

**State Budget Address**  
**Tuesday, Jan. 21, 2014**  
**Gov. Steve Beshear**

Mr. President, Mr. Speaker, distinguished members of the Kentucky General Assembly, Lieutenant Governor and Mrs. Abramson, other Constitutional officers, honorable members of the Court of Justice, honored guests, including Kentucky's First Lady and my fellow Kentuckians ...

Tonight I present my proposed state budget for the biennium that begins July 1.

It is a plan that – to be honest – fills me with both immense pride and with intense regret.

Regret, because the choices reflected in this document do great harm to many state programs and services needed by Kentuckians.

But pride – pride because those same choices empower us to make bold investments in the intellectual capital and economic competitiveness that Kentucky's future demands.

My focus should surprise no one.

Two weeks ago, I stood here and signaled my intent in clear and decisive words:

“I am determined to find money to reinvest in education,” I said then, “even if I have to make harmful cuts in other areas to do so.”

Well, that's precisely what this two-year budget proposal does: It makes damaging cuts in many areas in order to keep Kentucky at the forefront of educational attainment in this nation.

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I took office in December 2007 amid the worst economic recession of our lifetime.

Because of a global financial meltdown, I inherited both a \$434 million mid-year deficit and declining revenues that produced three austere two-year budgets.

You and I worked together to balance and rebalance our budget 13 times during the last seven years, in the process eliminating more than \$1.6 billion in spending and shrinking the state workforce to its smallest size in four decades.

We've made numerous improvements to daily operations to add efficiency and save money.

And we've undertaken major reform in big cost areas: Adopting a new delivery model in Medicaid, changing "how" and "when" we house prisoners and reining in employee benefits.

In short, we have a very different state government today than we had six years ago.

Because of this fiscal conservatism and aggressive efforts to create jobs, we're continuing to turn our economy around.

But our projected growth over the next two years is modest, and by itself won't be enough to even meet our obligations, much less allow us to make investments in Kentucky's future that strengthen us economically and improve the quality of life of our people.

That's not rhetoric – that's harsh reality.

Now it would be easy to propose a budget that simply accepts this reality and reduces all of our expenditures accordingly – and then to go home.

But I have chosen a different path.

I am using this budget to strengthen Kentucky's competitiveness both now and long into the future.

This budget proposal strategically focuses our very limited resources on what I believe will deliver the greatest return: A more highly educated population that will become a more talented workforce.

This proposal makes substantial investments in the physical and intellectual infrastructure of our schools – both the K-12 system and our institutions of higher learning, including an historic proposal for our two-year community and technical colleges.

And it strives to accelerate the momentum that has seen Kentucky leap ahead of many other states in measures of student performance and policy reform.

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Decades ago, Kentucky's education performance was cause for embarrassment.

Today, we're a source of envy, with a national reputation for being innovative, bold and determined.

But others are also forging ahead even as this world becomes more complex.

So while we're proud of the ground we've made up, there is so much left to do.

And I will not allow us to simply run in place or let ourselves slip behind.

So ...

- This budget proposal builds a stronger and smarter workforce.
- It creates short-term jobs through an aggressive construction schedule.
- It recognizes the critical role of our two-year community and technical colleges.
- It restores desperately needed child-care assistance.
- It fulfills our commitment to restoring stability to the Kentucky Employees Retirement System.
- It trains workers for advanced manufacturing jobs that are coming to Kentucky.
- It improves the health of our people.
- And above all, it makes Kentucky more competitive.

Now, how can we do all of this given our tight financial condition?

We use a multitude of strategies:

- One, transfers from unused and underused funds.
- Two, savings created by federal health care reform.
- Three, careful management of our debt service.
- And four, harsh cuts to important programs and services.

This budget is built on 5 percent cuts to many agencies.

However, we are exempting areas like classroom funding ... public health and mental health ... libraries ... parks ... and programs that create jobs.

We're also holding other needs – like state police and our universities – to a lower 2.5 percent cut.

I am deeply disturbed by the damage these reductions will do.

Much of the “right-sizing” we’ve done with state government over the last seven years was needed.

But some cuts went way too deep.

