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**Bradford L. Cowgill**  
State Budget Director

Governor's Office for Policy and Management  
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July 30, 2007

The Honorable Ernie Fletcher  
Governor  
Commonwealth of Kentucky  
State Capitol Building  
Frankfort, KY 40601

Dear Governor Fletcher:

The Quarterly Economic and Revenue Report Annual Edition summarizes the revenue and economic statistics for the Fiscal Year 2007 (FY07). It also includes an interim economic and revenue forecast for the first three quarters of FY08.

General Fund receipts for FY07 totaled \$8.574 billion, an increase of 2.4 percent compared to the same period in FY06, and \$182.7 million more than budgeted revenues. Road Fund revenues totaled \$1.226 billion, for an increase of 5.2 percent from FY06, and were less than budgeted by \$12.7 million.

The interim General Fund forecast for the first three quarters of FY08 calls for an increase of 1.5 percent compared to the same period one year ago. The interim forecast for the Road Fund for the first three quarters of FY08 is for growth of 4.9 percent.

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 "Bradford L. Cowgill".

Bradford L. Cowgill  
State Budget Director

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# Executive Summary . . .

Quarterly Economic & Revenue Report

Fourth Quarter 2007

This report provides a review and evaluation of Kentucky General Fund and Road Fund for fiscal year 2007 (FY07). General Fund receipts totaled \$8.574 billion for the entire fiscal year, increasing from FY06 by 2.4 percent. Reported revenues are \$197.7 million more than reported receipts for FY06, and are \$36.2 million below the official estimate for FY07. (The official estimate is the January 2007 consensus revenue estimate modified by changes enacted by the 2007 General Assembly.) For the fourth quarter of FY07, General Fund revenues declined by 0.1 percent, and revenues were \$2.364 billion.

Road Fund receipts in FY07 totaled \$1.226 billion, an increase of 5.2 percent from FY06. This is \$60.5 million more than reported for FY06, and \$10.8 million above the official forecast for FY07.

## Fourth Quarter FY07

The fourth quarter of FY07 saw General Fund revenues dip by 0.1 percent overall with receipts totaling \$2.364 billion. Among the individual accounts, performance was mixed, with growth seen in some major categories, and declines in others. Sales and use tax revenue was up 2.8 percent, and individual income taxes rose by 12.0 percent boosted in part by changes enacted by the 2006 Special Session of the Kentucky General Assembly. Corporation income and license tax receipts posted a drop of 27.1 percent during the fourth

quarter due also to changes enacted by the 2006 Special Session. Coal severance taxes fell by 3.8 percent. Taxes on tobacco rose by 5.2 percent, and property taxes were down by 24.7 percent. Lottery receipts dropped by 21.8 percent, as large Powerball sales seen a year earlier did not materialize this year. All other accounts in the General Fund combined for growth of 25.2 percent.

The Road Fund posted a growth rate of 7.1 percent in the fourth quarter, with total revenues of \$335.7 million. During the fourth quarter, motor fuels taxes rose by 4.3 percent, and the motor vehicle usage tax was up by 5.3 percent. Weight distance tax receipts decreased by 0.7 percent, and motor vehicle license taxes rose by 25.7 percent.

## Annual Totals FY07

The General Fund grew by 2.4 percent in FY07, one-fourth of its growth rate in FY06, with total receipts of \$8.574 billion. Sales taxes were up by 2.5 percent, and the individual income tax rose by 4.2 percent. Corporation income and license taxes fell by 4.3 percent. Individual income taxes and corporation income taxes were affected by House Bill 1 enacted during the 2006 Extraordinary Session of the Kentucky General Assembly. Specifically, the taxation of income arising from pass-through entities was shifted from the corporation to the individual income tax, which reversed the treatment from the prior fiscal year. Apart from the changes due to legislation,



**Fiscal Year  
2007**

growth in the corporation income tax was in line with experiences in other states and the federal government.

Coal severance taxes declined by 1.1 percent, and tobacco taxes (including taxes on cigarettes and other tobacco products) fell by 3.7 percent due to the inclusion of the floor stocks tax in the prior fiscal year. Property taxes were down by 2.0 percent as a result of the abolition of taxes on intangible property. Lottery revenues fell by 1.8 percent as the strong sales in FY06 of Powerball tickets arising from unusually large jackpots were not repeated this year. All other categories of General Fund revenue accounts combined for growth of 13.3 percent, boosted by growth in the telecommunications tax, abandoned property, and investment income.

General Fund collections exceeded budgeted levels by \$182.7 million, but fell short of the official revenue estimate by \$36.2 million in FY07, which is 0.4 percent less than forecasted. Two-thirds of the General Fund was collected through the individual income tax and the sales tax, with the corporation income and license taxes making up the next-largest portion at 12 percent.

During the fiscal year, growth in General Fund revenues was mixed but positive in the first three quarters, but fell in the fourth quarter with a loss of 0.1 percent. In the first quarter, growth was 3.6 percent, slowed to 1.6 percent in the second quarter, rebounded to 5.2 percent in the third quarter, and dipped slightly by 0.1 percent in the final quarter. Compared to economic growth as measured by estimated growth in Kentucky personal income, General Fund growth was about half, at 2.4 percent versus 4.7 percent personal income growth.

The Road Fund expanded by 5.2 percent during FY07, with total receipts of \$1.226 billion. Most of the growth was in the arena of motor fuels taxes, which rose by 6.6 percent due to a rate increase that was tied to the average wholesale price of gasoline. Meanwhile, motor vehicle usage tax revenue rose 4.0 percent. The weight distance tax grew by just 0.1 percent, and motor vehicle license tax rose by 8.3 percent.

Overall, the Road Fund fell short of budgeted receipts by \$12.7 million, but exceeded the official revenue estimate by \$10.8 million, or 0.9 percent. Over four-fifths of revenues were collected through the motor fuels tax and motor vehicle usage taxes.

During the fiscal year, Road Fund revenues were weak in the first quarter, but rose about seven percent in each of the final three quarters.

**Table 1**  
**Total Receipts**  
**(million \$)**

	<u>FY07</u>	<u>FY06</u>	<u>(%)</u> <u>Chg</u>
General Fund	8,573.8	8,376.1	2.4
Road Fund	<u>1,225.9</u>	<u>1,165.4</u>	<u>5.2</u>
<b>Total Receipts</b>	<b>9,799.7</b>	<b>9,541.4</b>	<b>2.7</b>

**The Economy**

U.S. economic growth as measured by real gross domestic product (GDP) was 2.5 percent in FY07, and in the fourth quarter alone expanded by 2.0 percent. Relative strength in consumption despite higher energy prices was chiefly responsible for the expansion. U.S. personal income, a measure of spending power, grew by 6.1 percent in FY07, and by 6.2 percent in the fourth quarter. Employment swelled by 1.6

percent for the year, and by 1.4 percent in the final quarter.

Kentucky's economy as measured by total personal income grew by 4.7 percent to reach \$126.5 billion in FY07. For the fourth quarter, personal income was higher by 4.9 percent. Kentucky's personal income growth has lagged slightly behind growth in U.S. personal income since early 2003.

Employment growth in Kentucky trailed U.S. employment growth in FY07. Non-farm employment rose by an average of 0.8 percent in FY07, and matched that rate in the last quarter. Total gains for the fiscal year were 14,100 jobs. During the fourth quarter of FY07, Kentucky employment reached an all-time high of 1,860,000 jobs. Largest employment gains were in the service-providing sectors which rose by 1.1 percent versus a decline of 0.7 percent in the goods-producing sectors. Employment in government grew by 1.2 percent.

### Interim Outlook

In the next three fiscal quarters (through the FY08 third quarter) General Fund growth is expected to reach 1.5 percent with total revenues of \$6.304 billion. Sales and use tax receipts are forecasted to rise by 3.0 percent. Individual income tax revenues should rise by 10.2 percent due to economic growth and changes enacted in the 2006 Special Session of the Kentucky General Assembly. The counterpart to this is an anticipated decrease in corporation income taxes of 29.1 percent. Reclassification of income earned by pass-through entities to

the individual income tax instead of the corporation income tax accounts for the bulk of the decrease.

Coal severance tax revenue is forecasted to decline by 0.9 percent. Cigarette taxes will rise by 3.2 percent due primarily to increased sales along Kentucky's borders due to cigarette tax increases enacted in Indiana and Tennessee within the past year. Property taxes are projected to grow by 1.0 percent, while Lottery receipts should fall by 1.9 percent. "Other" revenues will combine for a decline of 0.8 percent.

The Road Fund is forecasted to grow by 4.9 percent in the first three quarters of FY08. Motor fuels taxes should expand by 7.3 percent due to a formula-driven increase in the rate tied to the average wholesale price of gasoline. Motor vehicle usage tax revenue is projected to fall by 0.1 percent in the first three quarters. Weight distance taxes are estimated to rise 1.3 percent, motor vehicle license taxes should grow by 5.2 percent, and investment income will rise by 7.2 percent. All other accounts in the Road Fund are forecasted to combine for a growth of 41.2 percent.

The outlook for the economy in the first three quarters of FY08 is for a slight deceleration from the growth seen in FY07, with real GDP growth of 2.3 percent over the period. U.S. personal income should rise by 5.9 percent, and Kentucky personal income is forecasted to grow by 5.1 percent. Employment growth is expected to pick up in the first three quarters of FY08 with an increase of 1.3 percent.

**I.**  
**Fiscal Year 2007**  
**General Fund and Road Fund Receipts**

# Revenue Receipts . . .

## FOURTH QUARTER, FY2007 General Fund

General Fund receipts in the fourth quarter of FY07 totaled \$2.364 billion compared to \$2.367 billion in the fourth quarter of FY06, for a net decrease of 0.1 percent. Collections in the major revenue categories are shown in summary form in Table 2. Detailed information on these and other accounts is available in Appendix A.

**Table 2**  
**Summary General Fund Receipts**  
**Fourth Quarter, FY07**  
**(million \$)**

	<u>FY07</u>	<u>FY06</u>	<u>Diff</u> <u>(\$)</u>	<u>Diff</u> <u>(%)</u>
Sales and Use	716.4	696.7	19.7	2.8
Individual Income	910.2	812.7	97.5	12.0
Corp. Inc. & License	351.1	481.4	-130.3	-27.1
Coal Severance	58.9	61.2	-2.3	-3.8
Tobacco Taxes	46.4	44.1	2.3	5.2
Property	43.4	57.7	-14.3	-24.7
Lottery	48.5	62.0	-13.5	-21.8
Other	<u>189.6</u>	<u>151.4</u>	<u>38.2</u>	<u>25.2</u>
<b>TOTAL</b>	<b>2,364.5</b>	<b>2,367.2</b>	<b>-2.7</b>	<b>-0.1</b>

Changes in tax laws due to the passage of HB 1 in the 2006 special session of the Kentucky General Assembly had an impact on collections during the fourth quarter. Principal changes affecting revenues were in the areas of the individual and corporation income taxes. These changes will be discussed below in the appropriate category. Variations in the quarterly receipts are often affected by differences in the timing of payments into and refunds out of revenue accounts. In the fourth quarter, individual and corporation income taxes were affected by these timing changes.

The sales and use tax posted growth of 2.8 percent in the fourth quarter of FY07. Receipts of \$ 716.4 million compare to the \$696.7 million collected in the fourth quarter of FY06.

Individual income tax receipts rose 12.0 percent in the fourth quarter of FY07 compared to collections in the fourth quarter of FY06. Receipts of \$910.2 million were \$97.5 million more than was collected in the fourth quarter of the previous fiscal year. Changes enacted by House Bill 1 shifted some receipts from the corporation income tax to this source.

Corporation income and license taxes posted a decline of 27.1 percent during the fourth quarter of FY07. Receipts totaled \$351.1 million compared to the \$481.4 million received a year earlier. Corporation income taxes were reduced by the shift in revenues to the individual income tax.

The coal severance tax decreased 3.8 percent in the fourth quarter. Receipts of \$58.9 million compare to \$61.2 million collected in the fourth quarter of FY06.

Tobacco taxes rose modestly in the fourth quarter. Receipts of \$46.4 million were 5.2 percent greater than collected in the fourth quarter of FY06. Tobacco taxes included in the General Fund include the original cigarette excise tax of 3-cents per pack, the 26-cents per pack surtax, and taxes on other tobacco products.

Property taxes were down by 24.7 percent in the fourth quarter of FY07. Collections

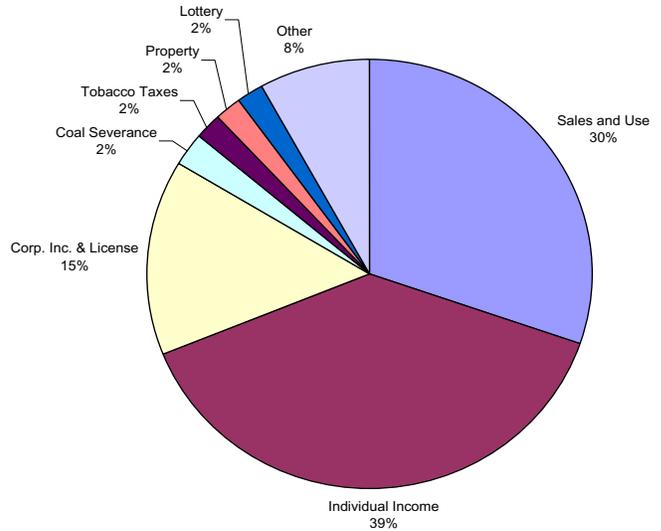
of \$43.4 million compare to \$57.7 million received in the final quarter of the prior fiscal year. Property taxes were affected by a change in timing of distributions made from omitted and delinquent property tax accounts.

Lottery receipts fell by 21.8 percent in the fourth quarter of FY07 with revenues of \$48.5 million. Lottery revenues in the previous year were aided by unusually large Powerball sales that were not matched in the fourth quarter of this year.

The “other” category represents the remaining accounts in the General Fund, and combined for growth of 25.2 percent with receipts of \$189.6 million. Chiefly boosting the growth rate were sales of abandoned property that escheated to the state, as well as higher investment income.

Figure A details the composition of fourth-quarter General Fund receipts by tax type. Sixty-nine percent of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the combination of the corporation income tax and late payments from the abolished corporation license tax. “Other taxes” combine for the next-largest source. The largest components in this category include insurance premium taxes, the inheritance tax, beer wholesale sales tax, the natural gas severance tax, investment income, abandoned property, departmental fees, and fines and forfeitures. The coal severance tax, property tax, ciga-

**Figure A**  
**Composition of Fourth Quarter FY07**  
**General Fund Receipts**



rette taxes and lottery receipts each composed two percent of total General Fund receipts.

**Road Fund**

The Road Fund posted growth of 7.1 percent in the fourth quarter of FY07. Receipts totaled \$335.7 million compared to the \$313.4 million received in the fourth quarter of last year. Summary data are contained in Table 3 and detailed data are shown in Appendix A.

Motor fuels and motor fuels use tax receipts increased 4.3 percent during the fourth quarter of FY07. Receipts were \$142.0 million and compare to \$136.2 collected during the fourth quarter of last year.

**Table 3**  
**Summary Road Fund Receipts**  
**Fourth Quarter, FY07**  
**(million \$)**

	<u>FY07</u>	<u>FY06</u>	<u>Diff</u>	<u>Diff</u>
			<u>(\$)</u>	<u>(%)</u>
Motor Fuels	142.0	136.2	5.8	4.3
Motor Vehicle Usage	112.9	107.1	5.8	5.3
Motor Vehicle License	40.8	32.5	8.3	25.7
Motor Vehicle Operators	3.9	3.9	0.0	-0.6
Weight Distance	21.0	21.2	-0.2	-0.7
Investment Income	5.1	3.2	1.9	57.4
Other	<u>10.0</u>	<u>9.3</u>	<u>0.7</u>	<u>7.5</u>
<b>TOTAL</b>	<b>335.7</b>	<b>313.4</b>	<b>22.3</b>	<b>7.1</b>

Motor fuels tax revenues were affected by an increase in the formula-driven tax rate tied to the average wholesale price of gasoline.

Motor vehicle usage tax receipts increased by 5.3 percent during the fourth quarter. Receipts were \$112.9 million compared to \$107.1 million collected during the same period last year.

Weight distance tax receipts of \$21.0 million showed a decline of 0.7 percent from receipts of \$21.2 million during the fourth quarter of last year.

