

**COMMONWEALTH OF KENTUCKY**

# **Quarterly Economic & Revenue Report**

**Second Quarter  
Fiscal Year 2009**

**Governor's Office for  
Economic Analysis**

**Office of  
State Budget Director**





***Office of State Budget Director***

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Frankfort, Kentucky 40601

**Steven L. Beshear**  
Governor

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**John T. Hicks**  
Acting State Budget  
Director

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

January 30, 2009

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

Mr. Robert Sherman, Director  
Legislative Research Commission  
Room 300, State Capitol  
Frankfort, Kentucky 40601

Mr. Jason Nemes, Director  
Administrative Office of the Courts  
100 Millcreek Park  
Frankfort, KY 40601

Dear Governor Beshear, Messrs. Sherman and Nemes:

The attached Quarterly Economic and Revenue Report summarizes the revenue and economic statistics for the second quarter of Fiscal Year 2009 (FY09). It also includes an interim economic and revenue forecast for the last two quarters of FY09 and the first quarter of FY10, as required by KRS 48.400(2).

General Fund receipts for the second quarter of FY09 totaled \$2,243.4 million, an increase of 3.1 percent compared to the same period in FY08. Road Fund revenues totaled \$280.1 million, a decrease of 6.8 percent from the second quarter of FY08.

This interim General Fund forecast for the final two quarters of FY09 calls for a decrease of 7.3 percent compared to the same period one year ago, resulting in a projected decline of 2.7 percent for the entire fiscal year. The interim forecast for the Road Fund for the final two quarters of FY09 is for growth of 3.5 percent, resulting in a projected decline of 4.5 percent for the entire fiscal year.

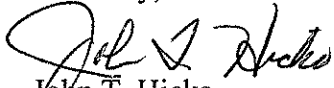
Governor Beshear  
Messrs. Sherman & Nemes  
January 30, 2009  
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The resulting interim forecast calls for General Fund receipts to fall \$459.0 million short of the enacted budgeted revenues for FY09. The Consensus Forecasting Group revised the FY09 estimates in November 2008. The official adopted estimate was \$456.1 million below enacted budgeted revenues.

For the Road Fund, the interim forecast predicts a revenue deficit of \$119.3 million in comparison to the official enacted budgeted revenues. The November 2008 official revised estimate was \$104.7 million below enacted budgeted revenues.

We will continue to monitor the economic and fiscal conditions of the Commonwealth and will keep you apprised of developments.

Sincerely,

A handwritten signature in black ink, appearing to read "John T. Hicks". The signature is written in a cursive style with a large initial "J".

John T. Hicks  
Acting State Budget Director

Attachment

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# Executive Summary . . .

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In accordance with KRS 48.400(2), the Office of State Budget Director has prepared a Quarterly Economic and Revenue Report for the second quarter of FY09. In accordance with the statutes, this report includes a synopsis of the economic and fiscal conditions of the Commonwealth, as well as an outlook for the next three fiscal quarters. This report also highlights the differences between the January 2009 interim estimates and both enacted budgeted revenues and the official estimates adopted by the Consensus Forecasting Group in November 2008.

**General Fund** receipts totaled \$2,243.4 million in the second quarter of FY09 compared to \$2,176.2 million received in the second quarter of FY08. The resulting growth rate was 3.1 percent, and compares to a decline of -2.1 percent for the same quarter last year. The growth this quarter, however, is less a function of economic activity than a reflection of FY08 collections. The decline in receipts for the second quarter of FY08 created a low hurdle to clear in order to achieve growth.

Second quarter growth was driven primarily by coal severance, individual income, and property tax receipts. Those gains were offset by losses in inheritance and corporation income tax receipts. 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.

Total sales and use tax receipts for the quarter were \$716.3 million, compared to \$718.0 million in the second quarter of FY08. The result is a change of -0.2 percent which failed

to keep pace with the 1.8 percent growth for the second quarter of last year.

Individual income tax posted receipts of \$859.6 million compared to last year's second-quarter receipts of \$797.9 million. The resulting growth rate was 7.7 percent, and compares to a growth rate of 5.0 percent for the second quarter of last year. Growth in this revenue source results from strength in declaration payments which increased 69.9 percent. Withholding receipts were up 2.3 percent for the quarter.

Combined corporation income and limited liability entity tax (LLET) receipts fell in the second quarter of the fiscal year. Revenues of \$112.5 million were 10.9 percent lower than year-earlier figures of \$126.3 million.

Coal severance tax revenue growth continued its brisk pace in the second quarter, with receipts up by 31.5 percent. Collections of \$75.5 million compare to the FY08 second quarter total of \$57.5 million.

Second-quarter property tax receipts posted revenues that were 4.1 percent more than the second quarter of FY08. FY09 second-quarter receipts of \$255.5 million compare with \$245.4 million from the second quarter of FY08.

The **Road Fund** reported a decline of 6.8 percent in the second quarter of FY09. Receipts totaled \$280.1 million and compare to \$300.6 million from the second quarter of last year. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Motor fuels tax receipts grew at a rate of 4.1 percent during the second quarter due to the formula-driven increase in the tax rate tied to the average wholesale price of gasoline. Some of those gains were offset by a backward shift in aggregate demand in the economy, which in turn shifts the demand for motor fuels. Receipts were \$157.7 million and compare to \$151.5 million collected during the second quarter of last year. The motor vehicle usage tax fell sharply in the second quarter, with receipts falling by 21.8 percent. Receipts during the second quarter of FY09 totaled \$73.8 million and compare to \$94.4 million collected during the same period last year.

**Interim projections for General Fund revenues** call for a 7.3 percent decline for the remainder of FY09 (see Table 5). Total General Fund receipts are expected to be \$8,427.0 million which, compared to the enacted estimate of \$8,886.0 million, represents a projected revenue shortfall of \$459.0 million. The November 2008 Consensus Forecasting Group estimate for FY09 was \$8,429.9 million – a projected shortfall of \$456.1 million (see Executive Summary Table A).

Despite the similarity in the aggregate estimates, several individual accounts differ

<b>Executive Summary Table A</b>						
<b>General Fund Interim Estimates FY09</b>						
<b>Final Interim Estimates</b>						
<b>(million dollars)</b>						
	<b>Enacted</b>		<b>November 2008 CFG</b>		<b>January 2009 Interim</b>	
	<b>Estimate</b>	<b>% Chg</b>	<b>Estimate</b>	<b>% Chg</b>	<b>Estimate</b>	<b>% Chg</b>
Sales & Use	2,977.8	3.5%	2,878.3	0.0	2,840.7	-1.3%
Individual Income	3,472.8	-0.3%	3,365.4	-3.4%	3,357.8	-3.6%
Corporation Inc & LLET	622.3	16.6%	339.6	-36.4%	369.0	-30.8%
Coal Severance	223.7	-4.0%	275.3	18.2%	288.4	23.8%
Tobacco	178.6	0.1%	174.4	-2.2%	168.5	-5.5%
Property	518.9	3.7%	527.2	5.3%	517.5	3.4%
Lottery	198.5	5.9%	198.5	5.9%	198.5	5.9%
Other	693.5	3.5%	671.2	0.1%	686.6	2.4%
<b>Total General Fund</b>	<b>8886.0</b>	<b>2.6%</b>	<b>8,429.9</b>	<b>-2.7%</b>	<b>8,427.0</b>	<b>-2.7%</b>
			<b>November</b>		<b>January</b>	
			<b>CFG</b>		<b>Interim</b>	
			<b>Difference from Enacted</b>			
Sales & Use			-99.5		-137.1	
Individual Income			-107.4		-115.0	
Corporation Inc & LLET			-282.7		-253.3	
Coal Severance			51.6		64.7	
Tobacco			-4.2		-10.0	
Property			8.3		-1.4	
Lottery			0.0		0.0	
Other			-22.2		-6.8	
<b>Total General Fund</b>			<b>-456.1</b>		<b>-459.0</b>	

substantially from the November 2008 estimates. The largest difference in absolute amount is in the sales and use tax where this interim forecast is \$37.6 million less than in November. This downward revision is primarily due to the revised US retail sales estimates from Global Insight. The largest percentage change from November comes in the corporate income tax and LLET account, which is up by \$29.4 million in realization of actual collections received year-to-date.