These are the agencies which ensure that the water we drink is clean ... protect us in times of weather-related disasters ... make sure our workplaces are safe ... protect us in our homes and on the roads from criminal elements ... and deliver to our young adults the postsecondary skills they need to succeed in this world.

Collectively, many of these agencies will have been slashed by 41 percent over an eight-year period.

Imagine running a business and being told to maintain the same level of services while slashing your budget 41 percent.

That is a difficult and sometimes impossible task.

One strategy we did not employ was the use of our Rainy Day fund. This budget preserves the approximately \$100 million currently in that fund.

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Now, let me talk about the details of this budget:

**In the area of education ...**

This budget makes bold proposals to increase Kentucky's competitiveness.

The biggest involves SEEK, the funding formula for our classrooms.

From 2000 to 2008, SEEK grew an average of 3.4 percent each year.

But from 2008 to 2014, it grew zero percent.

And because enrollment expanded, costs increased and local support in some areas declined, what we spent per student actually dropped.

Despite this dwindling support, our education community has performed at high levels, pushing us to the cutting edge of education reform in this country.

But our schools have stretched every dollar they have as far as they can.

And it is time to again fund our classrooms like we should.

My budget allocates an additional \$71 million in Fiscal Year '15 and \$118 million in Fiscal Year '16, bringing per pupil spending to its highest total ever in our history.

This will provide funding for pay increases of 2 percent the first year and 1 percent the second year for all teachers and classified school personnel.

My budget also adds \$47.7 million each year for textbooks, school safety, professional development and extended school services, bringing funding back close to 2008 levels.

This is a major accomplishment ... but it still leaves us six years behind where we should be today.

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Another issue that is absolutely essential to our future is making sure that every child gets off to a good start in life and in school, regardless of whether he or she is born in the inner city, in the mountains, on a farm or in an affluent suburb.

So I'm proposing \$18 million a year to expand pre-school services.

By increasing eligibility from 150 percent of the poverty level to 160 percent, over 5,100 more 4-year-olds will be able to attend pre-school.

That's a 22 percent increase in enrollment.

Research shows that kids who attend pre-school are more likely to hit the ground running in kindergarten and succeed later in school and in the workplace.

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This proposal uses \$50 million in General Fund-supported bonds to make urgent investments in education technology and other equipment that is becoming outdated.

It funds 80 additional students at the Gatton Academy of Mathematics and Science, the high school program on the Western Kentucky University campus that has been named No. 1 in the nation for two years in a row.

It also adds \$2 million over the next two years to the AdvanceKentucky program to improve access to and participation in AP courses, especially among student populations traditionally under-represented in these courses.

It also adds AdvanceKentucky to 10 more schools in rural areas.

My proposal expands enrollment in the Governor's Scholars Program and Governor's School for the Arts, which nurture our brightest and most talented students.

It supports school facilities construction with \$100 million in General Fund-supported bonds.

And it adds \$1 million each year to help build and renovate libraries in our communities.

My friends, these are aggressive investments.

But they are long overdue.

**In the area of higher education ...**

My proposal includes both good news and bad news.

It exempts student financial aid from the 5 percent cuts, but it reduces operating funds for our universities and our two-year community and technical college system, although it holds that reduction to 2.5 percent.

Look, I am painfully aware that with this reduction, our colleges and universities will have undergone cumulative cuts of 17 percent during this historic recession.

This was one of the most difficult choices made in this budget, because higher education deserves more support, not less.

But there simply is no way to create enough money to make the needed investments in pre-K through 12<sup>th</sup> grade unless higher education is included in the reductions.

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However, my plan does lay out a bold course to invest in both the intellectual and physical infrastructure of our campuses.

With General Fund-supported bonds, it invests \$60 million in the Bucks for Brains program to benefit both our research universities and our comprehensive institutions.

This will be our first investment since 2010 in a program that has attracted and retained some of the brightest faculty and research teams in the nation.

Also with General Fund-supported bonds, my proposal invests more than \$520 million in capital construction projects for all of our four-year institutions.

These projects include new construction, such as Eastern Kentucky University's science building, Northern Kentucky University's health innovation building and the final phase of Murray State University's new science complex.

