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KENTUCKY'S BANKRUPTCY BOMB

State pension participants, politicians, taxpayers have a compound interest in funding and fixing the system

Page 24

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LANE ONE-ON-ONE:
ROBERT STIVERS
President, Kentucky Senate

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The Lane Report

FEBRUARY 2013

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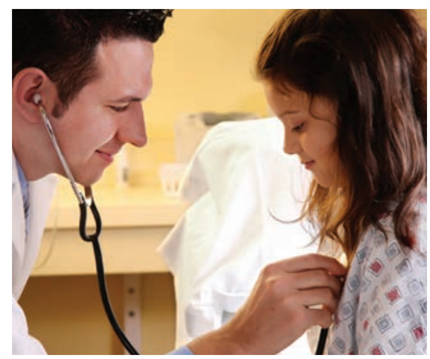

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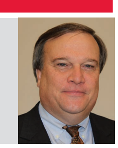

On the Cover

Unfunded liabilities top $33 billion and continue climbing in the six public pension funds that make up the Kentucky Retirement Systems. The most obvious routes for putting the system back on sound financial footing are massive state tax hikes or going through bankruptcy to escape the legal obligation to make future payments at currently promised levels.
Lane Report photo illustration

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PERSPECTIVE

THE $16.4 TRILLION DEBT QUESTION

Each American's share of the U.S. debt now totals $52,000

BY ED LANE

IN gathering current financial data to illustrate the serious and significant impact that the $16.4 trillion and rapidly increasing U.S. national debt will have on the future of every American citizen (now living or yet to be born or naturalized), I visited usadebtclock.com. In addition to the national debt, the website also estimates the total U.S. unfunded liabilities for Social Security, Medicare, prescription drug benefits and national healthcare equal an additional $123.3 trillion.

Translated into per capita debt, the national debt is $52,000 and unfunded liabilities are $390,000. On a per household basis, the national debt is $135,000 and unfunded liabilities are more than $1 million.

In addition to the alarming growth of U.S. debt, every American should be extremely concerned about the fact that 40 cents of every dollar the U.S. government now spends is borrowed. The Patient Protection and Affordable Care Act (Obamacare) is currently being implemented, and this new legislation will likely increase current deficit spending and future unfunded liabilities.

There continues to be strong interest in passing legislation to require the U.S. government to have a balanced budget. This idea has possibilities if legislation can be adopted that will control all of the following: spending, tax increases, and spending as a percentage of gross domestic product (GDP). Not easy legislation to pass, because one legislator may want to raise taxes while another may want to reduce spending in order to balance the budget.

In addition to $16.4 trillion in debt, there is the issue of paying interest on U.S. Treasury bonds and notes that comprise a major portion of the U.S. debt. The average interest expense on the U.S. debt over the four fiscal years 2008-2011 was $430.7 billion. In mid-January of FY 2013, the yields for one-, five- and 10-year U.S. Treasury notes were 0.14 percent, 0.77 percent, and 1.87 percent annually. The lower interest rates reflect the Federal Reserve's aggressive quantitative easing policy; the central bank buys financial assets, thus creating money and injecting cash into the economy.

Because of lower interest rates on T-bills, the FY12 spending for interest on the U.S. debt was reduced to $220 billion. Although much lower than the prior four years, FY12 interest expense on the debt was exceeded only by spending of the Department of Defense, Medicare and Medicaid. Erskine Bowles, co-chair of President Obama's bipartisan deficit-reduction commission, anticipates interest payments will exceed $1 trillion in FY20. Interest rates can be affected by a credit downgrade issued by a credit rating agency, inflation, the perception by lenders the U.S. debt is a risky investment, or weak global economic and/or financial conditions.

The Federal Reserve's low interest rate (easy money) policies have been financially devastating to yields earned on pension investments by state and local governments; retirement funds owned by unions, businesses and retired persons; educational and philanthropic endowments.

For two centuries, the strength of the U.S. free market economy has been the key ingredient to the United States' leadership position as a global economic powerhouse. The U.S. government must focus on reducing deficit spending; streamlining a bloated government bureaucracy and regulatory systems; and promoting self-reliance for all able-bodied Americans instead of dependency on entitlements.

The negative impact of the federal government's debt, fiscal and monetary policies on the U.S. economy are growing exponentially and if not soon modified could cause catastrophic economic problems. The U.S. Senate has not approved a budget for over three years and nine months. During this time period the U.S. national debt has increased $5 trillion.

"The consequences arising from the continual accumulation of public debts in other countries ought to admonish us to be careful to prevent their growth in our own."
– **U.S. President John Adams**,
First Address to Congress,
Nov. 23, 1797

Ed Lane (edlane@lanereport.com) is chief executive of Lane Consultants, Inc. and publisher of The Lane Report.


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FAST LANE

A compilation of economic news from across Kentucky

MURRAY: GERMAN AUTOMOTIVE SUPPLIER KEMMERICH TO HIRE 120 FOR NEW U.S. HEADQUARTERS IN MURRAY

Gov. Steve Beshear (right) met with Kemmerich Director Josef Kemmerich last July on a visit to Germany that helped solidify Kemmerich's plans to locate a plant in Kentucky.

A German automotive supplier has announced plans to locate its United States headquarters in Murray, bringing 120 full-time jobs to the commonwealth.

Kemmerich was founded more than 115 years ago and has become a key supplier to the automotive industry, producing stamped and welded components for a variety of manufacturers.

"We chose Murray after a lengthy search throughout the United States," said Kemmerich CEO Thomas Bergen. "Three key factors were important to us: cost of production, work force and logistics. We see that Murray offers lower costs of production, a highly flexible and qualified work force and a favorable location. Our new plant will be strategically positioned to supply **General Motors** and **Ford** in the Midwest, as well as **Mercedes**, **BMW** and **Volkswagen** in the South."

The Kemmerich project, which represents an investment of more than $12 million, is the second new location announced by a German-owned company in Murray in the last several months. In late November, automotive supplier **iwis** announced plans to locate its first U.S. manufacturing facility in Murray, where it will occupy the former **Webasto** plant. iwis plans to hire 75 full-time employees to staff the plant, which will produce timing drive systems for automotive engines.

Construction on Kemmerich's Murray facility is expected to start later this spring.

HEBRON: SOUTHERN AIR ANNOUNCES PLANS TO MOVE HEADQUARTERS FROM CONNECTICUT TO N. KENTUCKY

DHL is Southern Air's largest client.

AIRFREIGHT operator **Southern Air** is moving its headquarters from Connecticut to the **Cincinnati-Northern Kentucky International Airport** (CVG), where its largest customer, **DHL**, operates one of its three main global hubs.

Northern Kentucky is already home to Southern's largest hub and plans to relocate the company's headquarters to the area have been in the works since the middle of last year, when the Kenton County Airport Board approved a lease agreement for approximately 33,000 s.f. of space for five years with an option to extend that to 15 years. The Kentucky Economic Development Finance Authority also approved up to $270,000 in tax incentives last year to encourage the cargo carrier to shift its main operations to Northern Kentucky, with the stipulation that the company meet investment and hiring commitments. At that time, Southern was looking at an $8.5 million investment that would produce 120 new jobs within the first year and 150 within three years. Southern also considered Dallas, Fort Lauderdale and Norwalk, Conn., as relocation sites.

Southern's parent company, **Southern Air Holdings**, filed for Chapter 11 bankruptcy last year after losing **U.S. Defense Department** work. The company has since reduced its $285 million debt by two thirds and cut its workforce from a previous level of 611.

"It has become apparent that a relocation of our headquarters is warranted for both strategic and financial reasons," Southern CEO Dan McHugh said in an email sent to employees and obtained by the *New Haven (Conn.) Register*. "Over the last 18 months, our management team and advisors have conducted in-depth research and analysis to evaluate key U.S. markets for factors critical to Southern Air, including reduced costs, access to aviation talent and proximity to key customers."

The company's 120 Connecticut employees will be laid off in March, though some will be offered the opportunity to relocate.

LOUISVILLE: FAIR BOARD OKS KY KINGDOM LEASE, COULD REOPEN BY 2014

APPROVAL of a new lease agreement last month by the Kentucky State Fair Board moves the reopening of **Kentucky Kingdom** as early as spring 2014. The investors, Kentucky Kingdom LLLP, now must secure the final private loans – worth $25 million – before the park can open.

The investors have agreed to initially invest $45 million in the park, which has been closed since 2009.

The state is currently conducting a study to determine if an application by an investor group hoping to reopen Kentucky Kingdom meets criteria for incentives, which could be as much as $10 million over 10 years.

"This agreement is great news for the families who will visit Kentucky Kingdom and will certainly be a shot in the arm for local and regional tourism," said Gov. Steve Beshear. "This lease will also mean hundreds of jobs as well as much-needed income for the Fair Board."

The Fair Board and Kentucky Kingdom investors agreed to a 50-year lease after the state issued a request last year seeking proposals to reopen the park. Kentucky Kingdom LLLP was the only entity to submit a proposal. The lease also includes a provision that will allow for the expansion of the water park at Kentucky Kingdom.

"This lease agreement is a fair deal for both our state taxpayers and for the investors seeking to operate the park," said Board Chairman Ron Carmicle. "The lease protects taxpayers from shouldering private debt and ensures that the park operators have every opportunity to succeed. As soon as the private financing is finalized, the countdown begins to a reopened and reinvigorated tourist attraction."

The rental income for the Fair Board starts at $475,000 in the first year and will increase by $50,000 a year for the first 15 years of the agreement.

Kentucky Kingdom is required to spend $13 million in 2013 and 2014 to get the park open. It must spend another $7 million on the park through the 2016 season. After 2017, it must spend at least $1 million annually on the park.

LOUISVILLE: CHURCHILL DOWNS UNVEILS NEW VENUE FOR OFF-TRACK BETTING


Churchill Downs photo

Churchill Downs' newest venue is located just inside Gate 1 of the track and will accommodate 600 patrons for off-track betting.

CHURCHILL Downs has opened a new multipurpose on-track venue that will house off-track betting as well as other racing-related activities.

The Parlay is located on the first floor of the Churchill Downs racetrack at Gate 1. The 14,000-s.f. facility will comfortably accommodate 600 patrons and also includes the TSC Elite Gold Room, an area dedicated to Churchill Downs' VIP players.

In racing and gambling parlance, a parlay is a set of two or more wagers set up in advance so that both the original bet and its winnings are played together in a subsequent wager. The name was chosen by Churchill Downs to reflect multiple uses planned for the new venue.

The Parlay is one of four capital projects valued at $9 million launched in mid-2012 by Churchill Downs. The others are: **The Mansion**, a distinctive hospitality venue set for early spring completion; the **Plaza**, an open-air space adjacent to the Paddock and Gate 1 that opened during the 2012 Fall Meet; and a second-floor **Clubhouse Gold Room**, which was unveiled in August 2012 and will continue to serve VIP players during live racing meets.

Through its joint venture with **Delaware North Companies Gaming & Entertainment**, Churchill is also moving forward with its plans for a new gaming and racing facility near I-75 between Cincinnati and Dayton, Ohio. The new "racino" will sit on 120 acres and will feature a 5/8-mile harness racing track and a 186,000-s.f. gaming facility with up to 2,500 video lottery terminals. The new $215 million facility is expected to open in the first quarter of 2014.

PADUCAH: DIPPIN' DOTS TO ADD 30 JOBS AS PART OF $3.1 MILLION EXPANSION


Dippin' Dots photo

Founded in 1988, Dippin' Dots now distributes its frozen treats to 48 states and 11 countries.

NOVELTY ice cream producer **Dippin' Dots LLC** has announced plans to expand its operations in Paducah, creating 30 new full-time positions and investing more than $3.1 million in the project.

The Paducah-based company currently employs 170 workers, 60 of whom are located in Paducah, and distributes products to all 50 states and 11 countries.

The investment includes constructing a new energy-efficient freezer system as well as operational upgrades designed to improve efficiencies throughout the 120,000-s.f. production and distribution facility.

Stan Jones, vice president of operations for Dippin' Dots, said the state-of-the-art freezer system utilizes a cascade refrigeration system that is equipped with a new industrial cooling technology.

"This process – the latest in 'green' technology – has proven to be ideal for products requiring ultra-low temperatures such as Dippin' Dots," Jones said.

BUSINESS BRIEFS

CHRISTIAN COUNTY

■ The **Pennyrile Rural Electric Cooperative Corp.** has been awarded $3.1 million from a settlement agreement between the **U.S. Environmental Protection Agency** and **Tennessee Valley Authority** that will be used to support construction of a 5-megawatt solar photovoltaic project at Fort Campbell. The grant is leveraged with more than $15 million in financing support from Fort Campbell. The completed system will generate more than 6,652 megawatt hours per year of electricity, enough to power 463 homes, while avoiding 4.7 million tons per year of CO_2 emissions.

HEBRON

■ **Gap Inc.** is closing two distribution center centers in Hebron, a move that will affect some 350 jobs. The centers are slated to close by June 30, and the company will begin laying off employees beginning in mid-April. Gap will continue to operate two other facilities on the Hebron campus that employ approximately 150 people – the **National Recovery Center**, which handles store returns, and the **Dolwick Logistics Business Center**, which handles transportation logistics engineering and IT work – as well as a clearance outlet. The company said the decision to close the Hebron distribution centers, which have been in operation since 1975, was part of an adjustment to its distribution model. Gap will continue to operate distribution centers in California, Tennessee and New York.

LEXINGTON

■ **Lexmark International Inc.** has acquired medical technology solutions company **Acuo Technologies** for $45 million. Acuo Technologies specializes in high-performance software and services for clinical content management, data migration and vendor-neutral archives, and will become part of **Perceptive Software**, a Lexmark company.

■ **MedPro Safety Products Inc.**, a Lexington-based medical technologies company, has agreed to sell its patents associated with three blood collection and infusion products to **Greiner Bio-One GmbH** for approximately $30 million. MedPro Chairman and CEO William Craig Turner said the transaction strengthens MedPro's balance sheet and better positions the company for additional marketing and distribution partnerships.

■ **CLARK Material Handling Co.** is expanding its manufacturing production in Lexington to include electric burden carriers and electric golf car products and plans to add at least 20 new jobs to support the additional production. The expansion is a result of CLARK's recent purchase of **Ever-Green Electric Vehicles**. CLARK plans to move production of the electric vehicles from the Long Beach, Calif., plant where they are currently produced to Lexington. The California plant will be closed, but the company plans to retain Evergreen's Colorado-based sales force. Production is expected to begin within the coming weeks.

■ San Antonio, Texas-based **Biomedical Development Corp.** is expanding its operations to Lexington after securing two grants from the Kentucky SBIR-STTR Matching Funds Program. Aligned with the innovative grant program and the **University of Kentucky**, the 28-year-old company hopes to extend its successful record investing in healthcare technologies. BDC's Kentucky operations will focus on two initiatives: a mouth rinse that fights oral inflammation and a patient-management software designed to better chart and treat bipolar disorder.

LEXINGTON

■ Lexington businessman Ron Switzer has bought the **Turfland Mall** property in Lexington from the Chicago firm of **Rubloff Development** for $6 million, according to a report by *The (Lexington) Herald-Leader*. Rubloff acquired the property, built in 1966 as Lexington's first enclosed shopping mall, some 15 years ago but never moved forward with any of its redevelopment plans. Last year, **Heritage Bank of Hopkinsville** sued to foreclose on the property, citing a failure to make payments. The lawsuit also accused Rubloff of allowing the property "to deteriorate into a state of substantial and material disrepair." Switzer, who owns numerous other Lexington properties, plans to raze most of the 367,000-s.f. structure but told the paper he did not have specific plans beyond that. The acquisition did not include any of the outparcels adjacent to the mall property.

BUSINESS BRIEFS

LOUISVILLE

■ Louisville-based spirits company **Brown-Forman** plans to establish its own distribution company in France in 2014. Noting that France is the world's third largest whiskey market, Brown-Forman said that having its own distribution company will further the growth of its **Jack Daniel's** trademark and support the development of the company's broader premium brand portfolio in the French market.

■ Louisville must redouble its efforts to add 55,000 more college graduates by 2020, according to the 2012 annual report from the **55,000 Degrees initiative**. The percentage of working-age adults with college degrees declined slightly from 2010 to 2011 after a decade of steady increases. The drop reflects a loss of almost 9,000 bachelor's degrees at the same time the city population grew and associate and graduate degrees increased. Data from the 2011 American Community Survey suggests that part of the decline was caused by college-educated people leaving Louisville for other parts of the region or country.

■ **NHK Spring Precision of America Inc.** is investing $19 million in its Louisville operations as part of an expansion that will add 50 new full-time jobs to the existing 80-member staff. **NHK Louisville** is a subsidiary of **NHK Spring Co. Ltd.**, a Japanese company that ranks as the largest spring manufacturer in the world. The company produces springs for automobiles, industrial machinery and hard-disk drives. The expansion plans call for the addition of a new 57,000-s.f. facility to the company's existing 93,000-s.f. plant. Construction is expected to be complete by this summer.

■ Louisville-based **Neace Lukens** has added two more companies to its stable of insurance companies. Neace Lukens completed its acquisition of the **Davis-Garvin Agency** in late December – its ninth acquisition for 2012 – and kicked off 2013 with the purchase of **Schroeder Agency**. Davis-Garvin is a Columbia, S.C., company that operates four satellite offices throughout the Southeast and is well known for its specialized focus on lumber and forestry products. Schroeder, of Rushville, Ill., has been in operation for more than 80 years and primarily handles personal lines and property and casualty insurance. The acquisitions expand Neace Luken's network to 28 offices. The company employs more than 150 licensed agents and 650 employees.

■ The **Regional Health Network of Kentucky and Southern Indiana**, a joint venture of **Norton Healthcare** and **LifePoint Hospitals**, has acquired **Scott Memorial Hospital**, a 25-bed critical-access hospital in Scottsburg, Ind. Under the terms of the agreement, the Norton Healthcare and LifePoint joint venture will invest $3 million in Scott Memorial over the next five years to strengthen services, invest in new technology and recruit needed physicians. The acquisition is the first for the joint venture between Norton Healthcare and LifePoint, which was formed in May 2012. LifePoint is the managing partner and Norton Healthcare serves as the clinical partner.

■ Louisville-based **Blue Equity LLC** has sold its interest in **The Antilles Group Ltd.** to the **Rubis Group** for an undisclosed amount. The Antilles Group is a licensed user of **Shell** petroleum products in Jamaica and is the largest fuel retailer in that country, with an extensive network of more than 50 service stations. Blue Equity acquired controlling interest of the company in 2011. Rubis' acquisition of the company consolidates its presence in the Caribbean, where it is one of the largest downstream fuel supply operators.

■ **Kindred Healthcare** has acquired a Los Angeles home health company for $2 million in cash. The acquisition of **Homecare Advantage**, which operates one location in Los Angeles, will give Kindred 18 locations in the L.A. market. Homecare Advantage currently generates annualized revenues of approximately $2.5 million.

■ Chicago real estate investment trust company **Ventas Inc.** and the management team of **Atria Senior Living Inc.** now own 100 percent of Louisville-based Atria as a result of a recent transaction in which Ventas acquired private investment funds previously managed by **Lazard Frères Real Estate Investors LLC**. Ventas now owns a 34 percent interest in Atria, with Atria management and employees owning the remaining 66 percent.

S. KENTUCKY: CUMBERLAND WATER LEVEL WILL BE RAISED AHEAD OF SCHEDULE

Repairs on Wolf Creek Dam are nearing completion, which will allow the water level at Lake Cumberland to be raised this summer.

THE **U.S. Army Corps of Engineers** has said it plans to raise the water level of **Lake Cumberland** by 20 feet this summer, a year ahead of schedule.

In 2007, the Corps lowered the water level by 40 feet to enable repairs on Wolf Creek Dam. Without the repair, Corps officials said, the nearly mile-long dam could fail and would flood communities all along the Cumberland River.

Repairs were necessary, but lowering the water level resulted in fewer visitors to lakeside communities, hurting local marinas and other tourism-related businesses.

Assuming a review of the new barrier wall meets all the safety standards, the Kentucky Department of Fish and Wildlife Resources plans to stock 150,000 more walleyes and 150,000 more striped bass than normal this year and plans to jump-start the trophy trout fishery in the Lake Cumberland tailwater by stocking 10,000 trout larger than 15 inches next winter.

"I think this is the best news we could have received," said Carolyn Mounce, executive director of the Somerset-Pulaski County Convention and Visitors Bureau. "It's going to make fishing on Lake Cumberland a premium."

