COMMONWEALTH OF KENTUCKY

Quarterly Economic & Revenue Report

Second Quarter
Fiscal Year 2011

Governor's Office for Economic Analysis

Office of State Budget Director

Kentucky
UNBRIDLED SPIRIT

Office of State Budget Director
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February 1, 2011

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

Dear Governor Beshear:

The attached Quarterly Economic and Revenue Report summarizes the revenue and economic statistics for the second quarter of Fiscal Year 2011 (FY11). This report includes an interim economic and revenue forecast for the last two quarters of FY11 and the first quarter of FY12.

General Fund receipts for the second quarter of FY11 totaled $2,298.4 million, an increase of 6.3 percent compared to the same period in FY10. Road Fund revenues totaled $314.3 million, an increase of 12.6 percent from the second quarter of FY10.

The interim General Fund forecast for the final two quarters of FY11 projects an increase of 4.3 percent compared to the same period one year ago, resulting in an unofficial interim outlook for the entire FY11 of $8,624.5 million, or $53.6 million higher than the enacted official revenue estimates. A large part of the $53.6 million includes higher projected revenues from the severance taxes. If actual receipts materialize as projected, $31.2 million of the $53.6 million will be appropriated to the two statutorily dedicated revenue-sharing programs that govern severance taxes.

The interim forecast for the Road Fund for the final two quarters of FY11 is $686.9 million and calls for an increase of 9.9 percent. The interim estimate for the full year FY11 is $1,339.9 million, $69.3 million more than the official revenue forecast.

Early indications are that the Christmas shopping season was the best since 2005, with same-store sales near 7.0 percent growth. The remaining troubling part of the economy is the stubbornly-high unemployment rate which is still above 10 percent.

For the first time since 2007, the interim General Fund estimates reflect that revenues are expected to meet budgeted levels, with a small positive margin. The Road Fund, however, does appear to be outperforming projections.

The report also projects General Fund growth of 4.2 percent and Road Fund growth of 3.8 percent for the first quarter of FY12, but the remaining three quarters of FY12 are beyond the forecasting horizon of this report. We continue to be cautious as the economic recovery has not produced job growth levels that we would expect to see in a recovery period. We will continue to monitor the economic and fiscal conditions of the Commonwealth and will keep you apprised of developments.

Sincerely,

Mary E. Lassiter
State Budget Director

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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 second quarter of FY11. As required by law, 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.

This second edition of the *Quarterly Report* provides a second unofficial estimate for the current year revenues as well as a first quarter examination of the upcoming fiscal year. It is customary to juxtapose the latest unofficial estimates with the official enacted estimates that were included in the budget process. Both the General Fund and Road Fund estimates are included. Unless otherwise noted, the enacted estimates include the fiscal impact of all recently enacted laws that would affect revenues. These impacts, which total $80.1 million in FY11, have been incorporated into the estimates for the major tax categories.

To fulfill the requirement to provide an update on current economic conditions, two sections of narrative information are included in this report. The first section profiles the most recent history of the US and Kentucky economies. Later, in the outlook section of the report, a three-quarter outlook is provided using the control forecast from Global Insight as well as the MAK model for Kentucky which is developed, maintained, and operated by the Office of State Budget Director.

Some of the highlights of this report are summarized below . For greater detail, please refer to the relevant portion of the report.

- General Fund receipts rose for the third consecutive fiscal quarter following five consecutive declines.
- Road Fund receipts have now posted a fourth consecutive quarterly increase following a recession that led to seven consecutive quarters of declining revenues. The Road Fund is in full recovery mode due to current and projected strength in the motor fuels and motor vehicle usage taxes.
- The recovery for the General Fund is gaining some momentum after posting 6.3 percent growth in the second quarter. Each of the three consecutive gains in the General Fund has increased in magnitude, but the trend is likely to mitigate as the quarters of comparison improved in FY10.
- Despite the fragile nature of the economic recovery, two revenue sources have established a growth pattern in excess of projections. The corporation income tax is clearly benefiting from the national growth in corporate profits. All of the corporate variables are well poised for growth in excess

of the official estimates. Coal severance tax receipts are also coming in ahead of the pace set by the official estimates. The combination of corporate and coal is approximately $150 million ahead of projections for FY11.

- Offsetting these well-performing taxes, the remainder of the General Fund is slightly below the growth incorporated into the official estimates.
- Compared to the enacted estimates, the unofficial General Fund estimate calls for growth of 4.9 percent in FY11 for a final sum of $8,624.5 million. If realized, the estimate would exceed the enacted estimate of $8,570.9 by $53.6 million.
- Interim estimates for the Road Fund also reveal a projected excess of revenues over the official estimates. Due to growth in the fuels taxes, the current unofficial estimate calls for $1,339.9 million in FY11, an amount $69.3 million higher than the official estimate.
- Regarding the economy, real GDP is expected to rise 1.9 percent in the last three quarters of FY11; this growth was largely based on the high growth in real private investment and real exports.
- Kentucky personal income rose by a welcomed 4.0 percent in the first quarter, despite zero growth in Kentucky employment. Personal income in Kentucky is expected to rise 2.3 percent for the remainder of the fiscal year.
- The three-quarter outlook calls for no drastic changes to the national forecast, especially the economic forecast that prevailed when the official estimates were approved. There was a period earlier in calendar year 2010 when Global Insight had raised the forecast for many key variables. Since then, the economy has softened somewhat but still compares favorably to the last approved Consensus Forecasting Group (CFG) forecast of the economy.
- Recent regional projections have shown Kentucky in a favorable light vis-à-vis the recovery path of other states.

As may be inferred in the previous bulleted items, the recovery is viewed by national experts as somewhat fragile, such that moderate disruptions have a greater possibility than usual of escalating into full-blown setbacks. The optimistic scenario presented to OSBD from Global Insight increased in probability due to an upturn in the exporting sector and some signs of growth in domestic consumption during the holiday season. The pessimistic scenario continued to underscore weakness in employment growth as an impediment to sustained consumption growth. Most economists have begun to see equal weight in the upside and downside risks, leaving the control forecast the overwhelming choice for short-term forecasting.

Given this volatility and given the presence of the significant downside risks, both the General Fund and Road Fund estimates prepared in this report should be interpreted to be “right on course” rather than "significantly ahead of schedule". Both amounts in excess of the official estimates are within the normal error range of economic models, especially models with as many volatile components as the Global

Insight, MAK, and the Kentucky revenue models. The next report in April 2011 should give us a better indicator of final 2011 revenues, given that we will be able to observe several important taxes that are heavily dependent on the early year refund season.

Finally, it is often useful to know what the experts are saying about the Kentucky economy. While this is difficult to do on a totally objective scale, the intangible remarks from the experts seem to be saying that Kentucky should recover from the recession more quickly since our peak-to-trough losses in several key variables is a much smaller gap than states that have been decimated by the housing sector crisis. By most accounts, the losses endured by Kentucky from the national recession that ended in June 2009 were somewhat less severe than most states. There are three primary factors at play. First, the loss of household wealth from home equity was not as severe in Kentucky since there was a smaller run-up in prices and less speculative buying. Second, all mineral extraction states had hard assets to fall back to when other sectors failed. Finally, Kentucky has a broad mix of manufacturing instead of an overreliance on a single industry. The diversity and stability of our tax code also limits the downside risks during recessions by sustaining government services and interjecting resources into the private economy.