They also include renovation and maintenance, such as Kentucky State University's boiler and distribution line replacement projects.

My proposal also authorizes almost \$704 million in agency bonds for our universities.

As you know, these bonds have zero impact on the General Fund and will be repaid using identified revenue streams at the universities.

Projects to be funded include new campus housing at Morehead State University ... new instructional space at the University of Louisville ... the science campus at Western Kentucky University ... and renovating the University of Kentucky law school utilizing a unique public-private partnership that combines General Fund-supported bonds and agency bonds paid for with private donations.

These represent high-priority projects on which the institutions are ready to move forward, and this proposal is consistent with the action the General Assembly took just last session.

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Furthermore, my agency bond plan includes an historic proposal that represents the single-largest investment in the KCTCS system since its formation.

Almost 100,000 students access education through the two-year system and its 16 colleges and 73 campuses.

These students aren't just recent high school graduates – they're also working adults looking to advance their skills and adults needing to get back into the workforce.

But there is no way our two-year colleges can handle this huge task with their current infrastructure.

And there is no way that these infrastructure needs can be met only by the General Fund.

In fact, three biennial budgets have passed with no new capital improvements in KCTCS.

So its leadership came to me with a proposal to be allowed to use agency bonds for the first time ever to fund up to 75 percent of the cost of 16 critical projects.

At least 25 percent of the remaining cost will come from the local communities and other public or private sources.

This is a perfect example of the public and private sectors working in concert, and it builds on the close connection between these institutions and the business communities whose workers they groom.

And the leaders of the system assure me that debt service will not add to the cost of an

education in any meaningful way.

This list totals \$145.5 million in agency bonds, and paired with the local “match” will finance almost \$200 million in construction across the Commonwealth.

This includes projects such as:

- Phase II of the advanced technology center in Owensboro.
- Gateway’s Urban Campus in Covington.
- A new classroom complex at Southcentral in Bowling Green.
- Phase I of the Agriculture Health and Career Technology Center in Hopkinsville.
- And designing the Community Intergenerational Center at Hazard’s campus in Jackson.

These campuses are in many ways factories that build Kentucky’s workforce.

Let’s start supporting them as such.

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And finally, my proposal allocates nearly \$2 million a year for Commonwealth College, a new on-line program designed to help thousands of Kentuckians with substantial college credits finish their degrees.

The new program will allow students to enroll at any time, proceed at their own pace and access rigorous on-line tutoring.

### **In the area of economic development and jobs ...**

My proposal preserves our highly successful job creation efforts by protecting the Cabinet’s budget from the 5 percent cuts.

It again contains \$30 million in General Fund bond-supported loan pools to stimulate investment by existing and new businesses.

And it proposes \$24 million in General Fund-supported bonds to build an advanced manufacturing training center in Georgetown that will serve as a direct pipeline for high-demand workers.

The center will be part of Bluegrass Community and Technical College, which has been partnering with the Kentucky Federation of Advanced Manufacturing Education to produce workers for Toyota and other manufacturers.

In fact, our commitment to this training center helped persuade Toyota to move production of its top-selling Lexus sedan to Kentucky – which was part of the company’s half-billion-dollar investment in the Georgetown facility, creating 750 jobs.

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Furthermore, my proposal uses General Fund-supported bonds to invest in two projects important to our downtowns:

- \$65 million for the expansion and renovation of the Lexington Civic Center and Rupp Arena.
- and \$56 million for the Kentucky International Convention Center in Louisville.

We need to add vibrancy to areas that attract visitors, jobs and income to the Commonwealth.

**In the area of early childhood ...**

In addition to the investments in early childhood education I already mentioned, my budget proposal appropriates \$420,000 a year to the panel I created and you institutionalized last year to review child abuse deaths and injuries.

The panel needs staff to help it scrutinize cases and develop recommendations to improve how we protect our children.

My proposal also appropriates \$11.6 million in Fiscal Year ‘16 to the HANDS program to continue funding home visitation for non-first time parents in high-risk communities in 78 counties.

This allocation replaces the loss of federal funds used in Fiscal Year ‘15 and also expands services to reach non-first time parents in the remaining 42 counties.

