A JOINT PROJECT BETWEEN
THE BLUEGRASS INSTITUTE FOR PUBLIC POLICY SOLUTIONS
AND CITIZENS AGAINST GOVERNMENT WASTE

Kentucky™ UNBRIDLED PORK

The Book Frankfort Doesn't Want You to Read

by Aaron Morris and Joel Peyton

BLUEGRASS INSTITUTE FOR PUBLIC POLICY SOLUTIONS

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THE BLUEGRASS INSTITUTE FOR PUBLIC POLICY SOLUTIONS

The Bluegrass Institute is an independent research and educational institution offering free-market solutions to Kentucky's most pressing problems.

Founded in 2003 as a 501 (c)(3) non-profit organization, the Bluegrass Institute staff and scholars are committed to delivering the highest quality and most reliable research on public policy issues essential to Kentucky's future. Through a variety of publications, programs, and public forums, the institute seeks to improve the quality of life for all Kentuckians by promoting sound solutions to state and local policy questions.

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CITIZENS AGAINST GOVERNMENT WASTE

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Citizens Against Government Waste (CAGW) is a private, nonprofit, nonpartisan organization dedicated to educating the American public about waste, mismanagement and inefficiency in the federal government.

CAGW was founded in 1984 by J. Peter Grace and nationally-syndicated columnist Jack Anderson to build support for implementation of the Grace Commission recommendations and other waste-cutting proposals. Since its inception, CAGW has been at the forefront of the fight for efficiency, economy and accountability in government.

CAGW has more than one million members and supporters nationwide. Since 1986, CAGW and its members have helped save taxpayers more than $700 billion.

CAGW publishes a quarterly newsletter, Government Waste Watch, and produces special reports and monographs examining government waste and what citizens can do to stop it.

CAGW is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954 and is recognized as a publicly-supported organization described in Section 509(a)(1) and 170(b)(A)(vi) of the code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of CAGW through tax-deductible gifts.

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Aaron Morris is the fiscal policy analyst and Joel Peyton is the research analyst at the Bluegrass Institute, Kentucky's free-market think tank.

Kentucky: Unbridled Pork

The Book Frankfort Doesn't Want You to Read

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Introduction

In 1982, President Ronald Reagan established a panel of 161 senior business executives and more than 2,000 private sector volunteers to undertake a comprehensive review of the federal government. The report of the President's Private Sector Survey on Cost Control — better known as the Grace Commission — made nearly 2,500 recommendations that would save taxpayers $424.4 billion during a three-year period by eliminating waste, mismanagement and inefficiency in Washington.

After the report was published in 1984, commission chairman J. Peter Grace joined with syndicated columnist and Pulitzer Prize-winner Jack Anderson to form Citizens Against Government Waste (CAGW) to promote implementation of the recommendations at every level of government.

During the past 21 years, CAGW and its more than 1 million members and supporters have helped taxpayers save more than $825 billion. Since 1991, CAGW has published an annual exposé of pork-barrel spending in the 13 federal appropriations bills known as the "Congressional Pig Book." CAGW also produces "Prime Cuts," a comprehensive look at the depth and breadth of waste throughout the federal government. Recommendations range from eliminating corporate welfare to cutting unnecessary defense systems. "Prime Cuts 2005" identified $232 billion in potential one-year savings and $2 trillion in five-year savings.

Implementing the recommendations made in "Prime Cuts" alone could go a long way toward returning fiscal sanity to Washington, especially in light of a $412 billion federal deficit.[1]

The Bluegrass Institute for Public Policy Solutions is an independent research and educational institution offering free-market solutions to Kentucky's most pressing problems. Like CAGW, it focuses intently on evaluating public spending options and recommending better choices on behalf of Kentucky citizens.

The institute published "Planning for Kentucky's Future in 2005," a handbook that offers ideas to help elected officials prioritize — as well as cut — spending. This guide is a useful tool to help taxpayers evaluate the quality of their political representatives' performance. Other recent publications include policy reports that make the case for privatizing Kentucky State Parks and medical-malpractice tort reform.

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result, CAGW is teaming up with free-market think tanks like the Bluegrass Institute to launch a series of state publications that expose overspending and identify areas of potential savings. Kentucky's current fiscal crisis presents a timely opportunity to produce the Bluegrass State's own "Piglet Book."

In this report, CAGW and the Bluegrass Institute compile a list of questionable expenditures that reveals to the public, media and policymakers how Kentuckians' hard-earned tax dollars are being misspent.

Modeled after its two most prominent publications, the "Kentucky Piglet Book" combines the outrageous government-spending examples of CAGW's "Pig Book" with the seriousness portrayed in its "Prime Cuts" publication. The resulting publication reveals rampant and undisciplined spending by Kentucky's state government. It unmasks an ingrained addiction to overspending as the real culprit behind the commonwealth's budget crisis.

We believe that state government spending can be substantially reduced when taxpayers' monies are spent in ways that benefit all Kentuckians over the long term, not for the benefit of special-interest groups promoting projects for the benefit of a few.

Neither CAGW nor the Bluegrass Institute intends to judge the merit of any specific local project included in the "Kentucky Piglet Book." We condemn state funding of local projects because we champion local control and funding of projects that primarily benefit local communities. The latter policy helps ensure the end product meets the needs of the citizens who agree to pay for it.

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When this political influence results in state financing of a local bridge or school renovation, it correspondingly encourages the construction of hundreds of other local projects each demanding state funding. In addition, this influence produces tenuous claims that a local theater or convention center at one end of the state will somehow convey some benefit to another region.

