

Larger cuts coming for state agencies - beshear must find way to pay for new tax breaks

Lexington Herald-Leader (KY) - Saturday, June 27, 2009

Author: BETH MUSGRAVE BMUSGRAVE@HERALD-LEADER.COM

FRANKFORT - Gov. Steve Beshear signed into law Friday two bills that the General Assembly approved earlier this week, but he still hasn't decided how to pay for the tax breaks lawmakers included in one of them.

The measures address a nearly \$1 billion shortfall in the state budget that begins July 1, overhaul the state's economic development incentive programs and create an authority to fund transportation mega-projects, such as the Ohio River bridges project in Louisville.

New tax breaks on car purchases, newly built homes and military pay are projected to cost the state about \$23 million in the fiscal year that begins July 1, Beshear's office has said.

To help resolve a nearly \$1 billion projected budget shortfall, Beshear had planned on trimming 2.6 percent from most state agency budgets, excluding Medicaid, higher education, the per-pupil spending formula for K-12 education and a handful of other programs.

Now, Beshear says most state agencies will take much larger cuts to offset the cost of the three new incentive programs, which take effect in the next few months.

House Speaker Greg Stumbo, D-Prestonsburg, suggested on Wednesday that Beshear could use more federal stimulus money to offset the cost of the incentive programs, but Beshear has no such plans, said spokesman Jay Blanton.

"We have no intention to dip further into the stimulus funds - the 45 percent set aside for the next fiscal year - to make up additional cuts," Blanton said.

The state still has at least \$293 million left in federal stimulus dollars, but budget projections for the next fiscal year are bleak and Beshear has said the state will still need the federal dollars to balance its books.

In fiscal year 2011, the cost of the three tax breaks included by lawmakers and several others pushed by Beshear that don't take effect until then is expected to balloon to \$84 million.

The income tax exemption for active-duty military is projected to cost the state about \$18 million a year.

The tax breaks for new car owners and for those who buy newly built homes, which last only one year, have a combined cap of \$50 million. But even supporters of the bill say it is unlikely that those caps will be reached.

The General Assembly also deleted a provision from Beshear's proposed budget fix that would have saved \$10 million by reducing the number of paid holidays for state workers. Beshear must also find a way to make up that money.

Blanton said Friday that Beshear's office is still trying to determine how deep those additional cuts to state government will be.

"We are just now doing the analysis," Blanton said.

The governor's office is meeting with department officials to "make specific determinations on the size and scope of the additional cuts," he said.

Edition: Final

Section: CITY REGION

Page: D1

Record Number: 090627SpecialSession

Copyright (c) 2009 Lexington Herald-Leader