

2006-2008
**Executive
Budget**

Ernie Fletcher, Governor
Bradford L. Cowgill, State Budget Director



Budget in Brief

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PREFACE

The Executive Branch budget for the 2006-2008 biennium is the financial plan for Kentucky State Government as proposed by the Governor for consideration by the 2006 General Assembly. It is published by the Office of State Budget Director, Governor's Office for Policy and Management in accordance with KRS Chapter 48.

The 2006-2008 Budget is presented in four volumes:

- **Volume I:** State Agency Program Budget Detail
- **Volume II:** Capital Projects
- **Budget in Brief:** Budget Overview and Summary Data
Revenue Estimates
Capital Financing
- **Historical Data:** Actual Agency Revenue and Expenditure Data for the past two
Fiscal Years

These documents provide the detail to support the budget in legislative form as presented in the budget bill.

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January 17, 2006

Honorable Ernie Fletcher
100 Capitol Avenue
Frankfort, KY 40601

Dear Governor Fletcher:

Your first two years as Governor have been characterized by two landmark achievements with respect to the fiscal affairs of our state.

On the revenue side of our balance sheet, you gave leadership and direction to the most comprehensive reform of Kentucky's tax code in the state's history, a reform which is already providing a remarkable stimulant to our economy, a renewed fairness and balance in the distribution of the tax burden, and a stabilizing influence on our revenue stream.

On the appropriations side, you have elevated the management and administration of the programs and services of the executive branch to an unprecedented level of efficiency and effectiveness, a testament to the political courage and managerial skill brought here by you and the team of managers drawn to public service by your vision of a new culture for Kentucky government.

These dramatic achievements have "set the stage" for the decisions represented by the budget documents I deliver to you herewith. This budget reflects and communicates the plans, principles and priorities which you have shown will guide the Commonwealth to greater opportunities for all its people.

Governor, I would like to thank your Chief of Staff, Stan Cave; Secretary of the Finance and Administration Cabinet, Robbie Rudolph; and Deputy Secretary of the Executive Cabinet, Brian Crall, all of whom provided valuable guidance and insights in the formulation of the programs and initiatives in this budget.

Honorable Ernie Fletcher
January 17, 2006
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For all of us, I certainly would express appreciation to the Secretaries of each of your cabinets, whose diligence, patience and vision have made so many achievements possible. They comprise an exemplary collection of individuals with whom I have been proud to work.

Under the leadership of Beth Jurek, John Hicks, Mary Lassiter, Bob Cox and Greg Harkenrider, the budget staff has worked many nights and weekends to put these budget recommendations together, often putting aside personal and family obligations in order to bring to this enterprise their energy, experience and expertise.

I can only hope that every member of the brilliant and dedicated staff of the Office of State Budget Director recognizes the depth of the gratitude and camaraderie I have experienced and enjoyed as part of a team whose contributions are so vital to the policy direction of the Commonwealth.

They are simply the best.

Sincerely,

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

Bradford L. Cowgill
State Budget Director

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2006-2008 EXECUTIVE BUDGET EXECUTIVE SUMMARY

Introduction

The **Executive Budget** for the 2006-2008 biennium continues Governor Fletcher's focus on increasing the Commonwealth's competitiveness through fiscal discipline in order to promote economic opportunities for all citizens within the Commonwealth.

The budget is balanced without increasing taxes. It is a budget that enables the Commonwealth to live within its means. This will require agencies and managers to continue to explore ways to deliver services more efficiently and effectively to the citizens of Kentucky.

New spending focuses on Governor Fletcher's priorities: education, health care and economic development, which the Governor believes are key elements to his goal of making and keeping Kentucky competitive in today's economic environment. Governor Fletcher believes the time has come for Kentucky to "Get Healthy" and "Get Competitive."

Overview of Fiscal Year 2006 and the Budget Outlook for Fiscal Year 2007 and Fiscal Year 2008

The Commonwealth began the current fiscal year with a surplus of \$214 million from the Fiscal Year 2005 year end balance. The surplus resulted from several factors: prudent fiscal management among the Cabinets and agencies and additional revenue growth due to the overall improvement in both the state and national economies. Governor Fletcher placed \$90 million of those savings in the state's Budget Reserve Trust Fund or "rainy day" fund and the remaining \$124 million is included in the current budget recommendation

As tax modernization measures are phased in, low income Kentuckians are realizing more expendable income as a result of the expanded low income tax credit enacted as part of Governor Fletcher's tax modernization initiative by the 2005 General Assembly. Other tax modernization measures that will further reduce taxes will roll out in Fiscal Year 2007, particularly the elimination of the corporate license tax, tempering the rate of growth of the General Fund in Fiscal Year 2007, and requiring state agencies to continue to aggressively manage existing services so that new resources can be directed to the Governor's priority areas: education, economic development and health care.

While current year revenues are robust, the Commonwealth's need to invest in elements critical to improving the state's educational system, moving Kentucky's teacher salaries toward parity with surrounding states, and underwriting the significant increases in health care costs, will place significant demands on state finances looking toward the next biennium.

In that context the State Budget Director implemented a Budget Stability Initiative in the current year to bring baseline agency expenditures in line with available revenues over the next two years, against the backdrop of increasing health care and pension costs, and the priorities for additional funding. School districts and universities were exempted from the Stability Initiative. The Stability Initiative relies on transfers of unbudgeted funds and reducing expenses as well as capturing funds available due to prudent debt management. Fund transfers account for approximately \$59 million of the Stability Initiative, while budgeted lapses account for \$83 million. Combined with additional revenues of \$390 million this will create a year end balance of nearly \$528 million in Fiscal Year 2006, which is recommended for spending in the next two years.

In this recommended budget, every agency of state government is required to maintain and improve efficiency in operations to maintain essential services in a fiscal atmosphere of limited new dollars and increasing costs. Most executive branch cabinets and agencies will see little growth in General Fund base appropriations in fiscal years 2007 and 2008. The primary exceptions to this will be those areas where additional funds are necessary to support the priority areas of education, health care and economic development. Fiscal discipline and increased efficiency of operations will be required, as agencies will be required to manage within a General Fund base which is relatively unchanged. In keeping with the theme of fiscal discipline, the recommended budget maintains the current Budget Reserve Trust Fund balance of \$119 million throughout the biennium.

The capital budget is modest given the significant capital obligations incurred during the last budget. Governor Fletcher is committed to maximizing the return on taxpayers' dollars and has incorporated into his capital budget the assumption that state projects will no longer be required to pay inflated construction prevailing wages. The current capital recommendations reflect "promises made, promises kept" by providing funds to complete projects which received partial funding in last year's legislative session. This includes investment in academic research as well as investments in community infrastructure that will generate investment and interest in Kentucky. Foremost of these community infrastructure projects include the downtown Louisville Arena and Lexington Horse Park Arena, site of the 2010 World Equestrian Games. While the capital project amounts to be financed are not insignificant, the proposed level of debt service remains below six percent of revenues. In addition to bricks and mortar, the capital budget includes significant investment in education information technology applications.

The **Executive Budget** is predicated on the collection of additional revenues resulting from enhanced collection efforts of delinquent taxes as well as additional revenues estimated to be collected resulting from additional jobs added to the state economy due to the enactment of employee choice legislation in Kentucky. Governor Fletcher feels strongly that Kentucky is poised to benefit from a healthier and more competitive business climate resulting from both the JOBS for Kentucky program enacted in 2005, as well as the opportunities that would be created if Kentucky were an employee choice state. His commitment to this belief is evidenced by his inclusion of these estimated revenues in his recommended budget.

Included in the **Executive Budget** is a proposal to provide tax relief to small businesses in Kentucky. Governor Fletcher proposes to relieve approximately 60,000 small businesses with less than \$2 million in gross receipts from any alternative minimum calculation (AMC) liability. In addition, approximately another 10,000 businesses with gross receipts between \$2 million and \$10 million would benefit from a reduced AMC liability. This proposal will serve to help start-up and home-grown Kentucky businesses while maintaining the objectives of the JOBS for Kentucky program.

Funding Priorities

Education: Elementary and Secondary

Governor Fletcher views education as the building block for improving quality of life and economic opportunities in the Bluegrass State. Accordingly, this area of government will receive most of the state's new funding dollars.

In the area of teacher compensation, the recommended budget provides for a **two percent cost of living adjustment** for all certified and classified school district personnel. Additionally, the budget includes new funding for **an additional professional development day** for classroom teachers in fiscal year 2007 and **two additional instructional days** in fiscal year 2008 for a total of three additional days over the biennium. Finally, the budget provides **\$20 million in fiscal year 2008 for enhanced professional compensation**. The combination of these initiatives will bring Kentucky more in line with our surrounding states both in terms of parity in teacher compensation and number of school days in the

year and advances the Governor's plan to reach or exceed parity with surrounding states. In total, the additional General Fund for all of these teacher compensation-related initiatives is \$63.8 million in fiscal year 2007 and \$169 million in fiscal year 2008.

The **Executive Budget** also places an emphasis on rewarding Kentucky teachers through professional development. The proposed budget designates \$1.6 million over the biennium that can be used as financial incentive for teachers who are pursuing the National Board for Professional Teaching Standards certification.

With the infusion of the new funds into the SEEK (Support Education Excellence in Kentucky) formula, the base per pupil guarantee will go from \$3,445 in fiscal year 2006, to \$3,505 in fiscal year 2007 and \$3,669 in fiscal year 2008, or an increase of approximately 6.5 percent over the course of the biennium.

An additional \$23 million in General Fund is provided for Preschool each in fiscal year 2007 and fiscal year 2008. This represents an increase in funding levels of almost 46% over the current level of state support and is the most significant increase in the Preschool Program since 1982. These funds will enable schools to serve preschoolers of families with incomes up to 150 percent of the federal poverty level (the current level of state assistance to districts is 130 percent of the federal poverty level).

The recommended budget continues the Governor's and First Lady's interest in early childhood programs. Much of the literature regarding improving the success of children in school and in later life focuses on nurturing children nurturing and providing learning experiences in those critical first three years of life. New General Fund support of **\$250,000 in fiscal year 2007 and \$750,000 in fiscal year 2008 is provided for "Ready, Set, Success"**, a program that encourages collaboration among multiple local agencies and organizations. Through this collaborative approach, local agencies can coordinate and maximize resources to meet the needs of young children, enabling them to be ready to succeed when they begin school.

Increased funding of \$4 million each year is provided for the "Read to Achieve" Program. The source of the funds is from coal severance taxes, and these funds enhance "Read to Achieve" efforts in coal-producing counties. This increases the total "Read to Achieve" funding for coal producing counties to \$8 million each year. Funds are used to strengthen Kentucky's capacity to have all students reading at grade level by time they enter fourth grade.

Because the ability to use technology is a key component to helping our children succeed in the future, **\$5 million is provided each year from the Coal Severance multi-county fund for technology needs in school districts in coal producing counties.**

In the area of vocational and technical education, \$700,000 is provided for the **opening of the Johnson and Jessamine County vocational technical schools.** In the Office of Career and Technical Education, \$2,245,100 in fiscal year 2007 and \$1,692,300 in fiscal year 2008 is provided to fund start up and ongoing operating costs of schools in **Pulaski, Warren and Butler Counties** and expanded high need/high demand programs in area technology centers in Kenton and Hancock Counties.

Other Education Cabinet Agencies

The Governor's **Executive Budget** also provides fiscal support for other education-related areas. Those include continued funding of \$8 million during the biennium through the Department of Libraries and Archives in awarding per capita grants to local public library districts for the purchase, upgrade, and maintenance of technology, purchase of library materials and equipment, staff training, building maintenance, debt service, and other local library needs and services.

In the Commission for the Deaf and Hard of Hearing, **\$200,000 is provided each year to increase the Telecommunications Devices for the Deaf (TDD) Distribution Program.** This will enable more deaf and hard of hearing persons to have access to equipment that will enable them to more fully participate in their communities and avoid the isolation that they might otherwise face.

Education: Preschool through College (P-16) Technology Initiative

Developing technology in Kentucky schools is also a focal point of the Executive Budget. The budget allots **\$59 million, \$37 million of that from new Capital bonds, for a joint P-16 Education Information Technology Integration Initiative**. The initiative focuses on key areas of technology development:

- Creation of the Kentucky Education Network (KEN) to provide high-speed, high volume connection between local schools, colleges and universities and other educational agencies
- On-Line Assessment testing program to reduce turnaround time on providing student assessment scores to teachers
- Establishing an electronic learning systems repository to share instructional content to all education agencies
- P-16 data sharing system to allow education departments and agencies make better informed policy decisions
- Common course management system
- Unified structure for all virtual education programs.

Postsecondary Education

The Postsecondary Education budget proposed by Governor Fletcher moves the Commonwealth further toward the goals established in the 1997 Postsecondary Education Improvement Act. The Governor is convinced that higher education does mean higher return: for our citizens, for our communities, and for our economy.

The Governor's Postsecondary Education budget recommendation addresses the goals of:

- Increasing the number of Kentuckians who enroll in and graduate from postsecondary education
- Strengthening research capacity of the universities and providing greater opportunities for converting research into economic development achievements and improving the health and quality of life in Kentucky
- Enabling postsecondary education to be "stewards of place" through relationships with the communities in their regions
- Encouraging stronger relationships between postsecondary education institutions and public schools, increasing opportunities to attain a higher education degree through expansion of student financial aid, especially for students from Kentucky's coal-producing regions
- Investing in workforce training and preparation through the Kentucky Community and Technical College System (KCTCS)
- Expanding Kentucky's efforts in adult education and literacy, and encouraging a "Go Higher" attitude for GED recipients to attain a postsecondary education credential.

The **Executive Budget** provides a 3.4 percent increase in the General Fund in fiscal year 2007 and another 4.7 percent increase in fiscal year 2008 over the Postsecondary Education base budget. That is an **8 percent increase over the biennium** for the eight Universities, the Kentucky Community and Technical College System, Student Financial Aid, and the Council on Postsecondary Education.

For **Benchmark Funding**, the budget provides \$20,000,000 from the General Fund in fiscal year 2007 and \$30,000,000 in fiscal year 2008 for base funding increases to the eight Universities and KCTCS. These funds are allocated based on a Benchmark Funding Formula adopted by the Council on Postsecondary Education.

The **Executive Budget** invests additional funds to support the **research activities at the University of Kentucky and the University of Louisville**. In fiscal year 2007, \$1.5 million is provided and in fiscal year 2008, \$3 million is provided in General Fund support to establish a pool designed to enhance university efforts to build research capacity in targeted priority areas. Two-thirds of the funds are for the University of Kentucky and one-third is for the University of Louisville. These funds will be used to recruit and retain prominent research faculty in areas of strategic benefit to the Commonwealth. Additionally, \$6 million (\$4 million for UK and \$2 million for U of L) is provided in fiscal year 2008 in one-time General Fund support for laboratory renovations and equipment purchases in designated priority areas.

To promote **regional stewardship**, the **Executive Budget** includes \$1,200,000 from the General Fund in fiscal year 2007 and \$3,000,000 in fiscal year 2008 to be allocated to the comprehensive universities to promote regional or statewide economic development, livable communities, social inclusion, creative governance and civic participation through public engagement activities initiated by university faculty and staff.

To support **KCTCS** workforce development initiatives and the transfer of associate degree completers to Kentucky's public and private universities to advance toward a baccalaureate degree, a **Workforce Development Trust Fund** is funded and provides \$300,000 in fiscal year 2007 and \$1,200,000 in fiscal year 2008.

Performance Funding of \$1,000,000 from the General Fund in fiscal year 2008 is provided to reward the postsecondary education institutions for relative performance. Fifty percent of performance funds will be awarded based on a comparison to benchmark institutions using two measures: (1) degree productivity; and (2) efficiency. The remaining half will be awarded based on selected Key Indicators of Progress using three measures: (1) Increased degree production; (2) Increased minority degree production; and (3) Institutions' choice indicator.

The **Executive Budget** includes **\$24.3 million in debt service in fiscal year 2008 to support \$260 million** in capital projects funded with General Fund supported bonds.

The **Executive Budget** includes a 14 percent increase over the \$22 million current budget through the 2006-08 biennium for **expansion of adult education and literacy programs**. In order to enhance the county programs in adult literacy and meet the goals of the Adult Education Act, \$1 million is provided in fiscal year 2007 and \$3 million in fiscal year 2008. Grant programs will target communities with the greatest need related to basic literacy skills, offering adult education instruction, family literacy programs, and assistance with employability and life skills instruction.

Student Financial Aid – Kentucky Higher Education Assistance Authority

The Governor's recommended budget includes a **13 percent increase in student financial aid** over the 2006-08 biennium. Total General Fund for student financial aid rises from \$155 million in fiscal year 2006 to over \$175 million in fiscal year 2008. All revenues from the Lottery are devoted to student financial aid and literacy development programs, making up the majority, though not all of the General Fund in student financial aid.

From Lottery revenues, need based financial aid programs will receive \$89.4 million in fiscal year 2007 and \$92.1 million in fiscal year 2008. The **KEES program** will receive \$73 million in fiscal year 2007 and \$75 million in fiscal year 2008. An additional \$2.2 million is provided in fiscal year 2008 from the General Fund to supplement the lottery in order to fully fund the program.

Included in the General Fund appropriation is an additional **\$5 million each year** for the College Access Program and the Go Higher Grant Program. This initiative is specifically targeted for **need-based scholarships for students from coal producing counties**. The student population served will include undergraduate postsecondary students (traditional and non-traditional, full-time and part-time) attending public and private colleges and universities, technical colleges, and vocational training institutions in

Kentucky. The program is funded from coal severance tax revenues. Funds will be distributed each year until exhausted. It is estimated that the available funding will ensure that virtually all needy applicants residing in Kentucky's 39 coal counties who would apply for financial aid would receive an award.

New funding for **mining engineering scholarships** is provided to the **University of Kentucky**. The coal industry has expressed a demand for mining engineers, and **\$200,000** is provided each year from coal severance tax revenues to increase the number of graduates from this unique program.

The **Executive Budget** includes an additional \$500,000 each year to support the technical assistance provided to local school districts in **developing enhanced professional compensation plans** to be submitted to the Department of Education. New funding of \$1 million is provided in fiscal year 2008 from the General Fund for a **Principal Leadership program**. The funds will support collaboration among Kentucky universities that have existing education leadership programs to provide specialized training to the next generation of public school principals, with the goal of improving student learning and performance through better prepared administrators.

The Governor's budget recommendation increases General Fund support for the current **Minority Student College Prep** program to \$290,000 per year. This program emphasizes early intervention at the high school level for minority students to increase the pool of minorities prepared for, and interested in, attending college. Finally, the Governor's budget increases General Fund support by 66 percent for the **Southern Regional Education Board Doctoral Scholars Program**. Funds will be used to support minority students in completing a doctoral degree in Kentucky or surrounding states. The program goal is to increase the number of minority individuals employed as college faculty and administrators by increasing the number of minority doctoral degree completers.

Education: Capital Budget Items

Over 60 percent of the Governor's capital budget recommendation is devoted to the Commonwealth's education systems. Of the \$602 million in new bond projects, \$137 million is devoted to elementary and secondary education and \$465 million is for postsecondary education.

The **Executive Budget** proposes **\$100 million in new bonds** to the **School Facilities Construction Commission** (SFCC) to honor Kentucky's commitment to support new construction of classroom and instructional facilities on the local school level.

The **Executive Budget** includes **\$465.4 million in new bond funding**, the largest portion of the Governor's capital budget. The total includes \$260.3 million in General Fund supported bonds, and \$205.1 million in Agency bonds. The **postsecondary education construction projects** focus on research as a priority at the University of Kentucky and the University of Louisville, and expanding and improving the capacity of the Comprehensive universities and the Kentucky Community and Technical College System to serve more students with higher quality facilities. This level of commitment reflects Governor Fletcher's theme of a competitive Kentucky through better education. The project list includes:

- \$75.9 million to complete the new Biological/Pharmaceutical complex at the University of Kentucky (in addition to the \$40 million approved in the 2004-2006 budget), and \$130 million in Agency bonds to complete the financing of the new Hospital project.
- \$65.9 million toward construction of the next phase of the Health Sciences Center Research facility at the University of Louisville (in addition to the \$39 million approved in the 2004-2006 budget), and \$11.5 million in Agency bonds for UofL's Center for Predictive Medicine (which matches a \$22 million federal grant).

- \$24.2 million in Agency bonds to completely renovate the Academic/Athletic #2 Complex, \$6.7 million to renovate the Science Campus, and \$4.3 million for the Materials Characterization Center facility at Western Kentucky University.
- \$55 million to build three Kentucky Community and Technical College System projects: the Emerging Technology Center in Paducah (\$15.5 million), the Advanced Manufacturing Technology project in Northern Kentucky at the Gateway Community and Technical College (\$26.6 million), and the Allied Health/Technical Education Building at the Laurel Campus of Somerset Community College (\$13.2 million).
- \$15 million to build the Center for Health, Education and Research at Morehead State University.
- \$14.2 million to renovate the Old Science building at Northern Kentucky University, and \$17.4 million in Agency bonds to complete the Student Union Building.
- \$5.1 million for the Dairy Research project at Eastern Kentucky University, and \$10 million in Agency bonds for a New Student Housing project.
- \$4.7 million to complete the Hathaway Hall Renovation project related to the Commonwealth's agreement with the U.S. Department of Education's Office of Civil Rights.
- \$13 million for a Capital Renewal and Maintenance Pool for the Postsecondary Education institutions, to be matched with the institutions' funds. This is the first maintenance pool funded since the 2000-2002 budget.

Health and Family Services

Medicaid

Additional General Fund resources of \$85 million in Fiscal Year 2006, \$109 million in Fiscal Year 2007 and \$149.5 million in Fiscal Year 2008 are recommended for the Medicaid program.

Over the course of the upcoming biennium, the Governor's recommended budget presumes continued implementation of Medicaid Modernization, including approval of the Kentucky Health Choices Section 1115 Waiver, continued focus on disease management and appropriate provider practice, pharmacy management and patient utilization as well as continued emphasis on prudent cash management practices. These additional cost containment features, some of which have recently been implemented through the administrative regulation process, are incorporated in the recommended budget.

With the total cost of Kentucky's Medicaid Program approaching \$5 billion, the Kentucky Health Choices Waiver will represent the most significant change in the Medicaid Program since its inception. The waiver will permit the agency to design benefit plans geared to the specific health needs of specific populations rather than a "one-size-fits-all" approach, enabling the program to more effectively manage dollars.

Additional General Fund for Medicaid Benefits of \$68 million is provided in the current year, along with almost \$90 million in fiscal year 2007 and \$130 million in fiscal year 2008 to meet the needs of the over 700,000 Kentuckians (largely children and elderly and disabled persons) who rely on the Medicaid program to cover their health care needs. Within the above amounts, funds of \$25.6 million will be provided over the biennium to increase the number of Supports for Community Living slots by 100 each year for a total of 200 new slots by the end of the biennium. These slots provide support to persons who are mentally retarded or otherwise developmentally disabled so that they may live within a community setting.

Additional funding is also provided to Medicaid Administration. Medicaid Modernization and implementation of the Kentucky Health Choices waiver requires significant investment in the infrastructure that supports the nearly \$5 billion Medicaid Program. Kentucky historically has had one of the lowest administrative costs of any state in the southeast region. The additional General Funds will enable the Medicaid Administrative agent to focus more closely on long term policy and program management in addition to day-to-day claims processing and provider payment issues. Accordingly, approximately \$17 million in additional General Fund is provided in the current year and each of the next two fiscal years to accomplish the management objectives.

Other Health and Family Services Agencies

The staff within the Department for Community Based Services works on a daily basis with families experiencing crisis. One area that has experienced significant growth is the **Alternatives for Children Program** which provides care for children who are committed to the custody of the cabinet. This includes foster care and private child care. To help meet the additional costs of caring for the increasing numbers of children in the state's care, \$7.4 million in additional General Fund is provided in fiscal year 2007 and \$22 million in fiscal year 2008.

In the **Executive Budget**, the second phase of **The Workers' Information System (TWIST)** is funded at a cost of \$6.2 million (state and federal funds). This project will put mobile technology in the hands of front line service workers who provide protective services to adults and children.

Additional federal child care dollars of almost \$4 million annually are included to support the growth in **child day care** services. Additional Federal Funds of almost \$8 million is provided in fiscal year 2006 to meet the home heating needs of low income Kentuckians through the **Low Income Home Energy Assistance** Program (LIHEAP).

To meet the costs associated with the increased admissions to the Commonwealth's state operated psychiatric hospitals and to keep pace with increased medical costs, particularly in the area of pharmacy, additional General Funds of **\$12 million in fiscal year 2007** and **\$18.7 in fiscal year 2008** is provided for **mental health and mental retardation residential services**.

In the area of services to **persons with mentally retardation and developmental disabilities**, additional funding is provided for **crisis stabilization support services** of \$5.7 million in fiscal year 2007 and \$9.5 million in fiscal year 2008. **Supported living services** will realize increased funding of \$1 million in fiscal year 2007 and \$2 million in fiscal year 2008. These services are critical for persons moving from a residential setting to a community setting and for maintaining community placements for individuals currently living in the community.

In the Department for Human Support Services, **Division of Aging**, additional General Funds of \$500,000 in fiscal year 2007 and \$1 million in fiscal year 2008 are provided for the **Homecare Program**. Homecare provides a variety services to elderly in their homes to prevent or delay the need for nursing home care. Services may include home adaptations, home repairs, assistance with activities of daily living and other services that allow seniors to maintain their independence.

Kentucky has higher rates of heart disease, obesity, diabetes and asthma than do many other states. Within the Department for Public Health, Governor Fletcher is recommending \$1 million in fiscal year 2007 and \$1.5 million in fiscal year 2008 to support the Governor's **Council on Wellness and Physical Activity**. This initiative will focus on encouraging Kentuckians to be more proactive in assuming responsibility for their overall health. These funds will provide for development of a program permitting all Kentuckians to engage in health and fitness activities based on their current fitness levels and fitness goals. Using existing models and structure, the program will link to the President's Fitness Challenge, a program that has been in place on the national level for a number of years.

Economic Development and Commerce

New General Fund support of **\$20 million over the biennium is provided for new economy initiatives** within the Department for Commercialization and Innovation including:

- \$5 million each year for investment in life science and biotechnology companies to help them bring new products and services to commercial viability;
- \$2 million in fiscal year 2007 and \$6.3 million in fiscal year 2008 to develop a program to match Federal funding for winners of Small Business Innovation Research (SBIR) grants that fills a gap in the continuum of existing initiatives to support technology development;
- \$150,000 in fiscal year 2007 and \$150,000 in fiscal year 2008 to conduct a statewide life sciences and biotechnology assessment to identify growth opportunities.
- \$150,000 in fiscal year 2007 and \$150,000 in fiscal year 2008 to develop a statewide nanoscience analysis and strategic plan.
- \$200,000 in fiscal year 2007 to create a strategic analysis of technologies which will reevaluate Kentucky's top science and technology assets and capabilities.
- \$300,000 in fiscal year 2007 and \$250,000 in fiscal year 2008 for development of a database of available science and technology resources to allow firms to locate Kentucky suppliers of high-tech products and services, partners and investors; and,
- \$150,000 each year for creation of a statewide business competition that will make an award each year to help one entrepreneur take a new idea to fruition.

In the Department of Existing Business, additional funds are provided for a **new trade office the in Beijing, China**.

\$150,000 is provided each year in the **Small and Minority Business services** unit, funds to hire a small business coach to work with minority entrepreneurs in Louisville. The Kentucky Economic Development Finance Authority (KEDFA) will make available \$300,000 in fiscal year 2008 for micro-loans to these start-up businesses.

The Governor's recommended capital budget includes **\$20 million** in General Fund supported bonds for the **High Tech Construction and Investment Pools**, and **\$10 million** in General Fund supported bonds for the **Economic Development Bond Pool**. From the Economic Development Bond Pool, \$2.5 million is for the Purchase Area Regional Industrial Park in Graves County upon review and approval by the Kentucky Economic Development Finance Authority (KEDFA).

Within the Commerce Cabinet capital budget, \$34.8 million in General Fund supported bonds is authorized for construction of a **new arena at the Kentucky Horse Park** as part of the commitment to the 2010 World Equestrian Games. To meet the Commonwealth's commitment to the downtown **Louisville Arena** project, \$75 million in General Fund supported bonds is authorized in the recommended budget. The total cost of the downtown **Louisville Arena** is estimated at \$349 million.

To continue to promote our state parks, a pool of **\$8 million** is provided for a **Park Renovations Pool**.

To fund research grants within the Office of Energy Policy, \$3.5 million is provided each year from coal severance Multi-County funds.

To promote cornerstone arts organizations in Louisville, \$600,000 in General Fund is provided in fiscal year 2007 as a grant to be matched by Louisville Metro Government and private donations. Additionally, \$750,000 in General Fund is provided in fiscal year 2007 to match federal grants for the

Abraham Lincoln Bicentennial Commission. These funds will be used to develop tourism, historical and educational opportunities in the Hodgenville area.

Justice, Public Safety and Drug Control

A fundamental responsibility of government is to protect its citizens by apprehending criminals, prosecuting offenders and incarcerating those who have been found guilty of breaking the law. The Fletcher Administration has successfully reshaped the Commonwealth's justice infrastructure to provide a system of public safety that is effective and efficient. The Governor's budget advances these goals by targeting violent offenders for rigorous prosecution and long-term incarceration; while providing treatment and alternatives to incarceration for first-time drug offenders and non-violent youth offenders.

The recommended budget for the Department for Public Advocacy provides additional General Fund resources of **\$3 million** in fiscal year 2007 to support 53 additional positions and **\$3.2 million** in fiscal year 2008 for support of 57 **additional positions and a pilot project** for the hiring of social workers to assist in **reducing levels of incarceration for persons with substance abuse and mental illness**. This additional funding is projected to decrease caseloads to 415 per lawyer in fiscal year 2007 and 413 per lawyer in fiscal year 2008.

Kentucky State Police (KSP) will receive **additional funds to support** 1,000 sworn officer personnel. This will be **the largest actual sworn officer complement in recent history**. So that State Police Troopers will no longer have to purchase their own "rider" insurance on their own private automobile insurance policy through their private automobile insurance carrier, General Fund resources of **\$600,000** are provided in each year of the biennium for fleet **vehicle liability insurance for KSP vehicles**. The current policy has resulted in some Troopers having inadequate insurance coverage. General Fund of \$4,250,000 is provided each year for **payment of overtime** to sworn personnel. This policy is expected to result in the equivalent of approximately **50 additional troopers next year** on the road to support highway enforcement activities. **To cover KSP increased motor fuels cost**, \$1,301,200 is provided in fiscal year 2006, \$997,100 in fiscal year 2007, and \$928,500 in fiscal year 2008.

Within the **Department of Corrections**, the recommended budget incorporates funds to an array of institutional and community beds to accommodate over 1900 more felons under the custody of the Department of Corrections as displayed below.

2006 - 2008 Prison and Community Beds

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Jails	5,960	6,348	6,786
Halfway Houses	693	1,040	1,315
Electronic Monitoring	-	263	300
Private Prisons	1,616	1,672	1,672
Adult Institutions	12,027	12,027	12,027
Recovery Kentucky	<u>-</u>	<u>-</u>	<u>122</u>
Total	20,296	21,350	22,222

As in other areas of government, increasing medical costs continue to outpace normal inflationary increases. To cover the **increase in inmate medical care costs**, additional General Fund resources of **\$5,642,000** in fiscal year 2007 (total of \$43 million annually) and **\$9,406,700** in fiscal year 2008 (total of \$47 million annually) are provided.

General Fund resources are provided in each year of the biennium to support **56 additional contracted female beds at the Otter Creek Correctional Complex**.

The Department of Corrections estimates a 16 percent growth in the number of probationers and parolees over the biennium; from 35,500 to 41,200, an increase of 5,700. To accommodate this significant growth and to protect the public, the recommended budget provides additional General Fund resources of \$1,838,800 to support **80 additional probation and parole officers** in fiscal year 2007 and \$2,470,300 to support **an additional 29 probation and parole officers** in fiscal year 2008 for a biennial addition of 109 officers, to reduce the current probation and parole caseload ratio from 103 cases per officer to 96 cases per officer.

Additional General Fund in the amount of \$5,658,000 in fiscal year 2007 and \$10,993,900 in fiscal year 2008 is provided **to support payments to local jails** in anticipation of housing additional inmates based on a per diem rate of \$31.31.