To maximize efficiency and avoid bureaucracy, local projects should always be organized and financed with local sources of revenues. Local leaders can then be held accountable for spending on these projects.

Before asking hard-working Kentucky families to sacrifice one more dollar in taxes, lawmakers should carefully reduce their budget by eliminating waste, fraud and abuse.

This thesis acknowledges that a tax dollar taken from a struggling single mother and spent to subsidize improvements to a state-run golf course might be better spent purchasing new school clothes for her children. Every public dollar expended to subsidize shrimp farming might instead be saved for a new set of brakes for an elderly citizen's car. By reducing unnecessary public spending, individuals can use their own money to spend or save in a way they feel makes their own lives better.

Let's meet in Corbin

Kentucky reaps the benefits of many wonderful tourist attractions like the Kentucky Derby that draw thousands of tourists and millions of dollars to the Bluegrass State every year. Many cities would love to host such events, but few communities have the infrastructure to do so.

For example, the town of Corbin (population: 8,111)[2] has longed to bring in more tourist dollars but doesn't have the seemingly requisite convention center. The city's elected officials decided they wanted to find a way of building a new convention center without paying for its construction and lobbied the Kentucky General Assembly, which eventually appropriated more than $12 million in borrowed money to construct the Southeastern Regional Agricultural and Exhibition Center in Corbin.[3]

Interest payments alone will cost an average of $75 for every man, woman and child in the city. Of course, Corbin residents will not be the only ones paying for this pork. All Kentuckians will be forced to contribute — even though most of the state's taxpayers will never have occasion to visit this Mecca.

But that's not the end of this story. After Frankfort politicians — who seem very anxious to please Corbin's officials — secured the construction money, the town needed a way to finance the upkeep of the convention center.

To do that, they decided to institute a restaurant tax. But local politicians faced a dilemma: In order to legally pass a restaurant tax, Corbin, a third-class city, could rate no higher than a fourth-class city. Again, Frankfort's big-spending lawmakers rescued Corbin's fat from the fire by *demoting* the city to fourth-class status, which allowed it to pass a restaurant tax.

While all Kentuckians will subsidize the $12-million tab to build the facility, only the continuing costs of maintaining the convention center will be paid for by those who get the most benefits from it — primarily the citizens of Corbin. Not surprisingly, even before Corbin officials broke ground for the project, they were already insisting that the project would cost more than $12 million.

In the same vein, the Kentucky General Assembly appropriated $150,000 for planning and design of an "exposition center" in Hopkins County in the 2004-06 budget.

If the people of Corbin or Hopkins County decide they want a new convention center and there is sufficient demand, they should pay for it.

Better yet, a local convention center should be financed with private funds. If such a facility succeeds to the level promised by the local politicians, some enterprising entrepreneur should notice the decided lack of space for events and build one that eventually turns a profit. On the other hand, if the private sector does not believe in the potential profitability of such a venture, why should taxpayers be left holding the bag?

If the private sector does not believe in the potential profitability of such a venture, why should taxpayers be left holding the bag?

Never mind the children … what about the teachers?

Kentuckians know that the price of health care has risen dramatically in recent years. Health insurance premiums and costs for services such as office visits have increased dramatically.

Many private sector employers have switched from insurance plans that require small co-payments for office visits and prescription medicines to more costly co-insurance policies requiring patients to pay a small percentage of the actual costs of the services. However, the bosses of the Kentucky Education Association (KEA), the public teachers' union, indicate they will fight to keep their lavish taxpayer-funded health-benefits program.

The KEA feels it is too much to ask of teachers and other government employees to contribute more toward their health care.

In 2004, the state's public school teachers went so far as to threaten to illegally walk off the job rather than accept reasonable changes to a new benefit package for teachers and other state employees proposed by Gov. Ernie Fletcher.[4] His plan called for these government workers to pay a percentage of the cost for medication or treatment rather than a flat co-payment.

Fletcher's proposal reflects a growing trend among businesses, which are increasingly moving away from traditional — and costly — co-payments toward co-insurance plans.

Reforms similar to those being implemented in the private sector would bring teachers' health care benefits in line with those of other hard-working employees and save the state millions of dollars. Such savings could be used to update textbooks or add badly needed technology to classrooms.

However, the KEA feels it is too much to ask of teachers and other government employees to contribute more toward their health care.

Most state employees have never threatened to strike, which would leave Kentucky's citizens without state services. But abandoning Kentucky's children to "teacherless" classrooms is exactly what the KEA would have done had Gov. Fletcher not obtained the benefit package they demanded.

The union's threats resulted in Fletcher calling a special legislative session, which quickly reinstated the teachers' bountiful benefits. Politicians aligned themselves with the teachers' union to successfully thwart Fletcher's proposed commonsense reforms.

During that special session, legislators poured about $200 million in additional taxpayer dollars — nearly $160 million more than the amount proposed in the governor's plan — into employee benefits, with plans to spend another $132 million in 2006.

The latest budget includes nearly $364 million for state contributions covering health insurance for Kentucky's teachers — a record amount that will increase dramatically in future years unless Frankfort politicians come to their senses.

State employees living high on the hog

Originally, the merit-employment system aimed to protect Kentucky's government workers from being dismissed from their jobs for political reasons. The system was established in 1960 to keep new gubernatorial administrations in Frankfort from handing out essential jobs to political supporters and firing existing employees as a result.

This law states that the merit approach should ensure "competent, well qualified employees and insure continuity in the provision of government services by retaining experienced employees from one administration to the next."[5]

In the private sector, employees are retained based on their ability to carry out the mission and goals of the organization and are subject to an annual evaluation. Raises are mostly based on achieving or exceeding the requirements of one's job.