"This is great news for tourists, boaters, fishermen and the marinas and other businesses in the Lake Cumberland area," said Gov. Steve Beshear. "The early completion of the work at Wolf Creek Dam will help bring back much-needed jobs in this area."

LOUISVILLE: S.Y. BANCORP TO ACQUIRE THE BANCORP INC. FOR $20 MILLION

LOUISVILLE-based **S.Y. Bancorp Inc.**, parent company of **Stock Yard Bank & Trust Co.**, has announced plans to acquire **The Bancorp Inc.** in a deal valued at nearly $20 million.

The Bancorp, headquartered in La Grange, Ky., is the holding company for **The Bank – Oldham County Inc.**, which operates four branches, one each in La Grange, Louisville, Crestwood and Prospect. As of Sept. 30, 2012, Bancorp had approximately $137.4 million in assets, $46.8 million in loans, $114.9 million in deposits and $19.4 million in tangible common equity.

The combination of the two banks is expected to create the largest locally owned community bank in the Louisville metropolitan statistical area in terms of deposits relative to total deposits. The transaction is expected to close in the second quarter of 2013.

S.Y. Chairman and CEO David Heintzman noted that Oldham County ranks No. 1 in the state in terms of household income and has seen its population grow 32 percent over the last 10 years, making it the second fastest growing county in the Louisville MSA and the fourth largest in the state.

"This transaction presents a prudent opportunity to deploy our solid capital base and extend our footprint to the northeast into contiguous Oldham County through the acquisition of a strong franchise with solid asset quality, capital strength and a history of profitability," said Heintzman.

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FAST LANE

BUSINESS BRIEFS

LOUISVILLE

■ **Kentucky High Tech Performance Trailers** has opened a new 80,000-s.f. facility in Louisville to accommodate additional growth. The company specializes in custom design and manufacture of trailers for the motorsports transport and corporate marketing industries that include distinctive features such as office workstations and living quarters, complete with custom cabinetry and state-of-the-art audio, video and communication systems. The new facility, located one mile away from the Kentucky Trailer headquarters, includes several construction bays as well as an 80-foot paint booth with heated and rapid-curing technology. While specific numbers were not released, the company expects to add more jobs in the months ahead as a result of the expansion.

■ Corporate hospitality packages are being made available for the 96th **PGA Championship**, which will be held at the **Valhalla Golf Club** Aug. 4-10, 2014. Packages are available at a variety of price points to accommodate anywhere from 10 to 100 guests per day and include on-course hospitality, parking, food, beverages and alcohol. "This is a unique opportunity for companies to appreciate current customers and entertain new prospects, while witnessing the greatest golfers in the world compete for a major championship," said Larry Sinclair, director of corporate hospitality sales for **PGA of America**. A 5 percent discount on all purchases is available through Feb. 28. For details, visit pga.com/pgachampionship/hospitality/2014-pga-championship-hospitality.

■ **Chase Bank** is closing its wholesale loan-processing operation in Louisville and will move the work to facilities in Chicago, Delaware and India. The move will eliminate 145 Louisville jobs.

■ **Stoll Keenon Ogden** has opened an office in Owensboro, giving the Louisville-based law firm eight locations overall and six in Kentucky.

STOLL·KEENON·OGDEN

MIDDLESBORO

■ **Middlesboro Coca-Cola Inc.** is adding 24,000 s.f. of space to provide additional warehousing space. Regional Sales Manager Bobby Abbott told *The (Middlesboro) Daily News* that sales of the company's **Cumberland Gap Mountain Spring Water** have been strong, with a million-plus cases sold last year. Warehousing the water is taking up half of the current warehouse space, and with sales continuing to grow, more space is needed. Construction is expected to be complete by mid-summer.

NEWPORT

■ Two retail service and merchandising firms are moving to Newport's riverfront district, bringing 77 jobs and more than $4 million annual payroll to the area. **Harlow-HRK Sales & Marketing** and **P.L. Marketing Inc.**, two Ohio companies that focus on sales, marketing and merchandising in the grocery industry, plan to consolidate their headquarter operations into a single space at One Riverfront Place.

OWENSBORO

■ **Unique Granite and Marble Inc.** is expanding its operations in Owensboro, where it has been manufacturing custom granite and quartz countertops since 2004. With the expansion, the company plans to establish a new division to produce countertops for large commercial and multi-family units throughout a six-state region. The expansion will add 25 new full-time jobs to the existing 28-member staff.

PARIS

■ **Monessen Hearth Systems Co.** has changed its name to **Vermont Castings Group**, which is reflective of the company's heritage and its leading brand group. The overall structure, size and organization of the company will stay the same, with headquarters remaining in Paris. No personnel changes are expected as a result of the name change.

STATE: KY OFFERING STATE GRANTS TO ENCOURAGE INTERNATIONAL EXPORTS

KENTUCKY'S **Cabinet for Economic Development** is now accepting applications from Kentucky small businesses for grant money made available through the **State Trade and Export Promotion** (STEP).

KENTUCKY'S TOP 5 EXPORT MARKETS
(2011)

1. **Canada**	$6.5 billion
2. **United Kingdom**	$1.5 billion
3. **Mexico**	$1.5 billion
4. **Japan**	$1.1 billion
5. **Brazil**	$997 million

The grant program is part of a three-year trade and export promotion pilot initiative authorized by the Small Business Administration Act of 2010, which aims to increase the number of small businesses that export, as well as to increase the value of exports for companies that are currently doing so.

As of early January, the Cabinet had secured funding in excess of $800,000 through the program to promote exporting activities for Kentucky's small businesses. This is the second round of grants offered through the program. Maximum grant awards for new STEP participants is $7,500; for prior STEP participants it is $2,500. Applications will be accepted through June 2013.

Successful grant applicants will be able to utilize the funds to perform market research, identify international customers, participate in trade shows and translate websites and marketing materials. Grants are available to Kentucky companies with fewer than 500 employees that meet revenue requirements set by the **Small Business Administration**.

Kentucky's exports grew 9.9 percent for the first 10 months of 2012, to a record $18.4 billion, eclipsing the former mark set the first 10 months of 2011. Export shipments for all of 2011 totaled $20.1 billion, $740 million more than in 2010. Last year, exports added $4.7 billion to the commonwealth's gross domestic product and directly created 47,000 jobs. Kentucky ranks 19th in the nation in total exports, and is ranked 11th in U.S. exporting on a per capita basis.

For more information on the STEP grant, visit kyexports.com and click on "assistance."

LEXINGTON: UK HEALTHCARE SELECTED TO OPERATE EASTERN STATE HOSPITAL

THE **Kentucky Cabinet for Health and Family Services** has signed an agreement with the **University of Kentucky** for UK to operate and manage the newly constructed **Eastern State Hospital** in Lexington.

The new 239-bed, $129 million hospital is slated to open this summer and will replace the existing facility, which is the second-oldest psychiatric hospital in the country. The new hospital will offer inpatient psychiatric treatment, a new neuro-behavioral unit offering specialized services for individuals with acquired brain injuries, a long-term-care unit serving individuals with psychiatric disabilities requiring nursing facility level of care, and acute inpatient behavioral health treatment. The campus will also include three "personal care homes," which offer less restrictive care and promote the patients' return to a community setting.

As administrator of Eastern State, UK will leverage its internal clinical and research expertise in psychiatry, psychology, pharmacology, social work, marital and family therapy, public health law and other areas that are key to evidence-based treatments. The collaboration will allow UK to train clinicians and researchers in evidence-based care and prepare them to practice in the world of integrated behavioral and general medical care, which is generally more cost effective and believed to lead to better outcomes for patients.

NORTHERN KY: **NEW DEVELOPMENT PLAN UNVEILED FOR KY'S RIVERFRONT CITIES**

Northern Kentucky CVB photo

Southbank Partners' Imagination 2020 plan will serve as a roadmap for economic development along the Northern Kentucky side of the Ohio River.

SOUTHBANK Partners, a collaboration of Northern Kentucky private citizens, business leaders, local government administrators and elected officials, has unveiled an economic development plan for the "Southbank" cities that line the Northern Kentucky side of the Ohio River.

Southbank President Jack Moreland said the Imagination 2020 plan "will focus on land use, preserving open space, connecting neighborhood districts, creating housing opportunities, bolstering transportation and infrastructure, developing entertainment and cultural areas, and improving the livability, walkability and commerce of the area."

Imagination 2020 will assist in facilitating and realizing major new projects that include:

- **Riverfront Commons**, a planned 11-mile, uninterrupted walkway/bikeway/pathway that would extend from Ludlow to Fort Thomas and link all of the Southbank cities.
- Creation of "urban villages" in Covington's Fifth Street area and along Rivera Drive in Bellevue and mixed-use developments along the Ludlow and Dayton riverfronts.
- Expansion of the **Northern Kentucky Convention Center** and creation of the **Gateway Community and Technical College Urban Campus**, both in Covington.
- **Manhattan Harbor**, a 100-acre riverfront site in Dayton that can accommodate a mixture of residential and commercial uses.

Southbank Partners was established in 1997. Its member cities include Covington, Newport, Bellevue, Dayton, Ludlow and Fort Thomas. The organization has played a role in helping bring the **Newport Aquarium** and numerous Northern Kentucky hotel, restaurant and residential developments to fruition.

BUSINESS BRIEFS

SIMPSONVILLE

■ The Simpsonville City Commission has approved a zone change the formal plans for **Trio Properties** and **Paragon Outlet Partners** to build a 400,000-s.f. outlet mall on 47 acres south of I-64 and east of Buck Creek Road. Last fall, the commission also approved plans submitted by **Horizon Group** to build a 364,000-s.f. outlet mall on 55 acres west of Buck Creek Road. Horizon is awaiting approval from the Army Corps of Engineers to drain a small lake on its property, but is otherwise ready to move forward. According to reports by *The (Shelbyville) Sentinel-News*, both Trio/Paragon and Horizon plan to break ground this year and hope to open by the summer of 2014.

VERSAILLES

■ **YH America Inc.** is expanding its plant in Versailles, where it produces windshield sealant and related products for automotive vehicles. The $5 million expansion will add a second urethane sealant production line, doubling the plant's ability to meet customer demand in the Americas. The plant currently employs 29 people and will add 10 full-time jobs as a result of the expansion.

WINCHESTER

■ The Kentucky Public Service Commission has approved **East Kentucky Power Co.**'s application to integrate its system into the **PJM Interconnection**, a Pennsylvania-based organization that coordinates and directs the operation of a regional transmission grid and administers a competitive wholesale electricity market for an area that covers 13 states and the District of Columbia. Currently, EKPC operates its own control area, where it is responsible for matching electric-generation from its power plants with members' demand for electricity. David Crews, EKPC's senior vice president of power supply, said membership in PJM will help EKPC offset rising costs for its 16 owner-member cooperatives and the 520,000 Kentucky homes and businesses they serve.

STATE

U.S. Census Bureau photo

■ Kentucky had 368 teachers to be awarded **National Board Certification** in 2012, the seventh-highest number in the nation to achieve the prestigious designation. National board certification is a performance-based evaluation that measures a teacher's practice against rigorous standards. Kentucky is ranked ninth overall in the nation for the total number of teachers who have earned national board certification. The top 10 states for national board certifications in 2012 were: North Carolina, Washington, Illinois, California, Arkansas, South Carolina, Kentucky, Virginia, Maryland and New York.

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EQUAL HOUSING LENDER

INTERSTATE LANE

Business news from Indiana, Ohio, Tennessee and West Virginia

BUSINESS BRIEFS

INDIANA

■ **Berry Plastics Group Inc.** is investing $33 million to expand and equip its production facility in Evansville, Ind. Berry, which was founded in Evansville in 1967, has grown to 80 manufacturing facilities worldwide that produce a wide range of engineered materials and plastic packaging products. The company employs more than 15,500 people worldwide, 1,800 of which are in Evansville. The upcoming expansion will add 115 new jobs in Evansville.

■ **Gordman's Inc.**, a national apparel and home décor retailer, plans to locate a distribution center in Clayton, Ind., that will create up to 250 new jobs by 2017. The new facility will support the Nebraska-based retailer's rapid growth: Counting the 10 stores that are slated to open in fiscal 2013, the company's store base will have expanded by nearly 40 percent since the end of fiscal 2010. Gordman's was founded in 1915 and currently operates 83 stores in 18 states.

OHIO

Rock Gaming LLC/Caesars Entertainment Corp. photo

■ **Horseshoe Cincinnati**, Ohio's fourth casino, is set to open to the public on March 4. Located on 23 acres in the northeast corner of downtown Cincinnati, the $400 million urban casino development spans more than 400,000 s.f. and will include 2,000 slot machines, 85 game tables and a World Series of Poker room, along with a bar, a quick-casual eatery and a buffet restaurant. The casino will also offer nearly 33,000 s.f. of multipurpose and special function space for social, corporate, private and live entertainment events. The casino will employ approximately 1,700 workers and is expected to draw 6 million visitors a year to downtown Cincinnati.

TENNESSEE

■ **Teledyne Electronic Manufacturing Services** is investing nearly $10 million to expand its manufacturing facility in Lewisburg, Tenn., and plans to add 96 new jobs to support the expansion. The Lewisburg Teledyne plant has supplied electronics to the defense and aerospace industries for more than 30 years and was recently awarded the opportunity to manufacture a high-tech micro-electronics line new to Tennessee. "The exciting part about it is that it contains a whole range of new technologies that we don't currently perform here," said Shane Green, vice president and general manager of Teledyne EMS of Lewisburg. "To our knowledge, we will be unique in the area with hybrid manufacturing, chip and wire technology, and chip integration technology."

■ An Italian ceramic floor tile manufacturer has selected a site in Loudon, Tenn., for its first North American manufacturing facility. **Ceramica Del Conca** is investing $70 million to build a 320,000-s.f. manufacturing, research, showroom and administrative facility that will more effectively serve the company's major U.S. customers such as **Lowe's**, **Arizona Tile**, **Mannington** and **The Tile Shop**. Del Conca USA President Paolo Mularoni said the company selected Loudon for its first U.S. facility because of its proximity to major U.S. highways and the company's raw material sources. The company plans to hire 178 people to fill managerial, technical/engineering, administrative, production and distribution positions.

WEST VIRGINIA

■ Construction is under way on two new buildings that will house the West Virginia drilling headquarters for Denver-based **Antero Resources**, an independent oil and natural gas company that is active in the Marcellus Shale drilling. The buildings, located in Bridgeport's White Oaks Business Park, will total 50,000 s.f. and will house up to 500 workers and contractors. The facilities, which represent a combined investment of $16 million, are scheduled for completion by July 2013.

TENNESSEE: NEW BREED LOGISTICS' $23M EXPANSION WILL CREATE 468 NEW JOBS

NEW Breed Logistics is investing $23 million to expand its operations in Memphis, a project that will create 468 new warehouse and distribution jobs.

Founded in 1968 and headquartered in High Point, N.C., New Breed Logistics is a privately held, third-party logistics provider that manages millions of square feet of ISO-quality warehouse space across more than 75 distribution centers and employs more than 7,500 people worldwide. Services range from distribution center operations and transportation management to highly sophisticated, technology-enabled solutions for product assembly, reverse logistics and repair, lean manufacturing support, materials management, procurement and aftermarket services. The company currently has six locations in the Greater Memphis area that encompass around 3 million s.f. and employ more than 2,200 people. The new space will add another 404,000 s.f.

The expansion is tied to a new client New Breed has secured that has not yet been publicly named. Other clients New Breed serves in the Memphis market include **Siemens Medical**, **Verizon Wireless** and **Boeing**.

TENNESSEE: SOLAR PANEL POLYSILICON PLANT CUTS STAFF BEFORE IT OPENS

HEMLOCK Semiconductor Group announced in early January that it will be laying off nearly 75 percent of its work force in Clarksville, Tenn. – and production at the plant hasn't even yet begun.

Hemlock Semiconductor Group has been building a plant in Clarksville, Tenn., to produce polycrystalline silicon, which is used in solar panels. An oversupply in the industry has resulted in the plant's opening being delayed and nearly 300 of the company's 400 Clarksville workers being laid off.

Hemlock began construction in 2009 on a $1.2 billion plant to produce polycrystalline silicon for the solar power industry. The company anticipated hiring a least 500 workers to support production, which was supposed to ramp up this year. Now, however, the Michigan-based company finds itself faced with a "significant oversupply in the polysilicon industry and the threat of protective tariffs on its product sold into China."

Hemlock had hired approximately 400 workers in Clarksville thus far, 277 of whom are now being laid off.

"This is a difficult but necessary decision to enable Hemlock Semiconductor to navigate the volatility in the polysilicon and solar industries," Hemlock President Andrew Tometich said. "The unresolved trade disputes among the U.S., China and Europe are a major factor in Hemlock Semiconductor's actions as the threat of tariffs on U.S. polysilicon imported into China has significantly decreased orders from China, which is home to one of the largest markets for our products."

The company is also laying off 100 workers at its plant in Hemlock, Mich.

According to *The (Clarksville) Leaf-Chronicle*, Tometich said the Clarksville plant may not open this year, but insisted that it will open.

"Our full intent is to use this plant," he said. "It's not a question of if, but when, and we very much look forward to that."

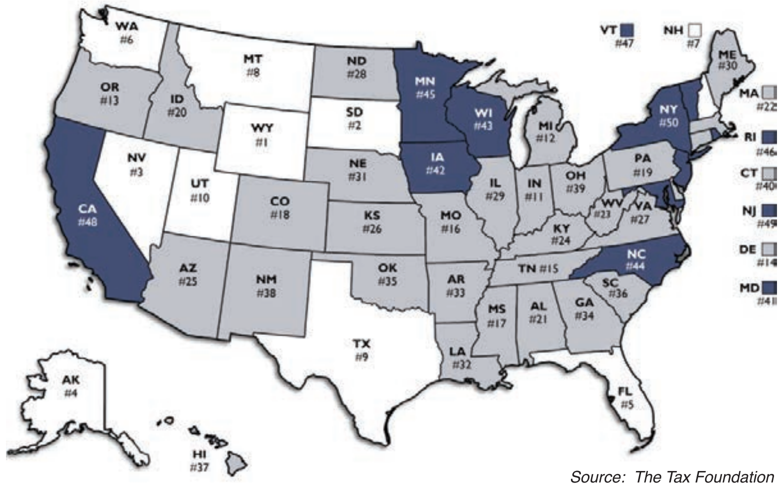
A sampling of business and economic data

AMERICA'S BUSINESS TAX CLIMATE

Taxes are a fact of life, but not all tax systems are equal

The most recent state-by-state business tax analysis by The Tax Foundation finds Kentucky in the middle of the pack overall. Kentucky's best ranking was in the sales-tax category, where it ranked No. 9 in the nation. However, in the unemployment insurance tax category, Kentucky came in at a dismal No. 48.

State Business Tax Climate Index (Fiscal Year 2013)



10 best business tax climates

10 worst business tax climates

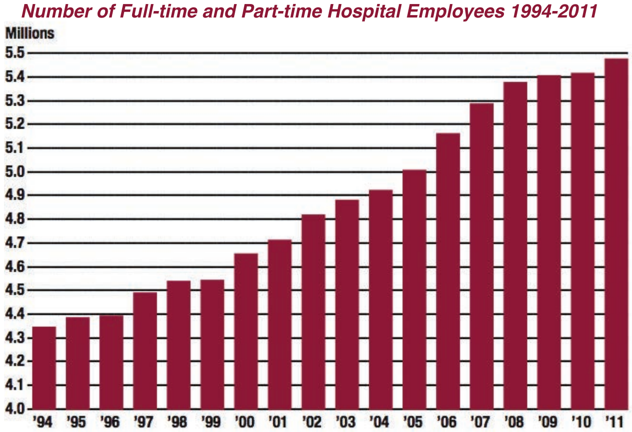
Source: The Tax Foundation

HOSPITALS SEE HEALTHY GROWTH

Hospitals now rank as the second-largest source of private sector jobs

The chart below provides a picture of hospital employment growth over the past 18 years.

Number of Full-time and Part-time Hospital Employees 1994-2011



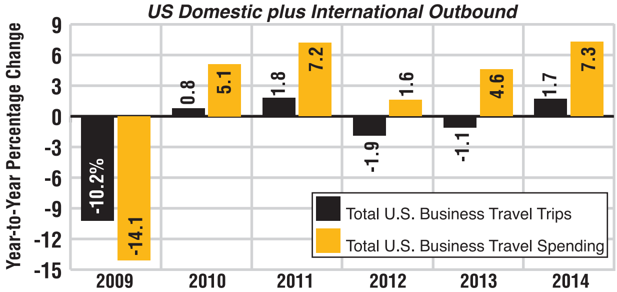
Source: American Hospital Association

ON THE ROAD AGAIN

Business travel projected to increase in 2013

Business travel spending growth dropped off in 2012 as companies postponed critical investment decisions until after the U.S. presidential election and congressional action regarding the fiscal cliff. However, the Global Business Travel Association predicts that business travel will begin to rebound in 2013.

