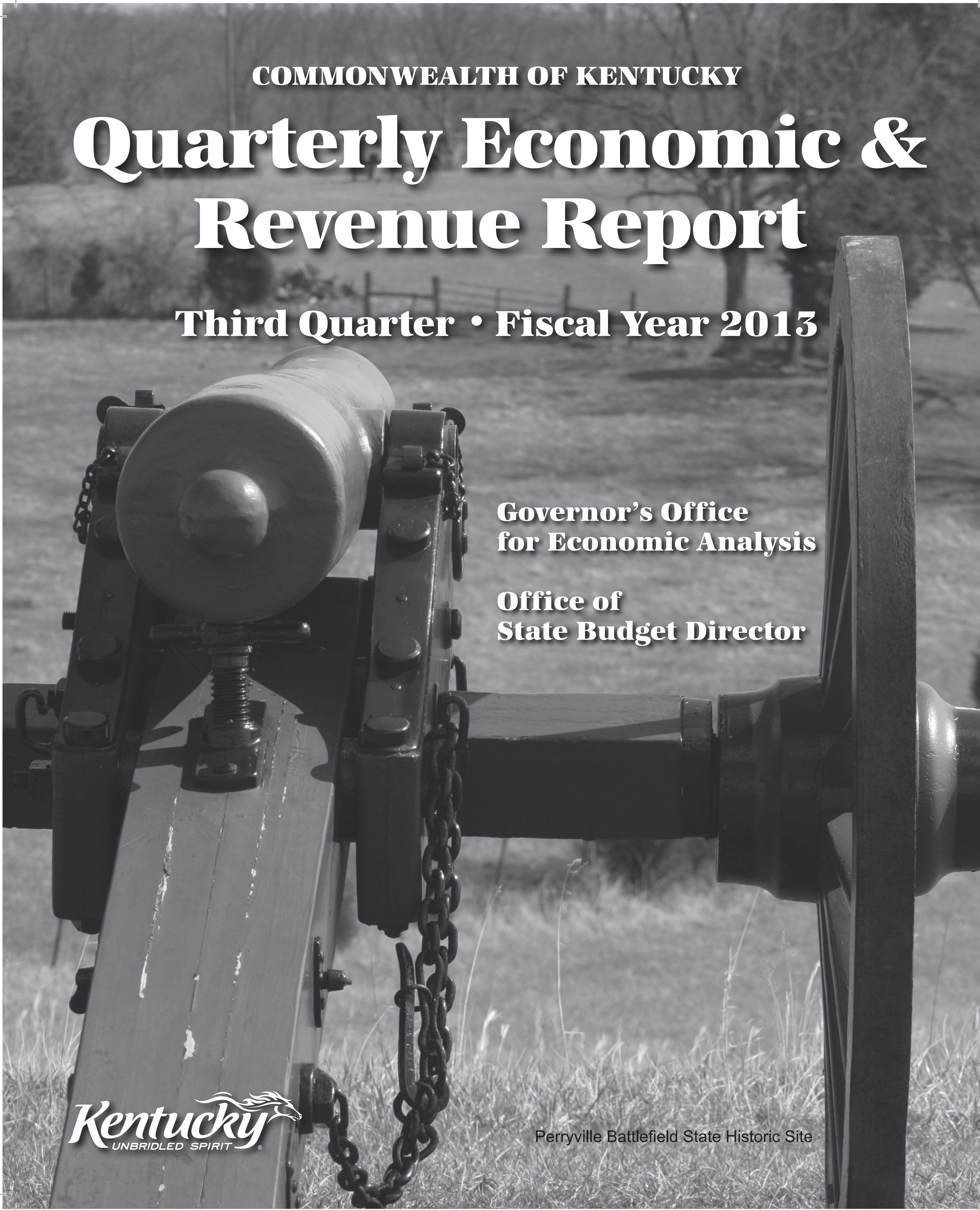
COMMONWEALTH OF KENTUCKY

Quarterly Economic & Revenue Report

Third Quarter • Fiscal Year 2013

Governor's Office for Economic Analysis

Office of State Budget Director



Kentucky UNBRIDLED SPIRIT

Perryville Battlefield State Historic Site

October 8, 1862 - 150th Anniversary of the Battle of Perryville

Perryville was the largest battle fought in the State of Kentucky.

Perryville is considered the “High Water Mark” for the confederacy in the West.

At its time, Perryville was the second bloodiest battle of the Western Theater.

A severe drought in the region drew the two armies to the Perryville region.

Despite greatly outnumbering their Confederate opponent, only one of the three Union corps at Perryville was significantly engaged in the battle.

Famous confederate diarist Sam Watkins declared Perryville the “hardest fighting” that he experienced.

Small quantities of Henry repeating rifles were used at Perryville, probably the first time one was used in combat.

Two officers who fought at Perryville were fathers of significant World War Two generals.

The Perryville Battlefield has one of the first monuments, erected by the U.S. Government dedicated to the fallen Confederate soldiers.

The Perryville State Battlefield Site was established on October 8, 1954, ninety years after the battle.

Prepared by:
Governor’s Office for Economic Analysis
Office of State Budget Director
702 Capitol Avenue, STE 396
Frankfort, Kentucky 40601

Gregory D. Harkenrider, Deputy Executive Director
Martha A. Armstrong, Internal Policy Analyst
Ghada El-Dabbagh, Program Specialist
Michael Jones, Economist
Thomas Jones, Ph.D., Economist
Gene Zaparanick-Brown, Economist

Office of State Budget Director
284 Capitol Annex, 702 Capitol Avenue
Frankfort, Kentucky 40601

Steven L. Beshear
Governor

(502) 564-7300
FAX: (502) 564-6684
Internet: osbd.ky.gov

Jane C. Driskell
State Budget Director

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
Governor's Office for Policy Research

April 30, 2013

The Honorable Steven L. Beshear
Governor
Commonwealth of Kentucky
State Capitol Building
Frankfort, KY 40601

Dear Governor Beshear:

This Quarterly Economic and Revenue Report summarizes the revenue and economic statistics for the third quarter of Fiscal Year 2013 (FY13) as well as an unofficial interim outlook for the next three fiscal quarters.

General Fund receipts for the third quarter of FY13 totaled $2,118.9 million, an increase of 0.2 percent or $3.8 million compared to the same period in FY12. The interim General Fund forecast for the final quarter of FY13 calls for an increase of 0.8 percent compared to FY12 resulting in an unofficial interim outlook for the entire FY13 of $9,284.5 million. The official revenue estimate for the General Fund for FY13 is $9,307.8 million. The interim outlook is $23.4 million below the enacted revenue estimate. This difference between the current unofficial forecast and the official forecast would most properly be interpreted by inferring that the General Fund is "right on track" to hit the official revenue estimate.

Compared to the previous seven quarters, General Fund growth is projected to wane in the final quarter of FY13 before regaining a little momentum in the first half of FY14. Fourth quarter FY13 receipts are expected to grow by 0.8 percent compared to the same quarter one year ago. The receipts for the first half of FY14 are expected to rise by 2.6 percent over those receipts collected in the first half of FY13. The slower growth projected for the remainder of FY13 is a reflection of the projected weakness in the two largest General Fund revenue sources, the individual income tax and the sales tax.

The largest component of individual income tax receipts is withholding, which makes up approximately 98 percent of total individual income tax receipts. Withholding is primarily the traditional payroll tax, which closely aligns with wages, salaries, and employment in the state. As growth in the underlying economy shores up, withholding should respond accordingly. Unfortunately, the short term outlook for employment and wages calls for muted growth.

Road Fund revenue totaled $356.9 million for growth of 1.0 percent in the third quarter of FY13. Road Fund revenues are forecasted to decline in the final quarter of FY13, which would end a string of 13 consecutive quarters of growth. The interim estimate for FY13 is $1,463.1 million, $36.5 million below the official estimate of $1,499.6 million.