But in Kentucky — to paraphrase Woody Allen — 100 percent of the raise depends on merely showing up. The merit system as defined in Chapter 18 of the Kentucky Revised Statutes decrees: "An annual increment of not less than five percent (5%) of the base salary or wages of each state employee shall be granted to each employee on his anniversary date."

This 5 percent increase remains available to every state employee and occurs regardless of job performance. The amount can only be altered by an act of the General Assembly.

Not only do merit employees get annual raises, but by working on the state's payroll, they possess one of the commonwealth's most secure forms of employment. Supervisors must familiarize themselves with six pages of state law just to discipline an employee.[6] Even then, numerous procedures for appeals, hearings, grievances, complaints and mediation exist.

Once someone begins working for the state, they have a secure job with little chance of termination and guaranteed raises regardless of their performance. Only a government entity could promulgate such a system.

Government positions should have the same risks and rewards as private sector employees. Having such a policy would likely improve the productivity of state government and save taxpayers millions of dollars.

Un-Merit-ed pork

Of the 1.8 million Kentuckians with jobs in 2004, nearly 311,000 — more than 17 percent — were employed by government services. By comparison, Illinois, Indiana and Ohio have less then 15 percent of their employed population working in government. Of the seven states surrounding Kentucky, only Virginia and West Virginia have a higher percentage of government workers.

One clue as to why it takes so many workers to provide government services in Kentucky can be found in the state's merit-employment practices. The law requires that employees in an office that closes must be offered another position with equal or greater pay than their previous jobs. No private company would even consider such a policy.

Furthermore, changes in technology and the way average Americans working in the private sector live their lives often involve eliminating one job or creating another. This job "churn" characterizes a natural occurrence in an economy where employers choose their workers and employees decide on their own careers.

For example, the prevalence of ATMs makes banking more convenient but results in fewer bank-teller jobs.

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Kentucky's lawmakers are classified as part-time workers and yet qualify for retirement benefits, including health care and the state-backed pension plan.

Digital cameras enable us to take more pictures at the expense of fewer film-processing positions.

Yet, the state government doesn't follow the same logic. For example, tollbooths were removed in 2003 from the Louie B. Nunn Cumberland Parkway and the Daniel Boone Parkway.[7] Those who had operated those booths were offered jobs as assistants and secretaries in the state's transportation cabinet.

No one knows if these transferred workers possessed the specific attributes such as typing and using the office software needed to perform their new jobs. Perhaps some did, but most were given the positions simply because the law requires giving them another position.

Don't shed a tear for state legislators

Kentucky remains one of many states with a part-time legislature. Lawmakers travel to Frankfort for single sessions that last for 60 days during even-numbered years and 30 days in odd-numbered ones.

Even though committee meetings and other commitments require some attention from policymakers throughout the year, Kentucky's lawmakers are classified as part-time workers and yet qualify for retirement benefits, including health care and the state-backed pension plan.

This unsound spending decision was made despite the fact that part-time workers in the private sector usually do not receive such advantages. And in an era of declining fringe benefits and rising costs, employee pension plans are becoming extinct.

Few employees remain in one job for the decades it takes for a pension plan to pay benefits.[8] Individual retirement accounts and 401(k) plans can follow an employee from one career to another, and have developed into more prevalent and fiscally sound plans than defined benefits such as pensions.[9]

State representatives feathered their own nest by passing a law during the 2005 session of the Kentucky General Assembly that dramatically *increased* their pension payments by changing the way their benefits are calculated.

Instead of calculating payouts based on the average of the last five years of a legislator's salary, payments will be calculated using the average of the three years in which they earn the most. Legislators also shortened the time a lawmaker must serve before being eligible for retirement benefits — from 30 to 27 years.[10]

Politicians insist on making such decisions even as their constituents face increasing health care costs, spiraling college tuition costs, declining benefits and less job security.

The art of waste

How much should an entertaining night at the theater be worth? Apparently about 1 million state tax dollars in Frankfort, which is the estimated amount of subsidies being given to local theater and arts companies from its current budget.[11]

Taxpayer monies allocated to local theater groups help cover shortfalls in a facility's operating expenses.

Apparently, an insufficient number of Kentuckians display enough interest in financially supporting these events to generate the amount of revenue needed to cover costs.

The following table offers examples of wasteful arts spending in the current budget:

Project	Amount
Richmond Arts Center	$200,000
The Stephen Foster Story	$162,000
Jenny Wiley	$79,000
Pioneer School of Drama	$59,000
Pine Knob Theatre	$59,000
Kincaid Regional Theatre	$55,000
Horse Cave Theatre	$52,000
Indian Fort Drama of Berea	$50,000
Russell County Players	$50,000
Someday Outdoor Drama	$40,000
Greenbo Lake State Resort Park	$20,000
Music Theatre of Louisville	$18,000
Twilight Cabaret	$18,000
TOTAL	**$862,000**

From the 'shores' of Kentucky

When people outside the commonwealth think about Kentucky, the state's horse industry most often comes to mind. Apparently, state legislators now want the public to think the same about seafood.

Lawmakers voted last year to donate $1.1 million in operating funds and $1.7 million in bonds for the British firm Sygen International — now SyAqua — to research and develop shrimp farming in Kentucky. Lawmakers bypassed the usual process whereby economic-development officials evaluate projects involving collaboration between universities and corporations to determine whether they benefit the state's economy.

