

2004 - 2006 EXECUTIVE BUDGET

Ernie Fletcher
Governor

Bradford L. Cowgill
State Budget Director



2005 REGULAR SESSION



Office of State Budget Director

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Governor's Office for Policy and Management
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January 30, 2005

Honorable Ernie Fletcher
100 Capitol Avenue
Frankfort, KY 40601

Dear Governor Fletcher:

The budget is the primary policy document that articulates the Commonwealth's plans, principles and priorities.

Throughout your first year in office, you have been focused on ensuring that our states' limited resources are efficiently and effectively utilized, that our most vulnerable citizens receive the services they need and that the education system continues the strides made under the Kentucky Education Reform Act. This budget reflects your commitment to these issues.

However, the budget falls short of achieving that total commitment -- a commitment that can only be fulfilled with a modernized tax structure that will help Kentucky to more effectively compete in a national and global economy.

I want to thank those who have assisted in this process. The staff of the Office of State Budget Director has played a pivotal role. Under the leadership of Bill Hintze, Beth Jurek and John Hicks, the budget staff has worked many nights and weekends to put these budget recommendations together, often putting aside personal and family obligations. In addition to my personal thanks to each staff member, I would like to thank their families for their patience and understanding.

Additionally, I would like to thank the economic analysis and policy research staff in the Office of State Budget Director, and particularly Mary Lassiter, Bob Cox and Greg Harkenrider for their diligence in assisting with the economic forecasting as well as assistance in population

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forecasting for some of our person-driven programs such as Corrections, Education and Medicaid. They along with staff of the Department of Revenue have been an invaluable source of assistance and knowledge regarding Kentucky's revenue and tax structure.

I wish to extend my appreciation to the Finance and Administration Cabinet, for their ongoing support, and most especially to the Office of Financial Management, Division of Printing and the Division of Creative Services for their assistance in making production of this budget possible.

Thank you to each of our Cabinet Secretaries and their budget staffs for their assistance through this process. Finally, thank you to all of the Governor's Office staff for their patience, diligence and support throughout this process.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford L. Cowgill", followed by a horizontal line extending to the right.

Bradford L. Cowgill

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Executive Budget Overview

Fiscal Years 2005 – 2006

Introduction

The Executive Budget for fiscal years 2005 and 2006 maintains the Fletcher Administration's core values of personal and fiscal integrity. The goals of the recommended budget are to make the Commonwealth competitive through fiscal discipline and new directions in education and economic opportunity.

During its first year, the administration has demonstrated this commitment to fiscal responsibility in several ways: identifying more than \$115 million in taxpayer savings in its first year in office, managing a \$300 million mid-year shortfall and instituting a \$110 million budget stability initiative. Difficult financial times were overcome without cutting services or raising taxes.

Governor Fletcher is committed to bringing better business practices to the operation of state government so that the taxpayers' dollars are maximized to best meet the needs of the citizens, businesses and communities that depend on it. During the first year of the administration, more than \$115 million in increased efficiencies and reduced waste were identified. That money has been redirected to be invested more effectively on important programs, such as education and Medicaid.

In addition, the lack of a legislatively enacted budget led the administration to implement quarterly continuation plans to continue the operation of state government on behalf of Kentucky's citizens.

In this recommended budget, every agency of state government is required to maintain and improve the efficiency in its operations to maintain essential services in a fiscal atmosphere of limited dollars and increasing costs.

Most executive branch cabinets and agencies will have the same General Fund base appropriations in fiscal years 2005 and 2006 as in fiscal year 2004, subsequent to the Budget Reduction Order and the Stability Initiative. The primary exception to this is the additional funds needed to pay for the House Bill 1 appropriations.

Fiscal discipline and increased efficiency of operations will be required, as agencies will be required to manage within the same funding base and absorb other increased personnel and operating costs.

Governor Fletcher is committed to increasing economic opportunity for Kentuckians. To achieve that goal, he has placed several funding priorities on education, economic development, Medicaid and the efficient operation of state government to ensure more progress for our families and a greater purpose for our Commonwealth.

However, Kentucky cannot reach its full potential while operating under a tax structure that is unfair, unreliable and not good for economic growth. The budget for fiscal years 2005 and 2006 reflects cautious, limited appropriations. Just as families can't appropriately budget for their

needs if they are uncertain about their future paychecks, government also can't risk burdening taxpayers with commitments that are unaffordable and unsustainable.

To that end, the recommended capital projects budget is lean by historical standards. New bond authorizations included in the recommendation have been kept to a very moderate level consistent with the Commonwealth's revenue and budget environment. Total bonds recommended for capital construction activities are well within historical standards -- \$622,521,000 -- of which \$272,521,000 represents state construction or information technology investments, and \$350,000,000 represents an economic development road bond issue.

As a result, until comprehensive tax modernization is passed, Kentucky's unstable revenue stream will be unable to bear the cost of additional projects for schools and universities, tourism and significant new construction projects -- even though they are vital to the future growth of Kentucky.

Fiscal Year 2004 Budget Reduction and Stability Initiative

In fiscal year 2004, the Commonwealth faced a budget shortfall of \$302.6 million, which represented 4.1 percent of enacted appropriations. On January 5, 2004, Governor Fletcher executed a Budget Reduction Order to reduce authorized spending to match available resources. This marked the fourth consecutive year in which revenues that are used as the basis for authorized spending fell short of predictions. Moreover, revenue projections for fiscal year 2005 predicted insufficient growth in revenues to support fiscal year 2004 levels of spending, even after the budget reductions mandated in the Order.

In response to the austere budget outlook for fiscal year 2005, Governor Fletcher established a target for all state agencies to reduce spending and identify funds resulting in additional savings of \$100 million in fiscal year 2004. This effort was characterized as a Stability Initiative -- the goal of which was to save \$100 million in fiscal year 2004, which would then be available for expenditure in fiscal year 2005. This would allow state government to have approximately the same amount of funding available in each of the two years, creating a level amount of spending as opposed to a significant decrease in fiscal year 2005.

The cost-containment measures resulted in an estimated ending balance of \$110.4 million for fiscal year 2004, which was recommended for spending in fiscal year 2005. The Governor's Cabinet Secretaries committed the Executive Branch to more efficient operations -- realizing savings from reorganization and decreasing administrative costs to live within the reduced funding available.

The Budget Reduction Order as well as the Stability Initiative established the Governor's funding priorities early in his administration. The SEEK (Support Education Excellence in Kentucky) formula for funding elementary and secondary education was not reduced in either of the budget balancing actions. In addition, funds for Medicaid benefits were not reduced.

Incorporation of Funding from House Bill 1

The Executive Budget incorporates the appropriations and policy decisions of House Bill 1, which was adopted during the 2004 Extraordinary Session of the General Assembly in October.

Increased funds for school and state employees' health insurance for calendar year 2005, an additional 1 percent salary increase effective January 1, 2005 for school and state employees, a cost-of-living adjustment for retired teachers and funding for SEEK were made at that time and are now incorporated into the Executive Budget.

More details on the salary and compensation components of the budget and how House Bill 1 is incorporated can be found in the section titled **Salary and Compensation**.

Education: Elementary and Secondary

There are four important improvements to education in Governor's recommended budget:

1. A Flexible Compensation Fund;
2. A School Learning Performance Fund;
3. Early reading initiatives; and
4. Additional SEEK funding to accommodate the increased number of projected students.

○ ***Flexible Compensation Fund***

The recommended budget includes \$25,855,300 in new General Fund support in fiscal year 2006 to establish a Flexible Compensation Fund. The purpose of the fund will be to provide local school districts increased opportunities to:

- Recruit and retain teachers in critical shortage areas;
- Provide incentives for teachers to serve in difficult assignments and hard-to-fill positions;
- Reduce the numbers of emergency certified teachers;
- Provide voluntary career advancement opportunities;
- Reward teachers who increase their knowledge, skills and instructional leadership; and
- Encourage recruitment and retention of quality teachers.

The Kentucky Board of Education, in concurrence with the Education Professional Standards Board, will determine criteria for how the funds will be expended.

○ ***School Learning Performance Fund***

The Executive Budget provides \$8 million in new General Fund (coal severance) support in fiscal year 2006 to establish a School Learning Performance Fund. Funds generated from local natural resources will be invested in children to advance the learning progress of students in schools located within coal-producing counties.

The focus will be on identifying gaps in student preparation and on developing skills needed to perform more effectively in postsecondary education, in the workforce and in the emerging knowledge-based economy. Emphasis will be placed on improving the high school learning experience in schools with high at-risk student populations.

This initiative will be guided by criteria to be established by the Kentucky Board of Education governing the number and types of expenditures to be made from the new learning performance fund.

- ***Early Reading Program***

The Executive Budget includes new General Fund support in the amount of approximately \$3.1 million in fiscal year 2005 and approximately \$7.1 million in fiscal year 2006 for the Read To Achieve program. These funds, including \$4 million in existing General Fund support each fiscal year for Early Reading Incentive Grants, as well as federal Reading First grants, will strengthen Kentucky's capacity to have all students reading at grade level or above by the time they enter fourth grade.

This multifaceted approach will provide schools and teachers with flexibility in the choice of proven research-based reading programs. Early assessment of students' reading capabilities will be utilized along with early intervention for struggling readers. Teachers will receive training in research-based strategies to assist them in achieving better results when instructing each child to read.

Funding in the amount of \$500,000 in fiscal year 2006 is provided to expand adult and family literacy efforts associated with the Governor's Early Reading Initiative.

- ***Support Education Excellence in Kentucky (SEEK)***

The Executive Budget provides a base per pupil guarantee amount of \$3,240 in fiscal year 2005 – an increase of \$49 or 1.5 percent compared to fiscal year 2004. A base per pupil guarantee of \$3,379 is provided in fiscal year 2006 – an increase of \$139 or 4.3 percent compared to fiscal year 2005.

For fiscal year 2005, the recommended budget provides a 2 percent pay increase for the full school year for all local school district employees as well as an additional 1 percent pay increase effective January 1, 2005. Local districts will be required to absorb the first 1.5 percent of the required 2 percent pay increase for certified classroom teachers as well as classified employees in fiscal year 2005, while state funds will cover the remainder of the raises.

In fiscal year 2006, the recommended budget provides state funding for the recurring cost of the pay raises mandated for fiscal year 2005 as well as additional mandated pay increases of 2 percent for all certified and classified local school district personnel.

The recommended budget is sufficient to accommodate the actual number of students in average daily attendance in fiscal year 2005 – 577,343 – certified by the Department of Education last fall. The recommended budget also provides funding to accommodate a projected increase that would bring the average daily attendance to 579,643 in fiscal year 2006. This latter figure represents a consensus reached by the Kentucky Revenue Department, the Department of Education and the Office of State Budget Director in December 2004.

The Executive Budget maintains funding for the pupil transportation program at fiscal year 2004's level of \$211,953,500 in both fiscal year 2005 and fiscal year 2006.

“Hold-harmless” funding is recommended in both fiscal year 2005 and fiscal year 2006 to provide every school district with at least the same amount of state SEEK funding per pupil as was provided during fiscal year 1992.

Also included in the Executive Budget is \$144,014,500 in Tier I equalization funding in fiscal year 2005 and \$143,460,700 in fiscal year 2006. This funding equalizes local revenues raised under this SEEK component at a level of \$587,000 of assessed valuation per student (150 percent of the projected statewide average per pupil) during the 2004-2006 biennium.

The recommended budget provides \$65,889,800 in fiscal year 2005 and \$62,075,400 in fiscal year 2006 in funding for the Facilities Support Program of Kentucky (FSPK). As with Tier I, these amounts will equalize local district revenues raised under this program at a level of \$587,000 of assessed valuation per student.

These funding amounts also include \$3 million each fiscal year of the 2004-2006 biennium in additional equalization for local school districts having levied an additional 5 cents per hundred dollars of assessed valuation for building needs associated with enrollment growth.

Besides levying this “growth nickel,” districts must levy an additional “nickel” designated for facilities and must meet “growth district” criteria (growth of at least 150 students in average daily attendance and percentage growth of at least three percent during the previous five years).

- ***Other Education Programs***

The Executive Budget continues the policy established during the 2002-2004 biennium of designating five programs – Extended School Services, Preschool, Professional Development, Safe Schools and Textbooks – as “Flexible Focus Funds.” This permits local school districts to use discretion in the allocation of these funds while still addressing the governing statutes and serving the needs of the target populations.

The recommended budget also establishes a policy regarding a broader group of state grant funds allocated directly to local school districts by the Department of Education. Recipient districts are to be permitted flexibility in the allocation and implementation of these funds, upon review and approval by the Department. It is expected that, in exercising this flexibility, local school districts will achieve the maximum administrative savings possible in order to increase funding to the classroom.

Under the recommended budget, up to 10 percent of any non-SEEK state grant fund appropriated to the Department of Education and disbursed to a local school district during fiscal year 2005 will be permitted to carry forward into fiscal year 2006 if the judgment of the recipient district is that such action will enhance program efficiency and effectiveness.

The Executive Budget includes \$21,952,600 in both fiscal year 2005 and fiscal year 2006 to reimburse **state-operated vocational facilities** for the costs of providing course offerings to students from local school districts. Funding for vocational transportation is recommended to continue at the fiscal year 2004 level of \$2,416,900 in both years of the 2004-2006 biennium.

Teachers' Retirement employer match of \$290,497,100 in fiscal year 2005 and \$304,382,000 in fiscal year 2006 is provided on behalf of local school district certified personnel.

For those teachers achieving and maintaining certification by the National Board for Professional Teaching Standards, the recommended budget provides \$1,358,000 in both fiscal year 2005 and fiscal year 2006 for salary supplements of \$2,000 annually.

The Executive Budget includes increases in General Fund-supported debt service for the **School Facilities Construction Commission** of \$4,031,800 in fiscal year 2005 and \$15,623,700 in fiscal year 2006. Those funds are necessary to fulfill commitments made by previous sessions of the General Assembly in authorizing additional bonded indebtedness and related offers of assistance to local school districts for projects such as local school construction and renovation, including Category 5 (worst condition) and other urgently needed school programs.

The **Governor's Scholars Program** will receive \$1,897,300 for fiscal year 2005 and \$1,939,400 in fiscal year 2006, of which \$1,647,700 in fiscal year 2005 and \$1,684,100 in fiscal year 2006 is for grant amounts – representing an increase of \$282,700 in fiscal year 2005 and \$324,300 in fiscal year 2006 over fiscal year 2004 levels.

In addition, the **Governor's School for the Arts** will receive \$486,400 in fiscal year 2005 and \$414,000 in fiscal year 2006. This includes \$25,800 in each fiscal year to restore student scholarship dollars to fiscal year 2002-2003 levels.

Included in the General Fund appropriation for the **Department for Libraries and Archives – Direct Local Aid** is \$3,919,500 in each fiscal year of the biennium to award per capita grants to local libraries, an increase of \$250,000 each year over fiscal year 2004 levels.

Education: Postsecondary

- o ***State Universities and the Kentucky Community and Technical College System***

In the wake of a \$300 million budget shortfall and a \$110 million budget stability initiative, the 2004-2006 Executive Budget introduced in the 2004 Regular Session required that the universities and the Kentucky Community and Technical College System (KCTCS) transfer \$41 million in one-time funds to the General Fund.

This recommended budget maintains that requirement, but provides \$20 million in additional General Fund in fiscal year 2005 to the universities and KCTCS to be used for targeted programs. The funds are distributed back to the institutions in the same proportion as the \$41 million in fund transfers.

In fiscal year 2006, an additional \$11.7 million is provided to restore half of the recurring budget reductions from fiscal year 2004. The funds are distributed back to the institutions in the same proportion as the original reductions.

The Executive Budget includes \$5 million in fiscal year 2006 to add to base funding for the universities and KCTCS. The Council on Postsecondary Education will allocate the additional funding among the postsecondary education institutions to rebalance the base funding of the institutions as a result of significant and disproportionate student enrollment growth over the past several years.

Additional General Fund in the amount of \$11,146,200 is provided in fiscal year 2006 for the costs associated with the maintenance and operations of 29 new facilities and 8 expanded facilities.

The Executive Budget includes \$3 million in fiscal year 2005 to the University of Kentucky to expand the capacity available for bio-science research and commercialization.

In recognition of the increased demand for more skilled employees in the mining industry, the Executive Budget includes \$3 million in fiscal year 2006 to expand the capacity of the KCTCS system.

The Executive Budget also includes \$1 million in fiscal year 2006 from Tobacco Settlement – Phase I funds to provide salary bonuses for University of Kentucky County Extension Agents.

Kentucky State University will receive \$1.7 million in fiscal year 2005 and \$2.2 million in fiscal year 2006 to meet its land grant match with the federal government.

- **Scholarship Programs**

Kentucky Educational Excellence Scholarships (KEES) will receive \$80,533,200 for fiscal year 2005 and an additional \$2,079,700 in fiscal year 2006 for a total of \$82,612,900.

Included in the **General Fund for the College Access Program** (CAP) is \$45,442,900 in fiscal year 2005 and an additional \$9,320,500 in fiscal year 2006 for a total of \$54,763,400. Included in the restricted funds for CAP is \$2,893,400 for fiscal year 2005 and \$930,000 for fiscal year 2006. Federal funds designated for CAP will be \$1,158,000 for fiscal years 2004-06.

The General Fund also includes \$22,975,500 in fiscal year 2005 and an additional \$5,494,500 in fiscal year for the **Kentucky Tuition Grant** (KTG) program, which provides need-based scholarships to qualified, full-time Kentucky students who choose to attend one of Kentucky's 24 participating independent colleges. Included in the restricted funds for KTG is an additional \$880,800 in fiscal year 2005 and \$1.8 million in fiscal year 2006.

The General Fund will provide \$1,681,600 during the biennium for the **Teacher Scholarship Program**, and \$609,100 in restricted funds.

As our troops return from active duty, it is expected that more soldiers will seek to advance their education. To address this need, the **Kentucky National Guard Tuition Award Program** will receive \$3,558,100 in restricted funds for fiscal year 2005 and

\$4,358,100 million in fiscal year 2006. That is an increase of \$957,800 and \$1,757,800, respectively over fiscal year 2004 levels.

Economic Development, Commerce and Agriculture Policy

Prosperity for our state depends upon the growth and development of the Kentucky economy. Governor Fletcher believes that every dollar spent by the Commonwealth should be measured by the ultimate impact it may have on the state's future economic prosperity.

Emphasis will be placed on New Economy efforts to attract the knowledge-based jobs that will fuel job growth and allow our children to pursue high-quality careers and remain in Kentucky.

The Executive Budget not only provides for new investments that will yield economic benefits to the Commonwealth, it also sends a strong message that state government is going to live within its means just like families and businesses do.

Governor Fletcher recommends \$15 million in additional **economic development bond funds** to serve as incentives for the attraction and retention of industries to Kentucky -- \$5 million of this total will be dedicated to knowledge-based economy projects.

Planning funds are provided to attract a **federal research lab** to Kentucky, and \$22 million in funding is provided to support the continued development of the **New Economy**.

Key strategic components of the budget will continue existing efforts on energy and environmental issues; cardiovascular, pharmaceutical and cancer research; safety and security issues; natural products alliances; advanced manufacturing; and technology infrastructure. New focus and attention will be placed on the advancement of **clean-coal technology initiatives**, including \$ 2 million in fiscal year 2006 for seed money to position Kentucky to compete for a billion-dollar federal pilot plant.

Billions of dollars for energy research and development are available through the federal government. Kentucky historically has had limited success in securing federal research funds, which typically require state and private matching funds.

By dedicating state funding to energy research and development, Kentucky will become more competitive in pursuing federal resources and enhancing the research capacity of our state universities and research institutions.

This investment also marks the first time that Kentucky is implementing a comprehensive energy plan – one that will preserve our low-cost energy, which is key to economic development; responsibly develop Kentucky's energy resources; and preserve a commitment to environmental quality.

Governor Fletcher also seeks to expand Kentucky's markets and aggressively promote Kentucky overseas. He is increasing this commitment through the dedication of \$200,000 in fiscal year 2006 to establish a Kentucky economic development presence by establishing a **China office** and an additional \$70,000 in each fiscal year for Kentucky's European office.

The Executive Budget maintains its treatment of designating 50 percent of the Phase I Master Settlement Agreement proceeds to be set aside for investment in the diversification of the agricultural economy of the Commonwealth.

The Governor maintains a commitment for other agriculture programs. During fiscal year 2004, budget shortfalls made it necessary to transfer \$17 million to the General Fund from the **Kentucky Agricultural Finance Corporation** (KAFC). When he took office, Governor Fletcher committed to the agricultural community that the funds would be replaced as soon as possible.

The Governor's recommended budget includes restoration of the \$17 million to the KAFC and provides General Fund debt service in the amount of \$898,000 in fiscal year 2006.

The Governor's recommended budget includes \$1 million in restricted funds in fiscal year 2005 and \$1 million in Local Government Economic Development Funds in fiscal year 2005-2006 for tourism marketing and development on behalf of the coal producing counties.

Health and Family Services

The safety net that government provides for those individuals who need additional care and support beyond their means must be provided in the most efficient manner possible. The Executive Budget recommends new investment in human service and public safety programs, as well as new approaches to the delivery of some of these programs to maximize their productivity.

- **Medicaid**

The Medicaid Budget is being approached with strong management initiatives to redesign the program from top to bottom. Efficiencies have been developed and will continue to be pursued to improve the quality of health care delivered and manage the escalating costs of Medicaid.

Total savings for fiscal year 2005 will be approximately \$273 million. At the same time, modernizing the program has led to important improvements such as identifying and working with patients who take multiple prescriptions that could cause harmful – or even life-threatening – interactions and a pilot program to help people better manage their diabetes.

Even with these efficiencies, Medicaid faces severe financial challenges from a growing Medicaid population that is approaching 700,000 people – a figure that now exceeds the number of children in the Kentucky school system.

Because of his dedication to the health and welfare of every Kentucky, Governor Fletcher is increasing state funding for the Medicaid program more in a single biennium than any other governor in Kentucky's history.

His administration is doing everything possible to avoid situations similar to those in Tennessee, where hundreds of thousands of recipients have been dropped from the TennCare program.

Governor Fletcher is proposing an increase of \$93.5 million in General Fund and \$214,065,800 in Federal Funds for fiscal year 2005.

In fiscal year 2006, \$160 million in General Fund and \$364,285,500 million in Federal Funds will be committed.

As part of enhanced collection efforts by the Office of the Attorney General's Medicaid Fraud and Abuse Control Unit, an additional \$5 million in Restricted Funds is expected to be generated for Medicaid. This will be matched with \$11,313,200 in Federal Funds in fiscal year 2005-2006 and used to pay Medicaid benefits.

Continued efforts and focus on maximizing efficiencies through cost containment measures and proactive initiatives to improve care delivery and health of beneficiaries will be vigorously pursued throughout the biennium to close this structural budget gap in the Medicaid program. Efforts will be focused in three key areas: care management, benefit management and cash management.

- ***Other Human Service Programs***

Other important public health initiatives will be supported and expanded in this budget.

Kentucky is one of only five states that conducts **newborn metabolic screenings** newborns for only four disorders. To improve the health of Kentucky's youngest citizens, the Governor's recommended budget includes \$2,106,000 in Restricted Funds in fiscal year 2006 to expand the number of newborn metabolic screening tests performed from four to 30. Two new mass spectrometers will be purchased to handle the increased volume of tests.

The Governor's recommended budget includes \$225,000 in General Funds in fiscal years 2005 and 2006 to continue efforts to reduce prescription drug abuse through the **Kentucky All Schedule Prescriptions Electronic Registry (KASPER)**.

The **Kentucky Early Intervention System First Steps Program** provides early identification and services for children through age 2 who have a developmental delay. Providing these services while children are at a young age helps them to be better equipped and ready to learn when they reaches school age. The Governor's recommended budget provides \$900,000 in additional General Fund and \$900,000 in Restricted Funds in fiscal year 2005-2006.

The **Supports for Community Living Program** will receive an additional 75 slots in fiscal year 2005 through an increase of \$3,302,500 in total funds and 150 slots in fiscal year 2006 through an increase of \$8,223,700 in total funds.

There will be an increase in the **Acquired Brain Injury Program** of \$905,000 in total funds for fiscal year 2005 and \$1 million in total funds for 2006.

The Governor's recommended budget includes \$20.3 million in General Funds for fiscal year 2006 for **out-of-home care services for children** committed to the Cabinet by the courts. This includes children who are in foster care as well as those who may be cared for in private child-care facilities. Restricted Fund reserves have been spent-down in recent

years as a result of the state's fiscal constraints. This, combined with a growing number of children in state care, continue to strain the Family and Community Services' budget.

The Executive Budget also includes several important capital projects that will improve efficiency and help detect fraud and abuse.

It includes \$18,667,000 in capital projects to help begin the process of replacing the antiquated **KAMES (Kentucky Automated Management & Eligibility System)** technology, which is used for determining eligibility for Medicaid, Temporary Assistance for Needy Families (TANF), food stamps and state supplementation.

In addition, two important projects will help improve the safety and welfare of children. There will be \$6 million invested to upgrade a computer system for services for the Division of Child Support and county attorneys' staffs across the state in their efforts to secure child support payments from absent parents.

The **Workers Information System (TWIST)** supports the statewide child and adult protection service delivery system. It is a critical system that allows CHFS social workers to document and track child welfare, adult protective services and adoptions. The 1994 software is outdated, and continued support services from the industry are at risk since the original software is now obsolete. This \$3,393,000 project will upgrade the system to eliminate risk of system failure and increase the usability and flexibility of the system – including allowing social workers to document information while they're in the field.

The **Kentucky All Schedule Prescription Electronic Reporting system (KASPER)** allows for identification of potential abuses of controlled substances and pharmaceuticals. An additional \$5 million in funding will expand the data warehouse and trend reporting capabilities, enable data validation on critical data elements and fully integrate eKASPER with the Medicaid Management Information System.

Justice, Public Safety and Drug Control

Poor economic times result in additional costs for public safety. Increased populations in both adult and juvenile detention facilities result in increased costs that must be provided. The Fletcher Administration is committed to providing these public safety services in the most efficient and cost-effective manner possible.

- ***Combating Drug Abuse***

The Governor also realizes that drug abuse is the root cause of many of society's problems – homelessness, crime and the breakdown of the family. It impacts jails, classrooms, health care and our economy. Together with Lieutenant Governor Steve Pence, the administration is implementing a comprehensive drug policy that attacks the problem in multiple ways.

The Executive Budget recommends \$1.5 million in total funds in fiscal year 2005 for the newly created **Office of Drug Control Policy**.

An additional \$2 million in total funds in fiscal year 2006 will establish **regional drug courts** in coal-producing counties.

Other anti-drug initiatives include \$1 million in fiscal year 2006 to fund **treatment programs for non-violent offenders** in county jails, \$500,000 for education programs for Eastern Kentucky school children and an \$188,000 grant for local law enforcement agencies to purchase drug testing and interdiction equipment.

Another important component in the fight against drug abuse is Recovery Kentucky, which will establish recovery centers to house and provide treatment services to 1,000 homeless, or those at-risk of being homeless, particularly people with a history of substance abuse.

- ***Criminal Justice System***

A larger than anticipated prison population is putting a strain on the **Corrections** budget. The new estimate of 19,069 for fiscal 2005 exceeds the estimates made last year by more than 1,600 prisoners. The population is expected to rise to 20,200 in fiscal year 2006.

Additional General Fund resources of \$9.5 million in fiscal year 2005 and \$8.3 million in fiscal year 2006 are provided to support payments to **local jails**. This increase is in anticipation of housing approximately 6,200 inmates in fiscal year 2005 at an estimated annual cost of \$61,565,600 and nearly 6,300 inmates in fiscal year 2006 at an estimated annual cost of \$62,698,600 at the current per diem rate of \$27.31.

The Governor's recommended budget provides additional General Fund resources of \$3,701,000 in fiscal year 2005 and \$13,639,000 million in fiscal year 2006 for housing prisoners in **state-owned correctional facilities**.

An additional \$1.9 million in fiscal year 2005 and \$2.8 million in fiscal year 2006 will support the operation and maintenance of the Boyd, Harlan and Fayette Regional **Juvenile Detention Centers**.

It also provides additional General Fund resources of \$3,860,800 in fiscal year 2005 and \$4,039,000 in fiscal year 2006 to fund the continuation of the **Inmate Education Program** at current service levels.

Another important public safety initiative involves the **Office of Homeland Security**, which will receive \$30 million in federal funds in fiscal year 2005 and \$40 million in federal funds in fiscal year 2006. Also included are \$350,000 in General Funds and \$350,000 in Road Funds in each year to support the operations of this office.

The Executive Budget also proposes increases in funding for officers in public safety as well as the court system.

An additional \$1,909,800 in General Fund resources will be provided in calendar year 2006 to initiate a \$3,100 annual training incentive **stipend for state troopers**. Vehicle enforcement officers also will be eligible for a \$3,100 stipend for calendar year 2006 through \$348,200 in additional Road Fund resources.

