

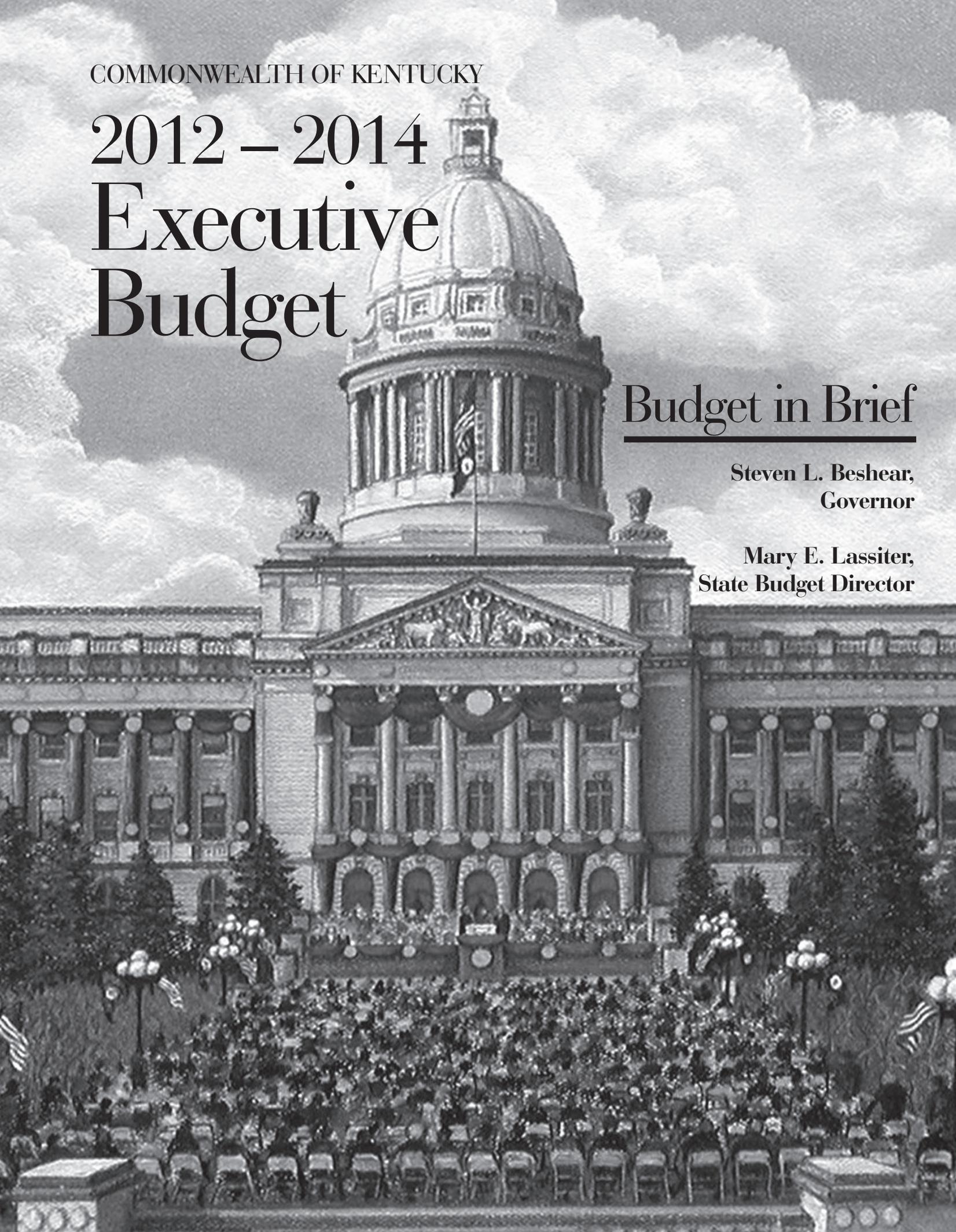
COMMONWEALTH OF KENTUCKY

2012 – 2014 Executive Budget

Budget in Brief

**Steven L. Beshear,
Governor**

**Mary E. Lassiter,
State Budget Director**



PREFACE

The Executive Branch budget for the 2012-2014 biennium is the financial plan for Kentucky State Government as proposed by the Governor for consideration by the 2012 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 2012-2014 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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Governor's Office for Economic Analysis
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January 17, 2012

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 plan for how our state should meet its needs over the next two fiscal years. Two years ago, we said that the challenge had never been greater, and we now face another biennium in which revenues will not meet spending needs. The national recession has had devastating effects on all states' budgets. Since taking office four years ago, you have successfully executed ten separate budget reductions totaling approximately \$1.3 billion.

With the help of federal stimulus funds, budget reserves, debt management, efficiency strategies and targeted spending reductions, we have been able to manage through these difficult times without making deep cuts to your major priorities of education, healthcare and public safety. We have made systemic changes to address growing costs in several major areas of the government, including Corrections, Medicaid, public pensions and health insurance for public employees. Without those measures, the challenge we face would be even more severe.

We are seeing revenues grow as our state recovers from the recession, and modest revenue growth is predicted over the next two years. However, that revenue growth will not be adequate to meet our obligations and address certain critical needs of our citizens. The choices of how to allocate our scarce resources are much more difficult than in the past. The cumulative effect of budget cuts on many areas of our government threaten our ability to meet the needs of citizens in a timely manner.

Your priorities are clearly reflected in the choices you have made in this budget. The spending recommended in your budget is supported by revenue growth, better collection of existing taxes, budget reserve and restricted funds, and further contraction of spending. As was the case in each of your biennial budgets, your most significant decision was to preserve funding for elementary and secondary education in the SEEK formula.

Governor Steve Beshear
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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 now in educating Kentucky's children, especially early childhood education, will have long term benefits. Likewise, our investments in economic development, healthcare, and tackling substance abuse, will improve the future of Kentucky's families. We will continue to find ways to be more efficient, and be better stewards of the taxpayers' dollars. This budget is balanced, is fiscally responsible, and reduces our reliance on one-time funds.

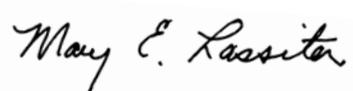
I look forward to continue working closely with the Cabinets on the Smart Government Initiative to identify and implement enterprise-wide cost saving and business improvement measures. I also want to applaud you for your vision and leadership in proposing additional sources of recurring revenue from expanded gaming and a comprehensive review of our tax structure. While we will "get by" these next two years, we are missing needed opportunities to invest in our citizens' future.

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 black ink that reads "Mary E. Lassiter". The signature is written in a cursive, flowing style.