Subsidizing saltwater shrimp farming by giving taxpayer-financed handouts to a multimillion-dollar foreign corporation in a landlocked state qualifies as pork — even if it swims in the water. Appropriately, SyAqua's U.S. headquarters, located in southcentral Kentucky, was formerly known as PIC — the Pig Improvement Company.

The budget legislation also instructs Western Kentucky University, the University of Kentucky and Kentucky State University to develop and market the shrimp industry in the state. Supposedly, the money will fund efforts to genetically engineer a saltwater shrimp better suited for farming in the commonwealth.

"It appears that they got the money sort of through the back door, or without a real, public discussion about it," Shana Herron, organizer of the Community Farm Alliance, told a Lexington Herald-Leader reporter. "It is definitely a concern of ours when Kentucky farmers are struggling to diversify and find new markets ... when AG funds are going to multinational corporations that already have a lot of resources." [12]

With this appropriation, the Kentucky General Assembly may be the first elected body in the nation to successfully transform pork into seafood.

The Kentucky General Assembly may be the first elected body in the nation to successfully transform pork into seafood.

Apples, tomatoes, carrots and … pork?

Who doesn't love a farmers' market? The freshest produce and vegetables in town are available straight from the farmers who grow them. From strawberries in the spring to corn and pumpkins in the fall, the

Local financing efforts like this ensure that a proposed project meets the needs and satisfaction of that community's residents.

roadside farmers' market is as much of a tradition throughout Kentucky as high-school football games and hayrides.

Customers have always loved farmers' markets for having fresher produce and lower prices than chain grocery stores. Farmers can offer a better price by dealing directly with customers, and everyone has the opportunity to meet and mingle with the rest of the community.

Is there any reason for state government to subsidize this traditional community gathering? Apparently, the Kentucky Department of Agriculture thinks such spending is justified.

The department has made $2 million worth of state agriculture development funds available as matching grants for more farmers' markets across the commonwealth. Ten percent will be made available for business-planning purposes, 25 percent for regional farmers' markets and 65 percent is earmarked for smaller, community markets.

That's $2 million to fund the same exchange that farmers and their customers have been engaging in for generations.

Given that history, one would think that applying for these funds for such traditional community marketplaces would never involve any of the famously bureaucratic paper shuffling state government has been accused of in the past. But that assumption would be incorrect.

According to the Kentucky Department of Agriculture: "Applicants must fill out the Agricultural Development Fund Project Application and submit the original and *16 copies* to the Governor's Office of Agricultural Policy." *(Emphasis added)*

The application process consumes *27 pages*. So much for the simple, old-fashioned roadside market.

Local projects, state dollars

Every year, thousands of Kentuckians peer deeply into their finances and decide if they have the resources to renovate their home, add a garden, refinish a kitchen or add a new room. But they don't ask their neighbors to help pay for these improvements.

Unfortunately, routine business in Frankfort consists of what Kentucky families would never consider doing. Taxes collected from millions of Kentuckians frequently support local projects that only impact limited constituencies.

Rather than requiring communities to raise money from the citizens most likely to benefit from the project, legislators often decide to both spread the pain to the whole state and bring home the bacon for their own districts. Some recent examples include:[13]

Project	State Funds
Knox Partners Community Education Center	$2,000,000
Property and design of a jail in Union County	$650,000
Union County Library expansion	$500,000
Union County Fairgrounds/Arnold Arena	$450,000
Uniontown emergency levee repair	$100,000
TOTAL	**$3,700,000**

Why should taxpayers across the entire commonwealth fund a library in Union County? Chances are they will never see the inside of it nor read a single book or magazine from its shelves. Supporters of the library in Daviess County understand this perfectly well. Voters in a recall election there rejected a substantial increase in local property taxes proposed to finance a new facility, forcing the library tax district to live within Kentucky's statutory limitation of a 4 percent annual increase.[14]

It was Daviess County voters — not taxpayers in the rest of the state — who decided the future of their own library. Daviess County voters will oversee the project and make sure they get the best value for their tax dollars. As a result, they will get the library that best suits their community's needs.

Local financing efforts like this ensure that a proposed project meets the needs and satisfaction of that community's residents.

In addition to specific pork-barrel spending, some counties get lump sums of cash to spend as they see fit. Taxpayers across the state subsidize these accounts, which amount to nothing more than "slush funds."

Project	**State Funds**
Laurel County	$3,805,000
Pulaski County	$3,590,400
Boyd County	$2,859,000
Shelby County	$2,839,100
Taylor County	$2,300,900
Grant County	$2,185,000
Logan County	$2,170,600
Grayson County	$1,792,000
Washington County	$1,789,000
Hart County	$1,752,600
Jackson County	$1,708,200
Adair County	$1,636,600
Trigg County	$1,573,100
Green County	$1,553,000
Livingston County	$1,284,000
Gallatin County	$505,000
Pendleton County	$489,500
Robertson County	$405,000
TOTAL	**$34,238,000**

Building debt on the backs of our children

Numerous construction projects funded by Kentucky's latest budget, including an entertainment arena at Northern Kentucky University and a basketball facility at the University of Kentucky, attract substantial publicity.

A new state-induced $2 billion bond offering for the 2004-06 biennium provides most of the funding for these projects. This means state government will spend an additional $2 billion that will be repaid with

Lawmakers will follow tradition and treat taxpayers like automatic teller machines

The practice of favoring union firms over lower-cost, nonunion construction companies should end so that needed schools can be built and more students properly educated.

future tax receipts. It is the equivalent of maxing out one's credit cards and taking out a second mortgage to make the payments.