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GENERAL FUND

Revenue collections grew 6.3 percent, or $136.0 million, in the second quarter of FY11 following a 4.4 percent increase in the first quarter of the year. Through the first two quarters of the fiscal year, receipts have increased 5.4 percent. Revenues have now grown in three consecutive quarters following five consecutive quarterly declines.

Second quarter gains were driven primarily by improvements in sales and use, individual income, limited liability entity tax (LLET), property and coal severance tax receipts. Those revenue sources accounted for an increase of $130.7 million in the second quarter. Receipts in the second quarter totaled $2,298.4 million compared to $2,162.4 million received in the second quarter of FY10. 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.

Variations in the quarterly receipts are often affected by differences in the timing of payments into revenue accounts. While timing differences were not as prevalent as in the past, property tax receipts continue to record fluctuations because of these differences. The due-date for timely paid real property tax payments is December 31 of each year. The late due date creates timing differences as payments are transferred from the county sheriffs' offices to the state account.

Table 1
Summary General Fund Receipts
(million $)

	FY11 Q2	FY10 Q2	Diff ($)	Diff (%)
Sales and Use	732.9	690.9	42.0	6.1
Individual Income	829.1	788.4	40.7	5.2
Corporation Income	56.0	55.4	0.6	1.1
LLET	53.5	36.1	17.4	48.1
Coal Severance	72.2	65.0	7.2	11.1
Cigarette Tax	67.0	67.3	-0.4	-0.5
Property	299.2	275.8	23.4	8.5
Lottery	50.0	49.0	1.0	2.0
Other	138.5	134.4	4.1	3.0
TOTAL	**2,298.4**	**2,162.4**	**136.0**	**6.3**

Total sales and use tax receipts for the quarter were $732.9 million, compared to $690.9 million in the second quarter of FY10. The 6.1 percent increase is an abrupt improvement over the 3.5 percent decline in the second quarter of last year. Year-to-date sales tax receipts have increased 4.7 percent.

Individual income tax posted receipts of $829.1 million compared to last year's second quarter receipts of $788.4 million. The resulting growth rate was 5.2 percent, and compares to a growth rate of -8.3 percent for the second quarter of last year. Fiduciary, declarations and net returns payments (three smaller components of this tax) displayed typical seasonal and timing differences but remain mostly on target with the exception of fiduciary payments, which lag beind forecasted values. In the main the income tax is overwhelmed by withholding receipts, which grew sharply compared to the same period of last year.

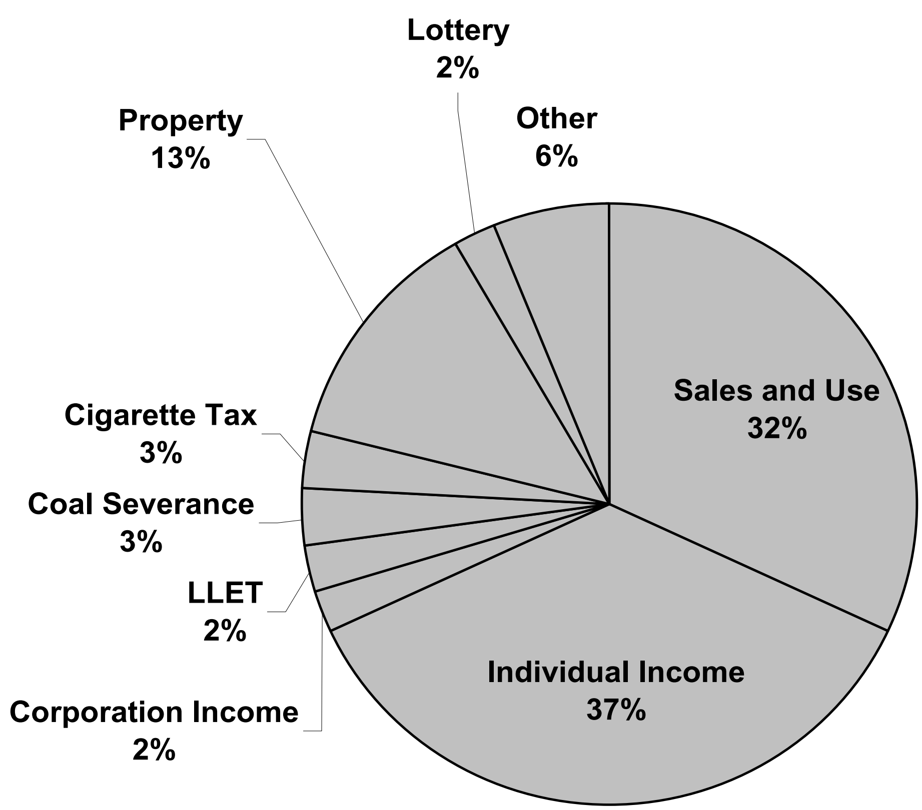
Combined corporation income and LLET receipts were up in the second quarter of the fiscal year. Revenues of $109.5 million were 19.7 percent more than year-earlier figures of $91.5 million.

Coal severance tax revenue increased in the second quarter, with receipts up 11.1 percent. Collections of $72.2 million compare to the FY10 second quarter total of $65.0 million. Through the first six months of FY11, receipts have grown by 10.0 percent.

Cigarette tax receipts of $67.0 million in the second quarter of FY11 declined slightly compared to last year's total of $67.3 million. Year-to-date cigarette tax receipts have fallen 3.9 percent due to lower sales.

Second quarter property tax receipts posted revenues that were $23.4 million more than the second quarter of FY10. The difference is mainly due to timing issues in the real property subcategory. The FY11 second quarter receipts of $299.2 million compare with $275.8 million from the second quarter of FY10.

Figure 1
General Fund Receipts Second Quarter FY11



Lottery receipts were $50.0 million, which were 2.0 percent above last year's second quarter total of $49.0 million. However, lottery sales have fallen behind projections which will affect the dividend schedule in the second half of FY11.

The "Other" category, which represents the remaining accounts of the General Fund, increased 3.0 percent in the second quarter. Second quarter receipts for FY11 were $138.5 million compared to $134.4 million in FY10.

Table 2
Summary Road Fund Receipts
(million $)

	FY11 Q2	FY10 Q2	Diff ($)	Diff (%)
Motor Fuels	183.7	158.6	25.1	15.9
Motor Vehicle Usage	84.2	72.3	11.9	16.5
Motor Vehicle License	16.8	16.2	0.6	3.5
Motor Vehicle Operators	3.9	3.8	0.1	3.2
Weight Distance	18.7	17.9	0.8	4.2
Investment Income	0.4	1.0	-0.6	-62.7
Other	6.5	9.2	-2.6	-28.8
TOTAL	**314.3**	**279.1**	**35.2**	**12.6**

ROAD FUND

The Road Fund reported growth of 12.6 percent in the second quarter of FY11. Receipts totaled $314.3 million and compare to $279.1 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 were $183.7 million for the quarter and compare to $158.6 million collected during the second quarter of last year. The 15.9 percent growth is primarily due to the increase in the formula-driven tax rate. In FY10, the motor fuels tax rate increased in each of the first three quarters before reaching the maximum allowable by law for the final half of the year. The tax rate this fiscal year has been at or near the maximum for the first six months meaning the annual increase in the tax rate has been larger than normal. An increase in consumption has also contributed to the rise in collections.