New General Fund resources of \$1,804,300 in fiscal year 2007 for 347 **additional halfway house beds** and \$4,775,400 in fiscal year 2008 for 622 additional halfway house beds.

Home Incarceration/Electronic Monitoring can be a cost effective means of incarcerating felons within 90 days of completing their sentence. Additional resources of \$960,000 in fiscal year 2007 and \$1,095,000 in fiscal year 2008 are provided to expand home incarceration to 263 felons in fiscal year 2007 and 300 felons in fiscal year 2008. The budget assumes the new ability to place felons housed in county jails in home incarceration using an electronic monitoring device.

Additional resources of \$600,000 are provided each year for Community Corrections Commission Grants **to develop viable alternatives to incarceration** such as home incarceration, community service work, drug testing, restitution monitoring, electronic monitoring, anger management, and sex offender treatment for the sentencing court.

To help people recovering from addiction gain control of their lives and eventually reside in permanent housing, the recommended budget provides additional General Fund resources of \$1,246,800 in fiscal year 2008 for **122 beds at Recovery Kentucky centers**. The budget continues the current level of funding for regional Drug Courts (\$2 million per year) in coal producing counties, for Operation Unite (\$1.5 million per year) to help fight the problem of drug abuse in rural areas, and Civil Legal Services for Indigents (\$1.5 million per year).

Transportation

Kentucky's competitiveness in a 21st Century economy depends on a strong and fully developed surface transportation system that provides efficient mobility of both goods and people. The Governor's recommended budget demonstrates his continued commitment to providing the funding necessary to maintain and improve Kentucky's first-class transportation system.

GARVEE Bonds: The Executive Budget includes \$290 million in federal Grant Anticipation Revenue Vehicle (GARVEE) Bonds. GARVEE Bonds are funding mechanism offered by the federal government that allows states to issue bonds yet make debt service payments using federal highway funds. When combined with \$150 million in GARVEE bonds authorized in the 2004-2006 enacted budget, a total of \$440 million will be invested in these three interstate highway projects:

- **I-64-Widen** to 6 lanes from Snyder Freeway toward Shelbyville.

- **I-75**-Widen to 6 lanes from northern Scott County to south of KY22 in Grant County.
- **I-65**-Widen to 6 lanes from the Tennessee state line to Bowling Green.

The Governor's recommended budget provides funding to issue \$75 million in Economic Development Highway Bonds for **local road aid programs**. \$50 million of the bond funds will be available to counties. The remaining \$25 million will be shared with municipalities. One-half of the bond proceeds will be distributed to the local governments on the statutory formula. Local governments will make application for the remaining dollars.

The recommended budget provides increased funding of approximately \$13 million in fiscal year 2007 and \$20 million in fiscal year 2008 for the **State Resurfacing program**. Over the biennium, the Governor recommends allocating approximately \$60 million more from the Road Fund to support **roadway maintenance** projects.

Included in the Governor's recommended budget is \$220,000 in each year of the biennium to establish and sustain a **Minority Scholarship Program**. The 20 scholarships will be made available to both minority undergraduate and graduate students. Its goal is to expand the number of minorities working for the Transportation Cabinet in administrative and management areas.

Environmental and Public Protection

Governor Fletcher has an interest in assuring the small businesses can be competitive. Providing health insurance is one way that small businesses can attract and retain the employees necessary to ensure business success. To assist **small businesses** in providing **health insurance** for their employees, Governor Fletcher is proposing a new pilot program to be administered by the Office of Insurance. That program is the Insurance Coverage, Affordability and Relief to Employers Program or ICARE. To fund this new initiative, \$6.5 million in new General Fund is provided in fiscal year 2007 and \$13.5 million is provided in fiscal year 2008. The program will provide an immediate, fixed monthly subsidy of \$40-60 dollars to eligible small employers (2-25 employees) to purchase health insurance for their employees.

The Governor's recommended budget provides Restricted Funds of \$550,100 in fiscal year 2007 to be used for activities relating to the pursuit of state primacy of the Clean Water Act Section 404 Permitting program. This program is currently administered by the Army Corps of Engineers. Section 404 requires a landowner to obtain a permit from the Corps prior to beginning any non-exempt activity involving the placement of dredged or fill material into waters and wetlands. The program permits no discharge of dredged or fill material if a practicable alternative exists that is less damaging to the aquatic environment. Benefits of state primacy will be increased permitting efficiency to the regulated community and better environmental protection through consistent application of control measures.

Personnel

The **salary and compensation policy** for state employees included in the Governor's **Executive Budget** provides for a salary adjustment depending upon the employee's salary. The salary adjustment provides \$1,000 annually for those employees whose salary is \$20,000 or less; \$900 for salaries between \$20,000 and \$30,000; \$800 for salaries between \$30,000 and \$40,000; \$600 for salaries between \$40,000 and \$50,000; \$400 for salaries between \$50,000 and \$60,000; and \$200 for salaries \$60,000 and higher.

Funds for salary increases are appropriated to the Personnel Cabinet and will be allocated at the beginning of fiscal year 2007 and fiscal year 2008. General Fund appropriations to the State Salary and Compensation Fund total \$8 million in fiscal year 2007 and \$24 million in fiscal year 2008.

Additional funds of \$250,000 are provided in fiscal year 2007 to **update Kentucky State Government's Affirmative Action Plan** and to determine mechanisms for improving minority recruitment and retention.

Public Employee Health Insurance (PEHI)

After a successful transition to statewide self-insurance in 2006, the Commonwealth expects to take advantage of the economies of scale of a single large group. Savings will be realized by reducing the number of insurance carriers from four to one third party administrator and one pharmacy benefits administrator. This significant step allows the Commonwealth to better manage health care dollars and maximize health coverage, service delivery and continuity of care for employees and their families.

Many of the recommendations from the Blue Ribbon Panel on State Employee Insurance were implemented in 2006, including encouraging preventive care, co-payment modernization and utilizing appropriate pharmaceutical generic alternatives while maintaining fully-paid Single coverage and increasing the average employer contribution amount towards family coverage from 57% in 2005 to 65% in 2006 and through 2008. The Commonwealth and employees will equally share increases in premiums for family, couple, and parent plus coverage in the next biennium.

For the upcoming years, more of the Blue Ribbon recommendations are being considered for implementation. This will include maintaining the core benefit plans offered today, plus expanding the choices to include a consumer driven option and consideration of tax favored options such as a health reimbursement arrangement (HRA) for those who waive coverage. The PEHI program will continue ongoing review and incremental adjustments to the health insurance structure with continued emphasis on appropriate utilization and preventive care. Through this approach, the Commonwealth will explore ways to control costs while maintaining comprehensive coverage for employees.

In FY 2006 the General Fund will pay approximately \$588 million for health insurance for local school district employees and state government employees. The Governor's recommended budget includes \$642 million in FY 2007 (an increase of 9 percent) and \$699 million in FY 2008 (an annual increase of another 9 percent).

Health insurance benefits for retirees remain the same as for school district and state employees.

In addition the Executive Budget contains increased Employer Contribution Rates for the Kentucky Retirement System:

- **24 percent increase in FY07*** and **11 percent increase in FY08*** for **non-hazardous** service employees (From 5.89% to 8.10%).
- **15 percent increase in FY07*** and **10 percent increase in FY08*** for **hazardous** service employees (From 18.84% to 23.83%).
- **15 percent increase in FY07*** and **10 percent increase in FY08*** for **Kentucky State Police** employees (From 21.58% to 27.30%).

****Annual Change***

Other

The Governor's recommended budget for the Department for Military Affairs provides **full funding for the National Guard Tuition Assistance Program**. The Kentucky Higher Education Student Loan Corporation will provide Restricted Funds of \$4.5 million in FY2007 and \$5.2 million in FY2008 for tuition for 2,000 guard participants in each year.

The Military Affairs' capital budget includes \$4.5 million for the purchase of 4,290 acres currently leased from the Peabody Coal Company and used as a portion of the Wendell H. Ford Regional Training Center by the Kentucky Army National Guard, the Kentucky Air Guard, other Service Branches and the Department of Military Affairs.

Included in the proposed budget for the Department for Veterans' Affairs is \$200,000 in General Fund and \$8.3 million in Federal Funds toward the construction of a fourth Kentucky **veterans' cemetery in Greenup County**. An additional \$162,700 in fiscal year 2007 and \$495,800 in fiscal year 2008 is provided for the operating costs to open two new veteran's cemeteries in Fort Knox and Williamstown.

**2006-2008 EXECUTIVE BUDGET
GENERAL FUND SUMMARY**

	<u>Recommended FY 2006</u>	<u>Recommended FY 2007</u>	<u>Recommended FY 2008</u>
RESOURCES			
Beginning Balance	468,879,400	527,915,500	315,016,900
Consensus Revenue Forecast	8,216,200,000	8,341,200,000	8,675,700,000
Tobacco Settlement - Phase I	91,300,000	88,800,000	94,000,000
Continuation of Revenue Measures		7,600,000	7,900,000
Other Resources		18,474,800	42,696,000
Small Business AMC Relief		(3,170,000)	(9,680,000)
Fund Transfers	184,197,100	104,596,800	64,869,500
Budget Stability Initiative Fund Transfers	59,308,700		
Total Resources	9,019,885,200	9,085,417,100	9,190,502,400
Continued Appropriations Reserve			
Budget Reserve Trust Fund	28,764,800	119,015,100	119,015,100
Tobacco Settlement - Phase I	30,664,100	12,305,200	9,508,700
Executive Branch	21,548,700	7,288,300	3,167,600
Legislative Branch	11,869,100	6,828,400	5,299,600
Judicial Branch	8,539,500	6,411,600	4,351,600
Total Continued Appropriations Reserve	101,386,200	151,848,600	141,342,600
TOTAL RESOURCES	9,121,271,400	9,237,265,700	9,331,845,000
APPROPRIATIONS			
Executive Branch			
Regular Operating	7,995,294,800	8,409,665,700	8,798,699,800
Tobacco Settlement - Phase I	91,300,000	88,800,000	94,000,000
Special Bills	428,000		
Current Year Appropriations	89,702,200		
Other - Dedicated Revenues	28,122,400		
Necessary Governmental Expenses	15,000,000		
Budgeted Lapse	(14,500,000)	(15,000,000)	(20,000,000)
Budget Stability Initiative Lapse	(83,188,100)		
Capital Projects	6,140,700	1,200,000	1,400,000
Total Executive Branch	8,128,300,000	8,484,665,700	8,874,099,800
Judicial Branch	232,048,900	244,364,000	275,032,100
Legislative Branch	41,370,500	41,370,500	41,370,500
TOTAL APPROPRIATIONS	8,401,719,400	8,770,400,200	9,190,502,400
BALANCE	719,552,000	466,865,500	141,342,600
Continued Appropriations Reserve			
Budget Reserve Trust Fund	119,015,100	119,015,100	119,015,100
Tobacco Settlement - Phase I	30,664,100	12,305,200	9,508,700
Executive Branch	21,548,700	7,288,300	3,167,600
Legislative Branch	11,869,100	6,828,400	5,299,600
Judicial Branch	8,539,500	6,411,600	4,351,600
Total Continued Appropriations Reserve	191,636,500	151,848,600	141,342,600
ENDING BALANCE	527,915,500	315,016,900	0

**2006-2008 EXECUTIVE BUDGET
ROAD FUND SUMMARY**

	<u>Recommended FY 2006</u>	<u>Recommended FY 2007</u>	<u>Recommended FY 2008</u>
RESOURCES			
Beginning Balance		1,493,500	0
Consensus Forecast Group Estimate	<u>1,169,703,400</u>	<u>1,223,125,400</u>	<u>1,239,614,400</u>
TOTAL RESOURCES	1,169,703,400	1,224,618,900	1,239,614,400
APPROPRIATIONS			
Transportation Cabinet			
Revenue Sharing	240,939,000	257,668,000	252,908,400
Highways	625,672,600	668,521,200	681,006,700
Vehicle Regulation	16,280,300	17,396,100	18,269,900
Debt Service	166,840,900	150,238,600	159,362,500
General Administration and Support	66,530,000	69,217,100	70,072,400
Capital Construction	<u>4,248,000</u>	<u>10,285,000</u>	<u>6,795,000</u>
Subtotal	1,120,510,800	1,173,326,000	1,188,414,900
Justice & Public Safety Cabinet	42,768,100	48,974,900	48,881,500
Finance and Administration Cabinet	4,331,000	1,718,000	1,718,000
Kentucky State Treasurer	250,000	250,000	250,000
Homeland Security	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>
TOTAL APPROPRIATIONS	1,168,209,900	1,224,618,900	1,239,614,400
ENDING BALANCE	<u>1,493,500</u>	<u>0</u>	<u>0</u>

**2006-2008 EXECUTIVE BUDGET
TOBACCO SETTLEMENT - PHASE I SUMMARY**

	Recommended FY 2007	Recommended FY 2008
Revenue *	175,000	175,000
Rural Development - (50%)		
Governor's Office of Agricultural Policy	21,469,800	23,065,100
Finance and Administration Debt Service	17,842,700	17,847,400
Environmental and Public Protection - Natural Resources	5,000,000	6,000,000
Subtotal	44,312,500	46,912,500
Health Improvement - (25%)		
Office of Drug Control Policy (KY ASAP)	1,816,800	1,923,400
Health and Family Services - Public Health	2,215,600	2,345,600
Council on Postsecondary Education - Lung Cancer Research Program	4,431,200	4,691,200
Environmental and Public Protection - Insurance (Kentucky Access)	13,692,700	14,496,000
Subtotal	22,156,300	23,456,200
Early Childhood Development - (25%)		
Division of Early Childhood Development Services	1,388,400	1,508,400
Health and Family Services - Community Based Services	6,970,400	7,420,400
Health and Family Services - Human Support Services	100,000	100,000
Health and Family Services - Public Health	11,785,300	12,375,500
Health and Family Services - Mental Health/Mental Retardation	800,000	800,000
Health and Family Services - Children with Special Health Care Needs	312,100	352,000
Postsecondary Education - Kentucky Higher Education Assistance Authority	800,000	900,000
Subtotal	22,156,200	23,456,300
TOTAL TOBACCO SETTLEMENT - PHASE I	88,800,000	94,000,000

* 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.

**2006-2008 EXECUTIVE BUDGET
PROGRAMS FUNDED BY LOTTERY RECEIPTS**

	<u>Recommended FY 2007</u>	<u>Recommended FY 2008</u>
Gross Lottery Estimate (Consensus Forecasting Group)	165,500,000	170,500,000
Less Literacy Development Programs:		
Collaborative Center for Literacy Development	1,200,000	1,200,000
Early Reading Incentive Fund	1,800,000	1,800,000
Total Literacy Development Programs	3,000,000	3,000,000
Net Lottery Revenues	162,500,000	167,500,000
Kentucky Educational Excellence Scholarship (KEES) 45%	73,125,000	75,375,000
Need-Based Student Financial Aid: 55%		
College Access Program	58,427,800	60,262,000
Kentucky Tuition Grant Program	29,170,100	30,085,900
Teacher Scholarships Program	1,777,100	1,777,100
Need-Based Student Financial Aid - Total	89,375,000	92,125,000

Note: Some of the above programs include fund sources other than Lottery receipts.

**2006-2008 EXECUTIVE BUDGET
CAPITAL PROJECTS SUMMARY**

	<u>Recommended FY 2007</u>	<u>Recommended FY 2008</u>	<u>Total Appropriations</u>
SOURCE OF FUNDS			
Executive Branch			
General Fund	1,200,000	1,400,000	2,600,000
Restricted Funds	1,477,910,000	38,550,000	1,516,460,000
Federal Funds	178,982,000	16,190,000	195,172,000
Bond Fund	652,595,000	5,000,000	657,595,000
Road Fund	10,285,000	6,795,000	17,080,000
Agency Bond Fund	205,132,000		205,132,000
Capital Construction Surplus	4,107,000	1,045,000	5,152,000
Investment Income	12,100,000	11,140,000	23,240,000
Other Funds	89,140,000	11,970,000	101,110,000
Deferred Maintenance	332,000		332,000
Emergency, Repair Maintenance and Replacement	2,200,000		2,200,000
TOTAL SOURCE OF FUNDS	<u>2,633,983,000</u>	<u>92,090,000</u>	<u>2,726,073,000</u>
EXPENDITURES BY CABINET			
Executive Branch			
General Government	208,211,000	19,101,000	227,312,000
Commerce	94,021,000	21,825,000	115,846,000
Economic Development	30,000,000		30,000,000
Department of Education	38,025,000	675,000	38,700,000
Education Cabinet	2,385,000	400,000	2,785,000
Environmental and Public Protection	32,300,000	6,800,000	39,100,000
Finance and Administration	181,349,000	13,034,000	194,383,000
Health and Family Services	10,880,000	1,500,000	12,380,000
Justice and Public Safety	8,107,000	1,650,000	9,757,000
Postsecondary Education	2,019,030,000	20,310,000	2,039,340,000
Transportation	9,675,000	6,795,000	16,470,000
TOTAL EXPENDITURES	<u>2,633,983,000</u>	<u>92,090,000</u>	<u>2,726,073,000</u>

Capital Projects Overview

The Commonwealth's capital projects program for the Executive Branch for the 2006-2008 biennium is presented in this single volume – Volume II of the Executive Budget. This overview section of the volume focuses on the capital projects priorities, policies, and fund sources recommended to be appropriated for the next two years.

Policy Emphasis – Bonds for Education and Economic Development and Infrastructure

The capital budget for the Executive Branch includes \$937,727,000 in bond funded capital projects supported by \$65,753,000 from General Fund debt service, \$6,984,000 from Road Fund debt service, with the remainder to be financed from Restricted Funds debt service. By far, the largest proportion of new bond-financed project activity, \$602.7 million (64 percent), is directed to education purposes, elementary and secondary and postsecondary education.

Postsecondary Education

Collectively, the universities recommend the appropriation of \$260,276,000 in new General Fund-supported bonds as well as \$205,132,000 in Restricted Agency Fund-supported Bonds for a total of \$465,408,000. The agency bond total represents the third consecutive budget with appropriations far in excess of recent historical standards. A continued and significant emphasis has been placed on facilities that support research. These facilities complement the significant research initiative launched as a part of the Postsecondary Improvement Act from the 1997 Special Session. Both the University of Kentucky and the University of Louisville received state support for their top projects – the completion phase of the Biological/Pharmaceutical Complex at the University of Kentucky (\$76 million in addition to the \$40 million appropriated by the 2005 General Assembly) and the Health Sciences Center Research Facility – Phase 4 at the University of Louisville (\$66 million in addition to the \$39 million appropriated by the 2005 General Assembly). Western Kentucky University received funding for the Materials Characterization Center, its major source of corporate research contracts and technology transfer. These projects were the three highest research and economic development capital project priorities of the Council on Postsecondary Education. Major funding was also provided for the three Kentucky Community and Technical College (KCTCS) projects: the Advanced Manufacturing Technology project at Gateway Community and Technical College (\$26.6 million), the Emerging Technology Center at the West Kentucky Community and Technical College in Paducah (\$15.5 million), and the Allied Health/Technical Education Building at the Laurel Campus of the Somerset Community College (\$13.2 million). Other major postsecondary capital investments include: the Center for Health Education and Research at Morehead State University (\$15 million), a joint effort with the St. Claire Regional Medical Center, the Renovation of the Old Science Building at Northern Kentucky University (\$14.2 million), the Dairy Research project at Eastern Kentucky University's Meadowbrook Farm (\$5.1 million), support to complete the Hathaway Hall project at Kentucky State University related to the long-standing U.S. Office of Civil Rights agreement (\$4.7 million), and the Renovation of the Science Campus at Western Kentucky University (\$6.7 million).

Other Postsecondary Education projects receiving agency bond appropriations include the remaining financing of the new Hospital Patient Bed Tower at the University of Kentucky (\$130 million in agency bonds), the completion of the Student Union Building at Northern Kentucky University (\$17.4 million), the construction of a New Residential College at Murray State University (\$12.1 million), New Student Housing at Eastern Kentucky University (\$10 million), the remaining funds necessary to completely renovate the Academic/Athletic #2 Complex at Western Kentucky University (\$24.2 million), and University of Louisville's Center for Predictive Medicine (\$11.5 million) which will match a \$22 million federal grant the University received from the National Institutes of Health for a Level 3 Regional Biosafety Laboratory.

Elementary and Secondary Education

The second largest commitment of support is for local school construction. The School Facilities Construction Commission (SFCC) was authorized by the 2005 General Assembly to make offers of assistance to local school districts for new construction and renovation projects. The 2006-2008 Executive Budget recommends \$100 million in new bonds to honor these offers of assistance to local school districts.

The 2006-2008 Executive Budget recommendation also supports the authorization for SFCC to make another \$100 million in offers of assistance in anticipation of appropriating the necessary bond funds in the 2008-2010 biennial budget.

Education Technology

The 2006-2008 Executive Budget supports a major advancement in the modernization of the Commonwealth's education information technology systems. A joint P-16 Education Information Technology Integration Initiative is recommended incorporating a total of \$59 million, \$37 million from the capital budget. This initiative has several interrelated components: a Kentucky Education Network (KEN), to provide a faster and higher volume transfer of data and electronic resources to schools connecting local school districts, universities and colleges, and other education agencies together in a single network; an On-Line Assessment testing program that provides the rapid turnaround of student assessment scores to teachers; the establishment of a learning systems repository accessible electronically to share instructional content modules across all education agencies; a seamless P-16 data repository that allows comprehensive education information to be shared among agencies to better inform policy and decision making; a common course management system; and a unified structure for all virtual education entities.

Economic Development

Economic Development bond appropriations include \$10 million in new Economic Development bond funds, and a \$20 million pool for the Commercialization and Innovation program's High Tech Construction and Investment Pool. Both of these efforts are underwritten by General Fund debt service. The \$10 million in bonds will recapitalize the Economic Development Bond pool that will be used to leverage state investments against private investments to promote the economic development of the Commonwealth. The High Tech Construction and Investment Pool supports the growth of innovation-based business and industry in Kentucky by targeting new economy niche areas where Kentucky might gain a competitive edge in the emerging technology economic sectors. An additional \$5 million in bonds is provided to the Community Economic Growth Program created to assist counties, cities, local health departments, and special districts with funding for projects that will enhance the economic development of Kentucky communities.

The 2006-2008 Executive Budget proposes significant investments in tourism and quality of life projects including \$75 million in General Fund-supported bonds for a new Louisville Arena. This will provide partial funding to support a new Arena in downtown Louisville. The total anticipated cost of the arena complex will be approximately \$349 million. It will be paid for from 15 different sources of revenue, including naming rights, seat premiums, parking, and incremental tax dollars that occur due to the creation of the arena complex. The University of Louisville men's and women's basketball teams will be the primary tenants in the arena complex; concerts, family shows and other major functions will be held as well. The arena is proposed to have 22,000 seats, 70 luxury suites, a practice facility, and the ability to convert the facility into an ice rink for a minor league hockey team and family skating shows. The rest of the complex should contain a restaurant, hotel, parking garage, and retail shops. The 2006-2008 Executive Budget proposes funding for a New Indoor Arena project at the Kentucky Horse Park (\$34.8 million in bonds). This project includes the construction of a new climate controlled indoor arena with seating for up to 6,000 people, enabling the Kentucky Horse Park to host the World Equestrian Games in 2010. This event has never been held outside of Europe. The Indoor Arena will bear fruit prior to 2010 by enabling the addition of equine events, expanding its show season and pursuing leading national championship equine shows that it has been unsuccessful attracting with its current facilities.

Information Technology

Another significant investment is proposed for information technology programs and upgraded business systems. In contemporary society, governments, businesses, and individual citizens are dependent upon and daily users of information technology (IT) systems. State government IT systems need to keep pace. The IT system replacements recommended in this budget replace IT systems dating back ten, twenty, or more years. These include the remaining phases of the public safety communications infrastructure known as KEWS (Kentucky Emergency Warning System), which was developed in the wake of the 1974 tornadoes that rampaged through Kentucky (\$13 million in bonds plus \$16 million in Federal Funds); the first phase of a

Comprehensive Tax System (\$23.2 million), the last of the Commonwealth's enterprise-wide legacy business systems to be replaced; and the completion of the TWIST system to safeguard children at risk (\$3.1 million matched by the same amount of Federal Funds).

Reduction of Leased Space

The 2006-2008 Executive Budget includes funding to finish the renovation of the State Office Building (\$12.7 million) which will enable the Commonwealth to vacate 375,000 square feet of leased property. Design funding is recommended for the renovation of the Capital Plaza Tower which is necessary for the life of the building and will continue the progress of reducing the amount of leased space in Frankfort (\$4.9 million).

Maintenance Projects

The Governor's recommendation also includes a renewed emphasis on maintaining and restoring state owned assets following the Capital Planning Advisory Board's recommendation to increase the maintenance and repair of existing public assets and to protect existing investments in important facilities. For the first time since the 2000-2002 biennial budget, a Capital Renewal and Maintenance pool (\$13 million) is provided for the universities and KCTCS. Each institution will provide matching funds to extend the investment in maintaining the postsecondary education physical plant. Other Maintenance Pools finance construction projects costing less than \$400,000 each and keep minor problems from escalating into more costly major maintenance or renovation needs. The 2006-2008 Executive Budget provides a limited amount of bonds (\$10 million) for state agency maintenance pools. The Commonwealth's ongoing maintenance requirements need to be financed with cash sources (\$12 million). The cash funding is critical to enable the hundreds of small maintenance projects to be executed without the limitation that bonding imposes to fund only those projects with a useful life of at least 20 years. The Capital Planning Advisory Board endorses the emphasis on cash funding for maintenance. The bond funded maintenance pools include just a 10-year term to allow agencies to direct these funds to appropriate maintenance needs. Other key maintenance investments are: the Parks Renovation Pool (\$8 million), the Replacement of Chillers at the Oakwood mental retardation facility (\$2 million), and the Pavilion Roof project at the Kentucky Fair and Exposition Center (\$1.2 million), and the next phase of the Capitol Complex Infrastructure improvements (\$1.1 million).

Life Safety-Protection of the Public

The Governor's recommendation includes capital projects that protect life safety and improve the general welfare of Kentuckians, including: Upgrading Fire Safety at the Morehead Youth Development Center (\$1.5 million), Kentucky River Lock 3 Renovation (\$1 million), Flood Control and Dam Repair projects (\$1.6 million), additional funding for Drinking Water and Wastewater Revolving Loan funds within the Kentucky Infrastructure Authority's budget (\$8 million in bonds, \$40 million in Federal Funds), security upgrades at the Kentucky History Center, and continued work on the Kentucky River dams and water storage project.

Other Notable Projects

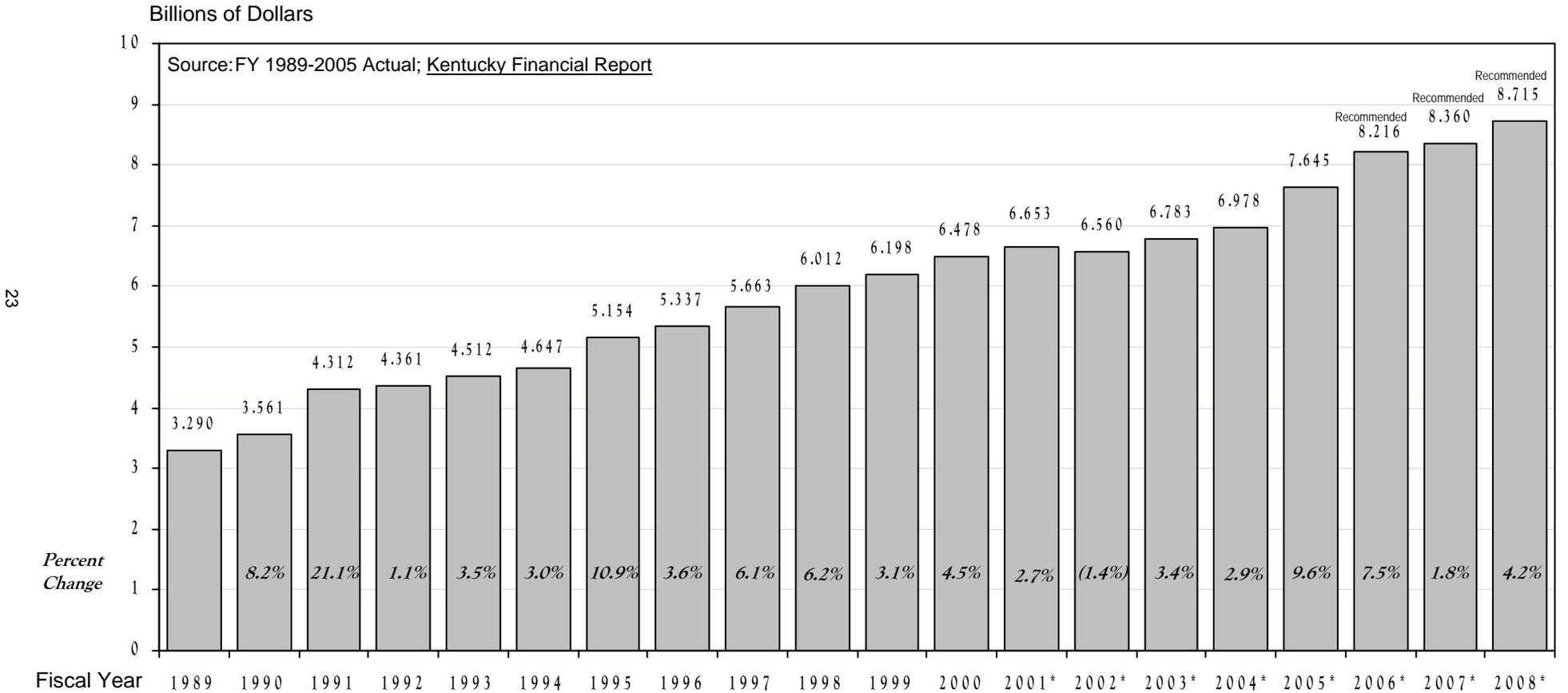
The 2006-2008 Executive Budget includes funding to acquire 4,291 acres of currently leased property at the Department of Military Affairs' Wendell H. Ford Regional Training Center in Muhlenberg County. The current leaseholder plans to sell this property and its acquisition is critical to the Department's ability to maintain this area as a major military training center (\$4.5 million). Funding is also included to construct the Commonwealth's fourth Veterans' cemetery, the Northeastern Kentucky State Veterans Cemetery, in Greenup County, with over \$8 million in Federal Funds. The budget includes funding (\$3 million) for a Wildlife/Elk Interpretive Center in Eastern Kentucky. The growing Elk herd in eastern Kentucky offers a unique opportunity to promote wildlife related tourism.

NOTE: The preceding discussion does not include reference to the second phase of a bond program begun in the 2004-2006 biennium for interstate highway construction. This \$290 million GARVEE bond program is discussed in Volume I of the Executive Budget documents in the Kentucky Transportation Cabinet description.