Having closed the books on three quarters of FY13, challenges remain in the sales tax and all severance taxes. The sales tax is closely aligned with incomes and consumer sentiment, so that tax remains a key barometer which we will continue to watch very closely. Upside risks exist in both the individual and corporation income taxes. Estimates for the entire General Fund are tracking well for the current biennium.

Sincerely,

Jane C. Driskell

Jane C. Driskell
State Budget Director

TABLE OF CONTENTS

Executive Summary 1

Revenue Receipts - Third Quarter FY13

General Fund 4

Road Fund 6

The Economy - Third Quarter FY13

National Economy 8

Kentucky Economy 8

Interim Outlook

General Fund 11

Road Fund 14

Master Settlement Agreement 15

National Economy 15

Kentucky Economy 17

Appendix

Kentucky State Government - General & Road Fund Revenues ... 21-22

Executive Summary

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) has prepared a Quarterly Economic and Revenue Report for the third quarter of FY13. In accordance with the statutes, this report includes a current synopsis of the economic and fiscal conditions of the Commonwealth, as well as an outlook for the next three fiscal quarters.

The Federal budget sequestration began after the March 1 deadline passed — and the previous forecasts have assumed more policy certainty. The failure to solve Federal spending problems (beyond joint resolutions that authorize temporary continuation spending) has created a looming sense of policy uncertainty that has once again stalled a more robust economic recovery in the national economy.

The reduction in the forecasted rate of GDP growth comes as there are further signs of a coming slowdown for the remaining quarter of FY13. The monthly job reports are expected to remain positive but lacking the robust growth that would be necessary to cause significant reductions in the number of unemployed, especially in terms of the long term unemployed that have been out of work over 26 weeks. As the inventory cycle swings back to being a downward force on GDP, the corresponding derived demand for the workers (due to slowdown in production from unsold inventories in associated manufacturing facilities) will continue to depress the rate of growth in permanent employment and consumption.

One of the bright sectors in the economy continues to be housing. The number of households forming continues to increase, directly leading to a significant jump in both single and multi-family housing. The number of single family home starts has increased by 30 percent year-over-year from 2012. At the national level, this has helped balance the impact of the expiration of the payroll tax cut. Representing a reduction of approximately one percent in disposable income, the payroll tax reinstatement has reduced consumer purchasing power. A further counterbalance to the higher payroll tax has been found at gas pumps. Energy prices have continued to remain affordable due to competition in supply and weaker global demand.

For the final quarter of FY13 and the first half of FY14, Kentucky is expected to lag the national economy in major areas of economic activity. In particular, Kentucky wages and salaries, personal income growth, and employment are all expected to continue to lag the national averages.

Lower energy prices will provide a favorable environment for many consumers over the next two quarters. The current forecast calls for moderate gasoline prices for the coming summer, a hopeful sign for the summer vacation season and its related impact on consumption. The precipitous decrease in coal production is expected to moderate somewhat, but the downturn seems to be entrenched to the point where an eminent recovery for Eastern Kentucky coal is not currently anticipated.

The revenue forecasts presented in Table 5 and Table 6 were estimated using the March 2013 “control scenario” economic forecast from both IHS Global Insight and the Kentucky MAK model. The unofficial estimate generated in this report for the FY13 General Fund is $9,284.5 million, $23.4 million below the enacted revenue estimate. The very small difference between the current unofficial General Fund forecast and the official forecast would most properly be interpreted by inferring that the General Fund is “right on track” to hit the official revenue estimate.

Compared to the previous seven quarters, General Fund growth is projected to wane in the final quarter of FY13 before regaining a little momentum in the first half of FY14. The April through June fourth quarter of FY13 receipts are expected to grow by 0.8 percent compared to the same quarter one year ago. The receipts for the first half of FY14 are expected to rise by 2.6 percent over those receipts collected in the first half of FY13. The modest growth projected for the remainder of FY13 is a reflection of projected weakness in the two largest General Fund revenue sources, the individual income tax and the sales tax.

The fourth quarter of each fiscal year poses some extra challenges to forecasting the individual income tax. Taxpayers attempt to make declarations evenly throughout the year. Sometimes unforeseen circumstances can prevent that. When this happens, taxpayers will adjust their April declaration payment so that their tax liability is met. Therefore, the April payment is often incongruous with the previous declaration payments. This results in inverse movements between net returns and declaration payments during the fourth quarter. In addition, withholding in the fourth quarter of FY12 was historically high. The fourth quarter of FY13, therefore, has a high hurdle to show growth. As growth in the underlying economy shores up, withholding should respond accordingly. Unfortunately, the short-term outlook for employment and wages calls for muted growth.

Sales and use tax collections have declined 0.8 percent through the first nine quarters of FY13. Annual sales tax receipts have increased in 28 of the previous 30 fiscal years, with the only two declines occurring during the 2007 recession. Since then, sales tax receipts have firmly recovered, culminating in robust 5.4 percent rate of growth in FY12. Sales and use tax receipts are expected to grow by 1.5 percent in the final quarter of FY13 but will end the year with only the third decline in 31 years. Similar activity has occurred in many states in our region, but Kentucky is a clear laggard compared to national growth in taxable sales.

Road Fund revenues are forecasted to decline in the final quarter of FY13, which would end a string of 13 consecutive quarters of growth. Growth in revenues may resume in the first two quarters of FY14 as shown in Table 6. Growth rates for the fourth quarter of the current fiscal year and the first six months of FY14 are forecasted to be -2.0 percent and 2.9 percent, respectively. The FY13 full-year interim forecast is $36.5 million less than the official revenue forecast as approved by the Consensus Forecasting Group on December 21, 2011.

Nearly 85 percent of the Kentucky Road Fund comes from the two largest taxes: motor fuels and motor vehicle usage (a six percent tax applied to the sale of new or previously-owned motor vehicles). Motor fuels tax collections are forecasted to grow 3.6 percent over the final three months of FY13, due primarily to the increase in the tax rate on motor fuels. Although the variable portion of the motor fuels tax rate will be at its maximum for the entire fiscal year, a reduction in taxable gallons is keeping growth in receipts at a moderate level. Motor vehicle usage tax collections are expected to decline in the fourth quarter, falling 13.3 percent when compared to the same period in 2012 which exhibited unusually strong growth.

Revenue Receipts Third Quarter FY13

GENERAL FUND

General Fund receipts in the third quarter of FY13 totaled $2,118.9 million compared to $2,115.1 million in the third quarter of FY12, for an increase of 0.2 percent or $3.8 million. Through the first three quarters of the fiscal year, receipts have increased 2.6 percent. Revenues have grown in 12 consecutive quarters following the five quarters of revenue declines during the recession. Collections in the major revenue categories are shown in summary form in Table 1. Detailed information on these and other accounts is available in the Appendix.

Individual income tax receipts increased 7.7 percent in the third quarter of FY13. Receipts of $750.1 million were $53.5 million more than was collected in the third quarter of the previous fiscal year.

Table 1
Summary General Fund Receipts
Third Quarter, FY12, $ millions

	FY13	FY12	Diff ($)	Diff (%)
Individual Income	750.1	696.7	53.5	7.7
Sales and Use	736.9	756.5	-19.6	-2.6
Property	125.4	174.4	-49.1	-28.1
Corporation Income	52.9	33.1	19.8	59.8
Coal Severance	53.3	72.8	-19.5	-26.8
Cigarette Taxes	53.9	58.5	-4.7	-8.0
LLET	50.0	36.8	13.3	36.1
Lottery	53.5	54.5	-1.0	-1.8
Other	242.9	231.8	11.1	4.8
Total	**2,118.9**	**2,115.1**	**3.8**	**0.2**

Total sales and use tax receipts for the quarter were $736.9 million, compared to $756.5 million in the third quarter of FY12. The $19.6 million difference translates to a decrease of 2.6 percent compared to a 7.2 percent increase for the third quarter of last year. Year-to-date sales and use tax receipts have decreased 0.8 percent and remain a concern for future revenue growth.

Property taxes were down 28.1 percent in the third quarter of FY13 due to timing of collections in the tangible and public service property accounts. Collections of $125.4 million compare to $174.4 million received in the third quarter of the prior fiscal year.