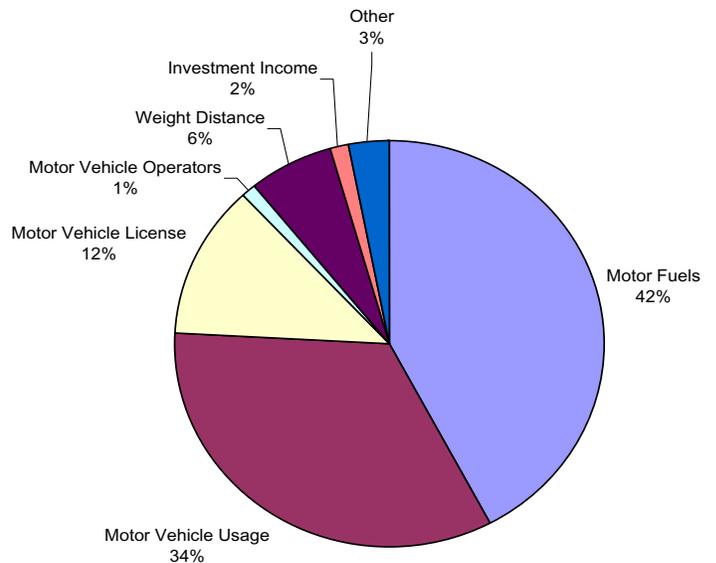
Motor vehicle license tax receipts increased by 25.7 percent during the fourth quarter of FY07. Receipts of \$40.8 million compare to \$32.5 million received during the fourth quarter of FY06. Growth in this tax was affected by reclassification of some other special fees.

Investment income was up sharply in the fourth quarter of FY07, yielding \$5.1 million.

The remainder of the accounts in the Road Fund combined for an increase of 7.5 percent. Receipts for the “Other” category totaled \$10.0 million during the fourth quarter, compared to \$9.3 million in the fourth quarter of FY06.

Figure B details the composition of Road Fund revenues by tax type in the fourth quarter of FY07. Motor fuels taxes and motor vehicle usage taxes comprised 76 percent of Road Fund revenues in the fourth quarter. The next-largest source of revenue was the motor vehicle license tax with 12 percent, followed by weight distance taxes with six percent. The “other” category accounted for three percent, investment income composed two percent, and motor vehicle operators was one percent.

**Figure B**  
**Composition of Fourth Quarter FY07**  
**Road Fund Receipts**



**ANNUAL TOTALS, FY2007  
General Fund**

The General Fund grew by 2.4 percent in FY07, much slower than the growth recorded in FY06 when revenues rose 9.6 percent. Receipts totaled \$8.574 billion compared to \$8.376 billion for the previous year. Collections in the major revenue categories are shown in summary form in Table 4. Detailed information on these and other accounts is available in Appendix A.

Individual income tax receipts grew by 4.2 percent for FY07, for a increase of \$122.9 million from last year. Individual income tax receipts grew partly as a result of tax shifts mandated by House Bill 1 of the 2006 special session of the General Assembly. The bill reduced business taxes and shifted payments from the corporation income tax to the individual income tax for pass-through business entities, a reversal of a law change that occurred in 2005. Receipts totaled \$3.042 billion and compare to \$2.919 billion collected last year.

**Table 4  
FY07 General Fund Revenues Compared to Previous Years**

	Million \$			Growth Rate (%)		
	FY07	FY06	FY05	FY07	FY06	FY05
Sales and Use	2,817.7	2,749.8	2,595.0	2.5	6.0	6.0
Individual Income	3,041.5	2,918.6	3,036.2	4.2	-3.9	8.6
Corp. Inc. & License	999.8	1,045.1	612.6	-4.3	70.6	43.3
Coal Severance	222.0	224.5	184.4	-1.1	21.7	25.0
Tobacco Taxes	177.4	184.2	33.7	-3.7	446.5	97.1
Property	492.5	502.5	472.6	-2.0	6.3	5.3
Lottery	186.6	190.0	161.3	-1.8	17.8	-7.2
Other	<u>636.3</u>	<u>561.4</u>	<u>549.2</u>	<u>13.3</u>	<u>2.2</u>	<u>5.8</u>
<b>TOTAL</b>	<b>8,573.8</b>	<b>8,376.1</b>	<b>7,645.0</b>	<b>2.4</b>	<b>9.6</b>	<b>9.6</b>

The year began with moderate growth that turned negative in the final quarter. Among the major taxes, only the individual income tax and the sales and use tax experienced positive growth. Reduced growth in FY07 was an anticipated outcome of tax changes implemented in 2005 and 2006. Some of these changes boosted growth in the prior fiscal year at the expense of FY07. These changes will be discussed below in the appropriate category.

The sales tax growth rate for FY07 was 2.5 percent, less than half of last year's growth rate. Receipts of \$2.818 billion compare to prior year receipts \$2.750 billion.

Corporation income tax revenue fell slightly in FY07, largely as a result of changes enacted in House Bill 1. Revenues from the corporation income tax dipped by 1.4 percent with total collections of \$988.1 million. Corporate license taxes, meanwhile, were down sharply, falling by 73.0 percent. (The corporate license tax was abolished for taxpayers whose tax year ended on or after December 31, 2005. Late payments continued to be received throughout FY07 for this tax.)

Coal severance tax collections leveled off following a trend of sharp increases by dropping 1.1 percent for FY07. Receipts totaled \$222.0 million compared to \$224.5

million collected during the prior fiscal year. Coal severance tax receipts have remained relatively high primarily due to increases in coal prices that have persisted for the last three years.

Tobacco tax receipts for the year as a whole declined by 3.7 percent from the previous fiscal year. FY07 receipts totaled \$177.4 million and compare to \$184.2 million for FY06. FY06 receipts were boosted by the imposition of the cigarette floor stocks tax in 2005, some receipts of which were paid in FY06.

Total property taxes experienced a decrease of 2.0 percent during this fiscal year. Receipts totaled \$492.5 million compared to \$502.5 million collected in FY06. The elimination of the property tax on most intangible property and the removal of telecommunications companies from the Public Service Company property tax reduced revenues from this source.

Lottery receipts dipped by 1.8 percent from the previous year. Receipts of \$186.6 million compare to \$190 million remitted to the state last fiscal year. Lottery receipts in the previous year were positively affected by unusually large Powerball sales, which were not repeated this year.

The “other” category finished the year with growth of 13.3 percent. Receipts of \$636.3 million compare to \$561.4 million collected in FY06. Several factors were responsible for the growth: the imposition of the telecommunications tax, receipts from the sale

of abandoned property, and investment income.

General Fund collections for FY07 exceeded the amount provided in the enacted budget by \$182.7 million, but were below the official revenue estimate (defined as the January 2007 consensus estimate as modified by legislation from the 2007 General Assembly) by \$36.2 million as shown in Table 5. This was 0.4 percent less than anticipated in the official estimate. The largest shortfall occurred in the individual

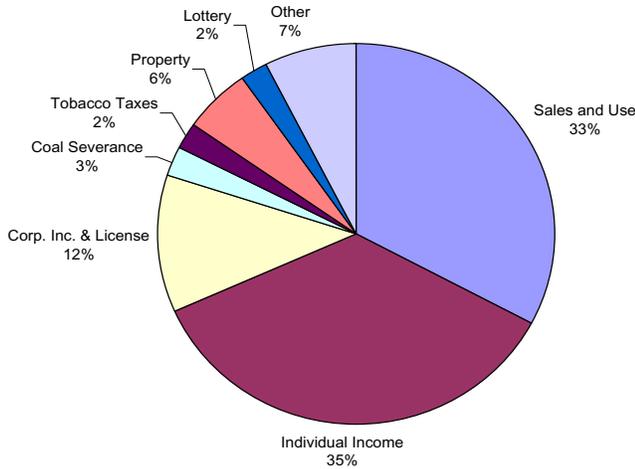
**Table 5**  
**FY07 General Fund Revenues Compared to Official Estimate**  
**(million \$)**

	<u>Actual</u>	<u>Estimate</u>	<u>Diff.</u> <u>(\$)</u>	<u>Diff.</u> <u>(%)</u>
Sales and Use	2,817.7	2,832.6	-14.9	-0.5
Individual Income	3,041.5	3,120.1	-78.6	-2.5
Corp. Inc. & License	999.8	984.3	15.5	1.6
Coal Severance	222.0	225.5	-3.5	-1.6
Tobacco Taxes	177.4	177.7	-0.3	-0.2
Property	492.5	487.1	5.4	1.1
Lottery	186.6	182.6	4.0	2.2
Other	<u>636.3</u>	<u>600.1</u>	<u>36.2</u>	<u>6.0</u>
<b>TOTAL</b>	<b>8,573.8</b>	<b>8,610.0</b>	<b>-36.2</b>	<b>-0.4</b>

income tax, which was \$78.6 million below forecasted levels. On the other hand, the corporation income tax, property tax, lottery receipts and “other” revenues came in above forecasted levels.

Figure C details the composition of FY07 General Fund receipts by tax type. Two-thirds of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the combination of the corporation income tax and the corporation license tax. “Other taxes” combine for seven percent. The largest components in this category include insurance premium

**Figure C**  
**Composition of FY07**  
**General Fund Receipts by Tax Type**



taxes, bank franchise tax, inheritance tax, beer wholesale sales tax, the natural gas severance tax, departmental fees, and fines and forfeitures. Property taxes made up six percent of the General Fund in the entire fiscal year. Coal severance taxes composed three percent, while lottery revenues and tobacco taxes each were two percent of the General Fund.

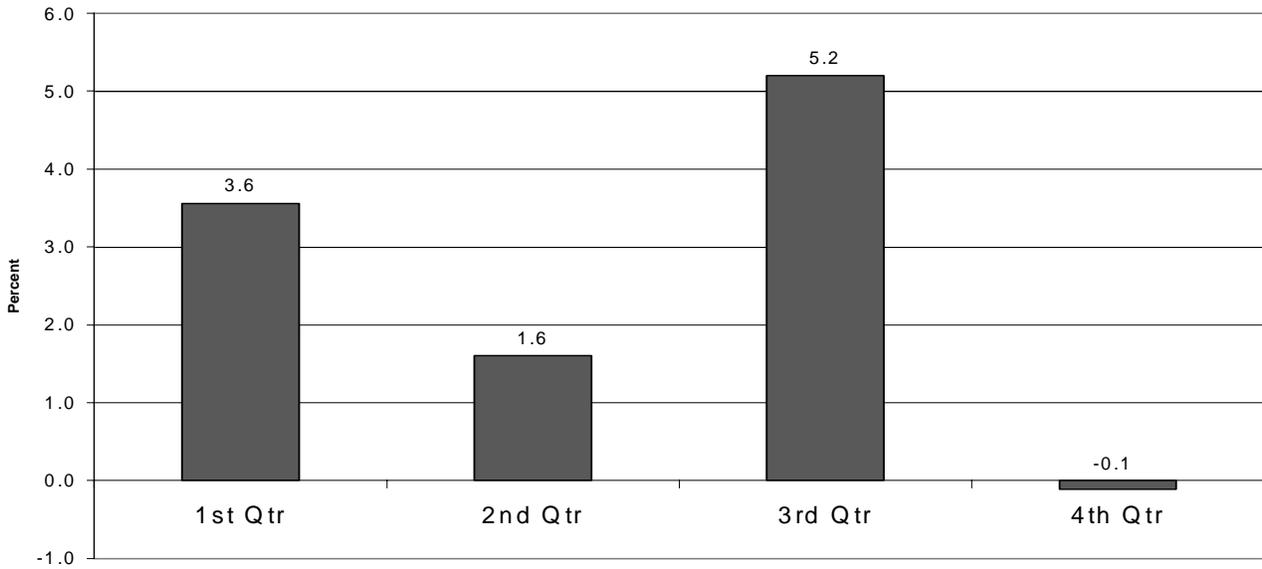
Table 6 and Figure D detail the growth rates in General Fund revenues by each fiscal quarter of FY07. Overall, growth was moderate or good through the third quarter, but then weakened in the fourth. No single major revenue source was consistently strong throughout FY07.

Kentucky’s General Fund receipts largely reflect the overall economy, and for that reason this report includes in a later section a discussion of economic conditions in FY07. In Figure E the relative growth rates of Kentucky total personal income and General and Road Fund revenues are plotted from FY03 forward. The relationship between the economy and revenues is apparent from examining the chart, although it can be observed that General Fund revenues exhibit a good deal more volatility than does total personal income. In the latest fiscal year the General Fund growth has been about half the growth in personal income, which is an anomaly from its recent pattern.

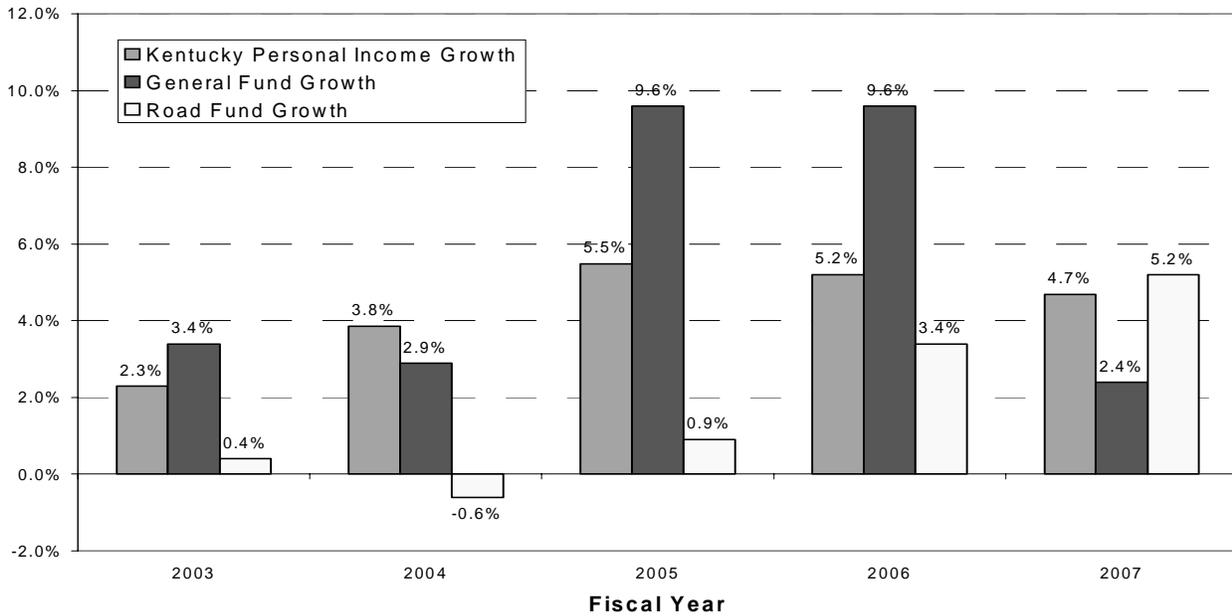
**Table 6**  
**General Fund Growth Rates for the Four Quarters**  
**and Full Year FY07**  
(percent)

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>FY07</u>
Sales and Use	2.7	3.2	1.1	2.8	2.5
Individual Income	-3.8	1.7	7.1	12.0	4.2
Corp. Inc. & License	34.4	5.6	0.0	-27.1	-4.3
Coal Severance	4.7	6.6	-10.7	-3.8	-1.1
Tobacco Taxes	-21.4	1.1	-0.5	5.2	-3.7
Property	-23.1	-7.5	30.9	-24.7	-2.0
Lottery	10.8	19.1	-2.9	-21.8	-1.8
Other	<u>24.1</u>	<u>-3.1</u>	<u>9.1</u>	<u>25.2</u>	<u>13.4</u>
<b>TOTAL</b>	<b>3.6</b>	<b>1.6</b>	<b>5.2</b>	<b>-0.1</b>	<b>2.4</b>

**Figure D**  
**Quarterly General Fund Growth**



**Figure E**  
**General Fund, Road Fund, and Personal Income Growth Rates, FY03-FY07**



## Road Fund

Total Road Fund receipts rose by 5.2 percent during FY07. Total receipts of \$1.226 billion compare to \$1.165 billion collected in this fund during FY06. Road Fund collections are detailed in Table 7.

Motor fuels and motor fuels use taxes increased by 6.6 percent on receipts of \$563.4 million, compared to \$528.3 million collected during the previous fiscal year. Motor fuels taxes for the entire fiscal year were impacted by a statutory rate increase tied to the wholesale price of gasoline.

in FY06. A reclassification of special fees boosted this revenue source.

Investment income rose by 152.6 percent as Road Fund balances increased in FY07. Receipts totaled \$16.1 million, compared to \$6.4 million in FY06.