County and Commonwealth attorneys will each receive an additional \$450,000 in general funds in fiscal year 2006 to provide assistance in handling increased caseloads.

Additional restricted fund resources of \$990,000 in fiscal year 2006 will provide assistance in handling increased caseloads in the **public advocacy offices** statewide as well.

Several important capital investments also will lead to increased safety in Kentucky.

The **Kentucky Emergency Warning System**, which is a safety communication system used by law enforcement and emergency personnel across the state, will be upgraded with a \$26,768,000 bond.

The **Unified Criminal Justice Information System** will be modernized through a \$5.5 million bond to create a streamlined process for the issuance, tracking and clearance of warrants, summons and related documents across the Commonwealth.

Finance and Administration

The Executive Budget recommends new funding for the Revenue Department to aggressively collect debts owed to the Commonwealth. Both staff resources as well as technology resources are bolstered with the projected result of the collection of an additional \$10 million in fiscal year 2005 and \$20 million in fiscal year 2006.

Bond funds totaling \$14,062,000 will be used to revamp the information systems needed to implement changes to the sales tax systems required for the Commonwealth to benefit from the national **Streamlined Sales Tax Project**. This is the interstate coordinated effort to simplify and streamline the taxation of remote sales across the states. Taxpayers will benefit from convenient on-line filing and electronic payment, and the Commonwealth should realize an increased compliance, which will lead to additional revenues over time.

Another technological upgrade will occur through a \$3.5 million investment in restricted funds for the **Kentucky Information Highway**, a statewide telecommunications and information network developed by Kentucky state government in partnership with private telephone companies.

Transportation

Changes made by the Transportation Cabinet in the last year have resulted in cost savings and greater efficiency within the cabinet. Improvements have been made in overtime reduction, contract bidding and increased scrutiny of contract change orders.

Despite those achieved efficiencies, significant challenges exist for funding important projects. In January, the Consensus Forecasting Group issued a lower Road Fund revenue estimate for fiscal year 2005 and fiscal year 2006. It is a reduction from both the June 2004 and January 2004 estimates. The total estimated revenue loss from January 2004 to January 2005 is approximately \$21.7 million in fiscal year 2005 and \$35.4 million in fiscal year 2006. The 6-percent usage tax on auto sales and leases has fallen substantially. However, the 1-cent tax on

fuels triggered by a statute passed in 1982 has been the stabilizing force, keeping the estimate from declining farther.

The need to improve Kentucky roads is great – for the safety of our families as they travel to work and school, and because transportation is so vital to economic development.

To add needed resources to an otherwise declining revenue stream, policy initiatives contained in the budget recommendation include the issuance of **\$150 million in Grant Anticipation Revenue Vehicle (GARVEE) bonds** to support reconstruction and major widening of interstate I-64, I-65, and I-75; the usage of **Toll Credits** for matching federal highway funds; the issuance of **Turnpike Authority bonds totaling \$350 million**; and the continuation of the cash management program initially authorized by the 2000 Session of the General Assembly.

Also included in the recommendation is \$23,011,700 from the fiscal year 2004 ending balance to be appropriated in fiscal year 2005 in the State Funded Construction program, and a Road Fund Revenue Initiative that will extend existing policy, limit the opportunity for tax avoidance, standardize the motor vehicle usage tax so purchased and leased cars are treated the same, and price the drivers' license fee to cover the cost of issuance. It is estimated to generate \$53,250,000 in fiscal year 2006.

The **Road Fund Revenue Initiative** is comprised of four components including:

- Freeze the penny on the motor fuels tax throughout fiscal year 2005-2006 - \$15 million;
- Collect Motor Vehicle Usage Tax at titling instead of registration - \$3 million;
- Increase the four-year driver's license fee from \$8 to \$20 - \$12.75 million; and
- Accelerate the U-Drive-It usage tax (non-recurring) - \$22.5 million.

The existing and projected Road Fund resources and the infusion of bond proceeds will enable the Cabinet to move forward with highway projects authorized in the Six Year Highway Plan and maintain an active maintenance program. Funding for the State Funded Construction program totals \$359,833,900 in fiscal year 2005 and \$349,646,500 in fiscal year 2006.

Additionally, the Federal Omnibus Appropriations bill currently being debated in Congress is anticipated to add additional federal resources of approximately \$44 million in both fiscal years 2005 and 2006.

Utilizing Toll Credits instead of a Road Fund cash match for federal dollars is now an integral part of the Cabinet's policy to stretch state resources. Toll Credits are the mechanism the Federal Highway Administration approves of allowing states to utilize "federal funds" to pay for the state match on federal projects. The prerequisite for this approach is that states can qualify for Toll Credits by building state-financed roads to interstate highway specifications. Kentucky's parkway (toll road) system fits that criteria.

It is important to note that Toll Credits are not a cure-all. Using Toll Credits ultimately reduces the leveraging power of federal funds because there is no state-funded match being applied.

With the addition of the recommended bonding for the GARVEE and Turnpike Authority bonds, the budget recommendation provides Road Fund debt service appropriations totaling \$116,113,500 in fiscal year 2005 and \$157,528,900 million in fiscal year 2006, including the debt service on the \$350 million Turnpike Authority bonds.

The debt service on the GARVEE bonds will be paid from federal funds appropriated in the highways appropriation unit in fiscal year 2006 totaling \$18,234,000.

Environmental and Public Protection

The reorganization of three former Cabinets into one administrative organization has created the opportunity for significant efficiencies. Centralizing the regulatory functions of state government will result in better service for businesses and communities that depend on these services.

In just one year, Kentucky taxpayers have been saved more than \$2 million through eliminating unnecessary positions, reducing information technology costs, efficiently managing fiscal documents and improved leasing of vehicles used for fighting forest fires in the state.

EPPC, made up of the former Labor, Public Protection and Regulation, and Natural Resources and Environmental Protection Cabinets, has also improved programs during the first year.

Backlogs of permit applications have been dramatically reduced, a regulatory improvement system is in place to improve outreach and participation during regulation development, and administrative functions have been consolidated to ensure standard operating procedures and regulations are followed.

The Executive Budget does not propose significant funding increases for programs in this Cabinet -- with the exception of Housing, Building and Construction; Mines and Minerals and the Kentucky Horse Racing Authority. Recognition is given that programs in this Cabinet are sacrificing funding for the benefit of the priority areas of education, economic development and public safety.

The Governor's recommendation includes an allocation from the General Fund in fiscal year 2006 of \$1,719,000 for debt service to support the issuance of \$25 million in bonds for the **Petroleum Storage Tank Environmental Assurance Fund**, which is now housed within the Department for Environmental Protection. It will be used for claim payments displayed as restricted funds in the fund's budget.

The bond funds will support the claim payments expected to be made by the agency in fiscal year 2006. This action will enable the Commonwealth to preserve nearly \$24 million, which will be transferred to the General Fund along with the \$37,800,000 that was previously identified for transfer.

No General Fund transfer is recommended for the Workers' Compensation Funding Commission for fiscal year 2005 and fiscal year 2006. In the most recent biennium, the fact that the General Assembly did not enact an Executive Budget for the 2004-2006 biennium left the Executive Branch with the statutory obligation to provide \$4,750,000 in each of two quarters (\$9,500,000 total) to the commission. This recommendation reverses the temporary General Fund allocation for the first two quarters. It also assumes that the General Assembly will adopt an Executive Budget, by the end of the third quarter on March 31, 2005, consistent with its past policy of a statutory suspension for the entire biennial period.

However, the recommended budget does not include an \$850,000 transfer of funds from the commission to the Division of Mine Safety and Licensing. The mining-related safety and training function instead will be supported with General Funds.

Military Affairs

The Department of Military Affairs includes important defense and safety initiatives, which also have an economic development impact.

The Executive Budget includes **\$12,020,000 in agency bond funds for construction of a building at Bluegrass Station** that will serve as a hangar, warehouse and office. This project is necessary to meet the specific needs of increased defense contract activity. It also presents a significant economic development opportunity with more than 300 good-paying jobs.

Other projects include \$2.3 million in bond funds for major repairs that will allow Military Affairs to reduce an estimated \$16 million maintenance backlog, and \$2.5 million in federal funds to upgrade the Department's Emergency Radio Communication System.

Governor's Office for Local Development

In its recently released national study "Grading the States," *Governing* magazine stated that Kentucky has created a strong management structure to improve intergovernmental cooperation and resources, especially through the Governor's Office for Local Development (GOLD) and the Local Initiatives for a New Kentucky (LINK) program.

The Executive Budget includes \$2 million from the General Fund in fiscal year 2006 to support new **Renaissance Kentucky** grants, which brings together communities with the resources necessary to revitalize and restore the Commonwealth's downtown areas.

It also recommends \$736,900 in each year of the biennium from the General Fund for LINK. The Governor further recommends that these dollars be supplemented with \$276,300 in fiscal year 2004-2005 and \$224,300 in fiscal year 2005-2006 from Agency Funds.

- **Coal Severance Funds**

In addition, GOLD administers the **Special Funds Program**, which includes the Local Government Assistance Fund (LGEAF), the Local Government Economic Development Fund (LGEDF) and the Area Development Fund.

The Executive Budget assumes the transfer of \$1 million in both years of the biennium to the Trover Clinic to support the University of Louisville Medical School's residency program.

The budget recommendation further assumes that, as in recent fiscal years, the funds earmarked for the Commission will remain in the General Fund. Also continuing the policy of recent budgets, the recommended budget does not provide funding from LGEDF for the Secondary Wood Products Fund.

Governor Fletcher proposes that coal severance tax revenues be shared equally with localities:

Coal Severance Distribution

35%	-	LGEDF (Coal Producing Counties)
<u>15%</u>	-	LGEAF (Coal Impact Counties and Cities)
50%	-	Coal Severance Revenue to Localities

The Governor's budget also supports the sharing of 50 percent of the taxes collected on natural gas, oil and other solid minerals between the state General Fund and the LGEAF. In LGEAF, half of these funds will be combined with the LGEAF coal allocation to support a variety of local initiatives.

The Executive Budget continues the established practice of setting aside certain funds to support non-industrial park programs that benefit coal producing counties prior to determining the funds to be distributed to the counties.

The carefully targeted set aside will lay a foundation for future economic development in the coal regions of the Commonwealth by allocating funding for education programs, tourism, innovation and commercialization, and various infrastructure development programs.

In addition, a set aside derived from both the LGEDF and the multi-county fund will be used to address the drug problem which has beset numerous coal counties by funding additional drug courts. Two-thirds of the remaining funds will be distributed to counties. (The table on the following page details how Governor Fletcher proposes to distribute coal and mineral tax funds over the biennium.)

Recognizing that the statutory definition of projects for which LGEDF dollars might be used is restrictive, Governor Fletcher proposes that community leaders be granted wider latitude to direct funding for initiatives that can stimulate their local economies.

The Governor's recommendation includes language that will permit coal producing counties to use their LGEDF funds to support non-recurring investment in education, public health and safety, economic development, public infrastructure, information technology development and access, and public water and wastewater development.

The Executive Budget will transfer a portion of the multi-county fund in each year to address the General Fund short fall. (See *table on following page*)

**Severance Tax Dedicated Programs
Using January, 2005 Consensus Forecast**

	Actual FY 2004	Recommended FY 2005	Recommended FY 2006
Coal Severance Tax	140,093,700	170,955,800	173,487,900
Less: Workers' Comp Set Aside (to General Fund)	-19,000,000	-19,000,000	-19,000,000
Less: Osteopathic Medicine Scholarship Program	-1,480,200	-1,255,300	-1,318,500
Less: Trover Clinic Grant	-1,000,000	-1,000,000	-1,000,000
Total coal severance tax resources to be distributed	118,613,500	149,700,500	152,169,400

Other Severance Tax Resources

Other Severance Taxes			
Minerals Severance	14,081,500	13,438,000	14,392,600
Natural Gas Severance	19,815,500	22,925,400	19,286,400
Oil Production	3,355,200	4,288,600	4,626,000
Total other severance revenue to be distributed	37,252,200	40,652,000	38,305,000

Local Government Economic Assistance Fund (LGEAF) Grand Total			
Other severance revenue (50% of revenues)	18,626,000	20,326,000	19,152,500
Coal Severance (15% of Revenues)	20,756,900	22,455,100	22,825,400
Total LGEAF to be distributed to localities	39,382,900	42,781,100	41,977,900

Local Government Economic Development Fund			
<i>Funding set asides listed below can only be spent in coal producing counties</i>			
Coal severance (35% of amounts remaining to be distributed)	41,514,700	52,395,200	53,259,300
Less: Read to Achieve (Education)			-4,000,000
Less: School Learning Performance Fund (Education)			-8,000,000
Less: School Facilities Debt Service (SFCC)	-2,290,000	-3,232,500	-4,617,900
Less: Tourism Marketing (Commerce)		-1,000,000	-1,000,000
Less: Drug Courts (Office of Drug Control Policy)			-1,000,000
Less: Flood Control Matching Program (GOLD)		-1,500,000	-1,500,000
Less: High-Tech Construction/Investment Pool (Econ. Dev)	-1,250,000	-3,625,000	-3,500,000
Less: Regional Development (Econ. Dev.) and GOLD	-783,600	-755,400	-768,500
Less: Community Development Office (GOLD)-formally East/West Kentucky Corporations)		-138,800	-271,200
Less: Debt Service on Bonds for Water Projects (KIA)	-1,999,800	-4,095,100	-4,091,900
Less: ARC and related ARC expenditures (Governor's Office)	-550,000		
Total LGEDF to be Distributed to Counties	34,641,300	38,048,400	24,509,800
Total LGEDF Single County Allocation	23,095,400	25,366,900	16,340,700

Local Government Economic Development Multi-County Fund			
Multi-County Allocation (33% of LGEDF County Distribution)	11,545,900	12,681,500	8,169,100
Additional Funds*	11,735,000	10,257,300	4,161,700
Total Multi-County Resources	23,280,900	22,938,800	12,330,800
Less: Drug Courts (Office of Drug Control Policy)			-1,000,000
Less: Transfer to General Fund		-16,377,100	-8,542,900
Less: Multi-County Projects	-12,333,000	-2,400,000	-2,787,900
Less: Debt Service on Water Bonds/West Ky. Corp./Coal Export Council	-3,497,200		
Balance To Be Carried Forward	7,450,700	4,161,700	0

*Balance Forward/ In FY 2005 Estimated Unobligated Balance Dec. 9, 2004 plus estimated interest

Salary and Compensation

Salary increases, health insurance cost increases and the costs of employer contributions for retirement are three significant cost drivers in local school district and agency budgets.

House Bill 1, enacted by the 2004 Extraordinary Session of the General Assembly in October, adopted a calendar year 2005 health insurance policy that, for the most part, mirrored the benefits associated with the 2004 health insurance plan, but that significantly increased the employer contribution in order to reduce employee out-of-pocket costs.

Total additional health insurance costs to state government as a result of HB 1, compared to the fiscal year 2004-2005 budgets considered during the 2004 Session of the General Assembly are: \$96 million (\$86 million of which is from the General Fund):

- Local School Districts, \$60 million;
- State Agencies, \$27 million;
- Retirees--Schools and Public, \$ 7 million;
- Others, \$ 2 million

The Executive Budget recommendation for fiscal year 2005-2006 assumes the same state health insurance plan for calendar year 2006 as HB 1 contained. The total additional health insurance costs to state government compared to the fiscal year 2005-2006 budgets considered during the 2004 Session of the General Assembly are: \$235 million (\$212 million of which is from the General Fund):

- Local School Districts, \$154 million;
- State Agencies, \$ 33 million;
- Retirees--Schools and Public, \$ 18 million;
- Others, \$ 7 million.

The Executive Budget also includes \$2 million in fiscal year 2005 and \$500,000 in fiscal year 2006 for the Governor's Wellness Initiative, which will address behaviors that will improve employees' health, such as smoking cessation, proper diet and exercise.

At the time the Governor's Executive Budget was introduced during the 2004 Regular Session of the General Assembly, the recommended state employee cost-of-living policy provided a 1.5 percent increment in fiscal year 2005. In the absence of a legislatively adopted biennial budget for the Executive Branch, the Governor subsequently added an additional one-half percent cost-of-living adjustment in the first quarter Public Services Continuation Plan effective July 1, 2004. With the adoption of House Bill 1 during the 2004 Extraordinary Session of the General Assembly, the 2 percent cost-of-living policy for fiscal year 2005 was ratified and enacted by the General Assembly.

In addition to the 2 percent cost-of-living policy provided for state employees effective on their anniversary date retroactive to July 1, 2004, House Bill 1 provided an additional 1 percent base salary adjustment to be effective on January 1, 2005, for all eligible employees. This 1 percent additional increase had also been recommended by the Governor.

To cover the cost of the pay increases, House Bill 1 appropriated additional General Fund to agencies supported by General Fund totaling \$7.1 million in fiscal year 2005.

In fiscal year 2006, the Executive Budget recommendation provides a 2 percent cost-of-living adjustment for state employee pay and includes General Fund support totaling \$9.1 million for state agencies whose primary financial resources consist of the General Fund.

- **Retirement Contributions and Retirement Benefits**

From July 1, 2004, through June 30, 2005, the employer contribution rate for retirement is funded at 5.89 percent for non-hazardous duty employees, 18.84 percent for hazardous duty employees and 21.58 percent for employees of the State Police Retirement System. From July 1, 2005, through June 30, 2006, the employer contribution rate is funded at 5.89 percent for non-hazardous duty employees, 18.84 percent for hazardous duty employees and 21.58 percent for employees of the State Police Retirement System.

There is also \$4,562,500 appropriated in fiscal year 2005 for a health insurance subsidy to retired members who choose couple, family or parent-plus coverage. In fiscal year 2006, the budget recommendation provides General Fund totaling \$11,851,700 for a health insurance subsidy to retired members who choose couple, family or parent-plus coverage.

The Executive Budget includes \$3,996,200 in fiscal year 2005 to provide a 0.8 percent ad hoc cost of living adjustment (COLA) for retired teachers. The budget includes \$7,706,900 in fiscal year 2006 to provide an additional 0.7 percent COLA. These increases, combined with the automatic annual 1.5 percent COLA funded by the system, will enable retired teachers to maintain their purchasing power.

The recommended budget also includes \$2,228,000 in fiscal year 2005 to provide additional assistance to retired teachers under age 65 who select couple, family or parent-plus health insurance coverage. In fiscal year 2006, that assistance is continued in the amount of \$5,669,500.

Reorganizations

One of the key components to finding greater efficiency in government and saving taxpayer money is the reorganization of government.

The Fletcher administration has streamlined the Executive Branch by reducing the number of cabinets from 14 to 9. The national study published in *Governing* magazine noted that "Governor Ernie Fletcher has reorganized state government to introduce 'modern efficiency.' Agencies are engaged in comprehensive strategic planning that focuses on the long-term goals of programs."

Following are summaries of cabinet reorganizations:

- **The Environmental and Public Protection Cabinet** was created by abolishing and merging three cabinets: Natural Resources and Environmental Protection, Public Protection and Regulation, and Labor. The new structure will achieve better results by streamlining government coordination while providing consistent, efficient and reasoned regulation of people and businesses in Kentucky.

- **The Finance and Administration Cabinet** combined the administrative functions -- including human resources, fiscal operations, budget, and legal services -- of the former Finance and Administration Cabinet, the former Revenue Cabinet and the former Governor's Office of Technology. The combined services will create both fiscal and process efficiencies for the new Finance and Administration Cabinet. In addition, the Division of Local Government Services was created by combining the Social Security function, the county costs/fees function and the property valuation administrators' administrative support services into one division. The previous Department for Administration was abolished, and its functions were distributed to other Finance Cabinet and Commerce Cabinet agencies.
- **The Governor's Office** created the Office of Homeland Security to manage the dollars anticipated to be received from the federal government for this national initiative. The Department for Local Government was abolished and replaced by the Governor's Office for Local Development. The reorganization consolidated grant programs into one-stop shopping by bringing the following programs under GOLD's structure: the Kentucky Infrastructure Authority, East and West Kentucky Corporations, Renaissance Kentucky and the Single County Local Government Economic Development Initiative, which oversees local projects in coal-producing counties. In addition, the Commission on Human Rights reports to the Governor's Office of Minority Empowerment for administrative purposes.
- **The Cabinet for Health and Family Services** was established by combining the former Cabinet for Families and Children with the Cabinet for Health Services. In addition, the Department of Human Support Services was created and includes the former Offices of Women's Physical and Mental Health, Aging Services, Child Abuse and Domestic Violence Services, Family Resource and Youth Services Centers, and the Kentucky Commission on Community Volunteerism.
- **The Justice and Public Safety Cabinet** created the Office of Drug Control Policy. The cabinet also now includes the Department for Public Advocacy (formerly part of the Environmental and Public Protection Cabinet) and Kentucky Vehicle Enforcement, which formerly was part of the Transportation Cabinet.
- **The Personnel Cabinet** was re-established after being a department attached to the Governor's office. The reorganization also transferred the former Governmental Services Center to the newly created Personnel Cabinet and renamed it the Office of Government Training, which provides training to improve productivity and efficiency of state employees in various skill areas.
- **The Transportation Cabinet** elevated the Department of Aviation from division status. The resources generated for the Aviation program are derived from the sales tax on jet fuel, with approximately \$5.5 million generated annually. However, \$1 million in annual revenue will be lost beginning in fiscal year 2007 when a major carrier leaves Kentucky.

Conclusion

Governor Fletcher's Executive Budget reflects his goal of increasing economic and educational opportunity for Kentuckians while operating within the existing revenues and achieving efficiency to maximize taxpayer dollars.

The Executive Budget is balanced while remaining tax neutral and is built upon a foundation of more efficient management of the state's resources.

However, to truly achieve progress for the people of Kentucky, tax modernization is needed to stimulate the economy and encourage the unbridled spirit of entrepreneurship and job growth. Kentucky must adopt a tax modernization plan that address the needs of all Kentuckians and promote new opportunities for families.

GENERAL FUND SUMMARY 2004-2006 EXECUTIVE BUDGET

	Recommended FY 2005	Recommended FY 2006
RESOURCES		
Beginning Balance	249,475,100	192,531,100
Consensus Revenue Forecast	7,433,000,000	7,665,000,000
Tobacco Settlement - Phase I	108,800,000	108,600,000
Continuation of Revenue Measures		18,000,000
Other Resources	16,855,500	21,846,700
Fund Transfers	127,004,600	181,219,700
Total Resources	7,935,135,200	8,187,197,500
Continued Appropriations Reserve		
Budget Reserve Trust Fund	50,764,800	50,764,800
Tobacco Settlement - Phase I	42,947,500	5,252,400
Executive Branch	5,882,500	7,126,300
Legislative Branch	11,598,100	6,251,800
Judicial Branch	9,004,600	
Total Continued Appropriations Reserve	120,197,500	69,395,300
TOTAL RESOURCES	8,055,332,700	8,256,592,800
APPROPRIATIONS		
Executive Branch		
Regular Operating	7,378,308,800	7,804,037,400
Tobacco Settlement - Phase I	108,800,000	108,600,000
Budgeted Lapse	(15,074,800)	(5,000,000)
Capital Projects	9,375,000	6,140,700
Total Executive Branch	7,481,409,000	7,913,778,100
Judicial Branch	220,255,700	232,048,900
Legislative Branch	40,939,400	41,370,500
TOTAL APPROPRIATIONS	7,742,604,100	8,187,197,500
BALANCE	312,728,600	69,395,300
Continued Appropriations Reserve		
Budget Reserve Trust Fund	50,764,800	50,764,800
Tobacco Settlement - Phase I	42,947,500	5,252,400
Executive Branch	5,882,500	7,126,300
Legislative Branch	11,598,100	6,251,800
Judicial Branch	9,004,600	
Total Continued Appropriations Reserve	120,197,500	69,395,300
ENDING BALANCE	192,531,100	0

ROAD FUND SUMMARY 2004-2006 EXECUTIVE BUDGET

	Recommended FY 2005	Recommended FY 2006
RESOURCES		
Beginning Balance		
Revenue Estimate: January 19, 2005	1,119,702,900	1,127,126,500
FY 2004 Surplus	23,011,700	
Road Fund Revenue Initiative		53,250,000
TOTAL RESOURCES	1,142,714,600	1,180,376,500
 APPROPRIATIONS		
Transportation Cabinet		
Revenue Sharing	236,928,500	243,540,600
Highways	637,266,800	634,583,700
Vehicle Regulation	15,834,000	15,898,000
Debt Service	116,113,500	157,528,900
General Administration and Support	64,956,100	66,530,000
Capital Construction	13,794,000	4,248,000
Subtotal	1,084,892,900	1,122,329,200
Justice & Public Safety Cabinet	52,465,700	53,116,300
Finance and Administration Cabinet	4,756,000	4,331,000
Treasury	250,000	250,000
Homeland Security	350,000	350,000
TOTAL APPROPRIATIONS	1,142,714,600	1,180,376,500
 ENDING BALANCE	0	0

**TOBACCO SETTLEMENT - PHASE I SUMMARY
2004-2006 EXECUTIVE BUDGET**

	<u>Recommended FY 2005</u>	<u>Recommended FY 2006</u>
Revenue Cabinet *	175,000	175,000
Rural Development - (50%)		
Governor's Office of Agricultural Policy	39,195,900	39,099,300
Finance and Administration Cabinet		
Debt Service	6,116,600	6,113,200
Environmental and Public Protection Cabinet		
Natural Resources	9,000,000	9,000,000
Subtotal	<u>54,312,500</u>	<u>54,212,500</u>
Health Improvement - (25%)		
Justice & Public Safety Cabinet		
Office of Drug Control Policy	2,226,800	2,222,700
Health and Family Services Cabinet		
Public Health	2,715,600	2,710,600
Council on Postsecondary Education		
Lung Cancer Research Program	5,431,300	5,421,300
Environmental and Public Protection Cabinet		
Insurance (Kentucky Access)	16,782,600	16,751,700
Subtotal	<u>27,156,300</u>	<u>27,106,300</u>
Early Childhood Development - (25%)		
Department of Education-LARS		
Division of Early Childhood Development Services	1,888,400	1,888,400
Health and Family Services Cabinet		
Community Based Services	8,300,400	8,300,400
Public Health	14,712,400	14,662,400
Mental Health/Mental Retardation	900,000	900,000
Children with Special Health Care Needs	455,000	455,000
Postsecondary Education		
Kentucky Higher Education Assistance Authority	900,000	900,000
Subtotal	<u>27,156,200</u>	<u>27,106,200</u>
TOTAL TOBACCO SETTLEMENT - PHASE I	<u><u>108,800,000</u></u>	<u><u>108,600,000</u></u>

* House Bill 390, as enacted by the 2003 General Assembly, appropriated \$175,000 of Phase I Tobacco Funds to carry out the provisions of KRS 131. This amount is deducted before the allocations to Rural Development, Health Improvement, and Early Childhood are made.

CAPITAL CONSTRUCTION SUMMARY 2004-2006 EXECUTIVE BUDGET

SOURCE OF FUNDS	Recommended FY 2005	Recommended FY 2006	New Authorization
Executive Branch			
General Fund	9,375,000	6,140,700	15,515,700
Restricted Funds	1,534,473,701	102,192,000	1,636,665,701
Federal Funds	83,825,000	14,703,000	98,528,000
Bond Fund	260,501,000		260,501,000
Road Fund	13,794,000	4,248,000	18,042,000
Agency Bond Fund	12,020,000		12,020,000
Capital Construction Surplus	1,892,400	63,000	1,955,400
Investment Income	29,394,000	19,895,000	49,289,000
Tobacco Settlement-Phase I	660,000		660,000
Other Funds	21,800,000	4,300,000	26,100,000
TOTAL SOURCE OF FUNDS	1,967,735,101	151,541,700	2,119,276,801
 EXPENDITURES BY CABINET			
Executive Branch			
General Government	76,116,100	6,113,700	82,229,800
Commerce	15,092,000	14,612,000	29,704,000
Economic Development	28,825,000	10,985,000	39,810,000
Department of Education	4,514,000	675,000	5,189,000
Education Cabinet	70,550,000	2,560,000	73,110,000
Environmental and Public Protection	34,550,000	7,950,000	42,500,000
Finance and Administration	118,658,400	17,599,000	136,257,400
Health and Family Services	28,664,000	17,500,000	46,164,000
Justice and Public Safety	8,422,000	2,600,000	11,022,000
Personnel	26,250,000		26,250,000
Postsecondary Education	1,542,299,601	66,699,000	1,608,998,601
Transportation	13,794,000	4,248,000	18,042,000
TOTAL EXPENDITURES	1,967,735,101	151,541,700	2,119,276,801

Capital Projects Overview

Policy Emphasis

This is a comparatively lean capital projects budget by historical standards. New bond authorizations included in the recommendation have been kept to a very moderate level consistent with the Commonwealth's revenue and budget environment. Even as compared with the Executive Budget recommended one year ago during the 2004 Regular Session, this capital projects and bonded indebtedness plan is lean, reflecting a policy emphasis of newly realized and/or estimated General Fund revenues to other immediate budget priorities such as Medicaid, public employee health insurance, criminal justice/corrections, and school and public employee compensation. Moreover, within the broader capital investment/bonded indebtedness area, a substantial investment is recommended for repairing and constructing Kentucky's roads and bridges. Total bonds recommended for capital construction activities are well within historical standards - \$622,521,000 - of which \$272,521,000 represents state construction or information technology investments, and \$350,000,000 represents an economic development road bond issue.

