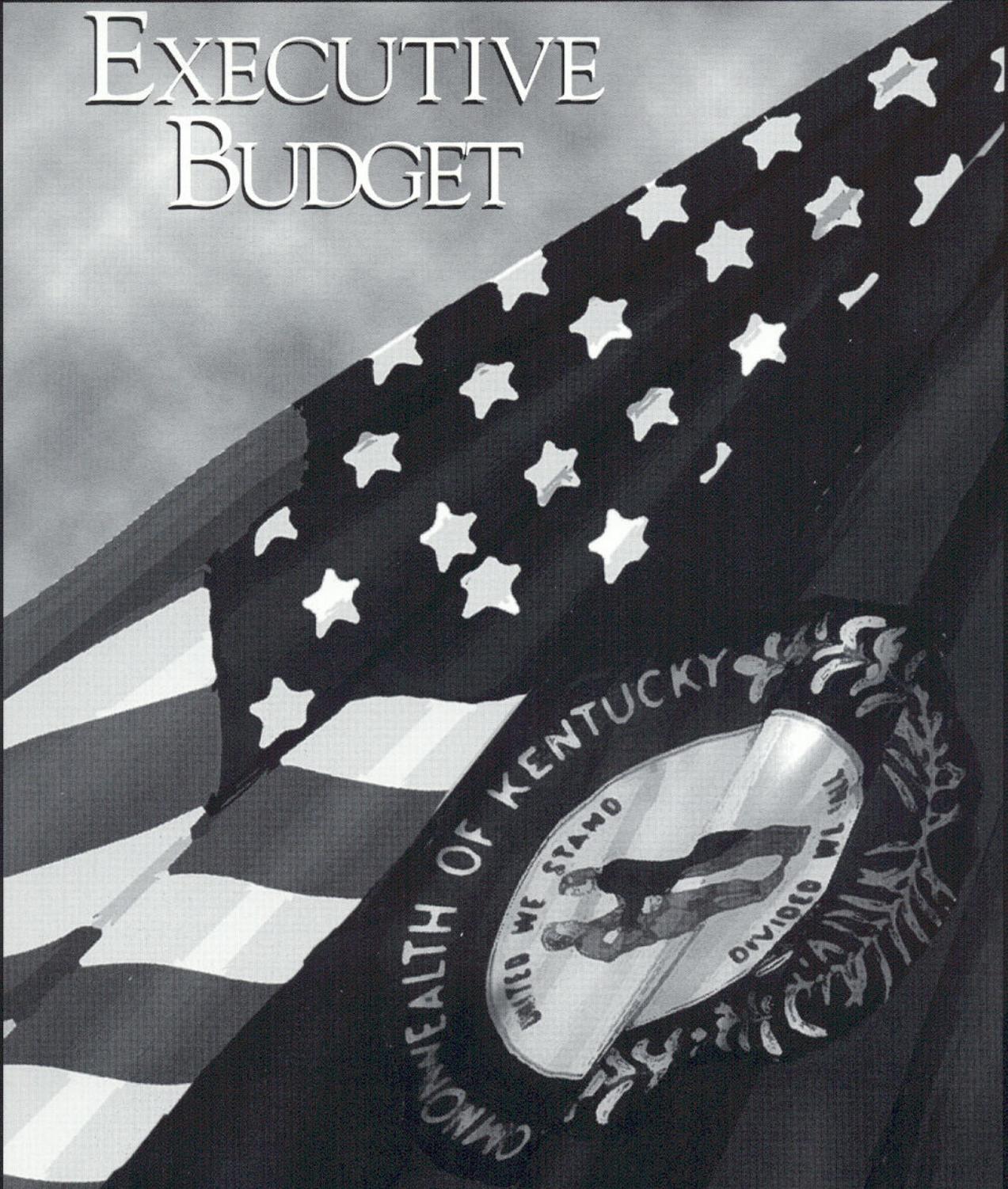




*Financing
State
Government*

2002-2004

EXECUTIVE
BUDGET



PAUL E. PATTON
GOVERNOR

JAMES R. RAMSEY
STATE BUDGET DIRECTOR

Table of Contents

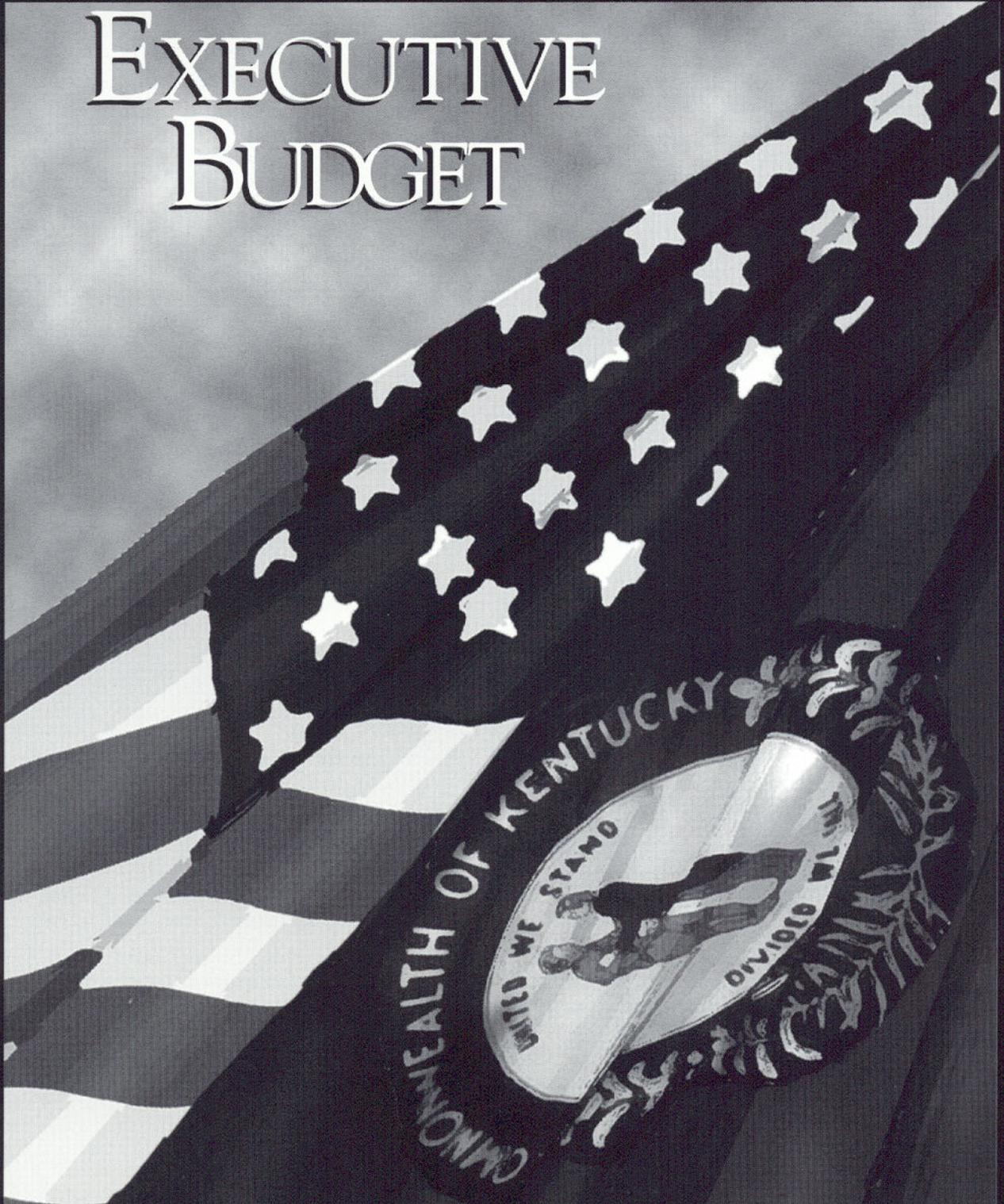
	Page
Section I	
Executive Summary	5
Section II	
Economic Outlook	
National Outlook	7
Kentucky Outlook	9
Section III	
General Fund and Road Fund Receipts	
Fiscal Year 2001	13
First Half FY 2002	15
Section IV	
Detailed Revenue Estimates: FY02, FY03 and FY04	
General Fund & Road Fund	17
Section V	
Tobacco Master Settlement Agreement	31
Appendices:	
Appendix A:	
Receipts for First Half FY02	35
Appendix B:	
Summary Statistics: General Fund & Road Fund FY1991-2001	38
 <i>CAPITAL FINANCING</i>	
Section I	
Assumptions	46
Section II	
Executive Summary	48
Section III	
Debt Capacity Analysis	
Purpose	50
Structure	51
Definitions	51
Historical Information	53
Appendices:	
Appendix A:	
Economic Indicators	58
Appendix B:	
Fiscal Debt Indicators	61
Appendix C:	
New Debt Authorized	64
Appendix D:	
University Rating Agency Information	65



2002-2004

*Revenue
Estimates*

EXECUTIVE BUDGET





COMMONWEALTH OF KENTUCKY
OFFICE OF THE SECRETARY
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PAUL E. PATTON
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T. KEVIN FLANERY
SECRETARY

December 21, 2001

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

Mr. Robert Sherman, Director
Legislative Research Commission
Room 300, State Capitol
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:

This is a follow-up to my letter of December 17 regarding the consensus revenue estimates. It has been brought to my attention that the letter contained minor inconsistencies with the attached tables, and that the description of the MSA revenue estimate may have been misleading. Please note that the figures discussed in the letter are correct; however the supporting tables in some instances consisted of draft, rather than final copies. Final copies of those tables are attached.

The language concerning the MSA revenue estimate has inadvertently created some confusion. The estimates for FY02 are actually higher than the October estimate for the current fiscal year by about \$7.7 million (rounded to the nearest \$100,000). The reductions mentioned in the December 17 letter referred only to reductions made for nonparticipating manufacturers. Other adjustments were made to arrive at the revised estimate. A reconciliation of the two estimates follows.

Dr. Ramsey, Mr. Sherman & Ms. Lambert
December 21, 2001
Page 2

**MSA Payments, FY02 Payments, October and December Estimates
(Million \$)**

	<u>October</u>	<u>December</u>
Base initial payment 2002	37.5	38.1
Interest payment	0.0	0.9
Expected annual payment	89.3	91.1
NPM revised adjustment of 1999	-3.5	0.0
NPM adjustment for 2000	<u>-4.4</u>	<u>-3.5</u>
Total	\$118.9	\$126.6

Differences between the October and December estimates for FY03 and FY04 MSA payments consist of the disputed amounts as stated in the December 17 letter. Otherwise the October and December estimates are identical.

Please let me know if you have additional questions or require additional information.

Sincerely,

T. Kevin Flanery
Chairman
Consensus Forecasting Group

Attachments



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December 17, 2001

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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 2002 and the detailed revenue estimates for Fiscal Years 2003 and 2004 for the General Fund and Road Fund. The figures below represent the revenue estimates as determined by the Consensus Forecasting Group.

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Road Fund</u>
2002	\$6,715,500,000	\$1,089,500,000
2003	\$6,937,900,000	\$1,097,500,000
2004	\$7,219,600,000	\$1,131,200,000

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.

The revenue estimates for FY03 and FY04 incorporate fiscal impacts due to the expiration or "sunsetting" of several legislative initiatives enacted into statute. They include: a pari-mutuel tax credit awarded to certain race tracks that expires on June 30, 2002; earmarking court security fees for the

Dr. Ramsey, Mr. Sherman & Ms. Lambert
December 17, 2001
Page 2

General Fund instead of the county sheriff's offices that also expires this June 30; earmarking unclaimed lottery prizes in excess of \$6 million for the Affordable Housing Trust Fund, expiring on June 30; and expiration of two enterprise zones in Louisville and Hickman on December 31, 2003. The attached table details the revenue impacts of the expiration of these measures, which net to a positive \$1.4 million addition to the General Fund in FY03, and a positive \$6.6 million in FY04. In addition, the expiration of the enterprise zones is expected to yield a positive \$0.5 million to the Road Fund in FY04. If any of these provisions is extended beyond its statutory sunset, then these estimates should be adjusted to reflect the revenue impact.

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.

<u>Fiscal Year</u>	<u>MSA Revenues</u>
2002	\$126,550,551
2003	\$125,600,000
2004	\$109,100,000

The MSA revenue estimate has been reduced by \$3.5 million in FY02, \$4.6 million in FY03 and \$4.7 million in FY04 due to disputes between the states and the tobacco manufacturers concerning reductions allowed under the agreement for nonparticipating manufacturers. These reductions represent funds unavailable to the Commonwealth during those fiscal years because they will be placed in escrow pending resolution of the dispute. If the decision is that the disputed funds are due Kentucky, then the Commonwealth will receive them in future years.

The Consensus Forecasting Group consisted of Dr. Mark Berger, Dr. Merl Hackbart, Mr. Terry Jones, Dr. Lawrence Lynch, Dr. James McCabe, Dr. Frank O'Connor, Mr. James Street, and myself. Support was provided by the Governor's Office for Economic Analysis. Additional assistance was provided by representatives of the Kentucky Revenue Cabinet and the Kentucky Transportation Cabinet.

