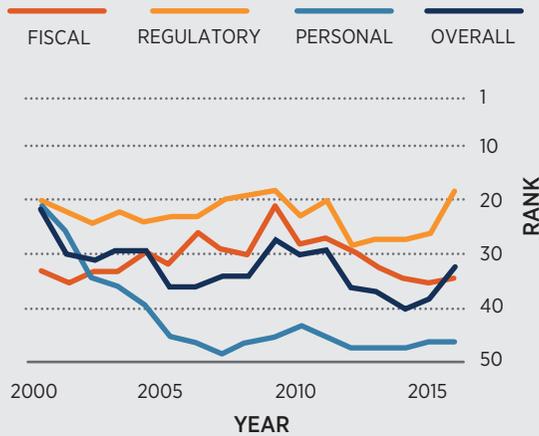


KENTUCKY

2016 RANK
32nd



POLICY RECOMMENDATIONS

- **Fiscal:** To reduce debt, tighten the rules for municipal bond issuance and cut spending, particularly on grants to local school districts, employee compensation (repeal the prevailing wage law), and retirement.
- **Regulatory:** Improve the health care system for consumers and practitioners alike by removing the certificate-of-need law for hospitals and expanding independent practice freedom for nurse practitioners, dental hygienists, and physician assistants.
- **Personal:** Reform sentencing for nonviolent offenders with an eye toward reducing the incarceration rate to the national average, while also enacting a medical marijuana law.



Population, 2017
4,454,189

Net Migration Rate
1.7%



State Taxes, Percent of Personal Income, FY 2017
6.42%

Local Taxes, Percent of Personal Income, FY 2015
3.24%

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Real Per Capita Personal Income, 2016, in 2009 \$
\$40,161

Real Personal Income Growth, CAGR, 2000-15
2.2%

ANALYSIS

Kentucky is a middle-of-the-pack state on economic freedom and a stereotypical conservative state on personal freedom. It has seen some improvement in regulatory policy but has suffered from a pretty steady relative decline on fiscal policy over the last decade and a significant slide on personal freedom since 2000. Local taxes are low in Kentucky (3.2 percent of income), but state taxes are high (6.4 percent), although the latter are substantially lower than 15 years ago. That means the state is very fiscally centralized. Government debt is also extremely high, at about 25 percent of adjusted personal income, but down from its heights during the Great Recession. Still, it ranks second worst in the country after New York. Government employment is about average and is actually at its 21st century low at 12.5 percent of private sector employment.

Land-use freedom is ample in Kentucky, although eminent domain for private gain remains mostly unreformed. The state has no minimum wage, and it enacted (as we suggested in the fourth edition) a right-to-work law at the beginning of 2017. The state has done more than most other low-income states to maintain reasonable standards for lawsuits, although punitive damages have not been reformed. Insurance and occupational freedoms are mediocre, and the state has a

hospital certificate-of-need law. Nurse practitioners' limited freedom of independent practice was revoked in 2011-12. However, a court did strike down the state's anti-competitive regulations on moving companies in 2013-14. Some telecommunications deregulation has taken place, but there is still local cable franchising.

Kentucky has a lot of room for growth on personal freedom despite the *Obergefell* decision giving it a bump because the state had a super-DOMA in force. Otherwise, it has remained largely stagnant relative to other states. Incarceration rates are very high, although victimless crime arrest rates have moved down substantially. Drug arrests are still a bit above average but nowhere near the heights of 2006-8, when arrests amounted to about 15 percent of the monthly reported drug-using population. Civil asset forfeiture has improved but is still a problem. Tobacco freedoms and gun rights seem quite secure, however. Educational and alcohol freedom scores are low, while marijuana and gambling freedoms are extremely limited. With alcohol, the state has local blue laws, very high beer and wine taxes, a total ban on direct wine shipment, and no wine or spirits in grocery stores. With education, there are no private school choice programs, and the state recently expanded mandatory schooling to 12 years. Some raw milk sales are allowed.