The “Other” category fell by 22.0 percent from the previous fiscal year. Total receipts in this category were \$32.2 million, which is down from the \$41.3 million collected in FY06.

Road Fund collections for FY07 were less than budgeted receipts by \$12.7 million,

**Table 7**  
**FY07 Road Fund Revenues Compared to Previous Years**

	Million \$			Growth Rate (%)		
	FY07	FY06	FY05	FY07	FY06	FY05
Motor Fuels	563.4	528.3	490.8	6.6	7.6	6.7
Motor Vehicle Usage	411.3	395.6	407.5	4.0	-2.9	-5.1
Motor Vehicle License	101.7	93.9	91.9	8.3	2.2	-1.6
Motor Vehicle Operators	15.8	14.6	5.9	8.6	146.7	5.4
Weight Distance	85.4	85.3	83.1	0.1	2.6	4.4
Investment Income	16.1	6.4	5.5	152.6	15.4	-26.7
Other	<u>32.2</u>	<u>41.3</u>	<u>41.9</u>	<u>-22.0</u>	<u>-1.4</u>	<u>1.2</u>
<b>TOTAL</b>	<b>1,225.9</b>	<b>1,165.4</b>	<b>1,126.6</b>	<b>5.2</b>	<b>3.4</b>	<b>0.9</b>

Motor vehicle usage tax receipts of \$411.3 million represent a rise of 4.0 percent compared to the \$395.6 million collected in FY06. Usage tax receipts have rebounded following a decrease in the previous fiscal year.

Weight distance tax revenues were nearly flat with just a 0.1 percent rise and receipts of \$85.4 million compared to \$85.3 million collected in the previous fiscal year.

Motor vehicle license tax receipts were up by 8.3 percent with collections of \$101.7 million, compared to \$93.9 million collected

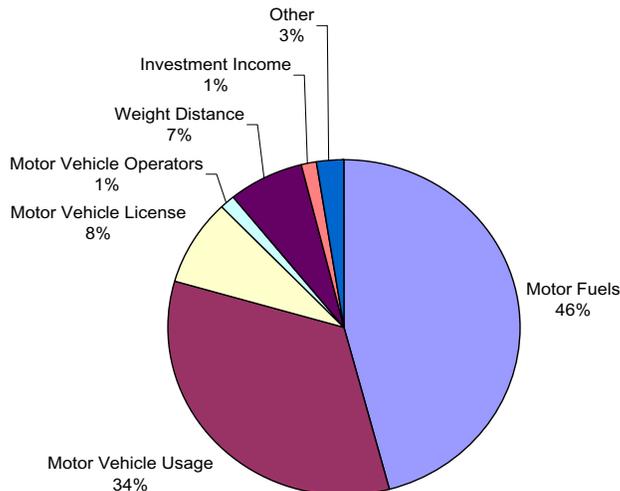
but were \$10.8 million above the official revenue estimate (the consensus estimate of January 2007) as shown in Table 8. This was 0.9 percent more than anticipated in the official estimate. The largest excess occurred in the motor vehicle license tax, which was \$6.8 million above forecasted levels and 7.2 percent above the forecasted value.

Figure F details the composition of FY07 Road Fund receipts by source type. Fully four-fifths of the Road Fund comes from motor vehicle usage taxes and motor fuels taxes. Following these, the motor vehicle

**Table 8**  
**FY06 Road Fund Revenues Compared to Official Estimate**  
**(million \$)**

	<u>Actual</u>	<u>Estimate</u>	<b>Diff.</b> <b>(\$)</b>	<b>Diff.</b> <b>(%)</b>
Motor Fuels & MF Use	563.4	563.9	-0.5	-0.1
Motor Vehicle Usage	411.3	404.8	6.5	1.6
Motor Vehicle License	101.7	94.9	6.8	7.2
Motor Vehicle Operators	15.8	16.2	-0.4	-2.5
Weight Distance	85.4	86.3	-0.9	-1.0
Investment Income	16.1	15.3	0.8	5.2
Other	<u>32.2</u>	<u>33.7</u>	<u>-1.5</u>	<u>-4.5</u>
<b>TOTAL</b>	<b>1,225.9</b>	<b>1,215.1</b>	<b>10.8</b>	<b>0.9</b>

**Figure F**  
**Composition of FY07**  
**Road Fund Revenues**



license tax was the next-largest source of revenue, followed by the weight distance tax. “Other” taxes combined to account for three percent, and motor vehicles operators tax and investment income each were one percent of Road Fund revenue.

Table 9 and Figure G details the growth rates in Road Fund revenue by each fiscal quarter in FY07. Overall, the Road Fund began the year very weakly, but was strong in the final three quarters. The major accounts with the strongest growth included motor fuels taxes, which were impacted by the rate increase in effect for the

entire fiscal year. Growth in the motor vehicle license account was strong in the fourth quarter which raised its overall growth for the fiscal year. The weight distance tax began the year strongly, but decreased slightly in the final two quarters.

Unlike the General Fund, growth in the Road Fund does not follow closely the growth in Kentucky personal income, as seen in Figure E. In the five fiscal years prior to FY07, Road Fund growth has risen from low growth or a decrease in FY03 and FY04, to higher rates of growth in succeeding years.

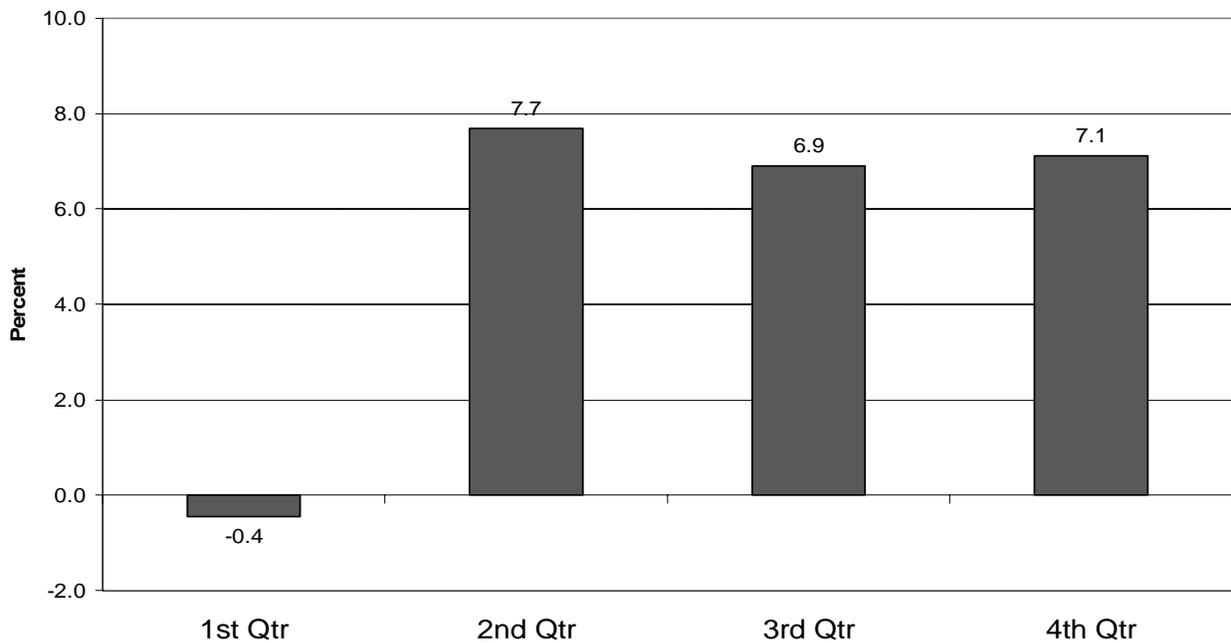
**Table 9**  
**Road Fund Growth Rates for the Four Quarters**  
**and Full Year FY07**  
 (percent)

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>FY07</u>
Motor Fuels	5.9	7.0	9.1	4.3	6.6
Motor Vehicle Usage	-7.6	11.0	11.2	5.3	4.0
Motor Vehicle License	0.8	1.1	3.0	25.7	8.3
Motor Vehicle Operators	-13.2	4.4	0.7	-0.6	8.6
Weight Distance	24.2	13.3	-0.7	-0.7	0.1
Investment Income	336.3	515.0	126.6	57.4	152.6
Other	<u>-16.5</u>	<u>-24.5</u>	<u>-21.4</u>	<u>7.5</u>	<u>-22.0</u>
<b>TOTAL</b>	<b>-0.4</b>	<b>7.7</b>	<b>6.9</b>	<b>7.1</b>	<b>5.2</b>



**Figure G**

**Quarterly Road Fund Growth**



## ***II.*** ***The Economy***

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# The Economy . . .

## NATIONAL ECONOMY

The broadest measure of economic performance is real gross domestic product (GDP), an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by 2.5 percent in FY07 compared to a robust growth of 3.4 percent in the previous year. During the fourth quarter real GDP was

up 3.3 percent for both the year and the fourth quarter. Consumption of durable goods was up 5.1 percent. Most of the increase was from the purchase of furniture (up 9.5 percent for the year). Even though the housing market has cooled substantially from the fallout of sub-prime loans, the mortgage rate is still relatively low. The average 30-year fixed mortgage rate was 6.27 percent for the fourth quarter compared to 6.60 percent a year ago. This means that

**Table 10**  
**U.S. Summary Economic Conditions**

	Fourth Quarter*			Fiscal Year Average		
	FY06	FY07	% Chg	FY06	FY07	% Chg
Real GDP (billion 2000 \$)	11,388.1	11,618.5	2.0	11,245.9	11,526.7	2.5
Personal Income (billion \$)	10,807.3	11,478.0	6.2	10,568.8	11,215.4	6.1
Consumer Price Index (1992-94=100)	201.7	207.1	2.7	199.0	204.2	2.6
Industrial Production (2002=100)	111.2	112.9	1.5	108.9	112.3	3.1
Civilian Labor Force (millions)	151.1	152.8	1.1	150.4	152.5	1.4
Total Nonagricultural Employment (millions)	135.9	137.8	1.4	135.0	137.2	1.6
Manufacturing Employment (millions)	14.2	14.1	-1.2	14.2	14.1	-0.6
Unemployment Rate (percent)	4.7	4.5	-	4.8	4.6	-

\* Seasonally adjusted data.

Sources: Global Insight and U.S. Department of Commerce, Bureau of Economic Analysis.

up just 2.0 percent from a year ago. The slowdown in GDP began during the January-to-March quarter. The sharp deceleration in the second half of FY07 is in contrast to the first half when GDP growth was 3.0 percent.

There are four broad components of the economy that drive overall growth: consumption, investment, government spending, and net exports. Consumption is by far the largest component accounting for about 70 percent of the total. Real consumption (i.e. adjusted for inflation) was

home equity loans fueling the purchase of household durable goods are still continuing.

With the upsurge in gasoline prices there was a 1.6 percent decline in the purchase of motor vehicles last year. In FY07 consumers seem to have become accustomed to higher prices and vehicle purchases were up 1.8 percent for the fiscal year and a hefty 4.0 percent for the fourth quarter. The purchase of nondurable goods, especially food (up 2.6 percent) and clothing (up 4.5 percent for the year) also succeeded in boosting overall consumption.

The decline of the housing market was felt strongly in the investment component of real GDP. After increasing at the rate of 7.2 percent in FY05 and 5.9 percent in FY06, real investment declined by 2.0 percent in FY07. The drop during the fourth quarter was 5.1 percent. Residential fixed investment constitutes one-fourth of the total investment category. The market had been built up strongly on the basis of creative lending in the sub-prime market, i.e., loans to borrowers who could ill afford them. Residential investments were down 13.3 percent for the year and 16.0 percent in the fourth quarter. Typically equipment and software investments show aggressive growth. Strong gains in this sector are critical for future economic growth because much of the recent prosperity in the U.S. economy is from gains in productivity driven by investment in computer equipment. However, the slowdown in the economy has dragged this area down. Growth was just 3.2 percent for the year compared to 8.1 percent in FY06. Growth during the fourth quarter was just 2.2 percent.

Government spending is less than a fifth of total GDP and was up by just 2.0 percent in FY07. Foreign trade activity, on the other hand, comprises almost 30 percent of total GDP. The weak dollar resulted in export growths surpassing increase in imports: 7.5 percent vs. 4.0 percent. However, the magnitude of imports continues to exceed that of exports. That means the foreign trade balance is still negative.

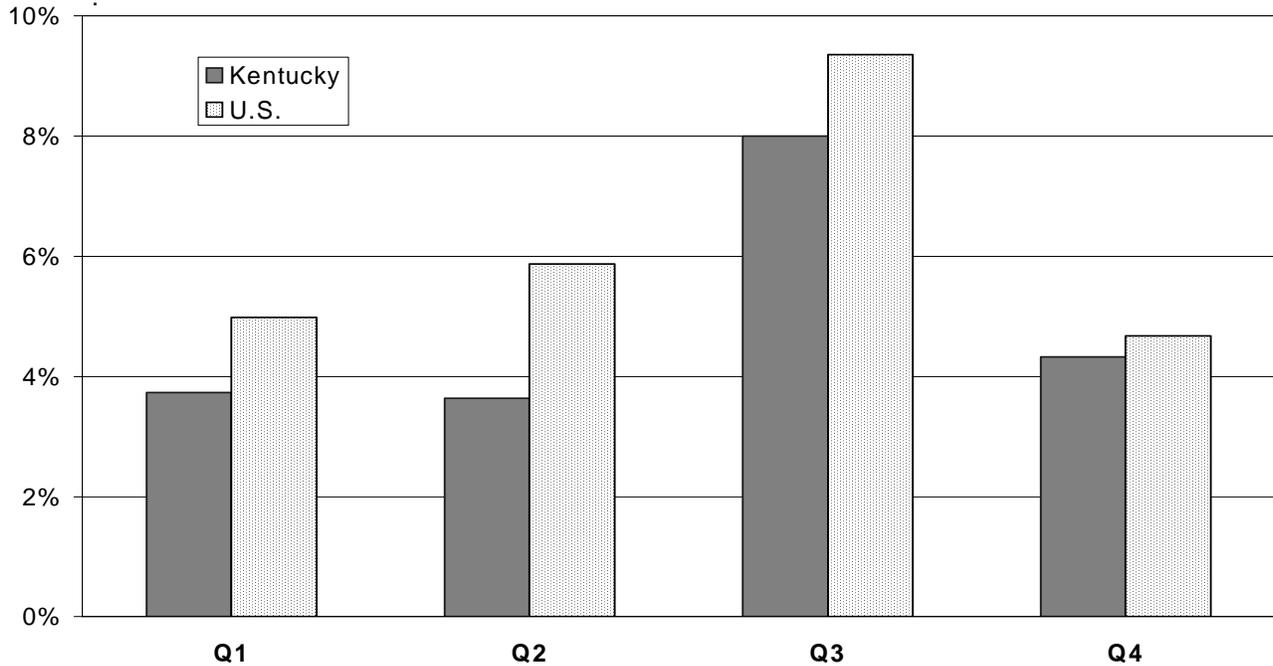
Employment growth has been muted for much of the current recovery period, and this continued in FY07. The rule of thumb is that real GDP growth above three percent is required for a surge in employment growth. Total nonfarm employment is

estimated to have increased by 1.6 percent during FY07 and by 1.4 percent in the fourth quarter. The major gains were in mining which includes oil and natural gas (up 7.1 percent for the year and 5.4 percent for the quarter); leisure and hospitality (up 3.1 percent for the year and 3.3 percent for the quarter), and education and health services (up 2.7 percent for the year and 2.9 percent for the quarter). Manufacturing employment declined by 0.6 percent for the year, but by 1.2 percent during the fourth quarter. The unemployment rate has improved during the year. It has dropped from a low 4.8 percent in FY06 to a still lower 4.6 percent in FY07. The average for the fourth quarter was 4.5 percent. After seeing very low unemployment levels in the 1990s, economists are reluctant to categorize any particular unemployment rate as "full employment." But the current rates seem to show that in FY07 the U.S. economy was essentially at full employment.

High energy prices have caused inflation to be a worry during FY07. Even though the Fed doesn't set an explicit inflation target, the implicit target is believed by many observers to be under two percent. In FY07 CPI inflation averaged 2.6 percent, and was slightly higher at 2.7 percent in the fourth quarter.