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And this budget addresses a huge priority of mine -- funding for a heavily used child-care program that helps many single parents and other low-income workers stay in the workforce.

As you recall, the loss of federal funds forced us to freeze applications to the Child Care Assistance Program and reduce eligibility guidelines from 150 percent of the poverty level to 100 percent.

As a result, many parents who could no longer afford child care had to quit their jobs, and many child care centers which relied on those payments had to close their doors.

These families were doing exactly what we wanted them to do – using government aid not as a permanent hand-out but as temporary assistance while they worked their way to financial security.

It is time to restore their ability to do so.

My budget allocates almost \$53 million in the first year and more than \$58 million in the second year, allowing us come July 1 to begin accepting applications again and to restore the eligibility levels.

This is predicted to help 16,100 kids and 9,400 families the first year and 18,000 kids and 10,600 families the second year.

The importance of this program cannot be overstated: As the economy improves and more people return to work, many will do so on the bottom rungs of the labor force ladder. They cannot afford to be employed without this program.

### **In the area of health and family services ...**

My budget proposal makes a number of investments in our ongoing efforts to improve the horrible collective health of our people.

In my State of the Commonwealth address I laid out in detail how Kentucky has seized opportunities presented by federal reform to make health insurance accessible and affordable to every single Kentuckian for the first time in our history.

We also continue to reform Medicaid by moving it from an outdated and costly fee-for-service delivery model to a managed-care model, more directly linking the spending of public dollars to better health outcomes.

Savings from these initiatives – including \$166 million linked to the Affordable Care Act – are helping us absorb inflationary increases in health care costs and growing enrollment, as well as expanded coverage for things like substance abuse.

Soon I will unveil a new initiative that seeks to meet specific goals on improving our health in areas like smoking, heart disease, obesity and cancer.

This budget complements all of those efforts by setting aside:

- \$500,000 a year for the Colon Cancer Screening program, which will match that allocation.
- \$1 million in the second year for the Kentucky Cancer Program.

- \$200,000 each year for the Kentucky Advisory Council on Autism.
- And \$3.3 million over the next two years for oral health in our local health departments.

And for some of our most vulnerable citizens, my budget addresses growing needs for individuals with intellectual and developmental disabilities and acquired brain injuries.

Finally, my budget adds 3,500 people to the Meals on Wheels program.

### **In the area of public safety ...**

My proposal exempts both the Department for Public Advocacy and our prosecutors from 5 percent budget cuts, and it holds the Kentucky State Police to a 2.5 percent cut.

It also puts more than \$7 million a year in the court of justice's proposal to address glaringly low salaries.

More than 800 non-elected judicial employees live on income that's below the federal poverty level, and many others are just above that level.

### **For Eastern Kentucky ...**

My budget proposal takes huge steps to support S.O.A.R. – the “Shaping Our Appalachian Region” initiative.

It uses Road Fund revenue to make four-laning of the Mountain Parkway not only a priority but also a reality.

When finished, Eastern Kentucky will have the equivalent of a four-lane interstate running all the way from Interstate 64 near Winchester to Pikeville, strengthening the region's ability to attract jobs, visitors and investment.

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My proposal also invests in a highway of a different sort – what we call the Next Generation Kentucky Information Highway.

This budget includes \$60 million in General Fund-supported bonds to provide high-speed Broadband capability for our entire state, with the first priority being Eastern Kentucky.

Two-thirds of that debt service, by the way, will be supported by existing state expenditures set aside for Internet access.

And when partnered with financial support from federal and private sources, it will be a \$100 million investment.

Folks, this is a critical need.

Kentucky ranks 46<sup>th</sup> in broadband availability, and 23 percent of rural areas don't have any access.

Internet availability is no longer a luxury.

It's a basic need used in education, health care and business.

And access isn't just about being able to sign on to Facebook – it's about speed and capacity that allow us to attract high-tech, knowledge-based and information-intensive businesses to Kentucky.

It's about Kentucky competing in the 21<sup>st</sup> Century.

Congressman Rogers and I will be talking in detail about this initiative tomorrow.