Payments with interest on the debt incurred by these bonds and the projects they fund will burden future generations. Kentuckians will be paying for courthouses, sports arenas and student union buildings for at least 20 years.

In many cases, the projects being undertaken will not even outlast the debt created to build them.[15] When the economy takes an inevitable downturn, these debts will loom even larger, especially when due dates for repayments arrive.

Lawmakers are not likely to have the political courage to cut or eliminate programs when the state suffers from future shortfalls. They will follow tradition and treat taxpayers like automatic teller machines — removing their savings at will to fund more pork-barrel spending for projects dictated by special interests.

Prevailing pork

A dubious "prevailing wage" law prevents state government from receiving the most value for every dollar spent on public projects. Forcing government to pay union-like wages drives up the cost of roads, school buildings and infrastructure systems by 10 to 15 percent.

The prevailing wage demand provides an example of a well-intentioned policy gone awry. Originally modeled after the federal Davis-Bacon Act, Kentucky lawmakers wanted to ensure contractors working on state projects paid workers a fair, but not rock bottom, wage. However, during the past 20 years, Kentucky's prevailing wage policy has created a huge boondoggle employed by labor bosses trying to keep nonunion contractors off public job sites and out of competition with union workers.

In December 2001, the Kentucky Legislative Research Commission (LRC) — the state's legislative research arm — released a report detailing the process that determines wage rates (prevailing wages) that contractors must pay on state projects.

The LRC reported that the haphazard manner in which surveys and polling take place enables unions to manipulate regulations so that specified wage rates equate not to actual prevailing wages, but rather to wages typically paid to workers in unionized workplaces.

It recommends that: "If it is the desire of the General Assembly that prevailing wages be more representative of the wages being paid in an area, collection of wage data through public hearings should be discontinued and replaced with a process that provides greater participation from all types of contractors."[16]

By setting the prevailing wage higher than the standard rate for construction workers, unions usually succeed in removing any competitive advantage enjoyed by nonunion contractors. The policy often makes it impossible for these construction companies to bid lower than union firms, when doing so would save taxpayers money on public schools, office buildings or roadways.

Since 1999, more than $2.4 billion has been spent on Kentucky's K-12 facilities alone, consisting of 2,400 construction projects in the state's 176 school districts. Economists have determined that for every 10 school buildings constructed, Kentucky's school districts could have built at least one more for the same cost by suspending the state's prevailing wage statute.[17]

The practice of favoring union firms over lower-cost, nonunion construction companies should end so that needed schools can be built and more students properly educated.

Between 1982 and 1996, the Kentucky General Assembly suspended prevailing wage requirements on state construction projects. However, Gov. Paul Patton's administration reinstated it during the mid-1990s in order to pacify labor unions after making changes to the state's worker-compensation policy.

In order to obtain the most value from every taxpayer dollar, legislators should agree to permanently abandon this costly measure.

Kentucky's dusty, dangerous Disney World

Most Kentuckians probably don't think the state should subsidize the arts to the tune of $1 million per year. However, the General Assembly disagreed and appropriated state tax dollars for the arts during the 2005 budget session.

These earmarks include fees for professional artists and entertainers performing on the Kentucky Music Trail. This money apparently can only be used to promote tourism in coal-producing counties where the Music Trail meanders through eastern Kentucky.

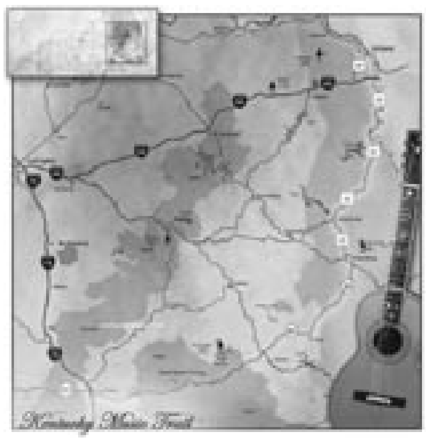
The Kentucky Department of Tourism proclaims:

> The Kentucky Music Trail, in eastern Kentucky, highlights the state's broad musical heritage and includes the new Kentucky Music Hall of Fame and Museum at Renfro Valley, historic homes, Appalachian Artisan Center and Jenny Wiley State Resort Park. From mid-June through mid-August, a series of concerts featuring Kentucky natives including John Michael Montgomery, Loretta Lynn, Ricky Skaggs and Montgomery Gentry appear at the Mountain Arts Center and the Paramount Arts Center.[18]

Counties without large deposits of coal must dig other kinds of holes in which to plunk taxpayers' monies. What makes coal-mining counties more deserving of funds to promote Kentucky's musical heritage constitutes a real mystery.

Counties without large deposits of coal must dig other kinds of holes in which to plunk taxpayers' monies.

Kentucky Music Trail



Source: Kentucky Department of Tourism

By approving funding for a Disney-like display in an abandoned coal mine in Lynch (Kentucky), the General Assembly apparently believes that thousands of tourists will want to learn about the hazards and pitfalls of coal mining rather than vacation in Florida or Hawaii.

According to an Associated Press story, "Animatronic exhibits in Portal 31 would allow a fictional miner, the miner's son and grandson to tell tourists about the evolution of mining. … The exhibits will be so realistic that visitors might think they're seeing coal being mined."[19]

One can only imagine how life would be negatively impacted if Frankfort officials foolishly allowed, say, just anyone to provide massages without a valid license.

