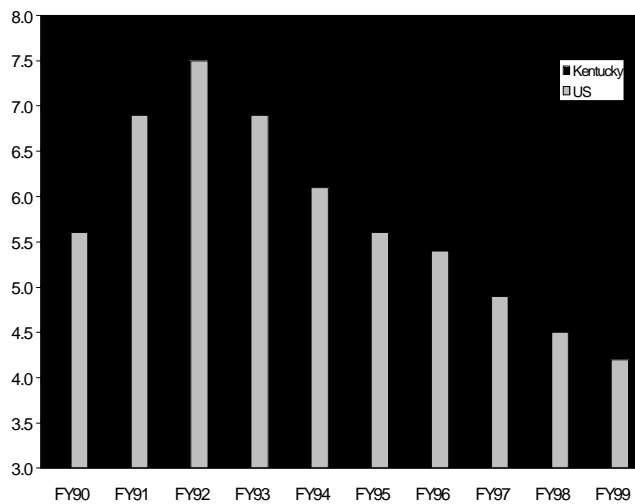


# Kentucky's Economy

## Summary

Kentucky's economy has expanded rapidly over much of the 1990s. The annual average unemployment rate has fallen from 7.5 to 4.2 percent between 1991 and 1999. We have shared in the growth attributed to the "new" economy. However, budgetary demands seem to outpace the revenue stream from the fast growing economy. Among the factors contributing to the budget constraints are: a series of tax reductions enacted over the last five years, flat growth in some taxes, spending on services outpacing spending on goods and budgetary commitments made in prior years which have a first call on new revenue.

**Unemployment Rates in Kentucky and the U.S.**



## INTRODUCTION

A fundamental economic change has been underway for almost a decade. It has been characterized by an increasing reliance on information technology, a rapid growth in prosperity, and a radical departure from some long-held economic tenets. The future prosperity of Kentucky depends on how well we avail the opportunities offered to us in this new economy.

Both the national and Kentucky economies seem to have entered an era of higher growth, low unemployment and low inflation. The twin forces of globalization and technology (especially information technology) seem to be one of the key drivers of this new economy. A strong dollar and falling commodity prices first started the current era of economic growth in the mid-1990s. Both of these factors dampened price pressure, and increased consumer confidence. Concurrently, a major structural change took place in both the workplace and increasingly at home. Computers had started making inroads in both the academic and business world in the early 1980s. By

the 1990s, the decade-long investment in high tech had begun to pay off in terms of increased productivity and the start of a new high tech knowledge-based era of change akin to the industrial revolution of the 18<sup>th</sup> century.

The creation of this knowledge-based economy and the rise of new industries have resulted in the creation of new jobs. New technology and new ways of organizing work have transformed many existing jobs.

The following pages explore the changes in the Kentucky economy and address the reason why, in spite of a strong economy, we face a tight budget.

## THE KENTUCKY ECONOMY

Kentucky finished the year with an unemployment rate of 3.7 percent—a phenomenon last seen in the 1960s. The US economy also showed overall strength with real gross domestic product (GDP) growth of 4.0 percent in FY99. Both economies are not only at their best in thirty years, but are somewhat better off. Low unemployment in 1969 came with a slight cost: an inflation rate of 4.6 percent, and a military build-up in Vietnam accompanied by domestic social unrest. Now, however, inflation is 1.7 percent, the military has been downsized, and the unrest has been relegated to the history books.

## Income

Kentucky's personal income is estimated to have grown at par with the nation in FY99. Although current data indicates that Kentucky's personal income grew by just 3.7 percent in FY99 compared to the US average of 6.0 percent, this is an anomaly caused by a mismatch in data. (In October 1999 the Bureau of Economic Analysis, an agency of the US government, redefined some income concepts and revised national data substantially. However, state data is still unchanged. Once Kentucky's data is revised in late January 2000, the income gap is expected to close.)

Personal income is the broadest measure of a state's economic performance. It is an important indicator of the well being of Kentucky's residents. Total personal income grew by an annual average of 5.2 percent between FY91 and FY99, compared to 5.6 percent for the US. (Again, it is expected that the Kentucky average will be at par with the nation after the data has been fully revised.) Total personal income is forecasted to reach \$99.4 billion by FY02 compared to \$85.6 billion in FY99. This represents an annual average growth rate of 5.0 percent. The slightly scaled-down growth factor (when compared to growth in the past eight years) is a consequence of the slightly lower expected inflation rate of about 2.3 percent, compared to 2.6 percent inflation since 1991.

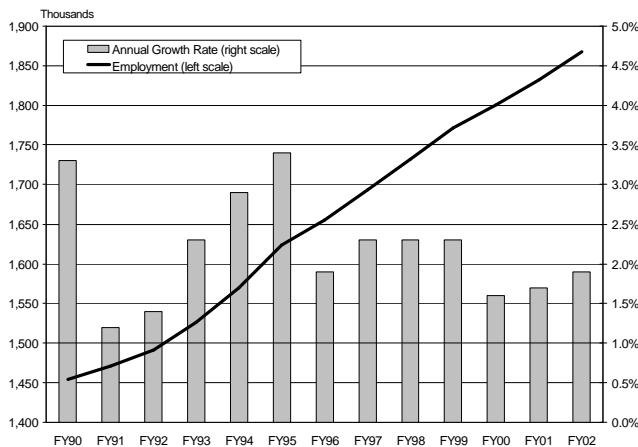
## Employment

The beginning of this economic expansion began in March 1991. We entered this business cycle with an unemployment rate of 7.5 percent in 1991, compared to the national average of 6.9 percent. Now, in 1999, the Kentucky annual average unemployment rate is at par with the nation at 4.2 percent.

Kentucky's employment base, as measured by nonagricultural employment, grew by a strong 2.3 percent in FY99. The average annual growth rate for the last eight years was also 2.3 percent compared to 2.0 percent nationally. This robust growth occurred in spite of warnings of a slowdown resulting from the Asian crisis in 1997 and 1998. Then, when neither the Kentucky nor the US economies experienced a slowdown, the warnings continued but now were to the effect that too rapid growth would cause an overheating that could trigger wage inflation. Neither of these events has caused Kentucky's employment growth to slow.

Over the expansion period (1991 to 1999) an estimated 299,800 jobs were added to bring nonagricultural employment to 1,771,400. In FY99 alone, nonagricultural employment grew by 39,500 jobs. Growth in the next three years is expected to result in nonagricultural employment increasing to 1,867,600. This translates to an additional 96,200 jobs over a three-year period.

**Kentucky Nonagricultural Employment**



## Manufacturing

Kentucky's 18.0 percent of all nonagricultural jobs are in manufacturing compared to 14.3 percent for the U.S. This has been a boon to the state especially with the steady expansion of the transportation equipment sector led by Ford and Toyota. With the steady rise in personal income and an appetite for goods fueled by low interest rates, the durable goods sector has grown rapidly since the beginning of the current economic expansion in March 1991. According to the most recent data, the transportation

equipment sector grew by 4.8 percent in the first half of FY00 compared to the same period a year ago.

A fortuitous set of circumstances, including low labor and utility costs, has caused employment in the durable-goods manufacturing sector to grow by an astonishing 25 percent during the last eight years, compared to a mere 2.0 percent growth nationally. This trend is expected to continue albeit dampened due to external factors like the recovery of the Asian economies. Employment in the durable-goods sector is forecasted to grow by 2.1 percent in the current year followed by a stronger growth rate of 2.3 percent annually in FY01 and FY02.

The nondurable-goods sector in Kentucky has taken a drubbing with a substantial loss of jobs in the apparel and textile sector in the last three years. Overall job loss in nondurables is expected to continue through FY00 with a decline of 4.4 percent. As a consequence, manufacturing jobs as a whole, i.e., the combination of durable and nondurable goods, is forecasted to decline by 0.5 percent in FY00 and FY01, with positive growth in FY02.

## Service and Transportation

The service and the transportation, communications, and public utilities (TCPU) sectors are all forecasted to show strong growth in the next few years.

Services added a total of 16,800 jobs in FY99 compared to a growth of just 600 jobs in manufacturing. It must be recognized that the modern services sector cannot be dismissed as the creator of fast food jobs. (In fact, fast food employment falls in the retail trade sector, and not in services.) In Kentucky over one-fifth of services jobs are in business services including computer-related jobs, and another 35 percent of the jobs are in health services. Both these sectors expanded strongly in FY99 with gains of 4.1 percent in business services and 2.5 percent in health services. We believe the service sector will continue to grow strongly with rates of 2.6 percent in FY00, followed by 4.6 and 5.0 percent in FY01 and FY02.

Within TCPU, the largest gain continues to be in the area of air transportation. This sector posted a gain of 4.8 percent in FY99 with the addition of 1,300 jobs. Much of the growth is associated with the continued expansion of the UPS hub in Louisville, and both the Delta Air Lines and Comair hubs in northern Kentucky. The forecast calls for the continued growth of this sector with employment growth averaging 3.4 percent over each of the next three years.

## TRANSITION INTO THE NEW ECONOMY

In order to expand and participate in the new economy, Kentucky's labor force has had to restructure itself. Thirty years ago, before the era of high inflation and

high energy prices, both Kentucky and the US had an employment mix that favored the manufacturing sector. About 28.1 percent of Kentucky's nonagricultural employment was in manufacturing and 14.9 percent was in the service sector. The national figures were 27.3 percent manufacturing and 16.3 percent services. Higher energy prices and increased globalization changed the competitive advantage the US enjoyed in the old-style manufacturing economy. Nationally, by 1999 the employment percentage in manufacturing had dropped to 14.3 percent and doubled in services to 30.3 percent. The restructuring affected Kentucky, as well (see table), but not as dramatically. Our lower wage and lower utility cost advantage has allowed us to continue to attract certain manufacturing sectors as we enter the new knowledge-based economy.

### TIGHT BUDGET DESPITE A STRONG ECONOMY

A robust economy is usually associated with an increasing revenue stream. Both the individual income tax and the sales tax have combined elasticities that average one. The implication is that as incomes increase, revenue from these two taxes increases at about the same rate. If budgetary demands grow in proportion to the economy, the budget is said to have structural balance. However, a series of factors have contributed to a structural imbalance.

Revenue growth has slowed down relative to growth in the economy due to:

- A series of tax reductions in both the General Fund and in other revenue sources over the last five years. The total reduction in General Fund for FY99 was 3.0 percent, and is expected to be higher still in FY00. The total tax reduction for FY99 is estimated to be more than \$260 million. These include:
  - Elimination of the inheritance tax;
  - Elimination of income tax on pension income;
  - Elimination of the provider tax on physicians;
  - Doubled standard deduction on personal income tax;
  - Reduction of property tax on vehicles;
  - Elimination of the intangible tax on stocks.
- Several taxes which had shown promising growth in the past have flattened out:
  - Lottery revenue has slowed down as the market has matured and the lottery faces increasing out-of-state competition from other forms of gambling;
  - The property tax is constrained by the limits imposed on real property tax by HB 44 enacted in 1970;

- The corporation income tax is currently 5 percent of the General Fund, whereas ten years ago it was almost 8 percent;
- The cigarette tax has declined not so much due to change in the consumption pattern, but because the tax has remained at 3.0 cents per pack for almost thirty years. When it was first enacted a packet of cigarette was about 25 cents, and the tax was effectively 14 percent. Now with a pack at \$2.50, the effective rate has dropped to 1.4 percent.
- Both the decline in coal production and the drop in prices have eroded the coal severance tax.

- A change in buying habits has resulted in the erosion of the sales and use tax. When enacted, the tax was levied on tangible goods. However, the consumption of services has become an increasing part of consumer expenditures. These typically go untaxed. Moreover, the taxable goods are no longer purchased just at the local retail merchant on Main Street. Remote sales in the form of both internet and catalog sales have increased rapidly in the last few years and are expected to increase exponentially in the near future. In 1997 internet sales in Kentucky are estimated to have been just \$25.9 million. By 1999 this figure is estimated to have grown to \$120.8 million, and is expected to amount to \$647.7 million by 2003. Catalog sales in Kentucky for 1999 are estimated at \$753.7 million and are forecasted to increase to \$966.8 million by 2003.<sup>1</sup>

It has been estimated that by 2001 the loss to the sales and use tax base from just internet sales could be as high as \$18.4 million. By 2003, this would have ballooned to \$46.4 billion.<sup>2</sup> The loss from mail order sales is expected to be much higher.

Finally, a series of long-term infrastructure investments were made in 1998 to enable the state to not only bolster current programs but to lay the foundation for the future. Among these programs are:

- The Kentucky Educational Excellence Scholarship (KEES) program. The scholarship allows qualified students to attend participating public or private institutions in Kentucky, including community and technical colleges.
- A series of construction projects for Kentucky's post-secondary institutes ranging from general maintenance to research laboratories.

<sup>1</sup> *Economic Impact: U.S. Direct Marketing Today, 1998.* Commissioned by the Direct Marketing Association, conducted by the WEFA Group.  
<sup>2</sup> *Collecting Taxes in the Cyberspace: How Online Purchases Could Affect Revenue Collections.* The Kentucky Long-Term Policy Research Center, 1999.

**Tax Reduction Measures**  
(millions of dollars)

	FY96	FY97	FY98	FY99	Total
<b>Income and Inheritance Taxes</b>					
Private pension & IRA exemption	-27.1	-45.3	-63.5	-72.7	-208.6
Inheritance tax exemption	-	-6.0	-21.0	-33.6	-60.6
Standard deduction increased to \$1,700	-	-4.2	-13.8	-24.9	-42.9
<b>Health Related Taxes</b>					
Deduction for long term care (reduces income tax)	-	-	-	-1.5	-1.5
<b>Automobile Taxes</b>					
Marcum: Property tax on automobiles	-	-9.5	-9.8	-10.3	-29.6
Automobile property tax cut	-	-	-4.0	-8.0	-12.0
<b>Agriculture Taxes</b>					
Sales tax exemption for farm fuel	-	-	-	-1.0	-1.0
<b>Business Taxes</b>					
Investment Fund & Training (reduces income tax)	-	-	-	-1.0	-1.0
St. Ledger: Equal treatment of stock	-	-1.0	-31.0	-32.6	-64.6
Bank Franchise Tax: method changed	-	-	-	-2.0	-2.0
<b>Total General Fund Taxes</b>	<b>-27.1</b>	<b>-66.0</b>	<b>-143.1</b>	<b>-187.6</b>	<b>-423.8</b>
<b>% of Base General Fund</b>	<b>0.5%</b>	<b>1.2%</b>	<b>2.4%</b>	<b>3.0%</b>	
<b>Non-General Fund</b>					
Provider tax exemption on physicians	-	-10.0	-20.6	-30.9	-61.5
Reduce taxable value of motor vehicles (use tax)	-	-	-	-6.8	-6.8
Local govt component of auto property taxes		-19.0	-27.6	-36.6	-83.2
<b>TOTAL TAXES</b>	<b>-27.1</b>	<b>-95.0</b>	<b>-191.3</b>	<b>-261.8</b>	<b>-575.2</b>

## Notes on Tax Reduction Measures

### Income Tax and Inheritance

Private pension & IRA exemption	Individual income tax exclusion of private pensions and IRAs up to a maximum of \$35,000. Indexes the maximum exclusion based on the consumer price index.
Inheritance tax exemption	Provides for exclusion of Class A beneficiaries. Includes brothers, sisters, half-brothers, and half-sisters.
Standard deduction increased to \$1,700	Increases the standard deduction to \$1,700 from \$650 over a four-year period.

### Health Related

Provider tax exemption on physicians	Phase out the tax on the provision of physician services. The initial tax was 2.0% of gross revenues. It was phased out in steps of 1.5%, 1.0%, and 0.5%.
Deduction for long term care	Full deduction from AGI.

### Automobile

Marcum: Property tax on automobiles	Property taxes on automobiles assessed at mid-point between average retail and average trade-in value.
Automobile property tax cut	Average trade-in value.
Reduce taxable value of motor vehicles	Usage tax on most motor vehicles to be based on actual sales value rather than the NADA book value.

### Agriculture

Sales tax exemption for farm fuel	Exempts fuel for agricultural use from sales tax.
-----------------------------------	---------------------------------------------------

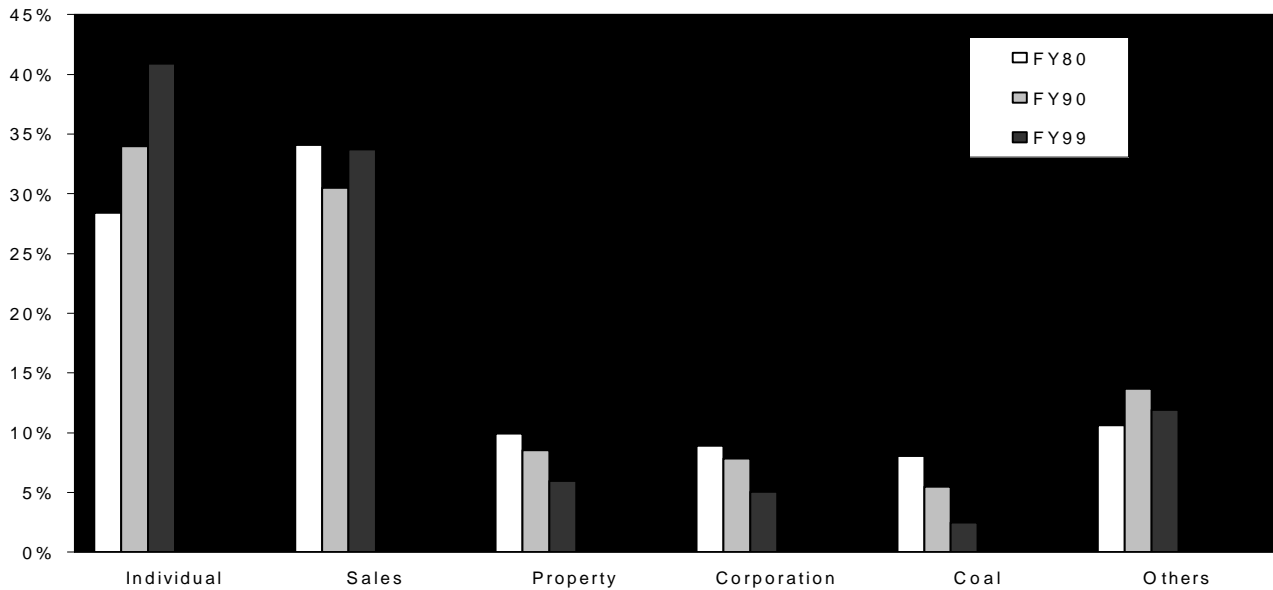
### Property Tax Reduction

This is the composite effect of three bills in the 1998 session (HB 65, HB 198, and HB 199). The bills effectively reduce the property tax rates on (a) personal property held in a distribution center; (b) financed inventory; and (c) leased equipment.

### Business

Investment Fund & Training	Creates the Kentucky Investment Funds Program and allows credits for worker training through the Bluegrass State Skills Corporation.
St. Ledger: Equal treatment of stock	Stocks are exempt from property taxes on intangible property.
Bank Franchise Tax: method changed	Allows the book value of Kentucky obligations to be excluded from net capital, which is used to determine the bank franchise tax liability.
Jet fuel tax credit for large carriers	Credits sales tax on jet fuel in excess of \$1 million to certified air carriers.

**The Changing Tax Mix**  
**How the Contribution of Individual Income Tax and Sales Tax Have Increased as Other Taxes Have Declined**



**Kentucky Employment Mix**

	1960	1970	1980	1990	Projected	
					1999	2004
Mining	5.2%	3.1%	4.4%	2.4%	1.3%	0.9%
Construction	5.5%	5.2%	4.8%	4.5%	4.7%	4.5%
Manufacturing	26.5%	28.1%	22.8%	19.6%	18.0%	17.1%
TCPU	7.7%	6.2%	5.7%	5.4%	5.9%	6.4%
Trade	21.5%	19.9%	21.6%	23.9%	23.9%	23.9%
FIRE	3.7%	3.7%	4.3%	4.2%	3.9%	3.6%
Services	13.1%	14.9%	17.4%	22.3%	25.7%	26.8%
Government	16.8%	18.9%	19.1%	17.7%	16.7%	16.8%

**US Employment Mix**

	1960	1970	1980	1990	Projected	
					1999	2004
Mining	1.3%	0.9%	1.1%	0.6%	0.4%	0.3%
Construction	5.4%	5.1%	4.8%	4.7%	4.8%	4.5%
Manufacturing	31.0%	27.3%	22.4%	17.4%	14.3%	12.9%
TCPU	7.4%	6.4%	5.7%	5.3%	5.2%	5.2%
Trade	21.0%	21.2%	22.5%	23.6%	23.3%	23.1%
FIRE	4.8%	5.1%	5.7%	6.1%	5.9%	5.9%
Services	13.6%	16.3%	19.8%	25.5%	30.3%	32.0%
Government	15.4%	17.7%	18.0%	16.7%	15.7%	16.0%

TCPU - Transportation, Communication and Public Utilities

FIRE - Finance, Insurance and Real Estate

Source: U.S. Department of Commerce, Bureau of Economic Analysis

January 20, 2000

Dr. James R. Ramsey  
State Budget Director  
Room 284, Capitol Annex  
Frankfort, Kentucky 40601

Mr. Robert Sherman, Director  
Legislative Research Commission  
Capitol Building  
Frankfort, Kentucky 40601

Ms. Cicely Lambert, Director  
Administrative Office of the Courts  
100 Millcreek Park  
Frankfort, Kentucky 40601

Dear Dr. Ramsey, Mr. Sherman and Ms. Lambert:

Pursuant to Kentucky Revised Statute 48.120, the attached report includes the revised revenue estimates for Fiscal Year 2000 and the detailed revenue estimates for Fiscal Years 2001 and 2002 for the General Fund and Road Fund. The figures below represent the revenue estimates as determined by the Consensus Forecasting Group.

<b>Fiscal Year</b>	<b>General Fund</b>	<b>Road Fund</b>
2000	\$ 6,431,200,000	\$ 1,087,000,000
2001	\$ 6,746,800,000	\$ 1,123,200,000
2002	\$ 7,078,000,000	\$ 1,163,200,000

The detailed revenue estimate by individual accounts for these estimates is attached. These estimates reflect the consensus forecasting process as authorized by KRS 48.115.

Dr. Ramsey, Mr. Sherman and Ms. Lambert  
January 20, 2000  
Page 2

In addition to providing General Fund and Road Fund estimates, the Consensus Forecasting Group was asked by the State Budget Director to provide revenue estimates for the upcoming biennium that the Commonwealth will realize due to the tobacco manufacturers' Master Settlement Agreement (MSA). The figures below represent the MSA revenue estimates, and are not included in either the General Fund or Road Fund totals.

Fiscal Year 2000	\$137,800,000
Fiscal Year 2001	\$101,100,000
Fiscal Year 2002	\$121,600,000

The Consensus Forecasting Group consisted of Dr. Merl Hackbart, Dr. Charles Haywood, Dr. Lawrence Lynch, Dr. James McCabe, Mr. Terry Jones, and Mr. James Street. Support was provided by Robert Cox, Manoj Shanker, Greg Harkenrider, and Debra Gabbard from the Governor's Office for Economic Analysis. Additional assistance was provided by representatives of the Revenue Cabinet and the Transportation Cabinet.

Sincerely,

John P. McCarty  
Secretary

Attachment



# **Section I**

## **Executive Summary**

**E  
x  
e  
c  
u  
t  
i  
v  
e  
  
S  
u  
m  
m  
a  
r  
y**

Revised revenue estimates for the General Fund and the Road Fund for FY00 and budget estimates for FY01 and FY02 are transmitted by this report.

The General Fund forecast for FY00 was revised downward by \$73.9 million on October 15, 1999, and this report counters that revision slightly by raising it \$11.6 million. The revised estimate for FY00 is now \$6,431.2 million. The budget estimate is \$6,746.8 million for FY01, and \$7,078.0 million for FY02. These estimates include modifications that include EMPOWER Kentucky revenue estimates.

These estimates reflect the consensus forecasting process authorized by Kentucky Revised Statute 48.115. The Consensus Forecasting Group is a joint effort by the Executive and Legislative Branches, assisted by selected academic economists.

Since most General Fund taxes correlate in some way to the performance of the state's economy, the first step in the revenue estimating process is deciding upon a reasonable view of the outlook for the national and state economies. As a preliminary step, GOEA constructed three different outlooks based on possible national economic scenarios detailed by Standard and Poor's DRI, a national economic consulting firm. These scenarios were reviewed by the Consensus Forecasting Group. The group decided that the control scenario was the most probable outcome.

The national economy has expanded steadily for the last eight years. The forecast for the upcoming biennium is that growth will continue but at a slightly lower rate than in the recent past. Real gross domestic product (GDP), which is expected to expand at an annual 3.7 percent rate in FY00, will slow to a growth of 3.5 percent in FY01, and 3.1 percent in FY02. Employment growth is forecasted to be 1.9 percent in FY00, slowing to 1.5 percent in FY01, and 1.2 percent in FY02.

Kentucky's healthy economy is projected to slow slightly during the upcoming biennium. Personal income is estimated to be \$90.1 billion in FY00, for a growth rate of 5.2 percent from FY99. For the upcoming biennium, growth is expected to remain nearly steady at 5.1 percent and 4.9 percent in FY01 and FY02, respectively. Employment in nonagricultural industries is expected to reach 1.8 million workers in the current fiscal year. Growth in FY01 should be 1.7 percent, and the growth rate in FY02 is forecasted to be 1.9 percent. These rates reflect slightly lower expectations when compared to earlier periods.

**Table 1  
Economic Assumptions Used in Revenue Forecasts**

	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>Y02</b>
Kentucky Nonagricultural Employment (thou)	1,771.4	1,800.5	1,831.9	1,867.6
Percent Change (%)	2.3	1.6	1.7	1.9
Kentucky Personal Income (\$Bil)	85.6	90.1	94.7	99.4
Percent Change (%)	3.7	5.2	5.1	4.9

Recent General Fund revenue growth has slowed in relation to the growth in the economy. Revenues expanded by 3.1 percent in FY99, lower than the growth in personal income. But a marginal estimated impact of \$40.7 million in tax cut legislation kept the growth lower than it otherwise would have been.

The outlook for the remainder of FY00 is for General Fund collections to total \$6,431.2 million, which includes revenues accruing from EMPOWER Kentucky initiatives. This represents a growth rate of 3.9 percent over the previous year. For FY01, General Fund revenues are estimated to be \$6,746.8 million, reflecting a growth rate of 4.8 percent. Growth should continue at nearly the same rate, 4.9 percent in FY02, for General Fund collections for \$7,078.0 million.

The estimates for EMPOWER Kentucky revenue initiatives are included in the total for each revenue account affected.

**Table 2**  
**General Fund Revenue Estimates**  
**FY99 Actual, FY00-FY02 Estimates**

	<b>FY99 Actual (\$ Mil)</b>	<b>FY00 Estimate (\$ Mil)</b>	<b>FY01 Estimate (\$ Mil)</b>	<b>FY02 Estimate (\$ Mil)</b>
Total Receipts	6,192.6	6,431.2	6,746.8	7,078.0
Percent Change (%)	3.1	3.9	4.9	4.9
New Dollars	187.6	238.6	315.6	331.2

Road Fund collections are summarized in Table 3. Road Fund revenue should be \$1,087.0 million in FY00. This is forecasted to rise by 3.3 percent in FY01 to yield \$1,123.2 million. In FY02, growth is expected to be 3.6 percent, with revenues equaling \$1,163.2 million. The primary source of growth forecasted in the Road Fund for the FY00 to FY02 period is the motor vehicle usage tax. Growth from this source is offset to some degree by slower motor fuels tax collections.