Sincerely,

T. Kevin Flanery
Chairman
Consensus Forecasting Group

Attachments



SECTION I

EXECUTIVE SUMMARY

Executive Summary

Revised revenue estimates for the General Fund and the Road Fund for FY02 and budget estimates for FY03 and FY04 are transmitted by Section IV of this report.

The General Fund forecast for FY02 was estimated to equal \$6,715.5 million on October 15, 2001 and this estimate was confirmed by the Consensus Forecasting Group in December. The revenue estimate is \$6,937.9 million for FY03, and \$7,219.6 million for FY04.

These estimates reflect the consensus forecasting process authorized by Kentucky Revised Statute 48.115. Consensus forecasting is a joint effort by the executive and legislative branches, assisted by selected academic economists.

Since most General Fund taxes relate in some way to the performance of the state's economy, the first step in the revenue estimating process is deciding upon a reasonable outlook for the national and state economies. As a preliminary step, GOEA constructed three different outlooks based on possible national economic scenarios provided by DRI-WEFA, 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 entered a recession in the spring of 2001. The forecast for the next biennium is that growth will resume in the next fiscal year, but at a slightly lower rate than prior to the recession. Real gross domestic product (GDP), which is expected to shrink at an annual 0.2 percent rate in FY02, will grow 2.9 percent in FY03, and 4.3 percent in FY04. Employment is forecasted to fall 0.4 percent in FY02, rising to 0.3 percent growth in FY03, and 1.5 percent in FY04.

Kentucky's economy is projected to mirror the U.S. economy closely during the next biennium. Personal income is estimated to be \$102.9 billion in FY02, will grow 2.6 percent from FY01. For the approaching biennium, growth is expected to rise to 4.1 percent and 5.8 percent in FY03 and FY04, respectively. Employment in nonagricultural industries is expected to be 1,835,600 workers in the current fiscal year. Growth in FY03 should be 0.8 percent, and the growth rate in FY04 is forecasted to be 2.0 percent. These rates reflect slightly lower expectations compared to pre-recession periods.

Table 1
Economic Assumptions Used in Revenue Forecasts

	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>
KY Nonagricultural Employment (Thousands)	1,833.5	1,835.6	1,850.7	1,888.3
Percent Change (%)	1.1	0.1	0.8	2.0
Kentucky Personal Income (Bil\$)	100.2	102.9	107.1	113.3
Percent Change (%)	6.4	2.6	4.1	5.8

Recent General Fund revenue growth has been slower than the growth in the economy. Revenues rose by 2.7 percent in FY01, lower than the growth in personal income. Changes in sales tax enacted by the 2000 General Assembly are estimated to have added \$35 million to receipts; the growth based on the economy alone would have been lower otherwise.

The outlook for the remainder of FY02 is for General Fund collections to total \$6,715.5 million, a growth rate of 0.9 percent from the previous year. For FY03, General Fund revenues are estimated to be \$6,937.9 million, a growth rate of 3.3 percent. The growth rate should rise to 4.1 percent in FY04, for General Fund collections of \$7,219.6 million.

Table 2
General Fund Revenue
FY01 Actual, FY02-FY04 Estimates

	FY01 Actual (\$ Mil)	FY02 Estimate (\$ Mil)	FY03 Estimate (\$ Mil)	FY04 Estimate (\$ Mil)
Total Receipts	6,653.9	6,715.5	6,937.9	7,219.6
Percent Change (%)	2.7	0.9	3.3	4.1
New Dollars	175.5	61.6	222.4	281.7

Road Fund collections are summarized in Table 3. Road Fund revenue should be \$1,089.5 million in FY02. This is forecasted to rise 0.7 percent in FY03 to yield \$1,097.5 million. In FY04, growth of 3.1 percent is forecasted, producing revenues of \$1,131.2 million. The primary source of growth forecasted in the Road Fund for the FY02 to FY04 period is the motor vehicle usage tax. Higher revenue from this source is offset by declines in investment income due to lower Road Fund balances.

Table 3
Road Fund Revenue
FY01 Actual, FY02-FY04 Estimates

	FY01 Actual (\$ Mil)	FY02 Estimate (\$ Mil)	FY03 Estimate (\$ Mil)	FY04 Estimate (\$ Mil)
Total Receipts	1,064.1	1,089.5	1,097.5	1,131.2
Percent Change (%)	-2.4	2.4	0.7	3.1
New Dollars	-26.6	25.4	8.0	33.7

In developing Kentucky's General Fund and Road Fund estimates the Governor's Office for Economic Analysis 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.



SECTION II

ECONOMIC OUTLOOK

ECONOMIC OUTLOOK

NATIONAL OUTLOOK

Forecasting Methodology

The Consensus Forecasting Group prepared Kentucky's General Fund and Road Fund estimates using a variety of forecasting techniques. These included simultaneous equation econometric models, simple regression models, vector autoregression, 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 DRI-WEFA, a nationally recognized economic consulting firm. The Consensus Forecasting Group reviewed national scenarios developed by DRI-WEFA in November 2001, and agreed that the Control scenario contained the most plausible assumptions about the national economy. Based upon this scenario a separate forecast for the Kentucky economy was formulated.

Assumptions¹

The forecasting process always has some degree of uncertainty, the more so during a recession. The depth and duration of the recession have to be forecasted, as does the strength of the recovery. This is compounded by trying to ascertain the impact of both monetary and fiscal policy on the timing of the recovery. This year an added uncertainty was injected by the terrorist strike and subsequent war in Afghanistan. However, some robust assumptions can be made about the U.S. economy. These ensure that even as some of the details may change the overall forecast remains on track.

The pivotal assumption reached in November was that the recession that began in March 2001 would be short-lived. An economic upturn is expected in the January-to-March 2002 quarter. The current recession is expected to be mild with a peak-to-trough drop of just about 1.0 percent in real gross domestic product (GDP). Monetary policy is expected to be eased with the federal funds rate at 2.0 percent. There may be some tightening to prevent inflation as the economy recovers later in 2002. A Congressional aid package of an additional \$40 billion was assumed, in addition to spending approved in the aftermath of the September 11 terrorist attack. Energy prices are expected to moderate with oil at about \$23 per barrel, as world demand remains low and OPEC is unsuccessful in convincing non-cartel members to cut production.

¹ The Consensus Forecasting Group prepared their forecast in early December. This meant certain assumptions were not borne out by events. For instance, since the forecast was made, the federal funds rate has been lowered to 1.75 percent, DRI-WEFA now forecasts a peak-to-trough recession of 0.6 percent, and the outlook for the federal stimulus package is uncertain. It is our view that these revisions do not invalidate the robust assumption on which the forecast is based.

The leading assumption was that the economy would grow steadily at a slightly slower, but more sustainable, rate. Real GDP averaged heady growth rates well above four percent in the last three years, but expected to decline by 0.2 percent in FY02. Then it will grow at 2.9 percent and 4.3 percent in FY03 and FY04.

Forecast

The national economy is in a recession. A recession is defined as a significant decline in production of goods and services spread across the economy. It is marked by declines in industrial production, employment, real income, and trade. Certain sectors of the economy felt the impact of the slowdown before it became economy-wide.

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. During the first quarter of the recession (April-to-June 2001) real GDP grew by just 0.3 percent, followed by a contraction of 1.1 percent during the first quarter of FY02. For FY02 real GDP is expected to register an overall decline of 0.2 percent. During the first year of the next biennium, growth is expected to be a moderate 2.9 percent followed by 4.3 percent in FY04. Growth in real consumption is forecasted to average just 1.4 percent in FY02, but strengthen to 2.9 percent in FY03 and a typical pre-recession growth rate of 3.7 percent in FY04. Durable goods consumption is expected to increase sharply by 4.4 percent in FY03 and 6.3 percent in FY04.

The current recession has been marked by a decline in business confidence much before consumers changed the spending habits they acquired in the booming 1990s. Even in FY01, when consumption was up by 2.2 percent, business investment had begun to decline following the NASDAQ crash in March 2000. In FY02 business investment is expected to decline by 8.7 percent. Investment will rise in FY03 by 4.3 percent followed by 7.7 percent in FY04. The investment forecast is strong in FY03 not so much because of recovery in traditional bricks and machinery investments, but because of computers and software. These now constitute 30 percent of all investment activity. A few years ago investment was re-defined by the federal government to include software. This has been one of the most dynamic sectors of the economy and is expected to grow strongly during the forecast period.

U.S. personal income grew by an annual average of 6.1 percent in the last five years. Inflation during this period was just 2.5 percent. Growth during FY02 is expected to be only 3.1 percent with inflation at 2.2 percent. During the next biennium, personal income growth is forecasted to increase by 4.0 percent in FY03 and 6.0 percent in FY04. The biggest damper to the growth rate is the sharp drop in wage and salary income as a result of layoffs in the high tech and manufacturing sectors, followed by telecommunications, finance, and air transportation.

Throughout the economic upswing of the 1990s both the low inflation and unemployment rates baffled traditional economists who subscribed to the Philips curve theory. The theory contended that unemployment and inflation are inversely correlated. The departure from this during the rapid expansion of the 1990s was ascribed to gains in productivity from the new knowledge-based economy. This economic forecast seems to validate those who stood by the Philips curve. In FY02 the unemployment rate is expected to rise sharply to 5.7 percent from 4.2 percent in FY01. It is expected to peak at 6.1 percent in FY03 and then decline to 5.3 percent in FY04. Inflation is expected

to drop from 3.4 percent in FY01 to 2.2 percent in FY02. It is expected to be under 3 percent for the forecast period. The recession can be viewed as an economic correction for the over exuberance exhibited in both the stock market and the digital economy, because the new economy is here to stay. During this recovery cycle productivity is forecasted to return to the 2 percent to 2.5 percent annual rate it exhibited in the late 1990s, compared to the 1.0 percent rate of the early 1990s.

KENTUCKY OUTLOOK

Forecasting Methodology

On the advice of the Consensus Forecasting Group, DRI-WEFA's November 2001 Control forecast of the U.S. economy was used as the basis 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. The U.S. economy is considered to be a "driver" for the state economy to the extent that certain fundamental economic factors are common to both and that the state economy is demand driven. As an example, interest rates and energy prices are common to both economies. The demand for goods in the larger economy is assumed to drive the production of goods in Kentucky and the composition of Kentucky's employment.

Economic Forecast

Kentucky's economy has outperformed the national economy in 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 employment and income. During the mid-1990s Kentucky's economy expanded more rapidly than the national average. The recession was prolonged in 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. However, by early FY01, even before the national economy slowed down, the picture changed for the state economy. The slowdown in the high tech sector that began in March 2000 did not impact Kentucky, but later in the summer the durable goods sector was affected and that had a direct impact on the state economy.

Personal income is the broadest measure of a state's economic performance. Kentucky's personal income is estimated to have been \$100.2 billion in FY01, an increase of 6.4 percent from a year earlier. U.S. personal income grew by 6.0 percent in the same period. Given the state's current employment mix with a preponderance of manufacturing and air transportation, it is expected that personal income will increase by just 2.6 percent in FY02, 4.1 percent in FY03, and 5.8 percent in FY04.

Employment data is commonly used to gauge the strength of the state's economy. Nonagricultural employment in Kentucky increased by 48,800 jobs in FY00, a growth rate of 2.3 percent. With the decline in manufacturing the number of new jobs was just 19,600 in FY01. For FY02 the growth rate is forecasted to be 0.1 percent, an addition of just 2,100 new jobs. The recovery in Kentucky, as measured in terms of the return to the peak employment level before the recession, will not take place until the October-to-December quarter of 2002. Nonagricultural employment growth is forecasted at 0.8 percent in FY03 and 2.0 percent in FY04.

