | 5,401,500 | -9% | -20% |
| Commission on Human Rights | 1,859,100 | 1,703,200 | -8% | -19% |
| Deaf and Hard of Hearing | 933,000 | 861,300 | -8% | -19% |
| State Police | 80,305,900 | 74,745,100 | -7% | -18% |
| Public Health | 73,823,000 | 69,393,000 | -6% | -17% |

Source: KCEP analysis of Office of the State Budget Director data.

Conclusion

The governor restored some harmful cuts and proposed additional spending in a number of high-priority areas in his budget. His proposal finds modest dollars for a small increase to K-12 education, but still funds the schools far below pre-recession levels once inflation and student population are taken into account. And the budget further erodes other investments that make our economy and quality of life better—including in areas of higher education, health, environmental protection and public safety.

Revised from original version to correct information on College Access Program.

¹ Robert King, "Making Kentucky Stronger by Degrees," Presentation to the Kentucky Board of Student Body Presidents, January 26, 2013, <http://cpe.ky.gov/NR/rdonlyres/4ABCBC47-7E56-4965-ABF3-9EEDAE14BCFF/0/012613kybdstudentbodypresidents.pdf>.

² Kentucky Council on Postsecondary Education, "Kentucky Public Postsecondary Institution Resident Undergraduate Tuition and Campus Mandatory Fees," <http://cpe.ky.gov/NR/rdonlyres/DF7279FC-6D2A-437C-A6E4-2DD9C1D24132/0/ResUGTuitionFeesbyInstitution.pdf>.

³ Ashley Spalding, "New Report Shows Continued Higher Education Gaps for Disadvantaged Students Alongside Funding Cuts," Kentucky Center for Economic Policy, December 20, 2013, <http://kypolicy.org/content/new-report-shows-continued-higher-education-gaps-disadvantaged-students-alongside-funding-cu>.

⁴ Jason Bailey, "State Must Begin Meeting Responsibility to Teachers' Retirement or Pay More Later," Kentucky Center for Economic Policy, November 21, 2013, http://www.kypolicy.us/sites/kecp/files/Teachers%20Retirement_1.pdf.