General Fund Revenue Receipts

Fiscal Years 1989-2008

(Billions of dollars – rounded)

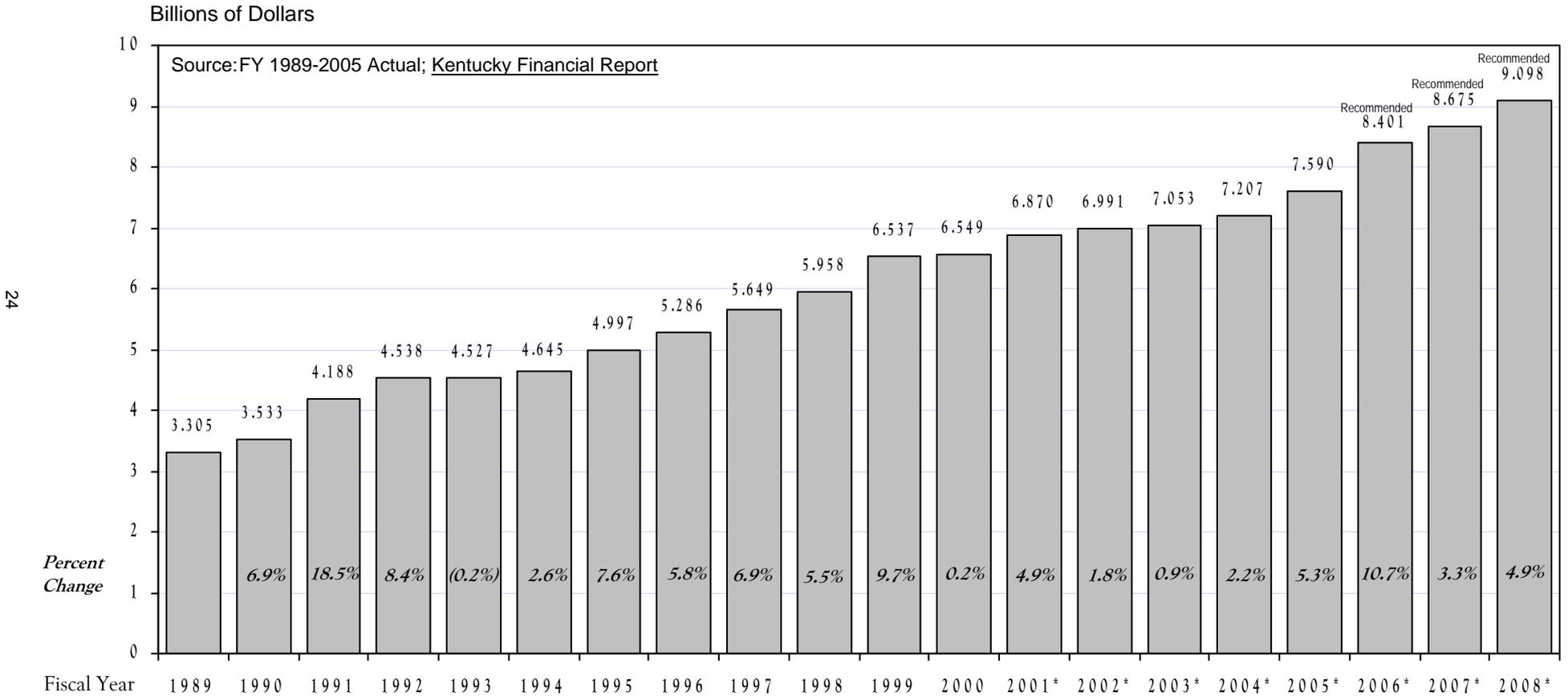


- Excludes Tobacco Settlement – Phase I Funds
- Excludes Fund Transfers

General Fund Expenditures

Fiscal Years 1989-2008

(Billions of dollars – rounded)

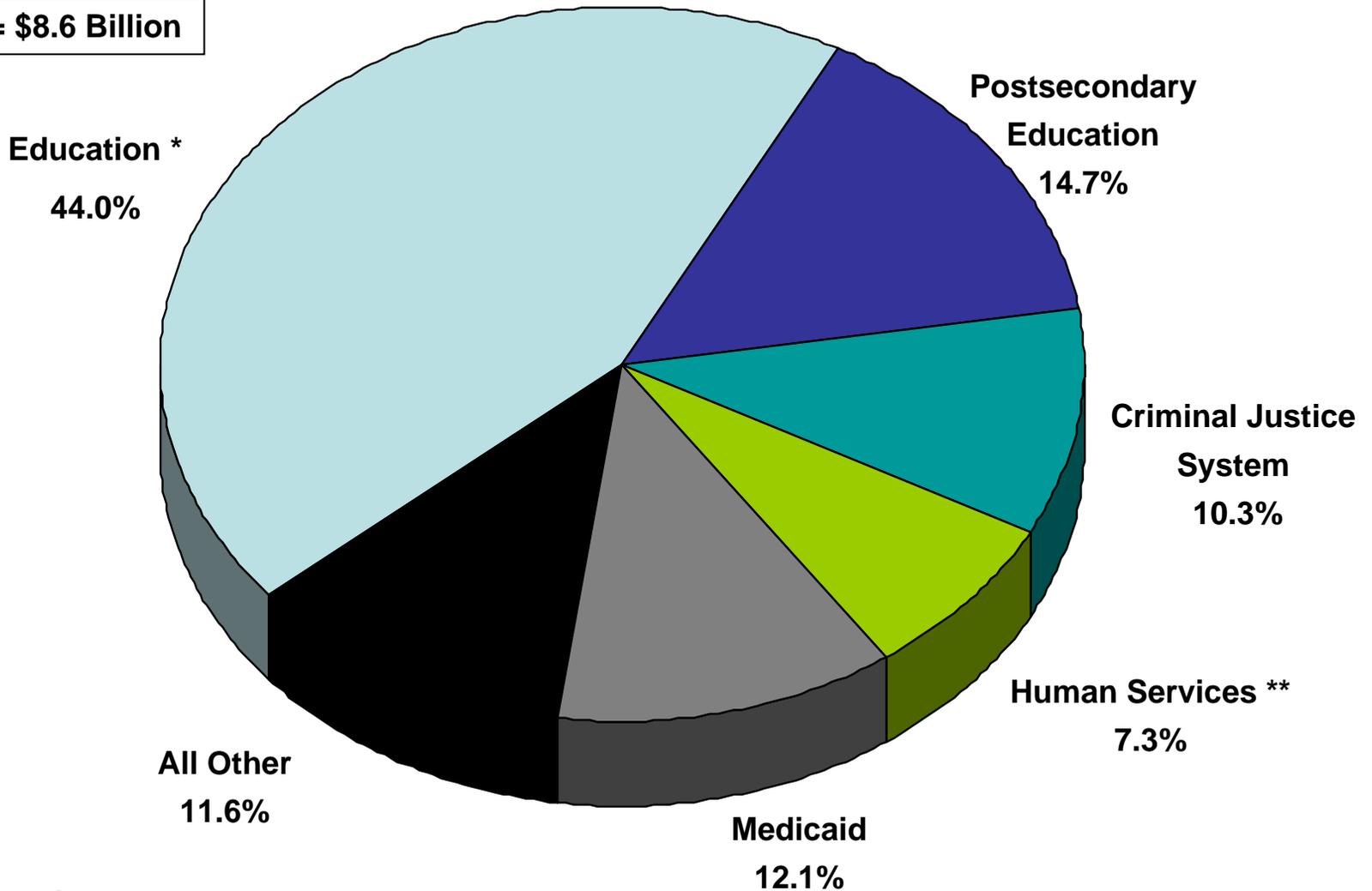


* Excludes Tobacco Settlement – Phase I Funds

Distribution of General Fund Appropriations

Fiscal Year 2006-2007

Total = \$8.6 Billion



Excludes Tobacco Settlement – Phase I Funds

* Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission and the Education Professional Standards Board.

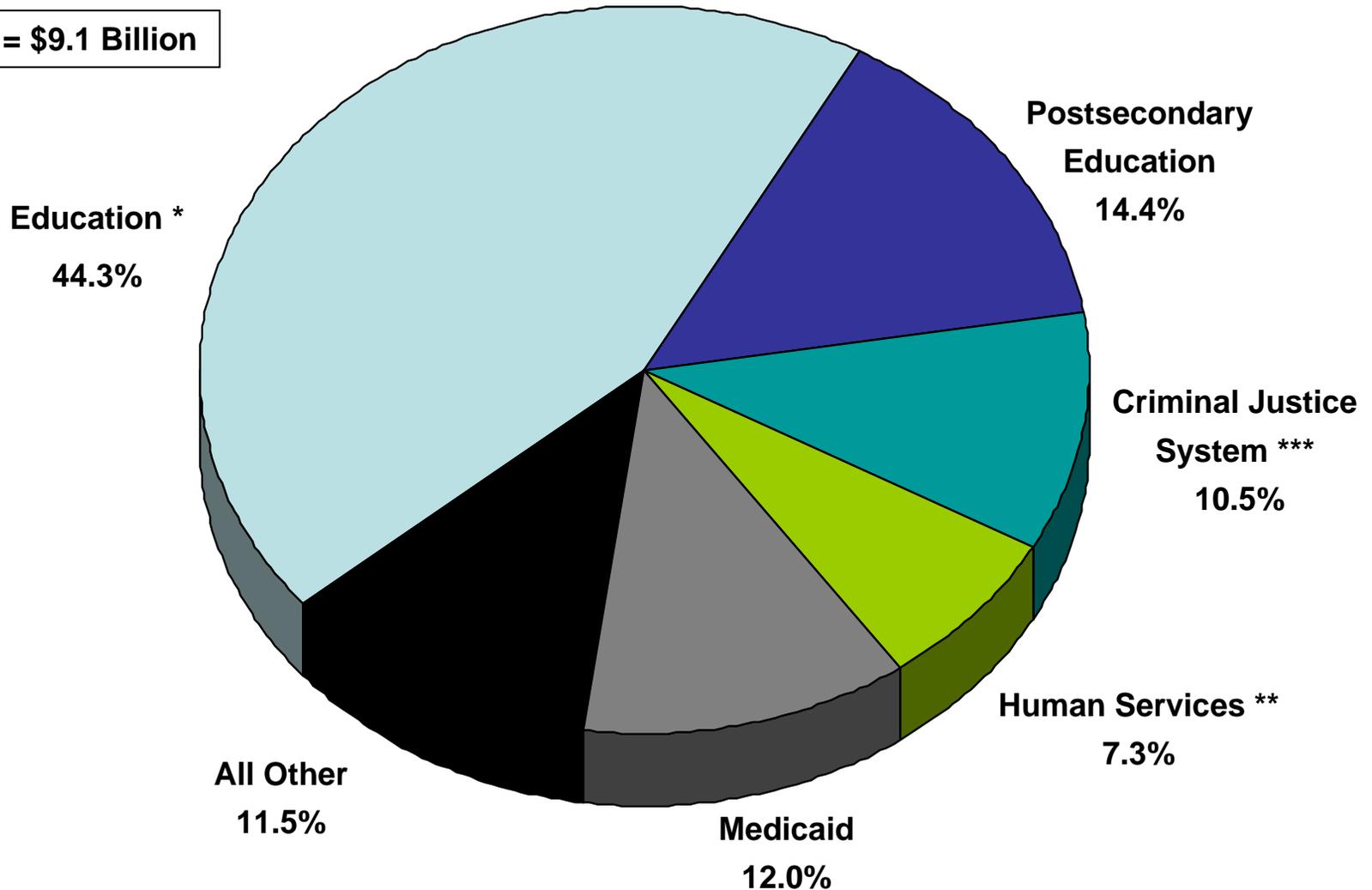
** Human Services include the Health and Family Services Cabinet (net of Medicaid).

*** Criminal Justice System includes the Unified Prosecutorial System, Justice and Public Safety Cabinet and the Judicial Branch.

Distribution of General Fund Appropriations

Fiscal Year 2007-2008

Total = \$9.1 Billion



Excludes Tobacco Settlement – Phase I Funds

* Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission and the Education Professional Standards Board.

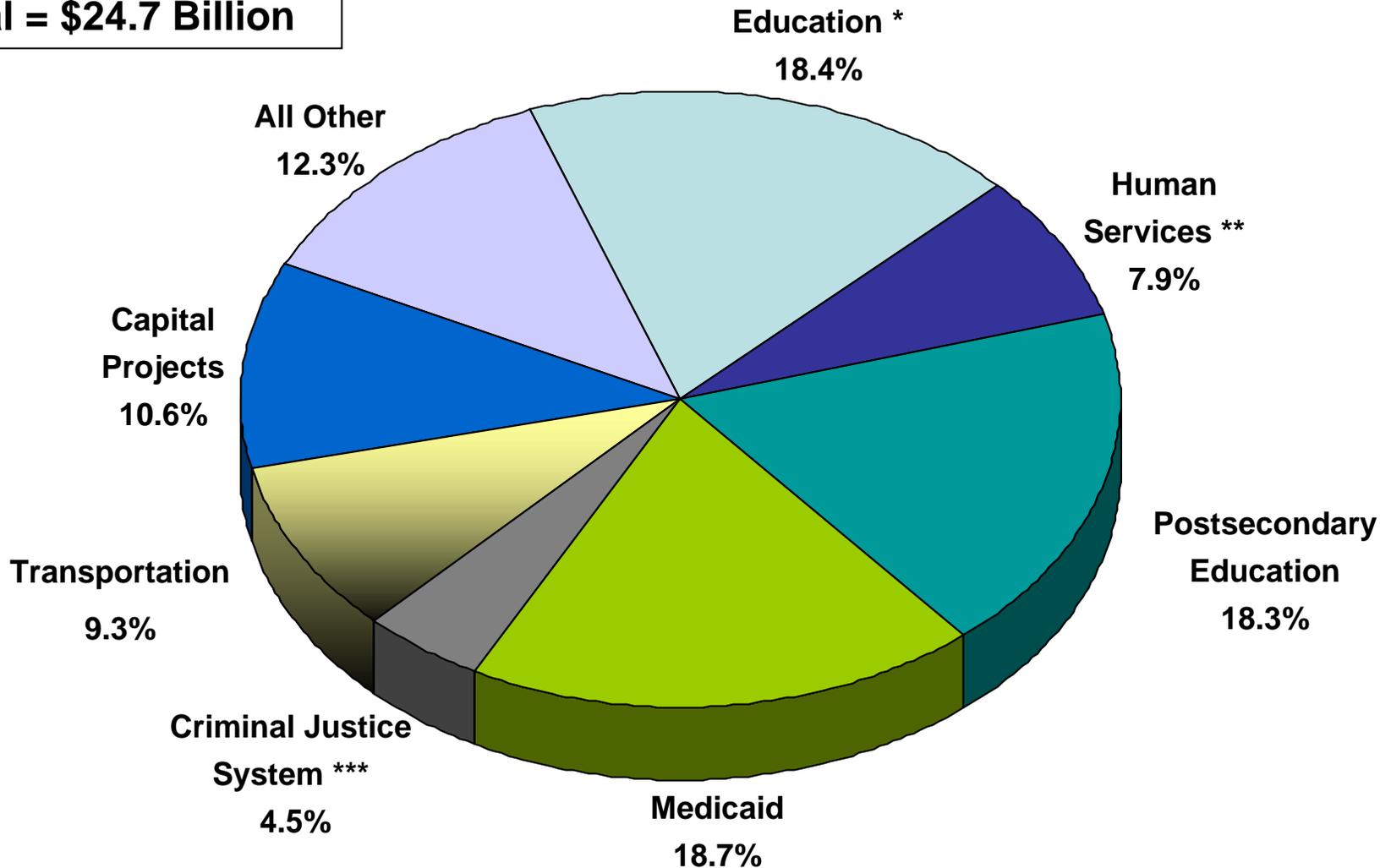
** Human Services include the Health and Family Services Cabinet (net of Medicaid).

*** Criminal Justice System includes the Unified Prosecutorial System, Justice and Public Safety Cabinet and the Judicial Branch.

Distribution of All Funds Appropriations

Fiscal Year 2006-2007

Total = \$24.7 Billion



Excludes Tobacco Settlement – Phase I Funds

* Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission and the Education Professional Standards Board.

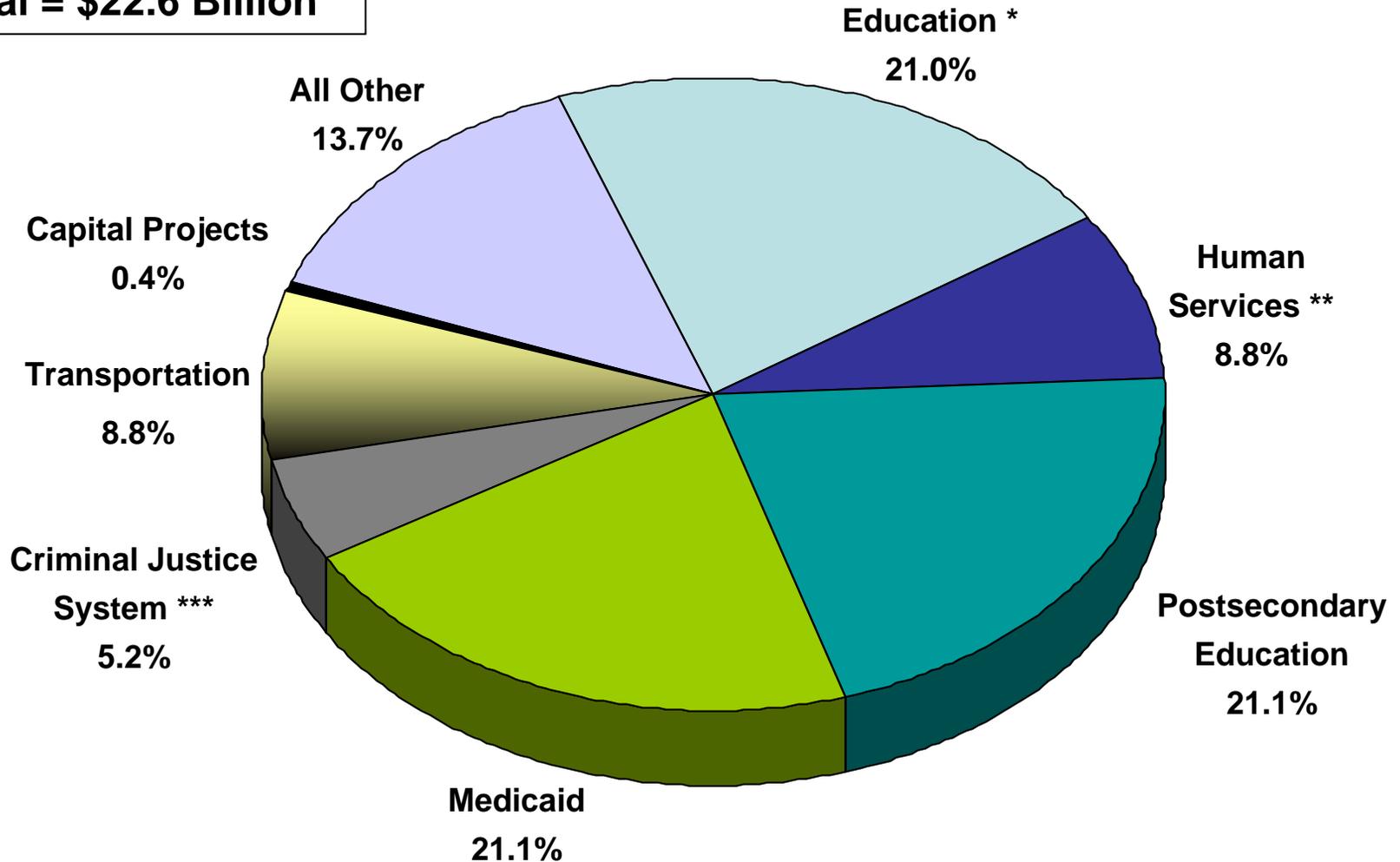
** Human Services include the Health and Family Services Cabinet (net of Medicaid).

*** Criminal Justice System includes the Unified Prosecutorial System, Justice and Public Safety Cabinet and the Judicial Branch.

Distribution of All Funds Appropriations

Fiscal Year 2007-2008

Total = \$22.6 Billion



Excludes Tobacco Settlement – Phase I Funds

* Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission and the Education Professional Standards Board.

** Human Services include the Health and Family Services Cabinet (net of Medicaid).

*** Criminal Justice System includes the Unified Prosecutorial System, Justice and Public Safety Cabinet and the Judicial Branch.

**2006-2008 EXECUTIVE BUDGET
AUTHORIZED PERSONNEL LEVELS**

Executive Branch	Recommended Full Time	Recommended Part Time	Recommended Other	Recommended Total
General Government				
Office of the Governor	75	4	2	81
Office of State Budget Director	43		1	44
Homeland Security	15		13	28
Veterans' Affairs	763	6	6	775
Governor's Office of Agricultural Policy	16			16
Kentucky Infrastructure Authority	11			11
Military Affairs	321	19	262	602
Commission on Human Rights	31			31
Commission on Women	3	1		4
Governor's Office of Local Development	76		6	82
Executive Branch Ethics Commission	4	2		6
Secretary of State	41			41
Board of Elections	18			18
Registry of Election Finance	17			17
Attorney General	223	2	7	232
Unified Prosecutorial System	595	517	1	1,113
Treasury	33		2	35
Agriculture	302	1	11	314
Auditor of Public Accounts	130	1	1	132
Personnel Board	6			6
Occupational Boards & Commissions	149	31	11	191
Board of Emergency Medical Services	18			18
Kentucky River Authority	10	2		12
School Facilities Construction Commission	2			2
Total General Government	2,902	586	323	3,811
Commerce	2,240	33	1,610	3,883
Economic Development	115	2		117
Department of Education	660	7	66	733
Education Cabinet	2,293	128	16	2,437
Environmental and Public Protection	3,074	2	161	3,237
Finance and Administration	2,618	4	127	2,749
Health and Family Services	8,829	51	48	8,928
Justice and Public Safety	8,106	9	32	8,147
Personnel	249	2	3	254
Postsecondary Education	94	4	6	104
Transportation	5,178	12	188	5,378
TOTAL EXECUTIVE BRANCH	36,358	840	2,580	39,778

Executive Branch

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	7,994,729,800	9,478,396,500	10,234,179,300	8,409,665,700	8,798,699,800
Surplus Expenditure Plan	90,250,300				
Special Appropriation	428,000				
Current Year Appropriation	89,702,200	69,800	72,800		
Continuing Appropriation	50,313,500	128,477,000	127,976,700	126,303,400	122,182,700
Salary Compensation Fund		460,500	484,900		
Base Deduction	-32,984,600				
Mandated Allotments	12,425,000				
Other	28,122,400	3,949,600	3,949,600		
Total General Fund	8,232,986,600	9,611,353,400	10,366,663,300	8,535,969,100	8,920,882,500
Tobacco Settlement-Phase I					
Tobacco Settlement - I	108,600,000	91,678,200	91,807,700	88,800,000	94,000,000
Continuing Appropriation	30,664,100	12,310,000	9,508,700	12,305,200	9,508,700
Budget Reduction	-4,327,900				
Other	-43,900				
Total Tobacco Settlement-Phase I	134,892,300	103,988,200	101,316,400	101,105,200	103,508,700
Restricted Funds					
Balance Forward	481,735,884	256,801,085	244,436,085	180,653,500	122,475,100
Current Receipts	3,686,785,516	3,848,827,400	4,026,081,800	4,126,720,200	4,021,236,200
Non-Revenue Receipts	680,920,100	680,451,600	690,318,100	738,057,500	705,357,300
Fund Transfers	-141,955,700		50,000	-74,440,500	-35,013,200
Total Restricted Funds	4,707,485,800	4,786,080,085	4,960,885,985	4,970,990,700	4,814,055,400
Federal Funds					
Balance Forward	87,866,306	22,068,452	9,809,652	22,048,600	11,400,000
Current Receipts	7,165,866,863	7,095,748,400	7,324,488,000	6,959,702,900	7,128,218,000
Non-Revenue Receipts	215,581,409	217,170,900	217,259,400	216,608,800	216,662,100
Total Federal Funds	7,469,314,578	7,334,987,752	7,551,557,052	7,198,360,300	7,356,280,100
Road Fund					
Regular Appropriation	1,151,156,200	1,250,704,000	1,260,213,000	1,214,333,900	1,232,819,400
Surplus Expenditure Plan	28,578,100				
Current Year Appropriation	12,805,700				
Total Road Fund	1,192,540,000	1,250,704,000	1,260,213,000	1,214,333,900	1,232,819,400
Highway Bonds					
Balance Forward	232,141,599	367,619,400	379,769,400		
Current Receipts	80,410,901	23,290,000	14,170,000	75,000,000	
Non-Revenue Receipts	150,000,000	290,000,000			
Total Highway Bonds	462,552,500	680,909,400	393,939,400	75,000,000	
TOTAL SOURCE OF FUNDS	22,199,771,778	23,768,022,837	24,634,575,137	22,095,759,200	22,427,546,100
EXPENDITURES BY CLASS					
Personnel Cost	4,654,799,800	5,262,238,555	5,570,151,637	4,844,685,200	5,008,804,100
Operating Expenses	2,185,882,300	2,380,799,945	2,468,891,163	2,302,951,700	2,398,118,600
Grants, Loans or Benefits	12,366,273,200	13,198,111,300	13,874,044,150	12,497,576,500	12,925,731,500
Debt Service	646,477,600	747,397,100	846,934,500	739,233,200	779,770,900
Capital Outlay	176,734,800	178,085,900	176,201,900	171,942,300	167,622,200
Construction	1,750,938,100	1,246,666,100	1,224,368,800	1,273,803,800	930,133,700
TOTAL EXPENDITURES	21,781,105,800	23,013,298,900	24,160,592,150	21,830,192,700	22,210,181,000

EXPENDITURES BY FUND SOURCE

General Fund	8,041,680,300	9,500,137,900	10,255,953,800	8,413,786,400	8,801,867,600
Tobacco Settlement-Phase I	110,234,700	94,479,500	95,575,500	91,596,500	103,508,700
Restricted Funds	4,526,832,300	4,541,708,000	4,727,144,900	4,848,515,600	4,721,532,800
Federal Funds	7,447,266,000	7,325,382,900	7,549,448,350	7,186,960,300	7,350,452,500
Road Fund	1,192,540,000	1,250,704,000	1,260,213,000	1,214,333,900	1,232,819,400
Highway Bonds	462,552,500	301,140,000	272,498,200	75,000,000	

TOTAL EXPENDITURES

	21,781,105,800	23,013,552,300	24,160,833,750	21,830,192,700	22,210,181,000
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EXPENDITURES BY UNIT

General Government	942,078,300	1,209,643,900	1,308,738,100	919,816,300	936,149,200
Commerce	215,970,800	262,755,000	296,660,550	217,055,900	223,146,600
Economic Development	24,478,800	35,062,200	40,428,900	32,960,400	39,123,700
Department of Education	4,086,955,700	4,437,871,100	4,748,704,800	4,253,874,200	4,450,872,300
Education Cabinet	872,843,700	910,383,900	921,070,900	875,179,900	875,720,900
Environmental and Public Protection	616,292,200	646,726,600	658,698,800	622,225,700	630,469,700
Finance and Administration	567,549,200	650,496,000	679,216,100	629,936,300	641,358,100
Health and Family Services	6,606,934,400	6,868,526,200	7,151,695,700	6,567,409,300	6,755,485,100
Justice and Public Safety	751,664,600	968,327,800	1,014,781,400	800,910,500	823,768,800
Personnel	52,221,000	55,863,400	59,387,100	64,906,900	82,821,400
Postsecondary Education	4,312,963,800	4,682,700,200	4,994,686,500	4,539,289,400	4,767,351,700
Transportation	2,731,153,300	2,285,196,000	2,286,764,900	2,306,627,900	1,983,913,500

TOTAL EXPENDITURES

	21,781,105,800	23,013,552,300	24,160,833,750	21,830,192,700	22,210,181,000
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General Government

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	500,525,900	817,226,100	920,193,200	539,831,000	553,592,600
Current Year Appropriation	3,101,000				
Continuing Appropriation	1,322,600				
Salary Compensation Fund	5,399,300	72,400	96,800		
Base Deduction	-3,442,900				
Mandated Allotments	12,425,000				
Other	22,497,400				
Total General Fund	541,828,300	817,298,500	920,290,000	539,831,000	553,592,600
Tobacco Settlement-Phase I					
Tobacco Settlement - I	24,541,300	27,260,100	27,260,100	21,469,800	23,065,100
Continuing Appropriation	17,557,700	12,305,200	9,508,700	12,305,200	9,508,700
Total Tobacco Settlement-Phase I	42,099,000	39,565,300	36,768,800	33,775,000	32,573,800
Restricted Funds					
Balance Forward	48,611,626	34,504,885	25,225,885	32,480,100	20,743,600
Current Receipts	80,045,763	89,648,300	94,314,600	84,531,300	85,702,100
Non-Revenue Receipts	35,042,711	35,968,900	38,133,000	34,626,400	37,264,600
Fund Transfers	-7,216,700		50,000	-1,300,000	-1,150,000
Total Restricted Funds	156,483,400	160,122,085	157,723,485	150,337,800	142,560,300
Federal Funds					
Balance Forward	40,050,569	15,716,900	5,691,500	15,805,600	5,762,200
Current Receipts	245,070,000	219,099,400	219,787,700	218,301,700	218,725,200
Non-Revenue Receipts	-3,564,591	-2,347,600	-2,311,500	-2,820,300	-2,813,500
Total Federal Funds	281,555,978	232,468,700	223,167,700	231,287,000	221,673,900
Road Fund					
Regular Appropriation	600,000	600,000	600,000	600,000	600,000
Total Road Fund	600,000	600,000	600,000	600,000	600,000
TOTAL SOURCE OF FUNDS	1,022,566,678	1,250,054,585	1,338,549,985	955,830,800	951,000,600
EXPENDITURES BY CLASS					
Personnel Cost	243,031,400	302,791,955	324,761,937	238,510,200	243,471,100
Operating Expenses	67,151,700	76,722,945	76,684,763	59,687,000	59,639,700
Grants, Loans or Benefits	534,160,800	701,147,500	768,264,800	504,824,100	513,830,700
Debt Service	92,212,700	118,160,600	132,978,100	108,267,900	114,865,600
Capital Outlay	1,092,000	2,536,900	1,894,700	907,100	842,100
Construction	4,429,700	8,020,000	3,900,000	7,620,000	3,500,000
TOTAL EXPENDITURES	942,078,300	1,209,379,900	1,308,484,300	919,816,300	936,149,200
EXPENDITURES BY FUND SOURCE					
General Fund	521,930,800	817,308,000	920,305,500	539,831,000	553,592,600
Tobacco Settlement-Phase I	29,793,800	30,056,600	31,027,900	24,266,300	32,573,800
Restricted Funds	124,003,300	134,902,100	133,700,000	129,594,200	127,786,900
Federal Funds	265,750,400	226,777,200	223,104,700	225,524,800	221,595,900
Road Fund	600,000	600,000	600,000	600,000	600,000
TOTAL EXPENDITURES	942,078,300	1,209,643,900	1,308,738,100	919,816,300	936,149,200

Commerce

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	54,799,600	94,514,600	126,080,400	56,205,300	59,037,000
Current Year Appropriation		69,800	72,800		
Continuing Appropriation	99,100				
Salary Compensation Fund	2,461,100				
Base Deduction	-1,135,800				
Reorganization Adjustments	181,400				
Total General Fund	56,405,400	94,584,400	126,153,200	56,205,300	59,037,000
Restricted Funds					
Balance Forward	42,001,800	39,986,900	34,908,500	38,880,100	36,941,500
Current Receipts	149,965,800	157,882,300	163,703,400	154,443,400	161,320,800
Non-Revenue Receipts	-8,654,600	-10,671,700	-12,570,200	-10,285,600	-13,787,400
Fund Transfers	-1,315,800				
Total Restricted Funds	181,997,200	187,197,500	186,041,700	183,037,900	184,474,900
Federal Funds					
Balance Forward	4,705,600	3,487,152	2,336,352	3,559,400	3,379,100
Current Receipts	15,302,100	14,730,800	14,480,600	14,573,900	14,307,500
Total Federal Funds	20,007,700	18,217,952	16,816,952	18,133,300	17,686,600
TOTAL SOURCE OF FUNDS	258,410,300	299,999,852	329,011,852	257,376,500	261,198,500
EXPENDITURES BY CLASS					
Personnel Cost	122,950,400	140,862,600	147,962,800	125,036,600	128,119,800
Operating Expenses	59,484,600	64,115,100	64,720,300	59,469,300	59,491,200
Grants, Loans or Benefits	26,048,500	32,771,700	32,751,650	26,266,800	24,901,900
Debt Service	4,012,900	22,474,100	48,634,200	4,322,100	8,626,400
Capital Outlay	2,714,400	2,531,500	2,591,600	1,961,100	2,007,300
Construction	760,000				
TOTAL EXPENDITURES	215,970,800	262,755,000	296,660,550	217,055,900	223,146,600
EXPENDITURES BY FUND SOURCE					
General Fund	56,405,400	94,584,400	126,153,200	56,205,300	59,037,000
Restricted Funds	143,117,100	152,289,000	154,719,200	146,096,400	149,829,700
Federal Funds	16,448,300	15,881,600	15,788,150	14,754,200	14,279,900
TOTAL EXPENDITURES	215,970,800	262,755,000	296,660,550	217,055,900	223,146,600
EXPENDITURES BY UNIT					
Secretary	3,923,600	4,426,700	4,607,500	4,094,300	4,135,900
Artisans Center	2,202,200	2,974,500	3,066,400	2,325,200	2,349,600
Energy Policy	10,866,200	11,338,800	11,405,400	10,124,300	10,124,300
Tourism	16,030,600	17,267,700	24,492,000	15,830,500	16,376,500
Parks	82,035,900	91,805,500	110,676,100	83,011,100	85,158,000
Horse Park Commission	7,687,200	9,338,100	13,375,500	7,947,500	11,124,700
State Fair Board	36,567,300	56,842,300	57,763,300	37,455,400	38,333,700
Fish and Wildlife Resources	39,305,700	43,043,600	44,897,000	38,842,400	39,908,100
Historical Society	7,890,600	13,730,900	13,789,400	8,417,300	7,223,100
Arts Council	5,343,400	6,691,100	6,744,850	5,855,200	5,242,200
Heritage Council	2,394,100	3,165,800	3,183,400	2,038,300	2,056,100
Kentucky Center for the Arts	1,724,000	2,130,000	2,659,700	1,114,400	1,114,400
TOTAL EXPENDITURES	215,970,800	262,755,000	296,660,550	217,055,900	223,146,600