**Table 3**  
**Road Fund Revenue Estimates**  
**FY99 Actual, FY00-FY02 Estimates**

	<b>FY99 Actual (\$ Mil)</b>	<b>FY00 Estimate (\$ Mil)</b>	<b>FY01 Estimate (\$ Mil)</b>	<b>FY02 Estimate (\$ Mil)</b>
Total Receipts	1,056.6	1,087.0	1,123.2	1,163.2
Percent Change (%)	4.4	2.9	3.3	3.6
New Dollars	44.8	30.4	36.2	40.0

In developing Kentucky's General Fund and Road Fund estimates we used a variety of forecasting techniques. These included simultaneous equation econometric models, simple regression models, time-series analysis, straight-line extrapolation, and judgment based on familiarity with the administrative rules governing revenue receipts.

This report also contains estimates of revenues accruing to the Commonwealth due to the Master Settlement Agreement (MSA) reached between tobacco manufacturers and 46 states. Under the MSA, Kentucky stands to realize an estimated \$137.8 million in FY00. The forecast calls for \$101.1 million in FY01 followed by \$121.6 million in FY02.

**Note:** *The historical total does not match the revenue receipts report because only net investment income from the tax revenue anticipation note (TRAN) is included in these estimates. The receipts report shows \$6,198.4 million for FY99 instead of \$6,192.6 shown above. The difference of \$5.8 million is due to the paying off of maturing debt.*

# **Section II**

## **Economic Outlook**

**NATIONAL OUTLOOK**

*Forecasting Methodology*

In formulating Kentucky's General Fund and Road Fund estimate we used a variety of forecasting techniques. These included simultaneous equation econometric models, simple regression models, time-series analysis, and judgment based on familiarity with the administrative rules governing revenue receipts and tax laws.

The first step in the revenue forecasting process was deciding upon a reasonable view of how the national and state economies will evolve over the forecast period. Broadly, the U.S. economic outlook is provided by Standard and Poor's DRI, a nationally recognized economic consulting firm. Based upon this, an independent forecast for the Kentucky economy is formulated. As a preliminary step, a national economic scenario was agreed upon for the forecast period. The Consensus Forecasting Group reviewed three national scenarios developed by DRI in November 1999. The general agreement was that the control scenario contained the most plausible assumptions about the national economy.

*Assumptions*

Real GDP in the first quarter of FY00 (July to September 1999) is estimated to have grown at a rate of 5.7 percent. Consumer confidence, low inflation, and relatively low commodity prices are driving the economy. Consumption accounts for about two-thirds of total GDP. Total consumption for the first quarter of FY00 is estimated to have grown by 4.9 percent. Durable goods led the way with a growth of 7.7 percent, much of it in the automobile sector. The available data for the October-to-December quarter also demonstrates the underlying strength of the fundamentals which are expected to sustain this economic growth well into the next biennium.

The leading assumption is that the economy will grow steadily albeit at a slightly slower, but more sustainable rate. Real GDP averaged heady growth rates well above 4.0 percent in the last three years, but is expected to grow at 3.7, 3.5, and 3.1 percent in FY00, FY01, and FY02. Core inflation is expected to increase slightly in response to higher import prices and a tight labor market but is still expected to be below 2.5 percent.

The slight slowdown in the overheated economy is assumed to be achieved by Fed action in the form of increases in the federal funds rate, and a slight decrease in consumer confidence and therefore consumer spending. The dollar is expected to weaken against both the euro and the yen. This factor alone could cause inflationary pressures from the increased cost of imports, but U.S. productivity is assumed to increase, too, thereby putting a damper on wage inflation. The latter is due to massive investment in technology over the last decade which is expected to bear fruit in the form of a further increase in productivity, keeping wage pressures in check. A tax cut has been factored in the model by early FY02, but there will be limited impact of that cut in the final year of the biennium.

*Forecast*

The current economic expansion is well into its ninth year and shows little sign of ending. In fact, the economy grew with regained vigor in the last fiscal year. The economy has defied most traditional descriptions. Steady growth has been marked by what had once thought to be a contradiction: low unemployment accompanied by low inflation.

The forecast for FY00 and the next biennium is for real output to grow approximately one percentage point higher than the 2.5 percent growth rate that had been once thought of as "normal". For FY00 real GDP is forecasted to grow by 3.7 percent. Then for the two years of the next biennium, growth is expected to moderate with increases of 3.5 and 3.1 percent. During this period, consumption is expected to continue to drive the economy. Growth in real consumption is forecasted to average 3.4 percent during the next three years. Durable goods consumption is expected to be a strong 6.4 percent in FY00, then slow down to 5.0 and 3.6 percent in FY01 and FY02.

Business investment is expected to increase unabated, too. The investment forecast has become stronger than in the past in part because the federal government has redefined investment to include software. This has been one of the most dynamic sectors of the economy and is slated to grow strongly during the forecast period. Nonresidential fixed investment (which includes office and computing equipment as well as software) is expected to grow by 8.0 percent in FY00 and 6.7 and 6.8 percent in FY01 and FY02.

U.S. personal income averaged growths of 6.0 percent during the last three years. Growth during the forecast period is expected to be 5.4, 5.0 and 4.7 percent. This data is based on the recent benchmark revision of the national income and product accounts. Historical data in both income and spending were revised upward. However, the change in data was greater for income and as a consequence the savings rate increased, too. Before the revision, the savings rate for calendar 1998 had fallen to 0.5 percent, but now it has been revised up to 3.7 percent. The impact of these changes is such that personal income has increased in size and is expected to grow slightly faster now than in the October 1999 forecast used for the last Consensus Forecast.

Both inflation and the unemployment rate continue to baffle economists. Consumer price index (CPI) inflation is forecasted to be 2.5 percent in FY00, followed by rates of 2.1 and 2.4 percent in FY01 and FY02. An uptick in the price of crude oil fueled the inflation rate for the current fiscal year. However, with three more major crude oil facilities coming online in the North Sea and Mexico, oil prices are expected to decline in spite of OPEC efforts. Given the historically low unemployment rate of 4.1 percent and substantial increases in health-care benefits, it is baffling to find that the employment cost index has barely inched upwards. Two possible reasons why costs and therefore inflation, are under control are that there have been gains in productivity and compensation practices have changed to allow for more stock options.

## **KENTUCKY OUTLOOK**

### ***Forecasting Methodology***

On the advice of the Consensus Forecasting Group, Standard and Poor's DRI's November 1999 control forecast of the U.S. economy was used as the backdrop for forecasting the Kentucky economy for the current fiscal year and the next biennium. At the heart of the revenue estimation process is a dynamic response econometric model that forecasts the economic environment in which revenue collection will occur. The model estimates the effect of changes in the national economic outlook on the Kentucky economy.

### ***Economic Forecast***

Kentucky's economy has outperformed the national economy in terms of sheer longevity of the expansion. When much of the nation was hit by a recession in late 1990 and early 1991, the state economy continued to expand unabated in terms of employment and income. During the mid-1990s Kentucky's economy expanded more rapidly than the national average primarily because national recovery was prolonged by states such as California that had felt the brunt of the recession and were plagued by restructuring of the defense industry and the housing market. By about FY97 the national economy started expanding faster than the state due to the payoff from technology investments nationwide, and the massive downsizing of the apparel and textile sector in Kentucky. During the forecast period, Kentucky's economy is expected to perform at par with the U.S.

Personal income is the broadest measure of a state's economic performance. Kentucky's personal income is estimated to have been \$85.6 billion FY99 for an increase of just 3.7 percent from a year ago. In comparison, U.S. personal income grew by 6.0 percent in the same period. (It must be noted that the historical comparison is inconsistent as revisions in national income and product accounts that caused national figures to increase are not currently available for state personal income. Effectively, Kentucky's personal income is somewhat understated.) Given our current employment mix with a preponderance of manufacturing and air transportation, it is expected that personal income will increase by 5.2 percent in FY00, 5.1 percent in FY01, and 4.9 percent in FY02.

Employment data is commonly used to gauge the strength of the state's economy. Nonagricultural employment in Kentucky is estimated to have increased by 39,500 jobs in FY99, resulting in a growth of 2.3 percent. The corresponding increase in the national economy was also 2.3 percent. During much of the 1990s employment growth in Kentucky has outstripped that in the nation. However, as the current economic cycle has matured, the growth rate has become similar, especially after Kentucky registered huge job losses in the apparel and textile sectors beginning in FY97.

Kentucky's nonagricultural employment is expected to grow by 1.6 percent in FY00, followed by growth rates of 1.7 and 1.9 percent in FY01 and FY02. The strength of the economy lies in the manufacture of durable goods, especially in the transportation equipment industry, which continues to strengthen. Other sectors that showed robust growth include transportation and public utilities with expected growth rates of 3.6, 3.4, and 4.1 percent in FY00, FY01, and FY02; and services (growth rates of 2.6, 4.6, and 5.0 percent). The transportation sector derives its strength from the rapid expansion of air transportation at both Northern Kentucky (Delta, Comair, and DHL) and Louisville (UPS). Given the "new" economy with its reliance on internet commerce, it is expected that this sector will continue to expand.

**Table 4**  
**Selected U.S. and Kentucky Economic Indicators**  
**CONTROL Scenario**

	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
U.S. Real GDP (Bil 92\$)	7,324.5	7,648.4	7,957.9	8,252.0	8,537.9	8,804.0
% chg	4.3	4.4	4.0	3.7	3.5	3.1
KY Personal Income (Mil\$)	78,183	82,580	85,625	90,092	94,719	99,359
% chg	4.9	5.6	3.7	5.2	5.1	4.9
KY Per Capita Personal Income (\$)	20,088	21,082	21,721	22,710	23,739	24,753
% of U.S. Per Capital Income	79.5	79.5	77.9	77.9	78.2	78.5
U.S. Personal Income (Bil\$)	6,746	7,147	7,577	7,989	8,390	8,788
% chg	6.0	5.9	6.0	5.4	5.0	4.7
U.S. Per Capita Personal Inc (\$)	25,267	26,529	27,882	29,151	30,360	31,540
KY Nonagricultural Emp (Thou)	1,693.1	1,731.9	1,771.4	1,800.5	1,831.9	1,867.6
% chg	2.3	2.3	2.3	1.6	1.7	1.9
U.S. Nonagricultural Emp (Mil)	121.1	124.3	127.2	129.7	131.7	133.2
% chg	2.4	2.6	2.3	1.9	1.5	1.2
KY Manufacturing Emp (Thou)	313.3	319.7	320.3	318.6	317.1	318.9
% chg	0.1	2.0	0.2	-0.5	-0.5	0.6
U.S. Manufacturing Emp (Mil)	18.6	18.8	18.6	18.2	18.0	17.9
% chg	0.4	1.3	-1.2	-1.9	-1.5	-0.1
Industrial Production Index, Mfg. (%)	6.3	6.1	2.7	3.3	3.6	5.2
Industrial Prod Index, Durables (%)	9.0	9.4	5.4	5.6	4.6	7.4
CPI, Rate of Inflation (%)	2.8	1.8	1.7	2.5	2.1	2.4
3-month Treasury Bill Rate (%)	5.0	5.0	4.5	4.9	5.0	5.0
Oil Price, Avg Composite (\$/barrel)	20.97	15.77	12.59	21.66	19.46	18.67

MAK: Macromodel of Kentucky, November 1999  
Governor's Office for Economic Analysis  
Commonwealth of Kentucky



**Table 5**  
**Employment in Kentucky and the United States**  
**CONTROL SCENARIO**

	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
<b>KENTUCKY</b>						
Total Nonagricultural	1,693.1	1,731.9	1,771.4	1,800.5	1,831.9	1,867.6
Contract Construction	80.2	82.6	85.9	84.7	81.1	79.9
Mining	23.0	23.1	23.1	23.0	22.8	20.7
Manufacturing	313.3	319.7	320.3	318.6	317.1	318.9
Nondurable Goods	135.3	134.7	130.6	124.8	118.8	116.1
Durable Goods	178.0	185.0	189.7	193.7	198.2	202.7
Transportation & Public Util.	96.3	98.9	103.4	107.2	110.9	115.4
Trade	406.0	412.2	421.7	431.9	441.5	445.9
Finance/Insurance/Real Estate	68.1	69.7	70.7	71.7	71.9	72.2
Services	416.1	433.3	450.1	462.0	483.2	507.6
Total Government	290.1	292.2	296.2	301.4	303.3	307.1
Federal Government	38.2	37.3	37.4	38.1	38.4	37.8
State & Local Government	251.6	254.5	259.1	263.4	265.0	269.2
<b>UNITED STATES</b>						
Total Nonagricultural	121.1	124.3	127.2	129.7	131.7	133.2
Contract Construction	5.6	5.8	6.1	6.2	6.2	6.2
Mining	0.6	0.6	0.6	0.5	0.5	0.5
Manufacturing	18.6	18.8	18.6	18.2	18.0	17.9
Nondurable Goods	7.7	7.6	7.5	7.3	7.2	7.2
Durable Goods	10.9	11.2	11.1	10.9	10.7	10.7
Transportation & Public Util.	6.3	6.5	6.7	6.8	7.0	7.0
Trade	28.4	28.9	29.5	30.0	30.4	30.7
Finance/Insurance/Real Estate	7.0	7.3	7.5	7.7	7.8	7.9
Services	35.2	36.8	38.3	39.7	41.1	42.0
Total Government	19.5	19.7	20.0	20.4	20.7	20.9
Federal Government	2.7	2.7	2.7	2.7	2.8	2.7
State & Local Government	16.7	17.0	17.3	17.6	17.9	18.2

MAK: Macromodel of Kentucky, November 1999  
 Governor's Office for Economic Analysis  
 Commonwealth of Kentucky

**Table 6**  
**Percentage Change in Employment for Kentucky and the United States**  
**CONTROL SCENARIO**

	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
<b>KENTUCKY</b>						
Total Nonagricultural	2.3	2.3	2.3	1.6	1.7	1.9
Contract Construction	7.6	3.1	3.9	-1.3	-4.2	-1.5
Mining	-2.3	0.4	-0.2	-0.5	-0.8	-9.3
Manufacturing	0.1	2.0	0.2	-0.5	-0.5	0.6
Nondurable Goods	-1.5	-0.5	-3.0	-4.4	-4.8	-2.3
Durable Goods	1.3	3.9	2.5	2.1	2.3	2.3
Transportation & Public Util.	4.3	2.8	4.5	3.6	3.4	4.1
Trade	2.1	1.5	2.3	2.4	2.2	1.0
Finance/Insurance/Real Estate	3.0	2.3	1.3	1.4	0.4	0.4
Services	3.9	4.1	3.9	2.6	4.6	5.0
Total Government	0.8	0.7	1.4	1.8	0.6	1.2
Federal Government	-4.0	-2.6	0.5	1.6	0.8	-1.4
State & Local Government	1.5	1.2	1.8	1.7	0.6	1.6
<b>UNITED STATES</b>						
Total Nonagricultural	2.4	2.6	2.3	1.9	1.5	1.2
Contract Construction	5.6	4.7	5.4	1.6	-0.2	-0.4
Mining	1.7	2.3	-6.5	-5.3	-2.3	-7.6
Manufacturing	0.4	1.3	-1.2	-1.9	-1.5	-0.1
Nondurable Goods	-1.0	-0.5	-1.6	-2.4	-1.3	-0.1
Durable Goods	1.4	2.6	-0.9	-1.5	-1.7	-0.1
Transportation & Public Util.	2.3	2.5	3.1	2.3	1.5	0.9
Trade	2.1	1.7	2.1	2.0	1.3	1.0
Finance/Insurance/Real Estate	2.4	3.6	4.0	1.9	1.6	1.7
Services	4.3	4.5	3.9	3.8	3.4	2.3
Total Government	0.6	1.1	1.6	2.0	1.5	1.0
Federal Government	-2.5	-1.5	0.5	2.0	0.8	-2.1
State & Local Government	1.1	1.5	1.8	2.0	1.6	1.5

MAK: Macromodel of Kentucky  
Governor's Office for Economic Analysis  
Commonwealth of Kentucky

## **Section III**

# **General Fund & Road Fund Receipts FY99 & First Half FY00**

## General Fund and Road Fund

Fiscal Year 1999

Total receipts for the General Fund and the Road Fund increased by 3.3 percent in FY99 when compared to the prior year. The growth in the General Fund was 3.1 percent. The Road Fund grew at 4.4 percent when compared to FY98. The growth rate and total receipts for both the General Fund and the Road Fund are shown in Table 7.

R  
e  
c  
e  
i  
p  
t  
s

	FY99	FY98	Percent Change
General Fund	\$6,198.4	\$6,011.8	3.1
Road Fund	1,056.6	1,011.8	4.4
<b>COMBINED</b>	<b>\$7,255.0</b>	<b>\$7,023.6</b>	<b>3.3</b>

Within the General Fund, total sales and use tax receipts grew by 5.3 percent with collections of \$2,085.9 million during FY99. This compares to \$1,981.3 million collected in FY98.

The individual income tax generated receipts of \$2,532.0 million during FY99, which is an increase of 4.7 percent over the \$2,418.1 million collected in the previous year.

Corporation income tax receipts declined by 6.5 percent during FY99. A total of \$312.1 million was collected during FY99, compared to \$333.7 million during FY98.

Coal severance collections also declined with a 5.7 percent drop in receipts from FY98 to FY99. Receipts were \$154.5 million for FY99 and \$163.7 million for FY98.

Property tax collections grew by 2.1 percent for FY99. The amounts collected were \$370.4 million for FY99, and \$362.8 million for FY98. This follows a decline of 12.6 percent in FY98 due to the removal of the bank franchise tax from property taxes to license and privilege.

Lottery receipts were up 0.5 percent from the previous year, with collections at \$153.8 million.

Table 8 contains the growth rates for the major tax categories in the General Fund, excluding audits, for the four quarters of FY99 and the year as a whole.

**Table 8**  
**General Fund Growth Rates for the Four Quarters and the Full Year, FY99**

	<b>First Quarter (%)</b>	<b>Second Quarter (%)</b>	<b>Third Quarter (%)</b>	<b>Fourth Quarter (%)</b>	<b>FY99 (%)</b>
Total Receipts	1.7	4.9	2.9	2.8	3.1
Sales and Use	5.1	5.7	6.3	4.0	5.3
Individual Income	3.2	4.4	4.2	6.6	4.7
Corporate Income	-17.5	12.6	-60.9	3.4	-6.5
Coal Severance	2.5	-2.9	-12.7	-9.1	-5.7
Property	-0.7	4.8	3.9	-7.9	2.1
Lottery	18.9	8.3	8.6	-25.1	0.5
All Other	-9.7	1.0	4.5	-3.3	-1.6

Within the Road Fund, most major tax categories continued to exhibit steady growth. Motor fuels taxes grew by a strong 8.0 percent with receipts of \$427.8 million. Motor vehicle usage tax generated receipts of \$375.7 million for a growth rate of 2.4 percent over the \$366.8 million collected in FY98. Weight distance tax receipts increased 5.2 percent, from \$66.7 million in FY98 to \$70.2 million in FY99.

Table 9 contains the growth rates for the major tax categories in the Road Fund for the four quarters of FY99 and the year as a whole.

**Table 9**  
**Road Fund Growth Rates for the Four Quarters and the Full Year, FY99**

	<b>First Quarter (%)</b>	<b>Second Quarter (%)</b>	<b>Third Quarter (%)</b>	<b>Fourth Quarter (%)</b>	<b>FY99 (%)</b>
Total Receipts	5.2	11.0	-2.0	4.6	4.4
Motor Fuels	8.8	21.6	-9.2	16.1	8.0
Motor Vehicle Usage	3.9	10.4	-3.2	-0.3	2.4
Weight Distance	5.4	3.8	6.2	5.6	5.2
Other	0.5	-5.9	16.6	-6.0	0.4

***First Half, Fiscal Year 2000***

Total General Fund receipts for the first half of FY00 were \$3,127.1 million, which is a 3.5 percent increase over the first half of FY99, when \$3,020.6 million was generated.

Sales and use tax collections totaled \$1,089.4 million. This is a 3.8 percent increase over the \$1,049.3 million collected in the first half of FY99.

Individual income tax receipts grew by 5.1 percent during the first half of FY00 with receipts of \$1,270.2 million. Collections for the first half of FY99 were \$1,208.9 million.

Corporation income tax receipts declined by 1.2 percent during the first half of FY00. Collections during the period were \$150.3 million, compared to \$152.1 million during the first half of FY99.

Coal severance receipts declined by 7.7 percent for the first half of the year. Collections for the current period totaled \$74.0 million compared to \$80.2 million for the first half of FY99.

Property tax collections rose strongly by 9.7 percent during the first half of FY00. Collections for the period were \$240.2 million compared to \$218.9 million during the first half of FY99. The robust growth was due primarily to early receipts of tax payments that are normally due in January.

Lottery receipts of \$76.8 million represented a decline of 4.7 percent over the \$80.6 million collected during the first half of FY99. The decline was due to accelerated payments in FY99.

Total Road Fund receipts increased by 4.5 percent to \$524.7 million. Collections for the first half of FY00 were \$502.2 million.

Motor fuels taxes increased by 2.8 percent. Receipts were \$211.5 million during the first half of FY00 compared to \$205.8 million during the same period of FY99.

Motor vehicle usage tax receipts grew by 9.5 percent with collections of \$203.9 million.

During the first half of FY00 the weight distance tax increased by 6.6 percent. Collections for the first half of FY00 were \$37.1 million.

## **Section IV**

# **Detailed Revenue Estimates FY00, FY01 and FY02**

**R  
e  
v  
e  
n  
u  
e  
  
E  
s  
t  
i  
m  
a  
t  
e  
s**

The Governor's Office of Economic Analysis (GOEA) has principal responsibility to prepare the revenue estimates for the General Fund and the Road Fund. On October 15 of each odd-numbered year (such as 1999), a preliminary detailed revenue estimate for the upcoming two fiscal years must be presented to the head of the budget agencies for each branch of state government. Then in the following January, by the 15<sup>th</sup> day of the legislative session, a revised estimate is required.

To fulfill its mandate to provide accurate and timely revenue forecasts, GOEA utilizes a variety of forecasting techniques, ranging from simple trend models to the latest econometric models. As an input for the various revenue forecasts, GOEA utilizes output from Macroeconomic Model of Kentucky (MAK). MAK is a structural forecasting model of the Kentucky economy that uses the Standard and Poor's DRI forecast for the national economy in its underlying estimation. This model provides, among other things, estimates for future income and employment for the Commonwealth of Kentucky. Since many revenue streams are correlated in some way with economic events, output from MAK is used in the estimation of several revenue sources.

In addition to data from the MAK model, the revenue forecasting models use past values for the various categories of revenue and other economic or financial data. Some revenue forecasts use detailed, highly theoretical estimating techniques with several data inputs. Other forecasts use more intuitive equations with basic data. Regardless of the method or data inputs, each estimate is carefully scrutinized against the forecaster's knowledge of economic events, past revenue trends, and administrative considerations. The expected revenues accruing due to the EMPOWER Kentucky initiatives were included in the total for each tax. When appropriate, GOEA consults with analysts from the Transportation and Revenue Cabinets to gather additional input from the administrators of the various taxes. After GOEA's analysis is completed, the revenue estimates are presented to the Consensus Forecasting Group (CFG) for further consideration and scrutiny. The CFG is a select group of distinguished economists and budgetary experts who examine and modify the estimates based on their vast experience and consideration of the relevant facts. The outcome represents the best, most reasoned approach to estimating the revenues available to the Commonwealth of Kentucky.

***General Fund: Major Accounts***

The CFG met in November to agree upon an economic outlook that would feed into the revenue estimates. The group reconvened in early December to finalize the economic outlook and consider the preliminary revenue forecast. These preliminary revenue estimates were then scrutinized over the holidays and updated to incorporate the December revenue receipts and other current events or suggestions from the CFG. After these revisions, the group reconvened in January to consider the updated estimates. After examining and discussing the General Fund forecast in great detail, the CFG agreed to accept the forecast as presented.

***Individual Income Tax***

During the first half of FY00 individual income tax receipts grew by a strong 5.1 percent. Growth during the same period a year ago was 3.8 percent. Withholding constitutes almost 90 percent of individual income tax and grew by 7.0 percent during the first half of FY00. The withholding portion of this tax was first estimated using a vector autoregressive model with



consumer price index, personal income, and employment as exogenous factors. The results were perceived to indicate too strong a growth since withholding in December had shown gains of 7.0 percent thereby boosting the estimate. Therefore, it was decided jointly by both the CFG and GOEA that the estimates prepared in the previous month, which were approximately \$7.0 million lower, were more realistic.

Past trends and administrative factors were then used to determine the declaration payments, net returns, and the fiduciary components. For FY00 the growth in declaration payments was assumed to be 3.0 percent, followed by 6.2 percent growth in the subsequent years. The returns component (net of payments and refunds) was changed from minus \$120.0 million in FY99 to minus \$100.8 million in response to a decrease in withholdings due to the issuance of new tax tables. Fiduciary payments have been high because of the strength of the stock market. According to Standard and Poor's DRI, the market will continue to grow, but not as aggressively as in the past. This results in fiduciary being forecast as \$15.2 million in FY00, and \$11.3 million in FY01 and FY02.

For FY00 individual income tax revenues are forecasted to be \$2,678.6 million for a growth of 5.8 percent. In FY01 and FY02 the forecasted amounts are \$2,831.9 and \$2,995.9 million, with corresponding growth rates of 5.7 and 5.8 percent.

### ***Sales and Use Tax***

During the first five months of FY00 sales and use tax grew by 5.4 percent. The December 1999 revenues declined by 2.9 percent, bringing growth in the first half of FY00 to 3.8 percent. The slowdown is not substantiated by independent data available for national retail sales and other proxy measures. However, in light of the reduced receipts, the sales tax was re-estimated through a vector autoregressive model with consumer price index, personal income, and employment as exogenous variables.

The current forecast is for sales tax receipts to increase by 4.9 percent in FY00 to \$2,088.1 million. During the next two years growth is estimated at 5.6 percent for each year with receipts of \$2,311.5 million and \$2,441.4 million.

### ***Corporation Income Tax***

The corporation income tax revenue model estimated seasonally adjusted declaration payments, refunds, and payments with returns as separate equations. Corporation license tax receipts were also added, since the flow of revenue is correlated. Due to the statistic properties of each payment source, different estimating techniques were employed. Declaration payments and the corporate license tax were estimated with a cointegrated vector autoregression (VEC) model. Refunds and payments with returns were estimated with other time series econometric models.

The corporation income tax is plagued by a somewhat erratic history of receipts. This historical variation makes the estimating process more complicated. The forecast calls for corporate income tax receipts to total \$316.4 million in FY00, up 1.4 percent from the \$312.1 million collected in FY99. Modest growth is expected for the biennium. Revenues are expected to be \$324.3 million and \$329.5 million in fiscal years 2001 and 2002 respectively. The corporation license tax, which is reported in the "Other" category, is expected to tally \$132.1 million in FY00, up 4.9 percent from the previous year. GOEA anticipates collections of \$137.5 million and \$142.5 million for the upcoming biennium.