Table 4
Selected U.S. and Kentucky Economic Indicators
Control Scenario: November 2001

	FY99	FY00	FY01	FY02	FY03	FY04
<u>OUTPUT</u>						
US Real GDP (Bil\$ 96)	8,674.2	9,063.3	9,310.1	9,291.8	9,565.3	9,974.6
% chg	4.0	4.5	2.7	-0.2	2.9	4.3
Industrial Production Index, Mfg (%)	4.3	6.0	2.0	-5.9	4.0	8.9
Industrial Production Index, Durables (%)	8.0	9.5	4.7	-6.9	5.4	12.5
<u>INCOME</u>						
KY Personal Income (Mil\$)	89,867	94,978	100,228	102,854	107,103	113,285
% chg	5.3	5.7	6.4	2.6	4.1	5.8
US Personal Income (Bil\$)	7,586	8,033	8,564	8,834	9,189	9,739
% chg	5.9	5.9	6.6	3.1	4.0	6.0
KY Per Capita Personal Income (\$)	22,797	23,942	25,120	25,624	26,524	27,896
% of U.S. Per Capita Income	81.7	81.8	81.2	81.1	81.4	81.5
US Per Capita Personal Income (\$)	27,887	29,270	30,924	31,612	32,594	34,243
<u>EMPLOYMENT</u>						
KY Nonag Employment (Thousands)	1,773.9	1,813.9	1,833.5	1,835.6	1,850.7	1,888.3
% chg	2.5	2.3	1.1	0.1	0.8	2.0
US Nonagricultural Employment (Mil)	127.4	130.5	132.3	131.8	132.2	134.2
% chg	2.5	2.5	1.4	-0.4	0.3	1.5
KY Manufacturing Employment (Thousands)	320.0	322.4	317.4	301.3	300.0	314.8
% chg	0.1	0.7	-1.5	-5.1	-0.4	4.9
US Manufacturing Employment (Mil)	18.7	18.5	18.2	17.0	16.4	17.0
% chg	-0.8	-0.9	-1.5	-6.9	-3.6	3.8
<u>OTHER KEY MEASURES</u>						
CPI, Rate of Inflation (%)	1.7	2.9	3.4	2.2	2.1	2.6
3-month Treasury Bill Rate (%)	4.5	5.2	5.1	2.2	3.3	4.6
Oil Price, average composite (\$/barrel)	12.59	24.23	27.19	21.08	22.18	23.51

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

Table 5
Employment in Kentucky
Control Scenario: November 2001

	FY99	FY00	FY01	FY02	FY03	FY04
<u>Thousands of Persons</u>						
Total Nonagricultural	1,773.9	1,813.9	1,833.5	1,835.6	1,850.7	1,888.3
Contract Construction	85.0	88.2	87.1	86.2	84.0	80.3
Mining	22.2	20.5	19.4	19.0	17.3	16.6
Manufacturing	320.0	322.4	317.4	301.3	300.0	314.8
Nondurable Goods	129.6	126.7	124.3	120.0	119.2	120.6
Durable Goods	190.5	195.7	193.1	181.3	180.8	194.3
Transportation & Public Utilities	103.9	107.2	108.6	106.3	103.9	105.2
Trade	422.0	429.1	434.0	441.4	441.5	448.3
Finance/Insurance/Real Estate	70.1	73.8	76.5	73.3	71.9	71.7
Services	452.2	468.5	479.5	495.8	518.0	537.2
Total Government	298.4	304.3	311.1	312.3	314.0	314.1
Federal Government	36.5	38.9	37.0	37.0	37.1	37.3
State & Local Government	261.9	265.9	272.9	275.4	276.9	276.8
<u>Annual Percentage Change</u>						
Total Nonagricultural	2.5	2.3	1.1	0.1	0.8	2.0
Contract Construction	3.0	3.7	-1.3	-1.0	-2.5	-4.4
Mining	-3.9	-7.9	-5.5	-1.7	-9.3	-3.9
Manufacturing	0.1	0.7	-1.5	-5.1	-0.4	4.9
Nondurable Goods	-3.8	-2.2	-1.9	-3.4	-0.7	1.2
Durable Goods	3.0	2.7	-1.3	-6.1	-0.2	7.4
Transportation & Public Utilities	5.1	3.1	1.3	-2.1	-2.2	1.2
Trade	2.4	1.7	1.1	1.7	0.0	1.5
Finance/Insurance/Real Estate	0.6	5.2	3.7	-4.2	-1.9	-0.2
Services	4.5	3.6	2.3	3.4	4.5	3.7
Total Government	2.2	2.0	2.2	0.4	0.5	0.0
Federal Government	-3.1	6.4	-4.8	0.0	0.5	0.4
State & Local Government	2.9	1.5	2.6	0.9	0.6	0.0

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



SECTION III

GENERAL FUND AND ROAD FUND RECEIPTS FY01 AND FIRST HALF FY02

Receipts

General Fund & Road Fund

Fiscal Year 2001

Total receipts for the General Fund and the Road Fund in FY01 increased by 2.0 percent from the prior year. The growth in the General Fund was 2.7 percent. The Road Fund declined by 2.4 percent compared to FY00. The growth rate and total receipts for both the General Fund and the Road Fund are shown in Table 6.

Table 6
Total Receipts
(\$Mil)

	FY01	FY00	Percent Change
General Fund	\$6,653.9	\$6,478.4	2.7
Road Fund	1,064.2	1,090.8	-2.4
COMBINED	\$7,718.1	\$7,569.2	2.0

Within the General Fund, total sales and use tax receipts grew by 3.5 percent with collections of \$2,248.5 million during FY01. This compares to \$2,171.4 million collected in FY00.

The individual income tax generated receipts of \$2,778.5 million during FY01, an increase of 2.8 percent over the \$2,701.6 million collected in the previous year.

Corporation income tax receipts declined by 5.4 percent during FY01. A total of \$289.9 million was collected during FY01, compared to \$306.4 million during FY00.

Coal severance collections dropped 2.5 percent from FY00 to FY01. Receipts were \$141.6 million for FY01 and \$145.1 million for FY00.

Property tax collections grew by 5.2 percent for FY01. The amounts collected were \$407.5 million for FY01 and \$387.3 million for FY00.

Lottery receipts were up 0.5 percent from the previous year, with collections at \$157.0 million.

Table 7 displays the growth rates for the major tax categories in the General Fund, for the four quarters of FY01 and the year as a whole.

Table 7
General Fund Growth Rates for the Four Quarters and the Full Year, FY01

	First Quarter (%)	Second Quarter (%)	Third Quarter (%)	Fourth Quarter (%)	Total FY01 (%)
Total Receipts	5.0	1.6	2.9	1.8	2.7
Sales and Use	1.9	4.7	3.6	4.0	3.5
Individual Income	8.1	0.4	3.4	0.4	2.8
Corporate Income	23.8	-27.5	-10.8	-6.3	-5.4
Coal Severance	-6.6	-7.1	-1.8	5.8	-2.5
Property	20.6	-1.1	11.2	10.1	5.2
Lottery	3.1	5.3	4.1	-9.3	0.5
All Other	-8.2	21.3	-2.5	7.0	3.4

Within the Road Fund, most major tax categories exhibited substantial declines. Motor fuels taxes declined 3.6 percent with receipts of \$408.8 million. Motor vehicle usage tax generated \$396.8 million, a decline of 3.1 percent from the \$409.5 million collected in FY00. Weight distance tax receipts were flat, with receipts of \$75.1 million in each fiscal year.

Table 8 contains the growth rates for the major tax categories in the Road Fund for the four quarters of FY01 and the year as a whole.

Table 8
Road Fund Growth Rates for the Four Quarters and the Full Year, FY01

	First Quarter (%)	Second Quarter (%)	Third Quarter (%)	Fourth Quarter (%)	Total FY01 (%)
Total Receipts	-4.6	1.8	-7.6	-1.1	-2.4
Motor Fuels	-7.9	7.3	-7.5	-4.6	-3.6
Motor Vehicle Usage	-6.7	-0.3	-5.6	0.7	-3.1
Weight Distance	4.7	1.2	-2.1	-3.6	0.0
Other	8.6	-6.8	-13.2	15.1	0.6

First Half, Fiscal Year 2002

Total General Fund receipts for the first half of FY02 were \$3,275.8 million, which is a 1.5 percent increase over the first half of FY01, when \$3,226.8 million was generated.

Sales and use tax collections totaled \$1,159.3 million. This is a 3.0 percent increase over the \$1,125.4 million collected in the first half of FY01.

Individual income tax receipts grew by 1.4 percent during the first half of FY02 with receipts of \$1,343.0 million. Collections for the first half of FY01 were \$1,323.9 million.

Corporation income tax receipts declined by 16.8 percent during the first half of FY02. Collections during the period were \$120.7 million, compared to \$145.1 million during the first half of FY01.

Coal severance receipts grew by 20.9 percent for the first half of the year. Collections for the current period totaled \$83.3 million compared to \$68.9 million for the first half of FY01.

Property tax collections rose by 8.9 percent during the first half of FY02. Collections for the period were \$266.1 million compared to \$244.4 million during the first half of FY01. The strong growth was due primarily to early receipts of tax payments that are normally paid in January.

Lottery receipts of \$88.0 million represented growth of 10.0 percent over the \$80.0 million collected during the first half of FY01. The significant increase was due to strong sales from a large Powerball jackpot.

In the Road Fund, total receipts increased by 4.5 percent to \$539.3 million. Collections for the first half of FY02 were \$516.0 million.

Motor fuels taxes increased by 1.4 percent. Receipts were \$212.1 million during the first half of FY02 compared to \$209.1 million during the same period of FY01.

Motor vehicle usage tax receipts grew by 8.1 percent with collections of \$212.2 million, compared to \$196.2 million received in the first six months of the previous fiscal year. The strong growth in the motor vehicle usage tax was primarily the result of incentives by automobile manufacturers that significantly spurred sales.

During the first half of FY02 the weight distance tax declined by 0.5 percent. Collections for the first half of FY02 were \$38.0 million.



SECTION IV

DETAILED REVENUE ESTIMATES FY02, FY03 AND FY04

Revenue Estimates

Detailed for FY02, FY03 & FY04

The Governor's Office of Economic Analysis (GOEA) prepares periodic revenue estimates for the General Fund and the Road Fund. On October 15 of each odd-numbered year (such as 2001), a preliminary detailed revenue estimate for the upcoming two fiscal years must be presented to the heads of the budget agencies for each branch of state government. Then in the following January, by the 15th day of the legislative session, a revised estimate is required.

To fulfill its mandate to provide accurate and timely revenue forecasts, GOEA uses several forecasting techniques, ranging from simple trend models to the latest econometric models. GOEA uses output from Macroeconomic Model of Kentucky (MAK) in the estimation of several revenue sources. MAK is a structural forecasting model of the Kentucky economy that uses the DRFW EFA 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.

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 weighed against the forecaster's knowledge of economic events, past revenue trends, and administrative considerations. Analysts from the Transportation and Revenue Cabinet may provide additional information about the administration of various taxes. After GOEA's analysis is completed, the revenue estimates are presented to the Consensus Forecasting Group (CFG) for further consideration. The CFG is a select group of distinguished economists and budgetary experts who examine and may modify the estimates based on their own experience and consideration of the relevant facts.

General Fund: Major Accounts

The CFG met early in December 2001 to choose an economic outlook upon which to build the revenue estimates. The economic forecast was then considered over the following week. During this period GOEA prepared preliminary revenue estimates including the November revenue receipts and other events and suggestions from the CFG. After these revisions, the group reconvened December 10 and 13 to consider the updated estimates. After examining and discussing the General Fund forecast in great detail, the CFG agreed upon the forecast that is presented in this report.

Individual Income Tax

During the first half of FY02 individual income tax receipts grew by a tepid 1.4 percent. Growth during the same period a year ago was 4.2 percent. Withholding constitutes almost 90 percent of individual income tax and grew by 2.2 percent during the first half of FY02. The withholding portion of this tax was first estimated using a vector autoregressive model with the U.S. nominal GDP, the University of Michigan's consumer sentiment index, personal income, and employment as exogenous

factors. The model produced a forecast that appeared reasonable based on statistical evaluations. The CFG decided to accept the forecasting model for withholding.

Past trends and administrative factors were then used to determine the declaration payments, net returns, and the fiduciary components. For FY02 the growth in declaration payments was assumed to be flat based on receipts year-to-date and the outlook for recovery, followed by 2.8 percent growth in the FY03 and 6.6 percent growth in FY04. The returns component (net of payments and refunds) was changed from an actual minus \$118.5 million in FY01 to minus \$128.0 million in response to a year-to-date increase in refund amounts. Fiduciary payments have seen high growth in recent years because of the strength of the stock market. However, the changing economic situations have slowed the growth of fiduciary payments this fiscal year. This results in fiduciary payments being forecast as \$22.9 million in FY02 as well as the out-years.

For FY02 individual income tax revenues are forecasted to be \$2,786.9 million, an increase of 0.3 percent. In FY03 and FY04 the forecasted amounts are \$2,930.0 million and \$3,090.0 million, with corresponding growth rates of 5.1 percent and 5.5 percent.

Sales and Use Tax

During the first six months of FY02 sales and use tax grew by 3.0 percent. The sales tax was estimated through a vector autoregressive model as described above for the income tax. Adjustments were made to account for the impact of the addition to the tax base of charges for switched access and interstate long-distance telecommunications. Projected sales tax revenues were reduced to account for anticipated growth of remote sales that escape taxation.

The current forecast is for sales tax receipts to increase by 2.6 percent in FY02 to \$2,306.1 million. During the next two years growth is estimated at 3.2 percent for FY03 with receipts of \$2,380.1 million and \$2,478.5 million in FY04 with a growth rate of 4.1 percent.

Corporation Income and License Taxes

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 statistical properties of each payment source, different estimating techniques were employed. Declaration payments and the corporate license tax were estimated with an autoregressive/integrated moving average (ARIMA) model and a vector autoregression (VAR). Results from these models were adjusted downward to reflect weak corporate license tax receipts. Refunds and payments with returns were estimated with other judgmental 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 and license tax receipts to total \$406.6 million in FY02, down 7.0 percent from the \$437.1 million collected in FY01. Moderate growth is expected for the biennium. Revenues are expected to be \$423.5 million and \$441.5 million in fiscal years 2003 and 2004, respectively.