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

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2012-2014 EXECUTIVE BUDGET EXECUTIVE SUMMARY

Introduction

The context in which Governor Beshear recommends his 2012-2014 Executive Budget represents the third consecutive two-year period with a severely difficult fiscal environment. The forces that shape the fiscal outlook for the 2012-14 biennium include: 1) the replacement of one-time resources used to finance current spending, 2) increasing costs to honor obligations or maintain critical services, 3) the cumulative impact of five consecutive years of budget cuts, 4) the expiration of federal stimulus funds that averted severe budget cuts in education and Medicaid, 5) modest growth in revenue receipts, and 6) and a set of future obligations and priorities that must be addressed.

The General Fund revenue forecast for the 2012-2014 biennium predicts that revenues will grow 2.4 percent in fiscal year 2013 and 3 percent in fiscal year 2014. That moderate growth is welcome, but combined with the other conditions facing this next budget, will not forestall spending reductions that will take place in many areas. While Kentucky's revenue receipts declined during the worst of the recession, they did not decline as deeply as many states during the height of the recession and revenues have just recovered to pre-recession levels. The primary outcome has been that elementary and secondary education and critical health services have not incurred the kind of spending cuts other states have instituted.

Governor's Goals in the 2012-2014 Budget Recommendation

The Governor's goals that are addressed in the 2012-2014 budget recommendation include: job creation, protection of education funding, pursuing progress in early childhood education, providing health care for Kentucky's most vulnerable citizens, protecting the public safety and honoring the progressive penal code and correctional system reforms made in 2011, making fiscally responsible and critical investments for the future, improving the structural budget balance, and continuing to reduce costs.

Governor Beshear presents his third 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 25% to 30% in spending cuts since fiscal year 2008. There have been ten rounds of budget cuts and spending reductions since the middle of fiscal year 2008. 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.

Limited Spending Increases

With such a difficult fiscal situation, there are a limited number of areas where additional General Fund support is included: debt service, honoring the statutory retirement/pension obligations for the teachers' and state employees' systems, health insurance for school district and state agency employees, Medicaid, including substance abuse treatment and community based services for those with intellectual disabilities and severe mental illness; reinvesting saving resulting from penal code and correctional reforms, caseload reductions in Community Based Services, replacement funding to sustain the Child Support Enforcement program, colon cancer screening, an adult abuse registry, enhancements to the KASPER prescription tracking system, and facilities coming online including the new Eastern State Hospital and several courthouses. These areas will be highlighted later in this biennial budget overview.

The Budget Gap for the 2012-14 Biennium - \$742 Million

Though the decline in General Fund revenues has halted, the forces that shape the fiscal outlook result in a budgetary gap of \$742 million. When the forecasted General Fund revenues are paired up with the current baseline levels of spending and the handful of areas where more spending is required or needed, spending outstrips available revenues by \$742 million. The table below displays the key features of how the Executive Budget closes the \$742 million General Fund budget gap.

	Biennial Total
	(millions)
Official Revenue Estimate	\$ 18,721
Base Level of Spending	\$ 18,648
Additional Required and Recommended Spending	\$ 815
Total Recommended Spending	\$ 19,463
Gap Between Revenues and Spending	\$ (742)
Measures to Fill the Gap	
Cuts	\$ 286
Fund Transfers	\$ 245
Use of the Budget Reserve Trust Fund	\$ 102
Tax Amnesty and Enhanced Compliance	\$ 61
Other Resources and Lapses	\$ 29
Beginning Balance	\$ 20
Total Budget Balancing Measures	\$ 742

The Governor's Response to the \$742 Million Gap

Governor Beshear is proposing a responsible fiscal plan that is grounded in not raising taxes on Kentuckians during these tough fiscal times, preserving his priorities of education, health services, and public safety.

Spending Cuts - \$286 million

Among the several measures needed to balance the budget, the Executive Budget proposes \$286 million in spending reductions. This will be the eleventh round of budget reductions or spending cuts since fiscal year 2008. The General Fund budget of many agencies of government are reduced by 8.4 percent in fiscal year 2013 compared to their revised fiscal year 2012 base. Those amounts are continued, or straight-lined, into fiscal year 2014. The Governor has targeted a full exemption from spending cuts for priority areas and lesser spending cuts for several areas.

Exempt from Spending Cuts

The Executive Budget preserves the following key areas from further General Fund spending cuts:

- The SEEK Program – the primary financing for Local School Districts
- Preschool Program
- Debt Service payments on Existing Debt
- Retirement Contributions to Pension Systems
- Health Insurance for School District and State Employees
- Medicaid
- Community Based Services
- Behavioral Health, Developmental and Intellectual Disabilities
- Dedicated Severance Taxes shared with Local Governments
- Corrections – Institutional/Community Beds and Probation and Parole
- Public Advocacy
- Student Financial Aid Programs

Mine Permitting and Reclamation
Veterans' Affairs
Kentucky Horse Park

Targeted Spending Cuts – Less than the 8.4% Cuts

The Executive Budget includes lesser spending reduction amounts in several areas:

Universities and the Kentucky Community and Technical College System - 6.4%
Aging and Independent Living – 6.4%
Grants to Local School Districts (other than SEEK) – 4.5%
Career & Technical Education, KET, Libraries and Archives, Vocational Rehabilitation programs – 4.2%
Mine Safety – 4.2%
Public Safety – 2.2%

- o Kentucky State Police
- o Commonwealth and County Attorneys
- o Juvenile Justice
- o Local Jail Support

Property Valuation Administrators – 2.2%

8.4% Spending Cuts to All Other Agencies and Programs

The remaining portions of state government will incur an 8.4 percent reduction. This 8.4 percent reduction is on top of past reductions that have accumulated to 25 to 30 percent over last four years. The Governor's proposal is very mindful of the real impacts on state services that these cuts have caused.

Fund Transfers - \$245 million

Most every biennial budget incorporates a series of transfers to the General Fund from other funds that are determined to be in excess of the needs of their programs. The Executive Budget includes \$245 million over the biennium from these sources.

Use of the Budget Reserve Trust Fund - \$102 million

The Executive Budget uses about \$102 million of the \$122.7 million Budget Reserve Trust Fund balance over the two fiscal years. This mechanism was last used in the 2008-10 budget. The \$102 million prevents cuts to critical public services or deeper cuts to areas already sustaining reductions.