The biggest positive in the economic landscape of FY07 has been the increase in personal income. Personal income, which is a measure of spending power, posted a gain of 6.1 percent in FY07 compared to 5.7 percent in the previous year. During the fourth quarter personal income was up 6.2 percent compared to the same period a year ago. When adjusted for inflation, the personal income growth for FY07 is more impressive. In FY07 inflation-adjusted

**Figure H**  
**Personal Income: Quarterly Change in KY and U.S.**



personal income was up 3.5 percent compared to 1.9 percent a year ago.

**STATE ECONOMY**

The strength of the national economy is typically gauged by increase in output as measured by real GDP. The performance of state economies is measured by personal income and employment. The Kentucky economy has been expanding for four years in a row, but gains in both income and employment are substantially less than the national average. The cause is found in the substantial reliance on manufacturing jobs. Excess manufacturing capacity abroad and increased productivity—without a concomitant increase in wages—have kept income from growing.

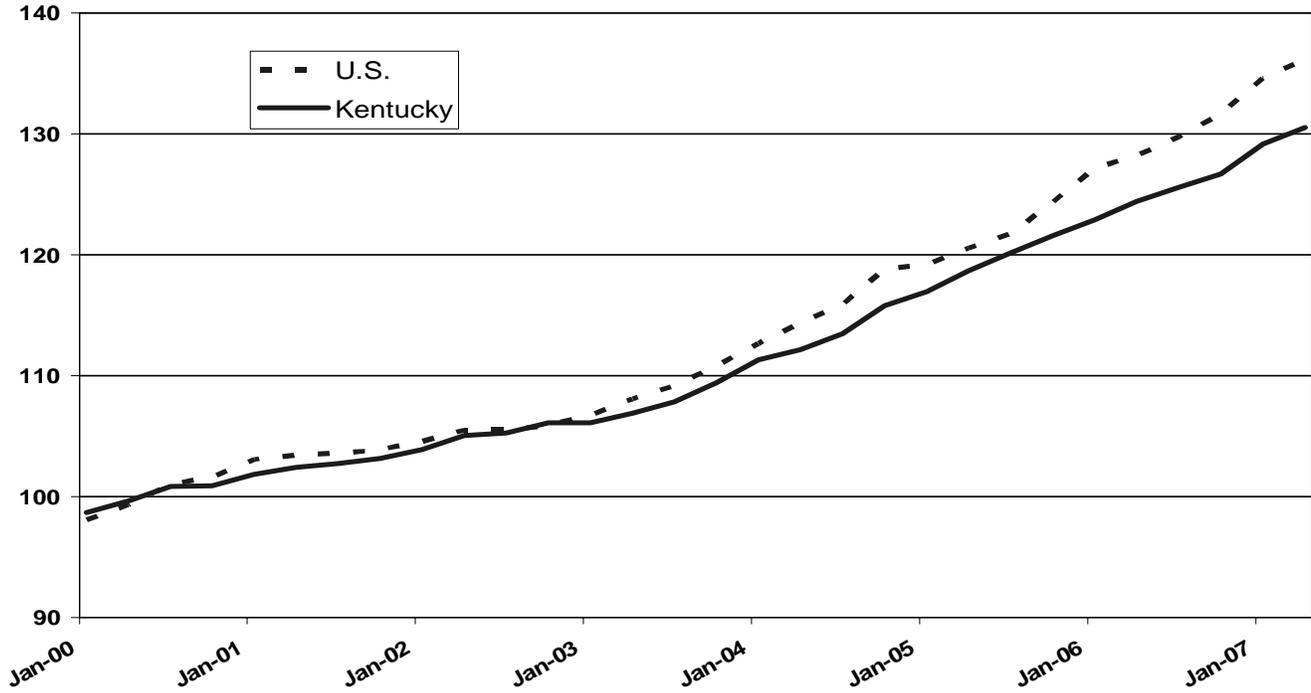
In FY07 personal income is estimated to have increased by 4.7 percent to \$126.5

billion. The corresponding figures for the fourth quarter were 4.9 percent and \$129.0 billion. Wages and salaries comprise about 52 percent of total income. These were up by 4.4 percent during the year and 3.9 percent in the fourth quarter.

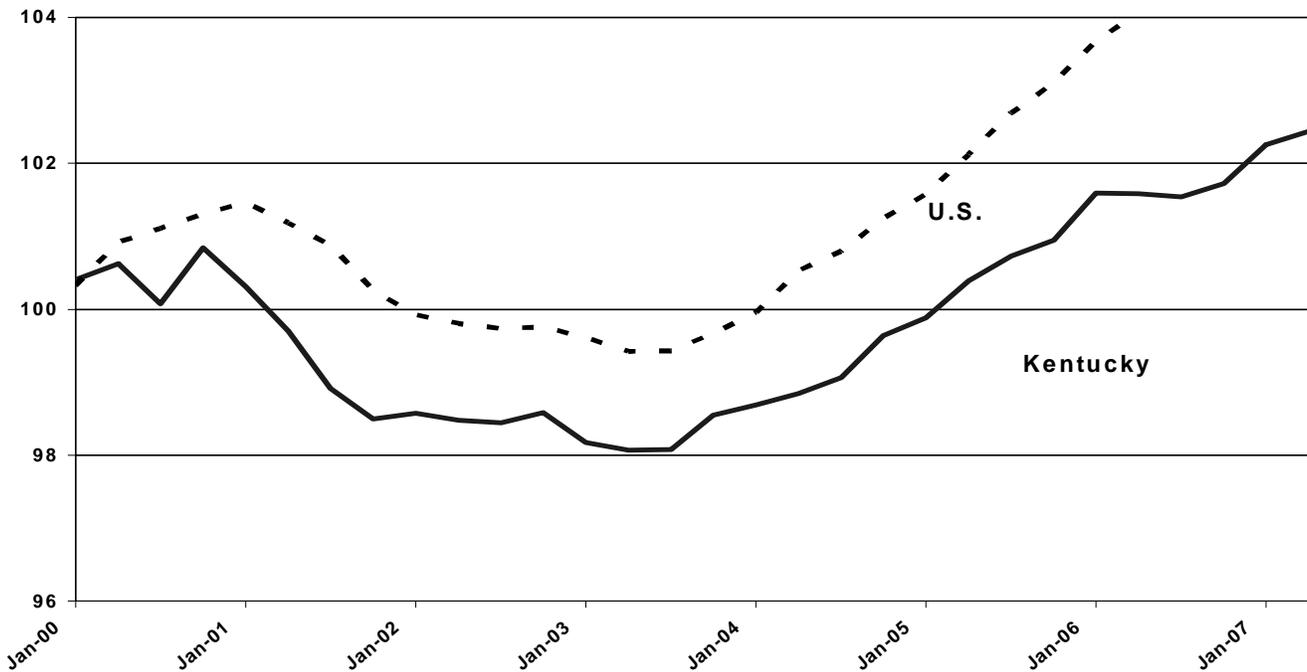
Employment data is commonly used to gauge the strength of the state’s economy, primarily because of its timely availability and its impact on consumer spending and confidence. Nonfarm employment in Kentucky increased by 0.8 percent in FY07 resulting in the addition of 14,100 jobs. In the fourth quarter nonfarm employment growth was identical to the annual average of 0.8 percent. In the fourth quarter Kentucky nonfarm employment reached an all time high of 1,860,000.

The service-providing sectors posted gains during the year with an increase of 1.1

**Figure I**  
**Personal Income: KY vs. U.S.**  
(Index FY00 = 100)



**Figure J**  
**Nonfarm Employment Growth: KY vs. U.S.**



percent compared to a decline of 0.7 percent for the goods-producing sector. Government jobs account for 17 percent of total nonfarm employment and were up 1.2 percent for the year and 1.5 percent in the final quarter.

Kentucky's employment composition has changed over the last decade as growth in manufacturing employment slowed and then declined. However, employment in the state is still relatively concentrated in manufacturing and construction. The goods-producing sector accounts for 20 percent of all jobs in Kentucky compared to the national average of 16 percent. In the last few years this has been to Kentucky's disadvantage as manufacturing facilities have moved to low-cost centers abroad, and the ones that remain have seen a surge in productivity.

In FY07 manufacturing employment declined by 1.0 percent. The decline was sharper near the end of the year with a drop of 1.6 percent in the fourth quarter.

Employment in construction was down 1.1 percent for the year. In the fourth quarter the construction industry showed some resilience in Kentucky with a gain of 1.8 percent. This growth came in spite of a continuing downturn in the national market. During the year construction employment was not driven down by interest rates—which have remained steady—but from a sharp increase in foreclosures on borrowers with sub-prime loans. By the fourth quarter construction employment perked-up in Kentucky as it became apparent that sub-prime lending in the state was not at the same scale as in the national market.

Trade, transportation and utilities represent the largest supersector in both Kentucky and the nation. Employment in this sector was up 0.3 percent for the year and 0.8 percent during the fourth quarter. About three-fourths of the jobs in this sector are in wholesale and retail trade. Employment in wholesale trade was up 1.0 percent for FY07, while that in the retail industry was flat. The lack of growth in the retail employment may be due to an increase in online purchases. The largest increase in Kentucky was in the transportation and warehousing sector (up 2.2 percent for the year and 1.7 percent for the quarter).

The information sector was up slightly for the year with an increase of 0.5 percent, but declined by the same amount in the fourth quarter. The job losses are in telecommunications where firms are cutting back to survive in a highly competitive market.

Business services had an employment increase of 0.9 percent in the fourth quarter and 2.1 percent for the year. During the year the largest gains were in professional services which account for over one third of all jobs in this sector. The smallest gains were in administration and support services.

Leisure and hospitality services comprise ten percent of Kentucky's employment. During FY07 employment in this sector was up 1.4 percent, and grew by 1.6 percent in the fourth quarter. Close to ninety percent of the jobs are in the accommodation and food service industries which grew by 1.6 percent during the year.

**Table 11**  
**Kentucky Economic Conditions**

	<u>Fourth Quarter*</u>			<u>Fiscal Year Average</u>		
	<u>FY06</u>	<u>FY07</u>	<u>%</u> <u>Chg</u>	<u>FY06</u>	<u>FY07</u>	<u>%</u> <u>Chg</u>
Total Personal Income (\$ billions)	123.0	129.0	4.9	120.9	126.5	4.7
Wage & Salary Income (\$ billions)	67.6	70.2	3.9	63.8	66.6	4.4
Nonagricultural Employment ('000)	1,844.5	1,860.0	0.8	1,837.7	1,851.8	0.8
Goods Producing ('000)	368.1	366.5	-0.4	368.7	366.3	-0.7
Construction	83.1	84.6	1.8	84.2	83.3	-1.1
Mining	23.0	24.2	5.2	22.5	23.5	4.4
Manufacturing	262.1	257.8	-1.6	262.0	259.5	-1.0
Service Providing ('000)	1,160.0	1,172.4	1.1	1,153.2	1,165.8	1.1
Trade, Transportation & Utilities	380.3	383.2	0.8	379.1	380.4	0.3
Information	29.6	29.4	-0.5	29.6	29.7	0.5
Finance	90.5	91.5	1.1	89.3	91.2	2.1
Business Services	178.0	179.6	0.9	175.7	179.5	2.1
Educational Services	238.1	242.0	1.6	236.8	239.9	1.3
Leisure and Hospitality Services	167.8	170.5	1.6	166.7	169.1	1.4
Other Services	75.8	76.2	0.5	76.0	76.1	0.0
Government ('000)	316.4	321.1	1.5	315.8	319.7	1.2

\* Seasonally adjusted data

Sources: Governor's Office for Economic Analysis and U.S. Bureau of Labor Statistics

**III.**  
*Interim Outlook*

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# Interim Outlook . . .

## General Fund

Projected General Fund revenues for the next three quarters are shown in Table 12. General Fund revenues are anticipated to total \$6.304 billion in the first three quarters of FY08, a growth rate of 1.5 percent compared to the same period of FY07. This expected growth rate is lower than the actual growth rate for FY07, due mainly to a difference in timing of receipts. Some taxes will see losses in revenue and others will gain.

Sales and use tax receipts are estimated to grow by 3.0 percent in the first three quarters of FY08, continuing the recent trend of slower growth stemming from the slowdown in the housing market. Sales tax receipts were weak in FY07 due to reduced activity in the housing sector, but in addition refund claims from the Kentucky Enterprise

Initiative are expected to be a drag on growth in the first three quarters.

The interim forecast for the individual income tax calls for receipts to grow by 10.2 percent in the first three quarters of FY08. This increase is due to a redirection of taxes on pass-through entity income from the corporation income tax to the individual income tax that was accomplished in HB 1 of the 2006 Extraordinary Session of the Kentucky General Assembly.

The outlook for corporation income and license taxes is a decrease of 29.1 percent for the first three quarters of FY08. Corporate profits remained lofty in FY07 both in Kentucky and nationally, but some softening is expected during the forecast period. But the larger impact is the counterpart to the individual income tax increase: reclassification of pass-through entity income tax

**Table 12**  
**General Fund: Interim Forecast**  
(million \$)  
July 2007

	FY07 Quarter 4		FY07 Full Year		FY08 Quarters 1, 2 & 3	
	Actual	% Chg Year Ago	Actual	% Chg Year Ago	Interim Estimate	% Chg Year Ago
Sales & Use	716.4	2.8	2,817.7	2.5	2,164.6	3.0
Individual Income	910.2	12.0	3,041.5	4.2	2,349.2	10.2
Corp. Income & License	351.1	-27.1	998.8	-4.4	460.3	-29.1
Coal Severance	58.9	-3.8	222.0	-1.1	161.6	-0.9
Tobacco Taxes	44.1	4.7	177.4	-3.7	135.2	3.2
Property	43.4	-24.7	492.5	-2.0	453.5	1.0
Lottery	48.5	-21.8	186.6	-1.8	135.5	-1.9
Other	<u>191.8</u>	<u>25.1</u>	<u>637.3</u>	<u>13.5</u>	<u>443.6</u>	<u>-0.8</u>
<b>General Fund</b>	<b>2,364.4</b>	<b>-0.1</b>	<b>8,573.8</b>	<b>2.4</b>	<b>6,303.5</b>	<b>1.5</b>

away from the corporation income tax. Additionally, the top marginal rate fell from 7.0 percent to 6.0 percent on January 1, 2007, and this will cause the corporation income tax to fall further in FY08 since this will be the first full tax year the new rate will be in effect.

Coal severance tax revenue is expected to remain fairly stable compared to its level in FY07. For the first three quarters of FY08, coal severance tax revenue is forecasted to drift downward by 0.9 percent.

Tobacco taxes will rise primarily due to border effects relating to cigarette tax increases in Indiana and Tennessee. Both states recently enacted cigarette tax increases, and following past consumer behavior, it is expected to boost sales in Kentucky along the borders with those states. For the first three quarters of FY08, tobacco tax revenue is estimated to grow by 3.2 percent.

Property taxes are expected to rise by 1.0 percent in the first three quarters of FY08. This tax will be affected by changes enacted in HB 272, which exempted intangible property tax from taxation and also removed telecommunications companies from unit-value taxation.

Lottery revenues for the first three quarters of FY08 are expected to be \$135.5 million, representing a decrease of 1.9 percent. Lottery sales in Kentucky have been under pressure in recent years from expanded gaming in Indiana and the enactment of a lottery in Tennessee. This trend is expected to prevent lottery sales from rising more rapidly.

Revenues in the “other” category should decrease by 0.8 percent during the first

three quarters of FY08. Growth in abandoned property receipts and net enforcement will help balance declines in several lesser accounts.

## Road Fund

The Road Fund is expected to grow by 4.9 percent during the first three quarters of FY08, as shown in Table 13. The Road Fund expanded 5.2 percent in FY07 as a result of an automatic gasoline tax rate increase as well as an increase in motor vehicle usage tax receipts.

Combined motor fuels tax receipts are expected to increase 7.3 percent, in large part due to continued increases in the tax rate caused by rising prices and an automatic statutory increase. This is the fourth consecutive year in which the rate increase has been triggered by high prices of gasoline.

Motor vehicle usage taxes are expected to dip by 0.1 percent during the first three quarters of FY08. In FY07, receipts from this category rose by 4.0 percent. Receipts during early FY08 are expected to dip as a result of legislation enacted in the 2007 General Assembly that allows auto dealers additional time to remit motor vehicle usage taxes.