Motor vehicle usage tax increased 16.5 percent in the second quarter. Receipts during the second quarter of FY11 totaled $84.2 million and compare to $72.3 million collected during the same period last year. The strong growth in this account is the result of both an increase in motor vehicle sales and the fact that collections in the second quarter of last year were artificially low due to the temporary trade-in credit on new vehicle purchases.

Motor vehicle license tax receipts increased 3.5 percent in the second quarter of FY11 to $16.8 million.

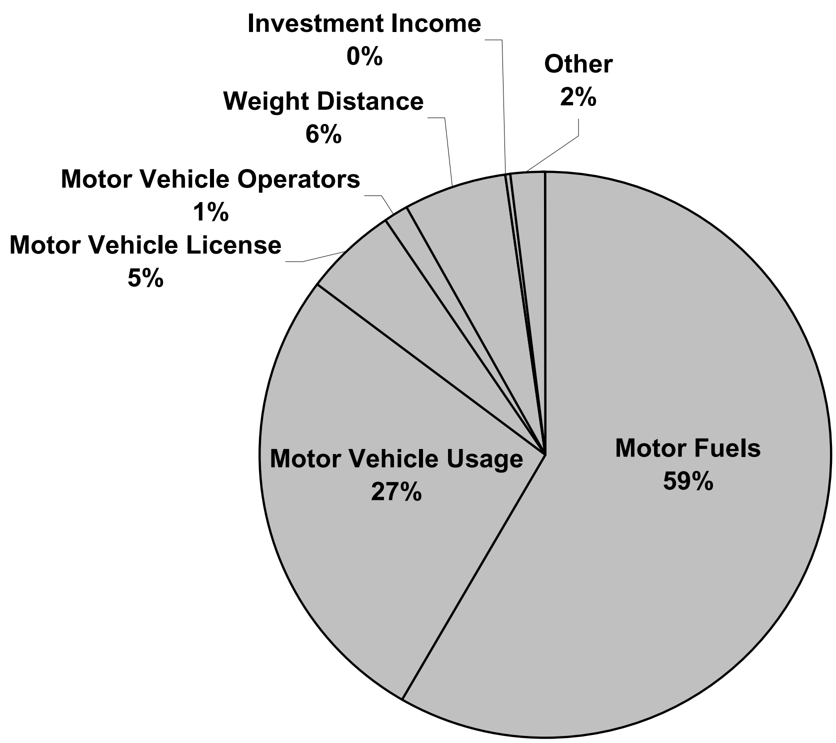
Motor vehicle operators license tax receipts were $3.9 million in the second quarter of FY11, an increase of 3.2 percent.

Weight distance tax receipts of $18.7 million represent a 4.2 percent increase compared to receipts of $17.9 million during the second quarter of FY10. The weight distance tax is typically considered a good leading indicator of the amount of future manufacturing output, so growth in this account is an encouraging sign that the recovery in factory activity is indeed occurring.

Investment receipts of $0.4 million were down 62.7 percent over the total collected in the second quarter of FY10.

The remainder of the accounts in the Road Fund combined for a decrease of 28.8 percent from a year earlier. In the "Other" category, revenues of $6.5 million compare to $9.2 million in the second quarter of FY10.

Figure 2
Road Fund Receipts Second Quarter FY11



The Economy Second Quarter FY11

NATIONAL ECONOMY

The largest single measure of the US economy is real Gross Domestic Product (GDP). GDP is the sum of all final goods and services sold within the physical borders of the United States in a given year. Real GDP has five components: consumption, investment, government expenditures, imports and exports. Real GDP rose by 2.7 percent in the second quarter of FY11 to $13,376.5 billion.

The previous peak for real GDP occurred in the second quarter of FY08 with $13,363.5 billion. The trough for real GDP occurred in the fourth quarter of FY09 with $12,810.0 billion, a loss of $553.5 billion, or a net 4.1 percent decline. Historically, this was a deep and above average duration recession; the second deepest in absolute and percentage terms. The 2007 recession officially started in December 2007 and ended in June 2009 according to the National Bureau of Economic Research. The most severe recession in the last 110 years is still the Great Depression, which lasted for 43 months from 1929 to 1933. Using annual figures, real GDP fell by 26.7 percent during the Great Depression. Behind the 2007 recession, the next worst recession in terms of real GDP losses was the 1973 recession, where real GDP fell by a net $157.8 billion, a 3.2 percent decline.

All five components of real GDP increased in the second quarter. For the second quarter in a row, the fastest growing component was real investment and the slowest growing was government expenditures.

Real investment, which makes up 13.4 percent of real GDP, is the most volatile of the five components. During the 2007 recession, investment was hit particularly hard. Investment fell $811.5 billion from peak-to-trough, a 35.8 percent net decline. Since that trough, in the fourth quarter of FY09 investment has improved rapidly and regained $338.9 billion. Real investment is up 13.0 percent over the second quarter of FY10, but it is down 2.9 percent over the first quarter.

Real government expenditures grew the slowest of all the GDP components for the second consecutive quarter. Real government expenditures were affected by the 2007 recession in a very different way than the other components. On an annual basis, real government expenditures did not go down at all. On a quarter-to-quarter basis, real government expenditures only went down three times: by 0.8 percent in the third quarter of FY09, by 0.4 percent in the second quarter of FY10 and by 0.4 percent in the third quarter of FY10. The three declines did not cause a net decline in the annual nor fiscal year figures. Moreover, the quarters following the declines were particularly robust (1.5 and 1.0 percent growth respectively) and more than made up for the losses. Overall, real government expenditures was the least affected component of real GDP during the recession. This is consistent with history, as government transfers (unemployment insurance payments and food stamps), for example, typically increase during downturns. Real government expenditures increased by 1.3 percent compared to second quarter of FY10, while they decreased by 0.3 percent when compared to the first quarter of FY11.

Real imports increased by 11.7 percent compared to the second quarter of FY10. Real imports fell by 2.7 percent in the second quarter of FY11 compared to the first quarter. During the 2007 recession, real imports declined by $454.7 billion, a 20.3 percent net decline. Second quarter FY11 real imports were $2,126.2 billion, meaning that real imports have made up 74.0 percent of their recession losses. During the 2007 recession, real exports declined by $248.8 billion, a 14.7 percent net decline. In the second quarter of FY11 real exports rose to $1,708.7 billion, finally surpassing the previous peak.

Prior to the recession, net exports reached a trough of -$756.4 billion, as import growth had outstripped export growth for many years. As the recession affected US appetites for imports, real import losses were significantly greater than real export losses. This led to a significant change in net exports. By the second quarter of FY10, net exports had improved to -$330.1 billion. In the quarters after the recession imports again grew faster than exports; second quarter net exports fell to -$417.5 billion, a poorer position, but is still significantly better than before the recession.

