

## PREFACE

The Executive Branch budget for the 2010-2012 biennium is the financial plan for Kentucky State Government as proposed by the Governor for consideration by the 2010 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 2010-2012 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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***Office of State Budget Director***

284 Capitol Annex, 702 Capitol Avenue  
Frankfort, Kentucky 40601

**Steven L. Beshear**  
Governor

(502) 564-7300  
FAX: (502) 564-6684  
Internet: [osbd.ky.gov](http://osbd.ky.gov)

**Mary E. Lassiter**  
State Budget Director

Governor's Office for Policy and Management  
Governor's Office for Economic Analysis  
Governor's Office for Policy Research

January 19, 2010

The Honorable Steven L. Beshear, Governor  
Commonwealth of Kentucky  
700 Capitol Avenue  
Frankfort, Kentucky 40601

Dear Governor Beshear:

The Executive Budget of the Commonwealth of Kentucky represents your blueprint for how our state should meet its needs over the next two fiscal years. The challenge has never been greater. The national recession has had devastating effects on all states' budgets. Since taking office just two years ago, you have successfully executed six separate budget reductions totaling approximately \$900 million. Our state government has the fewest number of employees in two decades, some 1,600 less than just two years ago.

With the help of federal stimulus funds, budget reserves, increased taxation on cigarettes and alcohol, debt management strategies and targeted spending reductions, we have been able to manage through these difficult times without making deep cuts to the major priorities of education, healthcare and public safety. In fact, funding for public schools through the SEEK formula has been preserved during all six budget reductions.

While we expect the economy to recover over the next two years, estimated revenues will still fall short of what we are spending currently, even though there are areas of our government where everyone agrees we need to spend more. The choices of how to allocate our scarce resources were much more difficult than in the past. Most governors have to choose where to spend the "new" money in the budget. Unfortunately, the choices now reflect where we must provide fewer resources.

Your priorities are reflected in the choices you have made in this budget. It was unacceptable to you to balance the budget only with spending reductions. The consequences of that would be devastating, both for the next two years, as well as for the long term future of our state. Likewise, it was unacceptable to you to raise broad-based taxes on Kentuckians in this fragile and struggling economy. Instead, you took the bold move of recommending the limited expansion of video lottery terminals at the horse racing

Governor Steve Beshear

Page 2

January 19, 2010

tracks, both to aid the downward-spiraling horse industry and to create a new recurring revenue stream for the Commonwealth to help meet the needs of its people. In addition, revenue growth, further contraction of spending and creative financing are being used to support the expenditures you recommend in this budget. As was the case in your first biennial budget, your most significant decision was to preserve funding for elementary and secondary education in the SEEK formula. No one can argue with that priority.

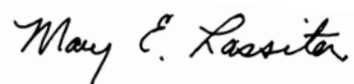
While the next two years will be challenging, your leadership in the development of this budget will lay the foundation for more sustainable growth in the future. Our investments in economic development and the education of Kentucky's children will have long term benefits. We will continue to find ways to be more efficient, and will be better stewards of the taxpayers' dollars. I look forward to working closely with the Cabinets on the Kentucky Smart Government Initiative to identify and implement enterprise-wide cost saving and business improvement measures.

I want to thank those who have been instrumental to the development of your budget recommendations. The employees of the Office of State Budget Director worked tremendously long hours and sacrificed time and attention from their families over the past weeks and months to complete the Executive Budget. They are an outstanding staff, and I am proud to work with them every day. Special thanks are due to Deputy State Budget Directors, John Hicks and Kevin Cardwell, and to Greg Harkenrider, the Deputy Executive Director of the Governor's Office for Economic Analysis, for their diligence and leadership.

Thanks as well are due to the members of your Executive Cabinet and the Governor's Office for their assistance and patience throughout this process. I especially want to thank their budget staffs with whom we worked so closely; without their efforts, we would not be able to do our jobs.

Most importantly, Governor, thank you for your leadership.

Sincerely,

A handwritten signature in cursive script that reads "Mary E. Lassiter".

Mary E. Lassiter  
State Budget Director  
Secretary, Governor's Executive Cabinet

## TABLE OF CONTENTS

	<u>PAGE</u>
Executive Summary .....	1
General Fund Summary .....	9
Road Fund Summary .....	10
Capital Projects Summary .....	11
General Fund Revenue Receipts.....	15
General Fund Expenditures .....	16
Distribution of General Fund Appropriations.....	17
Distribution of All Funds Appropriations.....	18
Executive Branch Summary.....	19
Revenue Estimates Fiscal Years 2010-2012.....	47
Capital Financing Analysis.....	87
Acknowledgements .....	111

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# 2010-2012 EXECUTIVE BUDGET EXECUTIVE SUMMARY

## Introduction

The fiscal environment in which Governor Beshear recommends his Executive Budget for the 2010-2012 biennium is unlike any faced in the last several generations. The forces that shape the fiscal outlook include revenue receipts that have dipped below the fiscal year 2006 level due to a severe recession, with an actual decline in two straight fiscal years; a structural imbalance embedded in the current budget where expenditures already exceed recurring receipts; the expiration of Federal stimulus funds that have averted severe budget cuts in priority areas like education and health services for the most in need; and a set of future obligations and priorities that must be balanced against that backdrop.

Though the General Fund revenue forecast for the 2010-2012 biennium predicts that revenues will stop declining in the first year of the biennium, the growth is moderate but welcome. That revenue growth is from the bottom of the recessionary trough. The Commonwealth's revenue slide is ending, and the climb back up will initially be slight.

Governor Beshear presents his budget recommendation without increasing taxes. The Executive Budget calls for a continued reduction in spending in the areas of the government that have received up to 20% to 25% in spending cuts since fiscal year 2008. There have been six rounds of budget cuts and spending reductions since the middle of fiscal year 2008. Over \$900 million in spending reductions have been required to keep the General Fund in balance. This effort has twice involved the extraordinary action by the General Assembly outside the regular biennial budget process to enact legislation to balance the budget, actions that have likely never before taken place. In a budgetary situation like this, Governor Beshear has stood firm on his priorities by making every effort to preserve the most important areas of the Commonwealth's spending in the Executive Budget. There are targeted areas of increased spending - in most all cases these are mandates or commitments from which the Commonwealth must not retreat.

The increases in spending are primarily limited to the Medicaid program that provides health services for its most needy citizens, health insurance cost increases for educators and state employees, mandatory spending for retired teachers, housing the increased state felon population, ensuring that the basic functions of the judicial system can be maintained, improvements in mine safety, honoring the obligations made to the state retirement systems by the General Assembly in 2008, maintaining past commitments in the opening of new county courthouses and capital spending focusing on postsecondary education.

## The Budget Gap for the 2010-2012 Biennium

Though the decline in General Fund revenues is estimated to halt, the impact of the loss of Federal stimulus funds, and the basic requirement to meet the Commonwealth's existing debt obligations result in a substantial budgetary gap. At current levels of General Fund spending, combined only with what is necessary to finance the Medicaid program and existing debt obligations, the gap between resources and spending is approximately \$1.5 billion over the 2010-2012 biennium. That gap does not include additional spending for anything else: increased retirement contributions, the costs of prison population growth, higher costs for the health insurance of almost 100,000 school teachers and staff and 33,000 state employees, the costs of occupying new courthouse facilities currently under construction, increased investment in job creation, or capital investments to maintain the Commonwealth's assets.

The Executive Budget recommended by Governor Beshear seeks to meet required obligations and the commitments that a state government must meet without harsh rollbacks to both the largest and highest priority areas of spending: education of Kentucky's children, health care for the most needy, postsecondary education, public safety, and economic development. Existing commitments agreed to in important recent legislation, such as staying on the path of financing billions in unfunded pension liabilities, are also a priority for Governor Beshear in his 2010-2012 budget recommendation. When additional spending in these highest priority areas are added to the \$1.5 billion shortfall, the gap grows to over \$1.9 billion.

## **The Governor's Response to the \$1.9 Billion Gap**

Governor Beshear is proposing a responsible fiscal plan that is grounded in not raising taxes on Kentuckians during a recession, preserving his priorities of education, health services, and public safety, not subjecting the remaining parts of state government to severe, debilitating budget cuts, and to establish a new source of recurring revenues that will stay in place beyond the next two years.

### **Expanded Gaming - \$780 million**

To achieve this, the Executive Budget contains a series of innovative solutions combined with conventional fiscal decisions that have been included in prior budgets. Foremost among the Governor's proposal is to expand gaming in the Commonwealth of Kentucky. The Governor recommends expanded gaming legislation that is virtually the same proposal passed by the House of Representatives in the 2009 Special Session. The revenues generated by this proposal include \$295 million over two years from the tax receipts on gaming and nearly \$485 million over the 2010-2012 biennium from gaming licenses, for a biennial total of \$780 million for the General Fund. The innovation included in the proposal is to arrange financing such that the \$510 million in gaming license fees that would be paid over a five-year period by the licensees will still be remitted at \$102 million per year for five years, but the Commonwealth would establish a financing mechanism that accelerates the last three years of license fees into fiscal year 2012. The result will be that the General Fund would receive \$485 million from the license fees over two years.

### **Alternative Financing - \$691 million**

The second largest fiscal response to the \$1.9 billion gap is a proposal for alternative financing of some of the Commonwealth's current investment spending. This set of recommendations includes a restructuring of existing debt, a feature that was a part of the enacted 2008-2010 biennial budget. The debt restructuring will save \$73 million in fiscal year 2011 and \$130 million in fiscal year 2012.

Another element of alternative financing is to finance certain long-term investments that previously have been funded from cash sources with debt financing. The Executive Budget incorporates \$224 million in fiscal year 2011 and \$265 million in fiscal year 2012. The type of capital and long-term investments financed in this manner include: cleanup of leaking underground storage tanks, the purchase of heritage land to be perpetually conserved, deferred maintenance of state facilities, payments to fund wetland and stream mitigation, capital improvements in small Kentucky airports, and most notably, the funding needed to provide student financial aid to Kentucky's college students including the Commonwealth's need-based student financial aid and the KEES scholarship program.

### **Revenue Enhancements - \$66 million**

The Executive Budget incorporates several proposals to improve the collection of tax receipts owed to the Commonwealth. Among them are initiatives to expedite collections of tax bills in protest, contract out the collections of some delinquent taxes, join the federal government in their effort to offset government payments against owed taxes and broaden the existing state vendor offset program, require out-of-state business owners or partners to make estimated payments like Kentucky business owners or partners currently do, and initiate a pilot to process a backlog of abandoned real property.

### **Fund Transfers - \$116 million**

Most every biennial budget incorporates a transfer to the General Fund of other funds that are determined to be in excess of the needs of their programs. The Executive Budget includes over \$116 million over the biennium from these sources.

### **Smart Government Initiative - \$33 million**

In its effort to seek out efficiency measures and redesign internal business practices, the Executive Budget assumes General Fund cost savings of \$33 million over the 2010-2012 biennium from a series of efforts by the Commonwealth to improve its business functions. The total effort is expected to achieve at least \$77 million over the two years from all fund sources. The Smart Government Initiative will involve a comprehensive review of contracts, space rental leases, and the management and utilization of its vehicle



fleet. The effort will also focus on the manner in which the Commonwealth's information technology procurement and implementation is performed. An additional element is the sale of surplus land and equipment to bring in needed funds during difficult fiscal times.

### **Medicaid Management Initiatives and Funding Gap - \$209 million**

The Executive Budget includes a substantial increase in state funds for the Medicaid program. The 2010-2012 recommended budget includes a number of cost containment, utilization management, benefit management, revenue enhancement, and other efficiency measures to reduce Medicaid expenditures. The Executive Budget includes General Fund savings of approximately \$75 million in fiscal year 2011 and \$33 million in fiscal year 2012 as a result of these efficiencies. These efforts will also yield a longer-term benefit of lowering the growth in Medicaid costs. In the Governor's proposal the Medicaid program is still estimated to be underfunded by \$50 million each year in state funds. The fiscal difficulties of the Commonwealth and the end of federal stimulus funds as of December 31, 2010 combine to rely upon as yet unidentified savings in this \$6 billion program. Even with the efforts at reducing the reliance upon the General Fund by \$209 million over the biennium, the devotion of the General Fund to the Medicaid program will increase by over 68 percent from fiscal year 2010 to 2012, an increase of \$593 million.

### **Further Budget Cutbacks - \$78 million**

The remainder of the gap involves a proposed seventh budget reduction since fiscal year 2008 of \$78 million over the biennium. The Executive Budget preserves large portions of General Fund spending at its current level or includes additions for necessary obligations that represent about 85 percent of the General Fund in fiscal year 2011 and 80 percent in fiscal year 2012. The remaining portions of state government will incur another 2 percent reduction. This 2 percent reduction is on top of past reductions that have accumulated to 20 to 25 percent over two years. The Governor's proposal is very mindful of the real impacts on state services that these cuts have caused. The budget shortfall can not be resolved by heavier reductions to these areas.

The cumulative result of all of these actions closes the budget gap of \$1.9 billion and preserves Governor Beshear's goals of preserving the funding that educates Kentucky's children, health care for our needy, postsecondary education, and public safety without raising taxes on Kentuckians during a recession.

### **Additional Spending Priorities**

#### **Education: Elementary and Secondary**

Governor Beshear is recommending that the base per pupil guarantee within the **SEEK** (Support Education Excellence in Kentucky) program be increased from the current level of \$3,866 to \$3,891 in fiscal year 2011 and \$3,927 in fiscal year 2012.

**Senate Bill 1** passed the 2009 Regular Session of the General Assembly and required the implementation of a new assessment and accountability mechanism in place of the prior system. There are several areas of work that must be financed to carry out the responsibilities of Senate Bill 1. To that end, the Executive Budget includes \$5 million in fiscal year 2011 and \$6.6 million in fiscal year 2012 for a new assessment system to be developed by the Department of Education. The budget also includes \$1.9 million in fiscal year 2011 and \$2 million in fiscal year 2012 for professional growth and content training. These additional funds will help Kentucky teachers and parents track the progress of individual students. Kentucky is anticipated to be the first state in the nation to officially adopt new elementary and secondary content standards for English and Math. With these additional funds, future tests given to Kentucky students will be based on new English and Mathematics national common core-content standards and new Kentucky standards in all other areas.

Governor Beshear's recommended budget for the **Kentucky Teachers' Retirement System** includes a refinancing of existing and projected obligations for retiree medical insurance that will save \$96 million during the next twelve years. The Teachers' Retirement System has been borrowing from its pension funds a large portion of the costs of medical insurance for retired teachers. This proposal will refinance \$476 million, the balance of the past borrowing, and will also finance the next two fiscal years' estimated costs of \$340 million: \$170 million each year. This will save taxpayer money which can be used for other

purposes and will relieve a burden on the teachers' pension fund and enhance its stability. Debt service for this obligation requires an additional \$14.7 million in fiscal year 2011 and an additional \$42.3 million in fiscal year 2012 over the \$60 million in base funding.

## **Postsecondary Education**

### **Student Financial Aid**

The Executive Budget dedicates **100 percent of the value of Lottery revenues** for student financial aid, including the KEES program, the College Access Program and the Kentucky Tuition Grant program. The Executive Budget dramatically increases the funding for need-based student aid programs: 27 percent over the biennium. This will result in 9,800 more Kentucky students receiving financial aid, one of the largest ever expansions of this program. The Executive Budget fully funds the National Guard Tuition Assistance Program. The funding needed to provide student financial aid to Kentucky's college students will be financed through the issuance of debt.

### **Postsecondary Education Institutions**

The Executive Budget proposes no spending reductions to the nine postsecondary education institutions in fiscal year 2011. In the second fiscal year, the budgetary conditions require that a 2 percent reduction in funding for the institutions be incorporated.

**Senate Bill 1** funding is included within the budget for the Council on Postsecondary Education. The elementary and secondary assessment and accountability changes resulting from Senate Bill 1 will also require additional efforts by the postsecondary education community. These efforts include collegiate faculty training for revised standards assessments and pedagogic curriculum revision at the postsecondary education institution colleges of education. Funding of \$3.1 million in fiscal year 2011 and \$1.6 million in fiscal year 2012 is included.

### **Education: Capital Budget items**

The Executive Budget proposes \$150 million in new bonds to the School Facilities Construction Commission to continue Kentucky's progress over the past two decades in new construction and renovations of school buildings across the state. The 2010-2012 Executive Budget also authorizes SFCC to make an additional \$100 million in offers of assistance over the next two years, to be funded in the 2012-2014 budget.

The Executive Budget includes **\$906.9 million in new bond funding** for postsecondary education, the largest portion of the Governor's capital budget recommendation. The total includes \$584.2 million in General Fund supported bonds and \$322.7 million in Agency bonds.

The **postsecondary education construction projects** supported from the General Fund include construction, renovation and expansion of education, general use and research facilities. The project list includes:

- \$205.9 million at the University of Kentucky to construct a Science Research Building
- \$92.5 million for the Northern Kentucky University to construct a Health Innovations Center and renovate the Old Science Building
- \$75 million to construct a Belknap Classroom/Academic Building at the University of Louisville
- \$65 million to construct the second phase of the new Science Building at Eastern Kentucky University
- \$52.9 million at Morehead State University to renovate and expand the Student Center-Phase II
- \$30 million for the final phase of Murray State University's New Science Complex

- \$29 million for renovation of the Science Campus-Phase IV at Western Kentucky University
- \$14.1 million to construct the KCTCS Owensboro Advanced Technology Center
- \$12 million for to construct the KCTCS Carrollton Campus of Jefferson Community and Technical College
- \$7.8 million at Kentucky State University to expand and renovate the Betty White Nursing Building

### **Medicaid and Other Human Services**

The Governor's recommended budget includes a number of cost containment, utilization management, revenue enhancements and other efficiency measures to reduce Medicaid expenditures. The Executive Budget includes General Fund savings of approximately \$75 million in fiscal year 2011 and \$33 million in fiscal year 2012 as a result of these efficiencies. These efforts will also yield a longer-term benefit of lowering the growth in Medicaid costs. In the Governor's proposal the Medicaid program is still estimated to be underfunded by \$50 million each year in state funds. The fiscal difficulties of the Commonwealth and the end of federal stimulus funds as of December 31, 2010 combine to rely upon as yet unidentified savings in this \$6 billion program. Even with the efforts at reducing the reliance upon the General Fund by \$209 million over the biennium, the devotion of the General Fund to the Medicaid program will increase by over 68 percent from fiscal year 2010 to 2012, an increase of \$593 million.

The Executive Budget includes funding for the expansion of the Supports for Community Living program, adding 400 additional slots by the end of the biennium, and includes an additional \$1.5 million in General Fund in each fiscal year of the biennium for Smoking Cessation. The Governor's recommended budget includes additional General Fund in the amount of \$370,000 in each year of the biennium for suspension of the requirement that individuals pay a monthly premium to receive benefits under the Kentucky Children's Health Insurance Program.

The Executive Budget exempts the Department for Behavioral Health, Developmental and Intellectual Disabilities from spending reductions for 2010-2012 biennium.

### **Economic Development**

In keeping with the Governor's commitment to continue making investments in Kentucky's future, the budget includes funding for several different economic development initiatives. A total of \$60 million in bond funds are provided to make investments in job creating opportunities. The Kentucky Economic Development Finance Authority (KEDFA) makes low-interest loans to firms that locate or expand in the Commonwealth and create or maintain jobs for our citizens. The Executive Budget includes \$35 million in bond funds to meet the rising demand for those loans. The Department of Commercialization and Innovation makes forgivable grants and loans to firms operating in high-tech, knowledge-based industries. The budget includes \$15 million to help those firms bring their technologies and innovations to market. Bond funds of \$10 million are provided for economic development bonds to make available infrastructure financing to local government partners for projects to support their own development efforts.

### **Justice and Public Safety**

Consistent with Governor Beshear's spending priorities, the Executive Budget assumes no spending reductions from current levels to several areas of the criminal justice system including: the Kentucky State Police; the Commonwealth and County Attorneys, the Department of Public Advocacy, spending related to the housing of inmates and the supervision of probationers and parolees, and assumes no reductions to the Judicial branch budget.

### **Corrections**

The Governor's top priority for the correctional system is ensuring public safety by maintaining safety and security in correctional institutions, and to spend public safety dollars smarter. The correctional system

has been exempt from past budget cuts, and the Executive Budget exempts it from cuts in fiscal year 2011 and 2012.

The Governor's recommendation accommodates some increased spending in Corrections primarily associated with the forecasted growth in prison population. The prison population is estimated to grow by about 1,400 inmates: from 22,552 in the current year to 23,946 in fiscal year 2012, a 6 percent increase.

However, with business as usual, the Corrections budget would need to increase \$7 million in fiscal year 2011 and \$16 million in fiscal year 2012 to finance the population growth. Implementation of new measures to continue ensuring safety, while addressing increased costs are planned as part of the Governor's recommended budget. These initiatives will reduce the increased cost of Corrections by \$4.6 million in fiscal year 2011 and \$7.1 million in fiscal year 2012.

The Department of Corrections plans to optimize the capacity of its existing institutions by safely housing 400 more inmates in the Roederer Correctional Complex and Kentucky State Reformatory. This will be done by fully utilizing available capacity and existing capabilities of these two institutions. This action is a common practice in corrections public policy. The cost savings of \$2.1 million in each fiscal year of the biennium will occur due to the lower marginal costs of increased inmates in these institutions compared to the costs of housing inmates in contracted and other facilities. The Executive Budget provides for the conversion of the Western Kentucky Correctional Complex from a male inmate population to a female population. This transition will primarily increase the medium custody beds for the female inmate population and provide a separated minimum custody unit for the female inmates. Female inmates will be removed from the privately operated Otter Creek facility and placed at the Western Kentucky Correctional Complex in Fredonia, Kentucky. The Otter Creek facility will in turn, house male inmates. Upon full implementation, this initiative will result in over \$2.5 million in savings in fiscal year 2012. The 2008-2010 budget provided the ability to use the home incarceration program for nonviolent and nonsexual Class C and D felons who are within 180 days from completing their sentence. The Executive Budget proposes to expand that program by the utilization of new technology that ensures sufficient electronic monitoring in areas that currently can not accommodate it.

The Executive Budget depends upon an increased use of community-based substance abuse programs. There are nearly 1,000 inmates that have received parole conditioned upon the successful completion of a substance abuse program operated within the correctional facilities, but there are not enough institutional placements to meet that need. The Executive Budget provides authority to the Commissioner to allow some of these conditional parolees to be placed in community-based substance abuse programs, including placements at Recovery Kentucky Centers that have been contracted for and certified by the Department.

The Executive Budget increases the objectivity of parole actions, including setting maximum time period for parole deferrals for non-sexual, non-violent offenders and capping serve-out dates at 24 months for non-sexual, non-violent offenders.

The Executive Budget includes \$20.9 million in bond funds for several capital projects: \$4.2 million for the Kentucky State Reformatory Electrical System Upgrade project; \$10.8 million to rebuild the portions of Northpoint Training Center destroyed by fire, \$5.5 million for deferred maintenance, and \$370,000 to complete the retrofitting of Western Kentucky Correctional Facility to a female institution.

### **Human Services Projects**

The Executive Budget includes \$129 million in bond funds to construct the replacement of the Eastern State Hospital, \$129 million. This project was appropriated in the 2008-2010 budget as a conduit bond issue by the Lexington-Fayette Urban County Government. It will be less expensive if the Commonwealth issues the bonds for this project. The Executive Budget includes \$18 million in bond funds to replace the Glasgow Nursing Home which is at the end of its serviceable life-cycle in terms of structural integrity and safety.

## **World Equestrian Games – Security and State Veterinarian Services**

The Executive Budget provides \$1.3 million in fiscal year 2011 to the Kentucky State Police to support security operations for the World Equestrian Games at the Kentucky Horse Park during the three week event in the Fall of 2010, and \$650,000 to support efforts of the Kentucky National Guard to provide security and logistics.

The Governor's recommended budget includes \$650,000 in fiscal year 2011 for the Office of State Veterinarian within the Kentucky Department of Agriculture to maintain a healthy equine environment during the World Equestrian Games.

## **Transportation**

To remain competitive in the 21<sup>st</sup> Century economy, it is imperative that Kentucky's surface transportation system provide safe and efficient mobility of both goods and people. The Governor's budget recommendation demonstrates the commitment necessary to maintain and improve upon Kentucky's transportation system.

The Governor's budget recommendation provides approximately \$30 million in additional funding to maintain Kentucky's existing infrastructure. The Commonwealth has invested approximately \$19 billion in its highway infrastructure and the additional funds reflect the Governor's commitment to maintaining that investment.

The Executive Budget includes \$112 million in additional Economic Development Highway Bonds to support road projects associated with the Base Re-alignment and Closure (BRAC) activities in and around Fort Knox. It is anticipated that the area will experience an increase in population of approximately 11,000 people by 2011. Additional and improved transportation infrastructure is essential to support the region's needs.

Also included in the Governor's budget recommendation is \$300 million in Economic Development Highway Bonds to support projects included in the Biennial Highway Construction Plan. Governor Beshear recognizes that the state highway system plays a major role in our Commonwealth's economic growth. The additional funds will provide economic development opportunities across the state by expanding and improving the state highway system.

## **Energy and Environment**

Coal mining is critical to the overall economy of Kentucky and the safety of Kentucky's miners is of utmost concern to Governor Beshear. To that end, Governor Beshear recommends \$671,000 in additional General Fund in each fiscal year to the Office of Mine Safety and Licensing for the personnel necessary to perform statutorily required mine inspections and mine safety training. Governor Beshear also recommends \$1.3 million in General Fund in fiscal year 2011 and \$1.4 million in fiscal year 2012 in the Office of Mine Safety and Licensing for the personnel and equipment necessary to provide state-sponsored mine rescue teams to help Kentucky's coal mines comply with revised federal mine rescue requirements.

Governor Beshear also recommends about \$800,000 in additional resources to the Department of Natural Resources, Division of Mine Permits for the personnel necessary to perform timely review of mine permit applications. This recommendation assumes that legislation will be enacted to increase mine permit fees and credit them directly to the Division of Mine Permits instead of the General Fund. The current fee generates approximately \$1.7 million annually for the General Fund, but that amount is insufficient to fully fund the Division's mine permit review activities. The additional funds generated by the fee increase would be matched dollar-for-dollar with federal funds. It is essential that state government not impede Kentucky's economy, and these additional funds will enable the Cabinet to provide timely, thorough permit reviews that will help the mining industry maximize their contribution to Kentucky's economy.

## **Retirement Contributions**

The Governor's recommended budget fully funds the phase-in of the contribution rates for the Kentucky Employees Retirement System and the State Police Retirement System during the 2010-2012 biennium, a goal that was included in House Bill 1 from the 2008 Special Session of the General Assembly.

**2010-2012 EXECUTIVE BUDGET  
GENERAL FUND SUMMARY**

	<u>Revised FY 2010</u>	<u>Recommended FY 2011</u>	<u>Recommended FY 2012</u>
<b>RESOURCES</b>			
Beginning Balance	39,541,600	23,200,000	39,914,100
Consensus Revenue Forecast	8,196,000,000	8,490,800,000	8,808,800,000
Tobacco Settlement-Phase I	112,270,000	111,310,000	102,720,000
Expanded Gaming		203,584,000	576,230,200
Other Resources	23,200,000	9,340,000	33,297,500
Fund Transfers	163,092,200	73,939,800	117,780,600
<b>Total Resources</b>	<b>8,534,103,800</b>	<b>8,912,173,800</b>	<b>9,678,742,400</b>
<b>Continued Appropriations Reserve</b>			
Budget Reserve Trust Fund	7,125,100	0	0
Executive Branch	1,000,000	7,000,000	5,500,000
Legislative Branch	6,829,400	7,574,200	7,910,800
Judicial Branch	2,732,700	15,417,700	0
<b>Total Continued Appropriations Reserve</b>	<b>17,687,200</b>	<b>29,991,900</b>	<b>13,410,800</b>
<b>TOTAL RESOURCES</b>	<b>8,551,791,000</b>	<b>8,942,165,700</b>	<b>9,692,153,200</b>
<b>APPROPRIATIONS</b>			
<b>Executive Branch</b>			
Appropriations	9,366,201,100	8,445,390,700	9,240,457,400
Tobacco Settlement-Phase I	112,270,000	114,318,100	105,714,800
Budget Reductions	(1,082,301,800)		
Dedicated Revenue Adjustments	7,087,200		
Necessary Government Expenses	39,200,000		
Build America Bonds-Debt Service Lapse		(16,221,000)	(22,458,600)
Other Budgeted Lapses	(248,295,100)	(20,184,100)	(20,944,100)
Build America Bonds-Tobacco Debt Service Lapse		(3,008,100)	(2,994,800)
<b>Total Executive Branch</b>	<b>8,194,161,400</b>	<b>8,520,295,600</b>	<b>9,299,774,700</b>
<b>Judicial Branch</b>			
Appropriations	295,885,800	300,733,000	327,736,600
Budget Reductions	(24,294,900)		
<b>Total Judicial Branch</b>	<b>271,590,900</b>	<b>300,733,000</b>	<b>327,736,600</b>
<b>Legislative Branch</b>			
Appropriations	55,452,600	51,231,100	51,231,100
Budget Reductions	(3,176,000)		
<b>Total Legislative Branch</b>	<b>52,276,600</b>	<b>51,231,100</b>	<b>51,231,100</b>
<b>TOTAL APPROPRIATIONS</b>	<b>8,518,028,900</b>	<b>8,872,259,700</b>	<b>9,678,742,400</b>
<b>BALANCE</b>	<b>33,762,100</b>	<b>69,906,000</b>	<b>13,410,800</b>
<b>Continued Appropriations Reserve</b>			
Budget Reserve Trust Fund	0	0	0
Executive Branch	1,000,000	7,000,000	5,500,000
Legislative Branch	6,829,400	7,574,200	7,910,800
Judicial Branch	2,732,700	15,417,700	0
<b>Total Continued Appropriations Reserve</b>	<b>10,562,100</b>	<b>29,991,900</b>	<b>13,410,800</b>
<b>ENDING BALANCE</b>	<b>23,200,000</b>	<b>39,914,100</b>	<b>0</b>

**2010-2012 EXECUTIVE BUDGET  
ROAD FUND SUMMARY**

	<u>Revised FY 2010</u>	<u>Recommended FY 2011</u>	<u>Recommended FY 2012</u>
<b>RESOURCES</b>			
Consensus Revenue Forecast	1,199,100,000	1,270,600,000	1,340,900,000
Fund Transfer	0	994,800	996,000
<b>TOTAL RESOURCES</b>	<b><u>1,199,100,000</u></b>	<b><u>1,271,594,800</u></b>	<b><u>1,341,896,000</u></b>
<b>APPROPRIATIONS</b>			
Transportation Cabinet			
Revenue Sharing	284,908,500	297,140,300	312,492,800
Aviation	6,614,300	1,983,600	2,017,400
Highways	678,859,700	718,281,600	739,422,200
Vehicle Regulation	22,755,100	23,128,600	23,450,700
Debt Service	54,278,000	77,891,000	115,640,300
General Administration and Support	69,777,900	71,405,200	72,031,100
Capital Projects	4,150,000	10,125,000	4,650,000
Build America Bonds-Debt Service Lapse		<u>(9,835,000)</u>	<u>(11,635,000)</u>
<b>Subtotal</b>	<b><u>1,121,343,500</u></b>	<b><u>1,190,120,300</u></b>	<b><u>1,258,069,500</u></b>
Justice and Public Safety Cabinet-State Police	73,881,500	77,599,500	79,951,500
Finance and Administration Cabinet			
Administration	400,000	400,000	400,000
Revenue	2,325,000	2,325,000	2,325,000
<b>Subtotal</b>	<b><u>2,725,000</u></b>	<b><u>2,725,000</u></b>	<b><u>2,725,000</u></b>
Tourism, Arts & Heritage Cabinet-Artisans Center	350,000	350,000	350,000
Energy and Environment Cabinet	300,000	300,000	300,000
Treasury	250,000	250,000	250,000
Homeland Security	250,000	250,000	250,000
<b>TOTAL APPROPRIATIONS</b>	<b><u>1,199,100,000</u></b>	<b><u>1,271,594,800</u></b>	<b><u>1,341,896,000</u></b>
<b>ENDING BALANCE</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>



## 2010-2012 EXECUTIVE BUDGET CAPITAL PROJECTS SUMMARY

SOURCE OF FUNDS	Recommended FY 2010	Recommended FY 2011	Recommended FY 2012	New Authorization
<b>Executive Branch</b>				
Restricted Funds	5,396,700	2,390,300,000	51,935,000	2,447,631,700
Federal Funds		392,852,000	54,329,000	447,181,000
Road Fund		10,125,000	4,650,000	14,775,000
Bond Fund	22,900,000	424,120,000	695,528,000	1,142,548,000
Agency Bond Funds	34,000,000	292,704,000		326,704,000
Capital Construction Surplus		1,400,000		1,400,000
Investment Income		4,437,000	4,437,000	8,874,000
Other - Cash		250,447,000		250,447,000
Other - Third Party Financing		388,113,000		388,113,000
<b>TOTAL SOURCE OF FUNDS</b>	<b>62,296,700</b>	<b>4,154,498,000</b>	<b>810,879,000</b>	<b>5,027,673,700</b>
<b>EXPENDITURES BY CABINET</b>				
<b>Executive Branch</b>				
General Government	4,000,000	406,893,000	74,732,000	485,625,000
Economic Development		69,495,000	30,000,000	99,495,000
Department of Education		675,000	675,000	1,350,000
Education and Workforce Development		400,000	400,000	800,000
Energy and Environment		2,300,000	44,300,000	46,600,000
Finance and Administration	1,500,000	47,992,000	8,792,000	58,284,000
Health and Family Services		148,755,000	3,914,000	152,669,000
Justice and Public Safety		26,670,000	3,300,000	29,970,000
Personnel	22,900,000			22,900,000
Postsecondary Education	30,800,000	3,401,728,000	611,531,000	4,044,059,000
Tourism, Arts and Heritage	3,096,700	28,235,000	22,835,000	54,166,700
Transportation		21,355,000	10,400,000	31,755,000
<b>TOTAL EXPENDITURES</b>	<b>62,296,700</b>	<b>4,154,498,000</b>	<b>810,879,000</b>	<b>5,027,673,700</b>

### Capital Projects Overview

This overview section of the volume focuses on the capital projects priorities, policies, and fund sources for the next two years.

#### **Total Bonded Indebtedness for Capital Projects**

The Executive Budget includes a total of **\$2,293,252,000** in debt financing. The \$2,293,252,000 in budgeted debt includes **\$1,142,548,000** in bond funded capital projects from the General Fund, **\$326,704,000** in bond funded capital projects to be financed from Restricted Funds, **\$412,000,000** in Highway bonds, and **\$412,000,000** to finance student financial aid programs.

## **Bonds for Education**

By far, the largest proportion of new bond-financed project activity, \$1,056.9 million (46 percent), is directed to education purposes, postsecondary education and elementary and secondary education. Of that amount, \$906.9 is appropriated for postsecondary education purposes.

### **Postsecondary Education**

The Executive Budget includes **\$906.9 million in new bond funding** for postsecondary education, the largest portion of the Governor's capital budget recommendation. The total includes \$584.2 million in General Fund supported bonds and \$322.7 million in Agency bonds.

The **postsecondary education construction projects** supported from the General Fund include construction, renovation and expansion of education, general use and research facilities. The project list includes:

- \$205.9 million at the University of Kentucky to construct a Science Research Building
- \$92.5 million for the Northern Kentucky University to construct a Health Innovations Center and renovate the Old Science Building
- \$75 million to construct a Belknap Classroom/Academic Building at the University of Louisville
- \$65 million to construct the second phase of the new Science Building at Eastern Kentucky University
- \$52.9 million at Morehead State University to renovate and expand the Student Center-Phase II
- \$30 million for the final phase of Murray State University's New Science Complex
- \$29 million for renovation of the Science Campus-Phase IV
- \$14.1 million to construct the KCTCS Owensboro Advanced Technology Center
- \$12 million for to construct the KCTCS Carrollton Campus of Jefferson Community and Technical College
- \$7.8 million at Kentucky State University to expand and renovate the Betty White Nursing Building

### **Elementary and Secondary Education**

#### **School Facilities**

The School Facilities Construction Commission (SFCC) was authorized by the 2010 General Assembly to make offers of assistance to local school districts for new construction and renovation projects. The 2010-2012 Executive Budget recommends \$150 million in new bonds to honor these offers of assistance to local school districts. The 2010-2012 Executive Budget also authorizes SFCC to make an additional \$100 million in offers of assistance over the next two years, to be funded in the 2012-2014 budget.