Economic Development

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	19,779,100	29,565,500	34,845,200	24,641,700	31,737,100
Continuing Appropriation	7,702,000	7,200,300	6,700,000	7,200,300	3,123,600
Salary Compensation Fund	255,100				
Base Deduction	-813,100				
Total General Fund	26,923,100	36,765,800	41,545,200	31,842,000	34,860,700
Restricted Funds					
Balance Forward	2,334,400	520,700		520,700	
Current Receipts	1,737,600	3,086,100	3,517,000	2,331,700	2,696,300
Non-Revenue Receipts	1,249,300	1,234,200	1,411,300	1,234,200	1,411,300
Fund Transfers	-200,000				
Total Restricted Funds	5,121,300	4,841,000	4,928,300	4,086,600	4,107,600
Federal Funds					
Balance Forward	16,800	16,800	16,800	16,800	16,800
Current Receipts	155,400	155,400	155,400	155,400	155,400
Total Federal Funds	172,200	172,200	172,200	172,200	172,200
TOTAL SOURCE OF FUNDS	32,216,600	41,779,000	46,645,700	36,100,800	39,140,500
EXPENDITURES BY CLASS					
Personnel Cost	10,501,300	13,637,000	14,233,100	10,880,000	11,020,800
Operating Expenses	2,017,700	4,425,200	4,445,800	1,854,600	1,854,600
Grants, Loans or Benefits	11,725,800	17,000,000	21,750,000	20,225,800	23,266,300
Debt Service	234,000				2,982,000
TOTAL EXPENDITURES	24,478,800	35,062,200	40,428,900	32,960,400	39,123,700
EXPENDITURES BY FUND SOURCE					
General Fund	19,722,800	30,065,800	35,345,200	28,718,400	34,860,700
Restricted Funds	4,600,600	4,841,000	4,928,300	4,086,600	4,107,600
Federal Funds	155,400	155,400	155,400	155,400	155,400
TOTAL EXPENDITURES	24,478,800	35,062,200	40,428,900	32,960,400	39,123,700
EXPENDITURES BY UNIT					
Secretary	13,112,400	19,960,500	24,965,100	17,959,000	24,065,200
New Business Development	2,261,600	3,395,200	3,465,100	2,112,200	2,124,500
Financial Incentives	5,548,700	6,626,700	6,749,200	9,066,300	9,065,200
Existing Business Development	3,556,100	5,079,800	5,249,500	3,822,900	3,868,800
TOTAL EXPENDITURES	24,478,800	35,062,200	40,428,900	32,960,400	39,123,700

Department of Education

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	3,391,551,100	3,743,109,100	4,054,031,800	3,555,007,600	3,752,161,200
Continuing Appropriation	7,051,700				
Salary Compensation Fund	1,335,000				
Base Deduction	-4,313,300				
Total General Fund	3,395,624,500	3,743,109,100	4,054,031,800	3,555,007,600	3,752,161,200
Tobacco Settlement-Phase I					
Tobacco Settlement - I	1,888,400	1,923,100	1,946,800	1,388,400	1,508,400
Continuing Appropriation	248,900				
Total Tobacco Settlement-Phase I	2,137,300	1,923,100	1,946,800	1,388,400	1,508,400
Restricted Funds					
Balance Forward	1,503,000				
Current Receipts	3,440,400	4,873,400	4,894,600	4,831,300	4,831,300
Non-Revenue Receipts		83,300	46,300	5,000,000	5,000,000
Total Restricted Funds	4,943,400	4,956,700	4,940,900	9,831,300	9,831,300
Federal Funds					
Balance Forward	1,921,800	341,600		341,600	
Current Receipts	462,887,000	464,593,000	464,765,700	464,447,100	464,447,100
Non-Revenue Receipts	222,783,300	222,947,600	223,019,600	222,858,200	222,924,300
Total Federal Funds	687,592,100	687,882,200	687,785,300	687,646,900	687,371,400
TOTAL SOURCE OF FUNDS	4,090,297,300	4,437,871,100	4,748,704,800	4,253,874,200	4,450,872,300
EXPENDITURES BY CLASS					
Personnel Cost	61,900,800	68,925,100	71,596,300	62,609,900	63,411,700
Operating Expenses	18,671,200	44,296,000	43,917,700	24,646,600	34,589,300
Grants, Loans or Benefits	4,006,383,700	4,324,660,600	4,633,203,000	4,166,617,700	4,347,670,300
Debt Service					5,201,000
TOTAL EXPENDITURES	4,086,955,700	4,437,881,700	4,748,717,000	4,253,874,200	4,450,872,300
EXPENDITURES BY FUND SOURCE					
General Fund	3,392,624,500	3,743,109,100	4,054,031,800	3,555,007,600	3,752,161,200
Tobacco Settlement-Phase I	2,137,300	1,923,100	1,946,800	1,388,400	1,508,400
Restricted Funds	4,943,400	4,956,700	4,940,900	9,831,300	9,831,300
Federal Funds	687,250,500	687,882,200	687,785,300	687,646,900	687,371,400
TOTAL EXPENDITURES	4,086,955,700	4,437,871,100	4,748,704,800	4,253,874,200	4,450,872,300
EXPENDITURES BY UNIT					
Executive Policy and Management	654,300	755,600	788,100	672,000	679,800
Operations and Support Services	42,232,200	69,355,300	69,970,500	52,863,400	68,315,300
Learning and Results Services	1,449,176,500	1,543,715,900	1,616,974,300	1,519,903,400	1,566,059,500
Support Education Excellence in Kentucky (SEEK)	2,594,892,700	2,824,044,300	3,060,971,900	2,680,435,400	2,815,817,700
TOTAL EXPENDITURES	4,086,955,700	4,437,871,100	4,748,704,800	4,253,874,200	4,450,872,300

Education Cabinet

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	86,216,400	108,784,800	115,168,100	86,179,300	86,404,900
Continuing Appropriation	631,500				
Salary Compensation Fund	2,641,800	388,100	388,100		
Base Deduction	-1,477,400				
Reorganization Adjustments	-181,400				
Total General Fund	87,830,900	109,172,900	115,556,200	86,179,300	86,404,900
Restricted Funds					
Balance Forward	4,518,600	3,837,800	2,457,900	3,741,500	2,804,600
Current Receipts	13,680,800	15,253,500	16,381,900	13,700,700	13,689,100
Non-Revenue Receipts	25,132,300	24,411,300	24,523,900	24,111,300	24,223,900
Fund Transfers	-647,300			-75,000	-89,600
Total Restricted Funds	42,684,400	43,502,600	43,363,700	41,478,500	40,628,000
Federal Funds					
Balance Forward	846,200	75,100	75,100	404,000	1,042,700
Current Receipts	746,993,400	760,166,300	763,846,900	750,965,400	751,289,600
Non-Revenue Receipts	134,300				
Total Federal Funds	747,973,900	760,241,400	763,922,000	751,369,400	752,332,300
TOTAL SOURCE OF FUNDS	878,489,200	912,916,900	922,841,900	879,027,200	879,365,200
EXPENDITURES BY CLASS					
Personnel Cost	141,942,400	167,534,600	176,098,100	149,641,000	151,397,900
Operating Expenses	39,882,500	43,590,300	42,195,700	39,512,800	39,001,600
Grants, Loans or Benefits	689,516,600	697,035,700	698,835,300	684,477,800	683,869,600
Debt Service			2,290,000		
Capital Outlay	1,502,200	2,223,300	1,651,800	1,548,300	1,451,800
TOTAL EXPENDITURES	872,843,700	910,383,900	921,070,900	875,179,900	875,720,900
EXPENDITURES BY FUND SOURCE					
General Fund	86,330,900	109,172,900	115,556,200	86,179,300	86,404,900
Restricted Funds	38,942,900	41,044,700	41,667,800	38,673,900	38,872,500
Federal Funds	747,569,900	760,166,300	763,846,900	750,326,700	750,443,500
TOTAL EXPENDITURES	872,843,700	910,383,900	921,070,900	875,179,900	875,720,900
EXPENDITURES BY UNIT					
General Administration and Program Support	8,637,400	10,770,900	12,491,400	9,008,600	9,117,600
Deaf and Hard of Hearing	1,102,500	1,431,200	1,483,400	1,277,400	1,290,000
Kentucky Educational Television	15,904,800	18,755,700	20,914,800	16,460,800	16,657,100
Environmental Education Council	1,061,800	320,000	327,300	192,800	194,400
Libraries and Archives	17,178,000	26,962,800	29,135,000	17,546,900	17,694,300
Office for the Blind	12,418,100	13,058,300	13,438,200	12,640,000	12,775,700
Employment and Training	672,353,200	682,896,100	685,352,200	675,218,400	675,371,200
Career and Technical Education	65,912,900	70,321,900	71,289,700	65,359,100	65,253,200
Vocational Rehabilitation	61,952,500	64,046,200	65,064,900	61,351,100	61,209,900
Educational Professional Standards Board	16,322,500	21,820,800	21,574,000	16,124,800	16,157,500
TOTAL EXPENDITURES	872,843,700	910,383,900	921,070,900	875,179,900	875,720,900

Environmental and Public Protection

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	87,876,400	142,199,700	148,356,100	98,598,800	109,547,500
Continuing Appropriation	2,261,700	2,261,600	2,261,600	88,000	44,000
Salary Compensation Fund	4,020,000				
Base Deduction	-10,131,000				
Total General Fund	84,027,100	144,461,300	150,617,700	98,686,800	109,591,500
Tobacco Settlement-Phase I					
Tobacco Settlement - I	25,751,700	9,000,000	9,000,000	18,692,700	20,496,000
Continuing Appropriation	5,966,900				
Budget Reduction	-1,769,100				
Total Tobacco Settlement-Phase I	29,949,500	9,000,000	9,000,000	18,692,700	20,496,000
Restricted Funds					
Balance Forward	128,449,300	109,601,000	125,145,700	54,010,600	28,973,500
Current Receipts	216,222,000	194,819,600	196,067,700	198,872,100	204,782,300
Non-Revenue Receipts	234,056,100	222,904,900	225,895,500	278,077,000	238,858,200
Fund Transfers	-94,864,700			-71,859,800	-30,822,600
Total Restricted Funds	483,862,700	527,325,500	547,108,900	459,099,900	441,791,400
Federal Funds					
Balance Forward	723,700	342,200	342,200	453,200	434,300
Current Receipts	76,040,200	80,084,700	81,346,300	78,234,200	79,116,000
Non-Revenue Receipts	-3,759,200	-3,489,300	-3,537,500	-3,489,300	-3,537,500
Total Federal Funds	73,004,700	76,937,600	78,151,000	75,198,100	76,012,800
TOTAL SOURCE OF FUNDS	670,844,000	757,724,400	784,877,600	651,677,500	647,891,700
EXPENDITURES BY CLASS					
Personnel Cost	210,482,500	257,321,600	269,832,100	226,175,200	230,172,000
Operating Expenses	190,835,200	200,620,300	201,774,000	204,792,600	203,925,100
Grants, Loans or Benefits	181,713,100	166,429,600	165,353,300	167,684,100	174,545,200
Debt Service	589,000	589,000	589,000	589,000	4,068,000
Capital Outlay	21,895,100	7,666,100	7,050,400	10,484,800	5,759,400
Construction	10,777,300	14,100,000	14,100,000	12,500,000	12,000,000
TOTAL EXPENDITURES	616,292,200	646,726,600	658,698,800	622,225,700	630,469,700
EXPENDITURES BY FUND SOURCE					
General Fund	83,939,100	158,951,400	165,107,800	98,642,800	109,591,700
Tobacco Settlement-Phase I	29,949,500	9,000,000	9,000,000	18,692,700	20,496,000
Restricted Funds	429,852,100	402,179,800	406,782,200	430,126,400	424,806,500
Federal Funds	72,551,500	76,595,400	77,808,800	74,763,800	75,575,500
TOTAL EXPENDITURES	616,292,200	646,726,600	658,698,800	622,225,700	630,469,700
EXPENDITURES BY UNIT					
General Administration and Program Support	16,776,700	20,678,100	21,757,400	17,492,200	17,787,000
Environmental Protection	120,938,100	119,368,000	122,458,800	114,434,000	113,271,900
Natural Resources	107,481,700	116,687,700	119,451,700	101,168,800	102,956,900
Environmental Quality Commission	142,000	278,500	289,600	266,600	263,800
Kentucky Nature Preserves Commission	1,511,100	1,870,200	1,950,900	1,525,400	1,549,300
Public Protection	112,279,300	129,942,600	132,870,200	125,617,900	134,355,500
Labor	128,244,900	125,154,500	125,930,000	122,783,400	123,440,900
Occupational Safety and Health Review Commission	560,500	645,200	696,400	500,600	510,900

Workers' Compensation Board	922,200	1,028,300	1,077,900	937,900	949,500
Workers' Compensation Funding Commission	127,237,200	130,826,700	131,963,000	137,298,200	135,181,600
Mine Safety Review Commission	198,500	246,800	252,900	200,700	202,400
TOTAL EXPENDITURES	<u>616,292,200</u>	<u>646,726,600</u>	<u>658,698,800</u>	<u>622,225,700</u>	<u>630,469,700</u>

Finance and Administration

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	458,505,500	492,606,700	517,993,200	469,780,500	479,149,000
Special Appropriation	428,000				
Salary Compensation Fund	4,212,000				
Base Deduction	-3,533,800				
Total General Fund	459,611,700	492,606,700	517,993,200	469,780,500	479,149,000
Tobacco Settlement-Phase I					
Tobacco Settlement - I	20,846,200	18,017,600	18,022,400	18,017,700	18,022,400
Continuing Appropriation	2,019,100				
Budget Reduction	-11,900				
Total Tobacco Settlement-Phase I	22,853,400	18,017,600	18,022,400	18,017,700	18,022,400
Restricted Funds					
Balance Forward	19,600,000	16,109,000	16,107,200	14,060,500	11,997,100
Current Receipts	130,130,600	136,174,500	137,572,800	136,100,900	137,330,700
Non-Revenue Receipts	-4,900	6,300	6,300	392,700	361,200
Fund Transfers	-4,991,300				
Total Restricted Funds	144,734,400	152,289,800	153,686,300	150,554,100	149,689,000
Federal Funds					
Balance Forward	17,600	1,300		1,300	
Current Receipts	3,020,700	1,861,800	1,775,000	1,861,800	1,775,000
Total Federal Funds	3,038,300	1,863,100	1,775,000	1,863,100	1,775,000
Road Fund					
Regular Appropriation	4,331,000	1,826,000	1,826,000	1,718,000	1,718,000
Total Road Fund	4,331,000	1,826,000	1,826,000	1,718,000	1,718,000
TOTAL SOURCE OF FUNDS	634,568,800	666,603,200	693,302,900	641,933,400	650,353,400
EXPENDITURES BY CLASS					
Personnel Cost	149,802,800	181,217,100	191,501,900	155,434,500	158,038,800
Operating Expenses	104,397,400	102,306,800	103,127,700	104,755,000	106,872,000
Grants, Loans or Benefits	7,345,000	7,845,000	7,845,000	7,345,000	7,345,000
Debt Service	289,084,800	346,499,200	364,901,700	342,499,300	349,302,700
Capital Outlay	11,819,200	11,798,700	11,010,600	14,036,200	13,900,800
Construction	5,100,000	829,200	829,200	5,866,300	5,898,800
TOTAL EXPENDITURES	567,549,200	650,496,000	679,216,100	629,936,300	641,358,100
EXPENDITURES BY FUND SOURCE					
General Fund	419,006,300	492,606,700	517,993,200	469,780,500	479,149,000
Tobacco Settlement-Phase I	10,501,000	18,017,600	18,022,400	18,017,700	18,022,400
Restricted Funds	130,673,900	136,182,600	139,599,500	138,557,000	140,693,700
Federal Funds	3,037,000	1,863,100	1,775,000	1,863,100	1,775,000
Road Fund	4,331,000	1,826,000	1,826,000	1,718,000	1,718,000
TOTAL EXPENDITURES	567,549,200	650,496,000	679,216,100	629,936,300	641,358,100
EXPENDITURES BY UNIT					
General Administration	42,483,200	44,597,400	44,725,900	46,387,500	46,605,700
Controller	13,640,600	15,613,900	16,077,900	14,211,300	14,223,000
Debt Service	289,083,300	346,497,700	338,108,200	342,497,800	349,301,200
Facilities and Support Services	38,062,900	38,788,100	60,392,300	37,627,400	38,100,600
County Costs	20,606,500	20,631,500	20,631,500	21,131,500	22,431,500
Commonwealth Office of Technology	60,858,500	63,769,400	68,795,900	62,031,600	63,737,400

Revenue	67,534,900	79,414,900	87,098,700	69,960,500	70,870,000
Property Valuation Administrators	35,279,300	41,183,100	43,385,700	36,088,700	36,088,700
TOTAL EXPENDITURES	567,549,200	650,496,000	679,216,100	629,936,300	641,358,100

Health and Family Services

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	1,550,522,800	1,871,320,800	1,975,484,400	1,690,857,300	1,757,951,400
Current Year Appropriation	85,300,000				
Salary Compensation Fund	10,857,100				
Base Deduction	-850,400				
Total General Fund	1,645,829,500	1,871,320,800	1,975,484,400	1,690,857,300	1,757,951,400
Tobacco Settlement-Phase I					
Tobacco Settlement - I	27,028,400	27,028,400	27,028,400	22,183,400	23,393,500
Continuing Appropriation	2,828,000	4,800			
Budget Reduction	-2,027,200				
Other	-43,900				
Total Tobacco Settlement-Phase I	27,785,300	27,033,200	27,028,400	22,183,400	23,393,500
Restricted Funds					
Balance Forward	36,989,758	28,375,800	22,609,400	12,755,400	3,267,700
Current Receipts	498,490,853	493,653,200	493,169,200	495,028,400	499,876,400
Non-Revenue Receipts	327,576,289	326,665,100	332,711,300	325,542,300	337,500,500
Fund Transfers	-11,251,500			-542,800	-483,000
Total Restricted Funds	851,805,400	848,694,100	848,489,900	832,783,300	840,161,600
Federal Funds					
Balance Forward	36,528,937				
Current Receipts	4,057,740,663	4,144,027,300	4,310,124,600	4,024,792,800	4,133,889,800
Non-Revenue Receipts		60,200	88,800	60,200	88,800
Total Federal Funds	4,094,269,600	4,144,087,500	4,310,213,400	4,024,853,000	4,133,978,600
TOTAL SOURCE OF FUNDS	6,619,689,800	6,891,135,600	7,161,216,100	6,570,677,000	6,755,485,100
EXPENDITURES BY CLASS					
Personnel Cost	650,262,400	712,285,400	735,460,600	635,081,600	629,327,200
Operating Expenses	130,449,900	139,015,800	142,273,200	124,752,400	127,130,200
Grants, Loans or Benefits	5,826,026,800	6,017,029,700	6,273,766,600	5,807,380,000	5,998,200,400
Debt Service					632,000
Capital Outlay	195,300	195,300	195,300	195,300	195,300
TOTAL EXPENDITURES	6,606,934,400	6,868,526,200	7,151,695,700	6,567,409,300	6,755,485,100
EXPENDITURES BY FUND SOURCE					
General Fund	1,645,829,500	1,871,320,800	1,975,484,400	1,690,857,300	1,757,951,400
Tobacco Settlement-Phase I	27,785,300	27,033,200	27,028,400	22,183,400	23,393,500
Restricted Funds	839,050,000	826,084,700	838,969,500	829,515,600	840,161,600
Federal Funds	4,094,269,600	4,144,087,500	4,310,213,400	4,024,853,000	4,133,978,600
TOTAL EXPENDITURES	6,606,934,400	6,868,526,200	7,151,695,700	6,567,409,300	6,755,485,100
EXPENDITURES BY UNIT					
General Administration and Program Support	90,412,200	98,019,200	101,216,600	87,411,800	86,595,900
Comm for Children with Special Health Care Needs	16,979,800	18,415,600	18,983,800	17,222,600	17,421,400
Medicaid Services	4,700,052,800	4,799,718,000	5,012,656,300	4,620,763,600	4,765,633,400
Mental Health and Mental Retardation Services	415,185,100	466,493,700	488,279,400	435,630,000	446,633,600
Public Health	324,873,800	336,406,100	339,801,000	319,792,300	323,329,500
Health Policy	1,212,200	1,503,000	1,536,800	1,241,700	1,248,000
Human Support Services	55,730,700	67,132,500	68,668,400	57,120,800	57,661,200

Ombudsman	5,904,300	6,873,200	7,199,600	5,822,000	5,767,400
Disability Determination Services	44,758,000	49,449,800	51,040,700	49,449,800	51,040,700
Community Based Services	951,825,500	1,024,515,100	1,062,313,100	972,954,700	1,000,154,000
TOTAL EXPENDITURES	6,606,934,400	6,868,526,200	7,151,695,700	6,567,409,300	6,755,485,100

Justice and Public Safety

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	546,842,700	745,488,500	792,515,300	591,089,700	622,448,000
Current Year Appropriation	1,301,200				
Continuing Appropriation	229,300				
Salary Compensation Fund	13,483,800				
Base Deduction	-6,366,000				
Other		3,949,600	3,949,600		
Total General Fund	555,491,000	749,438,100	796,464,900	591,089,700	622,448,000
Tobacco Settlement-Phase I					
Tobacco Settlement - I	2,222,700	2,227,700	2,228,700	1,816,800	1,923,400
Continuing Appropriation	1,979,800				
Budget Reduction	-151,100				
Total Tobacco Settlement-Phase I	4,051,400	2,227,700	2,228,700	1,816,800	1,923,400
Restricted Funds					
Balance Forward	15,690,500	9,445,800	5,273,700	9,557,400	4,047,100
Current Receipts	46,863,100	49,411,300	49,937,500	44,323,500	45,012,700
Non-Revenue Receipts	56,454,200	61,015,400	63,423,100	60,928,700	60,285,500
Fund Transfers	-13,717,400				-2,000,000
Total Restricted Funds	105,290,400	119,872,500	118,634,300	114,809,600	107,345,300
Federal Funds					
Balance Forward	3,032,900	2,087,400	1,347,700	1,466,700	764,900
Current Receipts	52,067,300	52,223,900	50,429,100	47,564,800	46,735,700
Non-Revenue Receipts	-12,400				
Total Federal Funds	55,087,800	54,311,300	51,776,800	49,031,500	47,500,600
Road Fund					
Regular Appropriation	42,768,100	48,836,700	50,868,700	48,974,900	48,881,500
Total Road Fund	42,768,100	48,836,700	50,868,700	48,974,900	48,881,500
TOTAL SOURCE OF FUNDS	762,688,700	974,686,300	1,019,973,400	805,722,500	828,098,800
EXPENDITURES BY CLASS					
Personnel Cost	413,724,800	564,168,800	606,828,300	444,346,300	457,412,500
Operating Expenses	88,437,500	107,037,600	105,275,100	90,350,900	89,829,100
Grants, Loans or Benefits	236,594,500	270,338,600	278,452,400	252,539,500	263,138,200
Debt Service	3,415,200	12,463,200	12,460,000	3,419,000	3,571,000
Capital Outlay	8,492,600	13,319,600	10,765,600	8,554,800	8,518,000
Construction	1,000,000	1,000,000	1,000,000	1,700,000	1,300,000
TOTAL EXPENDITURES	751,664,600	968,327,800	1,014,781,400	800,910,500	823,768,800
EXPENDITURES BY FUND SOURCE					
General Fund	555,491,000	749,438,100	796,464,900	591,089,700	622,448,000
Tobacco Settlement-Phase I	4,051,400	2,227,700	2,228,700	1,816,800	1,923,400
Restricted Funds	95,733,000	114,656,900	114,025,100	110,762,500	103,015,300
Federal Funds	53,621,100	53,168,400	51,194,000	48,266,600	47,500,600
Road Fund	42,768,100	48,836,700	50,868,700	48,974,900	48,881,500
TOTAL EXPENDITURES	751,664,600	968,327,800	1,014,781,400	800,910,500	823,768,800
EXPENDITURES BY UNIT					
Justice Administration	31,829,800	36,298,000	36,330,200	28,338,600	28,075,000
Criminal Justice Training	45,460,800	53,232,000	53,766,600	49,059,500	49,360,900
Juvenile Justice	106,997,900	131,614,200	137,118,700	110,875,900	112,294,900

State Police	141,219,400	197,884,500	208,225,700	152,305,100	153,777,700
Corrections	371,510,700	475,880,700	498,562,200	402,266,100	422,487,800
Vehicle Enforcement	20,590,700	26,539,800	27,914,200	19,860,800	19,767,200
Public Advocacy	34,055,300	46,878,600	52,863,800	38,204,500	38,005,300
TOTAL EXPENDITURES	751,664,600	968,327,800	1,014,781,400	800,910,500	823,768,800

	Personnel				
	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	55,572,500	5,112,400	4,373,900	14,779,300	29,659,400
Salary Compensation Fund	-46,266,200				
Base Deduction	-820,900				
Total General Fund	8,485,400	5,112,400	4,373,900	14,779,300	29,659,400
Restricted Funds					
Balance Forward	14,297,700	12,244,100	10,391,000	9,578,000	8,407,800
Current Receipts	43,469,200	46,397,900	47,679,000	46,405,000	47,646,400
Non-Revenue Receipts	-502,300	2,500,000	2,000,000	2,552,400	2,054,200
Fund Transfers	-3,951,000				
Total Restricted Funds	53,313,600	61,142,000	60,070,000	58,535,400	58,108,400
TOTAL SOURCE OF FUNDS	61,799,000	66,254,400	64,443,900	73,314,700	87,767,800
EXPENDITURES BY CLASS					
Personnel Cost	45,051,800	47,919,900	51,328,400	57,085,400	74,872,400
Operating Expenses	7,044,900	7,805,500	7,968,800	7,683,500	7,859,100
Capital Outlay	124,300	138,000	89,900	138,000	89,900
TOTAL EXPENDITURES	52,221,000	55,863,400	59,387,100	64,906,900	82,821,400
EXPENDITURES BY FUND SOURCE					
General Fund	8,485,400	5,112,400	4,373,900	14,779,300	29,659,400
Restricted Funds	43,735,600	50,751,000	55,013,200	50,127,600	53,162,000
TOTAL EXPENDITURES	52,221,000	55,863,400	59,387,100	64,906,900	82,821,400
EXPENDITURES BY UNIT					
General Operations	19,579,600	24,840,500	25,075,300	21,749,200	22,094,600
Workers' Compensation Benefits and Reserve	21,862,200	24,884,500	27,963,800	24,798,500	26,204,400
Public Employees Deferred Compensation Authority	5,648,600	6,138,400	6,348,000	6,009,200	6,172,400
State Salary and Compensation Fund				8,000,000	24,000,000
State Group Health Insurance Fund	5,130,600			4,350,000	4,350,000
TOTAL EXPENDITURES	52,221,000	55,863,400	59,387,100	64,906,900	82,821,400

Postsecondary Education

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	1,237,334,400	1,418,700,200	1,535,369,600	1,277,491,800	1,311,808,300
Continuing Appropriation	356,400				
Salary Compensation Fund	1,601,000				
Base Deduction	-100,000				
Other	5,625,000				
Total General Fund	1,244,816,800	1,418,700,200	1,535,369,600	1,277,491,800	1,311,808,300
Tobacco Settlement-Phase I					
Tobacco Settlement - I	6,321,300	6,221,300	6,321,300	5,231,200	5,591,200
Continuing Appropriation	63,700				
Budget Reduction	-368,600				
Total Tobacco Settlement-Phase I	6,016,400	6,221,300	6,321,300	5,231,200	5,591,200
Restricted Funds					
Balance Forward	4,140,700	618,000	117,200	519,500	100,000
Current Receipts	2,416,917,100	2,574,790,600	2,735,912,000	2,574,115,400	2,735,438,100
Non-Revenue Receipts	10,571,800	16,333,900	14,737,600	15,878,100	12,185,300
Fund Transfers	-3,800,000				
Total Restricted Funds	2,427,829,600	2,591,742,500	2,750,766,800	2,590,513,000	2,747,723,400
Federal Funds					
Current Receipts	634,820,500	666,153,400	702,228,800	666,153,400	702,228,800
Total Federal Funds	634,820,500	666,153,400	702,228,800	666,153,400	702,228,800
TOTAL SOURCE OF FUNDS	4,313,483,300	4,682,817,400	4,994,686,500	4,539,389,400	4,767,351,700
EXPENDITURES BY CLASS					
Personnel Cost	2,227,702,700	2,379,911,400	2,537,378,200	2,344,175,600	2,455,602,900
Operating Expenses	1,239,972,200	1,325,543,000	1,409,497,000	1,322,933,600	1,403,045,000
Grants, Loans or Benefits	643,101,700	771,574,600	803,060,900	670,853,900	705,534,300
Debt Service	74,396,000	73,703,800	109,344,600	72,473,800	73,777,500
Capital Outlay	127,521,200	131,967,400	135,405,800	128,852,500	129,392,000
Construction	270,000				
TOTAL EXPENDITURES	4,312,963,800	4,682,700,200	4,994,686,500	4,539,289,400	4,767,351,700
EXPENDITURES BY FUND SOURCE					
General Fund	1,244,816,800	1,418,700,200	1,535,369,600	1,277,491,800	1,311,808,300
Tobacco Settlement-Phase I	6,016,400	6,221,300	6,321,300	5,231,200	5,591,200
Restricted Funds	2,427,310,100	2,591,625,300	2,750,766,800	2,590,413,000	2,747,723,400
Federal Funds	634,820,500	666,153,400	702,228,800	666,153,400	702,228,800
TOTAL EXPENDITURES	4,312,963,800	4,682,700,200	4,994,686,500	4,539,289,400	4,767,351,700
EXPENDITURES BY UNIT					
Council on Postsecondary Education	82,288,000	131,193,400	183,966,300	88,839,500	129,448,200
Kentucky Higher Education Assistance Authority	201,077,700	258,512,900	262,564,200	210,094,800	214,559,900
Postsecondary Education Institutions	4,029,598,100	4,292,993,900	4,548,156,000	4,240,355,100	4,423,343,600
TOTAL EXPENDITURES	4,312,963,800	4,682,700,200	4,994,686,500	4,539,289,400	4,767,351,700

	Transportation				
	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	5,203,400	9,768,100	9,768,100	5,203,400	5,203,400
Continuing Appropriation	1,894,400				
Total General Fund	7,097,800	9,768,100	9,768,100	5,203,400	5,203,400
Restricted Funds					
Balance Forward	163,598,500	1,557,100	2,199,600	4,549,700	5,192,200
Current Receipts	85,822,300	82,836,700	82,932,100	372,036,500	82,910,000
Non-Revenue Receipts	-800				
Fund Transfers				-662,900	-468,000
Total Restricted Funds	249,420,000	84,393,800	85,131,700	375,923,300	87,634,200
Federal Funds					
Balance Forward	22,200				
Current Receipts	871,769,600	692,652,400	715,547,900	692,652,400	715,547,900
Total Federal Funds	871,791,800	692,652,400	715,547,900	692,652,400	715,547,900
Road Fund					
Regular Appropriation	1,103,457,100	1,199,441,300	1,206,918,300	1,163,041,000	1,181,619,900
Surplus Expenditure Plan	28,578,100				
Current Year Appropriation	12,805,700				
Total Road Fund	1,144,840,900	1,199,441,300	1,206,918,300	1,163,041,000	1,181,619,900
Highway Bonds					
Balance Forward	232,141,599	367,619,400	379,769,400		
Current Receipts	80,410,901	23,290,000	14,170,000	75,000,000	
Non-Revenue Receipts	150,000,000	290,000,000			
Total Highway Bonds	462,552,500	680,909,400	393,939,400	75,000,000	
TOTAL SOURCE OF FUNDS	2,735,703,000	2,667,165,000	2,411,305,400	2,311,820,100	1,990,005,400
EXPENDITURES BY CLASS					
Personnel Cost	377,446,500	425,663,100	443,169,900	395,708,900	405,957,000
Operating Expenses	237,537,500	265,321,400	267,011,100	262,513,400	264,881,700
Grants, Loans or Benefits	203,656,700	192,278,300	190,761,200	189,361,800	183,429,600
Debt Service	182,533,000	173,507,200	175,736,900	207,662,100	216,744,700
Capital Outlay	1,378,500	5,709,100	5,546,200	5,264,200	5,465,600
Construction	1,728,601,100	1,222,716,900	1,204,539,600	1,246,117,500	907,434,900
TOTAL EXPENDITURES	2,731,153,300	2,285,196,000	2,286,764,900	2,306,627,900	1,983,913,500
EXPENDITURES BY FUND SOURCE					
General Fund	7,097,800	9,768,100	9,768,100	5,203,400	5,203,400
Restricted Funds	244,870,300	82,194,200	82,032,400	370,731,100	81,542,300
Federal Funds	871,791,800	692,652,400	715,547,900	692,652,400	715,547,900
Road Fund	1,144,840,900	1,199,441,300	1,206,918,300	1,163,041,000	1,181,619,900
Highway Bonds	462,552,500	301,140,000	272,498,200	75,000,000	
TOTAL EXPENDITURES	2,731,153,300	2,285,196,000	2,286,764,900	2,306,627,900	1,983,913,500
EXPENDITURES BY UNIT					
General Administration and Support	65,988,700	77,159,700	78,850,100	69,243,100	70,098,400
Aviation	11,672,000	9,607,600	9,582,600	4,212,000	4,187,000
Debt Service	166,840,900	150,113,400	152,378,400	150,238,600	159,362,500
Highways	2,009,599,200	1,636,902,900	1,711,863,500	1,682,511,400	1,428,707,200
Public Transportation	62,767,400	47,560,000	47,611,500	45,963,300	45,992,700
Revenue Sharing	390,939,000	333,487,400	255,836,400	332,668,000	252,908,400

Vehicle Regulation	23,346,100	22,830,000	23,847,400	21,791,500	22,657,300
Transfer to Capital Projects		7,535,000	6,795,000		
TOTAL EXPENDITURES	<u>2,731,153,300</u>	<u>2,285,196,000</u>	<u>2,286,764,900</u>	<u>2,306,627,900</u>	<u>1,983,913,500</u>

	Statewide				
	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Surplus Expenditure Plan	90,250,300				
Continuing Appropriation	28,764,800	119,015,100	119,015,100	119,015,100	119,015,100
Total General Fund	119,015,100	119,015,100	119,015,100	119,015,100	119,015,100
TOTAL SOURCE OF FUNDS	119,015,100	119,015,100	119,015,100	119,015,100	119,015,100

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**Revenue Estimates
Fiscal Years
2006-2008**

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Office of State Budget Director

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Ernie Fletcher
Governor

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Bradford L. Cowgill
State Budget Director

December 22, 2005

Mr. Bradford L. Cowgill
State Budget Director
Office of State Budget Director
Room 284, Capitol Annex
Frankfort, Kentucky 40601

Mr. Robert Sherman, Director
Legislative Research Commission
Room 330, State Capitol
Frankfort, Kentucky 40601

Ms. Melinda Wheeler, Director
Administrative Office of the Courts
100 Millcreek Park
Frankfort, Kentucky 40601

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

Pursuant to Kentucky Revised Statutes 48.115 and 48.120, the attached report includes the official detailed revenue estimates for the General Fund, Road Fund, and Phase I Master Settlement Agreement (MSA) for Fiscal Years 2006, 2007 and 2008. The revenue estimates for the upcoming biennium, which were determined at the December 20, 2005 meeting of the Consensus Forecasting Group, are as follows:

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Road Fund</u>
2006	\$8,216,200,000	\$1,169,700,000
2007	\$8,341,200,000	\$1,223,100,000
2008	\$8,675,700,000	\$1,239,600,000

Mr. Cowgill, Mr. Sherman and Ms. Wheeler
December 22, 2005
Page 2

Road Fund revenues are forecasted to grow in Fiscal Year 2006 by 3.8 percent over their level in FY 2005. For Fiscal Year 2007 Road Fund revenues are expected to exceed FY 2006 receipts by 4.6 percent. In Fiscal Year 2008, the forecast for Road Fund receipts calls for an increase of 1.3 percent over the FY 2007 level.