The recommended capital projects program for the Executive Branch for the 2004-2006 biennium is centered around projects five basic priorities for capital investment. These are: (1) maintenance and repair of existing physical plant and investment; (2) information technology infrastructure modernization; (3) economic development and employment generation opportunities; (4) attracting and maximizing federal funding opportunities; and (5) fully funding local school construction bonds previously authorized by the General Assembly. Each of these priorities is discussed on the following pages.

Specific Capital Project Investments

Maintenance and Repair of Existing Physical Plant and Investment

The Commonwealth has a lengthy list of deferred maintenance, repair, and renovation projects. It is acknowledged that the budget recommendation for this biennium does not begin to fully address the projects on that list, but it does set a high priority on addressing those needs within existing resources. Among the top priorities identified for funding is the Kentucky Emergency Warning System replacement project (\$26.7 million in bonds). This project will replace the statewide Emergency Warning System for the Commonwealth that is relied upon by law enforcement, emergency response, Kentucky Educational Television (KET), and local officials in the event of impending or actual disaster. It replaces the seriously outdated system created and constructed in the immediate wake of the 1974 tornado outbreak in the Commonwealth.

The recommendation also provides a \$15 million Capital Renewal and Maintenance Bond Pool for Postsecondary Education to address maintenance and repair priorities on public campuses statewide. A matching requirement will increase the amount of funds available to address these needs at Postsecondary Education institutions. It provides a \$2.3 million Deferred Maintenance Pool for armories that are under the jurisdiction of the Department of Military Affairs. This amount will begin to address the backlog of roof replacement, HVAC replacement/upgrade, and

other major maintenance projects at the armories used by Kentucky National Guardsmen and the communities in which they live. Other prominent examples in this category include: \$1 million for state-owned dam repair; \$1.320 million for the roof replacement of the Perkins Vocational Rehabilitation Center in Johnson County; \$3.839 million for various major maintenance projects at the Kentucky School for the Deaf; \$6 million for replacement of the Capitol Complex powerhouse which is out-of-date and situated in the path of a hill that is sliding down on it; and \$1 million to replace the roof of the original building at KET in Lexington.

Information Technology Infrastructure Modernization

Information Technology (IT) is a core tool of modern government and business. It is a vital part of the essential infrastructure that allows people, programs, and facilities to function in the 21st century. It must be maintained and upgraded and must be considered a fundamental and high capital project investment priority. This budget recommendation supports replacements or upgrades for the following core IT systems: the state personnel and payroll system - \$25 million in bonds to replace a system that has been obsolete for well over a decade and proved inadequate as recently as the 2004 Special Session on health insurance and public compensation; \$5 million for the Offender Management System for the Department of Corrections needed to help track and record essential data about the state's felon population; \$4.5 million for the Unified Criminal Justice System E-WARRANT initiative to improve prosecutorial, law enforcement, and Judicial functions; \$11.5 million for the Management Administration Reporting System (MARS) upgrade which is the state's administrative software system for financial accounting and reporting; \$5 million for the next phase system upgrade for the Kentucky All Schedule Prescription Electronic Report (KASPER) controlled substances/pharmaceuticals tracking system; \$2.2 million for The Workers Information System (TWIST) for caseworkers in the Cabinet for Health and Family Services (CHFS); \$2.04 million for the Child Support Enforcement system upgrade; and three significant systems for the Department of Revenue including the Streamlined Sales Tax Simplification project - \$14 million, the Business Refund Offset system - \$1.750 million, and Collection System Interface Phase I - \$1.5 million. These systems are all necessary to ensure that revenues are properly and efficiently collected. (The Health and Family Services project totals are combined with significant federal fund support of nearly \$18 million.)

Economic Development and Employment Generation Opportunities

The capital investment program supports construction of the Warren County Technology Center with \$7.5 million in bonds for the Kentucky Community and Technical College System (KCTCS) which is an essential state funded component of the Magna economic development project. That project will bring over 1,000 jobs to the Bowling Green/Warren County area. In a parallel recommendation, a \$12,020,000 agency bond project at the Bluegrass Station in Fayette County is necessary to support the construction of a helicopter rebuilding and repair operation which will employ over 300 citizens in quality jobs. A total of \$15 million in an Economic Development, Commercialization and Innovation Bond Pool is recommended for job creation and economic opportunity investments in the Cabinet for Economic Development. The bonds are used for infrastructure support, and high-tech investment and construction activities. The Commercialization and Innovation High-Tech Investment/Construction Pool will also be provided restricted funds of \$22.6 million. These funds continue Kentucky's commitment to job creation and preservation both in traditional and emerging areas of the economy. A \$17 million bond issue for agricultural loans is also provided to the Kentucky Agricultural Finance Corporation.

Attracting and Maximizing Federal Funding Opportunities

A \$2.6 million Kentucky Infrastructure Authority Drinking Water Revolving Loan program project and a \$2.2 million Federally Assisted Wastewater program under the Kentucky Infrastructure Authority are both recommended. In combination, these funds will attract \$24 million in federal support for water and sewer projects statewide. In addition, \$3 million from Coal Severance funds is provided for the Flood Control Matching program in coal counties which is needed to match federal Corps of Engineers and/or Personal Responsibility in a Desirable Environment (PRIDE) funds. A number of IT projects also qualify for federal assistance including a \$2.5 million radio replacement project for the Department of Emergency Management in the Department of Military Affairs which is recommended for a Homeland Security grant.

Fully Funding Local School Construction Bonds Previously Authorized by the General Assembly

Among the largest individual allocations is debt service support for local school construction which was previously authorized, but not fully funded by the General Assembly. The School Facilities Construction Commission (SFCC), which aids local school districts in new construction and renovation projects, received \$104.6 million in new bonds from the 2003 General Assembly to support statewide offers of assistance to local school districts. In addition, two new bond programs under the auspices of the SFCC were authorized – an Urgent Need School Trust Fund (\$55,284,000) and a similarly sized major program entitled Category 5 Buildings, which was predominantly for coal-producing counties, and also targeted schools of the most urgent need as defined by the School Building Assessment program administered by the Department of Education. The 2004-2006 Executive Budget recommendation includes the necessary debt service support to fund the Offers of Assistance, Urgent Need, and Category 5 programs previously authorized. This funding moves the local school construction and renovation projects from the planning stage to the construction stage of development.

Necessary Project Scope Adjustments

A year ago, the capital projects recommendation contained in the Executive Budget considered by the 2004 Regular Session of the General Assembly included individual project recommendations based on project cost estimates defined during a budget request period that ended in calendar 2003. In the period since those projects (and their estimated construction scopes) were considered by the 2004 Regular Session of the General Assembly, the cost of construction materials – especially, but not exclusively steel – has risen substantially. Those significant cost increases have become evident through the state contracting and bid evaluation process. Consequently, the individual project construction estimates included in this recommendation have been increased ten percent above the amounts for the same project one year ago. For some individual projects, the increase has been greater based on known bids and/or specific project requirements. This has been done in an attempt to assure, to the greatest extent possible, that when projects are authorized by the 2005 Session of the General Assembly sufficient funds are budgeted to ensure their viability when bids are received and construction contracts are awarded.

Additional Items and Comments

Road Bonds

A \$350 million Economic Development Road Fund bond issue is also recommended in this budget. Road Fund bonds are not typically considered state capital construction projects. As such, they are outlined elsewhere in this document in the Transportation Cabinet section. This proposed road bond issue will be the largest in many years and the first road bond issue since a measure approved by the 1998 Session of the General Assembly. In addition, a \$150 million Grant Anticipation Revenue Vehicle (GARVEE) bond project supported by federally funded debt service will be used to support interstate road construction and widening on I-65, I-75, and I-64.

Rainy Day Fund

The Budget Reserve Trust Fund – or Rainy Day Fund – is not a capital item. Nonetheless, it is important to a properly considered capital investment program. It should be noted that the recommended balance in the Budget Reserve Trust Fund is \$50 million – which is currently the balance in the Trust Fund. This fact is noted here both because of the fiscal necessity of maintaining a prudent reserve (as a precaution against revenue shortfalls) as well as in recognition of the fact that the Bond Credit Rating Agencies regularly review the status and adequacy of state Rainy Day Funds when rating and reviewing state credit worthiness.

**EXECUTIVE BUDGET
RECOMMENDATION
2004-2006 BIENNIUM**

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Office of the Governor		
General Fund	6,308,300	7,765,700
Restricted Funds	1,408,100	388,200
Federal Funds	30,000,000	40,000,000
Road Fund	350,000	350,000
<u>Total</u>	<u>38,066,400</u>	<u>48,503,900</u>
 Office of State Budget Director		
General Fund	2,285,500	4,323,800
Restricted Funds	1,842,000	237,000
<u>Total</u>	<u>4,127,500</u>	<u>4,560,800</u>
 State Planning Fund		
<u>General Fund</u>	<u>500,000</u>	<u>500,000</u>
Total	500,000	500,000
 Department of Veterans' Affairs		
General Fund	15,358,800	15,358,800
Restricted Funds	22,405,600	22,417,000
<u>Total</u>	<u>37,764,400</u>	<u>37,775,800</u>
 Governor's Office of Agricultural Policy		
General Fund		898,000
General Fund (Tobacco)	39,195,900	39,099,300
Restricted Funds	520,600	515,600
<u>Total</u>	<u>39,716,500</u>	<u>40,512,900</u>
 Kentucky Infrastructure Authority		
General Fund		227,500
Restricted Funds	4,927,000	4,813,900
Federal Funds	50,322,000	50,339,000
<u>Total</u>	<u>55,249,000</u>	<u>55,380,400</u>
 Military Affairs		
General Fund	11,147,600	11,126,800
Restricted Funds	55,536,600	59,441,400
Federal Funds	101,327,000	61,870,500
<u>Total</u>	<u>168,011,200</u>	<u>132,438,700</u>

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Commission on Human Rights		
General Fund	1,904,300	1,904,300
Restricted Funds	5,500	10,500
Federal Funds	342,700	212,900
<u>Total</u>	<u>2,252,500</u>	<u>2,127,700</u>
 Commission on Women		
General Fund	263,200	263,200
Restricted Funds	40,000	20,600
<u>Total</u>	<u>303,200</u>	<u>283,800</u>
 Governor's Office for Local Development		
General Fund	11,629,300	13,770,400
Restricted Funds	1,707,300	742,600
Federal Funds	52,430,800	52,430,800
<u>Total</u>	<u>65,767,400</u>	<u>66,943,800</u>
 Special Funds		
Local Government Economic Assistance Fund		
<u>General Fund</u>	<u>42,781,100</u>	<u>41,977,900</u>
Total	42,781,100	41,977,900
 Local Government Economic Development Fund		
<u>General Fund</u>	<u>38,048,400</u>	<u>24,509,800</u>
Total	38,048,400	24,509,800
 Area Development Fund		
<u>General Fund</u>	<u>809,700</u>	<u>809,700</u>
Total	809,700	809,700
 Total Special Funds		
<u>General Fund</u>	<u>81,639,200</u>	<u>67,297,400</u>
Total	81,639,200	67,297,400
 Executive Branch Ethics Commission		
General Fund	351,500	351,500
Restricted Funds	2,400	2,400
<u>Total</u>	<u>353,900</u>	<u>353,900</u>

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	FY 2004-2005	FY 2005-2006
Secretary of State		
General Fund	2,224,000	2,224,000
Restricted Funds	802,900	802,900
Total	3,026,900	3,026,900
 Board of Elections		
General Fund	6,091,000	3,046,400
Restricted Funds	101,200	57,100
Federal Funds	9,000,000	1,000,000
Total	15,192,200	4,103,500
 Registry of Election Finance		
General Fund	1,409,500	1,409,500
Restricted Funds		118,000
Total	1,409,500	1,527,500
 Attorney General		
General Fund	13,026,200	13,486,000
Restricted Funds	9,225,200	8,648,800
Federal Funds	2,817,900	2,715,000
Total	25,069,300	24,849,800
 Unified Prosecutorial System		
Commonwealth's Attorneys		
General Fund	27,842,100	28,588,300
Restricted Funds	350,000	311,500
Federal Funds	605,200	633,200
Total	28,797,300	29,533,000
 County Attorneys		
General Fund	22,979,900	23,964,100
Restricted Funds	38,200	24,400
Federal Funds	391,700	391,700
Total	23,409,800	24,380,200
 Total Unified Prosecutorial System		
General Fund	50,822,000	52,552,400
Restricted Funds	388,200	335,900
Federal Funds	996,900	1,024,900
Total	52,207,100	53,913,200

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Treasury		
General Fund	2,047,700	1,941,600
Restricted Funds	778,600	793,300
Road Fund	250,000	250,000
<u>Total</u>	<u>3,076,300</u>	<u>2,984,900</u>
 Agriculture		
General Fund	18,876,500	18,876,500
Restricted Funds	5,696,000	3,909,500
Federal Funds	4,813,100	4,813,100
<u>Total</u>	<u>29,385,600</u>	<u>27,599,100</u>
 Auditor of Public Accounts		
General Fund	5,780,800	5,530,800
Restricted Funds	3,096,500	3,306,000
<u>Total</u>	<u>8,877,300</u>	<u>8,836,800</u>
 Personnel Board		
<u>General Fund</u>	<u>543,500</u>	<u>543,500</u>
Total	543,500	543,500
 Kentucky Retirement Systems		
General Fund	4,562,500	11,851,700
Restricted Funds	17,784,300	19,065,000
<u>Total</u>	<u>22,346,800</u>	<u>30,916,700</u>
 Occupational & Professional Boards & Commissions		
Accountancy		
<u>Restricted Funds</u>	<u>571,200</u>	<u>604,000</u>
Total	571,200	604,000
 Certification of Alcohol and Drug Counselors		
<u>Restricted Funds</u>	<u>65,200</u>	<u>67,200</u>
Total	65,200	67,200
 Architects		
<u>Restricted Funds</u>	<u>262,500</u>	<u>265,000</u>
Total	262,500	265,000

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	FY 2004-2005	FY 2005-2006
Certification for Professional Art Therapists		
Restricted Funds	11,400	11,400
Total	11,400	11,400
 Auctioneers		
Restricted Funds	398,800	397,300
Total	398,800	397,300
 Barbering		
Restricted Funds	230,300	236,600
Total	230,300	236,600
 Chiropractic Examiners		
Restricted Funds	194,400	200,500
Total	194,400	200,500
 Dentistry		
Restricted Funds	613,800	618,200
Total	613,800	618,200
 Licensure & Cert. for Dietitians & Nutritionists		
Restricted Funds	74,500	77,500
Total	74,500	77,500
 Embalmers and Funeral Directors		
Restricted Funds	249,100	249,100
Total	249,100	249,100
 Licensure for Prof. Engineers and Land Surveyors		
Restricted Funds	1,363,600	1,379,400
Total	1,363,600	1,379,400
 Certification of Fee-Based Pastoral Counselors		
Restricted Funds	7,500	7,500
Total	7,500	7,500
 Registration for Professional Geologists		
Restricted Funds	135,000	135,000
Total	135,000	135,000

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Hairdressers and Cosmetologists		
Restricted Funds	723,800	713,500
Total	723,800	713,500
Specialists in Hearing Instruments		
Restricted Funds	51,500	55,200
Total	51,500	55,200
Interpreters for the Deaf and Hard of Hearing		
Restricted Funds	31,000	31,000
Total	31,000	31,000
Examiners & Registration of Landscape Architects		
Restricted Funds	58,500	58,600
Total	58,500	58,600
Licensure of Marriage and Family Therapists		
Restricted Funds	83,200	83,200
Total	83,200	83,200
Medical Licensure		
Restricted Funds	2,110,900	2,119,900
Total	2,110,900	2,119,900
Licensure for Massage Therapy		
Restricted Funds	58,800	62,800
Total	58,800	62,800
Nursing		
Restricted Funds	5,105,300	4,674,200
Total	5,105,300	4,674,200
Licensure for Nursing Home Administrators		
Restricted Funds	76,200	76,200
Total	76,200	76,200
Licensure for Occupational Therapy		
Restricted Funds	86,000	86,000
Total	86,000	86,000

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Ophthalmic Dispensers		
Restricted Funds	62,900	62,900
<u>Total</u>	<u>62,900</u>	<u>62,900</u>
Optometric Examiners		
Restricted Funds	159,700	164,100
<u>Total</u>	<u>159,700</u>	<u>164,100</u>
Pharmacy		
Restricted Funds	883,200	896,700
<u>Total</u>	<u>883,200</u>	<u>896,700</u>
Physical Therapy		
Restricted Funds	263,100	264,700
<u>Total</u>	<u>263,100</u>	<u>264,700</u>
Podiatry		
Restricted Funds	21,100	21,700
<u>Total</u>	<u>21,100</u>	<u>21,700</u>
Private Investigators		
Restricted Funds	63,500	64,200
<u>Total</u>	<u>63,500</u>	<u>64,200</u>
Licensed Professional Counselors		
Restricted Funds	53,700	56,200
<u>Total</u>	<u>53,700</u>	<u>56,200</u>
Proprietary Education		
Restricted Funds	144,300	149,300
<u>Total</u>	<u>144,300</u>	<u>149,300</u>
Examiners of Psychology		
Restricted Funds	176,100	176,100
<u>Total</u>	<u>176,100</u>	<u>176,100</u>
Real Estate Appraisers		
Restricted Funds	578,400	589,000
<u>Total</u>	<u>578,400</u>	<u>589,000</u>

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Real Estate Commission		
Restricted Funds	2,251,100	2,179,400
<u>Total</u>	<u>2,251,100</u>	<u>2,179,400</u>
Respiratory Care		
Restricted Funds	132,700	139,600
<u>Total</u>	<u>132,700</u>	<u>139,600</u>
Social Work		
Restricted Funds	145,300	145,300
<u>Total</u>	<u>145,300</u>	<u>145,300</u>
Speech-Language Pathology and Audiology		
Restricted Funds	89,000	92,000
<u>Total</u>	<u>89,000</u>	<u>92,000</u>
Veterinary Examiners		
Restricted Funds	237,800	237,800
<u>Total</u>	<u>237,800</u>	<u>237,800</u>
Total Occupational & Professional Boards & Commissions		
Restricted Funds	17,824,400	17,448,300
<u>Total</u>	<u>17,824,400</u>	<u>17,448,300</u>
Emergency Medical Services		
General Fund	2,391,600	2,391,600
Restricted Funds	171,700	171,700
Federal Funds	1,416,500	436,500
<u>Total</u>	<u>3,979,800</u>	<u>2,999,800</u>
Kentucky River Authority		
General Fund	369,500	369,500
Restricted Funds	6,470,800	1,408,200
<u>Total</u>	<u>6,840,300</u>	<u>1,777,700</u>
Miscellaneous Appropriations		
Judgments		
General Fund	28,700,000	10,750,000
<u>Total</u>	<u>28,700,000</u>	<u>10,750,000</u>

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Attorney General Expense		
General Fund	225,000	225,000
<u>Total</u>	<u>225,000</u>	<u>225,000</u>
 Board of Claims Award		
General Fund	1,000,000	1,000,000
<u>Total</u>	<u>1,000,000</u>	<u>1,000,000</u>
 Guardian Ad Litem		
General Fund	5,900,000	5,900,000
<u>Total</u>	<u>5,900,000</u>	<u>5,900,000</u>
 Prior Year Claims		
General Fund	21,000	400,000
<u>Total</u>	<u>21,000</u>	<u>400,000</u>
 Unredeemed Checks Refunded		
General Fund	1,500,000	1,500,000
<u>Total</u>	<u>1,500,000</u>	<u>1,500,000</u>
 Involuntary Commitments-ICF/MR		
General Fund	60,000	60,000
<u>Total</u>	<u>60,000</u>	<u>60,000</u>
 Payments to Frankfort In Lieu of Taxes		
General Fund	195,000	195,000
<u>Total</u>	<u>195,000</u>	<u>195,000</u>
 Frankfort Cemetery		
General Fund	2,500	2,500
<u>Total</u>	<u>2,500</u>	<u>2,500</u>
 Police Officers and Firefighters-Life Insurance		
General Fund	450,000	250,000
<u>Total</u>	<u>450,000</u>	<u>250,000</u>
 Master Commissioners-Employers Retirement		
General Fund	200,000	200,000
<u>Total</u>	<u>200,000</u>	<u>200,000</u>

Executive Budget Recommendation 2004 - 2006 Biennium

General Government	FY 2004-2005	FY 2005-2006
Master Commissioners-Social Security		
General Fund	365,000	365,000
Total	365,000	365,000
 Workers Compensation		
General Fund	150,000	
Total	150,000	
 Medical Malpractice Liability Ins Reimbursements		
General Fund	185,000	185,000
Total	185,000	185,000
 Blanket Employee Bonds		
General Fund	100,000	100,000
Total	100,000	100,000
 Total Miscellaneous Appropriations		
General Fund	39,053,500	21,132,500
Total	39,053,500	21,132,500
 Total General Government		
General Fund	278,586,000	259,143,400
General Fund (Tobacco)	39,195,900	39,099,300
Restricted Funds	150,734,900	144,653,900
Federal Funds	253,466,900	214,842,700
Road Fund	600,000	600,000
Total	722,583,700	658,339,300

Executive Budget Recommendation 2004 - 2006 Biennium

Commerce Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Secretary		
General Fund	2,612,200	5,174,800
Restricted Funds	1,415,800	1,385,800
<u>Total</u>	<u>4,028,000</u>	<u>6,560,600</u>
 Artisans Center		
General Fund	213,800	183,800
Restricted Funds	1,613,900	1,795,200
<u>Total</u>	<u>1,827,700</u>	<u>1,979,000</u>
 Breaks Interstate Park		
General Fund	191,100	191,100
<u>Total</u>	<u>191,100</u>	<u>191,100</u>
 Tourism		
General Fund	8,096,200	8,606,200
Restricted Funds	270,400	
<u>Total</u>	<u>8,366,600</u>	<u>8,606,200</u>
 Parks		
General Fund	27,574,400	26,015,600
Restricted Funds	55,628,300	59,306,800
<u>Total</u>	<u>83,202,700</u>	<u>85,322,400</u>
 Horse Park Commission		
General Fund	1,871,200	1,621,200
Restricted Funds	5,522,800	5,529,000
<u>Total</u>	<u>7,394,000</u>	<u>7,150,200</u>
 State Fair Board		
General Fund	396,800	396,800
Restricted Funds	35,003,200	36,170,500
<u>Total</u>	<u>35,400,000</u>	<u>36,567,300</u>
 Fish and Wildlife Resources		
Restricted Funds	27,971,700	27,941,700
Federal Funds	10,830,000	10,864,000
<u>Total</u>	<u>38,801,700</u>	<u>38,805,700</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Commerce Cabinet	FY 2004-2005	FY 2005-2006
Historical Society		
General Fund	5,871,800	5,871,800
Restricted Funds	633,800	727,300
Federal Funds	822,000	1,225,000
Total	7,327,600	7,824,100
 Arts Council		
General Fund	4,210,900	4,210,900
Restricted Funds	755,500	553,500
Federal Funds	691,000	685,500
Total	5,657,400	5,449,900
 Heritage Council		
General Fund	932,400	933,700
Restricted Funds	558,300	621,700
Federal Funds	653,300	587,800
Total	2,144,000	2,143,200
 Kentucky Center for the Arts		
General Fund	1,036,400	964,000
Total	1,036,400	964,000
 Total Commerce Cabinet		
General Fund	53,007,200	54,169,900
Restricted Funds	129,373,700	134,031,500
Federal Funds	12,996,300	13,362,300
Total	195,377,200	201,563,700

Executive Budget Recommendation 2004 - 2006 Biennium

Economic Development Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Secretary		
General Fund	7,977,200	11,518,300
Restricted Funds	1,984,900	2,432,700
<u>Total</u>	<u>9,962,100</u>	<u>13,951,000</u>
 New Business Development		
General Fund	1,556,100	1,556,100
Restricted Funds	366,800	580,000
<u>Total</u>	<u>1,922,900</u>	<u>2,136,100</u>
 Financial Incentives		
General Fund	9,827,600	4,058,600
Restricted Funds	2,240,300	2,266,700
<u>Total</u>	<u>12,067,900</u>	<u>6,325,300</u>
 Existing Business Development		
General Fund	2,722,300	2,852,300
Restricted Funds	438,600	440,600
Federal Funds	155,400	155,400
<u>Total</u>	<u>3,316,300</u>	<u>3,448,300</u>
 Total Economic Development Cabinet		
General Fund	22,083,200	19,985,300
Restricted Funds	5,030,600	5,720,000
Federal Funds	155,400	155,400
<u>Total</u>	<u>27,269,200</u>	<u>25,860,700</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Department of Education	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Executive Policy and Management		
General Fund	687,900	687,900
<u>Total</u>	<u>687,900</u>	<u>687,900</u>
 Operations and Support Services		
General Fund	10,888,600	11,353,900
Restricted Funds	2,886,400	2,354,400
Federal Funds	27,800	27,800
<u>Total</u>	<u>13,802,800</u>	<u>13,736,100</u>
 Learning and Results Services		
General Fund	641,065,500	788,138,900
General Fund (Tobacco)	1,888,400	1,888,400
Restricted Funds	1,794,200	1,801,200
Federal Funds	622,064,200	627,223,100
<u>Total</u>	<u>1,266,812,300</u>	<u>1,419,051,600</u>
 Support Education Excellence in Kentucky (SEEK)		
General Fund	2,434,694,600	2,522,750,500
<u>Total</u>	<u>2,434,694,600</u>	<u>2,522,750,500</u>
 Total Department of Education		
General Fund	3,087,336,600	3,322,931,200
General Fund (Tobacco)	1,888,400	1,888,400
Restricted Funds	4,680,600	4,155,600
Federal Funds	622,092,000	627,250,900
<u>Total</u>	<u>3,715,997,600</u>	<u>3,956,226,100</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Education Cabinet	FY 2004-2005	FY 2005-2006
General Administration and Program Support		
General Fund	4,022,600	4,264,200
Restricted Funds	5,727,200	5,727,200
Federal Funds	185,000	190,000
Total	9,934,800	10,181,400
 Deaf and Hard of Hearing		
General Fund	821,100	821,100
Restricted Funds	292,200	252,000
Total	1,113,300	1,073,100
 Kentucky Educational Television		
General Fund	14,145,200	14,194,200
Restricted Funds	1,500,000	1,075,700
Federal Funds	700,000	700,000
Total	16,345,200	15,969,900
 Environmental Education Council		
Restricted Funds	342,600	187,200
Total	342,600	187,200
 Libraries and Archives		
General Operations		
General Fund	6,722,000	6,868,600
Restricted Funds	1,827,600	1,896,200
Federal Funds	2,350,100	1,955,300
Total	10,899,700	10,720,100
 Direct Local Aid		
General Fund	6,497,500	6,350,900
Restricted Funds	9,000	9,000
Federal Funds	424,000	424,000
Total	6,930,500	6,783,900
 Total Libraries and Archives		
General Fund	13,219,500	13,219,500
Restricted Funds	1,836,600	1,905,200
Federal Funds	2,774,100	2,379,300
Total	17,830,200	17,504,000

Executive Budget Recommendation 2004 - 2006 Biennium

Education Cabinet	FY 2004-2005	FY 2005-2006
School Facilities Construction Commission		
General Fund	91,246,900	102,844,300
Total	91,246,900	102,844,300
 Teachers' Retirement System		
General Fund	109,018,800	126,500,000
Restricted Funds	8,147,900	8,613,500
Total	117,166,700	135,113,500
 Office for the Blind		
General Fund	1,290,300	1,306,300
Restricted Funds	1,847,200	1,833,900
Federal Funds	8,210,400	8,638,400
Total	11,347,900	11,778,600
 Employment and Training		
Restricted Funds	4,870,000	3,393,900
Federal Funds	797,537,600	798,437,200
Total	802,407,600	801,831,100
 Career and Technical Education		
General Fund	25,373,700	26,098,700
Restricted Funds	20,232,800	19,970,500
Federal Funds	15,179,700	15,179,700
Total	60,786,200	61,248,900
 Vocational Rehabilitation		
General Fund	12,294,300	12,422,300
Restricted Funds	2,952,900	2,893,200
Federal Funds	45,513,000	47,194,000
Total	60,760,200	62,509,500
 Education Professional Standards Board		
General Fund	9,870,800	10,312,000
Restricted Funds	829,600	829,600
Federal Funds	4,379,200	4,379,200
Total	15,079,600	15,520,800