### ***Coal Severance Tax***

The coal severance tax multiplies forecasts of coal prices and Kentucky output. Due to the complexity and global nature of the coal industry, GOEA obtains price and output forecasts from national consulting agencies. These forecasts were used in conjunction with the recent history of coal severance revenue collections to provide an internally consistent estimate of revenues from this source.

Coal severance revenues have been on a slow but steady decline in recent years. Collections for FY99 totaled \$154.5 million, a 5.7 percent decline compared with FY98. The forecast calls for continued erosion in coal severance receipts, with a leveling off in FY02. FY00 receipts are expected to total \$149.7 million. The biennium forecast predicts receipts of \$146.9 million in both FY01 and FY02.

### ***Property Taxes***

Property taxes are forecasted based on historical property tax assessments, the Kentucky economic outlook, statutory and judicial changes, and administrative factors. The last consideration, administrative factors, carries a higher importance in property tax estimation, since House Bill 44 constrains the annual growth in real property assessments to 4.0 percent.

In formulating the forecast, the first step was to examine the detailed forecast prepared by the property tax division of the Kentucky Revenue Cabinet. After careful consideration, the taxes are aggregated and the estimates are considered by the CFG. Collections are expected to total \$383.2 million in FY00, which computes to 3.5 percent growth over FY99. Receipts of \$398.0 and \$410.4 million are predicted for the upcoming biennium.

### ***Kentucky Lottery***

In a letter dated August 10, 1999, Senior Vice President of the Kentucky Lottery, Howard B. Kline provided estimates for FY00 and the upcoming biennium. The estimate for FY00 was \$151.2 million, with \$152.03 million and \$153.0 million as the estimates for FY01 and FY02, respectively. These forecasts include the implementation of instant probability games that are scheduled to begin sometime during FY00. The estimates factor in potential risks to Lottery participation, such as competition from increased casino gambling opportunities in neighboring states. The estimates of Mr. Kline were submitted to the CFG in December and approved during the January meeting.

### ***Other Revenue Sources***

The capacious "Other" category contains an eclectic collage of over 100 revenue accounts. Despite their aggregation for display purposes, the line items in the "Other" category are estimated separately. In most cases, estimates were derived based on trend analyses of data from FY90 to FY99. In all cases the estimates are scrutinized to ensure a proper accounting for administrative and legal anomalies.

Some of the larger accounts, notably pari-mutuel taxes, inheritance taxes, and investment income were estimated in close consultation with the administrators of each revenue source. The corporate license tax, while reported in the other category, was actually estimated in the corporation income tax model.

After tallying all of the accounts, the forecast calls for revenues of \$564.0 million in FY00, a decline of 3.4 percent compared to FY99. Investment income and inheritance taxes are both expected to fall sharply, more than offsetting modest growth in many of the smaller accounts. In the upcoming biennium, expectations are for collections of \$582.2 million and \$600.9 million.

## ***Road Fund: Major Accounts***

### ***Motor Fuels (Normal, Normal Use Tax, and Fuels Surtax)***

Motor fuels taxes are estimated independently by GOEA and the Transportation Cabinet. The estimates are then compared and an agreement between the two entities is reached before the estimates are presented to the CFG. Normal fuels taxes and the surtax are estimated with different equations, since gasoline and diesel fuel consumption are not always congruous. Normal fuels and the surtax are then added after estimation to get the fuels estimate. The FY00 estimate was complicated by overpayments in FY99 and early FY00. To compensate for this, the overpayment was removed from the Road Fund balance in FY00. Consequently, the growth rate for FY00 is -0.7 percent, representing total collections of \$441.7 million. More normal growth rates are expected in the biennium forecast. Collections are expected to total \$450.5 million in FY01 and \$460.4 million in FY02.

### ***Motor Vehicle Usage***

Much like the motor fuels taxes, GOEA and the Transportation Cabinet prepare separate forecasts for the motor vehicle usage tax. The GOEA model utilizes a time series vector autoregression model that permits structural predictors. The Transportation Cabinet uses trend analysis in calculating estimates for the usage tax and the motor vehicle rental tax. Motor vehicle usage receipts continue to exceed expectations as the consumer sector increases both the number and value of new car purchases. Receipts in FY00 are expected to total \$413.6 million, which computes to 10.1 percent growth over FY99. Growth is expected to moderate somewhat in the upcoming biennium. The forecast predicts receipts of \$439.2 million and \$465.1 million in FY01 and FY02 respectively.

### ***Other Revenue Sources***

The Transportation Cabinet monitors most of these revenue sources. The estimates incorporate historical growth patterns, recent statutory changes, and administrative factors that influence the flow of revenues. The biggest change compared to recent trends was predicted in the area of investment income, as the investment balances are predicted to be lower due to an accelerated schedule of project initiatives. The CFG considered the estimates and accepted them without revision.

**General Fund**  
**Consensus Forecast for FY00 to FY02, includes updated EMPOWER KY numbers**  
(millions of dollars)  
**January 2000**

	FY99		FY00		FY01		FY02	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Sales & Use	2,085.9	5.3	2,188.1	4.9	2,311.5	5.6	2,441.4	5.6
Individual Income	2,532.0	4.7	2,678.6	5.8	2,831.9	5.7	2,995.9	5.8
Corporation Income	312.1	-6.5	316.4	1.4	324.3	2.5	329.5	1.6
Coal Severance	154.5	-5.7	149.7	-3.1	146.9	-1.8	146.9	0.0
Property	370.4	2.1	383.2	3.5	398.0	3.9	410.4	3.1
Lottery	153.8	0.5	151.2	-1.7	152.0	0.5	153.0	0.7
Other	584.0	-1.4	564.0	-3.4	582.2	3.2	600.9	3.2
Corporate License	125.9	11.6	132.1	4.9	137.5	4.1	142.5	3.7
Investment Income	32.5	-38.8	26.2	-19.5	24.2	-7.6	23.7	-2.1
Inheritance	81.5	-22.8	60.0	-26.4	62.4	4.0	64.9	4.0
<b>Total General Fund*</b>	<b>6,192.6</b>	<b>3.1</b>	<b>6,431.2</b>	<b>3.9</b>	<b>6,746.8</b>	<b>4.9</b>	<b>7,078.0</b>	<b>4.9</b>

\* The historical total does not match the revenue receipts report because only net investment income from the tax revenue anticipation note (TRAN) is included in these estimates. The receipts report show \$6,198.4 million for FY99 instead of \$6,192.6 shown above. The difference of \$5.8 million is due to the paying off of maturing debt.

**NOTE:** Due to rounding, column totals may not add up to the bold-faced totals.

**Road Fund**  
**Preliminary Forecast for FY00 to FY02**  
(millions of dollars)  
**January 2000**

	FY99		FY00		FY01		FY02	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Motor Fuels & MF Use/Surtax	444.7	7.5	441.7	-0.7	450.5	2.0	460.4	2.2
Motor Vehicle Usage & Rental	375.7	2.4	413.6	10.1	439.2	6.2	465.1	5.9
License & Privilege (excl. WD)	100.7	6.5	102.6	1.9	105.0	2.4	107.6	2.4
Weight Distance Tax/Surtax	70.2	5.2	74.0	5.5	77.4	4.6	82.0	5.9
Toll Income	13.3	4.0	13.9	4.2	14.5	4.0	15.0	4.0
Other	52.1	-9.0	41.2	-21.0	36.6	-11.2	33.1	-9.6
<b>Total Road Fund</b>	<b>1,056.6</b>	<b>4.4</b>	<b>1,087.0</b>	<b>2.9</b>	<b>1,123.2</b>	<b>3.3</b>	<b>1,163.2</b>	<b>3.6</b>

Motor Fuels for FY99 contained an overpayment of \$15.1 million which was removed from Road Fund balance in FY00.

**General Fund Revenue (Actual and Estimated) Consensus Forecasting Group: January 2000**

<u>Source</u>	<u>Actual 1997-98</u>	<u>Actual 1998-99</u>	<u>Estimate 1999-00</u>	<u>Estimate 2000-01</u>	<u>Estimate 2001-02</u>
<b><u>Selected Sales and Gross Receipts Taxes</u></b>					
Sales & Use	1,981,297,580	2,085,899,677	2,188,100,000	2,311,500,000	2,441,400,000
Cigarette	15,130,443	14,673,839	14,100,000	13,500,000	13,000,000
Distilled Spirits Case Sales	79,120	78,333	100,000	100,000	100,000
Insurance Tax Foreign Companies	35,116,933	33,085,292	33,000,000	33,100,000	33,400,000
Insurance Tax Companies Other Than Life	52,600,230	54,431,503	57,100,000	60,000,000	62,900,000
Insurance Tax Fire Prevention Fund	2,514,029	2,654,984	2,800,000	2,900,000	3,000,000
Pari-Mutuel	4,845,922	7,179,163	6,700,000	6,900,000	7,100,000
Race Track Admission	211,759	241,307	200,000	200,000	200,000
Beer Consumption	6,149,889	6,258,224	6,300,000	6,400,000	6,500,000
Distilled Spirits Consumption	7,926,002	7,955,925	8,000,000	8,000,000	8,000,000
Wine Consumption	1,615,634	1,625,711	1,700,000	1,800,000	1,900,000
Beer Wholesale	29,787,991	30,612,099	31,500,000	32,400,000	33,300,000
Distilled Spirits Wholesale	12,974,726	13,398,478	13,700,000	14,000,000	14,400,000
Wine Wholesale	4,935,682	5,423,425	6,000,000	6,700,000	7,400,000
<b>TOTAL SEL. SALES AND GROSS RECEIPTS TAXES</b>	<b>\$2,155,185,940</b>	<b>\$2,263,517,960</b>	<b>\$2,369,300,000</b>	<b>\$2,497,400,000</b>	<b>\$2,632,500,000</b>

**License and Privilege Taxes**

Coal Severance Tax	163,731,038	154,476,772	149,700,000	146,900,000	146,900,000
Mineral Severance Tax	11,115,009	11,848,098	12,800,000	13,800,000	14,800,000
Natural Gas Severance Tax	9,077,076	7,106,785	6,800,000	6,600,000	6,300,000
Oil Production	2,135,212	1,344,942	1,200,000	1,000,000	900,000
Corporate License	112,793,160	125,912,523	132,100,000	137,500,000	142,500,000
Cigarette License	87,130	86,374	100,000	100,000	100,000
Amusement Machine License	0	0	0	0	0
Race Track License	407,750	395,525	400,000	400,000	400,000
Marijuana and Controlled Substance Tax	4,135	5,809	0	0	0
Bank Franchise Tax	35,059,801	47,059,959	42,000,000	42,000,000	42,000,000
Corporation Organization	1,001,719	500,429	500,000	500,000	500,000
Cir. Ct. Clk. - Driver License Receipts	1,832,938	619,864	500,000	500,000	500,000
Sand and Gravel License	875	7,475	0	0	0
Relicensure Fees (Driver's License)	1,168,437	97,589	100,000	0	0
Alcoholic Beverage License Suspension	229,580	87,800	0	0	0
Convention Center Caterer License	6,000	0	0	0	0
<b>TOTAL LICENSE AND PRIVILEGE TAXES</b>	<b>\$338,964,048</b>	<b>\$349,549,944</b>	<b>\$346,200,000</b>	<b>\$349,300,000</b>	<b>\$355,000,000</b>

**General Fund Revenue (Actual and Estimated) Consensus Forecasting Group: January 2000**

<u>Source</u>	<u>Actual 1997-98</u>	<u>Actual 1998-99</u>	<u>Estimate 1999-00</u>	<u>Estimate 2000-01</u>	<u>Estimate 2001-02</u>
<u>Income Taxes</u>					
Corporation Income Tax	333,666,393	312,066,675	316,400,000	324,300,000	329,500,000
Individual Income Tax	2,418,144,438	2,532,005,348	2,678,600,000	2,831,900,000	2,995,900,000
<b>Total Income Tax</b>	<b>\$2,751,810,831</b>	<b>\$2,844,072,023</b>	<b>\$2,995,000,000</b>	<b>\$3,156,200,000</b>	<b>\$3,325,400,000</b>
<u>Property Taxes</u>					
General - Real	154,245,454	161,723,137	167,400,000	173,300,000	179,300,000
General - Tangible Personal	44,791,520	51,877,761	54,300,000	56,800,000	58,500,000
General - Intangible Personal	21,129,328	18,103,920	20,000,000	20,500,000	21,000,000
General - Motor Vehicle	78,487,356	73,710,331	76,000,000	78,300,000	80,300,000
Bank Deposits	324,856	398,666	400,000	400,000	400,000
Distilled Spirits Ad Valorem	389,838	394,176	400,000	400,000	400,000
Marginal Accounts	13,229	153,777	100,000	100,000	100,000
Omitted Property Tax	9,232,245	7,062,744	8,700,000	9,100,000	9,400,000
Delinquent Tax - Prior Year	3,787,180	4,864,202	5,800,000	5,300,000	5,300,000
Apportioned Vehicles	2,474,589	0	500,000	2,500,000	2,600,000
Public Service Company	43,528,408	50,461,577	48,000,000	49,500,000	51,000,000
Domestic Life Insurance	-145,183	-1,392,148	-500,000	-300,000	200,000
Retirement Plans	363	396	0	0	0
Building & Loan Assoc. Capital Stock	4,533,322	3,046,010	2,200,000	2,200,000	2,000,000
<b>TOTAL PROPERTY TAXES</b>	<b>\$362,792,505</b>	<b>\$370,404,549</b>	<b>\$383,200,000</b>	<b>\$398,000,000</b>	<b>\$410,400,000</b>
<u>Inheritance Taxes</u>					
Inheritance Tax	\$105,538,130	\$81,483,083	60,000,000	62,400,000	64,900,000
<b>TOTAL INHERITANCE TAXES</b>	<b>\$105,538,130</b>	<b>\$81,483,083</b>	<b>\$60,000,000</b>	<b>\$62,400,000</b>	<b>\$64,900,000</b>

General Fund Revenue (Actual and Estimated) Consensus Forecasting Group: January 2000

<u>Source</u>	<u>Actual 1997-98</u>	<u>Actual 1998-99</u>	<u>Estimate 1999-00</u>	<u>Estimate 2000-01</u>	<u>Estimate 2001-02</u>
<b><u>Departmental Fees, Sales and Rentals</u></b>					
Public Service Commission Assessments-	3,150,625	9,597,723	8,600,000	10,600,000	11,000,000
Insurance - Retaliatory Taxes & Fees-	1,268,225	1,034,240	1,100,000	1,200,000	1,300,000
Sec. of State - Process Agents Fees	2,448,401	2,379,470	2,400,000	2,500,000	2,500,000
Circuit Court Clk. - Civil Filing Fee Receipts-	7,229,568	7,459,721	7,700,000	7,900,000	8,100,000
Circuit Court Clk. - Bond Filing Fee-	528,409	524,055	500,000	500,000	500,000
Circuit Court Clk. - 10% Bond Fee-	528,906	543,991	600,000	600,000	700,000
Circuit Court Clk. - Receipts for Services-	2,175,116	2,253,273	2,400,000	2,500,000	2,600,000
Strip Mining & Reclamation Fees-	2,346,744	0	0	0	0
Strip Mining & Reclamation - Fines Coll.	837,246	783,797	800,000	700,000	700,000
Master Commissioner Sales-	12,447	32,619	0	0	0
Miscellaneous - Sales of Assets, etc.-	8,218	0	0	0	0
<b>TOTAL DEPARTMENT FEES, SALES AND RENTALS</b>	<b>\$20,533,905</b>	<b>\$24,608,889</b>	<b>\$24,100,000</b>	<b>\$26,600,000</b>	<b>\$27,600,000</b>
<b><u>Investment Receipts</u></b>					
General Depository Investment Income *	51,526,423	30,791,370	24,300,000	22,200,000	21,400,000
Circuit Court Clk. - Interest Income	1,091,981	1,146,801	1,300,000	1,400,000	1,500,000
Interest on Investments - Withholding Accounts	550,000	603,906	600,000	700,000	700,000
<b>TOTAL INVESTMENT RECEIPTS</b>	<b>\$53,168,404</b>	<b>\$32,542,077</b>	<b>\$26,200,000</b>	<b>\$24,200,000</b>	<b>\$23,700,000</b>
<b><u>Miscellaneous Revenue</u></b>					
Lottery	153,000,000	153,800,000	151,200,000	152,000,000	153,000,000
Legal Process - Clk. Supreme Court	154,322	118,975	100,000	100,000	100,000
Legal Process - Clk. Court of Appeals	8,872	6,969	0	0	0
Dept. of Rev. Legal Process Taxes - Co. Clk.	3,310,881	3,440,481	3,500,000	3,500,000	3,600,000
Judgment Fees for Delinquent Taxes	847	856	0	0	0
TVA - In Lieu of Taxes - State Portion	4,646,467	4,586,009	4,700,000	4,800,000	4,900,000
F.H.A. - In Lieu of Taxes	44,503	33,272	0	0	0
R.E.C.C. and R.T.C.C. In Lieu of Taxes	320	330	0	0	0
Business Development - In Lieu of Taxes	267	0	0	0	0
Dept. of Rev. Penalty & Int. of Co. Officials	-5,351	-7,803	0	0	0
Abandoned Property	6,817,011	6,311,672	6,600,000	6,700,000	6,900,000
Legal Process - Attorney General's Office	30	10,000	0	0	0
Circuit Court Clk. - Fish & Wildlife Fines	87,747	84,823	100,000	100,000	100,000



General Fund Revenue (Actual and Estimated) Consensus Forecasting Group: January 2000

<u>Source</u>	<u>Actual</u> <u>1997-98</u>	<u>Actual</u> <u>1998-99</u>	<u>Estimate</u> <u>1999-00</u>	<u>Estimate</u> <u>2000-01</u>	<u>Estimate</u> <u>2001-02</u>
Cir. Ct. Clk. - Criminal/Traffic Fines & Costs	39,704,021	43,957,955	47,400,000	51,100,000	55,100,000
Circuit Court Clk. - Bond Forfeitures	828,289	944,780	1,100,000	1,300,000	1,600,000
Fines Water Pollution	0	0	0	0	0
NREP - Haz. Material & Waste - Fines & Pen.	0	0	0	0	0
Fines for Air Pollution Emission	0	0	0	0	0
Unclassified Receipts	1,547,042	1,486,813	1,500,000	1,500,000	1,600,000
Other Fines & Unhonored Checks	1,923,758	2,779,519	3,000,000	3,300,000	3,600,000
<b>TOTAL MISCELLANEOUS REVENUE</b>	<b>\$212,069,026</b>	<b>\$217,554,651</b>	<b>\$219,300,000</b>	<b>\$224,600,000</b>	<b>\$230,600,000</b>
<b>MISC. NOT IN REVENUE ESTIMATES</b>	<b>\$4,892,572</b>	<b>\$8,871,896</b>	<b>\$8,000,000</b>	<b>\$8,000,000</b>	<b>\$8,000,000</b>
Statistical Discrepancy	\$0	\$0	-\$100,000	\$100,000	-\$100,000
<b>TOTAL GENERAL FUND</b>	<b>\$6,004,955,360</b>	<b>\$6,192,605,072</b>	<b>\$6,431,200,000</b>	<b>\$6,746,800,000</b>	<b>\$7,078,000,000</b>

\*Investment income is shown in this report at the net affect of the expense of generating that income  
**NOTE:** Due to rounding, column totals may not add up to the bold-faced totals.

Road Fund Revenue (Actual and Estimated) Consensus Forecasting Group: January 2000

<u>Source</u>	<u>Actual</u> <u>1997-98</u>	<u>Actual</u> <u>1998-99</u>	<u>Estimate</u> <u>1999-00</u>	<u>Estimate</u> <u>2000-01</u>	<u>Estimate</u> <u>2001-02</u>
<b>Sales and Gross Receipts Taxes</b>					
Motor Fuels Normal & Normal Use	389,148,668	420,749,080	416,200,000	424,000,000	432,700,000
Motor Vehicle Usage	325,308,579	331,184,288	365,600,000	388,700,000	412,600,000
Motor Vehicle Rental Usage	41,450,720	44,465,916	48,000,000	50,500,000	52,500,000
Supplemental Fuel Surtax	70,577	51,261	0	0	0
Motor Fuels Surtax	24,378,280	23,900,921	25,500,000	26,500,000	27,700,000
Truck Trip Permits	521,868	441,870	500,000	500,000	500,000
Usage Tax on Buses	32,684	8,678	10,000	10,000	10,000
<b>TOTAL SALES AND GROSS RECEIPTS TAX</b>	<b>\$780,911,374</b>	<b>\$820,802,014</b>	<b>\$855,810,000</b>	<b>\$890,210,000</b>	<b>\$926,010,000</b>
<b><u>License and Privilege Taxes</u></b>					
County Clerk Penalty	45,170.89	57,132.24	60,000	60,000	60,000
Nonreciprocal Permits	267,940	261,518	275,000	275,000	275,000
Weight Distance Tax	66,636,093	70,151,729	74,000,000	77,400,000	82,000,000
Motor Vehicle Operator' s License	3,525,005	3,401,282	3,400,000	3,450,000	3,500,000
Operator' s License-Driver Education	391,175	621,898	625,000	630,000	635,000
Operator' s License - Photography Program	1,150,817	1,217,146	1,230,000	1,245,000	1,260,000
Civil Air Patrol Plates	901	657	600	600	600
Passenger Car License	23,604,679	23,356,526	23,600,000	23,800,000	24,100,000
Personalized License Plates	439,920	489,388	300,000	300,000	300,000
Judicial License Plates	747	1,712	900	900	900
Volunteer Fireman License Tags	33,799	34,455	34,500	35,000	35,500
P.O.W. License Plates	320	3,820	1,000	1,000	1,000
General Assembly License Plates	1,485	3,932	1,600	1,600	1,600
Historic Vehicle License Plates	109,535	125,113	140,000	155,000	175,000
National Guard License Plates	10,501	23,184	20,000	20,000	20,000
Child Victims License Plates	66,925	232,009	250,000	255,000	260,000
Amateur Radio Plates	10,443	22,779	10,000	10,000	10,000
Driveaway and Utility Trailer	5,434	4,405	4,500	4,700	4,900

Road Fund Revenue (Actual and Estimated) Consensus Forecasting Group: January 2000

<u>Source</u>	<u>Actual 1997-98</u>	<u>Actual 1998-99</u>	<u>Estimate 1999-00</u>	<u>Estimate 2000-01</u>	<u>Estimate 2001-02</u>
DES License Plates	7,944	12,370	10,000	10,000	10,000
Masonic License Plates	32,755	55,927	30,500	32,000	34,000
Truck License - State Share	19,523,566	20,543,524	21,000,000	21,700,000	22,400,000
Motorcycle License	195,495	224,772	235,000	245,000	255,000
Dealers License	286,360	288,694	290,000	290,000	290,000
Transfer License	551,857	561,278	580,000	580,000	580,000
Driver's License - Motorcycle Education	154,855	172,510	174,000	176,000	178,000
Motorcycle License - Motorcycle Education	156,754	180,225	182,000	184,000	186,000
Trailer License	1,233,211	1,258,017	1,300,000	1,350,000	1,400,000
Truck Permits	53,880	73,208	75,000	77,000	79,000
Overweight Coal Truck Permit	808,104	822,074	825,000	825,000	825,000
Bus License - Except City	31,995	36,153	37,000	38,000	39,000
Bus Certificates and Permits	850	18,426	18,500	18,500	18,500
Taxi License	28,898	29,482	31,000	32,000	33,000
Contract Taxicab Permit	10,440	9,930	10,000	10,000	10,000
Highway Emergency Permit	6,310,570	6,561,273	6,700,000	6,900,000	7,100,000
U-Drive-It Permits	1,110	4,392	4,500	4,500	4,500
U-Drive-Licenses	2,525,118	2,763,204	2,800,000	2,850,000	2,900,000
Horse Council License Plate		23,232	25,000	25,000	25,000
Temporary Tags	417,047	450,955	480,000	490,000	500,000
Dealer Demonstrator Tags	6,805	5,642	6,000	6,000	6,000
Environmental License Plate	519,877	615,569	650,000	660,000	670,000
Truck Proportional Registration	25,682,055	29,536,040	30,700,000	31,700,000	32,700,000
Junk Yard License	1,704	5,271	5,300	5,300	5,300
Army Reserve Plates	8,853	28,519	10,000	10,000	10,000
Pearl Harbor Survivor Plates	45	1,224	200	200	200
Purple Heart Recipient Plate	27,107	49,036	26,000	26,000	26,000
Collegiate Plates	130,591	283,662	120,000	120,000	120,000
Civic Event Plates	723	710	700	700	700
Street Rod License Plate	2,112	3,280	3,500	3,700	3,900
Fraternal Order of Police License Plates	47,023	98,264	100,000	102,000	102,000
Industrial Hauling Permits	180	0	0	0	0
Motor Carrier Identification Cards	6,129,521	6,132,846	6,200,000	6,300,000	6,400,000
Weight Distance Surtax	29,364	4,138	0	0	0
<b>TOTAL LICENSE AND PRIVILEGE TAX</b>	<b>\$161,217,660</b>	<b>\$170,862,529</b>	<b>\$176,582,300</b>	<b>\$182,414,700</b>	<b>\$189,550,600</b>

Road Fund Revenue (Actual and Estimated) Consensus Forecasting Group: January 2000

<u>Source</u>	<u>Actual 1997-98</u>	<u>Actual 1998-99</u>	<u>Estimate 1999-00</u>	<u>Estimate 2000-01</u>	<u>Estimate 2001-02</u>
<b><u>Departmental Fees, Sales and Rentals</u></b>					
Specification and Blue Print Sales	196,177	205,750	205,000	210,000	215,000
Miscellaneous Rentals	387,015	430,530	450,000	475,000	500,000
Sale of Assets	538,301	289,215	300,000	300,000	300,000
Proposal Sales	62,818	80,394	80,000	80,000	80,000
U-Drive-It Penalty and Interest	24,174	16,754	20,000	20,000	20,000
Penalty & Interest - Weight and Use Taxes	1,282,115	1,223,024	1,250,000	1,300,000	1,350,000
Medical Alert Stickers	593	626	600	600	600
toll Credit card receipts	83,029	91,516	95,000	100,000	105,000
Motor Vehicle Title Receipts	3,556,404	3,834,392	4,000,000	4,200,000	4,400,000
Operator' s License Reinstatement Fees	233,962	1,175,172	1,200,000	1,250,000	1,300,000
Operator' s License Name Sales	17,855	50,744	50,000	50,000	50,000
Driving History Record Fee	4,832,807	4,458,957	4,500,000	4,550,000	4,600,000
Traffic Offenders' School Fees	1,344,786	1,575,742	1,650,000	1,700,000	1,750,000
Highway Sign Logo Rental	504,837	534,264	545,000	555,000	565,000
Fines and Forfeitures	573	394	5,000	5,000	5,000
Coal Road Recovery Fines	17,555	32,516	35,000	35,000	35,000
MVL Computer Services	371,502	616,399	625,000	635,000	645,000
<b>TOTAL DEPART. FEES, SALES &amp; RENTALS</b>	<b>\$13,454,505</b>	<b>\$14,616,388</b>	<b>\$15,010,600</b>	<b>\$15,465,600</b>	<b>\$15,920,600</b>
<b><u>Toll Facility Income</u></b>					
Audubon Parkway	1,361,282	1,368,654	1,400,000	1,450,000	1,500,000
Daniel Boone Parkway	3,164,519	3,188,378	3,300,000	3,400,000	3,500,000
Green River Parkway	4,333,093	4,485,941	4,700,000	4,900,000	5,100,000
Cumberland Parkway	4,139,654	4,299,694	4,500,000	4,700,000	4,900,000
<b>TOTAL TOLL FACILITY INCOME</b>	<b>\$12,998,548</b>	<b>\$13,342,667</b>	<b>\$13,900,000</b>	<b>\$14,450,000</b>	<b>\$15,000,000</b>

Road Fund Revenue (Actual and Estimated) Consensus Forecasting Group: January 2000

<u>Source</u>	<u>Actual 1997-98</u>	<u>Actual 1998-99</u>	<u>Estimate 1999-00</u>	<u>Estimate 2000-01</u>	<u>Estimate 2001-02</u>
<u>Investment Income</u>					
Investment Income	41,950,532	35,588,653	25,000,000	20,000,000	16,000,000
<b>TOTAL INVESTMENT INCOME</b>	<b>\$41,950,532</b>	<b>\$35,588,653</b>	<b>\$25,000,000</b>	<b>\$20,000,000</b>	<b>\$16,000,000</b>
<u>Miscellaneous Income</u>					
Highway Miscellaneous Receipts	104,460	140,993	160,000	160,000	160,000
Property Damage	391,632	484,400	500,000	510,000	520,000
<b>TOTAL MISCELLANEOUS INCOME</b>	<b>\$496,091</b>	<b>\$625,392</b>	<b>\$660,000</b>	<b>\$670,000</b>	<b>\$680,000</b>
<b>MISC. NOT IN REVENUE ESTIMATES</b>	<b>\$760,964</b>	<b>\$758,510</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL ROAD FUND REVENUE</b>	<b>\$1,011,789,673</b>	<b>\$1,056,596,152</b>	<b>\$1,086,962,900</b>	<b>\$1,123,210,300</b>	<b>\$1,163,161,200</b>

## **Section V**

# **Tobacco Master Settlement Agreement**

## ***Master Settlement Agreement Payments***

---

**T  
O  
B  
A  
C  
C  
O  
  
S  
E  
T  
T  
L  
E  
M  
E  
N  
T**

On November 23, 1998, the attorneys general of forty-six states, five commonwealths and territories, and the District of Columbia reached an agreement with five major tobacco companies, representing 97.5 percent of the tobacco industry. Worth approximately \$229 billion over the next twenty-six years, the Master Settlement Agreement (MSA) will provide payments to states based on a formula developed by the attorneys general. Four additional states – Florida, Minnesota, Mississippi, and Texas – individually settled with the tobacco industry for more than \$40 billion.