### **Economic Development**

The Executive Budget includes \$60 million in bond funds to continue the Governor's commitment to job creation of jobs and investing in Kentucky's future: \$35 million in bond funds for the Kentucky Economic Development Finance Authority (KEDFA) to make low-interest loans to firms that locate or expand in the Commonwealth and create or maintain jobs for our citizens, \$15 million in bond funds for the Department

of Commercialization and Innovation to make forgivable grants and loans to firms operating in high-tech, knowledge-based industries, and \$10 million in bond funds for Economic Development bonds to make available infrastructure financing to local government partners for projects to support their own development efforts. In addition, \$1 million in bond funds is provided to renovate a state building at the Spindletop research facility in Lexington to house offices that will support the Kentucky-Argonne National Battery Manufacturing Research and Development Center. This project will supplement a new laboratory facility that will be financed from a recently announced federal grant award.

The Executive Budget includes \$150.5 million in bond funds to accommodate growth in the area around Fort Knox resulting from the Base Realignment and Closure Commission (BRAC) efforts: \$38.5 million in Economic Development bond funds for critical water and sewer projects needed will significantly impact Fort Knox and nearby local communities, and \$112 million in additional Economic Development Highway Bonds to support road projects associated with BRAC activities in and around Fort Knox. It is anticipated that the area will experience an increase in population of approximately 11,000 people by 2011.

The Executive Budget includes \$4,000,000 in Agency Bonds for the construction of a hangar building at Bluegrass Station in Fayette County. Bluegrass Station, formerly an Army Depot, is a state-owned facility managed by the Department of Military Affairs that provides leased space for private industry and governmental agencies, serving 37 tenants and containing over 2 million square feet of leased space. The construction of a new hangar will allow for the expansion of critical Department of Defense operations currently being carried out by Bluegrass Station's tenants and is estimated to create 105 new jobs over the next two years.

### **Corrections**

The Executive Budget includes \$20.9 million in bond funds for several projects: \$4.2 million for the Kentucky State Reformatory Electrical System Upgrade project, \$10.8 million to rebuild the portions of Northpoint Training Center destroyed by fire, \$5.5 million for deferred maintenance, and \$370,000 to complete the retrofitting of Western Kentucky Correctional Facility to a female institution

### **Infrastructure Development and Community Development**

The Executive Budget includes \$32 million in bond funds for the two Kentucky Infrastructure Authority's revolving loan fund programs that finance Clean Water and Drinking Water infrastructure projects. These state funds are needed to match \$150 million in federal funds, which is a substantial increase from past budgets.

### **Human Services – Eastern State Hospital Replacement and Glasgow State Nursing Facility Replacement**

The Executive Budget includes \$129 million in bond funds to construct the replacement of the Eastern State Hospital. This project was appropriated in the 2008-2010 budget, as a conduit bond issue by the Lexington-Fayette Urban County Government. The Commonwealth will instead issue the bonds resulting in a more inexpensive financing and will repay the Lexington-Fayette Urban County Government for the design costs that the local bond issue supported.

The Executive Budget includes \$18 million to replace the Glasgow State Nursing Facility on the current campus site. Glasgow State Nursing Facility is a 100-bed nursing facility for the mentally ill and mentally retarded geriatric population. Admission to the facility is by referral or transfer from psychiatric facilities, and referrals of individuals with a history of treatment in the state mental health system. Examinations of the building have uncovered structural damage in the roof and support columns which can compromise the integrity of the building. The consulting engineers and the Finance and Administration Cabinet have recommended the replacement of the facility.

The Executive Budget includes \$2.2 million in bond funds for the expansion and construction of a specialty clinic on the grounds of Oakwood Intermediate Care Facility for the Mentally Retarded in

Somerset. This new specialty clinic will provide more aggressive treatment options to individuals with intellectual disabilities who live in the community.

### **Information Technology**

The Executive Budget includes an additional \$4.5 million for the Department of Revenue's Comprehensive Tax System. Most of the existing tax systems are being replaced with the \$23.3 million project approved in the 2006-2008 budget. These additional funds will enable the Department to include more tax types to be added for a complete system.

The Executive Budget includes an additional \$22.9 million in bond funds to replace state government's personnel and payroll system. The current funding for the project could not accommodate the project's scope. The state government of Kentucky is the largest single enterprise in the Commonwealth. The reliability of the 1982 vintage system has long passed. The personnel and payroll system will be the last of state government's enterprise-wide information technology systems to be modernized. The risk of failure of the existing system is high and these additional funds will ensure that the original funding is not wasted and will result in a functional replacement system.

### **Maintenance Funding**

The Executive Budget also includes funding for maintaining and restoring state owned assets, and to protect existing investments in important facilities. The 2010-2012 Executive Budget provides approximately \$29.4 million for state agency maintenance pools. These pools are funded from a combination of cash sources (\$8.9 million) and bond funds (\$20.5 million).

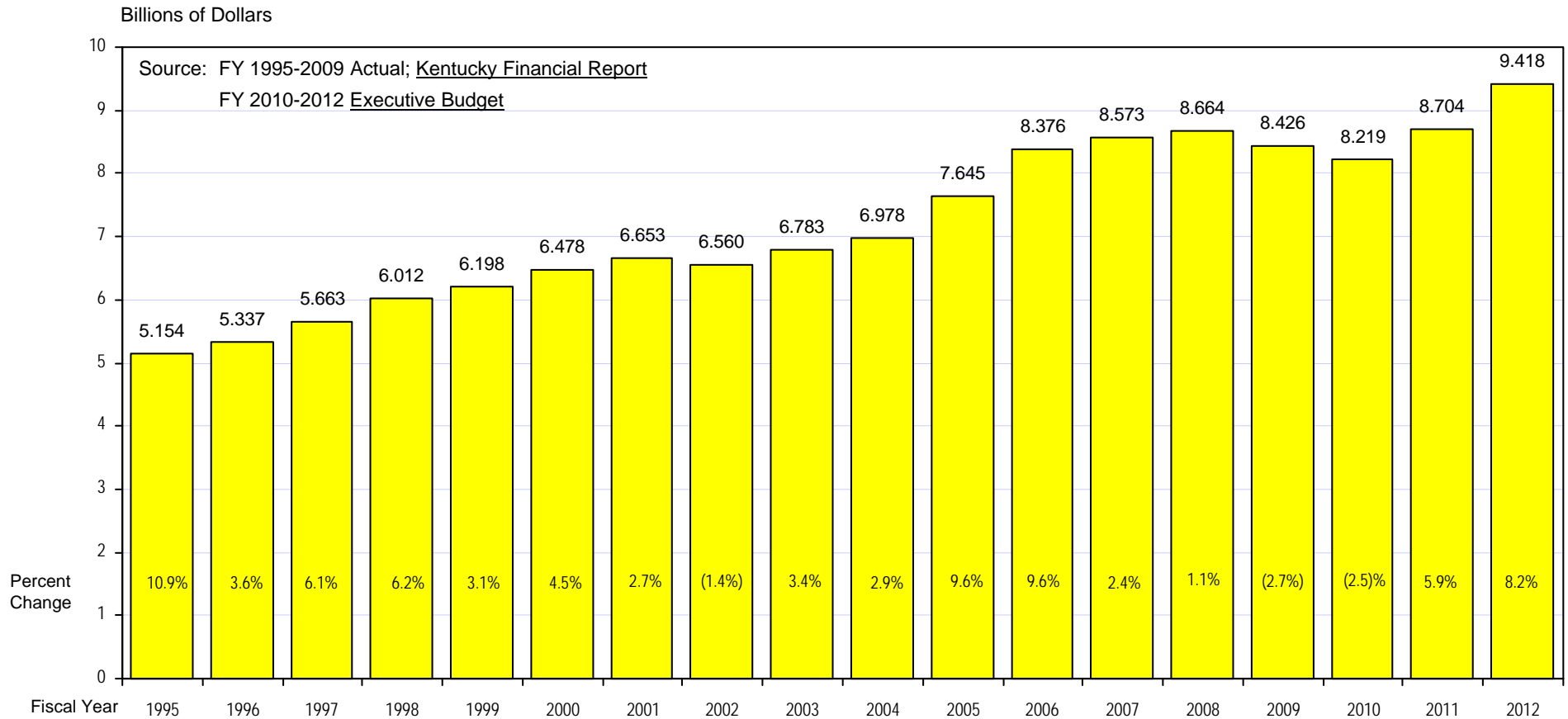
### **Life Safety – Protection of the Public**

The Executive Budget includes capital projects that protect life safety and improve the general welfare of Kentuckians, including: funds for Flood Control and Dam Repair projects (\$5 million), Funds in the capital budget will be used to assist local communities to meet the matching fund requirements for federal flood control projects, and to repair high-hazard state-owned dams to protect property and the lives of citizens living in the flood plain downstream from these dams.

# General Fund Revenue Receipts

## Fiscal Years 1995-2012

(Billions of dollars – rounded)

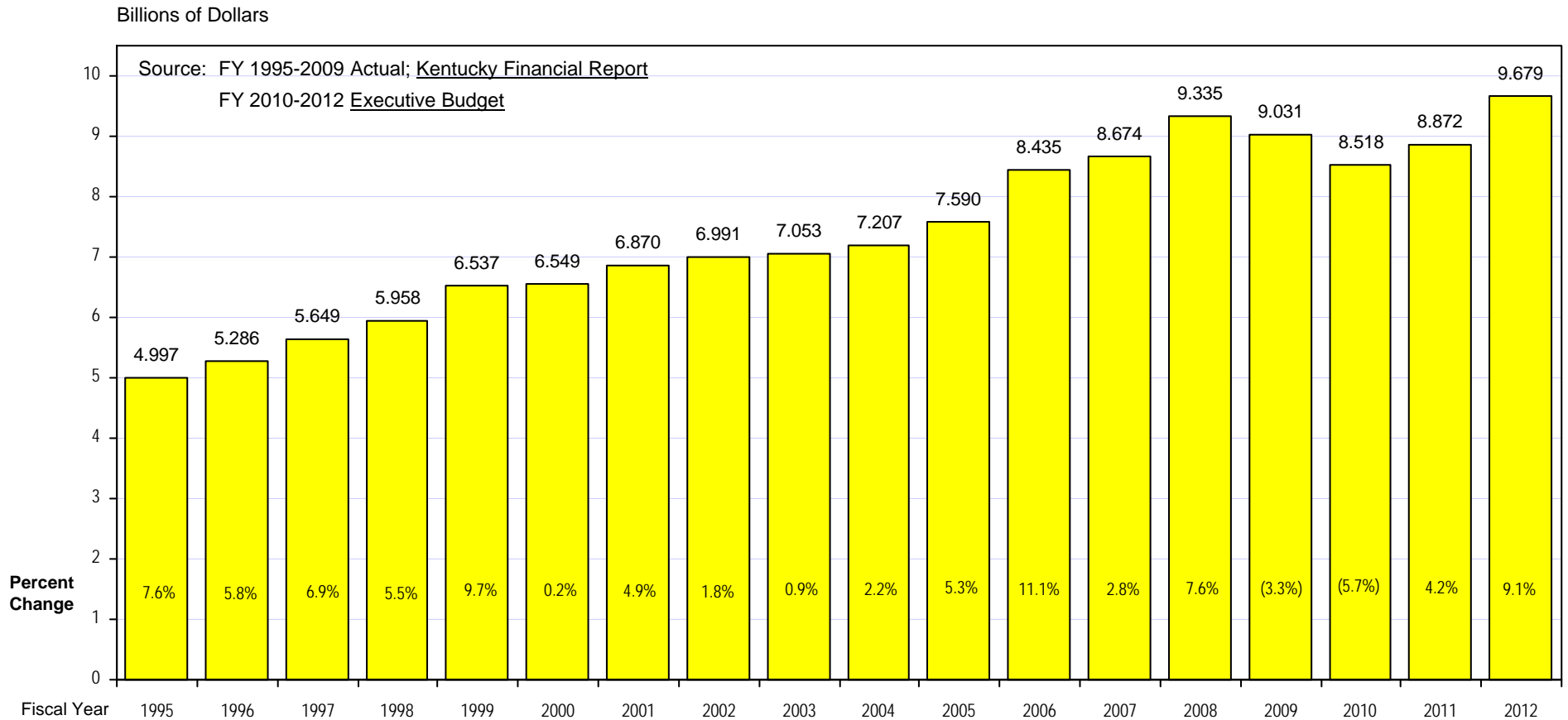


- Excludes Tobacco Settlement – Phase I Funds
- Excludes Fund Transfers

# General Fund Expenditures

## Fiscal Years 1995-2012

(Billions of dollars – rounded)

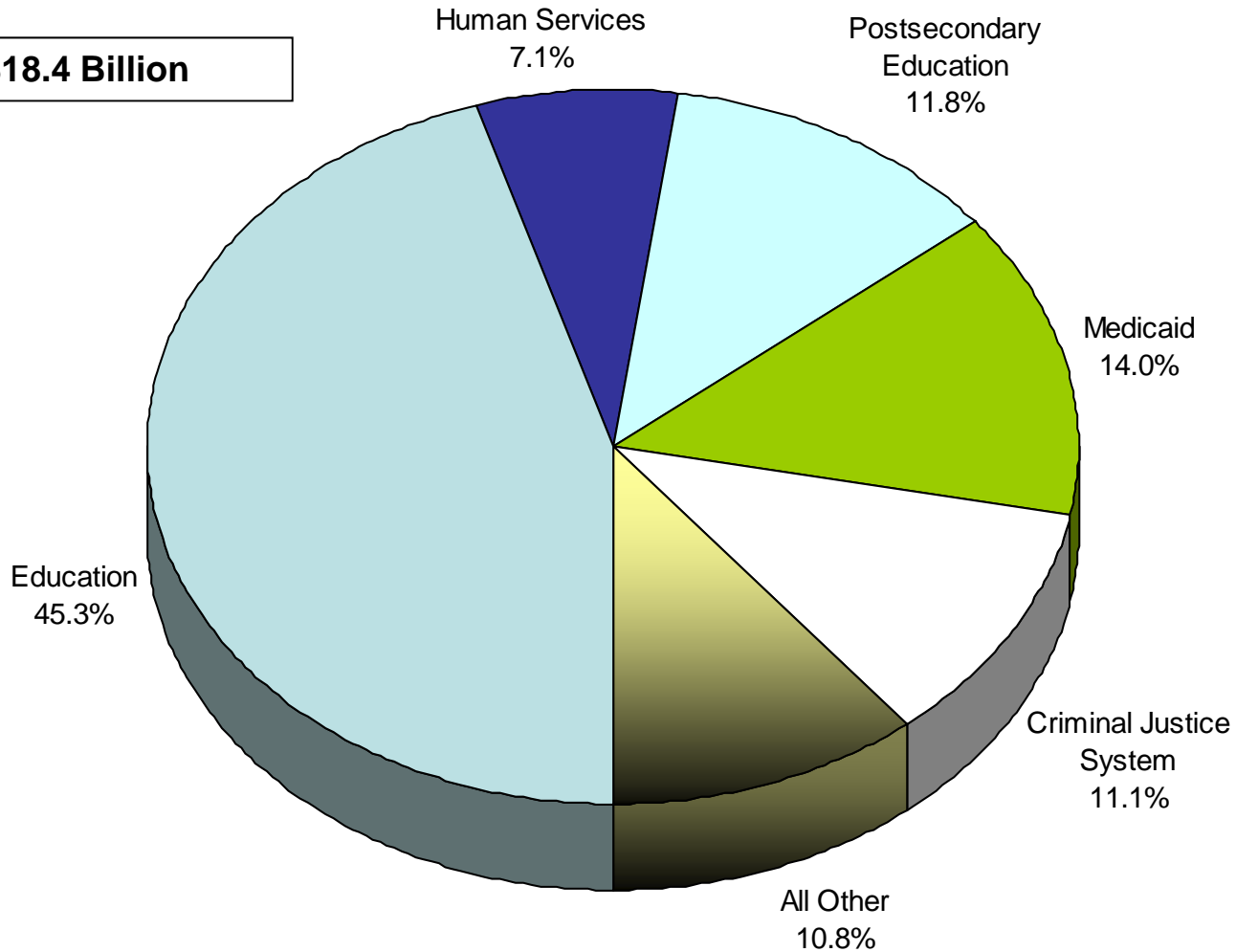


• Excludes Tobacco Settlement – Phase I Funds

## 2010-2012 Biennium

# Distribution of General Fund Appropriations

Total = \$18.4 Billion



Excludes Federal stimulus funds from the American Recovery and Reinvestment Act of 2009

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.

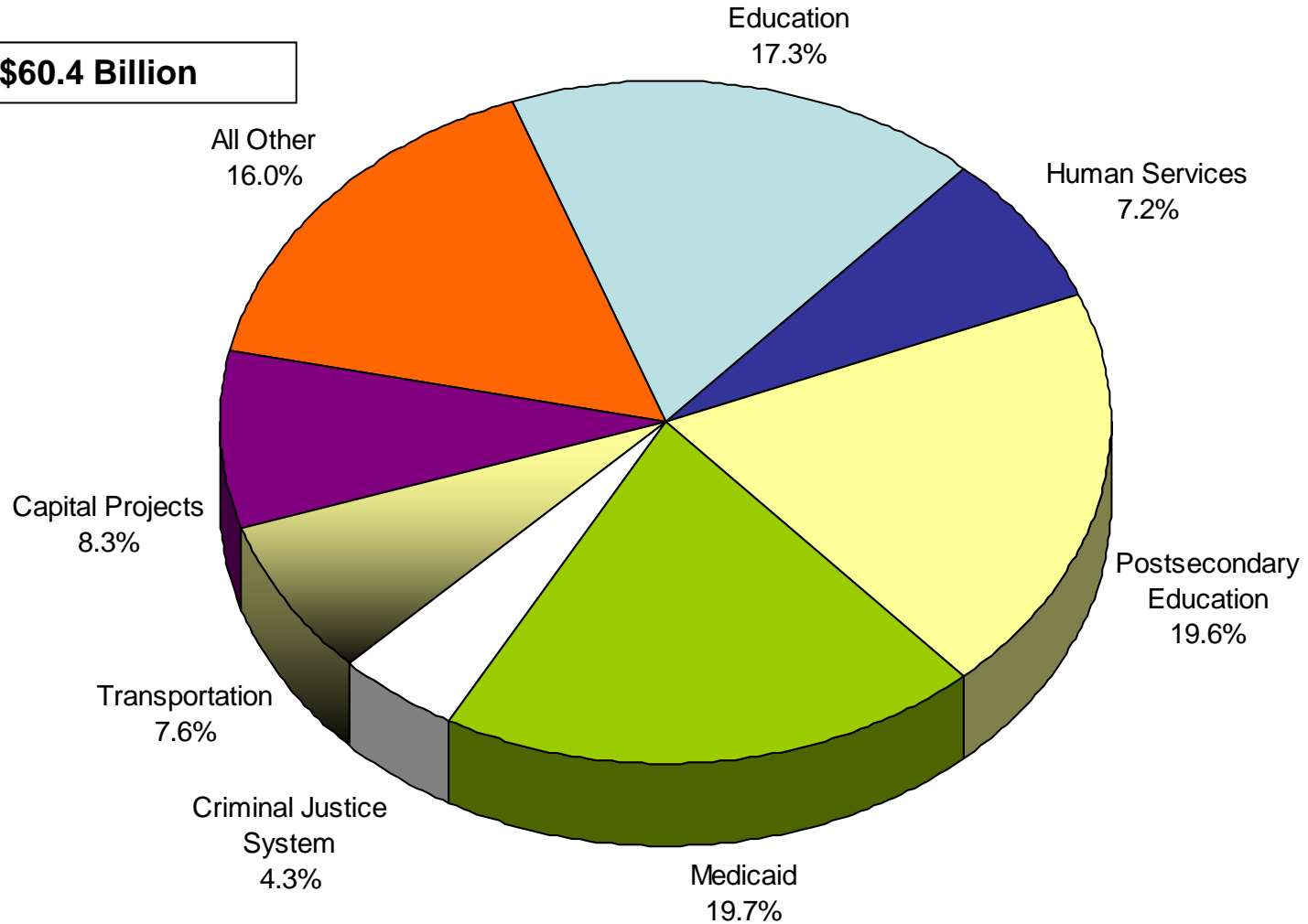
\*\* Human Services include the Health and Family Services Cabinet (net of Medicaid).

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

## 2010-2012 Biennium

# Distribution of All Funds Appropriations

**Total = \$60.4 Billion**



\* 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.



**Executive Branch**

	<u>Revised FY 2010</u>	<u>Requested FY 2011</u>	<u>Requested FY 2012</u>	<u>Recommended FY 2011</u>	<u>Recommended FY 2012</u>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	9,349,255,700	10,191,669,800	11,321,819,400	8,445,390,700	9,240,457,400
Special Appropriation	16,945,400				
Current Year Appropriation		1,794,300	2,476,300		
Continuing Approp.-General Fund	43,175,895	7,139,300	6,000,000	7,000,000	5,500,000
Budget Reduction-General Fund	-1,082,301,800				
Mandated Expenditure Reductions	-242,710,700				
Mandated Allotments	34,969,142				
Other	7,087,200	-225,000	-225,000		
Current Receipts		5,067,500	5,067,500		
SFSF Receipts		223,038,700	223,038,700		
<b>Total General Fund</b>	<b>8,126,420,837</b>	<b>10,428,484,600</b>	<b>11,558,176,900</b>	<b>8,452,390,700</b>	<b>9,245,957,400</b>
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	121,580,000	123,886,901	120,348,520	114,318,100	105,714,800
Continuing Approp.-Tobacco Settlement	32,747,100	14,068,400	10,341,500	22,840,100	11,871,900
<b>Total Tobacco Fund</b>	<b>154,327,100</b>	<b>137,955,301</b>	<b>130,690,020</b>	<b>137,158,200</b>	<b>117,586,700</b>
<b>Restricted Funds</b>					
Regular Appropriation		360,500	628,700		
Balance Forward	552,905,655	291,734,100	240,230,800	265,646,400	211,062,700
Current Receipts	5,024,246,508	5,056,519,800	5,238,431,500	5,049,964,200	5,221,052,200
Non-Revenue Receipts	1,272,612,100	744,534,100	759,131,000	870,226,600	788,471,300
Fund Transfers	-97,998,100	-1,462,800	-1,464,000	-43,087,400	-95,831,800
<b>Total Restricted Funds</b>	<b>6,751,766,163</b>	<b>6,091,685,700</b>	<b>6,236,958,000</b>	<b>6,142,749,800</b>	<b>6,124,754,400</b>
<b>Federal Funds</b>					
Regular Appropriation		6,449,100	4,742,600		
Balance Forward	71,863,656	25,180,800	16,122,600	25,204,900	17,780,600
Current Receipts	9,805,363,056	10,473,568,500	10,816,485,300	9,978,103,700	10,429,674,800
Non-Revenue Receipts	-6,745,300	-11,529,400	-7,862,500	-11,565,800	-7,900,000
ARRA Receipts	1,382,482,400	682,515,600	141,245,600	690,424,800	146,596,200
SFSF Receipts	383,238,000			268,103,700	
<b>Total Federal Funds</b>	<b>11,636,201,812</b>	<b>11,176,184,600</b>	<b>10,970,733,600</b>	<b>10,950,271,300</b>	<b>10,586,151,600</b>
<b>Road Fund</b>					
Regular Appropriation	1,400,953,400	1,288,170,600	1,375,609,400	1,271,304,800	1,348,881,000
Budget Reduction-Road Fund	-172,841,800				
Other	-33,161,600				
<b>Total Road Fund</b>	<b>1,194,950,000</b>	<b>1,288,170,600</b>	<b>1,375,609,400</b>	<b>1,271,304,800</b>	<b>1,348,881,000</b>
<b>Bond Funds</b>					
Current Receipts				203,000,000	209,000,000
<b>Total Bond Funds</b>				<b>203,000,000</b>	<b>209,000,000</b>
<b>Highway Bonds</b>					
Non-Revenue Receipts				112,000,000	300,000,000
<b>Total Highway Bonds</b>				<b>112,000,000</b>	<b>300,000,000</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>27,863,665,912</b>	<b>29,122,480,801</b>	<b>30,272,167,920</b>	<b>27,268,874,800</b>	<b>27,932,331,100</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	5,440,871,300	5,855,015,000	6,107,706,800	5,535,371,400	5,596,351,500
Operating Expenses	2,614,081,209	2,802,094,831	2,883,792,131	2,740,289,631	2,882,932,731
Grants Loans Benefits	16,632,168,105	18,158,639,569	18,729,231,569	16,474,747,269	16,827,045,269
Debt Service	537,462,500	935,104,967	1,173,755,600	809,002,900	916,699,300
Capital Outlay	259,809,400	206,885,900	199,274,500	262,254,200	252,588,900

Construction	2,049,938,000	893,244,600	927,816,300	1,168,036,000	1,241,084,900
<b>TOTAL EXPENDITURES</b>	<b>27,534,330,514</b>	<b>28,850,984,867</b>	<b>30,021,576,900</b>	<b>26,989,701,400</b>	<b>27,716,702,600</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	8,116,036,137	10,422,734,600	11,557,456,900	8,426,775,600	9,219,640,700
Tobacco Fund	126,227,700	124,321,667	121,046,100	122,278,200	105,028,400
Restricted Funds	6,486,119,777	5,851,495,600	6,032,310,100	5,931,687,100	5,976,271,400
Federal Funds	11,610,996,900	11,160,062,000	10,960,221,000	10,932,490,700	10,569,516,100
Road Fund	1,194,950,000	1,288,170,600	1,375,609,400	1,261,469,800	1,337,246,000
Bond Funds				203,000,000	209,000,000
Highway Bonds				112,000,000	300,000,000
<b>TOTAL EXPENDITURES</b>	<b>27,534,330,514</b>	<b>28,846,784,467</b>	<b>30,046,643,500</b>	<b>26,989,701,400</b>	<b>27,716,702,600</b>
<b>EXPENDITURES BY UNIT</b>					
General Government	1,281,923,900	1,443,589,700	1,473,231,500	1,078,487,000	1,018,520,500
Economic Development	46,645,400	51,865,800	56,496,500	29,085,100	38,609,000
Department of Education	4,891,903,998	5,388,993,500	5,467,549,400	4,937,458,300	4,793,878,000
Education and Workforce Development	2,581,566,300	2,613,875,700	2,618,859,200	2,584,982,600	2,589,407,400
Energy and Environment	294,613,400	307,893,700	284,333,100	286,208,700	255,316,800
Finance and Administration	498,312,300	814,796,167	838,607,500	655,139,900	617,394,900
Health and Family Services	7,630,408,200	8,596,012,500	9,132,164,000	7,797,976,100	8,409,113,000
Justice and Public Safety	891,903,316	1,010,615,600	1,046,948,900	906,043,800	909,941,700
Labor	208,801,500	223,835,000	228,433,200	214,064,100	216,191,600
Personnel	53,793,500	59,010,800	63,161,700	106,517,000	135,077,800
Postsecondary Education	5,684,075,700	5,927,354,900	6,325,070,900	5,817,192,700	6,025,106,200
Public Protection	114,456,500	120,380,200	121,772,500	113,082,900	111,892,800
Tourism, Arts and Heritage	229,784,400	251,377,500	265,606,900	220,707,900	222,196,900
Transportation	3,126,142,100	2,037,183,400	2,124,408,200	2,242,755,300	2,374,056,000
<b>TOTAL EXPENDITURES</b>	<b>27,534,330,514</b>	<b>28,846,784,467</b>	<b>30,046,643,500</b>	<b>26,989,701,400</b>	<b>27,716,702,600</b>

**General Government**

	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	589,056,600	936,280,300	1,047,161,100	580,864,100	620,764,800
Salary and Health Insurance Adjustments	2,988,800				
Special Appropriation	4,498,400				
Continuing Approp.-General Fund	254,300				
Budget Reduction-General Fund	-14,253,400				
Mandated Expenditure Reductions	-8,409,900				
Mandated Allotments	42,094,300				
Other	7,087,200				
<b>Total General Fund</b>	<b>623,316,300</b>	<b>936,280,300</b>	<b>1,047,161,100</b>	<b>580,864,100</b>	<b>620,764,800</b>
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	27,403,600	27,403,600	27,403,600	30,529,000	17,691,600
Continuing Approp.-Tobacco Settlement	19,392,300	11,342,900	7,616,000	11,342,900	11,871,900
<b>Total Tobacco Fund</b>	<b>46,795,900</b>	<b>38,746,500</b>	<b>35,019,600</b>	<b>41,871,900</b>	<b>29,563,500</b>
<b>Restricted Fund</b>					
Regular Appropriation		45,800	49,300		
Balance Forward	48,632,247	41,079,600	30,077,900	41,874,900	28,655,500
Current Receipts	108,946,353	128,016,600	142,921,300	113,027,400	124,443,300
Non-Revenue Receipts	42,096,500	48,448,000	53,579,900	49,913,400	50,787,500
Fund Transfers	-2,144,200			-800,000	-800,000
<b>Total Restricted Fund</b>	<b>197,530,900</b>	<b>217,590,000</b>	<b>226,628,400</b>	<b>204,015,700</b>	<b>203,086,300</b>
<b>Federal Fund</b>					
Regular Appropriation		21,300	21,300		
Balance Forward	19,363,544	10,687,200	5,115,200	10,687,200	5,115,200
Current Receipts	449,780,756	236,865,300	179,658,000	236,834,200	178,754,100
Non-Revenue Receipts	848,000	663,600	666,800	623,400	623,400
ARRA Receipts	7,693,500	44,998,200	7,932,300	48,733,100	10,502,000
<b>Total Federal Fund</b>	<b>477,685,800</b>	<b>293,235,600</b>	<b>193,393,600</b>	<b>296,877,900</b>	<b>194,994,700</b>
<b>Road Fund</b>					
Regular Appropriation	500,000	505,700	513,500	500,000	500,000
<b>Total Road Fund</b>	<b>500,000</b>	<b>505,700</b>	<b>513,500</b>	<b>500,000</b>	<b>500,000</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>1,345,828,900</b>	<b>1,486,358,100</b>	<b>1,502,716,200</b>	<b>1,124,129,600</b>	<b>1,048,909,300</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	260,186,300	288,800,500	304,119,700	258,229,500	260,046,400
Operating Expenses	83,836,000	94,618,900	88,266,500	80,494,000	78,319,000
Grants Loans Benefits	825,231,200	923,295,900	917,870,500	544,305,700	445,358,200
Debt Service	108,601,600	129,857,800	159,509,000	185,884,800	230,445,700
Capital Outlay	4,068,800	9,667,000	6,728,200	9,573,000	4,351,200
<b>TOTAL EXPENDITURES</b>	<b>1,281,923,900</b>	<b>1,446,240,100</b>	<b>1,476,493,900</b>	<b>1,078,487,000</b>	<b>1,018,520,500</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	623,316,300	936,280,300	1,047,191,100	580,864,100	620,764,800
Tobacco Fund	35,453,000	31,130,500	31,380,000	30,000,000	20,000,000
Restricted Fund	155,656,000	187,552,800	201,296,600	175,360,200	182,804,300
Federal Fund	466,998,600	288,120,400	192,850,300	291,762,700	194,451,400
Road Fund	500,000	505,700	513,500	500,000	500,000
<b>TOTAL EXPENDITURES</b>	<b>1,281,923,900</b>	<b>1,443,589,700</b>	<b>1,473,231,500</b>	<b>1,078,487,000</b>	<b>1,018,520,500</b>

**EXPENDITURES BY UNIT**

Office of the Governor	6,542,800	7,099,000	7,509,400	6,170,400	6,170,400
Office of State Budget Director	3,387,200	3,460,000	3,865,200	3,323,800	3,323,800
State Planning Fund	187,800	193,600	193,600	184,000	184,000
Homeland Security	18,587,000	26,018,100	24,131,700	23,444,900	23,019,800
Veterans' Affairs	43,783,800	49,123,800	52,396,500	44,938,000	45,986,700
Governor's Office of Agricultural Policy	37,112,700	32,245,700	32,352,300	31,045,700	20,886,800
Kentucky Infrastructure Authority	53,037,400	174,195,400	99,143,900	159,885,500	79,616,400
Military Affairs	405,161,000	97,774,600	100,107,400	95,471,900	91,696,200
Commission on Human Rights	2,052,400	2,678,900	2,706,800	2,004,000	2,003,900
Commission on Women	232,300	235,900	252,400	215,400	215,400
Department for Local Government	64,550,600	65,045,000	65,444,700	68,696,600	67,608,800
Local Government Economic Assistance Fund	53,450,100	51,697,000	58,378,100	54,422,100	67,281,600
Local Government Economic Development Fund	56,882,500	45,525,400	47,030,400	39,313,000	37,743,300
Area Development Fund	590,100	608,400	608,400	578,300	578,300
Executive Branch Ethics Commission	517,600	539,100	570,100	519,600	519,600
Secretary of State	2,770,300	2,956,000	3,117,000	2,879,700	2,890,700
Board of Elections	11,897,000	15,785,700	10,986,800	10,471,800	9,505,900
Registry of Election Finance	1,216,600	1,581,600	1,679,700	1,195,700	1,195,700
Attorney General	25,456,400	28,255,200	28,161,000	24,907,100	23,692,000
Unified Prosecutorial System	69,517,300	75,975,000	80,426,300	69,520,100	69,506,800
Treasury	2,869,100	3,713,200	3,891,700	2,956,700	2,974,600
Agriculture	29,147,300	39,734,700	37,262,600	32,919,800	30,603,800
Auditor of Public Accounts	10,348,100	11,152,500	11,881,700	9,825,800	9,660,800
Personnel Board	793,800	849,600	893,300	801,800	819,800
Kentucky Retirement Systems	26,725,500	29,070,500	29,867,400	28,879,100	29,252,500
Occupational & Professional Boards & Commissions	20,238,800	21,413,400	22,215,000	20,975,900	21,261,300
Kentucky River Authority	2,328,600	5,655,700	4,845,400	4,810,500	4,076,200
School Facilities Construction Commission	106,209,100	107,991,700	118,399,400	101,433,100	102,802,000
Teachers' Retirement System	212,103,600	528,938,900	610,837,200	230,920,600	257,667,300
Judgments	151,000				
Appropriations Not Otherwise Classified	14,076,100	14,076,100	14,076,100	5,776,100	5,776,100
<b>TOTAL EXPENDITURES</b>	<b>1,281,923,900</b>	<b>1,443,589,700</b>	<b>1,473,231,500</b>	<b>1,078,487,000</b>	<b>1,018,520,500</b>

## Economic Development

	Revised FY 2010	Requested FY 2011	Requested FY 2012	Recommended FY 2011	Recommended FY 2012
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	26,092,100	48,631,600	49,160,900	25,863,400	31,340,900
Salary and Health Insurance Adjustments	127,000				
Continuing Approp.-General Fund	20,723,700	6,000,000	5,000,000	6,000,000	5,000,000
Budget Reduction-General Fund	-1,156,600				
Mandated Expenditure Reductions	-1,120,200				
<b>Total General Fund</b>	44,666,000	54,631,600	54,160,900	31,863,400	36,340,900
<b>Restricted Fund</b>					
Balance Forward	1,583,800	744,500		744,500	
Current Receipts	310,000	325,000	350,000	325,000	350,000
Non-Revenue Receipts	2,245,100	1,009,300	1,830,200	996,800	1,762,700
<b>Total Restricted Fund</b>	4,138,900	2,078,800	2,180,200	2,066,300	2,112,700
<b>Federal Fund</b>					
Balance Forward	29,600				
Current Receipts	4,555,400	155,400	155,400	155,400	155,400
<b>Total Federal Fund</b>	4,585,000	155,400	155,400	155,400	155,400
<b>TOTAL SOURCE OF FUNDS</b>	53,389,900	56,865,800	56,496,500	34,085,100	38,609,000
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	9,908,600	10,470,500	11,078,900	9,940,600	9,974,300
Operating Expenses	2,281,700	2,231,400	2,253,700	2,286,700	2,299,400
Grants Loans Benefits	34,455,100	17,337,900	21,337,900	13,009,300	17,009,300
Debt Service		21,826,000	21,826,000	3,848,500	9,326,000
<b>TOTAL EXPENDITURES</b>	46,645,400	51,865,800	56,496,500	29,085,100	38,609,000
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	38,666,000	49,631,600	54,160,900	26,863,400	36,340,900
Restricted Fund	3,394,400	2,078,800	2,180,200	2,066,300	2,112,700
Federal Fund	4,585,000	155,400	155,400	155,400	155,400
<b>TOTAL EXPENDITURES</b>	46,645,400	51,865,800	56,496,500	29,085,100	38,609,000
<b>EXPENDITURES BY UNIT</b>					
Secretary	19,355,600	14,324,000	14,559,400	14,473,400	15,050,600
Business Development	5,584,200	5,558,800	5,825,200	5,257,300	5,257,300
Financial Incentives	21,705,600	31,983,000	36,111,900	9,354,400	18,301,100
<b>TOTAL EXPENDITURES</b>	46,645,400	51,865,800	56,496,500	29,085,100	38,609,000

The Cabinet for Economic Development is governed by the Kentucky Economic Development Partnership. The Partnership board has 11 voting members and two non-voting members. The 11 voting members are the Governor, who is chairman, the Secretary of the Finance and Administration Cabinet, the Secretary of the Energy and Environment Cabinet, and eight private sector members representing all facets of the economic development community who are appointed by the Governor. The Secretary of the Cabinet for Economic Development (nominated by the Economic Development Partnership and appointed by the Governor) and the Secretary of the Tourism, Arts and Heritage Cabinet serve as non-voting members.