Coal Severance Tax

In previous forecasts, GOEA has relied on third-party forecasts of coal production and price to forecast coal severance taxes. Due to the unavailability of this data, the current analysis is based on an ARIMA (Box-Jenkins) model. Recently coal severance revenues have sharply risen in the first two quarters of FY02 after a steady decline in prior years. Collections for FY01 totaled \$141.6 million, a 2.5 percent decline compared with FY00. The forecast calls for a sharp rise in FY02, with long-term trends of modest reductions returning in FY03 and FY04. FY02 receipts are expected to total \$162.5 million. The biennium forecast predicts receipts of \$162.0 million in FY02 and \$158.9 million in FY04.

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 revenue 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 \$412.7 million in FY02, 1.3 percent growth over FY01. Receipts of \$420.7 million and \$431.6 million are expected in the next biennium.

Kentucky Lottery

For the upcoming biennium, a special task force for estimating lottery revenues was created consisting of members from GOEA, the State Treasurer's office, and the Lottery Corporation. The task force presented their estimates to the CFG, which were accepted. The estimate for FY02 is \$169.0 million, with \$161.9 million and \$163.9 million as the estimates for FY03 and FY04, respectively. These forecasts include funds available due to the expiration of statutes redirecting unclaimed prize money into the Affordable Housing Trust Fund. The estimates factor in potential risks to lottery participation, such as competition from increased gaming opportunities in neighboring states.

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 FY01. 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.

After tallying all of the accounts, the forecast calls for revenues of \$471.7 million in FY02, a decline of 2.4 percent compared to FY01. Investment income is expected to fall sharply, more than offsetting modest growth in many of the smaller accounts. In the next biennium, expectations are for collections of \$459.7 million and \$455.2 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 forecasted growth rate for FY02 is 4.1 percent, representing total collections of \$441.5 million. Slightly lower growth rates are expected in the biennium forecast. Collections are expected to total \$450.7 million in FY03 and \$458.8 million in FY04.

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 combines a vector autoregression model that permits structural predictors with an ARIMA model. 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 both the number and value of new car purchases increase in response to manufacturers' incentives. Receipts in FY02 are expected to total \$420.7 million, 6.0 percent more than in FY01. Growth is expected to remain healthy in the approaching biennium. The forecast predicts receipts of \$430.0 million and \$450.0 million in FY03 and FY04, 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 was predicted in investment income, as the investment balances decline due to an accelerated schedule of road projects. The CFG considered the estimates and accepted them without revision.

**General Fund
Consensus Forecast for FY02 to FY04
(millions of dollars)
December 2001**

	FY01		FY02		FY03		FY04	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Sales & Use	2,248.5	3.5	2,306.1	2.6	2,380.1	3.2	2,478.5	4.1
Individual Income	2,778.5	2.8	2,786.9	0.3	2,930.0	5.1	3,090.0	5.5
Corporation Income & Lic.	437.4	-1.8	406.6	-7.0	423.5	4.2	441.5	4.3
Coal Severance	141.6	-2.5	162.5	14.8	162.0	-0.3	158.9	-1.9
Property	407.5	5.2	412.7	1.3	420.7	1.9	431.6	2.6
Lottery	157.0	0.5	169.0	7.6	161.9	-4.2	163.9	1.2
Other	483.4	3.4	471.7	-2.4	459.7	-2.5	455.2	-1.0
Total General Fund	\$6,653.9	2.7	\$6,715.5	0.9	\$6,937.9	3.3	\$7,219.6	4.1

General Fund Revenue (Actual and Estimated) Consensus Forecasting Group: December 2001

<u>Source</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Estimate 2001-02</u>	<u>Estimate 2002-03</u>	<u>Estimate 2003-04</u>
<u>Selected Sales and Gross Receipts Taxes</u>					
Sales & Use*	2,171,397,969	2,248,471,099	2,306,100,000	2,380,100,000	2,478,500,000
Cigarette	14,184,888	14,007,582	14,100,000	13,900,000	13,700,000
Distilled Spirits Case Sales	82,871	82,528	100,000	100,000	100,000
Insurance Tax Foreign Companies	35,909,807	34,775,489	33,400,000	33,500,000	33,600,000
Insurance Tax Companies Other Than Life	57,000,964	59,118,322	62,900,000	65,300,000	67,700,000
Insurance Tax Fire Prevention Fund	2,444,792	2,932,009	3,000,000	3,400,000	4,000,000
Pari-Mutuel	6,645,098	6,182,083	4,400,000	5,300,000	5,100,000
Race Track Admission	220,824	216,616	200,000	200,000	200,000
Beer Consumption	6,284,242	6,272,031	6,500,000	6,600,000	6,800,000
Distilled Spirits Consumption	8,211,541	8,184,798	8,500,000	8,700,000	8,900,000
Wine Consumption	1,748,839	1,743,393	1,900,000	1,900,000	1,900,000
Beer Wholesale	32,101,648	32,582,888	32,300,000	32,800,000	33,300,000
Distilled Spirits Wholesale	14,055,368	14,809,730	15,900,000	16,700,000	17,600,000
Wine Wholesale	5,923,809	6,102,998	6,400,000	6,600,000	6,800,000
TOTAL SEL. SALES & GROSS RECEIPTS TAXES	\$2,356,212,661	\$2,435,481,566	\$2,495,600,000	\$2,575,100,000	\$2,678,300,000
<u>License and Privilege Taxes</u>					
Coal Severance Tax	145,139,909	\$141,553,087	162,500,000	162,000,000	158,900,000
Mineral Severance Tax	13,923,246	12,710,667	14,000,000	14,000,000	14,000,000
Natural Gas Severance Tax	8,466,173	17,319,884	18,000,000	18,000,000	18,000,000
Oil Production	2,967,395	3,358,037	3,300,000	3,400,000	3,500,000
Corporate License	139,127,819	147,515,403	142,600,000	139,200,000	144,500,000
Cigarette License	86,468	73,425	100,000	100,000	0
Amusement Machine License	0	-	0	0	0
Race Track License	405,500	320,800	400,000	300,000	300,000
Marijuana and Controlled Substance Tax	54,687	33,936	0	0	0
Bank Franchise Tax	53,061,798	49,610,220	50,000,000	50,000,000	50,000,000
Corporation Organization	369,916	227,655	300,000	300,000	300,000
Cir. Ct. Clk. - Driver License Receipts	475,167	391,939	400,000	400,000	400,000
Sand and Gravel License	-8,350	375	0	0	0
Relicensure Fees (Driver's License)	0	-	0	0	0
Alcoholic Beverage License Suspension	49,150	193800	100,000	100,000	100,000
Convention Center Caterer License	0	0	0	0	0
TOTAL LICENSE AND PRIVILEGE TAXES	\$364,118,877	\$373,309,228	\$391,700,000	\$387,600,000	\$389,800,000

General Fund Revenue (Actual and Estimated) Consensus Forecasting Group: December 2001

<u>Source</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Estimate 2001-02</u>	<u>Estimate 2002-03</u>	<u>Estimate 2003-04</u>
<u>Income Taxes</u>					
Corporation Income Tax	306,442,050	289,931,017	264,000,000	284,400,000	297,100,000
Individual Income Tax	2,701,613,908	2,778,541,444	2,786,900,000	2,930,000,000	3,090,000,000
Total Income Tax	\$3,008,055,958	\$3,068,472,461	\$3,050,900,000	\$3,214,400,000	\$3,387,100,000
<u>Property Taxes</u>					
General - Real	167,326,472	\$171,524,695	178,000,000	185,300,000	192,700,000
General - Tangible Personal	50,192,021	52,476,931	55,000,000	53,700,000	53,700,000
General - Intangible Personal	22,721,743	22,551,152	22,600,000	22,500,000	22,700,000
General - Motor Vehicle	79,770,900	84,592,323	87,300,000	88,800,000	91,000,000
Bank Deposits	433,962	412,646	400,000	400,000	400,000
Distilled Spirits Ad Valorem	443,880	360,248	400,000	400,000	400,000
Marginal Accounts	49,206	110,331	100,000	100,000	100,000
Omitted Property Tax	8,872,026	13,085,599	10,100,000	10,400,000	10,600,000
Delinquent Tax - Prior Year	6,671,030	7,519,863	6,400,000	6,700,000	6,900,000
Apportioned Vehicles	997,976	3,397,041	3,200,000	3,300,000	3,600,000
Public Service Company	46,882,427	48,883,924	47,000,000	47,000,000	47,500,000
Domestic Life Insurance	404,705	97,197	100,000	0	0
Retirement Plans	38	287	0	0	0
Building & Loan Assoc. Capital Stock	2,491,414	2,482,623	2,200,000	2,100,000	2,000,000
TOTAL PROPERTY TAXES	\$387,257,800	\$407,494,860	\$412,700,000	\$420,700,000	\$431,600,000
<u>Inheritance Taxes</u>					
Inheritance Tax	74,489,981	\$83,461,499	90,000,000	74,700,000	64,100,000
TOTAL INHERITANCE TAXES	\$74,489,981	\$83,461,499	\$90,000,000	\$74,700,000	\$64,100,000

General Fund Revenue (Actual and Estimated) Consensus Forecasting Group: December 2001

<u>Source</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Estimate 2001-02</u>	<u>Estimate 2002-03</u>	<u>Estimate 2003-04</u>
<u>Departmental Fees, Sales and Rentals</u>					
Public Service Commission Assessments-	15,967,716	12,598,396	11,000,000	12,500,000	13,000,000
Insurance - Retaliatory Taxes & Fees-	599,720	1,538,875	1,300,000	1,500,000	1,500,000
Sec. of State - Process for Services-	2,397,602	2,519,711	2,600,000	2,600,000	2,700,000
Strip Mining & Reclamation Fees-	0	(97,875)	0	0	0
Strip Mining & Reclamation - Fines Coll.	724,568	560,331	500,000	500,000	500,000
Master Commissioner Sales-	97,364	262,464	200,000	300,000	200,000
Miscellaneous - Sales of Assets, etc. -	0	1,431,893	100,000	100,000	100,000
TOTAL DEPARTMENT FEES, SALES AND RENTALS	\$31,210,854	\$29,660,500	\$27,400,000	\$28,500,000	\$29,200,000
<u>Investment Receipts</u>					
General Depository Investment Income **	26,716,222	26,390,552	6,500,000	6,500,000	6,500,000
Circuit Court Clk. - Interest Income	1,361,232	1,515,296	1,400,000	1,500,000	1,500,000
Interest on Investments - Withholding Accounts	0	0	0	0	0
Ky Asset/Liab - TRAN	0	312,000	0	0	0
TOTAL INVESTMENT RECEIPTS	\$28,077,454	\$28,217,848	\$7,900,000	\$8,000,000	\$8,000,000
<u>Miscellaneous Revenue</u>					
Lottery	156,300,000	157,030,000	169,000,000	161,900,000	163,900,000
Legal Process- Clk. Supreme Court	142,818	135,839	100,000	100,000	100,000
Legal Process - Clk Court of Appeals	7,996	4,795	0	0	0
Dept. of Rev. Legal Process Taxes - Co. Clk.	3,335,416	3,168,663	3,100,000	3,000,000	2,900,000
Judgment Fees for Delinquent Taxes	0	0	0	0	0
TVA - In Lieu of Taxes - State Portion	6,842,117	6,046,675	6,200,000	6,500,000	6,800,000
F.H.A. - In Lieu of Taxes	51,215	53,225	0	100,000	100,000
R.E.C.C. and R.T.C.C. In Lieu of Taxes	320	320	0	0	0
Business Development - In Lieu of Taxes	9,289	0	0	0	0
Dept. of Rev. Penalty & Int. of Co. Officials	(29,199)	(27,212)	0	0	0
Abandoned Property	6,971,967	9,098,610	7,900,000	8,500,000	9,000,000
Legal Process - Attorney General's Office	250	312,381	200,000	200,000	200,000
Circuit Court Clk. - Fish & Wildlife Fines	94,908	78,708	100,000	100,000	100,000
Cir. Ct. Clk. - Criminal/Traffic Fines & Costs	44,905,082	39,462,310	40,000,000	36,200,000	35,800,000

General Fund Revenue (Actual and Estimated) Consensus Forecasting Group: December 2001

<u>Source</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Estimate 2001-02</u>	<u>Estimate 2002-03</u>	<u>Estimate 2003-04</u>
Circuit Court Clk. - Bond Forfeitures	746,887	869,727	1,100,000	1,100,000	1,200,000
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	194,814	21,556	600,000	400,000	400,000
Other Fines & Unhonored Checks	1,900,575	2,356,294	2,600,000	2,900,000	3,200,000
TOTAL MISCELLANEOUS REVENUE	\$221,474,456	\$218,611,891	230,900,000	220,900,000	223,600,000
MISC. NOT IN REVENUE ESTIMATES	\$7,487,991	\$9,187,801	\$8,400,000	\$8,000,000	\$8,000,000
Statistical Discrepancy					
TOTAL GENERAL FUND	\$6,478,386,032	\$6,653,897,654	\$6,715,500,000	\$6,937,900,000	\$7,219,600,000

* Sales tax was increased in FY01 & FY02 to reflect the end of the moratorium on switched access revenues.

** Investment income is shown in this report as the net effect of the expense of generating that income.

Sub-totals may not add up to numbers displayed due to rounding of some estimates.