Corporation income tax posted an increase of 59.8 percent, or $19.8 million, during the third quarter of FY13. Receipts totaled $52.9 million compared to the $33.1 million received a year earlier. The third fiscal quarter of each year is a low collection period for corporate taxes due to the schedule of payments for calendar-year filers.

The coal severance tax continued to decrease in the third quarter as receipts fell 26.8 percent. Receipts of $53.3 million compare to $72.8 million collected in the third quarter of FY12. Through the first nine months of FY13, receipts have decreased by 24.9 percent.

Cigarette taxes decreased in the third quarter. Receipts of $53.9 million were

8.0 percent below that collected in the third quarter of FY12. Year-to-date, cigarette tax receipts have fallen 5.4 percent due to a continued decline in the number of packs sold.

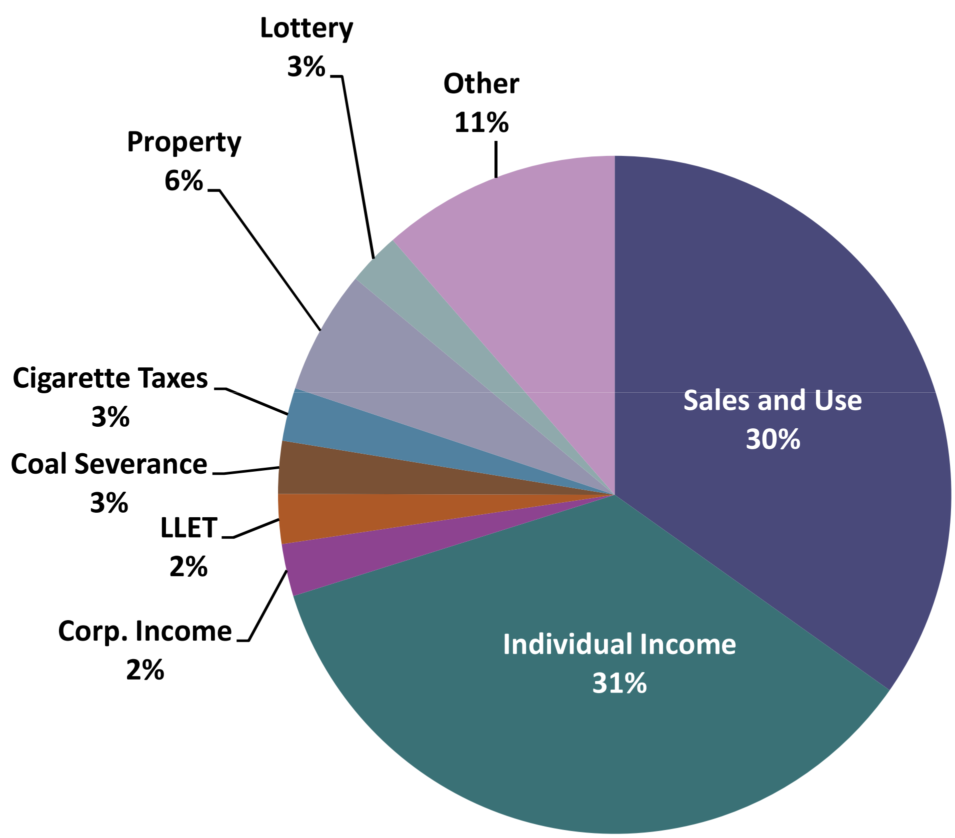
The limited liability entity tax (LLET) saw a precipitous increase in tax collections in the third quarter of FY13 when compared to FY12. Total collections in the current fiscal year totaled $50.0 million and compare favorably to revenues of $36.8 million in the same period a year earlier.

Lottery receipts of $53.5 million were down $1.0 million, or 1.8 percent, below the total collected in the third quarter of FY12.

The "Other" category represents the remaining accounts in the General Fund, and collections in this account increased 4.8 percent with receipts of $242.9 million.

Figure 1 details the composition of third-quarter General Fund receipts by tax type. Sixty one percent of General Fund revenues were collected in the areas of the individual income and sales taxes. The next largest source of revenue was the "Other" account at 11.0 percent. The major components in this category include insurance premium taxes, bank franchise taxes,telecommunications taxes, beer wholesale sales tax, inheritance taxes, and the distilled spirits wholesale tax. Property tax accounted for 6.0 percent. Coal

Figure 1
General Fund Receipts Composition
Third Quarter, FY13



severance, lottery receipts and cigarette taxes accounted for 3.0 percent each fund. Finally, corporation income and LLET each accounted for 2.0 percent.

ROAD FUND

Road Fund revenue increased 1.0 percent in the third quarter of FY13. Receipts totaled $356.9 million compared to the $353.6 million received in the third quarter of the last fiscal year. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Table 2
Summary Road Fund Receipts
Third Quarter, FY12, $ millions

	FY13	FY12	Diff ($)	Diff (%)
Motor Fuels	194.4	188.5	5.9	3.2
Motor Vehicle Usage	103.3	102.1	1.2	1.1
Motor Vehicle License	28.7	33.6	-4.9	-14.5
Motor Vehicle Operators	3.8	3.8	-0.1	-2.0
Weight Distance	18.5	18.5	0.0	0.2
Income on Investments	0.9	0.4	0.5	136.3
Other	7.4	6.7	0.7	10.0
Total	**356.9**	**353.6**	**3.4**	**1.0**

Motor fuels tax receipts increased 3.2 percent during the third quarter of FY13. Receipts were $194.4 million and compare to $188.5 million collected during the third quarter of last year. Changes in the statutorily defined fuels tax rate has accounted for the growth in this revenue source despite a decline in gallons of gasoline and special fuels sold during the quarter.

Motor vehicle usage tax receipts increased 1.1 percent, or $1.2 million, during the third quarter. Receipts were $103.3 million compared to $102.1 million collected during the same period last year.

Motor vehicle license tax receipts were down 14.5 percent during the third quarter of FY13. Receipts of $28.7 million compare to $33.6 million received during the third quarter of FY12.

Motor vehicle operators' license fees totaled $3.8 million, a 2.0 percent decrease compared to the level observed a year ago.

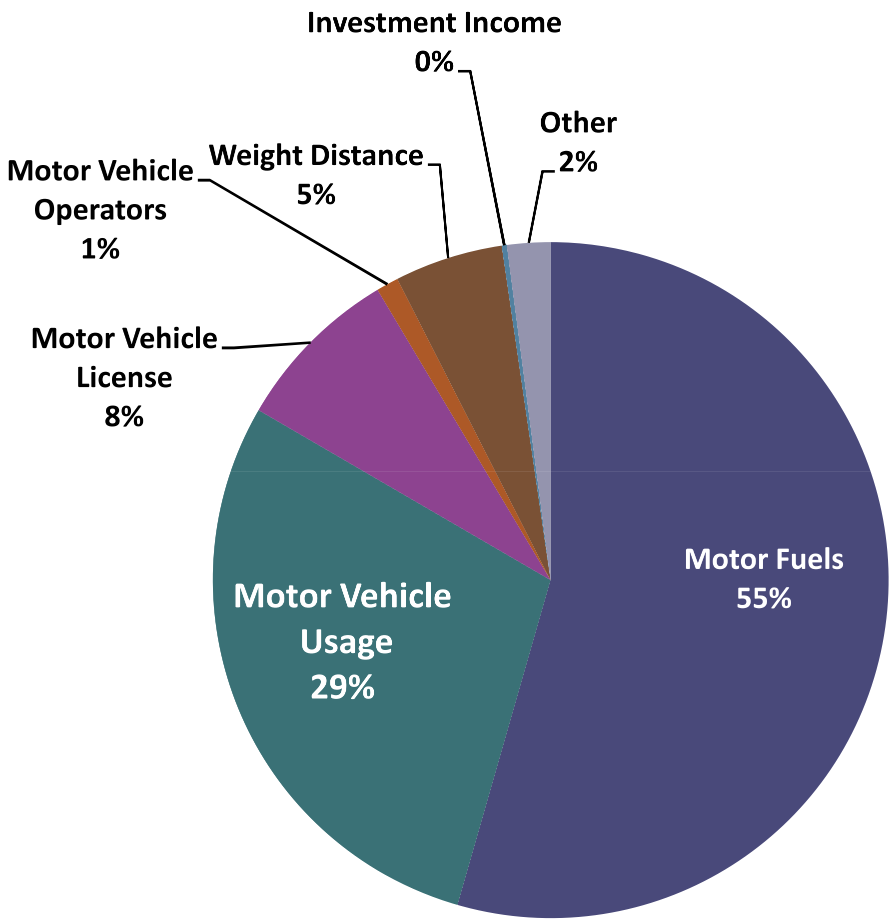
Weight distance tax receipts of $18.5 million increased 0.2 percent compared to receipts collected during the third quarter of last year. The weight distance tax has some significance as a leading indicator of economic activity, as it is a good proxy for goods in transit over Kentucky highways.