GBTA U.S. Business Travel Outlook
US Domestic plus International Outbound



Source: Global Business Travel Association

THINK YOUR JOB IS STRESSFUL?

Report ranks the most and least stressful jobs of 2013

According to a recent work-stress survey conducted by Harris Interactive, 73 percent of all workers are stressed by at least one thing at work. But not all stress is created equal. CareerCast recently released its most and least stressful jobs for 2013, measured by assessing the following factors: amount of travel required, growth potential, deadlines, working in the public eye, competitiveness, physical demands, environmental conditions, job hazards, putting own life at risk, the life of another at risk, and meeting the public.

MOST STRESSFUL JOBS

Rank	Job	Median Salary
1.	Enlisted Military Personnel	$ 41,998
2.	Military General	$196,300
3.	Firefighter	$ 45,250
4.	Commercial Airline Pilot	$ 92, 060
5.	Public Relations Executive	$ 57,550
6.	Senior Corporate Executive	$101,250
7.	Photojournalist	$ 29,130
8.	Newspaper Reporter	$ 36,000
9.	Taxi Driver	$ 22,440
10.	Police Officer	$ 55,010

LEAST STRESSFUL JOBS

Rank	Job	Median Salary
1.	University Professor	$ 62,050
2.	Seamstress/Tailor	$ 25,850
3.	Medical Records Technician	$ 32,350
4.	Jeweler	$ 35,170
5.	Medical Lab Technician	$ 46,680
6.	Audiologist	$ 66,660
7.	Dietitian	$ 53,250
8.	Hairstylist	$ 22,500
9.	Librarian	$ 54,500
10.	Drill Press Operator	$ 31,910

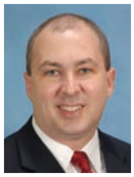
Source: CareerCast

CORPORATE MOVES

New leadership for Kentucky businesses

ACCOUNTING

■ **Steve Jones** has been promoted to the partner group for Blue & Co. LLC, a regional public accounting firm headquartered in Indiana. Jones works out of the firm's Louisville office.


Steve Jones

■ **Daniel King** has been promoted to shareholder at the Lexington firm of Switzer, McGaughey and Co. The firm is now conducting business as Switzer, McGaughey & King.


Daniel King

■ **Lindy Karns**, CPA; **Kent Pleasants**, CPA; and **John Copeland**, CPA have joined the Lexington office of Blue & Co. as directors and principals with the firm.

■ **Tim Snavely** has been named as regional managing partner for BKD LLP's east region, which encompasses Kentucky, Indiana and Ohio. **David Tate** succeeds Snavely as managing partner of BKD's Kentucky-Southern Indiana practice.

ADVERTISING/ MARKETING

■ **Jeff Anderson** has joined Meridian-Chiles in Lexington as vice president of sales.


Jeff Anderson

■ **John Birnsteel** has joined Louisville-based Doe-Anderson as chief operating officer.

■ **Tim Campbell** has joined Group CJ in Lexington as head of the marketing firm's digital division.


Tim Campbell

ARCHITECTURE/ ENGINEERING

■ **Roger Campbell** has been named vice president of the Louisville firm of Luckett & Farley. He succeeds **Gail Miller**, who has retired.

ARTS

■ **Roxi Witt**, general manager of Owensboro's RiverPark Center, has been promoted to executive director.

BANKING

■ **James B. Braden** has been appointed chief administrative officer of Kentucky Bank.


James B. Braden

■ **Jim Elliott** has been named director of wealth management for Kentucky Bank. Elliott succeeds **Clark Nyberg**, who has announced his intent to retire in March.

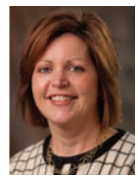

Jim Elliott

■ First Citizens Bank in Elizabethtown has announced the following promotions: **Kimberly Baugh Douglas** – vice president; **Denesa G. Embry** – vice president; and **Melissa J. Lamont** – vice president of operations. **Aleksandr (Sasha) Trelesnik** has joined the company as vice president of software development.

EDUCATION

■ Louisville Presbyterian Theological Seminary has announced the following appointments: **Patrick Cecil** – vice president, chief operating officer and chief financial officer; **Linda Medley** – vice president for institutional advancement; and **Sally Pendleton** – senior director of development for institutional advancement.

■ **Carissa Schutzman** has been named dean of workforce solutions for Gateway Community and Technical College.


Carissa Schutzman

■ **Craig H. Blakely** has been named dean of the University of Louisville School of Public Health and Information Services.

FINANCE

■ **Charles "Todd" Mercer** has joined Merrill Lynch in Louisville as senior vice president. **Marguerite Rowland** and **Dowell Ryan** have joined the company as vice presidents.

GOVERNMENT

■ Lexington Mayor Jim Gray has announced the following appointment to the Lexington-Fayette Urban County Government: **Sally Hamilton** – chief administrative officer; **Richard Moloney** – commissioner of the Department of Environment Quality and Public Works; **Geoff Reed** – commissioner of General Services; **Bill O'Mara** – director of the Division of Revenue; and **Glenn Brown** – deputy chief administrative officer.


Sally Hamilton

HEALTHCARE

■ **Becky Lamb** has joined University of Louisville Physicians as vice president of contracting.

INSURANCE

■ **Tim Huval** has been named senior vice president and chief human resources officer for Louisville-based Humana. **John Sinclair** has joined the company as president of Humana-Ohio.

■ **Elizabeth W. McKune**, Ed.D. has been named as the new director of behavioral health for Passport Health Plan, a nonprofit Medicaid health plan based in Louisville.

LEGAL

■ **Sharon Gold**, **Sara Veeneman** and **Matthew Williams** have been elected partners in the firm of Wyatt, Tarrant & Combs. Gold practices in the firm's Lexington office. Veeneman and Williams practice in the Louisville office.

■ Frost Brown Todd has announced the appointment of four new members in its Louisville office: **Nathan L. Berger**, **Joseph B. Miller**, **D. Christopher Robinson** and **Laquita S. Wornor**.

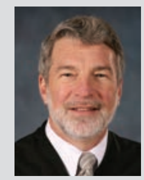
DEPARTURES

■ **Yetta Young** has stepped down from the position of executive director of The Lyric Theatre and Cultural Arts Center in Lexington. **Rasheedah El-Amin** has been named acting director of the theater.

■ **Matthew Clift** has announced his plans to retire as executive vice president of global operations for Lexington-based TempurPedic International Inc. Clift will continue in the position until the transition to a successor is complete.

■ **Robert Birman** has stepped down from his position as chief executive officer of the Louisville Orchestra.

■ Justice **Wil Schroder** has retired from the Supreme Court of Kentucky after 29 years of judicial service.


Wil Schroder

■ **Harry Kletter**, chief executive officer of Louisville-based Industrial Services of America Inc., has announced that he will retire in May.

■ **Nathan Mick** has resigned as economic development director for Garrard County to accept a position as vice president with a technology-based international economic development company in New York that focuses on site selection.

MEDIA

■ **Ronna Corrente** has been named general manager of WDKY-TV (FOX 56) in Lexington.

TECHNOLOGY

■ **Bill Waham** has been named as Lexington-based NetGain Technologies' general manager and senior vice president of sales for the Cincinnati area.

TOURISM

■ **Cleo Battle** has been named executive vice president for the Louisville Convention and Visitors Bureau.

TRANSPORTATION

■ **Craig King** has been named president of Nicholasville-based R. J. Corman Railroad Group LLC.

UTILITIES

■ Blue Grass Energy has announced the following appointments: **Barry Drury** – vice president, energy solutions; **Robert Farmer** – vice president, operations; and **Carol Higdon** – vice president, member services.

OTHER

■ **Paul Campbell** has been named manager of service parts and logistics for Link-Belt.

■ **Keith Reese** has been named general manager of the Valhalla Golf Club in Louisville.

■ **Gregory J. Lampert** has been appointed to lead Highland Heights-based General Cable's operations in the Americas, which includes Canada, the United States, Mexico, the Caribbean and Central/South America.

ON THE BOARDS

Kentuckians named to organizational leadership roles

LEXINGTON MEDICAL SOCIETY

Larry Cunningham

■ The Lexington Medical Society has elected its officers for 2013: President – **Larry L. Cunningham Jr.**, M.D.; Vice President – **Thomas K. Slabaugh Jr.**, M.D.; Secretary-Treasurer – **Kaveh R. Sajadi**, M.D.; President-Elect – **Thomas H. Waid**, M.D.; Vice President-Elect – **David S. Kirn**, M.D.; Secretary-Treasurer-Elect – **Jason P. Harris**, M.D.

LOUISVILLE/JEFFERSON COUNTY TOURIST AND CONVENTION COMMISSION

■ **Sharon S. Potter** has been appointed to the Louisville/Jefferson County Tourist and Convention Commission. Potter, of Louisville, is a multimedia producer and civic advocate.

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS

Steve Riggs

■ State Representative **Steve Riggs** has been elected treasurer of the National Conference of Insurance Legislators for the upcoming year. Riggs is an insurance broker and also chairs the Kentucky House of Representatives' Local Government Committee.

PRICHARD COMMITTEE

■ The Prichard Committee for Academic Excellence has added 18 new members to the statewide citizens' organization: **Clay Barkley** of Louisville, assistant state attorney general; **Justin Bathon**, assistant professor in the Center for the Advanced Study of Technology & Leadership in Education at the University of Kentucky; **Jessica Berry**, family and community liaison for Fayette County Public Schools and a graduate of the committee's Commonwealth Institute for Parent Leadership (CIPL); Candance Castlen Brake of Owensboro, a former city commissioner and deputy county judge executive; **Cory Curl** of Versailles, senior fellow for assessment and accountability for Achieve, a national education nonprofit; **Meghan Glynn** of Taylor Mill, a CIPL graduate and vice president of external affairs for the Cincinnati/Northern Kentucky International Airport; **Sam Hinkle** of Shelbyville, an attorney with Stoll Keenon Ogden and a member of the Shelby County Board of Education; **Larry Holladay** of Fort Thomas, a CIPL graduate and specialist with the Internal Revenue Service; **Augusta Holland** of Louisville, co-developer of The Green Building, one of the state's first Leadership in Energy and Environmental Design platinum-certified buildings, and a partner in the renovation of several other historic buildings; **Suzanne K. Hyden** of Prestonsburg, an accountant and owner of Hyden Properties; **Lonnie Lawson** of Somerset, president and CEO of The Center for Rural Development; **Norma M. Meek** of Ashland, curriculum event coordinator and district parent involvement coordinator for Boyd County Public Schools and senior associate, Yale University; **David R. O'Bryan**, CPA and director of Blue & Co.; **Julie Howard Price** of Paducah, an attorney and CIPL graduate; **Adrienne Godfrey Thakur**, an attorney with Henry Watz Raine & Marino, a CIPL graduate and an officer of the Kentucky Bar Association's Young Lawyers Division executive committee; **James C. Votruba** of Highland Heights, retired president and professor emeritus of educational leadership at Northern Kentucky University; **Gene Wilhoit** of Lawrenceburg, retired executive director of the Council of Chief State School Officers and former Kentucky education commissioner; and Kristin Williams of Paducah, owner and principal of KRW Strategies. The committee also elected two new board members: **Helen Carroll**, manager of community relations for Toyota Motor Manufacturing North America in Erlanger, and **Herb Miller**, president of Columbia Gas of Kentucky Inc.

PROJECT CASA MARE

■ Northern Kentucky University Associate Professor of Social Work Dr. **Linda Wermeling** has been appointed to the board of directors of the Project Casa Mare, an international project that develops and promotes the social work profession in countries with transitional economies.

Robert Stivers

Robert Stivers, the newly elected president of the Kentucky State Senate, has served in the Kentucky General Assembly since 1997. Stivers represents the 25th District, which is comprised of Clay, Knox, Lee, Magoffin, Morgan, Owsley and Wolfe counties. In addition to his role as senate president, Stivers also chairs the Senate Committee on Committees and serves as a member of the governing board of the Council of State Government, is an executive committee member of the Southern Legislative Conference, and is a member of the National Conference of State Legislators. Stivers graduated from the University of Kentucky with a major in industrial management and a minor in economics, and earned his law degree from the University of Louisville. He served as the assistant commonwealth attorney from 1989 to 1993 and is currently a practicing attorney in Manchester, where the Clay County Chamber of Commerce honored him with their "Man of the Year" award in 2000.

'I'M A PERSON WHO BUILDS CONSENSUS AND COALITIONS'

Kentucky Senate President Robert Stivers says state retirement system's shortfall is correctable over time

BY ED LANE

Ed Lane: You won your first election for the Kentucky Senate in 1996. When you initially made the decision to run for elected office, did you envision that one day you would serve as both the majority leader and president of Senate?

Robert Stivers: Never even thought about it. Actually, I was introduced when I was running for the Senate and an elderly lady grabbed me. I was 34. She said, "You're just too wet behind the ears for me." That was true of me and my opponent, because neither of us had a concept of what we were getting into.

EL: As Senate president, what are your top priorities for the upcoming session, and what will be the main difference between your leadership approach compared to former Senate President David Williams?

RS: It's very clear from recent dialogue that pensions are a high priority. For years there's been a problem with the pension system; many pieces of legislation relating to pension and public health have originated in the Senate over the years. Healthcare is also a huge portion of our economy these days, and it affects everything we do.

I'm a lot different than former Senate President David Williams in style; he was a person who micromanaged everything almost to the extent of being a full-time legislator. Our constitution never envisioned elected officials being that way; we're "citizen legislators." My perspective is different in that I'm a person who builds consensus and coalitions versus one who has strong beliefs and wants to bring people under that tent to embrace those beliefs.

EL: Sen. Damon Thayer of Georgetown will serve as the new majority leader of the Senate, Sen. Katie Stine of Southgate will serve as Senate president pro tem, and R.J. Palmer will continue as the Democratic leader of the Senate. Could you make a brief comment about each senator and your relationship with him or her?

RS: I've known Katie ever since I came to Frankfort. She was in the House when I was elected to the Senate and she roomed (during legislative sessions) with my state Rep. Barbara Colter. Katie loves to get into the details. She is very prompt in what she does and makes a good impression because she is always well prepared.

Sen. Thayer probably almost fits Kentucky's motto – and its horse racing industry. Damon is "unbridled in his spirit." He has just unbelievable energy; sometimes you have to put reins on him, but his intentions are good. He is just a ball of fire all the time but quite capable.

Sen. Palmer is probably the complete opposite of Sen. Thayer. R.J.'s personality is one more along my line – a little bit more laid back, with a measured approach. R.J. is easy to work with, and what you see is what you get. He is not out to embarrass anybody and wants to sit and work and see what can be done. But, without being disrespectful or disagreeable, R.J. will definitely make his point if he doesn't agree with you.

EL: Last year, Franklin Circuit Court Judge Phillip Shepherd ruled the redrawn legislative districts for the 2012 primary and the Nov. 6, 2012, general election were unconstitutional. New districts for House and Senate members must still be revised, since the judge's order left the existing districts in place for the election year 2012. When will the General Assembly resolve this matter?

RS: I don't want to see redistricting coming up at this time, so we can keep politics out of this 2013 regular session. There are no elections this year, so let's discuss policy. That's been my No. 1 position regarding how the Senate and House should work with the governor this year. With the work the General Assembly did last year, the House and Senate can have new district maps that meet the constitutional requirements ready to go and immediately be moved upon at the start of the 2014 session.

EL: The state's pension fund and healthcare obligations for retirees and future beneficiaries are estimated to have a $33 billion unfunded liability or $7,600 per capita for every Kentuckian. The state's retirement plans (pension and healthcare benefits) seem to be perceived by the public, business and legislators as the major issue facing the General Assembly this year. Independent analysis by national media rate Kentucky's retirement fund (and its underfunded status) as one of the most financially distressed in the United States. How is the General Assembly going to address this significant financial issue during the current legislative session?

RS: The Kentucky Senate has been talking about pension reform for years. Some people say the General Assembly created the problem. The Senate, ever since I have been in the Senate and in its leadership, has funded to the recommended or greater amount than the Kentucky Retirement System stipulated to the Senate as being the appropriate contribution – each and every budget cycle. A lot of people don't realize that the Senate relies on the retirement system's independent actuaries and has funded to that recommended amount or greater. It is not a problem that is irreversible. Over a period of time, the pension system will correct itself provided there is a legitimate plan that accomplishes that goal and is passable by the legislature.

EL: How much of an impact has the Federal Reserve's low-interest-rate policy had on Kentucky's pension funds investments?

RS: It's a death by a thousand cuts. Everything including low interest rates is a part of the pension fund's shortfall. Changes in the state's portfolio affect the actuarial soundness of the funds, as do cost-of-living adjustments. It might be right to give cost-of-living adjustments, but not necessarily in these lean times when there is minimal inflation. The General Assembly needs to evaluate COLAs annually to determine if an increase in benefits is appropriate instead of making COLAs a standard provision year-in and year-out.

EL: Do you think the General Assembly will be enthusiastic about and approve the city of Lexington's modifications to its pension plan?

RS: If there is a mutual agreement between the police and firefighters unions and the city of Lexington, I don't see why the General Assembly would have any questions about it. In fact, I've already been in discussion with Judy Taylor (Lexington's lobbyist) and Mayor Jim Gray about helping to draft legislation that reflects what the new pension agreement would be.

EL: New legislation has been pre-filed and some issues are holdovers from prior legislative sessions. Other than retirement benefits, what are other legislative issues?

RS: Casino gaming: Most people know casino gaming is not a position I favor, but it's not an issue that I go out advocating for or against. Gaming is not getting a lot of attention or conversation in either chamber of the General Assembly at this time.

Medical marijuana and industrial hemp: Two different things. I don't see medical marijuana going very far, very fast. As to industrial hemp, there is probably going to be a lot of discussion on it because there seems to be a belief that hemp is a potential economic development opportunity for Kentucky. It goes back to the question of drugs and what is hemp's viability in relation to the potential exposure to increased drug use or the unintended protection of illegal marijuana in addition to industrial hemp.

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Local option tax: Kentucky's tax laws are generally not in conformity with allowing taxes to be controlled on the local level. Granting the ability to tax to cities is a tax reform that probably isn't going to go very far, at least in my perspective.

Pill mill law revisions: There are discussions on making revisions to correct some unintended consequences that came along with the initial legislation. Those changes can be easily addressed.

EL: How are EPA regulations impacting Kentucky's coal mining industry and the state's economy?

RS: Coal mining is declining. Virtually every week the Senate office receives a press release advising more layoffs are coming. It's evident when you look at how far Kentucky's coal severance tax has declined (down 24 percent in FY13 through Dec. 31, 2012) because of reduced sales. The coal severance tax is a mechanism of price and volume. In this case, it's not the price; it's the volume that's declined.

EPA emission standards are going to be applied equally to entities that have carbon emissions, so Kentucky will not be at a serious competitive disadvantage. But because Kentucky is dependent on coal-energy power generation, the new emissions standards are having a heavier impact on our state. But the EPA is not only involved in the coal industry. Talk to the people at Keeneland, and they will tell you they are having problems with the EPA right now about the runoff of equine waste products. The farming industry, construction, coal and utilities are also having to deal with a lot of regulations that are mandated by the federal government either through the EPA or the U.S. Army Corps of Engineers.

EL: How would you describe your working relationship with Gov. Steve Beshear and Speaker of the House Greg Stumbo?

RS: Over the last several years, I've worked closely with the governor – apart from being the Senate majority leader – because of two unusual and tragic circumstances that took place in my district a year ago when tornados hit Salyersville and West Liberty. Working with each other so much, our relationship has become very congenial and candid.

I've known Greg Stumbo for 18 years. He is quite the politician, quite the strategist, and I know that he is very in tune with the sentiment of his caucus and staff. Sometimes he treats his position as speaker of the House like he is in a very high stakes poker game – he plays his cards close to the vest, puts on his poker face, and sometimes bluffs you.

There's going to be areas where Greg and I won't be able to agree. Republicans don't always agree with Republicans, and Democrats don't always agree with Democrats. But in my opinion the parties have to have dialog and a candid conversation about "you can do this or can't do that." With dialog, a lot issues on which the politicians are not in agreement can be discussed, and sometimes an agreement might be reached.