The budgetary resources for the Cabinet are organized in three appropriation units: Office of the Secretary, Business Development, and Financial Incentives. The budget for the Department for Commercialization and Innovation is in the Office of the Secretary.

**Department of Education**

	<u>Revised FY 2010</u>	<u>Requested FY 2011</u>	<u>Requested FY 2012</u>	<u>Recommended FY 2011</u>	<u>Recommended FY 2012</u>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	3,907,626,300	4,126,600,400	4,388,829,900	3,715,125,600	3,937,842,200
Salary and Health Insurance Adjustments	279,700				
Continuing Approp.-General Fund	7,780,821				
Budget Reduction-General Fund	-284,869,100				
Mandated Expenditure Reductions	-1,343,600				
SFSF Receipts		223,038,700	223,038,700		
<b>Total General Fund</b>	<b>3,629,474,121</b>	<b>4,349,639,100</b>	<b>4,611,868,600</b>	<b>3,715,125,600</b>	<b>3,937,842,200</b>
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	1,525,000	1,525,000	1,525,000	2,150,000	2,050,000
Continuing Approp.-Tobacco Settlement	886,500				
<b>Total Tobacco Fund</b>	<b>2,411,500</b>	<b>1,525,000</b>	<b>1,525,000</b>	<b>2,150,000</b>	<b>2,050,000</b>
<b>Restricted Fund</b>					
Balance Forward	1,686,139	29,400	29,400	27,800	27,800
Current Receipts	3,374,538	5,731,300	5,731,300	5,601,400	5,632,400
<b>Total Restricted Fund</b>	<b>5,060,677</b>	<b>5,760,700</b>	<b>5,760,700</b>	<b>5,629,200</b>	<b>5,660,200</b>
<b>Federal Fund</b>					
Current Receipts	749,777,800	751,698,100	751,924,500	751,695,100	751,853,400
ARRA Receipts	282,169,000	280,400,000	96,500,000	280,400,000	96,500,000
SFSF Receipts	223,038,700			182,486,200	
<b>Total Federal Fund</b>	<b>1,254,985,500</b>	<b>1,032,098,100</b>	<b>848,424,500</b>	<b>1,214,581,300</b>	<b>848,353,400</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>4,891,931,798</b>	<b>5,389,022,900</b>	<b>5,467,578,800</b>	<b>4,937,486,100</b>	<b>4,793,905,800</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	72,805,200	87,060,200	92,480,500	77,606,100	79,324,600
Operating Expenses	28,984,409	42,123,431	42,165,031	22,929,131	23,092,231
Grants Loans Benefits	4,790,114,389	5,259,809,869	5,332,903,869	4,836,923,069	4,691,461,169
<b>TOTAL EXPENDITURES</b>	<b>4,891,903,998</b>	<b>5,388,993,500</b>	<b>5,467,549,400</b>	<b>4,937,458,300</b>	<b>4,793,878,000</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	3,629,474,121	4,349,639,100	4,611,868,600	3,715,125,600	3,937,842,200
Tobacco Fund	2,411,500	1,525,000	1,525,000	2,150,000	2,050,000
Restricted Fund	5,032,877	5,731,300	5,731,300	5,601,400	5,632,400
Federal Fund	1,254,985,500	1,032,098,100	848,424,500	1,214,581,300	848,353,400
<b>TOTAL EXPENDITURES</b>	<b>4,891,903,998</b>	<b>5,388,993,500</b>	<b>5,467,549,400</b>	<b>4,937,458,300</b>	<b>4,793,878,000</b>
<b>EXPENDITURES BY UNIT</b>					
Executive Policy and Management	642,400	746,900	781,500	629,600	629,600
Operations and Support Services	61,692,500	69,635,600	64,700,800	60,856,900	55,382,600
Learning and Results Services	1,885,934,898	2,053,963,300	1,939,275,400	1,932,337,600	1,794,231,600
Support Education Excellence in Kentucky (SEEK)	2,943,634,200	3,264,647,700	3,462,791,700	2,943,634,200	2,943,634,200
<b>TOTAL EXPENDITURES</b>	<b>4,891,903,998</b>	<b>5,388,993,500</b>	<b>5,467,549,400</b>	<b>4,937,458,300</b>	<b>4,793,878,000</b>

In enacting the Kentucky Education Reform Act (KERA), the 1990 General Assembly provided for a reconstituted Department of Education to implement KERA along with existing programs. In accordance with KRS 156.148, the Department of Education is headed by a Commissioner of Education appointed by the Kentucky Board of Education.

## Education and Workforce Development

	Revised FY 2010	Requested FY 2011	Requested FY 2012	Recommended FY 2011	Recommended FY 2012
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	82,240,200	102,570,300	102,958,900	75,522,100	75,522,100
Salary and Health Insurance Adjustments	507,100				
Budget Reduction-General Fund	-4,252,600				
Mandated Expenditure Reductions	-1,676,200				
Other		-225,000	-225,000		
<b>Total General Fund</b>	76,818,500	102,345,300	102,733,900	75,522,100	75,522,100
<b>Restricted Fund</b>					
Balance Forward	9,092,800	5,844,600	3,684,100	5,864,600	4,347,600
Current Receipts	12,680,100	12,299,700	12,362,200	12,299,700	12,362,200
Non-Revenue Receipts	26,449,000	27,570,100	28,643,000	26,682,600	27,689,700
<b>Total Restricted Fund</b>	48,221,900	45,714,400	44,689,300	44,846,900	44,399,500
<b>Federal Fund</b>					
Balance Forward	17,365,000				538,900
Current Receipts	2,404,390,700	2,447,777,300	2,470,730,900	2,447,777,300	2,470,730,900
ARRA Receipts	40,634,800	21,722,800	2,127,000	21,722,800	2,127,000
<b>Total Federal Fund</b>	2,462,390,500	2,469,500,100	2,472,857,900	2,469,500,100	2,473,396,800
<b>TOTAL SOURCE OF FUNDS</b>	2,587,430,900	2,617,559,800	2,620,281,100	2,589,869,100	2,593,318,400
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	148,690,500	158,770,200	166,983,900	150,962,200	157,218,000
Operating Expenses	35,660,500	39,294,400	38,992,600	34,695,800	33,048,600
Grants Loans Benefits	2,394,297,700	2,407,661,700	2,409,713,800	2,397,333,800	2,397,645,800
Debt Service		3,715,000			
Capital Outlay	2,917,600	4,434,400	3,168,900	1,990,800	1,495,000
<b>TOTAL EXPENDITURES</b>	2,581,566,300	2,613,875,700	2,618,859,200	2,584,982,600	2,589,407,400
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	76,818,500	102,345,300	102,733,900	75,522,100	75,522,100
Restricted Fund	42,357,300	42,030,300	43,267,400	40,499,300	41,607,600
Federal Fund	2,462,390,500	2,469,500,100	2,472,857,900	2,468,961,200	2,472,277,700
<b>TOTAL EXPENDITURES</b>	2,581,566,300	2,613,875,700	2,618,859,200	2,584,982,600	2,589,407,400
<b>EXPENDITURES BY UNIT</b>					
General Administration and Program Support	10,515,600	12,919,000	11,943,800	9,577,000	9,577,000
Deaf and Hard of Hearing	1,617,900	1,893,700	1,957,000	1,606,400	1,619,900
Kentucky Educational Television	16,168,400	17,365,000	17,218,200	14,002,600	14,002,600
Environmental Education Council	441,300	423,600	388,700	409,900	360,000
Libraries and Archives	16,972,700	24,034,000	24,933,600	16,803,400	16,803,400
Office for the Blind	13,514,200	14,705,100	15,128,700	14,280,100	14,617,100
Employment and Training	2,386,675,900	2,392,907,700	2,395,588,500	2,392,907,700	2,395,588,500
Career and Technical Education	62,044,300	69,061,600	70,850,100	62,689,900	63,778,300
Vocational Rehabilitation	63,781,400	68,339,500	68,258,400	63,730,100	64,081,000
Education Professional Standards Board	9,834,600	12,226,500	12,592,200	8,975,500	8,979,600
<b>TOTAL EXPENDITURES</b>	2,581,566,300	2,613,875,700	2,618,859,200	2,584,982,600	2,589,407,400

During the 2006 Regular Session of the General Assembly, Senate Bill 105 combined several departments and offices from the former Education, Arts, and Humanities Cabinet and the former Workforce Development Cabinet to create the Education Cabinet. Senate Bill 78 during the 2009 Regular Session of the General Assembly renamed the cabinet to the Education and Workforce Development Cabinet to emphasize the important connection between education and workforce development. Executive order 2009-539, filed with Secretary of State on June 12, 2009 moved the Council on Postsecondary Education from the Education and Workforce Development Cabinet to the Governor's Office for administrative purposes.

The following agencies comprise the Education and Workforce Development Cabinet:

- Department of Education
- Kentucky Center for School Safety
- Governor's Scholars Program
- Education Professional Standards Board
- Kentucky Commission on the Deaf and Hard of Hearing
- Environmental Education Council
- Department for Workforce Investment
- Kentucky Educational Television
- Department for Libraries and Archives



## Energy and Environment

	Revised FY 2010	Requested FY 2011	Requested FY 2012	Recommended FY 2011	Recommended FY 2012
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	81,064,600	96,694,800	103,966,300	75,580,400	78,315,200
Salary and Health Insurance Adjustments	1,460,100				
Continuing Approp.-General Fund	831,300				
Budget Reduction-General Fund	-7,549,500				
Mandated Expenditure Reductions	-3,870,400				
<b>Total General Fund</b>	71,936,100	96,694,800	103,966,300	75,580,400	78,315,200
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	9,000,000	9,000,000	9,000,000	9,000,000	6,000,000
Continuing Approp.-Tobacco Settlement	5,539,700				
<b>Total Tobacco Fund</b>	14,539,700	9,000,000	9,000,000	9,000,000	6,000,000
<b>Restricted Fund</b>					
Balance Forward	12,888,400	27,903,200	35,915,400	16,866,800	8,675,100
Current Receipts	40,780,800	17,820,100	18,102,500	20,488,500	20,902,400
Non-Revenue Receipts	80,429,500	74,219,000	74,428,900	77,625,600	118,082,500
Fund Transfers	-28,000,000			-17,500,000	-57,500,000
<b>Total Restricted Fund</b>	106,098,700	119,942,300	128,446,800	97,480,900	90,160,000
<b>Federal Fund</b>					
Balance Forward	10,400				
Current Receipts	85,233,400	87,148,000	88,757,600	85,692,600	86,588,800
Non-Revenue Receipts	-6,656,800	-7,577,300	-7,662,500	-7,577,300	-7,661,500
ARRA Receipts	40,018,700	38,301,300	6,012,200	38,301,300	6,012,200
<b>Total Federal Fund</b>	118,605,700	117,872,000	87,107,300	116,416,600	84,939,500
<b>Road Fund</b>					
Regular Appropriation	300,000	300,000	300,000	300,000	300,000
<b>Total Road Fund</b>	300,000	300,000	300,000	300,000	300,000
<b>TOTAL SOURCE OF FUNDS</b>	311,480,200	343,809,100	328,820,400	298,777,900	259,714,700
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	131,893,500	148,553,400	158,476,100	132,482,400	134,415,000
Operating Expenses	41,601,500	47,002,000	46,966,600	44,927,900	44,824,900
Grants Loans Benefits	94,032,100	87,948,000	53,921,300	87,869,000	51,040,500
Debt Service	589,000	589,000	589,000	589,000	3,216,000
Capital Outlay	6,977,700	7,811,700	6,831,000	4,350,800	4,271,300
Construction	19,519,600	15,989,600	17,549,100	15,989,600	17,549,100
<b>TOTAL EXPENDITURES</b>	294,613,400	307,893,700	284,333,100	286,208,700	255,316,800
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	71,936,100	96,694,800	103,966,300	71,686,300	74,421,100
Tobacco Fund	14,539,700	9,000,000	9,000,000	9,000,000	6,000,000
Restricted Fund	89,231,900	84,026,900	83,959,500	88,805,800	89,656,200
Federal Fund	118,605,700	117,872,000	87,107,300	116,416,600	84,939,500
Road Fund	300,000	300,000	300,000	300,000	300,000
<b>TOTAL EXPENDITURES</b>	294,613,400	307,893,700	284,333,100	286,208,700	255,316,800
<b>EXPENDITURES BY UNIT</b>					
Secretary	4,984,400	5,378,500	5,727,200	4,947,000	5,725,000
Environmental Protection	112,174,700	116,841,200	120,401,400	110,650,900	113,179,300
Natural Resources	121,487,200	126,120,400	130,208,100	117,326,000	114,891,900
Energy Development and Independence	42,585,400	44,035,000	12,253,700	42,150,000	10,379,700
Environmental Quality Commission	239,100	270,900	288,500	257,400	263,600

Kentucky Nature Preserves Commission	2,563,300	1,671,500	1,768,600	1,342,200	1,342,100
Public Service Commission	10,579,300	13,576,200	13,685,600	9,535,200	9,535,200
<b>TOTAL EXPENDITURES</b>	294,613,400	307,893,700	284,333,100	286,208,700	255,316,800

Pursuant to Executive Order 2009-538 and KRS 224.10-100, the Energy and Environment Cabinet is charged with the protection and preservation of land, air and water resources as well as creating efficient, sustainable energy solutions. The Cabinet has three departments: Environmental Protection, Natural Resources, and Energy Development and Independence. Attached for administrative purposes are the Mine Safety Review Commission, the State Nature Preserves Commission, the Environmental Quality Commission, and the Public Service Commission.

A Secretary appointed by the Governor heads the Cabinet. The Secretary is responsible for leadership, monitoring trends and shaping a vision for the future of Kentucky's energy platform and environment.

**Finance and Administration**

	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	572,355,600	571,539,300	598,642,700	458,193,500	425,335,800
Salary and Health Insurance Adjustments	1,256,600				
Special Appropriation	3,113,600				
Budget Reduction-General Fund	-85,469,300				
Reorganization Adjustment	81,400				
Mandated Expenditure Reductions	-188,850,800				
<b>Total General Fund</b>	<b>302,487,100</b>	<b>571,539,300</b>	<b>598,642,700</b>	<b>458,193,500</b>	<b>425,335,800</b>
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	24,273,900	30,665,801	30,697,720	19,021,600	30,550,700
Continuing Approp.-Tobacco Settlement	2,725,500	2,725,500	2,725,500	11,497,200	
<b>Total Tobacco Fund</b>	<b>26,999,400</b>	<b>33,391,301</b>	<b>33,423,220</b>	<b>30,518,800</b>	<b>30,550,700</b>
<b>Restricted Funds</b>					
Balance Forward	51,704,500	42,558,800	22,046,600	32,302,300	30,431,800
Current Receipts	141,731,700	153,247,100	157,449,400	145,843,800	147,268,700
Non-Revenue Receipts	5,064,100	6,128,000	6,271,600	6,013,000	6,098,700
Fund Transfers	-18,543,000			-3,000,000	-12,000,000
<b>Total Restricted Funds</b>	<b>179,957,300</b>	<b>201,933,900</b>	<b>185,767,600</b>	<b>181,159,100</b>	<b>171,799,200</b>
<b>Federal Funds</b>					
Current Receipts	9,227,500	8,090,900	7,690,900	7,690,900	7,690,900
Non-Revenue Receipts	-162,300				
ARRA Receipts	24,262,500	24,513,500	23,217,600	24,513,500	23,217,600
<b>Total Federal Funds</b>	<b>33,327,700</b>	<b>32,604,400</b>	<b>30,908,500</b>	<b>32,204,400</b>	<b>30,908,500</b>
<b>Road Fund</b>					
Regular Appropriation	2,725,000	3,141,500	3,149,800	2,725,000	2,725,000
<b>Total Road Fund</b>	<b>2,725,000</b>	<b>3,141,500</b>	<b>3,149,800</b>	<b>2,725,000</b>	<b>2,725,000</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>545,496,500</b>	<b>842,610,401</b>	<b>851,891,820</b>	<b>704,800,800</b>	<b>661,319,200</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	175,038,300	197,682,800	209,934,400	173,603,700	174,899,500
Operating Expenses	113,279,400	120,264,000	125,178,900	113,426,200	116,010,200
Grants Loans Benefits	34,440,900	33,240,900	31,734,500	33,340,900	32,484,500
Debt Service	166,076,900	433,862,167	449,413,400	323,188,100	285,331,000
Capital Outlay	9,476,800	29,746,300	22,346,300	11,581,000	8,669,700
<b>TOTAL EXPENDITURES</b>	<b>498,312,300</b>	<b>814,796,167</b>	<b>838,607,500</b>	<b>655,139,900</b>	<b>617,394,900</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	299,102,400	571,539,300	598,642,700	441,972,500	402,913,200
Tobacco Fund	15,502,200	27,623,667	27,668,900	27,510,700	27,555,900
Restricted Funds	147,655,000	179,887,300	178,237,600	150,727,300	153,292,300
Federal Funds	33,327,700	32,604,400	30,908,500	32,204,400	30,908,500
Road Fund	2,725,000	3,141,500	3,149,800	2,725,000	2,725,000
<b>TOTAL EXPENDITURES</b>	<b>498,312,300</b>	<b>814,796,167</b>	<b>838,607,500</b>	<b>655,139,900</b>	<b>617,394,900</b>
<b>EXPENDITURES BY UNIT</b>					
General Administration	70,442,000	81,801,100	81,093,700	70,034,200	69,184,100
Controller	16,277,800	15,632,300	15,726,000	14,057,900	14,128,600
Debt Service	166,076,900	433,862,167	430,678,400	322,502,100	283,705,000
Facilities and Support Services	40,829,800	44,117,700	64,200,300	42,448,300	44,125,300
County Costs	18,513,500	18,784,000	19,034,000	18,784,000	19,034,000
Commonwealth Office of Technology	61,690,000	75,710,000	81,441,000	64,329,000	65,368,100

Revenue	84,752,500	100,417,300	99,018,100	83,777,900	82,643,300
Property Valuation Administrators	39,729,800	44,471,600	47,416,000	39,206,500	39,206,500
<b>TOTAL EXPENDITURES</b>	498,312,300	814,796,167	838,607,500	655,139,900	617,394,900

The Finance and Administration Cabinet is responsible for managing the financial resources of the Commonwealth and providing central administrative services to agencies of state and local government. The mission of the Finance and Administration Cabinet is to provide its customers with assistance in the delivery of quality services, effective administration, and sound financial management. The Cabinet provides leadership, coordination, and support to other state agencies to ensure accountability and integrity in the use of public resources. The Finance and Administration Cabinet constantly strives to conduct government business more effectively. Moreover, among the highest priorities of the Cabinet is providing the nine cabinets and all other agencies of state government with the resources necessary to carry out their stated missions by equitable and efficient revenue collection.

The Cabinet's duties include construction of state facilities, property management including motor vehicles, tax administration and collection, management of the Commonwealth's information technology systems, expenditure control, and state purchasing.

The Department of Revenue is the statutory agency of state government responsible for the administration of all state revenue laws and the collection of taxes.

The Commonwealth Office of Technology (COT) provides leadership, policy direction, and technical support to all executive branch agencies in the application of information technology and the delivery of communications and information services.

**Health and Family Services**

	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	2,023,761,500	2,006,252,800	2,462,018,600	1,732,182,900	2,145,113,900
Salary and Health Insurance Adjustments	4,838,700				
Continuing Approp.-General Fund	2,053,200				
Budget Reduction-General Fund	-451,897,600				
Mandated Expenditure Reductions	-29,699,600				
<b>Total General Fund</b>	<b>1,549,056,200</b>	<b>2,006,252,800</b>	<b>2,462,018,600</b>	<b>1,732,182,900</b>	<b>2,145,113,900</b>
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	30,641,600	28,861,700	27,217,300	27,192,300	24,930,100
Continuing Approp.-Tobacco Settlement	3,943,900				
<b>Total Tobacco Fund</b>	<b>34,585,500</b>	<b>28,861,700</b>	<b>27,217,300</b>	<b>27,192,300</b>	<b>24,930,100</b>
<b>Restricted Fund</b>					
Balance Forward	36,315,500	38,571,500	21,480,000	38,329,200	21,490,800
Current Receipts	570,105,400	517,114,800	520,750,800	515,194,400	515,537,700
Non-Revenue Receipts	364,105,000	383,554,600	383,203,300	383,839,400	384,693,400
Fund Transfers	-10,263,700				
<b>Total Restricted Fund</b>	<b>960,262,200</b>	<b>939,240,900</b>	<b>925,434,100</b>	<b>937,363,000</b>	<b>921,721,900</b>
<b>Federal Fund</b>					
Balance Forward	22,767,600				
Current Receipts	4,534,621,600	5,382,739,900	5,720,376,400	4,862,510,800	5,319,633,100
ARRA Receipts	570,475,500	260,397,200		260,217,900	
<b>Total Federal Fund</b>	<b>5,127,864,700</b>	<b>5,643,137,100</b>	<b>5,720,376,400</b>	<b>5,122,728,700</b>	<b>5,319,633,100</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>7,671,768,600</b>	<b>8,617,492,500</b>	<b>9,135,046,400</b>	<b>7,819,466,900</b>	<b>8,411,399,000</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	610,061,300	692,757,400	728,437,500	622,994,200	619,462,600
Operating Expenses	136,992,100	146,662,200	143,250,100	132,790,000	131,182,500
Grants Loans Benefits	6,881,760,100	7,752,445,500	8,224,340,800	7,032,449,800	7,640,096,800
Debt Service			34,448,000	8,393,500	17,022,500
Capital Outlay	1,471,800	4,024,500	1,564,700	1,225,700	1,225,700
Construction	122,900	122,900	122,900	122,900	122,900
<b>TOTAL EXPENDITURES</b>	<b>7,630,408,200</b>	<b>8,596,012,500</b>	<b>9,132,164,000</b>	<b>7,797,976,100</b>	<b>8,409,113,000</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	1,549,056,200	2,006,252,800	2,462,018,600	1,732,182,900	2,145,113,900
Tobacco Fund	31,554,300	28,861,700	27,217,300	27,192,300	24,930,100
Restricted Fund	921,933,000	917,760,900	922,551,700	915,872,200	919,435,900
Federal Fund	5,127,864,700	5,643,137,100	5,720,376,400	5,122,728,700	5,319,633,100
<b>TOTAL EXPENDITURES</b>	<b>7,630,408,200</b>	<b>8,596,012,500</b>	<b>9,132,164,000</b>	<b>7,797,976,100</b>	<b>8,409,113,000</b>
<b>EXPENDITURES BY UNIT</b>					
General Administration and Program Support	79,780,100	91,130,700	94,798,400	80,059,400	82,181,000
Comm for Children with Special Health Care Needs	17,003,100	17,956,400	18,675,300	16,797,800	16,948,500
Medicaid Services	5,442,089,500	6,279,192,300	6,741,093,800	5,636,067,300	6,247,611,900
Behavioral Health, Developmental and Intellectual Disabilities	468,142,700	524,058,000	538,596,100	474,963,200	480,975,500

Public Health	429,529,200	446,414,500	453,040,700	433,052,400	430,924,600
Health Policy	1,214,100	1,351,400	1,402,000	1,325,100	1,320,100
Family Resource Centers and Volunteer Services	4,595,800	3,922,900	3,896,000	3,913,600	3,874,800
Income Support	107,539,500	109,431,800	115,901,300	107,500,300	108,477,300
Community Based Services	1,014,479,200	1,049,615,600	1,088,117,400	980,646,800	974,113,200
Aging and Independent Living	66,035,000	72,938,900	76,643,000	63,650,200	62,686,100
<b>TOTAL EXPENDITURES</b>	<b>7,630,408,200</b>	<b>8,596,012,500</b>	<b>9,132,164,000</b>	<b>7,797,976,100</b>	<b>8,409,113,000</b>

The Cabinet for Health and Family Services is the primary state agency responsible for leadership in protecting and promoting the health and well being of all Kentuckians through the delivery of quality health and human services. The following departments and/or offices comprise the Cabinet for Health and Family Services: the Office of the Secretary, Governor's Office of Electronic Health Information, Office of Communications and Administrative Review, Office of the Inspector General, Office of Legal Services, Office of Administrative and Technology Services, Office of Human Resource Management, Office of Policy and Budget and Office of the Ombudsman comprise the Administration and Program Support appropriation unit. Remaining agencies/appropriation units within the Cabinet include the Office of Health Policy, Department for Medicaid Services, Department for Behavioral Health, Developmental and Intellectual Disabilities, Department for Public Health, Department for Aging and Independent Living, Department for Community Based Services, Department for Income Support, Department for Family Resource Centers and Volunteer Services and the Commission for Children with Special Health Care Needs.

Executive Order 2008-504 was superseded by Executive Order 2009-541 and created the current appropriation unit and organizational structure of the Cabinet. Executive Order 2009-363 moved the Weatherization program from the Department for Community Based Services to the Finance and Administration Cabinet. Executive Order 2009-770 created the Governor's Office of Electronic Health Information within the Administration and Program Support appropriation unit.

**Justice and Public Safety**

	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	649,107,800	749,138,900	792,550,000	619,088,200	655,628,400
Salary and Health Insurance Adjustments	5,293,300				
Special Appropriation	1,727,100				
Continuing Approp.-General Fund	24,416				
Budget Reduction-General Fund	-107,015,500				
Mandated Expenditure Reductions	-4,618,700				
<b>Total General Fund</b>	<b>544,518,416</b>	<b>749,138,900</b>	<b>792,550,000</b>	<b>619,088,200</b>	<b>655,628,400</b>
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	1,923,400	1,929,100	1,935,900	1,923,400	1,923,400
Continuing Approp.-Tobacco Settlement	118,600				
<b>Total Tobacco Fund</b>	<b>2,042,000</b>	<b>1,929,100</b>	<b>1,935,900</b>	<b>1,923,400</b>	<b>1,923,400</b>
<b>Restricted Fund</b>					
Regular Appropriation		314,700	579,400		
Balance Forward	11,412,269	5,862,500	3,278,500	5,862,500	2,713,100
Current Receipts	36,760,817	39,554,200	41,800,700	39,360,600	41,573,800
Non-Revenue Receipts	76,293,100	79,651,000	80,666,800	76,601,200	77,331,500
Fund Transfers				-980,000	
<b>Total Restricted Fund</b>	<b>124,466,186</b>	<b>125,382,400</b>	<b>126,325,400</b>	<b>120,844,300</b>	<b>121,618,400</b>
<b>Federal Fund</b>					
Regular Appropriation		6,427,800	4,721,300		
Balance Forward	1,760,712	4,442,400	5,306,200	4,442,400	5,150,100
Current Receipts	51,393,800	48,502,200	47,834,100	49,643,200	49,350,200
ARRA Receipts	14,212,500	7,667,500	2,298,600	12,021,100	5,079,500
SFSF Receipts	90,199,300			28,344,900	
<b>Total Federal Fund</b>	<b>157,566,312</b>	<b>67,039,900</b>	<b>60,160,200</b>	<b>94,451,600</b>	<b>59,579,800</b>
<b>Road Fund</b>					
Regular Appropriation	73,881,500	75,710,000	76,166,900	77,599,500	79,951,500
<b>Total Road Fund</b>	<b>73,881,500</b>	<b>75,710,000</b>	<b>76,166,900</b>	<b>77,599,500</b>	<b>79,951,500</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>902,474,414</b>	<b>1,019,200,300</b>	<b>1,057,138,400</b>	<b>913,907,000</b>	<b>918,701,500</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	497,997,300	565,690,000	604,851,500	512,244,300	512,991,300
Operating Expenses	117,930,200	134,017,100	130,320,800	116,779,200	116,198,700
Grants Loans Benefits	270,292,816	294,789,800	296,764,500	271,480,800	273,926,900
Debt Service	3,337,400	5,239,000	4,485,300	3,300,500	4,580,800
Capital Outlay	2,345,600	10,879,700	10,526,800	2,239,000	2,244,000
<b>TOTAL EXPENDITURES</b>	<b>891,903,316</b>	<b>1,010,615,600</b>	<b>1,046,948,900</b>	<b>906,043,800</b>	<b>909,941,700</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	544,518,416	749,138,900	792,550,000	619,088,200	655,628,400
Tobacco Fund	1,775,800	1,929,100	1,935,900	1,923,400	1,923,400
Restricted Fund	118,603,700	122,103,900	123,109,800	118,131,200	119,676,400
Federal Fund	153,123,900	61,733,700	53,186,300	89,301,500	52,762,000
Road Fund	73,881,500	75,710,000	76,166,900	77,599,500	79,951,500
<b>TOTAL EXPENDITURES</b>	<b>891,903,316</b>	<b>1,010,615,600</b>	<b>1,046,948,900</b>	<b>906,043,800</b>	<b>909,941,700</b>

**EXPENDITURES BY UNIT**

Justice Administration	37,416,700	39,216,200	31,912,600	36,040,800	30,000,800
Criminal Justice Training	50,274,500	53,545,400	54,352,600	50,522,500	51,035,300
Juvenile Justice	108,347,100	116,716,600	126,836,500	106,259,400	106,016,400
State Police	182,334,200	234,359,300	246,927,800	191,106,200	191,570,000
Corrections	468,816,416	513,460,200	527,206,000	477,755,500	487,333,300
Public Advocacy	44,714,400	53,317,900	59,713,400	44,359,400	43,985,900
<b>TOTAL EXPENDITURES</b>	<b>891,903,316</b>	<b>1,010,615,600</b>	<b>1,046,948,900</b>	<b>906,043,800</b>	<b>909,941,700</b>

The Kentucky Justice Cabinet was established in 1974. It was renamed the Justice and Public Safety Cabinet in 2007. In 2009 the Department of Vehicle Enforcement was brought under the Kentucky State Police.

The Cabinet is comprised of six departments:

- Department of Justice Administration
- Department for Public Advocacy
- Department of Kentucky State Police
- Department of Juvenile Justice
- Department of Criminal Justice Training
- Department of Corrections



	<b>Labor</b>				
	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	5,749,100	25,550,000	26,213,900	4,952,900	4,952,900
Salary and Health Insurance Adjustments	118,600				
Budget Reduction-General Fund	-534,000				
Mandated Expenditure Reductions	-433,700				
<b>Total General Fund</b>	<b>4,900,000</b>	<b>25,550,000</b>	<b>26,213,900</b>	<b>4,952,900</b>	<b>4,952,900</b>
<b>Restricted Fund</b>					
Balance Forward	8,117,000	451,100	35,500	451,100	63,100
Current Receipts	100,354,700	91,597,600	93,677,500	106,226,400	107,280,000
Non-Revenue Receipts	92,377,800	102,966,900	105,252,800	99,223,200	100,664,500
<b>Total Restricted Fund</b>	<b>200,849,500</b>	<b>195,015,600</b>	<b>198,965,800</b>	<b>205,900,700</b>	<b>208,007,600</b>
<b>Federal Fund</b>					
Balance Forward	15,600				
Current Receipts	3,761,700	3,570,600	3,553,800	3,535,500	3,508,800
Non-Revenue Receipts	-274,200	-265,700	-266,800	-261,900	-261,900
<b>Total Federal Fund</b>	<b>3,503,100</b>	<b>3,304,900</b>	<b>3,287,000</b>	<b>3,273,600</b>	<b>3,246,900</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>209,252,600</b>	<b>223,870,500</b>	<b>228,466,700</b>	<b>214,127,200</b>	<b>216,207,400</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	129,380,400	143,467,700	148,138,000	134,688,100	136,626,100
Operating Expenses	7,382,300	8,416,200	8,625,800	7,708,600	7,896,100
Grants Loans Benefits	71,468,400	71,468,400	71,468,400	71,468,400	71,468,400
Capital Outlay	570,400	482,700	201,000	199,000	201,000
<b>TOTAL EXPENDITURES</b>	<b>208,801,500</b>	<b>223,835,000</b>	<b>228,433,200</b>	<b>214,064,100</b>	<b>216,191,600</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	4,900,000	25,550,000	26,213,900	4,952,900	4,952,900
Restricted Fund	200,398,400	194,980,100	198,932,300	205,837,600	207,991,800
Federal Fund	3,503,100	3,304,900	3,287,000	3,273,600	3,246,900
<b>TOTAL EXPENDITURES</b>	<b>208,801,500</b>	<b>223,835,000</b>	<b>228,433,200</b>	<b>214,064,100</b>	<b>216,191,600</b>
<b>EXPENDITURES BY UNIT</b>					
Secretary	4,527,200	5,000,300	5,003,100	4,386,200	4,388,400
General Administration and Program Support	5,534,600	6,428,700	6,933,300	5,702,800	5,914,900
Workplace Standards	82,303,200	84,397,300	85,438,600	82,090,900	82,371,200
Workers' Claims	14,888,900	16,849,600	17,634,600	15,229,700	15,670,600
Occupational Safety and Health Review Commission	505,800	527,100	556,100	519,800	530,800
Workers' Compensation Funding Commission	101,041,800	110,632,000	112,867,500	106,134,700	107,315,700
<b>TOTAL EXPENDITURES</b>	<b>208,801,500</b>	<b>223,835,000</b>	<b>228,433,200</b>	<b>214,064,100</b>	<b>216,191,600</b>

The Labor Cabinet is created pursuant to KRS 336 and Executive Order 2009-537, which elevated the Labor Department to Cabinet status. The Cabinet consists of the Office of the Secretary, the Department of Workers' Claims, and the Department of Workplace Standards. The Office of the Secretary manages and administers the Cabinet. The Department of Workers' Claims administers workers' compensation claims and ensures that employers comply with the insurance, self-insurance and rehabilitation provisions in KRS Chapter 342. The Department of Workplace Standards regulates state and federal laws

regarding prevailing wage, employment standards, occupational safety and health and child labor law. Workplace Standards also administers the payment of workers' compensation injury claims by the Special Fund and the Coal Workers' Pneumoconiosis Fund.

Attached to the Labor Cabinet for administrative purposes are the Kentucky Labor Management Advisory Council, the State Labor Relations Board, the Workers' Compensation Funding Commission, the Workers' Compensation Advisory Council, the Kentucky Occupational Safety and Health Review Commission, the Occupational Safety and Health Standards Board, the Prevailing Wage Review Board, the Apprenticeship and Training Council, the Employers' Mutual Insurance Authority, the Workers' Compensation Nominating Commission, and the Workers' Compensation Board.

In addition, the Office of General Administration and Program Support for Shared Services and the Office of Inspector General are attached to the Labor Cabinet for administrative purposes. These offices provide principal administrative, human resources, budget, auditing, and internal investigation activities for the Labor Cabinet, Energy and Environment Cabinet, and Public Protection Cabinet.