In the early years of the agreement, the participating states receive “initial” payments, which are distinct from the “annual” payments (which are ongoing). The initial payments total \$12.7 billion disbursed over five years: 1998 and 2000 through 2003. Initial payments have a disbursement date of January 15<sup>th</sup>, with the exception of the 1998 initial payment which was held pending final approval of the MSA. The annual payments commence in 2000 and continue indefinitely. They tally to \$207.9 billion through 2025. These payments have a disbursement date of April 15<sup>th</sup>. The third and final type of payment made to states is the “strategic contribution fund” payment, which begins in 2008 and sunsets in 2017. This category was included to reward states for contributions to the tobacco settlement. The sum total of these payments comes to \$8.6 billion over the ten year span.

### ***Current Status***

The states achieved their number one legislative priority on Friday, May 21, 1999, when President Clinton signed into law the Fiscal 1999 Emergency Supplemental Appropriations Bill. This bill contained the Hutchison/Graham tobacco recoupment protection language that will ensure that the tobacco settlement funds will go to the states without federal strings or earmarks. On November 12, the National Association of Attorneys General announced that the settlement had reached final approval status, meaning that tobacco payments were scheduled to arrive in state coffers before the end of November. Additional payments will come in January and April of 2000, and annual payments will continue in perpetuity.

Kentucky has already received the first two payments outlined in the tobacco settlement agreement. These payments represent the 1998 and 2000 initial payments. A forecast of expected payments for the remainder of FY00 and the upcoming biennium is discussed below.

### ***Forecast***

The Governor’s Office for Economic Analysis was asked to forecast the payments to be received by the Commonwealth from the Master Settlement Agreement. A preliminary forecast was presented to the Consensus Forecasting Group (CFG) at the December meeting. The final forecast was submitted to the CFG at the January meeting where it was approved without revision.

Payments are expected to total \$137.8 million in FY00. This amount is higher than any other year in the forecast because a one-time payment (the 1998 initial payment of \$43.5 million) was received in FY00. The forecast calls for \$101.1 million in FY01 followed by \$121.6 million in FY02. The large jump from FY01 to FY02 is attributable to the gradual increase in the base amounts paid by the participating tobacco manufacturers into the trust fund for state disbursements.

### ***Forecasting Methodology***

The forecasting methodology was dictated by the terms of (MSA). The MSA contains several caveats and potential reduction factors that could potentially diminish the payments to the states . Therefore, GOEA's forecasting model started with the black-letter payments that are outlined in the MSA. We adjusted these payments by our best forecast of the reduction factors. Since all states participating in the MSA are affected by the reduction factors, GOEA was able to compare forecasting ideas with other states and organizations, including the National Governors' Association.

It should be noted that the order of the adjustment factors is important. The inflation adjustment precedes the volume adjustment, which precedes the adjustment for previously settled states.

### ***Inflation Adjustment***

Each year, an inflation adjustment is applied to that year's annual payment amount, but not to the initial payment. The inflation adjustment equals the greater of growth in the CPI index or 3.0 percent. Since inflation has been in check in recent years, the 3.0 percent growth was used in the forecast for this biennium.

### ***Volume Adjustment***

Once the inflation adjustment is made, the volume adjustment is applied to both the initial payment and the annual payment. The formula for the volume adjustment is specified directly in the MSA: "In the event the Actual Volume is less than the Base Volume, the Applicable Base Payment shall be reduced by subtracting from it the amount equal to such Applicable Base Payment multiplied by 0.98 and by the result of one minus the ratio of Actual Volume to Base Volume."

Several points stand out when considering the formula for the volume adjustment. First, in the event that actual volume falls below the 1997 base volume, a 2.0 percent automatic reduction occurs before multiplying the resultant by the volume ratio. Second, volume adjustments are cumulative. Since the base volume never changes, consistent declines in domestic shipments will build cumulatively upon one another. Finally, domestic shipment data are used in the formula. Therefore the forecast of MSA payments will necessarily rely on a forecast of domestic shipments from the manufacturers participating in the MSA.

GOEA has obtained volume adjustment forecasts from several sources. These forecasts are remarkably consistent, since they are all based on the same limited historical data. The current year has a larger than normal volume adjustment due to the abnormally large inventories that were stockpiled at the end of 1998 in anticipation of the increases in cigarette prices. These large inventories reduced 1999 shipments vis-à-vis the 1997 base levels, causing an estimated volume reduction of 14.2 percent.

### ***Previously Settled States Adjustment***

The third step in calculating the payment is to apply the previously settled states reduction (PSS). This reduction reflects payment to the four states —Florida, Minnesota, Mississippi, and Texas—that settled with the industry prior to the MSA. The percentage is 12.45 percent on payments through 2006, 12.24 percent from 2007-2017, and 11.07 percent in 2018 and thereafter.

### ***Other Adjustments***

GOEA considered the first three adjustments when estimating the MSA payments. The total, after these adjustments, was multiplied by the Kentucky state share (1.76 percent) to get the final estimates. There are, however, other reduction factors that GOEA will monitor that could potentially erode MSA payments beyond the current biennium.



The most notable of the remaining reductions is the Non-Participating Manufacturers' (NPM) Adjustment . If an independent economic consultant determines that Participating Manufacturers experience a market share loss of more than 2.0 percent—measured against a 1997 baseline—due to the MSA, a reduction to certain state payments is made. This protective clause was added because the manufacturers participating in the MSA must artificially inflate their cigarette prices to recoup the revenues lost to settlement payments. This drives a wedge between the incremental cost of producing a pack of cigarettes and the selling price of the product. The price gap leaves the potential for a competitor to enter the market and lower the market share of the participating manufacturers.

**APPENDIX A**

**Receipts**  
**for**  
**First Half FY00**

**KENTUCKY STATE GOVERNMENT REVENUE  
GENERAL FUND REVENUE**

	Second Quarter 1999-2000	Second Quarter 1998 - 1999	% Change	% of Total	Year-to Date 1999 - 2000	Year-to Date 1998 - 1999	% Change	% of Total
<b>TOTAL GENERAL FUND</b>	<b>\$1,652,396,856</b>	<b>\$1,582,778,229</b>	<b>4.4%</b>	<b>100.0%</b>	<b>\$3,127,142,907</b>	<b>\$3,020,589,540</b>	<b>3.5%</b>	<b>100.0%</b>
Tax Receipts	\$1,582,961,740	\$1,513,426,712	4.6%	95.8%	\$2,983,282,604	\$2,874,581,982	3.8%	95.4%
Sales and Gross Receipts	\$572,469,642	\$562,714,010	1.7%	34.6%	\$1,164,209,508	\$1,122,282,858	3.7%	37.2%
Beer Consumption	1,390,180	1,458,178	-4.7%	0.1%	3,157,182	3,242,644	-2.6%	0.1%
Beer Wholesale	7,445,284	7,461,960	-0.2%	0.5%	16,321,749	15,841,826	3.0%	0.5%
Cigarette	3,707,015	3,775,656	-1.8%	0.2%	7,396,713	7,755,336	-4.6%	0.2%
Distilled Spirits Case Sales	21,059	19,566	7.6%	0.0%	42,156	39,471	6.8%	0.0%
Distilled Spirits Consumption	2,194,863	1,981,011	10.8%	0.1%	4,179,750	3,976,177	5.1%	0.1%
Distilled Spirits Wholesale	3,613,570	3,294,818	9.7%	0.2%	6,891,642	6,639,299	3.8%	0.2%
Insurance Premium	7,671,498	8,722,585	-12.1%	0.5%	29,957,912	29,116,944	2.9%	1.0%
Pari-Mutuel	1,885,483	1,813,231	4.0%	0.1%	2,870,262	2,856,988	0.5%	0.1%
Race Track Admission	55,905	46,995	19.0%	0.0%	167,392	169,789	-1.4%	0.0%
Sales and Use	542,317,120	532,297,519	1.9%	32.8%	1,089,379,336	1,049,266,437	3.8%	34.8%
Wine Consumption	480,963	411,303	16.9%	0.0%	869,957	796,725	9.2%	0.0%
Wine Wholesale	1,686,703	1,431,187	17.9%	0.1%	2,975,457	2,581,224	15.3%	0.1%
License and Privilege	\$61,100,060	\$67,239,725	-9.1%	3.7%	\$119,772,687	\$128,085,464	-6.5%	3.8%
Alc. Bev. License Suspension	21,800	24,750	-11.9%	0.0%	20,700	46,000	-55.0%	0.0%
Coal Severance	36,772,609	39,135,588	-6.0%	2.2%	73,973,212	80,170,453	-7.7%	2.4%
Corporation License	15,592,456	17,207,275	-9.4%	0.9%	30,799,211	30,587,173	0.7%	1.0%
Corporation Organization	84,207	26,325	219.9%	0.0%	192,036	343,401	-44.1%	0.0%
Occupational Licenses	10,299	6,681	54.1%	0.0%	34,512	21,685	59.2%	0.0%
Oil Production	709,906	345,778	105.3%	0.0%	1,280,879	681,836	87.9%	0.0%
Race Track License	102,800	152,273	-32.5%	0.0%	250,800	304,473	-17.6%	0.0%
Bank Franchise Tax	2,193,482	4,741,957	-53.7%	0.1%	1,838,105	4,741,310	-61.2%	0.1%
Driver License Fees	74,546	108,236	-31.1%	0.0%	201,310	486,944	-58.7%	0.0%
Minerals Severance	3,479,657	3,741,048	-7.0%	0.2%	7,378,440	6,947,059	6.2%	0.2%
Natural Gas Severance	2,058,301	1,749,814	17.6%	0.1%	3,803,483	3,755,131	1.3%	0.1%
Income	\$719,975,890	\$682,871,945	5.4%	43.6%	\$1,420,502,022	\$1,360,969,621	4.4%	45.4%
Corporation	79,944,373	81,830,068	-2.3%	4.8%	150,339,801	152,119,095	-1.2%	4.8%
Individual	640,031,517	601,041,877	6.5%	38.7%	1,270,162,221	1,208,850,526	5.1%	40.6%

**KENTUCKY STATE GOVERNMENT REVENUE  
GENERAL FUND REVENUE**

	Second Quarter 1999 - 2000	Second Quarter 1998 - 1999	% Change	% of Total	Year-to Date 1999-2000	Year-to Date 1998-1999	% Change	% of Total
Property	\$209,103,340	\$178,323,354	17.3%	12.7%	\$240,193,336	\$218,869,054	9.7%	7.7%
Bank Deposits	0	0	—	0.0%	0	299	—	0.0%
Building & Loan Association	0	0	—	0.0%	81,697	432,053	-81.1%	0.0%
Distilled Spirits	449,860	343,627	30.9%	0.0%	449,860	367,048	22.6%	0.0%
General - Intangible	17,261,106	12,280,488	40.6%	1.0%	17,015,756	10,007,466	70.0%	0.5%
General - Real	107,756,280	103,110,649	4.5%	6.5%	108,341,269	104,636,661	3.5%	3.5%
General - Tangible	52,116,335	44,603,745	16.8%	3.2%	71,566,597	57,587,166	24.3%	2.3%
Marginal Accounts	(0)	2,083	—	0.0%	13,576	56,960	-76.2%	0.0%
Omitted & Delinquent	2,117,103	3,811,845	-44.5%	0.1%	9,731,060	4,888,014	99.1%	0.3%
Public Service	29,043,676	14,125,101	105.6%	1.8%	32,608,061	42,519,861	-23.3%	1.0%
Other	358,981	45,816	683.5%	0.0%	385,460	(1,626,473)	—	0.0%
Inheritance	\$16,881,561	\$20,072,087	-15.9%	1.0%	\$32,942,770	\$40,100,596	-17.8%	1.1%
Miscellaneous	\$3,431,246	\$2,205,593	55.6%	0.2%	\$5,662,280	\$4,274,390	32.5%	0.2%
Legal Process	829,444	867,590	-4.4%	0.1%	1,780,410	1,792,619	-0.7%	0.1%
T. V. A. In Lieu Payments	2,563,907	1,313,459	95.2%	0.2%	3,841,475	2,456,729	56.4%	0.1%
Other	37,895	24,544	54.4%	0.0%	40,395	25,042	61.3%	0.0%
Nontax Receipts	\$68,403,007	\$68,582,980	-0.3%	4.1%	\$140,778,853	\$144,108,114	-2.3%	4.5%
Departmental Fees	4,081,155	3,685,519	10.7%	0.2%	17,145,854	17,036,410	0.6%	0.5%
Fines & Forfeitures	11,316,260	11,189,529	1.1%	0.7%	23,408,286	21,955,258	6.6%	0.7%
Interest on Investments	9,903,823	9,886,333	0.2%	0.6%	17,512,828	19,083,343	-8.2%	0.6%
Lottery	37,500,000	39,000,000	-3.8%	2.3%	76,800,000	80,600,000	-4.7%	2.5%
Miscellaneous	5,601,769	4,821,598	16.2%	0.3%	5,911,885	5,433,102	8.8%	0.2%
Redeposit of State Funds	\$1,032,109	\$768,537	34.3%	0.1%	\$3,081,451	\$1,899,444	62.2%	0.1%

**KENTUCKY STATE GOVERNMENT REVENUE  
ROAD FUND REVENUE**

	Second Quarter 1999 - 2000	Second Quarter 1998 - 1999	% Change	% of Total	Year-to Date 1999 - 2000	Year-to Date 1998 - 1999	% Change	% of Total
<b>TOTAL ROAD FUND</b>	<b>\$243,342,730</b>	<b>\$243,975,243</b>	<b>-0.3%</b>	<b>100.0%</b>	<b>\$524,678,696</b>	<b>\$502,160,831</b>	<b>4.5%</b>	<b>100.0%</b>
Tax Receipts-								
State Road Fund	\$227,069,437	\$226,269,855	0.4%	93.3%	\$498,413,804	\$472,037,103	5.6%	95.0%
Tax Receipts - County Share	2,521,620	3,186,757	-20.9%	1.0%	5,555,932	6,311,474	-12.0%	1.1%
Total Tax Receipts	\$229,591,058	\$229,456,612	0.1%	94.3%	\$503,969,737	\$478,348,577	5.4%	96.1%
Sales and Gross Receipts	\$191,086,337	\$191,352,409	-0.1%	78.5%	\$423,230,917	\$399,030,632	6.1%	80.7%
Motor Fuels Taxes	94,114,242	98,747,816	-4.7%	38.7%	211,501,704	205,784,502	2.8%	40.3%
Motor Fuels Use & Surtax	4,536,494	3,431,283	32.2%	1.9%	7,582,198	6,725,219	12.7%	1.4%
Truck Trip Permits (fuel)	114,804	101,360	13.3%	0.0%	210,779	213,120	-1.1%	0.0%
Motor Vehicle Usage	92,320,797	89,071,949	3.6%	37.9%	203,936,236	186,307,791	9.5%	38.9%
License and Privilege	\$38,504,721	\$38,104,204	1.1%	15.8%	\$80,738,820	\$79,317,945	1.8%	15.4%
Motor Vehicles	14,767,795	14,704,538	0.4%	6.1%	35,257,470	35,345,004	-0.2%	6.7%
Motor Vehicle Operators	1,416,446	1,577,778	-10.2%	0.6%	2,471,789	2,599,636	-4.9%	0.5%
Weight Distance	18,615,680	17,573,722	5.9%	7.6%	37,125,525	34,826,582	6.6%	7.1%
Truck Decal Fees	16,532	30,832	-46.4%	0.0%	66,318	91,984	-27.9%	0.0%
Other Special Fees	3,688,269	4,217,334	-12.5%	1.5%	5,817,718	6,454,739	-9.9%	1.1%
Nontax Receipts	\$16,214,990	\$17,535,967	-7.5%	6.7%	\$25,959,602	\$29,825,293	-13.0%	4.9%
Departmental Fees	3,075,109	3,058,288	0.6%	1.3%	6,267,571	6,260,209	0.1%	1.2%
In Lieu of Traffic Fines	352,372	407,233	-13.5%	0.1%	743,662	734,330	1.3%	0.1%
Highway Tolls	3,248,709	3,728,587	-12.9%	1.3%	6,743,743	6,560,560	2.8%	1.3%
Investment Income	9,412,172	10,197,248	-7.7%	3.9%	11,777,516	15,953,380	-26.2%	2.2%
Miscellaneous	126,628	144,610	-12.4%	0.1%	427,109	316,815	34.8%	0.1%
Inter-Agency Motor Pool	\$0	\$0	—	0.0%	\$0	\$0	—	0.0%
Motor Carrier Taxes - Undistributed	\$0	\$0	—	0.0%	\$0	\$0	—	0.0%
Redeposit of State Funds	\$58,303	\$169,422	-65.6%	0.0%	\$305,290	\$298,435	2.3%	0.1%

**APPENDIX B**

**Summary Statistics  
for  
General and Road Funds**

**Major Revenue Sources  
Fiscal Years 1990-1999**

**SUMMARY STATISTICS FOR GENERAL AND ROAD FUNDS  
MAJOR REVENUE SOURCES  
FISCAL YEARS 1990-1999**

**GENERAL FUND**

TOTAL RECEIPTS			ALCOHOLIC BEVERAGE TAXES Malt Beverage		
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
1998-99	\$ 6,198,387,525	3.1%	1998-99	\$ 36,870,323	2.6%
1997-98	6,011,806,561	6.1%	1997-98	35,937,878	3.2%
1996-97	5,663,553,824	6.1%	1996-97	34,830,419	1.0%
1995-96	5,336,883,824	3.5%	1995-96	34,489,349	2.0%
1994-95	5,154,077,980	10.9%	1994-95	33,812,169	3.9%
1993-94	4,647,078,322	3.0%	1993-94	32,553,876	4.4%
1992-93	4,511,721,822	3.5%	1992-93	31,172,541	2.5%
1991-92	4,360,835,365	1.1%	1991-92	30,404,806	4.8%
1990-91	4,311,675,984 **	21.1%	1990-91	29,002,422	5.9%
1989-90	3,560,983,777 *	8.2%	1989-90	27,376,409	3.4%

\* Lottery revenues were first deposited in the General Fund.

\*\* Adjusted for small math error.

**GENERAL FUND  
TOTAL TAX RECEIPTS**

			Distilled Spirits		
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
1998-99	\$ 5,917,216,645	3.4%	1998-99	\$ 21,432,736	2.2%
1997-98	5,722,452,608	5.8%	1997-98	20,979,849	2.1%
1996-97	5,408,832,505	6.2%	1996-97	20,548,503	0.3%
1995-96	5,095,157,184	3.3%	1995-96	20,493,441	3.0%
1994-95	4,931,201,083	10.6%	1994-95	19,897,599	-0.3%
1993-94	4,459,648,594 *	3.0%	1993-94	19,960,515	0.2%
1992-93	4,329,156,325	3.6%	1992-93	19,923,344	2.2%
1991-92	4,177,324,418	0.6%	1991-92	19,485,739	0.9%
1990-91	4,151,464,190 *	22.5%	1990-91	19,314,634	2.8%
1989-90	3,388,459,466	5.1%	1989-90	18,789,245	0.8%

\*Adjusted for small math error.

**Wine**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 7,049,136	7.6%
1997-98	6,551,316	7.6%
1996-97	6,085,828	8.5%
1995-96	5,610,308	15.7%
1994-95	4,847,726 *	7.9%
1993-94	4,492,841	0.9%
1992-93	4,454,161	4.2%
1991-92	4,273,359	4.6%
1990-91	4,085,329	0.7%
1989-90	4,055,763	1.0%

\*Adjusted for small math error

**COAL SEVERANCE TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 154,476,772	-5.7%
1997-98	163,731,038	0.1%
1996-97	163,545,844	-1.5%
1995-96	166,101,045	-7.3%
1994-95	179,116,944	-0.4%
1993-94	179,844,327	-0.2%
1992-93	180,117,668	-2.7%
1991-92	185,102,332	-3.1%
1990-91	191,037,171	-2.3%
1989-90	195,496,376 *	8.2%

\*Adjusted for small math error

**CIGARETTE TAX\***

Fiscal Year	Receipts	Percent Change
1998-99	\$ 14,673,839	-3.0%
1997-98	15,130,443	-5.7%
1996-97	16,044,967	2.3%
1995-96	15,680,704	3.7%
1994-95	15,126,270	5.9%
1993-94	14,285,746	2.1%
1992-93	13,994,590	-0.4%
1991-92	14,044,608	-1.6%
1990-91	14,278,438	2.7%
1989-90	13,897,537	-2.1%

\*The cigarette tax is levied at the rate of 3 cents per pack. These totals reflect the 2.5 cents per pack that are deposited into the General Fund. The remaining 0.5 cent per pack is dedicated to tobacco research and is deposited in the Tobacco Research Trust Fund.

**CORPORATION INCOME TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 312,066,675	-6.5%
1997-98	333,666,393	14.0%
1996-97	292,753,126	2.8%
1995-96	284,732,573	-16.5%
1994-95	340,912,408	26.7%
1993-94	269,067,231	5.6%
1992-93	254,775,357	-6.0%
1991-92	271,026,952	-15.1%
1990-91	319,350,654 *	14.3%
1989-90	279,482,573	-10.1%

\*Each tax rate increased one percentage point effective January 1, 1990



**CORPORATION LICENSE TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$125,912,523	11.7%
1997-98	112,763,161	4.9%
1996-97	107,498,746	18.8%
1995-96	90,515,183 **	-7.1%
1994-95	97,449,950 *	18.8%
1993-94	82,031,324 *	-5.8%
1992-93	87,061,523	6.3%
1991-92	81,926,247	0.3%
1990-91	81,709,060	8.5%
1989-90	75,328,093	8.7%

\* Adjusted for small math error.

\*\* Corrected for posting error.

**INHERITANCE AND ESTATE TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 81,483,083	-22.8%
1997-98	105,538,130	10.8%
1996-97	95,287,282	17.0%
1995-96	81,441,427 *	2.4%
1994-95	79,511,634	4.4%
1993-94	76,135,351	7.3%
1992-93	70,965,470	-8.3%
1991-92	77,354,648	12.6%
1990-91	68,726,903	2.8%
1989-90	66,855,011	25.2%

\*Phase-in of Class A beneficiary exemption began July 1, 1995.

**INDIVIDUAL INCOME TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$2,532,005,348	4.7%
1997-98	2,418,144,438	9.7%
1996-97	2,205,022,964	6.3%
1995-96	2,074,572,167	5.6%
1994-95	1,964,843,490	13.6%
1993-94	1,729,182,293	-0.2%
1992-93	1,733,415,059	3.3%
1991-92	1,678,525,589	-0.9%
1990-91	1,693,338,659 *	39.9%
1989-90	1,210,284,972	8.9%

\* Kentucky income tax law was amended to conform to the Internal Revenue Code in effect on December 31, 1989 and the deduction for federal income tax was repealed.

**INSURANCE PREMIUMS TAX  
Foreign Life Insurance Companies**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 33,085,292	-5.8%
1997-98	35,116,933	6.1%
1996-97	33,086,032	-8.5%
1995-96	36,165,049	6.5%
1994-95	33,966,941	-10.7%
1993-94	38,057,960	11.1%
1992-93	34,268,972	1.7%
1991-92	33,703,047	15.7%
1990-91	29,130,844	1.7%
1989-90	28,656,062	-1.8%

**Insurance Companies Other than Life**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 54,431,503	3.5%
1997-98	52,600,230	4.5%
1996-97	50,318,931	3.4%
1995-96	48,687,419	7.0%
1994-95	45,515,163	6.5%
1993-94	42,720,970	5.1%
1992-93	40,631,761	2.1%
1991-92	39,781,751	3.3%
1990-91	38,529,132	9.6%
1989-90	35,164,266	0.0%

**MINERALS AND NATURAL GAS TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 18,954,883	-6.1%
1997-98	20,192,086	0.7%
1996-97	20,051,609	15.4%
1995-96	17,378,785	17.6%
1994-95	14,783,614	-11.6%
1993-94	16,718,727	8.1%
1992-93	15,463,902	18.0%
1991-92	13,105,878	-16.7%
1990-91	15,733,934	12.1%
1989-90	14,032,659	2.9%

**LOTTERY RECEIPTS**

Fiscal Year	Receipts	Percent Change
1998-99	\$153,800,000	0.5%
1997-98	153,000,000	1.3%
1996-97	151,000,000	2.7%
1995-96	147,000,000	8.1%
1994-95	136,000,000	19.3%
1993-94	114,000,000	14.0%
1992-93	100,000,000	0.0%
1991-92	100,000,000	37.0%
1990-91	73,000,000	-18.9%
1989-90	90,000,000 *	

**OIL PRODUCTION TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 1,344,942	-37.0%
1997-98	2,135,211	-29.9%
1996-97	3,044,497	15.1%
1995-96	2,644,656	-5.0%
1994-95	2,784,562	3.2%
1993-94	2,697,560	-38.9%
1992-93	4,413,136	-7.2%
1991-92	4,756,184	-18.3%
1990-91	5,824,523	33.5%
1989-90	4,363,731	14.0%

\*The Kentucky Lottery Corporation began sales on April 4, 1989. All receipts were initially deposited into a trust account. During the first quarter of FY90 all funds were transferred to the General Fund.

