Kentucky faces budgetary crisis, shortfall in state pension funds

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As the Kentucky General Assembly reconvenes for its first sessions in the new year, the state is faced with a major budgetary crisis. There is presently a $434 million shortfall for the current fiscal year and an expected $525 million shortfall for the next. Newly elected Governor Steve Beshear, a Democrat, recently summed up the crisis while speaking to reporters: "I sort of had the impression that the cupboard was going to be bare. I just didn't know the cupboard was going to be gone too."

Among the most pressing features of Kentucky's financial crisis is the shortfall facing the state pension system. If no changes are made, the system could face bankruptcy within the next 14 years. According to the official web site of the Kentucky Legislature, the retirement system, which presently covers the needs of 445,000 workers, is confronting $20 billion in unfunded liabilities.

As a response to the pension shortfalls, former Governor Ernie Fletcher—a Republican who was indicted in 2006 on counts of conspiracy, official misconduct and political discrimination in connection with state hiring practices and was voted out of office in 2007 by a considerable margin—established in February 2007 the Blue Ribbon Commission on Public Employees Retirement Systems to investigate possible remedies. The commission found that "For 9 of the last 15 years, the Commonwealth has failed to contribute the actuarially recommended employer contribution rate to the KERS [Kentucky Employees Retirement System] and SPRS [State Police Retirement System] systems. This has resulted in a shortfall of $1.3 billion dollars in contributions and investment income over those years in the two systems."

This assessment is backed up by a recent Pew Center study on state pension funds nationwide, which found that "Kentucky had one of the most dramatic declines in pension funding levels from 2000 to 2006 of the 50 states—a recent trend that could cause trouble if it persists. Government contribution rates fell short for both the Kentucky state employees' fund (particularly the non-hazardous portion) and the smaller state police fund in nine of the past 15 years."

Recommendations released by Governor Fletcher's Blue Ribbon Commission in its final December 2007 report amounted to an escalation of attacks on Kentucky public workers. The commission found that current benefit and retirement fund policies—including incremental adjustments for cost of living—were far too generous and recommended several cutbacks.

Should the commission's recommendations be implemented, it could mean the elimination of cost of living adjustments altogether. At the very least, current cost of living adjustments, which are now automatic, would be done away with in favor of a program in which Kentucky's General Assembly would approve any such adjustments periodically, when funds were available.

In addition, workers would be made to work a greater number of years before becoming eligible for retirement. While in some sections of the public workforce, workers can now retire while still in their 40s, under the proposals made by the commission, all state workers would have to work until at least the age of 55, with 30 to 32 years of service behind them, in order to receive full retirement benefits.

Governor Beshear, echoing the sentiments of his Republican predecessor's blue ribbon panel, has also warned the state to prepare for cuts in the funding of even the most vital programs. Drawing the most attention at this point is the Governor's call for a 15 percent cut in funding for higher education over the next two years.

This announcement prompted a letter, signed by the presidents of Kentucky's eight public universities, which listed a number of possible outcomes in the event of the cuts being approved. Along with higher tuition costs and increased drop out rates for students as well as the loss of jobs among faculty and staff, the letter points out that "Weakened financial aid will cause the harshest burden of cuts to fall on actual and potential students of limited financial means, limiting their access to better careers."

Along with calling for cuts to essential social programs, Beshear has been at the forefront of a push for an amendment to the state constitution that would allow casino gambling in Kentucky, saying it could bring in as much as half a billion dollars in revenue each year. The campaign for the introduction of this most exploitative and predatory industry into the state as a means of addressing the financial crisis is only a further indicator of the political bankruptcy of the Beshear administration.

On January 14, the Governor delivered his first State of the Commonwealth address. He discussed the "financially demanding times" and the "unprecedented budgetary shortfall." He pointed out that "Last year one report ranked us 47th worst in overall innovation capacity. Another ranked Kentucky 49th out of the 50 states on economic dynamics. And a study commissioned by the Kentucky Science and Technology Corporation suggests that our present 'business as usual' course would take the Commonwealth more than 150 years just to reach the current national average in per capita income."

Addressing all of these problems, said Beshear, would require "a re-engineering of Kentucky's economy" and "some painful sacrifices." He alluded to the need to "tighten our belts," a phrase which has been heard from a number of Kentucky legislators in recent days.

By the "re-engineering" of Kentucky's economy, one can safely assume that what is meant is an even greater freedom given to large corporations while the working class will suffer the full blow of the "painful sacrifices." As workers have been asked to accept reductions in benefits, an increase in work and the continued slashing of public programs and services, the state government has spared no expense in providing tax breaks and incentives to major corporations in recent years.

As part of the Fletcher administration's 2005 "Tax Modernization" program, "businesses primarily engaged in manufacturing, service or technology, or developing a tourism attraction" may now apply for tax incentives in which they would receive "refunds of sales and use tax paid on the purchase of building materials and research and development equipment" up to $20 million for building materials and up to $5 million for research and development.

Late last year, Kentucky's Economic Development Finance Authority awarded $250 million in tax incentives to Kentucky Syngas, a subsidiary of Peabody Energy, the world's largest private coal company. In 2005, a report by the Mountain Association for Community Economic Development revealed that "Since 1990, state records show, Kentucky has given out $4.3 billion in tax credits through incentive programs..."

By no means a phenomenon unique to Kentucky, such practices are part of a much larger process of driving down the living standards of the working class and clearing the way for the greatest accumulation of wealth for the small minority in the US ruling elite. As Kentucky's new Democratic Governor has made clear, this is a bipartisan policy. Beshear's State of the Commonwealth address was sufficiently right-wing in character to draw praise from the Republican Senate President David Williams, who told one reporter: "You could have closed your eyes and it would've been a pretty good Republican speech."