

Kentucky Forward Coalition

FOR IMMEDIATE RELEASE: May 28, 2009

Groups Looking for Leadership to Fix Kentucky Revenue System

Any special legislative session should be focused on finding increased revenue to meet the basic needs of Kentuckians — and do so in a more fair way — a growing coalition of grassroots, religious and labor groups said today. To do so means that the governor and legislative leaders have to face head-on the state's revenue crisis through comprehensive reform of Kentucky's tax system.

"We seek sufficient revenue to meet the basic needs of all, especially the poor and vulnerable," said Robert Castagna, the executive director of the Catholic Conference of Kentucky. "We call for a tax system based upon one's ability to pay and that is fair and just in the treatment of the poor."

Kentucky could face a revenue shortfall as great as \$1 billion in the fiscal year that starts July 1. That's more than 10% of the projected spending approved by legislators last year. A more precise estimate of the shortfall is expected to come after the Consensus Forecasting Group meets Friday.

Making up a revenue shortfall that large by more budget cuts would be "lethal ... in the absence of additional revenue," said Castagna. "Those cuts will be quite severe and lives will be at risk."

"When legislators say tighten your belts I say there is no belt," added Sheila Schuster of the Advocacy Action Network, representing disabilities, mental health and health care groups.

Speakers representing five members of a new coalition they call the Kentucky Forward Coalition called for leadership from the governor and legislative leaders at a telephone press conference Thursday afternoon.

"We've run out of short-term, one-time fixes," said K.A. Owens, chairperson of Kentuckians For The Commonwealth. "Now is the time for leadership."

"We believe tax reform doesn't have to be an issue that divides Kentuckians," he added. "Our groups are united around a number of basic principles we believe any revenue reform solutions should be evaluated against."

Those principles support a tax system that will:

- Support and sustain a high quality of life in Kentucky through essential investments in good schools, health care, public safety and other public structures and services.

- Be fair. Our revenue system should minimize regressivity, minimize taxes on low-income people, and ensure that fiscal responsibility is shared equitably among all citizens and businesses.
- Provide adequate and sustainable revenue over time. The taxes we pay should support quality public services we can count on. Kentucky's revenue system should grow as the economy grows and include revenue from multiple sources to ensure adequate funding in good times and in bad.

In addition to raising adequate revenue, the coalition wants Kentucky's tax system to be less regressive, which means that low- and middle-income families now pay more as a share of their income in taxes than do wealthier Kentuckians.

According to an analysis by the Institute for Taxation and Economic Policy (ITEP), a Washington, D.C. research organization, in 2007 the poorest 20 percent of Kentucky residents (those with incomes less than \$8,000) paid 7.8 percent of their incomes in state and local taxes. The richest 1 percent — taxpayers with average incomes of \$933,100 in 2007 — paid 5.8 percent of their income in Kentucky taxes, after accounting for the federal deductibility of such taxes.

“In choosing to fund public investments via a regressive tax system, Kentucky is essentially trying to raise money from the people who have the least of it,” said ITEP's Kelly Davis. “The wealthiest 20 percent of Kentuckians have more income than the poorest 80 percent put together.”

The failure to raise new revenue — meaning another round of budget cuts more severe than any in the past — will hurt Kentuckians and prolong the recession,

“Increasing taxes in a progressive way isn't simply the fairest way to deal with the Commonwealth's budget deficit. It's also the most economically sound approach, given the ongoing recession,” said Davis. “Cutting programs utilized by low and middle income taxpayers results in less consumption and less economic activity, precisely the opposite outcome from which states should now be aiming. In contrast, increasing taxes on high-income individuals will likely result in less saving rather than less consumption.”

Though elementary education has not been hit as hard as other services by the decade-old revenue crisis, teachers are feeling the pinch, said Mary Ann Blankenship, executive director of the Kentucky Education Association.

“Teachers, education support professionals, and their students have experienced cuts in after school programs, textbooks, and professional development. KEA fears that even these cutbacks will reduce our ability to teach every child. Yet these cuts pale in contrast to the cuts that may be necessary to cover an estimated billion-dollar deficit,” Blankenship said.

Mental health and protective services also have been weakened, said Schuster.

“The statewide system of community mental health centers, which once ranked #1 in the nation, have received no increase in state general funds for the past 13 years,” Schuster said. “It is frustrating because we know that treatment for behavioral disorders works. But treatment only works if it is available. And it is only available if it is funded!”

Dana Beasley Brown, a KFTC member in Bowling Green who described herself as “a mother and the wife of a pastor,” acknowledged that Kentucky families are nervous when there is talk about raising taxes.

“Many of us have been asked to carry more than we can, and more than is fair,” Beasley Brown said. “This is why these principles are so important. Reforming our tax system, if done right, and if done in alignment with the Kentucky Forward principles, is not political suicide. It’s the leadership that Kentuckians are looking for.”