**PARI-MUTUEL TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 7,179,163	48.1%
1997-98	4,845,921	-18.0%
1996-97	5,911,958	-17.3%
1995-96	7,148,951	-1.5%
1994-95	7,256,986	18.3%
1993-94	6,134,317	-1.8%
1992-93	6,247,368	-8.8%
1991-92	6,852,421	6.5%
1990-91	6,435,598 *	-42.1%
1989-90	11,124,213	6.9%

\*Tax rate and credit system were restructured, effectively reducing the amount of the pari-mutuel tax.

**Property Taxes - Real Estate**

Fiscal Year	Receipts	Percent Change
1998-99	\$161,723,137	4.8%
1997-98	154,245,453	-9.3%
1996-97	170,063,059 *	19.2%
1995-96	142,728,406	7.2%
1994-95	133,200,108	0.8%
1993-94	132,125,477	4.6%
1992-93	126,333,184	3.4%
1991-92	122,146,269	5.7%
1990-91	115,574,669	2.3%
1989-90	112,971,186	2.1%

\* Some tangible property tax receipts were erroneously credited to real property receipts accounts.

**TOTAL PROPERTY TAXES**

Fiscal Year	Receipts	Percent Change
1998-99	\$370,404,549	2.1%
1997-98	362,792,501	-12.6%
1996-97	414,858,124	1.4%
1995-96	409,176,706	3.5%
1994-95	395,324,665	6.8%
1993-94	370,199,709	4.4%
1992-93	354,757,842	4.8%
1991-92	338,548,264	4.7%
1990-91	323,373,594 *	6.6%
1989-90	303,346,266	7.6%

\*Adjusted for small math error.

**Property Taxes - Tangible**

Fiscal Year	Receipts	Percent Change
1998-99	\$125,564,658	-0.2%
1997-98	125,753,465	0.9%
1996-97	124,637,468 *	-9.6%
1995-96	137,812,773	20.8%
1994-95	114,122,717	9.2%
1993-94	104,501,822	10.8%
1992-93	94,346,047	4.5%
1991-92	90,281,298	7.3%
1990-91	84,110,969	7.5%
1989-90	78,212,759	18.9%

\*Some tangible property tax receipts were erroneously credited to real property receipts accounts.

**Property Taxes - Intangible**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 18,103,920	-14.3%
1997-98	21,129,328 *	-54.7%
1996-97	46,631,437 *	-29.9%
1995-96	66,489,089	-20.4%
1994-95	83,479,482	7.9%
1993-94	77,393,521	-0.5%
1992-93	77,751,342	11.1%
1991-92	69,961,863	-2.0%
1990-91	71,415,874	12.9%
1989-90	63,275,797	10.9%

\*Shares of stock were exempted from property tax.

**SALES AND USE TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$2,085,899,677	5.3%
1997-98	1,981,297,580	5.2%
1996-97	1,882,681,995	5.5%
1995-96	1,783,881,316	6.2%
1994-95	1,680,520,815	7.7%
1993-94	1,560,085,519	6.7%
1992-93	1,462,251,261	7.2%
1991-92	1,363,690,026	5.2%
1990-91	1,296,310,445 *	19.4%
1989-90	1,085,822,176	3.9%

\* The tax rate was raised from 5 to 6 percent effective July 1, 1990.

**ROAD FUND STATISTICS****ROAD FUND  
TOTAL RECEIPTS\***

Fiscal Year	Receipts	Percent Change
1998-99	\$1,056,596,153	4.4%
1997-98	1,011,789,675	5.4%
1996-97	960,183,780	2.2%
1995-96	939,910,490	4.4%
1994-95	900,619,387	4.4%
1993-94	862,826,425	5.2%
1992-93	820,411,480	4.9%
1991-92	781,808,152	2.1%
1990-91	765,598,232 **	1.5%
1989-90	754,484,154	3.5%

\* Does not include federal grants.

\*\* Motor vehicle usage tax rate was increased to 6 percent effective July 1, 1990.

**ROAD FUND  
TOTAL TAX RECEIPTS**

Fiscal Year	Receipts	Percent Change
1998-99	\$1,013,091,830	5.4%
1997-98	961,522,616	4.5%
1996-97	919,796,955	2.3%
1995-96	899,036,284	3.5%
1994-95	868,711,393	3.8%
1993-94	836,526,817	5.5%
1992-93	792,914,736	6.9%
1991-92	741,489,481	3.3%
1990-91	717,692,214 *	0.1%
1989-90	717,013,358	2.7%

\* Motor vehicle usage tax rate was increased to 6 percent effective July 1, 1990.

**MOTOR FUELS TAXES**  
Motor Fuels Normal

Fiscal Year	Receipts	Percent Change
1998-99	\$427,848,100	8.0%
1997-98	396,123,781	1.4%
1996-97	390,688,336	3.3%
1995-96	378,142,941	1.3%
1994-95	373,316,977	4.2%
1993-94	358,435,307	1.4%
1992-93	353,651,330	4.5%
1991-92	338,517,487	3.4%
1990-91	327,467,484	-2.7%
1989-90	336,436,477	0.1%

**MOTOR VEHICLE REGISTRATIONS**  
Passenger Car Registration

Fiscal Year	Receipts	Percent Change
1998-99	\$23,356,526	-1.1%
1997-98	23,604,679	1.4%
1996-97	23,276,395	-0.5%
1995-96	23,389,132	0.0%
1994-95	23,398,303	-0.3%
1993-94	23,473,690	1.7%
1992-93	23,083,164	0.8%
1991-92	22,893,363	1.6%
1990-91	22,528,562	0.1%
1989-90	22,504,662	3.5%

**Motor Fuels Normal Use and Surtax**

Fiscal Year	Receipts	Percent Change
1998-99	\$16,853,163	-3.6%
1997-98	17,473,744	14.1%
1996-97	15,316,702	-32.1%
1995-96	22,554,473	-2.2%
1994-95	23,052,951	7.7%
1993-94	21,399,126	3.9%
1992-93	20,591,812	-1.9%
1991-92	21,000,948	-6.0%
1990-91	22,331,775	-2.7%
1989-90	22,943,630	5.7%

**MOTOR VEHICLE USAGE TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$331,187,817	1.8%
1997-98	325,308,554	6.7%
1996-97	304,868,491	2.1%
1995-96	298,585,859	5.2%
1994-95	283,820,829	2.0%
1993-94	278,157,347	19.1%
1992-93	233,527,651	11.4%
1991-92	209,619,192	2.2%
1990-91	205,055,084 *	5.8%
1989-90	193,791,775	6.5%

\*The tax rate was increased from 5 percent to 6 percent.

**MOTOR VEHICLE OPERATOR'S LICENSE**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 5,400,685	3.0%
1997-98	5,241,595	-2.1%
1996-97	5,355,648	4.8%
1995-96	5,110,387	-1.2%
1994-95	5,170,423	-3.5%
1993-94	5,358,710	6.7%
1992-93	5,020,733	-3.8%
1991-92	5,221,356	3.6%
1990-91	5,038,197	-6.0%
1989-90	5,361,189	0.7%

**MOTOR VEHICLE RENTAL USAGE TAX**

Fiscal Year	Receipts	Percent Change
1998-99	\$ 44,465,916	7.3%
1997-98	41,450,720	13.3%
1996-97	36,593,748	25.9%
1995-96	29,054,964	26.5%
1994-95	22,966,441	34.7%
1993-94	17,055,319	40.7%
1992-93	12,124,476	33.2%
1991-92	9,103,767	25.3%
1990-91	7,264,932 *	11.5%
1989-90	6,517,199	-9.8%

\*The tax rate was reduced from 8 percent to 5 percent.

# Table of Contents

---

<i>Revenue Fairness and Recovery Program</i> .....	1
<i>Elements of a New Tax Code</i> .....	4
<i>The Patton Tax Fairness and Equity Plan</i> .....	4
1. <i>General Fund Taxes</i> .....	4
2. <i>Road Fund Taxes</i> .....	12
<i>Kentucky Taxpayer Profiles</i> .....	14
<i>The Patton Tax Fairness and Equity Plan</i> .....	26

## Revenue Fairness and Recovery Program

Kentucky, like other states, is enjoying an unprecedented period of sustained economic growth. Economic expansion created 177,000 new jobs in Kentucky between 1995 and 1999. Over the same period the unemployment rate has averaged about 5 percent. Although economic growth indicators are positive, questions have arisen regarding the adequacy of the Commonwealth's tax structure to finance the investment in human and physical capital necessary to be competitive in the new knowledge-based economy while providing the public services desired by Kentucky's citizens. The fairness of Kentucky business taxes has also emerged as a major tax issue as e-commerce and deregulation of key industries have evolved as significant "new economy" issues. At the same time, recent studies by the Barents Group and articles in the Wall Street Journal are raising serious questions regarding the fairness of Kentucky's individual income tax structure. Such studies indicate that Kentucky's personal income tax burden is particularly onerous for lower income groups—those left behind in the new economy.

In the emerging economy, growth in the service and knowledge based "high tech" sectors will overtake growth in traditional manufacturing and resource industries such as agriculture and mining. The Milken Institute reported in 1999 that "since the 1990-91 recession, growth in the high-tech sector has been four times as large as growth in the aggregate economy."

The high tech economy growth impact is enhanced by the increased use of technology by all sectors of our economy. Along with other impacts, the increased use of technology has changed the nature and character of economic transactions. The explosive growth of Internet sales, both business to business and business to consumer, is now beginning to erode the sales tax base of the states, including Kentucky. The inability of states to require remote vendors to collect sales and use tax on behalf of their Kentucky customers coupled with the difficulty associated with collecting the tax directly from individual consumers poses a serious challenge to Kentucky's general fund revenue base, of which the sales tax represents about 34 percent.

While Kentucky's sales tax base is a major concern, the emergence of e-commerce as an alternative to traditional retail sales places Kentucky's Main Street retail industry at a competitive disadvantage. For example, online holiday sales in the United States for 1999 jumped by 300 percent over 1998 for a total of \$10-11 billion. If Kentucky's typical percentage of these sales is 1.5 percent, then it stands to reason that the state may have lost \$9-10 million in 1999 sales tax revenue on these sales alone. Coupled with the loss of use tax on catalog sales, the figure is even more staggering. The following table illustrates the amount of tax lost due to the prevalence of mail order and internet sales.

<b>Estimating the Amount of Sales and Use Tax Owed from Mail Order Consumer Purchases in Kentucky, 1998-2003</b>				
		Tax Owed on Internet Sales		
Year	Tax Owed on Mail Order Sales (non-Internet)	Low Growth Scenario	Medium Growth Scenario	High Growth Scenario
1998	\$ 87,478,622	\$ 226,910	\$ 1,359,217	\$ 3,076,304
1999	\$ 91,598,062	\$ 463,269	\$ 3,151,893	\$ 6,809,152
2000	\$ 95,932,360	\$ 831,831	\$ 5,950,184	\$ 11,803,138
2001	\$ 100,442,989	\$ 1,327,788	\$ 9,646,615	\$ 19,182,222
2002	\$ 105,188,362	\$ 1,987,288	\$ 14,494,097	\$ 30,175,349
2003	\$ 110,154,011	\$ 2,590,868	\$ 21,157,896	\$ 48,347,302
Source: Long Term Policy Research Center, Collecting Taxes in the Cyberage, Frankfort, Kentucky, 1999, page xv.				

The Congressional moratorium on the imposition of additional taxes on the e-commerce industry is an additional concern of state revenue policy makers, and essentially threatens the states' ability to control their own destiny. The moratorium was extended to permit Congress an opportunity to establish guidelines for e-commerce tax policy. To drive the policy development process, Congress established the Advisory Commission on Electronic Commerce. Proposals being discussed include a permanent ban on e-commerce taxation broadening the powers of state and local governments to require the collection of tax on such transactions, and the creation of a national sales tax coupled with a new version of revenue sharing. The apparent lack of consensus of the Advisory Commission suggests a stalemate which is prompting a "go it alone" policy for the states. In this environment, Kentucky must forge a tax policy for the future that recognizes the potential loss of sales and use tax revenue and aligns Kentucky's policy with the changing economy in the most equitable manner possible.

While the tax policy implications of the high tech and e-commerce industries are just emerging, Kentucky policy makers have realized, for more than a decade, that a fundamental shift is occurring nationally and in Kentucky from the consumption of goods to the consumption of services. This structural shift in the economy has great implications for Kentucky's sales tax revenue base. Like most other states, Kentucky's sales tax base has focused on the taxation of goods rather than services. As a consequence, Kentucky's long term sales tax base will continue to deteriorate as more of Kentucky's consumer dollar is spent on non-taxed services rather than on taxed goods.



Kentucky's sales tax base was established in an era when manufacturing was the focus and the sale of goods through a Main Street retailer was predominant. Enacted in the 1960s, Kentucky's sales tax structure reflects a time when citizens lived, worked and shopped in the same community. A tax policy that focused on taxing products was easy to administer and sufficient to raise the revenues needed to support government services. Today, Kentucky's economy is much more "open" and purchases are made in a national/international rather than a regional market.

While the changing structure of the economy and electronic commerce pose significant tax policy issues to the maintenance of a fair and adequate tax system, deregulation of major industry groups, particularly the communications industry, present additional concerns. As deregulation occurs, out-of-state providers of communications services such as direct broadcasting firms (satellite) have entered and are prospering in the Kentucky communications market without taxation. Their current tax status provides an unfair advantage compared to in-state providers of similar services such as the cable industry. The failure to impose fair taxes on such service providers fosters an additional revenue base leakage for the state of Kentucky and its local governments. The revenue loss will grow as wireless communication grows and as more consumers acquire satellite dishes to replace cable television services—a shift that will increase in today's unlevel playing field environment. A tax policy for the new century must consider this issue and insure a fair, level playing field for all communication service providers.

While the nature of the emerging new economy must be considered in the design of an adequate and fair business tax structure, it is imperative to consider how changes in our economy are affecting the "fairness" of our individual income tax structure as well. The Barents Group reported, in a 1999 study, entitled "Comparative Analysis of Kentucky's Tax Structure" that Kentucky has the highest personal income tax burden among its competitor states. While some of the burden is mitigated by lower taxes in other areas, Kentucky clearly has a personal income tax structure that places an undue burden on those least able to pay. The Barents study is reinforced by other studies including the Center on Budget and Policy Priorities which cited Kentucky as one of the state's which imposes a higher than average income tax burden on its lower income households.

Kentucky's personal income tax structure, like its sales tax, was enacted in an earlier era. The current graduated rate structure ranging from 2 percent to 6 percent was mildly progressive when established in 1950. As incomes have risen over the past 50 years, the Kentucky tax code has lost its progressivity. As a result, Kentuckians who have the least ability to benefit from the new economy are subjected to income taxes which inhibit their ability to acquire the skills needed for employment in the new high tech, high wage industries or to provide basic necessities for their families. Kentucky's personal income tax code must

be changed to enhance its fairness and reduce the burden for lower income Kentucky families.

### **Elements of a New Tax Code**

A tax code for the new century must be:

- *fair and equitable* for its citizens and businesses
- *simple* for taxpayers to understand and comply with
- *competitive* with other states for attracting and retaining business and industry
- *adequate* to finance 1) an excellent, world-class system of education and life long learning, 2) the human services which a progressive society demands for its less fortunate citizens 3) the safety of our citizens, and 4) the infrastructure and services necessary to grow our economy

As stated above, indications are that the current tax structure is not capable of sustaining an adequate level of state revenue. Therefore, it is appropriate to implement a revitalized tax structure which addresses these issues and complies with the sound tax principles of fairness, simplicity, competitiveness and adequacy.

### **The Patton Tax Fairness and Equity Plan**

#### **1. General Fund Taxes:**

- **Modernize Kentucky's Individual Income Tax**  
(Effective January 1, 2001)

The Changes: Kentucky's personal income tax code will be modified to enhance the fairness and equity of how individuals and households are taxed. The following changes will occur:

A. *Adopt Federal Personal Standard Deduction and Personal Exemption:*

Kentucky will adopt the annually revised federal personal exemption of \$2,800 and standard deductions (based upon federal filing status) of \$3,675, \$4,400, \$6,450, and \$7,350; and a single tax rate of six

percent (6 percent). The current Kentucky personal tax credit of \$20, low income tax credit and graduated rate brackets will be eliminated. This change will increase the progressivity of the tax code and establish a much fairer Kentucky personal income tax structure that eliminates tax for families and reduces tax for single filers at poverty level. Approximately two-thirds of Kentucky household's would experience a reduction in their personal income tax burden. This change will raise the income level at which individuals must file a return to the level established for filing a federal return. Kentuckians will no longer have to file a Kentucky return unless they are required to file a federal return.

*A. Maintain Current Kentucky Itemized Deductions:*

Current Kentucky itemized deductions will be maintained unless subject to alternative tax. No changes will be made to itemized deductions such as home mortgage interest, charitable deductions and the like.

*B. Establish a Kentucky Alternative Tax:*

In order to enhance the equity of Kentucky's personal income tax, a Kentucky alternative tax will be calculated for 2 percent of Kentucky's taxpayers. This will increase the tax only on those who can most afford it.

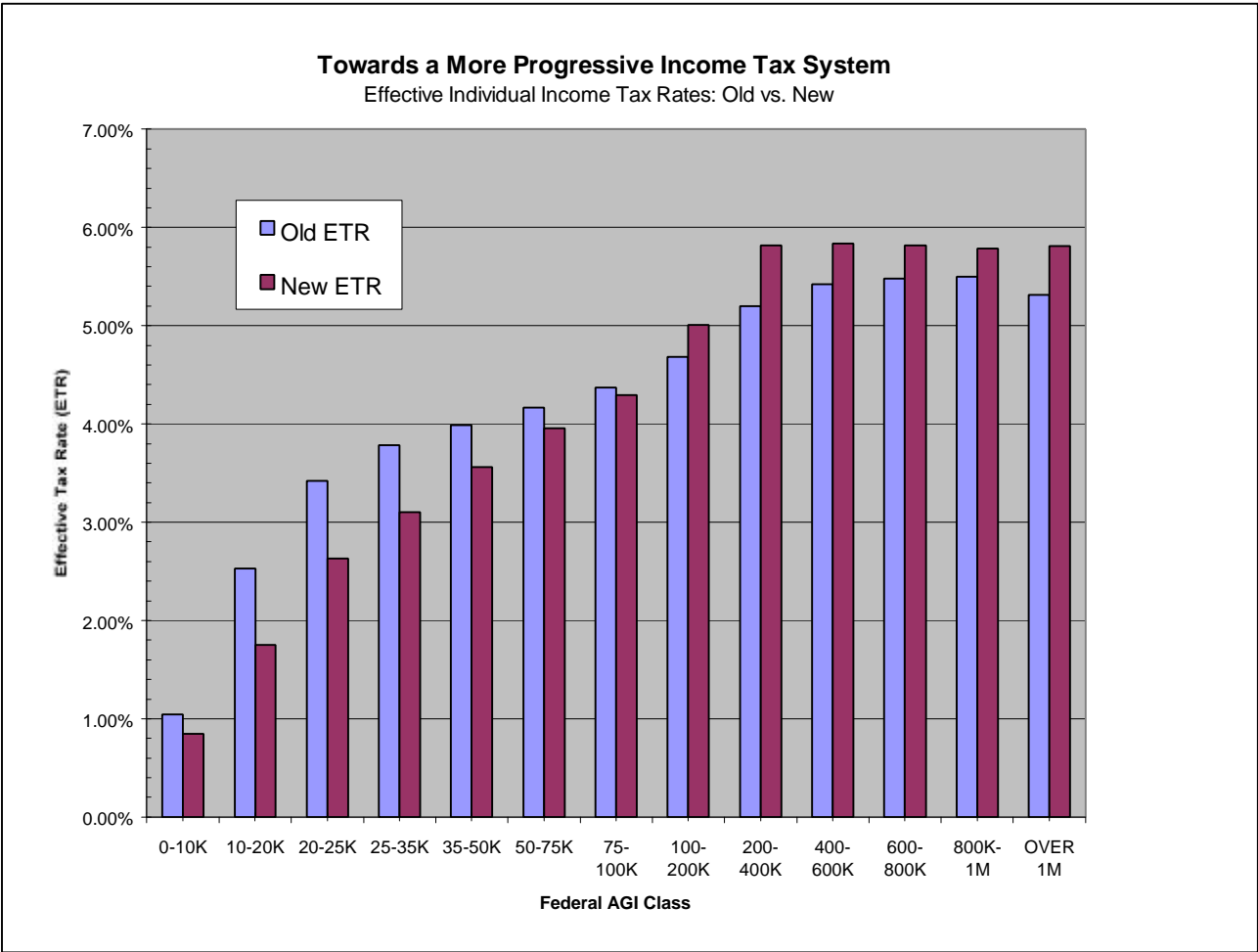
FY01: \$(25M)    FY02: \$(54.8M)

**Results of Personal Income Tax Fairness Initiative :**

With these changes in the personal income tax, the incidence of Kentucky's personal income tax will change as follows:

- A. *A Reduction in Number of Taxable Returns :* Approximately 200,000 Kentuckians who currently file Kentucky tax returns would no longer owe Kentucky income tax.
- B. *Kentucky Personal Income Taxes Will Be Reduced for nearly 2/3 of Kentucky's Tax Filers:* 1.11 million tax filers will have their Kentucky personal income taxes reduced.
- C. *Kentucky's Income Tax Structure Will Be More Competitive:* According to a Barents' Group review, Kentucky's personal income tax structure will compare more favorably with our surrounding states.

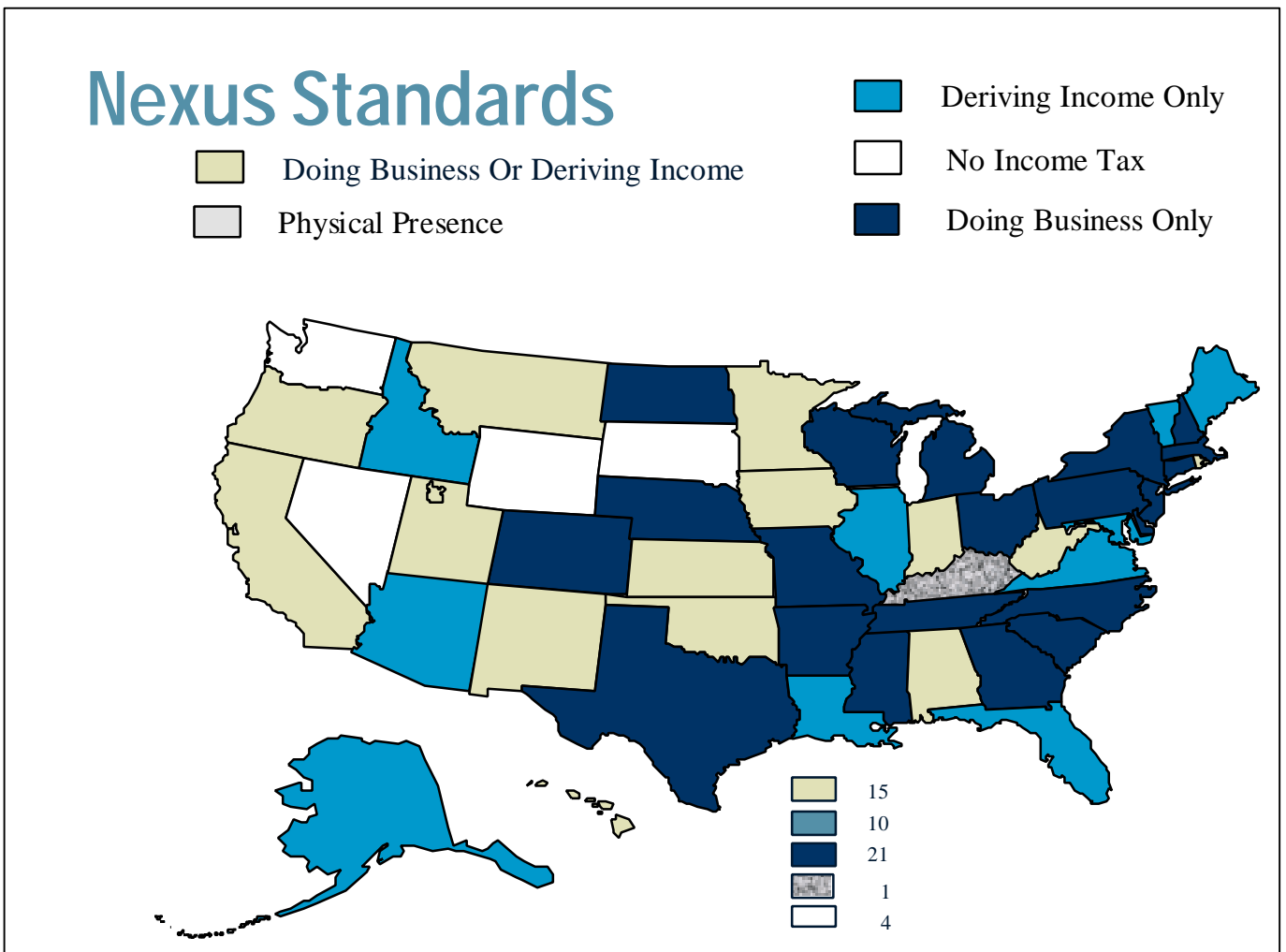
A. *Kentucky's Income Tax Structure Will Be More Progressive:* The chart below displays the more progressive incidence of the Kentucky personal income tax after the enactment of the proposed personal income tax changes. Kentucky taxpayers, on average, below \$75,000 federal AGI would pay less personal income taxes after enactment of the proposed changes while, on average, those above \$100,000 would pay more.



- **Change the Definition of Nexus for Firms Doing Business and Availing Themselves of Kentucky's Marketplace**  
(Effective July 1, 2000)

Nexus for Corporation Income and License Tax

Currently, Kentucky applies a "physical presence" standard for determining when a corporation or business is subject to Kentucky income and license tax laws. It is the only state that applies this narrow nexus standard. In the new economy where cross-state transactions are commonplace and firms freely do business across state boundaries, the current nexus standard places Kentucky at a serious disadvantage. Enactment of a "doing business" standard will make Kentucky's business filing and taxpaying standard more equitable and consistent with standards of other states, and place our domestic companies on a level playing field with their out-of-state competitors.



