

Secretary's Remarks to Budget Review Subcommittee
on
GENERAL GOVERNMENT, FINANCE, and PUBLIC
PROTECTION

February 2, 2010 12:00pm

Thank you for the opportunity to appear before your subcommittee to discuss the budget reductions planned for the Finance and Administration Cabinet, and the impact we expect those reductions to have on our operations.

In the past two years, the Finance Cabinet, like most other state agencies, has been forced to make budget cuts six times. However, in those six rounds of budget reductions, Finance endured more cuts than any other agency: an average of 29%--well over one-quarter—was pared from the budget that we inherited. That is a significant sum for any employer, and it has forced our cabinet to improvise and innovate in order to provide the level of services that our Commonwealth deserves.

Let me put the size and scope of a 29% average cut in perspective. Of course, there is always some level of waste and inefficiency in any organization, whether public or private sector. In state government specifically, many of the “reserve funds” in the past may have been funded at higher levels that needed—in order to provide a cushion for the unexpected. We certainly inherited our fair share. But after the first couple rounds of cuts, we eliminate all of the waste and excess we could identify. We instituted extensive programs to identify internal efficiencies. We drained our reserve funds to the point that money now is available only for the direst emergencies. We did not fill vacancies due to retirement. Many employees today individually have the responsibilities originally assigned to multiple employees.

The fat has been pared. Much of the muscle is gone. We are now cutting deep into the bone.

Our cabinet's mission is to serve the administrative needs of the rest of State

Government. Unlike most agencies, our “customers” are not so much the general citizenry of the Commonwealth, but rather the other state agencies themselves. Finance’s core mission is to provide services that will better enable agencies to deliver services and perform their duties on behalf of the general public.

In that sense, cutting the budget for the Finance and Administration Cabinet does not impact education OR health care OR corrections OR the environment. It affects ALL of the above because our Cabinet is imminently involved in the workings of ALL of state government.

For example, we are responsible for the construction and maintenance of state facilities, the leasing of state property, expenditure control, state purchasing, information technology support and resources, debt services and printing services. We provide the administrative support and the facilities to enable agencies to provide the access to government that the public needs and deserves. Our Office of Administrative Support oversees the management and maintenance of the State Motor Pool which assigns permanent and temporary vehicles for cabinets and agencies. We also have the Division of Postal Services. And, of course, there’s the Department of Revenue, which administers the state tax laws and bills and collects the tax revenue necessary to support the operation of our commonwealth.

Cutting any of these functions have a multiplying effect on all state agencies and everyone’s ability to meet the needs of Kentucky taxpayers.

And in actually enacting budget cuts, we have particular concerns.

First, 51 percent of our \$498 million revised FY 2010 budget is for debt service: (debt service is 34% of the \$498 million for all fund sources and 51% of the general fund appropriation at approximately \$300 million) Finance issues the bonds and pays the debt service on those bonds on behalf of many agencies. Needless to say, we don’t have a lot of flexibility in this area of our budget. And while we have been able to engineer significant savings, our flexibility in this area will diminish considerably going forward. A representative from the Office of Financial Management will speak further on that process in a few minutes.

Second, a significant chunk of our budget funds the Revenue Department. Again, while many efficiencies have been achieved in this department—and

we will hear from a representative in a few minutes—the Governor and the General Assembly have agreed that cutting this agency—particularly its personnel—is counter-productive: the fewer people we have; the more diminished our ability is to collect revenues for operating the rest of state government. Accordingly, Revenue has been wisely spared drastic cuts over the past few years.

Another important consideration, when looking at our budget, is the fact that less than half of that \$300 million for general cabinet operations comes from the General Fund. More than half of our costs are recouped through the fees that we charge agencies for our services.

For instance, we generate approximately \$35 million annually in rent from agencies as tenants of office space in state-owned buildings.

Our Commonwealth Office of Technology (COT) provides computer, software, communications and printing services of all kinds to every other agency in state government, and recovers about \$59 million annually from these users.

The Division of Fleet Management supplies some 4,800 vehicles for the use of many agencies. They are driven approximately 64 million miles per year and those users will be assessed some \$30 million in the current year for the costs associated with maintaining that fleet.

While these so-called “Restricted Funds” accounts are not being reduced in this latest round of General Fund budget cuts, they have been dramatically affected over the past several years by fund transfers --- the practice of moving agency fees to the General Fund. In fact, the current Biennial Budget takes more than \$18.5 million from the Fleet, Revenue, Facilities, and Technology Funds.

