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Kentucky Chamber: General Assembly Essentially Got it Right.

By Dave Adkisson, President and CEO, Kentucky Chamber of Commerce

Although it took a special session to do it, the Kentucky General Assembly produced a responsible and realistic budget that positions the state for economic recovery.

The Kentucky Chamber of Commerce reached that conclusion after reviewing the enacted budget in the context of the current economic downturn and the impact it is having on the state's citizens and employers. The state budget can have a lasting effect on the cost of government. As a result, Kentucky employers, which pay over 40 percent of state taxes, have a great interest in the impact of the budget on their bottom line.

Much has been written about the state's revenue shortfall, the budget-making process and the reasons the General Assembly needed a special session to finish its work. A number of legislators even spent a great deal of time discussing whether a "bad budget" was better than no budget. The choices were difficult, for political and policy reasons.

The end of the regular session found lawmakers grappling with just a few questions of priorities: education funding, taxes and debt – all issues about which the business community is deeply concerned.

On education funding, the original House proposal would have eliminated two instructional days. The Senate would have restored the days without state funding and made slightly deeper education cuts. On taxes, the House wanted to suspend the ability of employers to claim the net operating loss credit for three years, essentially asking companies with economic losses to forego their credit and allow the state to capture the revenue. The Senate, however, stood firm and protected Kentucky employers from this proposal. An accelerated sales tax – essentially a permanent business loan to the government – was also considered, but rejected.

The question of the state's debt level was probably the most divisive issue between the House and Senate. House leaders devised a plan, described as a stimulus effort, to borrow more than \$1 billion to invest in such infrastructure projects as schools and water and sewer projects, arguing that it was the government's responsibility to create jobs. Senate leaders – and later the governor – indicated that, without revenue to support the debt level, borrowing such a large sum would be unwise. House and Senate leaders were never able to find an acceptable middle ground on this issue, and thus ended the regular session deliberations on the budget.

The governor, at the urging of House and Senate leaders, stepped in with a compromise that represented much of the Senate's more fiscally conservative plan. In the ensuing six-day special session, the legislature passed a budget that represents a responsible spending plan.

The two-year budget includes many of the cost reductions suggested by the Kentucky Chamber of Commerce following our year-long study of state spending. (For more information, visit the Chamber's Web site www.kychamber.com/leakybucket.)

Here are the elements of the budget that the Chamber considers particularly commendable:

- Maintaining the full calendar of instructional days for Kentucky schools
- More basic education funding under the SEEK formula
- Reductions in the long-term cost of the health benefits the state provides for public employees
- Directives to accomplish savings in the Medicaid program
- Smoking cessation programs for Medicaid recipients
- No new taxes on Kentucky employers
- Seed funding to facilitate a significant investment by the Pew Center on the States for a review of Kentucky's corrections system
- Reductions in political appointees and state contract costs
- Additional tools, such as the authority to furlough state workers, allowing the governor to manage the cost of government

Beyond the budget, the Kentucky Chamber also commends the General Assembly for its approval of a plan to address the deficit in the state's unemployment insurance program. This proposal, developed by a task force of business and labor representatives, will save Kentucky employers an estimated \$700 million in the coming decade.

We were disappointed by the failure of charter school legislation – which education officials described as essential for Kentucky's bid for federal funding to help teachers prepare for the new academic standards mandated by the 2009 General Assembly. And we will continue to advocate for a greater role for superintendents in the hiring of school principals – another effort that failed to win passage this session.

We were also disappointed that proposals to help Kentucky distillers failed to win approval during the special session. Measures to allow sampling at large events such as the Alltech FEI World Equestrian Games and a tax relief measure for bourbon producers were unable to win House approval.

On the budget, however, we believe the General Assembly essentially got it right – although it took extra time to work through the issues. Kentucky taxpayers can better afford a budget proposal that leaves working capital in the hands of the small businesses and entrepreneurs who create jobs and grow the economy. As employers know very well, difficult situations require a close review of expenditures and good management decisions. By exercising fiscal restraint, the Kentucky General Assembly will improve the ability of the state, its citizens and employers to weather the end of the recession.