### Nexus for Sales and Use Tax

Require out-of-state businesses to collect Kentucky sales and use tax on behalf of their customers when they avail themselves of Kentucky's marketplace by directing sales activities into the state through representatives or related entities with physical presence here such as retail stores or distribution centers. The change will level the playing field for our Main Street retailers. The sales tax base, which would otherwise diminish, can be preserved.

Impact for Nexus Proposals

FY01: \$0.5M      FY02: \$1M

- **Include Limited Liability Corporations ( LLC's) and Limited Liability Partnerships (LLP's) in Corporate License Tax**  
(Effective July 1, 2000)

This proposal will close a loophole in the corporation license tax before further legal exploitation occurs and will ensure that all business entities with corporate characteristics are taxed equally for the privilege of doing business in Kentucky regardless of their formal business structure. The Tennessee legislature recently enacted a similar provision.

FY01:      -      FY02: \$2.5M

- **Extend the Favorable Calculation for Domestic Holding Companies to Out-of-State Holding Companies**  
(Effective July 1, 2000)

This proposal will eliminate a domestic preference in the corporation license tax and preserve the favorable calculation for domestic companies that have made large investments of capital in Kentucky. It may encourage out-of-state companies that are doing business here to increase their capital investment in Kentucky.

FY01:      -      FY02: \$(4.2M)

- **Revise Rate Setting Procedures for State Property Tax Rate**  
(Effective January 1, 2000)

The state real property tax rate has been reduced by over 50 percent during the last 20 years. Mirroring the rate setting procedure used by cities, counties and school districts will give the state the benefit of new property when first added to the tax roll, thus slowing the decline in the state rate, and adding diversity to the General Fund. This would allow growth in the real property tax base to correspond to growth in the economy. The owner of a typical residential home in Kentucky, valued at \$90,100, would pay \$4.51 more in property taxes in the year 2000.

FY01: \$6.5M            FY02: \$11.3M

- **Rescind Non-Revenue Producing Tangible Personal Property Taxes**  
(Effective January 1, 2001)

Passage of Constitutional Amendment 2 in 1998 has made it possible to simplify property tax administration and compliance by eliminating the state taxation of certain categories of tangible personal property. To rescind the tax on non-productive tangible personal property is consistent with past legislative intent since the rates of either 1/10 ¢ or 1 ½ ¢ per \$100 of assessed value amounts to a de facto exemption from state taxation. Enactment of this provision will not affect local taxation of this property.

FY01: minimal      FY02: minimal

- **Phase Out the State Property Tax on Motor Vehicles and Motorboats**  
(Effective January 1, 2001)

The overwhelming passage of Constitutional Amendment 2 in 1998 allows the General Assembly to exempt tangible personal property such as motor vehicles from property tax. This tax has long been the source of complaints from taxpayers that the tax is unfair and burdensome on individuals who need transportation in order to work. The citizens of the Commonwealth expect relief from the property tax on motor vehicles.

The state property tax on motor vehicles and motorboats will be phased out over 3 years. Currently, Kentucky is one of only four states which impose both a state and local property tax on motor vehicles. This exemption would align Kentucky's taxation of motor vehicles with other states and effectively relieve Kentucky individuals from taxes on their personal property. Local government will retain its ability to tax motor vehicles and motor boats.

FY01: \$(14.7M)      FY02: \$(41.9M)

- **Broaden the Sales Tax to Repair and Installation Labor Associated with Personal Property**  
(Effective July 1, 2000)

In recognition of the shift in the economy from the sale of property to the sale of services, this change will tax the charge for the service associated with the repair or installation of taxable tangible property. This proposal will also impose a sales tax on labor to install or repair tangible personal property whether or not any tangible personal property is transferred with the charge for these services. Examples of selected services to be taxed are:

- Labor to repair or replace brakes on a motor vehicle.
- Labor to reupholster a piece of furniture.
- Charges for extended warranty contracts as future labor charges for repair or maintenance of tangible personal property.
- Charges to install computer modems, sound cards, etc.
- Charges to install vehicle accessories such as utility or dump beds, bed liners, auxiliary fuel tanks, etc.

This proposal does not extend sales tax to labor for the repair of homes or business real property or to labor charges made to exempt entities such as schools, churches or governmental organizations.

Three contiguous states, Ohio, Tennessee and West Virginia, not only apply tax on installation and repair labor, but on a much broader range of services as well. The expansion of the sales tax base to include these services will increase the responsiveness of the tax to increases in personal income. This greater "elasticity" arises because the tax will be able to capture growth sources.

FY01: \$165M      FY02: \$188.1M



- **Extend Prescription Drug Exemption to Physicians and Other Providers** (Effective July 1, 2000)

This proposal will extend the current drug exemption allowed for prescription drugs dispensed on prescription by a registered pharmacist to also include prescription drugs administered to a patient by a physician or an assistant under his direction. All prescription drugs whether dispensed through a pharmacy or administered in a hospital, doctor's office or nursing home will be treated in the same manner.

FY01: \$(17.7M)                      FY02: \$(20.1M)

- **Simplify State and Local Taxation of Communication Services** (Effective January 1, 2001)

Replacement of the current 6 percent sales tax on intrastate telephone service, the 3 percent school tax, when applicable, and local franchise fees with a 6 percent communications excise tax recognizes the realities within a rapidly evolving industry. The proceeds of the tax will be shared between the state and local taxing jurisdictions. The 6 percent tax will apply uniformly to cable and direct broadcast satellite services as well as interstate and intrastate telecommunications. The enactment of a communications excise tax would level the playing field for Kentucky-based firms in the communications industry, provide an overdue simplification of their taxing scheme and preserve an essential revenue stream for local governments and school districts. It will place Kentucky on the cutting edge of taxation of a dynamic growth industry.

FY01: \$29.8M                      FY02: \$64.9M

- **Pari-Mutuel Tax Credit for Capital Improvements and Horsemen's Incentives** (Effective January 1, 2001)

This change will allow a credit for capital investments and horsemen's incentives to those racetracks subject to the higher pari-mutuel tax rate. The credit will be in an amount not to exceed the difference between the two present rates that are based on average daily handle. This change will equalize tax treatment for Kentucky racetracks and encourage capital improvements needed to preserve and enhance this historical sector of Kentucky's economy.

FY01: \$(1.2M)                      FY02: \$(2.3M)

## 2. Road Fund Taxes:

- **Phase In an Increase in the Motor Fuels Excise Tax to Bring Kentucky's Motor Fuels Tax Rate in Line With Other States** (Effective July 1, 2000)

Kentucky now spends only 60 percent of the national average on each mile of its roadway infrastructure. Kentucky's current motor fuels excise tax rate is among the lowest in the nation (ranked 46<sup>th</sup>) and is lower than all surrounding states. By phasing in a 7¢ motor fuels excise tax increase, with a 4¢ increase the first year, Kentucky can make progress in funding a documented \$40 billion backlog of needed highway improvements. By adding only one percent to the average motorist's cost of driving, the Commonwealth can enhance safety, quality, and traffic flow on its roads and position the state to better compete in the global economy.

FY01: \$115M      FY02: \$204M

- **Extend Trade-In Credit to Purchases of New Vehicles and Vehicles Purchased Out of State** (Effective July 1, 2000)

This proposal will extend the trade-in credit to the purchase of a new vehicle or a vehicle purchased out of state, thus equalizing the tax treatment on vehicle purchases. Currently, this credit is only allowed when a Kentucky used vehicle is traded in on a Kentucky used vehicle.

FY01: \$(31.5M)      FY02: \$(31.5M)

- **Exempt Trucks Used in Interstate Commerce from the Motor Vehicle Usage Tax** (Effective July 1, 2000)

Unlike the surrounding states, Kentucky assesses a vehicle usage tax on the sale of trucks based in the state, even though they are registered for interstate operation through the International Registration Plan. To legally avoid the tax, many Kentucky trucking firms have relocated their headquarters out-of-state. While these truck owners may still operate extensively in Kentucky, they pay no usage tax when they purchase a vehicle. However, their Kentucky-based competitors pay approximately \$5,000 when buying a typical new truck. By exempting from motor vehicle usage tax all motor vehicles engaged in interstate commerce, Kentucky can compete with surrounding states in attracting and retaining trucking companies.

FY01: \$(5M)      FY02: \$(5M)

Exhibit 1 summarizes the General Fund and Road Fund revenue effect of the Patton Tax Fairness and Equity Plan. Exhibit 2 profiles the impact of the proposed plan on selected Kentucky families according to family size.

# The Patton Tax Fairness and Equity Plan

## Kentucky Taxpayer Profiles

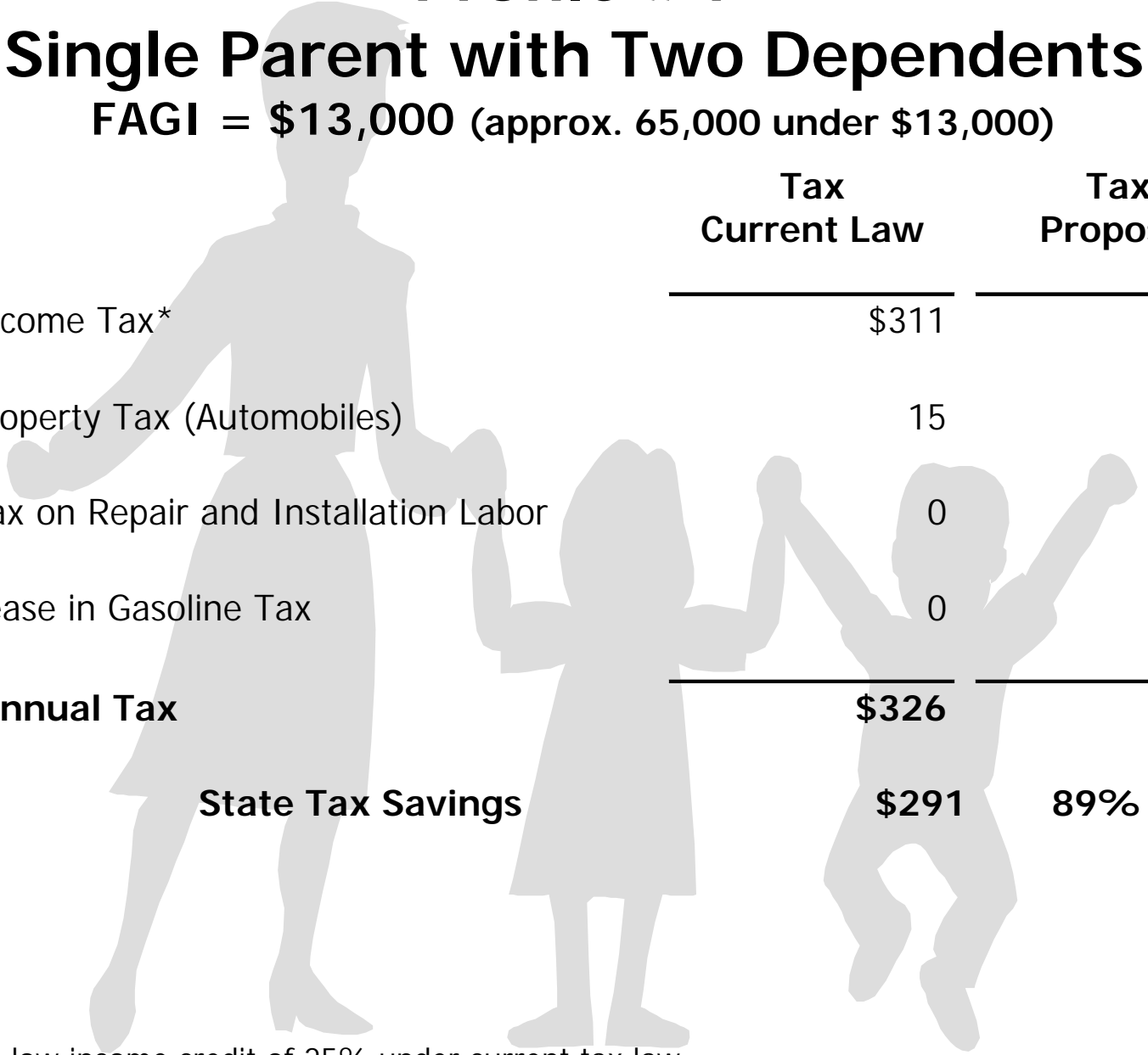
**January 24, 2000**

*The proposals to reform Kentucky's tax structure will affect different families in different ways. The following information demonstrates the impacts of the proposed tax reform on selected Kentucky families according to income and family size. The profiles were selected based on the most common types of filers for individual income taxes. The sales and motor vehicle usage tax impacts are based on consumption data from the U.S. Bureau of Labor Statistics, Consumer Expenditure Survey. While it is not possible to show exactly how each and every Kentuckian's tax burden will change, the profiles presented are intended to represent a broad variety of families, and most individuals will probably be able to find a profile with which they can somewhat identify.*

# Profile #1

## Single Parent with Two Dependents

FAGI = \$13,000 (approx. 65,000 under \$13,000)



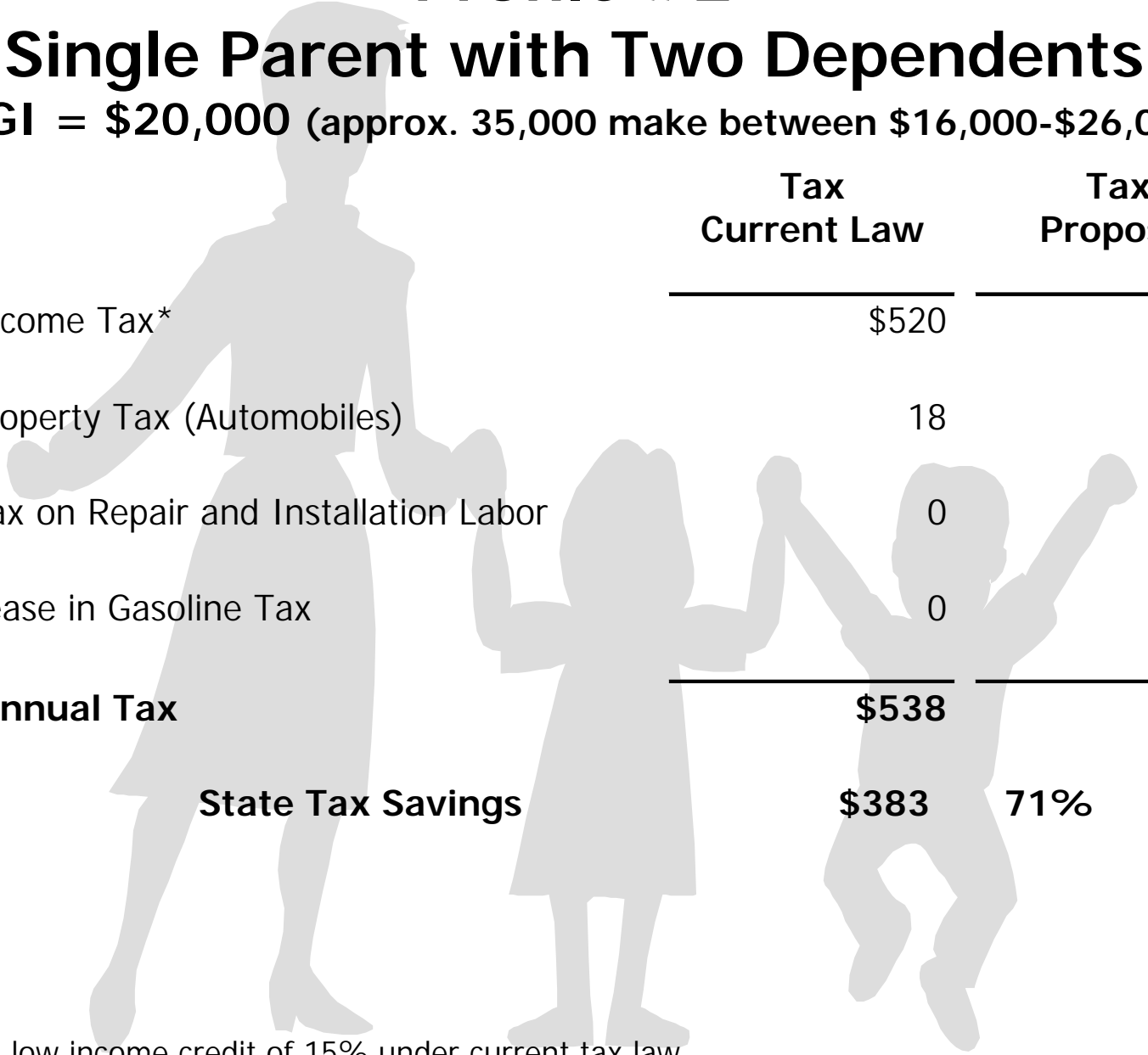
	Tax Current Law	Tax Proposal
State Income Tax*	\$311	\$0
State Property Tax (Automobiles)	15	0
Sales Tax on Repair and Installation Labor	0	6
7¢ increase in Gasoline Tax	0	29
<b>Total Annual Tax</b>	<b>\$326</b>	<b>\$35</b>
<b>State Tax Savings</b>	<b>\$291</b>	<b>89%</b>

\*Includes low income credit of 25% under current tax law.

# Profile #2

## Single Parent with Two Dependents

FAGI = \$20,000 (approx. 35,000 make between \$16,000-\$26,000)



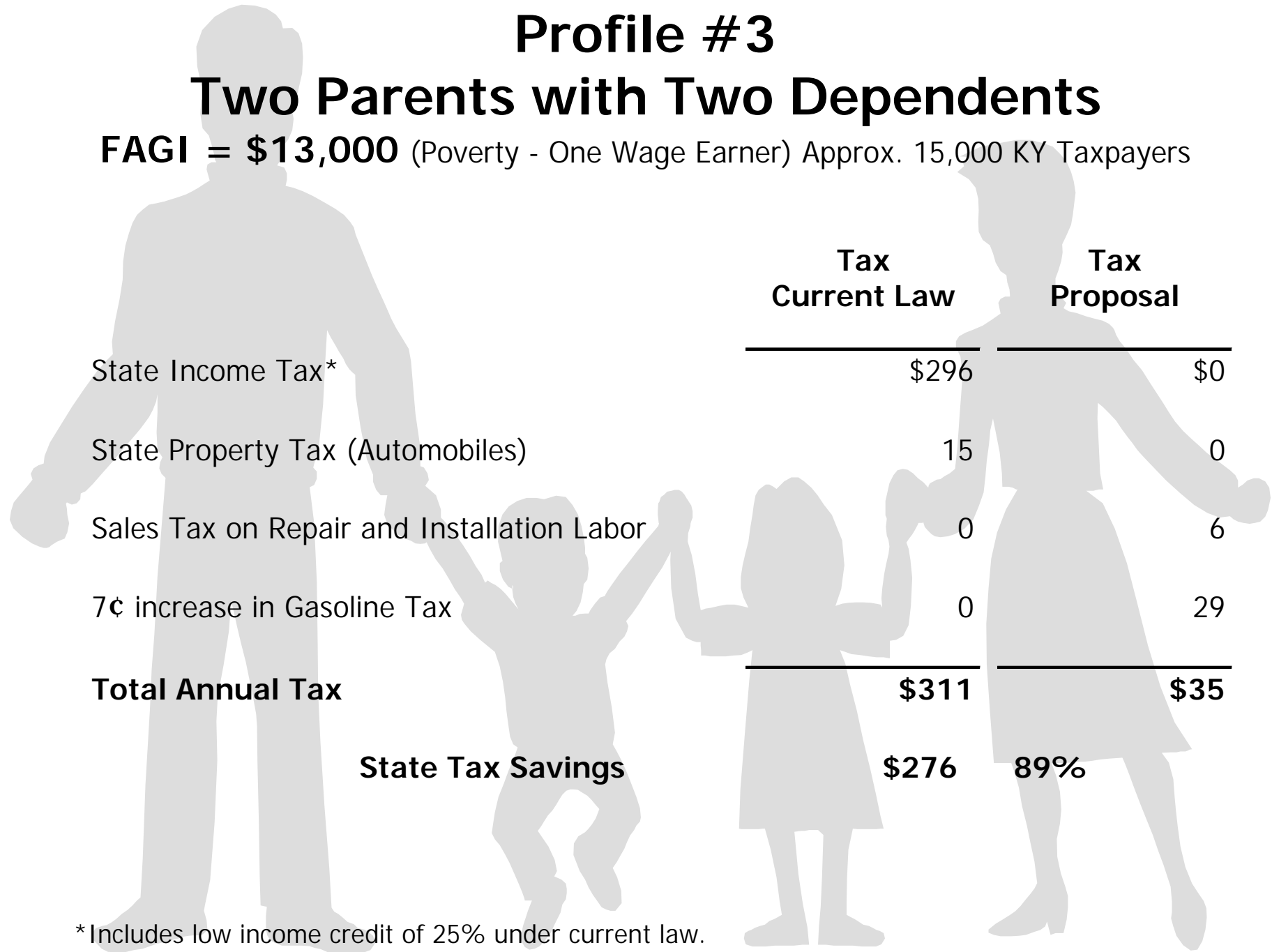
	Tax Current Law	Tax Proposal
State Income Tax*	\$520	\$119
State Property Tax (Automobiles)	18	0
Sales Tax on Repair and Installation Labor	0	7
7¢ increase in Gasoline Tax	0	29
<b>Total Annual Tax</b>	<b>\$538</b>	<b>\$155</b>
<b>State Tax Savings</b>	<b>\$383</b>	<b>71%</b>

\*Includes low income credit of 15% under current tax law

# Profile #3

## Two Parents with Two Dependents

**FAGI = \$13,000** (Poverty - One Wage Earner) Approx. 15,000 KY Taxpayers

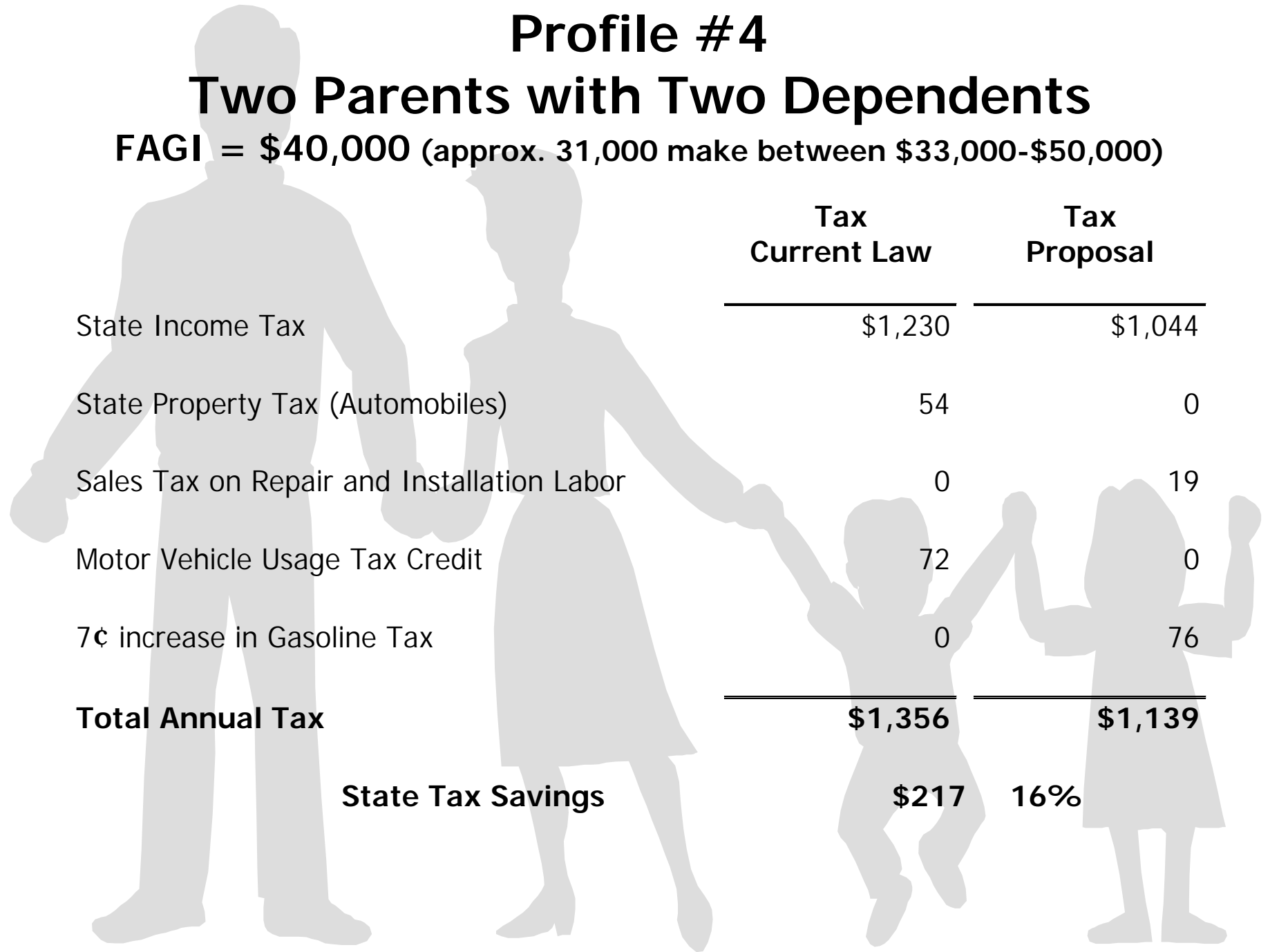


\*Includes low income credit of 25% under current law.