	<b>Personnel</b>				
	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	31,642,900	1,934,100	2,505,400	49,214,900	75,314,900
Salary and Health Insurance Adjustments	-17,524,900				
Budget Reduction-General Fund	-12,248,000				
Mandated Expenditure Reductions	-93,600				
<b>Total General Fund</b>	<b>1,776,400</b>	<b>1,934,100</b>	<b>2,505,400</b>	<b>49,214,900</b>	<b>75,314,900</b>
<b>Restricted Fund</b>					
Balance Forward	16,296,100	16,658,700	10,080,500	15,450,200	10,078,600
Current Receipts	45,595,000	43,559,400	46,828,100	44,559,900	46,828,600
Non-Revenue Receipts	5,576,200	6,939,100	7,665,900	7,370,600	7,278,900
<b>Total Restricted Fund</b>	<b>67,467,300</b>	<b>67,157,200</b>	<b>64,574,500</b>	<b>67,380,700</b>	<b>64,186,100</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>69,243,700</b>	<b>69,091,300</b>	<b>67,079,900</b>	<b>116,595,600</b>	<b>139,501,000</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	46,642,800	52,114,100	56,392,000	95,793,500	125,057,400
Operating Expenses	5,304,300	4,985,100	4,928,100	5,328,300	4,695,200
Grants Loans Benefits	1,776,400	1,831,300	1,831,300	1,740,900	1,740,900
Debt Service				3,574,000	3,574,000
Capital Outlay	70,000	80,300	10,300	80,300	10,300
<b>TOTAL EXPENDITURES</b>	<b>53,793,500</b>	<b>59,010,800</b>	<b>63,161,700</b>	<b>106,517,000</b>	<b>135,077,800</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	1,776,400	1,934,100	2,505,400	49,214,900	75,314,900
Restricted Fund	52,017,100	57,076,700	60,656,300	57,302,100	59,762,900
<b>TOTAL EXPENDITURES</b>	<b>53,793,500</b>	<b>59,010,800</b>	<b>63,161,700</b>	<b>106,517,000</b>	<b>135,077,800</b>
<b>EXPENDITURES BY UNIT</b>					
General Operations	21,280,900	23,189,500	24,804,900	26,934,500	26,984,200
Public Employees Deferred Compensation Authority	7,236,200	8,610,000	9,115,100	8,574,500	8,988,300
Workers' Compensation Benefits and Reserve	23,500,000	25,380,000	27,410,400	25,367,100	27,364,400
State Salary and Compensation Fund				43,900,000	70,000,000
State Group Health Insurance Fund	1,776,400	1,831,300	1,831,300	1,740,900	1,740,900
<b>TOTAL EXPENDITURES</b>	<b>53,793,500</b>	<b>59,010,800</b>	<b>63,161,700</b>	<b>106,517,000</b>	<b>135,077,800</b>

The Personnel Cabinet provides human resources management for Kentucky state government agencies. The Cabinet coordinates the personnel and payroll functions for most of state government. It coordinates state employee benefit packages, such as health and life insurance, workers' compensation, and deferred compensation programs. The Cabinet coordinates state government's employee application process, as well as recruiting and retention functions.

Currently, the Personnel Cabinet is comprised of five appropriation units: General Operations, Public Employees Deferred Compensation Authority, Workers' Compensation Benefits and Reserve, the State Group Health Insurance Fund, and the State Salary and Compensation Fund.

The Department of Personnel was created in 1960 under KRS 18.160. At the time of its inception, it was headed by a personnel board consisting of five members appointed by the Governor. The Board had the responsibility to forward to the Governor a list of qualified applicants for the position of Commissioner of Personnel. In 1972, the legislature made the Commissioner of Personnel a direct appointee of the Governor without nominations from the Personnel Board.

In 1982, KRS 18.160 was repealed and re-enacted under KRS chapter 18A.015. Legislation enacted that year also authorized the Department to charge other state agencies their pro rata share of costs associated with the administration of the Executive Branch's personnel-related functions. In 1998, the General Assembly elevated the Department to Cabinet status.

Executive Order 2009-542, dated June 12, 2009, reorganized the Personnel Cabinet and its organizational structure.

**Postsecondary Education**

	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	1,318,002,400	1,432,246,200	1,641,402,200	1,044,750,500	1,126,361,100
Salary and Health Insurance Adjustments	186,700				
Current Year Appropriation		1,794,300	2,476,300		
Continuing Approp.-General Fund	4,251,400	1,139,300	1,000,000	1,000,000	500,000
Budget Reduction-General Fund	-110,014,000				
Mandated Expenditure Reductions	-1,369,000				
Current Receipts		5,067,500	5,067,500		
<b>Total General Fund</b>	<b>1,211,057,500</b>	<b>1,440,247,300</b>	<b>1,649,946,000</b>	<b>1,045,750,500</b>	<b>1,126,861,100</b>
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	6,930,600	6,417,100	5,987,600	6,417,100	5,987,600
Continuing Approp.-Tobacco Settlement	140,600				
<b>Total Tobacco Fund</b>	<b>7,071,200</b>	<b>6,417,100</b>	<b>5,987,600</b>	<b>6,417,100</b>	<b>5,987,600</b>
<b>Restricted Fund</b>					
Balance Forward	2,959,900	387,400	155,900	1,215,500	308,500
Current Receipts	3,621,014,400	3,699,307,700	3,845,981,900	3,699,191,800	3,846,230,300
Non-Revenue Receipts	16,337,200	11,120,400	14,983,000	9,394,800	13,185,500
Fund Transfers				-794,600	-517,800
<b>Total Restricted Fund</b>	<b>3,640,311,500</b>	<b>3,710,815,500</b>	<b>3,861,120,800</b>	<b>3,709,007,500</b>	<b>3,859,206,500</b>
<b>Federal Fund</b>					
Current Receipts	754,533,800	767,665,900	806,017,000	793,188,500	821,596,000
ARRA Receipts	3,753,200	3,365,000	3,000,000	3,365,000	3,000,000
SFSF Receipts	70,000,000			57,272,600	
<b>Total Federal Fund</b>	<b>828,287,000</b>	<b>771,030,900</b>	<b>809,017,000</b>	<b>853,826,100</b>	<b>824,596,000</b>
<b>Bond Funds</b>					
Current Receipts				203,000,000	209,000,000
<b>Total Bond Funds</b>				<b>203,000,000</b>	<b>209,000,000</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>5,686,727,200</b>	<b>5,928,510,800</b>	<b>6,326,071,400</b>	<b>5,818,001,200</b>	<b>6,025,651,200</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	2,721,788,700	2,831,795,800	2,916,229,900	2,719,137,600	2,727,241,400
Operating Expenses	1,690,848,900	1,803,216,200	1,895,887,800	1,832,033,600	1,974,936,500
Grants Loans Benefits	924,024,200	1,036,813,800	1,081,723,600	914,967,200	926,241,500
Debt Service	121,451,200	126,531,000	263,988,800	126,232,700	171,925,100
Capital Outlay	225,962,700	130,548,100	138,911,800	224,821,600	224,761,700
<b>TOTAL EXPENDITURES</b>	<b>5,684,075,700</b>	<b>5,928,904,900</b>	<b>6,296,741,900</b>	<b>5,817,192,700</b>	<b>6,025,106,200</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	1,210,057,500	1,439,497,300	1,649,196,000	1,045,250,500	1,126,861,100
Tobacco Fund	6,635,200	6,167,100	5,737,600	6,417,100	5,987,600
Restricted Fund	3,639,096,000	3,710,659,600	3,859,014,500	3,708,699,000	3,858,661,500
Federal Fund	828,287,000	771,030,900	811,122,800	853,826,100	824,596,000
Bond Funds				203,000,000	209,000,000
<b>TOTAL EXPENDITURES</b>	<b>5,684,075,700</b>	<b>5,927,354,900</b>	<b>6,325,070,900</b>	<b>5,817,192,700</b>	<b>6,025,106,200</b>
<b>EXPENDITURES BY UNIT</b>					
Council on Postsecondary Education	79,581,300	81,335,200	253,432,200	83,282,700	109,441,700
Kentucky Higher Education Assistance Authority	219,878,700	321,691,600	333,960,900	242,635,000	275,028,300
Postsecondary Education Institutions	5,384,615,700	5,524,328,100	5,737,677,800	5,491,275,000	5,640,636,200
<b>TOTAL EXPENDITURES</b>	<b>5,684,075,700</b>	<b>5,927,354,900</b>	<b>6,325,070,900</b>	<b>5,817,192,700</b>	<b>6,025,106,200</b>

**Public Protection**

	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	5,210,600	12,072,600	13,494,000	7,365,100	7,365,100
Salary and Health Insurance Adjustments	80,500				
Special Appropriation	2,663,100				
Budget Reduction-General Fund	-392,300				
Mandated Expenditure Reductions	-96,500				
<b>Total General Fund</b>	<b>7,465,400</b>	<b>12,072,600</b>	<b>13,494,000</b>	<b>7,365,100</b>	<b>7,365,100</b>
<b>Tobacco Fund</b>					
Tobacco Settlement - Phase I	19,881,900	18,084,600	16,581,400	18,084,700	16,581,400
<b>Total Tobacco Fund</b>	<b>19,881,900</b>	<b>18,084,600</b>	<b>16,581,400</b>	<b>18,084,700</b>	<b>16,581,400</b>
<b>Restricted Fund</b>					
Balance Forward	48,659,700	35,724,500	43,258,300	35,646,300	32,862,900
Current Receipts	73,067,400	74,405,300	74,396,200	74,299,900	74,400,200
Non-Revenue Receipts	19,867,100	21,692,700	21,620,600	18,891,000	18,471,400
Fund Transfers	-22,310,000			-10,000,000	-15,000,000
<b>Total Restricted Fund</b>	<b>119,284,200</b>	<b>131,822,500</b>	<b>139,275,100</b>	<b>118,837,200</b>	<b>110,734,500</b>
<b>Federal Fund</b>					
Current Receipts	4,328,700	508,700	508,700	508,700	508,700
ARRA Receipts	668,500	1,150,100	157,900	1,150,100	157,900
<b>Total Federal Fund</b>	<b>4,997,200</b>	<b>1,658,800</b>	<b>666,600</b>	<b>1,658,800</b>	<b>666,600</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>151,628,700</b>	<b>163,638,500</b>	<b>170,017,100</b>	<b>145,945,800</b>	<b>135,347,600</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	73,455,800	78,548,900	81,150,200	75,389,900	75,253,100
Operating Expenses	11,583,600	13,032,900	12,920,000	12,491,800	12,374,600
Grants Loans Benefits	28,879,100	28,189,900	27,637,800	24,752,700	24,200,600
Capital Outlay	538,000	608,500	64,500	448,500	64,500
<b>TOTAL EXPENDITURES</b>	<b>114,456,500</b>	<b>120,380,200</b>	<b>121,772,500</b>	<b>113,082,900</b>	<b>111,892,800</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	7,465,400	12,072,600	13,494,000	7,365,100	7,365,100
Tobacco Fund	18,356,000	18,084,600	16,581,400	18,084,700	16,581,400
Restricted Fund	83,637,900	88,564,200	91,030,500	85,974,300	87,279,700
Federal Fund	4,997,200	1,658,800	666,600	1,658,800	666,600
<b>TOTAL EXPENDITURES</b>	<b>114,456,500</b>	<b>120,380,200</b>	<b>121,772,500</b>	<b>113,082,900</b>	<b>111,892,800</b>
<b>EXPENDITURES BY UNIT</b>					
Secretary	4,643,400	5,168,500	5,475,400	4,960,900	5,035,800
Boxing and Wrestling Authority	135,000	192,600	204,200	138,300	140,100
Alcoholic Beverage Control	5,344,500	5,793,300	6,168,500	5,712,100	5,839,400
Charitable Gaming	3,092,900	3,317,900	3,506,500	3,080,900	3,154,300
Board of Claims/Crime Victims' Compensation	2,898,600	3,016,000	3,090,100	2,897,600	2,924,800
Financial Institutions	8,736,200	11,561,500	12,181,200	11,431,000	11,658,100
Horse Racing Commission	31,142,100	29,660,200	29,816,000	29,184,300	29,125,100
Housing, Buildings and Construction	16,060,900	18,959,100	19,416,200	17,406,900	17,084,900
Insurance	42,005,000	42,284,800	41,460,700	37,881,000	36,540,400
Tax Appeals	397,900	426,300	453,700	389,900	389,900
<b>TOTAL EXPENDITURES</b>	<b>114,456,500</b>	<b>120,380,200</b>	<b>121,772,500</b>	<b>113,082,900</b>	<b>111,892,800</b>

The Public Protection Cabinet is charged with the supervision and regulation of industries. The Cabinet has five departments and one office: Alcoholic Beverage Control, Financial Institutions, Housing, Buildings and Construction, Insurance, Charitable Gaming and Office of Occupations and Professions. The Cabinet also has four boards/commissions attached for administrative purposes only: Kentucky Horse Racing Commission, Boxing & Wrestling Authority, Board of Claims/Crime Victims Compensation Board and Board of Tax Appeals. The Office of the Secretary also includes the Office of Communications and Public Outreach and the Office of Legal Services.

**Tourism, Arts and Heritage**

	Revised FY 2010	Requested FY 2011	Requested FY 2012	Recommended FY 2011	Recommended FY 2012
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	52,167,800	76,250,300	86,917,100	51,660,000	50,739,000
Salary and Health Insurance Adjustments	387,800				
Special Appropriation	4,943,200				
Budget Reduction-General Fund	-2,111,400				
Mandated Expenditure Reductions	-1,028,200				
Reorganization Adjustment	-81,400				
<b>Total General Fund</b>	<b>54,277,800</b>	<b>76,250,300</b>	<b>86,917,100</b>	<b>51,660,000</b>	<b>50,739,000</b>
<b>Restricted Fund</b>					
Balance Forward	69,344,600	65,993,200	59,261,500	64,684,500	64,211,500
Current Receipts	158,309,600	166,183,300	170,708,400	166,148,500	170,835,700
Non-Revenue Receipts	-7,600,000	-18,690,000	-18,940,000	-17,250,000	-17,500,000
<b>Total Restricted Fund</b>	<b>220,054,200</b>	<b>213,486,500</b>	<b>211,029,900</b>	<b>213,583,000</b>	<b>217,547,200</b>
<b>Federal Fund</b>					
Balance Forward	10,551,200	10,051,200	5,701,200	10,075,300	6,976,400
Current Receipts	19,500,500	20,552,200	20,966,600	20,577,500	20,993,100
Non-Revenue Receipts	-500,000	-4,350,000	-600,000	-4,350,000	-600,000
ARRA Receipts	310,500				
<b>Total Federal Fund</b>	<b>29,862,200</b>	<b>26,253,400</b>	<b>26,067,800</b>	<b>26,302,800</b>	<b>27,369,500</b>
<b>Road Fund</b>					
Regular Appropriation	350,000	350,000	350,000	350,000	350,000
<b>Total Road Fund</b>	<b>350,000</b>	<b>350,000</b>	<b>350,000</b>	<b>350,000</b>	<b>350,000</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>304,544,200</b>	<b>316,340,200</b>	<b>324,364,800</b>	<b>291,895,800</b>	<b>296,005,700</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	138,061,300	147,370,900	156,244,900	134,713,900	137,504,600
Operating Expenses	67,051,400	69,947,300	68,502,200	62,907,700	61,616,300
Grants Loans Benefits	15,862,800	14,010,300	14,278,800	12,989,200	12,901,200
Debt Service	4,427,400	15,624,300	21,888,000	5,280,600	5,808,300
Capital Outlay	4,381,500	4,424,700	4,693,000	4,816,500	4,366,500
<b>TOTAL EXPENDITURES</b>	<b>229,784,400</b>	<b>251,377,500</b>	<b>265,606,900</b>	<b>220,707,900</b>	<b>222,196,900</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	54,277,800	76,250,300	86,917,100	51,660,000	50,739,000
Restricted Fund	155,369,700	154,225,000	157,373,200	149,371,500	151,893,700
Federal Fund	19,786,900	20,552,200	20,966,600	19,326,400	19,214,200
Road Fund	350,000	350,000	350,000	350,000	350,000
<b>TOTAL EXPENDITURES</b>	<b>229,784,400</b>	<b>251,377,500</b>	<b>265,606,900</b>	<b>220,707,900</b>	<b>222,196,900</b>
<b>EXPENDITURES BY UNIT</b>					
Secretary	15,916,200	15,820,600	18,948,400	13,392,700	13,415,700
Artisans Center	2,457,300	2,756,600	2,718,200	2,383,500	2,406,300
Travel	3,531,800	4,021,300	4,254,700	3,442,800	3,442,800
Parks	91,416,200	96,620,600	102,705,500	83,648,800	85,068,900
Horse Park Commission	8,700,600	12,173,900	12,120,900	10,870,900	9,987,500
State Fair Board	41,845,000	51,955,000	53,822,200	44,342,600	45,251,500
Fish and Wildlife Resources	49,988,800	51,652,500	54,072,300	48,004,700	48,808,000



Historical Society	7,489,100	7,998,400	7,992,900	7,789,900	6,962,600
Arts Council	4,828,900	4,522,500	4,615,700	4,082,300	4,082,300
Heritage Council	2,660,600	2,117,600	2,231,100	1,818,800	1,840,400
Kentucky Center for the Arts	949,900	1,738,500	2,125,000	930,900	930,900
<b>TOTAL EXPENDITURES</b>	<b>229,784,400</b>	<b>251,377,500</b>	<b>265,606,900</b>	<b>220,707,900</b>	<b>222,196,900</b>

Senate Bill 185, enacted by the 2009 Regular Session of the General Assembly renamed the Commerce Cabinet the Tourism, Arts and Heritage Cabinet. The Tourism, Arts and Heritage Cabinet's mission (KRS 148.522) is to capitalize on the natural assets of the Commonwealth and draw from resources in business development, tourism, outdoor attractions, arts, and cultural heritage. Through unified efforts of its agencies, the Cabinet will continually strive to improve the quality of life of the people of Kentucky by creating new wealth and generating jobs.

The Tourism, Arts and Heritage Cabinet is comprised of the following agencies:

- Kentucky State Fair Board
- Kentucky Heritage Council
- Kentucky Arts Council
- Kentucky Historical Society
- Kentucky Center for the Arts
- Governor's School for the Arts
- Department of Fish and Wildlife Resources
- Kentucky Horse Park
- Kentucky Department of Parks
- Kentucky Artisan Center at Berea
- Department of Travel
- Office of the Secretary
- Capital Plaza Operations
- Creative Services
- The Kentucky Humanities Council

**Transportation**

	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Regular Appropriation	5,178,200	5,908,200	5,998,400	5,027,100	5,861,100
Continuing Approp.-General Fund	131,600				
Budget Reduction-General Fund	-538,500				
Mandated Expenditure Reductions	-100,300				
<b>Total General Fund</b>	<b>4,671,000</b>	<b>5,908,200</b>	<b>5,998,400</b>	<b>5,027,100</b>	<b>5,861,100</b>
<b>Restricted Funds</b>					
Balance Forward	234,212,700	9,925,100	10,927,200	6,326,200	7,196,400
Current Receipts	111,215,700	107,357,700	107,371,200	107,396,900	107,406,900
Non-Revenue Receipts	549,371,500	-75,000	-75,000	130,925,000	-75,000
Fund Transfers	-16,737,200	-1,462,800	-1,464,000	-10,012,800	-10,014,000
<b>Total Restricted Funds</b>	<b>878,062,700</b>	<b>115,745,000</b>	<b>116,759,400</b>	<b>234,635,300</b>	<b>104,514,300</b>
<b>Federal Funds</b>					
Current Receipts	734,257,400	718,294,000	718,311,400	718,294,000	718,311,400
ARRA Receipts	398,283,700				
<b>Total Federal Funds</b>	<b>1,132,541,100</b>	<b>718,294,000</b>	<b>718,311,400</b>	<b>718,294,000</b>	<b>718,311,400</b>
<b>Road Fund</b>					
Regular Appropriation	1,323,196,900	1,208,163,400	1,295,129,200	1,189,830,300	1,265,054,500
Budget Reduction-Road Fund	-172,841,800				
Other	-33,161,600				
<b>Total Road Fund</b>	<b>1,117,193,500</b>	<b>1,208,163,400</b>	<b>1,295,129,200</b>	<b>1,189,830,300</b>	<b>1,265,054,500</b>
<b>Highway Bonds</b>					
Non-Revenue Receipts				112,000,000	300,000,000
<b>Total Highway Bonds</b>				<b>112,000,000</b>	<b>300,000,000</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>3,132,468,300</b>	<b>2,048,110,600</b>	<b>2,136,198,400</b>	<b>2,259,786,700</b>	<b>2,393,741,300</b>
<b>EXPENDITURES BY CLASS</b>					
Personnel Costs	424,961,300	451,932,600	473,189,300	437,585,400	446,337,200
Operating Expenses	271,344,900	276,283,700	275,534,000	271,490,700	276,438,500
Grants Loans Benefits	265,532,900	229,796,300	243,704,500	232,116,500	241,469,500
Debt Service	132,979,000	197,860,700	217,608,100	148,711,200	185,469,900
Capital Outlay	1,028,500	4,178,000	4,228,000	928,000	928,000
Construction	2,030,295,500	877,132,100	910,144,300	1,151,923,500	1,223,412,900
<b>TOTAL EXPENDITURES</b>	<b>3,126,142,100</b>	<b>2,037,183,400</b>	<b>2,124,408,200</b>	<b>2,242,755,300</b>	<b>2,374,056,000</b>
<b>EXPENDITURES BY FUND SOURCE</b>					
General Fund	4,671,000	5,908,200	5,998,400	5,027,100	5,861,100
Restricted Funds	871,736,500	104,817,800	104,969,200	227,438,900	96,464,000
Federal Funds	1,132,541,100	718,294,000	718,311,400	718,294,000	718,311,400
Road Fund	1,117,193,500	1,208,163,400	1,295,129,200	1,179,995,300	1,253,419,500
Highway Bonds				112,000,000	300,000,000
<b>TOTAL EXPENDITURES</b>	<b>3,126,142,100</b>	<b>2,037,183,400</b>	<b>2,124,408,200</b>	<b>2,242,755,300</b>	<b>2,374,056,000</b>
<b>EXPENDITURES BY UNIT</b>					
General Administration and Support	69,797,900	74,393,000	76,329,900	71,425,200	72,051,100
Aviation	19,497,100	10,384,900	10,564,200	5,445,500	6,030,000
Debt Service	54,278,000	117,784,000	137,556,000	68,056,000	104,005,300
Highways	2,575,212,800	1,460,401,300	1,500,655,100	1,714,477,400	1,792,917,400
Public Transportation	70,936,000	49,870,000	49,870,000	49,434,600	49,434,600
Revenue Sharing	294,530,800	282,714,300	306,734,500	297,140,300	312,492,800
Vehicle Regulation	41,889,500	41,635,900	42,698,500	36,776,300	37,124,800
<b>TOTAL EXPENDITURES</b>	<b>3,126,142,100</b>	<b>2,037,183,400</b>	<b>2,124,408,200</b>	<b>2,242,755,300</b>	<b>2,374,056,000</b>

The Transportation Cabinet is responsible for maintaining and improving transportation services in the Commonwealth. All modes of transportation are addressed by the Cabinet, including air transportation, railroads, waterways, public transit, and highways. The Secretary of Transportation, who is appointed by the Governor, heads the organization. The duties and responsibilities of the Cabinet are found in Titles XV and XVI of the Kentucky Revised Statutes.

The Cabinet receives funding from the state Road Fund, proceeds from highway bonds issued by the Kentucky Turnpike Authority, and federal aid apportionments for highways. Other revenue sources include agency receipts, non-highway federal aid, the state General Fund, and a federal fund leveraging mechanism titled Grant Anticipation Revenue Vehicle (GARVEE) bonds. The revenue components of the Road Fund are the motor fuels tax, motor vehicle usage tax, license and privilege taxes, interest income, and miscellaneous departmental fees, permits, and sales.

Seven major budget units comprise the Transportation Cabinet: General Administration and Support, Aviation, Public Transportation, Revenue Sharing, Highways, Vehicle Regulation, and Debt Service.

Organizationally, the agency is divided into four departments: Aviation, Vehicle Regulation, Rural and Municipal Aid, and Highways. Each department is headed by a commissioner directly responsible to the Secretary. Other organizational units include the Office of Support Services, the Office of Transportation Delivery, the Office of Audits, the Office of Human Resource Management, the Office of Information Technology, the Office of Legal Services, the Office of Public Affairs, the Office of Budget and Fiscal Management, the Office for Civil Rights and Small Business Development, and the Office of Inspector General. These units report to the Office of the Secretary. The following offices report to the State Highway Engineer in the Department of Highways: the Office of Project Development, the Office of Project Delivery and Preservation, the Office of Highway Safety, and Highway District Offices One through Twelve. The Office of Local Programs and the Office of Rural and Secondary Roads report to the Commissioner of Rural and Municipal Aid.

The Transportation Cabinet has its origin as an agency of the Commonwealth of Kentucky in 1912 when the General Assembly established the Department of Highways. Legislation in 1974 created the Department of Transportation by consolidating the Departments of Highways, Motor Transportation, and Aeronautics, plus certain transportation-related functions of the Department of Public Safety and the Department of Revenue. The 1982 General Assembly established the Transportation Cabinet as the successor to the Department of Transportation, and it assumed all of the duties formerly associated with the Department.

Executive Order 2008-529, dated June 16, 2008 reorganized the Transportation Cabinet to its current organizational structure and was ratified by the 2009 General Assembly.

## **Policy**

On December 21, 2009, the Consensus Forecasting Group established the Road Fund revenue estimate for the fiscal biennium 2010-2012. The Road Fund revenue estimate is \$1,270,600,000 for fiscal year 2010-2011 and \$1,340,900,000 for fiscal year 2011-2012.

**Statewide  
Budget Reserve Trust Fund**

	<b>Revised FY 2010</b>	<b>Requested FY 2011</b>	<b>Requested FY 2012</b>	<b>Recommended FY 2011</b>	<b>Recommended FY 2012</b>
<b>SOURCE OF FUNDS</b>					
<b>General Fund</b>					
Continuing Approp.-General Fund	7,125,158				
Mandated Allotments	-7,125,158				
<b>Total General Fund</b>					
<b>TOTAL SOURCE OF FUNDS</b>					

The Budget Reserve Trust Fund is the Commonwealth's "Rainy Day Fund." KRS 48.705 provides for deposits to the Budget Reserve Trust Fund from direct appropriations, excess receipts, and unexpended appropriations, up to five percent of actual General Fund revenue receipts. These funds are appropriated and available in the event that actual General Fund revenue receipts during the biennium are not sufficient to meet the General Fund appropriation levels authorized in the budget. These funds are also available as a resource for Necessary Governmental Expenses when there is no General Fund surplus.

**Policy**

The current balance of the Budget Reserve Trust Fund is \$0. The \$214,775,400 balance at the end of fiscal year 2008 was used through an appropriation that was a part of the fiscal year 2009 budget shortfall actions, and to pay for the first fiscal year 2010 necessary governmental expense.

The Executive Budget proposes to direct funds to the Budget Reserve Trust Fund through the General Fund Surplus Expenditure Plan.

# Revenue Estimates

Fiscal Years

2010-2012

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## EXECUTIVE SUMMARY

This section of the Budget in Brief will highlight the official revenue estimates prepared by the Consensus Forecasting Group (CFG). It will also briefly describe the processes involved, as well as some of the economic conditions that affect state revenues.

The estimates contained within reflect the consensus forecasting process authorized by Kentucky Revised Statute 48.115. The CFG debated the draft estimates prepared by the Governor's Office for Economic Analysis and ultimately settled upon the official estimates upon which the budget is based.

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. Three plausible national scenarios were presented to the CFG, as well as countless others due to the potential for blending multiple scenarios.

The current economic recession has exceeded 24 months in duration and will be recorded as the longest recession since the Great Depression official seized the economy in August, 1929. All three scenarios predicted a recovery in the state and national economies over the forecasting horizon. The primary difference among the projections was the timing of the economic trough and the robustness of the recovery. The control forecast embodied a mild w-shaped recession, where certain economic variables would exhibit mild setbacks before returning to trend growth. The pessimistic scenario predicted a more pronounced w-shaped recovery, where the short-term slide was longer and deeper than the control. The optimistic scenario was a classic V-shaped recovery, where bottom forms abruptly and a more robust recovery begins more quickly.

Kentucky's economy is projected to closely mirror the U.S. economy according to the blended outlook. Personal income is estimated to be \$137.1 billion in fiscal year 2010, with a corresponding growth rate projected at only 1.6 percent. In fiscal year 2011 and fiscal year 2012, Kentucky personal income is expected to rise 3.1 percent and 4.0 percent respectively. Total Kentucky Nonfarm Employment is expected to be 3.0 percent in fiscal year 2010, with a rebound of 0.1 percent and 1.7 percent projected for the biennium. By the end of fiscal year 2012, employment should top 1,795,100 workers.

Through the first half of fiscal year 2010, General Fund revenue has slipped by 4.6 percent, reflecting weakness in employment and personal income growth. Receipts declined in each of quarters in calendar year 2009. The outlook for the remainder of fiscal year 2010 is for General Fund collections to total \$8,196.0 million, an amount 2.7 percent lower than fiscal year 2009. Fiscal year 2011 revenues are estimated to be \$8,490.8 million, an increase of 3.6 percent from fiscal year 2010. For fiscal year 2012, General Fund revenues should reach \$8,808.8 million, rising by 3.7 percent. A summary is provided in table 2.

**Table 1**  
**Economic Assumptions Used in the Revenue Estimate**  
**(Based on Majority Forecast, December 2009)**

	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>
KY Nonfarm Employment (Thous)	1,763.3	1,765.3	1,795.1
% Change over Prior Year	-3.0	0.1	1.7
KY Personal Income (Mil \$)	137,143	141,390	147,116
% Change over Prior Year	1.6	3.1	4.0

**Table 2  
Fiscal Years 2010-2012 Estimates**

	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
	<b><u>Estimate</u></b>	<b><u>Estimate</u></b>	<b><u>Estimate</u></b>
Total Receipts (Mil \$)	8,196.0	8,490.8	8,808.8
Percent Change (%)	(2.7)	3.6	3.7

Road Fund collections are summarized in Table 3. Road Fund revenue should be \$1,199.1 million in fiscal year 2010. This represents an increase of 0.6 percent from the prior fiscal year. In fiscal year 2011, growth of 6.0 percent is forecasted, producing revenues of \$1,270.6 million. Fiscal year 2012 Road Fund growth will rise to 5.5 percent. The primary source of growth in the Road Fund is the motor fuels tax, which is affected by a formulaic rise in the rate tied to the price of gasoline. Growth in the Motor Vehicle Usage Tax account is also expected over the next biennium as car purchases that were delayed due to the recession will finally lead to a replacement of aging vehicles.

**Table 3  
Road Fund Revenue Fiscal Year 2008 Actual  
Fiscal Years 2009-11 Estimate**

	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
	<b><u>Estimate</u></b>	<b><u>Estimate</u></b>	<b><u>Estimate</u></b>
Total Receipts (Mil \$)	1,199.1	1,270.6	1,340.9
Percent Change (%)	0.6	6.0	5.5



## ECONOMIC OUTLOOK

The Consensus Forecasting Group (CFG) met on December 4, 2009, to deliberate over the current economic conditions and expectations for the upcoming biennium. Since the CFG had already met in May, August and October for the preliminary and planning estimate process, much of the discussion centered on current trends in state and national economic variables vis-à-vis the economic conditions that prevailed during the earlier meetings. Economic trends during the August and October meetings led the CFG to advocate the use of a blend of economic scenarios, equally split between the control, or baseline, projections and alternative scenarios that projected prolonged weakness in the economy. During the December 4, 2009 meeting, however, there were more concrete signs that the national and state economies were beginning to emerge from the recession. As a result, the CFG directed staff to also consider an alternative forecast that included projections for growth slightly more robust than the baseline model. Thus, during the December 21<sup>st</sup> meeting on revenue projections, the CFG considered three forecasts -- a baseline model surrounded on each side by optimistic and pessimistic scenarios. Ultimately, the CFG used revenue forecasts based on the baseline, or control scenario, for fiscal year 2010. For the biennium, the CFG opted for a blend of 30 percent optimistic and 70 percent control for the General Fund forecast. For the Road Fund projections, a control scenario was used for all three fiscal years, 2010 through 2012.

### National Economy

**Recent History:** The U.S. economy officially entered a recession in December 2007 according to the National Bureau of Economic Research, which maintains the chronology of the official turning points in the national economy. The 2007 recession lasted the entire year of 2008 and most, if not all, of 2009. While the official end date of the recession has not been identified, it appears likely that it will be on or after November 2009 – making the total duration of the recession at least 24 months. A 24-month recession would mark the longest recession since the Great Depression, which official started in August, 1929, and lasted an astonishing 43 months.

The underlying economic data demonstrate the profound weakness of the national economy. Comparing fiscal years, US gross domestic product rose a very weak 2.2 percent in fiscal year 2008, as the final quarters of that fiscal year showed a pronounced softening. That trend magnified in fiscal year 2009 as GDP fell 2.2 percent. Personal income data also started to show signs of weakness before going negative in fiscal year 2009 where it declined marginally.

Employment was profoundly affected by the recession. U.S. manufacturing employment fell 2.3 percent in fiscal year 2008 and followed that with a 7.2 percent decline in fiscal year 2009. Total employment did only slightly better, falling 2.3 percent in fiscal year 2009.

With weakness in personal income and employment, retail sales nosedived in fiscal year 2009, falling by 6.6 percent – the largest such decline in decades. U.S. corporate profits plunged accordingly, off 21.2 percent in fiscal year 2009.

**Economic Outlook:** The recent fluctuations in major economic variables underscore the difficulty of pegging future movements of the national economy, or even the state economy, during a period of time that includes a turning point from a recession to an ultimate recovery. Few economists dispute the pending national recovery. The duration of the actual trough and the “slope” of the upswing, on the other hand, continue to be hotly contested.

In the majority forecast, GDP rebounds slightly in fiscal year 2010 with 0.4 percent growth before growth picks up in the next two fiscal years. Growth is expected to hit 2.4 percent in 2011 and 3.5 percent over the biennium. Total nonfarm employment, on the other hand, is expected to fall 3.0 percent in fiscal year 2010 before rebounding. U.S. Employment growth over the two years of the biennium is expected to be 0.6 percent and 2.4% respectively. The forecast for U.S. manufacturing employment is much weaker – a decline of 8.4 percent in fiscal year 2010 followed by a third consecutive decline in fiscal year 2011 (0.9 percent). Additional forecast data are shown in table 4 below.

In plainest terms, the economic forecast assumes that the recent improvements in key economic

variables will set the stage for an inevitable recovery. However, due to the depth and duration of the current recession, there remain concerns regarding which sectors of the economy will rebound most quickly. The economy appears poised to move sideways until economic agents can more positively identify that the tide has turned. Businesses, faced with slumping current sales, will continue to be exceedingly cautious about expanding production and employment. Moreover, caution about current production decisions seems to be bleeding over into extreme caution about future production plans, which will further delay any meaningful rebound in business planned investment.

Eventually production increases will lead to a rebound in employment, but not until excess sustained improvement in aggregate demand can be demonstrated. New orders for finished goods often rise before aggregate demand rises due to the depletion and replenishment of inventories. Many businesses have excess capacity that accumulated during the recession. This excess capacity allows businesses to produce more in the short run without necessarily hiring more labor and utilizing additional capital. Eventually the production function will prevail (a relationship that only allows production to increase by increasing labor and capital inputs), but it is certainly plausible to expect the employment recovery to lag the production data. Traditional theories of the firm assume starting in equilibrium, where production capacity is assumed fully utilized, so the current macroeconomic trends are more an acknowledgment of excess capacity rather than a counterproof to established theories of production.

## **Kentucky Economy**

### **Recent History:**

There is no official measure for recession starting points for states. In many cases, an analysis of the key macroeconomic series for the state, such as personal income and employment, can provide a reasonable estimate of those turning points for states. The majority of the key series started actively declining between April and August of 2008. This is four to eight months after the official starting point of the 2007 recession. So the 'Kentucky recession' starting point lagged the U.S. recession. Kentucky historically lags the nation in the precise beginning of a recessionary period. It is also historically true that Kentucky's expansion starts after the national expansion has begun. The official turning points in the U.S. business cycle are determined by the National Bureau of Economic Research (NBER). The most recently identified turning point by NBER is December 2007 as the last contraction starting point. As of July 13, 2009, the expansion period has not been determined for the nation.

Fiscal years 2007 and 2008 marked a period of moderate to strong growth in personal income for Kentucky. Annual personal income growth was 5.8 percent and 4.7 percent respectively. In the first quarter of fiscal year 2009, Kentucky personal income declined by a modest 0.4 percent, or \$578.0 million. The next two quarters growth flattened out to near zero, while the fourth quarter experienced a welcomed increase of 1.1 percent adjacent-quarter growth. The lagged relationship between the Kentucky economy and the national economy probably explains the fact that Kentucky personal income performed better than U.S. personal income for this first full year of the recession.

The fiscal year average growth rate pulled back considerably from the previous two fiscal years with a modest 2.6 percent annual growth. This is only slightly better than the personal income growth which occurred during the 2001 recession; 2.2 percent and 2.3 percent respectively for fiscal year 2002 and fiscal year 2003. There were considerable employment losses in Kentucky during the second half of fiscal year 2008 and all of fiscal year 2009. The full effects of those employment losses will be integrated into the personal income data in the next two quarters.