Tax Amnesty and Enhanced Compliance - \$61 million

The Executive Budget includes a net increase in \$61 million in General Fund revenue collections through the implementation of a tax amnesty program in fiscal year 2013 combined with other revenue collection and compliance initiatives. The last tax amnesty program was in 2002. That effort resulted in a net increase in revenue of \$40 million. Since 2002, 40 states have implemented similar programs to improve collections. The incentive elements of tax amnesty include waiving penalties and half of the interest owed. Additionally, increased collection efforts after the amnesty period will improve taxpayer fairness ensuring that all taxpayers are held to the same standard of compliance. The primary focus will be to add new taxpayers to the rolls, provide delinquent taxpayers an opportunity to reestablish their status as compliant taxpayers, and provide additional state revenue for vital public services that benefit all of Kentucky's citizens. The amnesty program will cover almost all taxpayers under all taxes administered by the Department of Revenue.

Other Resources, Lapses, use of FY 2012 Ending Balance - \$48 million

A new initiative is the collection of Abandoned Property receipts into the General Fund from abandoned real property. A pilot program will be instituted in Jefferson County that is expected to yield \$13 million over the biennium by getting real property parcels already determined to be abandoned and working those properties to be sold. Also, an extension of this process to other areas of the Commonwealth is expected to result in another \$4 million. The use of the expected \$20 million ending balance from fiscal

year 2012, an additional \$2 million in Other Resources, and a targeted budget lapse of about \$10 million make up the remainder of the other resources.

The cumulative result of all of these actions closes the budget gap of \$742 million, preserves Governor Beshear's goals of preserving the funding that educates Kentucky's children, health care for our needy and public safety, and reduces the state's reliance on one-time funds to support recurring expenses.

Spending Priorities:

Education: Elementary and Secondary

Governor Beshear is recommending that the current amount of funding for the **SEEK** (Support Education Excellence in Kentucky) program not be a part of the spending cuts proposed and be maintained at the current appropriation level of \$2.9 billion. Due to forecasted increases in the number of students and an unusually limited growth in property valuation assessments, the same amount of funds will provide school districts with a base per pupil funding of \$3,833 in fiscal year 2013 and \$3,827 in fiscal year 2014.

Preschool Funding

The Executive Budget includes an education initiative that Governor Beshear has considered one of his top priorities for expanded investment – preschool funding. Funding in the amount of \$15 million is added to the Education budget in fiscal year 2014 to increase by about 4,400 the number of four year-olds that will be able to attend preschool programs. The Governor's plan is to increase funding by fiscal year 2016 to increase the eligibility to attend preschool to 200 percent of poverty. The current funding level of \$71 million provides eligibility for only 150 percent of poverty. The additional \$15 million will provide for 160 percent of poverty.

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 2012-2014 biennium, a plan that was included in House Bill 1 from the 2008 Special Session of the General Assembly. The amount of additional General Fund support is \$27.8 million in fiscal year 2013 and \$50.8 million in fiscal year 2014.

Governor Beshear's recommended budget for the Kentucky Teachers' Retirement System includes bond financing for \$191 million in projected obligations for retired teacher medical insurance. The Executive Budget includes \$27 million in debt service in fiscal year 2014 to meet the Commonwealth's obligation and avoid returning to borrowing from the pension fund to finance a large portion of the costs of medical insurance for retired teachers. The choice to borrow from the markets instead 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.

Health Insurance for School District and State Agency Employees

The Executive Budget includes additional funding of \$15 million in fiscal year 2013 and \$30 million in fiscal year 2014 to finance a two percent increase in employer contributions to health insurance premiums for each plan year.

Student Financial Aid

Despite the plethora of spending reductions for many parts of Kentucky state government, the Executive Budget proposes no cuts to student financial aid, including the KEES program, the College Access Program, the Kentucky Tuition Grant program, and the National Guard Tuition Assistance program.

Medicaid

The Executive Budget includes increased funding for the Medicaid program. The 2012-2014 recommended budget includes several cost containment, benefit management, and other efficiency measures to reduce Medicaid expenditures. As of November, 2011, managed care was implemented in the Medicaid program. Three managed care organizations are now providing services to over 550,000 Medicaid recipients. This action will result in approximately \$372 million in state fund savings over the 2012-2014 biennium. The Executive Budget includes General Fund savings of approximately \$112 million in fiscal year 2013 and \$35 million in fiscal year 2014 as a result of these measures. Even with the efforts at reducing the reliance upon the General Fund by \$147 million over the biennium, the devotion of the General Fund to the Medicaid program will increase by \$108 million over the biennium.

The Executive Budget includes targeted additional funding to the Medicaid program to expand services in three areas. The first is an expansion of the Supports for Community Living program that will phase in an additional 800 slots; \$11.3 million in fiscal year 2013 and \$34.6 million in fiscal year 2014 from all fund sources. The second is the addition of 5,800 slots for treatment of substance abuse, to include services for adolescents, which will provide therapies and case management services; \$11.6 million in fiscal year 2013 and \$14.9 million in fiscal year 2014 from all fund sources. The third is the expansion of services to individuals with severe mental illness who are either institutionalized or at risk of being institutionalized, by adding 600 slots; \$2.0 million in fiscal year 2013 and \$4.1 million in fiscal year 2014 from all fund sources.

Community Based Services

One of the few areas where the Executive Budget includes additional funds is to increase resources in the critical area of protecting children and adults from abuse and neglect and providing help to families in crisis. The Executive Budget includes over \$9 million from the General Fund over two years in response to a need to increase efforts to address abuse and neglect; \$5.1 million in fiscal year 2013 and \$4.2 million in fiscal year 2014. Social worker caseloads have increased 22 percent since 2007. This investment will add more front-line social workers resulting in a six percent decrease in caseloads and an improvement in the ability to address these difficult family situations.

The Executive Budget includes General Fund in the amount of \$5.6 million in fiscal year 2013 and \$5.7 million in fiscal year 2014 to address caseloads in Family Support which have increased by over 30 percent since 2007. This investment will fund additional front-line benefit workers, reducing caseloads by approximately 14 percent over the biennium in the areas of Medicaid Eligibility, State Supplementation, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program (food stamps).

The Governor's recommended budget also includes General Fund of \$1.2 million in fiscal year 2013 and \$1 million in fiscal year 2014 for the development and operation of an Adult Abuse Registry, to provide the public and potential employers information about substantiated instances of abuse, neglect or exploitation of an adult. This fills a gap in information about individuals whose employment is not currently managed by a licensure or a certification board with a preexisting disciplinary process.