**Executive Budget Recommendation
2004 - 2006 Biennium**

Education Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Total Education Cabinet		
General Fund	281,303,200	311,982,600
Restricted Funds	48,579,000	46,681,900
Federal Funds	874,479,000	877,097,800
Total	1,204,361,200	1,235,762,300

Executive Budget Recommendation 2004 - 2006 Biennium

Environmental and Public Protection Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
General Administration and Program Support		
General Fund	10,216,500	10,174,500
Restricted Funds	5,632,200	4,953,300
Federal Funds	1,707,100	1,728,100
<u>Total</u>	<u>17,555,800</u>	<u>16,855,900</u>
 Environmental Protection		
General Fund	23,793,500	23,642,500
Restricted Funds	47,676,900	50,867,600
Federal Funds	16,065,200	15,602,900
<u>Total</u>	<u>87,535,600</u>	<u>90,113,000</u>
 Natural Resources		
General Fund	14,359,700	14,473,100
General Fund (Tobacco)	9,000,000	9,000,000
Restricted Funds	8,161,600	7,627,800
Federal Funds	9,743,900	9,872,100
<u>Total</u>	<u>41,265,200</u>	<u>40,973,000</u>
 Surface Mining Reclamation and Enforcement		
General Fund	14,056,300	10,295,000
Restricted Funds	5,701,600	6,101,200
Federal Funds	16,832,700	17,007,900
<u>Total</u>	<u>36,590,600</u>	<u>33,404,100</u>
 Abandoned Mine Land Reclamation Projects		
Federal Funds	22,000,000	22,000,000
<u>Total</u>	<u>22,000,000</u>	<u>22,000,000</u>
 Environmental Quality Commission		
General Fund	150,000	150,000
Restricted Funds	100,900	108,500
<u>Total</u>	<u>250,900</u>	<u>258,500</u>
 Kentucky Nature Preserves Commission		
General Fund	1,049,300	1,049,300
Restricted Funds	304,600	333,100
Federal Funds	70,500	70,500
<u>Total</u>	<u>1,424,400</u>	<u>1,452,900</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Environmental and Public Protection Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Public Protection Commissioner		
Restricted Funds	1,463,000	1,512,900
<u>Total</u>	<u>1,463,000</u>	<u>1,512,900</u>
 Boxing and Wrestling Authority		
Restricted Funds	109,300	100,000
<u>Total</u>	<u>109,300</u>	<u>100,000</u>
 Petroleum Storage Tank Environmental Assur. Fund		
General Fund		1,719,000
Restricted Funds	28,413,000	29,069,400
<u>Total</u>	<u>28,413,000</u>	<u>30,788,400</u>
 Alcoholic Beverage Control		
General Fund	1,380,800	1,380,800
Restricted Funds	4,334,600	4,378,500
<u>Total</u>	<u>5,715,400</u>	<u>5,759,300</u>
 Charitable Gaming		
Restricted Funds	3,476,600	3,470,100
<u>Total</u>	<u>3,476,600</u>	<u>3,470,100</u>
 Board of Claims/Crime Victims' Compensation Bd.		
General Fund	813,000	813,000
Restricted Funds	2,834,300	2,856,400
Federal Funds	540,100	540,100
<u>Total</u>	<u>4,187,400</u>	<u>4,209,500</u>
 Financial Institutions		
Restricted Funds	8,224,900	8,594,800
<u>Total</u>	<u>8,224,900</u>	<u>8,594,800</u>
 Horse Racing Authority		
General Fund	509,700	509,700
Restricted Funds	14,002,100	13,174,800
<u>Total</u>	<u>14,511,800</u>	<u>13,684,500</u>
 Housing, Buildings and Construction		
General Fund	2,094,100	2,114,700
Restricted Funds	12,209,000	13,195,700
Federal Funds	39,300	
<u>Total</u>	<u>14,342,400</u>	<u>15,310,400</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Environmental and Public Protection Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Insurance		
General Fund (Tobacco)	16,782,600	16,751,700
Restricted Funds	22,364,400	23,807,100
Federal Funds	4,322,100	
Total	43,469,100	40,558,800
 Mine Safety Review Commission		
General Fund	230,500	230,500
Restricted Funds	500	
Total	231,000	230,500
 Mine Safety and Licensing		
General Fund	8,805,800	9,021,800
Restricted Funds	292,900	525,300
Federal Funds	1,467,000	603,300
Total	10,565,700	10,150,400
 Public Service Commission		
General Fund	11,154,100	11,409,800
Restricted Funds	1,024,000	1,024,000
Federal Funds	249,600	257,300
Total	12,427,700	12,691,100
 Tax Appeals		
General Fund	486,100	486,100
Total	486,100	486,100
 Labor		
General Fund	2,349,100	2,349,100
Restricted Funds	123,279,300	124,935,300
Federal Funds	3,233,100	3,233,100
Total	128,861,500	130,517,500
 Occupational Safety and Health Review Commission		
Restricted Funds	479,300	447,500
Total	479,300	447,500

Executive Budget Recommendation 2004 - 2006 Biennium

Environmental and Public Protection Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Workers' Compensation Board		
Restricted Funds	900,000	922,200
Total	900,000	922,200
 Workers' Compensation Funding Commission		
Restricted Funds	136,955,800	134,607,200
Total	136,955,800	134,607,200
 Total Environmental and Public Protection Cabinet		
General Fund	91,448,500	89,818,900
General Fund (Tobacco)	25,782,600	25,751,700
Restricted Funds	427,940,800	432,612,700
Federal Funds	76,270,600	70,915,300
Total	621,442,500	619,098,600

Executive Budget Recommendation 2004 - 2006 Biennium

Health and Family Services Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
General Administration and Program Support		
General Fund	35,609,200	35,962,200
Restricted Funds	10,653,300	10,163,800
Federal Funds	41,676,900	42,006,500
<u>Total</u>	<u>87,939,400</u>	<u>88,132,500</u>
 Comm for Children with Special Health Care Needs		
General Fund	5,490,500	5,490,500
General Fund (Tobacco)	455,000	455,000
Restricted Funds	4,640,000	4,666,000
Federal Funds	4,613,000	4,587,000
<u>Total</u>	<u>15,198,500</u>	<u>15,198,500</u>
 Medicaid Services		
Administration		
General Fund	17,067,000	17,067,000
Restricted Funds	18,306,000	18,306,000
Federal Funds	40,975,600	40,975,600
<u>Total</u>	<u>76,348,600</u>	<u>76,348,600</u>
 Benefits		
General Fund	855,365,500	927,255,500
Restricted Funds	448,200,000	374,600,000
Federal Funds	3,030,734,700	3,007,236,700
<u>Total</u>	<u>4,334,300,200</u>	<u>4,309,092,200</u>
 Total Medicaid Services		
General Fund	872,432,500	944,322,500
Restricted Funds	466,506,000	392,906,000
Federal Funds	3,071,710,300	3,048,212,300
<u>Total</u>	<u>4,410,648,800</u>	<u>4,385,440,800</u>
 Mental Health/Mental Retardation Services		
General Fund	166,535,000	164,122,700
General Fund (Tobacco)	900,000	900,000
Restricted Funds	185,119,800	180,338,500
Federal Funds	42,279,500	42,802,500
<u>Total</u>	<u>394,834,300</u>	<u>388,163,700</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Health and Family Services Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Public Health		
General Fund	64,649,900	65,667,900
General Fund (Tobacco)	16,768,000	17,373,000
Restricted Funds	70,183,800	71,532,200
Federal Funds	161,002,300	160,981,700
<u>Total</u>	<u>312,604,000</u>	<u>315,554,800</u>
 Certificate of Need		
General Fund	117,700	117,700
Restricted Funds	162,900	206,200
<u>Total</u>	<u>280,600</u>	<u>323,900</u>
 Human Support Services		
General Fund	26,621,600	29,469,900
Restricted Funds	691,400	645,900
Federal Funds	23,833,100	24,448,900
<u>Total</u>	<u>51,146,100</u>	<u>54,564,700</u>
 Ombudsman		
General Fund	3,767,200	3,767,200
Restricted Funds	400,000	400,000
Federal Funds	2,612,200	2,612,200
<u>Total</u>	<u>6,779,400</u>	<u>6,779,400</u>
 Disability Determination Services		
Restricted Funds	65,800	65,800
Federal Funds	43,643,800	44,692,200
<u>Total</u>	<u>43,709,600</u>	<u>44,758,000</u>
 Community Based Services		
General Fund	275,476,700	298,076,700
General Fund (Tobacco)	8,300,400	8,300,400
Restricted Funds	135,169,500	118,329,800
Federal Funds	476,266,700	485,621,100
<u>Total</u>	<u>895,213,300</u>	<u>910,328,000</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Health and Family Services Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Total Health and Family Services Cabinet		
General Fund	1,450,700,300	1,546,997,300
General Fund (Tobacco)	26,423,400	27,028,400
Restricted Funds	873,592,500	779,254,200
Federal Funds	3,867,637,800	3,855,964,400
<u>Total</u>	<u>6,218,354,000</u>	<u>6,209,244,300</u>

Executive Budget Recommendation

2004 - 2006 Biennium

Finance and Administration Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
General Administration		
General Fund	11,916,700	11,938,200
Restricted Funds	7,558,800	7,061,700
Road Fund	283,000	283,000
<u>Total</u>	<u>19,758,500</u>	<u>19,282,900</u>
 Controller		
General Fund	10,714,700	10,832,100
Restricted Funds	2,189,000	2,196,400
Federal Funds	3,250,000	2,250,000
<u>Total</u>	<u>16,153,700</u>	<u>15,278,500</u>
 Debt Service		
General Fund	244,857,400	269,547,900
General Fund (Tobacco)	6,116,600	6,113,200
Road Fund	2,930,000	2,505,000
<u>Total</u>	<u>253,904,000</u>	<u>278,166,100</u>
 Facilities and Support Services		
General Fund	7,243,900	7,242,600
Restricted Funds	29,536,500	29,282,000
<u>Total</u>	<u>36,780,400</u>	<u>36,524,600</u>
 County Costs		
General Fund	18,581,500	18,681,500
Restricted Funds	1,925,000	1,925,000
<u>Total</u>	<u>20,506,500</u>	<u>20,606,500</u>
 Commonwealth Office of Technology		
General Fund	292,500	292,500
Restricted Funds	56,636,400	56,718,800
Federal Funds	771,800	628,300
Road Fund	125,000	125,000
<u>Total</u>	<u>57,825,700</u>	<u>57,764,600</u>
 Revenue		
General Fund	61,183,200	62,860,700
General Fund (Tobacco)	175,000	175,000
Restricted Funds	3,234,800	3,197,700
Road Fund	1,418,000	1,418,000
<u>Total</u>	<u>66,011,000</u>	<u>67,651,400</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Finance and Administration Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Property Valuation Administrators		
General Fund	29,719,600	30,532,600
Restricted Funds	3,578,100	3,510,000
Total	33,297,700	34,042,600
 Total Finance and Administration Cabinet		
General Fund	384,509,500	411,928,100
General Fund (Tobacco)	6,291,600	6,288,200
Restricted Funds	104,658,600	103,891,600
Federal Funds	4,021,800	2,878,300
Road Fund	4,756,000	4,331,000
Total	504,237,500	529,317,200

Executive Budget Recommendation

2004 - 2006 Biennium

Justice and Public Safety Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Justice Administration		
General Fund	10,271,400	12,808,500
General Fund (Tobacco)	2,226,800	2,222,700
Restricted Funds	2,204,100	2,827,700
Federal Funds	11,904,600	8,837,100
<u>Total</u>	<u>26,606,900</u>	<u>26,696,000</u>
 Criminal Justice Training		
Restricted Funds	37,335,300	38,039,600
Federal Funds	3,914,800	2,700,000
<u>Total</u>	<u>41,250,100</u>	<u>40,739,600</u>
 Juvenile Justice		
General Fund	82,039,600	82,939,600
Restricted Funds	12,590,700	12,200,000
Federal Funds	16,989,000	15,069,000
<u>Total</u>	<u>111,619,300</u>	<u>110,208,600</u>
 State Police		
General Fund	70,253,700	72,163,500
Restricted Funds	9,152,700	8,774,000
Federal Funds	13,814,700	13,444,700
Road Fund	39,769,100	39,769,100
<u>Total</u>	<u>132,990,200</u>	<u>134,151,300</u>
 Corrections		
Corrections Management		
General Fund	28,024,600	28,695,300
Restricted Funds	13,287,400	12,903,600
<u>Total</u>	<u>41,312,000</u>	<u>41,598,900</u>
 Adult Correctional Institutions		
General Fund	192,255,300	202,371,500
Restricted Funds	6,535,300	6,000,200
Federal Funds	1,339,500	365,200
<u>Total</u>	<u>200,130,100</u>	<u>208,736,900</u>
 Community Services and Local Facilities		
General Fund	88,904,300	90,062,100
Restricted Funds	425,600	371,000
Federal Funds	21,500	
<u>Total</u>	<u>89,351,400</u>	<u>90,433,100</u>

Executive Budget Recommendation 2004 - 2006 Biennium

Justice and Public Safety Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Local Jail Support		
General Fund	15,276,100	15,276,100
Total	15,276,100	15,276,100
 Total Corrections		
General Fund	324,460,300	336,405,000
Restricted Funds	20,248,300	19,274,800
Federal Funds	1,361,000	365,200
Total	346,069,600	356,045,000
 Vehicle Enforcement		
Restricted Funds	1,141,400	375,300
Federal Funds	3,614,800	3,787,100
Road Fund	12,696,600	13,347,200
Total	17,452,800	17,509,600
 Public Advocacy		
General Fund	25,264,400	25,264,400
Restricted Funds	5,793,000	6,783,200
Federal Funds	1,644,000	1,569,600
Total	32,701,400	33,617,200
 Total Justice and Public Safety Cabinet		
General Fund	512,289,400	529,581,000
General Fund (Tobacco)	2,226,800	2,222,700
Restricted Funds	88,465,500	88,274,600
Federal Funds	53,242,900	45,772,700
Road Fund	52,465,700	53,116,300
Total	708,690,300	718,967,300

Executive Budget Recommendation 2004 - 2006 Biennium

Personnel Cabinet	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
General Operations		
General Fund	3,203,600	4,367,600
Restricted Funds	14,573,600	13,648,300
<u>Total</u>	<u>17,777,200</u>	<u>18,015,900</u>
 Public Employees Deferred Compensation Authority		
Restricted Funds	5,133,200	5,648,600
<u>Total</u>	<u>5,133,200</u>	<u>5,648,600</u>
 Workers' Compensation Benefits and Reserve		
Restricted Funds	24,666,800	27,931,500
<u>Total</u>	<u>24,666,800</u>	<u>27,931,500</u>
 Government Training		
Restricted Funds	1,542,200	1,574,000
<u>Total</u>	<u>1,542,200</u>	<u>1,574,000</u>
 State Salary and Compensation Fund		
General Fund	7,053,000	9,100,000
<u>Total</u>	<u>7,053,000</u>	<u>9,100,000</u>
 State Group Health Insurance Fund		
General Fund	17,695,600	38,458,900
<u>Total</u>	<u>17,695,600</u>	<u>38,458,900</u>
 Total Personnel Cabinet		
General Fund	27,952,200	51,926,500
Restricted Funds	45,915,800	48,802,400
<u>Total</u>	<u>73,868,000</u>	<u>100,728,900</u>

Executive Budget Recommendation

2004 - 2006 Biennium

Postsecondary Education	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Council on Postsecondary Education		
General Fund	124,139,300	121,932,700
General Fund (Tobacco)	5,431,300	5,421,300
Restricted Funds	3,077,800	1,468,900
Federal Funds	19,099,400	19,099,400
Total	151,747,800	147,922,300
 Kentucky Higher Education Assistance Authority		
General Fund	85,055,400	86,233,500
General Fund (Tobacco)	900,000	900,000
Restricted Funds	104,679,700	107,595,300
Federal Funds	1,714,900	1,726,000
Total	192,350,000	196,454,800
 Postsecondary Education Institutions		
Eastern Kentucky University		
General Fund	72,225,200	73,922,200
Restricted Funds	99,016,500	108,857,500
Federal Funds	45,655,400	47,929,900
Total	216,897,100	230,709,600
 Kentucky State University		
General Fund	23,700,900	23,468,500
Restricted Funds	14,176,500	14,176,500
Federal Funds	13,259,000	13,259,000
Total	51,136,400	50,904,000
 Morehead State University		
General Fund	42,282,300	42,376,100
Restricted Funds	58,397,300	58,585,200
Federal Funds	36,752,900	36,674,500
Total	137,432,500	137,635,800
 Murray State University		
General Fund	50,999,000	52,081,100
Restricted Funds	60,392,600	64,150,700
Federal Funds	13,393,300	13,393,300
Total	124,784,900	129,625,100

Executive Budget Recommendation 2004 - 2006 Biennium

Postsecondary Education	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Northern Kentucky University		
General Fund	46,020,500	46,806,300
Restricted Funds	92,525,000	101,001,000
Federal Funds	11,130,700	11,130,700
Total	149,676,200	158,938,000
 University of Kentucky		
General Fund	289,805,900	301,295,800
Restricted Funds	939,204,600	976,251,500
Federal Funds	161,818,700	166,596,000
Total	1,390,829,200	1,444,143,300
 University of Louisville		
General Fund	172,790,800	175,734,100
Restricted Funds	357,507,500	390,008,200
Federal Funds	80,500,500	87,818,700
Total	610,798,800	653,561,000
 Western Kentucky University		
General Fund	70,040,400	71,963,200
Restricted Funds	126,586,000	138,009,000
Federal Funds	35,600,000	39,071,000
Total	232,226,400	249,043,200
 Kentucky Community and Technical College System		
General Fund	192,279,600	195,006,300
Restricted Funds	212,485,900	236,709,600
Federal Funds	122,901,000	138,924,600
Total	527,666,500	570,640,500
 Total Postsecondary Education Institutions		
General Fund	960,144,600	982,653,600
Restricted Funds	1,960,291,900	2,087,749,200
Federal Funds	521,011,500	554,797,700
Total	3,441,448,000	3,625,200,500
 Total Postsecondary Education		
General Fund	1,169,339,300	1,190,819,800
General Fund (Tobacco)	6,331,300	6,321,300
Restricted Funds	2,068,049,400	2,196,813,400
Federal Funds	541,825,800	575,623,100
Total	3,785,545,800	3,969,577,600

Executive Budget Recommendation 2004 - 2006 Biennium

Transportation Cabinet	FY 2004-2005	FY 2005-2006
General Administration and Support		
Restricted Funds	25,607,200	25,542,000
Road Fund	64,956,100	66,530,000
Total	90,563,300	92,072,000
 Aviation		
Restricted Funds	5,962,100	6,000,000
Federal Funds	15,000	15,000
Total	5,977,100	6,015,000
 Debt Service		
Road Fund	116,113,500	157,528,900
Total	116,113,500	157,528,900
 Highways		
Restricted Funds	213,858,800	64,222,100
Federal Funds	587,000,000	587,000,000
Road Fund	637,266,800	634,583,700
Highway Bonds	350,000,000	
Total	1,788,125,600	1,285,805,800
 Public Transportation		
General Fund	4,753,400	4,753,400
Restricted Funds	500,000	508,900
Federal Funds	27,227,600	27,230,900
Total	32,481,000	32,493,200
 Revenue Sharing		
Road Fund	236,928,500	243,540,600
Total	236,928,500	243,540,600
 Vehicle Regulation		
Restricted Funds	3,868,000	4,040,400
Federal Funds	842,700	894,700
Road Fund	15,834,000	15,898,000
Total	20,544,700	20,833,100
 Total Transportation Cabinet		
General Fund	4,753,400	4,753,400
Restricted Funds	249,796,100	100,313,400
Federal Funds	615,085,300	615,140,600
Road Fund	1,071,098,900	1,118,081,200
Highway Bonds	350,000,000	
Total	2,290,733,700	1,838,288,600

**Executive Budget Recommendation
2004 - 2006 Biennium**

Statewide	<u>FY 2004-2005</u>	<u>FY 2005-2006</u>
Necessary Government Expense		
General Fund	15,000,000	10,000,000
<u>Total</u>	<u>15,000,000</u>	<u>10,000,000</u>
 Total Statewide		
General Fund	15,000,000	10,000,000
<u>Total</u>	<u>15,000,000</u>	<u>10,000,000</u>

**Executive Budget Recommendation
2004 - 2006 Biennium
Summary**

	<u>FY 2005</u>	<u>FY 2006</u>
Operating - Executive Branch		
General Fund	7,378,308,800	7,804,037,400
General Fund (Tobacco)	108,140,000	108,600,000
Restricted Funds	4,196,817,500	4,085,205,200
Federal Funds	6,921,273,800	6,899,003,500
Road Fund	1,128,920,600	1,176,128,500
Highway Bonds	350,000,000	
Total Executive Branch Operating	20,083,460,700	20,072,974,600

Capital - Executive Branch

General Fund	9,375,000	6,140,700
Tobacco Settlement-Phase I	660,000	
Restricted Funds	1,534,473,700	102,192,000
Federal Fund	83,825,000	14,703,000
Road Fund	13,794,000	4,248,000
Bond Fund	260,501,000	
Agency Bonds	12,020,000	
Capital Construction Surplus	1,892,400	63,000
Investment Income	29,394,000	19,895,000
Other Funds	21,800,000	4,300,000
Total Executive Branch Capital	1,967,735,100	151,541,700

Operating and Capital Fund Summary

General Fund	7,387,683,800	7,810,178,100
General Fund (Tobacco)	108,800,000	108,600,000
Restricted Funds	5,731,291,200	4,187,397,200
Federal Funds	7,005,098,800	6,913,706,500
Road Fund	1,142,714,600	1,180,376,500
Highway Bonds	350,000,000	
Bond Fund	260,501,000	
Agency Bonds	12,020,000	
Capital Construction Surplus	1,892,400	63,000
Investment Income	29,394,000	19,895,000
Other Funds	21,800,000	4,300,000
Total Executive Branch Operating and Capital	22,051,195,800	20,224,516,300

REVENUE ESTIMATES

FISCAL YEARS 2005-2006

- EXECUTIVE SUMMARY
- ECONOMIC OUTLOOK
- GENERAL FUND AND ROAD FUND RECEIPTS
- REVENUE ESTIMATES
- TOBACCO MASTER SETTLEMENT AGREEMENT

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January, 19 2005

Mr. Bradford L. Cowgill
State Budget Director
Office of the 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. Melinda Wheeler, Acting Director
Administrative Office of the Courts
100 Millcreek Park
Frankfort, Kentucky 40601

Dear Mr. Cowgill, Mr. Sherman, and Ms. Wheeler:

Pursuant to KRS 48.120 and KRS 48.115, the attached report includes the Consensus Forecasting Group’s official detailed revenue estimates for the General Fund and Road Fund for Fiscal Years 2005 and 2006. These estimates represent a revision to the official estimates adopted on June 9, 2004. The revision was undertaken at the request of the Office of the State Budget Director, pursuant to KRS 48.115(2). The revenue estimates for the upcoming biennium, which were determined at the January 19, 2005, meeting of the Consensus Forecasting Group are as follows:

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Road Fund</u>
2005	\$7,433,000,000	\$1,119,700,000
2006	\$7,665,000,000	\$1,127,100,000

The official forecast reflects a 6.5 percent increase in General Fund receipts in FY 2005, when compared to FY 2004. Fiscal Year 2006 General Fund receipts are expected to exceed FY 2005 receipts by 3.1 percent. The Road Fund is estimated to increase by 0.3 percent in FY 2005, followed by a 0.7 percent increase for FY 2006.

Compared to the June 9, 2004 official forecast, the FY 2005 estimate for the General Fund has been increased by \$184 million, followed by \$137.5 million in FY 2006. The Road Fund estimate has been decreased by \$29.6 million for FY 2005 and reduced by \$16.7 million for FY 2006, when compared to the June official forecast.

Mr. Bradford L. Cowgill, Mr. Robert Sherman, Ms. Melinda Wheeler
January 19, 2005
Page 2

In addition to providing estimates for the General Fund and the Road Fund, the Consensus Forecasting Group has provided estimates pertaining to revenues the Commonwealth may realize from the Phase I Master Settlement Agreement (MSA). The Consensus Forecasting Group was not asked to revise the MSA estimates at the January 19, 2005 meeting. The MSA revenue estimates adopted by the Consensus Forecasting Group in January 2004 are presented below and are not included in either the General Fund or Road Fund totals.

<u>Fiscal Year</u>	<u>MSA Revenue</u>
2005	\$108,800,000
2006	\$108,600,000

The Consensus Forecasting Group consisted of Dr. Merl Hackbart, Dr. Jim McCabe, Dr. Frank O'Connor, Mr. Terry Jones, Mr. Jim Street, and me. Support was provided by the Governor's Office for Economic Analysis, the LRC, and representatives of the Kentucky Revenue Cabinet.

In summary, the General Fund, Road Fund, and MSA estimates prepared by the Consensus Forecasting Group represent an agreement as to the most likely outcome for revenues for the upcoming biennium, given the available information by January 19, 2005.

Detailed estimates for each account and summary tables for the General Fund and the Road Fund are attached.

Sincerely,



Lawrence K. Lynch
Acting Chairman, Consensus Forecasting Group

Attachments

Executive Summary

Revised revenue estimates for the General Fund and the Road Fund for FY05 and FY06 are transmitted by Section IV of this report.

The General Fund forecast for FY05 was estimated to equal \$7,433.0 million on January 19, 2005 by the Consensus Forecasting Group. The revenue estimate is \$7,665.0 million for FY06.

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 Global Insight, 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 forecast for the remainder of the biennium is that growth will continue at a similar pace as in the recent past. Real gross domestic product (GDP), which is expected to rise at an annual 3.8 percent rate in FY05, will grow 3.4 percent in FY06. Employment is forecasted to grow 1.6 percent in FY05, rising to 1.7 percent growth in FY06.

Kentucky's economy is projected to lag the U.S. economy moderately during the next biennium. Personal income is estimated to be \$116.6 billion in FY05, up 4.8 percent from FY04. For the remainder of the biennium, growth is expected to be 5.0 percent in FY06. Employment in nonagricultural industries is expected to be 1,810,600 workers in the current fiscal year. Growth in FY06 should also be 1.4 percent, and employment in the fiscal year should finally exceed the all-time high of 1,819,000 workers that was reached back in FY01.

Table 1
Economic Assumptions Used in Revenue Forecasts

	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>
KY Nonagricultural Employment (Thou)	1,785.8	1,786.4	1,810.6	1,836.5
Percent Change (%)	-0.3	0.0	1.4	1.4
Kentucky Personal Income (Bil\$)	105.9	111.3	116.6	122.5
Percent Change (%)	3.2	5.0	4.8	5.0

Through the first half of FY05, General Fund revenue growth has been faster than the growth in the economy. Overall receipts are up by 7.8 percent in the first six months. On the other hand, revenues rose by 2.9 percent in FY04, lower than the growth in personal income. The outlook for the remainder

of FY05 is for General Fund collections to total \$7,433.0 million, a growth rate of 6.5 percent from the previous year. For FY06, General Fund revenues are estimated to be \$7,665.0 million, a growth rate of 3.1 percent.

Through the first half of FY05, General Fund revenue growth has been faster than the growth in the economy. Overall receipts are up by 7.8 percent in the first six months. On the other hand, revenues rose by 2.9 percent in FY04, lower than the growth in personal income. The outlook for the remainder of FY05 is for General Fund collections to total \$7,433.0 million, a growth rate of 6.5 percent from the previous year. For FY06, General Fund revenues are estimated to be \$7,665.0 million, a growth rate of 3.1 percent.

Table 2
General Fund Revenue
FY03-FY04 Actual, FY05-FY06 Estimates

	FY03 Actual (\$ Mil)	FY04 Actual (\$ Mil)	FY05 Estimate (\$ Mil)	FY06 Estimate (\$ Mil)
Total Receipts	6,783.5	6,977.6	7,433.0	7,665.0
Percent Change (%)	3.4	2.9	6.5	3.1
New Dollars	223.3	194.1	455.4	232.0

Road Fund collections are summarized in Table 3. Road Fund revenue should be \$1,119.7 million in FY05. This represents a rise of only 0.3 percent. In FY06, growth of 0.7 percent is forecasted, producing revenues of \$1,127.1 million. The primary source of growth forecasted in the Road Fund for FY05 is the motor fuels tax, which was affected by a formulaic rise in rate tied to gasoline prices. The expected reduction in fuel prices in FY06 will have the opposite effect and should depress this revenue source.

Table 3
Road Fund Revenue
FY03-FY04 Actual, FY05-FY06 Estimates

	FY03 Actual (\$ Mil)	FY04 Actual (\$ Mil)	FY05 Estimate (\$ Mil)	FY06 Estimate (\$ Mil)
Total Receipts	1,123.1	1,116.7	1,119.7	1,127.1
Percent Change (%)	0.4	-0.6	0.3	0.7
New Dollars	4.1	-6.4	3.0	7.4

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.