# Profile #4

## Two Parents with Two Dependents

**FAGI = \$40,000** (approx. 31,000 make between \$33,000-\$50,000)



	Tax Current Law	Tax Proposal
State Income Tax	\$1,230	\$1,044
State Property Tax (Automobiles)	54	0
Sales Tax on Repair and Installation Labor	0	19
Motor Vehicle Usage Tax Credit	72	0
7¢ increase in Gasoline Tax	0	76
<b>Total Annual Tax</b>	<b>\$1,356</b>	<b>\$1,139</b>

**State Tax Savings**

**\$217**

**16%**





# Profile #5

## Two Parents with Two Dependents

**FAGI = \$60,000** (approx. 34,000 make between \$50,000-\$75,000)

	<b>Tax Current Law</b>	<b>Tax Proposal</b>
State Income Tax	\$2,190	\$2,004
State Property Tax (Automobiles)	72	0
Sales Tax on Repair and Installation Labor	0	24
Motor Vehicle Usage Tax Credit	96	0
7¢ increase in Gasoline Tax	0	80
<b>Total Annual Tax</b>	<b>\$2,358</b>	<b>\$2,108</b>

**State Tax Savings**

**\$250**

**11%**

# Profile #6

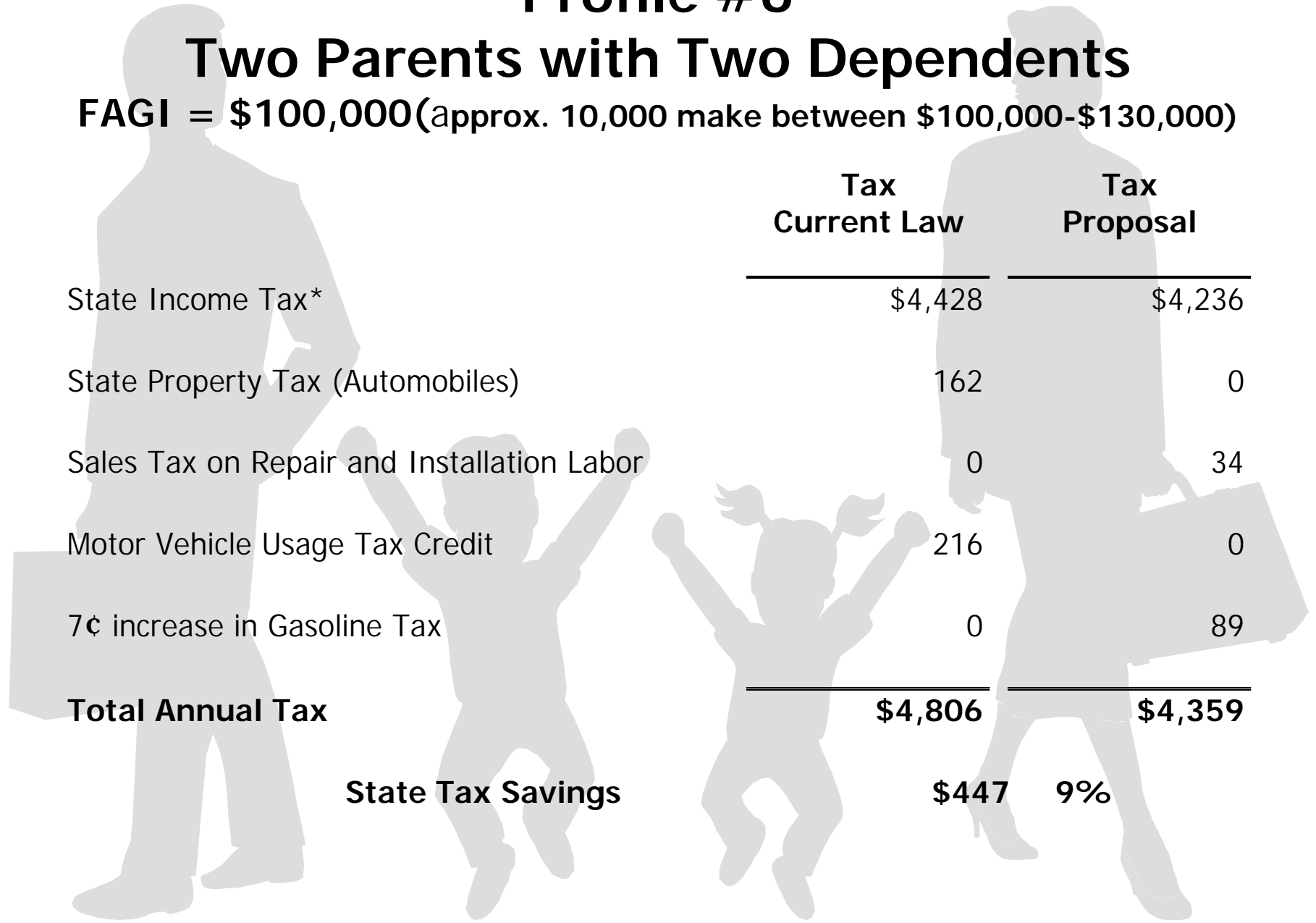
## Two Parents with Two Dependents

FAGI = \$100,000 (approx. 10,000 make between \$100,000-\$130,000)

	Tax Current Law	Tax Proposal
State Income Tax*	\$4,428	\$4,236
State Property Tax (Automobiles)	162	0
Sales Tax on Repair and Installation Labor	0	34
Motor Vehicle Usage Tax Credit	216	0
7¢ increase in Gasoline Tax	0	89
<b>Total Annual Tax</b>	<b>\$4,806</b>	<b>\$4,359</b>

**State Tax Savings**

**\$447 9%**



# Profile #7

## Two Parents with Two Dependents

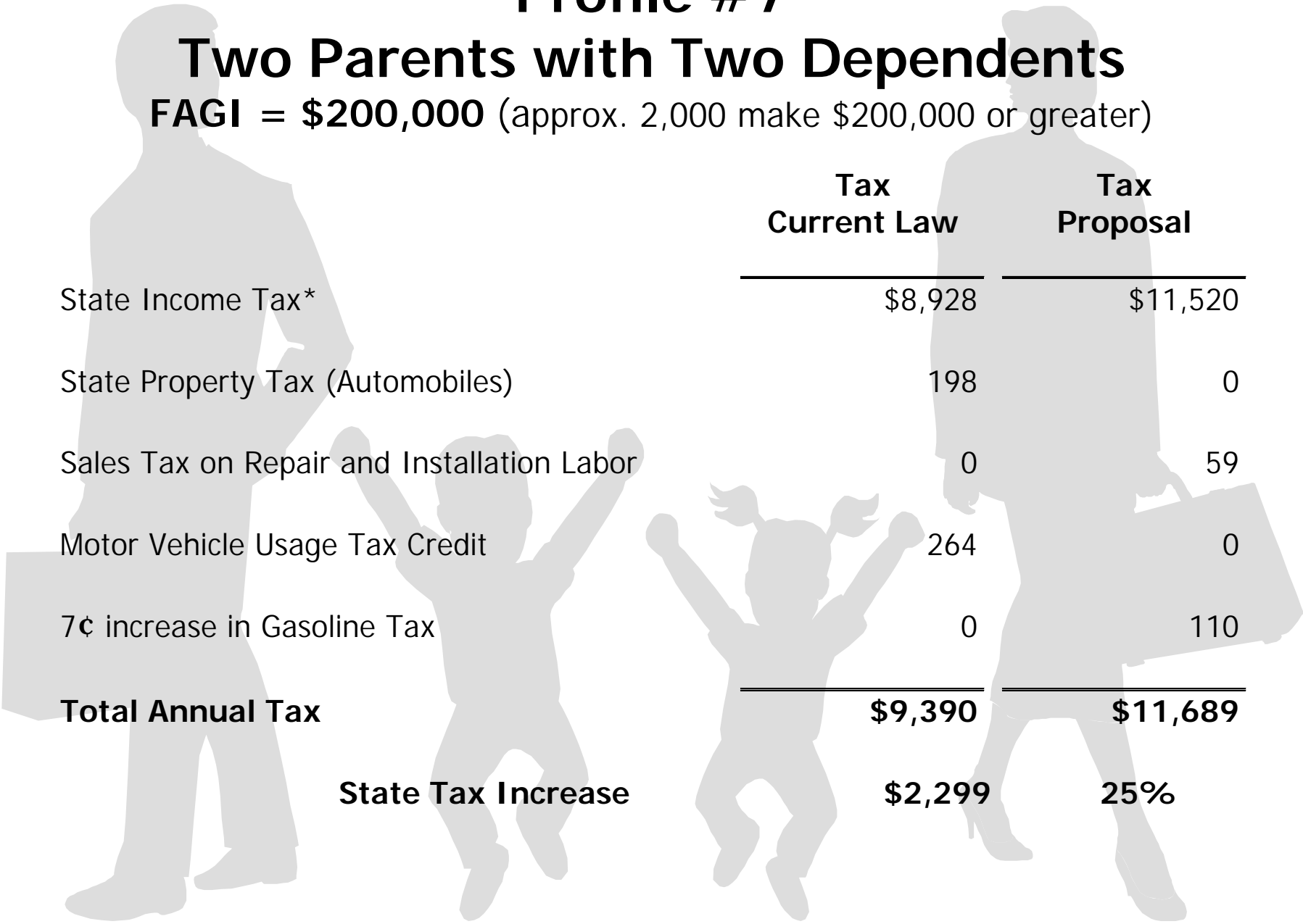
**FAGI = \$200,000** (approx. 2,000 make \$200,000 or greater)

	<b>Tax Current Law</b>	<b>Tax Proposal</b>
State Income Tax*	\$8,928	\$11,520
State Property Tax (Automobiles)	198	0
Sales Tax on Repair and Installation Labor	0	59
Motor Vehicle Usage Tax Credit	264	0
7¢ increase in Gasoline Tax	0	110
<b>Total Annual Tax</b>	<b>\$9,390</b>	<b>\$11,689</b>

**State Tax Increase**

**\$2,299**

**25%**





# Profile #8

## Single Person-No Dependents

**FAGI = \$17,000** (approx. 209,000 make under \$17,000)

	<b>Tax Current Law 2001</b>	<b>Tax Proposal</b>
State Income Tax*	\$591	\$588
State Property Tax (Automobiles)	8	0
Sales Tax on Repair and Installation Labor	0	6
7¢ increase in Gasoline Tax	0	29
<b>Total Annual Tax</b>	<b>\$599</b>	<b>\$623</b>
<b>State Tax Increase</b>	<b>\$24</b>	<b>4%</b>

\*Includes low income credit of 15% under current law .



# Profile # 9

## Single Person-No Dependents

**FAGI = \$25,000** (approx. 90,000 make between \$16,000-\$26,000)

	<b>Tax Current Law 2001</b>	<b>Tax Proposal</b>
State Income Tax	\$1,111	\$1,056
State Property Tax (Automobiles)	36	0
Sales Tax on Repair and Installation Labor	0	7
Motor Vehicle Usage Tax Credit	120	0
7¢ increase in Gasoline Tax	0	30
<b>Total Annual Tax</b>	<b>\$1,267</b>	<b>\$1,093</b>
<b>State Tax Savings</b>	<b>\$174</b>	<b>14%</b>



# Profile #10

## Married Couple-No Dependents

**FAGI = \$40,000**(approx. 43,000 make between \$33,000-\$50,000)

	<b>Tax Current Law</b>	<b>Tax Proposal</b>
State Income Tax	\$1,462	\$1,572
State Property Tax (Automobiles)	90	0
Sales Tax on Repair and Installation Labor	0	14
Motor Vehicle Usage Tax Credit	120	0
7¢ increase in Gasoline Tax	0	58
<b>Total Annual Tax</b>	<b>\$1,672</b>	<b>\$1,644</b>
<b>State Tax Savings</b>	<b>\$28</b>	<b>2%</b>



# Profile #11

## Married Couple-No Dependents

**FAGI = \$70,000**(approx. 40,000 make between \$50,000-\$75,000)

	Tax Current Law	Tax Proposal
State Income Tax	\$3,010	\$3,120
State Property Tax (Automobiles)	144	0
Sales Tax on Repair and Installation Labor	0	20
Motor Vehicle Usage Tax Credit	192	0
7¢ increase in Gasoline Tax	0	63
<b>Total Annual Tax</b>	<b>\$3,346</b>	<b>\$3,203</b>
<b>State Tax Savings</b>	<b>\$143</b>	<b>4%</b>

**The Patton Tax Fairness and Equity Plan**  
**FY2001 and FY2002 Impacts**  
(millions of dollars)

	<b>FY01</b>	<b>FY02</b>
<b>General Fund Impact</b>		
<b>Individual Income Tax</b>	<b>\$ (25.0)</b>	<b>\$ (54.8)</b>
Retain federal Adjusted Gross Income as starting point of return; Adopt federal filing status; Adopt federal standard deduction; Adopt federal itemized deductions (less state tax paid) including federal limitations; Adopt federal personal exemptions including federal phase out; Retain current Kentucky Modifications to federal Adjusted Gross Income; Establish a flat tax rate of 6%		
<b>Corporation Income and License Tax**</b>	<b>\$ 0.5</b>	<b>\$ (0.7)</b>
Nexus: Adopt the broader and widely accepted "doing business" standard	\$ 0.5	\$ 1.0
Include LLC's and LLP's in corporate license tax	\$ -	\$ 2.5
Extend favorable treatment of KRS 136.071 to include out of state holding companies that meet the 50% asset requirements (USX Case)	\$ -	\$ (4.2)
<b>Property Tax</b>	<b>\$ (8.2)</b>	<b>\$ (30.6)</b>
Use local government rate setting provisions for setting the state rate	\$ 6.5	\$ 11.3
Motor vehicle & watercraft: phase-in exemption from state property tax (45c, 30c, 15c, 0), offset clerks' commission and system cost	\$ (14.7)	\$ (41.9)
<b>Sales and Use Tax***</b>	<b>\$ 147.3</b>	<b>\$ 168.0</b>
Extend tax to include repair and installation labor	\$ 165.0	\$ 188.1
Expand prescription drug exemption to physicians and other providers	\$ (17.7)	\$ (20.1)
Broaden nexus definition to preserve existing sales tax base	\$ -	\$ -
<b>Communications Excise Tax</b>	<b>\$ 29.8</b>	<b>\$ 64.9</b>
Intrastate and Interstate telecom services, cable, dbs, and others		
Exempt switch access revenue		
<b>Parimutuel Tax</b>	<b>\$ (1.2)</b>	<b>\$ (2.3)</b>
Tax credit to equalize rate among racetracks	\$ (1.2)	\$ (2.3)
<b>TOTAL GENERAL FUND IMPACT</b>	<b>\$ 143.2</b>	<b>\$ 144.5</b>
<b>Road Fund Impact</b>		
<b>Motor Fuels</b>		
Excise Tax Increase	\$ 115.0	\$ 204.0
<b>Motor Vehicle Usage Tax</b>		
Trade-in credit for new vehicles and vehicles purchased out-of-state	\$ (31.5)	\$ (31.5)
Interstate truck exemption	\$ (5.0)	\$ (5.0)
<b>TOTAL ROAD FUND IMPACT</b>	<b>\$ 78.5</b>	<b>\$ 167.5</b>

\*\* Due to lagged effects, 18 month delay before impacts are realized

\*\*\* Assume 11 months' collections in FY01



# Table of Contents

---

<b>Assumptions</b> .....	2
<b>Executive Summary</b> .....	3
<b>Debt Capacity Analysis</b>	
Purpose .....	5
Structure .....	6
Definitions .....	6
Historical Information .....	8
<b>Appendices</b>	
A: Economic Indicators .....	12
B: Fiscal Debt Indicators .....	15
C: Market Indicators .....	18
D: New Debt Requested .....	20
E: University Rating Information .....	22

## *Assumptions*

---

This analysis is premised on the following assumptions:

- FY 2000-2002 General Fund estimates are based on the January 25, 2000 Official Revenue Estimates. Growth Rates for FY 2003-2004 are based on January 2000 planning estimates using 1.0 elasticity .
- FY2000-2002 Road Fund estimates are based on the January 25, 2000 Official Revenue Estimates. Growth Rates for FY 2003 and 2004 are based on January 2000 planning estimates using 0.9 elasticity.
- Agency Fund estimates are based on actual 1999 revenue with an implied growth rate equal to the growth rate of the General Fund.
- No Tobacco Settlement Funds are included for FY 2000, but are additions to the General Fund revenue beginning in FY2001.
- The total revenue estimates include Governor Paul E. Patton's revenue initiatives.
- All authorized debt is issued by June 30, 2000 at the template rates except the SFCC debt that is authorized at 5.80%
- Assumes the entire Road Fund Authorization will be issued by 6-30-00, which includes \$200 million for road projects and \$68.1 million for the New Office Building.
- Assumes 2% Cost of Issuance.
- Required Debt Service is estimated from amortization schedules using the debt service template rates.

## *Executive Summary*

---

Governor Paul E. Patton is proposing \$909,900,000 in new debt financed projects to the 2000 General Assembly. The recommendation for the 2000-2002 biennium is compared to previous biennia in Table 1 and is described in more detail on Appendix D.

The “Capital Financing Analysis” provides an overview of the structure of debt issuance in the Commonwealth. In addition historical information about the status of the debt program is provided in the Appendices. This information is required pursuant to KRS 42.410.

Table 1

**DEBT AUTHORIZED BY RECENT  
SESSIONS OF THE  
GENERAL ASSEMBLY**

<u>Fiscal Year</u>	<u>Principal Debt Authorized</u>	<u>Fiscal Year</u>	<u>Principal Debt Authorized</u>
1980	\$ 689,312,400	1992	\$ 439,375,100
1982	534,024,000	1994 <sup>1</sup>	429,575,900
1984	535,929,000	1996 <sup>2</sup>	313,575,000
1986	494,721,100	1998 <sup>3</sup>	1,168,030,000
1988	364,171,900	2000 <sup>4</sup>	909,900,000
1990	1,148,218,400		

<sup>1</sup> This includes debt authorized in the Extraordinary Session of the General Assembly and debt authorized by the Surplus Expenditure Plan.

<sup>2</sup> Enacted in the 1996-98 Budget of the Commonwealth, and subsequent May 1997 Extraordinary Session of the Kentucky General Assembly. Includes all new authorized debt and all reauthorized debt for the 1996-1998 Biennium .

Reauthorized: \$69,393,000 General Fund and \$2,000,000 Agency Fund  
 New Authorization: \$103,796,000 General Fund and \$35,000,000 Agency Fund  
 May 1997 Extraordinary Session: Includes \$103,386,000 of Bond Funded Projects

**Excludes the \$60,000,000 of Agency Bonds in the Finance Cabinet (KIA Leveraging). Pursuant to KRS 56.870 (3), Legislative authorization is required when revolving fund repayments are used to support bonds.**

<sup>3</sup> **New Debt Enacted in the 1998-2000 Budget of the Commonwealth.**

Reauthorized: \$74,102,000 General Fund and \$2,000,000 Agency Fund  
 New Authorizations: \$600,830,000 General Fund: \$268,100,000 Road Fund and \$96,100,000 Agency Fund  
 \$126,898,000 is authorized in the General Fund Surplus Expenditure Plan  
 \$201,000,000 is authorized for SFCC however debt service is appropriated for only \$108,130,000 in FY 2000

<sup>4</sup> **New Debt Recommended in the 2000-2002 Executive Budget.**

# *Debt Capacity Analysis*

---

## **Purpose**

This report provides a review of pertinent historical information about the Commonwealth's debt, debt management goals and Governor Paul E. Patton's capital financing plan recommendation. The Governor's recommendation of authorized debt for new projects for FY2001-2002 is evaluated against various measures of debt affordability and previous biennial authorizations.

The goals of the debt management program of the Commonwealth are:

1. Maintain debt at levels that eliminate questions concerning the state's willingness or ability to make timely payments on appropriation supported debt.
2. Maintain debt at relatively constant or declining levels when compared to various indicators of wealth (assuming the indicators are stable over time as well).
3. Issue debt only for those projects that will provide benefits equal to or longer than the amortization period of the debt .
4. Maintain or improve the state's current Aa3/A+/A+ State Property and Buildings Commission debt rating.
5. Establish and implement a program to manage the net interest expenses of the Commonwealth.
6. Use debt to finance projects prudently, without neglecting the capital investment needs of the state.
7. Continually strive to reduce the expense of debt through ongoing management of outstanding debt and analysis of low-cost alternatives.
8. Use tax-exempt rather than taxable funding sources for project financing or operating funds whenever possible to minimize overall governmental operational costs.

These goals continue to be important to the assessment by outside entities of the use of debt by the Commonwealth and provide an appropriate backdrop for any discussion about long-term capital expenditures.

## **Structure**

The Commonwealth's indebtedness is classified as either appropriation supported or non-appropriation supported debt.

**Appropriation supported debt** carries the name of the Commonwealth and is either (i) a general obligation of the state, or (ii) a project revenue obligation of one of the debt-issuing agencies created by the Kentucky General Assembly to finance various projects and is subject to state appropriations for all or a portion of the debt service on the bonds.

General obligation bonds pledge the full faith, credit and taxing power of the Commonwealth for the repayment of debt. The Kentucky Constitution requires voter approval by general referendum prior to the issuance of general obligation bonds in amounts exceeding \$500,000. Kentucky has not issued general obligation bonds since 1966. The Commonwealth currently has no general obligation bonds outstanding.

Project revenue bonds are issued by various debt-issuing authorities of the Commonwealth (Chart 1). These bonds pledge, as security for repayment of the debt, the revenues produced by the projects funded by the debt. Project revenue bonds are not a direct obligation of the Commonwealth. Project revenue bonds are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases, the direct revenues generated from the project funded constitute the entire source of payment.

**Non-appropriation or moral obligation debt** carries the name of the Commonwealth for the benefit and convenience of other entities within the state. The bonds are special obligations of the issuer, secured and payable solely from the sources pledged for the payment thereof and do not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of bonds. In the event of a shortfall, the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service.

## **Definitions**

**Total debt service** is defined as all debt service appropriated by the General Assembly. This includes debt service on all bond issues of the State Property and Buildings Commission, state universities (consolidated educational buildings revenue bonds, hospital revenue bonds, community college revenue bonds, and housing and dining system revenue bonds), the Turnpike Authority of Kentucky, and the state appropriation supported portion of both the School Facilities Construction Commission and the Kentucky Infrastructure Authority .

**Chart 1  
ACTIVE DEBT ISSUING ENTITIES**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/ PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>MOODY'S/S &amp; P/Fitch</u>
State Property and Buildings Commission	<b>KRS 56.450</b> Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by the General Assembly.	Aa3/A+/A+
Kentucky Asset/Liability Commission	<b>KRS 56.860</b> Provide for short-term financing of capital Projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by the General Assembly.	Varies
Turnpike Authority of Kentucky	<b>KRS 175.410-175.990</b> Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriations of debt service by the General Assembly.	A1/A/NA
The State Universities	<b>KRS 56.495</b> Construct educational buildings and housing and dining facilities.	Cannot incur debt without Prior approval of projects and appropriations of debt service by the General Assembly.	See Appendix E
Kentucky Housing Corporation	<b>KRS 198A</b> Make low interest mortgage loans and Construction loans to increase the supply of housing for low and moderate income residents in the state.	Limited to \$1.125 billion of debt outstanding	Aaa/AAA/NA
Kentucky Infrastructure Authority	<b>KRS 224A</b> Provide financial assistance to local Governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+/NA
Kentucky Higher Education Student Loan Corporation	<b>KRS 164A</b> Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.	Limited to \$553 million of debt outstanding.	Aaa/AA-/NA
School Facilities Construction Commission	<b>KRS 157.800-157.895</b> Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly	Aa3/A+/A
Kentucky Economic Development Finance Authority	<b>KRS 154</b> Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None	Varies
Kentucky Local Correctional Facilities Authority	<b>KRS 441.605-441.695</b> Provide an alternative method of Constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	AAA
Kentucky Agricultural Finance Corporation	<b>KRS 247.940</b> Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural Enterprises and the promotion of new agricultural ventures.	Limited to \$500 million of debt outstanding.	N/A

On June 7, 1999 Moody's assigns Aa2 Issuer Rating to the Commonwealth of Kentucky; Upgrades to Aa3 from A2 the General Fund Appropriation-backed debt of Kentucky State Property and Buildings Commission, Kentucky Infrastructure Authority, and ALCo Project Notes; and Upgrades to A1 from A Kentucky Turnpike Authority Road Bonds.

**Revenue** is defined to include the General Fund, Road Fund and Agency Fund and is reported on an actual cash (budgetary) basis. Although the state adopted a modified accrual basis of accounting in 1983, the use of the cash basis allows for an analysis of debt for a longer time period. Revenues for General Fund and Road Fund for FY2000, FY2001 and FY2002 are based upon the official forecast of the Consensus Forecasting group. Agency Fund estimates are based upon actual results for FY99 and increased using the projected growth rate of the General Fund for the official forecast. Historical revenue figures and debt service levels were obtained from the Kentucky Comprehensive Annual Financial Report and the supplemental reports for the various years.

**Debt capacity** is the total amount of new asset bonds that can be supported by a calculated amount of state appropriations (assuming a long-term interest rate of 7.50 percent). Asset bonds equate to project costs plus cost of issuance. It assumes no debt service reserves, except in the case of university bonds, where asset bonds include debt service reserves .

### **Historical Information**

Table 2 shows the historical comparison of debt outstanding in current and constant dollars. One significant historical note is the Turnpike Authority program that issued \$600 million in bonds between 1991 and 1995.

Table 3 shows the comparison of debt outstanding and required debt service as a percent of assessed property, personal income and on a per capita basis. Table 4 provides the historical comparison of total appropriation required debt service as a percentage of total revenue. This is the key indicator of debt health for the Commonwealth and is used to assess the impact of any capital program.



**TABLE 2  
 APPROPRIATION SUPPORTED DEBT  
 PRINCIPAL DEBT OUTSTANDING  
 (000,000)**

<u>Fiscal Year</u>	<u>Current</u>	<u>Percent Change</u>	<u>CPI Constant Dollar Adjustment</u>	<u>Constant (1984)</u>	<u>Percent Change</u>
1967	\$ 956.61		0.3290	\$2,907.63	
1968	1,119.50	17.03%	0.3400	3,292.65	13.24%
1969	1,228.10	9.70	0.3570	3,440.06	4.48
1970	1,221.30	-0.55	0.3710	3,291.91	-4.31
1971	1,538.10	25.94	0.3902	3,941.82	19.74
1972	1,628.90	5.90	0.4042	4,029.94	2.24
1973	1,611.00	-1.10	0.4205	3,831.15	-4.93
1974	1,602.50	-0.53	0.4580	3,498.91	-8.67
1975	1,618.70	1.01	0.5087	3,182.03	-9.06
1976	1,583.10	-2.20	0.5449	2,905.30	-8.70
1977	1,779.43	12.40	0.5765	3,086.60	6.24
1978	1,785.85	0.36	0.6151	2,903.35	-5.94
1979	2,005.69	12.31	0.6729	2,980.66	2.66
1980	2,113.96	5.40	0.7626	2,772.04	-7.00
1981	2,125.66	0.55	0.8505	2,499.30	-9.84
1982	1,698.60	-20.09	0.9240	1,838.31	-26.45
1983	1,781.79	4.90	0.9633	1,849.67	0.62
1984	2,100.72	17.90	1.0000	2,100.72	13.57
1985	2,098.89	-0.09	1.0343	2,029.28	-3.40
1986	2,197.98	4.72	1.0687	2,056.69	1.35
1987	2,627.29	19.53	1.0910	2,408.15	17.09
1988	2,771.07	5.47	1.1365	2,438.25	1.25
1989	2,726.69	-1.60	1.1888	2,293.65	-5.93
1990	2,736.18	0.35	1.2455	2,196.85	-4.22
1991	3,253.56	18.91	1.3138	2,476.45	12.73
1992	3,537.60	8.73	1.3558	2,609.23	5.36
1993	3,837.65	8.48	1.3981	2,744.91	5.20
1994	3,785.78	-1.35	1.4346	2,638.91	-3.86
1995	3,809.20	0.62	1.4756	2,581.46	-2.18
1996	3,775.38	-0.89	1.5159	2,490.52	-3.52
1997	3,557.74	-5.76	1.5588	2,282.36	-8.36
1998	3,600.08	1.19	1.5869	2,268.63	-0.60
1999	3,589.95	-0.28	1.6142	2,223.98	-1.97
2000 <sup>1</sup>	4,020.36	11.99	1.6544	2,430.10	9.27
2001	3,720.88	-7.45	1.6886	2,203.53	-9.32
2002 <sup>2</sup>	3,415.80	-8.20	1.7288	1,975.82	-10.33

<sup>1</sup> Assumes all previously authorized debt will be issued by June 30, 2000. Includes \$108,130 of SFCC Debt Funded Projects, but the SFCC Offers of Assistance can be up to \$201.1 Million

<sup>2</sup> Assumes no additional debt authorization for the 2000-2002 Biennium .