Behavioral Health

The Executive Budget exempts the Department for Behavioral Health, Developmental and Intellectual Disabilities from further spending reductions in the 2012-2014 biennium. The recommended budget includes \$1 million in fiscal year 2013 and \$6.9 million in fiscal year 2014 for new and expanded programming and increased operational costs at the new Eastern State Hospital. The construction of the new Eastern State Hospital was financed by the Lexington Fayette-County Urban County Government, and through an agreement with the Commonwealth, the state General Fund will provide the funding to pay lease payments sufficient for LFUCG to pay the debt service on the \$129 million project. An additional \$7.7 million is provided in fiscal year 2014 as the first payment of the 20-year debt.

Public Health

The Executive Budget includes \$2.4 million in fiscal year 2013 and \$1.8 million in fiscal year 2014 to enhance for the Kentucky All Schedule Prescription Electronic Reporting System (KASPER) that will provide the ability to support mandatory use by all prescribers to improve the monitoring and control of the prescription and dispensing of controlled substances. The Executive Budget includes \$500,000 in fiscal year 2013 and \$500,000 in fiscal year 2014 to expand colon cancer screening for 2,000 uninsured Kentuckians. The funding will be matched by the Kentucky Cancer Foundation.

Child Support Enforcement Program

The Executive Budget includes General Fund of \$10.7 million in fiscal year 2013 and \$7.5 million in fiscal year 2014 to sustain the Child Support Enforcement program at its current level. Additional General Fund is necessary to replace non-recurring funds and match existing levels of federal funds, which provides \$2 for every \$1 of state matching funds.

Economic Development

The Executive Budget includes \$20 million in bond funds for the Department of Commercialization and Innovation for the High Tech Construction/Investment Pool. Funds will be available to support the growth of innovation-based businesses and industry in Kentucky by targeting new economy niche areas where Kentucky might gain a competitive edge in the emerging 21st Century economy. The Secretary would also have the ability to use these funds to promote economic development in Kentucky.

Justice and Public Safety

The 2011 General Assembly enacted House Bill 463, which instituted many changes to reduce the incarcerated population, changed the Commonwealth's controlled substance laws to focus more on the hard-core drug dealers, expand substance abuse treatment programs, increase programs and supervision to improve re-entry of inmates back into society, and reduce recidivism and the flow of parole violations resulting in a return to incarceration. The Executive Budget honors the components of the legislation and reinvests the estimated savings from the change in the drug laws back into expanded treatment programs and accommodating the increase in the number of parolees resulting from the reforms.

The budget recommendation, while providing for some spending reductions from current levels, does provide preferential treatment to several areas of the criminal justice system including: the Kentucky State Police; the Commonwealth and County Attorneys, the Department of Public Advocacy, the Court System.

Corrections

The Executive Budget incorporates the savings and the reinvestment of savings resulting from an estimated decrease in the incarcerated population by 1,782 inmates in fiscal year 2013 and 2,871 in fiscal 2014 (expressed as decreases in the average daily population). House Bill 463, enacted by the 2011 General Assembly, made several changes that are estimated to reduce the incarcerated population, encourage the expansion of substance abuse treatment, incorporate more effective public safety mechanisms that are also less expensive than incarceration, and applying best practices that have been shown to decrease recidivism and improve the re-entry of inmates into society. Without the estimated effects of House Bill 463, the inmate population would continue to grow. Instead it is forecasted to decrease over the biennium.

The budget recommendation invests the savings from a reduced incarcerated population in three areas: an increase in the number of Probation and Parole officers and Pre-trial officers within the Judicial branch to accommodate the planned growth in those under community supervision instead of incarceration in jails and prisons - \$5.7 million in fiscal year 2013 and \$7.8 million in fiscal year 2014, 2) the expansion of treatment programs, particularly substance abuse treatment, with the estimated savings from changes in the controlled substances laws - \$6.8 million in fiscal year 2014, and 3) the provision of additional resources to county governments who are responsible for operating jails - \$3.4 million in fiscal year 2013 and \$5.5 million in fiscal year 2014.

The Executive Budget for Corrections incorporates the effect of re-opening all of Northpoint Training Center, by adding about 600 inmates after the completion of a rebuilding of several support facilities destroyed by a riot in August of 2010. A related effect will be the transfer of secure custody inmates currently housed at Otter Creek Correctional Complex, a private prison, and the cessation of the contract to house state inmates at that facility. The resulting financial savings will ultimately result in more inmates kept in county jails willing to house them.

Transportation

Healthy revenue growth in the Road Fund has provided additional resources to be applied to the Governor's Biennial Highway Construction Program. The Road Fund is expected to end the current fiscal year with a surplus of about \$40 million and revenue growth rates of 6.1% in fiscal year 2013 and 4.6% in fiscal year 2014 over a \$1.4 billion base, provide a healthier pool of resources to improve the Commonwealth's transportation infrastructure. The Governor's budget recommendation demonstrates the commitment necessary to maintain and improve upon Kentucky's transportation system.

The Biennial Plan infuses another \$300 million from the Road Fund in fiscal year 2012, and projects an additional \$310 million and \$335 million respectively, for fiscal years 2013 and 2014. This represents the first time in over four years that the Road Fund has sufficient resources to add to highway projects. The past four years have relied upon Highway bonds and Federal funds to keep the highway construction program moving forward.

An additional benefit of an increase in motor fuels tax receipts is that these revenues are shared with local governments. The Executive Budget includes an additional \$34 million in fiscal year 2013 and an additional \$25 million in fiscal year 2014 in revenue sharing receipts to improve Kentucky's transportation infrastructure at the local level.

The Executive Budget includes funding for the Louisville-Southern Indiana Bridges project.

The Plan includes new design starts in excess of \$180 million for fiscal years 2012 through 2014, and will support regular project contract lettings of over \$1 billion for the next few years.

The new projects included in the Plan have as a foundation the goal to aggressively invest in Kentucky's primary road system by focusing on highway improvements that boost interstate commerce and create an enhanced economic climate. Each project in the Plan solves a maintenance problem that has existed for years, addresses a known safety concern, or deals with a significant traffic congestion problem. Many projects, including the widening of I-65, do all three.

Energy and Environment

One of the more notable items in the capital budget is the \$35 million in funding for a project to construct a permanent cap for Maxey Flats, a low-level radioactive waste facility located in Fleming County and is on the federal Superfund list. A permanent cap is an important facet of the final closure plan. The funding includes \$18 million that has been paid into a trust account by the primary responsible parties in the 1980's just for this purpose, along with \$17 million in General Fund bonds.