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Attached:

Media citations about acknowledged need for comprehensive revenue reform
Introductory remarks by K.A. Owens, Kentuckians For The Commonwealth
Full statement of Mary Ann Blankenship, Kentucky Education Association
Full statement of Sheila Schuster, Advocacy Action Network
Full statement of Robert Castagna, Catholic Conference of Kentucky
Full statement of Kelly Davis, Institute for Taxation and Economic Policy
Full statement of Dana Beasley Brown, Kentuckians For The Commonwealth

Introduction by K. A. Owens, Chairperson
Kentuckians For The Commonwealth
May 28, 2009

The **Kentucky Forward Coalition** is a growing number of organizations and individuals coming together to support progressive tax reforms that can support and sustain high quality schools, health care, public safety and other essential services. The Leadership Team includes KFTC, Jobs With Justice, Jefferson County Teachers Association, Kentucky Domestic Violence Association, Kentucky Education Association, Catholic Conference, Kentucky Council of Churches, and Advocacy Action.

We believe tax reform doesn't have to be an issue that divides Kentuckians. Our groups are united around a number of **basic principles** we believe any revenue reform solutions should be evaluated against. **A high quality revenue solution for Kentucky should:**

- **Support and sustain a high quality of life in Kentucky** through essential investments in good schools, health care, public safety and other public structures and services.
- **Be fair.** Our revenue system should minimize regressivity, minimize taxes on low-income people, and ensure that fiscal responsibility is shared equitably among all citizens and businesses.
- **Provide adequate and sustainable revenue over time.** The taxes we pay should support quality public services we can count on. Kentucky's revenue system should grow as the economy grows and include revenue from multiple sources to ensure adequate funding in good times and in bad.

**Mary Ann Blankenship, Executive Director,
Kentucky Education Association**

All across Kentucky, there are 5-year-old children getting ready to start school for the first time in just a few short weeks. Some of them are rich, some are poor—but it doesn't matter if they come from a holler or a hilltop—they are counting on us to find a solution to the state's budgetary mess.

The Kentucky Education Association acknowledges that k-12 schools have largely escaped cuts to our funding this past year as the state's budget problems escalated. But teachers, education support professionals, and their students have experienced cuts in after school programs, textbooks, and professional development. KEA fears that even these cutbacks will reduce our ability to teach every child. Yet these cuts pale in contrast to the cuts that may be necessary to cover an estimated billion dollar deficit.

We already see the impact of these anticipated cuts as many school systems are experiencing unprecedented layoffs. Each of these laid off teachers and support professionals are being told, "Sorry, we don't know what to anticipate for the fall. " While our state cannot afford to lose these good, middle class jobs, even worse is the impact on students, who may have fewer caring adults guiding their learning next year.

KEA urges legislators to adopt tax reform measures that will allow our public schools and the children they educate not to lose ground. We urge tax reform that is fair. Even if we had all the funding we needed for schools, if a child is going home to parents who can't find resources to deal with mental illness, or a family member is can't find decent medical help, that child's still likely to have a hard time learning. We need to not only support education, but all the pieces that make it possible to educate.



Advocacy Action Network

Kentucky Mental Health Coalition ♦ Kentucky Medicaid Consortium
Kentuckians for Health Care Reform ♦ United 874K Disabilities Coalition

As a Commonwealth that ranks high in poverty rates, high in disease and disability and low in education, Kentucky faces significant challenges – particularly in the face of the current economic downturn. Poverty, education and health are inextricably linked. For Kentucky to emerge healthier, wealthier and wiser from this stressful period, you must have an infusion of new dollars in the system.

We must be cognizant of the role of government in protecting our most vulnerable Kentuckians – those who are elderly and frail, those with disabilities, those who are subjected to abuse and neglect. Each of the systems of care that are in place to provide the necessary services and supports are held together with duct tape, great dedication of staff and a lot of hope. This is not a sustainable system. When service delivery agencies are spending as much time looking for the next dollar which will keep their doors open as they are in providing direct services, the system demands to be fixed!

You have public-sector health and human services programs which have been neglected and chronically underfunded for years, compounded by increasing need. Several months ago, *The Wall Street Journal* reported a study showing the correlation of economic downturn with increasing suicides and psychiatric hospitalizations. We are increasingly seeing these stories played out in the local news – particularly with increases in murder-suicides. The statewide system of community mental health centers, which once ranked #1 in the nation, have received no increase in state general funds for the past 13 years and have had their Medicaid rates frozen since 1999.