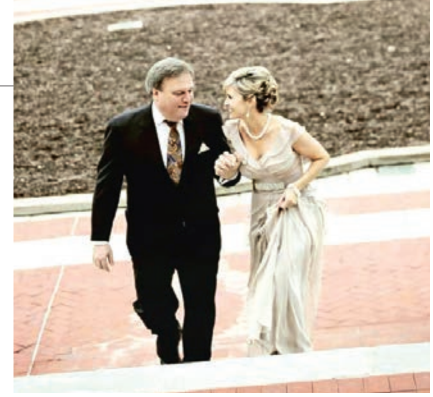
EL: Recent financial data from the office of State Budget Director Mary Lassiter indicate FY13 General Fund revenue year-to-date through Dec. 31 increased 3.8 percent over the same six months of the last fiscal year. Revenues for December 2012 increased 4.9 percent compared to December 2011. Is year-to-date revenue growth meeting your expectations, and what is your revenue outlook for the balance of the fiscal year?

RS: Yes, the state is in a much better financial position. I've been here when there's been negative growth. But I also have to say "yes" with a little caveat, because part of the FY13 revenue increase was due to the state's tax amnesty program. A lot of uncollected revenue that was not forecasted or budgeted came in unexpectedly in November. December data gave me a more optimistic outlook because some amnesty revenue probably did leak into December, but still to have that type of growth around the Christmas cycle shows me that Kentuckians are out there spending money.

EL: What is the status of a Kentucky Health Benefits Exchange created under the Affordable Care Act (Obamacare)?

RS: There are a lot of differing views on the health exchange. The governor's office feels it can go forward and implement the healthcare exchange under the Affordable Care Act. The Senate is somewhat leery of that position. Kentucky has received over $250 million from the federal government to implement a health exchange. I think the exchange is going to be very difficult to manage and costly for Kentucky. For lack of a better term, Kentucky is going into "Star Trek mode" – boldly going where no man has gone before – and that's a little scary because of the cost. Kentucky has to be very careful coming out of the recession. As a legislator, I do not want to put the state in a position of having to raise tax revenues to implement a healthcare plan that has been mandated on Kentucky by the federal government.

The Governor's office thinks it can move forward and set up a health exchange without approval by the General Assembly. Some of the elected members in the legislature believe the governor needs our approval. Sen. Julie Denton has filed a bill to make it clear the governor would have to have the legislature's approval. Under the Kentucky constitution there are three branches of government. The elected representatives of the citizens set the policy and the budget; the governor and the government bureaucracy operate in accordance with the laws and budgets established by the General Assembly. Some believe that the governor can go ahead with a health exchange and has the ability to set that policy, but I don't. The judicial branch interprets what the legislative and executive branches of government do within the framework of Kentucky's constitution and statutes.



Senate President Robert Stivers and Regina Crawford, field representative for U.S. Senate Minority Leader Mitch McConnell, married Dec. 28, 2012, in a private ceremony.

EL: At the Kentucky Chamber of Commerce legislative dinner on Jan. 10 you mentioned that the recent prior weeks had been very busy and exciting because of political and personal changes that were occurring, including your marriage to Regina Crawford, who is the field representative for U.S. Senate Republican Leader Mitch McConnell. Do you have any updates?

RS: The most powerful political woman in Central Kentucky has the ear of U.S. Sen. McConnell and the ear of the Kentucky Senate president. She's energetic, bright and intelligent, and I know that I married well above myself. I think Sen. McConnell understands her value. She attends events and represents him well and provides him a very good service of understanding of what his constituents in the Central Kentucky area are doing and thinking. I think Regina's underpaid; she's well worth every dime the U.S. Senate pays her. We have a good and wonderful relationship. ■

Ed Lane (edlane@lanereport.com) is chief executive of Lane Consultants, Inc. and publisher of The Lane Report.

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The Gavel Had Impact in 2012

Upholding of Obamacare was most significant court case of the year for Kentucky business

BY JANET CRAIG, KELLY BRYANT WHITE, RICK VANCE AND BRIAN BENNETT

IT should surprise no one that the 2012 case that will have the biggest impact on businesses in Kentucky is not a Kentucky case but rather the U.S. Supreme Court ruling upholding key provisions in the federal Patient Protection and Affordable Care Act. The case, National Federation of Independent Business et al. v. Sebelius, was brought by Florida and 12 other states, and joined by 13 more states, some individuals and the National Federation of Independent Businesses to challenge key provisions of the ACA, including the mandate to have health insurance coverage. On June 28, 2012, in a 5-4 decision, the court upheld the insurance mandate while striking down the requirement that states must expand Medicaid as provided by the act.

The effect on Kentucky residents and businesses is significant.

First and foremost, employers must provide basic health insurance coverage to employees or pay a tax. Individuals with incomes higher than 100 percent of the federal poverty level must also obtain coverage or pay a tax.

Second, the cost of that coverage is expected to increase from 15 percent to 50 percent, largely because of additional benefits and the community rating to which most of the policies will now be subject. Third, some of those employers who now get their coverage through associations will no longer be able to do so unless the association can qualify as an ERISA-sponsored (Employee Retirement Income Security Act) plan.

Individuals and small employers in Kentucky will be able meet these requirements by shopping for insurance coverage through Kentucky's Health Benefit Exchange, a state-operated, web-based marketplace. Specifically, the exchange will allow for comparison of available insurance plan options and provide information on eligibility for programs like Medicaid and Children's Health Insurance Program.

Some employers may not be prepared for the increased costs coming their way in 2014. All employers who currently offer health insurance to their employees should do the analysis so they can make a decision on an informed basis whether to pay the tax or to continue to offer health insurance in 2014.

Mortgage Electronic Registration Systems Inc. v. Roberts, 366 S.W.3d 405 (Ky. 2012)

In this case, the Kentucky Supreme Court effectively eliminated a century-old legal doctrine – the doctrine of equitable subrogation – often relied upon by courts to achieve fair results in disputes among creditors over competing mortgages. For example, equitable subrogation allows a lender that pays off another lender's mortgage obligation to assume the original lender's priority/payoff position.

In Roberts, the homeowners refinanced their property with lender No. 1 in 1998 and a mortgage was correctly recorded. In 2000, a judgment lien was recorded by Roberts. In 2003, the proceeds of a refinance with lender No. 2 were used to pay off lender No. 1's 1998 loan, but the title search did not discover the judgment lien. After the borrowers defaulted on the refinance, lender No. 2 filed a foreclosure action. Roberts claimed that his judgment lien had priority over lender No. 2's mortgage because the judgment lien was recorded before the 2003 mortgage. As a practical matter, this meant that Roberts got paid in full before lender No. 2 received anything for its mortgage.

The court rejected the majority approach, which allows equitable subrogation unless lender No. 2 had actual knowledge of the intervening lien, and held that equitable subrogation is not available where the new lender has actual or constructive knowledge (i.e., lien records) of an intervening lien. The court felt that Kentucky precedent had not clearly adopted the doctrine, and that the economic policy balancing called for by equitable subrogation is "more properly and effectively done by the legislature."

Since this holding takes Kentucky out of step with its neighboring states, the General Assembly should accept the court's invitation and seriously consider legislation adopting equitable subrogation, which would give the courts appropriate tools to effect just results in disputes involving the land records system.

Christian County Clerk v. Mortgage Electronic Registration Systems Inc. 2012 U.S. Dist. LEXIS 21380 (W.D. Ky. Feb. 21, 2012)

This federal court decision protects the interests of banks and other financial institutions that rely on the services of Mortgage Electronic Registration Systems Inc. (MERS), an electronic registry that tracks the ownership and servicing rights of millions of mortgage loans. Under this system, a MERS member lending institution can transfer its mortgage interest electronically to another MERS member without the delays and expense of recording a paper assignment in county real estate records.

The state's county clerks filed a class-action lawsuit against MERS and a group of members, claiming that MERS illegally circumvents Kentucky's recording statutes. The thrust of the suit was that the MERS system deprives the clerks of assignment recording fees that would normally be paid whenever a mortgage interest is passed from one lender to another by paper assignment.

The federal district court dismissed the case on the basis that county clerks don't have rights to enforce state recording statutes. The outcome is significant because it protects the validity of MERS, a system affecting billions of dollars of mortgage loans that are often sold and transferred on the secondary market. The decision is now on appeal to the Sixth Circuit Court of Appeals.

Dean v. Commonwealth Bank & Trust Co., 2012 Ky. App. LEXIS 58 (Ky. Ct. App. 2012)

Customers occasionally request their banks to reimburse them for unauthorized charges and withdrawals from their bank accounts. This case shows that banking customers don't have an unbridled right to reimbursement or other damages if they don't notify the bank quickly enough.

In Dean, the bookkeeper/secretary of a corporate banking customer illegally diverted funds from the company's bank account over a period of years. Upon learning of the employee's bad acts, the company filed suit, claiming the bank failed to protect the company's account from theft.

The court dismissed the suit against the bank, citing the customer's own failure to inspect its bank statements and to notify the bank of the unauthorized withdrawals within one year of the time the statements were made available to it. This case underscores the responsibility of the bank customer to review account statements and to promptly dispute unauthorized charges.

Berghaus v. U.S. Bank, 360 S.W.3d 779 (Ky. Ct. App. 2012)

The mortgage crisis has resulted in many challenges to the lender's right to recover a real property through foreclosure. In this case before the Kentucky Court of Appeals, the borrower in default tried to assert a counterclaim under the Truth in Lending Act against the purchaser of her mortgage loan.

In December 2003, the borrower signed a note and mortgage in favor of an originating lender, who later sold the mortgage loan to U.S. Bank. After the borrower defaulted, U.S. Bank sought to foreclose and sell the property. The borrower filed a counterclaim against U.S. Bank, alleging that the originating lender had failed to make loan disclosures required by the Truth in Lending Act, thereby wrongfully inducing her to sign the loan documents.

U.S. Bank was successful in getting the borrower's counterclaims dismissed by showing that these claims could only be made against the initial lender, not against an assignee. The court confirmed that an assignee can only be liable for violations that are "apparent on the face" of the loan documents. This result helps protect the secondary mortgage market and keep mortgages affordable. ■

Janet Craig, Kelly Bryant White, Rick Vance and Brian Bennett are attorneys with Stites & Harbison.

Slow Growth, Reform and Tax Change Will Keep CPAs Busy

Leaders of Kentucky's major accounting firms talk about what they expect in 2013 for their firms and Kentucky as a whole

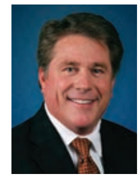
KENTUCKY'S CPA firms expect to see an increase in demand for their services through 2013 as the U.S. economy continues its slow growth out of the recession. Healthcare reform and changes in tax policy at the federal and state levels should mean plenty of businesses seeking their expertise and advice in still financially tight times. Washington politics are still preventing an upswing in business activity.

Penny Gold
CEO
Kentucky Society of CPAs

"There is cause for cautious optimism in 2013. Nationally, housing permits were up 19 percent in 2012, with growth continuing in the first quarter of 2013. The United States has experienced significant growth in gas and oil production in the last year; good news, since natural gas is a particularly important sector for Kentucky. The Purchasing Managers Index shows expansion in the automotive industry, a sector particularly important for Kentucky. Finally, even with sluggish economies abroad, international exports are improving. Export growth bodes well for Kentucky as we are among the top 10 exporting states."

L. Porter Roberts Jr.
Shareholder
Barr, Anderson & Roberts PSC

"We are seeing improvements in the businesses we represent and notice certain industries are expanding. However, we do anticipate that clients will be looking at higher tax and business costs due to the changes enacted by the latest tax act and the phase-in of healthcare reform during 2013. In preparation for these changes, we have addressed these issues and feel that we are well positioned to be a leader with our clients for 2013. We also believe there will be an increased need for CPAs in leading roles as trusted advisers and specialized consultants in niche industries such as healthcare."



Tim Snavely
Regional Managing Partner
BKD LLP

"Even with increased taxes in 2013 and the added costs of healthcare reform, many of our clients indicate a bounce in optimism for the first time in nearly three years, as well as a small but positive shift in hiring sentiment. The optimism results from improvements in revenues, profits and spending levels. As we head into the fourth year of recovery, we cautiously anticipate continued improvement in the economic environment, especially later in the year."

Michael B. Mountjoy
Chairman
Mountjoy Chilton Medley

"We expect 2013 to be another year of a slight improvement in the economy. The housing market is starting to recover, which should increase employment. However, continued political uncertainty with the federal debt ceiling and inability to restrain spending are causing concern to the consumer. The markets could see a reasonably good year as we continue working out of recession. In public accounting, there will be a separation of generally accepted accounting principles for large and small entities, which should improve reporting for closely held small businesses serviced by accounting firms. Accounting firms' consulting work will continue to grow as there are more demands by clients in the areas of technology, human resources, mergers and acquisitions, and specialized industry expertise. We believe 2013 will be an improvement over 2012."

Jennifer R. Hughes
President
Deming, Malone, Livesay & Ostroff PSC

"As the economy improves, businesses are catching up on initiatives that were on hold during the worst of the recession. This will generate opportunities for our industry in 2013. In our firm, the struggling economy resulted in clients placing more value than ever on our expertise in the planning phases of business decisions. Mergers and acquisitions in the public accounting industry will continue, but firms will be more selective in acquisition targets. Our firm remains focused on providing quality, specialized services to our clients. Public accounting will continue to become more niche-focused due to ongoing tax structure revisions at federal and state levels, as well as changes in financial reporting and accounting standards. In spite of all the changes and challenges, 2013 is off to a great start for our firm, and we are excited about the opportunities for our clients."

Steve Jennings
Local Office Managing Partner Crowe Horwath LLP

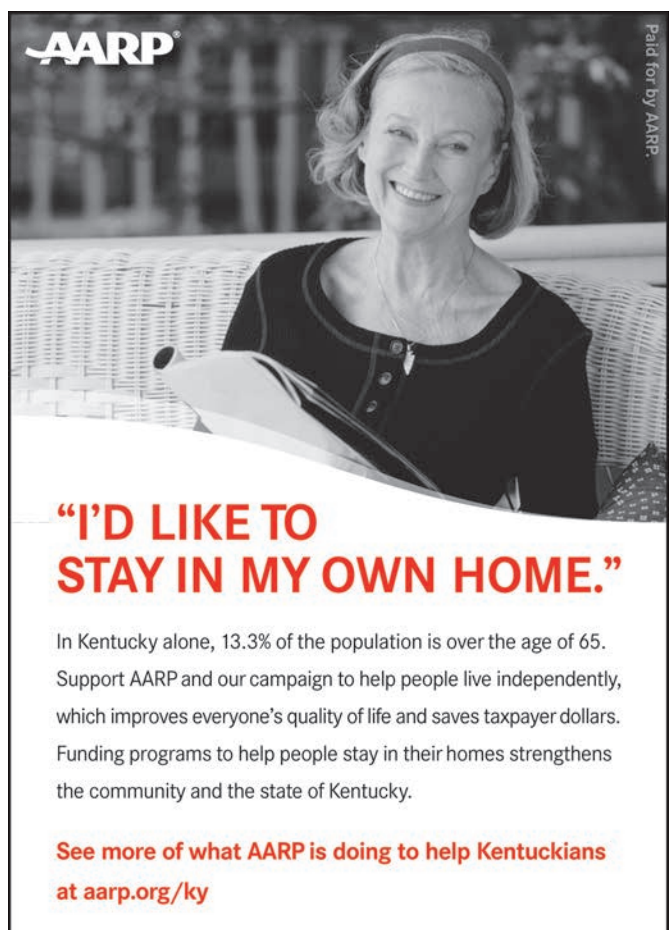
"The accounting profession is starting to see growth again, but uncertainty in Washington is still keeping the economic market relatively flat. Crowe Horwarth's continued diversification and national expansion efforts guided us through the recession; we continue executing our vision of being a national firm, branded globally. In the Kentucky market we're seeing increased economic activity with businesses continuing to invest, expand and seek acquisitions again. Maintaining a trend from last year, companies are retaining or increasing profitability as they distance themselves from the recession. Businesses with strong balance sheets have weathered the past several years better than those that are highly leveraged, of which many have continued to struggle."

David Bundy
President/CEO Dean Dorton Allen Ford PLLC

"Business leaders are facing a tremendous amount of uncertainty as 2013 begins. There will be additional impacts from final 'fiscal cliff' negotiations, but it will be some time before those are known. Also, some of the healthcare reform legislation is just now being felt by employers. Businesses must navigate through these two events, while continuing to face an economy that is still struggling. The unknown impact of national legislation coupled with an economy that is slowly recovering presents business leaders a situation in which the success of every business decision is critical. CPAs who are poised to assist clients in understanding these national changes and how the changes will impact their businesses will see an increase in demand for services in 2013."

Alan Long
Managing Member Baldwin CPA

"The economy is still soft overall. With uncertainty in what legislation may come out of Washington, it seems most consumers and businesses are sitting on the sidelines afraid to do anything. The first half of 2013 will be more of the same until some certainty with regard to the debt ceiling is settled. We also could still get more substantial tax changes that will have an effect on the consumer and businesses. If these changes are put off to the end of the year, it could continue to keep the economy in a very stagnant area for the entire year. We predict some growth in our firm because businesses will need more help from CPAs as the new tax legislation comes out. Also, with the full implementation of Obamacare in 2014, businesses now have to get ready for that in this coming year." ■



COVER STORY

Kentucky's Bankruptcy Bomb

State pension participants, politicians and taxpayers have a compound interest in funding and fixing the system

BY FRANK GOAD

KENTUCKY Retirement Systems (KRS) is underfunded by more than $30 billion and falling further behind. Investment yields that are suppose to produce two-thirds of system funds were stunted by the 2008 economic crisis. That serious situation is worsened significantly, though, because successive administrations and legislatures have been shorting appropriations to the pension systems for more than a decade, cutting the financial feedstock that was to compound for investment.

For many state employees who put their money into pension programs, those golden years appear less secure than they once did.

To be fair, KRS is in bad shape for a wide variety of reasons beyond underfunding. The reasons include: diversion of funds due KRS by elected officials; questionable investments; investment underperformance and losses from a stuttering economy; reduced tax revenues; and unfunded mandates (e.g., cost of living raises). It all adds up to chaos in the KRS.

According to the Institute for Truth in Accounting, the funding gap for the retirement systems has grown by roughly $3 billion in the past year alone, and the shortfall for the Kentucky Retirement Systems' six groups is over $30 billion; KRS proper reported its unfunded liability at more than $19 billion for FY 2011-2012. A recent Pew Center on the States study describes the commonwealth's pension situation as "unsustainable" due to this liability and because KRS is paying out more than it is taking in.

Compare KRS' status in 2000 to that reported in 2010 in the chart on page 25.

Within these overall numbers for six public pension plans, the Kentucky Employees Retirement System (KERS) is at only 27 percent funding of the pensions and healthcare payments for which it is responsible. KERS went from being considered one of the best-managed funds in the country in 2000 to its current status as one of the poster children for poor management.

On Feb. 1, members of the Kentucky Chamber, National Federation for Independent Businesses, Associated General Contractors of Kentucky and more than 40 business associations held a news conference in the Kentucky Capitol to urge pension reform action.

Many say there essentially are two choices: the state declares the pension system bankrupt to shed some of it obligations (unlikely to ever happen), or it doubles the sales or income tax (e.g., 12 percent sales tax vs. the current 6 percent) and commits all the added revenue to KRS. Raising taxes that drastically could be a poison pill, though.

Illinois, the state in the worst shape with a $96 billion pension system deficit, in January 2010 raised its personal income tax from 3 percent to 5 percent and corporate taxes from 4.8 percent to 7 percent. A year later, the Illinois Policy Institute declared the tax hikes a failure, saying it caused business to leave the state and raised unemployment from 8.7 percent to 10 percent.

Illinois fell from 16th on the 2011 State Business Tax Climate Index to

29th in 2013, the Tax Foundation reported. It was the largest drop by any state. (Kentucky is 24th, unchanged.) Still wrangling with pension reform, Fitch Ratings dropped Illinois' financial outlook from "stable" to "negative" – something no legislature or governor wants to see.

An unavoidable bill – for taxpayers

Gov. Steve Beshear

The balance between cash and annuitized payments is known as the assets-to-liabilities ratio, and is a key measure of a retirement system's stability and security over the lives of those entitled to receive payments. In the Pew Center's study, Kentucky is one of only four states with less than 55 percent of the funds needed for a proper ratio.

It is important to remember that a state employee's pension is a legal contract with the state: They pay into the system to get specific benefits when they retire – a defined-benefits model. The state – and its taxpayers – is obligated to pay at the rate the contract promised.

Benefits may legally be reduced or the plan changed – a popular suggestion is shifting to a hybrid 401(k)-style pension – only going forward from the day legislation to do so is enacted. There is no effect on current obligations.