Veterans' Nursing Homes

The Executive Budget includes additional funding to open the 36-bed expansion of the Western Kentucky Veterans' Nursing Home, located in Hanson (Hopkins County). The Department of Veterans' Affairs budget does not include any budget cuts. One major reason is an initiative to join 31 other states in achieving Medicaid/Medicare certification for the nursing homes. That will enable the Department to receive Medicaid reimbursements for eligible patients, which will allow a reduction in the amount of General Fund in fiscal year 2014 to be replaced with this new funding source. The capital budget includes \$14 million in General Fund bonds, combined with \$26 million in Federal Funds to construct the Commonwealth's fourth Veterans' nursing home in Radcliff (Nelson County).

Improved Structural Balance of the General Fund

A structurally balanced budget matches recurring resources with recurring uses. The Executive Budget significantly improves the existing structural imbalance in the Commonwealth's General Fund budget. The fiscal year 2012 budget has a structural imbalance of 4.5 percent of appropriations. The fiscal year 2014 structural imbalance in the Governor's budget recommendation is 1.6 percent of appropriations. This improvement puts Kentucky's fiscal situation in a better position for the future, but it comes at a price translated primarily in the \$286 million in spending cuts that are necessary for a balanced budget.

**2012-14 EXECUTIVE BUDGET
GENERAL FUND SUMMARY**

	<u>Revised FY 2012</u>	<u>Recommended FY 2013</u>	<u>Recommended FY 2014</u>
RESOURCES			
Beginning Balance	289,836,400	19,865,000	52,079,900
Official Revenue Estimate	9,007,700,000	9,220,600,000	9,500,300,000
Tobacco Settlement-Phase I	94,305,200	92,100,000	90,800,000
Other Resources		81,144,700	24,856,300
Fund Transfers	<u>151,619,800</u>	<u>128,452,900</u>	<u>116,133,000</u>
TOTAL RESOURCES	<u>9,543,461,400</u>	<u>9,542,162,600</u>	<u>9,784,169,200</u>
Continued Appropriations Reserve			
Budget Reserve Trust Fund	0	121,722,500	71,722,500
Executive Branch	42,806,300	10,313,500	0
Legislative Branch	13,193,700	10,519,900	8,358,500
Judicial Branch	<u>1,456,000</u>	<u>1,456,000</u>	<u>236,600</u>
Total Continued Appropriations Reserve	<u>57,456,000</u>	<u>144,011,900</u>	<u>80,317,600</u>
TOTAL RESOURCES	<u>9,600,917,400</u>	<u>9,686,174,500</u>	<u>9,864,486,800</u>
APPROPRIATIONS			
Executive Branch			
Appropriations	9,039,932,600	9,105,804,000	9,392,820,000
Current Year Appropriations	10,433,000		
Tobacco Settlement-Phase I	97,300,000	94,393,600	93,093,500
Dedicated Revenue Adjustments	34,691,000		
Necessary Government Expenses	35,000,000		
Defer Final Payroll of FY 2012 into FY 2013	(43,114,200)		
Mandated Expenditure Reductions	(107,776,300)		
Budgeted Lapses	(3,718,700)	(15,042,500)	(5,315,400)
Build America Bonds-Debt Service Lapse	(17,517,600)	(12,895,200)	(12,895,200)
Build America Bonds-Tobacco Debt Service Lapse	<u>(2,994,800)</u>	<u>(2,293,600)</u>	<u>(2,293,500)</u>
Total Executive Branch	<u>9,042,235,000</u>	<u>9,169,966,300</u>	<u>9,465,409,400</u>
Judicial Branch			
Appropriations	316,338,800	320,835,500	321,188,000
Defer Final Payroll of FY 2012 into FY 2013	<u>(9,100,000)</u>		
Total Judicial Branch	<u>307,238,800</u>	<u>320,835,500</u>	<u>321,188,000</u>
Legislative Branch			
Appropriations	53,800,100	49,280,900	49,280,900
Defer Final Payroll of FY 2012 into FY 2013	<u>(1,400,000)</u>		
Total Legislative Branch	<u>52,400,100</u>	<u>49,280,900</u>	<u>49,280,900</u>
TOTAL APPROPRIATIONS	<u>9,401,873,900</u>	<u>9,540,082,700</u>	<u>9,835,878,300</u>
BALANCE	<u>199,043,500</u>	<u>146,091,800</u>	<u>28,608,500</u>
Continued Appropriations Reserve			
Budget Reserve Trust Fund	121,722,500	71,722,500	20,013,400
Executive Branch	42,806,300	10,313,500	0
Legislative Branch	13,193,700	10,519,900	8,358,500
Judicial Branch	<u>1,456,000</u>	<u>1,456,000</u>	<u>236,600</u>
Total Continued Appropriations Reserve	<u>179,178,500</u>	<u>94,011,900</u>	<u>28,608,500</u>
ENDING BALANCE	<u>19,865,000</u>	<u>52,079,900</u>	<u>0</u>

**2012-2014 EXECUTIVE BUDGET
ROAD FUND SUMMARY**

	<u>Revised FY 2012</u>	<u>Recommended FY 2013</u>	<u>Recommended FY 2014</u>
RESOURCES			
Beginning Balance	67,962,600	38,641,300	0
Official Revenue Estimate	1,412,500,000	1,498,900,000	1,568,000,000
Other Resources		731,400	159,300
Fund Transfers	<u>996,000</u>	<u>996,700</u>	<u>996,800</u>
TOTAL RESOURCES	<u>1,481,458,600</u>	<u>1,539,269,400</u>	<u>1,569,156,100</u>
APPROPRIATIONS			
Appropriations	1,375,299,700	1,542,875,000	1,572,761,700
Surplus Appropriations	67,517,600		
Budgeted Lapse		<u>(3,605,600)</u>	<u>(3,605,600)</u>
TOTAL APPROPRIATIONS	<u>1,442,817,300</u>	<u>1,539,269,400</u>	<u>1,569,156,100</u>
ENDING BALANCE	<u>38,641,300</u>	<u>0</u>	<u>0</u>