The public safety net for behavioral health services to address the needs of those with mental illness and substance abuse disorders has been chronically underfunded for years. It is frustrating because we know that treatment for behavioral disorders works. But treatment only works if it is available. And it is only available if it is funded! At a time of increasing need and demand for services, the system is unable to respond – except at a crisis level. We know that those in need of services cycle through a revolving door of expensive and often unnecessary hospitalizations, back to the streets, to jail, to homelessness and tragically, to suicide.

874,000 Kentuckians have a disability that interferes with tasks of daily living. They are in need of services and supports which are too frequently not available. Their goal is to be contributing members of the community in which they live...but in order to do so, they must have access to services like the Personal Care Attendant Program, Meals-on-Wheels, Adult Day Health Centers, and Job Training Programs.

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**Catholic Conference of Kentucky Calls for Tax Reform, Securing the Safety Net of Services
Protecting Vulnerable Persons**

The Catholic Conference of Kentucky today called upon Governor Steve Beshear to include tax reform as one of the issues the Kentucky Legislature will be asked to address in a Special Session. The Commonwealth's projected revenue shortfall, estimated by some to be about \$1 billion for the fiscal year beginning July 1, challenges the safety net of services provided to vulnerable persons.

Executive Director, Robert J. Castagna, issued a statement on behalf of the Conference:

"During this national economic recession negatively affecting almost all states, the Commonwealth of Kentucky is facing a severe revenue shortfall threatening basic services that Kentuckians rely on in daily life.

We call upon the Governor and the Legislature to address this shortfall in a Special Session through enacting tax reform legislation to secure the safety net of essential services. We call for tax reform legislation that is fair, sustainable and provides adequate revenue. We seek sufficient revenue to meet the basic needs of all, especially the poor and vulnerable. We call for a tax system based upon one's ability to pay and that is fair and just in the treatment of the poor.

Faced with the magnitude of the projected budget shortfall, tax reform with additional revenue based upon ability to pay is preferred public policy to budget reductions in essential services, particularly those serving the poor and vulnerable in Kentucky."

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**Most Reverend
Joseph E. Kurtz, D.D.**
Archbishop of Louisville

**Most Reverend
Roger. J. Foys, D.D.**
Bishop of Covington

**Most Reverend
Ronald W. Gainer, D.D.**
Bishop of Lexington

**Very Reverend
J. Michael Clark, J.C.L.**
Diocesan Administrator
Diocese of Owensboro

Robert J. Castagna
Executive Director



KENTUCKY FORWARD PRESS CONFERENCE

STATEMENT FROM KELLY DAVIS

MAY 28, 2009

As Kentucky grapples with the news of a potential \$1 billion budget shortfall, there are good reasons for state lawmakers to turn to progressive tax reform instead of resorting to painful spending cuts.

Kentucky's overall tax structure is currently quite regressive, meaning that low- and middle-income families pay more as a share of their income in taxes than do wealthier Kentuckians. In 2007, the poorest 20 percent of Kentucky residents (those with incomes less than \$8,000) paid 7.8 percent of their incomes in state and local taxes. The richest 1 percent—taxpayers with average incomes of \$933,100 in 2007—paid 5.8 percent of their income in Kentucky taxes, after accounting for the federal deductibility of such taxes. Changing the state's tax structure in a progressive way would ensure that Kentucky taxes are based on the ability of Kentuckians to pay those taxes.

In choosing to fund public investments via a regressive tax system, Kentucky is essentially trying to raise money from the people who have the least of it. The wealthiest 20 percent of Kentuckians have more income than the poorest 80 percent put together. What's more, between 1988 and 2008 Kentuckians in the top 1 percent saw their inflation-adjusted average incomes rise by 34 percent. Meanwhile, middle-income earnings grew by 5.9 percent, and the poorest 20 percent saw their real incomes rise by just 3.5 percent over this period. In short, balancing a tax system on the backs of the poor simply does not yield much revenue compared to modest taxes on the best-off families.

Increasing taxes in a progressive way isn't simply the fairest way to deal with the Commonwealth's budget deficit. It's also the most economically sound approach, given the ongoing recession. Cutting programs utilized by low and middle income taxpayers results in less consumption and less economic activity, precisely the opposite outcome from which states should now be aiming. In contrast, increasing taxes on high income individuals will likely result in less saving rather than less consumption. Renowned economists Joseph Stiglitz and Peter Orszag (Director of the US Office of Management and Budget) wrote, "tax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run. Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run than tax increases focused on higher-income families."¹

The debate over progressive tax reform isn't unique to Kentucky, as state lawmakers across the country have debated – and, in a growing number of cases, adopted – tax increases in recent months. Kentucky legislators would be wise to debate the merits of progressive tax reform as both an avenue for increased tax fairness and an option for solving the state's budget shortfall.