Economic Outlook

NATIONAL OUTLOOK

Forecasting Methodology

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. The U.S. economic outlook upon which the estimate is based was provided by Global Insight, a nationally recognized economic consulting firm. As a preliminary step, a national economic scenario was agreed upon for the forecast period. The Consensus Forecasting Group reviewed scenarios developed by Global Insight and GOEA in December 2004 and then studied an updated. The Consensus Forecasting Group determined that the Control scenario contained the most plausible assumptions about the national economy.

Assumptions

The forecasting process always contains some degree of uncertainty. This is compounded by trying to ascertain the impact of both monetary and fiscal policy on the timing of the recovery. For almost eighteen months the recovery was tentative at times as output increased due to increased productivity, but job creation lagged. At this point the recovery appears well-established, and even employment is on an upswing. Just a year ago the major uncertainty to the forecast was the outcome of the war in Iraq. The war has now been replaced by the specter of high crude oil prices and their impact on aggregate demand. In spite of this some 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.

During the forecast period oil prices are expected to remain high, but down substantially from their peak of \$50 per barrel in the second quarter of FY2005. The forecast assumes that Congress will not allow all of the recent tax reductions to expire as scheduled. Federal funds rate are expected to go progressively higher during the next six quarters. The funds rate is expected to be 3.5 percent by FY2006.

Forecast

The national economy has been in a recovery mode since the end of the recession three years ago. Even though this was the official beginning of an expansion the growth in output was tepid, industrial production declined in some quarters, and the economy continued to lose jobs.

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 two years of the expansion—FY02 and FY03—real GDP grew by 0.8 and 2.3 percent. Though the overall growth in output was relatively strong, there were quarters in which the expansion seemed ready to collapse as GDP growth dropped to just 0.7 percent (October-to-December of FY03). The possibility of a double-dip recession was finally laid to rest in FY04. Real GDP surged by 7.4 percent in the first quarter, and then grew steadily averaging 4.4 percent during the full fiscal year. For FY05 real GDP is expected to increase by 3.8 percent followed by 3.4 percent in FY06.

Consumers have been the main driver for both the national and Kentucky economies. Two-thirds of real GDP is comprised of consumption expenditures. Total real consumption increased by 3.8 percent during FY04. The increase is expected to be slightly muted during the next two years as the recovery cycle matures. During the current year consumption is expected to increase by 3.5 percent followed by 2.8 percent in FY06. During the current year the primary source for the expansion of consumption is in durable goods, particularly the automobile sector. Durable goods consumption is expected to rise by 5.3 percent in FY05, and then slow to 2.0 percent in FY06.

During the first two years of the recovery business confidence had been lacking and that was felt in the tepid growth in investments. A surge in investment characterized FY04 as investment increased by 11.2 percent. Investment growth for the current year is expected to be 10.2 percent followed by 8.1 percent growth in FY06. The investment forecast is not so strong in traditional bricks and machinery investments, but because of computers and software. These now constitute 30 percent of all investment activity. This in turn has led to high productivity and growth in the U.S. economy.

U.S. personal income grew by an annual average of 4.3 percent during the last five years. Inflation during this period was just 2.1 percent. Growth in personal income during FY2005 is expected to be 5.4 percent with inflation at 2.8 percent. Next year personal income growth is forecasted to increase by 5.5 percent.

The employment news had been disappointing during the first three years of the recovery. Between FY01 and FY03 over two million jobs were lost, causing some economists to describe this as a “job-loss recovery.” The turnaround finally occurred during FY04 as employment turned slightly positive with growth of 0.2 percent. As the economy accelerates more employment is expected to grow by 1.6 percent in FY25 followed by 1.7 percent in FY06.

KENTUCKY OUTLOOK

Forecasting Methodology

Global Insight’s January 2005 Control forecast of the U.S. economy was used as the backdrop for forecasting the Kentucky economy for both the current fiscal year and the following year. 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

The Kentucky economy was hit hard during the recession, and continued to suffer during the two years of recovery after November 2001. The initial economic recovery occurred in terms of output of goods and services. But sharp gains in productivity and the increased outsourcing of jobs abroad meant that employment actually declined during this period. Since the recession was global it idled production activity in low-wage countries, too. During the recovery with the increased demand for goods the low-wage factories off-shore were staffed first. An important difference from past recoveries was that not

only did goods-producing jobs migrate overseas, but so did some white-collar service industry jobs. Domestically job growth was further delayed by a phenomenal increase in productivity. Both these factors suppressed employment and income growth in Kentucky more than the nation because Kentucky workers were in direct competition for lower-wage manufacturing and service jobs that had migrated abroad.

Personal income is a broad measure of a state's economic performance. Kentucky's personal income is estimated to have been \$111.3 billion in FY04 for an increase of 5.0 percent from the previous year. In comparison, U.S. personal income growth was 4.6 percent in the same period. Kentucky personal income is expected to be up by 4.8 percent during the current year and then rise to 5.0 percent in FY2006. With the further expansion of the economy and the low dollar, the demand for domestic goods is expected to rise and that for imports decrease somewhat. Both these effects should result in an increase of wage and salary income which constitutes over half of personal income.

Employment data is commonly used to gauge the strength of the state's economy. Nonagricultural employment in Kentucky declined steadily for three years from FY01 to FY03. Last year employment finally steadied and there was a net gain of 600 jobs. With the new found strength in the economy, employment is expected to be up 1.4 percent in both FY05 and FY06. By the end of the biennium Kentucky's employment is finally expected to pass its previous peak from the start of the recession.

During the last recession Kentucky's employment mix exacerbated the economic situation. In FY00 manufacturing accounted for 17 percent of all Kentucky employment compared to 13 percent nationally. As the national economy deteriorated, the demand for goods dropped resulting in a decline in Kentucky's manufacturing industries. In FY04 manufacturing jobs were about 15 percent of Kentucky's employment base compared to 11 percent nationally. Jobs in this sector are expected to increase by next year as a result of both the economic recovery and the lower dollar which effectively makes U.S. goods cheaper for foreigners. Most of the overall employment gains are expected to come from business services (up 4.3 percent in the current year, followed by 4.7 percent growth in FY06). Other sectors like construction and trade will also contribute strongly to the growth during the next three years.

Table 4
Selected U.S. and Kentucky Economic Indicators
Control Scenario
January 2005

	FY02	FY03	FY04	FY05	FY06
OUTPUT					
US Real GDP (Bil 2000\$)	9,956.8	10,181.3	10,633.9	11,037.2	11,410.8
% chg	0.8	2.3	4.4	3.8	3.4
Industrial Production Index, Manufacturing (%)	-3.8	0.4	2.5	4.8	4.3
Industrial Production Index, Durables (%)	-5.0	1.3	4.4	6.5	5.7
INCOME					
KY Personal Income (Mil\$)	102,639	105,949	111,294	116,633	122,465
% chg	2.5	3.2	5.0	4.8	5.0
US Personal Income (Bil\$)	8,797	8,981	9,394	9,903	10,444
% chg	2.0	2.1	4.6	5.4	5.5
EMPLOYMENT					
KY Nonagricultural Employment (Thous)	1,790.4	1,785.8	1,786.4	1,810.6	1,836.5
% chg	-1.6	-0.3	0.0	1.4	1.4
US Nonagricultural Employment (Mil)	130.9	130.1	130.3	132.4	134.7
% chg	-1.0	-0.6	0.2	1.6	1.7
KY Manufacturing Employment (Thou)	281.6	269.7	265.4	265.4	268.0
% chg	-7.5	-4.2	-1.6	0.0	1.0
US Manufacturing Employment (Mil)	15.7	14.9	14.4	14.4	14.5
% chg	-7.7	-5.4	-3.5	0.3	0.4
OTHER KEY MEASURES					
Consumer Sentiment Index (Univ of Michigan)	90.2	85.1	93.2	94.6	93.1
CPI, Rate of Inflation (%)	1.8	2.2	2.2	2.8	1.7
US Retail Sales (%)	2.8	3.5	7.1	6.3	3.5
US Corporate Profits(%)	-1.9	18.4	15.3	21.9	12.3
Three-month Treasury Bills (%)	2.2	1.3	1.0	2.2	3.3
Oil Price, West Texas Intermediate (\$/barrel)	21.39	27.58	30.80	40.06	35.29

Macromodel of Kentucky

Table 5
Employment in Kentucky
CONTROL Scenario: January 2005

	FY02	FY03	FY04	FY05	FY06
KENTUCKY (thousands)					
Total Nonagricultural	1,790.4	1,785.8	1,786.4	1,810.6	1,836.5
Contract Construction	85.4	82.9	85.2	88.3	89.6
Mining	21.1	19.8	19.2	19.1	19.2
Manufacturing	281.6	269.7	265.4	265.4	268.0
Trade, Transportation, Utilities	374.8	370.8	371.8	377.7	384.8
Information	32.1	30.7	30.1	30.1	30.3
Finance	84.6	85.3	86.9	87.5	87.7
Business Services	153.4	155.1	154.2	160.7	168.3
Educational & Health Services	217.7	226.1	228.9	232.8	238.4
Leisure & Hospitality Services	152.6	154.5	159.2	161.3	163.5
Other Services	74.8	76.2	78.1	75.4	73.9
Government	312.4	314.6	307.4	312.4	312.8
KENTUCKY (annual % change)					
Total Nonagricultural	-1.6	-0.3	0.0	1.4	1.4
Contract Construction	-2.3	-2.9	2.7	3.6	1.5
Mining	9.3	-7.4	-3.0	-0.4	0.4
Manufacturing	-7.5	-4.2	-1.6	0.0	1.0
Trade, Transportation, Utilities	-4.2	-1.0	0.3	1.6	1.9
Information	-4.1	-4.2	-1.9	-0.1	0.8
Finance	1.4	0.9	1.9	0.6	0.3
Business Services	-5.1	1.1	-0.6	4.3	4.7
Educational & Health Services	4.7	3.8	1.3	1.7	2.4
Leisure & Hospitality Services	-0.4	1.2	3.0	1.3	1.4
Other Services	4.4	1.9	2.6	1.5	1.0
Government	1.9	0.7	-2.3	1.6	0.1

Receipts

General Fund & Road Fund

Fiscal Year 2004

Total receipts for the General Fund and the Road Fund in FY04 increased by 2.4 percent from the prior year. The growth in the General Fund was 2.0 percent. The Road Fund declined by 0.6 percent compared to FY03. The growth rate and total receipts for both the General Fund and the Road Fund are shown in Table 6 below. Table 6.2 summarizes the major revenue categories.

Table 6
Total Receipts
(\$Mil)

	FY04	FY03	Percent Change
General Fund	\$6,977.6	\$6,783.5	2.9
Road Fund	<u>1,116.7</u>	<u>1,123.1</u>	<u>-0.6</u>
COMBINED	\$8,094.3	\$7,906.6	2.4

Within the General Fund, total sales and use tax receipts grew by 3.5 percent with collections of \$2,447.6 million during FY04. This compares to \$2,364.2 million collected in FY03.

The individual income tax generated receipts of \$2,796.3 million during FY04, an increase of 1.8 percent over the \$2,746.4 million collected in the previous year.

Corporation income and license tax receipts declined by 0.7 percent during FY04. A total of \$427.4 million was collected during FY04, compared to \$430.6 million during FY03.

Coal severance collections rose 4.1 percent from FY03 to FY04. Receipts were \$147.5 million for FY04 and \$141.7 million for FY03.

Property tax collections grew by 3.2 percent for FY04. The amounts collected were \$448.8 million for FY04 and \$434.8 million for FY00.

Lottery receipts were up 1.6 percent from the previous year, with collections at \$173.8 million.

Table 6.1 displays the growth rates for the major tax categories in the General Fund, for the four quarters of FY04 and the year as a whole.

Table 6.1
General Fund Growth Rates for the Four Quarters and the Full Year, FY04

<u>Type Tax</u>	<u>1st</u> <u>QTR</u>	<u>2nd</u> <u>QTR</u>	<u>3rd</u> <u>QTR</u>	<u>4th</u> <u>QTR</u>	<u>FY04</u>
Sales and Use	-4.4	3.6	8.9	7.1	3.5
Ind. Income	5.0	2.5	-7.5	5.9	1.8
Corp Inc./Lic.	-19.2	-24.0	---	8.3	-0.7
Coal Severance	-5.7	-4.1	5.6	21.3	4.1
Property	-12.9	2.4	18.1	-10.6	3.2
Lottery	7.0	0.0	0.0	0.0	1.6
All Other	<u>9.8</u>	<u>6.5</u>	<u>3.4</u>	<u>9.0</u>	<u>8.4</u>
Total Receipts	-0.7	1.3	4.5	6.4	2.9

Table 6.2
Summary General Fund Receipts Year End Totals, FY04
(millions of dollars)

<u>Type Tax</u>	<u>FY04</u>	<u>FY03</u>	<u>%Chg</u>
Sales & Use	2,447.6	2,364.2	3.5
Individual Income	2,796.3	2,746.4	1.8
Corp. Inc./Lic.	427.4	430.6	-0.7
Coal Severance	147.5	141.7	4.1
Total Property	448.8	434.8	3.2
Lottery	173.8	171.0	1.6
All Other	<u>536.2</u>	<u>494.8</u>	<u>8.4</u>
TOTAL	6,977.6	6,783.5	2.9

Within the Road Fund, the growth in major tax categories varied. Table 7.1 summarizes the major revenue accounts in the Road Fund for FY04. Motor fuels taxes rose 1.3 percent with receipts of \$459.6 million. Motor vehicle usage tax generated \$429.2 million, a decline of 0.8 percent from the \$432.9 million collected in FY03. Weight distance tax receipts were up 3.5 percent, with receipts of \$79.6 million in FY04.

Table 7.2 below contains the growth rates for the major tax categories in the Road Fund for the four quarters of FY04 and the year as a whole.

Table 7.1
Summary Road Fund Receipts Year End Totals, FY04
(millions of dollars)

<u>Type Tax</u>	<u>FY04</u>	<u>FY03</u>	<u>%Chg</u>
Motor Fuels/MF Use	459.6	453.6	1.3
Motor Vehicle Usage	429.2	432.9	-0.8
Weight Distance	79.6	76.9	3.5
Motor Vehicle Lic.	93.4	76.2	22.6
Investment Income	7.5	29.1	-74.2
All Other	47.4	54.4	-12.9
TOTAL	1,116.7	1,123.1	-0.6

Table 7.2
Road Fund Growth Rates for the Four Quarters and the Full Year, FY04

<u>Type Tax</u>	<u>1st</u> <u>QTR</u>	<u>2nd</u> <u>QTR</u>	<u>3rd</u> <u>QTR</u>	<u>4th</u> <u>QTR</u>	<u>FY04</u>
Motor Fuels/MF Use	0.3	-0.5	4.4	1.6	1.3
Motor Veh. Usage	1.3	-1.2	1.4	-4.7	-0.8
Weight Distance	0.3	-0.5	6.2	8.5	3.5
Motor Veh. Lic	48.0	17.2	25.3	9.4	22.6
Investment Inc.	-43.3	-89.8	-74.4	-98.6	-74.2
All Other	0.0	-15.6	16.0	-16.4	-12.9
Total Receipts	1.6	-2.7	2.3	-32.4	-0.6

First Half, Fiscal Year 2005

Total General Fund receipts for the first half of FY05 were \$3,723.6 million, which is a 7.8 percent increase over the first half of FY04, when \$3,452.9 million was generated. Summary results for the first six months of FY05 are shown in Table 8.1 below.

Sales and use tax collections totaled \$1,278.2 million. This is a 5.0 percent increase over the \$1,226.2 million collected in the first half of FY04.

Individual income tax receipts grew by 5.5 percent during the first half of FY05 with receipts of \$1,480.7 million. Collections for the first half of FY04 were \$1,403.5 million.

Corporation income and license tax receipts jumped by 41.5 percent during the first half of FY05. Collections during the period were \$246.2 million, compared to \$174.0 million during the first half of FY04.

Coal severance receipts grew by 25.0 percent for the first half of the year. Collections for the current period totaled \$87.0 million compared to \$69.6 million for the first half of FY04.

Property tax collections rose by 9.8 percent during the first half of FY04. Collections for the period were \$291.6 million compared to \$265.5 million during the first half of FY04. The strong growth was due primarily to early receipts of tax payments that are normally paid in January.

Table 8.1
Summary General Fund Receipts
Second Quarter, FY 2005
(millions of dollars)

<u>Type Tax</u>	<u>FY05</u>	<u>FY04</u>	<u>Percent Change</u>
Sales and Use	642.8	620.3	3.6
Individual Income	739.1	699.7	5.6
Corporation Inc./Lic.	114.7	84.6	35.6
Coal Severance	44.1	35.4	24.6
Property	253.0	224.4	12.7
Lottery	41.8	40.0	4.4
All Other	<u>126.7</u>	<u>120.3</u>	<u>5.3</u>
TOTAL	1,962.2	1,824.7	7.5

Lottery receipts of \$86.8 million represented growth of 4.8 percent over the \$82.8 million collected during the first half of FY04. The significant increase was due to strong sales from a large Powerball jackpot.

In the Road Fund, total receipts fell by 1.7 percent to \$542.6 million. Collections for the first half of FY04 were \$551.9 million. Summary results for the first half of FY05 are displayed in Table 8.2 shown below.

Motor fuels taxes increased by 5.3 percent. Receipts were \$243.3 million during the first half of FY05 compared to \$231.0 million during the same period of FY04. Motor fuels tax receipts were boosted by a formula-driven increase in the tax rate tied to the price of gasoline.

Motor vehicle usage tax receipts fell by 6.8 percent with collections of \$201.8 million, compared to \$216.5 million received in the first six months of the previous fiscal year. The decline in the motor vehicle usage tax was primarily the result of weaker automobile sales, weaker U-Drive-it tax on leases, and a tax credit granted to Kentuckians who purchase automobiles in Indiana, which began taxing Kentuckians on their purchases this year.

During the first half of FY05 the weight distance tax rose by 5.9 percent. Collections for the first half of FY05 were \$41.6 million.

Table 8.2
Summary Road Fund Receipts
Second Quarter, FY 2005
(millions of dollars)

<u>Type Tax</u>	<u>FY05</u>	<u>FY04</u>	<u>Percent Change</u>
Motor Fuels	112.6	108.7	3.6
Motor Vehicle Usage	92.3	97.9	-5.8
Weight Distance	20.8	19.6	6.1
All Other	31.0	32.1	-3.4
TOTAL	256.7	258.3	-0.7

Revenue Estimates

Detailed for FY05 & FY06

The Governor's Office of Economic Analysis (GOEA) prepares periodic revenue estimates for the General Fund and the Road Fund. On January 12, 2005, the State Budget Director requested that the Consensus Forecasting Group (CFG) consider revising the official revenue estimate for the FY05-FY06 biennium in preparation for consideration of a budget to be proposed by Governor Fletcher during the upcoming session of the General Assembly. GOEA, in accordance with its statutory mandate, prepared preliminary estimates for consideration by the CFG.

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 the 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 Global Insight 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, revenue forecasting models use past values for the various categories of revenue and other economic and 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 Cabinet and the Department of Revenue provide additional information about the administration of various taxes. After GOEA's analysis is completed, the revenue estimates are presented to the CFG for consideration and approval. 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 January 17, 2005 to agree on an economic outlook upon which the revenue estimates were built and to consider preliminary revenue estimates for Fiscal Years 2005 and 2006. The group considered GOEA's revenue recommendations and requested additional information to support the estimates. The CFG reconvened January 19 to reexamine and discuss the General and Road Fund forecasts. The CFG agreed upon the forecast that is presented in this report.

Individual Income Tax

Individual income tax receipts increased 5.5 percent during the first half of FY05 compared to 3.7 percent in the same period a year ago. Withholding payments comprise about 80 percent of the tax and were up by 4.7 percent compared to 3.1 percent last year. Declaration payments were up by 2.3 percent compared to 6.7 percent last year.

Individual income tax receipts were forecast as an aggregate instead of separately because each of the major components interact with each other. For example:

- ◆ Declaration payments are influenced by both business profits and capital gains. If taxpayers err in their estimate of income (as usually happens during a sudden cyclical change in earnings) this will be recovered on their tax returns either through a final payment or refund.
- ◆ The net balance on returns is effectively a residual in the individual income tax process. At the time tax returns are filed any over (or under) withheld income is reconciled. The reconciliation normally leads to a fairly stable overall net balance, but in the past two years the balance has turned much more negative.

The model that best forecast the individual income tax for FY05 and FY06 was a structural model with Kentucky wage and salary income (with a two-quarter lag) and Kentucky nonagricultural employment as explanatory variables. The model distinguished itself not only because the exogenous variables are appropriate both intuitively and statistically, but because the *ex post* forecast of this model (especially during the recent recession) performed well.

For FY05 individual income tax revenues are forecasted to be \$2,947.2 million, an increase of 5.4 percent. In FY06 the forecasted amount is expected to grow 4.7 percent to \$3,085.7 million.

Sales and Use Tax

Sales tax receipts grew 5.0 percent during the July-to-December period of FY05. The year started off spectacularly with sales tax surging by 8.6 percent in July, followed by growth rates of 7.3, 3.1, 5.0, 1.0, and 4.7 percent from August to December.

The sales tax estimate begins with a forecast of “regular” collections. This series adjusts for one-time money that impacts receipts such as the expiration of enterprise zones and the federal Internet Tax Freedom Act (ITFA).

Regular collections were estimated using a structural model with Kentucky wage and salary income and consumer confidence as measured by a lagged value of the Michigan Consumer Sentiment survey as drivers. Then the impacts of one-time factors were added to the regular collections to arrive at the final sales tax forecast.

The current forecast is for sales tax receipts to increase by 5.3 percent in FY05 to \$2,577.4 million. Growth is estimated to be 4.9 percent for FY06 with receipts of \$2,703.6 million.

Corporation Income and License Taxes

Corporation income tax revenue was estimated using a structural model with U.S. corporate profits as an exogenous variable. Corporation license tax receipts were also estimated using a structural model but incorporating the net stock of nonresidential equipment as a driver. An after-model adjustment was made to license tax receipts to account for the impact of the Illinois Tool Works decision. Corporation income tax receipts have been strong year-to-date as a result of strong declaration collections and lower than normal refund payments.

The corporation income tax is plagued by an 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 \$572.0 million in FY05, an increase of 33.8 percent from the \$427.4 million collected in FY04. Receipts are expected to be \$530.0 million in Fiscal Year 2006, a reduction of 7.3 percent.

Coal Severance Tax

Coal Severance Tax Receipts are forecast to increase strongly for the rest of FY05 and remain at that elevated level throughout FY06. The pronounced growth in receipts is due to two factors: prolonged and substantial price increases in the Eastern coal market and substantial increases in severed tons. Increasing natural gas prices have continued to boost coal prices since mid-January 2004. The forecast for Coal Severance Tax Receipts is based on a time-series autoregressive integrated moving average (ARIMA) model. The model uses July 1987 to December 2004 monthly data which were seasonalized before forecasting using the X12 census methodology.

FY05 receipts are expected to total \$172.4 million and increase 0.5 percent to \$173.2 million in FY06.

Property Taxes

Property taxes are forecast based on historical tax receipts, property 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.

Collections are expected to total \$462.4 million in FY05, 3.0 percent growth over FY04. Receipts of \$486.2 million are expected in FY06.

Kentucky Lottery

Lottery revenues are estimated jointly by staff from GOEA and the Lottery Corporation. The estimates presented to the CFG were accepted. The estimate for FY05 is \$180.0 million and \$167.0 million for FY06.

Other Revenue Sources

The "Other" category contains 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 FY95 to FY04. 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 \$521.6 million in FY05, a decline of 2.7 percent compared to FY04. Expectations are for collections of \$519.3 million in FY06.

Road Fund: Major Accounts

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

Motor fuels taxes are estimated using a structural equation containing the price of oil, wages and salaries, and consumer spending on gasoline. Fuels receipts have experienced strong growth in FY05 due to the formula-driven increase in the tax rate tied to the price of gasoline. The forecasted growth rate for FY05 is 6.7 percent, representing total collections of \$490.8 million. Slightly lower growth rates are expected in FY06. Collections are expected to be \$489.6 million in FY06.

Motor Vehicle Usage

Motor vehicle usage tax receipts were estimated using a structural model with consumer spending on light vehicles as a driver. FY05 receipts have been weak as a result of a tax change in Indiana. Beginning in July 2004, Indiana changed its law and imposed sales tax on nonresident purchases of motor vehicles and granted credit to Indiana residents for sales tax paid in another state. The fiscal impact of this tax law change is a reduction in Kentucky motor vehicle usage tax to the tune of \$9 million annually. Also weakening receipts has been the reduction in U-Drive-It receipts, the tax imposed on vehicle leases and daily car rentals. These factors will have a continued negative impact on FY06 receipts.

Receipts in FY05 are expected to total \$405.5 million, a 5.5 percent decline. The forecast predicts receipts of \$412.7 million in FY06.

Other Revenue Sources

The estimates of these revenue sources are based on econometric models, historical growth patterns, recent statutory changes, and administrative factors that influence the flow of revenues. Tolls and investment income are expected to fall in FY05 relative to FY04 collections. Receipts are forecast to be \$30.5 million in FY05 and \$29.6 million in FY06.