The sizable rate of decline projected for the second half of FY09 is a reflection of two primary factors: a higher base of comparison and a worsening national economy. General Fund collections grew 2.0 percent in the first

half of FY09, but the prior year revenues receipts were below FY07 levels. Simply put, there was a very low base of comparison in the first half of FY09. The second half of FY08 poses a much greater challenge.

**Road Fund revenues** are forecasted to fall 3.5 percent over the final two quarters of FY09 and 6.6 percent in the first three months of FY10 as shown in Table 6. The FY09 full-year forecast is \$14.6 million less than the official revenue forecast approved by the Consensus Forecasting Group on November 21, 2008 (see Executive Summary Table B).

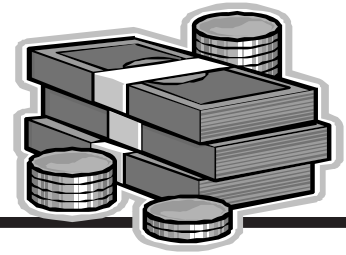
Motor fuels tax collections are forecasted to grow by 4.4 percent over the final six months

<b>Executive Summary Table B</b>						
<b>Road Fund Interim Estimates FY09</b>						
<b>Final Interim Estimates</b>						
<b>(million dollars)</b>						
	<b>Enacted</b>		<b>November 2008 CFG</b>		<b>January 2009 Interim</b>	
	<b>Estimate</b>	<b>% Chg</b>	<b>Estimate</b>	<b>% Chg</b>	<b>Estimate</b>	<b>% Chg</b>
Motor Fuels	661.4	8.6%	640.5	5.2%	625.9	2.8%
Motor Vehicle Usage	411.9	1.5%	340.2	-16.2%	345.9	-14.8%
Motor Vehicle License	109.5	17.1%	95.8	2.4%	93.9	0.4%
Motor Vehicle Operators	15.5	0.8%	16.3	6.0%	15.9	3.4%
Weight Distance	85.9	1.8%	79.6	-5.6%	78.8	-6.6%
Investment	5.8	-70.2%	10.9	-44.0%	9.0	-53.8%
Other	34.8	-2.0%	36.8	3.6%	36.1	1.7%
<b>Total General Fund</b>	<b>1,324.8</b>	<b>4.9%</b>	<b>1,220.1</b>	<b>-3.4%</b>	<b>1,205.5</b>	<b>-4.5%</b>
			<b>November</b>		<b>January</b>	
			<b>CFG</b>		<b>Interim</b>	
			<b>Difference from Enacted</b>			
Motor Fuels			-20.9		-35.5	
Motor Vehicle Usage			-71.7		-66.0	
Motor Vehicle License			-13.7		-15.6	
Motor Vehicle Operators			0.8		0.4	
Weight Distance			-6.3		-7.1	
Investment			5.1		3.2	
Other			2.0		1.3	
<b>Total General Fund</b>			<b>-104.7</b>		<b>-119.3</b>	

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# Revenue Receipts . . .



## GENERAL FUND

Revenue growth of 3.1 percent in the second quarter of FY09 exceeded that of the first quarter when receipts grew by only 0.9 percent. The growth this quarter, however, is less a function of economic activity than a reflection of FY08 collections. Receipts declined by 2.1 percent in the second quarter of FY08, making that a low hurdle to clear.

Second quarter growth in FY09 was driven primarily by coal severance, individual income, and property tax receipts. Those gains were offset by losses in inheritance and corporation income tax receipts. Receipts in the second quarter totaled

are shown in summary form in Table 1. Detailed information on these and other accounts is available in the Appendix.

Variations in the quarterly receipts are often affected by the timing of payments into revenue accounts. While timing differences were not as prevalent as in the past, property tax receipts are especially prone to anomalies at this time of the year because of the due dates for real property taxes.

Total **sales and use tax** receipts for the quarter were \$716.3 million, compared to \$718.0 million in the second quarter of FY08. The result is a growth rate of -0.2 percent which fails to match the 1.8 percent growth for the second quarter of last year.

	<b>FY09</b>	<b>FY08</b>	<b>Diff (\$)</b>	<b>Diff (%)</b>
Sales and Use	716.3	718.0	-1.7	-0.2
Individual Income	859.6	797.9	61.7	7.7
Corp Inc. & LLET	112.5	126.3	-13.8	-10.9
Coal Severance	75.5	57.5	18.1	31.5
Cigarette Tax	39.6	41.2	-1.6	-3.9
Property	255.5	245.4	10.1	4.1
Lottery	48.5	50.8	-2.3	-4.5
Other	136.0	139.2	-3.3	-2.3
<b>TOTAL</b>	<b>2,243.4</b>	<b>2,176.2</b>	<b>67.2</b>	<b>3.1</b>

\$2,243.4 million compared to \$2,176.2 million received in the second quarter of FY08. The resulting growth rate was 3.1 percent, and compares to a change of -2.1 percent for the same quarter last year. Collections in the major revenue categories

**Individual income tax** posted receipts of \$859.6 million compared to last year's second-quarter receipts of \$797.9 million. The resulting growth rate was 7.7 percent, and compares to a growth rate of 5.0 percent for the second quarter of last year. Growth in this revenue source results from strength in declaration payments which increased 69.9 percent. Withholding receipts were up 2.3 percent for the quarter.

Combined **corporation income and limited liability entity tax (LLET)** receipts were down in the second quarter of the fiscal year. Revenues of \$112.5 million were 10.9 percent lower than year-earlier figures of \$126.3 million.

**Coal severance tax** revenue growth continued its brisk pace in the second quarter,

with receipts up by 31.5 percent. Collections of \$75.5 million compare to the FY08 second quarter total of \$57.5 million. Tax receipts in the second quarter of FY08 rose by just 1.5 percent.

**Cigarette tax** receipts of \$39.6 million in the second quarter of FY09 failed to match last year’s total of \$41.2 million. The \$1.6 million decrease amounted to a 3.9 percent decline.

Second-quarter **property tax** receipts posted revenues that were 4.1 percent more than the second quarter of FY08. Receipts of \$255.5 million compare with \$245.4 million from the second quarter of FY08.

**Lottery** receipts were \$48.5 million, which were 4.5 percent lower than last year’s second-quarter total of \$50.8 million.

The “**other**” category, which represents the remaining accounts of the General Fund, declined 2.3 percent in the second quarter. Receipts for FY09:2 were \$136.0 million and compare to \$139.2 million in FY08:2.

**ROAD FUND**

The Road Fund reported a decline of 6.8 percent in the second quarter of FY09. Receipts totaled \$280.1 million and compare to \$300.6 million from the second quarter of last year. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

**Motor fuels tax** receipts grew at a rate of 4.1 percent during the second quarter due to the formula-driven increase in the tax rate tied to the price of gasoline. Some of those gains were offset due to a decrease in demand for motor fuels. Receipts were \$157.7 million and compare to \$151.5 million collected during the second quarter of last year.