Kentucky wage and salary income declined in the third quarter by 1.0 percent over the second quarter, and declined by 1.2 percent in the fourth quarter over the third quarter. The fourth quarter ended 1.8 percent lower than the same quarter in fiscal year 2008.

Fiscal year 2009 was a particularly bad year for Kentucky employment. Nonagricultural employment in the state declined by 47,900 jobs (averaged quarterly figures), or 2.6 percent, from fiscal year 2008 to fiscal year 2009. Only three sectors were spared from these losses, as mining, educational services and leisure and hospitality services all experienced some gains. Both construction and manufacturing employment had large percentage losses of jobs in fiscal year 2009. The housing market crisis has led to

tempered demand for the construction of new homes and for the improvement of existing homes. High inventories of both new and existing homes continue to put additional downward pressure on the construction sector.

Kentucky manufacturing employment suffered the large absolute employment loss as well as the largest percentage loss, with a loss of 26,900 jobs, or 10.6 percent. Recessions tend to hit the manufacturing sector harder than other goods-producing sectors. And as Kentucky is over-represented in the manufacturing sector, recessions typically hurt the Kentucky manufacturing sector harder than the U.S. This is certainly true of the current recession. The U.S. and Kentucky both lost similar percentages of total employment -2.3 percent versus -2.6 percent, but Kentucky lost far more in the manufacturing sector by comparison, as the U.S. manufacturing sector lost 7.3 percent.

Despite the relative importance of the manufacturing sector in Kentucky, the largest employment sector in absolute terms in Kentucky is the trade, transportation and utilities sector. This sector makes up 20.7 percent of total nonagricultural employment in Kentucky. Kentucky manufacturing makes up 12.4 percent of total nonagricultural employment. Trade, transportation and utilities declined by 9,400 jobs, or 2.4 percent from fiscal year 2008 to fiscal year 2009. The losses in the trade, transportation and utilities sector represent the largest absolute decline among the services sectors.

Mining employment increased by 11.8 percent on a fiscal year average basis, up by 2,600 jobs. The majority of this increase occurred in the coal mining sub-sector where employment increased by 2,100 non-seasonally adjusted persons from May 2008 to May 2009. Extraordinary high prices in the coal market fueled increased demand for coal mining employment in the first half of fiscal year 2009 and to a lesser degree in the second half of fiscal year 2009, as prices began to moderate from their all-time highs.

Kentucky government employment declined by 3,500, or 1.1 percent, on a fiscal year average basis. Government employment, the second largest employment sector, makes up 17.6 percent of total nonagricultural employment.

**Outlook:** The short-run outlook for the Kentucky economy is dominated by weaknesses in the employment sector. Both the national and Kentucky economies show some signs of improvement on the production front, but employment and wages will be impediments to growth in fiscal year 2010. Federal relief has help cushion the blows to state economies. However, high federal budget deficits will likely forestall additional rounds of fiscal relief to the states.

Modest economic growth is expected in fiscal year 2011 and fiscal year 2012. An improvement in global demand will likely help the demand for exported goods, which will in turn help Kentucky's manufacturing sector. Moreover, businesses are in a very competitive position to capitalize on global demand as unit labor costs are down and workforces are lean. As production increases, employment and wages will eventually follow. The speed and magnitude of the recovery will be largely dependent upon the willingness of businesses to increase workforces in response to slowly improving demand conditions.

Low energy prices and low interest rates should also aid in recharging the depleted economy. Despite these historically low interest rates, credit conditions remain tight to all but the lowest-risk borrowers. Tight credit markets and uncertainty in the financial markets will limit the upside in the economy over the next biennium as consumers are reigned in by uncertain employment and limited credit options.

The weak short-term employment outlook corresponds to similar weakness on the personal income front. Wage and salary income comprises approximately 52.0 percent of state personal income. The second largest category of Kentucky personal income is transfer payments, which represent approximately 24.0 percent of personal income in fiscal year 2010. Transfer payments are expected to increase 8.8 percent in fiscal year 2010. The rate of growth in transfer payments, and the percentage of total income, both exceed the corresponding national data. This partially explains why the Kentucky personal income growth is expected to exceed that national rate of growth despite the underlying weakness in Kentucky wage and salary income growth.

The path to recovery for the Kentucky economy traverses the same terrain as the national economy. Production will eventually increase, excess capacity will be worked through, and then higher sustained demand for goods and services will trigger a period of employment and business investment. The end of

the path and the recovery in employment is not projected to be reached until fiscal year 2011, but a return to employment growth patterns of the 1990s is not expected. It will take considerable time for businesses to return to staffing levels enjoyed in the prior decade.

Additional Kentucky projections are shown directly below in Table 4.

**Table 4: Selected U.S. and Kentucky Economic Indicators**  
**Global Insight: Majority Forecast for Official Revenue Estimates**

	FY08	FY09	FY10	FY11	FY12
<b>OUTPUT</b>					
US Real GDP (Bil 2000\$)	13,374	13,073	13,132	13,441	13,916
	2.2%	-2.2%	0.4%	2.4%	3.5%
Industrial Production Index, Total	1.1%	-8.7%	-2.5%	3.9%	4.7%
Industrial Production Index, Durables	0.1%	-6.9%	-0.6%	1.8%	2.2%
<b>INCOME</b>					
KY Personal Income (Mil\$)	134,993	134,936	137,143	141,390	147,116
	4.1%	0.0%	1.6%	3.1%	4.0%
KY Wage & Salary Income (Mil\$)	71,703	71,434	69,927	71,968	75,006
	3.6%	-0.4%	-2.1%	2.9%	4.2%
KY Supplements to W&S (Mil\$)	18,250	18,870	19,005	19,456	20,133
	4.2%	3.4%	0.7%	2.4%	3.5%
KY Proprietors' Income (Mil\$)	10,083	9,825	9,743	10,539	11,363
	-2.3%	-2.6%	-0.8%	8.2%	7.8%
KY Dividend, Interest, & Rent (Mil\$)	20,761	20,217	19,161	19,736	20,738
	4.6%	-2.6%	-5.2%	3.0%	5.1%
KY Transfer Payments (Mil\$)	27,880	30,446	33,802	34,801	35,703
	8.1%	9.2%	11.0%	3.1%	4.1%
KY Social Insurance (Mil\$)	11,365	11,580	11,532	11,904	12,376
	4.3%	1.9%	-0.4%	3.2%	4.0%
US Personal Income (Bil\$)	12,120	12,111	12,074	12,533	13,111
	4.5%	-0.1%	-0.3%	3.8%	4.6%
<b>EMPLOYMENT</b>					
KY Nonfarm Employment (Thous)	1,866.3	1,818.5	1,763.3	1,765.3	1,795.1
	0.5%	-2.6%	-3.0%	0.1%	1.7%
US Nonfarm Employment (Mil)	137.8	134.6	130.7	131.5	134.6
	0.6%	-2.3%	-3.0%	0.6%	2.4%
KY Manufacturing Employment (Thou)	252.2	226.7	207.6	205.5	210.3
	-2.4%	-10.1%	-8.4%	-1.0%	2.4%
US Manufacturing Employment (Mil)	13.7	12.7	11.7	11.6	11.9
	-2.3%	-7.2%	-8.4%	-0.9%	3.2%
<b>OTHER KEY MEASURES</b>					
Consumer Sentiment Index (Michigan)	73.9	62.2	69.7	73.9	76.0
Rate of Inflation (%)	3.7%	1.4%	0.9%	1.5%	2.1%
US Retail Sales (%)	3.1%	-6.6%	-0.1%	4.7%	5.8%
US Corporate Profits(%)	-1.4%	-21.2%	19.6%	4.8%	7.8%
Three-month Treasury Bills (%)	2.9%	0.6%	0.2%	1.2%	2.9%
Oil Price, West Texas (\$/barrel)	96.84	70.07	70.00	71.83	81.00

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

## **ANNUAL TOTALS, FISCAL YEAR 2009**

### **General Fund**

The General Fund decreased by 2.7 percent, or \$238.0 million, in fiscal year 2009, the first annual decline in General Fund receipts since fiscal year 2002. General Fund receipts have declined only twice in the past 56 years. The global recession has started to take a pronounced and detrimental toll on Kentucky tax receipts as the major sources of revenue – sales and individual income tax – posted declines for the year. Receipts totaled \$8.426 billion compared to \$8.664 billion for the previous year. Collections in the major revenue categories are shown in summary form in table 5. Detailed information on these and other accounts is available in Appendix A.

General Fund collections for fiscal year 2009 were \$55.7 million below the revised official estimate rendered in November 2008 by the Consensus Forecasting Group, as modified by the 2009 General Assembly, which projected revenue growth of -2.1 percent. The largest shortfalls occurred in the individual income and sales and use taxes, which were \$50.0 million and \$31.4 million below forecasted levels, respectively. On the other hand, the corporation income, LLET and coal severance taxes all came in above forecasted levels.

Sales tax receipts fell 0.7 percent fiscal year 2009, or \$20.1 million, as the national recession cut into consumers' ability to make taxable purchases. Receipts of \$2.858 billion compare to prior year receipts \$2.878 billion. Sales tax receipts finished the year with three consecutive quarterly declines, providing additional headwind for a robust 2010 recovery.

Individual income tax receipts declined by \$167.8 million from last year as all components of the tax showed weakness. Only withholding tax receipts rose compared to last year but the increase was less than 0.1 percent. Receipts totaled \$3.315 billion and compare to \$3.483 billion collected last year.

Corporate income tax collections fell \$167.2 million in fiscal year 2009 on weak corporate profits. Receipts for the year totaled \$268.0 million and compare to \$435.2 million collected in fiscal year 2008. The limited liability entity tax increased 23.6 percent compared to the prior year with receipts of \$121.7 million.

Coal severance taxes increased by 25.6 percent in fiscal year 2009 reflecting increased prices. Total collections for the fiscal year were \$292.6 million or \$59.6 million more than fiscal year 2008 receipts, easily eclipsing the previous high for collections in this account.

Total property taxes rose 2.5 percent during the fiscal year. Receipts totaled \$513.1 million compared to \$500.6 million collected in fiscal year 2008. Strong growth in the omitted and delinquent accounts helped offset lower than expected real property tax collections.

Lottery receipts increased 3.2 percent, or \$6.0 million, from the previous year. Receipts of \$193.5 million compare favorably to \$187.5 million remitted to the state in fiscal year 2008, but fell short of the estimate of \$198.5 million.

The "Other" category finished the year down 2.6 percent. Receipts of \$661.4 million compare to \$679.1 million collected in fiscal year 2008. Declines in interest on investments and the sale of NOx allowances largely accounted for the decline.

Figure A details the composition of fiscal year 2009 General Fund receipts by tax type. Seventy-five percent of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the "Other" category. The largest components in this category include the insurance premium tax, bank franchise tax, inheritance tax, beer wholesale sales tax, the natural gas severance tax, abandoned property, departmental fees and fines and forfeitures. Property taxes made up 6.0 percent of the General Fund and corporation income and coal severance each accounted for 3.0 percent. Lottery revenues, cigarette taxes, and the LLET each accounted for two percent or less of General Fund revenues.

Table 7 and Figure B detail the growth rates in General Fund revenues by each fiscal quarter of fiscal year 2009. Growth was moderate in the first two quarters of the fiscal year but turned negative in the second half. The decline in General Fund receipts accelerated over the second half of the fiscal year, ending with a decline of 9.7 percent in the fourth quarter.

**Table 5**  
**FY09 General Fund Revenues Compared to Previous Years**  
**(\$ millions)**  
**July 2009**

	<u>Million \$</u>			<u>Growth Rate (%)</u>		
	<u>FY09</u>	<u>FY08</u>	<u>FY07</u>	<u>FY09</u>	<u>FY08</u>	<u>FY07</u>
Sales and Use	2,857.7	2,877.8	2,817.7	-0.7	2.1	2.5
Individual Income	3,315.4	3,483.1	3,041.5	-4.8	14.5	4.2
Corporation Income	268.0	435.2	988.1	-38.4	-56.0	-1.4
LLET	121.7	98.4	--	23.6	--	--
Coal Severance	292.6	233.0	222.0	25.6	5.0	-1.1
Cigarette Tax	203.0	169.5	168.8	19.8	0.5	1.8
Property	513.1	500.6	492.5	2.5	1.7	-2.0
Lottery	193.5	187.5	186.6	3.2	0.4	-1.8
Other	<u>661.4</u>	<u>679.1</u>	<u>656.8</u>	<u>-2.6</u>	<u>3.4</u>	<u>5.4</u>
<b>TOTAL</b>	<b>8,426.4</b>	<b>8,664.3</b>	<b>8,573.8</b>	<b>-2.7</b>	<b>1.1</b>	<b>2.4</b>

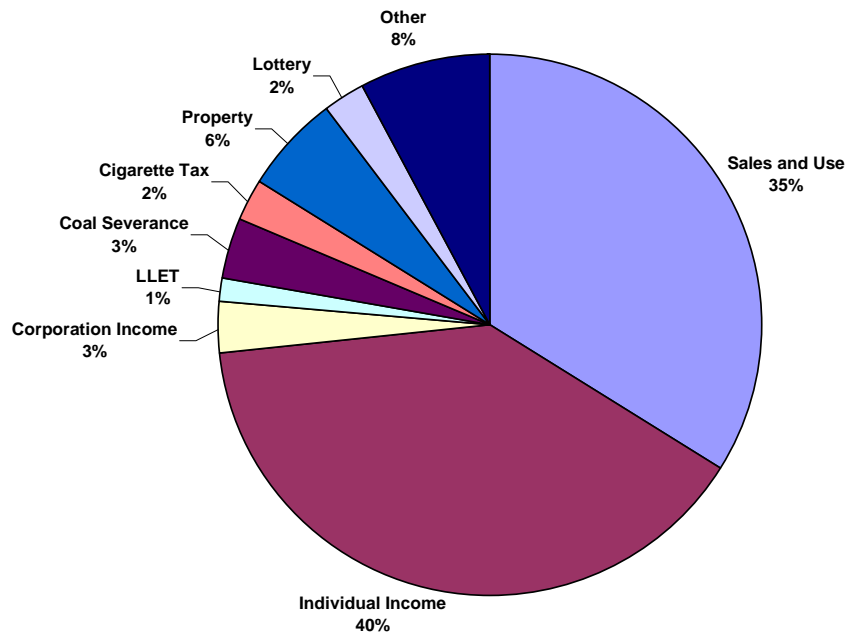
**Table 6**  
**FY09 General Fund Revenues Compared to Revised Official Estimate**  
**(\$ millions)**  
**July 2009**

	<u>Actual</u>	<u>Estimate</u>	<u>Diff.</u> <u>(\$)</u>	<u>Diff.</u> <u>(%)</u>
Sales and Use	2,857.7	2,889.1	-31.4	-1.1
Individual Income	3,315.4	3,365.4	-50.0	-1.5
Corporation Income	268.0	241.6	26.4	10.9
LLET	121.7	98.0	23.7	24.1
Coal Severance	292.6	275.3	17.3	6.3
Cigarette Tax	203.0	207.9	-4.9	-2.3
Property	513.1	527.2	-14.1	-2.7
Lottery	193.5	198.5	-5.0	-2.5
Other	<u>661.4</u>	<u>679.1</u>	<u>-17.7</u>	<u>-2.6</u>
<b>TOTAL</b>	<b>8,426.4</b>	<b>8,482.1</b>	<b>-55.7</b>	<b>-0.7</b>

**Table 7**  
**General Fund Growth Rates for the Four Quarters and Full Year FY09**  
**(percent)**  
**July 2009**

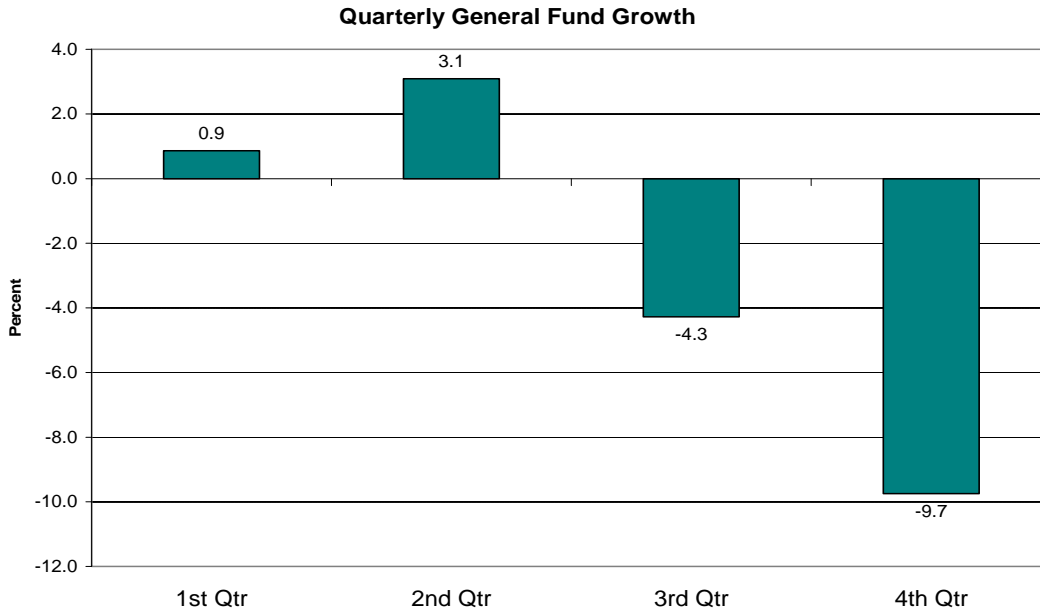
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY09</u>
Sales and Use	3.2	-0.2	-2.9	-3.0	-0.7
Individual Income	6.6	7.7	-12.2	-17.0	-4.8
Corporation Income	-49.8	-23.7	-31.6	-38.3	-38.4
LLET	-36.1	64.1	94.4	11.1	23.7
Coal Severance	36.0	31.5	24.9	12.7	25.6
Cigarette Tax	-5.4	-3.9	-9.8	101.7	19.8
Property	8.4	4.1	0.0	-4.5	2.5
Lottery	3.6	-4.5	5.3	9.0	3.2
Other	<u>4.1</u>	<u>-2.3</u>	<u>4.0</u>	<u>-15.9</u>	<u>-2.6</u>
<b>TOTAL</b>	<b>0.9</b>	<b>3.1</b>	<b>-4.3</b>	<b>-9.7</b>	<b>-2.7</b>

**Figure A**  
**Composition of FY09 General Fund Receipts by Tax Type**



**Figure B**





## Road Fund

Total Road Fund receipts fell by 5.6 percent during fiscal year 2009. Total receipts of \$1.192 billion compare to \$1.263 billion collected during fiscal year 2008. Road Fund collections are detailed in table 8.

Motor fuels taxes increased by 2.3 percent on receipts of \$622.5 million, compared to \$608.8 million collected during the previous fiscal year. Motor fuels taxes for the fiscal year were affected by a statutory tax rate increase tied to the wholesale price of gasoline. This increase was partially offset by a decline in gallons of motor fuels sold.

Motor vehicle usage tax receipts of \$336.3 million represent a decline of 17.1 percent compared to the \$405.8 million collected in fiscal year 2008.

Weight distance tax revenues fell 10.6 percent with receipts of \$75.4 million compared to \$84.4 million collected in fiscal year 2008.

Motor vehicle license tax receipts were up 5.0 percent with collections of \$98.2 million compared to \$93.5 million collected in fiscal year 2008.

Investment income declined 45.2 percent as Road Fund balances fell over the previous fiscal year. Receipts totaled \$10.7 million, compared to \$19.5 million in fiscal year 2008.

The "Other" category declined 6.0 percent from fiscal year 2008. Total receipts in this category were \$33.4 million, compared to \$35.5 million collected in fiscal year 2008.

Road Fund collections for fiscal year 2009 were \$36.8 million below the official revenue estimate (the consensus estimate of November 2008 as modified by 2009 legislation) as shown in table 9. This was 3.0 percent less than anticipated in the official estimate. The largest shortfall occurred in the motor fuels tax, which was \$26.7 million, or 4.1 percent below the forecasted level. All other accounts, taken together, were within \$6.2 million of the forecasted levels.

Figure C details the composition of fiscal year 2009 Road Fund receipts by tax type. Fully four-fifths of the Road Fund comes from motor vehicle usage taxes and motor fuels taxes. Following these, the motor vehicle license tax accounted for 8.0 percent and the weight distance tax accounted for 6.0 percent. "Other" taxes combined to account for 3.0 percent, investment income and motor vehicle operators revenue each were 1.0 percent.

Table 10 details the growth rates in Road Fund revenue by each fiscal quarter in fiscal year 2009. Road Fund receipts declined in each quarter of the fiscal year with the magnitude of the decline increasing through the first three quarters before moderating in the fourth quarter.

**Table 8**  
**Fiscal Year 2009 Road Fund Revenues Compared to Previous Years**  
**(\$ millions)**  
**July 2009**

	<b>Million \$</b>			<b>Growth Rate (%)</b>		
	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>
Motor Fuels	622.5	608.8	563.5	2.3	8.0	6.7
Motor Vehicle Usage	336.3	405.8	411.3	-17.1	-1.3	4.0
Motor Vehicle License	98.2	93.5	101.7	5.0	-8.0	8.3
Motor Vehicle Operators	15.5	15.4	15.8	1.0	-2.8	8.6
Weight Distance	75.4	84.4	85.4	-10.6	-1.3	0.1
Investment Income	10.7	19.5	16.1	-45.2	20.9	152.6
Other	<u>33.4</u>	<u>35.5</u>	<u>32.2</u>	<u>-6.0</u>	<u>10.3</u>	<u>-22.1</u>
<b>TOTAL</b>	<b>1,192.0</b>	<b>1,262.8</b>	<b>1,225.9</b>	<b>-5.6</b>	<b>3.0</b>	<b>5.2</b>

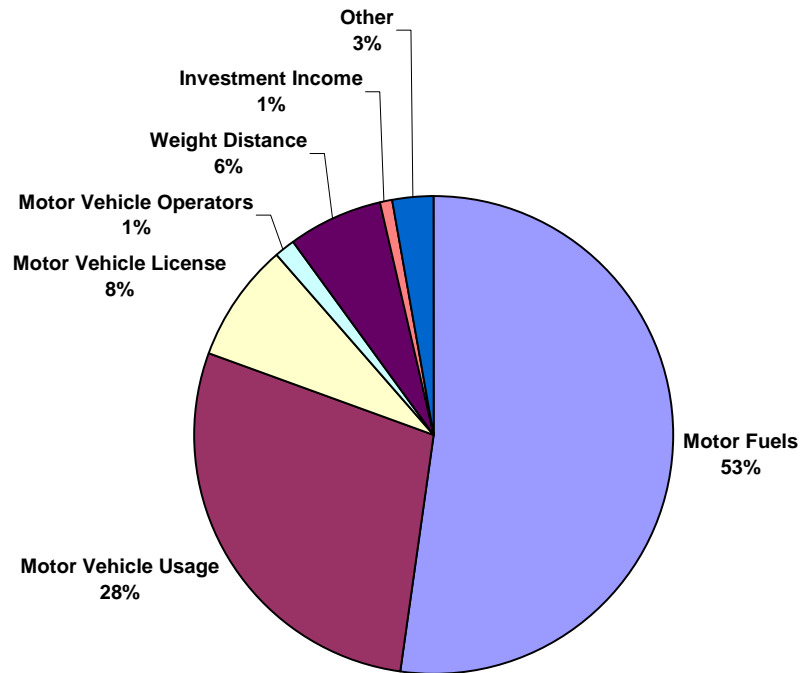
**Table 9**  
**Fiscal Year 2009 Road Fund Revenues Compared to Official Estimate**  
**(\$ million)**  
**July 2009**

	<b>FY09</b>	<b>FY09</b>	<b>Diff.</b>	<b>Diff.</b>
	<b><u>Actual</u></b>	<b><u>Estimate</u></b>	<b><u>(\$)</u></b>	<b><u>(%)</u></b>
Motor Fuels	622.5	649.2	-26.7	-4.1
Motor Vehicle Usage	336.3	340.2	-3.9	-1.1
Motor Vehicle License	98.2	95.8	2.4	2.5
Motor Vehicle Operators	15.5	16.3	-0.8	-4.8
Weight Distance	75.4	79.6	-4.2	-5.2
Investment Income	10.7	10.9	-0.2	-2.2
Other	<u>33.4</u>	<u>36.8</u>	<u>-3.4</u>	<u>-9.3</u>
<b>TOTAL</b>	<b>1,192.0</b>	<b>1,228.8</b>	<b>-36.8</b>	<b>-3.0</b>

**Table 10**  
**Road Fund Growth Rates for the Four Quarters and Full Year FY09**  
**(percent)**  
**July 2009**

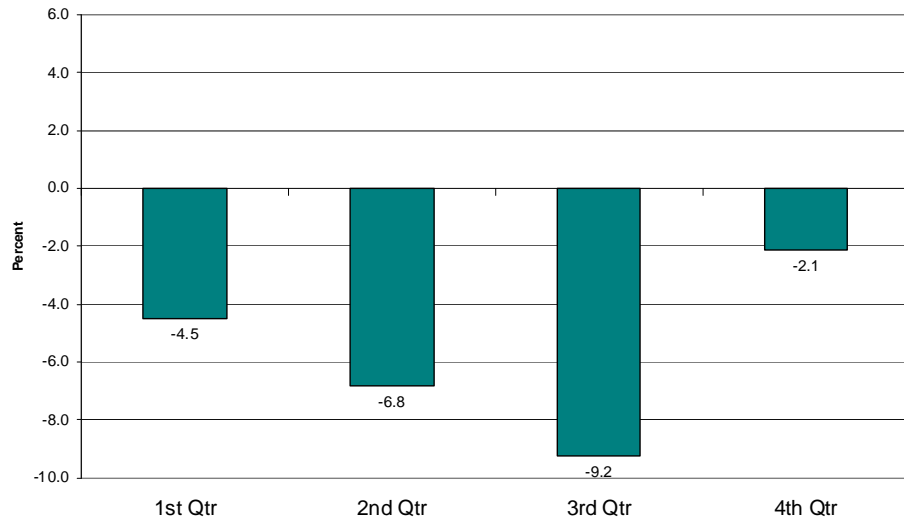
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>FY09</b>
Motor Fuels	-1.4	4.1	0.5	5.9	2.3
Motor Vehicle Usage	-9.2	-21.8	-22.0	-16.5	-17.1
Motor Vehicle License	-4.8	-10.9	-5.7	31.4	5.0
Motor Vehicle Operators	6.2	-2.0	-0.9	0.2	1.0
Weight Distance	-6.1	-5.9	-14.0	-16.7	-10.6
Investment Income	-19.8	-50.3	-57.1	-44.4	-45.2
Other	<u>4.7</u>	<u>-9.1</u>	<u>3.8</u>	<u>-19.7</u>	<u>-6.0</u>
<b>TOTAL</b>	<b>-4.5</b>	<b>-6.8</b>	<b>-9.2</b>	<b>-2.1</b>	<b>-5.6</b>

**Figure C**  
**Composition of Fiscal Year 2009 Road Fund Receipts by Tax Type**



**Figure D**

**Quarterly Road Fund Growth**



## **REVENUE ESTIMATES DETAILED FOR FISCAL YEAR 2009 & FISCAL YEAR 2010**

The Consensus Forecasting Group (CFG) produces revenue estimates for the General Fund, Road Fund, and Phase I Master Settlement Agreement. On or before August 15 of each odd-numbered year (such as 2009), a planning estimate is prepared. The second estimates, the preliminary projections, are due on or before October 15. Finally, before the 15<sup>th</sup> day of the legislative session in each even-numbered year, official estimates must be presented.

The CFG relies extensively upon input from the Governor's Office for Economic Analysis (GOEA). To fulfill its obligation to provide accurate and timely revenue forecasts, GOEA relies on several forecasting techniques, ranging from simple trend extrapolation to the latest econometric methods. 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 MAK, 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 weighted 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 considerations of the relevant facts.

Final official estimates were prepared on December 21, 2009, as seen in an attachment above.

### **General Fund: Major Accounts**

Total General Fund revenue for fiscal year 2008 is projected to be \$8.633 billion, for an increase of 0.7 percent from fiscal year 2007. Receipts for fiscal year 2009 are estimated to be \$8.824 billion followed by \$9.096 billion in fiscal year 2010.

### **Individual Income Tax**

Individual income tax receipts decreased 7.7 percent in the first half of fiscal year 2010 compared to an increase of 7.1 percent for the same period a year ago. Withholding, the largest component, was down 4.7 percent compared to the first half of fiscal year 2009. Declaration payments were down 31.0 percent compared to the first half of fiscal year 2009. The declines are the result of lost jobs and reduced hours caused by the 2007 recession.

In forecasting the individual income tax, the first step was to estimate "regular" collections, removing one-time changes that impacted receipts. When preparing the final forecast, these one-time changes including the numerous adjustments brought about by tax modernization and HB 1 were added back to the final estimates.

Several types of forecasting models were tested for withholding. The model used for estimating withholding was a structural model using only Kentucky wages and salary as an exogenous variable. The input variables were based on the control scenario for fiscal year 2010 and a 70% control / 30% optimistic blend for fiscal years 2011 and 2012, as directed by the CFG. Non-withholding components were projected using extrapolation techniques, and were adjusted for administrative and/or timing considerations.

Forecasted individual income tax receipts for fiscal year 2010 are \$3,148.8 million, following by revenues of \$3,300.1 million in fiscal year 2011 and \$3,469.9 million in fiscal year 2012. The corresponding growth rates are -5.0 percent, 4.8 percent, and 5.1 percent. All three estimates were also adjusted by HB 3 impacts and enhanced collections revenues.

### **Sales and Use Tax**

Sales and use taxes fell by 5.6 percent in the first half of fiscal year 2010. Sales taxes have now declined for five consecutive quarters.

The sales tax forecast adopted by the CFG was based on a blend of multiple models using multiple estimating techniques. An ARIMA (6,1,6) was fit and was one of the models employed in the final blend. Second, a VAR estimated with three lags with one cointegrating equation was used, with sales tax receipts and Kentucky wages and salaries as the dependent variables. The third and fourth models were structural models using differenced data to account for inherent nonstationarity. One of the structural models used Kentucky nonagricultural employment to emphasize the inevitable linkage between jobs and tax revenues. The other structural model had US retail sales as the primary exogenous variable, highlighting that state economies typically follow national economic trends to some degree.

Forecasted sales and use tax revenues are \$2.793 billion in fiscal year 2010, which would represent a 2.3 percent decline relative to fiscal year 2009 revenues. Receipts for fiscal year 2009 are \$2.191 billion followed by \$3.031 billion in fiscal year 2010. Respective growth rates are 4.5 percent and 3.8 percent, respectively, for the upcoming biennium.

### **Corporation Income Tax**

In the first half of fiscal year 2010, corporation income taxes declined by 36.6 percent compared to a decline of 39.4 percent a year ago.

The methodology used to produce the corporation income tax estimate is to estimate a "policy neutral" revenue stream which takes into account the effects of Tax Modernization. Adjustments were made for the eight quarters covering fiscal years 2006 and 2007.

The model has consistently over-estimated revenues. In an effort to confirm and quantify the degree of overestimation, in-sample forecasting was done for the most recent four quarters of history. After the model estimation was performed, a natural experiment was to see how well the model predicted the most recent historical data. In all cases, the estimated total exceeded the actual, lending credence to our qualitative observation that our longstanding corporate model was overshooting the corporation income tax forecast.

Examining the data, two outliers (2005Q4 and 2006Q4) were observed and a dummy variable was created to correct for them. These two particular quarters had the highest degree of influence from the tax law change that required pass-through entities to file corporation income tax returns. Both observations were from the fourth fiscal quarter, which includes the month of June where all calendar year business entities were required to make a 50-percent estimated payment of their calendar year liability. After re-running the model with the new dummy variable, there was still an upside bias forecasted values were reduced by the amount of the overage for the in-sample estimates. Revenues were estimated using a quarterly structural model and data on U.S. corporate profits from Global Insight as a driver.

For fiscal year 2010, estimated receipts from corporation income taxes are \$232.6 million, representing a decrease of 13.2 percent from the previous year. For fiscal year 2011, revenues are expected to increase, reaching \$235.3 million. In the following year, collections are expected to remain relatively unchanged, with receipts of \$236.7 million.

## **Limited Liability Entity Tax**

The limited liability entity tax was created in the 2006 special session of the General Assembly as a replacement for the alternative minimum calculation of the corporation income tax. In the first six months of fiscal year 2010, revenues from this equaled \$66.7 million.

The fiscal year 2010 estimate of \$143.6 million is based consultation with Department of Revenue personnel and are consistent with prior trends and inclusive of the latest plans concerning ongoing compliance efforts. Tax receipts from the tax are expected to decline slightly over the next to fiscal years with receipts of \$143.2 million in fiscal year 2011 and \$138.2 million in fiscal year 2012.

## **Coal Severance Tax**

Coal severance tax receipts were down 11.1 percent in the first half of fiscal year 2010. Receipts are expected to decline further in the final six months of fiscal year 2010.

The forecast was prepared using a structural demand model. The exogenous variables were the U.S. producer price index for coal, the Henry Hub price for natural gas, the West Texas Intermediate price of oil, and U.S. personal income.

The forecasted declines taper in fiscal year 2011 and finally hit bottom in fiscal year 2012. Receipts of \$244.7 million in fiscal year 2010 are expected to fall below the previous year by 16.4 percent. For the upcoming biennium, revenues are forecasted to be \$230.4 million and \$230.8 million in successive years. The estimates for all three years include some enhanced collections revenue.

## **Cigarette Taxes**

Cigarette taxes have grown 77.4 percent in the first half of the current year, primarily due to a rate increase from \$0.30 per pack to \$0.60 per pack, effective April 1, 2009. A doubling of the rate has led to less than a doubling of receipts due to the anticipated modest decline in cigarette sales. Growth in the second half of the fiscal year will wane since the period between April and June of 2010 will be compared to months in 2009 that included the higher rate.

The forecast for the upcoming biennium was prepared by estimating the number of cigarette packs sold in Kentucky. The two recent rate increases prohibited the use of actual tax revenues. The forecast assumes a confluence of two opposing trends. First, national and state data both confirm a reduction in cigarette sales due to health concerns, smoking bans, or perhaps the poor economy. The forecast is for demand to continue to fall. The counterbalancing force is that Kentucky's ability to sell more cigarettes than our current population would suggest are being consumed in Kentucky. As other states raise rates, Kentucky will maintain or perhaps improve its competitive position in border sales.

## **Property Taxes**

Property Tax receipts were up 5.2 percent in the first half of fiscal year 2010 compared to an increase of 4.9 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 \$518.7 million in fiscal year 2010, 1.1 percent over fiscal year 2009 receipts. Receipts for fiscal year 2011 are estimated at \$532.5 million followed by \$550.0 million in fiscal year 2012.

## **Kentucky Lottery**

Lottery revenues are estimated by staff from the Governor's Office for Economic Analysis after consultation with the Kentucky Lottery Corporation. Based on the financial results of the first half of fiscal year 2010, the Lottery Corporation recommended a forecast of \$200.0 million in the current year. In fiscal year 2011, lottery revenues should increase to \$206.0 million, with \$212.0 million expected in fiscal year 2010. The current year estimate of \$200 million is \$2.0 million lower than the prior official estimate from

May, 2009. Poor scratch-off sales due to the recession, as well as other factors, led to the reduction. Growth is expected over the biennium due to an expansion into another multi-state online game.

### **Other Revenue Sources**

The “other” revenue category contains over 100 revenue accounts. Despite their aggregation for display purposes, the line items in the “other” account 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, insurance taxes, telecommunications taxes, the inheritance tax, 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 634.8 million in fiscal year 2010, a decline of 2.3 percent compared to fiscal year 2009 actual collections. Receipts for fiscal year 2011 are estimated at \$643.8 million followed by \$662.5 million in fiscal year 2010. The respective growth rates over the upcoming biennium are 1.4 percent and 2.9 percent.

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

Total Road Fund revenues for fiscal year 2010 are projected to be \$1.199 billion, an increase of 0.6 percent from the previous fiscal year. Receipts for fiscal year 2011 are estimated to be \$1.271 billion followed by \$1.341 billion in fiscal year 2012.

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

Motor fuels tax collections, including use and surtax, increased 1.6 percent in the first half of fiscal year 2010 compared to growth of 1.3 percent from the same time period last year.