In the end, this is a taxpayer issue – the commitments made by governors and legislators are legal obligations to state residents collectively, including the liabilities. Taxpayers owe the money needed to shore up the system. For over a decade, the legislature has not put the money into KERS that it was supposed to, spending tax revenue on other projects and obligations. The debt owed by law to KERS grew.

About the only way for Kentucky to pay reduced benefits to current retirement system members is to declare bankruptcy for the state's pension systems. Even if a state wanted to file bankruptcy, a judge might not allow it. In 2012, a U.S. bankruptcy judge in Hawaii dismissed the Northern Marianas Islands Retirement Fund bankruptcy filing. (The Marianas Islands are a U.S. territory.) The judge wrote that the fund is a "governmental unit … not eligible for relief under Chapter 11 of the Bankruptcy Code." This set legal precedent and serves as a guide for other troubled pension systems across the country.

Kentucky isn't alone. In January, the federal agency insuring private pensions for more than 40 million Americans, the Pension Benefit Guaranty Corp. (PBGC), announced its largest deficit in nearly 40 years of operations. The agency backs defined-benefit plans for corporations and protects pensioners if theirs goes belly-up, like American Airlines pension system did in 2005. PBGC said its deficit grew to $34 billion in 2012 while assets went up only $4 billion to $85 billion; its pension obligations grew to $119 billion in 2012. The federal agency, like Kentucky's funds, has run deficits for 10 straight years.

How we got there

Jim Waters, President, Bluegrass Institute for Public Policy Solutions

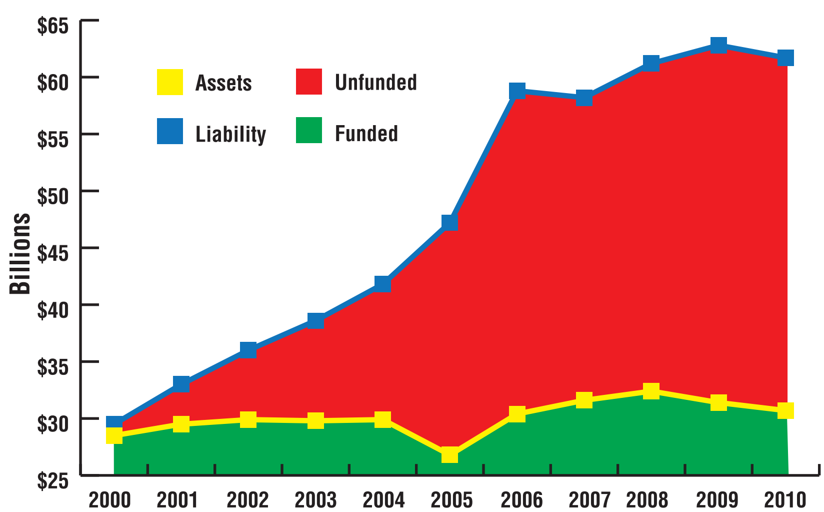
While there is plenty of blame to go around, most critics agree about the KRS decline's main causes. Jim Waters, president of Bluegrass Institute for Public Policy Solutions, told Kentucky Educational Television that chronic underfunding combined with "a perfect storm of recessionary times that caused a drop in investment returns and tax receipts, and the growth in medical costs. What made it worse is that new benefits were added along with the acceptance of non-profit, government-affiliated organizations into the system."

Organizations such as Bluegrass Mental Health and Commonwealth Credit Union are part of KERS. Many more like them have been added over the years by legislators and governors, often as political favors.

When it comes to underfunded pensions, Kentucky is considered second only to Illinois, which is known as the worst-managed pension system in the nation. The Securities and Exchange Commission is investigating payments of millions of dollars by KRS to "investment agents" its board of directors hired. Investment losses, however, are small compared to the system underfunding in the state budget by the legislature and governors.

Lawmakers need to find $23 billion for Kentucky's retirement systems to put them in good health – in addition to the current streams of revenue. That would provide enough capital to let KRS' investments generate returns and move it further toward stability. With a $9 billion annual budget of revenues under legislative control, $23 billion is going to be tough to find, but it's owed legally.

KENTUCKY RETIREMENT SYSTEM SHORTFALL



KRS	Assets	Liability	Unfunded
2000	$28.55B	$29.50B	$0.96B
2001	$29.55	$33.04	$3.49
2002	$29.85	$36.03	$6.18
2003	$29.84	$38.62	$8.78
2004	$29.91	$41.84	$11.93
2005	$26.84	$47.23	$17.40
2006	$30.36	$58.76	$28.46
2007	$31.62	$58.19	$26.70
2008	$32.38	$62.16	$29.74
2009	$31.38	$62.81	$31.43
2010	$30.69	$61.73	$31.04

Source: Kentucky Retirement System

Some blame the media, too, for not sounding the alarm sooner. Until mid-2012, despite being heralded for years by a variety of voices – including an April 2007 *Lane Report* cover story – the issue received little attention. And KRS critics note the state auditor's office has passed over retirement system activities to investigate much smaller but politically juicier targets.

Legislative Ideas

A Kentucky Public Pensions Task Force appointed by the General Assembly worked last year and made these recommendations:

- Fully fund state contribution payments beginning in FY 2014-15.
- Place new employees into a hybrid cash-balance plan with a guaranteed return of 4 percent rather than the traditional defined-benefit plan.
- Place new legislators and judicial-system employees into the new cash-balance plan.
- Repeal annual cost-of-living adjustments in pension benefits.
- Extend amortization for unfunded liabilities from 26 years to 30 years.
- Require longer employment breaks before retirees can return to government jobs – also known as "double dipping."
- Shift more cost to a government employer when employees boost their final salaries via overtime and other methods to increase their pension.
- Increase the KRS board from nine to 11 members with representation for city and county governments and school boards.
- Require KRS to establish a website with financial condition information.

The multiheaded hydra

It's important to understand that KRS is not one system but six:

- Kentucky Employees Retirement System (KERS), which functions as the umbrella organization.
- Kentucky Teachers' Retirement System (KTRS).
- County Employee Retirement System (CERS).
- State Police Retirement System (SPRS).
- Kentucky Judicial Retirement System for judges (KJRS).
- Kentucky Legislators Retirement System (KLRS).

KERS and CERS have different pension rates for employees with hazardous and non-hazardous jobs. To add yet another layer, KRS administers both a pension fund and a health insurance fund for all six systems.

For each, the funding formula is as follows: employee contributions are 12 percent of total receipts, the state contributes 20 percent, and investment gains are to generate the other 68 percent. This is a reasonable model when all the entities fulfill expectations, but almost every pension in America has had a rough go since the financial markets fell in 2008.

KRS states that it paid out more than $1.6 billion in benefits in FY 2011-12, and more than 95 percent of recipients live in Kentucky. So, most of the money paid out does support the state.

The county in FY12 with the lowest amount of KRS money coming in was Robertson, with 64 payees getting $852,000. Franklin County had 6,025 employees who got $182 million. The highest was Jefferson's 13,806 payees receiving $277 million. Averaging those figures, the typical Louisville KRS pensioner got $20,056 while one in Frankfort received $30,221.

Failing to pay the piper

Arguably the biggest problem KRS has faced, and the main reason it has fallen from its position in 2000, is that in biennial Kentucky budgets the legislature did not fund approximately $800 million of the $1.8 billion the state was obligated to have paid into the system.

In its annual report, the Kentucky Retirement System said: "KRS has continued its effort to raise awareness of the impact of reductions to the actuarially recommended employer contribution rates for the KERS and SPRS plans. For 13 of the last 18 years and for 10 years in a row, the state has appropriated less money than recommended by the KRS actuary and established by the Board of Trustees to adequately fund the annual required contribution (ARC). This underfunding, coupled with past increased benefits, unfunded annual cost-of-living allowances and two major economic recessions in the last decade, has resulted in funding ratios (the ratio of assets to accrued liabilities) for the KERS nonhazardous and SPRS pension trusts that have dropped to alarmingly low levels.

"The [2008] Kentucky General Assembly passed a pension reform bill (House Bill 1) that included a schedule to increase employer contributions over the next several years until reaching the full ARC in 2025 for KERS non-hazardous, 2019 for KERS hazardous and 2020 for the SPRS system. For the past two fiscal years, the governor and the Kentucky General Assembly have met the increased funding schedule set for them in House Bill 1. It is vitally important that they continue, at a minimum, to increase funding according to the House Bill 1 schedule during the next biennium. This will have a favorable effect by slowing the growth rate of the unfunded liability and the expected growth rate of employer contributions in future years. KRS will continue to monitor and ask for increased funding support from the governor and the General Assembly in the years ahead."

This conflicts with Gov. Steve Beshear's proposal to give relief to cities and counties by extending the amount of time they have to fully fund their healthcare costs from five to 10 years. They are in a tough spot because, as members of CERS, they have a legal mandate to fund their portion 100 percent every year. If they get the proposed extension, it only means they'll have to find the revenue later.


Sen. Damon Thayer, Chairman, Kentucky Public Pensions Task Force

Sen. Damon Thayer, R-Georgetown, is co-chair of the legislative tax reform task force, and he doubts the governor's request will be approved. He has publicly stated that the funding gap will only grow if the governor's reforms are passed.

Wish lists and misdeeds


William Thielen, Executive Director, Kentucky Retirement Systems

When asked what he would most like to see the legislators do this year, KRS Executive Director William Thielen said, "There are three things: First, have them do what the recent task force told them they should do – pay KRS all it's due each year. Second, suspend the cost-of-living adjustments and any other increased benefit payouts. Third, find some extra money and work harder toward making the system whole again."

Other groups call for additional changes. Tea Party adherents loudly advocate for three in particular, and all wrap around the repeal of HB 299 from 2005, whose "reciprocity" allows legislators to take state jobs after their elective term and, if they stay at least three years, have their pensions calculated on the job's pay rate but including their legislative time. Legislators are paid a daily rate, presently $188.20 in salary plus $135.30 for expenses. A few years in a state job can multiply a former legislator's pension several times.

Another HB 299 provision, however, makes individual state pension information secret. State salaries are a matter of public record, but pensions are classified.

Making pension compensation public record won't reduce state liabilities but is considered to be a deterrent to "double-dipping" after retirement.

A third Tea Party-advocated reform is excluding non-government system participants. They name the Kentucky Education Association, non-profits and attorneys in private practice who work under contract with the state.

To ease some of the underfunding, the governor quietly authorized the issue of a series of Pension Obligation Bonds that total over $700 million. This year's legislature will try to quietly authorize another series of such bonds, many believe. The bonds do lower unfunded pension liability, and might reduce concern about that debt, but do so by borrowing money upon which interest must be paid.

"The governor and our legislature are doing their best to kick this can down the road," said Chris Tobe, former member of the KRS Board of Directors. "It's ugly, messy and none of them want their name or party associated with it. You will most likely see a Tea Party candidate in the next election running for governor on an anti-bankruptcy ticket."

Tobe is a chartered financial analyst (CFA) who served as a pension investment expert for the state auditor from 1997 to 1999 and was on the KRS board in 2008-09. In August 2010, Tobe filed a whistleblower complaint and agreed to provide information to the Securities and Exchange Commission regarding certain KRS board-authorized investments made by outside investment firms.

"The legislature is underfunding the pension by as much as $800 million a year," according to Tobe, "and has done so for 10 straight years. That is the main reason we are in such a deep hole."

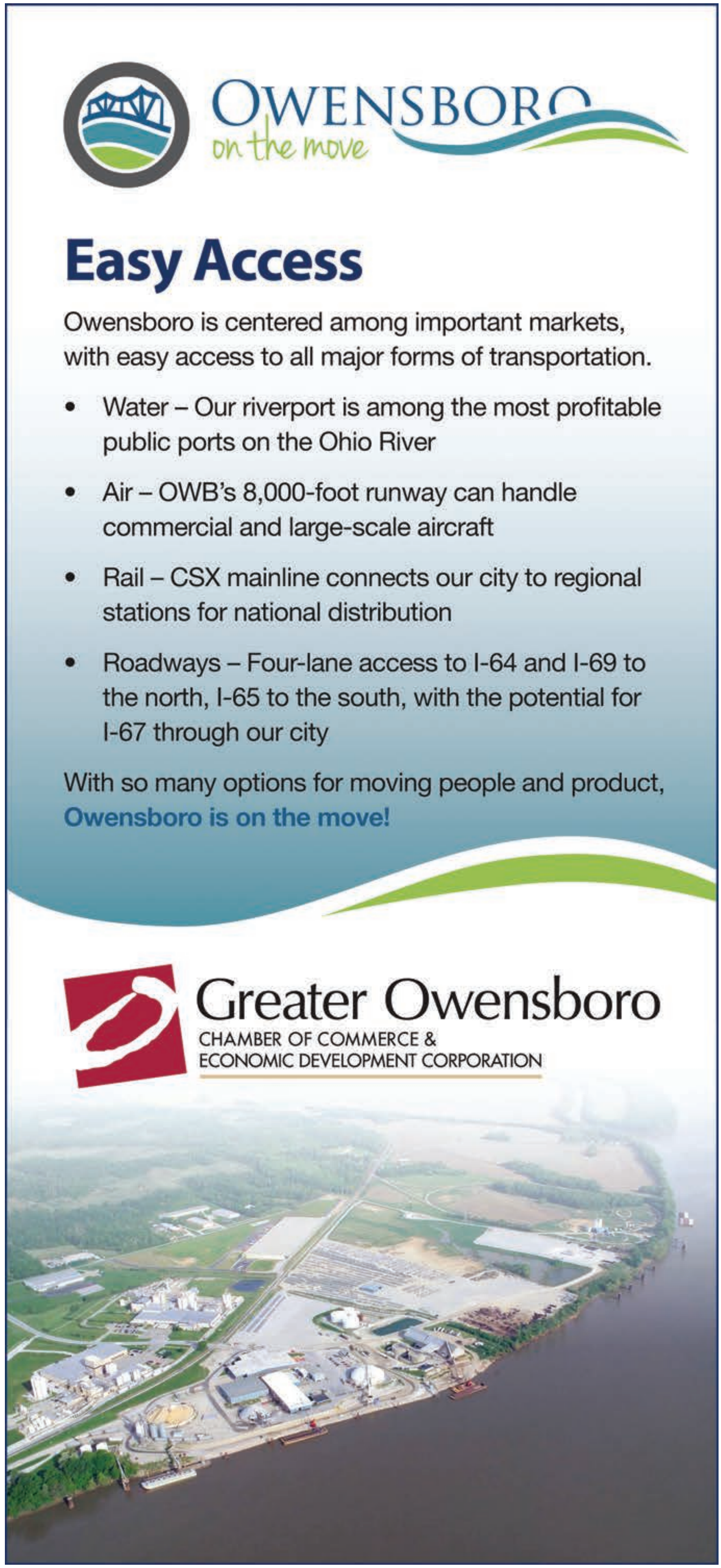
He agrees with KRS director Thielen that the legislature needs to start funding at 100 percent or Kentucky is "... going down the same road as Illinois and could wind up having to bankrupt the system. We are only about two years behind them."

It could be difficult to avoid.

"Pension obligations are rock solid," Tobe said. "They have a higher priority in state budgets than municipal bonds, and that's by law. That's what makes talk of pension reform and our current situation so dangerous – it does nothing for our current liabilities."

Pension reform is just the tip of the iceberg and is about more than just underfunding the KRS. Resolving it means substantial and far-reaching changes requiring political courage by legislators and Gov. Steve Beshear. ■

Frank Goad is a correspondent for The Lane Report. *He can be reached at editorial@lanereport.com.*



Slow, Steady Growth in 2013

Multiple sectors of the Kentucky economy are beginning to recover from post-recession bottoms

OPTIMISM is gaining a foothold in Kentucky's legal services sector. Slow economic growth, but growth nonetheless, is generating demand for legal work. Real estate and Kentucky's important equine industry are beginning to rise from their post-Great Recession bottoms. Healthcare reform compliance is creating work and will continue to do so for the next few years, plus an aging baby boomer generation is seeking more and more estate planning. Uncertainty remains a strong presence in the business community, but there are economic stirrings. The commonwealth's manufacturing sector, anchored by a resurgent automotive segment with some 450 suppliers, is growing and requires special legal services and advice.

Bill Lear
Managing Director
Stoll Keenon Ogden PLLC

"The early 2013 signs from the economy generally, and from our client base, point to continued slow but steady growth in the economy and uneven performance among specific sectors. For example, the equine industry has clearly found its bottom and is bouncing back, but the real estate market, despite a few bright spots, is still not moving as it was in the non-boom periods of the 1990s and the first decade of the 21st Century. One of the brightest spots is the explosion (no pun intended) in the energy sector. Our firm has recently opened offices in Pittsburgh and Evansville in response to client needs, principally energy-related, in those areas."

Chauncey Curtz
Partner
Dinsmore & Shohl

"Implementation of new federal programs promises to impact industries, healthcare providers and businesses across the state. With the true impacts not yet known, more businesses will consult legal counsel. Intellectual property practice will remain busy with the ongoing implementation of the America Invents Act, a landmark change in the U.S. patent system. To protect their innovations, companies of all sizes will need to work closely with seasoned attorneys to navigate these uncharted waters. Larger firms are likely continue expanding to increase the depth of their bench and ability to serve clients, while smaller and mid-size firms seek mergers and other means of growth. In 2012, five Louisville firms were part of mergers, a trend expected to continue throughout the state in 2013."

Gaines Penn
Managing Partner
English, Lucas, Priest & Owsley, LLP

"Our law firm primarily practices business law, so when we're doing well so is the economy in South Central Kentucky. We saw growth across all our practice areas in 2012, which tells us the economy in our area is gaining momentum and may be stronger than other parts of the state. We're already seeing that same level of activity in 2013. A lot of the manufacturing businesses in this part of the state are automotive, and the auto industry has been explosive. That trend looks like it will continue. We're anticipating a solid 2013."

James A. Dressman III
Managing Partner
DBL Law

"As one of the largest healthcare firms in the state, 2013 will be one of the busiest years in recent memory for DBL Law. There are a number of legal and political developments in the state that will impact healthcare organizations. Navigating the Affordable Care Act, the upheaval caused by the implementation of Managed Care Organizations in the state's Medicaid program, mandatory compliance programs for nursing facilities, and integration and enforcement of the expanded HIPAA Privacy and Security Rules are just a few examples of how the changing regulatory landscape will impact many facets of healthcare operations."

Robert L. McClelland
Attorney, McClelland & Associates PLLC
Chairman, Kentucky Bar Association's Elder Law Section

"As the tsunami of aging 'boomers' swells and life expectancy grows, the practice of elder law is feeling its energy. A shortage of qualified attorneys who understand public benefits and the specialty legal areas of guardianship and special-needs planning creates an excellent opportunity for attorneys to serve a growing client base. Few clients are truly prepared with proper estate plans that address long-term care, healthcare decision-making and durable power of attorney for financial support. In the past 12 months, the Kentucky Bar Association Elder Law Section has grown from 17 members to 77. The next five years will see dramatic growth in this practice area."

Bill Hollander
Managing Partner
Wyatt Tarrant & Combs LLP

"We are optimistic about 2013. We have a very large real estate team, which is beginning to see increased activity. Merger and acquisition work has shown signs of improvement. Increased commercial activity is likely to lead to more litigation and employment law work. Our healthcare team – the largest in Kentucky – remains very busy helping clients navigate the managed-care landscape and assisting both healthcare providers and employers implement the Affordable Care Act. Last year we noted that uncertainty about the national political scene was a potential problem. Unfortunately, it still is."

John R. Crockett III
Chairman
Frost Brown Todd

"Uncertainty persists in our national and global economies. Perhaps the 2012 elections will bring more clarity for the business community, but that remains to be seen. While some segments of the nation's economy show signs of growth, others remain stagnant, and lingering concerns about rising healthcare costs, the tax climate and unemployment remain unresolved by elected leaders who appear unable to find definitive solutions that drive sound business decisions. Our clients turn to us for advice and counsel during uncertain times, and it is a privilege to be trusted with their important legal issues. Their challenges and opportunities are ours. We make it a point to know and understand our clients' businesses, to be responsive to their needs, and work to deliver what they need before they need it."

Henry S. Alford
Managing Director
Middleton Reutlinger

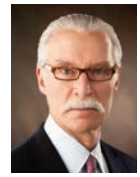
"The battle between the irrepressible American entrepreneurial spirit and the federal government's desire to control that spirit through commercial regulation and taxation plays out in earnest on the American stage during 2013. Governmental intrusion into the economy continues to be the greatest barrier to growth, and at some point that intrusion will tip the balance between risk and potential reward to the point where entrepreneurs will no longer be willing to invest the required intellectual and monetary capital to build businesses. By the end of 2013, I believe we will have a clearer vision of how close we are to the tipping point."