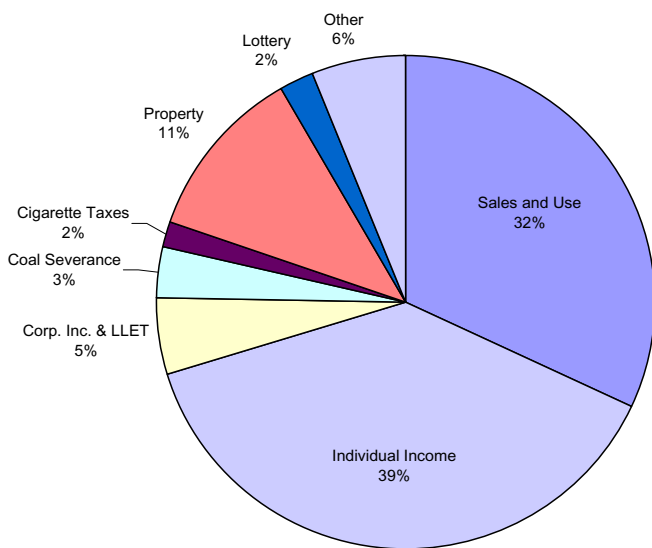
**Motor vehicle usage tax** fell sharply in the second quarter, with receipts falling by 21.8 percent. Receipts during the second quarter of FY09 totaled \$73.8 million and compare to \$94.4 million collected during the same period last year.

**Motor vehicle license tax** receipts decreased 10.9 percent in the second quarter of FY09 to \$15.4 million.

**Motor vehicle operators license tax** receipts were \$3.7 million in the second quarter of FY09, a decrease of 2.0 percent.

**Weight distance tax** receipts of \$20.0 million represent a 5.9 percent decrease compared to receipts of \$21.3 million during the second quarter of FY08.

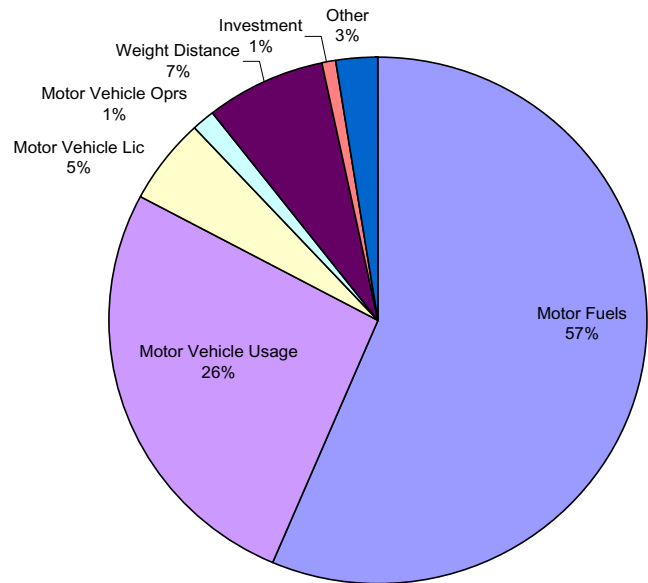
**Figure 1  
Second Quarter, FY09  
General Fund Receipts**



**Investment** receipts of \$2.3 million were down 50.3 percent over the total collected in the second quarter of FY08.

**Figure 2  
Second Quarter, FY09  
Road Fund Receipts**

<b>Table 2 Summary Road Fund Receipts Second Quarter, FY09 (mil \$)</b>				
	<b>FY09</b>	<b>FY08</b>	<b>Diff (\$)</b>	<b>Diff (%)</b>
Motor Fuels	157.7	151.5	6.2	4.1
Motor Vehicle Usage	73.8	94.4	-20.6	-21.8
Motor Vehicle License	15.4	17.3	-1.9	-10.9
Motor Vehicle Operators	3.7	3.8	-0.1	-2.0
Weight Distance	20.0	21.3	-1.3	-5.9
Investment Income	2.3	4.5	-2.3	-50.3
Other	7.2	7.9	-0.7	-9.1
<b>TOTAL</b>	<b>280.1</b>	<b>300.6</b>	<b>-20.6</b>	<b>-6.8</b>



The remainder of the accounts in the Road Fund combined for a decrease of 9.1 percent from a year earlier. In the “other” category, revenues of \$7.2 million compare to \$7.9 million in the second quarter of FY08.

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# The Economy . . .

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## NATIONAL ECONOMY

The U.S. economy officially entered a recession in December 2007 according to the National Bureau of Economic Research, which maintains the chronology of the official turning points in the national economy. The economy, as measured by real gross domestic product (GDP), contracted sharply in the last two quarters. In non-seasonally adjusted terms, real GDP fell from \$11,727.4 billion in the fourth quarter of FY08 to \$11,712.4 billion in the first quarter of FY09 and then to \$11,545.2 billion in the second quarter of FY09. These are adjacent-quarter growth rates of -0.1 percent and -1.4 percent, respectively. However, this is the first time since 1991 in which the year-over-year change is negative. On that basis, real GDP fell by 0.6 percent in FY09:2 compared to FY08:2. This means that the peak for real GDP occurred in the first quarter of FY09 and the U.S. has been in a period of contraction ever since.

GDP is composed of five components: consumption, investment, government expenditures, exports and imports. The negative performance was pretty evenly distributed across the various components. Government expenditures were the only component which increased in the second quarter of FY09. This is mostly expected however as government expenditures are generally counter-cyclical in nature, rising as outlays for the unemployed and welfare programs like food stamps are increased during contraction periods.

Real consumption (consumer spending on all goods and services) makes up the largest share of GDP. In the second quarter of FY09, real consumption made up 71.1 percent of real GDP. Consumption peaked in the fourth quarter of FY08 with \$8,341.3 billion in expenditures. Consumption declined in each of the first two quarters of FY09, by 0.2 percent and 1.1 percent, respectively. Consumption is divided into three major categories: spending on durable goods, nondurable goods and services. Real spending on durable goods declined by 5.5 percent and 11.2 percent for the first and second quarters of FY09, respectively, while real spending on non-durable goods declined by 0.9 percent and 2.1 percent for the same two quarters. Real spending on services increased modestly by 1.1 percent for the first quarter of 2009 and increased by 1.2 percent for the second quarter of FY09. Consumption losses were widespread in the second quarter as consumer confidence shriveled to its lowest level in over a decade. Consumer spending on light vehicles declined to its lowest level since 1995. In the second quarter, real spending on light vehicles fell by 37.2 percent over that which was spent in the second quarter of FY08. Meanwhile, consumer spending on energy fell by 6.8 percent and 2.0 percent in the first and second quarters of FY09, respectively. Anxiety about the losses in the stock market, high but falling energy prices, and the crises in the financial markets have all caused consumers to tighten their purse strings.

Investment is the most volatile of the five components and made up 13.9 percent of real GDP for the second quarter of FY09. Fears over the overall economic landscape hit the

investment component the hardest, both in terms of absolute dollar amounts and as a percentage lost for the second quarter. Quarter-over-same-quarter-last-year growth in investment (real gross private domestic investment) has declined for the last nine consecutive quarters. The losses for the last four quarters were 2.3 percent, 6.6 percent, 7.3 percent and 9.6 percent, respectively.