Road Fund
Consensus Forecast for FY02 to FY04
 (millions of dollars)
 December 2001

	FY01		FY02		FY03		FY04	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Motor Fuels & MF Use/Surtax	424.3	-3.5	441.5	4.1	450.7	2.1	458.8	1.8
Motor Vehicle Usage & Rental	396.8	-3.1	420.7	6.0	430.0	2.2	450.0	4.7
License & Privilege (excl. WD)	95.5	-10.5	98.6	3.2	99.2	0.6	105.2	6.0
Weight Distance Tax/Surtax	75.1	0.0	74.2	-1.2	75.6	1.9	80.0	5.8
Nontax Receipts and Fees	72.4	21.5	54.5	-24.7	42.0	-22.9	37.2	-11.5
Tolls	12.4	-8.1	13.5	8.9	13.8	2.2	14.2	2.7
Investment	40.1	36.4	23.7	-40.9	11.0	-53.6	6.0	-45.5
Other	19.9	19.2	17.3	-13.1	17.2	-0.6	17.0	-1.2
Total Road Fund	\$1,064.1	-2.4	\$1,089.5	2.4	\$1,097.5	0.7	\$1,131.2	3.1

Road Fund Revenue (Actual and Estimated) Consensus Forecasting Group: December 2001

<u>Source</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Estimate 2001-02</u>	<u>Estimate 2002-03</u>	<u>Estimate 2003-04</u>
<u>Sales and Gross Receipts Taxes</u>					
Motor Fuels Normal and Normal Use	423,876,350	424,286,240	441,500,000	450,700,000	458,800,000
Motor Vehicle Usage	359,437,723	345,120,799	367,800,000	374,000,000	391,500,000
Motor Vehicle Rental Usage	49,957,851	51,619,167	52,900,000	56,000,000	58,500,000
Truck Trip Permits	451,689	447,020	450,000	430,000	440,000
Sales and Use	-3,523	-701	0	0	0
Usage Tax on Buses	74,649	72,828	70,000	71,000	72,000
Supplemental Fuel Surtax	19,881	7,612	10,000	8,000	8,000
Usage Tax on Historical Vehicles	0	0	0	0	0
TOTAL SALES AND GROSS RECEIPTS TAX	849,700,352	821,552,965	862,730,000	881,209,000	909,320,000
<u>License and Privilege Taxes</u>					
Drive Away Utility Trailer Permits	5,365	7,199	4,400	4,500	4,600
Amateur Radio Plate	9,679	9,312	10,000	10,000	11,000
Passenger Car License	23,485,625	21,031,596	21,400,000	22,550,000	23,000,000
Truck License - State Share	20,618,255	20,417,994	22,100,000	21,100,000	23,400,000
Motorcycle License	255,028	442,979	250,000	275,000	285,000
Motorcycle License-Program GA19	203,587	226,033	185,000	190,000	193,000
Dealers License	293,756	297,495	289,000	300,000	320,000
Transfer License	572,965	544,390	530,000	545,000	560,000
Trailer License	1,304,803	1,256,847	1,150,000	1,300,000	1,400,000
County Clerk Penalty	24,390	32,337	30,000	30,000	32,000
Bus License - Except City	35,260	33,070	34,000	34,500	36,000
City and Suburban Bus License	0	0	0	0	0
Bus Certificates and Permits	3,465	1,200	1,000	1,000	1,000
Taxi License	25,730	28,868	25,000	26,000	27,000
Truck Permits	77,543	71,805	70,500	71,000	72,000
Contract Taxicab Permit	16,695	14,190	10,000	12,000	12,000
Insurance Premium Tax - Foreign Life	0	0	0	0	0
Motor Vehicle Operator's License	3,371,356	3,524,010	3,700,000	3,550,000	3,800,000
Motor Vehicle Operator's License-Program GA19	186,843	197,568	175,500	180,000	185,000
Highway Special Permits	6,771,670	6,598,370	6,600,000	6,550,000	6,950,000
U-Drive-It Permits	13,175	28,544	30,500	32,000	34,000
U-Drive-Licenses	3,493,279	2,554,706	2,500,000	2,600,000	2,950,000
Junk Yard License	3,023	3,947	5,000	5,000	5,000
Historic Vehicle License	168,912	151,211	160,000	158,000	158,000
Operator's License-Driver Education	521,734	576,204	525,000	550,000	560,000
Truck Proportional Registration	34,206,993	28,501,808	29,946,424	30,060,724	31,381,724
Operator's License - Photography Program	1,236,548	1,276,363	1,310,000	1,300,000	1,800,000

Road Fund Revenue (Actual and Estimated) Consensus Forecasting Group: December 2001

<u>Source</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Estimate 2001-02</u>	<u>Estimate 2002-03</u>	<u>Estimate 2003-04</u>
Industrial Hauling Permits	6,440	9,420	9,500	9,500	9,500
General Assembly License Plates	1,877	2,027	1,600	1,800	2,000
Pearl Harbor Survivor Plates	26	27	26	26	26
Collegiate Plates	153,431	181,221	121,000	150,000	160,000
Personalized License Plates	638,340	730,775	600,000	700,000	710,000
Army Reserve Plates	218,696	137,758	135,000	135,000	135,000
Purple Heart Plates	26,910	25,587	25,000	26,000	26,000
Judicial License Plates	775	768	900	750	750
Civil Air Patrol Plates	484	427	500	600	600
National Guard License Plates	10,453	9,669	10,500	10,000	10,000
Civic Event Plates	750	680	700	850	850
Street Rod Plates	1,347	1,725	2,800	2,900	2,900
Fraternal Order of Police Plates	57,222	60,108	60,500	61,000	62,000
Environmental License Plate	673,587	772,962	760,000	765,000	780,000
Dealer Demonstrator Tags	6,689	5,104	5,000	5,000	5,500
Volunteer Fireman License Tags	35,724	36,673	36,000	35,500	35,500
P.O.W. License Plates	335	263	250	250	250
Motor Carrier Identification Cards	6,180,822	4,040,036	4,300,000	4,250,000	4,400,000
Weight Distance Tax	75,143,363	75,170,124	74,200,000	75,600,000	80,000,000
Weight Distance Surtax	838	17	0	0	0
DES License Plates	7,870	7,532	7,500	7,600	7,700
Child Victims License Plates	198,493	135,764	136,000	136,000	137,000
Masonic License Plates	34,645	35,224	35,000	36,000	36,000
Coal Haul Co-Op Agreements	0	0	0	0	0
Coal Truck Special Tag	0	0	0	0	0
Temporary Tags	477,864	455,236	451,000	470,000	500,000
Truck Decal	0	0	0	0	0
Nonreciprocal Permits	245,796	215,075	200,000	220,000	250,000
Overweight Coal Truck Permit	738,342	727,675	726,000	730,000	735,000
Temporary Truck Decal Permits	0	0	0	0	0
TOTAL LICENSE AND PRIVILEGE TAX	181,766,795	170,589,918	172,866,100	174,788,500	185,183,900

Departmental Fees, Sales and Rentals

Proposal Sales	40,427	52,618	50,000	52,500	55,000
Specification and Blue Print Sales	330,128	155,228	160,000	160,000	175,000
Miscellaneous Rentals	443,517	442,106	420,000	430,000	440,000
MVL Computer Services	442,361	446,199	440,000	445,000	450,000
Fines and Forfeitures	1,350	1,061	1,000	1,000	1,000

Road Fund Revenue (Actual and Estimated) Consensus Forecasting Group: December 2001

<u>Source</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Estimate 2001-02</u>	<u>Estimate 2002-03</u>	<u>Estimate 2003-04</u>
Alcoholic Driver Education Program	0	0	0	0	0
Traffic Offenders School Fees	1,662,262	2,005,215	1,600,000	2,100,000	2,100,000
Record Copy Sales	0	0	0	0	0
Highway Sign Logo Rental	552,343	574,179	560,000	575,000	600,000
Driving History Record Fee	4,304,420	4,964,264	4,700,000	5,000,000	5,000,000
Operator's License Reinstatement Fees	1,230,270	1,198,791	1,200,000	1,300,000	1,300,000
Operator's License Name Sales	0	94,791	75,000	80,000	90,000
Penalty & Interest - Weight and Use Taxes	1,357,755	1,549,150	1,400,000	1,550,000	1,650,000
Sales of Surplus Property	0	0	0	0	0
Medical Alert Stickers	479	430	500	500	500
Waste Transport Permit & License	0	0	0	0	0
Motor Vehicle Title Receipts	4,010,732	3,994,387	3,500,000	3,600,000	3,650,000
Motor Vehicle Title Receipts-Program GA19	0	0	0	0	0
Weight Distance Maintenance Fund	0	0	0	0	0
Lust Fund Fees (Leaky Underground Storage Tank)	0	0	0	0	0
Proceeds from Asset Disposition	414,581	255,910	230,000	230,000	250,000
License Examination Fee	0	0	0	0	0
Coal Road Recovery Fines	19,285	7,608	7,400	7,500	7,600
Bond Filing Fee	0	0	0	0	0
U-Drive-It Penalty and Interest	37,336	36,141	35,000	36,000	37,000
Truck Decal Penalty and Interest	0	0	0	0	0
TOTAL DEPT. FEES, SALES AND RENTALS	14,847,244	15,778,079	14,378,900	15,567,500	15,806,100
Toll Facility Income					
Bert T. Combs Mountain Parkway	0	0	0	0	0
Western Kentucky Parkway	0	0	0	0	0
Bert T. Combs Mountain Parkway Extension	0	0	0	0	0
Blue Grass Parkway	0	0	0	0	0
Jackson Purchase Parkway	0	0	0	0	0
Pennyrite Parkway	0	0	0	0	0
Western Kentucky Parkway Extension	0	0	0	0	0
Audubon Parkway	1,356,285	1,160,716	1,600,000	1,600,000	1,700,000
Daniel Boone Parkway	3,126,505	2,499,631	3,000,000	2,900,000	2,900,000
Green River Parkway	4,612,553	4,490,267	4,500,000	4,700,000	4,800,000
Cumberland Parkway	4,378,759	4,260,287	4,400,000	4,600,000	4,800,000
TOTAL TOLL FACILITY INCOME	13,474,101	12,410,901	13,500,000	13,800,000	14,200,000

Road Fund Revenue (Actual and Estimated) Consensus Forecasting Group: December 2001

<u>Source</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Estimate 2001-02</u>	<u>Estimate 2002-03</u>	<u>Estimate 2003-04</u>
<u>Investment Income</u>					
Investment Income	29,418,349	40,187,239	23,700,000	11,000,000	6,000,000
TOTAL INVESTMENT INCOME	29,418,349	40,187,239	23,700,000	11,000,000	6,000,000
<u>Miscellaneous Income</u>					
Property Damage	0	482,206	450,000	450,000	450,000
Highway Loss Claims	0	0	0	0	0
Highway Miscellaneous Receipts	98,734	212,794	150,000	135,000	140,000
Cold Check Account	0	0	0	0	0
Motor Carrier - Misc.	0	0	0	0	0
Gain on Disposition of Investment	0	0	0	0	0
Other State Grants	213,781	0	0	0	0
Mass Transit - Local Grants	0	0	0	0	0
Off-Systems Local Grants	0	0	0	0	0
Toll Credit Card Receipts	97,447	133,562	125,000	130,000	150,000
Tax Clearing Account	0	0	0	0	0
Higher Education Equine Fund	0	0	0	0	0
Coal Severance	0	0	0	0	0
Legal Process - County Court Clerk	0	0	0	0	0
Inheritance and Estate Tax	0	0	0	0	0
Individual Income Tax	0	0	0	0	0
TOTAL MISCELLANEOUS INCOME	840,843	828,562	725,000	265,000	290,000
MISC. NOT IN REVENUE ESTIMATES	730,138	2,833,900	1,600,000	870,000	400,000
TOTAL ROAD FUND REVENUE	\$1,090,777,823	\$1,064,181,564	\$1,089,500,000	\$1,097,500,000	\$1,131,200,000



SECTION V

TOBACCO MASTER SETTLEMENT AGREEMENT

Tobacco Master Settlement Agreement

History of the Tobacco Master Settlement Agreement (MSA)

On November 23, 1998 the attorneys general of forty-six states, five 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 15th, with the exception of the 1998 initial payment which was held pending final approval of the MSA. The annual payments commenced in 2000 and continue indefinitely. They tally to \$207.9 billion through 2025. These payments have a disbursement date of April 15th. 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

NPM Adjustment – Kentucky was one of 16 states to be assessed with the Non-Participating Manufacturers’ (NPM) Adjustment for payment year 1999 (these adjustments actually took place in fiscal years 2000-2002). If an independent economic consultant determines that Participating Manufacturers experience a market share loss of more than 2 percent—measured against a 1997 baseline—due to the MSA, a reduction to state payments is made for states that fail to enact and diligently enforce a model statute. The model statute contains reciprocal language that mandates escrow payments for tobacco product manufacturers in lieu of their obligations as signatories to the MSA. These retaliatory contributions from non-MSA manufacturers are an attempt to create a level playing field in the retail tobacco markets. Due in large part to Kentucky’s biennial legislative sessions, Kentucky was unable to pass a model statute in time to avoid the NPM adjustment for payment year 1999. Annual sessions have since been authorized by constitutional amendment in 2000.