State taxpayers will have enough "reality" when they see how much of their hard-earned money this display wastes. The expected hordes of tourists must travel 60 miles from I-75 on a four-lane road and then drive another 24 miles on a mountainous two-lane road to view this show.

More licenses than a freshman on spring break

Most Kentuckians 16 years of age and older have obtained or renewed a driver's license. The routine involves waiting in line at the local courthouse to pay a fee for a license that — even though it contains the worst picture imaginable — allows an individual to drive legally.

Licensing drivers typifies good common-sense policy that allows society to uphold certain minimum standards on our public roads. The money paid for our licenses funds employees, licenses and even the dreaded camera. Few complain because this "fee for service" represents a reasonable investment for Kentuckians.

However, while there may not be a dispute about licensing drivers, other licenses issued by the state don't seem nearly as logical. For example, Kentucky spends money on licensing boards for certifying:[20]

- auctioneers
- barbers
- dietitians and nutritionists
- embalmers and funeral directors
- hairdressers and cosmetologists
- interpreters for the deaf and hard of hearing
- massage therapists
- pastoral counselors
- private investigators
- professional art therapists

One can only imagine how life would be negatively impacted if Frankfort officials foolishly allowed, say, just anyone to provide massages without a valid license.

Misadventures in the tourism business

State parks or State porks?

Kentucky owns and maintains more parks than any other state. But it doesn't charge admission to any of the facilities and provides among the highest level of subsidies to keep them operating. During the current two-year budget, Kentucky will spend nearly $28 million of general-fund revenues and an additional $59 million of restricted funds for total expenditures of $87 million to cover the costs of running state parks.[21]

Making matters worse, lawmakers have authorized the borrowing of $2 million to expand the state parks system to purchase the land and design for the new Herrington Lake State Park, which will include a lodge. An additional $500,000 will be borrowed to design and engineer a new lodge at Kincaid Lake State Park.

Again, these decisions are being made despite the fact that the state parks system is operating with an $87 million deficit. Bank officials would have a good laugh around the water cooler at the expense of anyone seeking a loan for their business under those conditions.

Although a re-examination of the management and operations at Kentucky's parks is under way, policy-makers continue to toss money at the problem rather than implement policies that have proven successful in other states, including outsourcing operations.

Many functions of the state parks system should be handed over to private management firms, which almost always operate more efficiently than government agencies. A recent Bluegrass Institute report outlines ways the commonwealth could save money, improve services and increase the efficiency of its state parks system.[22]

For example, the report points out that hiring professional firms to staff and maintain state parks would provide Kentuckians with better services at lower costs. It also would allow Frankfort to focus more on providing essential services and less on maintaining nonessential entities such as hiking trails, golf courses and hotels.

Nobody is advocating closing state parks or their hiking trails, lakes and other amenities enjoyed by millions of visitors each year. But steps should be taken to ensure the sites break even or are profitable, including charging admission fees.

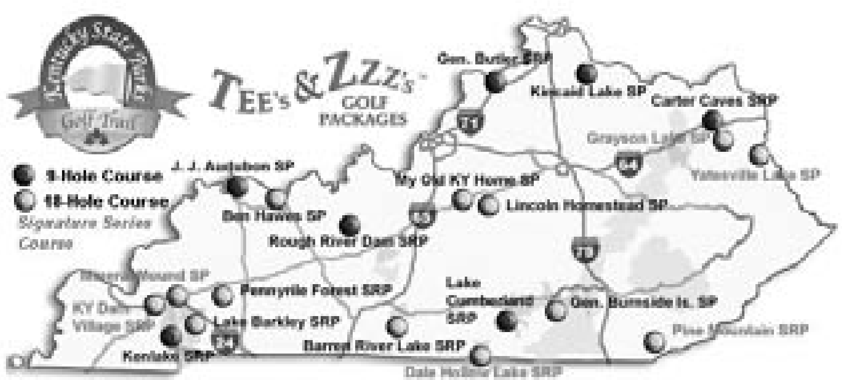
Kentucky remains one of only a few states that does not charge admission to state parks. Even a nominal fee of $1 per carload of visitors would go a long way toward offsetting the $87 million taxpayer subsidy that will be incurred at these parks over the next two years.

Entrepreneurs exist to serve the demands of all eager customers.

Why is golf publicly subsidized by Kentucky taxpayers?

The Commonwealth of Kentucky owns and maintains 13 golf courses with 18 holes and seven 9-hole courses.

18-hole golf courses	Nine-hole golf courses
Barren River Lake S.R.P.	Audubon S.P.
Ben Hawes S.P.	Carter Caves S.R.P.
Dale Hollow Lake S.R.P.	Gen. Butler S.R.P.
Gen. Burnside Island S.P.	Kenlake S.R.P.
Grayson Lake S.P.	Kincaid Lake S.P.
KY Dam Villiage S.R.P.	Lake Cumberland S.R.P.
Lincoln Home S.P.	Rough River S.R.P.
Lake Barkley S.R.P.	
Mineral Mound S.P.	
My Old KY Home S.P.	
Pennyrile Forest S.R.P.	
Pine Mt. S.R.P.	
Yatesville Lake S.P.	



Source: Kentucky Department of Parks

> With a looming budget deficit, should Kentucky state government rent carts and mow fairways, or should it fund other priorities that benefit a greater array of Kentuckians over the long term?

Some argue that without state funding, the only courses available would be expensive private country clubs that cater exclusively to the rich and privileged. However, entrepreneurs exist to serve the demands of all eager customers willing to pay reasonable greens fees.

Spending taxpayers' money on ventures commonly operated by entrepreneurs not only costs more in the long run, but also crowds out businesspeople who otherwise would open new private courses.