**Revenue Estimates
General Fund and Road Fund
Summary Tables**

**General Fund
CFG Forecast: January 2005
(millions of dollars)**

	<u>FY04</u>		<u>FY05</u>		<u>FY06</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg
Sales & Use	2,447.6	3.5	2,577.4	5.3	2,703.6	4.9
Individual Income	2,796.3	1.8	2,947.2	5.4	3,085.7	4.7
Corporation Inc & Lic	427.4	-0.8	572.0	33.8	530.0	-7.3
Coal Severance	147.5	4.1	172.4	16.9	173.2	0.5
Property	448.8	3.2	462.4	3.0	486.2	5.1
Lottery	173.8	1.6	180.0	3.6	167.0	-7.2
Other	536.3	8.4	521.6	-2.7	519.3	-0.4
Total General Fund	6,977.6	2.9	7,433.0	6.5	7,665.0	3.1

**Road Fund
CFG Forecast FY05 to FY06
(Millions of Dollars)
January 2005**

	<u>%Chg</u>	<u>FY05</u>		<u>FY06</u>	
		Estimate	%Chg	Estimate	%Chg
Motor Fuels & MF Use/Surtax	1.3	490.8	6.7	489.6	-0.2
Motor Vehicle Usage & Rental	-0.9	405.5	-5.5	412.7	1.8
License & Privilege (excl. WD)	18.5	109.1	-3.7	110.3	1.1
Weight Distance Tax/Surtax	3.5	83.5	4.9	84.9	1.7
Tolls	-39.8	6.1	-23.8	6.2	1.6
Investment	-74.2	4.9	-34.7	3.3	-32.7
Other	-10.3	19.8	3.7	20.1	1.5
Total Road Fund	-0.6	1,119.7	0.3	1,127.1	0.7

General Fund Detailed Report FY2004 through FY2006

<u>Source</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Actual 2002-03</u>	<u>Actual 2003-04</u>	<u>Estimate 2004-05</u>	<u>Estimate 2005-06</u>
<u>Selected Sales and Gross Receipts Taxes</u>						
Sales & Use	\$2,248,471,099	\$2,299,990,621	\$2,364,182,478	\$2,447,584,698	\$2,577,400,000	\$2,703,600,000
Cigarette	14,007,582	13,943,208	16,367,947	17,136,198	16,400,000	16,800,000
Distilled Spirits Case Sales	82,528	81,923	85,601	87,662	100,000	100,000
Insurance Tax Foreign Companies	34,775,489	36,058,437	36,904,903	36,735,324	36,800,000	37,200,000
Insurance Tax Companies Other Than Life	59,118,322	65,899,201	74,529,362	79,870,778	84,500,000	90,000,000
Insurance Tax Fire Prevention Fund	2,932,009	3,145,313	3,554,526	3,917,852	4,200,000	4,400,000
Pari-Mutuel	6,182,083	5,179,952	5,953,247	3,629,292	5,100,000	5,500,000
Race Track Admission	216,616	260,232	193,114	232,350	200,000	200,000
Beer Consumption	6,272,031	6,286,734	6,334,169	6,320,886	6,400,000	6,400,000
Distilled Spirits Consumption	8,184,798	8,266,005	8,680,833	8,985,826	8,900,000	9,100,000
Wine Consumption	1,743,393	1,786,985	1,902,818	2,005,265	2,300,000	2,400,000
Beer Wholesale	32,582,888	34,596,592	35,969,890	37,439,919	39,000,000	40,600,000
Distilled Spirits Wholesale	14,809,730	15,129,147	16,088,048	16,957,192	16,600,000	17,300,000
Wine Wholesale	6,102,998	6,396,603	6,795,935	7,306,985	7,400,000	7,700,000
TOTAL SEL. SALES AND GROSS RECEIPTS TAXES	\$2,435,481,566	\$2,497,020,953	\$2,577,542,871	\$2,668,210,228	\$2,805,300,000	\$2,941,300,000
<u>License and Privilege Taxes</u>						
Coal Severance Tax	\$141,553,087	\$160,160,116	\$141,664,981	\$147,498,230	\$172,400,000	\$173,200,000
Mineral Severance Tax	12,710,667	12,355,174	12,580,912	13,711,874	15,000,000	15,000,000
Natural Gas Severance Tax	17,319,884	12,301,781	14,713,486	22,511,188	20,000,000	20,000,000
Oil Production	3,358,037	2,590,722	3,116,954	3,387,884	4,400,000	4,400,000
Corporate License	147,515,403	117,500,770	152,595,257	124,096,012	173,900,000	199,400,000
Cigarette License	73,425	134,707	108,325	104,200	100,000	100,000
Amusement Machine License	0	0	0	30,027	0	0
Race Track License	320,800	37,423	322,825	335,625	300,000	400,000
Marijuana and Controlled Substance Tax	33,936	84,227	84,327	79,300	0	0
Bank Franchise Tax	49,610,220	50,549,168	53,747,906	55,467,195	57,000,000	58,000,000
Corporation Organization	227,655	144,233	190,494	143,804	120,000	100,000
Cir. Ct. Clk. - Driver License Receipts	391,939	505,187	499,003	523,979	540,000	540,000
Sand and Gravel License	375	7,675	5,325	9,475	0	0
Relicensure Fees (Driver's License)	0	0	0	0	0	0
Alcoholic Beverage License Suspension	193,800	220,800	227,850	223,700	206,000	215,000
Convention Center Caterer License				0	0	0
TOTAL LICENSE AND PRIVILEGE TAXES	\$373,309,228	\$356,591,983	\$379,857,645	\$368,122,494	\$443,966,000	\$471,355,000

General Fund Detailed Report FY2004 through FY2006

<u>Source</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Actual 2002-03</u>	<u>Actual 2003-04</u>	<u>Estimate 2004-05</u>	<u>Estimate 2005-06</u>
<u>Income Taxes</u>						
Corporation Income Tax	\$289,931,017	\$207,353,777	\$278,035,794	\$303,262,821	\$398,100,000	330,600,000
Individual Income Tax	2,778,541,444	2,702,510,022	2,746,386,944	2,796,331,049	2,947,200,000	3,085,700,000
Total Income Tax	3,068,472,461	2,909,863,799	3,024,422,738	\$3,099,593,870	\$3,345,300,000	\$3,416,300,000
<u>Property Taxes</u>						
General - Real	\$171,524,695	\$179,678,051	\$186,000,177	\$192,534,530	\$200,250,000	\$208,300,000
General - Tangible Personal	52,476,931	151,308,795	149,426,286	149,155,206	59,800,000	64,600,000
General - Intangible Personal	22,551,152	23,113,567	25,883,197	27,547,183	27,600,000	29,500,000
General - Motor Vehicle	84,592,323	0	0	0	92,850,000	98,500,000
Bank Deposits	412,646	460,335	456,527	467,711	450,000	800,000
Distilled Spirits Ad Valorem	360,248	363,410	442,092	375,637	400,000	500,000
Marginal Accounts	110,331	84,000	64,988	92,585	100,000	100,000
Omitted Property Tax	13,085,599	20,021,804	14,191,378	8,918,539	13,750,000	14,300,000
Delinquent Tax - Prior Year	7,519,863	5,627,788	6,177,245	6,910,687	6,200,000	6,200,000
Apportioned Vehicles	3,397,041	0	0	0	4,500,000	5,400,000
Public Service Company	48,883,924	49,991,359	48,836,372	60,178,393	54,000,000	55,500,000
Domestic Life Insurance	97,197	130,250	107,990	71,672	0	0
Retirement Plans	287	301	624	286	0	0
Building & Loan Assoc. Capital Stock	2,482,623	2,249,927	3,181,373	2,513,083	2,500,000	2,500,000
TOTAL PROPERTY TAXES	\$407,494,860	\$433,029,587	\$434,768,249	\$448,765,511	\$462,400,000	\$486,200,000
<u>Inheritance Taxes</u>						
Inheritance Tax	\$83,461,499	\$83,359,872	\$95,864,480	\$66,083,705	55,600,000	48,700,000
TOTAL INHERITANCE TAXES	\$83,461,499	\$83,359,872	\$95,864,480	\$66,083,705	\$55,600,000	\$48,700,000

General Fund Detailed Report FY2004 through FY2006

<u>Source</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Actual 2002-03</u>	<u>Actual 2003-04</u>	<u>Estimate 2004-05</u>	<u>Estimate 2005-06</u>
<u>Departmental Fees, Sales and Rentals</u>						
Public Service Commission Assessments-	\$12,598,396	\$10,455,826	\$8,702,466	\$5,389,636	11,100,000	11,400,000
Insurance - Retaliatory Taxes & Fees-	1,538,875	782,413	995,980	1,232,900	1,300,000	1,300,000
Sec. of State - Process Agents Fees	1,877,822	2,379,091	2,058,051	1,551,762	1,000,000	1,000,000
Circuit Court Clk. - Civil Filing Fee Receipts-	7,831,066	8,225,087	10,143,841	9,360,018	10,000,000	10,500,000
Circuit Court Clk. - Bond Filing Fee-	537,635	536,451	511,556	535,201	500,000	500,000
Circuit Court Clk. - 10% Bond Fee-	600,182	639,408	690,745	734,486	750,000	770,000
Circuit Court Clk. - Receipts for Services-	2,519,711	2,707,579	3,334,440	3,692,478	3,800,000	3,900,000
Strip Mining & Reclamation Fees-	(97,875)	1,361,074	1,137,775	1,061,100	850,000	850,000
Strip Mining & Reclamation - Fines Coll.	560,331	780,310	614,799	933,135	1,100,000	1,100,000
Master Commissioner Sales-	262,464	542,927	817,390	4,000,000	0	0
Miscellaneous - Pub Advoc; Sec State Fee	1,431,893	1,615,776	1,678,220	3,059,942	2,800,000	2,900,000
TOTAL DEPARTMENT FEES, SALES AND RENTALS	\$29,660,500	\$30,025,942	\$30,685,263	\$ 31,550,658	\$33,200,000	\$34,220,000
<u>Investment Receipts</u>						
General Depository Investment Income **	\$26,390,552	\$8,246,672	(\$8,121,213)	\$3,609	\$0	\$0
Circuit Court Clk. - Interest Income	1,515,296	1,403,291	963,509	1,013,690	1,000,000	1,000,000
Interest on Investments - Withholding Accounts	0	3,692,665	0	6	0	0
Ky Asset/Liab - TRAN	312,000	0	0	0	0	0
TOTAL INVESTMENT RECEIPTS	\$28,217,848	\$13,342,628	(\$7,157,704)	\$1,017,305	\$1,000,000	\$1,000,000
<u>Miscellaneous Revenue</u>						
Lottery	\$157,030,000	\$169,000,000	\$171,000,000	\$173,800,000	\$180,000,000	\$167,000,000
Legal Process - Clk. Supreme Court	135,839	110,921	117,550	122,917	100,000	100,000
Legal Process - Clk. Court of Appeals	4,795	29,641	6,962	10,582	0	0
Dept. of Rev. Legal Process Taxes - Co. Clk.	3,168,663	3,311,157	3,365,438	3,433,858	3,500,000	3,500,000
Dept. of Rev. Penalty & Int. of Co. Officials	(27,212)	(43,338)	(27,368)	(28,970)	0	0
Legal Process - Attorney General's Office	312,381	1,854,641	1,153,141	0	0	0
Judgment Fees for Delinquent Taxes	0	0	0	0	0	0
TVA - In Lieu of Taxes - State Portion	6,046,675	6,814,492	7,660,437	8,146,924	8,300,000	8,300,000
F.H.A. - In Lieu of Taxes	53,225	28,117	46,777	44,751	0	0
R.E.C.C. and R.T.C.C. In Lieu of Taxes	320	310	313	310	0	0
Business Development - In Lieu of Taxes	0	32,322	0	0	0	0
Abandoned Property	9,098,610	5,208,916	8,194,816	32,607,826	22,500,000	2,100,000

General Fund Detailed Report FY2004 through FY2006

<u>Source</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Actual 2002-03</u>	<u>Actual 2003-04</u>	<u>Estimate 2004-05</u>	<u>Estimate 2005-06</u>
Circuit Court Clk. - Fish & Wildlife Fines	\$78,708	\$80,972	\$91,470	\$89,911	\$100,000	\$100,000
Cir. Ct. Clk. - Criminal/Traffic Fines & Costs	39,462,310	38,211,614	43,959,833	48,029,954	45,400,000	46,000,000
Circuit Court Clk. - Bond Forfeitures	869,727	1,221,367	1,466,658	1,447,243	1,800,000	2,400,000
Fines Dept Insurance	0	555,589	638,927	620,619	300,000	300,000
NREP - Haz. Material & Waste - Fines & Pen.	0	0	0	0	0	0
Workplace & Employment Standards, Fees, Fines	0	0	0	1,184,492	1,000,000	1,000,000
Sale of NOx Credits	0	0	0	11,836,125	4,000,000	3,500,000
Unclassified Receipts	21,556	19,737	54,651	2,015		
Other Fines & Unhonored Checks	2,356,294	2,799,560	3,138,781	2,338,414	1,000,000	1,000,000
TOTAL MISCELLANEOUS REVENUE	\$218,611,891	\$229,236,018	\$240,868,386	\$ 283,686,972	\$268,000,000	\$235,300,000
Increased Enforcement Revenues					\$10,200,000	\$20,600,000
MISC. NOT IN REVENUE ESTIMATES	\$9,187,801	\$7,745,769	\$6,606,367	\$10,592,457	\$8,000,000	\$10,000,000
TOTAL GENERAL FUND	\$6,653,897,654	\$6,560,216,551	\$6,783,458,295	\$6,977,623,200	\$7,432,966,000	\$7,664,975,000

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

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

Note: Net New Enforcement Revenue is the result passage of SB 228 by the 2004 General Assembly, which authorized the Revenue Cabinet to collect debts owed to other state agencies. These projected receipts are recognized as a separate tem for estimation purposes, but actual receipts will be credited to the appropriate receipts account when received. **This estimate will be removed after FY06 receipts are posted, as the funds will be included in the base of the various tax accounts after FY06.**

Road Fund Detailed Report FY2004 through FY2006

<u>Source</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Actual 2002-03</u>	<u>Actual 2003-04</u>	<u>Estimated 2004-05</u>	<u>Estimated 2005-06</u>
<u>Sales and Gross Receipts Taxes</u>						
Motor Fuels Normal and Normal Use	\$424,286,240	\$443,933,200	\$453,534,065	459,568,943	\$490,300,000	\$489,100,000
Motor Vehicle Usage	345,120,799	381,398,175	388,959,153	390,977,270	375,000,000	379,700,000
Motor Vehicle Rental Usage	51,619,167	47,840,870	43,877,656	38,225,050	30,500,000	33,000,000
Truck Trip Permits	447,020	383,460	371,406	439,720	500,000	500,000
Sales and Use	-701	0	31,073	30	10,000	10,000
Usage Tax on Buses	72,828	64,173	35,415	40,176	45,000	45,000
Supplemental Fuel Surtax	7,612	3,128	255	0	800	800
Usage Tax on Historical Vehicles	0	0	0	0	0	0
TOTAL SALES AND GROSS RECEIPTS TAX	\$821,552,965	\$873,623,006	\$886,809,023	\$889,251,189	\$896,355,800	\$902,355,800
<u>License and Privilege Taxes</u>						
Drive Away Utility Trailer Permits	\$7,199	\$6,170	\$5,265	7,231	\$7,400	\$7,500
Amateur Radio Plate	9,312	8,772	22,731	10,976	15,000	17,500
Passenger Car License	21,031,596	22,734,325	22,097,048	20,956,381	21,100,000	22,000,000
Truck License - State Share	20,417,994	21,000,668	21,786,155	23,425,053	23,700,000	24,900,000
Motorcycle License	442,979	310,884	358,523	407,070	395,000	385,000
Motorcycle License-Program GA19	226,033	249,880	287,452	326,407	290,000	290,000
Dealers License	297,495	283,715	286,286	283,819	295,000	300,000
Transfer License	544,390	558,197	557,414	549,043	565,000	570,000
Trailer License	1,256,847	1,319,936	1,368,086	1,453,521	1,405,000	1,450,000
County Clerk Penalty	32,337	-51,779	52,938	21,162	55,000	57,000
Bus License - Except City	33,070	44,719	19,398	19,466	27,000	29,000
Bus Certificates and Permits	1,200	2,666	1,363	1,080	1,500	2,000
Taxi License	28,868	29,790	21,306	50,530	55,000	56,000
Truck Permits	71,805	72,560	74,635	76,075	76,500	77,000
Contract Taxicab Permit	14,190	15,905	18,856	18,397	18,500	18,500
Motor Vehicle Operator's License	3,524,010	3,712,024	3,505,875	3,492,150	3,550,000	3,650,000
Motor Vehicle Operator's License-Program GA19	197,568	227,481	241,035	265,450	250,000	275,000
Highway Special Permits	6,598,370	6,298,572	5,793,947	5,942,059	6,000,000	6,300,000
U-Drive-It Permits	28,544	11,450	14,367	10,550	22,000	24,000
U-Drive-Licenses	2,554,706	2,488,915	1,992,421	1,762,494	1,700,000	1,850,000
Junk Yard License	3,947	1,715	5,867	2,544	2,500	3,000

Road Fund Detailed Report FY2004 through FY2006

<u>Source</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Actual 2002-03</u>	<u>Actual 2003-04</u>	<u>Estimated 2004-05</u>	<u>Estimated 2005-06</u>
Historic Vehicle License	151,211	170,753	180,513	229,444	250,000	282,000
Operator's License-Driver Education	576,204	603,190	585,809	565,309	570,000	620,000
Truck Proportional Registration	28,501,808	33,306,638	24,453,378	40,300,779	36,000,000	35,000,000
Operator's License - Photography Program	1,276,363	1,339,710	1,278,109	1,300,965	1,305,000	1,600,000
Industrial Hauling Permits	9,420	4,400	14,937	1,440	10,000	11,000
General Assembly License Plates	2,027	1,830	4,799	2,275	2,100	2,200
Pearl Harbor Survivor Plates	27	58	414	287	27	27
Collegiate Plates	181,221	182,618	541,231	786,879	520,000	530,000
Personalized License Plates	730,775	979,542	995,373	1,031,814	1,100,000	950,000
Army Reserve Plates	137,758	172,975	231,863	335,222	320,000	200,000
Purple Heart Plates	25,587	25,211	25,596	29,062	27,000	27,000
Judicial License Plates	768	776	1,911	890	1,000	1,000
Civil Air Patrol Plates	427	298	525	833	600	700
National Guard License Plates	9,669	8,795	17,781	15,800	19,000	19,000
Civic Event Plates	680	648	1,485	886	1,500	1,600
Street Rod Plates	1,725	2,016	4,485	2,243	4,000	4,000
Fraternal Order of Police Plates	60,108	101,638	261,293	298,709	270,000	230,000
Environmental License Plate	772,962	747,359	940,638	1,371,379	1,200,000	970,000
Dealer Demonstrator Tags	5,104	5,803	5,100	4,474	5,500	6,000
Volunteer Fireman License Tags	36,673	37,865	44,524	59,722	65,000	40,000
P.O.W. License Plates	263	161	2,156	1,209	1,000	1,000
Motor Carrier Identification Cards	4,040,036	5,266,711	5,552,860	5,353,500	5,420,000	5,550,000
Weight Distance Tax	75,170,124	75,265,638	76,851,210	79,574,022	83,500,000	84,900,000
DES License Plates	7,532	7,205	12,743	8,639	8,000	8,200
Child Victims License Plates	135,764	64,559	131,711	222,678	214,000	135,000
Masonic License Plates	35,224	34,806	63,996	47,292	47,000	38,000
Horse Council	0	0	414,230	874,788	820,000	435,000
Temporary Tags	455,236	554,346	485,098	486,427	485,000	490,000
Nonreciprocal Permits	215,075	206,715	198,925	224,450	220,000	230,000
Overweight Coal Truck Permit	727,675	807,089	673,481	725,403	700,000	660,000
TOTAL LICENSE AND PRIVILEGE TAX	\$170,589,906	\$179,225,918	\$172,487,142	\$192,938,278	\$192,616,127	\$195,203,227

Road Fund Detailed Report FY2004 through FY2006

<u>Source</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Actual 2002-03</u>	<u>Actual 2003-04</u>	<u>Estimated 2004-05</u>	<u>Estimated 2005-06</u>
<u>Departmental Fees, Sales and Rentals</u>						
Proposal Sales	\$52,618	\$89,353	\$63,878	56,704	\$165,000	\$176,000
Specification and Blue Print Sales	155,228	389,076	310,681	332,682	310,000	320,000
Miscellaneous Rentals	442,106	427,651	447,465	298,068	550,000	650,000
MVL Computer Services	446,199	414,829	421,143	437,162	455,000	460,000
Fines and Forfeitures	1,061	1,679	1,626	846	1,500	2,000
Traffic Offenders School Fees	2,005,215	1,960,686	1,374,668	1,521,583	1,500,000	1,600,000
Highway Sign Logo Rental	574,179	542,110	538,121	431,368	600,000	610,000
Driving History Record Fee	4,964,264	5,483,192	5,718,503	5,107,705	5,200,000	5,300,000
Operator's License Reinstatement Fees	1,198,791	1,165,566	1,176,506	1,187,660	1,500,000	1,600,000
Operator's License Name Sales	94,791	0	0	0	90,000	90,000
Penalty & Interest - Weight and Use Taxes	1,549,150	1,592,624	1,692,030	1,727,627	1,730,000	1,750,000
Medical Alert Stickers	430	310	236	174	500	500
Motor Vehicle Title Receipts	3,994,387	4,535,787	4,706,886	4,733,919	4,700,000	4,700,000
Proceeds from Asset Disposition	255,910	282,268	2,655,655	827,099	1,260,000	1,370,000
Coal Road Recovery Fines	7,608	3,064	2,729	54,928	3,500	4,000
U-Drive-It Penalty and Interest	36,141	209,935	694,537	62,450	80,000	90,000
TOTAL DEPARTMENT FEES, SALES AND RENTALS	\$15,778,078	\$17,098,130	\$19,804,664	\$16,779,975	\$18,145,500	\$18,722,500

Road Fund Detailed Report FY2004 through FY2006

<u>Source</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Actual 2002-03</u>	<u>Actual 2003-04</u>	<u>Estimated 2004-05</u>	<u>Estimated 2005-06</u>
<u>Toll Facility Income</u>						
Audubon Parkway	\$1,160,716	\$1,383,946	\$1,742,746	1,495,770	\$1,650,000	\$1,700,000
Daniel Boone Parkway	2,499,631	3,348,575	2,836,890	945,735	0	0
Cumberland Parkway	4,490,267	4,478,500	4,062,665	1,022,325	0	0
Green River Parkway	4,260,287	4,574,463	4,621,126	4,494,622	4,450,000	4,500,000
TOTAL TOLL FACILITY INCOME	\$12,410,901	\$13,785,484	\$13,263,427	\$7,958,452	\$6,100,000	\$6,200,000
<u>Investment Income</u>						
Investment Income	\$40,187,239	\$32,156,652	\$29,115,310	7,507,462	\$4,900,000	\$3,300,000
TOTAL INVESTMENT INCOME	\$40,187,239	\$32,156,652	\$29,115,310	\$7,507,462	\$4,900,000	\$3,300,000
<u>Miscellaneous Income</u>						
Property Damage	\$482,206	\$658,050	\$414,227	519,446	\$550,000	\$600,000
Highway Loss Claims		0	0	0	0	0
Highway Miscellaneous Receipts	212,794	107,039	82,086	95,960	140,000	160,000
Cold Check Account	0	0	0	0	0	0
Motor Carrier - Misc.	0	0	0	0	0	0
Gain on Disposition of Investment	0	0	0	0	0	0
Other State Grants	0	147,632	0	0	0	0
Mass Transit - Local Grants	0	0	0	0	0	0
Off-Systems Local Grants	0	0	0	0	0	0
Toll Credit Card Receipts	133,562	118,745	109,648	70,715	75,500	75,000
Tax Clearing Account	0	0	0	0	0	0
Higher Education Equine Fund	0	0	0	0	0	0
Coal Severance	0	0	0	0	0	0
Legal Processs - County Court Clerk	0	0	0	0	0	0
Inheritance and Estate Tax	0	0	0	0	0	0
Individual Income Tax	0	0	0	0	0	0
TOTAL MISCELLANEOUS INCOME	\$828,562	\$1,031,466	\$605,961	\$686,121	\$765,500	\$835,000
MISC. NOT IN REVENUE ESTIMATES	\$2,833,900	\$2,084,661	\$1,017,577	1,612,799	\$820,000	\$510,000
TOTAL ROAD FUND REVENUE	\$1,064,181,551	\$1,119,005,317	\$1,123,103,104	\$1,116,734,276	\$1,119,702,927	\$1,127,126,527

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 received “initial” payments, which are distinct from the “annual” payments (which are ongoing). The initial payments ended in 2003. The annual payments commenced in 2000 and continue indefinitely. 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. To date, Kentucky has received \$621.1 million from the MSA.

Risks to the MSA Payments

Non-Participating Manufacturer (NPM) Adjustment – 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. A reduction to state payments is made for states that fail to enact and diligently enforce a model statute.

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. Since our statute is in place and will be continuously enforced, we should not incur any additional NPM adjustments. The Office of the Attorney General, in conjunction with the Office of State Budget Director and the Revenue Cabinet, has diligently undertaken enforcement proceedings against manufacturers who have not fully funded required escrow accounts.

Two recently enacted bills, House Bill 390 in 2003 and House Bill 97 in 2004 further insulated KY from future NPM adjustments and added evidence of our diligent enforcement of the MSA. HB 390 was the complementary legislation that created the directory of cigarette brands that could be legally sold within the Commonwealth. It has been an overwhelming success in enforcing the MSA in Kentucky. HB 97 was the allocable share cap bill which closed a loophole in the MSA and escrow statutes that allowed NPM cigarette companies to park their escrow requirement in their account for a few days until their cap release application was processed. The bill disallowed these cap release applications, thus creating an escrow pool of funds the state can use for recovery in the event that legal judgment is ever awarded against an NPM escrow payer.

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, Department of Revenue, 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 2003 and 2004 Payments – Kentucky received \$130.8 million in MSA payments during FY03 and \$109.5 million in FY04. The budgeted receipts for FY05 and FY06 are \$108.8 and \$108.6 million, respectfully.

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.

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.

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 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 budgeted MSA receipts to account for these NPM adjustments.

APPENDIX A

RECEIPTS FIRST HALF OF FISCAL YEAR 2005

KENTUCKY STATE GOVERNMENT REVENUE - GENERAL FUND REVENUE

	Second Quarter 2004 - 2005	Second Quarter 2003 - 2004	% Change	Year-To_Date 2004 - 2005	Year-To_Date 2003 - 2004	% Change
TOTAL GENERAL FUND	\$1,962,218,917	\$1,824,676,249	7.5%	\$3,723,601,370	\$3,452,905,759	7.8%
Tax Receipts	\$1,861,262,978	\$1,737,578,017	7.1	\$3,548,740,778	\$3,297,045,119	7.6%
Sales and Gross Receipts	\$678,980,630	\$656,430,520	3.4	\$1,373,754,417	\$1,309,513,530	4.9%
Beer Consumption	1,455,112	1,420,429	2.4	3,289,881	3,132,643	5.0
Beer Wholesale	9,045,064	8,515,185	6.2	19,574,916	18,905,033	3.5
Cigarette	3,915,926	4,177,808	-6.3	7,914,017	8,227,463	-3.8
Distilled Spirits Case Sales	23,103	21,904	5.5	45,362	43,585	4.1
Distilled Spirits Consumption	2,166,104	2,245,393	-3.5	4,456,738	4,465,676	-0.2
Distilled Spirits Wholesale	4,555,547	4,265,040	6.8	8,787,233	8,324,867	5.6
Insurance Premium	10,785,462	12,265,054	-12.1	35,929,070	34,762,400	3.4
Pari-Mutuel	1,384,142	750,121	84.5	1,402,860	750,109	87.0
Race Track Admission	55,418	58,931	-6.0	154,401	188,841	-18.2
Sales and Use	642,791,567	620,269,287	3.6	1,287,202,262	1,226,196,446	5.0
Wine Wholesale	2,059,924	1,925,476	7.0	3,773,734	3,534,153	6.8
License and Privilege	\$73,250,053	\$59,422,242	23.3%	\$139,643,507	\$113,664,779	22.9%
Alc. Bev. License Suspension	41,600	41,200	1.0	103,850	122,450	-15.2
Coal Severance	44,115,301	35,408,561	24.6	87,008,973	69,581,015	25.0
Corporation License	18,476,265	13,212,753	39.8	31,967,320	23,581,697	35.6
Corporation Organization	38,001	58,213	-34.7	58,344	77,173	-24.4
Occupational Licenses	24,307	14,676	65.6	81,288	54,150	50.1
Oil Production	1,223,151	755,416	61.9	2,241,855	1,571,230	42.7
Race Track License	103,750	118,925	-12.8	263,250	284,125	-7.3
Bank Franchise Tax	(202,048)	(1,853)	—	7,241	(454,538)	—
Driver License Fees	129,249	122,441	5.6	271,791	256,583	5.9
Minerals Severance	3,926,332	4,413,171	-11.0	7,626,179	8,242,744	-7.5
Natural Gas Severance	5,374,145	5,278,739	1.8	10,013,417	10,348,150	-3.2
Income	\$835,353,064	\$771,085,907	8.3%	\$1,694,980,980	\$1,553,883,369	9.1%
Corporation	96,255,629	71,354,496	34.9	214,272,655	150,405,835	42.5
Individual	739,097,435	699,731,411	5.6	1,480,708,325	1,403,477,534	5.5
Property	\$253,029,671	\$224,439,004	12.7%	\$291,591,783	\$265,451,957	9.8%
Bank Deposits	0	(279)	—	0	(279)	—
Building & Loan Association	0	0	—	71,384	36,375	96.2
Distilled Spirits	87,769	234,935	-62.6	87,769	264,670	-66.8
General - Intangible	20,294,490	21,550,380	-5.8	20,298,320	21,477,621	-5.5
General - Real	136,386,530	122,776,207	11.1	136,609,630	122,831,185	11.2
General - Tangible	65,085,999	61,055,235	6.6	86,807,551	76,958,174	12.8
Omitted & Delinquent	6,605,289	3,008,775	119.5	11,361,580	5,817,451	95.3
Public Service	24,564,927	15,762,469	55.8	36,335,053	38,003,455	-4.4
Other	4,667	51,283	-90.9	20,497	63,304	-67.6
Inheritance	\$12,513,315	\$17,417,289	-28.2%	\$31,672,876	\$36,566,560	-13.4%
Miscellaneous	\$8,136,246	\$8,783,054	-7.4%	\$17,097,216	\$17,964,923	-4.8%
Legal Process	5,947,534	6,603,950	-9.9	12,881,674	13,849,486	-7.0
T. V. A. In Lieu Payments	2,169,899	2,156,929	0.6	4,196,730	4,093,262	2.5
Other	18,813	22,175	—	18,813	22,175	-15.2
Nontax Receipts	\$99,695,567	\$85,360,274	16.8%	\$172,257,253	\$148,973,899	15.6%
Departmental Fees	5,092,736	5,170,194	-1.5	11,060,044	11,141,417	-0.7
PSC Assessment Fee	75,361	1,754	4197.5	11,108,369	5,446,193	104.0%
Fines & Forfeitures	6,262,042	7,733,579	-19.0	12,842,763	14,494,560	-11.4
Interest on Investments	199,013	351,311	-43.4	440,215	598,821	-26.5
Lottery	41,752,000	40,000,000	4.4	86,752,000	82,800,000	4.8
Sale of NOx Credits	—	—	—	3,340,425	5,364,325	—
Miscellaneous	46,204,415	29,670,361	—	46,713,438	29,128,582	60.4
Redeposit of State Funds	\$1,260,372	\$1,737,959	-27.5%	\$2,603,339	\$6,886,742	-62.2%