Kenneth R. Sagan
Chairman
Stites & Harbison PLLC

"Stites & Harbison projects more slow but steady economic growth in 2013 and will continue our commitment to innovative, value-driven legal services for our clients. We continue to expand our geographic reach and depth of legal expertise, particularly to better serve our clients in litigation, healthcare, financial institutions, construction and intellectual property work. Our new Covington office improves our ability to serve Northern Kentucky and Ohio clients. We expect our intellectual property practice, already one of the largest in the Southeast, to experience more growth in 2013. Stites & Harbison look forward more great results in 2013."

Mason L. Miller
Miller Wells PLLC

"We continue to see a transition from law firms that depend on the inefficient billable-hour model and who base their business on leveraging armies of young and green associates toward law firms that offer flat fees per project, routinely produce budgets for all legal work and that know their customer's business, goals, strategies and objectives, ultimately working to help the client make more money – not just performing legal work solely for legal work's sake."



James H. Frazier III
Managing Member
McBrayer, McGinnis, Leslie & Kirkland, PLLC

"Medium-sized firms such as ours are optimistic. We have contained costs, cut overhead and operate on much leaner infrastructures. Those factors equate to lower costs for our clients, who are still watching their bottom line and their legal bills. Although hourly work still rules, a great deal of our work has gone to set fees or other alternative billing arrangements; i.e., success fees. The healthcare regulatory maze will continue to generate work not just in the regulatory realm but also the litigation arena; the latter has risen the past three years. The new normal for 2013 will be to look toward economic success through a long-viewed lens. Our business decisions during this economic turmoil have focused on client costs, client satisfaction and timely quality service. Those are the recipes for continued success; we see expansion on the horizon."

Taft A. McKinstry
Managing Member
Fowler Bell

"Lexington's law firms will continue to face change in 2013 after seeing mergers, hiring freezes and new firms entering the city during 2012. Firms must continue to streamline processes using technology appropriately. Firms that are remodeling or moving will consider smaller office footprints since many of their attorneys spend as much time working outside the office as they do in it. Fowler Bell's driving force is to maintain the highest level of service to its clients while addressing these changes."

Timothy C. Wills
Partner, Lexington Office
Bowles Rice

"Throughout the region, Bowles Rice experienced a much stronger year in 2012 than anticipated, and we are optimistic we will see continued growth in 2013. The slow but steady recovery of the economy will continue to encourage companies to expand operations, creating the need for legal services. The demand for estate and financial planning services will continue to increase because individuals are more concerned about protecting their wealth in these uncertain times. Transactional work will continue to be unpredictable and fluctuate throughout the year. We will continue to focus on providing our clients with solution-based services at a reasonable cost." ■

Alan Long is managing member of Baldwin CPAs in Richmond, Ky. He is a certified information technology professional and was named in October by Accounting Today magazine to its first class of Managing Partner Elites for being a successful early embracer of new technology.

Technology Adds Up for CPAs

Increasingly, accounting firms find productivity gains with the latest digital products and services

BY MARK GREEN

ALAN Long manages his Baldwin CPAs firm in Richmond, Ky., from a desk with a linked bank of three computer screens; one is 20 inches and two are 24 inches. A webcam perches on one. Another 22-inch monitor with Apple TV wireless linkage is for television. He augments this with an 11-inch MacBook Air laptop and an iPad, the tools he takes into the field. And of course there's a smartphone.

Long likes technology.

So do many CPAs nowadays.

"I think it's becoming the norm nowadays," said Penny Gold, CEO of the Kentucky Society of CPAs. "People want, as they call it, 'the Amazon experience.' The want to be able to get their data, and get it now. And to be able to do that you have to embrace the tech."

"The Amazon experience" refers to exceeding customer expectations with new, unexpected and useful information and services derived from investment in digital infrastructure – and the payoff it brings businesses that do it successfully.

"Technology has become a very important factor in business," said Darlene Zibart, chief financial officer for KSCPA and the organization's liaison with its technology committee. "It is very important in being and staying competitive."

CPAs and other accountants are very involved in helping businesses set up their financial internal controls and security, Zibart said. They must be tech savvy."

When Bob Patterson sold out of his ownership position with Consumer's Choice Coffee in January 2012 and opened his own CPA firm the following July, he took a tech-forward approach. Focusing on service businesses, especially fast-food franchisees, Patterson and Co. employs a smartphone accounting app customized from a platform created by Thomson Reuters that gives clients ongoing access to their business data.


Bob Patterson, Founder/ President, Patterson and Company

"They've always got their phone with them," Patterson said. "Anything they can see on their desktop (computer), they can see on their phone."

A business client can see their latest profit and loss statement. With specialized authorizations, managers and employees can access financial documents, payroll information, time card entries, pay stubs and update their W-4 withholding. Restaurant operators, Patterson knows, are vitally concerned with their "flash report" for their four main cost categories: labor, food, liquor and paper.

"Those are the big drivers to a monthly financial statement for a restaurant," he said. "The quicker they can get the (flash) statement, the quicker they can make adjustments. … At the end of the month, it's too late to do anything."

The app and its services have been well received, especially in the franchise sector where an owner with multiple locations wants consistency in operations. Six-month-old Patterson and Co.

is approaching 100 clients, about 75 percent of which are restaurants.

"When I started," Patterson said, "I had really made the decision that I wanted to go with the latest technology and offer a lot of these services to clients."

Patterson has known Long for years and served on the KSCPA board with him.

"I call him frequently for advice," Patterson said. "He's a good guy. He's the guru."

About seven years ago, the industry created a new accounting credential: CITP, which stands for Certified Information Technology Professional. There are about 15 CITPs in Kentucky. Long was one of the first.

In fact, *Accounting Today* magazine recognized Long in October as one of its 10 nationwide Managing Partner Elites. It was the first time the magazine had named MP Elites, and it chose 10 "outstanding firm managers"from among 4,000 nominees recommended from across the United States.

Alan Long, Managing Partner, Baldwin CPA

He was selected, the magazine wrote, because "in a conservative profession, Long stands out for looking forward, equipping his small firm of just 22 people with practices, policies and technologies that even the biggest firms are only just starting to adopt. From integrating iPads, portals and videoconferencing to launching a formal training and learning program, he's keeping his firm on the cutting edge."

Long's teched-out work station is typical at Baldwin CPAs. His three-monitor bank of screens is the minimum for the firm's professionals, several of whom use four-monitor stacks, along with webcams, iPads or other tablets, laptops, etc.

"I've always liked the technology and tried to stay out on the forefront of it," Long said.

His first computer in 1985 was an IBM AT model with 30 megabytes of hard-drive storage and 640 kilobytes of memory, he said, and it cost $6,400. Long paid an additional $900 for a motherboard upgrade plug-in on that first computer to run two additional terminals "so I could have a network in the office," he said.

Today's typical computers have at least 10,000 times more data storage and RAM capacity, and cost only about a tenth as much.

"My iPad has a lot more computing power than that first computer," Long said.

He kept upgrading as the equipment improved over the years, readily admitting that not everything he tried has succeeded. The firm's first dual-monitor work station came in 2002, and the number of work station monitors increased to three and four as prices fell, he said. While Long recalls paying $700 for his first 17-inch monitor, today a 19-inch screen is about $150.

The multiple screens, connectivity and devices do definitely increase productivity in Long's view. For instance, Baldwin CPA does lots of videoconferencing with clients and among staff at its Richmond, Louisville and Maysville offices.

"It's more personal to videoconference," Long said.

The multiple screens allow partners to simultaneously share online desktops with another person to whom they're demonstrating or explaining information and services, he said. Sometimes they take over a client's desktop to demonstrate. And they can keep multiple other programs open and visible for reference to additional information or avoid disrupting a task that is midstream.

"I just find you can't have enough screens," Long said. His professionals and staff are on board with that assessment, too. "Once you put them in, people say, 'I don't know how I worked before.'"

Baldwin CPA equips all its staff with smartphones and iPads or other tablets. Because tablets screens are easier to see than a smartphone, Long said, staff in the field are more responsive to email.

In the office, Baldwin went paperless in 2002. Everything is scanned into the data system and the hard copy is disposed. Nothing has been lost. Clients – and accountants too at first – "get nervous" about destroying paper copies, Long said. Plenty of client information come in to the firm as paper, he said, but the office operates with an expectation that paper documents have a shelf life of about 7 days.

"I am not in the business of storing clients' records," Long said. "That's somebody else's business."

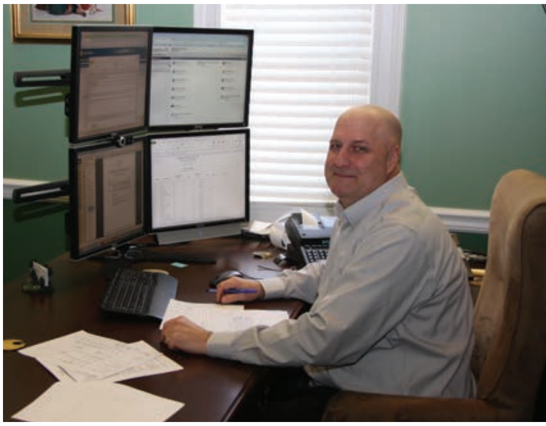
Long has a long relationship as a follower and client of Kansas City-based Boomer Consulting, which advises CPA firms and whose founder Gary Boomer is a regular on the 10 most influential accountants in the industry list. Baldwin is a member of the Boomer Technology Circles community, which views technology as a strategic asset, and it gives Long "lots of contact with other managing partners of firms in a lot of other states."

Boomer advises that firms should spend an average of 6.5 percent of their budget on technology, which includes hardware, software, IT and telephone services, Long said. Smaller firms are likely to spend more than that average, he said, and Baldwin is "a little above that at this time."

Long earned his CITP credential from the American Institute of CPAs by completing its required program of study and exams. The intent is that CITP credential holders exhibit unique abilities in providing risk assessment, fraud, internal control, audit and/or information management services within their firm or for their employers.

Long even sometimes works as an IT consultant for some clients separate from his CPA services.

Presently, he is a big fan of the tablet mobile devices, and the world of productivity and service apps available on those portable platforms.



The work station of Bill Upchurch, a partner at technology-savvy Baldwin CPA in Richmond, includes a stack of four computer monitor screens and a webcam.

Baldwin currently is pursuing creation of a couple of apps for itself, according to Long. The firm's IT staff is working on writing an app for use on an iPad so that a Baldwin CPA representative can have a client on his or her own explore the assorted services and levels and bundles of services the firm offers. The app will automatically price services and allow the client to compare their options. When a choice is finalized and submitted, it then will generate the firm's engagement letter.

"Normally the process can take a couple of hours of interaction requiring a partner," Long said.

The app will free up time for partners, whose schedules can get bottlenecked. And it will relieve the firm rep of having to remember every service, their prices and potential bundling options.

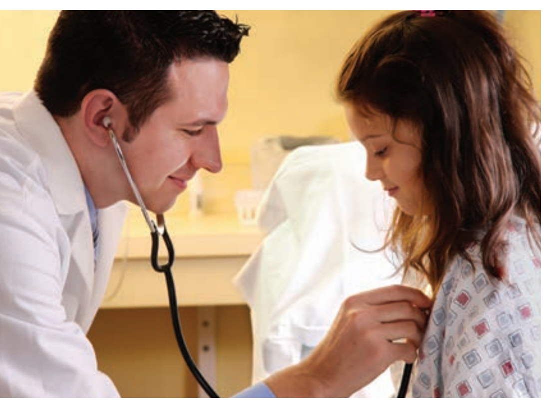
It is envisioned for completion in summer 2013. ■

Mark Green is editorial director of The Lane Report.
He can be reached at markgreen@lanereport.com.

A Very Big Year for Healthcare

2013 is expected to be fraught with 'budget dilemmas and tough choices' for the healthcare industry

KENTUCKY'S healthcare providers expect a busy 2013 as the industry adjusts to changing financial realities and the reforms that this is producing. Several expect further mergers and consolidations to gain economies of scale and access to the capital needed to remain competitive as reimbursements are cut.



Stephen A. Williams
President/CEO Norton Healthcare

"In 2013, healthcare providers will continue to recover from the recession that brought higher charity care, bad debts and other strains, including difficulties with Kentucky's transition to a managed-care Medicaid environment. Providers will continue to transition to the new environment required by the Affordable Care Act. This will generate additional consolidation, new investments in IT (including electronic medical record systems) and emphasis on gaining efficiencies. We'll see increased sophistication in measuring, reporting and improving quality in clinical care and patient safety, and more investments in physician integration initiatives. Reimbursements from Medicare, Medicaid, insurance carriers and the new insurance exchanges will get much tighter. Providers will see slim margins further erode, creating demand for new sources of capital, while preparing for a new world of being paid for value rather than volume."

Ed Heath
Vice President for Business Development and Community Health Owensboro Health

"The 700 to 750 workers at the new Owensboro Health (previously Owensboro Medical Health System) hospital construction site continue to pump money into the local economy – living in the area, staying in hotels and spending money with retailers. Employment is strong, too. Owensboro Health currently employs 3,365 and that number will increase by about 20 with the initial move into the facility when it opens June 1. The new hospital is designed to deliver more timely care, utilizing Lean Process improvement and removing wasteful processes from the system, which will positively impact financial performance."

Tommy Smith
President/CEO Baptist Health

"Smaller, independent hospitals will continue to seek affiliations with larger hospital systems to deal with Medicare/Medicaid reimbursement reductions. These affiliations enable cost cuts that are "invisible" to patients – back-office functions such as billing and purchasing. What larger health systems also bring to the table is an emphasis on building up infrastructure and information technology, along with a focus on improving clinical outcomes/patient care. Healthcare reform mandates changes in the delivery of care that will likely be out of reach for small, independent hospitals because of the associated costs. These economies will allow more money to be directed to hands-on patient care and to improving the quality of that care."

Jim Taylor
President/CEO University Medical Center (Louisville)

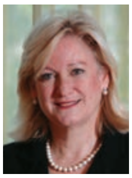
"Our academic health center's ability to deliver on our mission of education, research and clinical service will be tested by downward pressures on revenues. Continual reductions to financial resources for training the next generations of healthcare professionals will exacerbate our shortage of providers at a time when another 350,000 Kentuckians are expected to be eligible for Medicaid in 2014. Consolidation and partnerships to create financial stability, similar to that accomplished among University Hospital/James Graham Brown Cancer Center, KentuckyOne Health and the University of Louisville, will be vital to meet the needs of Kentucky."

Michael T. Rust
President Kentucky Hospital Association

"Kentucky hospitals continue to face budget dilemmas and tough choices. Statewide reports indicate a downward trend in inpatient discharges and outpatient surgery cases. Bad debt and emergency-room visits have trended upward (January 2010 through September 2012. With these challenges and federal spending cuts, Kentucky hospitals could see an increase in merger and acquisition activity to combat declining reimbursements from implementation of state Medicaid managed care and the federal Affordable Care Act. Times are difficult for families and communities. The mission of the commonwealth's 131 hospitals is to meet the healthcare needs of all Kentuckians, regardless of their ability to pay. They will earnestly continue their work on the front line of community healthcare, providing a 24/7 safety net."

Ruth W. Brinkley
President/CEO KentuckyOne Health

"As we move further with our integration into one organization, and welcome our new University of Louisville partners in March, KentuckyOne Health has implemented a strategy to ensure long-term success and sustainability in the next era of healthcare. The Affordable Care Act, among other legislative reforms, will result in additional taxes, costs and penalties for providers. The coming changes require us to create greater operational efficiencies and reduce costs. To thrive in this new environment, we are investing in new programs and health information technologies that will ultimately result in improved health and stronger relationships with our patients and physicians."



Vicki Yates Brown
President/CEO Nucleus/ University of Louisville

"2013 will be momentous because many of the more significant provisions of the Affordable Care Act, particularly those affecting health insurance, will begin to take effect – with full compliance required January 2014. There will be enormous changes in the area of health insurance such as the individual and employer mandates, federally mandated premium rating changes and newly mandated standard benefit packages. These changes will likely result in much higher health insurance premiums. Therefore, it is important that 2013 be used to review small vs. large employer status and options and prepare for the ramifications of these changes."

Michael Karpf
Executive Vice President for Health Affairs University of Kentucky

"As we approach expanded healthcare coverage mandated by the Affordable HealthCare Act (Obamacare) and as we recognize the need and reality of cost containment in healthcare, most providers are anticipating conflicting demands for increased primary care and decreased inpatient utilization. Cost containment will come from decreased unit reimbursement and reimbursement that moves financial risk to providers. Look for more consolidation and integration among and between providers to address access and cost. As a referral center, UK HealthCare is going counter current and seeing increased inpatient volumes because hospitals that have tried but not fully committed to complex tertiary/quaternary care will find it difficult to effectively compete for these complex patients."

Andy Henderson
CEO Lexington Clinic

"Healthcare in Kentucky in 2013 continues to be an industry in a state of transition. The forces of government in Frankfort and Washington as well as financial, social, regulatory and humanistic issues continue to shape how individual care is provided. The physician-patient relationship will always be healthcare's core, but pressures are continuing to change who provides care, where it is provided and who pays for it. We are fortunate in Kentucky to have many talented, dedicated physicians who always strive to give their best to each patient. This will allow the healthcare industry to embrace and create opportunity for change."

Kevin Halter
CEO Our Lady of Bellefonte Hospital

"We will see more change in healthcare the next five years than in the 26 years I have been in the field. With Kentucky's Medicaid managed caresystem in place for more than a year, it is obvious serious problems threaten patient care and hospital economics; these must be addressed and quickly. As for other major changes, Our Lady of Bellefonte Hospital has established a solid foundation in preparation for healthcare reform. We've become more efficient … from the switch to electronic medical records to the clinical transformation that has positioned OLBH as a top-performing hospital in terms of quality. Whatever the future holds, we'll meet the challenges head-on for the betterment of our community."

Benjamin A. Breier
President/CEO Kindred Healthcare

"Kindred is well positioned in 2013 to manage challenging financial and regulatory changes while maintaining our commitment to our patients. We continue to build upon a platform of patient-centered care management and strategic growth across the care continuum."