Investment income receipts totaled $0.9 million compared to $0.4 in the third quarter of FY12.

The remainder of the accounts in the Road Fund combined for an increase of 10.0 percent. Receipts for the "Other" category totaled $7.4 million during the third quarter, compared to $6.7 million in the third quarter of FY12.

Figure 2 details the composition of Road Fund revenues by tax type in the third quarter of FY13. Motor fuels taxes and the motor vehicle usage tax accounted for 84.0 percent of Road Fund revenues in the third quarter. The next-largest sources of revenue were the motor vehicle license tax with 8.0 percent followed by weight distance with 5.0 percent. The "Other" category accounted for 2.0 percent, while motor vehicle operators' license fees comprised one percent. Investment income accounted for a negligible amount of total Road Fund receipts.

Figure 2
Road Fund Receipts Composition
Third Quarter, FY13



The Economy
Third Quarter FY13

NATIONAL ECONOMY

Real gross domestic product (real GDP) is a widely accepted barometer to measure the health of our national economy. Real GDP is defined as the sum of all final goods and services sold within a country's physical boundaries in a given year. Real GDP is made up of five components: consumption, investment, government expenditures, exports and imports. Real GDP rose by 1.7 percent in the third quarter of FY13 over the third quarter of FY12.[1]

Real consumption growth made up the bulk of real GDP growth in the third quarter. Real consumption grew by $178.1 billion. Consumption makes up 70.8 percent of real GDP. Real investment, which makes up 14.3 percent of real GDP, contributed the largest share to real GDP growth. Real investment grew by $62.7 billion over the third quarter of FY12. Government expenditures decreased by $34.2 billion in the third quarter of FY13 compared to the same quarter in FY12.

Exports grew by 2.1 percent compared to the third quarter of FY12. The first half of FY13 growth was weak, but a strong third quarter (compared to the second quarter) resulted in modest growth compared to last year. Imports fell for two straight quarters in the first and second quarters of FY13. Imports grew by 1.0 percent in the third quarter compared to the second quarter. The slow import growth and modest export growth helped US net exports. The improvement in net exports, led to a small improvement in the trade deficit, which now stands at $387.3 billion in the third quarter.

US personal income rose by 2.3 percent in the third quarter of FY13 over FY12. US personal income growth fluctuated heavily in the first three quarters of FY13. First quarter of FY13 growth compared to the previous quarter was weak, gaining only 0.6 percent. Personal income in the second quarter compared to the first quarter was solid, improving 1.9 percent. Personal income fell in the third quarter compared to the second quarter, losing 0.9 percent. US wages and salaries growth was fairly consistent for the last four quarters rising between 0.5 percent and 1.0 percent in each quarter. The steady growth of wages and salaries indicate that the non-wages and salaries components of income are responsible for the variations in US personal income.

KENTUCKY ECONOMY

Kentucky personal income was significantly lower than US personal income during the last year. Kentucky personal income rose 1.3 percent during that time. Kentucky personal income dropped 1.0 percent compared to the second quarter. Wages and salaries rose 0.6 percent compared to the second quarter of FY13. Quarterly growth in personal income

[1] All FY13Q3 figures (including real GDP) in this section are estimates. IHS Global Insight Inc. March 8, 2013.

and its components have been modest since the recession ended. Quarterly growth rates immediately following the 2001 recession were 1.5 percent to 2.0 percent. Personal income growth has averaged just 0.9 percent since the 2007 recession ended.

Kentucky non-farm employment rose by just 1.0 percent in the third quarter of FY13. Five of the 11 supersectors lost employment compared to the third quarter of FY12. The mining sector experienced the largest and absolute percentage job losses, losing 4,100 jobs, a 17.9 percent loss compared to the third quarter of FY12. Kentucky manufacturing employment was the supersector with the largest percentage growth. Manufacturing employment rose by 8,000 jobs, a 3.7 percent increase over last year.

Kentucky non-farm employment is still below its pre-recession peak. The previous peak was in the fourth quarter of FY07 with 1,868,800 employed. Current employment is 1,839,600. Quarterly non-farm employment growth is averaging 0.4 percent since the end of the recession. This level of long-term job growth is similar to that which occurred following the 2007 recession.

The three largest employment sectors in Kentucky are trade, transportation and utilities (TTU); government; and educational services. TTU and educational services employment improved in the third quarter by 2.6 percent and 1.1 percent, respectively. Government employment, which includes all levels of government employment (federal, state, and local), declined by 1.1 percent in the third quarter.

It is unusual for five of the 11 sectors to be declining for such long periods of time. Construction employment has been declining (or flat) for the last decade. Mining employment has been declining since the fourth quarter of FY09. Information services employment has declined in nearly every quarter since FY08. Other services employment has decreased in almost every quarter since 2004. Losses to government employment are typical during the business cycle as revenues fluctuate and budgets become more difficult to balance. The other four sectors, however, are experiencing a major structural change. This change could be a change in technology or shift in demand, which may be external to the business cycle. Consider the sum of the four sectors, compared from the fourth quarter of FY09 to now. During that time, these four sectors have lost 15,200 jobs during an expansion period. Meanwhile, total non-farm employment rose by 72,600 during that time. The majority of the employment gains occurred in the business services and TTU sectors. Employment in these two sectors alone rose by 42,600 workers during that same time period. These are not the largest sectors of the Kentucky economy; they only represent 9.8 percent of total non-farm employment.

Table 3
Summary of US Economic Series
Third Quarter FY13 & FY12

	Third Quarter			
	FY13	**FY12**	**$Chg**	**% Chg**
Real GDP	13,735.2	13,506.4	228.8	1.7
Real Consumption	9,724.9	9,546.8	178.1	1.9
Real Investment	1,957.8	1,895.1	62.7	3.3
Real Govt. Expenditures	2,449.5	2,483.7	-34.2	-1.4
Real Exports	1,856.1	1,818.7	37.4	2.1
Real Imports	2,243.4	2,234.2	9.2	0.4
Personal Income ($ billions)	13,534.4	13,227.1	307.3	2.3
Wages and Salaries ($ billions)	6,993.8	6,825.9	167.9	2.5
Inflation (% chg CPI)	1.7	2.8	NA	NA
Industrial Production Index (% chg)	2.4	4.4	NA	NA
Civilian Labor Force (millions)	155.7	154.6	1.1	0.7
Total Non-farm Employment (millions)	135.0	133.1	1.9	1.4
Manufacturing Employment (millions)	12.0	11.9	0.1	0.7
Unemployment Rate (%)	7.9	8.3	NA	-4.8

Not Seasonally Adjusted. Real series are annual rate, billions of chained 2005 dollars.
Components do not sum to GDP because they are annualized independently.
Data for FY13 Q3 are March 2013 estimates.
Source: IHS Global Insight Inc., March 11, 2013 data release