One solution could be for Finance to raise the rates it charges other agencies. Certainly under that approach, we could have larger streams of revenue coming to our cabinet. But such an approach would be self-defeating from a government-wide perspective. Pushing the burden to other agencies just makes their jobs more difficult.

However, as the hub of the wheel of state government, Finance is in an excellent position to empower Governor Beshear's mission to make state government as lean, efficient, and smart as possible.

In conjunction with the Governor's office, Finance is steering an effort to explore all areas where there may still be untapped resources to save even just a few dollars. We're not just looking in Finance, we're also engaging the help of agencies which we serve. In order to be the best possible stewardships of scarce tax dollars, I'm honored to serve as the executive director of the Smart Government Initiative, chaired by Sec. Mary Lassiter. These further efficiency efforts will expand to broad sectors of government to save money and state resources. While efforts have been underway by state agencies to identify cost savings, the next phase of measures involves an extensive review of three major government-wide areas: owned and leased state properties; delivery of business solutions, including information technology, transportation and postal services; and state procurement, including a review of all state contracts. We just held our first work group meetings last week and look forward to sharing with you and the Commonwealth the results of our commitment to the most lean, strong government possible.

Despite the significant cuts our agency has taken, despite the fact that we have excised the fat, the waste, some of the muscle, and perhaps part of the bone, the Finance and Administration Cabinet has engineered a series of accomplishments in the past year that demonstrates our workforce's talents and ingenuity during extraordinarily difficult and unprecedented budget circumstances. These are accomplishments completed with fewer employees and with a cabinet that was working smarter *and* harder. With a cabinet that has explored and implemented many creative and innovative ways to make the most of every penny spent and ways to save every nickel and dime possible.

Open Door/Kentucky at Work

The Finance and Administration Cabinet was charged with creating and maintaining two significant efforts to promote transparency in government—a key objective of Governor Beshear, and an effort supported by many in the General Assembly. Two Web sites have been launched in the past several months: Kentucky at Work, which tracks and reports the spending of ARRA federal money, and Kentucky's Open Door, which

monitors and exposes spending in state government. Just last week a national report ranked Kentucky at Work second in the country for its fiscal openness and accountability. The site was launched in March, 2009, less than a year ago, and, through the coordination and dedication of the Finance Cabinet, we are already a leader in transparency.

We continue to make significant improvements to the state transparency website as well. Open Door is a hub for detailed information on government spending, budgets, contracts, and employee salaries. It underwent dramatic improvements last fall to make the site more user friendly, including improved search engines, expanding the depth of financial information available, and providing daily updates for state spending records. We were also proud to announce just three weeks ago that Open Door was dramatically expanded to include expenditure records from Kentucky's judicial branch.

We were able to create and overhaul Kentucky At Work utilizing the federal stimulus money allotted for the process of reporting and accountability. And we've been able to construct and maintain Open Door with existing personnel and have required no additional resources, but that's not to say that we're able to run these accredited sites as a service to our citizens at no cost. We have expended approximately \$75,000 to date on the Open Door effort, including the costs of staff time. We estimate that it will cost approximately \$20,000 per year to keep it going under current circumstances. We, as stewards of tax dollars, have a crucial responsibility to publicize our spending for the sake of accountability to the public. A valuable tool in our statewide wide, inter-agency effort to consolidate and reduce is the ability to track spending and contracts through Open Door.

Office of Financial Management

When the nation's financial crisis in 2008 threatened to shut down the state's student loan corporation, Finance helped engineer a \$50 million bond purchase that served as a bridge loan to keep the student loan program afloat. This move ensured that over 110,000 Kentucky students would be able to pay for higher education this fall, at a favorable rate to Kentucky taxpayers. When the credit markets tightened to a point not seen since the Great Depression, the Finance Cabinet was able to sell nearly \$400 million in bonds to finance a host of construction projects, spurring economic growth in the state and drawing national and international attention.

Revenue Cabinet

During the 2009 Legislative Session, with this body's approval, the Department of Revenue committed to a Revenue Enhancement Initiative (REI). With the addition of 163 new employees, DOR would collect an additional \$18.5 million in fiscal year 2010. As of October 31, 2009, the Department of Revenue has hired most of the 163 requested positions and has collected in excess of \$5.5 million since August 2009. The \$5.5 million is the amount of collections directly attributable to the new hires and is tied directly to \$18.5 million the Department of Revenue committed to. The initiative is projected to collect an additional \$34 million in 2012.