KENTUCKY STATE GOVERNMENT REVENUE - ROAD FUND REVENUE

	Second Quarter 2004 - 2005	Second Quarter 2003 - 2004	% Change	Year-To-Date 2004 - 2005	Year-To-Date 2003 - 2004	% Change
TOTAL ROAD FUND	\$256,663,036	\$258,345,178	-0.7%	\$542,568,469	\$551,918,494	-1.7%
Tax Receipts-	\$249,531,336	\$251,812,298	-0.9%	\$527,833,716	\$531,996,155	-0.8%
Sales and Gross Receipts	\$208,570,222	\$211,973,554	-1.6%	\$445,088,069	\$447,445,775	-0.5%
Motor Fuels Taxes	112,616,058	108,681,999	3.6	234,486,374	220,850,733	6.2
Motor Fuels Use & Surtax	3,585,481	5,269,623	-32.0	8,586,467	9,897,977	-13.3
Truck Trip Permits (fuel)	103,415	106,600	-3.0	237,580	204,120	16.4
Motor Vehicle Usage	92,265,268	97,915,332	-5.8	201,777,648	216,492,946	-6.8
License and Privilege	\$40,961,113	\$39,838,744	2.8%	\$82,745,647	\$84,550,380	-2.1%
Motor Vehicles	14,512,307	15,422,496	-5.9	31,338,262	36,733,066	-14.7
Motor Vehicle Operators	1,399,627	1,392,199	0.5	3,031,645	2,809,168	7.9
Weight Distance	20,825,566	19,630,044	6.1	41,612,294	39,308,177	5.9
Truck Decal Fees	678,944	19,717	3343.4	810,472	52,511	1443.4
Other Special Fees	3,544,669	3,374,287	5.0	5,952,974	5,647,458	5.4
Nontax Receipts	\$6,899,806	\$6,036,427	14.3%	\$14,357,482	\$19,156,931	-25.1%
Departmental Fees	4,114,439	3,295,291	24.9	8,580,313	7,218,718	18.9
In Lieu of Traffic Fines	325,579	373,217	-12.8	694,884	766,803	-9.4
Highway Tolls	1,481,524	1,561,921	-5.1	3,113,743	4,772,210	-34.8
Investment Income	824,778	619,250	33.2	1,724,629	6,047,091	-71.5
Miscellaneous	153,486	186,748	-17.8	243,913	352,108	-30.7
Redeposit of State Funds	\$231,895	\$496,453	-53.3%	\$377,271	\$765,408	-50.7%

APPENDIX B

SUMMARY STATISTICS FOR GENERAL AND ROAD FUNDS

MAJOR REVENUE SOURCES FISCAL YEARS 1995—2004



**SUMMARY STATISTICS FOR GENERAL FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1995-2004**

	1994-95	1995-96	1996-97	1997-98	1998-99
TOTAL GENERAL FUND	5,154,077,980	5,336,883,824	5,663,553,289	6,011,806,562	6,198,387,526
Tax Receipts	4,931,201,083	5,095,157,184	5,408,832,505	5,722,452,611	5,917,216,646
Sales and Gross Receipts	1,843,565,719	1,954,857,546	2,052,228,340	2,155,185,940	2,263,517,959
Beer Consumption	6,035,436	5,883,182	5,931,508	6,149,889	6,258,224
Beer Wholesale	27,776,733	28,606,167	28,898,911	29,787,991	30,612,099
Cigarette ¹	15,126,270	15,680,704	16,044,967	15,130,443	14,673,839
Distilled Spirits Case Sales	80,184	80,745	79,931	79,121	78,333
Distilled Spirits Consumption	7,879,647	8,034,386	7,878,267	7,926,002	7,955,925
Distilled Spirits Wholesale	11,937,768	12,378,310	12,590,305	12,974,726	13,398,478
Insurance Premium	81,811,363	87,295,673	85,917,179	90,231,192	90,171,779
Pari-Mutuel	7,256,986	7,148,951	5,911,958	4,845,922	7,179,163
Race Track Admission	292,791	257,804	207,489	211,759	241,307
Sales and Use	1,680,520,815	1,783,881,316	1,882,681,995	1,981,297,580	2,085,899,677
Wine Consumption	1,340,373	1,518,350	1,538,033	1,615,634	1,625,711
Wine Wholesale	3,507,353	4,091,958	4,547,795	4,935,682	5,423,425
License and Privilege	299,418,671	282,361,213	340,636,686	338,964,050	349,549,943
Alc. Bev. License & Suspension	1,987,478	1,867,529	1,996,165	549,768	87,800
Coal Severance	179,116,944	166,101,045	163,545,844	163,731,038	154,476,772
Corporation License	97,460,158	90,525,391	107,498,746	112,793,160	125,912,523
Corporation Organization	137,679	531,122	315,593	1,001,719	500,429
Occupational Licenses	115,347	303,636	124,500	92,140	99,658
Oil Production	2,784,562	2,644,656	3,044,497	2,135,212	1,344,942
Race Track License	470,525	410,150	438,529	407,750	395,525
Bank Franchise Tax ²	—	—	40,878,664	35,059,801	47,059,959
Driver License Fees	2,562,364	2,598,899	2,742,540	3,001,375	717,453
Minerals Severance	8,811,130	9,349,609	10,443,023	11,115,009	11,848,098
Natural Gas Severance	5,972,484	8,029,176	9,608,586	9,077,076	7,106,785
Income	2,305,755,898	2,359,304,740	2,497,776,090	2,751,810,830	2,844,072,023
Corporation	340,912,408	284,732,573	292,753,126	333,666,392	312,066,675
Individual	1,964,843,490	2,074,572,167	2,205,022,964	2,418,144,438	2,532,005,348
Property	395,324,665	409,176,706	414,858,124	362,792,504	370,404,549
Bank Deposits	307,499	297,123	611,478	324,856	398,666
Building & Loan Association	5,814,835	3,565,375	5,799,678	4,533,322	3,046,010
Distilled Spirits	383,149	395,819	390,594	389,838	417,610
General - Intangible ³	83,479,482	66,489,089	46,631,437	21,129,328	18,103,920
General - Real ⁴	133,200,108	142,728,406	170,063,059	154,245,454	161,723,137
General - Tangible ⁴	114,122,717	137,812,773	124,637,468	125,753,465	125,564,658
Omitted & Delinquent	17,615,172	17,199,556	15,098,758	13,019,424	11,926,947
Public Service	36,190,212	37,253,318	49,915,716	43,528,408	50,461,577
Other	4,211,492	3,435,248	1,709,936	(131,590)	(1,237,976)
Inheritance⁵	79,511,634	81,441,427	95,287,282	105,538,130	81,483,083
Miscellaneous	7,624,496	8,015,552	8,045,984	8,161,157	8,189,088
Legal Process	3,284,035	3,324,992	3,341,859	3,468,753	3,568,621
T. V. A. In Lieu Payments	4,291,288	4,654,340	4,550,012	4,646,467	4,586,009
Other	49,173	36,220	154,113	45,937	34,458
Nontax Receipts	220,634,146	238,968,407	252,375,721	284,461,380	272,298,984
Departmental Fees ⁶	21,171,787	19,994,129	22,588,313	21,975,158	26,095,000
PSC Assessment Fee ⁶	—	—	—	—	—
Fines & Forfeitures	33,956,709	33,858,903	38,909,723	40,670,559	45,023,992
Interest on Investments	21,149,726	30,397,988	30,966,219	60,019,607	38,324,530
Lottery	136,000,000	147,000,000	151,000,000	153,000,000	153,800,000
Sale of NOx Credits ⁷	—	—	—	—	—
Miscellaneous	8,355,924	7,717,386	8,911,466	8,796,056	9,055,462
Redeposit of State Funds	2,242,751	2,758,234	2,345,063	4,892,572	8,871,896

(Footnotes appear at end of table)

**SUMMARY STATISTICS FOR GENERAL FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1995-2004**

	1999-00	2000-01	2001-02	2002-03	2003-04
TOTAL GENERAL FUND	6,478,385,032	6,653,897,653	6,560,216,551	6,783,458,295	6,977,623,200
Tax Receipts	6,200,475,504	6,377,917,219	6,292,004,457	6,543,157,657	6,686,290,589
Sales and Gross Receipts	2,356,212,660	2,435,481,566	2,497,020,953	2,577,542,870	2,668,210,228
Beer Consumption	6,284,242	6,272,031	6,286,734	6,334,169	6,320,886
Beer Wholesale	32,101,648	32,582,889	34,596,592	35,969,890	37,439,919
Cigarette ¹	14,184,888	14,007,582	13,943,208	16,367,947	17,136,198
Distilled Spirits Case Sales	82,871	82,529	81,922	85,601	87,662
Distilled Spirits Consumption	8,211,541	8,184,798	8,266,005	8,680,833	8,985,826
Distilled Spirits Wholesale	14,055,368	14,809,730	15,129,146	16,088,048	16,957,192
Insurance Premium	95,355,564	96,825,818	105,102,951	114,988,790	120,523,955
Pari-Mutuel	6,645,098	6,182,083	5,179,952	5,953,247	3,629,292
Race Track Admission	220,824	216,615	260,232	193,114	232,350
Sales and Use	2,171,397,969	2,248,471,100	2,299,990,621	2,364,182,478	2,447,584,698
Wine Consumption	1,748,839	1,743,393	1,786,984	1,902,818	2,005,265
Wine Wholesale	5,923,809	6,102,998	6,396,603	6,795,936	7,306,985
License and Privilege	364,098,883	373,309,229	356,591,984	379,857,645	368,122,494
Alc. Bev. License & Suspension	49,150	193,800	220,800	227,850	223,700
Coal Severance	145,139,909	141,553,087	160,160,116	141,664,981	147,498,230
Corporation License	139,127,819	147,515,402	117,500,770	152,595,257	124,096,012
Corporation Organization	369,916	227,655	144,233	190,494	143,804
Occupational Licenses	132,811	107,737	226,609	197,977	223,002
Oil Production	2,967,395	3,358,036	2,590,722	3,116,954	3,387,884
Race Track License	405,500	320,800	37,423	322,825	335,625
Bank Franchise Tax ²	53,061,798	49,610,220	50,549,169	53,747,906	55,467,195
Driver License Fees	475,167	391,939	505,187	499,003	523,979
Minerals Severance	13,923,246	12,710,667	12,355,174	12,580,912	13,711,874
Natural Gas Severance	8,446,173	17,319,885	12,301,781	14,713,486	22,511,188
Income	3,008,055,957	3,068,472,461	2,909,863,799	3,024,422,738	3,099,593,870
Corporation	306,442,050	289,931,017	207,353,777	278,035,794	303,262,821
Individual	2,701,613,908	2,778,541,444	2,702,510,022	2,746,386,944	2,796,331,049
Property	387,257,800	407,494,858	433,029,587	434,768,249	448,765,511
Bank Deposits	433,962	412,646	460,334	456,527	467,711
Building & Loan Association	2,491,414	2,482,623	2,249,927	3,181,373	2,513,083
Distilled Spirits	443,880	360,248	363,410	442,092	375,637
General - Intangible ³	22,721,743	22,551,153	23,113,567	25,883,197	27,547,183
General - Real ⁴	167,326,472	171,524,695	179,678,050	186,000,177	192,534,530
General - Tangible ⁴	130,960,896	140,466,295	151,308,795	149,426,286	149,155,206
Omitted & Delinquent	15,543,134	20,605,462	25,649,592	20,368,623	15,829,225
Public Service	46,882,427	48,883,924	49,991,359	48,836,372	60,178,393
Other	453,871	207,812	214,551	173,603	164,542
Inheritance⁵	74,489,981	83,461,499	83,359,872	95,864,480	66,083,705
Miscellaneous	10,360,222	9,697,606	12,138,263	30,701,674	35,514,782
Legal Process	3,457,280	3,597,385	5,263,021	22,994,148	27,322,798
T. V. A. In Lieu Payments	6,842,117	6,046,676	6,814,492	7,660,437	8,146,924
Other	60,824	53,545	60,750	47,090	45,061
Nontax Receipts	271,911,197	266,792,632	260,466,324	233,694,271	280,871,754
Departmental Fees ⁶	32,719,509	17,062,102	19,570,116	21,982,797	22,161,022
PSC Assessment Fee ⁶		12,598,397	10,455,826	8,702,466	5,389,636
Fines & Forfeitures	46,056,986	40,749,856	40,069,496	28,888,326	27,991,293
Interest on Investments	28,077,454	28,217,850	13,342,627	(7,157,704)	1,017,305
Lottery	156,300,000	157,030,000	169,000,000	171,000,000	173,800,000
Sale of NOx Credits ⁷	---	---	---	---	1183612500.0%
Miscellaneous	8,757,248	11,134,428	8,028,259	10,278,386	38,676,373
Redeposit of State Funds	5,998,332	9,187,802	7,745,769	6,606,367	10,460,857

(Footnotes appear at end of table)

**GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1995-2004**

	1994-95	1995-96	1996-97	1997-98	1998-99
TOTAL GENERAL FUND	10.9%	3.5%	6.1%	6.1%	3.1%
Tax Receipts	10.6%	3.3%	6.2%	5.8%	3.4%
Sales and Gross Receipts	7.1%	6.0%	5.0%	5.0%	5.0%
Beer Consumption	1.4%	-2.5%	0.8%	3.7%	1.8%
Beer Wholesale	4.4%	3.0%	1.0%	3.1%	2.8%
Cigarette	5.9%	3.7%	2.3%	-5.7%	-3.0%
Distilled Spirits Case Sales	-1.5%	0.7%	-1.0%	-1.0%	-1.0%
Distilled Spirits Consumption	-0.8%	2.0%	-1.9%	0.6%	0.4%
Distilled Spirits Wholesale	0.0%	3.7%	1.7%	3.1%	3.3%
Insurance Premium	-1.4%	6.7%	-1.6%	5.0%	-0.1%
Pari-Mutuel	18.3%	-1.5%	-17.3%	-18.0%	48.1%
Race Track Admission	21.9%	-11.9%	-19.5%	2.1%	14.0%
Sales and Use	7.7%	6.2%	5.5%	5.2%	5.3%
Wine Consumption	5.1%	13.3%	1.3%	5.0%	0.6%
Wine Wholesale	9.0%	16.7%	11.1%	8.5%	9.9%
License and Privilege	4.5%	-5.7%	20.6%	-0.5%	3.1%
Alc. Bev. License Suspension	9.5%	-6.0%	6.9%	-72.5%	-84.0%
Coal Severance	-0.4%	-7.3%	-1.5%	0.1%	-5.7%
Corporation License	18.8%	-7.1%	18.7%	4.9%	11.6%
Corporation Organization	-29.5%	285.8%	-40.6%	217.4%	-50.0%
Occupational Licenses	-31.1%	163.2%	-59.0%	-26.0%	8.2%
Oil Production	3.2%	-5.0%	15.1%	-29.9%	-37.0%
Race Track License	30.3%	-12.8%	6.9%	-7.0%	-3.0%
Bank Franchise Tax				-14.2%	34.2%
Driver License Fees	-1.3%	1.4%	5.5%	9.4%	-76.1%
Minerals Severance	8.3%	6.1%	11.7%	6.4%	6.6%
Natural Gas Severance	-30.4%	34.4%	19.7%	-5.5%	-21.7%
Income	15.4%	2.3%	5.9%	10.2%	3.4%
Corporation	26.7%	-16.5%	2.8%	14.0%	-6.5%
Individual	13.6%	5.6%	6.3%	9.7%	4.7%
Property	6.8%	3.5%	1.4%	-12.6%	2.1%
Bank Deposits	3.4%	-3.4%	105.8%	-46.9%	22.7%
Building & Loan Association	12.9%	-38.7%	62.7%	-21.8%	-32.8%
Distilled Spirits	-1.5%	3.3%	-1.3%	-0.2%	7.1%
General - Intangible	7.9%	-20.4%	-29.9%	-54.7%	-14.3%
General - Real	0.8%	7.2%	19.2%	-9.3%	4.8%
General - Tangible	9.2%	20.8%	-9.6%	0.9%	-0.2%
Omitted & Delinquent	44.3%	-2.4%	-12.2%	-13.8%	-8.4%
Public Service	3.9%	2.9%	34.0%	-12.8%	15.9%
Other	26.8%	-18.4%	-50.2%	-107.7%	840.8%
Inheritance	4.4%	2.4%	17.0%	10.8%	-22.8%
Miscellaneous	-3.0%	5.1%	0.4%	1.4%	0.3%
Legal Process	-12.5%	1.2%	0.5%	3.8%	2.9%
T. V. A. In Lieu Payments	5.1%	8.5%	-2.2%	2.1%	-1.3%
Other	113.5%	-26.3%	325.5%	-70.2%	-25.0%
Nontax Receipts	19.1%	8.3%	5.6%	12.7%	-4.3%
Departmental Fees	1.8%	-5.6%	13.0%	-2.7%	18.7%
PSC Assessment Fee					
Fines & Forfeitures	-1.1%	-0.3%	14.9%	4.5%	10.7%
Interest on Investments	59.8%	43.7%	1.9%	93.8%	-36.1%
Lottery	19.3%	8.1%	2.7%	1.3%	0.5%
Sale of NOx Credits					
Miscellaneous	191.8%	-7.6%	15.5%	-1.3%	2.9%
Redeposit of State Funds	0.9%	23.0%	-15.0%	108.6%	81.3%

(Footnotes appear at end of table)

**GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1995-2004**

	1999-00	2000-01	2001-02	2002-03	2003-04
TOTAL GENERAL FUND	4.5%	2.7%	-1.4%	3.4%	2.9%
Tax Receipts	4.8%	2.9%	-1.3%	4.0%	2.2%
Sales and Gross Receipts	4.1%	3.4%	2.5%	3.2%	3.5%
Beer Consumption	0.4%	-0.2%	0.2%	0.8%	-0.2%
Beer Wholesale	4.9%	1.5%	6.2%	4.0%	4.1%
Cigarette	-3.3%	-1.2%	-0.5%	17.4%	4.7%
Distilled Spirits Case Sales	5.8%	-0.4%	-0.7%	4.5%	2.4%
Distilled Spirits Consumption	3.2%	-0.3%	1.0%	5.0%	3.5%
Distilled Spirits Wholesale	4.9%	5.4%	2.2%	6.3%	5.4%
Insurance Premium	5.7%	1.5%	8.5%	9.4%	4.8%
Pari-Mutuel	-7.4%	-7.0%	-16.2%	14.9%	-39.0%
Race Track Admission	-8.5%	-1.9%	20.1%	-25.8%	20.3%
Sales and Use	4.1%	3.5%	2.3%	2.8%	3.5%
Wine Consumption	7.6%	-0.3%	2.5%	6.5%	5.4%
Wine Wholesale	9.2%	3.0%	4.8%	6.2%	7.5%
License and Privilege	4.2%	2.5%	-4.5%	6.5%	-3.1%
Alc. Bev. License Suspension	-44.0%	294.3%	13.9%	3.2%	-1.8%
Coal Severance	-6.0%	-2.5%	13.1%	-11.5%	4.1%
Corporation License	10.5%	6.0%	-20.3%	29.9%	-18.7%
Corporation Organization	-26.1%	-38.5%	-36.6%	32.1%	-24.5%
Occupational Licenses	33.3%	-18.9%	110.3%	-12.6%	12.6%
Oil Production	120.6%	13.2%	-22.9%	20.3%	8.7%
Race Track License	2.5%	-20.9%	-88.3%	762.6%	4.0%
Bank Franchise Tax	12.8%	-6.5%	1.9%	6.3%	3.2%
Driver License Fees	-33.8%	-17.5%	28.9%	-1.2%	5.0%
Minerals Severance	17.5%	-8.7%	-2.8%	1.8%	9.0%
Natural Gas Severance	18.8%	105.1%	-29.0%	19.6%	53.0%
Income	5.8%	2.0%	-5.2%	3.9%	2.5%
Corporation	-1.8%	-5.4%	-28.5%	34.1%	9.1%
Individual	6.7%	2.8%	-2.7%	1.6%	1.8%
Property	4.5%	5.2%	6.3%	0.4%	3.2%
Bank Deposits	8.9%	-4.9%	11.6%	-0.8%	2.4%
Building & Loan Association	-18.2%	-0.4%	-9.4%	41.4%	-21.0%
Distilled Spirits	6.3%	-18.8%	0.9%	21.7%	-15.0%
General - Intangible	25.5%	-0.8%	2.5%	12.0%	6.4%
General - Real	3.5%	2.5%	4.8%	3.5%	3.5%
General - Tangible	4.3%	7.3%	7.7%	-1.2%	-0.2%
Omitted & Delinquent	30.3%	32.6%	24.5%	-20.6%	-22.3%
Public Service	-7.1%	4.3%	2.3%	-2.3%	23.2%
Other	---	---	3.2%	-19.1%	-5.2%
Inheritance	-8.6%	12.0%	-0.1%	15.0%	-31.1%
Miscellaneous	26.5%	-6.4%	25.2%	152.9%	15.7%
Legal Process	-3.1%	4.1%	46.3%	336.9%	18.8%
T. V. A. In Lieu Payments	49.2%	-11.6%	12.7%	12.4%	6.4%
Other	76.5%	-12.0%	13.5%	-22.5%	-4.3%
Nontax Receipts	-0.1%	-1.9%	-2.4%	-10.3%	20.2%
Departmental Fees	25.4%	-9.3%	14.7%	12.3%	0.8%
PSC Assessment Fee			-17.0%	-16.8%	-38.1%
Fines & Forfeitures	2.3%	-11.5%	-1.7%	-27.9%	-3.1%
Interest on Investments	-26.7%	0.5%	-52.7%	---	---
Lottery	1.6%	0.5%	7.6%	1.2%	1.6%
Sale of NOx Credits					---
Miscellaneous	-3.3%	27.1%	-27.9%	28.0%	276.3%
Redeposit of State Funds	-32.4%	53.2%	-15.7%	-14.7%	58.3%

(Footnotes appear at end of table)

**SUMMARY STATISTICS FOR ROAD FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1995-2004**

	1994-95	1995-96	1996-97	1997-98	1998-99
TOTAL STATE ROAD FUND	900,619,387	939,910,490	960,183,780	1,011,789,674	1,056,596,153
Tax Receipts-	851,156,031	879,869,850	901,229,996	942,129,035	991,641,312
Sales and Gross Receipts	703,880,479	729,001,622	748,015,044	780,911,374	820,802,014
Motor Fuels Taxes	373,316,977	378,142,941	390,688,336	396,123,781	427,848,100
Motor Fuels Use & Surtax	23,052,951	22,554,473	15,316,702	17,473,744	16,853,163
Truck Trip Permits (fuel)	643,851	629,763	492,400	521,868	441,870
Motor Vehicle Usage	306,866,700	327,674,445	341,517,606	366,791,982	375,658,882
License and Privilege	147,275,552	150,868,228	153,214,952	161,217,661	170,839,298
Motor Vehicles	68,227,896	72,764,120	71,324,666	74,397,814	80,133,334
Motor Vehicle Operators	5,170,423	5,110,387	5,355,648	5,610,817	5,400,685
Weight Distance	57,224,943	59,809,913	63,061,494	66,665,457	70,155,867
Truck Decal Fees	941,578	858,903	818,525	808,104	822,074
Other Special Fees	15,710,712	12,324,905	12,654,620	13,735,469	14,327,339
Nontax Receipts	49,152,084	58,356,382	58,796,377	69,349,054	64,340,643
Departmental Fees	11,376,506	9,805,190	11,096,006	12,026,690	12,949,131
In Lieu of Traffic Fines	984,243	1,011,351	1,255,822	1,344,786	1,575,742
Highway Tolls	11,668,786	11,896,026	12,585,961	12,998,548	13,342,667
Investment Income	22,298,038	33,779,249	31,833,792	41,950,532	35,588,653
Miscellaneous	2,824,510	1,864,566	2,024,797	1,028,499	884,451
Redeposit of State Funds	311,272	1,684,258	157,407	311,586	614,199

(Footnotes appear at end of table)

	1999-00	2000-01	2001-02	2002-03	2003-04
TOTAL STATE ROAD FUND	1,090,777,822	1,064,181,565	1,119,005,317	1,123,103,133	1,116,734,272
Tax Receipts-	1,031,467,147	992,142,884	1,052,848,911	1,059,296,184	1,082,189,464
Sales and Gross Receipts	849,700,352	821,552,966	873,623,010	886,809,027	889,251,190
Motor Fuels Taxes	423,876,351	408,801,115	429,812,296	438,564,438	441,382,996
Motor Fuels Use & Surtax	15,905,613	15,492,738	14,124,035	14,969,884	18,185,947
Truck Trip Permits (fuel)	451,689	447,020	383,460	371,406	439,720
Motor Vehicle Usage	409,466,699	396,812,093	429,303,220	432,903,299	429,242,527
License and Privilege	181,766,795	170,589,918	179,225,901	172,487,157	192,938,274
Motor Vehicles	85,623,787	76,861,958	84,510,332	76,192,363	93,388,573
Motor Vehicle Operators	5,689,329	5,592,769	5,564,009	5,610,829	5,623,874
Weight Distance	75,144,201	75,170,141	75,265,639	76,851,211	79,574,022
Truck Decal Fees	738,342	727,675	807,089	673,481	725,403
Other Special Fees	14,571,136	12,237,376	13,078,832	13,159,273	13,626,402
Nontax Receipts	58,580,537	69,204,781	64,071,745	62,789,372	32,932,009
Departmental Fees	13,184,983	13,772,863	15,137,452	18,430,002	15,258,391
In Lieu of Traffic Fines	1,662,261	2,005,215	1,960,687	1,374,668	1,521,583
Highway Tolls	13,474,101	12,410,901	13,785,486	13,263,429	7,958,452
Investment Income	29,418,349	40,187,239	32,156,652	29,115,311	7,507,462
Miscellaneous	840,843	828,562	1,031,468	605,962	686,121
Redeposit of State Funds	730,138	2,833,900	2,084,661	1,017,577	1,612,799

(Footnotes appear at end of table)

**ROAD FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1995-2004**

	1994-95	1995-96	1996-97	1997-98	1998-99
TOTAL STATE ROAD FUND	4.4%	4.4%	2.2%	5.4%	4.4%
Tax Receipts-	3.9%	3.4%	2.4%	4.5%	5.3%
Sales and Gross Receipts	4.2%	3.6%	2.6%	4.4%	5.1%
Motor Fuels Taxes	4.2%	1.3%	3.3%	1.4%	8.0%
Motor Fuels Use & Surtax	7.7%	-2.2%	-32.1%	14.1%	-3.6%
Truck Trip Permits (fuel)	12.6%	-2.2%	-21.8%	6.0%	-15.3%
Motor Vehicle Usage	3.9%	6.8%	4.2%	7.4%	2.4%
License and Privilege	2.4%	2.4%	1.6%	5.2%	6.0%
Motor Vehicles	3.1%	6.6%	-2.0%	4.3%	7.7%
Motor Vehicle Operators	-3.5%	-1.2%	4.8%	4.8%	-3.7%
Weight Distance	-0.2%	4.5%	5.4%	5.7%	5.2%
Truck Decal Fees	-7.4%	-8.8%	-4.7%	-1.3%	1.7%
Other Special Fees	12.8%	-21.6%	2.7%	8.5%	4.3%
Nontax Receipts	14.7%	18.7%	0.8%	17.9%	-7.2%
Departmental Fees	11.5%	-13.8%	13.2%	8.4%	7.7%
In Lieu of Traffic Fines	23.0%	2.8%	24.2%	7.1%	17.2%
Highway Tolls	6.0%	1.9%	5.8%	3.3%	2.6%
Investment Income	28.7%	51.5%	-5.8%	31.8%	-15.2%
Miscellaneous	-20.0%	-34.0%	8.6%	-49.2%	-14.0%
Redeposit of State Funds	-36.4%	441.1%	-90.7%	97.9%	97.1%

(Footnotes appear at end of table)

	1999-00	2000-01	2001-02	2002-03	2003-04
TOTAL STATE ROAD FUND	3.2%	-2.4%	5.2%	0.4%	-0.6%
Tax Receipts-	4.0%	-3.8%	6.1%	0.6%	2.2%
Sales and Gross Receipts	3.5%	-3.3%	6.3%	1.5%	0.3%
Motor Fuels Taxes	-0.9%	-3.6%	5.1%	2.0%	0.6%
Motor Fuels Use & Surtax	-5.6%	-2.6%	-8.8%	6.0%	21.5%
Truck Trip Permits (fuel)	2.2%	-1.0%	-14.2%	-3.1%	18.4%
Motor Vehicle Usage	9.0%	-3.1%	8.2%	0.8%	-0.8%
License and Privilege	6.9%	-6.8%	5.1%	-3.8%	11.9%
Motor Vehicles	7.7%	-10.6%	10.0%	-9.8%	22.6%
Motor Vehicle Operators	5.3%	-1.7%	-0.5%	0.8%	0.2%
Weight Distance	7.1%	0.0%	0.1%	2.1%	3.5%
Truck Decal Fees	-10.2%	-1.4%	10.9%	-16.6%	7.7%
Other Special Fees	1.7%	-16.0%	6.9%	0.6%	3.5%
Nontax Receipts	-9.0%	18.1%	-7.4%	-2.0%	-47.6%
Departmental Fees	1.8%	4.5%	9.9%	21.8%	-17.2%
In Lieu of Traffic Fines	5.5%	20.6%	-2.2%	-29.9%	10.7%
Highway Tolls	1.0%	-7.9%	11.1%	-3.8%	-40.0%
Investment Income	-17.3%	36.6%	-20.0%	-9.5%	-74.2%
Miscellaneous	-4.9%	-1.5%	24.5%	-41.3%	13.2%
Redeposit of State Funds	18.9%	288.1%	-26.4%	-51.2%	58.5%

(Footnotes appear at end of table)

Footnotes

- 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 cents per pack is dedicated to tobacco research and is deposited in the Tobacco Research Trust Fund.
- ² Kentucky's bank franchise tax was instituted in July 1996.
- ³ Shares of stock were exempted from property taxes beginning FY1996-97.
- ⁴ In FY1996-97, an indeterminable amount of tangible property tax receipts were erroneously credited to real property tax receipts accounts.
- ⁵ Phase-in of Class A beneficiary exemption began July 1, 1995.
- ⁶ Prior to FY01, PSC Assessment was included in Departmental Fees.
- ⁷ The sale of NOx credits was authorized beginning in FY04.