Table 4
Summary of Kentucky Economic Series
Third Quarter FY13 & FY12

	Third Quarter			
	FY13	**FY12**	**$Chg**	**% Chg**
Personal Income ($ millions)	154,116.7	152,075.0	2,041.7	1.3
Wages and Salary ($ millions)	78,166.8	77,186.0	980.8	1.3
Non-farm Employment (thousands)	1,839.6	1,820.5	19.1	1.0
Goods-producing	311.6	309.1	2.5	0.8
Construction	67.2	68.5	-1.3	-2.0
Mining	18.7	22.8	-4.1	-17.9
Manufacturing	225.8	217.8	8.0	3.7
Service-providing	1,192.9	1,172.5	20.4	1.7
Trade, Transportation & Utilities	378.7	369.1	9.6	2.6
Information	25.6	26.7	-1.1	-4.2
Finance	88.8	85.8	3.0	3.5
Business Services	194.7	190.6	4.1	2.2
Educational Services	259.4	256.5	2.9	1.1
Leisure and Hospitality Services	177.1	173.7	3.4	2.0
Other Services	68.7	70.1	-1.4	-2.0
Government	335.0	338.9	-3.9	-1.1

Not Seasonally Adjusted. Data for FY13 Q3 are March 2013 estimates.
Source: IHS Global Insight Inc., March 11, 2013 data release

Interim Outlook

GENERAL FUND

The official General Fund estimate for FY13 is $9,307.8, an increase of 2.4 percent over FY12 collections. The official estimate is based on the Consensus Forecasting Group's estimates from December 2011 and modified by actions of the General Assembly.

The official revenue estimate for the General Fund for FY13 include estimated revenues from a Tax Amnesty Program authorized by the 2012 General Assembly. The Tax Amnesty Program occurred from October 1 through November 30, 2012, and is now being followed by enhanced compliance efforts by the Department of Revenue. Second and third quarter General Fund receipts from FY13 include some tax amnesty proceeds, however final results will not be known until later this spring, due to taxpayers that set up installment payment plans to fulfill the obligation of their back taxes.

The revenue forecasts presented in Table 5 and Table 6 were estimated using the March 2013 "control scenario" economic forecast from both IHS Global Insight and the Kentucky MAK model. The unofficial estimate generated in this report for the General Fund is $9,284.5 million, and total $23.4 million below the enacted revenue estimate. This unofficial interim estimate is based on the most current revenue receipts and economic data. The very small difference between the current unofficial forecast and the official forecast would most properly be interpreted by inferring that the General Fund is "right on track" to hit the official revenue estimate within the confidence interval implied in models that project nearly $9.3 billion in annual revenues.

Projected General Fund revenues for the next three quarters are shown in Table 5. As the table indicates, General Fund growth is projected to wane in the final quarter of

Table 5
General Fund Interim Forecast
$ millions

	FY13						FY13		FY14	
	Q1, Q2 & Q3		Q4		Full Year		Official CFG		Q1 & Q2	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff	Estimate	% Chg
Individual Income	2,563.2	5.7	1,072.9	-1.3	3,636.0	3.5	3,587.7	48.3	1,863.3	2.8
Sales & Use	2,248.8	-0.8	796.9	1.5	3,045.6	-0.2	3,089.2	-43.6	1,558.8	3.1
Property	522.5	6.3	40.2	5.8	562.7	6.3	538.4	24.3	409.4	3.1
Corporation Income	247.8	12.7	161.8	4.6	409.6	9.4	370.3	39.3	211.0	8.3
Coal Severance	174.9	-24.9	58.3	-11.1	233.1	-21.8	337.0	-103.9	110.2	-9.3
Cigarettes	175.4	-5.4	69.0	-0.6	244.4	-4.1	252.3	-7.9	115.5	-5.0
LLET	158.2	28.0	89.0	15.4	247.2	23.1	222.9	24.3	112.8	4.3
Lottery	155.3	-0.5	58.7	7.1	214.0	1.5	214.0	0.0	103.7	1.9
Other	529.5	6.0	162.3	2.3	691.8	5.1	696.0	-4.2	292.0	1.9
General Fund	**6,775.4**	**2.6**	**2,509.1**	**0.8**	**9,284.5**	**2.1**	**9,307.8**	**-23.4**	**4,776.6**	**2.6**

FY13 before gaining a little more momentum in the first half of FY14. The General Fund receipts for the fourth quarter are expected to grow by 0.8 percent compared to the same quarter one year ago. The receipts for the first half of FY14 are expected to rise by 2.6 percent over those receipts collected in the first half of FY13. The slower growth projected for the remainder of FY13 is a partial reflection projected weakness in the two largest General Fund revenue sources, the individual income tax and the sales tax.

Individual income tax receipts are composed of four components: withholding, declarations, fiduciary and net returns. The fourth quarter of each fiscal year poses extra challenges to forecasting the largest three components of the tax due to the seasonality created from the April 15th (for payments with returns and estimated payments) and June 15th (second estimated payment) due dates. The largest component of individual income tax receipts is withholding, which makes up approximately 98 percent of total individual income tax receipts. Recent law changes have created withholding requirements for non-resident, pass-through entities, making time series estimation more challenging due to the structural break in the data. The main part of withholding is the traditional payroll tax, which closely tied to wages, salaries, and employment in the state. As growth in the underlying economy shores up, withholding should respond accordingly. Unfortunately, the short term outlook for employment and wages calls for muted growth.

Sales and use tax collections have declined 0.8 through the first nine quarters of FY13. Annual sales tax receipts have increased in 28 of the previous 30 fiscal years, with the only two declines occurring during the 2007 recession. In FY09, receipts declined 0.7 percent followed by a 2.2 percent further dip in FY10. Since then, sales tax receipts have firmly recovered, culminating in robust 5.4 percent rate of growth in FY12. Sales and use tax receipts are expected to grow by 1.5 percent in the final quarter of FY13 but still end the year with only the third decline in 31 years. Similar activity has occurred in many states in our region, but Kentucky is a clear laggard compared to national growth in taxable sales.

Growth in property tax revenues is expected to finish the year strongly with 5.8 percent growth in the fourth quarter to solidify 6.3 percent growth for FY13. If the growth materializes, FY13 will record the highest growth in property taxes since FY06. Before making inferences about underlying story, it is important to recall that tax amnesty occurred in FY13, which led to some collection of property taxes that were tied to obligations from prior tax years. Second, property taxes have been virtually flat for a number of years now, so part of the growth is a reflection of low periods of comparison from prior years. Finally, real property taxes (the largest single revenue source in the category of property taxes) collected in FY13 were based on property tax assessments as of January 1, 2012. Since then, real estate prices seem to have bottomed out and have began the slow process of recovery from the depressed recessionary valuations. As such, our expectations for FY14 and beyond call for annual growth rates more indicative of an economic expansion.

Corporate income tax receipts are expected to increase by 4.6 percent in the fourth quarter of FY13. If this projection holds, annual growth in FY13 will come in at 9.4 percent; an impressive rate of growth considering growth in FY12 was 24.5 percent and in FY11 was 26.4 percent. Three consecutive years of strong growth in corporation income taxes underscores several points that will be made in the forthcoming economic outlook in this report. To foreshadow these points, strong growth in corporation income taxes implies growth in corporate income, which is mainly growth in profits. Growth in profits usually imply that demand and production have risen – which would have implied higher levels of labor and capital equipment – but these have not occurred.

Coal severance receipts year-to-date in FY13 have fallen by 24.9 percent compared to FY12. The losses are the result of a large decrease in severed tons and decreased demand for coal, due in large part to falling prices of demand-side energy substitutes like natural gas. Spot market prices have stabilized and have inched slowly upward since July 2012. However, forward contracts for delivery are made for three or more years. Therefore, despite some minor help from spot prices, contracts are currently being fulfilled at forward prices set during a period of depressed contract prices per ton. The effect of commodity prices on tax receipts has certainly depressed natural gas severance receipts as well, as spot gas prices remain well below prices in previous fiscal years. The final quarter of FY13 coal severance receipts are expected to fall 11.1 percent compared to the same period a year ago, which was the first quarter where the sharp declines in severance receipts occurred. The trend is expected to continue into FY14, as first half FY14 receipts are expected to be 9.3 percent less than the same period in FY13.