Compared to the October 14, 2005 preliminary estimate, the FY 2006 December official estimate for the General Fund has been increased by \$31.3 million, followed by increases of \$78.6 million and \$83.9 million in FY 2007 and FY 2008 respectively. The December official Road Fund estimate, when compared to the October 14, 2005 estimate, has been reduced by \$15.6 million for FY 2006, with reductions of \$22.2 million in FY 2007 and \$13.2 million in FY 2008 respectively.

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 estimates below represent the MSA revenue estimates and are not included in either the General Fund or Road Fund totals. These estimates are identical to the estimates prepared by the Consensus Forecasting Group on October 14.

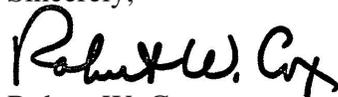
<u>Fiscal Year</u>	<u>Total MSA Revenue</u>
2006	\$91,300,000
2007	\$88,800,000
2008	\$94,000,000

In summary the General Fund, Road Fund, and MSA estimates were prepared by the Consensus Forecasting Group and represent an agreement as to the most likely outcome for revenues in the current fiscal year and upcoming biennium, given the available information on December 20, 2005.

The Consensus Forecasting Group consisted of Dr. Larry Lynch (chairman), Dr. Merl Hackbart, Dr. Jim McCabe, Dr. Frank O'Connor, and Mr. Terry Jones. Mr. James Street submitted his resignation from the CFG prior to the meeting on December 20 and therefore was not in attendance. Support was provided by the Governor's Office for Economic Analysis, the Legislative Research Commission, and the Department of Revenue.

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

Sincerely,



Robert W. Cox
Deputy Executive Director
Governor's Office for Economic Analysis

Attachment

Executive Summary

Revised revenue estimates for the General Fund and the Road Fund for fiscal year 2007 and fiscal year 2008 are transmitted in the "Revenue Estimates" section of this report.

The General Fund forecast for fiscal year 2007 was estimated to be \$8,341.2 million in December 2005 by the Consensus Forecasting Group. The revenue estimate is \$8,675.7 million for fiscal year 2008.

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 forecasting process was deciding upon a reasonable view of how the national and state economies would evolve over the forecast period. Two plausible national scenarios were provided by Global Insight and Economy.com. Both firms are nationally recognized economic consultants and specialize in preparing macroeconomic forecasts of the U.S. economy. For the time horizon under consideration both national economic outlooks were very similar. At the December 9, 2005 meeting of the Consensus Forecasting Group, the members decided not to choose one forecast over the other, but adopt both sets of forecast for developing the final revenue estimates.

The common assumption of both Global Insight and Economy.com is that energy prices peaked in October 2005 due to supply disruptions from Hurricane Katrina, and the unanticipated demand from China. With the exception of natural gas prices, which are expected to begin declining in the fourth fiscal quarter of fiscal year 2006, all other fuel prices have already begun to subside.

The forecast for the remainder of the biennium is that growth will moderate slightly from its recent pace. Real gross domestic product (GDP), which is expected to rise at an annual rate of 3.5/3.6 percent in FY06¹, should grow 3.2/3.5 percent in fiscal year 2007, slowing to 3.3/2.8 percent in fiscal year 2008. Employment growth is forecasted to be 1.5/1.7 percent in fiscal year 2007, dropping to 1.1/0.6 percent in fiscal year 2008.

Kentucky's economy is projected to lag the U.S. economy according to Global Insight, but to keep pace with the U.S. under the Economy.com scenario. Personal income is estimated to be \$121.8 million under Global Insight's forecast, and nearly as high at \$121.6 million according to Economy.com. The growth rate for fiscal year 2006 is projected at 5.5/5.2 percent, 6.1/5.4 percent in fiscal year 2007, and 5.4/4.2 percent in fiscal year 2008. Employment growth in nonagricultural industries is expected to be 1.4/1.7 percent in the current fiscal year. Growth in fiscal year 2007 should be 1.3/1.5 percent, followed by 1.1/0.8 percent in fiscal year 2008. By the end of fiscal year 2006, employment should top the all-time high of 1,819,000 workers that was reached back in fiscal year 2001.

¹Throughout this narrative when two numbers are presented separated by a slash (/) the first one is from Global Insight and the second from Economy.com.

**Table 1
Economic Assumptions Used in the Revenue Estimates**

1.A Forecast Based on Global Insight

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
KY Nonfarm Employment (Thou)	1,829.6	1,854.2	1,874.9
Percent Change (%)	1.4	1.3	1.1
Kentucky Personal Income (Bil \$)	121.9	129.4	136.4
Percent Change (%)	5.5	6.1	5.4

1.B Forecast Based on Economy.com

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
KY Nonfarm Employment (Thou)	1,834.7	1,861.8	1,873.3
Percent Change (%)	1.7	1.5	0.6
Kentucky Personal Income (Bil \$)	121.6	128.1	133.5
Percent Change (%)	5.2	5.4	4.2

Through the first half of fiscal year 2006, General Fund revenue growth has been faster than the growth in the economy. Overall receipts are up by 11.6 percent in the first six months. This continues the trend that began in fiscal year 2005, when revenues rose by 9.6 percent, much higher than the growth in personal income. The outlook for the remainder of fiscal year 2006 is for General Fund collections to total \$8,216.2 million, a growth rate of 7.5 percent from the previous year. Fiscal year 2007 revenues are estimated to be \$8,341.2 million, an increase of only 1.5 percent from fiscal year 2006. For fiscal year 2008, General Fund revenues should reach \$8,675.7 million, rising by 4.0 percent.

**Table 2
General Fund Revenue Fiscal Year 2005 Actual,
Fiscal Year 2006-08 Estimates**

	<u>FY05</u> <u>Actual</u>	<u>FY06</u> <u>Estimate</u>	<u>FY07</u> <u>Estimate</u>	<u>FY08</u> <u>Estimate</u>
Total Receipts (Million \$)	7,645.0	8,216.2	8,341.2	8,675.7
Percent Change (%)	9.6	7.5	1.5	4.0
New Dollars (Million \$)	667.4	571.2	125.0	334.5

Road Fund Collections are summarized in Table 3. Road Fund revenue should be \$1,169.7 million in fiscal year 2006. This represents an increase of 3.8 percent from the prior fiscal year. In fiscal year 2007, growth of 4.6 percent is forecasted, producing revenues of \$1,223.1 million. Fiscal year 2008 Road Fund growth will slow to 1.3 percent. The primary source of growth in the Road Fund is the motor fuels tax, which was affected by a formulaic rise in rate tied to gasoline prices. The expected reduction in fuel prices will begin to reduce the tax rate in fiscal year 2008, and should depress this revenue source.

Table 3
Road Fund Revenue Fiscal Year 2005 Actual,
Fiscal Year 2006-08 Estimates

	FY05 <u>Actual</u>	FY06 <u>Estimate</u>	FY07 <u>Estimate</u>	FY08 <u>Estimate</u>
Total Receipts (Million \$)	1,126.5	1,169.7	1,223.1	1,239.6
Percent Change (%)	0.9	3.8	4.6	1.3
New Dollars (Million \$)	9.8	43.2	53.4	16.5

In developing Kentucky's General Fund and Road Fund estimate the Consensus Forecasting Group was assisted by the Governor's Office for Economic Analysis. A variety of forecasting techniques were used in the process, including simultaneous 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

In formulating Kentucky's General Fund and Road Fund estimate the Governor's Office for Economic Analysis (GOEA) used a variety of forecasting techniques. These included simultaneous equation econometric models, simple regression models, vector autoregression, time-series analysis, and judgment based on familiarity with the administrative rules governing revenue receipts and tax laws.

The first step in the revenue forecasting process was deciding upon a reasonable view of how the national and state economies will evolve over the forecast period. Two plausible national scenarios were provided by Global Insight and Economy.com. Both firms are nationally recognized economic consultants and specialize in preparing macroeconomic forecasts of the U.S. economy. For the three-year time horizon under consideration both national economic outlooks were very similar. For example, both called for continued growth in real output of about 3.2 percent and declining energy prices. At the December 9, 2005 meeting of the Consensus Forecasting Group the members decided not to choose one forecast over the other, but adopt both sets of forecast for developing the final revenue estimates.

As the forecasts are quite similar the text that follows describes them together and, when needed, points out the differences between them.

Assumptions

The forecasting process always contains some degree of uncertainty. Fortunately, this time around the primary cause of the uncertainty—escalating energy prices—appeared before the forecast was finalized. This allowed the energy shock to be analyzed and incorporated into the national and Kentucky outlooks. The common assumption of both Global Insight and Economy.com is that energy prices peaked in October 2005 due to supply disruptions from Hurricane Katrina and the unanticipated demand from China. With the exception of natural gas prices, which are expected to begin declining in the fourth fiscal quarter of fiscal year 2006, all other fuel prices have already begun to subside. The benchmark oil price of West Texas Intermediate is expected to peak at \$56/\$61 per barrel (Global Insight/Economy.com²) in FY 2006, and then trend down to \$42/\$44 by fiscal year 2008.

The U.S. economy is expected to remain resilient. Two years ago the economy was strong in terms of output, but failed to generate jobs. Now, with the recovery well on track, both productivity and employment growth are expected to increase. The change in the leadership of the Federal Reserve later this month is not expected to impact monetary policy. The hikes in the Federal fund rate are expected to continue until March 2006 with a rate of 4.75 percent. The forecast assumes that the war in Iraq will continue as a low intensity conflict with little resolution in the next two years.

Forecast

It has been four years since the end of the last recession. However, during the first three years job growth was tepid and industrial production declined in some quarters. By fiscal year 2005 both real output and employment finally perked up and it was clear that the recovery was here to stay.

² Throughout this narrative when two numbers are presented separated by a slash (/) the first one is from Global Insight and the second from Economy.com.

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. In fiscal year 2005 real GDP was up 3.7 percent. This marked nine quarters of growth in output above three percent. A rule of thumb among economists is that real GDP growth at three percent or above is required for employment growth to be sustained, otherwise productivity gains keep employment growth down. Despite the shock and disruption caused by Hurricane Katrina, real GDP surged by 4.4 percent in the first quarter of fiscal year 2006. Both economic scenarios expect steady sustained growth during the forecast horizon. Global Insight expects real GDP to increase by 3.5 percent in fiscal year 2006 followed by 3.2 percent and 3.3 percent in fiscal years 2007 and 2008 respectively. Economy.com has similar expectations with growth rates of 3.6 percent in fiscal year 2006, 3.5 percent in fiscal year 2007 and 2.8 percent in fiscal year 2008.

Consumers have been the main driver for both the national and Kentucky economies. Two-thirds of GDP is comprised of consumption expenditures. Total real consumption increased by 3.7 percent during fiscal year 2005. The increase is expected to be 3.0 percent during the current year according to both Global Insight and Economy.com. The slightly slower growth rate is due to inflation from higher energy prices. Consumption is expected to increase by 3.4/3.0 percent in fiscal year 2007 followed by 3.1/2.9 percent in fiscal year 2008. During the current year the primary source for the expansion of consumption is in nondurable goods, particularly food and gasoline. As energy prices begin returning to normal durable goods consumption is expected to rise by about 4.8/4.7 percent in both fiscal year 2007 and fiscal year 2008.

During the first few years of the recovery business confidence had been lacking and this was apparent from the tepid growth in investments. A surge in this category characterized fiscal year 2005 as investment increased by 8.9 percent. Investment growth for the current year is expected to be 6.0/7.2 percent followed by 2.9/3.6 percent growth in fiscal year 2007 and 3.2/2.1 percent in fiscal year 2008. The slower growth during the next biennium is a cyclical result of heavy investment in computers and software during 2004 and 2005. This in turn has led to high productivity and subsequent growth in the U.S. economy.

U.S. personal income grew by an annual average of just 3.8 percent during the last five years. Inflation during this period was just 2.3 percent. The slow growth in income resulted from sluggish employment increases. Growth in personal income during fiscal year 2006 is expected to be 5.7/5.2 percent with inflation at 3.6 percent. Global Insight forecasts U.S. personal income gains to be 6.5 and 5.8 percent during the next biennium. Economy.com anticipates higher productivity gains during this period resulting in slower growth in personal income.

The employment news had been disappointing during the first three years of the recovery. Between fiscal year 2001 and fiscal year 2003 over two million jobs were lost, causing some economists to describe this as a "job-loss recovery." The turnaround finally occurred during fiscal year 2004 as employment turned slightly positive with growth of 0.3 percent. Job growth firmed in fiscal year 2005 with nonfarm employment gains of 1.6 percent. Both Global Insight and Economy.com expect strong employment growth during the forecast period. The only difference is that in fiscal year 2008 Global Insight forecasts employment growth of 1.3 percent versus 0.8 percent for Economy.com. The difference stems from their outlook on productivity.

KENTUCKY OUTLOOK

Forecasting Methodology

The Consensus Forecasting Group preferred different aspects of each of the national forecasts from Global Insight and Economy.com. Therefore, both the scenarios were used in preparing two different forecasts for the Kentucky economy. 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

Following the recession the initial economic recovery occurred in terms of output of goods and services, and not employment. The Kentucky economy was hit hard during the recession, and continued to suffer during the first three years of recovery. Sharp gains in productivity and the increased outsourcing of jobs abroad, especially in businesses like call centers and payroll processing 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 the initial increased demand for goods meant that low-wage factories off-shore were staffed first. These factors suppressed employment and income growth in Kentucky more than the nation because much of the productivity gains were in lower-wage manufacturing and service jobs.

Personal income is a broad measure of a state's economic performance. Kentucky's personal income is estimated to have been \$115.6 billion in fiscal year 2005 for an increase of 5.6 percent from a year ago. In comparison, U.S. personal income was up 6.4 percent in the same period. In the forecast based on Global Insight's U.S. outlook personal income is expected to be up by 5.7 percent during the current year followed by growth rates of 6.5 and 5.8 percent in fiscal year 2007 and fiscal year 2008. The alternative scenario based on Economy.com's driver has lower gains in Kentucky's personal income (see Table 4) primarily because proprietors' income and income from dividend, interest, and rent are not expected to grow as rapidly as in Global Insight's forecast. Wage and salary income is, however, forecasted to grow slightly faster in the Kentucky outlook prepared under the Economy.com scenario.

Employment data is commonly used to gauge the strength of the state's economy. Nonfarm employment in Kentucky declined steadily during the recession and for three years after that. Employment finally turned around in January 2004. By fiscal year 2005 employment had increased by 0.9 percent for a net increase of 15,800. With the new-found strength in the economy employment is expected to be up 1.4/1.7 percent in fiscal year 2006 followed by increases of 1.3/1.5 percent in fiscal year 2007 and 1.1/0.6 percent in fiscal year 2008. By the end of the current fiscal year Kentucky's employment is finally expected to return to its peak of March 2000.

Kentucky's employment mix exacerbated the sluggishness of the economic recovery. During the "new economy" boom of the 1990s Kentucky didn't attract many high tech jobs, but the booming economy swelled demand for everything else and caused a surge in employment in manufacturing, trucking, and air transportation. The presence of Toyota and Ford, as well as UPS and Comair/Delta boosted nonfarm employment. Manufacturing accounted for 18 percent of Kentucky's employment in fiscal year 1995 vs. 15 percent nationally. As the national economy deteriorated, the demand for goods dropped resulting in a decline in manufacturing industries. By fiscal year 2005 manufacturing jobs were about 15 percent of Kentucky's employment base compared to 11 percent nationally.

In the near term two very cyclical sectors—construction and mining—are forecasted to produce the fastest rates of job growth. Mortgage rates have gained 25 basis points in the last quarter, but the rates are still exceptionally low by historical standards. Moreover, the rates are perceived to be lower still by innovative financial packaging employed by lenders. This is expected to cause construction employment to be relatively high during fiscal year 2006. Mining employment in Kentucky is primarily concentrated in the area of coal. High energy prices have caused employment in this industry to surge. The supersector trade, transportation, and utilities accounts for one-fifth of all Kentucky employment and is expected to show steady increase in the scenario prepared with Global Insight's drivers. The alternative scenario, which relies on Economy.com shows a slow down in the sector by fiscal year 2008.

Both the scenarios show robust gains in employment for the educational and health services sector as well as business services. These two sectors together account for almost one-quarter of all Kentucky nonfarm employment. Even though there are slight sectoral differences between the outlook prepared from Global Insight and Economy.com's forecast the end results are very similar. By fiscal year 2008 both the scenarios have nonfarm employment at around 1,874,000. The difference in the two numbers is less than 0.06 percent.

Table 4
Selected U.S. and Kentucky Economic Indicators
Comparison of Forecasts
November 2005

	FY06	FY07	FY08	FY06	FY07	FY08
	Global Insight			Economy.com		
US Real GDP (Bil 2000\$)	11,334 3.5%	11,692 3.2%	12,078 3.3%	11,341 3.6%	11,735 3.5%	12,063 2.8%
Industrial Production Index, Manufacturing	2.2%	3.0%	2.8%	2.2%	3.0%	2.8%
Industrial Production Index, Durables	0.6%	2.5%	1.5%	0.2%	2.2%	1.9%
KY Personal Income (Mil\$)	121,884 5.5%	129,370 6.1%	136,394 5.4%	121,593 5.2%	128,144 5.4%	133,520 4.2%
US Personal Income (Bil\$)	10,580 5.7%	11,263 6.5%	11,920 5.8%	10,536 5.2%	11,101 5.4%	11,581 4.3%
KY Nonfarm Employment (Thous)	1,829.6 1.4%	1,854.2 1.3%	1,874.9 1.1%	1,834.7 1.7%	1,861.8 1.5%	1,873.3 0.6%
US Nonfarm Employment (Mil)	134.6 1.6%	136.7 1.5%	138.5 1.3%	134.8 1.6%	137.1 1.7%	138.2 0.8%
CPI, Rate of Inflation	3.6%	1.6%	1.7%	3.6%	1.6%	1.7%
US Retail Sales	5.7%	4.5%	4.7%	5.2%	4.7%	4.5%
US Corporate Profits	19.9%	-1.9%	2.3%	-4.9%	7.3%	5.5%
Oil Price, West Texas Intermediate (\$/barrel)	55.87	49.13	42.04	61.24	49.35	43.94

MAK2005: Macromodel of Kentucky
Governor's Office for Economic Analysis
Office of State Budget Director

Receipts

General Fund & Road Fund

Fiscal Year 2005

Total receipts for the General Fund and the Road Fund in fiscal year 2005 increased by 8.4 percent from the prior year. The growth in the General Fund was 9.6 percent. The Road Fund increased by only 0.9 percent compared to fiscal year 2004. The growth rate and total receipts for both the General Fund and the Road Fund are shown in Table 5 below. Table 6 summarizes the major revenue categories.

Table 5
Total Receipts
(\$Mil)

	<u>FY05</u>	<u>FY04</u>	<u>Percent Change</u>
General Fund	\$7,645.0	\$6,977.6	9.6
Road Fund	<u>1,126.6</u>	<u>1,116.7</u>	<u>0.9</u>
COMBINED	\$8,771.6	\$8,094.3	8.4

General Fund

Within the General Fund, total sales and use tax receipts grew by 6.0 percent with collections of \$2,595.0 million during fiscal year 2005. This compares to \$2,447.6 million collected in fiscal year 2004.

The individual income tax generated receipts of \$3,036.2 million during fiscal year 2005, an increase of 8.6 percent over the \$2,796.3 million collected in the previous year.

Corporation income and license tax receipts grew by 43.3 percent during fiscal year 2005. A total of \$612.6 million was collected during fiscal year 2005, compared to \$427.4 million during fiscal year 2004.

Coal severance collections rose 25.0 percent from fiscal year 2004 to fiscal year 2005. Receipts were \$184.4 million for fiscal year 2005 and \$147.5 million for fiscal year 2004.

Cigarette tax collections totaled \$33.7 million in fiscal year 2005, an increase of 97.1 percent over fiscal year 2004 collections.

Property tax collections grew by 5.3 percent for fiscal year 2005. The amounts collected were \$472.6 million for fiscal year 2005 and \$448.8 million for fiscal year 2004.

Lottery receipts were down 7.2 percent from the previous year, with collections at \$161.3 million in fiscal year 2005.

All other General Fund revenues combined for a total of \$549.2 million, representing growth of 5.8 percent.

Table 7 displays the growth rates for the major tax categories in the General Fund, for the four quarters of fiscal year 2005 and the year as a whole.

Table 6
Summary General Fund Receipts Year End Totals, Fiscal Year 2005
(millions of dollars)

<u>Type Tax</u>	<u>FY05</u>	<u>FY04</u>	<u>Percent Change</u>
Sales & Use	2,595.0	2,447.6	6.0
Individual Income	3,036.2	2,796.3	8.6
Corp. Inc./Lic.	612.6	427.4	43.3
Coal Severance	184.4	147.5	25.0
Cigarette Taxes	33.7	17.1	97.1
Total Property	472.6	448.8	5.3
Lottery	161.3	173.8	-7.2
All Other	<u>549.2</u>	<u>519.1</u>	<u>5.8</u>
TOTAL	7,645.0	6,977.6	9.6

Table 7
General Fund Growth Rates for the Four Quarters and the Full Year, Fiscal Year 2005

<u>Type Tax</u>	<u>1st QTR</u>	<u>2nd QTR</u>	<u>3rd QTR</u>	<u>4th QTR</u>	<u>FY05</u>
Sales and Use	6.4	3.6	8.2	6.0	6.0
Ind. Income	5.4	5.6	16.5	8.3	8.6
Corp Inc./Lic.	47.1	35.6	23.1	50.2	43.3
Coal Severance	25.5	24.6	25.4	243.8	25.0
Cigarette Taxes	-1.3	-6.3	-11.8	391.9	97.1
Property	-6.0	12.7	-3.4	4.8	5.3
Lottery	5.1	4.4	-34.0	1.2	-7.2
All Other	<u>5.8</u>	<u>5.8</u>	<u>7.8</u>	<u>8.1</u>	<u>5.8</u>
Total Receipts	8.2	7.5	9.4	12.8	9.6

Road Fund

Within the Road Fund, the growth in major tax categories varied. Table 8 summarizes the major revenue accounts in the Road Fund for both fiscal years 2004 and 2005. Motor fuels taxes rose 6.7 percent with receipts of \$490.8 million. Motor vehicle usage tax generated \$407.5 million, a decline of 5.1 percent from the \$429.2 million collected in fiscal year 2004. Weight distance tax receipts were up 4.4 percent, with receipts of \$83.1 million in fiscal year 2005.

Table 9 contains the growth rates for the major tax categories in the Road Fund for the four quarters of fiscal year 2005 and the year as a whole.

Table 8
Summary Road Fund Receipts Year End Totals, Fiscal Year 2005
(millions of dollars)

<u>Type Tax</u>	<u>FY05</u>	<u>FY04</u>	<u>Percent Change</u>
Motor Fuels/MF Use	490.8	460.0	6.7
Motor Vehicle Usage	407.5	429.2	-5.1
Weight Distance	83.1	79.6	4.4
Motor Vehicle Lic.	91.9	93.4	-1.6
Investment Income	5.5	7.5	-26.7
All Other	<u>47.8</u>	<u>47.0</u>	<u>1.7</u>
TOTAL	1,126.6	1,116.7	0.9

Table 9
Road Fund Growth Rates for the Four Quarters and the Full Year, Fiscal Year 2005

<u>Type Tax</u>	<u>1st QTR</u>	<u>2nd QTR</u>	<u>3rd QTR</u>	<u>4th QTR</u>	<u>FY05</u>
Motor Fuels/MF Use	8.6	2.0	9.3	6.9	6.7
Motor Veh. Usage	-7.6	-5.8	-3.4	-3.2	-5.1
Weight Distance	5.6	6.1	4.0	2.0	4.4
Motor Veh. Lic	-21.0	-5.9	8.5	5.5	-1.6
Investment Inc.	-83.4	33.2	-55.3	2,681.7	-26.7
All Other	<u>-6.9</u>	<u>11.5</u>	<u>-5.0</u>	<u>9.0</u>	<u>1.7</u>
Total Receipts	-2.6	-0.7	3.1	3.7	0.9

First Half, Fiscal Year 2006

General Fund

Total General Fund receipts for the first half of fiscal year 2006 were \$4,154.4 million, which is an 11.6 percent increase over the first half of fiscal year 2005, when \$3,723.6 million was generated. Summary results for the first six months of fiscal year 2006 are shown in Table 10.

Sales and use tax collections totaled \$1,368.5 million. This is a 6.3 percent increase over the \$1,287.2 million collected in the first half of fiscal year 2005.

Individual income tax receipts grew by 2.3 percent during the first half of fiscal year 2006 with receipts of \$1,514.5 million. Collections for the first half of fiscal year 2005 were \$1,480.7 million. Slow growth in this revenue source is due to tax cuts and changes in law that now have certain limited-liability entities filing under the corporation income tax rather than under the individual income tax.

Corporation income and license tax receipts jumped by 78.0 percent during the first half of fiscal year 2006. Collections during the period were \$438.2 million, compared to \$246.2 million during the first half of fiscal year 2005. The rise in corporation income tax revenues is the mirror effect of the shift in reporting among limited-liability entities.

Coal severance receipts grew by 21.2 percent for the first half of the year. Collections for the current period totaled \$105.4 million compared to \$87.0 million for the first half of fiscal year 2005.

Cigarette taxes grew 1,143.4 percent in the first six months of fiscal year 2006 with collections of \$98.2 million. Collections in the first two quarters of fiscal year 2005 were \$7.9 million. Growth in the tobacco taxes was due primarily to tax increases enacted by the 200 General Assembly.

Property tax collections rose by 11.4 percent during the first half of fiscal year 2006. Collections for the period were \$325.0 million compared to \$291.6 million during the first half of fiscal year 2005. The strong growth was due primarily to early receipts of tax payments that are normally paid in January.

Lottery receipts of \$77.0 million represented a decrease of 11.2 percent over the \$86.8 million collected during the first half of fiscal year 2005. Lottery receipts in fiscal year 2005 were affected by a windfall due to strong Powerball sales; such a windfall was not realized in the current fiscal year. In addition, creation of a competing lottery in Tennessee has siphoned sales from Tennessee residents who previously purchased tickets in southern regions of Kentucky.

All other General Fund accounts combined for total revenues of \$227.6 million, a decrease of 3.6 percent from the \$236.2 million raised in the same period one year earlier. Declines in inheritance tax revenue and abandoned property receipts are principally responsible.

Table 10
Summary General Fund Receipts
First Half, Fiscal Year 2006
(millions of dollars)

<u>Type Tax</u>	<u>FY06</u>	<u>FY05</u>	<u>Percent Change</u>
Sales and Use	1,368.5	1,287.2	6.3
Individual Income	1,514.5	1,480.7	2.3
Corporation Inc./Lic.	438.2	246.2	78.0
Coal Severance	105.4	87.0	21.2
Cigarette Taxes	98.2	7.9	1,143.4
Property	325.0	291.6	11.4
Lottery	77.0	86.8	-11.2
All Other	<u>227.6</u>	<u>236.2</u>	<u>-3.6</u>
TOTAL	4,154.4	3,723.6	11.6

Road Fund

In the Road Fund, total receipts grew by 4.9 percent to \$569.0 million. Collections for the first half of fiscal year 2005 were \$542.6 million. Summary results for the first half of fiscal year 2006 are displayed in Table 11.

Motor fuels taxes increased by 9.4 percent. Receipts of \$266.3 million during the first half of fiscal year 2006 compared to \$243.3 million during the same period of fiscal year 2005. 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 1.4 percent with collections of \$199.0 million, compared to \$201.8 million received in the first six months of the previous fiscal year.

During the first half of fiscal year 2006, the weight distance tax rose by 3.1 percent. Collections for the first half of fiscal year 2006 were \$42.9 million. All other accounts in the Road Fund combined for growth of 8.8 percent, with total revenue of \$60.8 million.