**2012-2014 EXECUTIVE BUDGET
CAPITAL PROJECTS SUMMARY**

	Recommended FY 2012	Recommended FY 2013	Recommended FY 2014	New Authorization
SOURCE OF FUNDS				
Executive Branch				
Restricted Funds	1,338,000	2,018,700,000	83,200,000	2,103,238,000
Federal Funds	34,417,000	259,952,000	47,321,000	341,690,000
Road Fund		7,805,000	15,097,000	22,902,000
Bond Funds		197,710,000	128,750,000	326,460,000
Agency Bond Funds		451,267,500		451,267,500
Capital Construction Surplus		277,000	277,000	554,000
Investment Income		6,581,000	5,010,000	11,591,000
Other - Cash		149,938,000	5,175,000	155,113,000
Other - Third Party Financing		624,985,000	54,000,000	678,985,000
Deferred Maintenance Fund		247,000		247,000
TOTAL SOURCE OF FUNDS	35,755,000	3,717,462,500	338,830,000	4,092,047,500
EXPENDITURES BY CABINET				
Executive Branch				
General Government	35,450,000	207,150,000	50,550,000	293,150,000
Economic Development			20,000,000	20,000,000
Department of Education		675,000	675,000	1,350,000
Education and Workforce Development		700,000	700,000	1,400,000
Energy and Environment	305,000	53,258,000	50,600,000	104,163,000
Finance and Administration		20,875,000	14,675,000	35,550,000
Health and Family Services		53,460,000	2,500,000	55,960,000
Justice and Public Safety		8,221,000	3,650,000	11,871,000
Postsecondary Education		3,308,433,500	140,040,000	3,448,473,500
Public Protection		1,023,000	508,000	1,531,000
Tourism, Arts and Heritage		30,582,000	29,335,000	59,917,000
Transportation		33,085,000	25,597,000	58,682,000
TOTAL EXPENDITURES	35,755,000	3,717,462,500	338,830,000	4,092,047,500

Capital Projects Overview

Total Bonded Indebtedness for Capital Projects

The challenging fiscal condition for the next two years heavily influences the capital project program recommended by the Governor in the 2012-14 Executive Budget. The Executive Budget includes a total of **\$777,727,500** in debt financing for capital projects. The \$777,727,500 in budgeted debt includes **\$303,960,000** in bond funded capital projects from the General Fund, **\$451,267,500** in bond funded capital projects to be financed from Restricted Funds, entirely for Universities, and **\$22,500,000** in bond funded capital projects from the Road Fund. This represents the smallest capital program financed from bond funds since the 1996-98 biennial budget.

Bonds for Education

By far, the largest proportion of new bond-financed project activity, \$576.3 million (74 percent), is directed to education purposes, postsecondary education and elementary and secondary education. Of that amount, \$476.3 million is appropriated for postsecondary education purposes.

Postsecondary Education

The Executive Budget includes **\$476.3 million in new bond funding** for postsecondary education, the largest portion of the Governor's capital budget recommendation. The total includes \$25 million in General Fund supported bonds and \$451.3 million in Agency bonds.

The focus of the \$25 million in General Fund bonds is to support an Asset Preservation and Renovation Pool. This Pool will be matched with institutional funds by the public postsecondary education institutions to address a large, documented inventory of deferred maintenance and renovation needs. The Council on Postsecondary Education will allocate the \$25 million among the nine institutions and determine the matching requirements associated with each allocation.

University Agency Bonds

The Executive Budget continues Governor Beshear's record of recommending a level of University Agency Bond authority consistent with the needs and capacity expressed by the postsecondary education institutions. The \$451.3 million in University Agency Bonds is the second highest amount ever included in a biennial budget and represents 58 percent of the total capital debt recommended. The Universities' bond funded capital projects are concentrated in the areas of student housing and student life.

University of Kentucky Student Housing Initiative

The Executive Budget includes the necessary authorization for the University of Kentucky to pursue the first phase of its plan to partner with the private sector to replace and add to its student housing stock over a multi-year period.

Elementary and Secondary Education - School Facilities

The School Facilities Construction Commission (SFCC) was authorized by the 2012 General Assembly to make offers of assistance to local school districts for new construction and renovation projects. The 2012-2014 Executive Budget recommends \$100 million in new bonds to honor these offers of assistance to local school districts. The 2012-2014 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 2014-2016 budget.

Fourth Veterans' Nursing Home

A \$40 million project to construct the Commonwealth's fourth Veterans' Nursing Home is in the recommended budget: \$14 million in General Fund bonds and \$26 million Federal Funds. This will fund a 120-bed Veterans Nursing Home in Radcliff to serve Kentucky veterans. The new facility will incorporate a Community Living Concept, comprising of ten 12-bed homes that will serve veterans with skilled nursing and dementia care needs.

Sustaining Kentucky's Park System

The Executive Budget includes \$3,000,000 in General Fund bonds to develop Splash Parks at various State Parks. This initiative was recommended in the Park's 10-year strategic plan that was completed by a consulting firm that specializes in hospitality and recreation management. The strategic plan recommended that Parks implement splash parks at various locations to meet the needs of residents and visitors to improve the position and visitation of Kentucky State Parks.

Economic Development

The Executive Budget includes \$20 million in bond funds to continue the Governor's commitment to job creation and investing in Kentucky's future. The additional funding is targeted to the High-Tech Construction/Investment Pools managed by the Department of Commercialization and Innovation to make forgivable grants and loans to firms operating in high-tech, knowledge-based industries. The High-Tech Pool investments target new economy niche areas where Kentucky might gain a competitive edge. To provide additional flexibility to the Economic Development Cabinet's job-creation efforts, the budget recommendation provides the ability to use some of these funds for Economic Development bond projects, if needed.

Infrastructure Development

The Executive Budget includes \$3.7 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, combined with past authorizations of state funds, will fully match an expected \$58 million in federal funds for these two programs.

Information Technology:

The Governor's budget recommendation incorporates several investments that replace old information technology systems and create new capabilities that will better serve the public's electronic interaction with Kentucky's state government.

Medicaid Eligibility System

The Executive Budget includes \$50 million for a new Medicaid Eligibility System. This project will provide for the design, development and implementation of a new web-based system. The new system will provide for real-time time determination of applicant eligibility. This system will provide automatic verification of applicant information by building electronic exchanges with the IRS, Homeland Security, the Social Security Administration and more. The federal government will pay for 90 percent of the project.

Business One-Stop Portal

Bond funds in the amount of \$5,000,000 are included for Phase I of a Business One-Stop Portal. Senate Bill 8 from 2011 Regular Session of the General Assembly established an Advisory Committee which worked on an assessment of establishing the Business One-Stop Portal. The Portal will provide a single, unified entry point for business owners to access and complete the requirements relating to the creation and ongoing operations of a business located in Kentucky. This project will enable the Commonwealth to establish several foundational elements that will be targeted to the Business One-Stop Portal but will be transferable, and eventually, scalable to other parts of Kentucky State Government.