In absolute dollars, \$171.8 billion in real investment was lost in the second quarter of FY09 alone. As consumer demand dried up, so too did the investment opportunities. Decreased aggregate demand, coupled with a lack of liquidity in financial markets, caused businesses to decrease investment in nearly every subcategory. Significant losses were spread across residential and nonresidential investments. In the second quarter, real investment in industrial equipment declined by 9.4 percent, investments in aircraft declined by 39.4 percent, investments in light vehicles declined by 59.4 percent and

investments in manufactured housing declined by 31.1 percent. Housing is still deeply embedded in the recession as real residential investment in new single family homes fell for the eleventh consecutive quarter with a 38.1 percent decline. This was the tenth consecutive quarter with double-digit losses for this housing sector.

Government expenditures made up 18.1 percent of real GDP in the second quarter of FY09. Government expenditures rose by 2.8 percent over the same quarter last year. Defense purchases constituted 36.5 percent of total government expenditures. This is up from 33.5 percent in second quarter of FY08. Defense purchases rose by 12.4 percent and 12.2 percent in the first and second quarters of FY09. Defense purchases rose by \$83.1 billion compared to the second quarter of FY08, completely outstripping the net increase in total government expenditures, which was \$57.5 billion for the same period.

**Table 3**  
**Summary of US Economic Series**  
**Second Quarter Comparison**

	<b>FY08:2</b>	<b>FY09:2</b>	<b>Percent Change</b>
Real GDP (2000 \$ billions)	11,620.7	11,545.2	-0.6
Real Consumption (2000 \$ billions)	8,298.2	8,206.3	-1.1
Real Investment (2000 \$ billions)	1,781.3	1,609.5	-9.6
Real Government Expenditures (2000 \$ billions)	2,029.4	2,086.9	2.8
Real Exports (2000 \$ billions)	1,482.1	1,467.1	-1.0
Real Imports (2000 \$ billions)	1,966.5	1,846.0	-6.1
Personal Income (\$ billions)	11,872.1	12,163.7	2.5
Consumer Price Index (percent change)	4.0	1.5	NA
Industrial Production Index (percent change)	2.1	-5.6	NA
Civilian Labor Force (millions)	153.7	154.8	0.7
Total Nonfarm Employment (millions)	138.0	136.2	-1.4
Manufacturing Employment (millions)	13.8	13.1	-4.6
Unemployment Rate (percent)	4.8	6.8	NA

Seasonally Adjusted. GDP components may not sum due to rounding at lower levels of detail

Data for FY09:2 are December 2008 estimates.

Source: Global Insight, December 31, 2008 data release

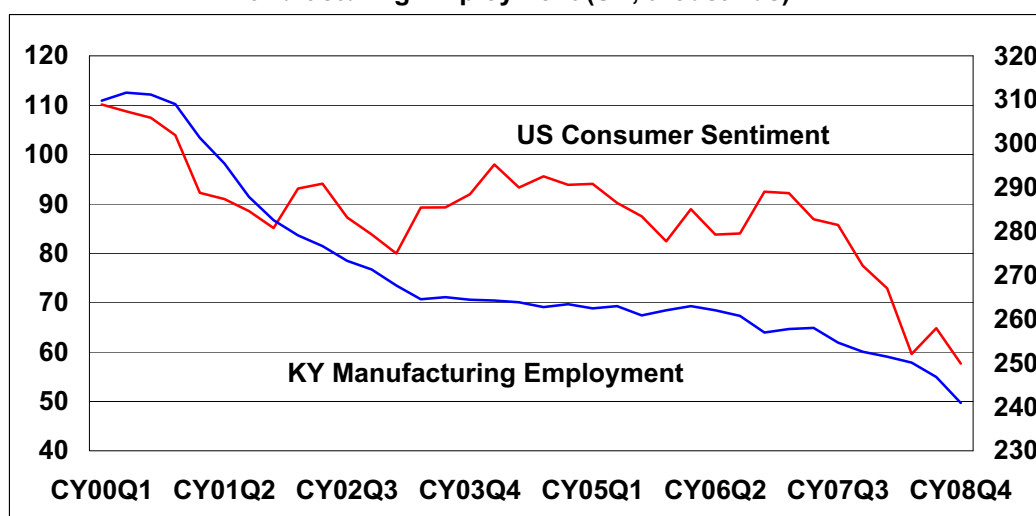
As firms continue to struggle with unsold inventories due to sagging aggregate demand, outputs continue to fall and firms require fewer workers. As a result, nonfarm employment declined by 1.9 million workers in the second quarter of FY09. Over 600,000 of those lost jobs were in the manufacturing sector, a decline of 4.6 percent. It is not surprising that the average monthly unemployment rate for the second quarter was 6.8 percent. This was the worst unemployment period since the first quarter of FY94.

The Consumer Sentiment Index fell to 57.7 in the second quarter, the lowest value since the University of Michigan began tracking this index in 1960. As disposable incomes fall and more workers lose their jobs,

consumers become more reluctant to purchase goods and services at normal levels. Prices are beginning to respond to this overall decrease in aggregate demand. The consumer price index rose only 1.5 percent for the second quarter. On a monthly basis, the December 2008 CPI fell by 0.1 percent over December 2007. Most of this decrease in prices come in the energy sector. As lower energy prices free up some disposable income, consumers may return to more normal consumption patterns and the path to recovery will emerge.

U.S. personal income growth slowed substantially in the second quarter to post growth of only 2.5 percent. By comparison, personal income growth was above 5.7 percent for all of calendar 2007. Personal

**Figure 3**  
**University of Michigan Consumer Sentiment Index (1966=100)**  
**KY Manufacturing Employment (SA, thousands)**



income grew by a modest 3.7 percent in the first quarter of FY09.

**STATE ECONOMY**

Kentucky personal income is estimated to be \$137.0 billion for the second quarter of FY09. Year-over-year growth slowed considerably to 3.5 percent in the second quarter. Growth in FY07 held between 5.6 percent and 6.3 percent for the whole year. Growth was mitigated in FY08 with a quarterly low of 3.9 percent and a high of 5.3 percent. First quarter growth in FY09 was 4.5 percent. Second quarter growth was a more modest 3.5 percent. Clearly Kentucky personal income has already been significantly affected by the national recession.

In the second quarter of FY09, Kentucky wages and salaries made up 53.6 percent of Kentucky personal income. Second quarter Kentucky wages and salaries are estimated to have grown by 2.1 percent over FY08:2, slowing substantially from a year ago when growth was 4.1 percent. Prices fell sharply in the second quarter due to falling aggregate demand. Threats of deflation, coupled with falling global demand, have resulted in a tag-teamed assault on wages and salaries.

Kentucky total nonfarm employment continued to fall throughout calendar 2008, as the recession enveloped Kentucky. In the second quarter of FY09, the year-over-year employment comparison turned negative with 0.6 percent in losses over the second quarter of FY08. Approximately 11,000

**Table 4  
Selected Kentucky Economic Series  
Second Quarter Comparison**

	<u>FY08:2</u>	<u>FY09:2</u>	<u>Difference</u>	<u>% Chg</u>
Total Personal Income (\$ billions)	132,435	137,016	4,581	3.5
Wages and Salary Income (\$ billions)	71,971	73,489	1,518	2.1
Total Nonfarm Employment (thousands)	1,877.5	1,866.5	-11.0	-0.6
Construction	86.4	82.8	-3.6	-4.2
Natural Resources & Mining	22.2	23.1	0.9	4.2
Manufacturing	252.6	240.9	-11.7	-4.6
Trade, Transportation & Utilities	388.6	390.8	2.2	0.6
Information	30.4	29.6	-0.8	-2.6
Finance	94.2	93.1	-1.1	-1.2
Business Services	181.4	177.4	-4.0	-2.2
Educational Services	241.3	241.3	0.0	0.0
Leisure and Hospitality	175.0	172.8	-2.2	-1.2
Other Services	76.5	76.1	-0.4	-0.6
Government	328.9	338.6	9.7	2.9

Seasonally adjusted

Source: US Bureau of Economic Analysis, US Bureau of Labor Statistics.