Table 11
Summary Road Fund Receipts
First Half, Fiscal Year 2006
(millions of dollars)

<u>Type Tax</u>	<u>FY06</u>	<u>FY05</u>	<u>Percent Change</u>
Motor Fuels	266.3	243.3	9.4
Motor Vehicle Usage	199.0	201.8	-1.4
Weight Distance	42.9	41.6	3.1
All Other	<u>60.8</u>	<u>55.9</u>	<u>8.8</u>
TOTAL	569.0	542.6	4.9

Revenue Estimates

Detailed for Fiscal Year 2007 and Fiscal Year 2008

The Consensus Forecasting Group (CFG) produces revenue estimates for the General Fund and the Road Fund. On October 15 of each odd-numbered year (such as 2005), a preliminary detailed revenue estimate for the upcoming two fiscal years must be presented to the head of the budget agencies for each branch of state government. Then by the following January, by the 15th day of the legislative session, a revised estimate is required.

The CFG relies extensively upon input from the Governor's Office for Economic Analysis (GOEA). 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 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 on December 9, 2005 to agree on an economic forecast to develop revenue estimates for fiscal years 2006, 2007 and 2008. The group decided to base its revenue estimates on two economic forecasts of Kentucky: one based on Global Insight and the other on Economy.com. Both these forecasts were used to develop alternative revenue estimates. The CFG reconvened on December 20 to finalize the General and Road Fund forecasts.

Total General Fund revenue for fiscal year 2006 is projected to be \$8,216.2 million for an increase of 7.5 percent from fiscal year 2005. Receipts for fiscal year 2007 are estimated to be \$8,341.2 million followed by \$8,675.7 million in fiscal year 2008.

Individual Income Tax

Individual income tax receipts increased 2.3 percent during the first half of fiscal year 2006 compared to 5.5 percent for the same period a year ago. Withholding comprises about 80 percent of the tax and was up 4.6 percent compared to 4.7 percent last year. Declaration payments were down 8.6 percent compared to an increase of 2.3 percent a year ago. The decline was an expected result of tax modernization with the inclusion of limited liability entities in the business tax category instead of individual income tax.

Individual income tax receipts were forecasted as an aggregate instead of separately forecasting the major components because they interact with and influence each other. The first step was to estimate “regular” individual income tax collections, ignoring one-time changes that impact receipts. When preparing the final forecast these one-time changes as well the numerous adjustments brought about by the passage of tax modernization were added to the estimate³.

The model that best forecast the individual income tax was a vector autoregressive (VAR) model with Kentucky personal income, Kentucky manufacturing employment, and U.S. retail sales. The final model included the current value of each variable as well as the first and second lags. The model was chosen not only because the exogenous variables were both intuitively and statistically appropriate, but because the *ex post* forecast for this model performed well. The in-sample root mean square error for the period fiscal year 1995 to fiscal year 2005 was 0.8 percent. The only downside to the model was that it underestimated fiscal year 2005 by about \$50 million.

The CFG members accepted the blend of the two scenarios provided by the Global Insight and Economy.com estimates. In addition they decided to compensate for the downward bias in fiscal year 2005 by raising fiscal year 2006 \$23.8 million and then applying the growth rate from the blended scenario to the new fiscal year 2006 base.

For fiscal year 2006 individual income tax revenues are forecasted to be \$2,925.5 million, a decline of 3.6 percent from the previous year. In fiscal year 2007 the amount is expected to be \$3,083.5 million followed by \$3,234.6 million in fiscal year 2008.

Sales and Use Tax

Sales tax receipts grew by 6.3 percent during the first half of fiscal year 2006 compared to 5.0 percent for the same period a year ago.

The sales tax forecast is based on a “regular” collection series which adjusts for one-time changes. Once the regular series was forecasted the one-time adjustments as well as those related to tax modernization⁴ were added to arrive at the final forecast.

The regular collections were forecasted with a vector autoregression (VAR) model. The exogenous variables in this model were Kentucky personal income, Kentucky manufacturing employment, and U.S. retail sales. The final model included the current value of each variable as well as the first and second lags.

The CFG members accepted the blend of the two separate estimates based on Global Insight and Economy.com’s national scenarios. The forecast is for a 4.3 percent increase in fiscal year 2006 to \$2,706.6 million. Receipts for fiscal year 2007 are estimated at \$2,770.6 million followed by \$2,890.1 million in fiscal year 2008. The corresponding growth rates are 2.4 and 4.3 percent.

Corporation Income and License Taxes

In the first half of the year the combined income and license taxes were up 78.0 percent compared to an increase of 42.5 percent a year ago. The source of much of this growth is the restructuring of business taxes during the 2005 legislative session.

A structural model was used to forecast the regular receipts of corporation income tax. U.S. before-tax corporate profits served as the explanatory variable for the model. The estimate for license tax was based on historical

³ There are nine tax modernization-related changes. These are: limited liability entity inclusion in business tax, expanded low income credit, reduced top marginal rate, cap on pension exclusion, health savings accounts, tuition tax credit, historic preservation tax credit, IRS code update, and the Military Family Relief Act.

⁴The six tax modernization adjustments were the Kentucky Enterprise Initiative, sales tax nexus, Horse Breeder Development Fund, expected decline in cigarette sales from an increase in the cigarette excise tax, exclusion of switch access charges, and the exclusion of payphones from the sales tax base.

performance and administrative information. The considerable adjustments in business taxes that have resulted from tax modernization were added back to the regular receipts for the final forecast.

Given the volatility of the corporation income tax and the growing refund inventory the CFG decided to adopt the October 2005 estimate of \$928.7 million instead of the higher number generated by the models. The overall increase for fiscal year 2006 is projected to be 51.6 percent. For fiscal year 2007 and fiscal year 2008 the CFG adopted a blend based on Global Insight and Economy.com's exogenous variables. For fiscal year 2007 business taxes are estimated to be \$852.0 million. This decline of 8.3 percent is from the repeal of the corporation license tax. The receipts are projected to increase by 1.9 percent to \$868.0 million in fiscal year 2008.

Coal Severance Tax

Coal severance tax receipts were up 21.2 percent in the first half of the year. Receipts are forecast to increase strongly for the rest of fiscal year 2006. The demand for coal has increased rapidly as natural gas prices have soared.

The forecast was prepared with both time-series and structural models. The exogenous variables in the latter were employment in the petroleum and coal industry, real gross domestic product, and the end user demand for coal and natural gas. An adjustment factor for the increase in mining permits was also added to the final forecast.

Given the moderation in natural gas prices the CFG decided to use a slightly lower forecast than the one from the two models. Fiscal year 2006 receipts are estimated to be up by 16.2 percent for a total of \$214.3 million. During the next biennium receipts are forecasted at \$217.1million and \$217.8 million.

Cigarette Excise Tax

The cigarette excise tax was raised to thirty cents per pack in June 2005. Twenty-eight and a half cents of the tax goes to the Kentucky General Fund.

The forecast was prepared with both a time-series model which captured the long-term trend in cigarette consumption, and a structural model that factored in the border effect of cigarette prices in neighboring states.

The CFG opted for a blend of the two models. In fiscal year 2006 the tax is expected to generate \$181.5 million. This includes a projected \$12.1 million from the floor stock tax. Tax receipts in fiscal year 2007 are estimated at \$170.9 million followed by \$171.7 million in fiscal year 2008.

Property Tax

Property tax receipts were up 11.4 percent in the first half of fiscal year 2006 compared to 9.8 percent during the same period a year ago. Property taxes are forecast based on historical receipts, property assessments, the Kentucky economic outlook, statutory and judicial changes, and administrative factors.

Collections are expected to total \$495.7 million in fiscal year 2006, 4.9 percent over fiscal year 2005. Receipts for fiscal year 2007 are estimated at \$475.5 million followed by \$500.5 million in fiscal year 2008.

Kentucky Lottery

Lottery revenues are estimated jointly by staff from GOEA and the Kentucky Lottery Corporation. Based on the financial results of the first half of fiscal year 2006, the Lottery Corporation will transfer an additional \$10 million above the previously-budgeted amount to the General Fund in the current year.

The estimates for fiscal year 2006 are \$170.0 million followed by \$165.5 million in fiscal year 2007 and \$170.5 million in fiscal year 2008.

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 historical data. 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 \$593.8 million in fiscal year 2006, an increase of 8.1 percent compared to fiscal year 2005. Receipts for fiscal year 2007 are estimated at \$606.0 million followed by \$622.5 million in fiscal year 2008.

Road Fund: Major Accounts

The total Road Fund revenue estimate for fiscal year 2006 is projected to be \$1,169.7 million for an increase of 3.8 percent from fiscal year 2005. Receipts for fiscal year 2007 are estimated to be \$1,223.1 million followed by \$1,239.6 million in fiscal year 2008.

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

Motor fuels tax collections, including use and surtax, were up 9.4 percent in the first half of fiscal year 2006 compared to 5.3 percent a year ago.

Motor fuels taxes are estimated using a structural model with the price of oil, wage and salary income, and a dummy variable to account for the increase in the tax rate. Fuel receipts have experienced strong growth in fiscal year 2006 due to the formula-driven increase in the tax rate tied to the average wholesale price of gasoline. The forecasted growth rate for fiscal year 2006 is 7.7 percent, representing total collections of \$528.5 million. The growth rate is expected to be robust in fiscal year 2007 at 6.5 percent for receipts of \$563.0 million. With the expected decline in fuel prices the growth rate is projected to be 0.7 percent in fiscal year 2008 for receipts of \$567.2 million.

Motor Vehicles Usage

Motor vehicle usage tax receipts were estimated using a structural model with consumer spending on light vehicles and consumer sentiment as drivers. Fiscal year 2006 receipts have weakened after the end of major dealer discounts in the early part of the year. The increase in gasoline prices has also trimmed the consumer demand for expensive SUVs.

Receipts in fiscal year 2006 are expected to total \$401.2 million, a 1.5 percent decline. The forecast is for receipts of \$410.3 million in fiscal year 2007 followed by \$418.8 million in fiscal year 2008.

Motor Vehicle License

License receipts were estimated using a structural model with registered vehicles as the explanatory variable. Motor vehicle license receipts are estimated to be \$90.2 million in fiscal year 2006, followed by \$92.2 million in fiscal year 2007 and \$94.1 million in fiscal year 2008.

Motor Vehicle Operators

Motor vehicle operators collections were estimated with a time-series model. The forecast was modified to reflect the partial diversion of funds from this tax to the motorcycle safety education program. Otherwise revenues are

projected to grow sharply in the current fiscal year due to an increase in the fee that became effective on July 1, 2005. Estimates for fiscal year 2006 are for \$16.6 million. During the next biennium receipts are expected to be \$17.4 million and \$17.7 million.

Weight Distance

The weight distance tax is estimated by a structural model with the U.S. industrial production index as the driver. Receipts for fiscal year 2006 are expected to total \$85.4 million, a 2.8 percent increase. The forecast calls for \$87.4 million in fiscal year 2007 and \$90.5 million in fiscal year 2008.

Investment

Income from investment is estimated by examining historical trends in investment balances and interest rate forecasts. Investment income for the current year is estimated at \$3.8 million, followed by \$9.0 million in fiscal year 2007 and \$7.5 million in fiscal year 2008.

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. Receipts are forecast to be \$44.0 million in fiscal year 2006, followed by \$43.8 million in both fiscal year 2007 and fiscal year 2008.

General Fund
Consensus Forecast for FY06 to FY08
December 20, 2005

General Fund Revenues (million \$)

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
	Actual	Estimate	Estimate	Estimate
Sales & Use	2,595.0	2,706.6	2,770.6	2,890.1
Individual Income	3,036.2	2,925.5	3,083.5	3,234.6
Corporation Inc & Lic	612.7	928.7	852.0	868.0
Coal Severance	184.4	214.3	217.1	217.8
Cigarette	33.7	181.5	170.9	171.7
Property	472.6	495.7	475.5	500.5
Lottery	161.3	170.0	165.5	170.5
Other	549.2	593.8	606.0	622.5
Total General Fund	7,645.0	8,216.2	8,341.2	8,675.7

Annual Percentage Growth Rates

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
	Actual	Estimate	Estimate	Estimate
Sales & Use	6.0	4.3	2.4	4.3
Individual Income	8.6	-3.6	5.4	4.9
Corporation Inc & Lic	43.4	51.6	-8.3	1.9
Coal Severance	25.0	16.2	1.3	0.3
Cigarette	97.1	438.6	-5.8	0.5
Property	5.3	4.9	-4.1	5.3
Lottery	-7.2	5.4	-2.6	3.0
Other	5.8	8.1	2.1	2.7
Total General Fund	9.6	7.5	1.5	4.0

"New" Dollars (million \$)

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
	Actual	Estimate	Estimate	Estimate
Sales & Use	147.4	111.6	64.0	119.5
Individual Income	239.9	-110.7	158.0	151.1
Corporation Inc & Lic	185.3	316.0	-76.7	16.0
Coal Severance	36.9	29.9	2.8	0.7
Cigarette	16.6	147.8	-10.6	0.8
Property	23.8	23.1	-20.2	25.0
Lottery	-12.5	8.7	-4.5	5.0
Other	30.0	44.6	12.2	16.5
Total General Fund	667.4	571.2	125.0	334.5

<u>Source</u>	<u>Actual</u> <u>2003-04</u>	<u>Actual</u> <u>2004-05</u>	<u>Estimate</u> <u>2005-06</u>	<u>Estimate</u> <u>2006-07</u>	<u>Estimate</u> <u>2007-08</u>
<u>Selected Sales and Gross Receipts Taxes</u>					
Sales & Use	\$2,447,584,698	\$2,594,966,373	\$ 2,706,600,000	\$2,770,600,000	\$2,890,100,000
Cigarette Excise Tax	17,136,198	15,684,892	14,900,000	15,000,000	15,100,000
Cigarette Surtax	0	9,281,988	154,600,000	155,900,000	156,600,000
Cigarette Floor Stock Tax	0	8,701,966	12,100,000	0	0
Distilled Spirits Case Sales	87,662	92,178	100,000	100,000	100,000
Insurance Tax Foreign Companies	36,735,325	35,280,814	33,900,000	32,500,000	31,300,000
Insurance Tax Companies Other Than Life	79,870,778	84,051,975	87,900,000	92,500,000	97,300,000
Insurance Tax Fire Prevention Fund	3,917,852	4,077,303	4,200,000	4,400,000	4,600,000
Pari-Mutuel	3,629,292	4,710,111	5,500,000	5,300,000	5,100,000
Race Track Admission	232,350	195,068	200,000	200,000	200,000
Beer Consumption	6,320,886	6,387,318	6,800,000	6,800,000	6,900,000
Distilled Spirits Consumption	8,985,826	9,190,089	10,000,000	10,200,000	10,400,000
Wine Consumption	2,005,265	2,279,162	2,300,000	2,500,000	2,600,000
Beer Wholesale	37,439,919	37,815,717	47,600,000	49,200,000	50,600,000
Distilled Spirits Wholesale	16,957,192	18,150,313	22,500,000	23,900,000	24,800,000
Wine Wholesale	7,306,985	7,835,853	9,600,000	10,500,000	11,100,000
Other Tobacco Products	0	0	6,000,000	6,000,000	6,000,000
Telecom Excise Tax	0	0	11,400,000	28,500,000	29,800,000
Telecom Gross Receipts Tax	0	0	18,800,000	30,800,000	31,700,000
TOTAL SEL. SALES AND GROSS RECEIPTS TAXES	\$2,668,210,228	\$2,838,701,120	\$3,155,000,000	\$3,244,900,000	\$3,374,300,000
<u>License and Privilege Taxes</u>					
Coal Severance Tax	\$147,498,230	\$184,436,935	\$214,300,000	\$217,100,000	\$217,800,000
Mineral Severance Tax	13,711,874	13,494,541	17,000,000	16,000,000	15,000,000
Natural Gas Severance Tax	22,511,188	25,307,125	27,000,000	26,000,000	25,000,000
Oil Production	3,387,884	4,710,832	6,500,000	5,500,000	5,500,000
Corporate License	124,096,012	134,149,794	62,800,000	0	0
Cigarette License	104,200	99,872	100,000	100,000	100,000
Amusement Machine License	30,027	0	0	0	0
Race Track License	335,625	324,642	300,000	400,000	400,000
Marijuana and Controlled Substance Tax	79,300	79,414	0	0	0
Bank Franchise Tax	55,467,195	63,837,587	64,800,000	66,000,000	70,000,000
Corporation Organization	143,805	613,048	200,000	200,000	200,000
Cir. Ct. Clk. - Driver License Receipts	523,979	522,904	500,000	500,000	500,000
Sand and Gravel License	9,475	9,475	0	0	0
Relicensure Fees (Driver's License)	0	0	0	0	0
Alcoholic Beverage License Suspension	223,700	237,101	200,000	200,000	200,000
Convention Center Caterer License	0	0	0	0	0
TOTAL LICENSE AND PRIVILEGE TAXES	\$368,122,494	\$427,823,270	\$393,700,000	\$332,000,000	\$334,700,000
<u>Income Taxes</u>					
Corporation Income Tax	\$303,262,821	\$478,504,505	\$865,900,000	\$852,000,000	\$868,000,000
Individual Income Tax	2,796,331,049	3,036,230,706	2,925,500,000	3,083,500,000	3,234,600,000
TOTAL INCOME TAXES	\$3,099,593,870	\$3,514,735,211	\$3,791,400,000	\$3,935,500,000	\$4,102,600,000
<u>Property Taxes</u>					
General - Real	\$192,534,530	\$202,182,555	\$214,700,000	\$227,800,000	\$241,900,000
General - Tangible Personal	59,515,398	61,518,515	66,500,000	70,500,000	74,600,000
General - Intangible Personal	27,547,183	26,912,813	28,800,000	0	0
General - Motor Vehicle	91,499,330	94,214,906	99,900,000	105,000,000	110,200,000
Bank Deposits	467,711	474,098	480,000	480,000	500,000
Distilled Spirits Ad Valorem	375,637	388,612	400,000	360,000	400,000
Marginal Accounts	92,585	118,056	0	0	0
Omitted Property Tax	8,918,539	13,229,604	12,900,000	9,900,000	9,300,000
Delinquent Tax - Prior Year	6,910,687	7,417,243	7,000,000	7,000,000	7,000,000
Apportioned Vehicles	(1,859,523)	4,149,668	4,500,000	4,700,000	5,000,000
Public Service Company	60,178,393	58,787,595	58,000,000	47,500,000	49,500,000
Domestic Life Insurance	71,672	9,375	5,000	5,000	5,000
Retirement Plans	286	325	0	0	0
Building & Loan Assoc. Capital Stock	2,513,083	3,192,911	2,500,000	2,300,000	2,100,000
TOTAL PROPERTY TAXES	448,765,511	472,596,276	\$495,685,000	\$475,545,000	\$500,505,000

December 20, 2005

General Fund Detailed Report

Consensus Forecasting Group

<u>Source</u>	<u>Actual 2003-04</u>	<u>Actual 2004-05</u>	<u>Estimate 2005-06</u>	<u>Estimate 2006-07</u>	<u>Estimate 2007-08</u>
<u>Inheritance Taxes</u>					
Inheritance Tax	\$66,083,705	\$63,174,866	\$47,000,000	\$50,000,000	\$52,000,000
TOTAL INHERITANCE TAXES	\$66,083,705	\$63,174,866	\$47,000,000	\$50,000,000	\$52,000,000
<u>Departmental Fees, Sales and Rentals</u>					
Public Service Commission Assessments- Insurance - Retaliatory Taxes & Fees-	5,389,636	13,568,805	\$11,400,000	\$11,000,000	\$11,000,000
Sec. of State - Process Agents Fees	1,232,900	1,423,076	1,200,000	1,200,000	1,200,000
Circuit Court Clk. - Civil Filing Fee Receipts-	1,551,762	814,654	800,000	1,000,000	1,500,000
Circuit Court Clk. - Bond Filing Fee-	9,360,018	10,216,622	10,500,000	11,000,000	11,500,000
Circuit Court Clk. - 10% Bond Fee-	535,201	527,591	500,000	500,000	500,000
Circuit Court Clk. - Receipts for Services-	734,486	774,784	800,000	800,000	800,000
Strip Mining & Reclamation Fees-	3,692,478	4,079,403	4,000,000	4,100,000	4,200,000
Strip Mining & Reclamation - Fines Coll.	1,061,100	958,125	1,000,000	1,200,000	1,200,000
Master Commissioner Sales-	933,135	513,074	1,000,000	800,000	800,000
Miscellaneous - Pub Advoc; Sec State Fee	4,000,000	0	0	0	0
	3,059,942	3,234,853	3,000,000	3,200,000	3,400,000
TOTAL DEPARTMENT FEES, SALES AND RENTALS	\$31,550,658	\$36,110,987	\$34,200,000	\$34,800,000	\$36,100,000
<u>Investment Receipts</u>					
General Depository Investment Income **	\$3,609	\$6,079,738	\$2,000,000	\$2,000,000	\$2,000,000
Circuit Court Clk. - Interest Income	1,013,690	871,163	900,000	900,000	900,000
Interest on Investments - Withholding Accounts	6	0	0	0	0
Ky Asset/Liab - TRAN	0	0	6,000,000	6,000,000	6,000,000
TOTAL INVESTMENT RECEIPTS	\$1,017,305	\$6,950,901	\$8,900,000	\$8,900,000	\$8,900,000
<u>Miscellaneous Revenue</u>					
Lottery	\$173,800,000	\$161,252,000	\$170,000,000	\$165,500,000	\$170,500,000
Legal Process - Clk. Supreme Court	\$122,917	124,737	200,000	200,000	200,000
Legal Process - Clk. Court of Appeals	10,582	90,407	100,000	100,000	100,000
Dept. of Rev. Legal Process Taxes - Co. Clk.	3,433,858	3,244,167	3,700,000	3,600,000	3,500,000
Dept. of Rev. Penalty & Int. of Co. Officials	(28,970)	4,236	0	0	0
Legal Process - Attorney General's Office	0	0	0	0	0
Judgment Fees for Delinquent Taxes	0	0	0	0	0
TVA - In Lieu of Taxes - State Portion	8,146,924	8,559,023	8,300,000	8,700,000	9,200,000
F.H.A. - In Lieu of Taxes	44,751	49,372	0	0	0
R.E.C.C. and R.T.C.C. In Lieu of Taxes	310	300	0	0	0
Business Development - In Lieu of Taxes	0	0	0	0	0
Abandoned Property	32,607,826	50,904,812	33,400,000	8,000,000	8,000,000
Circuit Court Clk. - Fish & Wildlife Fines	89,911	76,418	100,000	100,000	100,000
Cir. Ct. Clk. - Criminal/Traffic Fines & Costs	48,029,954	44,206,674	46,100,000	47,500,000	49,000,000
Circuit Court Clk. - Bond Forfeitures	1,447,243	1,781,927	1,800,000	1,900,000	2,000,000
Fines Dept Insurance	620,619	944,765	700,000	700,000	700,000
NREP - Haz. Material & Waste - Fines & Pen.	0	0	0	0	0
Workplace & Employment Standards, Fees, Fines	1,184,493	1,284,827	1,400,000	1,500,000	1,600,000
Sale of NOx Credits	11,836,125	3,696,675	2,800,000	0	0
Unclassified Receipts	2,015	0	0	0	0
Other Fines & Unhonored Checks	2,338,414	787,256	2,000,000	2,000,000	2,000,000
TOTAL MISCELLANEOUS REVENUE	\$283,686,972	\$277,007,596	\$270,600,000	\$239,800,000	\$246,900,000
MISC. NOT IN REVENUE ESTIMATES	\$10,592,457	\$7,946,407	\$8,000,000	\$8,000,000	\$8,000,000
NET NEW ENFORCEMENT REVENUE	\$0	\$0	\$11,725,000	\$11,725,000	\$11,725,000
TOTAL GENERAL FUND	\$6,977,623,200	\$7,645,046,634	\$8,216,210,000	\$8,341,170,000	\$8,675,730,000

Road Fund
Consensus Forecast FY06 to FY08
December 20, 2005

Road Fund Revenues (million \$)

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
	Actual	Estimate	Estimate	Estimate
Motor Fuels	490.8	528.5	563.0	567.2
Motor Vehicle Usage	407.5	401.2	410.3	418.8
Motor Vehicle License	91.9	90.2	92.2	94.1
Motor Vehicle Operators	5.9	16.6	17.4	17.7
Weight Distance	83.1	85.4	87.4	90.5
Investment	5.5	3.8	9.0	7.5
Other	41.8	44.0	43.8	43.8
Total Road Fund	1,126.5	1,169.7	1,223.1	1,239.6

Annual Percentage Growth Rates

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
	Actual	Estimate	Estimate	Estimate
Motor Fuels	6.7	7.7	6.5	0.7
Motor Vehicle Usage	-5.1	-1.5	2.3	2.1
Motor Vehicle License	-1.6	-1.8	2.2	2.1
Motor Vehicle Operators	4.9	181.4	4.8	1.7
Weight Distance	4.4	2.8	2.3	3.5
Investment	-26.4	-30.9	136.8	-16.7
Other	1.0	5.3	-0.5	0.0
Total Road Fund	0.9	3.8	4.6	1.3

"New" Dollars (million \$)

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
	Actual	Estimate	Estimate	Estimate
Motor Fuels	na	37.7	34.5	4.2
Motor Vehicle Usage	na	-6.3	9.1	8.5
Motor Vehicle License	na	-1.7	2.0	1.9
Motor Vehicle Operators	na	10.7	0.8	0.3
Weight Distance	na	2.3	2.0	3.1
Investment	na	-1.7	5.2	-1.5
Other	na	2.2	-0.2	0.0
Total Road Fund	na	43.2	53.4	16.5

Road Fund Detailed Revenues
Consensus Forecast FY06-08
December 20, 2005

	<u>FY 2005</u> <u>Actual</u>	<u>FY 2006</u> <u>Estimated</u>	<u>FY 2007</u> <u>Estimated</u>	<u>FY 2008</u> <u>Estimated</u>
<u>Sales and Gross Receipts Taxes</u>				
Motor Fuels Normal and Normal Use	490,369,979	528,000,000	562,500,000	566,700,000
Motor Vehicle Usage	373,034,898	366,700,000	375,700,000	384,100,000
Motor Vehicle Rental Usage	34,436,432	34,500,000	34,600,000	34,700,000
Truck Trip Permits	445,085	500,000	500,000	500,000
Sales and Use	10	0	0	0
Usage Tax on Buses	54,022	0	0	0
Supplemental Fuel Surtax	0	0	0	0
Usage Tax on Historical Vehicles	0	0	0	0
TOTAL SALES AND GROSS RECEIPTS TAX	898,340,426	929,700,000	973,300,000	986,000,000
<u>License and Privilege Taxes</u>				
Drive Away Utility Trailer Permits	6,195	6,200	6,200	6,200
Amateur Radio Plate	9,411	9,000	9,000	9,000
Passenger Car License	21,104,001	21,200,000	21,200,000	22,550,000
Truck License - State Share	24,737,956	24,900,000	25,000,000	25,500,000
Motorcycle License	453,010	460,000	460,000	460,000
Motorcycle License-Program GA19	360,525	0	0	0
Dealers License	280,369	290,000	290,000	290,000
Transfer License	610,849	620,000	630,000	650,000
Trailer License	1,488,229	1,500,000	1,550,000	1,700,000
County Clerk Penalty	72,462	75,000	75,000	75,000
Bus License - Except City	29,227	30,000	30,000	30,000
Bus Certificates and Permits	3,700	4,000	4,000	4,000
Taxi License	28,683	29,000	29,000	29,000
Truck Permits	86,388	90,000	91,000	92,000
Contract Taxicab Permit	58,665	60,000	61,000	62,000
Motor Vehicle Operator's License	3,659,269	14,200,000	14,800,000	14,900,000
Motor Vehicle Operator's License-Program GA19	282,415	0	0	0
Highway Special Permits	6,345,747	6,450,000	6,600,000	6,700,000
U-Drive-It Permits	10,570	11,000	11,000	11,000
U-Drive-Licenses	1,579,814	1,600,000	1,610,000	1,650,000
Junk Yard License	3,347	3,500	3,500	3,500
Historic Vehicle License	227,600	230,000	230,000	230,000
Operator's License-Driver Education	605,339	710,000	810,000	910,000
Truck Proportional Registration	37,615,362	37,000,000	38,000,000	40,000,000
Operator's License - Photography Program	1,352,224	1,700,000	1,800,000	1,900,000
Industrial Hauling Permits	2,960	3,000	3,000	3,000
General Assembly License Plates	2,057	2,000	2,000	2,000
Pearl Harbor Survivor Plates	228	150	150	150
Collegiate Plates	694,663	700,000	750,000	780,000
Personalized License Plates	1,044,442	1,100,000	1,100,000	1,100,000
Army Reserve Plates	408,608	490,000	510,000	530,000
Purple Heart Plates	31,445	31,000	31,000	33,000
Judicial License Plates	840	750	750	750
Civil Air Patrol Plates	1,001	1,000	1,000	1,000
National Guard License Plates	7,283	7,500	7,500	7,500
Civic Event Plates	658	750	750	750
Street Rod Plates	1,853	1,900	1,900	1,900
Fraternal Order of Police Plates	251,010	255,000	255,000	265,000
Environmental License Plate	1,318,970	1,400,000	1,400,000	1,500,000
Dealer Demonstrator Tags	6,132	6,200	6,200	6,200
Volunteer Fireman License Tags	63,291	65,000	65,000	65,000
P.O.W. License Plates	161	130	130	130
Motor Carrier Identification Cards	5,483,789	5,500,000	5,600,000	5,700,000
Weight Distance Tax	83,069,295	85,400,000	87,400,000	90,500,000
DES License Plates	8,389	8,400	8,400	8,400
Child Victims License Plates	150,350	150,000	150,000	160,000
Masonic License Plates	42,771	40,000	40,000	40,000
Horse Council Plates	580,336	590,000	590,000	600,000
Temporary Tags	482,122	480,000	490,000	490,000
Nonreciprocal Permits	261,130	260,000	260,000	260,000
Overweight Coal Truck Permit	1,041,912	1,000,000	1,100,000	1,300,000
Temporary Truck Decal Permits	46,566	50,000	50,000	50,000
TOTAL LICENSE AND PRIVILEGE TAX	196,013,619	208,720,480	213,072,480	221,116,480

Road Fund Detailed Revenues
Consensus Forecast FY06-08
December 20, 2005

	<u>FY 2005</u> <u>Actual</u>	<u>FY 2006</u> <u>Estimated</u>	<u>FY 2007</u> <u>Estimated</u>	<u>FY 2008</u> <u>Estimated</u>
<u>Departmental Fees, Sales and Rentals</u>				
Proposal Sales	44,740	45,000	45,000	45,000
Specification and Blue Print Sales	415,406	420,000	420,000	420,000
Miscellaneous Rentals	511,353	520,000	520,000	520,000
MVL Computer Services	550,275	550,000	550,000	550,000
Fines and Forfeitures	2,616	2,700	2,700	2,700
Traffic Offenders School Fees	1,326,645	1,400,000	1,400,000	1,500,000
Record Copy Sales	65,378	67,000	67,000	67,000
Highway Sign Logo Rental	518,451	520,000	540,000	560,000
Driving History Record Fee	5,189,654	5,300,000	5,300,000	5,400,000
Operator's License Reinstatement Fees	1,181,513	1,200,000	1,200,000	1,300,000
Operator's License Name Sales	0	0	0	0
Penalty & Interest - Weight and Use Taxes	1,870,513	1,900,000	2,000,000	2,000,000
Medical Alert Stickers	151	175	175	175
Motor Vehicle Title Receipts	4,776,144	4,900,000	5,000,000	5,100,000
Proceeds from Asset Disposition	1,529,897	1,600,000	1,600,000	1,800,000
Coal Road Recovery Fines	2,751	3,000	3,000	3,000
U-Drive-It Penalty and Interest	26,900	30,000	30,000	30,000
TOTAL DEPARTMENT FEES, SALES AND RENTALS	18,012,387	18,457,875	18,677,875	19,297,875
<u>Toll Facility Income</u>				
Audubon Parkway	1,471,424	1,500,000	1,500,000	900,000
Green River Parkway	4,826,064	4,900,000	5,000,000	1,800,000
Daniel Boone Parkway	1,521	0	0	0
Cumberland Parkway	40	0	0	0
TOTAL TOLL FACILITY INCOME	6,299,049	6,400,000	6,500,000	2,700,000
<u>Investment Income</u>				
Investment Income	5,524,646	3,800,000	9,000,000	7,500,000
TOTAL INVESTMENT INCOME	5,524,646	3,800,000	9,000,000	7,500,000
<u>Miscellaneous Income</u>				
Property Damage	524,547	550,000	550,000	550,000
Highway Loss Claims	0	0	0	0
Highway Miscellaneous Receipts	0	0	0	0
Cold Check Account	0	0	0	0
Motor Carrier - Misc.	0	0	0	0
Gain on Disposition of Investment	0	0	0	0
Other State Grants	0	0	0	0
Mass Transit - Local Grants	0	0	0	0
Off-Systems Local Grants	0	0	0	0
Toll Credit Card Receipts	71,420	75,000	75,000	0
Tax Clearing Account	0	0	0	0
Higher Education Equine Fund	0	0	0	0
Coal Severance	0	0	0	0
Legal Processes - County Court Clerk	0	0	0	0
Inheritance and Estate Tax	0	0	0	0
Individual Income Tax	0	0	0	0
TOTAL MISCELLANEOUS INCOME	595,967	625,000	625,000	550,000
MISC. NOT IN REVENUE ESTIMATES	1,768,308	2,000,000	1,950,000	2,450,000
TOTAL ROAD FUND REVENUE	1,126,554,402	1,169,703,355	1,223,125,355	1,239,614,355

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 \$734.6 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’s statutes are currently in full compliance with the MSA, and the provisions of statute are being diligently enforced.

