

KENTUCKY Budget Report Card



KENTUCKY WAS TIED with New Jersey in 2016 for having the worst-funded state pension, with only 31 percent of assets needed to meet obligations. By 2019, Kentucky’s funding level had risen to 45 percent, allowing the state to overtake New Jersey and Illinois at the bottom of the pack. Its progress resulted from reforms that pushed the state into aligning total annual contributions for five plans that make up the Kentucky Retirement Systems—as well as that for the separate Kentucky Teachers’ Retirement System—with actuaries’ recommended contributions. The improvements helped Kentucky achieve a C average in legacy costs for fiscal 2015 through 2019. Even as it worked to lessen pension underfunding, the state consistently contributed to other postemployment benefits (OPEB), primarily health care, on an actuarially recommended basis.

Kentucky’s C average in budget maneuvers reflects frequent deferrals of recurring expenditures to achieve balance. Since 2012, the state has moved a portion of its payroll into the next fiscal year. It has also used money from special funds to shore up the general fund, as in a transfer of \$310 million from the Kentucky Employees’ Health Plan to the general fund in the biennium that included fiscal 2019.

The state’s average grade of C in reserve funds resulted from a lack of clear policies to guide when and how money set aside in its Budget Reserve Trust Fund can be used. Although Kentucky has a policy to replenish the account, it has limited its deposits and had just 1.1 percent of general fund expenditures in the rainy day fund in fiscal 2019. This left the state with the fourth-lowest percentage of expenditures in a rainy day fund among all states.


EAST SOUTH CENTRAL STATES SIDE BY SIDE: Five-Year Average Grades, Fiscal 2015–19


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Alabama	D-	B	C	B	B
Kentucky	B	C	C	C	B
Mississippi	C	A	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: Preparing for the Storm* at VolckerAlliance.org. © 2021 VOLCKER ALLIANCE INC.


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BUDGET FORECASTING							
	CATEGORY GRADE	2015	2016	2017	2018	2019	TREND
		'15	'16	'17	'18	'19	
	CATEGORY GRADE	B	B	B	B	B	
	Consensus Revenue Forecasts	✓	✓	✓	✓	✓	
	Multiyear Expenditure Forecasts	✗	✗	✗	✗	✗	● ● ● ● ●
	Multiyear Revenue Forecasts	✓	✓	✓	✓	✓	
	Revenue Growth Projections	✓	✓	✓	✓	✓	
		5-YEAR AVERAGE B					

BUDGET MANEUVERS							
	CATEGORY GRADE	2015	2016	2017	2018	2019	TREND
		'15	'16	'17	'18	'19	
	CATEGORY GRADE	C	C	C	C	C	
	Deferring Recurring Expenditures	✗	✗	✗	✗	✗	
	Revenue and Cost Shifting	✗	✗	✗	✗	✗	
	Funding Recurring Expenditures with Debt	✓	✓	✓	✓	✓	● ● ● ● ●
	Using Asset Sales and Up-Front Revenues	✓	✓	✓	✓	✓	
		5-YEAR AVERAGE C					

LEGACY COSTS							
	CATEGORY GRADE	2015	2016	2017	2018	2019	TREND
		'15	'16	'17	'18	'19	
	CATEGORY GRADE	D	D	B	B	B	
	Public Employee OPEB Funding	✓	✓	✓	✓	✓	
	Public Employee Pension Funding	✗	✗	✓	✓	✓	● ● ●
	Public Employee Pension Funded Ratio*	38%	31%	34%	45%	45%	● ●
		5-YEAR AVERAGE C					

RESERVE FUNDS							
	CATEGORY GRADE	2015	2016	2017	2018	2019	TREND
		'15	'16	'17	'18	'19	
	CATEGORY GRADE	C	C	C	C	C	
	Positive Reserve or General Fund Balance	✓	✓	✓	✓	✓	
	Reserve Funds Disbursement Policy	✗	✗	✗	✗	✗	
	Reserve Funds Replenishment Policy	✓	✓	✓	✓	✓	● ● ● ● ●
	Reserves Tied to Revenue Volatility	✗	✗	✗	✗	✗	
		5-YEAR AVERAGE C					

TRANSPARENCY							
	CATEGORY GRADE	2015	2016	2017	2018	2019	TREND
		'15	'16	'17	'18	'19	
	CATEGORY GRADE	B	B	B	B	B	
	Consolidated Budget Website	✓	✓	✓	✓	✓	
	Provides Debt Tables	✓	✓	✓	✓	✓	● ● ● ● ●
	Discloses Deferred Infrastructure Replacement Costs	✗	✗	✗	✗	✗	
	Discloses Tax Expenditures	✓	✓	✓	✓	✓	
		5-YEAR AVERAGE B					

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.

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