Table 3
Summary of US Economic Series
Second Quarters of FY10 & FY11

	Q2			
	FY11	FY10	Chg	% Chg
Real GDP	13,376.5	13,019.0	357.5	2.7
Real Consumption	9,406.2	9,182.9	223.4	2.4
Real Investment	1,792.1	1,585.7	206.4	13.0
Real Govt. Expenditures	2,582.6	2,550.3	32.3	1.3
Real Exports	1,708.7	1,573.5	135.2	8.6
Real Imports	2,126.2	1,903.6	222.6	11.7
Personal Income ($ billions)	12,736.0	12,239.0	497.0	4.1
Inflation (% chg CPI)	0.5	0.6	NA	NA
Industrial Production Index (% chg)	0.2	1.7	NA	NA
Civilian Labor Force (millions)	154.1	153.5	0.5	0.3
Total Nonfarm Employment (millions)	130.6	129.6	1.0	0.7
Manufacturing Employment (millions)	11.7	11.6	0.1	1.1
Unemployment Rate (percent)	9.6	10.0	NA	NA

Not Seasonally Adjusted. Real series are in billions of chained 2000 dollars.
GDP components may not sum because different chain-weighted prices
are used to convert series into real levels.
Data for FY10 Q2 are December 2010 estimates.
Source: IHS Global Insight Inc., December 2, 2010 data release

US non-farm employment rose modestly in the second quarter, gaining 0.7 percent over second quarter FY10 and only 0.2 percent growth over first quarter FY11. US employment has been extremely weak since the recession officially ended in the fourth quarter of FY09. From the second quarter of FY08 to the second quarter of FY10, 8.2 million jobs have been lost, a 6.0 percent net decline. Since then, only 1.0 million jobs have been regained.

KENTUCKY ECONOMY

Kentucky personal income grew at the exact same pace as US personal income, 4.1 percent, in the second quarter. Kentucky personal income has improved on a quarterly basis for the last seven consecutive quarters. Kentucky personal income was particularly resilient with respect to the 2007 recession. Personal income fell for three consecutive quarters, losing 1.7 percent of its total. In the following three quarters, personal income was able to surpass its previous peak, regaining all of the losses from the recession. This closely parallels the US; US personal income fell for four of five quarters from the first quarter of FY09 to first quarter of FY10. The US also surpassed its previous peak in the following three quarters.

The makeup of Kentucky personal income has changed substantially over the last decade. At the beginning of 2001, income from government transfers made up 17.4 percent of total personal income. By the end of calendar 2010, government transfers grew to 25.0 percent of personal income. While government transfers grew, 'wages and salaries' and 'dividends, interest and rent' shrunk as a portion of personal income. At the beginning of 2001, income from wages and salary made up 53.9 percent of personal income in Kentucky. By the end of 2010, income from wages and salary made up 50.0 percent of personal income. At the beginning of 2001, income from dividends, interest and rent made up 17.2 percent of personal income. By the end of 2010, income from dividends, interest and rent made up 14.1 percent of personal income. Kentucky personal income grew by a net 42.2 percent during the decade, while government transfers grew by a net 103.6 percent.

Kentucky wages and salaries grew by 3.0 percent in the second quarter. Wages and salaries grew relatively slowly during the second quarter (the fifth fastest among the six personal income components). Wages and salaries declined during the same three quarters as total personal income also has increased for the last seven quarters. However, wages and salaries grew relatively slower than personal income as a whole, 0.7 percent versus 0.9 percent, respectively. Wages and salaries surpassed its previous peak in the second quarter of FY11, taking a full year longer than personal income to reach the same landmark.

Kentucky non-farm employment rose by 15,900 jobs, or 0.9 percent in the second quarter. Non-farm employment grew by 0.5 percent compared to the first quarter of FY11. While still historically low, this is an important quarter of growth. This is just the third positive quarter of adjacent-quarter growth since the recession ended for Kentucky employment. The growth in the second quarter has helped to solidify and confirm that the bottom was reached in the employment sector in the third quarter of FY10 with 1,755,500 seasonally adjusted employed. From peak to trough, Kentucky non-farm employment fell by 113,700 jobs, or 6.1 percent following the 2007 recession. Since the third quarter of

FY10, non-farm employment has improved to 1,781,100 jobs. That is an improvement of 25,600 jobs since the third quarter; 22.5 percent of the recession losses have now been regained.

The mining sector performed the best in the second quarter, gaining 1,000 jobs, or 4.2 percent over the first quarter. Employment losses hit the mining industry early compared to most industries and began in the first quarter of FY07. What followed was six consecutive, but modest, quarterly declines resulting in a net loss of 1,100 jobs. Following the resulting trough in the second quarter of FY08, mining employment built back up to 24,400 workers by the second quarter of FY11. Mining was one of two sectors that were relatively insulated from the extended contraction. The other was education and health services.

Kentucky construction employment fell by the largest percentage in the second quarter, losing 2.9 percent over the second quarter of FY10. Construction has been deeply affected by the 2007 recession. It has experienced a high number of quarterly declines in the last five years (13, which ties it for second most). The construction sector experienced no growth during the last decade, while the 2001 and 2007 recessions have had a significant eroding impact. The construction sector lost 23,800 jobs from the fourth quarter of FY01 to the first quarter of FY11. That is a 26.8 percent loss. And while the construction sector posted a solid 5.5 percent growth in the second quarter over the first quarter, it is still not clear if the construction sector has found a bottom. The private and commercial housing markets are still weak across numerous measures.

The Kentucky manufacturing sector has the greatest number of quarterly declines among the sectors. It has fallen 16 times during the last five years. There technically was no peak for manufacturing following the 2001 recession and therefore no official trough. Manufacturing employment has been trending down for over 10 years. In 2004 manufacturing employment reached a sort of plateau right above 260,000 employed and hovered there for the next three years. Shortly before the 2007 recession, manufacturing employment again began to fall sharply. From the third quarter of FY06 to the third quarter of FY10, manufacturing employment fell by 55,300 jobs, a 21.0 percent net decline. The fourth quarter of FY10 grew robustly with 2.8 percent growth over the third quarter of FY10. The first two quarters of FY11 have realized no growth, growing 0.05 and -0.1 percent, respectively.

Table 4
Summary of Kentucky Economic Series
Second Quarters of FY10 & FY11

	Q2			
	FY11	**FY10**	**Chg**	**% Chg**
Personal Income ($ millions)	146,379.4	140,659.0	5,720.4	4.1
Wages and Salary Income ($ millions)	73,261.4	71,105.0	2,156.4	3.0
Nonagricultural Employment (thousands)	1,781.1	1,765.2	15.9	0.9
Goods Producing (thousands)	306.1	301.9	4.2	1.4
Construction	68.7	70.7	-2.1	-2.9
Mining	24.4	22.9	1.5	6.7
Manufacturing	213.1	208.3	4.8	2.3
Service Providing (thousands)	1,153.2	1,137.2	16.0	1.4
Trade, Transportation & Utilities	367.8	359.2	8.7	2.4
Information	26.2	26.6	-0.4	-1.4
Finance	85.4	86.9	-1.5	-1.7
Business Services	183.1	177.6	5.5	3.1
Educational Services	252.5	248.7	3.7	1.5
Leisure and Hospitality Services	168.7	170.0	-1.3	-0.8
Other Services	69.5	68.2	1.3	1.9
Government (thousands)	321.8	326.1	-4.3	-1.3

Not Seasonally Adjusted. Data for FY10 Q2 are December 2010 estimates.
Source: IHS Global Insight Inc. and Governor's Office for Economic Analysis MAK model

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Interim Outlook

GENERAL FUND

The revenue estimates in this report were prepared using the December 2010 control economic forecast from both Global Insight and the Kentucky Macro Model, which is operated by the Governor's Office for Economic Analysis. Projections have stabilized during the interim period between official estimates due to two primary factors; actual FY10 revenues were very close to the base projected by the CFG during the budget forecast; and second, Global Insight has made few changes to their outlook, aside from some slight differences in timing.