Cigarette smoking has declined both in Kentucky and nationally, as measured by the number of packs sold. This underlying trend continues to influence cigarette receipts in Kentucky. Cigarette receipts declined 5.4 percent in the first nine months of FY13 and are expected to continue falling. Receipts in the fourth quarter of FY13 are expected to decline 0.6 percent. The first half of FY14 receipts are expected to decline by 5.0 percent.

The LLET receipts are growing sharply relative to FY12 and are expected to continue to rise at approximately the same pace for the final quarter of FY13. Fiscal year growth for LLET receipts is expected to be an astounding 23.1 percent over FY12. Last year, the corporate income tax grew sharply but the LLET fell 7.0 percent. The first half of FY14 is expected to return to a more modest pace of 4.3 percent growth.

Lottery receipts are determined by the Lottery Corporation’s dividend schedule. Lottery receipts are projected to end FY13 at $214.0 million, an increase of 1.5 percent over FY12 levels. Prospects for FY14 appear strong, so no changes from enacted estimates are anticipated.

The “Other” category contains dozens of smaller accounts, which make up the remainder of the General Fund. Insurance premiums tax, bank franchise and telecommunications tax are the three largest accounts in the “Other” category. The “Other” category of taxes is expected to rise a net 2.3 percent in the final quarter of FY13 but end the year with solid growth of 5.1 percent. Receipts in the first half of FY14 are expected to moderate to a more sustainable growth rate of 1.9 percent.

ROAD FUND

Road Fund revenues are forecasted to decline in the final quarter of FY13, which would end a string of 13 consecutive quarters of growth. Growth in revenues will resume in the first two quarters of FY14 as shown in Table 6. Growth rates for the fourth quarter of the current fiscal year and the first six months of FY14 are forecast to be -2.0 percent and 2.9 percent, respectively. The FY13 full-year forecast is $36.5 million less than the official revenue forecast as approved by the Consensus Forecasting Group on December 21, 2011.

Motor fuels tax collections are forecasted to grow 3.6 percent over the final three months of FY13, due primarily to the increase in the tax rate on motor fuels. Although the variable portion of the motor fuels tax rate will be at its maximum for the entire fiscal year, a reduction in taxable gallons is keeping growth in receipts at a moderate level. Receipts in the first two quarters of FY14 will remain modest as a falling tax rate and a decline in taxable gallons limit growth.

Motor vehicle usage tax collections are expected to decline in the fourth quarter, falling 13.3 percent due primarily to unusually strong growth in the fourth quarter of FY12. Growth in this account is expected to resume in the first two quarters of FY14, growing 2.2 percent.

To estimate the growth of all other components of the Road Fund, officials of the Kentucky Transportation Cabinet and staff of the Governor's Office for Economic Analysis together assessed recent growth patterns as well as administrative and statutory factors.

Motor vehicle license taxes are forecasted to increase 5.7 percent in the final quarter of FY13 and rise 3.8 percent in the first two quarters of FY14. Motor vehicle operators' licenses are projected to grow 3.5 percent in the remainder of the fiscal year and then increase in the first six months of FY14, growing 2.8 percent. Weight distance tax revenue is forecast to decline in both the final quarter of the fiscal year as well as in the first half of FY14. Investment income is expected to decline $2.2 million over the remainder of the fiscal year but increase $0.2 million in the first half of FY14. All other revenues should combine for an increase of 8.6 percent during the last three months of FY13 but grow only 0.9 percent in the first two quarters of FY14.

Table 6
Road Fund Interim Forecast
$ millions

	FY13						FY13		FY14	
	Q1, Q2 & Q3		Q4		Full Year		Official CFG		Q1 & Q2	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff	Estimate	% Chg
Motor Fuels	617.2	4.6	207.7	3.6	824.9	4.4	850.5	-25.5	414.2	3.2
Motor Vehicle Usage	304.9	2.1	102.5	-13.3	407.4	-2.3	410.8	-3.4	200.7	2.2
Motor Vehicle License	63.9	-15.5	34.1	5.7	98.0	-9.1	99.3	-1.3	43.6	3.8
Motor Vehicle Operators	11.9	1.9	4.2	3.5	16.1	2.3	15.9	0.2	8.1	2.8
Weight Distance	56.3	-0.1	18.7	-0.4	75.0	-0.1	86.0	-11.0	37.3	-1.6
Income on Investments	3.0	2,718.9	0.8	-72.7	3.8	23.3	2.3	1.5	2.3	900.0
Other	24.8	8.5	13.1	8.6	37.9	8.5	34.9	3.0	16.0	0.9
Road Fund	**1,082.1**	**2.6**	**381.0**	**-2.0**	**1,463.1**	**1.3**	**1,499.6**	**-36.5**	**722.2**	**2.9**

MASTER SETTLEMENT AGREEMENT

For the fourth quarter of FY13, the Commonwealth was forecasted to receive a total of $92.1 million in MSA payments from the participating tobacco manufacturers. The actual payments received in mid-April (which will be the only payments in FY13) totaled $101.7 million as compared to $101.8 million in FY11. To date, Kentucky has received $1.6 billion from the MSA.

This year's MSA payment reflects the continuation of all three of the Original Participating Manufacturers (OPMs) paying into the Disputed Payment Account. The Disputed Payment Account is established by the MSA to allow firms to set aside a portion of their payments reflecting the amount the firms argue should not be due to the Settling States under the Non-Participating Manufactures (NPM) adjustment. The provision allows for the reduction of payments to the settling states if the states do not fully enforce the provisions contained in the MSA pertaining to the sale of cigarettes manufactured by manufacturers not party to the formal settlement agreement. Since this determination is a long and lengthy legal decision, the funds under dispute are placed into an escrow account until adjudication. For this year, the amount placed into the disputed account represents a collective reduction in payments to Kentucky of approximately $13.8 million. The 2003 NPM Adjustment is currently being decided through a national arbitration process.

NATIONAL ECONOMY

In what is becoming a recurring theme, the outlook for the national economy must balance the relative improvement of the economy's fundamentals with the continuing policy uncertainty from Washington, DC.

The budget sequester began after the March 1 deadline passed with no action or compromise, and the previous forecasts have assumed that a resolution would be forthcoming in a relatively short time frame. However, a joint resolution to temporarily continue funding the government was passed in late March without removing the possibility of a more severe sequestration upon expiration of the continuing resolution. Failure to solve Federal spending problems or identify a new revenue source creates a looming sense of policy uncertainty that has once again stalled a more robust economic recovery in the national economy.

Threats of broad closures of government facilities, flight control towers, airport security check-points, and similar government services were expected to lead to a public outcry for a solution. At this point, however, the public has not felt a significant impact that would create a sense of prominent urgency sufficient to force a compromise or permanent solution. Rather, the kick-the-can process of continuing resolutions have ruled the day amidst a backdrop of weak or ambiguous economic data.

The next major opportunity for a resolution is not expected until the nation, once again, bumps against the national debt ceiling in August. As a result, the current forecast assumes that the sequestration will remain in place until the end of the current Federal fiscal year, September 30^{th}. The expectation is for $44 billion in actual spending reductions to be implemented in Federal fiscal year FY13 and $57 billion in calendar 2013. The overall impact is forecast to be a 0.4 percent reduction in the GDP growth rate for 2013.

The reduction in the forecasted rate of GDP growth comes as there are further signs of a coming slowdown for the remaining quarter of FY13. The unemployment rate has been falling due to reductions in the workforce rather than significant increases in job creation. The monthly job reports are expected to remain positive but lacking the robust growth that would be necessary to cause significant reductions in the number of unemployed, especially in terms of the long term unemployed that have been out of work over 26 weeks. As the inventory cycle swings back to being a downward force on GDP, the corresponding derived demand for the workers (due to slowdown in production from unsold inventories in associated manufacturing facilities) will continue to depress the rate of growth in permanent employment and consumption.