The motor fuels forecast consists of two pieces: regular collections and the “penny impact”. Regular collections are motor fuels tax collections net of revenue resulting from an increase in the variable portion of the tax rate. The penny impact is simply the additional revenue from an increase in the variable portion of the tax rate which is tied to the average wholesale price of gasoline (AWP). Changes in oil prices affect each component in offsetting ways. An increase in the price of oil reduces regular collections through a decrease in quantity demanded. On the other hand, increasing oil prices increase the wholesale price which can increase the variable portion of the tax rate.

The AWP was estimated with a structural model containing U.S. gasoline pump prices. Motor fuels were estimated using a structural model with U.S. highway consumption of gasoline and special fuels, and the Michigan consumer sentiment index.

Year-to-date fuel receipts have experienced mild growth in fiscal year 2010 due to lower consumption of gasoline. The forecasted growth rate for fiscal year 2010 is 5.3 percent, representing total collections of \$655.6 million. Growth in collections is expected to moderate in fiscal year 2011 at 3.8 percent with receipts of \$680.8 million. Growth, driven by rising fuel prices, is expected to raise receipts in fiscal year 2012, with an increase of 4.7 percent and collections of \$712.6 million.

### **Motor Vehicle Usage**

Motor vehicle usage tax receipts were estimated using a structural model containing consumer spending on light vehicles as drivers. Fiscal year 2010 receipts have declined in the first six months of the year, falling 4.5 percent. Collections are forecast to show an improvement in the second half of the year, ending the year with a decline of 2.3 percent and revenues of \$328.6 million.

Receipts in fiscal year 2011 are expected to total \$367.7 million, an increase of 11.9 percent as vehicle sales rebound. In fiscal year 2012, the outlook is for receipts to continue their strong growth at 8.3 percent yielding revenues of \$398.1 million.



### **Motor Vehicle License**

License receipts were estimated using a structural model with registered vehicles as a driver. Motor vehicle license receipts are estimated to be \$93.5 million in fiscal year 2010, followed by \$94.6 million in fiscal year 2011 and \$94.7 million in fiscal year 2012.

### **Motor Vehicle Operators**

Motor vehicle operators collections were estimated using a time series (ARIMA) model. The forecast is for revenues to decline 1.3 percent in fiscal year 2010. During the next biennium receipts are expected to be \$15.4 million in fiscal year 2011 and \$15.5 million in fiscal year 2012.

### **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 2010 are expected to total \$70.4 million, a 6.6 percent decrease. The forecast calls for strong growth in the next two years with receipts of \$77.4 million in fiscal year 2011 and \$84.8 million in fiscal year 2012.

### **Investment**

Income from investment is estimated by examining historical and current trends in investment balances and interest rate forecasts. Investment income for the current year is estimated at \$3.9 million, followed by \$1.4 million in fiscal year 2011 and \$1.3 million in fiscal year 2012.

### **Other Revenue Sources**

“Other” receipts include fees, fines, and miscellaneous receipts. 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 forecasted to be \$31.8 million in the current fiscal year, followed by \$33.3 million in fiscal year 2011 and \$33.9 million in fiscal year 2012.

**GENERAL FUND  
 CONSENSUS FORECAST  
 2010-2012 ENACTED ESTIMATE**

**General Fund Revenues (million \$)**

	<b>FY 2008 Actual</b>	<b>FY 2009 Actual</b>	<b>FY 2010 Estimate</b>	<b>FY 2011 Estimate</b>	<b>FY 2012 Estimate</b>
Sales & Use	\$2,877.8	\$2,857.7	\$2,792.6	\$2,919.2	\$3,031.1
Individual Income	3,483.1	3,315.4	3,148.8	3,300.1	3,469.9
Corporation Inc & LLET	533.6	389.7	376.2	378.5	374.9
Coal Severance	233.0	292.6	244.7	230.4	230.8
Cigarette & OTP	169.5	214.6	280.2	280.9	278.8
Property	500.6	513.1	518.7	532.4	550.1
Lottery	187.5	193.5	200.0	205.4	210.8
Other	679.1	649.8	634.8	643.8	662.5
<b>Total General Fund</b>	<b>\$8,664.3</b>	<b>\$8,426.4</b>	<b>\$8,196.0</b>	<b>\$8,490.8</b>	<b>\$8,808.8</b>

**Annual Percentage Growth Rates**

	<b>FY 2008 Actual</b>	<b>FY 2009 Actual</b>	<b>FY 2010 Estimate</b>	<b>FY 2011 Estimate</b>	<b>FY 2012 Estimate</b>
Sales & Use	2.1	-0.7	-2.3	4.5	3.8
Individual Income	14.5	-4.8	-5.0	4.8	5.1
Corp. Inc & LLET	-46.0	-27.0	-3.5	0.6	-0.9
Coal Severance	5.0	25.6	-16.4	-5.8	0.2
Cigarette & OTP	0.5	26.6	30.6	0.2	-0.8
Property	1.7	2.5	1.1	2.6	3.3
Lottery	0.4	3.2	3.4	2.7	2.6
Other	3.4	-4.3	-2.3	1.4	2.9
<b>Total General Fund</b>	<b>1.1</b>	<b>-2.7</b>	<b>-2.7</b>	<b>3.6</b>	<b>3.7</b>

**ROAD FUND  
 CONSENSUS FORECAST  
 2010-2012 ENACTED ESTIMATE**

**Road Fund Revenues (million \$)**

	<b>FY 2008 Actual</b>	<b>FY 2009 Actual</b>	<b>FY 2010 Estimate</b>	<b>FY 2011 Estimate</b>	<b>FY 2012 Estimate</b>
Motor Fuels	\$608.8	\$622.5	\$655.6	\$680.8	\$712.6
Motor Vehicle Usage	405.8	336.3	328.6	367.7	398.1
Motor Vehicle License	93.5	98.2	93.5	94.6	94.7
Motor Vehicle Operators	15.4	15.5	15.3	15.4	15.5
Weight Distance	84.4	75.4	70.4	77.4	84.8
Investment	19.5	10.7	3.9	1.4	1.3
Other	35.5	33.4	31.8	33.3	33.9
<b>Total Road Fund</b>	<b>\$1,262.8</b>	<b>\$1,192.0</b>	<b>\$1,199.1</b>	<b>\$1,270.6</b>	<b>\$1,340.9</b>

**Annual Percentage Growth Rates**

	<b>FY 2008 Actual</b>	<b>FY 2009 Actual</b>	<b>FY 2010 Estimate</b>	<b>FY 2011 Estimate</b>	<b>FY 2012 Estimate</b>
Motor Fuels	8.1	2.3	5.3	3.8	4.7
Motor Vehicle Usage	-1.3	-17.1	-2.3	11.9	8.3
Motor Vehicle License	-8.0	5.0	-4.8	1.2	0.1
Motor Vehicle Operators	-2.7	1.0	-1.4	0.7	0.6
Weight Distance	-1.2	-10.6	-6.7	9.9	9.6
Investment	20.9	-45.2	-63.9	-63.6	-10.7
Other	10.3	-6.0	-4.8	4.7	1.8
<b>Total Road Fund</b>	<b>3.0</b>	<b>-5.6</b>	<b>0.6</b>	<b>6.0</b>	<b>5.5</b>

## General Fund

### December 2009 CFG Estimates, Detailed Display

<u>Source</u>	<u>Actual 2008</u>	<u>Actual 2009</u>	<u>Estimates 2010</u>	<u>Estimates 2011</u>	<u>Estimates 2012</u>
<b><u>Selected Sales and Gross Receipts Taxes</u></b>					
Sales & Use	\$2,877,814,014	\$2,857,665,168	\$2,792,600,000	\$2,919,200,000	\$3,031,100,000
Cigarette Excise Tax (Included in surtax FY09 forward)	14,176,123	0	0	0	0
Cigarette Surtax	169,066,446	186,756,011	280,200,000	280,900,000	278,800,000
Cigarette Floor Stock Tax	481,396	16,292,300	185,000	0	0
Distilled Spirits Case Sales	104,154	109,333	101,922	103,700	104,907
Insurance Tax Foreign Companies	39,597,165	38,352,903	38,975,034	38,517,671	38,908,864
Insurance Tax Companies Other Than Life	85,288,984	82,511,748	84,233,762	84,249,883	84,175,573
Insurance Tax Fire Prevention Fund	4,410,751	4,303,498	4,319,203	4,358,254	4,353,325
Pari-Mutuel	5,327,540	4,387,515	2,900,000	4,531,241	4,291,664
Race Track Admission	219,939	230,888	218,142	215,106	221,292
Beer Consumption	6,535,066	6,478,525	6,445,899	6,458,935	6,487,649
Distilled Spirits Consumption	10,378,013	10,676,604	10,275,246	10,369,048	10,437,667
Wine Consumption	2,353,476	2,392,069	2,257,347	2,335,198	2,337,414
Beer Wholesale	49,531,545	51,696,564	48,371,814	49,163,057	49,752,274
Distilled Spirits Wholesale	26,628,403	27,884,547	25,827,047	26,402,800	26,718,720
Wine Wholesale	11,977,256	12,356,700	11,574,029	11,839,797	11,951,718
Other Tobacco Products and Snuff	8,894,150	11,548,724	21,512,000	20,800,000	21,850,000
Telecommunications Taxes	55,972,928	61,228,833	58,963,366	57,019,596	58,368,743
<b>TOTAL SEL. SALES AND GROSS RECEIPTS TAXES</b>	<b>\$3,368,757,349</b>	<b>\$3,374,871,930</b>	<b>\$3,388,959,810</b>	<b>\$3,516,464,287</b>	<b>\$3,629,859,811</b>
<b><u>License and Privilege Taxes</u></b>					
Coal Severance Tax	232,977,827	292,591,094	244,700,000	230,400,000	230,800,000
Mineral Severance Tax	16,360,844	12,807,705	13,581,310	15,372,690	16,232,904
Natural Gas Severance Tax	33,794,313	42,155,501	16,676,172	26,240,283	43,283,228
Oil Production	10,201,113	8,430,228	6,546,086	11,872,290	20,154,284
Corporate License	2,822,279	9,154,338	2,659,644	1,000,000	250,000
Cigarette License	88,933	86,250	91,203	89,734	89,141
Amusement Machine License	0	0	0	0	0
Race Track License	245,360	350,225	292,502	293,313	295,723
Marijuana and Controlled Substance Tax	95,689	164,818	117,638	122,192	125,242
Bank Franchise Tax	71,976,055	73,339,144	74,000,000	74,000,000	74,000,000
Corporation Organization	259,654	38,101	158,870	143,267	150,145
Cir. Ct. Clk. - Driver License Receipts	599,370	579,919	596,738	595,696	593,669
Sand and Gravel License	6,950	6,132	6,466	6,170	6,437
Alcoholic Beverage License Suspension	830,310	393,050	541,445	606,694	593,580
Limited Liability Entity Tax	98,407,313	121,650,092	143,600,000	143,200,000	138,200,000
<b>TOTAL LICENSE AND PRIVILEGE TAXES</b>	<b>\$468,666,010</b>	<b>\$561,746,597</b>	<b>\$503,568,074</b>	<b>\$503,942,330</b>	<b>\$524,774,353</b>
<b><u>Income Taxes</u></b>					
Corporation Income Tax	435,222,566	267,984,858	232,600,000	235,300,000	236,700,000
Individual Income Tax	3,483,137,317	3,315,368,217	3,148,800,000	3,300,100,000	3,469,900,000
<b>TOTAL INCOME TAXES</b>	<b>\$3,918,359,883</b>	<b>\$3,583,353,075</b>	<b>\$3,381,400,000</b>	<b>\$3,535,400,000</b>	<b>\$3,706,600,000</b>
<b><u>Property Taxes</u></b>					
Real Property	237,153,330	241,008,338	247,500,000	256,800,000	267,900,000
Tangible Personal Property	95,749,484	95,284,064	98,000,000	101,600,000	105,200,000
Motor Vehicles	106,497,221	105,086,465	97,000,000	98,300,000	101,800,000
Building and Loan Association Capital Stock	2,649,630	2,898,977	3,000,000	2,400,000	2,400,000
Delinquent Property	4,451,912	6,076,090	9,000,000	7,500,000	7,000,000
Omitted Intangible Personal Property	926,455	876,031	100,000	0	0
Omitted Tangible Personal Property	12,141,283	15,993,541	15,500,000	15,500,000	15,000,000

**Inheritance Taxes**

Inheritance Tax	51,001,299	41,234,240	45,507,139	45,386,357	45,838,419
<b>TOTAL INHERITANCE TAXES</b>	<b>\$51,001,299</b>	<b>\$41,234,240</b>	<b>\$45,507,139</b>	<b>\$45,386,357</b>	<b>\$45,838,419</b>

**Departmental Fees, Sales and Rentals**

Public Service Commission Assessments-	14,306,084	14,104,836	14,104,836	14,104,836	14,104,836
Insurance - Retaliatory Taxes & Fees-	3,828,151	2,697,526	2,312,464	2,599,591	2,862,736
Circuit Court Clk. - Civil Filing Fee Receipts-	13,089,982	12,183,963	12,500,000	12,293,623	12,532,331
Circuit Court Clk. - Bond Filing Fee-	531,266	2,815,840	2,700,000	1,644,303	1,925,445
Circuit Court Clk. - 10% Bond Fee-	747,315	719,802	729,193	721,615	730,384
Circuit Court Clk. - Receipts for Services-	5,567,716	6,357,649	6,400,000	5,857,896	6,053,392
Strip Mining & Reclamation Fees-	1,268,560	1,421,875	1,500,000	1,326,402	1,380,940
Strip Mining & Reclamation - Fines Coll.	806,950	885,190	900,000	849,041	861,374
Miscellaneous - Pub Advoc; Sec State Fee	4,421,940	4,830,823	5,200,000	4,611,122	4,771,957
<b>TOTAL DEPARTMENT FEES, SALES AND RENTALS</b>	<b>\$44,688,339</b>	<b>\$46,017,504</b>	<b>\$46,346,494</b>	<b>\$44,008,430</b>	<b>\$45,223,396</b>

**Investment Receipts**

General Depository Investment Income **	23,868,325	4,183,825	0	0	0
Circuit Court Clk. - Interest Income	0		0	0	0
Interest on Investments - Withholding Accounts	0				
Ky Asset/Liab - TRAN	0		0	0	0
<b>TOTAL INVESTMENT RECEIPTS</b>	<b>\$23,868,325</b>	<b>\$4,183,825</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Miscellaneous Revenue**

Lottery	187,461,591	193,500,000	200,000,000	206,000,000	212,000,000
Legal Process - Clk. Supreme Court	109,421	110,503	112,665	112,463	111,402
Legal Process - Clk. Court of Appeals	20,506	17,494	25,000	25,000	22,029
Dept. of Rev. Legal Process Taxes - Co. Clk.	2,809,347	2,405,779	2,894,069	2,814,577	2,734,371
Dept. of Rev. Penalty & Int. of Co. Officials	(28,765)	(26,360)	(25,176)	(27,475)	(26,977)
TVA - In Lieu of Taxes - State Portion	12,389,344	14,593,246	12,666,938	12,437,800	12,300,000
F.H.A. - In Lieu of Taxes	29,185	65,061	99,219	66,748	65,143
R.E.C.C. and R.T.C.C. In Lieu of Taxes	310	310	310	310	311
Business Development - In Lieu of Taxes	0	0	5,330	1,335	1,669
Abandoned Property	33,908,678	31,380,243	30,193,909	26,500,000	22,500,000
Circuit Court Clk. - Fish & Wildlife Fines	84,650	81,818	73,037	77,622	79,378
Cir. Ct. Clk. - Criminal/Traffic Fines & Costs	26,341,396	24,440,960	25,000,000	25,189,987	24,520,000
Circuit Court Clk. - Bond Forfeitures	1,644,343	1,399,864	1,700,000	1,558,803	1,577,715
Fines Dept Insurance	704,366	438,916	541,052	601,039	572,041
Workplace & Employment Standards, Fees, Fines	1,961,413	239,628	1,209,956	1,154,032	1,142,586
Sale of NOx Credits	12,251,950	0	662,180	189,300	406,100
Other Fines & Unhonored Checks	(2,861,773)	10,109,089	7,635,831	7,752,608	5,667,806
Court Costs	21,150,331	21,275,003	24,000,000	22,200,000	20,650,000
<b>TOTAL MISCELLANEOUS REVENUE</b>	<b>\$297,976,293</b>	<b>\$300,031,554</b>	<b>\$306,794,319</b>	<b>\$306,654,148</b>	<b>\$304,323,574</b>
<b>MISC. NOT IN ACCOUNTS ABOVE</b>	<b>\$4,548,415</b>	<b>\$1,790,813</b>	<b>\$4,724,165</b>	<b>\$6,544,449</b>	<b>\$2,080,447</b>
<b>REVENUE INITIATIVES</b>					
<b>TOTAL GENERAL FUND</b>	<b>\$8,678,512,704</b>	<b>\$8,426,351,586</b>	<b>\$8,196,000,000</b>	<b>\$8,490,800,000</b>	<b>\$8,808,800,000</b>

## Road Fund

### December 2009 CFG Estimates, Detailed Display

	<u>FY2009</u> <u>Actual</u>	<u>FY 2010</u> <u>Estimated</u>	<u>FY 2011</u> <u>Estimated</u>	<u>FY 2012</u> <u>Estimated</u>
<b><u>Sales and Gross Receipts Taxes</u></b>				
Motor Fuels Normal and Normal Use	\$622,185,807	\$655,200,000	\$680,400,000	\$712,200,000
Motor Vehicle Usage	304,135,002	295,900,000	334,900,000	365,200,000
Motor Vehicle Rental Usage	32,230,683	32,700,000	32,800,000	32,900,000
Truck Trip Permits	293,720	400,000	400,000	400,000
Sales and Use	-64,485	0	0	0
Usage Tax on Buses		0	0	0
Supplemental Fuel Surtax		0	0	0
Usage Tax on Historical Vehicles		0	0	0
<b>TOTAL SALES AND GROSS RECEIPTS TAX</b>	<b>\$958,780,727</b>	<b>\$984,200,000</b>	<b>\$1,048,500,000</b>	<b>\$1,110,700,000</b>
<b><u>License and Privilege Taxes</u></b>				
Drive Away Utility Trailer Permits	\$8,486	\$8,500	\$8,600	\$8,700
Amateur Radio Plate	9,109	9,500	9,500	9,500
Passenger Car License	33,310,461	31,430,000	31,530,000	31,850,000
Truck License - State Share	15,475,669	15,600,000	15,700,000	15,800,000
Motorcycle License	599,585	600,000	610,000	620,000
Motorcycle License-Program GA19		0	0	0
Dealers License	249,007	250,000	250,000	250,000
Transfer License	911,682	960,000	970,000	970,000
Trailer License	1,592,620	1,800,000	1,900,000	1,900,000
County Clerk Penalty	26,100	25,850	25,500	25,500
Bus License - Except City	29,501	30,000	30,000	30,000
City and Suburban Bus License		0	0	0
Bus Certificates and Permits	1,925	4,000	4,000	4,000
Taxi License	25,707	29,500	29,500	29,500
Truck Permits	31,850	40,000	40,000	40,000
Contract Taxicab Permit	12,275	15,000	15,000	15,000
Motor Vehicle Operator's License	13,796,413	13,630,000	13,562,000	13,610,000
Motor Vehicle Operator's License-Program GA19		0	0	0
Highway Special Permits	7,036,704	6,500,000	6,700,000	6,800,000
U-Drive-It Permits	10,110	12,000	12,000	12,000
U-Drive-Licenses	1,172,410	1,810,000	1,810,000	1,910,000
Junk Yard License	4,477	4,500	4,500	4,500
Historic Vehicle License	291,866	250,000	260,000	350,000
Operator's License-Driver Education	459,523	453,000	470,000	480,000
Truck Proportional Registration	38,026,916	34,090,000	34,590,000	34,090,000
Operator's License - Photography Program	1,265,255	1,260,000	1,420,000	1,430,000
Industrial Hauling Permits	420	5,000	5,000	5,000
General Assembly License Plates	2,113	2,000	2,000	2,000
Pearl Harbor Survivor Plates	94	150	150	150
Collegiate Plates	864,733	880,000	950,000	950,000
Personalized License Plates	1,233,303	1,300,000	1,300,000	1,400,000
Army Reserve Plates	585,625	600,000	700,000	700,000
Purple Heart Plates	36,350	31,000	31,000	31,000
Judicial License Plates	548	750	750	750
Civil Air Patrol Plates	1,245	1,000	1,000	1,000
National Guard License Plates	22,745	25,000	26,000	26,000
Civic Event Plates	806	750	750	750
Street Rod Plates	1,890	2,000	2,000	2,000
Fraternal Order of Police Plates	92,224	91,000	92,000	93,000
Environmental License Plate	812,517	815,000	816,000	817,000
Dealer Demonstrator Tags	4,828	6,200	6,200	6,200
Volunteer Fireman License Tags	84,080	85,000	85,000	85,000

Zoo Foundation Plate	39,889	42,000	42,000	42,000
Lincoln Bicentennial	16,780	18,000	18,000	18,000
Kentucky Dental Association	5,987	6,000	6,000	6,000
Ryder Cup	30,709	28,500	28,500	28,500
Autism Awareness	28,800	25,750	25,750	25,750
Quail Unlimited	28,793	27,200	25,200	25,200
Temporary Tags	364,524	360,000	370,000	370,000
Nonreciprocal Permits	216,132	230,000	240,000	240,000
Overweight Coal Truck Permit	832,653	837,000	850,000	860,000
Friends of Coal	151,315	155,000	155,000	155,000
Temporary Truck Decal Permits		50,000	50,000	50,000
<b>TOTAL LICENSE AND PRIVILEGE TAX</b>	<b>\$200,598,500</b>	<b>\$190,176,680</b>	<b>\$198,669,430</b>	<b>\$206,369,530</b>
<b><u>Departmental Fees, Sales and Rentals</u></b>				
Proposal Sales	\$299,249			
Specification and Blue Print Sales		430,000	430,000	430,000
Miscellaneous Rentals	414,114	520,000	520,000	520,000
MVL Computer Services				
Fines and Forfeitures				
Traffic Offenders School Fees	958,790	1,000,000	1,600,000	1,700,000
Record Copy Sales	699,419	368,000	368,000	368,000
Highway Sign Logo Rental	614,837	670,000	670,000	670,000
Driving History Record Fee	7,007,110	7,000,000	7,100,000	7,100,000
Operator's License Reinstatement Fees	1,264,092	1,250,000	1,450,000	1,450,000
Operator's License Name Sales		0	0	0
Penalty & Interest - Weight and Use Taxes	1,432,632	1,450,000	1,780,000	1,850,000
Medical Alert Stickers	104	200	200	200
Motor Vehicle Title Receipts	4,943,240	5,000,000	5,000,000	5,100,000
Proceeds from Asset Disposition	2,327,992	2,100,000	2,100,000	2,200,000
Coal Road Recovery Fines	170	3,000	3,000	3,000
U-Drive-It Penalty and Interest	103,867	50,000	50,000	50,000
<b>TOTAL DEPARTMENT FEES, SALES AND RENTALS</b>	<b>\$20,065,616</b>	<b>\$19,841,200</b>	<b>\$21,071,200</b>	<b>\$21,441,200</b>
<b><u>Investment Income</u></b>				
Investment Income	\$10,661,790	\$3,900,000	\$1,400,000	\$1,300,000
<b>TOTAL INVESTMENT INCOME</b>	<b>\$10,661,790</b>	<b>\$3,900,000</b>	<b>\$1,400,000</b>	<b>\$1,300,000</b>
<b><u>Miscellaneous Income</u></b>				
Property Damage	\$647,685	\$550,000	\$550,000	\$550,000
Cold Check Account		0	0	0
<b>TOTAL MISCELLANEOUS INCOME</b>	<b>\$647,685</b>	<b>\$550,000</b>	<b>\$550,000</b>	<b>\$550,000</b>
Misc. Not in Revenue Estimates	\$1,228,576	\$446,520	\$434,520	\$550,000
<b>TOTAL ROAD FUND REVENUE</b>	<b>\$1,191,982,894</b>	<b>\$1,199,114,400</b>	<b>\$1,270,625,150</b>	<b>\$1,340,910,730</b>

# 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 \$1.186 billion 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 August of 2009, the Consensus Forecasting Group (CFG) addressed the potential impact of an NPM adjustment on the MSA payments to be made to the Commonwealth. The provision allows for the reduction of payments to the settling states if the states do not fully enforce the provisions contained in the MSA. Since this determination is a long and lengthy legal decision, the funds under dispute are placed into an escrow account until adjudication. For fiscal years 2010 and 2011, the experience of past fiscal years will continue, and the participating manufacturers are expected to place significant amounts of the payments due into the escrow account for disputed payments. The result is a partial reduction in the MSA payments received by the Commonwealth. However, in fiscal year 2012, the resolution of the 2003, 2004, and 2005 NPM Adjustments is expected. The Commonwealth will vigorously defend the diligent enforcement of all of the MSA statutes, but there is a significant probability of the Commonwealth facing a reduced payment in fiscal year 2012 depending on the decisions of a national arbitration of this dispute.

**Deciding Diligent Enforcement Through National Arbitration** - The question of diligent enforcement was expected to be decided in each state’s relevant court of jurisdiction. However, the participating manufacturers have argued that, legally, the decision of diligent enforcement must be decided through an arbitration process as prescribed in the MSA. The participating manufacturers have entered orders compelling arbitration of the issue in each state’s jurisdictional court. At this time, every state that has been served with an order compelling arbitration (including Kentucky) has lost the issue and faces an arbitration proceeding to determine the question of diligent enforcement. While many states that lost their argument to prevent arbitration may appeal, the odds are long that many states will prevail upon appeal. The one exception has been the state of North Dakota, which successfully blocked the order to compel arbitration.

We believe the Commonwealth has diligently enforced all of our tobacco statutes. Two recently enacted bills, House Bill 390 in 2003 and House Bill 97 in 2004 provide evidence of our 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. HB 97 was the allocable share cap bill which closed a loophole in the MSA and escrow statutes that allowed NPM cigarette companies to park their escrow requirement in their account for a few days until their cap release application was processed. The bill disallowed these cap release



applications, thus creating an escrow pool of funds the state can use for recovery in the event that legal judgment is ever awarded against an NPM escrow payer.

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

**Fiscal Years 2008 and 2009 Payments** – Kentucky received \$115.1 million in MSA payments during fiscal year 2008 and \$126.5 million in fiscal year 2009. The budgeted receipts for fiscal year 2010 are \$112.3 million.

### **Forecast**

The Office of State Budget Director was asked by the Consensus Forecasting Group to aid in projecting the payments to be received by the Commonwealth from the Master Settlement Agreement. The forecast adopted by the CFG in August of 2009 for fiscal year 2011 and fiscal year 2012 is \$111.3 and \$102.7 million, respectively.

### **Forecasting Methodology**

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

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

### **Inflation Adjustment**

Each year, an inflation adjustment is applied to that year's annual payment amount. 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 the annual payment. The formula for the volume adjustment is specified directly in the MSA: "In the event the Actual Volume is less than the Base Volume, the Applicable Base Payment shall be reduced by subtracting from it the amount equal to such Applicable Base Payment multiplied by 0.98 and by the result of 1 minus the ratio of Actual Volume to Base Volume."

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

### **Previously Settled States Adjustment**

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

## **Appendix A**

### **Receipts First Half of Fiscal Year 2010**

**KENTUCKY STATE GOVERNMENT REVENUE  
GENERAL FUND REVENUE**

	Second Quarter FY 2010	Second Quarter FY 2009	% Change	Year-To-Date FY 2010	Year-To-Date FY 2009	% Change
<b>TOTAL GENERAL FUND</b>	<b>2,162,364,860</b>	<b>2,243,383,334</b>	<b>-3.6%</b>	<b>\$4,130,818,311</b>	<b>\$4,328,293,412</b>	<b>-4.6%</b>
Tax Receipts	2,072,303,359	2,155,261,819	-3.8%	\$3,971,401,533	\$4,175,841,971	-4.9%
Sales and Gross Receipts	819,478,348	812,379,157	0.9%	\$1,667,630,417	\$1,683,237,924	-0.9%
Beer Consumption	2,177,939	1,615,630	34.8%	3,912,229	3,369,932	16.1%
Beer Wholesale	11,775,249	12,531,532	-6.0%	26,219,143	27,082,448	-3.2%
Cigarette	67,298,720	39,576,332	70.0%	141,487,351	80,988,461	74.7%
Distilled Spirits Case Sales	27,275	26,596	2.6%	54,476	54,279	0.4%
Distilled Spirits Consumption	2,673,852	2,445,668	9.3%	5,383,695	5,341,094	0.8%
Distilled Spirits Wholesale	6,963,744	6,705,599	3.8%	13,768,486	13,843,764	-0.5%
Insurance Premium	12,422,794	9,437,911	31.6%	40,108,708	40,636,852	-1.3%
Pari-Mutuel	474,324	1,339,656	-64.6%	(1,076,588)	1,947,492	---
Race Track Admission	45,180	72,030	-37.3%	137,878	193,657	-28.8%
Sales and Use	690,912,974	716,294,303	-3.5%	1,384,808,452	1,467,722,393	-5.6%
Wine Consumption	627,188	799,334	-21.5%	1,207,468	1,175,095	2.8%
Wine Wholesale	3,211,885	3,605,639	-10.9%	6,098,894	6,118,491	-0.3%
Telecommunications Tax	15,710,078	15,752,842	-0.3%	34,770,933	30,315,118	14.7%
OTP	5,109,179	2,176,086	134.8%	10,565,582	4,448,848	137.5%
Floor Stock Tax	47,969	0	---	183,709	0	---
License and Privilege	112,925,759	126,039,788	-10.4%	\$221,041,335	\$230,592,997	-4.1%
Alc. Bev. License Suspension	137,425	62,100	121.3%	205,775	163,500	25.9%
Coal Severance	64,984,087	75,549,265	-14.0%	131,827,275	148,223,817	-11.1%
Corporation License	988,596	3,066,319	-67.8%	1,667,129	4,155,833	-59.9%
Corporation Organization	21,920	21,450	2.2%	123,650	34,065	263.0%
Occupational Licenses	31,703	42,742	-25.8%	73,020	105,223	-30.6%
Oil Production	1,698,318	2,267,970	-25.1%	3,541,827	6,272,893	-43.5%
Race Track License	105,500	125,700	-16.1%	218,000	298,200	-26.9%
Bank Franchise Tax	(262,391)	(1,837,966)	---	(428,141)	(5,214,080)	---
Driver License Fees	141,897	145,014	-2.1%	298,860	305,566	-2.2%
Minerals Severance	4,267,775	4,030,191	5.9%	7,894,807	8,221,077	-4.0%
Natural Gas Severance	4,674,479	12,357,146	-62.2%	8,951,520	25,927,924	-65.5%
Limited Liability Entity	36,136,450	30,209,856	19.6%	66,667,614	42,098,978	58.4%
Income	843,799,437	941,844,905	-10.4%	\$1,707,267,033	\$1,900,876,986	-10.2%
Corporation	55,387,067	82,260,196	-32.7%	104,428,337	164,632,243	-36.6%
Individual	788,412,371	859,584,710	-8.3%	1,602,838,697	1,736,244,743	-7.7%
Property	\$275,837,863	\$255,459,522	8.0%	\$335,972,059	\$319,222,626	5.2%
Building & Loan Association	0	(19,101)	---	91,143	209,366	-56.5%
General - Real	173,533,717	151,008,545	14.9%	173,668,519	151,279,234	14.8%
General - Tangible	84,796,773	81,025,401	4.7%	107,140,251	118,729,337	-9.8%
Omitted & Delinquent	196,249	(1,090,007)	---	13,552,140	11,150,021	21.5%
Public Service	17,307,355	24,489,015	-29.3%	40,829,052	37,227,275	9.7%
Other	3,770	45,670	-91.7%	690,953	627,394	10.1%
Inheritance	\$11,083,200	\$8,999,047	23.2%	\$22,252,097	\$22,018,343	1.1%
Miscellaneous	\$9,178,750	\$10,539,400	-12.9%	\$17,238,593	\$19,893,095	-13.3%
Legal Process	5,524,474	5,971,628	-7.5%	11,304,004	12,152,217	-7.0%
T. V. A. In Lieu Payments	3,654,277	4,567,557	-20.0%	5,934,096	7,733,042	-23.3%
Other	0	214	---	493	7,837	---
Nontax Receipts	\$89,572,328	\$87,196,815	2.7%	\$158,006,853	\$151,807,746	4.1%
Departmental Fees	4,276,737	7,553,039	-43.4%	11,775,589	13,769,956	-14.5%
PSC Assessment Fee	45,812	2,780	1548.0%	8,255,969	9,356,882	-11.8%
Fines & Forfeitures	7,713,691	6,732,606	14.6%	15,199,166	14,105,115	7.8%
Interest on Investments	224,029	923,296	-75.7%	423,750	2,078,927	-79.6%
Lottery	49,000,000	48,500,000	1.0%	93,000,000	91,500,000	1.6%
Sale of NOx Credits	140,650	0	---	601,430	0	---
Miscellaneous	28,171,409	23,485,094	20.0%	28,750,948	20,996,866	36.9%
Redeposit of State Funds	\$489,173	\$924,700	-47.1%	\$1,409,924	\$643,695	119.0%

**KENTUCKY STATE GOVERNMENT REVENUE**

**ROAD FUND REVENUE**

	Second Quarter FY 2010	Second Quarter FY 2009	% Change	Year-To-Date FY 2010	Year-To-Date FY 2009	% Change
<b>TOTAL ROAD FUND</b>	<b>\$279,091,132</b>	<b>\$280,056,613</b>	<b>-0.3%</b>	<b>\$581,707,237</b>	<b>\$592,029,606</b>	<b>-1.7%</b>
Tax Receipts-	\$271,598,388	\$273,559,424	-0.7%	\$567,742,417	\$576,749,773	-1.6%
Sales and Gross Receipts	\$230,894,265	\$231,502,326	-0.3%	\$486,756,171	\$489,473,993	-0.6%
Motor Fuels Taxes	158,581,971	157,703,613	0.6%	320,752,872	\$315,678,818	1.6%
Motor Vehicle Usage	72,312,293	73,798,714	-2.0%	166,003,299	\$173,795,174	-4.5%
License and Privilege	\$40,704,123	\$42,057,098	-3.2%	\$80,986,246	\$87,275,780	-7.2%
Motor Vehicles	16,225,869	15,401,576	5.4%	33,249,059	\$33,045,640	0.6%
Motor Vehicle Operators	3,826,839	3,733,255	2.5%	8,069,795	\$7,988,679	1.0%
Weight Distance	17,929,644	20,003,828	-10.4%	35,317,203	\$40,717,349	-13.3%
Truck Decal Fees	16,192	32,965	-50.9%	45,629	\$76,774	-40.6%
Other Special Fees	2,705,579	2,885,474	-6.2%	4,304,560	\$5,447,338	-21.0%
Nontax Receipts	\$6,198,897	\$6,565,565	-5.6%	\$12,425,397	\$15,053,101	-17.5%
Departmental Fees	4,806,742	3,896,381	23.4%	9,371,225	\$9,293,506	0.8%
In Lieu of Traffic Fines	147,570	236,914	-37.7%	373,551	\$482,092	-22.5%
Investment Income	1,022,506	2,257,216	-54.7%	2,335,512	\$4,951,394	-52.8%
Miscellaneous	222,079	175,054	26.9%	345,109	\$326,109	5.8%
Redeposit of State Funds	\$1,293,847	(\$68,377)	---	\$1,539,422	\$226,732	579.0%