The enacted General Fund estimate for FY11 is $8,570.9 million, a tally which includes $80.1 million in legislatively enacted policy changes during the 2010 special session of the General Assembly. January's unofficial interim outlook calls for General Fund revenues of $8,624.5 million, or $53.6 million higher than the enacted estimates.

Projected General Fund revenues for the next three quarters are shown in Table 5. As the table suggests, the growth in most revenue sources is expected to slow during the second half of the fiscal year. The largest two revenue sources, the individual income tax and the sales tax, are projected to come in slightly lower than the official estimates. The amount of the projected reduction is roughly attributable to the difference between the underlying economic assumptions. The interim estimates were derived from the control forecast whereas the enacted

Table 5
General Fund Interim Forecast
($ millions)

	FY11 Q1 & Q2		FY11 Q3 & Q4		FY11 Full Year		FY12 Q1		Official Budget	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Sales & Use	1,450.2	4.7	1,458.5	3.5	2,908.7	4.1	756.3	5.4	2,929.3	-20.6
Individual Income	1,674.8	4.5	1,612.5	3.9	3,287.2	4.2	874.8	3.4	3,322.2	-35.0
Corporation Inc & LLET	223.7	30.7	262.0	23.2	485.7	26.5	113.7	62.6	403.9	81.8
Coal Severance	145.0	10.0	143.1	2.1	288.1	6.0	70.6	-3.1	230.4	57.7
Cigarettes	136.0	-4.0	136.4	-0.3	272.4	-2.2	71.6	3.8	280.9	-8.5
Property	350.8	4.4	178.2	-1.1	529.0	2.5	63.1	22.2	540.2	-11.2
Lottery	95.0	2.2	101.5	-5.1	196.5	-1.8	47.0	4.4	205.4	-8.9
Other	278.0	3.1	378.9	6.3	656.9	4.9	144.2	-21.5	658.7	-1.8
Total General Fund	**4,353.5**	**5.4**	**4,271.0**	**4.3**	**8,624.5**	**4.9**	**2,141.3**	**4.2**	**8,570.9**	**53.6**

estimates were a 70:30 blend of the control and optimistic economic scenarios. Significant growth is still expected in the income and sales taxes, but the magnitude of the growth has been slightly lowered.

The sales tax grew 4.7 percent in the first half of FY11 with growth expected to slow to 3.5 percent in the remaining two quarters of the fiscal year. Part of the slowing of growth in the sales tax is attributable to the fact that the sales tax improved over the second half of FY10, which will set a higher bar for growth in FY11. The Global Insight forecast for US retail sales continues to be strong, but several forces are at work which will delay a full rebound in the sales tax. Many consumers continue to pay down debts and have limited access to credit. Also, until the employment picture comes into better focus, consumers will be cautious in spending knowledegable that a disruption from their current employment is possible.

The individual income tax is expected to grow 3.9 percent over the second half of FY11 following a strong showing of 4.5 percent growth through December. Relative to the enacted estimate, the individual income interim forecast is $35.0 million lower. Lower growth for the remainder of the fiscal year is partially attributable to stagnant declaration payments and anticipated heavy refunds from tax year 2010. The withholding component of the individual income tax is virtually unchanged from the previous quarterly report.

The corporation income tax, the LLET, and the coal severance tax have been strong performers in the first half of FY11, and the momentum is expected to continue through the forecasting horizon. By any measure, corporate profits are running very high. Apportioned profits are the basis of the corporate income tax, and the first two declaration periods for tax year 2010 calendar filers have both posted sizable growth. Moreover, refund balances are at historic lows as the Kentucky Department of Revenue has put a higher priority on the timely handling of refund requests in an effort to minimize interest payments. The other major corporation tax, the LLET, has also outperformed expectations. Substantial compliance efforts were undertaken to ensure proper taxpayer understanding of the LLET. While a component of these compliance efforts led to one-time catch-up payments, it appears as if compliance efforts are also paying dividends in terms of proper payment of the tax for estimated payments also. The interim estimate for the combination of the corporation income tax and the LLET is $485.7 million, which is $81.8 million greater than the official estimate.

The unprecedented revenue growth in coal severance tax revenue for FY09 was only partially reversed in FY10. Despite very slow going in the first three quarters, the fourth quarter of FY10 posted growth of 3.6 percent over the record levels set in FY09. Coal severance finished FY10 at $271.9 million in collections, $27.2 million higher than projected. With the higher base heading into FY11, it is reasonable to assume that the projections going forward would be slightly higher than the official estimates. That was indeed the case in the first half of FY11, and the next two quarters are expected to sustain this momentum. The current estimate of $288.1 million is $57.7 million higher than the enacted estimate. Due to the statutory distribution for revenue sharing of severance taxes, the projected coal revenues will trigger higher current-year appropriations to accomodate the statutes.

Cigarette taxes totaled $278.4 million in FY10, an improvement of 37.1 percent over FY09. Compared to the official projections for FY10, the cigarette taxes missed the mark by six-tenths of one percent – quite respectable given that the state tax rate doubled in April of 2009 and the federal government raised taxes at the same time by over $1.00 per pack. The CFG estimated that Kentucky would lose approximately 105 million packs annually due to the combined price impacts from the state and federal taxes. Twelve-month-equivalent data suggests that the pack loss was approximately 112 million packs. Going forward, the interim forecasts calls for very slight growth in cigarette tax revenues now that that both the historical data and new receipts are based on the same tax rates. Pervasive declines in smoking nationwide and Kentucky's relatively low prices for cigarettes almost completely wash one another out, leading to a forecast of flat to slightly increasing receipts.

The property tax forecast is virtually unchanged in this interim forecast. Expected receipts of $529.0 million are $11.2 million lower than the enacted estimate for property taxes. Real property tax collections are ahead of the annual expected rate of growth, but the underlying assessment data suggests that this account will post lower values in the second half of the year.

Lottery revenues for FY10 were lowered from $202.0 million to $200.0 million at the December 2009 meeting of the CFG. The FY10 dividend payments from the Kentucky Lottery Corporation were exactly $200.0 million, right on estimate. The official estimate for FY11 is $206.0 million. Based on the recent press release from the Kentucky Lottery Corporation, the interim estimate for FY11 lottery dividend has been lowered to $196.5 million, or -1.8 percent. The demand for scratch-off products continues to be weak and online sales of mega-jackpot tickets are struggling as well. Jackpot fatigue has set in so far in FY11 since we have had fewer instances where Powerball and Mega Millions jackpots have hit newsworthy levels that entice occasional players to purchase tickets.

Revenues in the "Other" category fell 5.3 percent in FY10. The numerous accounts within this category are a mixed bag of large versus small and stable versus erratic revenue sources, many of which also have timing idiosyncrasies that dominate any underlying autoregressive patterns. Collectively, the interim forecast calls for a $1.8 million reduction as compared to the official estimate of $658.7 million. Each account is examined during an interim forecast. Slight downward revisions were done based on year-to-date performance. The largest reductions were made to the oil production tax and the natural gas severance tax.