**Table 3**  
**APPROPRIATION SUPPORTED DEBT**  
**KENTUCKY ECONOMIC DEBT INDICATORS**  
**(Current Dollars)**

<u>Fiscal Year</u>	<u>Debt as a % of Assessed Property</u>	<u>Required Debt Service as a % of Assessed Property</u>	<u>Debt as a % of Personal Income</u>	<u>Required Debt Service as a % of Personal Income</u>	<u>Debt Per Capita (\$)</u>	<u>Required Debt Service Per Capita (\$)</u>
1978	2.83	0.21	7.44	0.56	494.01	37.15
1978	2.83	0.19	7.46	0.50	550.26	36.97
1980	2.57	0.19	7.19	0.53	577.58	42.83
1981	2.32	0.18	6.54	0.51	580.30	45.19
1982	1.70	0.17	4.97	0.50	463.46	46.57
1983	1.66	0.17	5.06	0.53	485.76	50.41
1984	1.84	0.18	5.44	0.52	572.40	54.77
1985	1.69	0.19	5.23	0.58	571.44	63.68
1986	1.66	0.19	5.24	0.59	598.09	67.31
1987	1.85	0.17	5.89	0.55	714.33	67.27
1988	1.78	0.18	5.85	0.59	753.01	75.46
1989	1.68	0.18	5.40	0.58	741.55	79.38
1990	1.51	0.17	5.08	0.56	741.11	82.46
1991	1.68	0.16	5.70	0.55	875.79	84.70
1992	1.71	0.19	5.81	0.65	942.61	105.10
1993	1.76	0.18	5.97	0.61	1,011.51	104.05
1994	1.69	0.18	5.64	0.59	991.56	103.71
1995	1.57	0.17	5.38	0.60	991.20	110.50
1996	1.47	0.17	5.06	0.58	976.31	112.68
1997	1.40	0.18	4.55	0.59	914.12	118.08
1998	1.53	0.19	4.36	0.55	919.09	116.78
1999	1.41	0.18	4.19	0.54	910.69	116.71
2000 <sup>1</sup>	1.50	0.21	4.46	0.62	1,013.45	140.27
2001 <sup>1</sup>	1.32	0.19	3.93	0.57	932.55	136.48
2002 <sup>1</sup>	1.15	0.18	3.44	0.55	850.97	135.97

<sup>1</sup>Estimated

**Table 4**  
**TOTAL APPROPRIATION SUPPORTED DEBT SERVICE**  
**AS A PERCENT OF REVENUE**  
**(000,000)**

<u>Fiscal Year</u>	<u>Total Revenue (\$)</u>	<u>Total Debt Service (\$)</u>	<u>Total Appropriation Required Debt Service/ Revenue (%)</u>
1967	612.16	49.18	8.03
1968	745.01	54.67	7.34
1969	932.33	67.01	7.19
1970	925.39	74.57	8.06
1971	1,055.46	73.36	6.95
1972	1,235.47	85.15	6.89
1973	1,349.80	91.18	6.75
1974	1,482.62	101.04	6.82
1975	1,733.88	117.18	6.76
1976	1,852.92	117.05	6.32
1977	1,995.62	117.57	5.89
1978	2,328.35	134.28	5.77
1979	2,732.90	134.77	4.93
1980	2,895.18	156.75	5.41
1981	3,099.47	165.54	5.34
1982	3,242.64	170.67	5.26
1983	3,452.40	184.89	5.36
1984	3,738.28	201.02	5.38
1985	3,959.25	233.91	5.91
1986	4,248.04	247.38	5.82
1987	4,933.93	247.42	5.01
1988	5,134.52	277.69	5.41
1989	5,407.11	291.89	5.40
1990	5,814.85	304.43	5.24
1991	6,143.23	314.66	5.12
1992	6,419.98	394.44	6.14
1993	6,578.18	394.76	6.00
1994	6,800.82	395.95	5.82
1995	7,554.79	424.65	5.62
1996	7,759.59	435.72	5.62
1997	8,188.75	459.56	5.61
1998	8,675.10	457.44	5.27
1999	9,104.43	460.88	5.05
2000	9,439.72 <sup>1</sup>	556.47 <sup>2</sup>	5.89
2001	10,203.78 <sup>1</sup>	544.56 <sup>3</sup>	5.34
2002	10,791.21 <sup>1</sup>	545.79 <sup>3</sup>	5.06

<sup>1</sup>Estimated.

<sup>2</sup>Assumes authorized debt will be issued by June 30, 2000.

<sup>3</sup>Assumes no additional debt authorized for the 2000-2002 biennium.

## *Appendix A – Economic Indicators*

---

The following data reflect Kentucky's debt and debt service in comparison with various economic indicators or measures of wealth. Appropriation supported debt and three categories of debt service are presented in terms of the economic-variables of assessed property values, personal income and population .

Tables A-1, A-2 and A-3 show the annual debt and debt service in three different categories: required, appropriated and actual. "Required debt service" is the debt service that is actually due to the bondholders regardless of source of revenue. Debt service may be paid from interest earnings on the debt service reserve funds as well as by direct appropriations or projected revenues. The "required" debt service" category is the most accurate reflection of the Commonwealth's liability.

"Appropriated debt services" are those funds that were appropriated in the various budgets for debt service. In many cases, these figures are estimated in advance of debt being issued or refinanced. These figures are neither an accurate nor consistent reflection of the Commonwealth's debt liability and are presented pursuant to KRS 42.410.

"Actual debt service" is those funds that flowed through the Debt Service Fund within the state's accounting system. These figures include not only debt service but also proceeds from refundings, costs of issuance and accrued interest on newly issued bonds , rebate and arbitrage penalty payments and trustee fees. This data is not an accurate reflection of the Commonwealth's debt liability, but is being presented pursuant to KRS 42.410.

Table A-4 reflects Kentucky's non-appropriation supported debt in relation to the economic variables of assessed property value, personal income and population. Non-appropriation supported debt is the debt of those authorities for which appropriation of state funds is not used to pay the debt service. The authorities include the Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, certain debt of the Kentucky Infrastructure Authority, Kentucky Local Correctional Facilities Construction Authority, Kentucky Agricultural Finance Corporation and Kentucky Economic Development Finance Authority (formerly Kentucky Development Finance Authority). The total debt and debt service shows a significant decrease in FY93 due to a change in reporting methodology. Project revenue debt is included for only the Kentucky Development Finance Authority (KDFA) Yen bonds issued in 1987 and debt of the Kentucky Local Correctional Facilities Construction Authority. The industrial development bonds ("IDBs") of KDFA, the Kentucky Infrastructure Authority and the Kentucky Agricultural Finance Corporation are no longer included in the Comprehensive Annual Financial Report.

**Table A-1**  
**APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE**  
**AS A PERCENT OF ASSESSED PROPERTY**  
**(Current Dollars)**

<u>Fiscal Year</u>	<u>Debt As a % of Assessed Property</u>	<u>Required Debt Service as a % of Assessed Property</u>	<u>Appropriated Debt Service % of Assessed Property</u>	<u>Actual Debt Service as a % of Assessed Property</u>
1990	1.51	0.17	0.17	0.16
1991	1.68	0.16	0.19	0.16
1992	1.71	0.19	0.21	0.15
1993	1.76	0.18	0.18	0.17
1994	1.69	0.18	0.19	0.20
1995	1.57	0.17	0.17	0.16
1996	1.47	0.17	0.17	0.18
1997	1.40	0.18	0.18	0.18
1998	1.53	0.19	0.19	0.16
1999	1.41	0.18	0.18	0.18

**Table A-2**  
**APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE**  
**AS A PERCENT OF PERSONAL INCOME**  
**(Current Dollars)**

<u>Fiscal Year</u>	<u>Debt as a % of Personal Income</u>	<u>Debt Service as a % of Personal Income</u>	<u>Appropriated Debt Service as a % of Personal Income</u>	<u>Actual Debt Service as a % of Personal Income</u>
1990	5.08	0.56	0.58	0.51
1991	5.70	0.55	0.65	0.59
1992	5.81	0.65	0.72	0.68
1993	5.97	0.61	0.61	0.54
1994	5.64	0.59	0.65	0.59
1995	5.38	0.60	0.58	0.61
1996	5.06	0.58	0.58	0.57
1997	4.55	0.59	0.59	0.58
1998	4.36	0.55	0.55	0.54
1999	4.19	0.54	0.54	0.51

**Table A-3**  
**APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE**  
**AS A PERCENT OF POPULATION**  
**(Current Dollars)**

<u>Year</u>	<u>Debt Per Per Capita (\$)</u>	<u>Required Debt Service Per Capita (\$)</u>	<u>Appropriated Debt Service Per Capita (\$)</u>	<u>Actual Debt Service Per Capita (\$)</u>
1990	741.11	82.46	84.59	74.69
1991	875.79	84.70	99.38	90.04
1992	942.61	105.10	116.23	110.17
1993	1,011.51	104.05	103.84	91.58
1994	991.56	103.71	114.22	103.79
1995	991.20	110.50	106.32	113.11
1996	976.31	112.68	111.22	109.06
1997	914.12	118.08	118.08	117.46
1998	919.09	116.78	116.78	113.14
1999	910.69	116.71	116.71	111.00

**Table A-4**  
**NON-APPROPRIATION SUPPORTED DEBT**  
**KENTUCKY ECONOMIC DEBT INDICATORS**

<u>Fiscal Year</u>	<u>Debt as a % of Assessed Property</u>	<u>Debt as a % of Personal Income</u>	<u>Per Capita Debt (\$)</u>
1990	1.22	4.12	601.75
1991	1.29	4.39	674.63
1992	1.21	4.13	669.87
1993	0.64	2.17	367.25
1994	0.57	1.91	336.28
1995	0.54	1.86	343.20
1996	0.54	1.85	355.96
1997	0.61	1.99	399.64
1998	0.66	1.89	398.38
1999	0.65	1.94	421.44

## *Appendix B: Fiscal Debt Indicators*

---

In the following table, total appropriated revenue is shown in terms of the three categories of debt service as described in Appendix A. Appropriated revenue is the revenue of the General Fund, Road Fund and Agency Fund. Table B-1 compares required appropriated and actual debt service to total revenue.

Table B-2 reflects the three categories of debt service in terms of “available appropriated revenues.” This form of revenue is revenue from the same sources as described above less funds that are statutorily dedicated to a specific purpose. In the case of the General Fund, Base Court Revenue, Surface Mining County Acreage and Permit Fees, Local Government Economic Assistance Fund and Public Service Commission Administrative Assessments are subtracted from total General Fund receipts to the degree the expenditures can be identified in the Comprehensive Annual Financial Report. In the case of the Road Fund (Table B-3), the following receipts are subtracted: County Road Air, Rural Secondary Road Aid, Municipal Road Aid within the Motor Fuels Normal and Motor Fuels Normal Use accounts, Kentucky Transportation Center Funds, Coal Haul Cooperative Agreements, Extended Weight and Coal Haul Fines, Drivers Education Program and Drivers License Photo Program.

The Agency Fund receipts include those agency funds that are actually applied to debt service. These include primarily the debt service for university housing and dining and hospital issues, and certain bonds of the Capital Plaza Authority, the Human Resources Cabinet (SPBC Project 31) and the Kentucky Fair Board .

**Table B-1  
 APPROPRIATED DEBT SERVICE  
 AS A PERCENT OF TOTAL REVENUE  
 (Budget Basis)**

<u>Fiscal Year</u>	<u>Total Revenue (\$Millions)</u>	<u>Required Debt Service/ Revenue (%)</u>	<u>Appropriated Debt Service/ Revenue (%)</u>	<u>Actual Debt Service/ Revenue (%)</u>
1990	5,814.85	5.24	5.37	4.74
1991	6,143.23	5.12	6.01	5.44
1992	6,419.98	6.14	6.79	6.44
1993	6,578.18	6.00	5.99	5.28
1994	6,800.82	5.82	6.41	5.83
1995	7,554.79	5.62	5.41	5.75
1996	7,759.59	5.62	5.54	5.43
1997	8,188.75	5.61	5.61	5.58
1998	8,675.10	5.27	5.27	5.11
1999	9,104.43	5.05	5.05	4.81

**Table B-2  
 APPROPRIATED DEBT SERVICE  
 AS A PERCENT OF AVAILABLE REVENUE(Budget Basis)  
 (000,000)**

<u>Fiscal Year</u>	<u>Total Revenue (\$Millions)</u>	<u>Required Debt Service/ Revenue (%)</u>	<u>Appropriated Debt Service/ Revenue (%)</u>	<u>Actual Debt Service/ Revenue (%)</u>
1987	3,363.50	7.36	7.45	7.67
1988	3,484.01	7.97	7.83	6.97
1989	3,831.16	7.62	6.78	6.94
1990	4,143.64	7.35	7.54	6.65
1991	4,889.69	6.44	7.55	6.84
1992	4,956.73	7.96	8.80	8.34
1993	5,131.53	7.69	7.68	6.77
1994	5,298.89	7.47	8.23	7.48
1995	5,837.56	7.27	7.00	7.45
1996	6,063.35	7.19	7.09	6.96
1997	6,400.18	7.18	7.18	7.14
1998	6,800.88	6.73	6.73	6.52
1999	7,010.55	6.56	6.56	6.24



**Table B-3  
ROAD FUND DEBT SERVICE  
AS A PERCENT OF REVENUE  
(000,000)**

<u>Fiscal Year</u>	<u>Available Road Fund Revenue</u>	<u>Debt Service</u>	<u>Debt Service as a Percent of Available Revenue</u>
1980	\$ 557.63	\$ 104.59	18.76%
1981	543.79	112.97	20.77
1982	514.40	112.50	21.87
1983	526.85	113.97	21.63
1984	574.20	112.89	19.66
1985	399.62	137.14	34.32
1986	401.98	134.90	33.56
1987	510.23	130.03	25.48
1988	469.32	134.67	28.69
1989	556.90	126.13	22.65
1990	581.46	129.11	22.20
1991	597.15	163.70	27.41
1992	616.06	156.44	25.39
1993	640.67	147.46	23.02
1994	680.46	151.60	22.28
1995	710.64	145.69	20.50
1996	748.09	155.37	20.77
1997	763.14	160.58	21.04
1998	811.04	153.66	18.95
1999	839.58	154.37	18.39
2000 <sup>1</sup>	867.78	174.59	20.12
2001 <sup>1</sup>	975.25	177.31	18.18
2002 <sup>1</sup>	1095.86	179.88	16.41

<sup>1</sup> Estimated based on the January 25, 2000 official estimates for the Road Fund less proportional revenue sharing and dedicated funds. These estimates are based on debt issued as of 12-31-99. Assumes no additional Road Fund debt will be authorized in the FY 2000-2002 biennium.

## Appendix C: Market Indicators

	Arbitrage TIC	Bond Buyer Index	Size	Final Maturity
<b><u>Kentucky Housing Corporation</u></b>				
Oct-98				
1998 Series D (AMT)	5.08%	5.20%	\$ 8,205,000	07/01/2038
1998 Series E (Non-AMT)	4.93%	5.20%	\$ 6,290,000	07/01/2030
1998 Series F (AMT)	4.93%	5.20%	\$ 64,565,000	01/01/2030
1998 Series G (Taxable)	5.55%	5.20%	\$ 26,375,000	07/01/2019
Mar-99				
1999 Series A (Non-AMT)	4.97%	5.29%	\$ 13,300,000	01/01/2013
1999 Series B (AMT)	4.97%	5.29%	\$ 41,700,000	07/01/2028
1999 Series C (AMT)	4.97%	5.29%	\$ 61,300,000	07/01/2000
Jul-99				
1999 Series D (Non-AMT)	5.60%	5.65%	\$ 3,035,000	07/01/2017
1999 Series E (AMT)	5.60%	5.65%	\$ 17,965,000	07/01/2028
1999 Series F (Taxable LIBOR Floater)	5.68%	5.65%	\$ 19,000,000	07/01/2031
Sep-99				
1999 Series G (Non-AMT)	5.99%	5.96%	\$ 3,425,000	01/01/2015
1999 Series H (AMT)	5.99%	5.96%	\$ 65,485,000	07/01/2030
1999 Series I (Taxable LIBOR Floater)	5.82%	5.96%	\$ 21,090,000	07/01/2013
<b><u>State Property and Buildings Commission</u></b>				
Feb-99				
Project No. 62	4.58%	5.04%	\$ 31,550,000	09/01/2014
May-99				
Project No. 63	5.03%	5.21%	\$ 25,440,000	11/01/2018
Aug-99	5.47%	5.65%	\$125,455,000	05/01/2018
<b><u>Kentucky Infrastructure Authority</u></b>				
Apr-99				
Govt. Agencies Program 1999 Series J	5.43%	5.28%	\$ 12,225,000	08/01/2018
Infrastructure Revolving Fund 1999 Series M	4.51%	5.28%	\$ 16,575,000	06/01/2014
<b><u>Kentucky Higher Education Student Loan Corp.</u></b>				
Sep-9				
1998 A (Taxable ARCs)	5.64%	5.63%	\$ 72,800,000	05/01/2028
1998 B (AMT-ARCs)	3.75%	5.63%	\$ 42,400,000	05/01/2028
Jun-99				
1999 A (Taxable ARCs)	5.25%	5.18%	\$ 51,350,000	05/01/2029
1999 B (AMT – ARCs)	3.60%	5.18%	\$ 23,650,000	05/01/2029

		<b>Arbitrage TIC</b>	<b>Bond Buyer Index</b>	<b>Size</b>	<b>Final Maturity</b>
<b><u>Kentucky Asset/Liability Commission</u></b>					
Jul-98	1998 Series A TRAN	3.45%	3.75%	\$200,000,000	06/25/1999
Sep-98	1998 Agency Fund Series	3.74%	3.26%	\$110,000,000	06/30/2002
	1998 Series B TRAN	3.31%	3.64%	\$100,200,000	06/25/1999
Nov-98	1998 General Fund 2 <sup>nd</sup> Series	2.93%	3.35%	\$126,500,000	11/01/1999
Mar-99	1999 General Fund 1 <sup>st</sup> Series	4.00%	5.11%	\$ 49,195,000	03.01.2006
Jul-99	1999 Series A TRAN	3.35%	3.39%	\$300,000,000	06/28/2002
Aug-99	1999 General Fund 2 <sup>nd</sup> Series	3.25%	3.24%	\$135,000,000	06/30/2003
Sep-99	1999 General Fund 3 <sup>rd</sup> Series	3.70%	3.78%	\$138,000,000	06/30/2003
Oct-99	1999 Road Fund 1 <sup>st</sup> Series	3.65%	3.73%	\$ 75,200,000	06/30/2003
	1999 Road Fund 2 <sup>nd</sup> Series	3.70%	3.68%	\$128,000,000	06/30/2003
Nov-99	1999 Series B TRAN	3.82%	3.68%	\$101,000,000	06/28/2000
	1999 General Fund 4 <sup>th</sup> Series	3.90%	3.68%	\$135,000,000	06/30/2003

## Appendix D: New Debt Requested

CABINET/AGENCY	PROJECT TITLE	PROJECT/POOL AUTHORIZATION	CABINET/AGENCY TOTALS
<b><u>Finance</u></b>			
FINANCE	STATEWIDE PROPERTY ACQUISITION/DEMOLITION FUND	\$ 5,000,000	\$ -
FINANCE	SPRINKLER RECALL/REPLACEMENT	1,500,000	
KIA	WATER RESOURCES DEVELOPMENT	50,000,000	
GOT	STATEWIDE MICROWAVE NETWORK MAINTENANCE	2,500,000	
FINANCE	KIA FUND F	6,000,000	
FINANCE	KIA FUND A	7,000,000	
FINANCE	PLUG FOR 1ST YEAR DEBT SERVICE		
FINANCE	KY STATE CAPITOL - HISTORIC RESTORATION DESIGN	8,550,000	
FINANCE	CAPITOL COMPLEX INFRASTRUCTURE	33,700,000	
FINANCE	NEW EXECUTIVE OFFICE BUILDING	20,500,000	
FINANCE	LT GOVERNOR'S MANSION/KY HISTORY CENTER AREA RESTORATION (BARSTOW HOUSE ET AL)	4,000,000	
ECONOMIC DEVELOPMENT	EDB'S - RESTORE CAPACITY	4,000,000	
GOT/STATE POLICE	UNIFIED CRIMINAL JUSTICE SYSTEM	4,585,000	
			<b>147,335,000</b>
<b><u>MH/MR</u></b>			
MH/MR	NEW POWER PLANT-WESTERN STATE HOSPITAL	3,880,000	
MH/MR	BOILER REPLACEMENT-CENTRAL STATE HOSPITAL	2,457,000	
			<b>6,337,000</b>
<b><u>CABINET FOR HEALTH SERVICES</u></b>	STATEWIDE PUBLIC HEALTH SYSTEM	2,000,000	<b>2,000,000</b>
<b><u>EDUCATION</u></b>			
EDUCATION	KY SCHOOL FOR THE BLIND - ROOFING & WEATHERPROFING	1,122,000	
EDUCATION	KY SCHOOL FOR THE DEAF - ROOF REPLACEMENTS	850,000	
EDUCATION	KY SCHOOL FOR THE DEAF - FIRE SAFETY/ DORM RENOVATION	1,250,000	
			<b>3,222,000</b>
<b><u>SFCC</u></b>	New Bond Pool Authorization - Offers of Assistance	92,000,000	<b>92,000,000</b>
<b><u>DEPARTMENT OF PARKS</u></b>	Fort Boonesborough - Roof Buildings	500,000	<b>500,000</b>
<b><u>LIBRARIES &amp; ARCHIVES</u></b>	DOC MGT DIGITIZATION SYSTEM	1,188,000	<b>1,188,000</b>
<b><u>KET</u></b>			
KET	DTV-HDTV BROADCAST TRANSMISSION	12,700,000	
KET	NTSC TRANSMITTERS	2,800,000	
			<b>15,500,000</b>
<b><u>NATURAL RESOURCES</u></b>			
NATURAL RESOURCES	FORESTRY RADIO SYSTEM	1,504,000	
NATURAL RESOURCES	STATE OWNED DAM REPAIR	2,000,000	
NATURAL RESOURCES	BLACK MOUNTAIN	4,100,000	
			<b>7,604,000</b>

<b>CABINET/AGENCY</b>	<b>PROJECT TITLE</b>	<b>PROJECT/POOL AUTHORIZATION</b>	<b>CABINET/AGENCY TOTALS</b>
<b><u>JUSTICE CABINET</u></b>			
CORRECTIONS	BCC-ROOF REPLACEMENT	1,400,000	
STATE POLICE	UNIFIED CRIMINAL JUSTICE SYSTEM	1,402,000	
CRIMINAL JUSTICE TRAINING	CRIMINAL JUSTICE TRAINING BUILDING-ADDITIONAL FUNDING	7,000,000	
JUVENILE JUSTICE	COMBINED RESIDENTIAL/ DETENTION FACILITY	11,211,000	
JUVENILE JUSTICE	SECURE JUVENILE DETENTION - FAYETTE	6,700,000	
JUVENILE JUSTICE	WOODSBEND YOUTH DEVELOPMENT CENTER EDUCATION BLDG.	1,101,000	
JUVENILE JUSTICE	100 BED REPLACEMENT FACILITY - JEFFERSON COUNTY	10,000,000	
CORRECTIONS	NEW MEDIUM SECURITY PRISON - ELLIOT COUNTY	90,408,000	
CORRECTIONS	NEW MEDIUM SECURITY PRISON - KNOTT COUNTY - DESIGN & SITE ACQUISITION	17,200,000	
CORRECTIONS	NEW GAS FIRED BOILER PLANT-KSR	7,000,000	
CORRECTIONS	KCIW-PHASE 2 EXPANSION-DESIGN ONLY	900,000	
CORRECTIONS	WKCC 44 BED SEG UNIT	4,300,000	
			<b>158,622,000</b>
<b><u>POSTSECONDARY EDUCATION</u></b>			
CPE	INSTRUCTIONAL & RESEARCH EQUIPMENT POOL REPLACEMENT	20,000,000	
CPE	CAPITAL RENEWAL & MAINTENANCE POOL	30,000,000	
CPE	AGENCY BOND POOL	35,000,000	
EKU	CAMMACK BUILDING RENOVATION	5,000,000	
EKU	HEALTH EDUCATION CENTER - PHASE 1	7,000,000	
KCTCS	JEFFERSON CC - RENOVATION OF DOWNTOWN CAMPUS	8,800,000	
KCTCS	ASHLAND TC- ORIGINAL COLLEGE RENOVATION	6,900,000	
KCTCS	MAYO TC - CAMPUS RENOVATION	7,582,000	
KCTCS	CUMBERLAND VALLEY TC - HARLAN CAMPUS RENOVATION BUILDING #2	4,114,000	
KCTCS	ELIZABETHTOWN CC - SCIENCE BUILDING RENOVATION	2,200,000	
KCTCS	SOUTHEAST CC - NEWMAN HALL RENOVATION	2,000,000	
KSU	HATHAWAY HALL RENOVATION	3,796,000	
KSU	CARVER HALL RENOVATION	5,000,000	
MoSU	STUDENT CENTER RENOVATION - PHASE 1	10,000,000	
MuSU	BLACKBURN SCIENCE BUILDING REPLACEMENT - PHASE 1	13,000,000	
NKU	POWER PLANT	12,000,000	
NKU	OLD SCIENCE BUILDING - PLANNING & DESIGN	1,000,000	
WKU	THOMPSON SCIENCE COMPLEX REPLACEMENT & RENOVATION - PHASE 1	15,000,000	
UK	UK BIOMEDICAL SCIENCES RESEARCH BUILDING	39,000,000	
UL	UL RESEARCH BUILDING	25,000,000	
KCTCS	NORTHERN KY COMMUNITY - TECHNICAL COLLEGE	10,000,000	
			<b>262,392,000</b>
<b><u>TRANSPORTATION</u></b>			
TRANSPORTATION	NEW OFFICE BUILDING PARKING STRUCTURE	20,700,000	
TRANSPORTATION	NEW OFFICE BUILDING-ADDITIONAL FUNDING	7,500,000	
			<b>28,200,000</b>
<b>COMMUNITY DEVELOPMENT PROJECTS</b>		185,000,000	<b>185,000,000</b>
<b>GRAND TOTAL</b>			<b>\$ 909,900,000</b>

## Appendix E: University Rating Agency Information

---

	<u>MOODY'S</u>	<u>STANDARD &amp; POOR'S</u>
<b>KENTUCKY</b>		
General Obligation	Aa	AA
<b>CONSOLIDATED EDUCATION</b>		
Eastern Kentucky University	A3	A
Kentucky State University	A3	NR
Morehead State University	A3	A
Murray State University	A3	A
Northern Kentucky University	A3	A-
University of Kentucky	A1	AA-
University of Louisville	A1	AA-
Western Kentucky University	A3	A-
<b>HOUSING AND DINING</b>		
Eastern Kentucky University	A3	BBB+
Kentucky State University	Baa1	NR
Morehead State University	Baa2	BBB+
Murray State University	NR	NR
Northern Kentucky University	Baa1	NR
University of Kentucky	A1	NR
University of Louisville	A1	NR
Western Kentucky University	Baa2	BBB+
<b>COMMUNITY COLLEGE</b>		
University of Kentucky	A2	A
<b>HOSPITAL</b>		
University of Kentucky	Aa2	NR

Legend: NR-Not Rated per Rating Agency