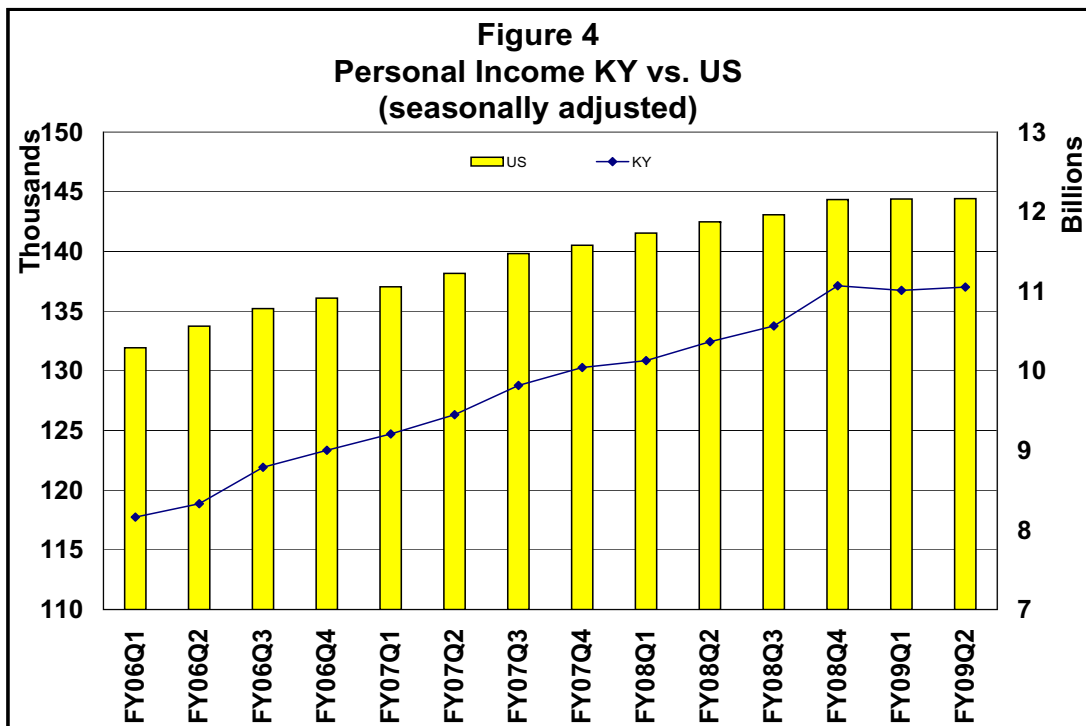
The FY09:2 data for all series are Kentucky MAK model estimates.



seasonally adjusted jobs were lost over this period. Few sectors escaped the downturn. There were substantial losses in the manufacturing sector and moderate losses in the construction, information and business services sectors. Manufacturing employment declined by 11,700 net seasonally adjusted jobs (-4.6 percent).

Kentucky has historically relied on a large manufacturing sector, with transportation equipment being the largest component of manufacturing. As the automobile industries are struggling with decreased demand, firms have laid off over 6,000

employees since the second quarter of FY08. The housing market woes impacted the construction industry with similar force, as construction employment dropped by 3,600 seasonally adjusted jobs (-4.2 percent). Trade, Transportation and Utilities employment is the largest supersector in Kentucky; growth slowed substantially in the second quarter to 0.6 percent, but managed to remain positive. Furthermore, an appreciating U.S. dollar led to decreasing exports, further hurting employment in the export-driven sectors. The dollar versus the euro appreciated steadily from 0.6332 to 0.7166 from July 2008 to December 2008.



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# Interim Outlook . . .



## GENERAL FUND

Projected General Fund revenues for the next three quarters are shown in Table 5. General Fund revenues were \$4,328.3 million in the first two quarters of FY09, an increase of 2.0 percent from the same period a year earlier. A decline of 7.3 percent is anticipated for the second half of FY09, resulting in a 2.7 percent annual decline compared to FY08 receipts.

The sizable rate of decline projected for the second half of FY09 is a reflection of two primary factors: a higher base of comparison and a worsening national economy. General Fund collections grew 2.0 percent in the first half of FY09, but the prior year revenue receipts were below FY07 levels. Simply put, the first half of FY09 provided a very low base of comparison. The second half growth of 2.5 percent in FY08 poses a much greater challenge.

In addition to the higher baseline for growth in the upcoming quarters, some of the growth in the first half of FY09, especially in the individual income tax, seemingly defied an avalanche of poor economic news. Employment peaked in early calendar year 2008 and wage growth was subdued. When a disconnection forms between tax receipts and the underlying economy, a correction must be on the horizon. In the case of the individual income tax, the correction comes through the filing for refunds. Therefore, the balance on returns was adjusted downward vis-à-vis the November official estimate in recognition of higher anticipated refunds.

Individual income tax receipts growth was caused by strong performances in both withholding and declaration payments. A couple of investment-related activities may have caused withholding to grow faster than the underlying economy. Instability in the

**Table 5**  
**General Fund: Interim Forecast**  
**January 2009**  
**(million dollars)**

	FY09		FY09		FY09		FY 10	
	Quarters 1 & 2		Quarters 3 & 4		Full Year		Quarter 1	
	Actual	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago
Sales & Use	1,467.7	1.5	1,373.0	-4.1	2,840.7	-1.3	752.7	0.2
Individual Income	1,736.2	7.1	1,621.6	-12.9	3,357.8	-3.6	895.1	2.1
Corporation Inc & LLET	206.7	-23.9	162.3	-38.0	369.0	-30.8	105.5	11.9
Coal Severance	148.2	33.7	140.1	14.8	288.4	23.8	65.6	-9.8
Tobacco	85.4	-4.6	83.1	-6.5	168.5	-5.6	40.8	-6.7
Property	319.2	4.9	198.3	1.0	517.5	3.4	64.6	1.3
Lottery	91.5	-0.8	107.0	12.3	198.5	5.9	43.8	1.8
Other	<u>273.2</u>	<u>-11.2</u>	<u>413.4</u>	<u>14.0</u>	<u>686.6</u>	<u>2.4</u>	<u>138.1</u>	<u>-1.0</u>
<b>Total General Fund</b>	<b>4,328.3</b>	<b>2.0</b>	<b>4,098.7</b>	<b>-7.3</b>	<b>8,427.0</b>	<b>-2.7</b>	<b>2,106.0</b>	<b>1.0</b>

stock market, coupled with job losses, have forced some families to take hardship withdrawals from their 401(k) accounts. Other families have postponed additional contributions to their 401(k) accounts due to declining short-term returns on investment. Both of these occurrences would lead to higher than projected withholding and potential refunds. An increase in refunds is the largest component of the expected 12.9 percent decline in receipts for the second half of FY09.