The official estimate for FY11 is comprised of the $8,490.8 million projected in December 2009, plus $80.1 million estimated from legislative actions in 2010. Of the $80.1 million expected in FY11, very little was received during the first half of the year. Many of the revenue enhancements added legislatively through the budget bill or other tax-related measures will not be uniformly collected in a linear fashion throughout the fiscal year. The Office of State Budget Director is projecting a back-loading of legislatively added revenues such that the final quarter of FY11 will see the largest quarterly infusion of the additional revenues.

ROAD FUND

Road Fund revenues are forecasted to grow 9.9 percent over the final two quarters of FY11 and 3.8 percent in the first three months of FY12 as shown in Table 6. The FY11 full-year forecast is $69.3 million more than the official revenue forecast.

Motor fuels tax collections are forecasted to grow 9.0 percent over the final six months of FY11. The increase in tax receipts is principally due to differences in the statutory motor fuels tax rates between FY10 and FY11. In FY10, the motor fuels tax rate increased in each of the first three quarters before reaching the maximum allowable by law for the final half of the year. The tax rates this fiscal year have been at, or near, the maximum for the first six months and are forecast to be at the maximum for the final two quarters of the fiscal year. This means the annual increase in the tax rate has been larger than normal but will shrink over time, restricting growth in collections. An increase in consumption has also contributed to the rise in collections in the first quarter. Growth will continue in the first quarter of FY12, rising 3.2 percent.

Motor vehicle usage tax collections will strengthen considerably relative to the underlying economic conditions as the final three quarters of FY10 and the first three quarters of FY11 were artificially low because of the temporary trade-in credit on new motor vehicle purchases. Receipts are expected to increase 16.7 percent over the remainder of the fiscal year and grow 8.2 percent in the first three months of FY12.

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 assessed recent growth patterns and incorporated recent administrative factors that affect the patterns of receipts. Motor vehicle license taxes are forecasted to increase 2.1 percent in the final two quarters of FY11 and increase 0.6 percent in the first quarter of FY12. Motor vehicle operators' licenses are projected to rise 0.3 percent in the remainder of the fiscal year and grow 3.6 percent in the

Table 6
Road Fund Interim Forecast
($ millions)

	FY11 Q1 & Q2		FY11 Q3 & Q4		FY11 Full Year		FY12 Q1		Official Budget	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Motor Fuels	376.7	17.5	365.2	9.0	741.9	13.1	199.1	3.2	680.8	61.1
Motor Vehicle Usage	179.4	8.0	194.6	16.7	374.0	12.4	102.9	8.2	367.7	6.3
Motor Vehicle License	34.7	4.4	64.9	2.1	99.6	2.9	18.0	0.6	94.6	5.0
Motor Vehicle Operators	8.1	0.4	7.9	0.3	16.0	0.4	4.3	3.6	15.4	0.6
Weight Distance	37.4	6.0	37.5	6.5	74.9	6.2	19.8	5.6	77.4	-2.5
Investment	0.9	-63.1	0.2	-81.7	1.1	-69.7	0.3	-37.6	1.4	-0.3
Other	15.8	-1.0	16.6	9.1	32.4	3.9	7.1	-23.5	33.3	-0.9
Total Road Fund	**653.0**	**12.3**	**686.9**	**9.9**	**1,339.9**	**11.0**	**351.5**	**3.8**	**1,270.6**	**69.3**

first quarter of FY12. Weight distance tax revenue should rise 6.5 percent for the remainder of the fiscal year and 5.6 percent over the first three months of FY12. Investment income is projected to fall 81.7 percent over the remainder of the fiscal year and 37.6 percent in the first quarter of FY12. All other revenues are projected to rise 9.1 percent during the last six months of FY11 and then fall 23.5 percent in the first quarter of FY12.

NATIONAL ECONOMY

The previous two quarterly reports released by the Office of State Budget Director described an economy that was in a state of flux. Corporate profits were soaring, but employment was stagnant. Monetary and fiscal policy had run their course. Further permissive policy options were hamstrung by growing concerns about the national debt. The control forecast dominated as hope from the export sector seemed to offset the downside risk of further consumer spending retrenchment and deleveraging.

National forecasts have since broken the stalemate in a favorable manner. The chances of a “double-dip” recession become more and more remote as the economy draws further from the official end of the recession. The Christmas retail purchasing season was a pivotal period for the US economy. With unemployment stubbornly high and new hiring intermittent, only pent-up demand led economists to high hopes for holiday sales. The December Global Insight forecast used in this quarterly report called for holiday sales to rise 4.0 to 4.5 percent, which would have been the best holiday season since 2005. Early indications indicate sales slightly outpaced these projections, suggesting that consumers are beginning to have more confidence in the economy going forward.

Consumers had been deleveraging in the aftermath of the housing crash. In the height of the housing market, household wealth from homeowner equity was about $13.0 trillion. Current estimates place homeowner equity at around $7.0 trillion. Losses in wealth are noteworthy because they affect consumer sentiment and the ability to purchase goods and services beyond what could be spent from current wages and salaries. While inflation and nominal interest rates are at historic lows, consumers will remain cautious until household wealth and employment gain a more firm foothold. On the positive side, periods of deleveraging (saving) are typically followed by some pent-up demand, which appears to be evident in the holiday sales data. If domestic consumption can continue to build momentum it could become the engine of growth for increased demand if employment and consumer sentiment also find firmer footing.

Domestic corporations remain a critical link in the period of recovery. It has been widely reported that corporations are “awash with cash”. This prime cash position is a function of streamlining production, reducing fixed costs, and extreme caution with their workforce levels. Evidence to date indicates that some corporate investment is taking place, but the emphasis is on replacement machinery and updating computers and software. While all investment is stimulative, investments in workforce and productive capacity typically have a higher impact on the overall economy. Through this period of corporate streamlining, domestic companies have positioned themselves well in the area of global competiveness and profitability. The next step to growing corporate profits must come from growing revenues, which typically requires new productive machinery and additional workers. The path to this stage of the recovery is unclear. It will be required, however, to advance the economy beyond the tepid growth of the current fragile recovery.

Foreign trade is the other critically watched segment of the national economy. This segment of the economy is very important for establishing the expectations of businesses. Europe and Japan are expected to see slightly stronger growth in the upcoming quarters. Emerging markets will likely see slower growth, but they will continue to grow three times faster than the developed world. Foreign trade creates a more sustainable source of demand through net exports. When foreign companies purchase domestically produced goods and services, demand rises. Businesses respond by increasing productive capacity and hiring additional workers. If export demand can backfill weak domestic consumer demand, then increased demand will perpetuate as consumer demand will come on the backside through additional employment opportunities and eventually higher wages. The major challenge to sustainable export-led growth remains to be world banking interventions, but lower unit labor cost in the US will help sustain exports.

Unfortunately, the inherent lagging nature of the employment rebound has several consequences that add considerable uncertainty to the current economic forecast. Employment, at least the wages and salaries from employment, is highly correlated with household consumption, which in turn is a driver for many other elements of the economy. Uncertainty about employment has a dampening effect on two of the largest consumer goods – housing and vehicles. This uncertainty is compounded by the aftermath of the financial crisis, as consumer lending has tightened especially as it pertains to higher-risk loans. The arguments above would suggest that until the employment picture becomes more clear, sectors like housing, automobiles, and business planned investment will likely tread water.