Although Kentucky and 15 other states were assessed with the adjustment, the money has been placed in escrow pending final determinations and appeals. Several states have appealed the assessment on procedural grounds, and the matter of causality in the loss of market share has yet to be finalized.

Kentucky has taken great strides toward insuring that future NPM reductions will not occur. House Bill 583, Kentucky's version of the model statute, became law effective July 1, 2000. The Kentucky Revenue Cabinet (KRC) and the State Attorney General have sent out notifications to manufacturers and wholesalers, explaining the new law and detailing the enforcement provisions. Since our statute is in place and will be continuously enforced, we should not incur any additional NPM adjustments. These wholesalers have since complied with the law and submitted the required documents to KRC. Kentucky's first escrow payments were due on April 15, 2001. Several companies did not have fully funded escrow accounts and the Office of the Attorney General has diligently undertaken enforcement proceedings against the manufacturers in question.

The Office of State Budget Director (OSBD) has organized a workgroup to monitor all facets of the MSA. Representatives from the State Attorney General's Office, KRC, OSBD, and the Finance and Administration Cabinet have combined forces to track the MSA payments. Other responsibilities include monitoring the enforcement of the model statute and the prudent financial management of the payments.

Fiscal Year 2001 and 2002 Payments – Kentucky received \$105.7 million in MSA payments during FY01. The revised forecast of FY02 expects \$126.6 million. The budgeted amount for FY02 was \$121.6 million. We expect to exceed the budgeted estimate for two reasons: first and foremost, the NPM adjustment for payment year 1999 has been reduced due to data updates from the Bureau of Alcohol, Tobacco, and Firearms; second, the NPM adjustment for payment year 2000 has been reduced accordingly following the same data revision. The big source of variance in the FY02 payments has been the extremely volatile nature of the NPM adjustments. The reduction to the 1999 NPM adjustment aggregate total has prompted PriceWaterhouseCoopers, the independent auditor of the MSA, to issue refunds to several states for the over-assessment of the NPM adjustment. These refunds are due to be received by Kentucky in early January 2002.

Forecast

The Consensus Forecasting Group was asked to aid OSBD in projecting the payments to be received by the Commonwealth from the Master Settlement Agreement.

Forecasting Methodology

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

The order of the adjustment factors is important. The inflation adjustment precedes the volume adjustment, which precedes the adjustment for previously settled states. The NPM adjustment is the last to be applied, since the effect of the NPM adjustment is not borne equally by the states.

Initial Payments

As stated above, the initial payments are scheduled to cease January 2003. Therefore, there is a substantial decline in the MSA payments to reflect no initial payment in FY04. This was anticipated in the OSBD 25-year payment projections and represents no change in the MSA.

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 Consumer Price Index or three percent. Since inflation has been in check in recent years, the three percent growth was used in the forecast for this biennium.

Volume Adjustment

After 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 1 minus the ratio of Actual Volume to Base Volume."

There are several important considerations in the formula for the volume adjustment. First, in the event that actual volume falls below the 1997 base volume, a two 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.

OSBD has obtained volume adjustment forecasts from several sources. These forecasts are remarkably consistent, since they are all based on the same limited historical data. FY00 had 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 from the 1997 base levels, causing an estimated volume reduction of 14.2 percent. Since the volume adjustments are cumulative, the effects of the FY00 volume adjustment will permeate through the remaining years in the forecast. We expect the volume adjustments to be 19.2 percent, 20.8 percent, and 22.4 percent for Fiscal Years 2002-2004, respectively.

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, Mississippi, Minnesota, 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

The most significant of the other adjustments is the **Non-Participating Manufacturers' (NPM) Adjustment**. For the next biennium, we assumed that NPM adjustments would technically not be applicable to Kentucky. However, we anticipate that several tobacco companies (most notably Brown and Williamson) would place funds in a disputed account pending the diligent enforcement hearings. We think that Kentucky has diligently enforced and will continue to do so, but there is a strong possibility that these funds will remain in escrow, unavailable for appropriation. Therefore, we have reduced MSA receipts by \$4.6 million and \$4.7 million for FY03 and FY04, respectively, to account for these NPM adjustments.



APPENDIX A

RECEIPTS FOR FIRST HALF FY02

**KENTUCKY STATE GOVERNMENT REVENUE
GENERAL FUND REVENUE**

	Second Quarter 2001 - 2002	Second Quarter 2000 - 2001	% Change	Year-to Date 2001 - 2002	Year-to Date 2000 - 2001	% Change
TOTAL GENERAL FUND	\$1,714,600,221	\$1,678,596,593	2.1%	\$3,275,841,471	\$3,226,820,480	1.5%
Tax Receipts	\$1,634,343,868	\$1,607,701,843	1.7%	\$3,135,255,543	\$3,085,455,432	1.6%
Sales and Gross Receipts	\$616,673,556	\$603,254,514	2.2%	\$1,235,245,520	\$1,200,330,317	2.9%
Beer Consumption	1,489,750	1,495,734	-0.4%	3,169,303	3,275,217	-3.2%
Beer Wholesale	8,287,394	7,784,568	6.5%	17,855,096	16,775,396	6.4%
Cigarette	3,439,721	3,455,114	-0.4%	7,045,866	7,000,822	0.6%
Distilled Spirits Case Sales	20,741	21,611	-4.0%	41,116	41,787	-1.6%
Distilled Spirits Consumption	2,099,786	2,170,306	-3.2%	4,135,563	4,181,904	-1.1%
Distilled Spirits Wholesale	3,824,424	3,919,487	-2.4%	7,458,641	7,420,075	0.5%
Insurance Premium	12,485,437	12,369,700	0.9%	29,973,851	29,240,353	2.5%
Pari-Mutuel	1,251,559	1,792,937	-30.2%	2,157,510	2,936,514	-26.5%
Race Track Admission	64,439	65,690	-1.9%	161,784	166,878	-3.1%
Sales and Use	581,552,304	567,999,867	2.4%	1,159,256,349	1,125,371,748	3.0%
Wine Consumption	474,210	464,646	2.1%	889,979	870,209	2.3%
Wine Wholesale	1,683,792	1,714,853	-1.8%	3,100,460	3,049,415	1.7%
License and Privilege	\$62,632,802	\$73,596,607	-14.9%	\$125,528,536	\$128,693,719	-2.5%
Alc. Bev. License Suspension	14,500	19,500	-25.6%	106,300	91,150	16.6%
Coal Severance	41,248,236	34,149,801	20.8%	83,313,292	68,896,510	20.9%
Corporation License	13,480,139	30,351,366	-55.6%	27,073,728	43,242,152	-37.4%
Corporation Organization	52,083	57,252	-9.0%	68,554	134,944	-49.2%
Occupational Licenses	22,628	43,031	-47.4%	89,628	101,122	-11.4%
Oil Production	616,343	856,965	-28.1%	1,392,067	1,780,422	-21.8%
Race Track License	109,675	102,800	6.7%	-63,502	241,300	---
Bank Franchise Tax	-277,253	-84,592	---	-1,476,415	-619,847	---
Driver License Fees	115,885	76,981	50.5%	245,599	162,814	50.8%
Minerals Severance	3,932,671	4,108,125	-4.3%	7,413,098	7,697,790	-3.7%
Natural Gas Severance	3,317,895	3,915,378	-15.3%	7,366,188	6,965,362	5.8%
Income	\$708,104,419	\$700,541,788	1.1%	\$1,463,685,021	\$1,468,921,084	-0.4%
Corporation	48,167,131	57,936,806	-16.9%	120,697,113	145,065,338	-16.8%
Individual	659,937,288	642,604,982	2.7%	1,342,987,908	1,323,855,746	1.4%

	Second Quarter 2001 - 2002	Second Quarter 2000 - 2001	% Change	Year-to Date 2001 - 2002	Year-to Date 2000 - 2001	% Change
Property	0	0				
Bank Deposits	\$227,267,857	\$206,851,476	9.9%	\$266,084,287	\$244,353,518	8.9%
Building & Loan Association	14,254	0	---	18,205	0	---
Distilled Spirits	113	13,494	-99.2%	50,913	172,251	-70.4%
General - Intangible	296,167	0	---	363,845	0	---
General - Real	16,380,923	16,240,294	0.9%	16,381,356	16,027,311	2.2%
General - Tangible	121,551,092	112,714,331	7.8%	121,234,299	112,547,568	7.7%
Omitted & Delinquent	54,492,256	54,279,956	0.4%	76,500,715	74,396,515	2.8%
Public Service	3,771,438	3,740,728	0.8%	10,666,742	10,440,180	2.2%
Other	30,663,288	19,781,719	55.0%	40,754,855	30,648,109	33.0%
	98,325	80,953	21.5%	113,358	121,584	-6.8%
Inheritance	\$16,286,307	\$21,005,680	-22.5%	\$38,993,228	\$38,346,704	1.7%
Miscellaneous	\$3,378,926	\$2,451,778	37.8%	\$5,718,952	\$4,810,090	18.9%
Legal Process	1,457,608	804,474	81.2%	2,349,614	1,642,921	43.0%
T. V. A. In Lieu Payments	1,868,404	1,650,766	13.2%	3,316,198	3,151,087	5.2%
Other	52,915	-3,462	-1628.3%	53,140	16,082	230.4%
Nontax Receipts	\$77,713,469	\$69,880,436	11.2%	\$136,012,677	\$137,178,306	-0.8%
Departmental Fees	4,239,221	3,749,884	13.0%	8,645,320	8,046,550	7.4%
PSC Assessment Fee	37,315	109,418	-65.9%	1,630,662	3,217,215	-49.3%
Fines & Forfeitures	9,559,607	10,103,321	-5.4%	19,534,023	20,982,410	-6.9%
Interest on Investments	7,363,508	8,925,677	-17.5%	10,467,889	17,402,274	-39.8%
Lottery	49,000,000	39,500,000	24.1%	88,000,000	80,030,000	10.0%
Miscellaneous	7,513,819	7,492,136	0.3%	7,734,783	7,499,857	3.1%
Redeposit of State Funds	\$2,542,884	\$1,014,314	150.7%	\$4,573,251	\$4,186,742	9.2%

**KENTUCKY STATE GOVERNMENT REVENUE
ROAD FUND REVENUE**

	Second Quarter 2001 - 2002	Second Quarter 2000 - 2001	% Change	Year-to Date 2001 - 2002	Year-to Date 2000 - 2001	% Change
TOTAL ROAD FUND	\$277,663,768	\$247,683,339	12.1%	\$539,318,110	\$515,987,788	4.5%
Tax Receipts-	\$258,164,031	\$231,748,512	11.4%	\$506,472,784	\$486,431,018	4.1%
Sales and Gross Receipts	\$219,224,348	\$195,851,584	11.9%	\$430,687,996	\$412,356,592	4.4%
Motor Fuels Taxes	104,926,733	100,999,562	3.9%	212,104,987	209,090,204	1.4%
Motor Fuels Use & Surtax	4,029,500	2,676,672	50.5%	6,225,730	6,858,972	-9.2%
Truck Trip Permits (fuel)	88,040	113,070	-22.1%	185,440	221,620	-16.3%
Motor Vehicle Usage	110,180,075	92,062,280	19.7%	212,171,838	196,185,796	8.1%
License and Privilege	\$38,939,683	\$35,896,929	8.5%	\$75,784,789	\$74,074,427	2.3%
Motor Vehicles	15,403,673	12,114,179	27.2%	29,669,223	27,493,835	7.9%
Motor Vehicle Operators	1,383,107	1,391,897	-0.6%	2,653,014	2,681,615	-1.1%
Weight Distance	18,955,177	18,846,711	0.6%	38,038,251	38,226,171	-0.5%
Truck Decal Fees	42,157	19,287	118.6%	99,245	72,697	36.5%
Other Special Fees	3,155,568	3,524,854	-10.5%	5,325,056	5,600,109	-4.9%
Nontax Receipts	\$19,174,176	\$14,956,228	28.2%	\$31,460,475	\$28,397,807	10.8%
Departmental Fees	3,678,314	2,778,509	32.4%	6,712,955	6,165,820	8.9%
In Lieu of Traffic Fines	518,002	440,224	17.7%	1,059,196	908,541	16.6%
Highway Tolls	3,540,227	2,784,455	27.1%	6,999,074	5,753,600	21.6%
Investment Income	11,082,231	8,759,040	26.5%	16,208,224	15,199,643	6.6%
Miscellaneous	355,402	194,001	83.2%	481,026	370,203	29.9%
Redeposit of State Funds	\$325,561	\$978,598	-66.7%	\$1,384,851	\$1,158,962	19.5%



APPENDIX B

SUMMARY STATISTICS FOR GENERAL AND ROAD FUNDS

MAJOR REVENUE SOURCES FISCAL YEARS 1991-2001

**SUMMARY STATISTICS FOR GENERAL AND ROAD FUNDS
MAJOR REVENUE SOURCES
FISCAL YEARS 1991-2001**

GENERAL FUND

GENERAL FUND TOTAL RECEIPTS			ALCOHOLIC BEVERAGE TAXES Malt Beverage		
Fiscal Year	Percent Receipts	Change	Fiscal Year	Receipts	Percent Change
2000-01	\$ 6,653,897,653	2.7%	2000-01	\$ 38,854,920	1.2%
1999-00	6,478,385,032	4.5%	1999-00	38,385,890	4.1%
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%