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## **Appendix B**

### **Summary Statistics for General Fund and Road Fund**

### **Major Revenue Sources Fiscal Years 2000 - 2009**

**SUMMARY STATISTICS FOR GENERAL FUND MAJOR REVENUE SOURCES  
FISCAL YEARS 2000-2009**

	FY00	FY01	FY02	FY03	FY04
<b>TOTAL GENERAL FUND</b>	<b>6,478,385,032</b>	<b>6,653,897,653</b>	<b>6,560,216,551</b>	<b>6,783,458,295</b>	<b>6,977,623,200</b>
<b>Tax Receipts</b>	<b>6,200,475,504</b>	<b>6,377,917,219</b>	<b>6,292,004,457</b>	<b>6,543,157,657</b>	<b>6,686,290,589</b>
<b>Sales and Gross Receipts</b>	<b>2,356,212,660</b>	<b>2,435,481,566</b>	<b>2,497,020,953</b>	<b>2,577,542,870</b>	<b>2,668,210,228</b>
Beer Consumption	6,284,242	6,272,031	6,286,734	6,334,169	6,320,886
Beer Wholesale	32,101,648	32,582,889	34,596,592	35,969,890	37,439,919
Cigarette	14,184,888	14,007,582	13,943,208	16,367,947	17,136,198
Cigarette Floor Stock	---	---	---	---	---
Distilled Spirits Case Sales	82,871	82,529	81,922	85,601	87,662
Distilled Spirits Consumption	8,211,541	8,184,798	8,266,005	8,680,833	8,985,826
Distilled Spirits Wholesale	14,055,368	14,809,730	15,129,146	16,088,048	16,957,192
Insurance Premium	95,355,564	96,825,818	105,102,951	114,988,790	120,523,955
Pari-Mutuel	6,645,098	6,182,083	5,179,952	5,953,247	3,629,292
Race Track Admission	220,824	216,615	260,232	193,114	232,350
Sales and Use	2,171,397,969	2,248,471,100	2,299,990,621	2,364,182,478	2,447,584,698
Wine Consumption	1,748,839	1,743,393	1,786,984	1,902,818	2,005,265
Wine Wholesale	5,923,809	6,102,998	6,396,603	6,795,936	7,306,985
Telecommunications Tax	---	---	---	---	---
Other Tobacco Products	---	---	---	---	---
<b>License and Privilege</b>	<b>364,098,883</b>	<b>373,309,229</b>	<b>356,591,984</b>	<b>379,857,645</b>	<b>368,122,494</b>
Alc. Bev. License & Suspension	49,150	193,800	220,800	227,850	223,700
Coal Severance	145,139,909	141,553,087	160,160,116	141,664,981	147,498,230
Corporation License	139,127,819	147,515,402	117,500,770	152,595,257	124,096,012
Corporation Organization	369,916	227,655	144,233	190,494	143,804
Occupational Licenses	132,811	107,737	226,609	197,977	223,002
Oil Production	2,967,395	3,358,036	2,590,722	3,116,954	3,387,884
Race Track License	405,500	320,800	37,423	322,825	335,625
Bank Franchise Tax	53,061,798	49,610,220	50,549,169	53,747,906	55,467,195
Driver License Fees	475,167	391,939	505,187	499,003	523,979
Minerals Severance	13,923,246	12,710,667	12,355,174	12,580,912	13,711,874
Natural Gas Severance	8,446,173	17,319,885	12,301,781	14,713,486	22,511,188
LLET	---	---	---	---	---
<b>Income</b>	<b>3,008,055,957</b>	<b>3,068,472,461</b>	<b>2,909,863,799</b>	<b>3,024,422,738</b>	<b>3,099,593,870</b>
Corporation	306,442,050	289,931,017	207,353,777	278,035,794	303,262,821
Individual	2,701,613,908	2,778,541,444	2,702,510,022	2,746,386,944	2,796,331,049
<b>Property</b>	<b>387,257,800</b>	<b>407,494,858</b>	<b>433,029,587</b>	<b>434,768,249</b>	<b>448,765,511</b>
Bank Deposits	433,962	412,646	460,334	456,527	467,711
Building & Loan Association	2,491,414	2,482,623	2,249,927	3,181,373	2,513,083
Distilled Spirits	443,880	360,248	363,410	442,092	375,637
General - Intangible	22,721,743	22,551,153	23,113,567	25,883,197	27,547,183
General - Real	167,326,472	171,524,695	179,678,050	186,000,177	192,534,530
General - Tangible	130,960,896	140,466,295	151,308,795	149,426,286	149,155,206
Omitted & Delinquent	15,543,134	20,605,462	25,649,592	20,368,623	15,829,225
Public Service	46,882,427	48,883,924	49,991,359	48,836,372	60,178,393
Other	453,871	207,812	214,551	173,603	164,542
<b>Inheritance</b>	<b>74,489,981</b>	<b>83,461,499</b>	<b>83,359,872</b>	<b>95,864,480</b>	<b>66,083,705</b>
<b>Miscellaneous</b>	<b>10,360,222</b>	<b>9,697,606</b>	<b>12,138,263</b>	<b>30,701,674</b>	<b>35,514,782</b>
Legal Process	3,457,280	3,597,385	5,263,021	22,994,148	27,322,798
T. V. A. In Lieu Payments	6,842,117	6,046,676	6,814,492	7,660,437	8,146,924
Other	60,824	53,545	60,750	47,090	45,061
<b>Nontax Receipts</b>	<b>271,911,197</b>	<b>266,792,632</b>	<b>260,466,324</b>	<b>233,694,271</b>	<b>280,871,754</b>
Departmental Fees	32,719,509	17,062,102	19,570,116	21,982,797	22,161,022
PSC Assessment Fee	---	12,598,397	10,455,826	8,702,466	5,389,636
Fines & Forfeitures	46,056,986	40,749,856	40,069,496	28,888,326	27,991,293
Interest on Investments	28,077,454	28,217,850	13,342,627	(7,157,704)	1,017,305
Lottery	156,300,000	157,030,000	169,000,000	171,000,000	173,800,000
Sale of NOx Credits	---	---	---	---	11,836,125
Miscellaneous	8,757,248	11,134,428	8,028,259	10,278,386	38,676,373
<b>Redeposit of State Funds</b>	<b>5,998,332</b>	<b>9,187,802</b>	<b>7,745,769</b>	<b>6,606,367</b>	<b>10,460,857</b>



**SUMMARY STATISTICS FOR GENERAL FUND MAJOR REVENUE SOURCES  
FISCAL YEARS 2000-2009**

	FY05	FY06	FY07	FY08	FY09
<b>TOTAL GENERAL FUND</b>	<b>7,645,046,634</b>	<b>8,376,083,216</b>	<b>8,573,819,250</b>	<b>8,664,336,663</b>	<b>8,426,351,594</b>
<b>Tax Receipts</b>	<b>7,350,335,469</b>	<b>8,065,347,817</b>	<b>8,233,789,253</b>	<b>8,329,734,971</b>	<b>8,112,768,934</b>
<b>Sales and Gross Receipts</b>	<b>2,838,701,120</b>	<b>3,174,734,842</b>	<b>3,280,448,981</b>	<b>3,354,581,311</b>	<b>3,374,871,927</b>
Beer Consumption	6,387,318	6,393,753	6,344,079	6,535,066	6,478,525
Beer Wholesale	37,815,717	45,206,839	46,806,186	49,531,545	51,696,564
Cigarette	24,966,880	172,069,493	168,768,467	169,547,927	186,756,010
Cigarette Floor Stock	8,701,966	12,089,404	9,746		16,292,300
Distilled Spirits Case Sales	92,178	94,806	98,874	104,154	109,333
Distilled Spirits Consumption	9,190,089	9,900,035	10,094,572	10,378,013	10,676,604
Distilled Spirits Wholesale	18,150,313	23,524,032	25,139,117	26,628,403	27,884,547
Insurance Premium	123,410,091	122,824,056	125,877,984	129,296,901	125,168,149
Pari-Mutuel	4,710,111	5,626,849	5,489,552	5,327,540	4,387,515
Race Track Admission	195,068	230,285	190,362	219,939	230,888
Sales and Use	2,594,966,373	2,749,765,011	2,817,652,253	2,877,814,014	2,857,665,168
Wine Consumption	2,279,162	1,945,945	2,326,331	2,353,476	2,392,069
Wine Wholesale	7,835,853	10,510,955	11,392,111	11,977,256	12,356,700
Telecommunications Tax	---	14,553,379	51,623,000	55,972,928	61,228,833
Other Tobacco Products	---	---	8,636,348	8,894,150	11,548,724
<b>License and Privilege</b>	<b>427,823,269</b>	<b>386,264,573</b>	<b>352,829,122</b>	<b>468,666,009</b>	<b>561,746,597</b>
Alc. Bev. License & Suspension	237,101	280,450	659,151	830,310	393,050
Coal Severance	184,436,935	224,490,111	221,952,516	232,977,827	292,591,094
Corporation License	134,149,794	43,516,942	11,734,452	2,822,279	9,154,338
Corporation Organization	613,048	221,281	115,755	259,654	38,101
Occupational Licenses	188,761	174,122	207,198	191,571	257,200
Oil Production	4,710,832	6,386,501	6,198,342	10,201,113	8,430,228
Race Track License	324,642	289,258	283,675	245,360	350,225
Bank Franchise Tax	63,837,587	59,603,147	63,912,315	71,976,055	73,339,144
Driver License Fees	522,904	600,903	603,807	599,370	579,919
Minerals Severance	13,494,541	14,502,342	14,822,013	16,360,844	12,807,705
Natural Gas Severance	25,307,125	36,199,516	32,339,897	33,794,313	42,155,501
LLET				98,407,313	121,650,092
<b>Income</b>	<b>3,514,735,211</b>	<b>3,920,229,525</b>	<b>4,029,600,561</b>	<b>3,918,359,883</b>	<b>3,583,353,074</b>
Corporation	478,504,505	1,001,618,543	988,064,957	435,222,566	267,984,858
Individual	3,036,230,706	2,918,610,982	3,041,535,604	3,483,137,317	3,315,368,217
<b>Property</b>	<b>472,596,276</b>	<b>502,510,631</b>	<b>492,462,208</b>	<b>500,646,790</b>	<b>513,122,060</b>
Bank Deposits	474,098	505,351	513,619	532,436	542,716
Building & Loan Association	3,192,911	2,071,523	2,921,484	2,649,630	2,898,977
Distilled Spirits	388,612	410,798	506,754	513,549	624,280
General - Intangible	26,912,813	30,955,124	48,841	-	-
General - Real	202,182,555	215,351,439	228,282,174	237,153,330	241,008,338
General - Tangible	159,883,091	165,622,948	192,343,695	205,763,426	203,783,916
Omitted & Delinquent	20,646,846	30,330,629	25,253,460	17,519,651	22,945,670
Public Service	58,787,595	57,259,849	42,588,669	36,511,473	41,315,048
Other	127,756	2,970	3,512	3,295	3,115
<b>Inheritance</b>	<b>63,174,866</b>	<b>45,990,266</b>	<b>43,578,107</b>	<b>51,001,299</b>	<b>41,234,240</b>
<b>Miscellaneous</b>	<b>33,304,727</b>	<b>35,617,980</b>	<b>34,870,274</b>	<b>36,479,679</b>	<b>38,441,036</b>
Legal Process	24,696,032	25,118,948	24,759,470	24,060,840	23,782,419
T. V. A. In Lieu Payments	8,559,023	10,248,314	10,037,326	12,389,344	14,593,246
Other	49,672	250,719	73,478	29,495	65,371
<b>Nontax Receipts</b>	<b>286,661,124</b>	<b>302,629,799</b>	<b>327,878,702</b>	<b>330,053,277</b>	<b>311,791,847</b>
Departmental Fees	22,542,182	23,932,336	25,043,719	30,382,254	31,912,667
PSC Assessment Fee	13,568,805	9,041,415	14,593,067	14,306,084	14,104,836
Fines & Forfeitures	25,405,780	26,129,275	26,606,686	28,118,106	29,298,014
Interest on Investments	6,950,902	18,681,492	31,991,861	23,868,325	4,183,825
Lottery	161,252,000	190,000,000	186,625,113	187,461,591	193,500,000
Sale of NOx Credits	3,696,675	1,126,000	811,600	12,251,950	0
Miscellaneous	53,244,780	33,719,282	42,206,657	33,664,968	38,792,505
<b>Redeposit of State Funds</b>	<b>8,050,041</b>	<b>8,105,601</b>	<b>12,151,295</b>	<b>4,548,415</b>	<b>1,790,813</b>

**GENERAL FUND GROWTH RATES  
MAJOR REVENUE SOURCES – FISCAL YEARS 2000-2009**

	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>
<b>TOTAL GENERAL FUND</b>	<b>4.5%</b>	<b>2.7%</b>	<b>-1.4%</b>	<b>3.4%</b>	<b>2.9%</b>
<b>Tax Receipts</b>	<b>4.8%</b>	<b>2.9%</b>	<b>-1.3%</b>	<b>4.0%</b>	<b>2.2%</b>
<b>Sales and Gross Receipts</b>	<b>4.1%</b>	<b>3.4%</b>	<b>2.5%</b>	<b>3.2%</b>	<b>3.5%</b>
Beer Consumption	0.4%	-0.2%	0.2%	0.8%	-0.2%
Beer Wholesale	4.9%	1.5%	6.2%	4.0%	4.1%
Cigarette	-3.3%	-1.2%	-0.5%	17.4%	4.7%
Cigarette Floor Stock	---	---	---	---	---
Distilled Spirits Case Sales	5.8%	-0.4%	-0.7%	4.5%	2.4%
Distilled Spirits Consumption	3.2%	-0.3%	1.0%	5.0%	3.5%
Distilled Spirits Wholesale	4.9%	5.4%	2.2%	6.3%	5.4%
Insurance Premium	5.7%	1.5%	8.5%	9.4%	4.8%
Pari-Mutuel	-7.4%	-7.0%	-16.2%	14.9%	-39.0%
Race Track Admission	-8.5%	-1.9%	20.1%	-25.8%	20.3%
Sales and Use	4.1%	3.5%	2.3%	2.8%	3.5%
Wine Consumption	7.6%	-0.3%	2.5%	6.5%	5.4%
Wine Wholesale	9.2%	3.0%	4.8%	6.2%	7.5%
Telecommunications Tax	---	---	---	---	---
Other Tobacco Products	---	---	---	---	---
<b>License and Privilege</b>	<b>4.2%</b>	<b>2.5%</b>	<b>-4.5%</b>	<b>6.5%</b>	<b>-3.1%</b>
Alc. Bev. License Suspension	-44.0%	294.3%	13.9%	3.2%	-1.8%
Coal Severance	-6.0%	-2.5%	13.1%	-11.5%	4.1%
Corporation License	10.5%	6.0%	-20.3%	29.9%	-18.7%
Corporation Organization	-26.1%	-38.5%	-36.6%	32.1%	-24.5%
Occupational Licenses	33.3%	-18.9%	110.3%	-12.6%	12.6%
Oil Production	120.6%	13.2%	-22.9%	20.3%	8.7%
Race Track License	2.5%	-20.9%	-88.3%	762.6%	4.0%
Bank Franchise Tax	12.8%	-6.5%	1.9%	6.3%	3.2%
Driver License Fees	-33.8%	-17.5%	28.9%	-1.2%	5.0%
Minerals Severance	17.5%	-8.7%	-2.8%	1.8%	9.0%
Natural Gas Severance	18.8%	105.1%	-29.0%	19.6%	53.0%
LLET	---	---	---	---	---
<b>Income</b>	<b>5.8%</b>	<b>2.0%</b>	<b>-5.2%</b>	<b>3.9%</b>	<b>2.5%</b>
Corporation	-1.8%	-5.4%	-28.5%	34.1%	9.1%
Individual	6.7%	2.8%	-2.7%	1.6%	1.8%
<b>Property</b>	<b>4.5%</b>	<b>5.2%</b>	<b>6.3%</b>	<b>0.4%</b>	<b>3.2%</b>
Bank Deposits	8.9%	-4.9%	11.6%	-0.8%	2.4%
Building & Loan Association	-18.2%	-0.4%	-9.4%	41.4%	-21.0%
Distilled Spirits	6.3%	-18.8%	0.9%	21.7%	-15.0%
General - Intangible	25.5%	-0.8%	2.5%	12.0%	6.4%
General - Real	3.5%	2.5%	4.8%	3.5%	3.5%
General - Tangible	4.3%	7.3%	7.7%	-1.2%	-0.2%
Omitted & Delinquent	30.3%	32.6%	24.5%	-20.6%	-22.3%
Public Service	-7.1%	4.3%	2.3%	-2.3%	23.2%
Other	---	-54.2%	3.2%	-19.1%	-5.2%
<b>Inheritance</b>	<b>-8.6%</b>	<b>12.0%</b>	<b>-0.1%</b>	<b>15.0%</b>	<b>-31.1%</b>
<b>Miscellaneous</b>	<b>26.5%</b>	<b>-6.4%</b>	<b>25.2%</b>	<b>152.9%</b>	<b>15.7%</b>
Legal Process	-3.1%	4.1%	46.3%	336.9%	18.8%
T. V. A. In Lieu Payments	49.2%	-11.6%	12.7%	12.4%	6.4%
Other	76.5%	-12.0%	13.5%	-22.5%	-4.3%
<b>Nontax Receipts</b>	<b>-0.1%</b>	<b>-1.9%</b>	<b>-2.4%</b>	<b>-10.3%</b>	<b>20.2%</b>
Departmental Fees	25.4%	-47.9%	14.7%	12.3%	0.8%
PSC Assessment Fee	---	---	-17.0%	-16.8%	-38.1%
Fines & Forfeitures	2.3%	-11.5%	-1.7%	-27.9%	-3.1%
Interest on Investments	-26.7%	0.5%	-52.7%	-153.6%	-114.2%
Lottery	1.6%	0.5%	7.6%	1.2%	1.6%
Sale of NOx Credits	---	---	---	---	---
Miscellaneous	-3.3%	27.1%	-27.9%	28.0%	276.3%
<b>Redeposit of State Funds</b>	<b>-32.4%</b>	<b>53.2%</b>	<b>-15.7%</b>	<b>-14.7%</b>	<b>58.3%</b>

**GENERAL FUND GROWTH RATES  
MAJOR REVENUE SOURCES – FISCAL YEARS 2000-2009**

	FY05	FY06	FY07	FY08	FY09
<b>TOTAL GENERAL FUND</b>	<b>9.6%</b>	<b>9.6%</b>	<b>2.4%</b>	<b>1.1%</b>	<b>-2.7%</b>
<b>Tax Receipts</b>	<b>9.9%</b>	<b>9.7%</b>	<b>2.1%</b>	<b>1.2%</b>	<b>-2.6%</b>
<b>Sales and Gross Receipts</b>	<b>6.4%</b>	<b>11.8%</b>	<b>3.3%</b>	<b>2.3%</b>	<b>0.6%</b>
Beer Consumption	1.1%	0.1%	-0.8%	3.0%	-0.9%
Beer Wholesale	1.0%	19.5%	3.5%	5.8%	4.4%
Cigarette	45.7%	589.2%	-1.9%	0.5%	10.1%
Cigarette Floor Stock	---	38.9%	-99.9%	-100.0%	---
Distilled Spirits Case Sales	5.2%	2.9%	4.3%	5.3%	5.0%
Distilled Spirits Consumption	2.3%	7.7%	2.0%	2.8%	2.9%
Distilled Spirits Wholesale	7.0%	29.6%	6.9%	5.9%	4.7%
Insurance Premium	2.4%	-0.5%	2.5%	2.7%	-3.2%
Pari-Mutuel	29.8%	19.5%	-2.4%	-3.0%	-17.6%
Race Track Admission	-16.0%	18.1%	-17.3%	15.5%	5.0%
Sales and Use	6.0%	6.0%	2.5%	2.1%	-0.7%
Wine Consumption	13.7%	-14.6%	19.5%	1.2%	1.6%
Wine Wholesale	7.2%	34.1%	8.4%	5.1%	3.2%
Telecommunications Tax	---	---	254.7%	8.4%	9.4%
Other Tobacco Products	---	---	---	3.0%	29.8%
<b>License and Privilege</b>	<b>16.2%</b>	<b>-9.7%</b>	<b>-8.7%</b>	<b>32.8%</b>	<b>19.9%</b>
Alc. Bev. License Suspension	6.0%	18.3%	135.0%	26.0%	-52.7%
Coal Severance	25.0%	21.7%	-1.1%	5.0%	25.6%
Corporation License	8.1%	-67.6%	-73.0%	-75.9%	224.4%
Corporation Organization	326.3%	-63.9%	-47.7%	124.3%	-85.3%
Occupational Licenses	-15.4%	-7.8%	19.0%	-7.5%	34.3%
Oil Production	39.0%	35.6%	-2.9%	64.6%	-17.4%
Race Track License	-3.3%	-10.9%	-1.9%	-13.5%	42.7%
Bank Franchise Tax	15.1%	-6.6%	7.2%	12.6%	1.9%
Driver License Fees	-0.2%	14.9%	0.5%	-0.7%	-3.2%
Minerals Severance	-1.6%	7.5%	2.2%	10.4%	-21.7%
Natural Gas Severance	12.4%	43.0%	-10.7%	4.5%	24.7%
LLET	---	---	---	---	23.6%
<b>Income</b>	<b>13.4%</b>	<b>11.5%</b>	<b>2.8%</b>	<b>-2.8%</b>	<b>-8.5%</b>
Corporation	57.8%	109.3%	-1.4%	-56.0%	-38.4%
Individual	8.6%	-3.9%	4.2%	14.5%	-4.8%
<b>Property</b>	<b>5.3%</b>	<b>6.3%</b>	<b>-2.0%</b>	<b>1.7%</b>	<b>2.5%</b>
Bank Deposits	1.4%	6.6%	1.6%	3.7%	1.9%
Building & Loan Association	27.1%	-35.1%	41.0%	-9.3%	9.4%
Distilled Spirits	3.5%	5.7%	23.4%	1.3%	21.6%
General - Intangible	-2.3%	15.0%	-99.8%	-100.0%	---
General - Real	5.0%	6.5%	6.0%	3.9%	1.6%
General - Tangible	7.2%	3.6%	16.1%	7.0%	-1.0%
Omitted & Delinquent	30.4%	46.9%	-16.7%	-30.6%	31.0%
Public Service	-2.3%	-2.6%	-25.6%	-14.3%	13.2%
Other	-22.4%	-97.7%	18.2%	-6.2%	-5.5%
<b>Inheritance</b>	<b>-4.4%</b>	<b>-27.2%</b>	<b>-5.2%</b>	<b>17.0%</b>	<b>-19.2%</b>
<b>Miscellaneous</b>	<b>-6.2%</b>	<b>6.9%</b>	<b>-2.1%</b>	<b>4.6%</b>	<b>5.4%</b>
Legal Process	-9.6%	1.7%	-1.4%	-2.8%	-1.2%
T. V. A. In Lieu Payments	5.1%	19.7%	-2.1%	23.4%	17.8%
Other	10.2%	404.7%	-70.7%	-59.9%	121.6%
<b>Nontax Receipts</b>	<b>2.1%</b>	<b>5.6%</b>	<b>8.3%</b>	<b>0.7%</b>	<b>-5.5%</b>
Departmental Fees	1.7%	6.2%	4.6%	21.3%	5.0%
PSC Assessment Fee	151.8%	-33.4%	61.4%	-2.0%	-1.4%
Fines & Forfeitures	-9.2%	2.8%	1.8%	5.7%	4.2%
Interest on Investments	583.3%	168.8%	71.2%	-25.4%	-82.5%
Lottery	-7.2%	17.8%	-1.8%	0.4%	3.2%
Sale of NOx Credits	-68.8%	-69.5%	-27.9%	1409.6%	-100.0%
Miscellaneous	37.7%	-36.7%	25.2%	-20.2%	15.2%
<b>Redeposit of State Funds</b>	<b>-23.0%</b>	<b>0.7%</b>	<b>49.9%</b>	<b>-62.6%</b>	<b>-60.6%</b>

**SUMMARY STATISTICS FOR ROAD FUND  
MAJOR REVENUE SOURCES – FISCAL YEARS 2000-2009**

	FY00	FY01	FY02	FY03	FY04
<b>TOTAL STATE ROAD FUND</b>	<b>1,090,777,822</b>	<b>1,064,181,565</b>	<b>1,119,005,317</b>	<b>1,123,103,133</b>	<b>1,116,734,272</b>
<b>Tax Receipts-</b>	<b>1,031,467,147</b>	<b>992,142,884</b>	<b>1,052,848,911</b>	<b>1,059,296,184</b>	<b>1,082,189,464</b>
<b>Sales and Gross Receipts</b>	<b>849,700,352</b>	<b>821,552,966</b>	<b>873,623,010</b>	<b>886,809,027</b>	<b>889,251,190</b>
Motor Fuels Taxes	423,876,351	408,801,115	429,812,296	438,564,438	441,382,996
Motor Fuels Use & Surtax	15,905,613	15,492,738	14,124,035	14,969,884	18,185,947
Truck Trip Permits (fuel)	451,689	447,020	383,460	371,406	439,720
Motor Vehicle Usage	409,466,699	396,812,093	429,303,220	432,903,299	429,242,527
<b>License and Privilege</b>	<b>181,766,795</b>	<b>170,589,918</b>	<b>179,225,901</b>	<b>172,487,157</b>	<b>192,938,274</b>
Motor Vehicles	85,623,787	76,861,958	84,510,332	76,192,363	93,388,573
Motor Vehicle Operators	5,689,329	5,592,769	5,564,009	5,610,829	5,623,874
Weight Distance	75,144,201	75,170,141	75,265,639	76,851,211	79,574,022
Truck Decal Fees	738,342	727,675	807,089	673,481	725,403
Other Special Fees	14,571,136	12,237,376	13,078,832	13,159,273	13,626,402
<b>Nontax Receipts</b>	<b>58,580,537</b>	<b>69,204,781</b>	<b>64,071,745</b>	<b>62,789,372</b>	<b>32,932,009</b>
Departmental Fees	13,184,983	13,772,863	15,137,452	18,430,002	15,258,391
In Lieu of Traffic Fines	1,662,261	2,005,215	1,960,687	1,374,668	1,521,583
Highway Tolls	13,474,101	12,410,901	13,785,486	13,263,429	7,958,452
Investment Income	29,418,349	40,187,239	32,156,652	29,115,311	7,507,462
Miscellaneous	840,843	828,562	1,031,468	605,962	686,121
<b>Redeposit of State Funds</b>	<b>730,138</b>	<b>2,833,900</b>	<b>2,084,661</b>	<b>1,017,577</b>	<b>1,612,799</b>

**ROAD FUND GROWTH RATES  
MAJOR REVENUE SOURCES – FISCAL YEARS 2000-2009**

	FY00	FY01	FY02	FY03	FY04
<b>TOTAL STATE ROAD FUND</b>	<b>3.2%</b>	<b>-2.4%</b>	<b>5.2%</b>	<b>0.4%</b>	<b>-0.6%</b>
<b>Tax Receipts-</b>	<b>4.0%</b>	<b>-3.8%</b>	<b>6.1%</b>	<b>0.6%</b>	<b>2.2%</b>
<b>Sales and Gross Receipts</b>	<b>3.5%</b>	<b>-3.3%</b>	<b>6.3%</b>	<b>1.5%</b>	<b>0.3%</b>
Motor Fuels Taxes	-0.9%	-3.6%	5.1%	2.0%	0.6%
Motor Fuels Use & Surtax	-5.6%	-2.6%	-8.8%	6.0%	21.5%
Truck Trip Permits (fuel)	2.2%	-1.0%	-14.2%	-3.1%	18.4%
Motor Vehicle Usage	9.0%	-3.1%	8.2%	0.8%	-0.8%
<b>License and Privilege</b>	<b>6.9%</b>	<b>-6.1%</b>	<b>5.1%</b>	<b>-3.8%</b>	<b>11.9%</b>
Motor Vehicles	7.7%	-10.2%	10.0%	-9.8%	22.6%
Motor Vehicle Operators	5.3%	-1.7%	-0.5%	0.8%	0.2%
Weight Distance	7.1%	0.0%	0.1%	2.1%	3.5%
Truck Decal Fees	-10.2%	-1.4%	10.9%	-16.6%	7.7%
Other Special Fees	1.7%	-16.0%	6.9%	0.6%	3.5%
<b>Nontax Receipts</b>	<b>-9.0%</b>	<b>18.1%</b>	<b>-7.4%</b>	<b>-2.0%</b>	<b>-47.6%</b>
Departmental Fees	1.8%	4.5%	9.9%	21.8%	-17.2%
In Lieu of Traffic Fines	5.5%	20.6%	-2.2%	-29.9%	10.7%
Highway Tolls	1.0%	-7.9%	11.1%	-3.8%	-40.0%
Investment Income	-17.3%	36.6%	-20.0%	-9.5%	-74.2%
Miscellaneous	-4.9%	-1.5%	24.5%	-41.3%	13.2%
<b>Redeposit of State Funds</b>	<b>18.9%</b>	<b>288.1%</b>	<b>-26.4%</b>	<b>-51.2%</b>	<b>58.5%</b>

**SUMMARY STATISTICS FOR ROAD FUND  
MAJOR REVENUE SOURCES – FISCAL YEARS 2000-2009**

	FY05	FY06	FY07	FY08	FY09
<b>TOTAL STATE ROAD FUND</b>	<b>1,126,554,402</b>	<b>1,165,409,505</b>	<b>1,225,943,515</b>	<b>1,262,798,750</b>	<b>1,191,982,894</b>
<b>Tax Receipts-</b>	<b>1,094,354,041</b>	<b>1,133,247,862</b>	<b>1,186,074,087</b>	<b>1,219,349,262</b>	<b>1,159,379,226</b>
<b>Sales and Gross Receipts</b>	<b>898,340,426</b>	<b>923,879,353</b>	<b>974,732,028</b>	<b>1,014,576,337</b>	<b>958,780,727</b>
Motor Fuels Taxes	469,621,779	501,927,927	538,568,693	571,316,086	622,479,527
Motor Fuels Use & Surtax	20,748,200	25,982,599	24,600,438	37,184,397	36,597,491
Truck Trip Permits (fuel)	445,085	386,200	310,900	278,640	293,720
Motor Vehicle Usage	407,525,361	395,582,626	411,251,997	405,797,215	336,301,200
<b>License and Privilege</b>	<b>196,013,615</b>	<b>209,368,509</b>	<b>211,342,059</b>	<b>204,772,925</b>	<b>200,598,500</b>
Motor Vehicles	91,933,157	93,902,097	101,660,768	93,523,748	98,186,733
Motor Vehicle Operators	5,899,247	14,553,623	15,811,880	15,372,618	15,521,191
Weight Distance	83,069,296	85,336,610	85,435,610	84,353,543	75,444,283
Truck Decal Fees	1,041,912	954,706	842,239	774,379	832,653
Other Special Fees	14,070,003	14,621,473	7,591,561	10,748,637	10,613,640
<b>Nontax Receipts</b>	<b>30,432,049</b>	<b>30,208,832</b>	<b>39,469,278</b>	<b>41,805,267</b>	<b>31,375,092</b>
Departmental Fees	16,685,742	15,617,220	17,787,658	20,291,394	19,106,827
In Lieu of Traffic Fines	1,326,645	1,269,800	1,174,453	1,112,801	958,790
Highway Tolls	6,299,049	6,296,786	3,717,965	-	-
Investment Income	5,524,646	6,372,788	16,094,719	19,460,549	10,661,790
Miscellaneous	595,967	652,239	694,483	940,522	647,685
<b>Redeposit of State Funds</b>	<b>1,768,312</b>	<b>1,952,811</b>	<b>400,150</b>	<b>1,644,222</b>	<b>1,228,575</b>

**ROAD FUND GROWTH RATES  
MAJOR REVENUE SOURCES – FISCAL YEARS 2000-2009**

	FY05	FY06	FY07	FY08	FY09
<b>TOTAL STATE ROAD FUND</b>	<b>0.9%</b>	<b>3.4%</b>	<b>5.2%</b>	<b>3.0%</b>	<b>-5.6</b>
<b>Tax Receipts-</b>	<b>1.1%</b>	<b>3.6%</b>	<b>4.7%</b>	<b>2.8%</b>	<b>-4.9%</b>
<b>Sales and Gross Receipts</b>	<b>1.0%</b>	<b>2.8%</b>	<b>5.5%</b>	<b>4.1%</b>	<b>-5.5%</b>
Motor Fuels Taxes	6.4%	6.9%	7.3%	6.1%	9.0%
Motor Fuels Use & Surtax	14.1%	25.2%	-5.3%	51.2%	-1.6%
Truck Trip Permits (fuel)	1.2%	-13.2%	-19.5%	-10.4%	5.4%
Motor Vehicle Usage	-5.1%	-2.9%	4.0%	-1.3%	-17.1%
<b>License and Privilege</b>	<b>1.6%</b>	<b>6.8%</b>	<b>0.9%</b>	<b>-3.1%</b>	<b>-2.0%</b>
Motor Vehicles	-1.6%	2.1%	8.3%	-8.0%	5.0%
Motor Vehicle Operators	4.9%	146.7%	8.6%	-2.8%	1.0%
Weight Distance	4.4%	2.7%	0.1%	-1.3%	-10.6%
Truck Decal Fees	43.6%	-8.4%	-11.8%	-8.1%	7.5%
Other Special Fees	3.3%	3.9%	-48.1%	41.6%	-1.3%
<b>Nontax Receipts</b>	<b>-7.6%</b>	<b>-0.7%</b>	<b>30.7%</b>	<b>5.9%</b>	<b>-24.9%</b>
Departmental Fees	9.4%	-6.4%	13.9%	14.1%	-5.8%
In Lieu of Traffic Fines	-12.8%	-4.3%	-7.5%	-5.2%	-13.8%
Highway Tolls	-20.9%	0.0%	-41.0%	-100.0%	-
Investment Income	-26.4%	15.4%	152.6%	20.9%	-45.2%
Miscellaneous	-13.1%	9.4%	6.5%	35.4%	-31.1%
<b>Redeposit of State Funds</b>	<b>9.6%</b>	<b>10.4%</b>	<b>-79.5%</b>	<b>310.9%</b>	<b>-25.3%</b>

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# Capital Financing Analysis

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## EXECUTIVE SUMMARY

The Governor proposes \$2,293,252,000 in new debt-financed projects. The proposal for the 2010-2012 biennium is compared to previous biennia in Table 11 and is described in more detail in Appendix E.

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:

- FY10-12 General Fund revenues are based on the December 21, 2009 Consensus Forecasting Group's Official Revenue Estimates. FY10 is projected to be \$99.9 million lower than the May 29, 2009 official General Fund revenue estimate adjusted for 2009 Special Session legislative actions. FY11-12 General Fund revenues are projected using 3.6 percent and 3.7 percent growth rates, respectively.
- FY10-12 Road Fund revenues are based on the December 21, 2009 Consensus Forecasting Group's Official Revenue Estimates. FY10 is projected to be \$58.1 million higher than the May 29, 2009 official Road Fund revenue estimate adjusted for 2009 Special Session legislative actions. FY11-12 Road Fund revenues are projected using 6.0 percent and 5.5 percent growth rates, respectively.
- Agency Fund revenues are based on actual FY09 revenue from the Supplementary Information to the FY09 Comprehensive Annual Financial Report and FY10-12 assume no growth in each fiscal year.
- Tobacco Settlement Funds are based on the Official Revenue Estimates and are considered General Fund revenue.
- Currently authorized but un-issued debt is assumed to be issued during the balance of FY10 with no additional debt service to be paid in FY10 but with debt service payments to be made in FY11 and FY12 and is assumed to be issued at the template rates, except for School Facilities Construction Commission debt that is authorized at a lower level.
- Cost of issuance is assumed to be two percent (2%) of bond size.
- Where actual debt service is unknown, required debt service is estimated from amortization schedules using the debt service template rates.
- \$51,000,000 of previously authorized but unissued Road Fund Bonds and \$228,155,000 of previously authorized but unissued Agency and other Bonds are assumed to be deauthorized.

**Table 11  
DEBT AUTHORIZED BY RECENT SESSIONS OF THE GENERAL ASSEMBLY**

<u>Biennium</u>	<u>Principal Debt Authorized</u>	<u>Biennium</u>	<u>Principal Debt Authorized</u>
1988-90	364,171,900	2000-02 <sup>4</sup>	1,046,927,600
1990-92	1,148,218,400	2002-04 <sup>5</sup>	835,188,380
1992-94	439,375,100	2004-06 <sup>6</sup>	1,906,315,300
1994-96 <sup>1</sup>	429,575,900	2006-08 <sup>7</sup>	2,110,528,000
1996-98 <sup>2</sup>	313,575,000	2008-10 <sup>8</sup>	2,015,494,000
1998-00 <sup>3</sup>	1,168,030,000	2010-12 <sup>9</sup>	2,293,252,000

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

<sup>2</sup> Enacted in the 1996-1998 Budget of the Commonwealth, and the Second 1997 Extraordinary Session of the Kentucky General Assembly.

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 (KY Infrastructure Authority leveraging), which 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.

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

Reauthorized: \$74,102,000 General Fund and \$2,000,000 Agency Fund

New Authorizations: \$600,830,000 General Fund; \$268,100,000 Road Fund; and \$96,100,000 Agency Fund

\$126,898,000 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

<sup>4</sup> Debt 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.

<sup>5</sup> Debt Enacted in the 2002-2004 Budget of the Commonwealth.

General Fund Authorization: \$628,188,380

Agency Fund Authorization: \$207,000,000

<sup>6</sup> Debt 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 Highway Trust Funds.