In December of 2005, the CFG addressed the potential impact of an NPM adjustment on the MSA payments allocated to the Commonwealth. The formula for calculating the amount of the potential NPM adjustment provides for triple the market share loss of the participating manufacturers. The NPM adjustment that could potentially reduce the payments to the Commonwealth in fiscal year 2006 is over one billion dollars. While the states hope to prevail, there is a significant chance that the arbitration will result in an NPM adjustment. The decision is expected to be made shortly before the April 2006 payment is due, and the tobacco firms are expected to either withhold the NPM adjustment altogether or place the \$1.15 billion in a “disputed account”. The remaining amount will be distributed to the settling states in accordance to the MSA distribution formula. For Kentucky, the result will be a \$20.25 million reduction in the April 2006 payment.

The question of diligent enforcement will have to be decided on a state by state basis. Unfortunately, the term “diligent enforcement” is not defined in the MSA. Therefore, each state will have to uniquely present its case based on its own strategies and methods for NPM enforcement. *If* the Commonwealth was found to *not* have diligently enforced our statutes, the result could be a complete loss of its FY06 payment.

The Commonwealth contends that it has diligently enforced all of its tobacco statutes. Two recently enacted bills, House Bill 390 in 2003 and House Bill 97 in 2004 provide evidence of Kentucky’s diligent enforcement of the MSA. House Bill 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. House Bill 97 was the allocable share cap bill which closed loopholes 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 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 2004 and 2005 Payments – Kentucky received \$109.5 million in MSA payments during fiscal year 2004 and \$112.2 million in fiscal year 2005. The budgeted receipts for the fiscal years 2006-2008 are \$91.3, \$88.8, and 94.0 million, respectively.

Forecast

The Consensus Forecasting Group (CFG) was asked by the State Budget to aid OSBD in projecting the payments to be received by the Commonwealth from the Master Settlement Agreement. The forecast as prepared by OSBD was presented to and approved by the CFG on December 19, 2005.

Forecasting Methodology

The forecasting methodology was dictated by the terms of the Master Settlement Agreement. 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. These payments were then adjusted by a 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. 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' Adjustment**. For the next biennium, OSBD assumed that NPM adjustments would technically not be applicable to Kentucky. However, OSBD anticipates that several tobacco companies would place funds in a disputed account pending the diligent enforcement hearings. Kentucky contends that it 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, the forecast includes reduced budgeted MSA receipts to account for these NPM adjustments.

Appendix A

Receipts First Half of Fiscal Year 2006

KENTUCKY STATE GOVERNMENT REVENUE

	Second Quarter 2005 - 2006	Second Quarter 2004 - 2005	% Change	Year-To-Date 2005 - 2006	Year-To-Date 2004 - 2005	% Change
TOTAL GENERAL FUND	\$2,188,649,584	\$1,962,218,917	11.5%	\$4,154,386,979	\$3,723,601,370	11.6%
Tax Receipts	\$2,100,130,056	\$1,861,262,978	12.8%	\$4,007,474,209	\$3,548,740,778	12.9%
Sales and Gross Receipts	\$763,922,994	\$678,980,630	12.5%	\$1,556,608,895	\$1,373,754,417	13.3%
Beer Consumption	1,784,169	1,455,112	22.6%	3,285,810	3,289,881	-0.1%
Beer Wholesale	12,779,318	9,045,064	41.3%	23,173,740	19,574,916	18.4%
Cigarette	44,848,234	3,915,926	1045.3%	86,047,554	7,914,017	987.3%
Cigarette Floor Stock	9,855	0	---	12,120,794	0	---
Distilled Spirits Case Sales	29,064	23,103	25.8%	46,696	45,362	2.9%
Distilled Spirits Consumption	2,997,824	2,166,104	38.4%	4,971,734	4,456,738	11.6%
Distilled Spirits Wholesale	6,797,027	4,555,547	49.2%	11,360,872	8,787,233	29.3%
Insurance Premium	6,560,938	10,785,462	-39.2%	38,808,850	35,929,070	8.0%
Pari-Mutuel	1,388,231	1,384,142	0.3%	2,290,361	1,402,860	63.3%
Race Track Admission	54,103	55,418	-2.4%	182,164	154,401	18.0%
Sales and Use	682,985,306	642,791,567	6.3%	1,368,469,772	1,287,202,262	6.3%
Wine Consumption	432,515	743,260	-41.8%	823,045	1,223,942	-32.8%
Wine Wholesale	3,256,411	2,059,924	58.1%	5,027,504	3,773,734	33.2%
License and Privilege	\$83,533,559	\$73,250,053	14.0%	\$163,321,439	\$139,643,507	17.0%
Alc. Bev. License Suspension	52,250	41,600	25.6%	98,650	103,850	-5.0%
Coal Severance	53,119,431	44,115,301	20.4%	105,438,591	87,008,973	21.2%
Corporation License	16,204,175	18,476,265	-12.3%	31,129,972	31,967,320	-2.6%
Corporation Organization	69,010	38,001	81.6%	137,210	58,344	135.2%
Occupational Licenses	19,551	24,307	-19.6%	45,836	81,288	-43.6%
Oil Production	1,598,318	1,223,151	30.7%	3,207,383	2,241,855	43.1%
Race Track License	99,725	103,750	-3.9%	261,075	263,250	-0.8%
Bank Franchise Tax	832,445	(202,048)	---	642,823	7,241	8777.2%
Driver License Fees	135,483	129,249	4.8%	297,297	271,791	9.4%
Minerals Severance	4,488,129	3,926,332	14.3%	8,720,716	7,626,179	14.4%
Natural Gas Severance	6,915,041	5,374,145	28.7%	13,341,886	10,013,417	33.2%
	0	0				
Income	\$960,361,555	\$835,353,064	15.0%	\$1,921,556,681	\$1,694,980,980	13.4%
Corporation	212,722,277	96,255,629	121.0%	407,090,290	214,272,655	90.0%
Individual	747,639,278	739,097,435	1.2%	1,514,466,391	1,480,708,325	2.3%
Property	\$271,514,936	\$253,029,671	7.3%	\$324,954,612	\$291,591,783	11.4%
Bank Deposits	7,041	0	---	7,041	0	---
Building & Loan Association	(120,207)	0	---	48,322	71,384	-32.3%
Distilled Spirits	328,958	87,769	274.8%	403,142	87,769	359.3%
General - Intangible	23,497,902	20,294,490	15.8%	23,503,667	20,298,320	15.8%
General - Real	144,760,741	136,386,530	6.1%	145,105,396	136,609,630	6.2%
General - Tangible	68,975,272	65,085,999	6.0%	91,377,857	86,807,551	5.3%
Omitted & Delinquent	9,777,798	6,605,289	48.0%	17,815,728	11,361,580	56.8%
Public Service	24,283,537	24,564,927	-1.1%	46,689,446	36,335,053	28.5%
Other	3,896	4,667	-16.5%	4,013	20,497	-80.4%
Inheritance	\$12,277,411	\$12,513,315	-1.9%	\$23,493,613	\$31,672,876	-25.8%
Miscellaneous	\$8,519,600	\$8,136,246	4.7%	\$17,538,969	\$17,097,216	2.6%
Legal Process	5,905,772	5,947,534	-0.7%	12,722,687	12,881,674	-1.2%
T. V. A. In Lieu Payments	2,459,752	2,169,899	13.4%	4,640,898	4,196,730	10.6%
Other	154,076	18,813	719.0%	175,384	18,813	832.3%
Nontax Receipts	\$85,366,455	\$99,695,567	-14.4%	\$141,877,598	\$172,257,253	-17.6%
Departmental Fees	5,876,326	5,092,736	15.4%	11,412,320	11,060,044	3.2%
PSC Assessment Fee	410,898	75,361	---	8,778,161	11,108,369	-21.0%
Fines & Forfeitures	6,432,582	6,262,042	2.7%	13,040,588	12,842,763	1.5%
Interest on Investments	307,507	199,013	54.5%	542,658	440,215	23.3%
Lottery	40,000,000	41,752,000	-4.2%	77,000,000	86,752,000	-11.2%
Sale of NOx Credits	0	0	---	136,000	3,230,425	-95.8%
Miscellaneous	32,339,142	46,204,415	-30.0%	30,967,871	46,713,438	-33.7%
Redeposit of State Funds	\$3,153,073	\$1,260,372	150.2%	\$5,035,172	\$2,603,339	93.4%

KENTUCKY STATE GOVERNMENT REVENUE

	Second Quarter 2005 - 2006	Second Quarter 2004 - 2005	% Change	Year-To-Date 2005 - 2006	Year-To-Date 2004 - 2005	% Change
TOTAL ROAD FUND	\$264,302,885	\$256,663,036	3.0%	\$568,986,990	\$542,568,469	4.9%
Tax Receipts-	\$257,561,040	\$249,531,336	3.2%	\$554,360,863	\$527,833,716	5.0%
Sales and Gross Receipts	\$212,131,404	\$208,570,222	1.7%	\$465,323,827	\$445,088,069	4.5%
Motor Fuels Taxes	125,226,309	112,616,058	11.2%	255,481,383	\$234,486,374	9.0%
Motor Fuels Use & Surtax	5,370,921	3,585,481	49.8%	10,606,339	\$8,586,467	23.5%
Truck Trip Permits (fuel)	94,840	103,415	-8.3%	187,280	\$237,580	-21.2%
Motor Vehicle Usage	81,439,335	92,265,268	-11.7%	199,048,824	\$201,777,648	-1.4%
License and Privilege	\$45,429,635	\$40,961,113	10.9%	\$89,037,037	\$82,745,647	7.6%
Motor Vehicles	16,616,126	14,512,307	14.5%	33,006,734	\$31,338,262	5.3%
Motor Vehicle Operators	3,514,066	1,399,627	151.1%	6,771,397	\$3,031,645	123.4%
Weight Distance	21,255,333	20,825,566	2.1%	42,883,598	\$41,612,294	3.1%
Truck Decal Fees	31,451	678,944	-95.4%	75,670	\$810,472	-90.7%
Other Special Fees	4,012,660	3,544,669	13.2%	6,299,638	\$5,952,974	5.8%
Nontax Receipts	\$6,657,172	\$6,899,806	-3.5%	\$13,683,067	\$14,357,482	-4.7%
Departmental Fees	3,987,017	4,114,439	-3.1%	8,221,369	\$8,580,313	-4.2%
In Lieu of Traffic Fines	282,671	325,579	-13.2%	615,951	\$694,884	-11.4%
Highway Tolls	1,583,037	1,481,524	6.9%	3,172,045	\$3,113,743	1.9%
Investment Income	611,756	824,778	-25.8%	1,335,668	\$1,724,629	-22.6%
Miscellaneous	192,691	153,486	25.5%	338,034	\$243,913	38.6%
Redeposit of State Funds	\$84,673	\$231,895	-63.5%	\$943,060	\$377,271	150.0%

Appendix B

Summary Statistics for General Fund and Road Fund

Major Revenue Sources Fiscal Years 1995-96 to 2004-05

**SUMMARY STATISTICS FOR GENERAL FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

	FY96	FY97	FY98	FY99	FY00
TOTAL GENERAL FUND	5,336,883,824	5,663,553,289	6,011,806,562	6,198,387,526	6,478,385,032
Tax Receipts	5,095,157,184	5,408,832,505	5,722,452,611	5,917,216,646	6,200,475,504
Sales and Gross Receipts	1,954,857,546	2,052,228,340	2,155,185,940	2,263,517,959	2,356,212,660
Beer Consumption	5,883,182	5,931,508	6,149,889	6,258,224	6,284,242
Beer Wholesale	28,606,167	28,898,911	29,787,991	30,612,099	32,101,648
Cigarette ¹	15,680,704	16,044,967	15,130,443	14,673,839	14,184,888
Cigarette Floor Stock ²	---	---	---	---	---
Distilled Spirits Case Sales	80,745	79,931	79,121	78,333	82,871
Distilled Spirits Consumption	8,034,386	7,878,267	7,926,002	7,955,925	8,211,541
Distilled Spirits Wholesale	12,378,310	12,590,305	12,974,726	13,398,478	14,055,368
Insurance Premium	87,295,673	85,917,179	90,231,192	90,171,779	95,355,564
Pari-Mutuel	7,148,951	5,911,958	4,845,922	7,179,163	6,645,098
Race Track Admission	257,804	207,489	211,759	241,307	220,824
Sales and Use	1,783,881,316	1,882,681,995	1,981,297,580	2,085,899,677	2,171,397,969
Wine Consumption	1,518,350	1,538,033	1,615,634	1,625,711	1,748,839
Wine Wholesale	4,091,958	4,547,795	4,935,682	5,423,425	5,923,809
License and Privilege	282,361,213	340,636,686	338,964,050	349,549,943	364,098,883
Alc. Bev. License & Suspension	1,867,529	1,996,165	549,768	87,800	49,150
Coal Severance	166,101,045	163,545,844	163,731,038	154,476,772	145,139,909
Corporation License	90,525,391	107,498,746	112,793,160	125,912,523	139,127,819
Corporation Organization	531,122	315,593	1,001,719	500,429	369,916
Occupational Licenses	303,636	124,500	92,140	99,658	132,811
Oil Production	2,644,656	3,044,497	2,135,212	1,344,942	2,967,395
Race Track License	410,150	438,529	407,750	395,525	405,500
Bank Franchise Tax ³	---	40,878,664	35,059,801	47,059,959	53,061,798
Driver License Fees	2,598,899	2,742,540	3,001,375	717,453	475,167
Minerals Severance	9,349,609	10,443,023	11,115,009	11,848,098	13,923,246
Natural Gas Severance	8,029,176	9,608,586	9,077,076	7,106,785	8,446,173
Income	2,359,304,740	2,497,776,090	2,751,810,830	2,844,072,023	3,008,055,957
Corporation	284,732,573	292,753,126	333,666,392	312,066,675	306,442,050
Individual	2,074,572,167	2,205,022,964	2,418,144,438	2,532,005,348	2,701,613,908
Property	409,176,706	414,858,124	362,792,504	370,404,549	387,257,800
Bank Deposits	297,123	611,478	324,856	398,666	433,962
Building & Loan Association	3,565,375	5,799,678	4,533,322	3,046,010	2,491,414
Distilled Spirits	395,819	390,594	389,838	417,610	443,880
General - Intangible ⁴	66,489,089	46,631,437	21,129,328	18,103,920	22,721,743
General - Real ⁵	142,728,406	170,063,059	154,245,454	161,723,137	167,326,472
General - Tangible ⁵	137,812,773	124,637,468	125,753,465	125,564,658	130,960,896
Omitted & Delinquent	17,199,556	15,098,758	13,019,424	11,926,947	15,543,134
Public Service	37,253,318	49,915,716	43,528,408	50,461,577	46,882,427
Other	3,435,248	1,709,936	(131,590)	(1,237,976)	453,871
Inheritance⁶	81,441,427	95,287,282	105,538,130	81,483,083	74,489,981
Miscellaneous	8,015,552	8,045,984	8,161,157	8,189,088	10,360,222
Legal Process	3,324,992	3,341,859	3,468,753	3,568,621	3,457,280
T. V. A. In Lieu Payments	4,654,340	4,550,012	4,646,467	4,586,009	6,842,117
Other	36,220	154,113	45,937	34,458	60,824
Nontax Receipts	238,968,407	252,375,721	284,461,380	272,298,984	271,911,197
Departmental Fees ⁷	19,994,129	22,588,313	21,975,158	26,095,000	32,719,509
PSC Assessment Fee ⁷	---	---	---	---	---
Fines & Forfeitures	33,858,903	38,909,723	40,670,559	45,023,992	46,056,986
Interest on Investments	30,397,988	30,966,219	60,019,607	38,324,530	28,077,454
Lottery	147,000,000	151,000,000	153,000,000	153,800,000	156,300,000
Sale of NOX Credits ⁸	---	---	---	---	---
Miscellaneous	7,717,386	8,911,466	8,796,056	9,055,462	8,757,248
Redeposit of State Funds	2,758,234	2,345,063	4,892,572	8,871,896	5,998,332

(Footnotes appear at end of table)

**SUMMARY STATISTICS FOR GENERAL FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

	FY01	FY02	FY03	FY04	FY05
TOTAL GENERAL FUND	6,653,897,653	6,560,216,551	6,783,458,295	6,977,623,200	7,645,046,634
Tax Receipts	6,377,917,219	6,292,004,457	6,543,157,657	6,686,290,589	7,350,335,469
Sales and Gross Receipts	2,435,481,566	2,497,020,953	2,577,542,870	2,668,210,228	2,838,701,120
Beer Consumption	6,272,031	6,286,734	6,334,169	6,320,886	6,387,318
Beer Wholesale	32,582,889	34,596,592	35,969,890	37,439,919	37,815,717
Cigarette ¹	14,007,582	13,943,208	16,367,947	17,136,198	24,966,880
Cigarette Floor Stock ²	---	---	---	---	8,701,966
Distilled Spirits Case Sales	82,529	81,922	85,601	87,662	92,178
Distilled Spirits Consumption	8,184,798	8,266,005	8,680,833	8,985,826	9,190,089
Distilled Spirits Wholesale	14,809,730	15,129,146	16,088,048	16,957,192	18,150,313
Insurance Premium	96,825,818	105,102,951	114,988,790	120,523,955	123,410,091
Pari-Mutuel	6,182,083	5,179,952	5,953,247	3,629,292	4,710,111
Race Track Admission	216,615	260,232	193,114	232,350	195,068
Sales and Use	2,248,471,100	2,299,990,621	2,364,182,478	2,447,584,698	2,594,966,373
Wine Consumption	1,743,393	1,786,984	1,902,818	2,005,265	2,279,162
Wine Wholesale	6,102,998	6,396,603	6,795,936	7,306,985	7,835,853
License and Privilege	373,309,229	356,591,984	379,857,645	368,122,494	427,823,269
Alc. Bev. License & Suspension	193,800	220,800	227,850	223,700	237,101
Coal Severance	141,553,087	160,160,116	141,664,981	147,498,230	184,436,935
Corporation License	147,515,402	117,500,770	152,595,257	124,096,012	134,149,794
Corporation Organization	227,655	144,233	190,494	143,804	613,048
Occupational Licenses	107,737	226,609	197,977	223,002	188,761
Oil Production	3,358,036	2,590,722	3,116,954	3,387,884	4,710,832
Race Track License	320,800	37,423	322,825	335,625	324,642
Bank Franchise Tax ³	49,610,220	50,549,169	53,747,906	55,467,195	63,837,587
Driver License Fees	391,939	505,187	499,003	523,979	522,904
Minerals Severance	12,710,667	12,355,174	12,580,912	13,711,874	13,494,541
Natural Gas Severance	17,319,885	12,301,781	14,713,486	22,511,188	25,307,125
Income	3,068,472,461	2,909,863,799	3,024,422,738	3,099,593,870	3,514,735,211
Corporation	289,931,017	207,353,777	278,035,794	303,262,821	478,504,505
Individual	2,778,541,444	2,702,510,022	2,746,386,944	2,796,331,049	3,036,230,706
Property	407,494,858	433,029,587	434,768,249	448,765,511	472,596,276
Bank Deposits	412,646	460,334	456,527	467,711	474,098
Building & Loan Association	2,482,623	2,249,927	3,181,373	2,513,083	3,192,911
Distilled Spirits	360,248	363,410	442,092	375,637	388,612
General - Intangible ⁴	22,551,153	23,113,567	25,883,197	27,547,183	26,912,813
General - Real ⁵	171,524,695	179,678,050	186,000,177	192,534,530	202,182,555
General - Tangible ⁵	140,466,295	151,308,795	149,426,286	149,155,206	159,883,091
Omitted & Delinquent	20,605,462	25,649,592	20,368,623	15,829,225	20,646,846
Public Service	48,883,924	49,991,359	48,836,372	60,178,393	58,787,595
Other	207,812	214,551	173,603	164,542	127,756
Inheritance⁶	83,461,499	83,359,872	95,864,480	66,083,705	63,174,866
Miscellaneous	9,697,606	12,138,263	30,701,674	35,514,782	33,304,727
Legal Process	3,597,385	5,263,021	22,994,148	27,322,798	24,696,032
T. V. A. In Lieu Payments	6,046,676	6,814,492	7,660,437	8,146,924	8,559,023
Other	53,545	60,750	47,090	45,061	49,672
Nontax Receipts	266,792,632	260,466,324	233,694,271	280,871,754	286,661,124
Departmental Fees ⁷	17,062,102	19,570,116	21,982,797	22,161,022	22,542,182
PSC Assessment Fee ⁷	12,598,397	10,455,826	8,702,466	5,389,636	13,568,805
Fines & Forfeitures	40,749,856	40,069,496	28,888,326	27,991,293	25,405,780
Interest on Investments	28,217,850	13,342,627	(7,157,704)	1,017,305	6,950,902
Lottery	157,030,000	169,000,000	171,000,000	173,800,000	161,252,000
Sale of NOx Credits ⁸	---	---	---	11,836,125	3,696,675
Miscellaneous	11,134,428	8,028,259	10,278,386	38,676,373	53,244,780
Redeposit of State Funds	9,187,802	7,745,769	6,606,367	10,460,857	8,050,041

(Footnotes appear at end of table)

**GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

	FY96	FY97	FY98	FY99	FY00
TOTAL GENERAL FUND	3.5%	6.1%	6.1%	3.1%	4.5%
Tax Receipts	3.3%	6.2%	5.8%	3.4%	4.8%
Sales and Gross Receipts	6.0%	5.0%	5.0%	5.0%	4.1%
Beer Consumption	-2.5%	0.8%	3.7%	1.8%	0.4%
Beer Wholesale	3.0%	1.0%	3.1%	2.8%	4.9%
Cigarette ¹	3.7%	2.3%	-5.7%	-3.0%	-3.3%
Cigarette Floor Stock ²	---	---	---	---	---
Distilled Spirits Case Sales	0.7%	-1.0%	-1.0%	-1.0%	5.8%
Distilled Spirits Consumption	2.0%	-1.9%	0.6%	0.4%	3.2%
Distilled Spirits Wholesale	3.7%	1.7%	3.1%	3.3%	4.9%
Insurance Premium	6.7%	-1.6%	5.0%	-0.1%	5.7%
Pari-Mutuel	-1.5%	-17.3%	-18.0%	48.1%	-7.4%
Race Track Admission	-11.9%	-19.5%	2.1%	14.0%	-8.5%
Sales and Use	6.2%	5.5%	5.2%	5.3%	4.1%
Wine Consumption	13.3%	1.3%	5.0%	0.6%	7.6%
Wine Wholesale	16.7%	11.1%	8.5%	9.9%	9.2%
License and Privilege	-5.7%	20.6%	-0.5%	3.1%	4.2%
Alc. Bev. License Suspension	-6.0%	6.9%	-72.5%	-84.0%	-44.0%
Coal Severance	-7.3%	-1.5%	0.1%	-5.7%	-6.0%
Corporation License	-7.1%	18.7%	4.9%	11.6%	10.5%
Corporation Organization	285.8%	-40.6%	217.4%	-50.0%	-26.1%
Occupational Licenses	163.2%	-59.0%	-26.0%	8.2%	33.3%
Oil Production	-5.0%	15.1%	-29.9%	-37.0%	120.6%
Race Track License	-12.8%	6.9%	-7.0%	-3.0%	2.5%
Bank Franchise Tax ³			-14.2%	34.2%	12.8%
Driver License Fees	1.4%	5.5%	9.4%	-76.1%	-33.8%
Minerals Severance	6.1%	11.7%	6.4%	6.6%	17.5%
Natural Gas Severance	34.4%	19.7%	-5.5%	-21.7%	18.8%
Income	2.3%	5.9%	10.2%	3.4%	5.8%
Corporation	-16.5%	2.8%	14.0%	-6.5%	-1.8%
Individual	5.6%	6.3%	9.7%	4.7%	6.7%
Property	3.5%	1.4%	-12.6%	2.1%	4.5%
Bank Deposits	-3.4%	105.8%	-46.9%	22.7%	8.9%
Building & Loan Association	-38.7%	62.7%	-21.8%	-32.8%	-18.2%
Distilled Spirits	3.3%	-1.3%	-0.2%	7.1%	6.3%
General - Intangible ⁴	-20.4%	-29.9%	-54.7%	-14.3%	25.5%
General - Real ⁵	7.2%	19.2%	-9.3%	4.8%	3.5%
General - Tangible ⁵	20.8%	-9.6%	0.9%	-0.2%	4.3%
Omitted & Delinquent	-2.4%	-12.2%	-13.8%	-8.4%	30.3%
Public Service	2.9%	34.0%	-12.8%	15.9%	-7.1%
Other	-18.4%	-50.2%	-107.7%	840.8%	---
Inheritance⁶	2.4%	17.0%	10.8%	-22.8%	-8.6%
Miscellaneous	5.1%	0.4%	1.4%	0.3%	26.5%
Legal Process	1.2%	0.5%	3.8%	2.9%	-3.1%
T. V. A. In Lieu Payments	8.5%	-2.2%	2.1%	-1.3%	49.2%
Other	-26.3%	325.5%	-70.2%	-25.0%	76.5%
Nontax Receipts	8.3%	5.6%	12.7%	-4.3%	-0.1%
Departmental Fees ⁷	-5.6%	13.0%	-2.7%	18.7%	25.4%
PSC Assessment Fee ⁷					
Fines & Forfeitures	-0.3%	14.9%	4.5%	10.7%	2.3%
Interest on Investments	43.7%	1.9%	93.8%	-36.1%	-26.7%
Lottery	8.1%	2.7%	1.3%	0.5%	1.6%
Sale of NOx Credits ⁸	---	---	---	---	---
Miscellaneous	-7.6%	15.5%	-1.3%	2.9%	-3.3%
Redeposit of State Funds	23.0%	-15.0%	108.6%	81.3%	-32.4%

(Footnotes appear at end of table)

GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005

	FY01	FY02	FY03	FY04	FY05
TOTAL GENERAL FUND	2.7%	-1.4%	3.4%	2.9%	9.6%
Tax Receipts	2.9%	-1.3%	4.0%	2.2%	9.9%
Sales and Gross Receipts	3.4%	2.5%	3.2%	3.5%	6.4%
Beer Consumption	-0.2%	0.2%	0.8%	-0.2%	1.1%
Beer Wholesale	1.5%	6.2%	4.0%	4.1%	1.0%
Cigarette ¹	-1.2%	-0.5%	17.4%	4.7%	45.7%
Cigarette Floor Stock ²	---	---	---	---	---
Distilled Spirits Case Sales	-0.4%	-0.7%	4.5%	2.4%	5.2%
Distilled Spirits Consumption	-0.3%	1.0%	5.0%	3.5%	2.3%
Distilled Spirits Wholesale	5.4%	2.2%	6.3%	5.4%	7.0%
Insurance Premium	1.5%	8.5%	9.4%	4.8%	2.4%
Pari-Mutuel	-7.0%	-16.2%	14.9%	-39.0%	29.8%
Race Track Admission	-1.9%	20.1%	-25.8%	20.3%	-16.0%
Sales and Use	3.5%	2.3%	2.8%	3.5%	6.0%
Wine Consumption	-0.3%	2.5%	6.5%	5.4%	13.7%
Wine Wholesale	3.0%	4.8%	6.2%	7.5%	7.2%
License and Privilege	2.5%	-4.5%	6.5%	-3.1%	16.2%
Alc. Bev. License Suspension	294.3%	13.9%	3.2%	-1.8%	6.0%
Coal Severance	-2.5%	13.1%	-11.5%	4.1%	25.0%
Corporation License	6.0%	-20.3%	29.9%	-18.7%	8.1%
Corporation Organization	-38.5%	-36.6%	32.1%	-24.5%	326.3%
Occupational Licenses	-18.9%	110.3%	-12.6%	12.6%	-15.4%
Oil Production	13.2%	-22.9%	20.3%	8.7%	39.0%
Race Track License	-20.9%	-88.3%	762.6%	4.0%	-3.3%
Bank Franchise Tax ³	-6.5%	1.9%	6.3%	3.2%	15.1%
Driver License Fees	-17.5%	28.9%	-1.2%	5.0%	-0.2%
Minerals Severance	-8.7%	-2.8%	1.8%	9.0%	-1.6%
Natural Gas Severance	105.1%	-29.0%	19.6%	53.0%	12.4%
Income	2.0%	-5.2%	3.9%	2.5%	13.4%
Corporation	-5.4%	-28.5%	34.1%	9.1%	57.8%
Individual	2.8%	-2.7%	1.6%	1.8%	8.6%
Property	5.2%	6.3%	0.4%	3.2%	5.3%
Bank Deposits	-4.9%	11.6%	-0.8%	2.4%	1.4%
Building & Loan Association	-0.4%	-9.4%	41.4%	-21.0%	27.1%
Distilled Spirits	-18.8%	0.9%	21.7%	-15.0%	3.5%
General - Intangible ⁴	-0.8%	2.5%	12.0%	6.4%	-2.3%
General - Real ⁵	2.5%	4.8%	3.5%	3.5%	5.0%
General - Tangible ⁵	7.3%	7.7%	-1.2%	-0.2%	7.2%
Omitted & Delinquent	32.6%	24.5%	-20.6%	-22.3%	30.4%
Public Service	4.3%	2.3%	-2.3%	23.2%	-2.3%
Other	---	3.2%	-19.1%	-5.2%	-22.4%
Inheritance⁶	12.0%	-0.1%	15.0%	-31.1%	-4.4%
Miscellaneous	-6.4%	25.2%	152.9%	15.7%	-6.2%
Legal Process	4.1%	46.3%	336.9%	18.8%	-9.6%
T. V. A. In Lieu Payments	-11.6%	12.7%	12.4%	6.4%	5.1%
Other	-12.0%	13.5%	-22.5%	-4.3%	10.2%
Nontax Receipts	-1.9%	-2.4%	-10.3%	20.2%	2.1%
Departmental Fees ⁷	-9.3%	14.7%	12.3%	0.8%	1.7%
PSC Assessment Fee ⁷		-17.0%	-16.8%	-38.1%	151.8%
Fines & Forfeitures	-11.5%	-1.7%	-27.9%	-3.1%	-9.2%
Interest on Investments	0.5%	-52.7%	---	---	583.3%
Lottery	0.5%	7.6%	1.2%	1.6%	-7.2%
Sale of NOx Credits ⁸	---	---	---	---	-68.8%
Miscellaneous	27.1%	-27.9%	28.0%	276.3%	37.7%
Redeposit of State Funds	53.2%	-15.7%	-14.7%	58.3%	-23.0%

(Footnotes appear at end of tables)

