



Media contact:
Jessica Fletcher
Communications Manager
Kentucky Chamber
502-848-8731
jfletcher@kychamber.com

Business community takes fresh look at state budget

LOUISVILLE, Ky. – State government spending in recent years shows that Kentucky’s budget priorities have shifted away from investing in education and toward providing more money for jails, public employee benefits and Medicaid, according to research by the Kentucky Chamber of Commerce.

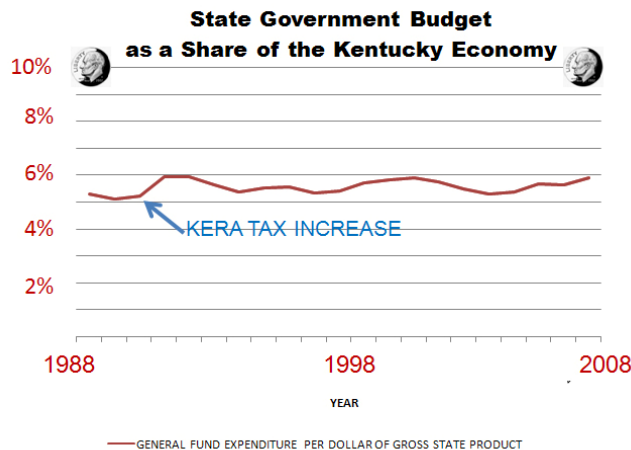
“Even though Kentucky’s policymakers have not consciously decided to make such a change, our priorities have clearly shifted,” Chamber President Dave Adkisson told the organization’s annual Economic Summit in Louisville. “We are now spending an increasing amount of money on what happens when you fall short on education attainment – more people in jails and more people on Medicaid” in addition to the escalating costs of public employee health care and retirement benefits.

The Chamber’s goal for Kentucky is to grow a strong economy that will create a brighter future for the state and all of its citizens, but the organization’s research raises a fundamental question, Adkisson added: “Is the way state government is spending Kentuckians’ tax money getting the job done?”

The question is particularly pressing in view of recent revenue shortfalls, Adkisson said. Although the Governor and General Assembly are to be commended for balancing Kentucky’s budget in the recent special session, federal stimulus money amounting to more than \$740 million provided much of the solution. A painful day of reckoning looms when federal money will no longer be available, and Kentucky tax money must be used to fill the gaps.

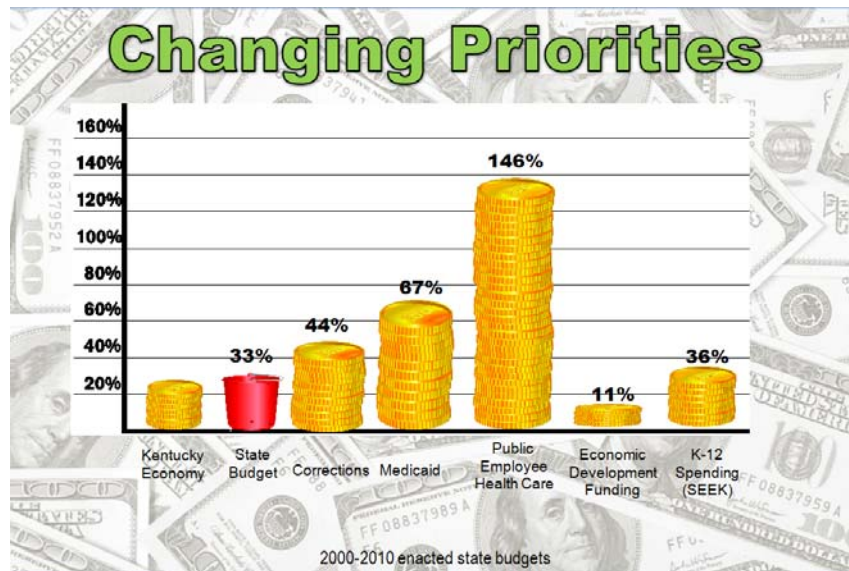
Research conducted for the Chamber by the University of Kentucky’s Center for Business and Economic Research resulted in two major findings:

1. The size of state government relative to the state’s economy has remained consistent over the years.
2. State revenue has essentially been growing with the economy.



Source: University of Kentucky Center for Business and Economic Research

But there are three key areas where spending is growing faster than both the budget and the state economy: corrections, Medicaid and public employee benefits. In fact, more than half of the growth in the state budget since 2000 has been in those three areas that represent unsustainable leaks in the state's revenue "bucket." The result is that education's share of the budget has declined, "and education has the greatest potential to help us grow a stronger economy," he added.



Noting that it is tempting to make ends meet by adding to the state's debt by selling bonds, Adkisson pointed out that Kentucky ranks 14th in the nation in the debt level of state and local government. In 2006, that debt amounted to \$7,700 for every man, woman and child in the Commonwealth – an amount that is about \$1,500 more than the average tuition paid by a full-time student at a public university in Kentucky last year.

"So, how do we manage state spending? When you listen to talk out of Frankfort, there are generally two options suggested – new taxes or cuts in programs and services," Adkisson said. "We suggest that there is a third option – modernizing government to rethink our spending, focus on our priorities and ensure sustainability."

The Chamber will be making additional presentations in the coming weeks to provide information on state revenue and spending as well as suggestions on areas of possible savings.

"In tough economic times – and all the time – state government must do what every family has to do around the kitchen table and every business person has to do at the office," Adkisson said. "We have to establish our spending priorities, make the tough decisions, and fix the leaks that drain money away from what we need to finance the priorities we have established to ensure progress for our state."

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