Officials have taken some steps to address the problem of deficits at state-run golf courses. Then-Parks Commissioner George Ward announced the closing of the state-run golf course at Jenny Wiley State Park in Prestonsburg after the facility lost $27,500 in 2003 and $43,900 in 2004.[23]

Commonwealth parks provide quality recreational opportunities for residents and tourists. However, it is appropriate to ask which particular activities demand the priority of government, or, for that matter, should even fall within the purview of government's responsibility.

With a looming budget deficit, should Kentucky state government rent carts and mow fairways, or should it fund other priorities that benefit a greater array of Kentuckians over the long term?

The Kentucky Horse "Pork"

Like state parks, the government-run Kentucky Horse Park in Lexington accommodates a money-losing venture that will cost taxpayers more than $1.5 million in 2005-06, including $72,000 to pay the interest on existing bonds.[24] Lawmakers also have committed to borrow $1 million to construct a jumping area with stadium seating and an additional $1.5 million to design an indoor arena — debts that Kentucky taxpayers will be paying off for years to come.

Kentucky Fair and Exposition "Crater"

More than $2.7 million in general-fund revenues will be given to the Kentucky State Fair Board to maintain the state-fair site in Louisville during the 2005-06 biennium. This bottomless pit does not include more than $4 million to pay the interest on bond issues from years past and $55 million in new bonds authorized by the Kentucky General Assembly for design and renovation work at the site.

Kentuckians don't receive a fair return on their investment with such projects. State government should not continue to appropriate funds for a state-fair site unable to cover its expenses. Wouldn't privatizing the

Kentucky State Fair or outsourcing some of its operations better serve taxpayers?

Universities of pork

Kentucky's universities are surprisingly adept at bringing home the bacon from the General Assembly. They persevere year after year gobbling up more and more at the public trough, consuming taxpayer dollars which may or may not yield higher levels of education.

In 2005, Northern Kentucky University (NKU) received $12 million of taxpayers' money to build a sports complex and an additional $60 million for a "regional special-events center." These funds could go a long way toward providing additional professors, classrooms, or scholarships for needy students.[25]

Plus, the university receives tax dollars for these projects though the NKU Foundation's $30 million endowment fund, ranked No. 1 in the state and No. 10 in the country in the performance of its investment portfolio.[26]

The University of Kentucky also gets its share of state funds, including $15 million for a basketball practice facility through a mix of bonds and restricted funds appropriated by the legislature during its 2005 session. The school also accepted a $10 million allotment to expand and renovate the art museum in the campus's Singletary Center.

Of course, Frankfort's free-spending politicians would never allow the injustice of one of Kentucky's major NCAA powerhouse programs getting a new facility while leaving another lacking. So, the legislature also gave the University of Louisville $12.4 million in bonds and restricted funds to build a new field house and practice facility.

Proponents of seemingly endless increases in higher-education spending bemoan tuition increases and yet argue that "investments" in colleges and universities benefit all Kentuckians by producing a more educated workforce. They justify such pork-barrel spending with the oft-repeated argument that state bonds will be paid off by the universities themselves, not Kentucky taxpayers.

But few options exist for universities trying to get the money to pay off these bonds secured to build their gymnasiums, art museums and sports arenas. Either the institutions will return to the legislature in future years with their hands out for additional revenues to cover the debt and fund more projects, or they will raise tuition on Kentucky students to make up the difference. With these options, nobody wins.

While legislators have free time to spend on frivolous designations, they consistently fail to pass a budget on time.

The wrath of grapes

Kentucky elected officials have had their share of trouble agreeing to a state spending plan during the past few years. Special legislative sessions too often follow budget stalemates. Lawmakers seem stymied on the issues that matter most, causing Kentucky taxpayers to wonder why it is so difficult to spend other people's money in the time established by statute.

By contrast, politicians in Frankfort had no problem finding the time during the 2005 legislative session to designate the Kentucky Wine and Vine Fest of Nicholasville the state's wine festival and the Horse

Allowing Medicaid spending to grow unchecked places the program in danger of collapsing, which could threaten the lives of those who really need — and should receive — the help it provides.

Cave Repertory Theatre in Hart County the commonwealth's official state repertory theatre.

Also, notwithstanding KRS 38.440, which bars any group except Kentucky's National Guard or active militia from associating together as an armed company, legislators found time to approve a request that Civil War re-enactors be allowed to associate, drill and parade with firearms and/or swords without permission from the governor.[27]

Ironically, while legislators have this kind of free time to spend on frivolous designations, they consistently fail to pass a budget on time.

Medicaid Woes

As a Kentucky-run program funded by state tax dollars and a substantial amount of matching funds from the federal government, Medicaid has become the commonwealth's second-largest expenditure behind education. The health care program's cost grows by an average of 11 percent annually.

Medicaid was originally designed to provide basic health care services to Kentucky's poorest citizens. But like many other well-intentioned efforts, the program has ballooned into an extremely costly service providing virtually every health care need for many people who are not destitute. More than 16 percent of Kentuckians now have their entire health care bill paid for by the state of Kentucky.[28]

Kentucky will spend $17 million from the current budget's general fund on Medicaid, with an additional $18 million coming from restricted funds and $41 million from the federal government. Unfortunately, this $76 million will not provide even a single aspirin to a Kentucky recipient; rather, the funding covers only the cost of administering its Medicaid program.

Supplying health care benefits to needy Kentuckians will cost the state an additional $925 million from the General Fund and nearly $377 million from restricted funds earmarked specifically for this purpose during the current budget biennium.