To estimate growth of the other components of the Road Fund, GOEA consulted with officials in the Transportation Cabinet and the Department of Revenue to assess recent growth patterns as well as administrative factors in developing an updated estimate. Motor vehicle operator’s license (driver’s license) fees are expected to decline by 3.5 percent. Weight distance taxes are expected to rise by 1.3 percent, motor vehicle license taxes are forecasted to

expand by 5.2 percent, and investment income should grow by 7.2 percent on the strength of higher Road Fund balances and higher interest rates. The “other” category

should rise by 41.2 percent due to a sharp increase in “other special fees” related to timing.

**Table 13  
Road Fund: Interim Forecast  
(million \$)  
July 2007**

	<u>FY07 Quarter 4</u>		<u>FY07 Full Year</u>		<u>FY08 Quarters 1, 2 &amp; 3</u>	
	<u>Actual</u>	<u>% Chg Year Ago</u>	<u>Actual</u>	<u>% Chg for Actual</u>	<u>Interim Estimate</u>	<u>% Chg Year Ago</u>
Motor Fuels	142.0	4.3	563.5	6.7	452.3	7.3
Motor Vehicle Usage	112.9	5.3	411.3	4.0	298.1	-0.1
Motor Vehicle License	40.8	25.7	101.7	8.3	64.0	5.2
Motor Vehicle Operator	3.9	-0.6	15.8	8.6	11.5	-3.5
Weight Distance	21.0	-0.7	85.4	0.1	65.2	1.3
Investment	5.1	57.4	16.1	152.6	11.8	7.2
Other	<u>9.9</u>	<u>7.3</u>	<u>32.2</u>	<u>-22.1</u>	<u>31.5</u>	<u>41.2</u>
<b>Road Fund</b>	<b>335.7</b>	<b>7.1</b>	<b>1,225.9</b>	<b>5.2</b>	<b>934.4</b>	<b>4.9</b>

## NATIONAL ECONOMY

The economy is expected to lose some steam compared to the first three quarters of FY07. The down shift is a result of both the high cost of energy and the continuing fall out from the housing market. Real GDP is expected to show a gain of 2.3 percent from a year ago during the July-to-March period of FY08. This is slightly lower than the 2.7 percent growth experienced in the same period in FY07.

Consumption has always been a major driver of the national economy. Consumer expenditures constitute 70 percent of real GDP. During the first three quarters of FY08 consumption is expected to increase by just 2.7 percent compared to 3.3 percent a year ago. Consumption of durable goods is expected to soften substantially from 5.0 percent a year ago to 3.2 percent. The dampening is related to increased interest rates and a decline in the demand for motor vehicles and parts.

The federal funds rate is not expected to increase during the next three quarters. But market forces are expected to increase long-term rates by another 40 basis points.

The increased cost of borrowing coupled with uncertainty in the market from volatile energy prices is expected to suppress investment growth in the forecast period from a decline of 1.0 percent a year ago to a further decline of 2.3 percent. Most of the reduction is expected to be in residential fixed investments from a decline of 12.4 percent in the first three quarters of FY07 to a drop of 15.0 percent in the first three quarters of FY08.

U.S. personal income is forecasted to increase by a robust 5.9 percent, although nonfarm employment growth is expected to be up by just 1.1 percent during the first three quarters of FY08. The seeming anomaly producing income gains and slow employment is explained by the expected rise in productivity during this period. Similarly, industrial production is expected to increase slightly by 1.8 percent, even as manufacturing employment declines by 1.1 percent.

## STATE ECONOMY

The overall outlook for the Kentucky economy is for continued growth with a welcome uptick in personal income. In the

**Table 14**  
**National Economic Outlook**  
**Quarters 1, 2, & 3\***

	<u>FY07</u>	<u>FY08</u>	<u>%Chg</u>
Real GDP (billion 2000 \$)	11,496	11,765	2.3
Personal Income (billion \$)	11,128	11,779	5.9
Consumer Price Index (1992-94=100)	203.2	207.7	2.2
Industrial Production (2000=100)	112.1	114.2	1.8
Civilian Labor Force (millions)	152.3	153.5	0.8
Total Nonfarm Employment (millions)	136.9	138.4	1.1
Manufacturing Employment (millions)	14.2	14.0	-1.1
Unemployment Rate (percent)	4.6	4.8	-

\* Seasonally adjusted data

Sources: Global Insight & U.S. Dept. of Commerce, Bureau of Economic Analysis  
Data for FY07 are June 2007 estimates.

first three quarters of FY08 personal income is expected to grow by 5.1 percent and average \$132.1 billion. Wage and salary income constitutes about 53 percent of personal income and is expected to increase by 4.3 percent. On the surface these improvements look slim, but given the improved forecast for inflation during the same period (2.2 percent instead of 2.6 percent a year ago during the same period) these are substantial advancements in real income from last year.

Employment growth is expected to be relatively higher with a gain of 1.3 percent in nonfarm employment compared to 0.7 percent in the same period a year ago. The near doubling in the growth rate is primarily from service-providing industries and partly from an anticipated swing in construction. A year ago construction employment was down 2.0 percent for the first three quarters. Though the Kentucky

market was impacted by the national downturn in housing it was not devastated. Since mortgage rates have remained steady employment in construction is expected to post a gain of 1.7 percent.

The rise in mining jobs is linked to the world energy market. Energy prices for the forecast period are expected to remain high resulting in employment gains for Kentucky's coal mining sector. In spite of the weak dollar the outlook for manufacturing employment is bleak during the first three quarters with a decline of 0.9 percent.

The service sector is forecasted to continue expanding. The largest gains are in trade, transportation and utilities (up 2.3 percent compared to 0.2 percent a year ago) and leisure and hospitality services (up 2.2 percent compared to 1.4 percent a year ago).

**Table 15**  
**Kentucky Economic Outlook**  
**Quarters 1, 2, & 3\***

	<u>FY07</u>	<u>FY08</u>	<u>% Chg*</u>
Total Personal Income (\$ millions)	125,677	132,143	5.1
Wage & Salary Income (\$ millions)	68,590	71,561	4.3
Nonagricultural Employment ('000)	1,849.1	1,872.8	1.3
Goods Producing ('000)	366.2	366.6	0.1
Contract Construction	82.9	84.3	1.7
Mining	23.2	24.5	5.4
Manufacturing	260.1	257.8	-0.9
Service Providing ('000)	1,163.6	1,184.0	1.7
Trade, Transportation & Utilities	379.5	388.2	2.3
Information	29.8	29.6	-0.7
Finance	91.1	91.4	0.3
Business Services	179.4	181.3	1.0
Educational Services	239.3	244.2	2.1
Leisure and Hospitality Services	168.6	172.3	2.2
Other Services	76.0	76.9	1.2
Government	319.3	322.3	0.9

\* Seasonally adjusted data.

Source: GOEA's Macromodel of Kentucky, June 2007

IV.  
*Special Feature*

*An Overview of the Macromodel  
of Kentucky*

# An Overview of the Macromodel of Kentucky. . .

## Introduction

The Governor's Office for Economic Analysis (GOEA) is responsible for forecasting Kentucky's General Fund and Road Fund revenue. These estimates submitted to the Consensus Forecasting Group, and upon approval by the group, are used for the state's budgetary process. Economic modeling is preferred because certain taxes, e.g., individual and corporation income tax, sales tax, and motor vehicle usage tax, are closely tied to the state's economic outlook. This makes it necessary to have an accurate forecast of the Kentucky economy.

GOEA has developed an income and employment-based econometric model of the Kentucky economy. The primary objective of developing the Macromodel of Kentucky (MAK) is for producing quarterly forecasts of the state economy. The model is specifically designed to:

- Produce forecasts of employment and personal income;
- Estimate the effect of changes in national economic outlook on the state's economy; and
- Estimate the impact of contemporaneous changes in the state economy through add factors<sup>1</sup>.

The theoretically defensible forecast horizon for MAK is a period of twelve calendar

quarters. This rather short forecast horizon reflects the fact that the model is not geared to handle long-term changes in Kentucky's economic structure, capital stock, and productivity.

## The Model's Theoretical Position

In general, econometric models are designed for either forecasting or for policy analysis. This division is not just academic, but has important real world implications.

The Macromodel of Kentucky is intended to provide an accurate forecast for variables like personal income; it is not designed to confirm theoretical constructs. For example, interest rates are a key explanatory variable for employment in construction. However, the explicit inclusion of interest rates in the estimating equation resulted in a poor *ex post* forecast for employment. Thus in specifying the equation for employment in construction GOEA has excluded interest rates from the equation, but included U.S. employment in construction and the University of Michigan Consumer Sentiment Index. This specification produced a better statistical fit and provided a more reliable forecast. The assumption in this specification is that interest rates are implicitly factored in any measure of consumer confidence. Lower interest rates tend to increase borrowing capacity and

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<sup>1</sup> "Add factors" are actually "adjustment factors." These are used to introduce an exogenous adjustment in the path of the forecast.

hence consumption of both durable goods and housing. This in turn spurs employment in the construction industry.

In designing the model, GOEA has pursued a middle ground of a forecasting model with limited policy handles, i.e., selected variables that can be used to produce alternative scenarios. Except for identities, equations normally have national drivers to ensure that the model responds to changes in the national economy. The forecasting equations are evaluated for the best “fit” based on not just statistical factors like the Durbin-Watson, t-statistics, and the Akaike information criterion, but also on the best *ex post* forecasting performance. The equations that are finally selected must have a mean absolute percentage error (MAPE) of two percent or below<sup>2</sup>.

By definition a regional econometric model is a set of equations that describes the economic structure of a regional economy. Most national econometric models are extensions or modifications of a Keynesian general equilibrium system with commodity markets, labor markets, financial markets, and government operations. This procedure cannot be translated in constructing state models. The lack of state-specific data for imports/exports, investment, and financial markets call for a different modeling procedure. In addition, topics of particular interest to states, like net migration and ‘export’ to the rest of the nation, are different from those that are of interest in the national economy.

This has led to the development of a field of regional modeling which is strongly linked

to national data and hence to national models.

GOEA has chosen the top-down technique of regional modeling for MAK. This procedure assumes that national events steer the course of the Kentucky’s economy much more strongly than the state influences the nation. In such a model, an outside or “exogenous” forecast of national economic variables is required, and GOEA accesses data from two private national economic forecasting firms for this input. The top-down approach is especially appropriate for a state the size of Kentucky because the labor force is about one percent of the U.S. total and as such is not large enough to influence national events.

The model is set-up into two recursive blocks: one for employment and the other for income. The inclusion of national variables in each equation ensures that any change in the national forecast scenario produces a response in the Kentucky economic outlook. The only way state-level policy assumptions can be introduced is in a manner similar to that used by national forecasters: through adjustment or add factors.

### Change in Modeling Procedure

Until 2003 the MAK model had a large simultaneous equation component. The employment block was composed of employment equations that had both national drivers as explanatory variables as well as Kentucky wage and salary for each sector. The wage and salary variables for each sector were estimated from a set of equa-

<sup>2</sup> Certain equations-typically proprietors’ income-have MAPE values greater than 2%. This level of inaccuracy is also present in the corresponding national variable and stems from the volatile nature of the series.

tions that had U.S. wage and salary for that sector as an explanatory variable.

KY Employment durables = f (KY wage & salary durables, U.S. industrial production index, durables)

KY wage & salary durables = f (U.S. wage & salary durables, KY wage & salary durables (-1))

When the Standard Industrial Classification (SIC) was replaced by the North American Industry Classification System (NAICS), the industry-level wage and salary data for states was no longer available as a continuous series. The options were to develop data series independent of the Bureau of Economic Analysis, or to change the simultaneous structure of the model into a simpler recursive structure. In consultation with well-regarded regional forecasting experts, GOEA opted for a simplified model structure.

The Macromodel requires constant updating in the form of revised data and recalibration of equations. The model is dynamic in the sense that as more information on the Kentucky economy becomes available it can be incorporated into the forecasting model by the addition of new equations.

## MAJOR SECTORS

### Personal Income

Personal income is the total income received by, or on behalf, of all those living in a state. Data for this sector is estimated quarterly by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

National econometric model outputs are used as inputs to drive a number of components necessary for the determination of personal income. Personal income is the income received by all persons from all sources. As described by the BEA, “Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and personal current transfer receipts. Net earnings is earnings by place of work (the sum of wage and salary disbursements, supplements to wages and salaries, and proprietors’ income) less contributions for government social insurance, plus an adjustment to convert earnings by place of work to a place-of-residence basis. Personal income is measured before the deduction of personal income taxes and other personal taxes and is reported in current dollars (no adjustment is made for price changes).”<sup>3</sup> With the exception of a factor called “resident adjustment”, the other major components of personal income are modeled independently in MAK.

### Resident Adjustment

Residence adjustment is an estimate of the net flow of labor earnings of commuters. The state and county estimates of personal income are presented by the state and county of residence of the income recipients. However, the source data for most of the components of wage and salary disbursements, supplements to wages and salaries, and contributions for government social insurance are on a place-of-work basis. Consequently, a residence adjustment is made to convert the estimates based on these source data to a place-of-residence basis.

<sup>3</sup>U.S. Department of Commerce. Bureau of Economic Analysis. *State Personal Income 2005 Methodology*

**Table 1**  
**Personal Income Module**

<b>Dependent Variable</b>	<b>Independent Variables</b>
Total Personal Income	Sum of the components below
Wage & Salary Income	KY Employment in Education and Health Services, KY Nonfarm Employment, U.S. Wage & Salary Income
Supplements to W&S	U.S. Supplements to W&S, lagged value of KY Supplements to W&S
Proprietors' Income	U.S. Proprietors' Income
Dividend, Interest, & Rent	U.S. Dividend, Interest, & Rent
Transfer Payments	U.S. Transfer Payments
Social Insurance	U.S. Social Insurance
Resident Adjustment	Calculated on a trend-basis.

Table 1 details the national and other variables used to forecast total personal income.

Total personal income is the final product of the model, but much more detail is produced in the process. The equation for Kentucky personal income is an identity since each of the components is separately estimated and then summed to derive total personal income.

In general, the components are estimated using US level variables, with the Kentucky portion being a coefficient of the US total. The exception to this is wage and salary income. Until 2003 wage and salary income was estimated at the industry-level and then aggregated to yield total wage and salary. After the North American Industry Classification System (NAICS) replaced the Standard Industrial Classifications (SIC), the data needed for the

industry level estimates was no longer available as a consistent series. Until mid-2008, when the NAICS series will have enough observations to estimate industry-level wages and salary, the model estimates aggregate wage and salary income with a single equation.

Several of the independent variables are themselves the result of other forecasts generated by the model. For instance, the Kentucky wage and salary variable is the result of estimating procedures described below in Table 2.

The components of the wage and salary equation include another estimated equation, Kentucky nonfarm employment, which is described in more detail below, and two national or exogenous variables, U.S. wage and salary income, and U.S. employment in education and health services.

**Table 2**  
**Wage and Salary Module**

<b>Dependent Variable</b>	<b>Independent Variables</b>
Wage & Salary Income	KY Employment in Education and Health Services, KY Nonfarm Employment, U.S. Wage & Salary Income
KY Employment in Education and Health Services	U.S. Employment in Education and Health Services
KY Nonfarm Employment	Sum of employment estimates by major industry group

## EMPLOYMENT

Theoretically, when formulating the labor market it is assumed that the local wage rates are determined by relative supply and demand. However, information of the supply side is limited, because only aggregate labor supply is known, and to use the theoretical model the labor supply suited for each industry should be known. Therefore, both for manufacturing and non-manufacturing sectors, wages within an industry are taken to be dependent on their national counterparts, and employment levels are assumed to be demand driven. Demand in turn is a function of output in various industries and feeds in from the first block of equations, output, described in this section. In some cases, especially where output estimates are poor, weighted industrial production indices may serve as good proxies for demand drivers.

In general for non-manufacturing employment, the equations may be formulated using state activity indicators like some component of personal income. However, each industry must be treated so that its unique characteristics can be formulated. For example, the formulation of mining

employment may include the relative price of alternative energy sources, and that for construction employment, depending on the level of disaggregation, may need interest rates.

When the equations were specified it was found that all the service-related industries had the best statistical attributes when explained by the equivalent U.S. variable. The reasons for this is that a major portion of the employment in these industries is believed to serve local, i.e., in-state, demand. Thus, employment regionally should not deviate too dramatically from national averages. For goods-producing industries, however, other explanatory variables are required. Manufacturing is treated differently due to its unique characteristics. First, it is largely “export-based”, meaning that demand for manufactured goods produced in Kentucky is more dependent on external or exogenous factors that require special consideration. Second, the composition of goods produced within Kentucky does not closely mirror the U.S. average, which means that additional consideration is needed to account for different outlooks for different industrial sectors.