Replace Kentucky's Driver Licensing System

The Executive Budget includes \$12.5 million in Road Fund supported bonds to replace the 20-year old driver licensing system. The Kentucky Driver Licensing System is an automated system that provides for the issuance and maintenance of operator, commercial, motorcycle and moped licenses, along with identification cards. The new system will also complement the new Kentucky Automated Vehicle Information System, which is scheduled to come online in the 2012-14 biennium.

Horse Racing Commission - Integrated Database & Information System

The Executive Budget includes \$1,531,000 to create an integrated database and information system for the Kentucky Horse Racing Commission. This project will address the need for sufficient database and information system capabilities to improve efficiency and effectiveness of the oversight of the horse racing industry, as

recommended by a 2006 report by the Auditor of Public Accounts and the 2008 Governor's Task Force on Future of Horse Racing.

Public Advocacy Case Management System

A new Case Management System is recommended for the Department for Public Advocacy to effectively count cases, track caseloads, track dispositions of cases, utilize calendar functionality, store discovery and investigative reports electronically for ease of access in the courtroom, and incorporate report writing. The old, existing system is no longer supported by the vendor and is deficient in many key areas.

Facility Replacements:

Kentucky State Police Training Academy

The budget recommendation includes \$2,000,000 in General Fund bonds for demolition and the construction of a new multi-purpose building for the Kentucky State Police Training Academy. The Kentucky State Police was transferred ownership of 362 acres and facilities from the Department of Corrections on July 1, 2011 to be used as the Kentucky State Police Training Academy. This facility will replace the outdated and inadequate Training Academy facilities. The facility was previously the Frankfort Career Development Center, a minimum security prison. This project will demolish the administration building and construct a new building with office, conference room and replacement classroom.

Design of a New Medical Examiner Laboratory

The Executive Budget includes \$1,000,000 for site acquisition and design to replace two leased facilities in Louisville; one used as a forensic laboratory and the other to house the Commonwealth's Medical Examiner Office. The existing facility is inadequate to deal with the increased requirements the criminal justice system has placed on the Medical Examiner. The amount of evidence that needs storage has significantly increased, and it is necessary that photographs, tissue specimens, reports, x-rays, microscopic slides, and trace evidence be retained indefinitely. The current facilities do not adequately accommodate the legal nature of the Medical Examiner's work or provide appropriate laboratory work space for the autopsy stations, walk-in freezer, lab area, radiology facility, secure storage areas, walk-in cooler, and a separate waiting room and entrance for the public.

Design of a New Breathitt Veterinary Center

Bond funds in the amount of \$4,000,000 are reallocated from the Kentucky Agricultural Heritage Center project that was authorized in the 2008-10 budget, but has not been able to move forward. This project will acquire land and complete design work for a new veterinary diagnostic laboratory to meet the current and future demands of animal diagnostics and teaching. A new facility will ultimately replace the existing 43-year old Breathitt Veterinary Center in Hopkinsville. These bonds are supported by Tobacco Settlement – Phase I funds for the debt service.

Council of State Governments

Bond funds in the amount of \$5,500,000 are provided to finance the renovation or replacement of a portion of the state-owned complex at Spindletop in Fayette County, occupied by the Council of State Governments.

Transportation – County Maintenance Facility Replacements

The Transportation Cabinet has an aging county maintenance facility physical plant. The Executive Budget includes the replacement of seven maintenance facilities and salt storage domes. These replacement facilities will be located in: Ballard, Harrison, Henderson, Knott, Menifee, Muhlenberg, and Nicholas counties. Each will be 8,000 square feet and have salt storage capacity of 1,500 tons.

Major Maintenance and Capital Renewal Funding:

Agency Maintenance Pools

The Executive Budget also includes funding for maintaining and restoring state owned assets, and to protect existing investments in important facilities. The 2012-2014 Executive Budget provides approximately \$32.5 million for state agency maintenance pools. These pools are funded from a combination of cash sources (\$10 million) and bond funds (\$22.5 million).

Upgrade Wastewater System-Fort Boonesborough

The existing wastewater treatment plant at Fort Boonesborough State Park located in Madison County, near the Kentucky River, is over 40 years old and has exceeded its useful life. The age and condition of the plant requires an alternative method of meeting the Park's need before continued deterioration causes a problem that could involve a failure of the plant, posing risk to the environment and to patrons. This project will provide funds to connect to an existing wastewater treatment plant rather than construct a replacement. The funding will provide for construction of about 9,500 linear feet of a force main to transport the flow of wastewater to a local municipality.

Parking Garage Maintenance

The Executive Budget includes funds for maintenance of the Commonwealth and Cowger Parking garages owned by the Kentucky State Fair Board, and for state-owned parking structures that have experienced some deterioration.

Statewide Microwave Network (KEWS) Maintenance

This project provides funds to replace several failed equipment shelters, replace the failing tower FAA warning light system, purchase additional replacement equipment, and complete various other tasks to ensure the longevity of the Kentucky Early Warning System (KEWS), which recently has been converted to digital technology.

Life Safety – Protection of the Public:

Maxey Flats Cap

This \$35 million project will construct a permanent cap for Maxey Flats, a low-level radioactive waste facility located in Fleming County and is on the federal Superfund list. The Commonwealth has been identified as a potentially responsible party under the federal Comprehensive Environmental Response, Compensation and Liability Act and has responsibilities for monitoring and maintenance activities as well as for completing the final closure of the facility. A permanent cap is an important component of the final closure plan pursuant to a Consent Order with the federal Environmental Protection Agency and the other responsible parties. The funding includes \$18 million that has been paid into a trust account by the primary responsible parties in the 1980's just for this purpose, along with \$17 million in General Fund bonds.