BACKGROUND ON ITEP

Founded in 1980, the Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC, that focuses on federal and state tax policy. ITEP's mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. ITEP's full body of research is available at www.itepnet.org.

¹Peter Orszag and Joseph Stiglitz, "Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?" Center on Budget and Policy Priorities, revised November 6, 2008 <http://www.cbpp.org/archiveSite/10-30-01sfp.pdf>

Dana Beasley Brown

Kentuckians For The Commonwealth (Bowling Green)

Kelly described how KY's tax structure is regressive. I think important for the media and for state leadership to understand what that feels like at the kitchen table of Kentucky families.

While growing up, there was a very poor family around my kitchen table. There were six of us kids and two parents crammed into a single-wide trailer. Although we were poor, my family was very hardworking, responsible and frugal. We had oatmeal for breakfast, pb and j for lunch, and water was our only beverage. We did not have cable or other luxuries. We all wore hand-me-down clothes and drove hand-me-down cars.

I'll never forget seeing my mom bent over our state taxes, crying, and asking how on earth we could owe state taxes when we made so little and our responsibilities were so great. The tax structure seemed so unfair. Why couldn't my family deduct our mileage to and from the grocery store to buy basic needs to survive, but a corporate executive could deduct their mileage to and from lunch at the country club? With these questions, I knew then that I needed to learn more about our state tax structure and why it seemed so unfair to families like mine. I wanted to know why our family, that had so little, were asked to contribute so much. When those who had much to give, were given such big breaks.

That's what brought me into this work for a tax system that follows the Kentucky Forward principles.

I've talked with people all over the state about their taxes. Believe me when I say that I understand elected officials' reluctance to pass real revenue reforms. Of course many Kentucky families are scared about reforming our tax system, worried that they'll have to pay more, when they can barely afford what they pay now. Most of these families have every right to be scared, because many of us have been asked to carry more than we can, and more than is fair. This is why these principles are so important. Reforming our tax system, if done right, and if done in alignment with the Kentucky Forward principles, is not political suicide. It's the leadership that Kentuckians are looking for.

My own family is certainly looking for this leadership. I'm a mother and the wife of a pastor, and our family is one of the families that the state taxes unfairly. My families, along with the 300,000 or so who'd be helped by some of the policies that are likely to be included in this bill, are looking for leadership to fix what is broken.

Is it possible to create a tax system that is fair to everyone, that raises enough revenue to help our government function well, and that invests in making our families stronger and our communities safer and our people better prepared for new economy jobs. It's possible, and the time to do it is now.

The Kentucky Forward Coalition asks our elected leaders to remember and stand by their pledge to address comprehensive revenue reform

House passes sales tax hike 66 to 34

Lexington Herald-Leader – Thursday, February 12, 2009

"Obviously we're facing a potentially bigger budget shortfall next year, so *it would behoove us to get moving at some point in the near future* in those discussions [about broad tax reforms]."

House OKs tax hikes on alcohol, tobacco

The Courier-Journal – Thursday, February 12, 2009

Rep. Jim Wayne, D-Louisville, voted against the bill in committee Tuesday, but voted for it yesterday after getting Stumbo to agree to the "concept" of *a comprehensive tax reform review after the session ends*.

Governor signs budget plan: New taxes will go into effect on April 1

Owensboro Messenger-Inquirer – Saturday, February 14, 2009

As during the debate in the House over House Bill 144, lawmakers said they hoped this short-term solution *would only be a first step in overhauling the state's tax structure*. Following the bill-signing ceremony, Beshear, House Speaker Greg Stumbo and Senate President David Williams *said that is their intent*.

Tax hikes seen as short-term fix for state

The Courier-Journal – Sunday, February 15, 2009

Gov. Steve Beshear acknowledged that Friday as he signed into law House Bill 144, which raised taxes on tobacco and store sales of beer, wine and liquor.

"We all know that today's action — as significant as it is, and as important as it is for our children — *is but a temporary solution*," he said. "Next year's challenges, by virtually every expert's judgment, may well be even more daunting."

Senate President David Williams, R-Burkesville, delivered a similar message ... "We're going to face a difficult time, and it would appear to me that *we always ought to be looking at our tax code to make sure that it is more fair, more reliable, and is productive* and make sure that we are still competitive," Williams said.

Beshear: Budget in dire shape - Governor says shortfall could exceed \$1 billion

Lexington Herald-Leader – Friday, May 1, 2009

The Democratic governor did not offer any immediate remedies for the latest money problem, saying it's too early to speculate what might be done but that *"everything will be on the table."*

Beshear also did not rule out an overhaul of the state's tax code, which has been pushed by some in the House of Representatives.

Stumbo has said that he thinks Farmer's bill and another tax overhaul proposal by Rep. Jim Wayne, D-Louisville, should have hearings.