**Table 3**  
**Employment Module**

<b>Dependent Variable</b>	<b>Independent Variables</b>
KY Nonfarm Employment	Sum of All Employment Components
KY Mining	U.S. Mining, lagged KY Mining
KY Construction	U.S. Construction, Consumer Sentiment Index
KY Trade, Transportation, Utilities	U.S. Trade, Transportation, Utilities, U.S. Retail Trade
KY Information	U.S. Information Services
KY Finance	U.S. Financial Services
KY Business Services	U.S. Business Services
KY Educational Services	U.S. Educational Services
KY Leisure & Hospitality	U.S. Leisure and Hospitality
KY Other Services	U.S. Other Services, Dummy Variable
KY Government	U.S. Government
KY Manufacturing	KY Nondurable Goods, KY Auto, KY Durable Machinery, KY Durable: All Others

**Table 4**  
**Manufacturing Employment Module**

<b>Dependent Variable</b>	<b>Independent Variables</b>
KY Manufacturing	Nondurable Goods, KY Durable Auto, KY Durable Machinery, KY Durable: All Others
KY Auto	U.S. Auto Sector, Add factor
KY Durable Machinery	U.S. Industrial Production Index, U.S. Manufacturing
KY Durable: All Others	U.S. Employment Durable Goods, U.S. Industrial Production Index for Durable Goods

Employment in manufacturing is therefore given additional consideration for those significant industries in Kentucky that exhibit more pronounced cyclical fluctuations in employment. In practice, this has been shown to be automobile manufacturing and durable machinery manufacturing.

In forecasting employment for subsectors of manufacturing, additional explanatory variables are tested and employed when suitable. The resulting equation for manufacturing employment therefore is an identity summing the forecasts of employment for manufacturing subsectors.

### **FUTURE CHANGES**

This description of the MAK details the model as it functions in 2007. As explained above, the model has changed and evolved over the years as conditions and data warranted. Developmental work is ongoing, and GOEA anticipates that improvements will be forthcoming in years ahead.

Every model inevitably produces estimates that deviate to some degree from actual events as they develop. Errors are always

examined in hindsight and possible causes for the errors are identified. In addition to model misspecification, it is possible that other causes beyond the control of the modeler may cause error terms. One major cause of past errors has been the historical personal income estimates provided by BEA. In the past, revisions have resulted in personal income estimates varying by significant amounts. Other errors can be caused by error terms in the U.S. economic outlook provided to GOEA by outside forecasting firms.

GOEA recognizes that its decision to operate within the framework of a regional econometric model dependent on outside influences does not remove responsibility for developing accurate economic and revenue estimates. For this reason, it has been the practice to evaluate the reliability of the data and forecasts that are outside our immediate control, and to review these by peer evaluation of staff as well as by the Consensus Forecasting Group. When necessary, both input and output variables have been adjusted when those values do not represent the analyst's best informed opinion on the likely scenario.

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**APPENDIX A**  
*Fourth Quarter Report*

## KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	Fourth Quarter FY 2007	Fourth Quarter FY 2006	%	Year-To-Date FY 2007	Year-To-Date FY 2006	%
			Chg			Chg
<b>TOTAL GENERAL FUND</b>	<b>\$2,364,438,949</b>	<b>\$2,367,235,270</b>	<b>-0.1%</b>	<b>\$8,573,819,250</b>	<b>\$8,376,083,216</b>	<b>2.4%</b>
<b>Tax Receipts</b>	<b>\$2,245,154,819</b>	<b>\$2,270,473,273</b>	<b>-1.1%</b>	<b>\$8,233,789,253</b>	<b>\$8,065,347,817</b>	<b>2.1%</b>
<b>Sales and Gross Receipts</b>	<b>\$845,588,073</b>	<b>\$822,553,835</b>	<b>2.8%</b>	<b>\$3,280,448,981</b>	<b>\$3,174,734,842</b>	<b>3.3%</b>
Beer Consumption	1,662,452	1,683,785	-1.3	6,344,079	6,393,753	-0.8
Beer Wholesale	12,762,839	11,890,957	7.3	46,806,186	45,206,839	3.5
Cigarette	44,120,351	42,149,058	4.7	168,768,467	165,777,581	1.8
Cigarette Floor Stock	0	(7,443)	---	9,746	12,089,404	-99.9
Distilled Spirits Case Sales	24,966	24,102	3.6	98,874	94,806	4.3
Distilled Spirits Consumption	2,564,122	2,478,567	3.5	10,094,572	9,900,035	2.0
Distilled Spirits Wholesale	6,420,254	6,104,782	5.2	25,139,117	23,524,032	6.9
Insurance Premium	39,880,553	38,945,688	2.4	125,877,984	122,824,056	2.5
Pari-Mutuel	2,736,945	2,784,714	-1.7	5,489,552	5,626,849	-2.4
Race Track Admission	0	44,546	-100.0	190,362	230,285	-17.3
Sales and Use	716,383,694	696,709,500	2.8	2,817,652,253	2,749,765,011	2.5
Wine Consumption	583,679	548,887	6.3	2,326,331	1,945,945	19.5
Wine Wholesale	2,933,058	2,677,871	9.5	11,392,111	10,510,955	8.4
Telecommunications Tax	13,193,443	14,553,379	-9.3	51,623,000	14,553,379	254.7
OTP	2,321,720	1,965,443	18.1	8,636,348	6,291,913	37.3
<b>License and Privilege</b>	<b>\$76,819,520</b>	<b>\$79,597,005</b>	<b>-3.5%</b>	<b>\$352,829,122</b>	<b>\$386,264,573</b>	<b>-8.7</b>
Alc. Bev. License Suspension	206,591	118,500	74.3%	659,151	280,450	135.0
Coal Severance	58,932,168	61,240,828	-3.8%	221,952,516	224,490,111	-1.1
Corporation License	2,366,849	2,697,221	-12.2%	11,734,452	43,516,942	-73.0
Corporation Organization	42,166	47,712	-11.6%	115,755	221,281	-47.7
Occupational Licenses	95,671	104,526	-8.5%	207,198	174,122	19.0
Oil Production	1,697,664	1,705,697	-0.5%	6,198,342	6,386,501	-2.9
Race Track License	0	23,983	-100.0%	283,675	289,258	-1.9
Bank Franchise Tax	646,318	743,944	-13.1%	63,912,315	59,603,147	7.2
Driver License Fees	151,593	163,969	-7.5%	603,807	600,903	0.5
Minerals Severance	3,693,553	3,128,441	18.1%	14,822,013	14,502,342	2.2
Natural Gas Severance	8,986,948	9,622,183	-6.6%	32,339,897	36,199,516	-10.7
<b>Income</b>	<b>\$1,258,948,005</b>	<b>\$1,291,433,243</b>	<b>-2.5%</b>	<b>\$4,029,600,561</b>	<b>\$3,920,229,525</b>	<b>2.8%</b>
Corporation	348,713,078	478,700,454	-27.2	988,064,957	1,001,618,543	-1.4
Individual	910,234,927	812,732,789	12.0	3,041,535,604	2,918,610,982	4.2
<b>Property</b>	<b>\$43,422,913</b>	<b>\$57,700,692</b>	<b>-24.7%</b>	<b>\$492,462,208</b>	<b>\$502,510,631</b>	<b>-2.0%</b>
Bank Deposits	9,196	2,147	328.3	513,619	505,351	1.6
Building & Loan Association	2,457,958	1,830,025	34.3	2,921,484	2,071,523	41.0
Distilled Spirits	0	3,963	-100.0	506,754	410,798	23.4
General - Intangible	0	239,855	-100.0	48,841	30,955,124	-99.8
General - Real	8,655,702	6,965,253	24.3	228,282,174	215,351,439	6.0
General - Tangible	30,414,634	30,434,164	-0.1	192,343,695	165,622,948	16.1
Omitted & Delinquent	(1,049,920)	10,610,029	---	25,253,460	30,330,629	-16.7
Public Service	2,935,342	7,615,012	-61.5	42,588,669	57,259,849	-25.6
Other	0	244	-100.0	3,512	2,970	18.2
<b>Inheritance</b>	<b>\$11,413,552</b>	<b>\$9,627,763</b>	<b>18.5%</b>	<b>\$43,578,107</b>	<b>\$45,990,266</b>	<b>-5.2%</b>
<b>Miscellaneous</b>	<b>\$8,962,756</b>	<b>\$9,560,734</b>	<b>-6.3%</b>	<b>\$34,870,274</b>	<b>\$35,617,980</b>	<b>-2.1%</b>
Legal Process	6,200,093	6,333,113	-2.1	24,759,470	25,118,948	-1.4
T. V. A. In Lieu Payments	2,755,921	3,204,237	-14.0	10,037,326	10,248,314	-2.1
Other	6,742	23,384	-71.2	73,478	250,719	-70.7
<b>Nontax Receipts</b>	<b>\$119,199,378</b>	<b>\$93,781,164</b>	<b>27.1%</b>	<b>\$327,878,702</b>	<b>\$302,629,799</b>	<b>8.3%</b>
Departmental Fees	6,048,571	6,067,175	-0.3	25,043,719	23,932,336	4.6
PSC Assessment Fee	2,295,555	261,346	778.4	14,593,067	9,041,415	61.4
Fines & Forfeitures	7,027,817	6,517,029	7.8	26,606,686	26,129,275	1.8
Interest on Investments	30,930,652	17,810,838	73.	31,991,861	18,681,492	71.2
Lottery	48,500,000	62,000,000	-21.8	186,625,113	190,000,000	-1.8
Sale of NOx Credits	200,000	0	---	811,600	1,126,000	-27.9
Miscellaneous	24,196,782	1,124,776	2051.3	42,206,657	33,719,282	25.2
<b>Redeposit of State Funds</b>	<b>\$84,752</b>	<b>\$2,980,834</b>	<b>-97.2%</b>	<b>\$12,151,295</b>	<b>\$8,105,601</b>	<b>49.9%</b>

## KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	Fourth Quarter FY 2007	Fourth Quarter FY 2006	% Chg	Year-To-Date FY 2007	Year-To-Date FY 2006	% Chg
<b>TOTAL ROAD FUND</b>	<b>\$335,651,654</b>	<b>\$313,447,801</b>	<b>7.1%</b>	<b>\$1,225,943,515</b>	<b>\$1,165,409,505</b>	<b>5.2%</b>
<b>Tax Receipts-</b>	<b>\$323,445,697</b>	<b>\$304,305,265</b>	<b>6.3%</b>	<b>\$1,186,074,087</b>	<b>\$1,133,247,862</b>	<b>4.7%</b>
<b>Sales and Gross Receipts</b>	<b>\$254,847,368</b>	<b>\$243,329,763</b>	<b>4.7%</b>	<b>\$974,732,028</b>	<b>\$923,879,353</b>	<b>5.5%</b>
Motor Fuels Taxes	139,184,007	128,139,116	8.6%	538,568,693	501,927,927	7.3%
Motor Fuels Use & Surtax	2,716,540	7,943,121	-65.8%	24,600,438	25,982,599	-5.3%
Truck Trip Permits (fuel)	81,520	100,280	-18.7%	310,900	386,200	-19.5%
Motor Vehicle Usage	112,865,301	107,147,246	5.3%	411,251,997	395,582,626	4.0%
<b>License and Privilege</b>	<b>\$68,598,329</b>	<b>\$60,975,502</b>	<b>12.5%</b>	<b>\$211,342,059</b>	<b>\$209,368,509</b>	<b>0.9%</b>
Motor Vehicles	40,832,226	32,495,307	25.7%	101,660,768	93,902,097	8.3%
Motor Vehicle Operators	3,899,567	3,921,580	-0.6%	15,811,880	14,553,623	8.6%
Weight Distance	21,046,159	21,204,983	-0.7%	85,435,610	85,336,610	0.1%
Truck Decal Fees	700,105	755,697	-7.4%	842,239	954,706	-11.8%
Other Special Fees	2,120,271	2,597,935	-18.4%	7,591,561	14,621,473	-48.1%
<b>Nontax Receipts</b>	<b>\$12,112,848</b>	<b>\$8,715,516</b>	<b>39.0%</b>	<b>\$39,469,278</b>	<b>\$30,208,832</b>	<b>30.7%</b>
Departmental Fees	6,445,469	3,364,789	91.6%	17,787,658	15,617,220	13.9%
In Lieu of Traffic Fines	309,095	325,756	-5.1%	1,174,453	1,269,800	-7.5%
Highway Tolls	756	1,619,655	-100.0%	3,717,965	6,296,786	-41.0%
Investment Income	5,089,277	3,234,249	57.4%	16,094,719	6,372,788	152.6%
Miscellaneous	268,250	171,067	56.8%	694,483	652,239	6.5%
<b>Redeposit of State Funds</b>	<b>\$93,110</b>	<b>\$427,019</b>	<b>-78.2%</b>	<b>\$400,150</b>	<b>\$1,952,811</b>	<b>-79.5%</b>

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**APPENDIX B**  
*Summary Statistics for General and Road Funds*  
*FY98- FY07*

**SUMMARY STATISTICS FOR GENERAL FUND  
MAJOR REVENUE SOURCES - FISCAL YEARS 1998-2007**

	FY98	FY99	FY00	FY01	FY02
<b>TOTAL GENERAL FUND</b>	<b>6,011,806,562</b>	<b>6,198,387,526</b>	<b>6,478,385,032</b>	<b>6,653,897,653</b>	<b>6,560,216,551</b>
<b>Tax Receipts</b>	<b>5,722,452,611</b>	<b>5,917,216,646</b>	<b>6,200,475,504</b>	<b>6,377,917,219</b>	<b>6,292,004,457</b>
<b>Sales and Gross Receipts</b>	<b>2,155,185,940</b>	<b>2,263,517,959</b>	<b>2,356,212,660</b>	<b>2,435,481,566</b>	<b>2,497,020,953</b>
Beer Consumption	6,149,889	6,258,224	6,284,242	6,272,031	6,286,734
Beer Wholesale	29,787,991	30,612,099	32,101,648	32,582,889	34,596,592
Cigarette <sup>1</sup>	15,130,443	14,673,839	14,184,888	14,007,582	13,943,208
Cigarette Floor Stock <sup>2</sup>	---	---	---	---	---
Distilled Spirits Case Sales	79,121	78,333	82,871	82,529	81,922
Distilled Spirits Consumption	7,926,002	7,955,925	8,211,541	8,184,798	8,266,005
Distilled Spirits Wholesale	12,974,726	13,398,478	14,055,368	14,809,730	15,129,146
Insurance Premium	90,231,192	90,171,779	95,355,564	96,825,818	105,102,951
Pari-Mutuel	4,845,922	7,179,163	6,645,098	6,182,083	5,179,952
Race Track Admission	211,759	241,307	220,824	216,615	260,232
Sales and Use	1,981,297,580	2,085,899,677	2,171,397,969	2,248,471,100	2,299,990,621
Wine Consumption	1,615,634	1,625,711	1,748,839	1,743,393	1,786,984
Wine Wholesale	4,935,682	5,423,425	5,923,809	6,102,998	6,396,603
Telecommunications Tax <sup>3</sup>	---	---	---	---	---
Other Tobacco Products <sup>4</sup>	---	---	---	---	---
<b>License and Privilege</b>	<b>338,964,050</b>	<b>349,549,943</b>	<b>364,098,883</b>	<b>373,309,229</b>	<b>356,591,984</b>
Alc. Bev. License & Suspension	549,768	87,800	49,150	193,800	220,800
Coal Severance	163,731,038	154,476,772	145,139,909	141,553,087	160,160,116
Corporation License	112,793,160	125,912,523	139,127,819	147,515,402	117,500,770
Corporation Organization	1,001,719	500,429	369,916	227,655	144,233
Occupational Licenses	92,140	99,658	132,811	107,737	226,609
Oil Production	2,135,212	1,344,942	2,967,395	3,358,036	2,590,722
Race Track License	407,750	395,525	405,500	320,800	37,423
Bank Franchise Tax	35,059,801	47,059,959	53,061,798	49,610,220	50,549,169
Driver License Fees	3,001,375	717,453	475,167	391,939	505,187
Minerals Severance	11,115,009	11,848,098	13,923,246	12,710,667	12,355,174
Natural Gas Severance	9,077,076	7,106,785	8,446,173	17,319,885	12,301,781
<b>Income</b>	<b>2,751,810,830</b>	<b>2,844,072,023</b>	<b>3,008,055,957</b>	<b>3,068,472,461</b>	<b>2,909,863,799</b>
Corporation	333,666,392	312,066,675	306,442,050	289,931,017	207,353,777
Individual	2,418,144,438	2,532,005,348	2,701,613,908	2,778,541,444	2,702,510,022
<b>Property</b>	<b>362,792,504</b>	<b>370,404,549</b>	<b>387,257,800</b>	<b>407,494,858</b>	<b>433,029,587</b>
Bank Deposits	324,856	398,666	433,962	412,646	460,334
Building & Loan Association	4,533,322	3,046,010	2,491,414	2,482,623	2,249,927
Distilled Spirits	389,838	417,610	443,880	360,248	363,410
General - Intangible <sup>5</sup>	21,129,328	18,103,920	22,721,743	22,551,153	23,113,567
General - Real	154,245,454	161,723,137	167,326,472	171,524,695	179,678,050
General - Tangible	125,753,465	125,564,658	130,960,896	140,466,295	151,308,795
Omitted & Delinquent	13,019,424	11,926,947	15,543,134	20,605,462	25,649,592
Public Service	43,528,408	50,461,577	46,882,427	48,883,924	49,991,359
Other	(131,590)	(1,237,976)	453,871	207,812	214,551
<b>Inheritance<sup>6</sup></b>	<b>105,538,130</b>	<b>81,483,083</b>	<b>74,489,981</b>	<b>83,461,499</b>	<b>83,359,872</b>
<b>Miscellaneous</b>	<b>8,161,157</b>	<b>8,189,088</b>	<b>10,360,222</b>	<b>9,697,606</b>	<b>12,138,263</b>
Legal Process	3,468,753	3,568,621	3,457,280	3,597,385	5,263,021
T. V. A. In Lieu Payments	4,646,467	4,586,009	6,842,117	6,046,676	6,814,492
Other	45,937	34,458	60,824	53,545	60,750
<b>Nontax Receipts</b>	<b>284,461,380</b>	<b>272,298,984</b>	<b>271,911,197</b>	<b>266,792,632</b>	<b>260,466,324</b>
Departmental Fees <sup>7</sup>	21,975,158	26,095,000	32,719,509	17,062,102	19,570,116
PSC Assessment Fee <sup>7</sup>	---	---	---	12,598,397	10,455,826
Fines & Forfeitures	40,670,559	45,023,992	46,056,986	40,749,856	40,069,496
Interest on Investments	60,019,607	38,324,530	28,077,454	28,217,850	13,342,627
Lottery	153,000,000	153,800,000	156,300,000	157,030,000	169,000,000
Sale of NOx Credits <sup>8</sup>	---	---	---	---	---
Miscellaneous	8,796,056	9,055,462	8,757,248	11,134,428	8,028,259
<b>Redeposit of State Funds</b>	<b>4,892,572</b>	<b>8,871,896</b>	<b>5,998,332</b>	<b>9,187,802</b>	<b>7,745,769</b>