**SUMMARY STATISTICS FOR ROAD FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005**

	FY96	FY97	FY98	FY99	FY00
TOTAL STATE ROAD FUND	939,910,490	960,183,780	1,011,789,674	1,056,596,153	1,090,777,822
Tax Receipts-	879,869,850	901,229,996	942,129,035	991,641,312	1,031,467,147
Sales and Gross Receipts	729,001,622	748,015,044	780,911,374	820,802,014	849,700,352
Motor Fuels Taxes	378,142,941	390,688,336	396,123,781	427,848,100	423,876,351
Motor Fuels Use & Surtax	22,554,473	15,316,702	17,473,744	16,853,163	15,905,613
Truck Trip Permits (fuel)	629,763	492,400	521,868	441,870	451,689
Motor Vehicle Usage	327,674,445	341,517,606	366,791,982	375,658,882	409,466,699
License and Privilege	150,868,228	153,214,952	161,217,661	170,839,298	181,766,795
Motor Vehicles	72,764,120	71,324,666	74,397,814	80,133,334	85,623,787
Motor Vehicle Operators	5,110,387	5,355,648	5,610,817	5,400,685	5,689,329
Weight Distance	59,809,913	63,061,494	66,665,457	70,155,867	75,144,201
Truck Decal Fees	858,903	818,525	808,104	822,074	738,342
Other Special Fees	12,324,905	12,654,620	13,735,469	14,327,339	14,571,136
Nontax Receipts	58,356,382	58,796,377	69,349,054	64,340,643	58,580,537
Departmental Fees	9,805,190	11,096,006	12,026,690	12,949,131	13,184,983
In Lieu of Traffic Fines	1,011,351	1,255,822	1,344,786	1,575,742	1,662,261
Highway Tolls	11,896,026	12,585,961	12,998,548	13,342,667	13,474,101
Investment Income	33,779,249	31,833,792	41,950,532	35,588,653	29,418,349
Miscellaneous	1,864,566	2,024,797	1,028,499	884,451	840,843
Redeposit of State Funds	1,684,258	157,407	311,586	614,199	730,138

(Footnotes appear at end of table)

	FY01	FY02	FY03	FY04	FY05
TOTAL STATE ROAD FUND	1,064,181,565	1,119,005,317	1,123,103,133	1,116,734,272	1,126,554,402
Tax Receipts-	992,142,884	1,052,848,911	1,059,296,184	1,082,189,464	1,094,354,041
Sales and Gross Receipts	821,552,966	873,623,010	886,809,027	889,251,190	898,340,426
Motor Fuels Taxes	408,801,115	429,812,296	438,564,438	441,382,996	469,621,779
Motor Fuels Use & Surtax	15,492,738	14,124,035	14,969,884	18,185,947	20,748,200
Truck Trip Permits (fuel)	447,020	383,460	371,406	439,720	445,085
Motor Vehicle Usage	396,812,093	429,303,220	432,903,299	429,242,527	407,525,361
License and Privilege	170,589,918	179,225,901	172,487,157	192,938,274	196,013,615
Motor Vehicles	76,861,958	84,510,332	76,192,363	93,388,573	91,933,157
Motor Vehicle Operators	5,592,769	5,564,009	5,610,829	5,623,874	5,899,247
Weight Distance	75,170,141	75,265,639	76,851,211	79,574,022	83,069,296
Truck Decal Fees	727,675	807,089	673,481	725,403	1,041,912
Other Special Fees	12,237,376	13,078,832	13,159,273	13,626,402	14,070,003
Nontax Receipts	69,204,781	64,071,745	62,789,372	32,932,009	30,432,049
Departmental Fees	13,772,863	15,137,452	18,430,002	15,258,391	16,685,742
In Lieu of Traffic Fines	2,005,215	1,960,687	1,374,668	1,521,583	1,326,645
Highway Tolls	12,410,901	13,785,486	13,263,429	7,958,452	6,299,049
Investment Income	40,187,239	32,156,652	29,115,311	7,507,462	5,524,646
Miscellaneous	828,562	1,031,468	605,962	686,121	595,967
Redeposit of State Funds	2,833,900	2,084,661	1,017,577	1,612,799	1,768,312

(Footnotes appear at end of table)

ROAD FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1996-2005

	FY96	FY97	FY98	FY99	FY00
TOTAL STATE ROAD FUND	4.4%	2.2%	5.4%	4.4%	3.2%
Tax Receipts-	3.4%	2.4%	4.5%	5.3%	4.0%
Sales and Gross Receipts	3.6%	2.6%	4.4%	5.1%	3.5%
Motor Fuels Taxes	1.3%	3.3%	1.4%	8.0%	-0.9%
Motor Fuels Use & Surtax	-2.2%	-32.1%	14.1%	-3.6%	-5.6%
Truck Trip Permits (fuel)	-2.2%	-21.8%	6.0%	-15.3%	2.2%
Motor Vehicle Usage	6.8%	4.2%	7.4%	2.4%	9.0%
License and Privilege	2.4%	1.6%	5.2%	6.0%	6.9%
Motor Vehicles	6.6%	-2.0%	4.3%	7.7%	7.7%
Motor Vehicle Operators	-1.2%	4.8%	4.8%	-3.7%	5.3%
Weight Distance	4.5%	5.4%	5.7%	5.2%	7.1%
Truck Decal Fees	-8.8%	-4.7%	-1.3%	1.7%	-10.2%
Other Special Fees	-21.6%	2.7%	8.5%	4.3%	1.7%
Nontax Receipts	18.7%	0.8%	17.9%	-7.2%	-9.0%
Departmental Fees	-13.8%	13.2%	8.4%	7.7%	1.8%
In Lieu of Traffic Fines	2.8%	24.2%	7.1%	17.2%	5.5%
Highway Tolls	1.9%	5.8%	3.3%	2.6%	1.0%
Investment Income	51.5%	-5.8%	31.8%	-15.2%	-17.3%
Miscellaneous	-34.0%	8.6%	-49.2%	-14.0%	-4.9%
Redeposit of State Funds	441.1%	-90.7%	97.9%	97.1%	18.9%

(Footnotes appear at end of tables)

	FY01	FY02	FY03	FY04	FY05
TOTAL STATE ROAD FUND	-2.4%	5.2%	0.4%	-0.6%	0.9%
Tax Receipts-	-3.8%	6.1%	0.6%	2.2%	1.1%
Sales and Gross Receipts	-3.3%	6.3%	1.5%	0.3%	1.0%
Motor Fuels Taxes	-3.6%	5.1%	2.0%	0.6%	6.4%
Motor Fuels Use & Surtax	-2.6%	-8.8%	6.0%	21.5%	14.1%
Truck Trip Permits (fuel)	-1.0%	-14.2%	-3.1%	18.4%	1.2%
Motor Vehicle Usage	-3.1%	8.2%	0.8%	-0.8%	-5.1%
License and Privilege	-6.8%	5.1%	-3.8%	11.9%	1.6%
Motor Vehicles	-10.6%	10.0%	-9.8%	22.6%	-1.6%
Motor Vehicle Operators	-1.7%	-0.5%	0.8%	0.2%	4.9%
Weight Distance	0.0%	0.1%	2.1%	3.5%	4.4%
Truck Decal Fees	-1.4%	10.9%	-16.6%	7.7%	43.6%
Other Special Fees	-16.0%	6.9%	0.6%	3.5%	3.3%
Nontax Receipts	18.1%	-7.4%	-2.0%	-47.6%	-7.6%
Departmental Fees	4.5%	9.9%	21.8%	-17.2%	9.4%
In Lieu of Traffic Fines	20.6%	-2.2%	-29.9%	10.7%	-12.8%
Highway Tolls	-7.9%	11.1%	-3.8%	-40.0%	-20.9%
Investment Income	36.6%	-20.0%	-9.5%	-74.2%	-26.4%
Miscellaneous	-1.5%	24.5%	-41.3%	13.2%	-13.1%
Redeposit of State Funds	288.1%	-26.4%	-51.2%	58.5%	9.6%

(Footnotes appear at end of tables)

Footnotes to Appendix B

- ¹ The cigarette tax is composed of a 3-cent excise tax per pack, a surtax of 26 cents per pack, and a one-cent per pack tax dedicated to cancer research. The 3-cent tax is divided into the General Fund which receives 2.5 cents and 0.5 cents is dedicated to the Tobacco Research Trust Fund. The 26-cent tax all flows to the General Fund, while the other one-cent tax is not included in General Fund revenues.
- ² The cigarette floor stock tax was a one-time tax levied on cigarettes in inventory of wholesalers and retailers as of midnight, May 31, 2005.
- ³ Kentucky's bank franchise tax was instituted in July 1996.
- ⁴ Shares of stock were exempted from property taxes beginning FY97.
- ⁵ In FY97, an indeterminable amount of tangible property tax receipts were erroneously credited to real property tax receipts accounts.
- ⁶ Phase-in of Class A beneficiary exemption began July 1, 1995.
- ⁷ Prior to FY03, PSC Assessment was included in Departmental Fees.
- ⁸ The sale of NOx credits was authorized beginning in FY04.



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

January 13, 2006

Members of the General Assembly
Commonwealth of Kentucky
Capitol Annex
Frankfort, Kentucky 40601

Ladies and Gentlemen:

Pursuant to KRS 43.050(2)(i), we have examined the revised detailed revenue estimates for the General Fund, Road Fund, Agency Funds, Federal Funds, and Phase I Master Settlement Agreement (MSA) for Fiscal Years 2006, 2007 and 2008.

The consensus forecasting group developed detailed revenue estimates for the General Fund and the Road Fund in a consensus revenue forecast in accordance with KRS 48.115. The Governor's Office for Policy and Management provided the agency and federal funds estimates, while the consensus forecasting group and the Governor's Office for Economic Analysis provided the MSA forecast amounts and growth percentages. As part of our review, we met with representatives of the consensus forecasting group and the Governor's Office for Economic Analysis to discuss their estimates.

The consensus forecasting group made its forecast in December 2005 using economic data obtained from Global Insight, Inc., the U. S. Bureau of Economic Analysis, Economy.Com, and the Governor's Office for Economic Analysis. The table below depicts the actual 2005 amounts and growth percentages for General Fund, Road Fund, and MSA funds, along with the estimates for fiscal years 2006 through 2008.

Fiscal Year	General Fund	Growth	Road Fund	Growth	MSA Funds	Growth
2005 (Actual)	\$7,645,000,000	9.6%	\$1,126,500,000	0.9%	\$111,300,000	1.4%
2006	\$8,216,200,000	7.5%	\$1,169,700,000	3.8%	\$ 91,300,000	-17.9%
2007	\$8,341,200,000	1.5%	\$1,223,100,000	4.6%	\$ 88,800,000	- 2.7%
2008	\$8,675,700,000	4.0%	\$1,239,600,000	1.3%	\$ 94,000,000	- 5.8%



Our examination of the assumptions and methodology used in making the revenue estimates disclosed no evidence that the revenue estimates are not based on reasonable assumptions or methodology as prescribed by Chapter 48 of the Kentucky Revised Statutes. While we do not express an opinion on the accuracy of the revenue estimates for FY 07 and 08, we would stress that the consensus forecasting group noted that limited tax receipt data is available on the full revenue impact of the tax modernization legislation enacted in 2005 (05 HB 272). We would encourage close consideration of 2006 tax receipt data as it becomes available, as actual receipts could differ from estimates of the revenue impact of 2005 tax changes.

Our review does not consider the impact of any budgetary or other legislative actions that may be taken by the 2006 General Assembly.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

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Capital Financing Analysis

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Executive Summary

The Governor proposes \$937,727,000 in new debt-financed projects. The proposal for the 2006-2008 biennium is compared to previous biennia in Table 12 and is described in more detail in Appendix G.

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:

- Fiscal years 2006-08 General Fund revenues are based on the December 20, 2005, Consensus Forecasting Group's Official Revenue Estimates. Fiscal year 2007 and fiscal year 2008 are projected using 1.5 percent and 4.0 percent growth rates respectively.
- Fiscal years 2006-08 Road Fund revenues are based on the Official Revenue Estimates. Fiscal year 2007 and fiscal year 2008 are projected using 4.6 percent and 1.3 percent growth rates respectively.
- Agency Fund revenues are based on actual fiscal year 2005 revenue from the Supplementary Information to the fiscal year 2005 Comprehensive Annual Financial Report with no implied growth rate for fiscal year 2007 and fiscal year 2008.
- Tobacco Settlement Funds are included in the General Fund revenue.
- All remaining authorized but unissued debt was assumed issued by June 30, 2006, at the template rates except for School Facilities Construction Commission debt that is authorized at a lower level and except for the KY Asset Liability Commission's 2005 2nd series General Fund Bond Anticipation Notes.
- 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 12
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	1,906,315,300
1994 ¹	429,575,900	2006 ⁷	937,727,000

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 fiscal year 2000

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

⁶Debt Enacted in the 2004-2006 Budget of the Commonwealth.

General Fund Authorization: \$ 1,204,589,300
Road Fund Authorization: \$ 450,000,000
Agency Fund Authorization: \$ 251,726,000

The 2005 Session of the Kentucky General Assembly also authorized \$150,000,000 of Grant Anticipation Revenue Vehicle (GARVEE) bonds supported by Transportation Cabinet Federal Funds.

⁷937,727,000 New Debt Recommended in the 2006-2008 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 2006-2008 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 appropriation 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. 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 Buildings 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 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 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 appropriation of debt service by 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 appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	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 postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$1.95 billion of debt outstanding.	Aaa/AA-
School Facilities Construction 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 & Poor's, and Fitch. Standard & Poor's rates the Kentucky Infrastructure Authority's bonds which are paid from revenues (not appropriated funds), 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, project notes of the Kentucky Asset/Liability Commission, state universities (consolidated educational buildings revenue bonds, hospital revenue bonds, community college revenue bonds, and housing and dining system revenue bonds), the Turnpike Authority of Kentucky, and the state appropriation-supported portion of both the School Facilities Construction Commission and the Kentucky Infrastructure Authority.

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 fiscal year 2007 and fiscal year 2008 are based upon the Consensus Forecasting Group's December 20, 2005 Official Revenue Estimates. Agency Fund estimates are based upon actual results for fiscal year 2005 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 13 shows the historical comparison of debt outstanding in current and constant dollars.

Table 14 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 15 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 16 provides an update of Table 15 to include the Governor's proposed debt financed projects.

Table 13
APPROPRIATION SUPPORTED DEBT
PRINCIPAL DEBT OUTSTANDING
(000,000)

Fiscal Year	Current	Percent Change	CPI Constant Dollar Adjustment	Constant (1984)	Percent Change
1985	2,098.89	-0.09	1.0760	1,950.64	-3.52
1986	2,197.98	4.72	1.0960	2,005.46	2.81
1987	2,627.29	19.53	1.1360	2,312.76	15.32
1988	2,771.07	5.47	1.1830	2,342.41	1.28
1989	2,726.69	-1.60	1.2400	2,198.94	-6.12
1990	2,752.78	0.96	1.3070	2,106.18	-4.22
1991	3,277.26	19.05	1.3620	2,406.21	14.25
1992	3,537.60	7.94	1.4030	2,521.45	4.79
1993	3,837.66	8.48	1.4450	2,655.82	5.33
1994	3,785.78	-1.35	1.4820	2,554.51	-3.81
1995	3,809.20	0.62	1.5240	2,499.47	-2.15
1996	3,775.38	-0.89	1.5690	2,406.23	-3.73
1997	3,557.74	-5.76	1.6050	2,216.66	-7.88
1998	3,600.08	1.19	1.6300	2,208.64	-0.36
1999	3,589.95	-0.28	1.6660	2,154.83	-2.44
2000	3,556.97	-0.92	1.7220	2,065.60	-4.14
2001	3,966.22	11.51	1.7710	2,239.53	8.42
2002	4,423.93	11.54	1.7990	2,459.10	9.80
2003	4,102.63	-7.26	1.8400	2,229.69	-9.33
2004	4,483.53	9.28	1.8890	2,373.49	6.45
2005	4,658.95	3.91	1.9343	2,408.55	1.48
2006*	5,792.98	24.34	1.9750	2,933.22	21.78
2007*	5,404.83	-6.70	2.0194	2,676.46	-8.75
2008*	5,012.82	-7.25	2.0658	2,426.53	-9.34

*Estimated. Assumes all authorized debt was issued by June 30, 2006.
Assumes no additional debt authorization for the 2006-2008 Biennium.

Table 14
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 (\$)
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	1.42	0.16	4.82	0.53	746.64	82.57
1991	1.58	0.15	5.39	0.52	882.24	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	3.62	0.57	878.52	137.44
2001	1.35	0.19	3.92	0.55	974.78	135.95
2002	1.33	0.16	4.23	0.50	1,080.88	128.75
2003	1.17	0.17	3.80	0.55	996.31	145.26
2004	1.20	0.16	3.90	0.51	1,081.43	141.46
2005	1.18	0.14	3.94	0.48	1,116.99	135.44
2006*	1.38	0.17	4.65	0.58	1,384.15	171.94
2007*	1.21	0.16	4.12	0.53	1,284.93	165.95
2008*	1.06	0.14	3.63	0.50	1,186.00	162.15

*Estimated. Assumes all authorized debt was issued by June 30, 2006. Assumes no additional debt authorization for the 2006-2008 Biennium.

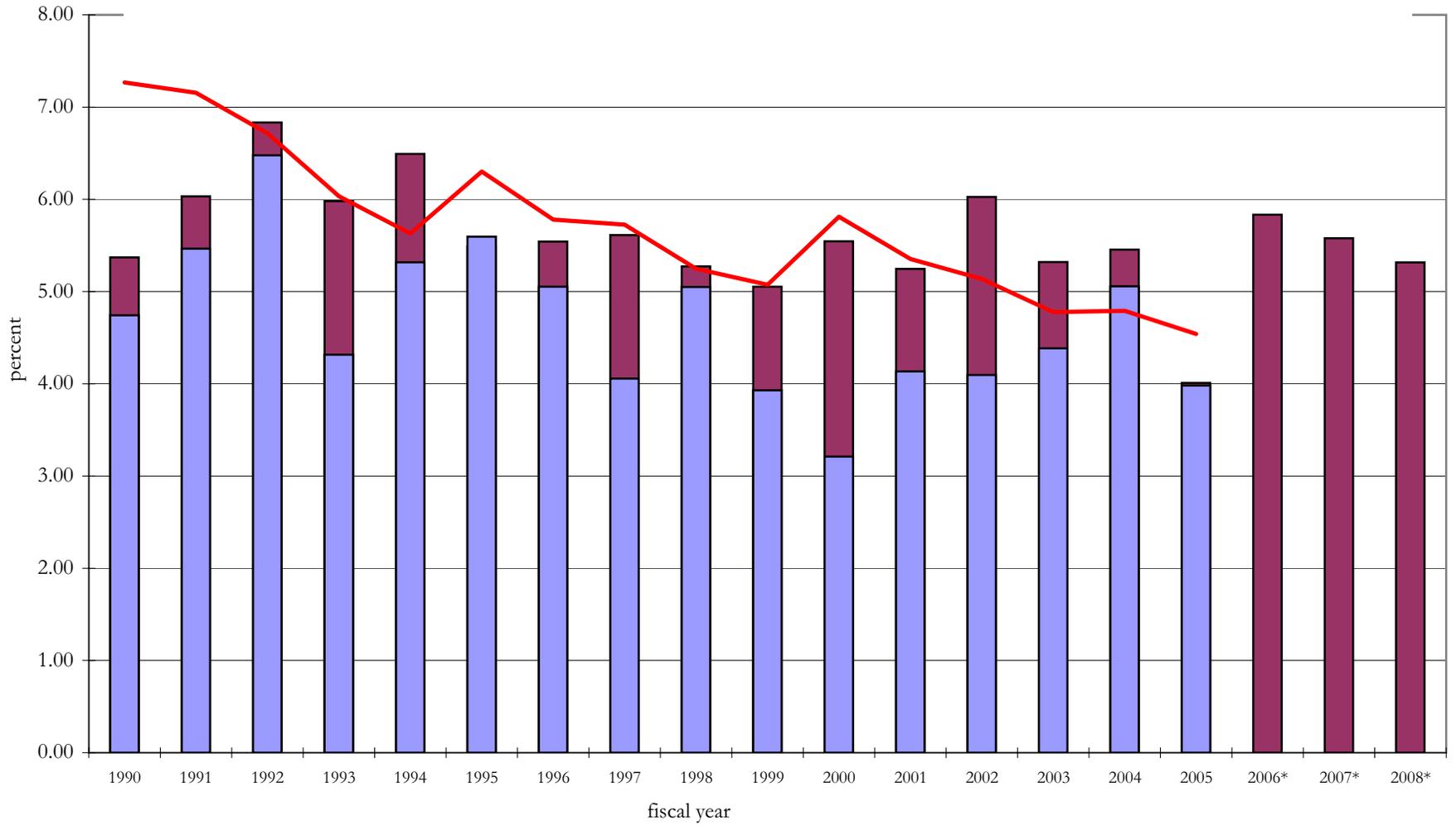
Table 15
APPROPRIATION SUPPORTED DEBT SERVICE
AS A PERCENT OF TOTAL REVENUE
(000,000)

Fiscal Year	Revenue (\$)	Debt Service (\$)	Debt Service/ Revenue (%)
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	11,658.03	564.92	4.85
2006*	12,338.30	719.62	5.83
2007*	12,514.09	698.05	5.58
2008*	12,892.05	685.36	5.32

*Estimated. Assumes all authorized debt was issued by June 30, 2006.
Assumes no additional debt authorization for the 2006-2008 Biennium.

Historical Debt Capacity Ratios

Appropriated Debt Service/Revenue
 Actual Debt Service/Revenue
 Bond Buyer 20 yr GO rate



*Assumes all debt authorized is issued by June 30, 2006.

Table 16
APPROPRIATION SUPPORTED DEBT SERVICE
AS A PERCENT OF TOTAL REVENUE (%)

Fiscal Year	Assuming No New Authorization	\$937,727,000 Executive Budget Recommended New Authorization
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	4.85	
2006	5.83*	
2007	5.58*	
2008	5.32*	5.99

*Estimated. Assumes all authorized debt was issued by June 30, 2006.

Appendices

**Appendix C:
Economic Indicators**

**Appendix D:
Fiscal Debt Indicators**

**Appendix E:
University Rating Agency Information**

**Appendix F:
Charts & Graphs**

**Appendix G:
Recommended New Authorization**

Appendix C – 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 C-1, C-2 and C-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 C-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 C-1
APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE
AS A PERCENT OF ASSESSED PROPERTY
(Current Dollars)

Fiscal Year	Debt as a % of Assessed Property	Required Debt Service as a % of Assessed Property	Appropriated Debt Service as a % of Assessed Property	Actual Debt Service as a % of Assessed Property
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	1.20	0.16	0.16	0.15
2005	1.18	0.14	0.12	0.12

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

Fiscal Year	Debt as a % of Personal Income	Debt Service as a % of Personal Income	Appropriated Debt Service as a % of Personal Income	Actual Debt Service as a % of Personal Income
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	3.62	0.57	0.53	0.31
2001	3.92	0.55	0.51	0.41
2002	4.23	0.50	0.59	0.40
2003	3.80	0.55	0.52	0.43
2004	3.90	0.51	0.51	0.47
2005	3.94	0.48	0.40	0.39

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

<u>Fiscal Year</u>	<u>Debt Per Capita (\$)</u>	<u>Required Debt Service Per Capita (\$)</u>	<u>Appropriated Debt Service Per Capita (\$)</u>	<u>Actual Debt Service Per Capita (\$)</u>
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	996.31	145.26	135.67	111.77
2004	1,081.43	141.46	141.97	131.61
2005	1,116.99	135.44	112.07	111.27

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

<u>Fiscal Year</u>	<u>Debt as a % of Assessed Property</u>	<u>Debt as a % of Personal Income</u>	<u>Debt Per Capita (\$)</u>
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	1.92	466.68
2001	0.66	1.91	475.93
2002	0.61	1.94	495.29
2003	0.67	2.17	568.58
2004	0.60	1.96	544.02
2005	0.66	2.22	628.54

Appendix D: 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 C. Appropriated revenue is the revenue of the General Fund, Road Fund and Agency Fund. Table D-1 compares required, appropriated and actual debt service to total revenue.

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

<u>Fiscal Year</u>	<u>Total Revenue (\$Millions)</u>	<u>Required Debt Service/ Revenue (%)</u>	<u>Appropriated Debt Service/ Revenue (%)</u>	<u>Actual Debt Service/ Revenue (%)</u>
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
2005	11,658.03	4.85	4.01	3.98

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

<u>Fiscal Year</u>	<u>Available Total Revenue (\$Millions)</u>	<u>Required Debt Service/ Revenue (%)</u>	<u>Appropriated Debt Service/ Revenue (%)</u>	<u>Actual Debt Service/ Revenue (%)</u>
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
2005	8,659.57	6.52	5.40	5.36

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

Fiscal Year	Available Road Fund Revenue	Debt Service	Debt Service as a Percent of Available Revenue
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	890.40	102.89	11.56

Appendix E: University Rating Agency Information

	<u>MOODY'S</u>	<u>STANDARD & POOR'S</u>
CONSOLIDATED EDUCATION		
Eastern Kentucky University	A2	A
Kentucky State University	A3	NR
Morehead State University	A2	NR
Murray State University	A2	A
Northern Kentucky University	A2	A-
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	BBB+
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-
GENERAL RECEIPTS		
University of Kentucky	Aa3	AA-

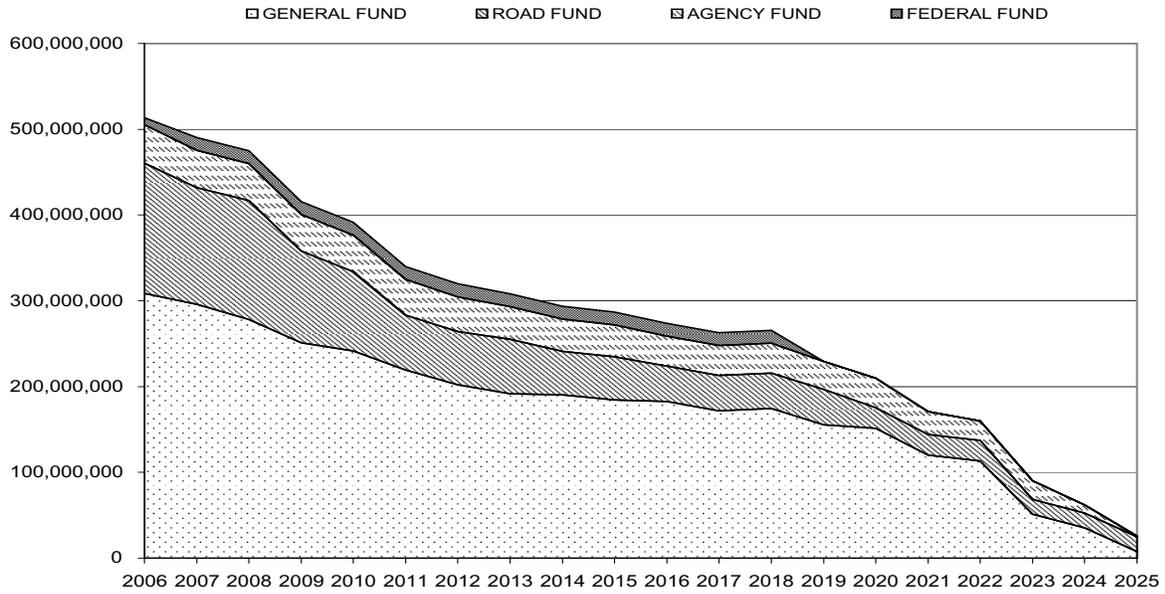
Legend: NR-Not Rated per Rating Agency

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

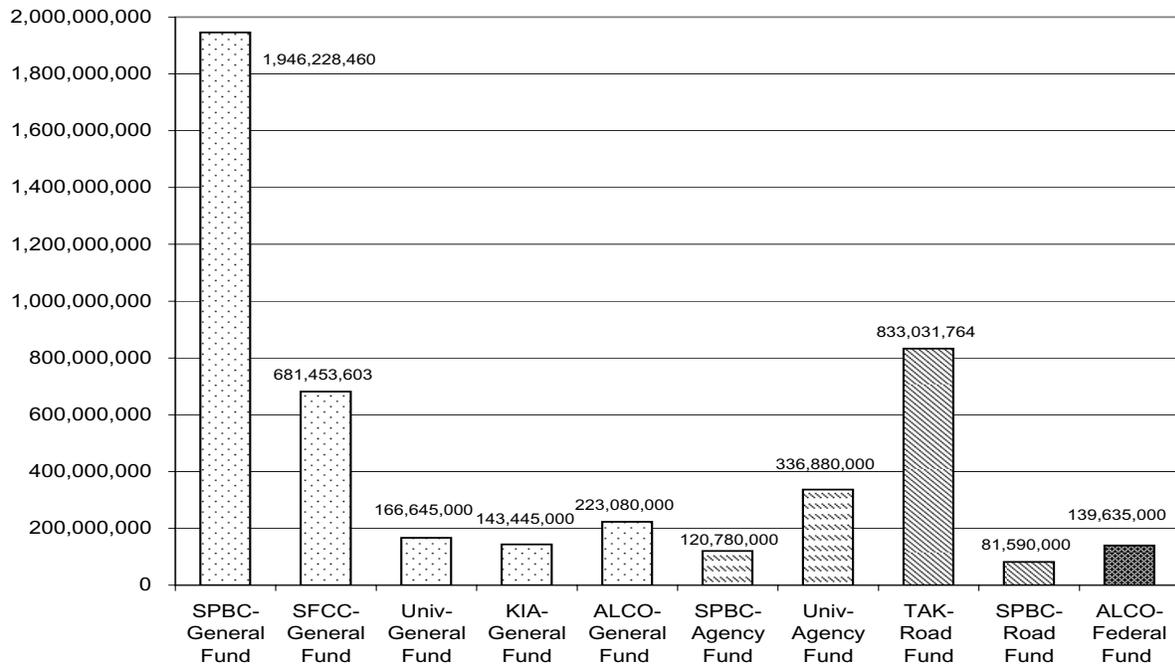
**The University of Kentucky Hospital Revenue Bonds are no longer outstanding.

Appendix F:

**Appropriation Supported Debt Service
by Fund Source
as of 06/30/05**



**Appropriation Debt Principal Outstanding
by Fund Source
as of 06/30/05**



Appendix G: Recommended New Authorization

<u>Agency - Project Title</u>	<u>General Fund</u>	<u>Agency Fund</u>	<u>Road Fund</u>
Bond Maintenance Pools	10,000,000		
Capital Plaza Tower - Design Renovation Project	4,942,000		
Corrections-Women's Prison - Special Needs Unit	1,607,000		
COT - Date Center Readiness	1,317,000		
E.P. Tom Sawyer-Convention Center	1,000,000		
Economic Development Bond Pool	10,000,000		
Education-Knowledge Management Portal	6,250,000		
Education-On-Line Assessment	15,000,000		
EKU - Dairy Research Farm-Meadowbrook	5,121,000		
GOLD-Community Economic Grant Program	5,000,000		
HFS-TWIST Re-Write-Phase II	3,134,000		
High Tech Investment - Construction Pool	20,000,000		
Horse Park Indoor Arena	34,820,000		
Implement a Comprehensive Tax System	23,250,000		
KCTCS - Emerging Tech Center West KY Comm & Tech	15,473,000		
KCTCS - Gateway CTC - Construct Mt. Zion Campus-Phase II	26,607,000		
KCTCS - Somerset CC Laurel-Construct Allied Health/Tech Ed Bldg	13,200,000		
KIA Fund A - Federally Assisted Wastewater Program-Matching Funds	4,000,000		
KIA Fund F - Drinking Water Revolving Loan Program-Matching Funds	4,000,000		
KSU - Hathaway Hall Renovation	4,707,000		
KY Fair and Exposition Center - Pavilion Roof	1,188,000		
MoSU - Construct Center for Health, Education and Research	15,000,000		
New Louisville Arena	75,000,000		
NKU - Renovate Old Science Building	14,192,000		
Oakwood - Replace Chillers	2,012,000		
P-16 Education IT Integration Initiative	16,100,000		
Parks Renovation Pool	8,000,000		
Petroleum Underground Storage Tank	25,000,000		
Postsecondary Education Institutions - Capital Renewal Pool	13,000,000		
Public Safety Commission Infrastructure - KEWS-Phase II	13,000,000		
Renovate State Office Building Phase II	12,699,000		
SFCC - HB 267 Unfunded Commitments	100,000,000		
UK - Biological/Pharmaceutical Complex-Phase II	75,968,000		
UL - Health Sciences Center Research Facility-Phase IV	65,997,000		
WKU - Construct Materials Characterization Center/ICSET-Ph II	4,311,000		
WKU - Renovate Science Campus-Phase III	6,700,000		
EKU - New Student Housing		9,961,000	
MuSU - New Residential College		12,106,000	
NKU - Student Union Building		17,360,000	
UK - Construct Patient Bed Tower		130,000,000	
UL - Construct Center for Predictive Medicine		11,549,000	
WKU - Expand Academic/Athletic Facility		24,156,000	
Highway Bonds-County and Municipal			75,000,000
TOTAL	\$937,727,000	\$205,132,000	\$75,000,000

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