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To coordinate ongoing regional collaboration and S.O.A.R.-related initiatives, my proposal sets aside \$200,000 per year from multi-county coal severance funds, which is to be matched eventually with funds from other public and private sources.

It also allocates \$2 million in single-county funds from Eastern Kentucky counties each year to create a new Regional Strategic Development Fund.

The mission and governance of this fund is still being developed with local input, but its overall goal will be to diversify the economy of the region.

Using multi-county coal severance funds, my proposal also sets aside \$2 million each year for the Coal County College Completion Program, which will fund scholarships for more than 500 local students each year.

And finally, also within the coal severance program, it increases the Local Government Assistance Fund allocation from 15 percent of coal severance tax receipts to 17.5 percent for all counties, providing \$5 million more each year in flexible funding.

As President Stivers, Speaker Stumbo and many other legislators can attest, Appalachia is in crisis.

But since the S.O.A.R. initiative kicked off in December, we have seen tangible

action – not only the Mountain Parkway and Broadband proposals but also:

- The federal Promise Zone designation.
- The federal Strike Force initiative.
- Race to the Top district-level investments in early childhood education.
- And a new \$2.6 million small-business loan program.

Momentum is building – and with this budget, we can hit the throttle and accelerate to a breakneck speed.

### **In the area of agriculture ...**

My proposal invests \$500,000 each year in the Farms to Food Banks Program, which both creates a market for Kentucky farm products and increases access to fresh food for low-income families.

This budget also sets aside over \$32 million in General Fund-supported bonds for the construction of the Breathitt Veterinary Center in Hopkinsville, which has been identified by the agriculture community as its highest priority.

### **Regarding our military veterans ...**

My proposal exempts the Department for Veterans' Affairs from the 5 percent cuts.

It also sets aside over \$2.7 million to open and operate the state-run veterans nursing home in Radcliff, our fourth facility.

We have a strong and proud tradition of military service in Kentucky, and our veterans sacrificed to protect our freedoms and comforts. As our veterans age, we must give back to them by providing the care they need.

### **Regarding state employees and retirees ...**

My proposal sets aside more than \$100 million each year to meet the requirements set out in Senate Bill 2 last year regarding the state's annual contribution to the Kentucky Retirement System.

Fully funding the ARC, the actuarially required contribution, was a cornerstone of our collaborative plan to resolve a huge unfunded liability and finally put our system on the path to financial stability.

We must honor that commitment.

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This budget also includes money to increase the pay for state employees, who haven't received raises since 2010 even as the cost of living has gone up and the workload for many has increased.

In fact, during that time period many were forced to take furlough days.

We have over 6,300 full-time employees whose salaries are below \$27,000, low enough – for a family of three – to qualify them for our Medicaid program.

In the first year, we will institute a tiered pay raise that ranges from 5 percent for the lowest earners to 1 percent for the highest earners.

In the second year the raises will be 1 percent across the board.

We must do better by our dedicated state workers.

### **And regarding transportation ...**

My Biennial Highway Construction Plan proposes about \$1 billion in new construction each of the next two years.

This will be the fourth and fifth years in a row that we will have reached that goal.

That's a lot of pavement – and it's a lot of jobs.

My two-year highway plan honors the commitments in the current two-year plan while accommodating major initiatives like four-laning the Mountain Parkway and moving ahead on the Brent Spence Bridge project in Northern Kentucky.

Other large projects I'm recommending include:

- Completing the six-laning of I-65 between Bowling Green and Elizabethtown.
- Continued funding support for the Louisville Bridges Project.
- Completion of the bridges over Lake Barkley and Kentucky Lake.
- And the continuation of projects necessary to convert the Pennyrile and Purchase Parkways into the official Interstate 69 Corridor.

Our plan is also filled with smaller projects and maintenance needs throughout the state.

Our transportation strategy focuses on improvements that boost safety and create an enhanced economic climate for existing and future employers.

It also assumes that state and federal revenues will accrue in a consistent fashion, ensuring that the projects in the highway plan can be completed as scheduled.

But there is concern.

On the federal level, we're still hoping that Congress gets its act together and brings stability to federal highway revenues.