Deb Moessner
President/ General Manager Anthem Blue Cross Blue Shield Kentucky

"Anthem Blue Cross and Blue Shield is focused on meeting the requirements of the Affordable Care Act that take effect Jan. 1, 2014. Most significant is the exchanges that will enable millions – many of them previously uninsured – to purchase health insurance. This represents a tremendous opportunity to increase membership. We see additional growth opportunities in Medicare, life/disability, vision and dental and in the dual-eligible population – individuals who often have complex health challenges and who are eligible for both Medicare and Medicaid." ■

THE LANE LIST

LARGEST LAW FIRMS IN KENTUCKY (2013)

1. Frost Brown Todd LLC
177 attorneys
400 W. Market St., Suite 3200
Louisville, KY 40202
(502)589-5400
frostbrowntodd.com
Other Ky. locations: Lexington, Florence
Managing partner: George Yund
Chairman: John Crockett

2. Stites & Harbison PLLC
147 attorneys
400 W. Market St., Suite 1800
Louisville, KY 40202
(502) 587-3400
stites.com
Other Ky. locations: Frankfort, Covington, Lexington
Chairman: Ken Sagan

3. Stoll Keenon Ogden
137 attorneys
300 W. St., Suite 2100
Lexington, KY 40507
(859) 231-3000
Other Ky. locations: Louisville, Frankfort, Henderson, Morganfield, Owensboro
Managing director: Bill Lear

4. Wyatt, Tarrant & Combs, LLP
126 attorneys
500 W. Jefferson St., Suite 2800
Louisville, KY 40202
(502) 589-5232
Other Ky. locations: Lexington (Note: Office also in New Albany, just across state border)
Managing partner/chairman: Bill Hollander
wyattfirm.com

5. Dinsmore & Shohl LLP
107 attorneys
101 S. Fifth St., Suite 2500
Louisville, KY 40202
(502) 540-2300
Other Ky. locations: Lexington, Frankfort
Managing partner: George Vincent;
Louisville: John Selent;
Lexington: Chauncey Curtz
dinsmore.com

6. Bingham Greenbaum Doll
97 attorneys
101 S. Fifth St., Louisville, KY 40202
(502) 589-4200
Other Ky. locations: Lexington, Frankfort
Co-chairmen: W. Tobin McClamroch and Phillip D. Scott
bgdlegal.com

7. Middleton Reutlinger
56 attorneys
401 S. Fourth St., Suite 2600
Louisville, KY 40202
(502) 584-1135
Managing partner: Henry S. Alford
middletonlaw.com

8. McBrayer, McGinnis, Leslie & Kirkand PLLC (MMLK)
52 attorneys
201 E. Main St., Suite 1000
Lexington, KY 40507
(859) 231-8780
Other Ky. locations: Louisville, Frankfort, Greenup
Managing partner: James H. Frazier III
mmlk.com

9. Boehl Stopher & Graves LLP
48 attorneys
400 W. Market St., Suite 2300
Louisville, KY 40202
(502) 589-5980
Other Ky. locations: Lexington, Pikeville, Paducah (Note: Office also in New Albany, just across state border)
Managing partner: Edward Stopher
bsg-law.com

10. Landrum & Shouse LLP
33 attorneys
106 W. Vine St.
Lexington, KY 40507
(859) 255-2424
Other Ky. location: Louisville
Managing partner: William Shouse
landrumshouse.com

11. Ward, Hocker & Thorton PLLC
32 attorneys
333 West Vine Street, Suite 1100
Lexington, KY 40507
(859) 422-6000
Other Ky. location: Louisville
Managing partners: Walter Ward, George Hocker, Gregg Thornton
whtlaw.com

12. O'Bryan, Brown & Toner PLLC
29 attorneys
1500 Starks Building
455 S. 4th Street,
Louisville, KY 40202
(502) 585-4700
Managing partner: Christopher P. O'Bryan
obtlaw.com

13. Dressman Benzinger LaVelle
27 attorneys
207 Thomas More Pkwy.
Crestview Hills, KY 41017
(859) 341-1881
Managing partner: Gerald Benzinger
dbllaw.com

13. Morgan & Pottinger, PSC
27 attorneys
601 W. Main St., Louisville, KY 40202
(502) 589-2780
Other Ky. location: Lexington
Managing partner:
Louisville: John T. McGarvey;
Lexington: Emily Cowles
morganandpottinger.com

15. Seiller Waterman LLC
26 attorneys
462 S. Fourth St., 22nd Floor
Louisville, KY 40202
(502) 584-7400
derbycitylaw.com

16. English, Lucas Priest & Owsley, LLP
25 attorneys
1101 College St.
Bowling Green, KY 42102
(270) 781-6500
Managing partner: D. Gaines Penn
elpolaw.com

17. Lynch Cox Gilman & Goodman PSC
25 attorneys
500 W. Jefferson St., Louisville, KY 40202
(502) 589-4215
Managing partners: Scott R. Cox, Scott D. Spiegel
lynchcoxlaw.com

18. Goldberg Simpson LLC
22 attorneys
9301 Dayflower Street, Prospect, KY 40059
(502) 589-4440
Other Ky. location: Louisville
Managing partner: Jonathan D. Goldberg
goldbergsimpson.com

19. Sturgill Turner Barker & Moloney PLLC
21 attorneys
333 W. Vine St., Suite 1400
Lexington, KY 40507
(859) 255-8581
Managing partner: Kevin W. Weaver
sturgillturner.com


Middleton Reutlinger in Louisville employs 56 attorneys.


Dayo Seeton, Don Kelly, Rania Basha are attorneys at Wyatt, Tarrant and Combs, which employs 126 attorneys in Kentucky.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State Embracing Federal Reform

Kentucky's medical community has been busy implementing healthcare act since its 2009 passage

BY JOSH SHEPHERD

FROM its 2009 enactment through the 2012 elections, federal healthcare reform was prominent mostly as a blunt object in the political arena. But Kentucky healthcare industry leaders weren't waiting to see how the campaign battles turned out – their sense was always that the national healthcare system didn't work anymore.

Regardless which party was going to occupy the White House and rule Congress, Bluegrass healthcare entities were preparing for the coming fundamental change.

Ardis Hoven, President-Elect, American Medical Association

"Everyone involved in healthcare knew that some kind of change had to happen," said Ardis Dee Hoven, M.D., president-elect of the American Medical Association and a practicing internist and infectious disease specialist with UK Healthcare in Lexington. "The current state of the system was not sustainable."

Russ Cox, executive vice president and chief operations officer for Norton Healthcare in Louisville, echoed Dr. Hoven's comments. Norton, along with all other healthcare systems in Kentucky, began actively implementing aspects of the Patient Protection and Affordable Care Act as soon as it became law back in January 2010.

"The act has been around for three years already," said Cox. "There may have been some who waited for the (June 2012) Supreme Court ruling that upheld the insurance mandates, but I know that we were moving forward with changes long before the high court ruling. And it's pretty obvious that so was everyone else."

Plenty of eyes are looking ahead to 2014 when major provisions of the healthcare act, particularly mandatory insurance coverage and Medicaid expansion to noninsured and indigent patients, will go into effect. There has been a lot of discussion among industry leaders over the fiscal formulas to keep the Medicaid program solvent and providers adequately compensated while managing the expansion of membership.

Details also remain to be worked out concerning Kentucky's version of the American Health Benefits Exchange, whose purpose is to help small businesses provide basic health coverage to their employees.

Nancy Galvagni, Senior Vice President, Kentucky Hospital Association

According to Nancy Galvagni, senior vice president of the Kentucky Hospital Association, Kentucky is one of the few states that will see most of its underinsured population enrolled into Medicaid rather than qualify for basic health insurance. And this has many commonwealth healthcare providers concerned.

Because per capita income in Kentucky is so low – nearly 20 percent less than the national average – a significant portion of the state's population already is receiving Medicaid benefits. That segment is expected to grow significantly in 2014.

"When it is time to implement the health insurance mandate, Kentucky will have a disproportionate share of its population to go on Medicaid," Galvagni said. "That is going to put Kentucky at a disadvantage with other states."

Medicaid expansion will strain providers

Ideally, the state benefits exchange programs will help a majority of the underinsured U.S. population be absorbed into some commercial insurance plan. But there is a very real concern that the exact opposite will happen in the commonwealth.

"The KHA supports expanded coverage. We want to see a system where everyone is covered," Galvagni said. "With regard to the amount of uncompensated indigent care that Kentucky's urban and rural hospitals provide, it will be good to receive some level of reimbursement."

However, Medicaid only pays for about 80 percent of the cost of care in Kentucky. The service reimbursement formula for expanded Medicaid after mandatory insurance coverage goes into effect is still being developed, but she argued it must take into account that Kentucky's hospitals serve a disproportionate share of families who have no insurance or resources to cover their care.

Hoven echoed the sentiments of the KHA.

"Any expansion of Medicaid in Kentucky must be viable. Compared to other states, Kentucky's 80 percent reimbursement of cost is a bit better than, for example, New Jersey, which only reimburses at 40 percent. But that is because Kentucky serves a much heavier Medicaid population," Hoven said. "Eighty percent is not adequate to keep up with the rising costs of delivering healthcare, and that aspect of the formula must be dealt with."

However, she did offer one small silver lining in this area of the Affordable Care Act. The act does raise Medicaid reimbursement to primary care providers to 100 percent of Medicare, which indicates that the federal government seems to be "acquiring some understanding of the relative value that physicians perform for uninsured patients, and that is a good thing for Kentucky in general and for a segment of Kentucky's physicians in particular."


Stephanie Moore, CEO, White House Clinics

Stephanie Moore, the CEO of White House Clinics, a series of Federally Qualified Health Clinics (FQHCs) based in Richmond, Ky., had slightly different concerns regarding expanding Kentucky's Medicaid population.

FQHCs, or other federally designated forms of health clinics, exist to serve the care needs of low income and underinsured populations. Because of that mission, White House Clinics serve a patient population composed of many Medicaid and indigent-care recipients. Moore anticipates that the increase of Medicaid patients in the state is going to strain the ability of Kentucky's specialists to meet their needs, especially in areas where our state's physician shortage is most acute.

"Many times our uninsured patients, lacking the ability to pay, don't even try to schedule appointments with specialty providers outside of an emergency. They do this often in spite of physician's orders," Moore said.

Access to specialty services in the current system requires making appointments weeks in advance. Increasing enrollment in Medicaid, though, will increase the likelihood these now-insured patients will follow their doctor's advice and try to schedule specialty services. And this influx of demand could translate into even longer wait times to see specialists.

"One of the long-term results of the Affordable Care Act has to be increases in the numbers of providers, both in primary care and specialties, and incentives to set up practice in shortage areas," Moore said. "The act must keep to its commitments to fund the loan repayment incentives through the National Health Service Corps and expand their eligible recipients to include high-demand specialties."

Incentives for new and non-traditional partnerships

To achieve improved healthcare quality and lower costs, Norton Healthcare's Cox said the Affordable Care Act has created an incentive for those with a stake in the success of the industry to form partnerships that did not exist before, especially among formerly competitive entities or even those where an adversarial relationship once existed.

Obamacare inspired the development of several new partnerships in Kentucky in the past year, Cox argues. Independent Kentucky hospitals have made strategic decisions to partner with larger healthcare systems. Trover Health Care in Madisonville, for example, merged its assets with the Baptist Health system because leadership for the regional provider felt the partnership better positioned Trover for future growth.

The act likely influenced the 2011 partnership between Jewish Hospital & St. Mary's HealthCare of Louisville and St. Joseph Health System's nine entities to create KentuckyOne Health – which in November 2012 added a joint operating agreement with UofL and its University Medical Center.


Russ Cox, Executive Vice President/ COO, Norton Healthcare

Cox credits the healthcare act for inspiring a partnership between not-for-profit Norton Healthcare and the for-profit Lifepoint Hospital organization to provide medical and administrative support to Scott Memorial Hospital, a 25-bed critical-access hospital in Scottsburg, Ind.

The Affordable Care Act also is forcing many in the healthcare industry to consider affiliations that hadn't previously been the norm. In Kentucky, the clearest example is the accountable care organization Norton and the Humana insurance company established two years ago through a pilot program from the Brookings-Dartmouth Collaborative.

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"The ACO model has allowed us to merge our clinical data with their payer data and use that information to streamline the delivery of healthcare to our patients," Cox said. "Basically, we are using the combined data to raise healthcare quality and reduce costs."

During those first two years, Norton-Humana ACO organizers found areas where clinical delivery of care was adding unnecessary costs. With that information and subsequent use of care coordinators to organize patients' visit, the potential is raised for eliminating unnecessary and duplicative diagnostics and testing.

Efficiencies create win-wins

"If we can improve a patient's encounter within the healthcare system so that care is delivered seamlessly, the patient gets better care, the doctor or specialist is paid better, and we eliminate cost from the system," Cox said.

Sharing clinical and payer data also will help address concerns over federal reimbursement penalties for hospital readmissions. An Affordable Care Act provision cuts reimbursements when a patient is readmitted to the hospital for the same diagnosis, which would mean a considerable loss for large healthcare systems.

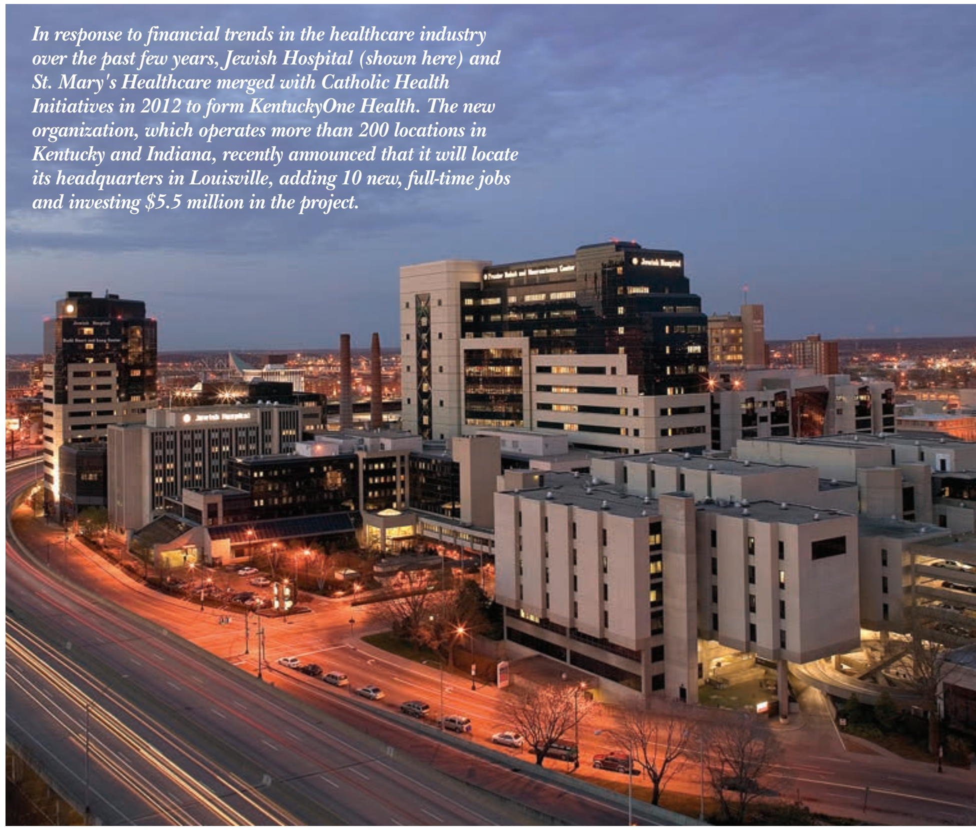
Using payer data, researchers found more than 70 percent of readmissions were caused in part by the patient's failure to follow care orders and complete prescriptions. Patients either did not fill the prescription their physician ordered or didn't adequately complete the prescription.

"By reviewing payer data, a care coordinator can find out if a patient had filled their prescription. We then have an opportunity to follow up with that patient and assist them with following through on their physician's order," Cox said.

Growing support for a coordinated care approach to healthcare delivery is an idea grown out of the "medical home" patient-care delivery model, something White House Clinics has practiced for years and that the Affordable Care Act promotes. White House Clinics operates a patient-centered medical home based on the National Committee for Quality Assurance model.

Moore has been keeping up with the models the Affordable Care Act encourages and is pleased with the way the law emphasizes that caregivers seek new ways to work together to connect patients to programs they need.

"Much of what we do as an FQHC organization is provide services to our patients that have not been traditionally well compensated by the industry," she said.



In response to financial trends in the healthcare industry over the past few years, Jewish Hospital (shown here) and St. Mary's Healthcare merged with Catholic Health Initiatives in 2012 to form KentuckyOne Health. The new organization, which operates more than 200 locations in Kentucky and Indiana, recently announced that it will locate its headquarters in Louisville, adding 10 new, full-time jobs and investing $5.5 million in the project.

Hoven added to Moore's argument. Under the Affordable Care Act, America's healthcare industry can no longer operate as unconnected silos. There will not be such separate distinctions between primary care providers, specialist groups, hospitals, long-term care providers and so on. Thriving within the new environment of healthcare as it is currently developing means creating partnerships and improving shared communication. Shared technology and information will make it possible for providers to address issues of caregiving.

Insurers funding well care and healthy workplaces

And it's not just caregivers that will have the responsibility of controlling healthcare costs. Employers are being given incentives to promote a healthier workforce through reductions in the cost of healthcare insurance rates. They will be able to cut their costs as a reward for taking proactive strides to promote a healthier workplace.

"One of the best things about the Affordable Care Act is that it funds the front end of care that we need and not just the back end of care," Hoven said. "There have been more rewards and better reimbursement for sick care in our industry than there ever has been for well care."

Providers and industry leaders have long professed that healthcare quality in the United States could be improved and costs driven down by making the market viable for front-end care. One of the developing trends in healthcare delivery is improved rewards for health and wellness programs.

"We already have clear evidence of this trend coming. Approximately 730,000 have acquired insurance coverage for wellness services, and they have that service with no co-pays or cost sharing," Hoven said, citing the example of insurance coverage for flu vaccines in the past year.

To develop a profitable healthcare delivery program designed to emphasize health and wellness, Cox said, "We cannot expect revenues in a traditional sense of accounting. It just won't show in a year. This is a long-term cultural change."

There is a lot of work to do, Hoven said. The reform act is far from perfect, and there are still many questions about how Kentucky's healthcare industry will organize itself to thrive.

"What we are creating in the United States is something unique, something distinctively American. We are doing what we do best – creating a system that best serves Americans," Hoven said.

"There are still many things to work out when it comes to the Affordable Care Act. But we'll figure it out … we always have," Cox said. ■

Josh Shepherd is a correspondent for The Lane Report. *He can be reached at editorial@lanereport.com.*

SPOTLIGHT ON THE ARTS

Carnegie Center Announces Inaugural Class of Kentucky Writers Hall of Fame

AFTER issuing a public call last fall for nominees for the Kentucky Writers Hall of Fame, the Carnegie Center in Lexington received more than 200 names to consider.

"This is an indication of how many great writers Kentucky has, and how many devoted readers," said Neil Chethik, director of the Carnegie Center. "Kentucky has a deep pool of writing talent that reaches back to the state's beginning – and that pool continues to grow."

Committees narrowed the nominee list to 14 finalists, and then selected six writers as inaugural members of the Hall of Fame, announcing them Jan. 24 at the Carnegie Center. Those inducted include:

- **Harriette Arnow**, a novelist best known for "The Dollmaker," born in 1908 in Wayne County.
- **William Wells Brown**, considered the first U.S. African-American novelist, born in slavery in 1814 in Lexington.
- **Harry Caudill**, author of "Night Comes to the Cumberlands," born in 1922 in Whitesburg.
- **Elizabeth Madox Roberts**, a novelist and poet as well as a contemporary of the Southern Renaissance writers, born in 1881 in Perryville.
- **James Still**, best known for his novel "River of Earth," lived most of his life in a log house on Dead Mare Branch in Knott County.
- **Robert Penn Warren**, known for his poetry, novels and literary criticism, won a Pulitzer Prize for "All the King's Men." Warren was born in 1907 in Guthrie.

To be eligible for this first class, a writer must have been: 1) deceased, 2) published, 3) one whose writing is of enduring stature, and 4) connected in a significant way to the Commonwealth of Kentucky. All genres of writers were eligible. Next year, the Kentucky Writers Hall of Fame plans to include living writers as well.

Kentucky Crafted: The Market to Return to the Lexington Convention Center

PRODUCERS of the state's finest art, craft, literature and artisanal food products will set up shop March 1-3 at the Lexington Convention Center as participants of Kentucky Crafted: The Market, now in its 31st year. The 200 exhibitors are juried participants in the arts council's Kentucky Crafted Program.

The Market is open exclusively to trade galleries, shops and online retail venues across the nation on March 1. On March 2-3, it opens to the public.

Arts Events Around the State

Kentucky Crafted: The Market
Lexington Convention Center
9 a.m.- 6 p.m. March 2
10 a.m.-5 p.m. March 3
artscouncil.ky.gov
(502) 564-3757

Seminar
Actors Guild of Lexington
Feb. 28-March 10
actors-guild.org
(859) 309-1909

Kentucky Visions at the Capitol
Kentucky Senate and House offices
in the Capitol Annex, Frankfort
Through March 26
artscouncil.ky.gov
(502) 564-3757

Donna and Donnie Smith Demonstrate Gourd Artistry
Kentucky Artisan Center at Berea
10:30 a.m.-3:30 p.m. Feb. 23
kentuckyartisancenter.ky.gov
(859) 985-5448

"Romeo and Juliet," Louisville Ballet
The Kentucky Center for the Performing Arts
Whitney Hall, Louisville
8 p.m. March 2
kentuckycenter.org
(502) 562-0100

Kathleen Madigan
SkyPac, Bowling Green
7:30 p.m. March 1
theskypac.com
(270) 904- 1880

Bowling Green artist John Edmonds performs for UK HealthCare Arts in HealthCare Program at the UK Albert B. Chandler Hospital in Lexington.

KAC, UK HealthCare Partner to Present Free Concert Series

SOME of the most exciting members of the Kentucky Arts Council Performing Artists Directory are presenting free weekly concerts at the University of Kentucky Albert B. Chandler Hospital in Lexington. High-quality audio from the shows in Pavilion A is available to patient rooms, and the Tuesdays at Noon series is open to the public.

It began Jan. 8 in collaboration with the Arts Council and the UK HealthCare Arts in HealthCare Program, which received the 2012 Governor's Award in the Arts Business Award.

"The purpose of the Arts in HealthCare Program is to create an environment of care focusing on the spiritual and emotional well-being of hospital patients, their families, caregivers and staff," said Jackie Hamilton, Arts in HealthCare's director.

"The arts can play a positive and powerful role in the healing process, and UK HealthCare demonstrates its understanding of that fact time and again," said Lori Meadows, executive director of the Arts Council. "We're glad to partner with the hospital and hope residents of Lexington will consider stopping by the concerts to hear great music by Kentucky musicians."