(Footnotes appear at end of table)

**SUMMARY STATISTICS FOR GENERAL FUND  
MAJOR REVENUE SOURCES - FISCAL YEARS 1998-2007**

	FY03	FY04	FY05	FY06	FY07
<b>TOTAL GENERAL FUND</b>	<b>6,783,458,295</b>	<b>6,977,623,200</b>	<b>7,645,046,634</b>	<b>8,376,083,216</b>	<b>8,573,819,250</b>
<b>Tax Receipts</b>	<b>6,543,157,657</b>	<b>6,686,290,589</b>	<b>7,350,335,469</b>	<b>8,065,347,817</b>	<b>8,233,789,253</b>
<b>Sales and Gross Receipts</b>	<b>2,577,542,870</b>	<b>2,668,210,228</b>	<b>2,838,701,120</b>	<b>3,174,734,842</b>	<b>3,280,448,981</b>
Beer Consumption	6,334,169	6,320,886	6,387,318	6,393,753	6,344,079
Beer Wholesale	35,969,890	37,439,919	37,815,717	45,206,839	46,806,186
Cigarette <sup>1</sup>	16,367,947	17,136,198	24,966,880	172,069,493	168,768,467
Cigarette Floor Stock <sup>2</sup>	---	---	8,701,966	12,089,404	9,746
Distilled Spirits Case Sales	85,601	87,662	92,178	94,806	98,874
Distilled Spirits Consumption	8,680,833	8,985,826	9,190,089	9,900,035	10,094,572
Distilled Spirits Wholesale	16,088,048	16,957,192	18,150,313	23,524,032	25,139,117
Insurance Premium	114,988,790	120,523,955	123,410,091	122,824,056	125,877,984
Pari-Mutuel	5,953,247	3,629,292	4,710,111	5,626,849	5,489,552
Race Track Admission	193,114	232,350	195,068	230,285	190,362
Sales and Use	2,364,182,478	2,447,584,698	2,594,966,373	2,749,765,011	2,817,652,253
Wine Consumption	1,902,818	2,005,265	2,279,162	1,945,945	2,326,331
Wine Wholesale	6,795,936	7,306,985	7,835,853	10,510,955	11,392,111
Telecommunications Tax <sup>3</sup>	---	---	---	14,553,379	51,623,000
Other Tobacco Products <sup>4</sup>	---	---	---	---	8,636,348
<b>License and Privilege</b>	<b>379,857,645</b>	<b>368,122,494</b>	<b>427,823,269</b>	<b>386,264,573</b>	<b>352,829,122</b>
Alc. Bev. License & Suspension	227,850	223,700	237,101	280,450	659,151
Coal Severance	141,664,981	147,498,230	184,436,935	224,490,111	221,952,516
Corporation License	152,595,257	124,096,012	134,149,794	43,516,942	11,734,452
Corporation Organization	190,494	143,804	613,048	221,281	115,755
Occupational Licenses	197,977	223,002	188,761	174,122	207,198
Oil Production	3,116,954	3,387,884	4,710,832	6,386,501	6,198,342
Race Track License	322,825	335,625	324,642	289,258	283,675
Bank Franchise Tax	53,747,906	55,467,195	63,837,587	59,603,147	63,912,315
Driver License Fees	499,003	523,979	522,904	600,903	603,807
Minerals Severance	12,580,912	13,711,874	13,494,541	14,502,342	14,822,013
Natural Gas Severance	14,713,486	22,511,188	25,307,125	36,199,516	32,339,897
<b>Income</b>	<b>3,024,422,738</b>	<b>3,099,593,870</b>	<b>3,514,735,211</b>	<b>3,920,229,525</b>	<b>4,029,600,561</b>
Corporation	278,035,794	303,262,821	478,504,505	1,001,618,543	988,064,957
Individual	2,746,386,944	2,796,331,049	3,036,230,706	2,918,610,982	3,041,535,604
<b>Property</b>	<b>434,768,249</b>	<b>448,765,511</b>	<b>472,596,276</b>	<b>502,510,631</b>	<b>492,462,208</b>
Bank Deposits	456,527	467,711	474,098	505,351	513,619
Building & Loan Association	3,181,373	2,513,083	3,192,911	2,071,523	2,921,484
Distilled Spirits	442,092	375,637	388,612	410,798	506,754
General - Intangible <sup>5</sup>	25,883,197	27,547,183	26,912,813	30,955,124	48,841
General - Real	186,000,177	192,534,530	202,182,555	215,351,439	228,282,174
General - Tangible	149,426,286	149,155,206	159,883,091	165,622,948	192,343,695
Omitted & Delinquent	20,368,623	15,829,225	20,646,846	30,330,629	25,253,460
Public Service	48,836,372	60,178,393	58,787,595	57,259,849	42,588,669
Other	173,603	164,542	127,756	2,970	3,512
<b>Inheritance<sup>6</sup></b>	<b>95,864,480</b>	<b>66,083,705</b>	<b>63,174,866</b>	<b>45,990,266</b>	<b>43,578,107</b>
<b>Miscellaneous</b>	<b>30,701,674</b>	<b>35,514,782</b>	<b>33,304,727</b>	<b>35,617,980</b>	<b>34,870,274</b>
Legal Process	22,994,148	27,322,798	24,696,032	25,118,948	24,759,470
T. V. A. In Lieu Payments	7,660,437	8,146,924	8,559,023	10,248,314	10,037,326
Other	47,090	45,061	49,672	250,719	73,478
<b>Nontax Receipts</b>	<b>233,694,271</b>	<b>280,871,754</b>	<b>286,661,124</b>	<b>302,629,799</b>	<b>327,878,702</b>
Departmental Fees <sup>7</sup>	21,982,797	22,161,022	22,542,182	23,932,336	25,043,719
PSC Assessment Fee <sup>7</sup>	8,702,466	5,389,636	13,568,805	9,041,415	14,593,067
Fines & Forfeitures	28,888,326	27,991,293	25,405,780	26,129,275	26,606,686
Interest on Investments	(7,157,704)	1,017,305	6,950,902	18,681,492	31,991,861
Lottery	171,000,000	173,800,000	161,252,000	190,000,000	186,625,113
Sale of NOx Credits <sup>8</sup>	---	11,836,125	3,696,675	1,126,000	811,600
Miscellaneous	10,278,386	38,676,373	53,244,780	33,719,282	42,206,657
<b>Redeposit of State Funds</b>	<b>6,606,367</b>	<b>10,460,857</b>	<b>8,050,041</b>	<b>8,105,601</b>	<b>12,151,295</b>

(Footnotes appear at end of table)

**GENERAL FUND GROWTH RATES**  
**MAJOR REVENUE SOURCES - FISCAL YEARS 1998-2007**

	FY98	FY99	FY00	FY01	FY02
<b>TOTAL GENERAL FUND</b>	<b>6.1%</b>	<b>3.1%</b>	<b>4.5%</b>	<b>2.7%</b>	<b>-1.4%</b>
<b>Tax Receipts</b>	<b>5.8%</b>	<b>3.4%</b>	<b>4.8%</b>	<b>2.9%</b>	<b>-1.3%</b>
<b>Sales and Gross Receipts</b>	<b>5.0%</b>	<b>5.0%</b>	<b>4.1%</b>	<b>3.4%</b>	<b>2.5%</b>
Beer Consumption	3.7%	1.8%	0.4%	-0.2%	0.2%
Beer Wholesale	3.1%	2.8%	4.9%	1.5%	6.2%
Cigarette <sup>1</sup>	-5.7%	-3.0%	-3.3%	-1.2%	-0.5%
Cigarette Floor Stock <sup>2</sup>	---	---	---	---	---
Distilled Spirits Case Sales	-1.0%	-1.0%	5.8%	-0.4%	-0.7%
Distilled Spirits Consumption	0.6%	0.4%	3.2%	-0.3%	1.0%
Distilled Spirits Wholesale	3.1%	3.3%	4.9%	5.4%	2.2%
Insurance Premium	5.0%	-0.1%	5.7%	1.5%	8.5%
Pari-Mutuel	-18.0%	48.1%	-7.4%	-7.0%	-16.2%
Race Track Admission	2.1%	14.0%	-8.5%	-1.9%	20.1%
Sales and Use	5.2%	5.3%	4.1%	3.5%	2.3%
Wine Consumption	5.0%	0.6%	7.6%	-0.3%	2.5%
Wine Wholesale	8.5%	9.9%	9.2%	3.0%	4.8%
Telecommunications Tax <sup>3</sup>	---	---	---	---	---
Other Tobacco Products <sup>4</sup>	---	---	---	---	---
<b>License and Privilege</b>	<b>-0.5%</b>	<b>3.1%</b>	<b>4.2%</b>	<b>2.5%</b>	<b>-4.5%</b>
Alc. Bev. License Suspension	-72.5%	-84.0%	-44.0%	294.3%	13.9%
Coal Severance	0.1%	-5.7%	-6.0%	-2.5%	13.1%
Corporation License	4.9%	11.6%	10.5%	6.0%	-20.3%
Corporation Organization	217.4%	-50.0%	-26.1%	-38.5%	-36.6%
Occupational Licenses	-26.0%	8.2%	33.3%	-18.9%	110.3%
Oil Production	-29.9%	-37.0%	120.6%	13.2%	-22.9%
Race Track License	-7.0%	-3.0%	2.5%	-20.9%	-88.3%
Bank Franchise Tax	-14.2%	34.2%	12.8%	-6.5%	1.9%
Driver License Fees	9.4%	-76.1%	-33.8%	-17.5%	28.9%
Minerals Severance	6.4%	6.6%	17.5%	-8.7%	-2.8%
Natural Gas Severance	-5.5%	-21.7%	18.8%	105.1%	-29.0%
<b>Income</b>	<b>10.2%</b>	<b>3.4%</b>	<b>5.8%</b>	<b>2.0%</b>	<b>-5.2%</b>
Corporation	14.0%	-6.5%	-1.8%	-5.4%	-28.5%
Individual	9.7%	4.7%	6.7%	2.8%	-2.7%
<b>Property</b>	<b>-12.6%</b>	<b>2.1%</b>	<b>4.5%</b>	<b>5.2%</b>	<b>6.3%</b>
Bank Deposits	-46.9%	22.7%	8.9%	-4.9%	11.6%
Building & Loan Association	-21.8%	-32.8%	-18.2%	-0.4%	-9.4%
Distilled Spirits	-0.2%	7.1%	6.3%	-18.8%	0.9%
General - Intangible <sup>5</sup>	-54.7%	-14.3%	25.5%	-0.8%	2.5%
General - Real	-9.3%	4.8%	3.5%	2.5%	4.8%
General - Tangible	0.9%	-0.2%	4.3%	7.3%	7.7%
Omitted & Delinquent	-13.8%	-8.4%	30.3%	32.6%	24.5%
Public Service	-12.8%	15.9%	-7.1%	4.3%	2.3%
Other	-107.7%	840.8%	---	---	3.2%
<b>Inheritance<sup>6</sup></b>	<b>10.8%</b>	<b>-22.8%</b>	<b>-8.6%</b>	<b>12.0%</b>	<b>-0.1%</b>
<b>Miscellaneous</b>	<b>1.4%</b>	<b>0.3%</b>	<b>26.5%</b>	<b>-6.4%</b>	<b>25.2%</b>
Legal Process	3.8%	2.9%	-3.1%	4.1%	46.3%
T. V. A. In Lieu Payments	2.1%	-1.3%	49.2%	-11.6%	12.7%
Other	-70.2%	-25.0%	76.5%	-12.0%	13.5%
<b>Nontax Receipts</b>	<b>12.7%</b>	<b>-4.3%</b>	<b>-0.1%</b>	<b>-1.9%</b>	<b>-2.4%</b>
Departmental Fees <sup>7</sup>	-2.7%	18.7%	25.4%	-9.3%	14.7%
PSC Assessment Fee <sup>7</sup>					-17.0%
Fines & Forfeitures	4.5%	10.7%	2.3%	-11.5%	-1.7%
Interest on Investments	93.8%	-36.1%	-26.7%	0.5%	-52.7%
Lottery	1.3%	0.5%	1.6%	0.5%	7.6%
Sale of NOx Credits <sup>8</sup>	---	---	---	---	---
Miscellaneous	-1.3%	2.9%	-3.3%	27.1%	-27.9%
<b>Redeposit of State Funds</b>	<b>108.6%</b>	<b>81.3%</b>	<b>-32.4%</b>	<b>53.2%</b>	<b>-15.7%</b>

(Footnotes appear at end of table)