GENERAL FUND TOTAL TAX RECEIPTS			Distilled Spirits		
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
2000-01	\$ 6,377,917,219	2.9%	2000-01	\$ 23,077,057	3.3%
1999-00	6,200,475,504	4.8%	1999-00	22,349,780	4.3%
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%

Wine			COAL SEVERANCE TAX		
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
2000-01	\$ 7,846,391	2.3%	2000-01	\$ 141,553,087	-2.5%
1999-00	7,672,648	8.8%	1999-00	145,139,909	-6.0%
1998-99	7,049,136	7.6%	1998-99	154,476,772	-5.7%
1997-98	6,551,316	7.6%	1997-98	163,731,038	0.1%
1996-97	6,085,828	8.5%	1996-97	163,545,844	-1.5%
1995-96	5,610,308	15.7%	1995-96	166,101,045	-7.3%
1994-95	4,847,726	7.9%	1994-95	179,116,944	-0.4%
1993-94	4,492,841	0.9%	1993-94	179,844,327	-0.2%
1992-93	4,454,161	4.2%	1992-93	180,117,668	-2.7%
1991-92	4,273,359	4.6%	1991-92	185,102,332	-3.1%

CIGARETTE TAX*			CORPORATION INCOME TAX		
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
2000-01	\$ 14,007,582	-1.2%	2000-01	\$ 289,931,017	-5.4%
1999-00	14,184,888	-3.3%	1999-00	306,442,050	-1.8%
1998-99	14,673,839	-3.0%	1998-99	312,066,675	-6.5%
1997-98	15,130,443	-5.7%	1997-98	333,666,393	14.0%
1996-97	16,044,967	2.3%	1996-97	292,753,126	2.8%
1995-96	15,680,704	3.7%	1995-96	284,732,573	-16.5%
1994-95	15,126,270	5.9%	1994-95	340,912,408	26.7%
1993-94	14,285,746	2.1%	1993-94	269,067,231	5.6%
1992-93	13,994,590	-0.4%	1992-93	254,775,357	-6.0%
1991-92	14,044,608	-1.6%	1991-92	271,026,952	-15.1%

*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 LICENSE TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$ 147,515,402	6.0%
1999-00	139,127,819	10.5%
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%

INHERITANCE AND ESTATE TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$ 83,461,499	12.0%
1999-00	74,489,981	-8.6%
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%

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

INDIVIDUAL INCOME TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$ 2,778,541,444	2.8%
1999-00	2,701,613,908	6.7%
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%

**INSURANCE PREMIUMS TAX
Foreign Life Insurance Companies**

Fiscal Year	Receipts	Percent Change
2000-01	\$ 34,775,487	-3.2%
1999-00	35,909,807	8.5%
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%

Insurance Companies Other than Life

Fiscal Year	Receipts	Percent Change
2000-01	\$ 59,118,323	3.7%
1999-00	57,000,964	4.7%
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%

MINERALS AND NATURAL GAS TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$ 30,030,552	34.2%
1999-00	22,369,419	18.0%
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%

LOTTERY RECEIPTS

Fiscal Year	Receipts	Percent Change
2000-01	\$ 157,030,000	0.5%
1999-00	156,300,000	1.6%
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%

OIL PRODUCTION TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$ 3,358,036	13.2%
1999-00	2,967,395	120.6%
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%

PARI-MUTUEL TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$ 6,182,083	-7.0%
1999-00	6,645,098	-7.4%
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%

Property Taxes - Real Estate

Fiscal Year	Receipts	Percent Change
2000-01	\$ 171,524,695	2.5%
1999-00	167,326,472	3.5%
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%

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

TOTAL PROPERTY TAXES

Fiscal Year	Receipts	Percent Change
2000-01	\$ 407,494,858	5.2%
1999-00	387,257,800	4.5%
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%

Property Taxes - Tangible

Fiscal Year	Receipts	Percent Change
2000-01	\$ 140,466,295	7.3%
1999-00	130,960,896	4.3%
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%

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

Property Taxes - Intangible			SALES AND USE TAX		
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
2000-01	\$ 22,551,153	-0.8%	2000-01	\$ 2,248,471,100	3.5%
1999-00	22,721,743	25.5%	1999-00	2,171,397,969	4.1%
1998-99	18,103,920	-14.3%	1998-99	2,085,899,677	5.3%
1997-98	21,129,328 *	-54.7%	1997-98	1,981,297,580	5.2%
1996-97	46,631,437 *	-29.9%	1996-97	1,882,681,995	5.5%
1995-96	66,489,089	-20.4%	1995-96	1,783,881,316	6.2%
1994-95	83,479,482	7.9%	1994-95	1,680,520,815	7.7%
1993-94	77,393,521	-0.5%	1993-94	1,560,085,519	6.7%
1992-93	77,751,342	11.1%	1992-93	1,462,251,261	7.2%
1991-92	69,961,863	-2.0%	1991-92	1,363,690,026	5.2%

*Shares of stock were exempted from property tax.

ROAD FUND STATISTICS

ROAD FUND TOTAL RECEIPTS*			ROAD FUND TOTAL TAX RECEIPTS		
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
2000-01	\$ 1,064,181,565	-2.4%	2000-01	\$ 1,013,143,743	-4.0%
1999-00	1,090,777,822	3.2%	1999-00	1,055,295,426	4.2%
1998-99	1,056,596,153	4.4%	1998-99	1,013,091,830	5.4%
1997-98	1,011,789,675	5.4%	1997-98	961,522,616	4.5%
1996-97	960,183,780	2.2%	1996-97	919,796,955	2.3%
1995-96	939,910,490	4.4%	1995-96	899,036,284	3.5%
1994-95	900,619,387	4.4%	1994-95	868,711,393	3.8%
1993-94	862,826,425	5.2%	1993-94	836,526,817	5.5%
1992-93	820,411,480	4.9%	1992-93	792,914,736	6.9%
1991-92	781,808,152	2.1%	1991-92	741,489,481	3.3%

*Does not include federal grants.

MOTOR FUELS TAXES
Motor Fuels Normal

Fiscal Year	Receipts	Percent Change
2000-01	\$ 408,801,115	-3.6%
1999-00	423,876,351	-0.9%
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%

MOTOR VEHICLE OPERATOR'S LICENSE

Fiscal Year	Receipts	Percent Change
2000-01	\$ 5,592,769	-1.7%
1999-00	5,689,329	5.3%
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%

Motor Fuels Normal Use and Surtax

Fiscal Year	Receipts	Percent Change
2000-01	\$ 15,492,738	-2.6%
1999-00	15,905,613	-5.6%
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%

MOTOR VEHICLE REGISTRATIONS
Passenger Car Registration

Fiscal Year	Receipts	Percent Change
2000-01	\$ 23,162,962	-1.4%
1999-00	23,485,625	0.6%
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%

MOTOR VEHICLE USAGE TAX**MOTOR VEHICLE RENTAL USAGE TAX**

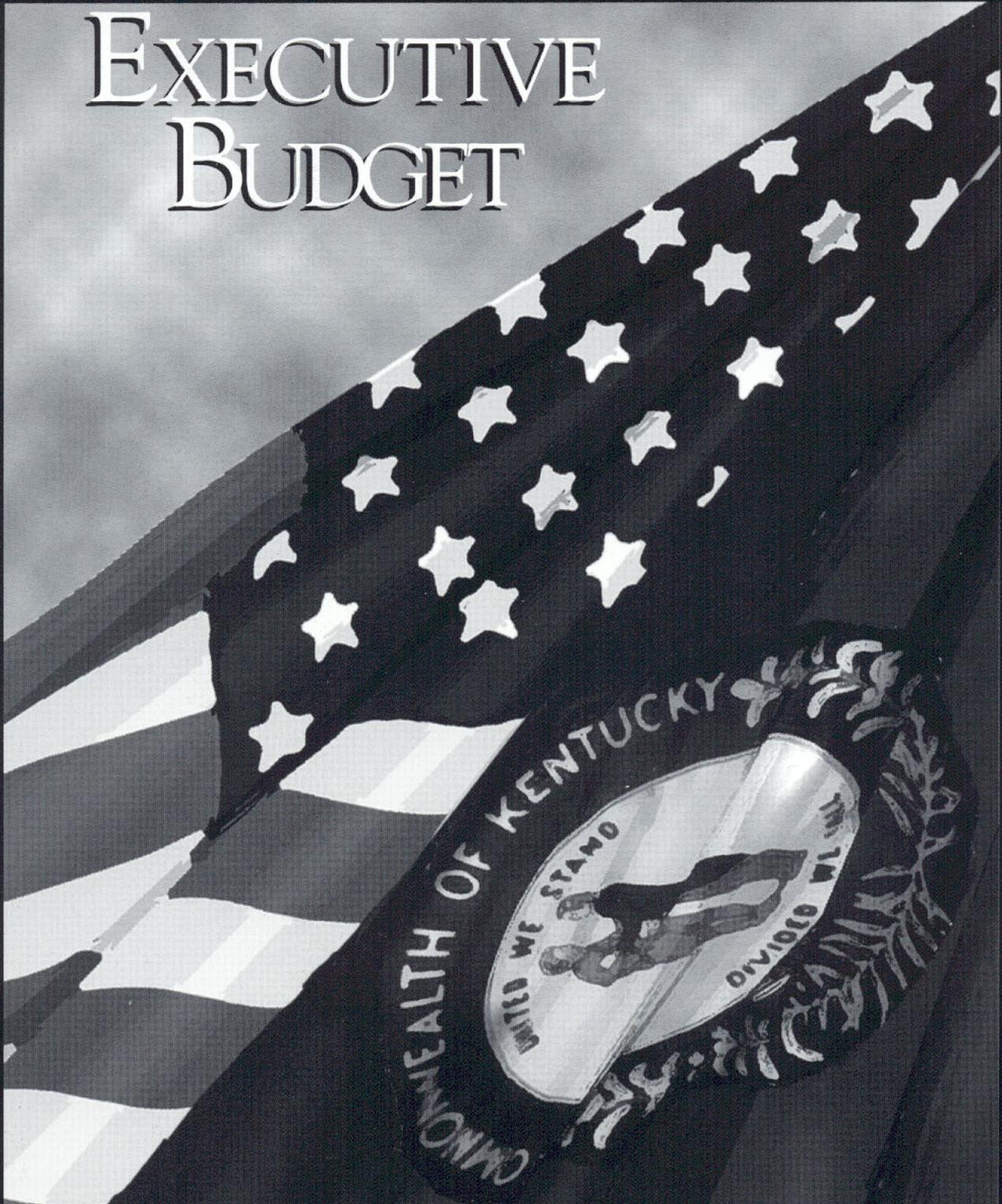
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
2000-01	\$ 345,120,799	-4.0%	2000-01	\$ 51,619,167	3.3%
1999-00	359,437,723	8.5%	1999-00	49,957,851	12.4%
1998-99	331,187,817	1.8%	1998-99	44,465,916	7.3%
1997-98	325,308,554	6.7%	1997-98	41,450,720	13.3%
1996-97	304,868,491	2.1%	1996-97	36,593,748	25.9%
1995-96	298,585,859	5.2%	1995-96	29,054,964	26.5%
1994-95	283,820,829	2.0%	1994-95	22,966,441	34.7%
1993-94	278,157,347	19.1%	1993-94	17,055,319	40.7%
1992-93	233,527,651	11.4%	1992-93	12,124,476	33.2%
1991-92	209,619,192	2.2%	1991-92	9,103,767	25.3%



*Capital
Financing
Analysis*

2002-2004

EXECUTIVE
BUDGET





SECTION I

ASSUMPTIONS

Assumptions

This analysis is premised on the following assumptions:

- FY2002-2004 General Fund revenues are based on the December 17, 2001 Official Revenue Estimates. Growth rates for FY2003 and FY2004 are projected using 1.0 elasticity.
- FY2002-2004 Road Fund revenues are based the December 17, 2001 Official Revenue Estimates. Growth rates for FY2003 and 2004 are projected using 0.8 elasticity.
- Agency Fund revenues are based on actual 2001 revenue from the supplement to the FY 2001 CAFR with no implied growth rate for FY2003 and FY2004.
- Tobacco Settlement Funds are included in the General Fund revenue.
- All remaining authorized but unissued debt is assumed to be issued by June 30, 2002 at the template rates except for SFCC debt that is authorized at 5.80%.
- Two percent (2%) Cost of Issuance.

Where actual debt service is unknown, required debt service is estimated from amortization schedules using the debt service template rates.



SECTION II

EXECUTIVE SUMMARY

Executive Summary

Governor Paul E. Patton proposes \$298 million in new debt-financed projects. The proposal for the 2002-2004 biennium is compared to previous biennia in Table 1 and is described in more detail in Appendix C.