Upcoming performances at 1000 S. Limestone St. in Lexington include:

- Feb. 12, Hong Shao, traditional Chinese pipa
- Feb. 19, Mitch Barrett, singer/songwriter
- Feb. 26, Stirfry Musette, gypsy jazz

Lori Meadows is executive director of the Kentucky Arts Council.

Limestone Branch Distillery in Lebanon, Ky., specializes in small batch runs of moonshine, corn whiskey and bourbon. The distillery is part of the Kentucky Bourbon Trail Craft Tour.

Gotta Love Louisville

Lonely Planet names Louisville as its top destination for 2013

BY KATHERINE TANDY BROWN

NO matter where an inveterate traveler may choose to roam on this wide earth – be it New York City, Myanmar or Antarctica – Lonely Planet likely has a thoroughly researched, user-friendly travel guide ready to assist. This company knows travel. So when Lonely Planet named Louisville No. 1 in its Top 10 Travel Destinations for 2013 in the United States, city reps were understandably thrilled.

"Selling Louisville to the travel industry has been a challenge," said Nancy Stephen, communications manager for the Louisville Convention and Visitors Bureau. "They don't have a negative concept of the city; it's more of a flat line… until they visit. Then they find how much there is to do and how friendly people are. They dive into neighborhoods, and eat like a local and drink like a local. They discover that Louisville is ever evolving; they get hooked and return time and time again."

Of course, the world has known Louisville as home to the Kentucky Derby since 1875, and the race and related festivities draw enormous crowds yearly. But the city's array of other attractions is numerous and diverse. In Lonely Planet's words, "Louisville has asserted itself as a lively, offbeat cultural mecca on the Ohio River."

Take downtown Louisville. A new program called Museum Row on Main encompasses all of the major attractions in a six-block area on historic West Main Street – named "One of America's Top 10 Great Streets" by the American Planning Association – and ties them together for discounts. So you can visit the Louisville Slugger Museum & Factory, take your ticket stub to the Frazier History Museum, the Muhammad Ali Center, the Louisville Science Center, the Kentucky Museum of Craft and four other attractions, all within walking distance of one another, and receive admission discounts.

Visitors can become aficionados of Kentucky's state beverage on the Urban Bourbon Trail (UBT) on any or all of 19 stops throughout the city that feature bourbon tastings and/or pairings with breakfast, lunch and/or dinner dishes. For a rousing eye-opener, indulge in the Presidential breakfast (a la Harry Truman) at one of those stops, Dish on Market: one egg, bacon, toast, fruit and coffee, with a shot of bourbon on the side.

Collect six stamps on your UBT Passport and receive a free T-shirt.

This fall, Heaven Hill Distillery in Bardstown is slated to open The Evan Williams Experience in downtown Louisville. Its microdistillery will feature bourbon history and tastings, saving you a drive to Central Kentucky's bourbon country. Should the industry catch your fancy, the Distilled Spirits Epicenter, a microdistillery and educational facility, offers courses in spirits making.

Following a national trend, craft breweries are springing up throughout the city, especially in neighborhoods with a brewing heritage, such as Germantown and NuLu. The latter is a historic area resurging with eclectic galleries, antiques, boutiques, restaurants and entertainment venues. Hop a once-a-month trolley to experience the whole shebang.

Another such destination is Fourth Street Live!, only a short stroll from downtown hotels, Waterfront Park and all those intriguing Main Street museums.

Though not downtown, three attractions are an integral part of the Louisville experience.

If you can't attend the Run for the Roses in May – also known as "the greatest two minutes in sports" – a peek in the Kentucky Derby Museum is the next-best thing, and is the only way to garner a tour of Churchill Downs when the horses aren't running. A behind-the-scenes tour takes you into the stable area to watch Thoroughbreds training and to learn about life on the racetrack.

The second must-see is the Louisville Zoo. Since 1969, this award-winning attraction has been building its collection of animals – which now numbers more than 1,700 species – in 134 acres of natural settings, including gorgeous botanical gardens.

The third attraction lies below the zoo. Louisville's manmade 100-acre Mega Cavern features 17 miles of corridors and the world's only underground zip line. Visitors can take a tour to learn the cavern's history, and come Christmastime, can drive through in a car to ogle some 2 million sparkling points of light during Lights Under Louisville.

Culturally speaking, Derby City's palette shines with music, dance, theater and opera at the Kentucky Center for the Performing Arts; ancient, classical and modern art at the Speed Museum; and contemporary theater each spring at the internationally prominent Humana Festival of New American Plays.

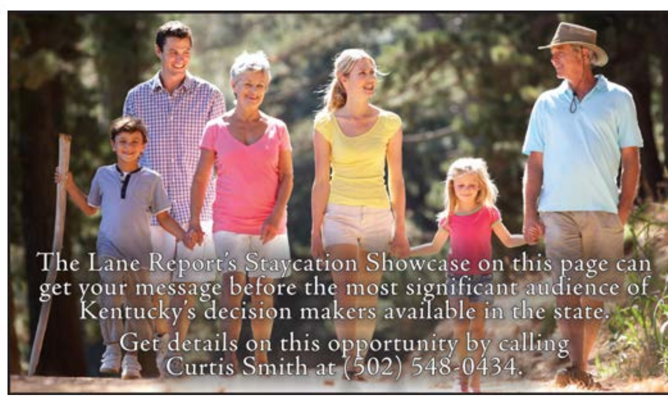
The Louisville festival scene adds more reasons to explore, including Forecastle Festival's three days of music, arts and activism at Waterfront Park on the Ohio; the IdeaFestival, where creative thinkers converge to exchange intriguing new concepts; and Abbey Road on the River, a five-day homage to all things Beatles.

As you can see, you'll need way more than an eight-day week to take in Louisville's highlights, especially when you add stick-and-balling on the city's great golf courses, shopping Bardstown Road's unique shops, cruising the river on the Belle of Louisville, sipping wine at Broad Run Vineyards, and putting your feet up for the night amid kitschy, artsy creations at 21C Museum Hotel.

Learn more about this thriving river city and plan your own trip to Louisville at gotolouisville.com or call (888) LOUISVILLE (568-4784). ■

Paul Tomaszewski is founder and master distiller of MB Roland Distillery in Pembroke, Ky., and chairman of the Kentucky Distillers Association Craft Advisory Group.

Katherine Tandy Brown is a correspondent for The Lane Report. *She can be reached at editorial@lanereport.com.*



Statewide Smoke-Free Law Would Make Kentuckians Healthier, Wealthier

BY MIKE SCANLON

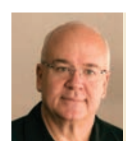
AS president of Thomas & King, America's 19th largest restaurant franchise company, I care about Kentucky's economic future. Kentucky faces several challenges, many of which have complicated and costly solutions. However, there is a simple and cost-effective solution to one of our biggest problems – poor health. Eliminating secondhand smoke exposure in public places would lead to major improvements in our poor health status. That is why I urge the Kentucky General Assembly to pass a statewide, smoke-free law in 2013.

Far too many of us have seen our friends and family suffer the consequences of smoking and secondhand smoke exposure. Now we know the solution that can prevent many deaths and diseases caused by tobacco. Implementation of smoke-free laws has resulted in improvements in heart disease, stroke and asthma in many communities in Kentucky and states across the country. Twenty-four states and many Kentucky communities have passed smoke-free laws leading to health and economic benefits. The Kentucky General Assembly should extend these benefits to all Kentuckians.

As a result of Kentucky's high smoking rate and exposure to secondhand smoke, Kentucky ranks among the highest in most chronic disease categories. It is expensive to treat these diseases. Kentucky spends $1.5 billion a year in healthcare costs and suffers $2.3 billion in lost productivity as a result of tobacco-related illnesses. Passing a statewide smoke-free law would reduce these staggering expenses.

A healthier workforce is more productive and costs less. New businesses prioritize healthcare costs when evaluating where to locate. Additionally, smoke-free public places appeal to young professionals. Lastly, smoke-free policies reduce the cleaning, maintenance and fire insurance costs for businesses. If Kentucky wants to continue to attract new business and create more jobs, we must lower the cost of doing business here. We must attract new business by promoting a healthy and cost-effective workforce.

With all that we know about the harms to our health and our economy caused by smoking and secondhand smoke, it's time to take action. The 2013 Legislative Session seems like the perfect time for our two political parties to agree on an issue that will benefit all Kentuckians.



Mike Scanlon is president and CEO of Lexington-based Thomas & King.

CPE's Bob King: Verdict Is In, 'College Still Pays'

A recent *Newsweek* article posed the question, "Is college a lousy investment?"

Bob King, president of the Kentucky Council on Postsecondary Education, answered the question with a resounding "No."

Robert King, President, Kentucky Council on Postsecondary Education

The council issued a policy brief in late January called "College Still Pays," which said now more than ever it pays for Kentuckians to get a college degree or credential. "To promote the belief that college is no longer a wise investment is a grave disservice to parents and students everywhere," King said in an accompanying op-ed. "Not only is this line of argument inaccurate; it is dangerous."

Lingering effects of recession, a weak job market and tuition hikes have given rise to a proliferation of national media questioning the value of higher education, King said. A 2011 Pew Research study found 57 percent of Americans believe U.S. universities aren't providing good value for the money.

While the lack of a college credential does not guarantee economic security, he said, not having one "most certainly places individuals at greater risk of poverty and limits earning potential for years to come."

College attainment helps insulate citizens from unemployment and provides access to higher-paying jobs, the council's policy brief noted. Jobs requiring at least some college continue growing rapidly in Kentucky. By 2020, it is estimated 56 percent of Kentucky's jobs will require at least some postsecondary education.

Some of the brief's key findings:

- Employment – Since 1994, the number of employed Kentuckians with a bachelor's degree climbed 80 percent, while those with some college or an associate degree increased 30 percent.
- Unemployment – In 2010, Kentuckians with a high school diploma or GED were twice as likely to be unemployed than those with a bachelor's degree.
- Earnings – In 2011, workers with a bachelor's degree or more earned an average of $63,240; some college: $42,612; high school or GED: $36,936.
- Earnings gap – Based on an annual wage increase of 1 percent over a 40-year career, Kentuckians with some college or an associate degree are projected to earn an additional $289,000 compared with high school grads.
- Social benefits – Increased education is associated with lower poverty rates, better health outcomes, and less reliance on public assistance and less crime.

See the entire report at: http://1.usa.gov/W7S78Y

KSU Undertakes an Urgent Agenda: Beating the Odds by Boosting Competition

BY MARY EVANS SIAS

KENTUCKY State University was chartered in 1886 as a land-grant institution, helping carry out the breakthrough ideal of the Morrill Act, which was signed by Lincoln, to provide access to higher education for all people, regardless of race or income.

Economic setbacks of recent years have taken a toll on U.S. institutions of higher education. For the first time since the '60s, we are seeing a downward trend in enrollments, in retention and in graduation rates. The recession has been harder still on historically black colleges and universities such as KSU and other schools serving low- and middle-income families. KSU posted annual enrollment growth from 2003 to 2010, then saw a small decline in 2011. This past fall, recession and federal policy changes drove enrollment down further.

In 2011 we began planning strategic changes in operating policies and organizational structure to stop declines not just in enrollment but more importantly in our retention and graduation rates. Our May 2012 graduation rate was only 14 percent, down substantially from 2003, and our enrollment decline cut revenue $4.8 million for the year.

These current realities for KSU do not represent our future, though.

We've put in place a detailed plan to address issues impacting student success, retention and graduation/completion: streamlining our organizational structure; eliminating bureaucratic rules so students can earn a degree quicker; growing our online programs and the use of technology; transforming supplemental education so college credits count upfront. KSU is looking at scholarship program changes to increase need-based assistance opportunities for students.

Additional new initiatives we have launched include:

• 24/7 online tutorial services to our students.

• Improved dorm living and learning communities.

• More incoming transfer students and a big increase in graduate students.

• Better staff in customer service training.

• Upgrading our campus work program.

Kentucky State University has many other accomplishments of which it should be proud. Our aquaculture program is one of the best in the country – and probably the world. Our students soon will be able to study aquatic life on the Kentucky River via a specially equipped boat. KSU has achieved "Top 20" status in organic farming. *Princeton Review* and *US News and World Report* each rate KSU among their quality universities. We have raised $4 million-plus toward our $12.5 million capital campaign.

Big challenges remain and we have our work cut out for us at KSU. But we also have a history of doing so. Around 30 percent of our students work at least two jobs. Sixty-one percent are the first in their families to attend college, and 84 percent arrive needing supplemental education before college credit can be earned.

With a scarcity of historically black colleges and universities in surrounding states, 37 percent of KSU students must pay a tuition rate that is twice the in-state level. Graduation is more difficult for these students, and those who do depart with a diploma also leave with extremely high levels of indebtedness.

Today more than ever, education remains part of the American Dream's very essence. The result is not only an individual good but a public good because we need a skilled citizenry to drive a knowledge-based economy. Now is the time to implement our culture of completion.

Mary Evans Sias, Ph.D., is president of Kentucky State University

Correction

BECAUSE of an editing error, the January issue of *The Lane Report* misidentified the Senate president pro tem of the Kentucky General Assembly. Katie Stine, a Republican of District 24, is the highest ranking woman in the Senate and often chairs the chamber.

Sen. Katie Stine

Building Our Brand for Brains

LOUISVILLE and Kentucky are developing better associations in the minds of others around the nation and the world thanks to events such as "Celebrating Giftedness and Creativity," coming Aug. 10-14 at the Galt House Hotel and Conference Center.

"Holding the 20th Biennial World Conference of the World Council for Gifted and Talented Children in Louisville provides a remarkable opportunity (for state educators) to learn with scholars and practitioners from around the globe," said Dr. Julia Roberts, World Council treasurer and executive director of The Center for Gifted Studies as well as the Carol Martin Gatton Academy of Mathematics and Science, both at Western Kentucky University. "I hope many Kentucky educators, parents and interested citizens will come to this conference and join in the conversations about children and youth who are gifted and talented."

World Council headquarters moved to WKU in 2011.

The 2013 conference focuses on creativity in giftedness: innovation education; moral education, values and social conscience; developing future leaders; assessment, screening and identification approaches; homeschooling and parenting; and more. World-renowned gifted education scholars will lead the sessions.

The conference will attract participants from around the world. Cities such as Barcelona, Spain; Sydney, Australia; Istanbul, Turkey; and most recently, Prague, Czech Republic, have hosted the conference. New Orleans in 2005 was the last U.S. host.

"Kentucky hospitality awaits our special visitors," said WKU President Gary Ransdell. "I look forward to engaging with participants in this worldwide biennial conference on the importance of education for our best and brightest young minds."

A special daily rate for Kentucky residents is being offered. Register at worldgifted2013.org and find World Council details at worldgifted.org.

KENTUCKY PEOPLE

LEXINGTON: UK HONORS INAUGURAL CLASS OF DISTINGUISHED AG ALUMNI

Steve Patton, UK Agricultural Communications Services photo

Five distinguished graduates of the University of Kentucky College of Agriculture were inducted into the inaugural class of the Hall of Distinguished Alumni during a ceremony held on Dec. 14. Pictured here receiving their awards are (left to right) Joe Wright, David Switzer, Louis Boyd, Harold Workman and Maurice Cook. The college will be naming a number of posthumous award recipients during the next three to five years to allow those alumni who have died prior to the initiation of the Hall of Distinguished Alumni to also be honored. Posthumous award recipients for 2012 were Garland Bastin, Smith Broadbent Jr., Thomson Bryant, Patricia Buster, Frank Frazier, Opal Hurley Mann Green, John Heick, James Kabler, Pauline Park Wilson Knapp, Charles A. Mahan, Shirley Phillips, Doris Tichenor, Larry Turner, Mack Whiteker and Harry Young Jr.

LEXINGTON: LLOYD'S MARKS $1 MILLION IN CONTRIBUTIONS TO EQUINE CENTER

Lloyd's of London presented a check to the University of Kentucky on Dec. 20 to mark its more than $1 million contribution to UK over the past 20 years to specifically fund the Maxwell H. Gluck Equine Research Center's print and online publication, the Equine Disease Quarterly. *Pictured are (from left to right): Mats Troedsson, DVM, PhD, Dipl. ACT, director of the Gluck Center and chair of the Department of Veterinary Science at UK; Patrick Talley, United States central region director of Lloyd's America; UK President Eli Capilouto; Roberta Dwyer, DVM, MS, Dipl. ACVPM, a professor in the Department of Veterinary Science at UK; Peter Timoney, MVB, PhD, FRCVS, Frederick Van Lennep Chair in equine veterinary science at the Gluck Center; and Ed Squires, PhD, Dipl. ACT (hon.), director of UK Ag Equine Programs and executive director of the UK Gluck Equine Research Foundation.*

LEXINGTON: STITES & HARBISON WINS UNITED WAY 'RAISING THE BAR' AWARD

The Stites & Harbison law firm was the inaugural winner of the United Way of the Bluegrass' "Raising the Bar" award. The award is a new initiative launched by United Way of the Bluegrass as a fun way to encourage Lexington-area law firms to increase their community outreach efforts. The award will be given each year to the law firm that demonstrates the highest generosity of spirit and civic commitment in its annual United Way campaign. Pictured here at the award presentation are (from left to right) Carrie Marshall, Stites & Haribson; Chad Rudzik, chairman - United Way Fayette County Board of Trustees; Ken Sagan, chairman - Stites and Harbison; Mike Hockensmith, chairman - United Way Board of Directors; Greg Parsons, office executive member for the Lexington office of Stites & Harbison; Bill Farmer, president - United Way of the Bluegrass; and Cassidy Rosenthal, president - Fayette County Bar Association.

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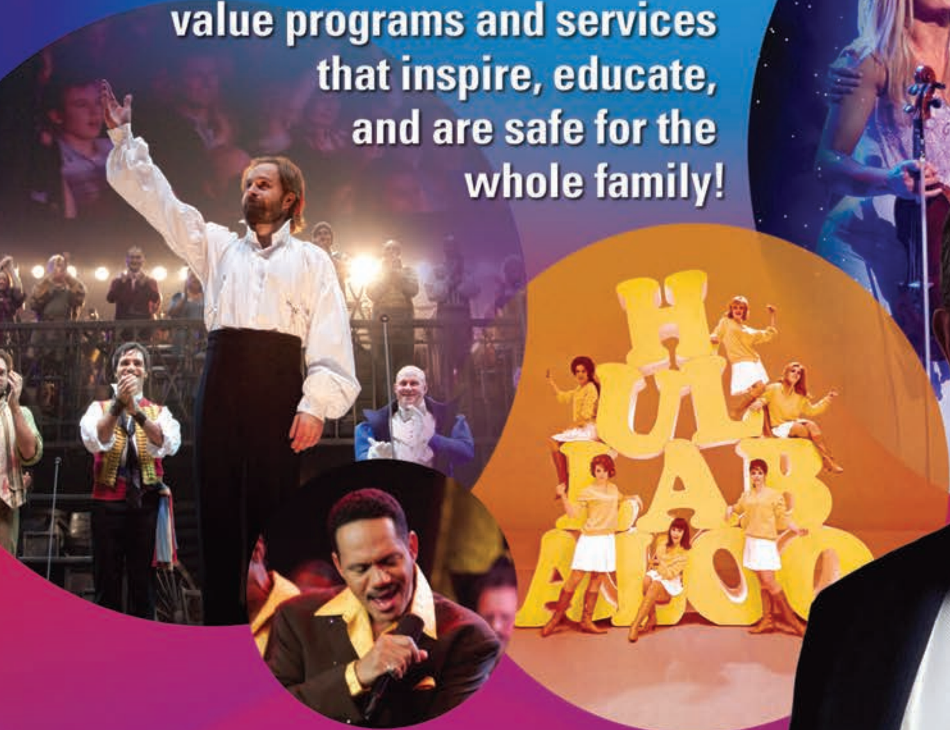

HIGHLIGHTS INCLUDE

Johnny Carson: King of Late Night

My Music: Hullabaloo

Les Miserables 25th Anniversary Concert at the O2

Downton Abbey: Behind the Drama

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Celtic Woman – Believe

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I'm proud of my cancer team. **They treat me like a person** and are genuinely concerned about what happens to me. They don't rush my treatment to get me in and get me out. An entire team of doctors regularly meets to talk about my comprehensive treatment plan and about me as a person…and I appreciate that.

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See my whole story at
myuoflhealthcare.org

ACADEMIC & MEDICAL EXCELLENCE

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James Graham Brown Cancer Center

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