Like most economic forecasts, there are both upside and downside risks to this control forecast. The single largest downside concern is that the economy will not progress without further stimulative policy. Fiscal stimulus spending, homebuyer tax credits, the inventory cycle, and other transitory boosts to the economy were great countercyclical stabilizers, but they do not secure sources of sustainable long-term aggregate demand. Until a source of demand emerges sustainably, the pessimistic scenario contemplates a w-shaped recession stemming from increasingly fragile financial and equity markets. Ripple effects from that financial market uncertainty would then permeate all of the typical broader economic aggregates.

The upside risk involves a scenario where the private sector recovers more quickly than expected. Financial markets will respond by easing credit to consumers who are ready to start buying again after a long period of deleveraging. Global Insight has assigned a 20 percent probability to the pessimistic scenario and a 20 percent probability to the upside scenario. All of the state economic and revenue projections use only the control from Global Insight, which continues to carry an overwhelming majority as the desired point estimate.

KENTUCKY ECONOMY

By most accounts, the losses endured by Kentucky from the national recession that ended in June 2009 were somewhat less severe than most states. The loss of household wealth was muted in Kentucky since the Commonwealth never really experienced a pronounced run-up in home values. Second, Kentucky's abundance of coal provided stable employment and wealth in the mining sector. Finally, Kentucky has a broad mix of manufacturing employment rather than an overreliance in a single industry. The automobile industry was one of the first sectors to rebound from the recession, and Kentucky is overrepresented in the automotive industries.

A comparison of Tables 7 and 8 show that personal income growth in Kentucky is expected to be 3.3 percent in FY11 compared to the 3.8 percent national average. The rebound in employment for Kentucky will likely be slower, but the peak to trough declines were less severe in Kentucky.

In summary, the forecast calls for growth much in line with the projections used by the CFG during the December 2009 official estimates. The projections for some of the national economic aggregates have actually increased since the official estimates, but the main revenue drivers (employment, wages, and personal income) are very much congruous with the official estimates. One positive note is that the upside and downside risks have equalized at a 20 percent chance. In earlier reports, the pessimistic risk outweighed the optimistic scenarios, but recent data trends have given more reason for equal weighting.

Table 7
US and KY Economic Outlook
Second Half of FY10 & FY11

	Q3 & Q4		
	FY11	**FY10**	**% Chg**
United States			
Real GDP	13,481.0	13,166.9	2.4
Real Consumption	9,499.0	9,250.5	2.7
Real Investment	1,808.3	1,740.9	3.9
Real Government Expenditures	2,573.7	2,552.6	0.8
Real Exports	1,761.1	1,634.3	7.8
Real Imports	2,172.1	2,028.0	7.1
Personal Income ($ billions)	12,908.2	12,433.7	3.8
Wage & Salary ($ billions)	6,611.3	6,340.1	4.3
Inflation (% chg CPI)	0.3	0.1	NA
Industrial Production Index (% chg)	0.7	1.7	NA
Civilian Labor Force (millions)	154.6	153.9	0.4
Total Nonfarm Employment (millions)	131.2	130.0	0.9
Manufacturing Employment (millions)	11.8	11.6	1.2
Unemployment Rate (percent)	9.6	9.7	NA
Kentucky			
Personal Income ($ millions)	148,079.5	143,393.5	3.3
Wage & Salary ($ millions)	74,373.1	71,702.0	3.7
Non-farm Employment (thousands)	1,787.5	1,767.1	1.2
Goods Producing (thousands)	306.5	300.5	2.0
Service Providing (thousands)	1,159.7	1,140.5	1.7
Government (thousands)	321.3	326.1	-1.5

Not Seasonally Adjusted. Real series are in billions of chained 2000 dollars.
Data for FY11 Q3 & Q4 are estimates based on the IHS Global Insight Control scenario.

Table 8
US and KY Economic Outlook
First Quarter of FY11 & FY12

	Q1		
	FY12	**FY11**	**% Chg**
United States			
Real GDP ($ billions)	13,595.7	13,277.4	2.4
Real Consumption	9,596.9	9,340.3	2.7
Real Investment	1,842.5	1,844.7	-0.1
Real Government Expenditures	2,568.3	2,590.1	-0.8
Real Exports	1,811.4	1,677.5	8.0
Real Imports	2,230.7	2,184.2	2.1
Personal Income ($ billions)	13,072.7	12,600.4	3.7
Wage & Salary ($ billions)	6,710.7	6,440.2	4.2
Inflation (% chg CPI)	0.4	0.4	NA
Industrial Production Index (% chg)	0.7	1.3	NA
Civilian Labor Force (millions)	155.1	153.9	0.8
Total Nonfarm Employment (millions)	132.0	130.3	1.3
Manufacturing Employment (millions)	11.9	11.7	1.7
Unemployment Rate (percent)	9.5	9.6	NA
Kentucky			
Personal Income ($ millions)	149,804.2	144,586.7	3.6
Wage & Salary ($ millions)	75,465.7	72,240.1	4.5
Non-farm Employment (thousands)	1,793.8	1,772.4	1.2
Goods Producing (thousands)	306.9	301.8	1.7
Service Providing (thousands)	1,166.4	1,146.4	1.7
Government (thousands)	320.5	324.2	-1.2

Not Seasonally Adjusted. Real series are in billions of chained 2000 dollars.
Data for FY12 Q1 are estimates based on the IHS Global Insight Control scenario.
Source: IHS Global Insight Inc., December 2, 2010 data release

Table 9
Summary of US Economy Series Quarterly Growth Rates
FY11 Q1, Q2, Q3, Q4 & FY12 Q1

	FY11				FY12
	Q1 Actual	**Q2 Estimate**	**Q3 Estimate**	**Q4 Estimate**	**Q1 Estimate**
Real GDP	3.2	2.7	2.3	2.4	2.4
Real Consumption	2.0	2.4	2.6	2.7	2.7
Real Investment	23.4	13.0	6.4	1.5	-0.1
Real Government Expenditures	1.2	1.3	1.4	0.3	-0.8
Real Exports	12.6	8.6	7.9	7.6	8.0
Real Imports	16.1	11.7	10.1	4.3	2.1
Personal Income ($ billions)	3.6	4.1	4.1	3.6	3.7
Consumer Price Index (1992-99=100)	1.2	1.1	1.0	1.4	1.4
Industrial Production Index	6.6	5.0	3.9	2.8	2.2

Source: IHS Global Insight Inc., December 2, 2010 data release
Quarter-over-same-quarter-last-year growth rates