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 9
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 ¹	429,575,900
1984	535,929,000	1996 ²	313,575,000
1986	494,721,100	1998 ³	1,168,030,000
1988	364,171,900	2000 ⁴	1,046,727,600
1990	1,148,218,400	2002 ⁵	298,000,000

¹ This includes debt authorized in the 1995 Extraordinary Session of the General Assembly and debt authorized by the Surplus Expenditure Plan.

² 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. This authorization was never acted upon or reauthorized.

³ 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

⁴ Debt Enacted in the 2000-2002 Budget of the Commonwealth.

General Fund Authorization:	\$901,002,600
Road Fund Authorization:	\$ 28,200,000
Agency Fund Authorization:	\$117,525,000

The 2000 Session of the Kentucky General Assembly authorized \$1,053,015,600 of debt. The Secretary of Finance and Administration determined to fund \$6,288,000 of debt authorized projects with General Fund, thereby reducing the authorized debt to \$1,046,727,600.

⁵ **New Debt Recommended in the 2002-2004 Executive Budget of the Commonwealth.**



SECTION III

DEBT CAPACITY ANALYSIS

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 FY2003 and FY2004 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. Issue debt only for those projects that will provide benefits equal to or longer than the amortization period of the debt.
3. Maintain or improve the state's current Aa3/AA-/AA- State Property and Buildings Commission debt rating.
4. Initiate reviews of debt management processes that are consistent with reviews by external entities such as rating agencies.
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 whenever possible to minimize overall governmental operating 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, fixed rate notes of the Kentucky Asset/Liability 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 & P/Fitch</u>
State Property and Bldgs. Commission	KRS 56.450 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/AA-/AA-
Kentucky Asset/Liability Commission	KRS 56.860 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	KRS 175.410-175.990 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.	Aa3/AA-/AA-
The State Universities	KRS 56.495 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.	Varies
Kentucky Housing Corp.	KRS 198A Make low interest mortgage construction loans to increase the supply of housing for low and moderate income residents of the state.	Limited to \$2.5 billion of debt outstanding.	Aaa/AAA
Kentucky Infrastructure Authority	KRS 224A 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.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs limited to \$60 and \$125 million of debt outstanding; for maturities under and over 3 years respectively.	Aa3/AA-/AA-
Kentucky Higher Education Student Loan Corporation	KRS 164A 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 \$950 million of debt outstanding.	Aaa/AA-
School Facilities Constr. Commission	KRS 157.800-157.895 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	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 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 Corp.	KRS 247.940 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

*Ratings, where applicable, include Moody's, Standard & Poors, and Fitch.

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 the General Fund and Road Fund for FY2001 are actual and those for FY2002 through FY2004 are based upon the December 17, 2001 Revenue Estimates. Agency Fund estimates are based upon actual results for FY2001 and are held constant for the time frame of this analysis. 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 20-year long-term tax-exempt interest rate of 7.25 percent or other applicable rates). 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 10 shows the historical comparison of debt outstanding in current and constant dollars.

Table 11 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 12 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 13 provides an update of Table 4 to include Governor Paul E. Patton's proposed debt financed projects.

Table 10
APPROPRIATION SUPPORTED DEBT
PRINCIPAL DEBT OUTSTANDING
(000,000)

Fiscal Year	Current	Percent Change	CPI Constant Dollar Adjustment	Constant (1984)	Percent Change
1984	2,100.72	17.90	1.0181	2,063.37	13.68
1985	2,098.89	-0.09	1.0580	1,983.83	-3.86
1986	2,197.98	4.72	1.0888	2,018.72	1.76
1987	2,627.29	19.53	1.1131	2,360.34	16.92
1988	2,771.07	5.47	1.1593	2,390.30	1.27
1989	2,726.69	-1.60	1.2123	2,249.19	-5.90
1990	2,736.18	0.35	1.2703	2,153.96	-4.23
1991	3,253.56	18.91	1.3401	2,427.85	12.72
1992	3,537.60	8.73	1.3828	2,558.29	5.37
1993	3,837.65	8.48	1.4259	2,691.39	5.20
1994	3,785.78	-1.35	1.4633	2,587.15	-3.87
1995	3,809.20	0.62	1.5051	2,530.86	-2.18
1996	3,775.38	-0.89	1.5463	2,441.56	-3.53
1997	3,557.74	-5.76	1.5902	2,237.29	-8.37
1998	3,433.34	-3.50	1.6187	2,121.05	-5.20
1999	3,589.95	4.56	1.6463	2,180.62	2.81
2000	3,556.97	-0.92	1.6938	2,099.99	-3.70
2001	3,966.22	11.51	1.7519	2,263.95	7.81
2002 ¹	4,385.94	10.58	1.7905	2,499.56	8.20
2003	4,037.78	-7.94	1.8273	2,209.70	-9.79
2004 ²	3,681.02	-8.84	1.8740	1,964.26	-11.11

¹ Assumes all previously authorized debt will be issued by June 30, 2002.

² Assumes no additional debt authorization for the 2002-2004 Biennium.

Table 11
APPROPRIATION SUPPORTED DEBT
KENTUCKY ECONOMIC DEBT INDICATORS
(Current Dollars)

Fiscal Year	Debt as a % of Assessed Property	Required Debt Service as a % of Assessed Property	Debt as a % of Personal Income	Required Debt Service as a % of Personal Income	Debt Per Capita (\$)	Required Debt Service Per Capita (\$)
1978	2.83	0.21	7.44	0.56	494.01	37.15
1979	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	5.47	0.52	572.40	54.77
1985	1.69	0.19	5.03	0.56	571.44	63.68
1986	1.66	0.19	5.09	0.57	598.09	67.31
1987	1.85	0.17	5.84	0.55	714.33	67.27
1988	1.78	0.18	5.79	0.58	753.01	75.46
1989	1.68	0.18	5.28	0.57	741.55	79.38
1990	1.51	0.17	4.95	0.55	740.99	82.44
1991	1.68	0.16	5.56	0.54	875.79	84.70
1992	1.71	0.19	5.63	0.63	941.76	105.00
1993	1.76	0.18	5.79	0.60	1,011.96	104.10
1994	1.69	0.18	5.48	0.57	990.21	103.57
1995	1.57	0.17	5.25	0.58	988.05	110.15
1996	1.47	0.17	4.98	0.57	972.78	112.27
1997	1.40	0.18	4.41	0.57	910.42	117.60
1998	1.46	0.19	4.02	0.54	873.11	116.33
1999	1.41	0.18	4.00	0.51	906.37	116.16
2000	1.33	0.21	3.78	0.59	880.05	137.68
2001	1.44	0.20	3.96	0.55	974.88	135.96
2002*	1.56	0.20	4.26	0.54	1,070.97	136.73
2003*	1.42	0.21	3.77	0.56	980.67	146.74
2004*	1.26	0.20	3.25	0.52	889.51	143.09

*Estimated

Table 12
APPROPRIATION SUPPORTED DEBT SERVICE
AS A PERCENT OF TOTAL REVENUE
(000,000)

<u>Fiscal Year</u>	<u>Total Revenue (\$)</u>	<u>Total Debt Service (\$)</u>	<u>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	9,123.43	460.08	5.04
2000	9,569.31	556.47	5.82
2001	9,920.68	553.15	5.58
2002	10,028.78 ¹	559.94 ²	5.58
2003	10,257.88 ¹	604.17 ²	5.89
2004	10,556.78 ¹	592.16 ²	5.61

¹Estimated.

²Assumes all authorized debt will be issued by June 30, 2002.

**Table 13
INCREASED DEBT SERVICE/
REVENUE RATIOS**

Fiscal Year	No New Debt	\$298,000,000 of New Authorization
1980	5.41%	
1981	5.34	
1982	5.26	
1983	5.36	
1984	5.38	
1985	5.91	
1986	5.82	
1987	5.01	
1988	5.41	
1989	5.40	
1990	5.24	
1991	5.12	
1992	6.14	
1993	6.00	
1994	5.82	
1995	5.62	
1996	5.62	
1997	5.61	
1998	5.27	
1999	5.04	
2000	5.82	
2001	5.58	
2002	5.58	
2003	5.89	5.89
2004	5.61	5.90



APPENDIX A
ECONOMIC INDICATORS

APPENDIX B
FISCAL DEBT INDICATORS

APPENDIX C
NEW DEBT AUTHORIZED

APPENDIX D
UNIVERSITY RATING AGENCY
INFORMATION

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 service" reflects 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" reflects 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. These data are not an accurate reflection of the Commonwealth's debt liability, but are 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 (K DFA) Yen bonds issued in 1987 and debt of the Kentucky Local Correctional Facilities Construction Authority. The industrial development bonds ("IDBs") of K DFA, 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 as a % 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	1.46	0.19	0.19	0.16
1999	1.41	0.18	0.18	0.18
2000	1.33	0.21	0.16	0.19
2001	1.44	0.20	0.15	0.17

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 % of Personal Income</u>
1990	4.95	0.55	0.56	0.50
1991	5.56	0.54	0.63	0.57
1992	5.63	0.63	0.69	0.66
1993	5.79	0.60	0.59	0.52
1994	5.48	0.57	0.63	0.57
1995	5.25	0.58	0.56	0.60
1996	4.98	0.57	0.57	0.56
1997	4.41	0.57	0.57	0.57
1998	4.02	0.54	0.54	0.52
1999	4.00	0.51	0.51	0.49
2000	3.78	0.59	0.44	0.44
2001	3.96	0.55	0.42	0.42

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

<u>Year</u>	<u>Debt 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	740.99	82.44	84.58	74.67
1991	875.79	84.70	99.38	90.04
1992	941.76	105.00	116.12	110.07
1993	1,011.96	104.10	103.89	91.62
1994	990.21	103.57	114.06	103.64
1995	988.05	110.15	105.98	112.75
1996	972.78	112.27	110.82	108.66
1997	910.42	117.60	117.60	116.98
1998	873.11	116.33	116.33	112.70
1999	906.37	116.16	116.16	110.47
2000	880.05	137.68	103.48	103.48
2001	974.88	135.96	104.51	104.51

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>Debt Per Capita Debt (\$)</u>
1990	1.22	4.02	601.65
1991	1.29	4.28	674.63
1992	1.21	4.00	669.27
1993	0.64	2.10	367.42
1994	0.57	1.86	335.82
1995	0.54	1.82	342.11
1996	0.54	1.81	354.67
1997	0.61	1.93	398.02
1998	0.66	1.83	396.83
1999	0.65	1.85	419.44
2000	0.66	1.83	396.83
2001	0.65	1.85	419.44

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 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 Aid, 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. In addition certain bonds of the Capital Plaza Authority, the former Human Resources Cabinet (SPBC Project 31), and the Kentucky State Fair Board are included.

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	9,123.43	5.04	5.04	4.80
2000	9,569.31	5.82	5.81	4.37
2001	9,920.68	5.58	5.57	4.29

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

<u>Fiscal Year</u>	<u>Total Revenue (\$Millions)</u>	<u>Required 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	7,029.55	6.54	6.54	6.22
2000	7,463.36	7.46	7.46	5.60
2001	7,573.54	7.30	7.30	5.61

**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	876.19	174.65	19.93
2001	847.67	153.81	18.14
2002*	877.41	175.16	19.96
2003*	888.93	178.13	20.04
2004*	917.66	171.95	18.74

*Estimated based on the December 17, 2001 official estimates for the Road Fund less proportional revenue sharing and dedicated funds. These estimates are based on debt issued as of 1/11/2002.

All previously authorized Road Fund debt is issued.

Appendix C: New Debt Authorized

Cabinet/Agency	Project Title	Project/Pool Authorization	Cabinet/Agency Totals
<u>GENERAL GOV'T</u>			
KIA	Waste Water Revolving Loan Fund A	\$ 6,200,000	
KIA	Drinking Water Revolving Loan Fund F	5,000,000	\$ 11,200,000
<u>POSTSECONDARY ED</u>			
CPE	Research Challenge Trust Fund Endowment Match	\$100,000,000	
CPE	Regional University Excellence Trust Fund - Endowment Match	20,000,000	
CPE	Agency Bond Pool	66,800,000	\$ 186,800,000
SFCC	Offers of Assistance		\$ 100,000,000
GRAND TOTAL			\$ 298,000,000

Appendix D: University Rating Agency Information

	MOODY'S	STANDARD & POOR'S
CONSOLIDATED EDUCATION		
Eastern Kentucky University	A3	A
Kentucky State University	A3	NR
Morehead State University	A2	A
Murray State University	A3	A
Northern Kentucky University	A3	A-
University of Kentucky	Aa3	AA-
University of Louisville	A1	AA-
Western Kentucky University	A3	A-
HOUSING AND DINING		
Eastern Kentucky University	A3	BBB+
Kentucky State University	Baa1	NR
Morehead State University	A3	BBB+
Murray State University	NR	BBB+
Northern Kentucky University	Baa1	NR
University of Kentucky	A1	NR
University of Louisville	A1	NR
Western Kentucky University	Baa2	BBB+
COMMUNITY COLLEGE		
University of Kentucky	A2	A
HOSPITAL		
University of Kentucky	Aa	AA-

Legend: NR-Not Rated per Rating Agency