CAPITAL FINANCING ANALYSIS

- **EXECUTIVE SUMMARY**
- **ASSUMPTIONS**
- **DEBT CAPACITY ANALYSIS**

Executive Summary

The Governor proposes \$622.5 million in new debt-financed projects. The proposal for the 2004-2006 biennium is compared to previous biennia in Table 9 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.

Assumptions

This analysis is premised on the following assumptions:

- ◆ FY04-FY06 General Fund revenues are based on the January 9, 2004, Consensus Forecasting Group's Official Revenue Estimates as revised on June 8, 2004 and January 19, 2005. FY05 and FY06 are projected using 6.5 percent and 3.1 percent growth rates respectively.
- ◆ FY04-FY06 Road Fund revenues are based on the revised Official Revenue Estimates. FY05 and FY06 are projected using 0.3 percent and 0.7 percent growth rates respectively.
- ◆ Agency Fund revenues are based on actual FY04 revenue from the supplement to the FY04 Comprehensive Annual Financial Report (CAFR) with no implied growth rate for FY05 and FY06.
- ◆ Tobacco Settlement Funds are included in the General Fund revenue.
- ◆ All remaining authorized but unissued debt was assumed issued by June 30, 2004, at the template rates except for School Facilities Construction Commission debt that is authorized at a lower level.
- ◆ 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.

**Table 9
DEBT AUTHORIZED BY RECENT
SESSIONS OF THE
GENERAL ASSEMBLY**

<u>Year</u>	<u>Principal Debt Authorized</u>	<u>Year</u>	<u>Principal Debt Authorized</u>
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	1,046,927,600
1990	1,148,218,400	2003 ⁵	835,188,380
1992 ¹	439,375,100	2005 ⁶	622,521,000
1994 ¹	429,575,900		

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

²Enacted in the 1996-1998 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 and Administration Cabinet (Kentucky Infrastructure Authority 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.

³Debt 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 was authorized in the General Fund Surplus Expenditure Plan
\$201,000,000 was authorized for the School Facilities Construction Commission,
however, debt service was appropriated for only \$108,130,000 in FY00

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

General Fund Authorization:	\$901,202,600
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 the Finance and Administration Cabinet determined that \$6,088,000 of debt authorized projects would be funded with General Fund cash, thereby reducing the authorized amount to \$1,046,927,600.

⁵Debt Enacted in the 2002-2004 Budget of the Commonwealth.

General Fund Authorization:	\$ 628,188,380
Agency Fund Authorization:	\$ 207,000,000

⁶\$622,521,000 New Debt Recommended in the 2004-2006 Executive Budget of the Commonwealth.

Debt Capacity Analysis

Purpose

This report provides a review of pertinent historical information about the Commonwealth's debt and debt management goals. The Governor's recommendation for new debt-financed capital projects for the FY04-06 biennium 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 obligations.
2. Issue debt only for those projects that will provide benefits equal to or longer than the amortization period of the obligation.
3. Maintain or improve the state's current Aa3/A+/AA- State Property and Buildings Commission General Fund lease appropriation debt rating by Moody's Investors Service, Standard & Poor's and Fitch Ratings respectively.
4. Initiate reviews of debt management processes that are consistent with reviews by external entities such as rating agencies.
5. Continue to develop the program to manage the net interest expense of the Commonwealth.
6. Use debt to finance projects prudently, while addressing 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 its debt issuing agencies created by the Kentucky General Assembly to finance various projects which 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 has no general obligation bonds outstanding.

Project revenue notes and bonds are issued by various debt issuing authorities of the Commonwealth (Chart 1). The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project revenues are not a direct obligation of the Commonwealth. Project revenues 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. This type of indebtedness is a special obligation 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 indebtedness. In the event of a shortfall, the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service.

**Chart 1
ACTIVE DEBT ISSUING ENTITIES**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/ PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATINGS*</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/A+/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by the General Assembly, exclusive of cash flow borrowings within a fiscal year.	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/A+AA-
The State Universities (consisting of nine)	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 loans and construction loans to increase the supply of housing for low and moderate income residents in 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 are limited to debt outstanding of \$500 million.	Aa3/A+/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 \$1.95 billion of debt outstanding.	Aaa/AA-
School Facilities Constr. Commission	KRS 157.611-157.665 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 (Insured)

*Ratings, where applicable, include Moody's, Standard & Poors, and Fitch. Standard & Poor's rates the Kentucky Infrastructure Authority nonappropriation supported revenue bonds AA. Certain State Property and Buildings Commission Agency Fund Revenue Bonds may have ratings different than those identified above.

Definitions

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, 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.

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 FY05 and FY06 are based upon the Consensus Forecasting Group's January 9, 2004 Official Revenue Estimates as revised on June 8, 2004 and January 19, 2005. Agency Fund estimates are based upon actual results for FY04 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 supplementary information 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 term with a tax-exempt interest rate of 6.5 percent or other applicable rates). Asset bonds equate to project costs plus cost of issuance and generally assume no 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 affordability for the Commonwealth and is used to assess the impact of any capital program.

Table 13 provides an update of Table 12 to include the Governor'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	11.55
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	3,837.66	8.48	1.4259	2,691.39	5.20
1994	3,785.78	-1.35	1.4628	2,588.04	-3.84
1995	3,809.20	0.62	1.5041	2,532.54	-2.14
1996	3,775.38	-0.89	1.5451	2,443.45	-3.52
1997	3,557.74	-5.76	1.5890	2,238.98	-8.37
1998	3,600.08	1.19	1.6175	2,225.71	-0.59
1999	3,589.95	-0.28	1.6454	2,181.81	-1.97
2000	3,556.97	-0.92	1.6929	2,101.11	-3.70
2001	3,966.22	11.51	1.7509	2,265.24	7.81
2002	4,423.93	11.54	1.7817	2,482.98	9.61
2003	4,102.63	-7.26	1.8211	2,252.83	-9.27
2004	4,483.53	9.28	1.8519	2,421.04	7.47
2005*	4,144.27	-7.57	1.8822	2,201.82	-9.05
2006*	3,780.34	-8.78	1.9185	1,970.47	-10.51

*Estimated. Assumes all authorized debt was issued by June 30, 2004.
Assumes no additional debt authorization for the 2004-2006 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 (\$)
1984	1.69	0.16	5.24	0.50	568.46	54.40
1985	1.59	0.18	5.00	0.56	568.06	63.31
1986	1.54	0.17	4.93	0.55	596.01	67.08
1987	1.69	0.16	5.55	0.52	713.29	67.17
1988	1.71	0.17	5.48	0.55	753.01	75.46
1989	1.50	0.16	5.06	0.54	741.49	79.38
1990	1.41	0.16	4.79	0.53	742.14	82.57
1991	1.57	0.15	5.35	0.52	875.86	84.71
1992	1.62	0.18	5.51	0.61	941.76	105.00
1993	1.71	0.18	5.72	0.59	1,006.68	103.55
1994	1.56	0.16	5.35	0.56	983.55	102.87
1995	1.49	0.17	5.11	0.57	979.88	109.24
1996	1.48	0.17	4.83	0.56	963.22	111.17
1997	1.51	0.19	4.31	0.56	900.07	116.26
1998	1.43	0.18	4.08	0.52	903.32	114.78
1999	1.36	0.17	3.94	0.50	893.46	114.50
2000	1.29	0.20	3.75	0.59	878.52	137.44
2001	1.35	0.19	3.97	0.55	974.78	135.95
2002	1.33	0.16	4.30	0.51	1,080.88	128.75
2003	1.17	0.17	3.84	0.56	996.27	145.25
2004	1.24	0.16	4.06	0.53	1082.19	141.56
2005*	1.09	0.15	3.57	0.49	995.98	136.00
2006*	0.95	0.15	3.09	0.49	903.52	143.53

*Estimated. Assumes all authorized debt was issued by June 30, 2004
Assumes no additional debt authorization for the 2004-2006 Biennium.

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

Fiscal Year	Revenue (\$)	Debt Service (\$)	Debt Service/ Revenue (%)
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	4,934.00	247.42	5.01
1988	5,134.54	277.69	5.41
1989	5,407.11	291.89	5.40
1990	5,814.85	304.43	5.24
1991	6,120.63	314.66	5.14
1992	6,383.17	394.44	6.18
1993	6,588.49	394.76	5.99
1994	6,716.11	395.95	5.90
1995	7,447.43	424.65	5.70
1996	7,759.59	435.72	5.62
1997	8,188.69	459.56	5.61
1998	8,675.09	457.44	5.27
1999	9,104.41	460.08	5.05
2000	9,427.31	556.47	5.90
2001	9,920.62	553.15	5.58
2002	10,172.25	526.97	5.18
2003	10,499.22	598.16	5.70
2004	10,788.88	586.47	5.44
2005*	11,261.32	565.88	5.03
2006*	11,500.46	600.51	5.22

*Estimated. Assumes all authorized debt was issued by June 30, 2004.
Assumes no additional debt authorization for the 2004-2006 Biennium.

Debt Capacity Ratio Comparison

■ Appropriated Debt Service ■ Actual Debt Service — Bond Buyer 20 yr GO rate

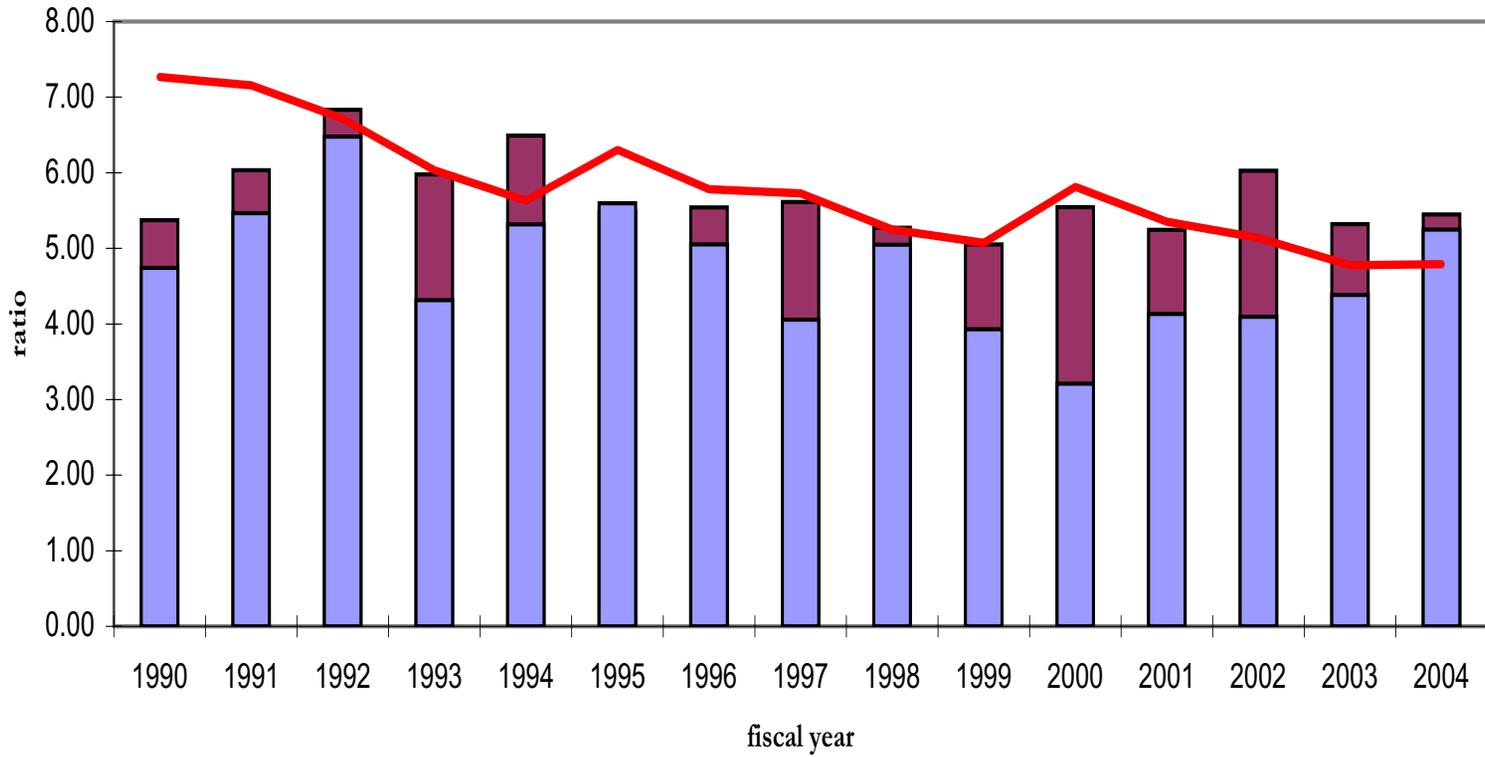


Table 13
APPROPRIATION SUPPORTED DEBT SERVICE
AS A PERCENT OF TOTAL REVENUE (%)

Fiscal Year	Assuming No New Authorization	\$622,521,000 Executive Budget Recommended New Authorization
1984	5.38	
1985	5.91	
1986	5.82	
1987	5.01	
1988	5.41	
1989	5.40	
1990	5.24	
1991	5.14	
1992	6.18	
1993	5.99	
1994	5.90	
1995	5.70	
1996	5.62	
1997	5.61	
1998	5.27	
1999	5.05	
2000	5.90	
2001	5.58	
2002	5.18	
2003	5.70	
2004	5.44	
2005	5.03	
2006	5.22	5.69

APPENDICES

APPENDIX A

ECONOMIC INDICATORS

APPENDIX B

FISCAL DEBT INDICATORS

APPENDIX C

UNIVERSITY RATING AGENCY INFORMATION

APPENDIX D

CHARTS AND GRAPHS

APPENDIX E

RECOMMENDED NEW AUTHORIZATION



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. The industrial development bonds of the Kentucky Economic Development Finance Authority, certain obligations of 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>
1995	1.49	0.17	0.16	0.16
1996	1.48	0.17	0.17	0.15
1997	1.51	0.19	0.19	0.14
1998	1.43	0.18	0.18	0.17
1999	1.36	0.17	0.17	0.14
2000	1.29	0.20	0.19	0.11
2001	1.35	0.19	0.18	0.14
2002	1.33	0.16	0.18	0.13
2003	1.17	0.17	0.16	0.13
2004	1.24	0.16	0.16	0.15

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

<u>Fiscal Year</u>	<u>Debt as a % of Personal Income</u>	<u>Debt Service as a % of Personal Income</u>	<u>Appropriated Debt Service as a % of Personal Income</u>	<u>Actual Debt Service as a % of Personal Income</u>
1995	5.11	0.57	0.55	0.56
1996	4.83	0.56	0.55	0.50
1997	4.31	0.56	0.56	0.40
1998	4.08	0.52	0.52	0.50
1999	3.94	0.50	0.50	0.39
2000	3.75	0.59	0.55	0.32
2001	3.97	0.55	0.52	0.41
2002	4.30	0.51	0.60	0.41
2003	3.84	0.56	0.52	0.43
2004	4.06	0.53	0.53	0.49

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

Fiscal Year	Debt Per Capita (\$)	Required Debt Service Per Capita (\$)	Appropriated Debt Service Per Capita (\$)	Actual Debt Service Per Capita (\$)
1995	979.88	109.24	105.11	107.21
1996	963.22	111.17	109.73	100.05
1997	900.07	116.26	116.26	84.02
1998	903.32	114.78	114.78	109.91
1999	893.46	114.50	114.50	89.02
2000	878.52	137.44	129.12	74.76
2001	974.78	135.95	127.91	100.78
2002	1,080.88	128.75	149.78	101.79
2003	996.27	145.25	135.66	111.77
2004	1,082.19	141.56	142.07	131.70

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

Fiscal Year	Debt as a % of Assessed Property	Debt as a % of Personal Income	Debt Per Capita (\$)
1995	0.51	1.77	339.28
1996	0.54	1.76	351.19
1997	0.66	1.88	393.50
1998	0.62	1.77	391.54
1999	0.63	1.82	413.46
2000	0.68	1.99	466.68
2001	0.66	1.94	475.93
2002	0.61	1.97	495.29
2003	0.67	2.19	568.56
2004	0.62	2.04	544.41

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 university consolidated educational buildings revenue bonds and State Property and Buildings Commission bonds are supported by Agency Fund appropriations.

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

Fiscal Year	Total Revenue (\$Millions)	Required Debt Service/ Revenue (%)	Appropriated Debt Service/ Revenue (%)	Actual Debt Service/ Revenue (%)
1995	7,447.43	5.70	5.49	5.60
1996	7,759.59	5.62	5.54	5.05
1997	8,188.69	5.61	5.61	4.06
1998	8,675.09	5.27	5.27	5.05
1999	9,104.41	5.05	5.05	3.93
2000	9,427.31	5.90	5.55	3.21
2001	9,920.62	5.58	5.25	4.13
2002	10,172.25	5.18	6.03	4.10
2003	10,499.22	5.70	5.32	4.38
2004	10,788.88	5.44	5.46	5.06

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

Fiscal Year	Available Total Revenue (\$Millions)	Required Debt Service/ Revenue (%)	Appropriated Debt Service/ Revenue (%)	Actual Debt Service/ Revenue (%)
1995	5,832.88	7.28	7.01	7.14
1996	6,059.21	7.19	7.10	6.47
1997	6,397.46	7.18	7.18	5.19
1998	6,797.47	6.73	6.73	6.44
1999	7,000.79	6.57	6.57	5.11
2000	7,320.03	7.60	7.14	4.14
2001	7,582.85	7.29	6.86	5.41
2002	7,572.36	6.96	8.10	5.50
2003	7,866.31	7.60	7.10	5.85
2004	8,042.46	7.29	7.32	6.78

**Table B-3
ROAD FUND DEBT SERVICE
AS A PERCENT OF AVAILABLE ROAD FUND 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>
1984	366.74	112.89	30.81
1985	394.07	137.14	34.80
1986	398.29	134.90	33.87
1987	505.67	130.03	25.71
1988	464.35	134.67	29.00
1989	555.71	126.13	22.70
1990	579.76	129.11	22.27
1991	594.36	155.46	26.16
1992	604.94	154.37	25.52
1993	635.27	141.08	22.21
1994	674.77	145.90	21.62
1995	705.97	152.34	21.58
1996	743.94	155.65	20.92
1997	760.41	160.96	21.17
1998	807.63	152.19	18.84
1999	829.84	151.79	18.29
2000	875.38	168.50	19.25
2001	856.39	154.31	18.02
2002	904.27	172.86	19.12
2003	901.91	170.97	18.96
2004	892.55	153.30	17.18
2005*	883.55	125.99	14.26
2006*	896.08	134.55	15.02

*Estimated based on the January 9, 2004 official estimates as revised for the Road Fund less proportional revenue sharing and dedicated funds.

Appendix C: University Rating Agency Information

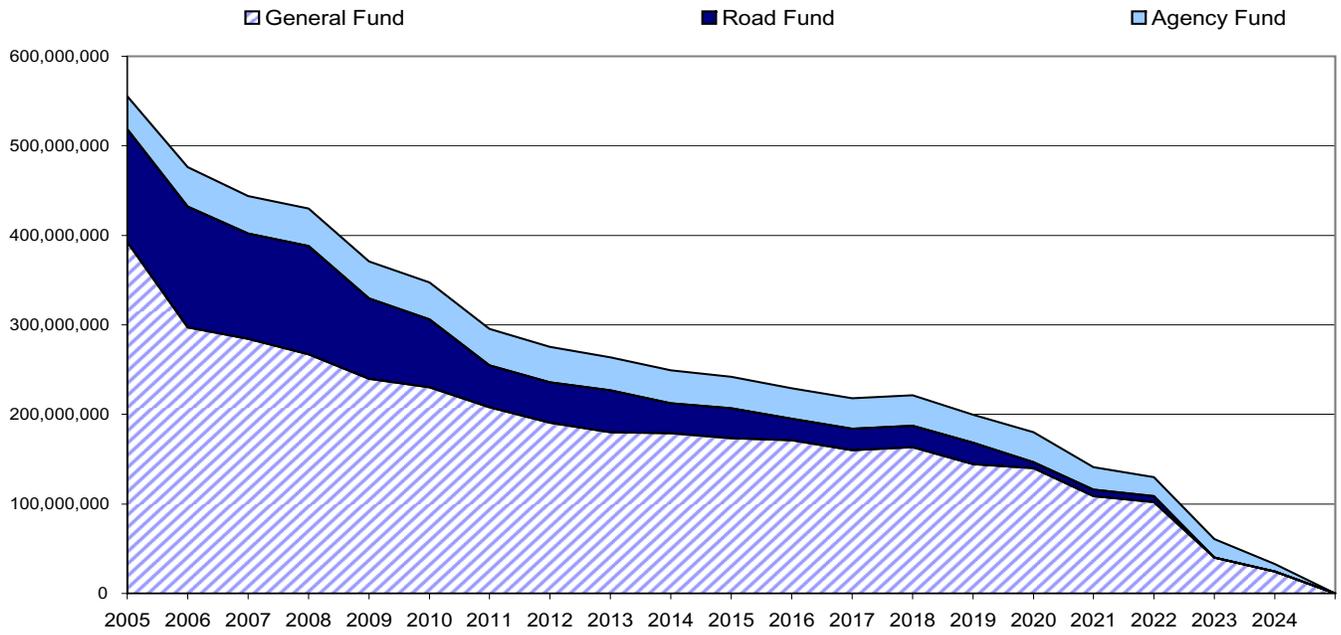
	<u>MOODY'S</u>	<u>STANDARD & POOR'S</u>
CONSOLIDATED EDUCATION		
Eastern Kentucky University	NR	A
Kentucky State University	A3	NR
Morehead State University	A2	NR
Murray State University	NR	A
Northern Kentucky University	A2	NR
University of Kentucky	Aa3	NR
University of Louisville	Aa3	AA-
Western Kentucky University	A2	A-
HOUSING AND DINING		
Eastern Kentucky University	A3	BBB+
Kentucky State University	Baa1	NR
Morehead State University	A3	NR
Murray State University	NR	A-
Northern Kentucky University	A3	NR
University of Kentucky	Aa3	NR
University of Louisville	A1	A
Western Kentucky University	NR	NR
COMMUNITY COLLEGE*		
University of Kentucky	NR	NR
HOSPITAL		
University of Kentucky	Aa2	AA-

Legend: NR-Not Rated per Rating Agency

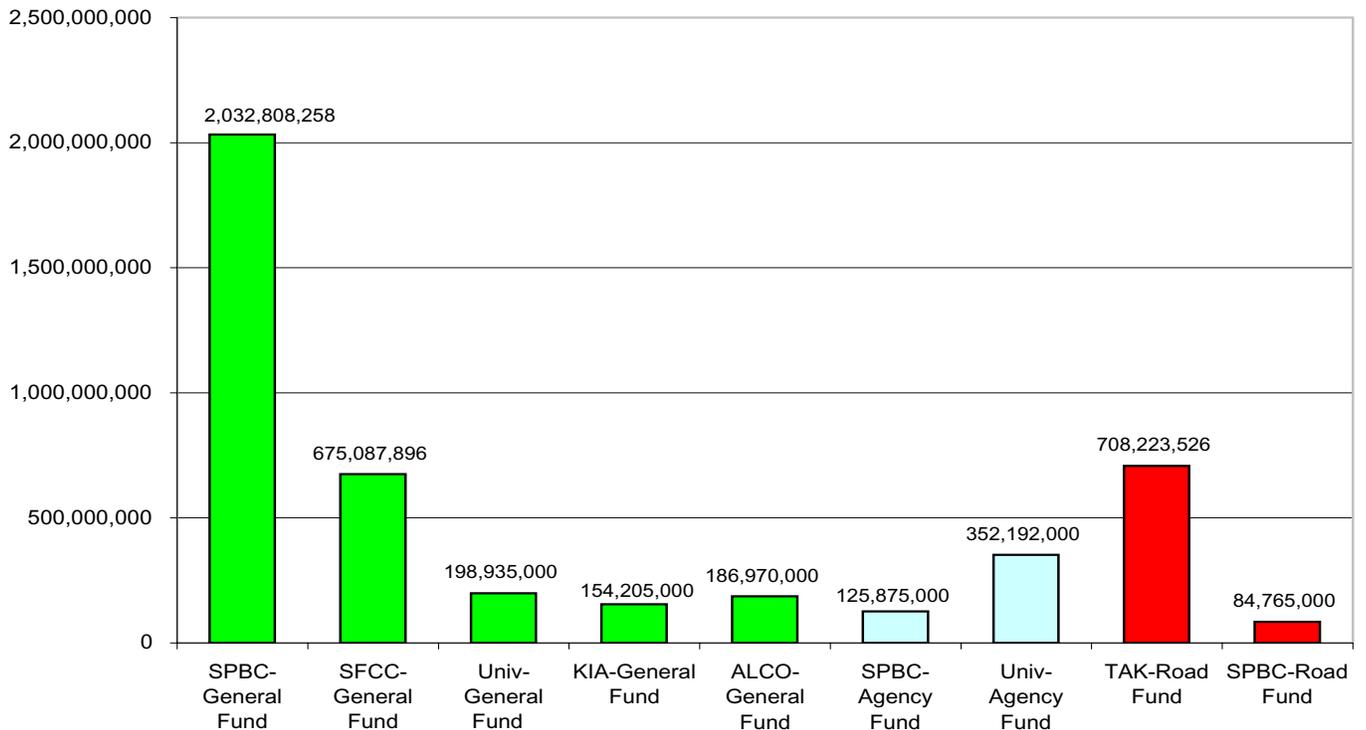
*The obligations of the Community College system were transferred to the Kentucky Community and Technical College system in 1997 and are no longer outstanding.

Appendix D:

**Appropriation Supported Debt Service by Fund Source
as of 06/30/04**



**Appropriation Debt Principal Outstanding by Fund Source
as of 06/30/04**



Appendix E: Recommended New Authorization

Cabinet/ Agency	Project Title	General Fund	Agency Fund	Road Fund
GOAP	AGR - Loan Bond Pool	17,000,000		
Corrections	Electronic Offender Mgt. System	5,000,000		
CPE	Capital Renewal and Maintenance	15,000,000		
Econ Dev	Econ Dev/C&I Bond Pool	15,000,000		
Education	Various Major Maintenance-KY School for the Deaf	3,839,000		
EPPC	State-owned Dam Repair	1,000,000		
EPPC	Underground Storage Tank Program	25,000,000		
Finance	Capitol Complex-Improve Site Infra- Powerhouse Relocation	6,000,000		
GOT	UCJIS-Crt Improvements (E-Warrants)	4,500,000		
GOT	Replace Public Safety Communications Infrastructure-KEWS	26,768,000		
HFS	Network INFR Upgrade	782,000		
HFS	Child Support Enforcement	2,040,000		
HFS	Twist System Upgrade	2,205,000		
KCTCS	Warren Co. Technology Center	7,500,000		
KET	Replace Roof	1,000,000		
KIA	Fund A - Federally Assisted Wastewater Program	2,200,000		
KIA	Fund F - Drinking Water Revolving Loan Program	2,600,000		
MHMR	Glasgow Upgrade HVAC Pipes & Elec	2,200,000		
MHMR	Oakwood Replace Roof	2,200,000		
Mil Affairs	Various Facilities-Deferred Maintenance	2,300,000		
Mil Affairs	Bluegrass Station-Hangar/Warehouse/ Office Bldgs.		12,020,000	
Personnel	Personnel/Payroll System	25,000,000		
Public Health	Upgrade KASPER System	5,000,000		
Revenue	Collection System Interface-Phase I	1,500,000		
Revenue	Business Refund Offset System	1,750,000		
Revenue	Streamlined Sales Tax Simplification	14,062,000		
Rd Fd Bonds	Roads			350,000,000
SFCC	Remainder of 2002-04 Offers	67,735,000		
Voc Rehab	Perkins Roof Replacement	1,320,000		
TOTAL	\$622,521,000	\$260,501,000	\$12,020,000	\$350,000,000

ACKNOWLEDGMENTS

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