**GENERAL FUND GROWTH RATES**  
**MAJOR REVENUE SOURCES - FISCAL YEARS 1998-2007**

	FY03	FY04	FY05	FY06	FY07
<b>TOTAL GENERAL FUND</b>	<b>3.4%</b>	<b>2.9%</b>	<b>9.6%</b>	<b>9.6%</b>	<b>2.4%</b>
<b>Tax Receipts</b>	<b>4.0%</b>	<b>2.2%</b>	<b>9.9%</b>	<b>9.7%</b>	<b>2.1%</b>
<b>Sales and Gross Receipts</b>	<b>3.2%</b>	<b>3.5%</b>	<b>6.4%</b>	<b>11.8%</b>	<b>3.3%</b>
Beer Consumption	0.8%	-0.2%	1.1%	0.1%	-0.8%
Beer Wholesale	4.0%	4.1%	1.0%	19.5%	3.5%
Cigarette <sup>1</sup>	17.4%	4.7%	45.7%	589.2%	1.8%
Cigarette Floor Stock <sup>2</sup>	---	---	---	40.0%	-99.9%
Distilled Spirits Case Sales	4.5%	2.4%	<b>5.2%</b>	2.9%	4.3%
Distilled Spirits Consumption	5.0%	3.5%	2.3%	7.7%	2.0%
Distilled Spirits Wholesale	6.3%	5.4%	7.0%	29.6%	6.9%
Insurance Premium	9.4%	4.8%	2.4%	-0.5%	2.5%
Pari-Mutuel	14.9%	-39.0%	29.8%	19.5%	-2.4%
Race Track Admission	-25.8%	20.3%	-16.0%	18.1%	-17.3%
Sales and Use	2.8%	3.5%	6.0%	6.0%	2.5%
Wine Consumption	6.5%	5.4%	13.7%	-14.6%	19.5%
Wine Wholesale	6.2%	7.5%	7.2%	34.1%	8.4%
Telecommunications Tax <sup>3</sup>	---	---	---	---	254.7%
Other Tobacco Products <sup>4</sup>	---	---	---	---	37.3%
<b>License and Privilege</b>	<b>6.5%</b>	<b>-3.1%</b>	<b>16.2%</b>	<b>-9.7%</b>	<b>-8.7%</b>
Alc. Bev. License Suspension	3.2%	-1.8%	6.0%	18.3%	135.0%
Coal Severance	-11.5%	4.1%	25.0%	21.7%	-1.1%
Corporation License	29.9%	-18.7%	8.1%	-67.6%	-73.0%
Corporation Organization	32.1%	-24.5%	326.3%	-63.9%	-47.7%
Occupational Licenses	-12.6%	12.6%	-15.4%	-7.8%	19.0%
Oil Production	20.3%	8.7%	39.0%	35.6%	-2.9%
Race Track License	762.6%	4.0%	-3.3%	-10.9%	-1.9%
Bank Franchise Tax	6.3%	3.2%	15.1%	-6.6%	7.2%
Driver License Fees	-1.2%	5.0%	-0.2%	14.9%	0.5%
Minerals Severance	1.8%	9.0%	-1.6%	7.5%	2.2%
Natural Gas Severance	19.6%	53.0%	12.4%	43.0%	-10.7%
<b>Income</b>	<b>3.9%</b>	<b>2.5%</b>	<b>13.4%</b>	<b>11.5%</b>	<b>2.8%</b>
Corporation	34.1%	9.1%	57.8%	109.3%	-1.4%
Individual	1.6%	1.8%	8.6%	-3.9%	4.2%
<b>Property</b>	<b>0.4%</b>	<b>3.2%</b>	<b>5.3%</b>	<b>6.3%</b>	<b>-2.0%</b>
Bank Deposits	-0.8%	2.4%	1.4%	6.6%	1.6%
Building & Loan Association	41.4%	-21.0%	27.1%	-35.1%	41.0%
Distilled Spirits	21.7%	-15.0%	3.5%	5.7%	23.4%
General - Intangible <sup>5</sup>	12.0%	6.4%	-2.3%	15.0%	-99.8%
General - Real	3.5%	3.5%	5.0%	6.5%	6.0%
General - Tangible	-1.2%	-0.2%	7.2%	3.6%	16.1%
Omitted & Delinquent	-20.6%	-22.3%	30.4%	46.9%	-16.7%
Public Service	-2.3%	23.2%	-2.3%	-2.6%	-25.6%
Other	-19.1%	-5.2%	-22.4%	-97.7%	18.2%
<b>Inheritance<sup>6</sup></b>	<b>15.0%</b>	<b>-31.1%</b>	<b>-4.4%</b>	<b>-27.2%</b>	<b>-5.2%</b>
<b>Miscellaneous</b>	<b>152.9%</b>	<b>15.7%</b>	<b>-6.2%</b>	<b>6.9%</b>	<b>-2.1%</b>
Legal Process	336.9%	18.8%	-9.6%	1.7%	-1.4%
T. V. A. In Lieu Payments	12.4%	6.4%	5.1%	19.7%	-2.1%
Other	-22.5%	-4.3%	10.2%	404.7%	-70.7%
<b>Nontax Receipts</b>	<b>-10.3%</b>	<b>20.2%</b>	<b>2.1%</b>	<b>5.6%</b>	<b>8.3%</b>
Departmental Fees <sup>7</sup>	12.3%	0.8%	1.7%	6.2%	4.6%
PSC Assessment Fee <sup>7</sup>	-16.8%	-38.1%	151.8%	-33.4%	61.4%
Fines & Forfeitures	-27.9%	-3.1%	-9.2%	2.8%	1.8%
Interest on Investments	---	---	583.3%	168.8%	71.2%
Lottery	1.2%	1.6%	-7.2%	17.8%	-1.8%
Sale of NOx Credits <sup>8</sup>	---	---	-68.8%	-68.6%	-27.9%
Miscellaneous	28.0%	276.3%	37.7%	-36.7%	25.2%
<b>Redeposit of State Funds</b>	<b>-14.7%</b>	<b>58.3%</b>	<b>-23.0%</b>	<b>0.2%</b>	<b>49.9%</b>

(Footnotes appear at end of tables)

**SUMMARY STATISTICS FOR ROAD FUND  
MAJOR REVENUE SOURCES - FISCAL YEARS 1998-2007**

	FY98	FY99	FY00	FY01	FY02
<b>TOTAL STATE ROAD FUND</b>	<b>1,011,789,674</b>	<b>1,056,596,153</b>	<b>1,090,777,822</b>	<b>1,064,181,565</b>	<b>1,119,005,317</b>
<b>Tax Receipts-</b>	<b>942,129,035</b>	<b>991,641,312</b>	<b>1,031,467,147</b>	<b>992,142,884</b>	<b>1,052,848,911</b>
<b>Sales and Gross Receipts</b>	<b>780,911,374</b>	<b>820,802,014</b>	<b>849,700,352</b>	<b>821,552,966</b>	<b>873,623,010</b>
Motor Fuels Taxes	396,123,781	427,848,100	423,876,351	408,801,115	429,812,296
Motor Fuels Use & Surtax	17,473,744	16,853,163	15,905,613	15,492,738	14,124,035
Truck Trip Permits (fuel)	521,868	441,870	451,689	447,020	383,460
Motor Vehicle Usage	366,791,982	375,658,882	409,466,699	396,812,093	429,303,220
<b>License and Privilege</b>	<b>161,217,661</b>	<b>170,839,298</b>	<b>181,766,795</b>	<b>170,589,918</b>	<b>179,225,901</b>
Motor Vehicles	74,397,814	80,133,334	85,623,787	76,861,958	84,510,332
Motor Vehicle Operators	5,610,817	5,400,685	5,689,329	5,592,769	5,564,009
Weight Distance	66,665,457	70,155,867	75,144,201	75,170,141	75,265,639
Truck Decal Fees	808,104	822,074	738,342	727,675	807,089
Other Special Fees	13,735,469	14,327,339	14,571,136	12,237,376	13,078,832
<b>Nontax Receipts</b>	<b>69,349,054</b>	<b>64,340,643</b>	<b>58,580,537</b>	<b>69,204,781</b>	<b>64,071,745</b>
Departmental Fees	12,026,690	12,949,131	13,184,983	13,772,863	15,137,452
In Lieu of Traffic Fines	1,344,786	1,575,742	1,662,261	2,005,215	1,960,687
Highway Tolls	12,998,548	13,342,667	13,474,101	12,410,901	13,785,486
Investment Income	41,950,532	35,588,653	29,418,349	40,187,239	32,156,652
<b>Redeposit of State Funds</b>	<b>311,586</b>	<b>614,199</b>	<b>730,138</b>	<b>2,833,900</b>	<b>2,084,661</b>

(Footnotes appear at end of table)

	FY03	FY04	FY05	FY06	FY07
<b>TOTAL STATE ROAD FUND</b>	<b>1,123,103,133</b>	<b>1,116,734,272</b>	<b>1,126,554,402</b>	<b>1,165,409,505</b>	<b>1,225,943,515</b>
<b>Tax Receipts-</b>	<b>1,059,296,184</b>	<b>1,082,189,464</b>	<b>1,094,354,041</b>	<b>1,133,247,862</b>	<b>1,186,074,087</b>
<b>Sales and Gross Receipts</b>	<b>886,809,027</b>	<b>889,251,190</b>	<b>898,340,426</b>	<b>923,879,353</b>	<b>974,732,028</b>
Motor Fuels Taxes	438,564,438	441,382,996	469,621,779	501,927,927	538,568,693
Motor Fuels Use & Surtax	14,969,884	18,185,947	20,748,200	25,982,599	24,600,438
Truck Trip Permits (fuel)	371,406	439,720	445,085	386,200	310,900
Motor Vehicle Usage	432,903,299	429,242,527	407,525,361	395,582,626	411,251,997
<b>License and Privilege</b>	<b>172,487,157</b>	<b>192,938,274</b>	<b>196,013,615</b>	<b>209,368,509</b>	<b>211,342,059</b>
Motor Vehicles	76,192,363	93,388,573	91,933,157	93,902,097	101,660,768
Motor Vehicle Operators	5,610,829	5,623,874	5,899,247	14,553,623	15,811,880
Weight Distance	76,851,211	79,574,022	83,069,296	85,336,610	85,435,610
Truck Decal Fees	673,481	725,403	1,041,912	954,706	842,239
Other Special Fees	13,159,273	13,626,402	14,070,003	14,621,473	7,591,561
<b>Nontax Receipts</b>	<b>62,789,372</b>	<b>32,932,009</b>	<b>30,432,049</b>	<b>30,208,832</b>	<b>39,469,278</b>
Departmental Fees	18,430,002	15,258,391	16,685,742	15,617,220	17,787,658
In Lieu of Traffic Fines	1,374,668	1,521,583	1,326,645	1,269,800	1,174,453
Highway Tolls	13,263,429	7,958,452	6,299,049	6,296,786	3,717,965
Investment Income	29,115,311	7,507,462	5,524,646	6,372,788	16,094,719
<b>Redeposit of State Funds</b>	<b>1,017,577</b>	<b>1,612,799</b>	<b>1,768,312</b>	<b>1,952,811</b>	<b>400,150</b>

(Footnotes appear at end of table)

**ROAD FUND GROWTH RATES  
MAJOR REVENUE SOURCES - FISCAL YEARS 1998-2007**

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
<b>TOTAL STATE ROAD FUND</b>	<b>5.4%</b>	<b>4.4%</b>	<b>3.2%</b>	<b>-2.4%</b>	<b>5.2%</b>
<b>Tax Receipts-</b>	<b>4.5%</b>	<b>5.3%</b>	<b>4.0%</b>	<b>-3.8%</b>	<b>6.1%</b>
<b>Sales and Gross Receipts</b>	<b>4.4%</b>	<b>5.1%</b>	<b>3.5%</b>	<b>-3.3%</b>	<b>6.3%</b>
Motor Fuels Taxes	1.4%	8.0%	-0.9%	-3.6%	5.1%
Motor Fuels Use & Surtax	14.1%	-3.6%	-5.6%	-2.6%	-8.8%
Truck Trip Permits (fuel)	6.0%	-15.3%	2.2%	-1.0%	-14.2%
Motor Vehicle Usage	7.4%	2.4%	9.0%	-3.1%	8.2%
<b>License and Privilege</b>	<b>5.2%</b>	<b>6.0%</b>	<b>6.9%</b>	<b>-6.8%</b>	<b>5.1%</b>
Motor Vehicles	4.3%	7.7%	7.7%	-10.6%	10.0%
Motor Vehicle Operators	4.8%	-3.7%	5.3%	-1.7%	-0.5%
Weight Distance	5.7%	5.2%	7.1%	0.0%	0.1%
Truck Decal Fees	-1.3%	1.7%	-10.2%	-1.4%	10.9%
Other Special Fees	8.5%	4.3%	1.7%	-16.0%	6.9%
<b>Nontax Receipts</b>	<b>17.9%</b>	<b>-7.2%</b>	<b>-9.0%</b>	<b>18.1%</b>	<b>-7.4%</b>
Departmental Fees	8.4%	7.7%	1.8%	4.5%	9.9%
In Lieu of Traffic Fines	7.1%	17.2%	5.5%	20.6%	-2.2%
Highway Tolls	3.3%	2.6%	1.0%	-7.9%	11.1%
Investment Income	31.8%	-15.2%	-17.3%	36.6%	-20.0%
Miscellaneous	-49.2%	-14.0%	-4.9%	-1.5%	24.5%
<b>Redeposit of State Funds</b>	<b>97.9%</b>	<b>97.1%</b>	<b>18.9%</b>	<b>288.1%</b>	<b>-26.4%</b>

(Footnotes appear at end of tables)

	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>
<b>TOTAL STATE ROAD FUND</b>	<b>0.4%</b>	<b>-0.6%</b>	<b>0.9%</b>	<b>3.4%</b>	<b>5.2%</b>
<b>Tax Receipts-</b>	<b>0.6%</b>	<b>2.2%</b>	<b>1.1%</b>	<b>3.6%</b>	<b>4.7%</b>
<b>Sales and Gross Receipts</b>	<b>1.5%</b>	<b>0.3%</b>	<b>1.0%</b>	<b>2.8%</b>	<b>5.5%</b>
Motor Fuels Taxes	2.0%	0.6%	6.4%	6.9%	7.3%
Motor Fuels Use & Surtax	6.0%	21.5%	14.1%	25.2%	-5.3%
Truck Trip Permits (fuel)	-3.1%	18.4%	1.2%	-13.2%	-19.5%
Motor Vehicle Usage	0.8%	-0.8%	-5.1%	-2.9%	4.0%
<b>License and Privilege</b>	<b>-3.8%</b>	<b>11.9%</b>	<b>1.6%</b>	<b>6.8%</b>	<b>0.9%</b>
Motor Vehicles	-9.8%	22.6%	-1.6%	2.1%	8.3%
Motor Vehicle Operators	0.8%	0.2%	4.9%	146.7%	8.6%
Weight Distance	2.1%	3.5%	4.4%	2.7%	0.1%
Truck Decal Fees	-16.6%	7.7%	43.6%	-8.4%	-11.8%
Other Special Fees	0.6%	3.5%	3.3%	3.9%	-48.1%
<b>Nontax Receipts</b>	<b>-2.0%</b>	<b>-47.6%</b>	<b>-7.6%</b>	<b>-0.7%</b>	<b>30.7%</b>
Departmental Fees	21.8%	-17.2%	9.4%	-6.4%	13.9%
In Lieu of Traffic Fines	-29.9%	10.7%	-12.8%	-4.3%	-7.5%
Highway Tolls	-3.8%	-40.0%	-20.9%	0.0%	-41.0%
Investment Income	-9.5%	-74.2%	-26.4%	15.4%	152.6%
Miscellaneous	-41.3%	13.2%	-13.1%	9.4%	6.5%
<b>Redeposit of State Funds</b>	<b>-51.2%</b>	<b>58.5%</b>	<b>9.6%</b>	<b>10.4%</b>	<b>-79.5%</b>

(Footnotes appear at end of tables)

## Footnotes to Appendix B

- <sup>1</sup> Prior to June 1, 2005, the cigarette tax was composed of a 3-cent excise tax per pack, divided into the General Fund which receives 2.5 cents and 0.5 cents is dedicated to the Tobacco Research Trust Fund. On June 1, 2005, a surtax of 26 cents per pack, and a one-cent per pack tax dedicated to cancer research became effective. The 26-cent tax all flows to the General Fund, while the other one-cent tax is not included in General Fund revenues.
- <sup>2</sup> The cigarette floor stock tax was a one-time tax levied on cigarettes in inventory of wholesalers and retailers as of midnight, May 31, 2005.
- <sup>3</sup> The telecommunications tax became effective January 1, 2006, and is composed of three separate taxes. An excise tax of three percent is applied to cable and direct broadcast satellite (DBS) charges. In addition, an internal gross receipts tax is levied on cable and DBS providers at a rate of 2.4 percent of gross receipts, and on telephone service providers at a rate of 1.3 percent of gross receipts.
- <sup>4</sup> Other tobacco products were subjected to a tax based either on value or weight effective August 1, 2005. For more information please refer to KRS 138.140.
- <sup>5</sup> Taxes on most categories of intangible property not already exempted were removed for property held after December 31, 2005.
- <sup>6</sup> Phase-in of Class A beneficiary exemption began July 1, 1995. The phase-in period ended for deaths occurring after June 30, 1998. In 2001, the federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) phased out the federal estate tax, which affected Kentucky inheritance and estate tax receipts through the "pick up" tax.
- <sup>7</sup> Prior to FY03, PSC Assessment was included in Departmental Fees.
- <sup>8</sup> The sale of NOx credits was authorized beginning in FY04.