APPENDIX

KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	Second Quarter FY 2011	Second Quarter FY 2010	% Change	Year-To-Date FY 2011	Year-To-Date FY 2010	% Change
TOTAL GENERAL FUND	**$2,298,360,130**	**$2,162,364,860**	**6.3%**	**$4,353,455,925**	**$4,130,818,311**	**5.4%**
Tax Receipts	$2,208,186,199	$2,072,303,359	6.6%	$4,198,380,061	$3,971,401,533	5.7%
Sales and Gross Receipts	$860,905,811	$819,478,348	5.1%	$1,730,558,647	$1,667,630,417	3.8%
Beer Consumption	1,447,280	2,177,939	-33.5%	3,239,317	3,912,229	-17.2%
Beer Wholesale	13,013,403	11,775,249	10.5%	27,836,959	26,219,143	6.2%
Cigarette	66,934,536	67,298,720	-0.5%	135,935,849	141,487,351	-3.9%
Distilled Spirits Case Sales	28,641	27,275	5.0%	(287,866)	54,476	---
Distilled Spirits Consumption	2,792,090	2,673,852	4.4%	5,559,929	5,383,695	3.3%
Distilled Spirits Wholesale	7,333,476	6,963,744	5.3%	14,238,493	13,768,486	3.4%
Insurance Premium	10,798,710	12,422,794	-13.1%	40,471,956	40,108,708	0.9%
Pari-Mutuel	673,880	474,324	42.1%	2,619,216	(1,076,588)	---
Race Track Admission	59,915	45,180	32.6%	146,651	137,878	6.4%
Sales and Use	732,928,187	690,912,974	6.1%	1,450,157,680	1,384,808,452	4.7%
Wine Consumption	656,510	627,188	4.7%	1,259,055	1,207,468	4.3%
Wine Wholesale	3,479,412	3,211,885	8.3%	6,858,188	6,098,894	12.4%
Telecommunications Tax	15,396,765	15,710,078	-2.0%	31,550,380	34,770,933	-9.3%
OTP	5,340,136	5,109,179	4.5%	10,909,801	10,565,582	3.3%
Floor Stock Tax	22,871	47,969	-52.3%	63,039	183,709	-65.7%
License and Privilege	$144,634,290	$112,925,759	28.1%	$278,979,400	$221,041,335	26.2%
Alc. Bev. License Suspension	94,290	137,425	-31.4%	193,540	205,775	-5.9%
Coal Severance	72,190,401	64,984,087	11.1%	145,030,253	131,827,275	10.0%
Corporation License	5,512,812	988,596	457.6%	8,916,553	1,667,129	434.8%
Corporation Organization	9,456	21,920	-56.9%	28,868	123,650	-76.7%
Occupational Licenses	31,382	31,703	-1.0%	64,484	73,020	-11.7%
Oil Production	1,928,101	1,698,318	13.5%	3,749,683	3,541,827	5.9%
Race Track License	103,750	105,500	-1.7%	208,750	218,000	-4.2%
Bank Franchise Tax	414,863	(262,391)	---	2,903,880	(428,141)	---
Driver License Fees	148,269	141,897	4.5%	313,333	298,860	4.8%
Minerals Severance	4,024,929	4,267,775	-5.7%	8,002,226	7,894,807	1.4%
Natural Gas Severance	6,670,799	4,674,479	42.7%	11,807,270	8,951,520	31.9%
Limited Liability Entity	53,505,238	36,136,450	48.1%	97,760,561	66,667,614	46.6%
Income	$885,104,809	$843,799,437	4.9%	$1,800,707,652	$1,707,267,033	5.5%
Corporation	56,022,973	55,387,067	1.1%	125,924,331	104,428,337	20.6%
Individual	829,081,835	788,412,371	5.2%	1,674,783,320	1,602,838,697	4.5%
Property	$299,216,380	$275,837,863	8.5%	$350,841,882	$335,972,059	4.4%
Building & Loan Association	0	0	---	(53,180)	91,143	---
General - Real	185,355,800	173,533,717	6.8%	184,671,832	173,668,519	6.3%
General - Tangible	93,210,570	84,796,773	9.9%	115,511,607	107,140,251	7.8%
Omitted & Delinquent	5,118,238	196,249	2508.0%	20,433,744	13,552,140	50.8%
Public Service	15,023,073	17,307,355	-13.2%	29,532,705	40,829,052	-27.7%
Other	508,699	3,770	13393.6%	745,176	690,953	7.8%
Inheritance	$9,493,103	$11,083,200	-14.3%	$20,826,110	$22,252,097	-6.4%
Miscellaneous	$8,831,806	$9,178,750	-3.8%	$16,466,369	$17,238,593	-4.5%
Legal Process	5,028,624	5,524,474	-9.0%	10,237,125	11,304,004	-9.4%
T. V. A. In Lieu Payments	3,783,341	3,654,277	3.5%	6,183,626	5,934,096	4.2%
Other	19,841	0	---	45,619	493	9155.3%
Nontax Receipts	$89,111,827	$89,572,328	-0.5%	$153,446,712	$158,006,853	-2.9%
Departmental Fees	6,209,670	4,276,737	45.2%	12,048,668	11,775,589	2.3%
PSC Assessment Fee	45,653	45,812	-0.3%	8,915,158	8,255,969	8.0%
Fines & Forfeitures	6,591,148	7,713,691	-14.6%	12,900,746	15,199,166	-15.1%
Interest on Investments	159,573	224,029	-28.8%	350,156	423,750	-17.4%
Lottery	50,000,000	49,000,000	2.0%	95,000,000	93,000,000	2.2%
Sale of NOx Credits	0	140,650	-100.0%	22,513	601,430	-96.3%
Miscellaneous	26,105,782	28,171,409	-7.3%	24,209,472	28,750,948	-15.8%
Redeposit of State Funds	$1,062,104	$489,173	117.1%	$1,629,152	$1,409,924	15.5%

KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	Second Quarter FY 2011	Second Quarter FY 2010	% Change	Year-To-Date FY 2011	Year-To-Date FY 2010	% Change
TOTAL ROAD FUND	**$314,319,740**	**$279,091,132**	**12.6%**	**$653,002,433**	**$581,707,237**	**12.3%**
Tax Receipts-	$309,488,486	$271,598,388	14.0%	$640,828,192	$567,742,417	12.9%
Sales and Gross Receipts	$267,962,923	$230,894,265	16.1%	$556,084,126	$486,756,171	14.2%
Motor Fuels Taxes	183,718,476	158,581,971	15.9%	376,728,440	$320,752,872	17.5%
Motor Vehicle Usage	84,244,448	72,312,293	16.5%	179,355,687	$166,003,299	8.0%
License and Privilege	$41,525,562	$40,704,123	2.0%	$84,744,066	$80,986,246	4.6%
Motor Vehicles	16,798,487	16,225,869	3.5%	34,698,986	$33,249,059	4.4%
Motor Vehicle Operators	3,949,277	3,826,839	3.2%	8,101,101	$8,069,795	0.4%
Weight Distance	18,681,324	17,929,644	4.2%	37,435,753	$35,317,203	6.0%
Truck Decal Fees	32,785	16,192	102.5%	67,052	$45,629	47.0%
Other Special Fees	2,063,689	2,705,579	-23.7%	4,441,174	$4,304,560	3.2%
Nontax Receipts	$4,385,831	$6,198,897	-29.2%	$10,440,211	$12,425,397	-16.0%
Departmental Fees	3,698,469	4,806,742	-23.1%	8,735,903	$9,371,225	-6.8%
In Lieu of Traffic Fines	181,364	147,570	22.9%	374,337	$373,551	0.2%
Investment Income	380,995	1,022,506	-62.7%	862,947	$2,335,512	-63.1%
Miscellaneous	125,003	222,079	-43.7%	467,024	$345,109	35.3%
Redeposit of State Funds	$445,424	$1,293,847	-65.6%	$1,734,030	$1,539,422	12.6%