Coal severance tax receipts have remained strong despite rapidly declining prices in the coal spot market. There are two reasons for this receipts phenomenon. First, prices on the spot market are declining rapidly, but they are still higher than they were a year ago. Therefore current spot market sales are still providing greater receipts than they did a year ago when prices were still on their way up. Also, the sustained high prices in the first half of FY09 are still leading to higher contracted prices than those prices when the old contracts were written three to five years ago. Therefore, receipts continue to increase consistent with earlier estimates.

Three of the four largest General Fund accounts are expected to decline substantially in the second half of FY09. Anticipated sales and use tax revenues for the second half of FY09 are \$1,373.0 million, with a corresponding decline of -4.1 percent. Corporate income and individual income taxes are expected to decline by 38.0 percent and 12.9 percent, respectively.

Despite the similarity to the November 2008 official revised forecast, several individual accounts differ substantially from the November 2008 official estimates. The largest difference in absolute amount is in

sales and use taxes where the new forecast is \$37.6 million less than in November. This downward revision is primarily due to the revised U.S. retail sales estimates from Global Insight.

In percentage terms, the largest change from November comes in the corporate income tax and LLET account, which is up by \$29.4 million in acknowledgment of actual collections received year-to-date. The outlook for the remainder of FY09 for corporate income tax receipts calls for an expected decline of 30.8 percent compared to FY08. Total FY09 receipts are estimated to be \$369.0 million.

Taxes on cigarettes and other tobacco products declined by 4.6 percent in the first two quarters of FY09. The outlook for the remaining six months of the fiscal year is for \$83.1 million in revenue, with a corresponding change of -6.5 percent. For the first quarter of FY10, receipts are expected to decline by 6.7 percent when compared to the first quarter of the current fiscal year. This is largely a function of decreased disposable income. As disposable incomes decrease, consumers decrease their consumption of most goods. The effect is a sharper than normal drop in tobacco receipts, as the depressed spending effect combines with the long term decline in smoking in Kentucky and the nation as a whole.

Property tax revenues totaled \$319.2 million in the first two quarters of FY09, representing growth of 4.9 percent from a year earlier. Receipts in property taxes are sensitive to timing of payments in the second quarter. It is expected that in the second half of the fiscal year, growth will slow to a mere 1.0 percent over last year. Overall for the fiscal year, property taxes are expected to grow by

3.4 percent. Property taxes in the first quarter of FY10 are anticipated to grow by only 1.3 percent.

Lottery revenues met the expectations of the dividend schedule in the first half of FY09. The forecast anticipates that the Kentucky Lottery will maintain pace within the enacted dividend schedule despite the tough economy and slower Powerball sales.

The “other” category contains estimates for the remaining accounts in the General Fund. During the last two quarters of FY09 this category should experience an increase of 14.0 percent. Receipts in this category are expected to decline by 1.0 percent in the first quarter of FY10, with receipts totaling \$138.1 million.

## ROAD FUND

Road Fund revenues are forecasted to fall 3.5 percent over the final two quarters of FY09 and 6.6 percent in the first three months of FY10 as shown in Table 6. The FY09 full-year forecast is \$14.6 million less than the official revenue forecast as approved by the Consensus Forecasting Group on November 21, 2008.

Motor fuels tax collections are forecasted to grow by 4.4 percent over the final six months of FY09. The increase in tax receipts is due to lower gas prices, an effect which will lead to increased consumption. However, receipts in the first quarter of FY10 are forecasted to drop by 9.3 percent as lower gas prices

substantially lower the statutorily determined tax rate.

Motor vehicle usage tax collections are expected to continue their skid as receipts are expected to fall by 14.5 percent over the remainder of the fiscal year and by 2.5 percent in the first three months of FY10. A stagnant economy with significant job losses, low or no wage growth, tight credit, and weak consumer confidence all contribute to the expected reduction in usage tax receipts.

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 by 5.4 percent in the final two quarters of FY09 and by 6.7 percent in the first quarter of FY10. Motor vehicle operators’ licenses are projected to rise by 4.5 percent in the remainder of the fiscal year but decline 18.3 percent in the first quarter of FY10. Weight distance tax revenue should fall by 7.2 percent for the remainder of the fiscal year and 6.1 percent over the first three months of FY10. Investment income is expected to fall by 65.0 percent over the remainder of the fiscal year and by 65.9 percent in FY10:1 due to lower fund balances and interest rates.

The combination of all other revenues are projected to yield growth of 5.4 percent during the last six months of FY09 but fall 9.5 percent in the first quarter of FY10.

**Table 6**  
**Road Fund: Interim Forecast**  
(millions of dollars)  
**January 2009**

	FY09		FY09		FY09		FY10	
	Quarters 1 & 2		Quarters 3 & 4		Full Year		First Quarter	
	Actual	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago
Motor Fuels	315.7	1.3	310.2	4.4	625.9	2.8	143.2	-9.3
Motor Vehicle Usage	173.8	-15.0	172.1	-14.5	345.9	-14.8	97.5	-2.5
Motor Vehicle License	33.0	-7.7	60.9	5.4	93.9	0.4	18.8	6.7
Motor Vehicle Operators	8.0	2.4	7.9	4.5	15.9	3.4	3.5	-18.3
Weight Distance	40.7	-6.0	38.1	-7.2	78.8	-6.6	19.5	-6.1
Investment	5.0	-37.3	4.0	-65.0	9.0	-53.8	0.9	-65.9
Other	15.9	-2.7	20.2	5.4	36.1	1.7	7.9	-9.5
<b>Road Fund</b>	<b>592.0</b>	<b>-5.6</b>	<b>613.5</b>	<b>-3.5</b>	<b>1,205.5</b>	<b>-4.5</b>	<b>291.3</b>	<b>-6.6</b>

## ECONOMY

The economic outlook presented here is for the three-quarter period from January to September 2009. This period represents the second half of FY09 (quarters three and four) and the first quarter of FY10. As with any forecast, there are multiple scenarios available for consideration that involve different assumptions regarding the most probable path of the national economy. This forecast assumes the “control” scenario since it has the highest expectation of accuracy, but there were three scenarios provided by Global Insight: Optimistic (20 percent probability); Control (60 percent probability); Pessimistic (20 percent probability). The main distinction between the scenarios involves the speed and efficacy of the Federal fiscal stimulus package.

### National Economy

Economists no longer debate whether the national economy is in recession. The term “global recession” has even become commonplace. GDP growth for the major-currency trading partners is projected to decline 1.3 percent in 2009, after growing just 0.7 percent in calendar year 2008. The ills suffered in the U.S. economy have clearly spread into a global economic slowdown.

Looking forward, economists have transitioned the debate to three main issues: Where is the bottom, when will it arrive, and how robustly will the economy rebound after the bottom hits? None of the answers will fully emerge during this nine-month forecasting horizon. As the following analysis will demonstrate, the remainder of FY09 is expected to witness the national economy mired in recession.

Real U.S. GDP (expressed as annualized rates of growth) is expected to contract by 5.4 percent in the third quarter and 1.8 percent in the fourth quarter of FY09, marking four consecutive quarters of decline. All of the broad categories (consumption, investment, government spending, and net exports) are projected to decline in the third quarter of FY09, but exports and investment are expected to suffer the sharpest declines, as shown in Table 9. The timing of the quarterly declines is noteworthy. Consumption was the first sector to demonstrate weakness, followed closely by investment. As businesses experienced declining current sales, they lowered current investment levels and also scaled back planned investment due to much lower projections for future sales. Finally, exports began to fall as the U.S. recession took hold with foreign trading partners, leading to a round of currency devaluations.