One of government's most important priorities involves providing basic coverage to the commonwealth's poorest residents who lack access to health care. Tragedies and disasters can befall anyone, which makes it comforting to know that no Kentuckian will be denied access to basic care.

With that priority established, Kentucky lawmakers need to ensure that Medicaid survives. The program should serve as a reliable safety net for the poorest Kentuckians and those who find themselves overwhelmed by tragic loss or catastrophe.

Allowing Medicaid spending to grow unchecked places the program in danger of collapsing, which could threaten the lives of those who really need — and should receive — the help it provides.

While it may be politically challenging for lawmakers to reduce benefits, many Kentuckians understand that some change to the system will be necessary to ensure its survival in the years to come. Bold leadership and difficult decision-making by elected officials will be required to fix Medicaid.

Kentucky leaders can take plays directly from of the playbook of Gov. Mark Sanford of South Carolina, who is using free-market techniques to drive down the costs of Medicaid. According to The Heritage Foundation, Sanford's state is trying to use three basic principles to strengthen Medicaid: competition, choice and stability.[29]

First, South Carolina wants to introduce competition into Medicaid by encouraging private plans and networks to compete for Medicaid enrollees. The Heritage Foundation reports these plans will have to offer appealing benefits packages to attract enrollees. Second, instead of a state-run policy micromanaged by Medicaid, enrollees would choose the plan that fits them best. Third, the South Carolina plan provides annual Medicaid contributions to individuals, which results in more predictable expenditures for the state.[30]

Private prisons pay off

The Kentucky Department of Corrections (KDOC) manages the business of detaining and rehabilitating an average daily population of around 12,000 inmates at the commonwealth's 14 prison facilities.

The inmate population at individual prisons range from as few as 202 to as many as 1,846. Housing inmates costs the state between $32 per prisoner at smaller facilities and $68 at the Kentucky State Reformatory, the commonwealth's largest prison.

KDOC should be commended for taking significant steps to reduce costs to Kentucky taxpayers while still protecting the public from violent criminals and rehabilitating offenders to lead productive lives.

The average cost to house an inmate at one of Kentucky's correctional facilities is $47 per day.[31] Four of the 14 institutions managed by KDOC lowered their average daily cost between fiscal years 2003 and 2004.[32]

Despite the significant savings achieved at state institutions, privately run facilities in Lee and Marion counties have done even better. These two prisons, operated by private contractor Corrections Corporation of America, have lowered their average daily cost to incarcerate an inmate between fiscal years 2002 and 2005.

During fiscal 2002-03, it cost $44 per day to house an inmate at Lee County and $34 at Marion County. However, during fiscal 2004-05, costs dropped to $40 per day at Lee County and $32 at Marion County.[33]

Such an accomplishment is especially impressive considering these prisons were already among Kentucky's most efficiently run operations. The average daily cost of $32 per inmate at Marion County's prison is the lowest of any public or private facility in Kentucky.

A debate has raged throughout much of Gov. Fletcher's term over whether private companies or public employees will run the new Little Sandy Correctional Complex in Elliott County. Fletcher stated during his gubernatorial campaign that the facility would function more efficiently by outsourcing operations.

But local authorities and politicians in Elliott County insisted that a private firm not run the facility. Officials were adamant that former Gov. Paul Patton had

Policymakers should begin budgetary reforms by eliminating government excess and determining spending priorities.

promised them government jobs and they would accept nothing less. Frankfort's political machine joined with the local insistence that the operation of Little Sandy facility not be placed in the hands of private operators.

Fletcher relented, which will result in the hiring of about 230 new state merit-system employees, which all but guarantees them pay raises, benefits and employment for life, regardless of their performance. If a private firm had managed the facility, it probably would have hired personnel from Elliott County anyway. But these would have been private jobs not subsidized by taxpayers.

Kentucky's budgetary problems are not insurmountable.

As a result of the decision to open Little Sandy as a state-run prison, the cost of housing an inmate at that facility is one of Kentucky's highest at more than $61 per day. Perhaps Fletcher will agree to name the Elliott County facility "Porky's Penitentiary."

Conclusion

Marbled throughout Kentucky's entire state budget are deep-veined examples of government waste, inefficiency and mismanagement. Instead of burdening Kentuckians with even more taxes to finance this gluttonous beast, policymakers should begin budgetary reforms by eliminating government excess and determining spending priorities.

The first step policymakers should take is to cut the waste identified in this report — from subsidized golf courses to excessive administrative costs for state agencies.

Lawmakers also should establish Kentucky's version of a Grace Commission. This group would function as a standing committee that exists solely for the purpose of analyzing every nook and cranny of the state budget in order to find waste.

With private-sector expertise and the help of independent and nonpartisan organizations like the Bluegrass Institute, such a commission would scrutinize expenditures, account for every tax dollar and ensure the elimination of such wasteful spending.

Finally, Kentucky should adopt a constitutional restriction on government taxation and spending. Several states have either enacted tax-and-expenditure (TEL) limitations or are considering it, including California, Colorado, Maine, Ohio and Oregon.

Without a TEL restriction, it is far too easy for politicians to feed their overspending habits. Such a constitutional amendment limits the amount of revenue growth the state can retain and spend to the sum of inflation and population growth as well as creating a sufficient rainy-day fund. A TEL amendment also ensures that excess revenue returns to taxpayers in the form of rebates.

Kentucky's budgetary problems are not insurmountable. With the right leadership in Frankfort and the support of citizens, desperately needed changes can — and will — be made.

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