Through October 2009, the Enterprise Collections Program has distributed over \$3.3 million in delinquent debt collection back to the following participating agencies:

- Kentucky Community Technical College System (KCTCS)
- Kentucky Higher Education Assistance Authority (KHEAA)
- University of Kentucky Healthcare
- Department of Parks
- Board of Nursing
- Kentucky Motor Vehicle Commission

Clean Energy Corps

The Finance Cabinet, in conjunction with the Kentucky Housing Corporation, has begun the process of spending \$72 million of stimulus funding for low-income weatherization projects, and is employing a state-of-the-art tracking system for accountability and transparency of the spending. Since its creation in February 2009, the Clean Energy Corps has weatherized over 2,000 low-to-moderate income homes. In partnership with the Education and Workforce Development Cabinet, local Workforce Investment Boards, and Area Technology Centers, CEC has expanded weatherization education, training, and certification programs for new Dwelling Needs Evaluators (auditors for the Weatherization Program) across the state, creating opportunities for the highly sought green collar jobs. We have just begun our efforts in this area, but we forecast dramatic progress in terms of promoting energy efficiency, protecting the environment, helping taxpayers save energy costs, and perhaps most importantly, creating new green collar jobs.

COT

The Commonwealth Office of Technology has effectively balanced cost reduction and efficiency improvements while reducing the risk associated with IT operations by participating in a multi-state consortium (Western State Contracting Alliance) to establish very large economies of scale on contracts for printers and copiers, resulting in a savings of over \$1 million during the next 4 years.

During 2009, COT began an extensive migration to a virtualized server environment with 290 virtual servers in the Commonwealth Data Center to date. As a result of this effort, 125 virtual servers have been modernized, 66 physical servers have been decommissioned, and the Commonwealth has avoided buying 75 new servers for a combined total savings of \$746,953/year. The virtualized servers use less electricity, produce less heat, require less management, cost less to deliver, and greatly reduce risk of operational time loss so of that total annual savings, \$174,064 is saved in utility costs alone.

Office of the Controller

Finance and Administration Cabinet's Office of the Controller has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) for the 22nd consecutive year. This is one of the important factors used by bond rating agencies in evaluating the credit worthiness of a governmental unit. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

Higher Education Affordability

The Kentucky Higher Education Assistance Authority and the Student Loan Corporation are critical agencies within the Finance Cabinet umbrella. As a result, Finance played a critical role in the Governor's Higher Education Work Group appointed last year. The Work Group was tasked with addressing the issues surrounding college affordability and accessibility from tuition and books to cost containment and transferability of credit hours for students. The Work Group produced two reports for the Governor, both with suggestions to help Kentuckians realize the goal of attaining a higher education degree. Several of the suggestions from the Work Group have

already been addressed by the Governor and the Legislature. The Governor declared February as College Access Month, and KHEAA and CPE combined resources to create a one-stop website for college readiness and assistance resources – gotocollege.ky.gov. The House also passed Chairman Rollins bill to ease transferability of credits for students moving from community colleges to four-year institutions.

Recovery Kentucky

By virtue of the Kentucky Housing Corporation being part of the Cabinet, Finance also plays a key role in the Recovery Kentucky Task Force, which is charged with addressing the long-term viability and success of Recovery Kentucky, our Commonwealth's outstanding program that provides residential housing and treatment for drug and alcohol addicts, using a nationally-emulated model of peer-to-peer counseling. The Task Force established the Recovery Kentucky Foundation to help raise money and awareness for the Recovery Kentucky Program. Recovery Kentucky is a Kentucky Housing Corporation initiative, in partnership with DLG and Department of Corrections. It consists of ten 100-bed centers across the state for Kentuckians to recover from substance abuse. They are studying opportunities to expand so that each congressional district may have a service center.

e-Scrap

The Finance and Administration Cabinet and its Commonwealth Office of Technology worked with the Energy and Environment Cabinet to establish the eScrap recycling program for state agencies to recycle their outdated computer equipment, components & office electronics. In 2009, more than 50 state agencies, municipalities and school districts participated in e-scrap recycling. Over 3 million pounds of electronics was collected, resulting in net revenue of \$58,672, which was returned to those agencies.

And these are just a few of our many success stories from last year.

The Governor's recommended budget cuts for the Finance Cabinet fall into two major categories --- reduced debt service payments, and reductions to all the other program areas in the agency. I have our Budget Director, Robin Kinney, here to give you a brief overview of the reductions that are currently under consideration.

After we hear from Robin since Debt Service is such a large component of our reduction plan I have our Deputy Director of the Office of Financial Management, Brett Antle, with us today to explain these specific savings. Mac Gillim, will also speak on behalf of the Department of Revenue.

One of my Deputy Secretaries is here with us and we have brought most of the Commissioners and Executive Directors from the various functional areas of the Cabinet, all of who are prepared to address any questions you may have after our brief presentation.