Several other variables of interest are expected to erode significantly during the forecast period. Retail sales are projected to decline 11.0 percent in the remainder of FY09 and 8.7 percent in the first quarter of FY10. Consumer sentiment, as measured by the University of Michigan index, will continue to plunge to record depths. The level of the index is predicted to bottom out in FY09:4 but continue to have negative year-over-year growth into FY10. Both of these variables have the potential to create significant headwind against the prospects of a swift and resounding recovery.

Slow personal income growth also is expected to limit any potential upside in the economy. U.S. personal income is expected to grow at a moribund 0.2 percent in the second half of FY09 and 1.2 percent in FY10:1. This level of personal income growth would challenge

the post-WWII lows experienced in the 1953-1954 and 1973-1975 recessions. Inflation-adjusted U.S. personal consumption expenditures on durable goods, a bellwether indicator of the Kentucky manufacturing sector, is expected to record the lowest growth since the Great Depression.

The forecast assumes that the bottom will form and the recovery phase will begin to emerge in FY10:1. Consumption will be the first sector to respond favorably to the federal stimulus package. As Table 9 shows, consumption will post positive growth in FY09:4, ending a skid of three consecutive quarterly declines. Investment will remain negative much longer, however, as businesses will likely postpone major investment decisions until they see the effectiveness and longevity of the federal fiscal stimulus. A rebound in exports will also be delayed well beyond the forecasting horizon of this report

### **State Economy**

For most of calendar year 2008, including the first half of FY09, Kentucky's economy held up better than many of the neighboring states. Kentucky's rich coal reserves prospered due to higher energy prices and goods-producing industries fared well with a weak U.S. dollar spurring exports. By year's end, the lion had turned into a lamb. Energy prices subsided, the dollar appreciated, and durable-goods production languished. That trend is expected to intensify over the next three quarters.

Kentucky non-farm employment is projected to fall 2.5 percent over the last half of FY09, followed by a 2.9 percent decline in the first quarter of FY10.

The goods-producing sector, which represents 18.5 percent of all nonfarm employment, is projected to suffer the greatest percentage declines: a 5.6 percent drop in the second half of FY09 and 7.2 percent in the first quarter of FY10. Service sector employment, which is traditionally more stable, is expected to fall 2.3 percent in the remainder of FY09 and an additional 1.9 percent in FY10:1. Simply put, the Kentucky labor market is projected to continue to struggle throughout this forecast; employment declines are forecasted to intensify somewhat in FY10:1 before finding a bottom to the current recession.

Taken in aggregate, nonfarm employment is projected to fall from an average employment level of 1,879,500 in the last half of FY08 to 1,820,700 in the first quarter of FY10 – a decline of 58,800 workers.

Kentucky personal income is projected to creep forward by 1.8 percent in the second half of FY09, but wage and salary income is expected to decline marginally by 0.7 percent in the FY10:1. Kentucky wage and salary income has not decreased since at least 1990 when the Bureau of Economic Analysis started reporting Kentucky National Accounts.



**Table 7**  
**Economic Outlook: Second Half FY09 Comparison**

	<b>Actual FY08 Q3 &amp;Q4</b>	<b>Forecast FY09 Q3 &amp;Q4</b>	<b>Percent Change</b>
<b>United States</b>			
Real GDP (billions, 2000)	11,686.7	11,358.8	-2.8
Personal Income (billions)	12,056.4	12,174.0	1.0
Consumer Price Index (1992-99=100)	2.15	2.09	-2.8
Industrial Production Index (2002=100)	111.8	102.1	-8.7
Nonfarm Employment (millions)	137.8	134.3	-2.6
Manufacturing Employment (millions)	13.6	12.6	-7.9
Unemployment Rate (percent)	5.1	8.0	NA
<b>Kentucky</b>			
Personal Income (millions)	135,439.5	137,902.7	1.8
Wage & Salary (millions)	72,900.0	72,842.4	-0.1
Nonfarm Employment (thousands)	1,879.5	1,833.2	-2.5
Goods Producing (thousands)	359.6	339.3	-5.6
Service Providing (thousands)	1,189.9	1,162.9	-2.3
Government (thousands)	330.0	331.0	0.3

Source: IHS Global Insight, Inc. and BEA

Data for FY09 are estimates based on the Global Insight Control scenario.

**Table 8**  
**Economic Outlook: First Quarter FY10 Comparison**

	<b>Actual FY09 Q1</b>	<b>Forecast FY10 Q1</b>	<b>Percent Change</b>
<b>United States</b>			
Real GDP (billions, 2000)	11,712.4	11,347.0	-3.1
Personal Income (billions)	12,159.4	12,210.7	0.4
Consumer Price Index (1992-99=100)	2.19	2.11	NA
Industrial Production Index (2002=100)	108.8	100.4	-7.7
Nonfarm Employment (millions)	137.3	133.2	-3.0
Manufacturing Employment (millions)	13.4	12.0	-10.5
Unemployment Rate (percent)	6.0	8.8	NA
<b>Kentucky</b>			
Personal Income (millions)	136,739.0	138,956.6	1.6
Wage & Salary (millions)	73,715.0	73,185.3	-0.7
Nonfarm Employment (thousands)	1,875.8	1,820.7	-2.9
Goods Producing (thousands)	354.4	329.0	-7.2
Service Providing (thousands)	1,184.8	1,162.0	-1.9
Government	336.7	329.8	-2.1

Source: IHS Global Insight, Inc. and BEA

Data for FY10 are estimates based on the Global Insight Control scenario.

**Table 9**  
**Summary of the United States Economy**  
**Annual Rates of Growth**

	<u>FY09 Q1</u>	<u>FY09 Q2</u>	<u>FY09 Q3</u>	<u>FY09 Q4</u>	<u>FY10 Q1</u>
Real GDP (2000 \$ billions)	-0.5	-5.6	-5.4	-1.8	0.5
Real Consumption (2000 \$ billions)	-3.8	-2.6	-3.1	1.7	2.6
Real Durables Consumption (2000 \$ billions)	-14.8	-21.6	-11.4	9.7	11.7
Real Investment (2000 \$ billions)	-1.7	-18.6	-18.9	-21.9	-17.0
S & L Government Expenditures (2000 \$ billions)	1.4	-1.3	-2.1	2.2	1.7
Real Exports (2000 \$ billions)	-3.5	-12.6	-15.8	-12.8	-1.5
Personal Income (\$ billions)	0.2	0.1	0.3	0.1	1.2
Consumer Price Index (percent change)	6.7	-9.3	-6.9	-0.9	2.2
Industrial Production Index (percent change)	-8.9	-10.2	-10.1	-7.6	-2.7