One of the bright sectors in the economy continues to be housing. The number of households forming continues to increase directly leading to a significant jump in both single and multi-family housing. The number of single family home starts has increased by 30 percent year-over-year from 2012, and the number of completions has also grown significantly. While it may seem obvious that a home start will lead to a completion, the actual time to completion and the percentage of permits acted upon is an important measure of a housing recovery. The housing recovery still has significant room to continue, as housing starts have averaged 1.5 million per year from 1960 through 2000. The current levels of approximately 1.0 million per year suggest that housing starts, additionally fueled by historic low interest rates, will continue to increase for the near future.

Households and their associated consumer spending have been struggling with high debt burdens, low housing values, and concerns of continued tepid job growth. The recovery in the housing market has helped increase consumer spending as new homeowners make housing related purchases and existing homeowners respond to the wealth effect of increased housing values. At the national level, this has helped balance the impact of the expiration of the payroll tax cut. Representing a reduction of approximately one percent in disposable income, the payroll tax reinstatement has reduced consumer purchasing power. A further counterbalance to the higher payroll tax has been found at gas pumps. Energy prices have continued to remain affordable due to competition in supply and weaker global demand.

With the continued lackluster labor market and continued commodity deflation, the Federal Reserve is fully expected to continue with renewed purchases of $45 billion in long-term Treasuries per month. This is in addition to the previously announced program of quantitative easing focused on the purchase of $40 billion in mortgage backed securities per month, and continued guidance on "near-zero" interest rates until unemployment drops to 6.5 percent. Given the current forecast, this would keep the Federal Reserve's interest rate policies in place through calendar 2015.

Overall, the outlook for the next quarter is positive but continued slow growth. Real GDP is expected to grow at an annualized rate 0.4 percent over the next quarter, representing a 1.6 percent increase year-over-year. For the first two quarters of FY14, real GDP is forecasted to grow at an annualized rate of 2.5 percent, representing a 1.9 percent increase over the same period in FY13. Consumption is projected to grow by an annual rate of 1.8 percent over the next quarter, representing a 1.9 percent increase over the fourth quarter of FY12. Government expenditures at all levels, federal, state, and local, will continue to decline significantly. Oil and energy prices are expected to experience continued decreases into the first quarters of FY14, helping to keep core inflation low.

KENTUCKY ECONOMY

For the final quarter of FY13 and the first half of FY14, Kentucky is expected to lag the national economy in major areas of economic activity. As shown in tables 7 and 8, Kentucky wages and salaries, personal income growth, and employment are all expected to continue to lag the national averages.

This continues the recently observed pattern of decreased collections of sales and use taxes in the Commonwealth while consumer spending has remained relatively consistent at the national level. With continued slow growth forecasted in wages and salaries and consumers adjusting to the expiration of the payroll tax cut, a period of continued cautious consumer spending is expected.

Lower energy prices will provide a favorable environment for many consumers over the next two quarters. The current forecast calls for moderate gasoline prices for the coming summer, a hopeful sign for the summer vacation season and its related impact on consumption. The precipitous decrease in coal production is expected to moderate somewhat, but the downturn seems to be entrenched to the point where an eminent recovery for Eastern Kentucky coal is not currently anticipated.

Coal production, utilization and severance taxes have decreased significantly in recent quarters and have shown continued signs of weakness due to inventory accumulations, input substitution, and supply side disruptions. However, natural gas used to generate electricity year-to-date is below the high level of that used during the comparable 2012 period, when low natural gas prices led to significant displacement of coal by natural gas for power generation. In early 2013, global coal demand began to recover some market share as natural gas prices rose. By late March, wholesale natural gas prices at the Henry Hub trading center were back to $4 per million British Thermal Units (MMBtu). In response, electricity generators used 16 percent less natural gas this March compared with March 2012. This pattern is expected to continue as the cost of dispatching existing coal-fired plants continues to remain competitive as compared to natural gas units.

For drivers, the early months of 2013 seemed to predict high gasoline prices for the summer of 2013 as prices increased to nearly $3.80 per gallon. However, on a percentage basis, this increase in early 2013 was the second smallest increase in the last ten years.

These early season fluctuations occur each year due to a series of factors. The peak time for refinery maintenance occurs in the first quarter of each year after winter heating oil demand declines. This is also the time when refineries begin switching to required summer-grade blends. The change in production processes requires significant down-time resulting in a reduction in gasoline production, causing existing prices to increase. Additionally, the summer-grade gasoline is more expensive to produce. The result is a seasonal increase in gasoline prices.

With the dramatic increase in domestic oil production, increased availability for rail delivery of domestic oil, and reduced differences the amount that refiners have to pay for crude oil, gasoline prices during the summer season will be moderate as compared to previous years. As we enter the summer season, gasoline inventories are well within their normal range reflecting a balance between production and imports and consumption quantities demanded. The forecast for this summer season is for prices to climb to an average of $3.70 per gallon in May, and then gradually decline for the remainder of the summer.

Table 7
US and KY Economic Outlook
Fourth Quarter FY13 & FY12

	Q4		
	FY13	**FY12**	**% Chg**
United States			
Real GDP	13,758.8	13,548.5	1.6
Real Consumption	9,768.0	9,582.5	1.9
Real Investment	1,990.1	1,898.4	4.8
Real Govt. Expenditures	2,407.5	2,479.4	-2.9
Real Exports	1,875.4	1,842.1	1.8
Real Imports	2,266.6	2,249.6	0.8
Personal Income ($ billions)	13,696.4	13,327.0	2.8
Wages and Salaries ($ billions)	7,056.2	6,849.2	3.0
Inflation (% chg CPI)	1.7	1.9	NA
Industrial Production Index (% chg)	2.3	4.7	NA
Civilian Labor Force (millions)	156.1	154.9	0.8
Total Non-farm Employment (millions)	135.4	133.5	1.4
Manufacturing Employment (millions)	12.0	11.9	0.6
Unemployment Rate (%)	7.9	8.2	NA
Kentucky			
Personal Income ($ millions)	155,632.7	153,008.0	1.7
Wage & Salary ($ millions)	78,806.8	77,353.0	1.9
Non-farm Employment (thousands)	1,844.4	1,823.9	1.1
Goods Producing (thousands)	312.9	311.1	0.6
Service Providing (thousands)	1,197.1	1,175.6	1.8
Government (thousands)	334.5	337.1	-0.8

Not Seasonally Adjusted. Real series are annual rate, billions of chained 2005 dollars.
Source: IHS Global Insight, Inc. and the Kentucky Governor's Office for Economic Analysis MAK model, March 2013.

Table 8
US and KY Economic Outlook
First Half FY14 & FY13

	Q1 & Q2		
	FY14	**FY13**	**% Chg**
United States			
Real GDP	13,920.8	13,654.7	1.9
Real Consumption	9,851.9	9,645.1	2.1
Real Investment	2,062.0	1,925.3	7.1
Real Govt. Expenditures	2,424.3	2,481.0	-2.3
Real Exports	1,910.0	1,841.7	3.7
Real Imports	2,307.0	2,233.3	3.3
Personal Income ($ billions)	13,961.4	13,534.7	3.2
Wages and Salaries ($ billions)	7,185.9	6,923.8	3.8
Inflation (% chg CPI)	1.4	1.8	NA
Industrial Production Index (% chg)	3.3	3.1	NA
Civilian Labor Force (millions)	156.6	155.2	0.9
Total Non-farm Employment (millions)	136.2	134.2	1.5
Manufacturing Employment (millions)	12.0	11.9	0.7
Unemployment Rate (%)	7.7	7.9	NA
Kentucky			
Personal Income ($ millions)	158,389.8	154,448.0	2.6
Wage & Salary ($ millions)	80,156.9	77,419.0	3.5
Non-farm Employment (thousands)	1,853.3	1,830.7	1.2
Goods Producing (thousands)	314.9	312.8	0.7
Service Providing (thousands)	1,204.0	1,182.2	1.8
Government (thousands)	334.5	335.7	-0.4

Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars.
Components do not sum to GDP because they are annualized independently.
Data for FY14 Q1 and Q2 are March 2013 estimates.
Source: IHS Global Insight Inc., March 2013 data release

