

KENTUCKY Budget Report Card



DESPITE HAVING the worst-funded state public employee pension system, with only 33.9 percent of assets needed to fulfill promised benefits as of 2017, Kentucky managed to earn a C average in legacy costs for fiscal 2016 through 2018.

The grade reflects a 2013 law requiring Kentucky to pay—after years of shortfalls—the amount recommended by actuaries into the five plans that make up the Kentucky Retirement Systems. The Teachers’ Retirement System of the State of Kentucky, a separate fund, was not covered by the law, however, and Kentucky continued to miss its full annual contribution for that plan in 2016.

The state made a turnaround in 2017 and 2018, coming close to the full annual contribution for teachers while exceeding the recommended amount for its other major plans.

Still, future annual contributions will need to be even greater if Kentucky is to achieve full funding within the thirty-year amortization period of its pension gap. There is no guarantee that this goal will be reached. Just making the full contribution in the last biennium required special fund transfers and multiple cuts to state services and higher education.

Kentucky also received a C average in the reserve fund category because it lacks policies for the disbursement of cash it has set aside. The rainy day fund can be tapped via the legislative appropriations process, but the state lacks rules governing how or when lawmakers can access reserves.


EAST SOUTH CENTRAL STATES SIDE BY SIDE: Three-Year Average Grades, 2016-18


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Alabama	D	B	C	B	B
Kentucky	B	C	C	C	B
Mississippi	C	B	B	B	B
Tennessee	C	A	B	A	A
US AVERAGE	C	B	C	B	B


NOTE States are grouped by US Census Bureau divisions.


Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis* at VolckerAlliance.org.


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BUDGET FORECASTING					
		2016	2017	2018	
	CATEGORY GRADE	B	B	B	
	Consensus Revenue Forecasts	✓	✓	✓	
	Multiyear Expenditure Forecasts	✗	✗	✗	
	Multiyear Revenue Forecasts	✓	✓	✓	
	Revenue Growth Projections	✓	✓	✓	
3-YEAR AVERAGE B			3-YEAR TREND —		

BUDGET MANEUVERS					
		2016	2017	2018	
	CATEGORY GRADE	C	C	C	
	Deferring Recurring Expenditures	✗	✗	✗	
	Revenue and Cost Shifting	✗	✗	✗	
	Funding Recurring Expenditures with Debt	✓	✓	✓	
	Using Asset Sales and Up-Front Revenues	✓	✓	✓	
3-YEAR AVERAGE C			3-YEAR TREND —		

LEGACY COSTS					
		2016	2017	2018	
	CATEGORY GRADE	D	B	B	
	Public Employee OPEB Funding	✓	✓	✓	
	Public Employee Pension Funding	✗	✓	✓	
	Public Employee Pension Funded Ratio*	31%	34%	34%	
3-YEAR AVERAGE C			3-YEAR TREND ↗		

RESERVE FUNDS					
		2016	2017	2018	
	CATEGORY GRADE	C	C	C	
	Positive Reserve or General Fund Balance	✓	✓	✓	
	Reserve Funds Disbursement Policy	✗	✗	✗	
	Reserve Funds Replenishment Policy	✓	✓	✓	
	Reserves Tied to Revenue Volatility	✗	✗	✗	
3-YEAR AVERAGE C			3-YEAR TREND —		

TRANSPARENCY					
		2016	2017	2018	
	CATEGORY GRADE	B	B	B	
	Consolidated Budget Website	✓	✓	✓	
	Provides Debt Tables	✓	✓	✓	
	Discloses Deferred Infrastructure Replacement Costs	✗	✗	✗	
	Discloses Tax Expenditures	✓	✓	✓	
3-YEAR AVERAGE B			3-YEAR TREND —		

KEY

✓	Followed best practice
✗	Did not follow best practice

BUDGET FORECASTING evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

* **SOURCE** Bloomberg; 2017 data also used for 2018.