Source: Global Insight, January 2009, Executive Summary Table 2

# **APPENDIX**

## KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	Second Quarter FY 2009	Second Quarter FY 2008	%	Year-To-Date FY 2009	Year-To-Date FY 2008	%
			Change			Change
<b>TOTAL GENERAL FUND</b>	<b>2,243,383,334</b>	<b>2,176,219,588</b>	<b>3.1%</b>	<b>\$4,328,293,412</b>	<b>\$4,243,331,177</b>	<b>2.0%</b>
Tax Receipts	2,155,261,819	2,086,358,555	3.3%	\$4,175,841,971	\$4,083,751,820	2.3%
Sales and Gross Receipts	812,379,157	819,932,657	-0.9%	\$1,683,237,924	\$1,660,666,221	1.4%
Beer Consumption	1,615,630	1,601,136	0.9%	3,369,932	3,443,065	-2.1%
Beer Wholesale	12,531,532	11,886,463	5.4%	27,082,448	26,081,766	3.8%
Cigarette	39,576,332	41,196,626	-3.9%	80,988,461	84,970,466	-4.7%
Distilled Spirits Case Sales	26,596	25,653	3.7%	54,279	51,025	6.4%
Distilled Spirits Consumption	2,445,668	2,565,972	-4.7%	5,341,094	5,129,975	4.1%
Distilled Spirits Wholesale	6,705,599	6,643,104	0.9%	13,843,764	12,979,184	6.7%
Insurance Premium	9,437,911	16,943,483	-44.3%	40,636,852	41,001,026	-0.9%
Pari-Mutuel	1,339,656	1,411,780	-5.1%	1,947,492	2,121,562	-8.2%
Race Track Admission	72,030	24,764	190.9%	193,657	177,415	9.2%
Sales and Use	716,294,303	717,998,725	-0.2%	1,467,722,393	1,446,206,256	1.5%
Wine Consumption	799,334	606,770	31.7%	1,175,095	1,158,432	1.4%
Wine Wholesale	3,605,639	3,129,886	15.2%	6,118,491	5,790,165	5.7%
Telecommunications Tax	15,752,842	13,616,512	15.7%	30,315,118	26,942,344	12.5%
OTP	2,176,086	2,281,784	-4.6%	4,448,848	4,613,541	-3.6%
License and Privilege	126,039,788	93,381,614	35.0%	\$230,592,997	\$181,166,109	27.3%
Alc. Bev. License Suspension	62,100	114,400	-45.7%	163,500	433,170	-62.3%
Coal Severance	75,549,265	57,470,985	31.5%	148,223,817	110,903,103	33.7%
Corporation License	3,066,319	1,832,883	67.3%	4,155,833	3,735,164	11.3%
Corporation Organization	21,450	97,643	-78.0%	34,065	185,700	-81.7%
Occupational Licenses	42,742	22,174	92.8%	105,223	62,769	67.6%
Oil Production	2,267,970	2,345,236	-3.3%	6,272,893	4,384,853	43.1%
Race Track License	125,700	3,210	3815.6%	298,200	189,785	57.1%
Bank Franchise Tax	(1,837,966)	(180,810)	---	(5,214,080)	(226,658)	---
Driver License Fees	145,014	137,055	5.8%	305,566	313,970	-2.7%
Minerals Severance	4,030,191	5,350,767	-24.7%	8,221,077	9,928,116	-17.2%
Natural Gas Severance	12,357,146	7,783,202	58.8%	25,927,924	14,249,899	82.0%
Limited Liability Entity	30,209,856	18,404,870	64.1%	42,098,978	37,006,239	13.8%
Income	941,844,905	905,779,716	4.0%	\$1,900,876,986	\$1,892,464,419	0.4%
Corporation	82,260,196	107,855,997	-23.7%	164,632,243	271,828,161	-39.4%
Individual	859,584,710	797,923,719	7.7%	1,736,244,743	1,620,636,258	7.1%
Property	\$255,459,522	\$245,394,830	4.1%	\$319,222,626	\$304,214,424	4.9%
Building & Loan Association	(19,101)	0	---	209,366	93,832	123.1%
General - Real	151,008,545	149,422,381	1.1%	151,279,234	149,998,530	0.9%
General - Tangible	81,025,401	86,005,978	-5.8%	118,729,337	112,270,144	5.8%
Omitted & Delinquent	(1,090,007)	(9,071,570)	---	11,150,021	10,485,846	6.3%
Public Service	24,489,015	18,684,404	31.1%	37,227,275	30,848,895	20.7%
Other	45,670	353,637	-87.1%	627,394	517,178	21.3%
Inheritance	\$8,999,047	\$12,583,156	-28.5%	\$22,018,343	\$26,644,818	-17.4%
Miscellaneous	\$10,539,400	\$9,286,581	13.5%	\$19,893,095	\$18,595,829	7.0%
Legal Process	5,971,628	5,984,126	-0.2%	12,152,217	12,537,454	-3.1%
T. V. A. In Lieu Payments	4,567,557	3,302,455	38.3%	7,733,042	6,058,375	27.6%
Other	214	0	---	7,837	0	---
Nontax Receipts	\$87,196,815	\$86,555,375	0.7%	\$151,807,746	\$154,532,449	-1.8%
Departmental Fees	7,553,039	7,040,744	7.3%	13,769,956	14,393,044	-4.3%
PSC Assessment Fee	2,780	71,598	-96.1%	9,356,882	10,601,255	-11.7%
Fines & Forfeitures	6,732,606	6,788,052	-0.8%	14,105,115	14,404,055	-2.1%
Interest on Investments	923,296	377,122	144.8%	2,078,927	813,751	155.5%
Lottery	48,500,000	50,761,591	-4.5%	91,500,000	92,261,591	-0.8%
Sale of NOx Credits	0	0	---	0	0	---
Miscellaneous	23,485,094	21,516,268	9.2%	20,996,866	22,058,753	-4.8%
Redeposit of State Funds	\$924,700	\$3,305,658	-72.0%	\$643,695	\$5,046,908	-87.2%

## KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	Second Quarter FY 2009	Second Quarter FY 2008	%	Year-To-Date FY 2009	Year-To-Date FY 2008	%
			Change			Change
<b>TOTAL ROAD FUND</b>	<b>\$280,056,613</b>	<b>\$300,612,035</b>	<b>-6.8%</b>	<b>\$592,029,606</b>	<b>\$627,267,597</b>	<b>-5.6%</b>
Tax Receipts-	\$273,559,424	\$290,965,340	-6.0%	\$576,749,773	\$607,820,067	-5.1%
Sales and Gross Receipts	\$231,502,326	\$245,829,909	-5.8%	\$489,473,993	\$516,219,870	-5.2%
Motor Fuels Taxes	157,703,613	151,469,928	4.1%	315,678,818	\$311,685,277	1.3%
Motor Vehicle Usage	73,798,714	94,359,981	-21.8%	173,795,174	\$204,534,593	-15.0%
License and Privilege	\$42,057,098	\$45,135,431	-6.8%	\$87,275,780	\$91,600,196	-4.7%
Motor Vehicles	15,401,576	17,294,082	-10.9%	33,045,640	\$35,836,236	-7.8%
Motor Vehicle Operators	3,733,255	3,811,165	-2.0%	7,988,679	\$7,817,867	2.2%
Weight Distance	20,003,828	21,263,281	-5.9%	40,717,349	\$43,322,010	-6.0%
Truck Decal Fees	32,965	14,417	128.7%	76,774	\$50,469	52.1%
Other Special Fees	2,885,474	2,752,486	4.8%	5,447,338	\$4,573,614	19.1%
Nontax Receipts	\$6,565,565	\$9,586,377	-31.5%	\$15,053,101	\$19,326,988	-22.1%
Departmental Fees	3,896,381	4,535,680	-14.1%	9,293,506	\$10,305,084	-9.8%
In Lieu of Traffic Fines	236,914	274,154	-13.6%	482,092	\$567,723	-15.1%
Investment Income	2,257,216	4,540,966	-50.3%	4,951,394	\$7,900,220	-37.3%
Miscellaneous	175,054	235,577	-25.7%	326,109	\$553,961	-41.1%
Redeposit of State Funds	(\$68,377)	\$60,318	---	\$226,732	\$120,543	88.1%