And on the state level, after years of strong Road Fund revenue performance, the motor fuels tax rate has shown its vulnerability, dropping 1.5 cents in January with the possibility of dropping again this year.

That decrease signaled a loss to the Road Fund of about \$45 million on an annualized basis.

According to the Consensus Forecasting Group, Road Fund revenues are expected to fall 2.3 percent in Fiscal Year '15 and then increase only slightly, 0.8 percent, in Fiscal Year '16.

I am proposing in this budget to stabilize gas tax revenue by "freezing the floor" of the average wholesale price to head off these huge hits to Road Fund revenues.

We have done this before.

If we do not do this now, over the two years of this budget, the Road Fund is projected to lose \$107 million.

**And that brings me to the area of capital improvements ...**

As you no doubt have noticed, this budget proposal advocates an aggressive but strategic use of bonds.

Now, some people may pay attention to only two numbers.

One is the proposed amount of new debt of \$1.96 billion.

But if you look at three of the last five General Assembly-approved budgets – those passed before the historic recession – you'll see new debt of \$2 billion in 2008 ... \$2.1 billion in 2006 ... and \$1.9 billion in 2004.

So this year's proposal falls right in line with what Kentucky traditionally has borrowed to invest in its people and infrastructure.

The second number that some like to emphasize is the so-called 6 percent "rule of thumb" for debt capacity.

My recommendations in this budget bring that number to 7.05 percent ... which is only slightly higher than the 6.72 percent in the current General Assembly-enacted budget.

In addition, that “rule of thumb” does not take into account the careful day-to-day management of our debt.

It assumes that we issue all of our authorized bonds at the same time.

But we don't do that.

Some projects take years to get off the ground, so that 7.05 percent figure doesn't accurately reflect the reality of outstanding debt.

In fact, in recent history, the actual issued debt measured at any one time has never even reached the 6 percent figure.

The bottom line: This budget is set up to absorb the debt service from new borrowing in a responsible manner.

Given today's low financing costs, there's never been a better time to borrow.

And there is a high cost to delay – both in dollar impact and in putting off investments in our workforce and our competitive strengths.

We must re-invest in our people.

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So tonight, we must answer a fundamental question:

Does Kentucky march aggressively into the future, or do we cower under the covers as the world leaves us behind?

Do we lead, or are we too afraid to even follow?

This budget proposal clearly gives my answer: We lead.

Folks, we can and we must build a more vibrant Kentucky.

And this proposal provides the roadmap to do just that.

Now we all know there are alternatives that would allow a lot more progress and a lot more investment with a lot less damage to needed services.

Yes I'm talking about tax modernization and expanded gaming.

As I said in the State of the Commonwealth address, I will present to you soon a tax modernization proposal with specific recommendations on how to move our tax system into the 21st Century.

We need it to be more competitive.

And one of the silver linings of a more competitive tax structure is that it will, as the economy grows, also stabilize long-term revenue – not because of higher rates, but because it's aligned with today's economy, instead of one that existed a century ago.

Expanded gaming would get us the additional recurring revenue even faster – again, not by creating a new burden on Kentuckians but by capturing a revenue stream that already exists.

Kentuckians are currently spending hundreds of millions of entertainment dollars on gaming – but they're spending it in other states, funding programs outside our borders.

Let's allow Kentuckians to decide this issue by placing a Constitutional Amendment on the ballot related to expanded gaming.

As I promised, and as you can see, my General Fund budget relies on no money from gaming or tax reform in order to balance or to make the investments I'm proposing.

But by tackling either one or both of these issues, we can stabilize our budget.

We can avoid 41 percent cuts to needed services.

And we can make even bigger investments in our schools and our workforce.

These are tough decisions, but you and I together have tackled tough issues before.

Just a year ago, despite differences of party and geography, we collaborated to pass the Graduation Bill ... to further protect our families from the scourge of prescription drug addiction ... to protect our children ... to authorize financing for 11 building projects on our university campuses ... and to resolve a huge unfunded liability in our public pension system.

I believe that with the same level of respect, collaboration and vision, we can direct the resources of this budget to help Kentucky maintain its position as an innovative force in this 21<sup>st</sup> Century world.

Now, let's get to work ...

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