<sup>7</sup> Debt Enacted in the 2006-2008 Budget of the Commonwealth and subsequent 2007 Second Extraordinary Session of the General Assembly.

General Fund Authorization: \$1,492,991,000

Road Fund Authorization: \$ 350,000,000

Agency Fund Authorization: \$ 267,537,000

The 2006 Session of the Kentucky General Assembly also authorized \$290,000,000 of Grant Anticipation Revenue Vehicle (GARVEE) bonds supported by Transportation Cabinet Federal Highway Trust Funds.

<sup>8</sup> Debt Enacted in the 2008-2010 Budget of the Commonwealth.

General/Tobacco Fund Authorization: \$ 657,281,000

Road Fund Authorization: \$ 535,000,000

Agency Fund Authorization: \$ 743,213,000

Other Authorization: \$ 80,000,000

The 2008 Session of the Kentucky General Assembly also authorized \$231,000,000 of Grant Anticipation Revenue Vehicle (GARVEE) bonds supported by Transportation Cabinet Federal Highway Trust Funds.

<sup>9</sup> \$2,293,252,000 New Debt Recommended in the 2010-2012 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 FY10 – FY12 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. Use debt to finance projects prudently, while addressing the capital investment needs of the state.
3. Issue debt only for those projects that will provide benefits equal to or longer than the life of the obligation.
4. Amortize debt consistent with the useful life of the project. Monitor principal levels by Fund source within the broader parameters of 27-30 percent maturing in 5 years and 55-60 percent maturing within 10 years.
5. 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.
6. Maintain or improve the state's current Aa3/AA+/AA- Turnpike Authority of Kentucky Road Fund lease appropriation debt rating by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively.
7. Initiate reviews of debt management processes that are consistent with reviews by external entities such as rating agencies.
8. Continue to develop the program to manage the net interest expense of the Commonwealth.
9. Continually strive to reduce the expense of debt through ongoing management of outstanding debt and analysis of low-cost alternatives.
10. 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 debt 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 lease 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 the 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 revenue debt is 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.

The payment of debt service by the state universities is enhanced by a state intercept provision that provides that in the event of a default, the Secretary of the Finance and Administration Cabinet is required to intercept any funds appropriated to the University but not yet disbursed and to remit those funds to the Trustee to remedy the default.

**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 does 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. Some issues covenant that in the event of a shortfall, the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation Multi-Family conduit bonds, and Kentucky Infrastructure Authority Governmental Agencies Program bonds are not moral obligation debt.

## Default Record

The Commonwealth has never defaulted in the payment of principal or interest on its general obligation or its project revenue obligations. Nor has the moral obligation provision been exercised.

**Table 12**  
**ACTIVE DEBT ISSUING ENTITIES**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATINGS*</u>
State Property and Buildings Commission	<b>KRS 56.450</b> Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
Kentucky Asset/Liability Commission	<b>KRS 56.860</b> 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	<b>KRS 175.410-175.990</b> Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA+/AA-
The State Universities (consisting of nine)	<b>KRS 56.495</b> Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	See Appendix C
Kentucky Housing Corporation	<b>KRS 198A</b> Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents of the State.	Limited to \$5.0 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	<b>KRS 224A</b> Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	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	<b>KRS 164A</b> 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 \$5.0 billion of debt outstanding.	NR/AAA/AAA (Sr. Series) NR/A/A (Subord. Series)**
School Facilities Construction Commission	<b>KRS 157.611-157.665</b> Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance Authority	<b>KRS 154</b> Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide 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	<b>KRS 441.605-441.695</b> Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Baa1/A/NR (Nationally Insured)

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

Certain State Property and Buildings Commission Agency Fund Revenue bonds may have ratings different from those identified above. The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA-" by Standard & Poor's and are backed by the loans of the borrowers.

\*\*The Kentucky Higher Education Student Loan Corporation, Series 2008 A-1, A-2, and A-3 Bonds are rated "A+" by Standard & Poor's due to the downgrade of the LOC provider for the transaction.

## Definitions

**Debt service** is defined as all debt service appropriated by the General Assembly to the Executive Branch. This includes debt service on all bond issues of the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, state universities (general receipts bonds, consolidated educational buildings 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 Funds 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 FY11 and FY12 are based upon the Consensus Forecasting Group's December 21, 2009 Official Revenue Estimates. Agency Fund estimates are based upon actual results for FY09 and assume no growth each fiscal year.

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 7.00 percent or with a taxable interest rate of 9.00 percent for Build America Bonds (BABs) or other applicable rates). Asset bonds equate to project costs plus cost of issuance and assume no debt service reserves.

## Historical Information

Table 13 displays the historical comparison of debt outstanding in current and constant dollars.

Table 14 displays 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 an update of Table 14 to include the Governor's proposed debt financed projects as it relates to personal income.

Table 16 provides the 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 17 provides an update of Table 16 to include the Governor's proposed debt financed projects.

Table 18 provides the comparison of total appropriated debt service as a percentage of anticipated available revenue as well as an update to include the Governor's proposed debt financed projects.

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

<u>Fiscal Year</u>	<u>Current</u>	<u>Percent Change</u>	<u>CPI Constant Dollar Adjustment</u>	<u>Constant (1984)</u>	<u>Percent Change</u>
1985	2,098.89	-0.09	1.076	1,950.64	-3.52
1986	2,197.98	4.72	1.096	2,005.46	2.81
1987	2,627.29	19.53	1.136	2,312.76	15.32
1988	2,771.07	5.47	1.183	2,342.41	1.28
1989	2,726.69	-1.60	1.240	2,198.94	-6.12
1990	2,752.78	0.96	1.307	2,106.18	-4.22
1991	3,277.26	19.05	1.362	2,406.21	14.25
1992	3,537.60	7.94	1.403	2,521.45	4.79
1993	3,837.66	8.48	1.445	2,655.82	5.33
1994	3,785.78	-1.35	1.482	2,554.51	-3.81
1995	3,809.20	0.62	1.524	2,499.47	-2.15
1996	3,775.38	-0.89	1.569	2,406.23	-3.73
1997	3,557.74	-5.76	1.605	2,216.66	-7.88
1998	3,600.08	1.19	1.630	2,208.64	-0.36
1999	3,589.95	-0.28	1.666	2,154.83	-2.44
2000	3,556.97	-0.92	1.722	2,065.60	-4.14
2001	3,966.22	11.51	1.771	2,239.53	8.42
2002	4,423.93	11.54	1.799	2,459.10	9.80
2003	4,102.63	-7.26	1.840	2,229.69	-9.33
2004	4,483.53	9.28	1.889	2,373.49	6.45
2005	4,658.95	3.91	1.953	2,385.53	0.51
2006	5,103.48	9.54	2.016	2,531.49	6.12
2007	5,455.69	6.90	2.073	2,631.25	3.94
2008	6,300.18	15.48	2.153	2,926.19	11.21
2009	6,831.16	8.43	2.139	3,193.62	9.14
2010*	8,554.25	25.22	2.171	3,940.24	23.38
2011*	8,108.98	-5.21	2.204	3,679.21	-6.62
2012*	7,666.84	-5.45	2.239	3,424.23	-6.93

\*Estimated

Assumes remaining un-issued debt authorization is issued in FY10.

Assumes no additional debt authorization for the 2010-2012 Biennium.



**Table 14**  
**APPROPRIATION SUPPORTED DEBT**  
**KENTUCKY ECONOMIC DEBT INDICATORS**  
**(Current Dollars)**

<b>Fiscal Year</b>	<b>Debt as a % of Assessed Property</b>	<b>Required Debt Service as a % of Assessed Property</b>	<b>Debt as a % of Personal Income</b>	<b>Required Debt Service as a % of Personal Income</b>	<b>Debt Per Capita (\$)</b>	<b>Required Debt Service Per Capita (\$)</b>
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	1.24	0.16	3.90	0.51	1,081.43	141.46
2005	1.22	0.15	3.92	0.47	1,116.34	135.36
2006	1.49	0.18	4.13	0.50	1,213.36	148.04
2007	1.49	0.15	4.13	0.42	1,286.27	131.65
2008	1.66	0.18	4.64	0.51	1,475.71	163.02
2009	1.77	0.16	5.08	0.47	1,608.75	150.09
2010*	2.19	0.13	6.15	0.36	2,005.63	116.72
2011*	2.06	0.22	5.63	0.59	1,893.13	198.72
2012*	1.89	0.21	5.09	0.56	1,782.52	195.38

\*Estimated

Assumes remaining un-issued debt authorization is issued in FY10.

Assumes no additional debt authorization for the 2010-2012 Biennium.

**Table 15**  
**APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE**  
**AS A PERCENT OF PERSONAL INCOME**  
**(000,000)**

<b>Fiscal Year</b>	<b>Debt as a % of Personal Income Assuming No New Authorization</b>	<b>Required Debt Service as a % of Personal Income Assuming No New Authorization</b>	<b>Debt as a % of Personal Income with \$2,293,252,000 Executive Budget Recommended New Authorization</b>	<b>Required Debt Service as a % of Personal Income with \$2,293,252,000 Executive Budget Recommended New Authorization</b>
1985	5.00	0.56		
1986	4.93	0.55		
1987	5.55	0.52		
1988	5.48	0.55		
1989	5.06	0.54		
1990	4.82	0.53		
1991	5.39	0.52		
1992	5.51	0.61		
1993	5.72	0.59		
1994	5.35	0.56		
1995	5.11	0.57		
1996	4.83	0.56		
1997	4.31	0.56		
1998	4.08	0.52		
1999	3.94	0.50		
2000	3.62	0.57		
2001	3.92	0.55		
2002	4.23	0.50		
2003	3.80	0.55		
2004	3.90	0.51		
2005	3.92	0.47		
2006	4.13	0.50		
2007	4.13	0.42		
2008	4.64	0.51		
2009	5.08	0.47		
2010*	6.15	0.36		
2011*	5.63	0.59		
2012*	5.09	0.56	6.59*	0.72*

\*Estimated

Assumes remaining un-issued debt authorization is issued in FY10.

Assumes new debt authorization for the 2010-2012 Biennium with full year debt service in FY12.

**Table 16**  
**APPROPRIATION SUPPORTED DEBT SERVICE**  
**AS A PERCENT OF TOTAL REVENUE**  
**(000,000)**

<u>Fiscal Year</u>	<u>Revenue (\$)</u>	<u>Debt Service (\$)</u>	<u>Debt Service/ Revenue (%)</u>
1985	3,959.25	233.91	5.91
1986	4,248.08	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	10,877.02	586.47	5.39
2005	11,749.64	564.92	4.81
2006	12,746.44	622.68	4.89
2007	13,022.81	558.39	4.29
2008	13,490.88	695.96	5.16
2009	13,254.61	637.34	4.81
2010*	13,018.16	497.83	3.82
2011*	13,430.52	851.18	6.34
2012*	13,810.22	840.37	6.09

\*Estimated

Assumes remaining un-issued debt authorization is issued in FY10.

Assumes no additional debt authorization for the 2010-2012 Biennium.

**Table 17  
 APPROPRIATION SUPPORTED DEBT SERVICE  
 AS A PERCENT OF TOTAL REVENUE (%)**

<b>Fiscal Year</b>	<b>Assuming No New Authorization</b>	<b>\$2,293,252,000 Executive Budget Recommended New Authorization with Additional Resources</b>
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	5.39	
2005	4.81	
2006	4.89	
2007	4.29	
2008	5.16	
2009	4.81	
2010	3.82*	
2011	6.34*	
2012	6.09*	7.64*

\*Estimated

Assumes remaining un-issued debt authorization is issued in FY10.

Assumes new debt authorization for the 2010-2012 Biennium with full year debt service in FY12.

**Table 18  
 APPROPRIATION SUPPORTED DEBT SERVICE  
 AS A PERCENT OF AVAILABLE REVENUE (%)**

<b>Fiscal Year</b>	<b>Available Revenue (\$Millions)</b>	<b>Appropriated Debt Service/ Revenue (%)</b>	<b>\$2,293,252,000 Executive Budget Recommended New Authorization</b>	<b>\$2,293,252,000 Executive Budget Recommended New Authorization with Additional Resources</b>
1998	6,834.06	6.69		
1999	7,042.47	6.53		
2000	7,396.68	7.19		
2001	7,648.48	7.78		
2002	7,622.59	7.96		
2003	7,912.92	7.46		
2004	8,079.32	7.79		
2005	8,681.45	6.40		
2006	9,444.88	7.69		
2007	9,716.66	7.78		
2008	9,851.17	8.53		
2009	9,557.71	8.96		
2010*	9,322.43	9.51		
2011*	9,693.57	8.78		
2012*	10,001.46	8.40	10.77*	
2012*	10,330.24	8.40		10.48*

\*Estimated

Assumes remaining un-issued debt authorization is issued in FY10.

Assumes new debt authorization for the 2010-2012 Biennium with full year debt service in FY12.

## Appendix A – Economic Indicators

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

Tables A-1, A-2 and A-3 show the annual debt and debt service in three different categories: required, appropriated and actual. "Required debt service" is the net 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 well in advance of debt being issued or refinanced. These figures are neither an accurate nor consistent reflection of the Commonwealth's debt liability and are presented pursuant to KRS 42.410.

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

Table A-4 reflects Kentucky's non-appropriation supported debt in relation to the economic variables of assessed property value, personal income and population. Non-appropriation supported debt is the debt of those authorities for which appropriation of state funds is not used to pay the debt service. The authorities include the Kentucky Housing Corporation, Kentucky Higher Education Student Loan Corporation, Kentucky Local Correctional Facilities Construction Authority, and certain debt of the Kentucky Infrastructure Authority.

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

<u>Fiscal Year</u>	<u>Debt as a % of Assessed Property</u>	<u>Required Debt Service as a % of Assessed Property</u>	<u>Appropriated Debt Service as a % of Assessed Property</u>	<u>Actual Debt Service as a % of Assessed Property</u>
1998	1.43	0.18	0.18	0.23
1999	1.36	0.17	0.17	0.19
2000	1.29	0.20	0.19	0.16
2001	1.35	0.19	0.20	0.19
2002	1.33	0.16	0.18	0.17
2003	1.17	0.17	0.17	0.17
2004	1.24	0.16	0.17	0.19
2005	1.22	0.15	0.15	0.16
2006	1.49	0.18	0.21	0.17
2007	1.49	0.15	0.21	0.18
2008	1.66	0.18	0.22	0.19
2009	1.77	0.16	0.22	0.19

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

<u>Fiscal Year</u>	<u>Debt as a % of Personal Income</u>	<u>Required Debt Service as a % of Personal Income</u>	<u>Appropriated Debt Service as a % of Personal Income</u>	<u>Actual Debt Service as a % of Personal Income</u>
1998	4.08	0.52	0.52	0.66
1999	3.94	0.50	0.50	0.55
2000	3.62	0.57	0.54	0.46
2001	3.92	0.55	0.59	0.56
2002	4.23	0.50	0.58	0.55
2003	3.80	0.55	0.55	0.56
2004	3.90	0.51	0.55	0.59
2005	3.92	0.47	0.47	0.51
2006	4.13	0.50	0.59	0.48
2007	4.13	0.42	0.57	0.50
2008	4.64	0.51	0.62	0.53
2009	5.08	0.47	0.64	0.54

**Table A-3  
 APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE  
 PER CAPITA  
 (Current Dollars)**

<u>Year</u>	<u>Debt Per Capita (\$)</u>	<u>Required Debt Service Per Capita (\$)</u>	<u>Appropriated Debt Service Per Capita (\$)</u>	<u>Actual Debt Service Per Capita (\$)</u>
1998	903.32	114.78	114.78	145.46
1999	893.46	114.50	114.50	125.57
2000	878.52	137.44	131.37	112.08
2001	974.78	135.95	146.26	139.36
2002	1,080.88	128.75	148.31	140.38
2003	996.31	145.26	143.33	146.07
2004	1,081.43	141.46	151.79	163.06
2005	1,116.34	135.36	133.11	145.80
2006	1,213.36	148.04	172.79	141.79
2007	1,286.27	131.65	178.12	154.88
2008	1,475.71	163.02	196.79	168.44
2009	1,608.75	150.09	201.74	171.73

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

<u>Fiscal Year</u>	<u>Debt as a % of Assessed Property</u>	<u>Debt as a % of Personal Income</u>	<u>Debt Per Capita (\$)</u>
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	0.62	1.96	544.02
2005	0.69	2.20	628.17
2006	0.98	2.72	797.97
2007	1.14	3.16	984.30
2008	1.16	3.25	1,034.74
2009	1.14	3.29	1,041.23



## **Appendix B: Fiscal Debt Indicators**

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

Table B-2 reflects the three categories of debt service in terms of “available appropriated revenues.” This form of revenue is revenue from the same sources as described above less funds that are statutorily dedicated to a specific purpose. In the case of the Road Fund (Table B-3), the following receipts are subtracted: County Road Aid, Rural Secondary Road Aid, Municipal Road Aid within the Motor Fuels Normal and Motor Fuels Normal Use accounts, Kentucky Transportation Center Funds, Coal Haul Cooperative Agreements, Extended Weight and Coal Haul Fines, Drivers Education Program and Drivers License Photo Program.

The Agency Fund receipts include those agency funds that are actually applied to debt service. These include primarily the debt service for university general receipts and housing and dining issues. In addition certain university consolidated educational buildings revenue bonds and State Property and Buildings Commission bonds are supported by Agency Fund appropriations.

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

<u>Fiscal Year</u>	<u>Total Revenue (000,000)</u>	<u>Required Debt Service/ Revenue (%)</u>	<u>Appropriated Debt Service/ Revenue (%)</u>	<u>Actual Debt Service/ Revenue (%)</u>
1998	8,675.09	5.27	5.27	6.68
1999	9,104.41	5.05	5.05	5.54
2000	9,427.31	5.90	5.64	4.81
2001	9,920.62	5.58	6.00	5.72
2002	10,172.25	5.18	5.97	5.65
2003	10,499.22	5.70	5.62	5.73
2004	10,877.02	5.39	5.79	6.22
2005	11,749.64	4.81	4.73	5.18
2006	12,746.44	4.89	5.70	4.68
2007	13,022.81	4.29	5.80	5.04
2008	13,490.88	5.16	6.23	5.33
2009	13,254.61	4.81	6.46	5.50

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

<u>Fiscal Year</u>	<u>Available Revenue (000,000)</u>	<u>Required Debt Service/ Revenue (%)</u>	<u>Appropriated Debt Service/ Revenue (%)</u>	<u>Actual Debt Service/ Revenue (%)</u>
1998	6,834.06	6.69	6.69	8.48
1999	7,042.47	6.53	6.53	7.16
2000	7,396.68	7.52	7.19	6.14
2001	7,648.48	7.23	7.78	7.41
2002	7,622.59	6.91	7.96	7.54
2003	7,912.92	7.56	7.46	7.60
2004	8,079.32	7.26	7.79	8.37
2005	8,681.45	6.51	6.40	7.01
2006	9,444.88	6.59	7.69	6.31
2007	9,716.66	5.75	7.78	6.76
2008	9,851.17	7.06	8.53	7.30
2009	9,557.71	6.67	8.96	7.63

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

<u>Fiscal Year</u>	<u>Available Road Fund Revenue</u>	<u>Debt Service</u>	<u>Debt Service as a Percent of Available Revenue</u>
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	901.63	172.86	19.17
2003	901.46	170.97	18.97
2004	891.98	153.30	17.19
2005	879.54	102.89	11.70
2006	920.91	137.49	14.93
2007	983.20	146.10	14.86
2008	995.91	153.60	15.42
2009	918.62	118.86	12.94

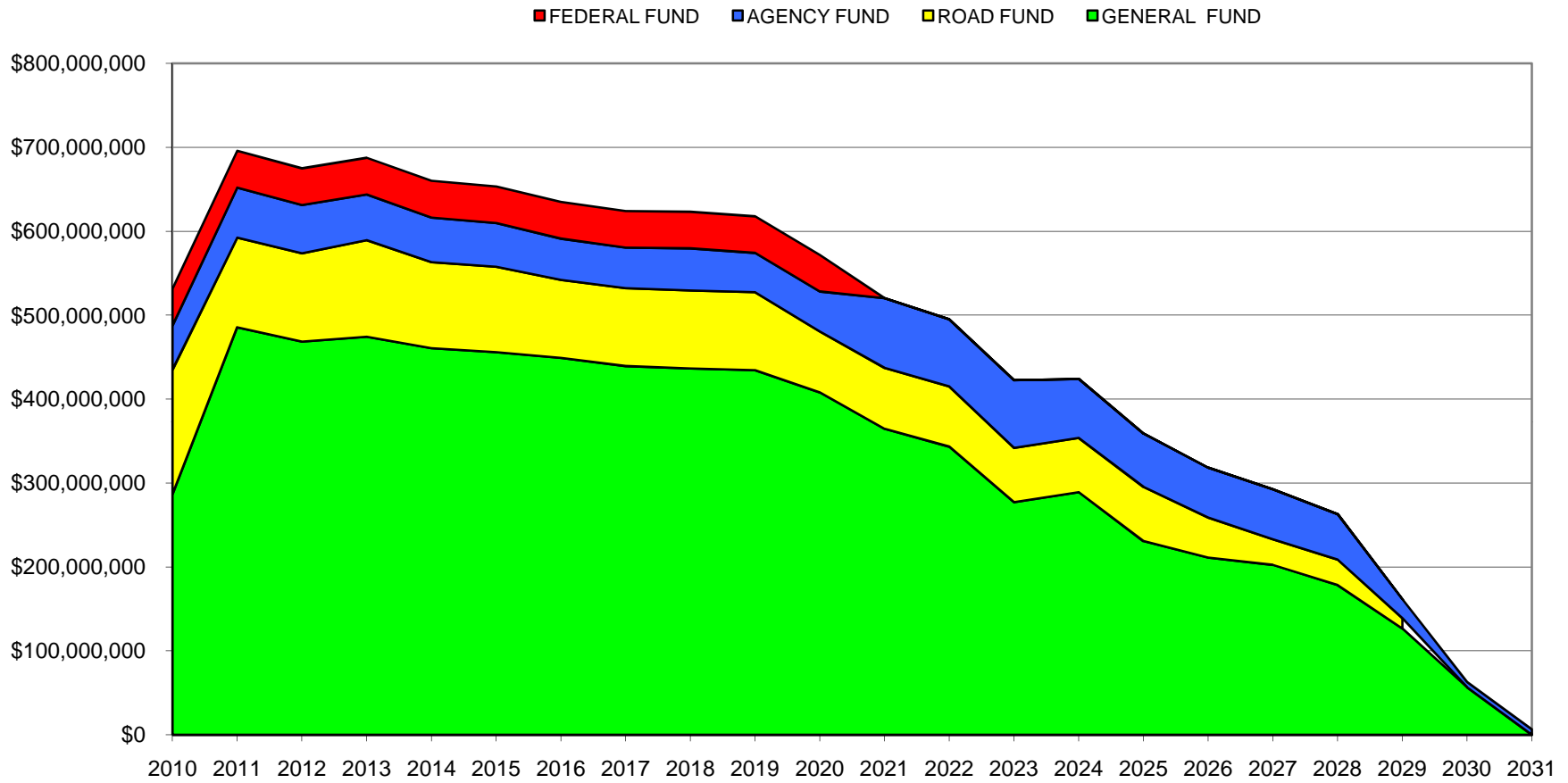
## Appendix C: University Rating Agency Information

University	Consolidated Education		Housing & Dining	General Receipts	
	Underlying Rating		Underlying Rating	Underlying	Intercept
Eastern Kentucky*	Moody's	A2	Not Rated	A2	Aa3
	S&P	A	Not Rated	Not Rated	A+
Kentucky State*	Moody's	A3	Not Rated	A3	Aa3
	S&P	Not Rated	Not Rated	Not Rated	Not Rated
Morehead State*	Moody's	A2	Not Rated	A2	Aa3
	S&P	Not Rated	Not Rated	Not Rated	Not Rated
Murray State	Moody's	A2	Aa3**	A2	Aa3
	S&P	A	A-	Not Rated	A+
Northern Kentucky	Moody's	A2	A3	A2	Aa3
	S&P	A	Not Rated	Not Rated	A+
University of Kentucky*	Moody's	Aa3	Not Rated	Aa3	Not Rated
	S&P	AA-	Not Rated	AA-	Not Rated
University of Louisville	Moody's	Aa3	A1	Aa3	Not Rated
	S&P	AA-	A	AA-	Not Rated
Western Kentucky*	Moody's	A2	Not Rated	A2	Aa3
	S&P	A	Not Rated	Not Rated	A+

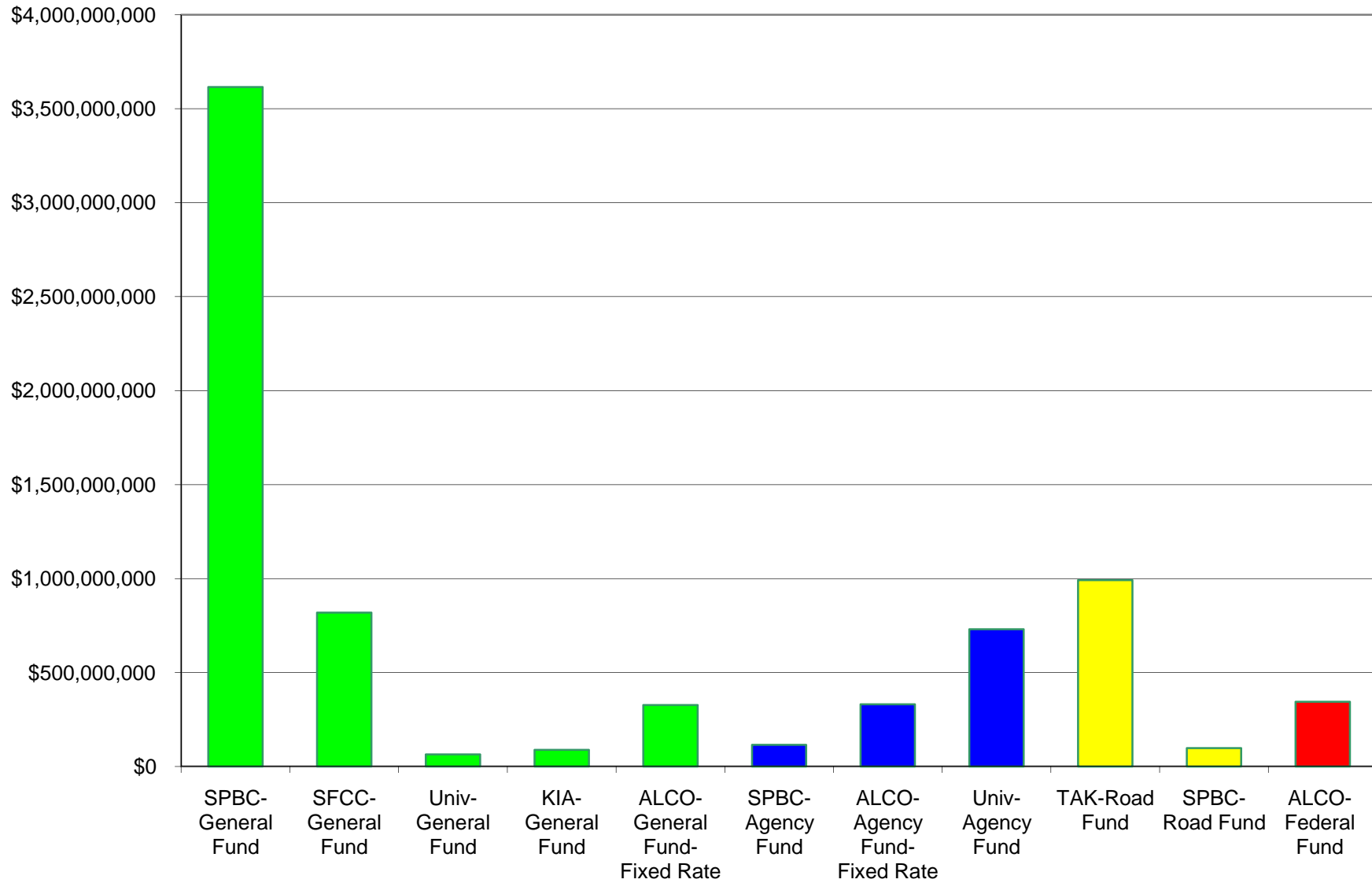
\* No Housing and Dining System Bonds are outstanding.

\*\* With State Intercept

**Appendix D**  
**Appropriation Supported Debt Service**  
**by Fund Source**  
**as of 12/31/09**



**Appropriation Debt Principal Outstanding  
by Fund Source as of 12/31/09**



## Appendix E: Recommended New Debt Authorization

<u>AGENCY</u>	<u>PROJECT</u>	<u>GENERAL FUND</u>
SFCC	School Facilities Construction Commission - Offers of Assistance	150,000,000
Veterans' Affairs	Western Ky Veterans Center-Special Needs Unit-Additional Funding	1,393,000
Kentucky Infrastructure Authority	Ky Infrastructure Authority-Clean Water Revolving Fund	20,000,000
Kentucky Infrastructure Authority	Ky Infrastructure Authority-Drinking Water Revolving Fund	12,000,000
Local Government	Flood Control - State Match	3,000,000
Economic Develop-Financial Incentives	BRAC Water/Sewer Projects	38,495,000
Economic Develop-Financial Incentives	Economic Development Bonds	15,000,000
Economic Develop-Financial Incentives	Kentucky Economic Development Finance Authority	35,000,000
Economic Develop-Secretary	High-Tech Infrastructure/Investment Pool	10,000,000
Environmental Protection	State Owned Dam Repair	2,000,000
Environmental Protection	Petroleum Underground Storage Tank Projects	25,000,000
Energy & Envir.-Office of Secretary	Ky Heritage Land Conservation Fund Projects	15,000,000
Finance-Facilities & Support Services	Spindletop Renovation for Advanced Battery Research	1,000,000
Finance-Facilities & Support Services	Maintenance Pool	7,000,000
Revenue	Comprehensive Tax System - Additional Funding	4,500,000
CHFS-Behavioral Health, Developmental & Intellectual Disabilities	Eastern State Hospital Replacement	129,005,000
CHFS-Behavioral Health, Developmental & Intellectual Disabilities	Oakwood Specialty Clinic Expansion	2,164,000
CHFS-Behavioral Health, Developmental & Intellectual Disabilities	Glasgow Nursing Home Replacement	18,000,000
CHFS-General Admin & Program Support	Maintenance Pool	3,500,000
Corrections Management	Maintenance Pool	5,500,000
Corrections-Adult Institutions	Ky State Reformatory-Electrical System Upgrade	4,200,000
Corrections-Adult Institutions	Western Kentucky Correctional Complex - Retrofit for Female Inmates	370,000
Corrections-Adult Institutions	Northpoint Training Center - Rebuild	10,800,000
Personnel	Personnel/Payroll System Replacement - Additional Funding	22,900,000
Ky Higher Education Assistance Auth.	Lottery Funded Student Financial Aid	412,000,000
Eastern Ky University	Construct Science Building, Phase II	65,040,000
Kentucky State University	Expand & Renovate Betty White Nursing Building	7,825,000
Morehead State University	Renovate & Expand Student Center, Phase II	52,921,000
Murray State University	Construct/Complete New Science Complex, Final Phase	30,000,000
Northern Kentucky University	Construct Health Innovation/Renovate Old Science	92,500,000
University of Kentucky	Construct Science Research Building 2	205,880,000
University of Louisville	Construct Belknap Classroom/Academic Building	75,000,000
Western Kentucky	Renovate Science Campus, Phase IV	29,000,000
KCTCS	Construct JCTC Carrollton Campus, Phase I	12,000,000
KCTCS	Construct Owensboro Advanced Technology Center, Ph II	14,055,000
Parks	Maintenance Pool	7,000,000
Transportation	Wetland & Stream Mitigation Payments	5,000,000
Transportation	Aviation Development	10,500,000
<b>TOTAL - GENERAL FUND BOND AUTHORIZATION</b>		<b>1,554,548,000</b>
<u>AGENCY</u>	<u>PROJECT</u>	<u>ROAD FUND</u>
Highways	Complete BRAC Road Projects	112,000,000
Highways	Highway Bonds	300,000,000
<b>TOTAL - ROAD FUND BOND AUTHORIZATION</b>		<b>412,000,000</b>

## Appendix E: Recommended New Debt Authorization (continued)

<u>AGENCY</u>	<u>PROJECT</u>	<u>AGENCY FUND</u>
Military Affairs	Construct Hangar	4,000,000
Eastern Kentucky University	Renovate Residence Hall	12,000,000
Eastern Kentucky University	Construct New Student Housing	15,000,000
Eastern Kentucky University	Construct North Campus Res. Dist. Retail Unit	2,250,000
Morehead State University	Renovate East Mignon Residence Hall	4,948,000
Morehead State University	Renovate West Mignon Residence Hall	4,948,000
Morehead State University	Construct Food Svcs/Retail & Parking Structure in Housing Complex	14,786,000
Morehead State University	Replace Exterior Precast Panels-Nunn Hall	3,000,000
Morehead State University	Construct Residence Building-University Farm	2,524,000
Morehead State University	Comply with ADA – Auxiliary	3,065,000
Morehead State University	Capital Renewal and Maintenance Pool-Aux	2,284,000
Murray State University	Renovate Elizabeth Hall	8,896,000
Murray State University	Renovate College Courts	10,000,000
Murray State University	Renovate Curris Center T-Room & Food Service Equipment	1,008,000
Northern Kentucky University	Renovate Old Civic Center Building	3,700,000
Northern Kentucky University	Repair University Drive Parking Garage	2,000,000
Northern Kentucky University	Acquire Radio Communications	10,000,000
Northern Kentucky University	Acquire/Renovate Gateway/Highland Heights Campus	7,500,000
Northern Kentucky University	Acquire Land and Buildings/Master Plan	20,000,000
University of Kentucky	Construct New Housing	30,000,000
University of Kentucky	Guaranteed Energy Savings Contract	25,000,000
University of Kentucky	Relocate & Expand Dentistry Faculty Practice	3,375,000
University of Kentucky	Renovate Dentistry Clinic in Ky Clinic	7,615,000
University of Kentucky	Upgrade Student Center Infrastructure	17,805,000
Western Kentucky	Renovate Downing University Ctr Phase III	33,500,000
University of Louisville	Guaranteed Energy Savings Contract	40,000,000
University of Louisville	Construct Student Recreation Center	37,500,000
<b>TOTAL - AGENCY FUND BOND AUTHORIZATION</b>		<b>326,704,000</b>
<b>TOTAL BOND AUTHORIZATION</b>		<b>2,293,252,000</b>



## ACKNOWLEDGMENTS

<b>OFFICE OF STATE BUDGET DIRECTOR</b>	
Mary E. Lassiter	State Budget Director
<b>GOVERNOR'S OFFICE FOR POLICY AND MANAGEMENT</b>	
John T. Hicks	Deputy State Budget Director
Kevin Cardwell	Deputy State Budget Director
Michaela Giles	Policy and Budget Analyst
Glenna Goins	Policy and Budget Analyst
Vicki Goins	Policy and Budget Analyst
Christina Gordley	Policy and Budget Analyst
Ryan Green	Policy and Budget Analyst
Mike Grisham	Systems Technician Specialist IT
Susan Harman	Administrative Secretary
Traci Hedrick	Administrative Specialist
Kathi Marshall	Policy and Budget Analyst
Jim McWilliams	Policy and Budget Analyst
Marty Miller	Internal Policy Analyst
Julie Palmore	Network Analyst
Geoff Pinkerton	Policy and Budget Analyst
Teresa Sanders	Policy and Budget Analyst
Bob Shimer	Policy and Budget Analyst
Jana Smith	Policy and Budget Analyst
Janice Tomes	Policy and Budget Analyst
Larissa Watson	Administrative Specialist
Rachelle Wilkins	Systems Technician Specialist IT
Carla Wright	Policy and Budget Analyst
<b>GOVERNOR'S OFFICE FOR ECONOMIC ANALYSIS</b>	
Greg Harkenrider	Executive Director
Martha Armstrong	Administrative Specialist
Ghada EIDabbagh	Financial Investment and Forecasting Program Specialist
Thomas Jones	Financial Investment and Forecasting Program Analyst
Gene Brown-Zaparanick	Financial Investment and Forecasting Program Analyst
<b>GOVERNOR'S OFFICE FOR POLICY RESEARCH</b>	
Michael Jones	Policy Research Consultant
Robin Rhea	Policy Research Consultant
<b>OFFICE OF FINANCIAL MANAGEMENT</b>	