APPENDIX

KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	Third Quarter FY 2013	Third Quarter FY 2012	% Change	Year-To-Date FY 2013	Year-To-Date FY 2012	% Change
TOTAL GENERAL FUND	**$2,118,906,189.56**	**$2,115,087,282.67**	**0.2%**	**$6,775,365,905**	**$6,601,473,199**	**2.6%**
Tax Receipts	$2,049,817,236.48	$2,047,810,733.14	0.1%	$6,530,731,193	$6,377,995,392	2.4%
Sales and Gross Receipts	$895,354,370.67	$913,290,717.94	-2.0%	$2,679,819,665	$2,697,468,116	-0.7%
Beer Consumption	1,289,718	1,286,767	0.2%	4,534,682	4,427,063	2.4%
Beer Wholesale	11,161,056	11,264,313	-0.9%	38,919,642	39,167,918	-0.6%
Cigarette	53,851,595	58,536,650	-8.0%	175,382,917	185,369,081	-5.4%
Distilled Spirits Case Sales	29,761	28,990	2.7%	91,462	87,221	4.9%
Distilled Spirits Consumption	2,858,081	2,808,378	1.8%	8,930,094	8,459,555	5.6%
Distilled Spirits Wholesale	7,803,728	7,434,388	5.0%	23,570,796	22,017,096	7.1%
Insurance Premium	53,266,673	50,101,632	6.3%	95,076,701	90,675,929	4.9%
Pari-Mutuel	572,630	423,587	35.2%	2,914,791	1,729,470	68.5%
Race Track Admission	1,755	19,349	-90.9%	127,825	158,348	-19.3%
Sales and Use	736,869,239	756,509,427	-2.6%	2,248,765,382	2,267,516,164	-0.8%
Wine Consumption	724,361	717,892	0.9%	2,154,769	2,063,959	4.4%
Wine Wholesale	3,813,306	3,684,834	3.5%	11,189,819	10,691,732	4.7%
Telecommunications Tax	18,038,448	15,327,784	17.7%	52,044,202	48,902,438	6.4%
OTP	5,070,339	5,132,476	-1.2%	16,101,674	16,180,129	-0.5%
Floor Stock Tax	(7,548)	6,489	---	3,680	14,251	-74.2%
License and Privilege	$209,075,004.78	$211,216,987.67	-1.0%	$460,111,471	$487,676,040	-5.7%
Alc. Bev. License Suspension	91,483	68,405	33.7%	295,417	203,205	45.4%
Coal Severance	53,307,154	72,802,345	-26.8%	174,872,562	232,728,662	-24.9%
Corporation License	(80,146)	(294,873)	---	(523,470)	432,165	---
Corporation Organization	40,528	13,092	209.6%	88,287	34,759	154.0%
Occupational Licenses	23,318	26,262	-11.2%	59,559	69,332	-14.1%
Oil Production	2,633,282	4,390,066	-40.0%	7,857,329	8,940,510	-12.1%
Race Track License	11,375	11,375	0.0%	208,086	206,375	0.8%
Bank Franchise Tax	96,296,436	90,705,058	6.2%	98,393,398	92,593,333	6.3%
Driver License Fees	147,469	150,409	-2.0%	473,408	455,847	3.9%
Minerals Severance	2,317,146	1,412,211	64.1%	9,866,489	10,309,604	-4.3%
Natural Gas Severance	4,238,335	5,165,089	-17.9%	10,355,397	18,107,180	-42.8%
Limited Liability Entity	50,048,626	36,767,549	36.1%	158,165,009	123,595,069	28.0%
Income	$803,029,769.67	$729,767,107.95	10.0%	$2,810,955,209	$2,645,369,085	6.3%
Corporation	52,920,386	33,109,894	59.8%	247,790,696	219,792,035	12.7%
Individual	750,109,383	696,657,214	7.7%	2,563,164,513	2,425,577,050	5.7%
Property	$125,356,479	$174,426,342	-28.1%	$522,472,308	$491,526,712	6.3%
Building & Loan Association	0	0	---	(15,820)	(46,134)	---
General - Real	61,355,723	93,486,663	-34.4%	252,095,110	245,173,570	2.8%
General - Tangible	55,589,714	56,472,835	-1.6%	185,167,404	172,138,170	7.6%
Omitted & Delinquent	2,420,747	4,311,141	-43.8%	32,390,691	15,869,622	104.1%
Public Service	5,410,495	19,591,203	-72.4%	51,474,266	57,068,602	-9.8%
Other	579,801	564,501	2.7%	1,360,658	1,322,882	2.9%
Inheritance	$8,770,657	$10,673,117	-17.8%	$29,406,310	$30,501,011	-3.6%
Miscellaneous	$8,230,955	$8,436,461	-2.4%	$27,966,230	$25,454,429	9.9%
Legal Process	4,781,077	4,973,475	-3.9%	14,760,733	14,954,303	-1.3%
T. V. A. In Lieu Payments	3,422,542	3,404,963	0.5%	13,177,925	10,437,149	26.3%
Other	27,336	58,023	-52.9%	27,572	62,977	-56.2%
Nontax Receipts	$67,506,340	$66,260,541	1.9%	$241,817,608	$221,270,519	9.3%
Departmental Fees	7,922,590	8,873,303	-10.7%	17,985,835	18,975,361	-5.2%
PSC Assessment Fee	14,834	1,747	749.0%	13,091,284	5,437,974	140.7%
Fines & Forfeitures	6,641,578	6,439,231	3.1%	21,767,510	19,109,163	13.9%
Income on Investments	(263,325)	145,579	-280.9%	1,079,039	561,711	92.1%
Lottery	53,500,000	54,471,122	-1.8%	155,266,568	155,971,122	-0.5%
Sale of NOx Credits	0	20,000	-100.0%	27,604	20,000	38.0%
Miscellaneous	(309,337)	(3,690,440)	---	32,599,769	21,195,188	53.8%
Redeposit of State Funds	$1,582,613	$1,016,008	55.8%	$2,817,104	$2,207,287	27.6%

KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	Third Quarter FY 2013	Third Quarter FY 2012	% Change	Year-To-Date FY 2013	Year-To-Date FY 2012	% Change
TOTAL ROAD FUND	**$356,913,697**	**$353,550,851**	**1.0%**	**$1,082,076,745**	**$1,055,060,112**	**2.6%**
Tax Receipts-	$351,141,756	$348,898,790	0.6%	$1,063,746,110	$1,039,576,071	2.3%
Sales and Gross Receipts	$297,708,809	$290,602,265	2.4%	$922,095,590	$888,396,619	3.8%
Motor Fuels Taxes	194,410,982	188,468,355	3.2%	617,186,622	589,791,648	4.6%
Motor Vehicle Usage	103,297,827	102,133,910	1.1%	304,908,968	298,604,971	2.1%
License and Privilege	$53,432,947	$58,296,525	-8.3%	$141,650,520	$151,179,453	-6.3%
Motor Vehicles	28,687,592	33,568,688	-14.5%	63,873,631	75,561,028	-15.5%
Motor Vehicle Operators	3,759,500	3,835,045	-2.0%	11,942,222	11,719,259	1.9%
Weight Distance	18,505,215	18,475,811	0.2%	56,338,740	56,375,994	-0.1%
Truck Decal Fees	33,414	29,696	12.5%	69,828	106,814	-34.6%
Other Special Fees	2,447,226	2,387,285	2.5%	9,426,099	7,416,358	27.1%
Nontax Receipts	$6,523,450	$4,464,385	46.1%	$16,366,471	$14,715,416	11.2%
Departmental Fees	5,303,143	3,851,080	37.7%	12,446,703	12,955,096	-3.9%
In Lieu of Traffic Fines	195,774	196,139	-0.2%	538,723	565,700	-4.8%
Income on Investments	897,800	379,881	136.3%	2,988,148	610,070	389.8%
Miscellaneous	126,732	37,285	239.9%	392,898	584,549	-32.8%
Redeposit of State Funds	($751,509)	$187,676	---	$1,964,164	$768,625	155.5%