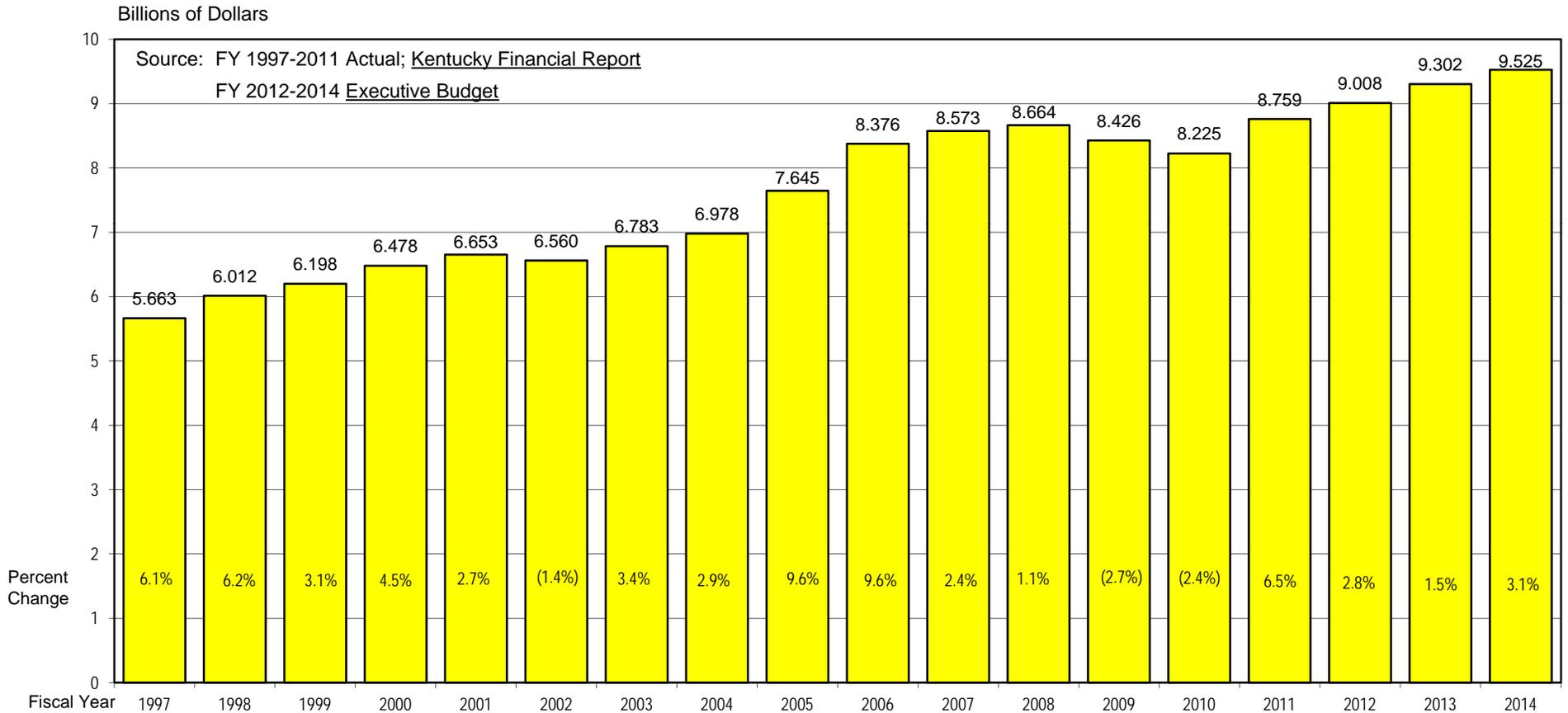
Flood Control and State-Owned Dam Repair

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 (\$4.5 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 1997-2014

(Billions of dollars – rounded)

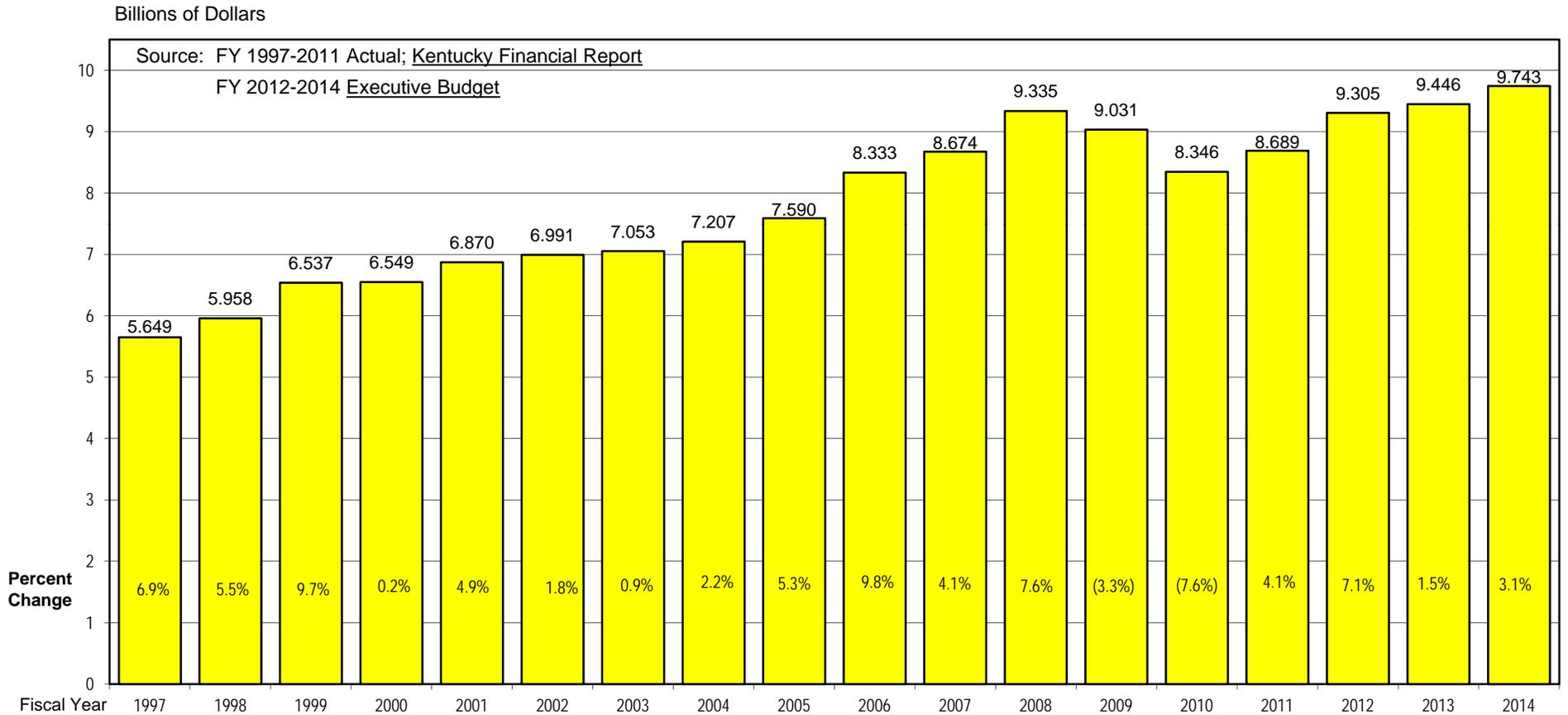


- Excludes Tobacco Settlement – Phase I Funds
- Excludes Fund Transfers

General Fund Expenditures

Fiscal Years 1997-2014

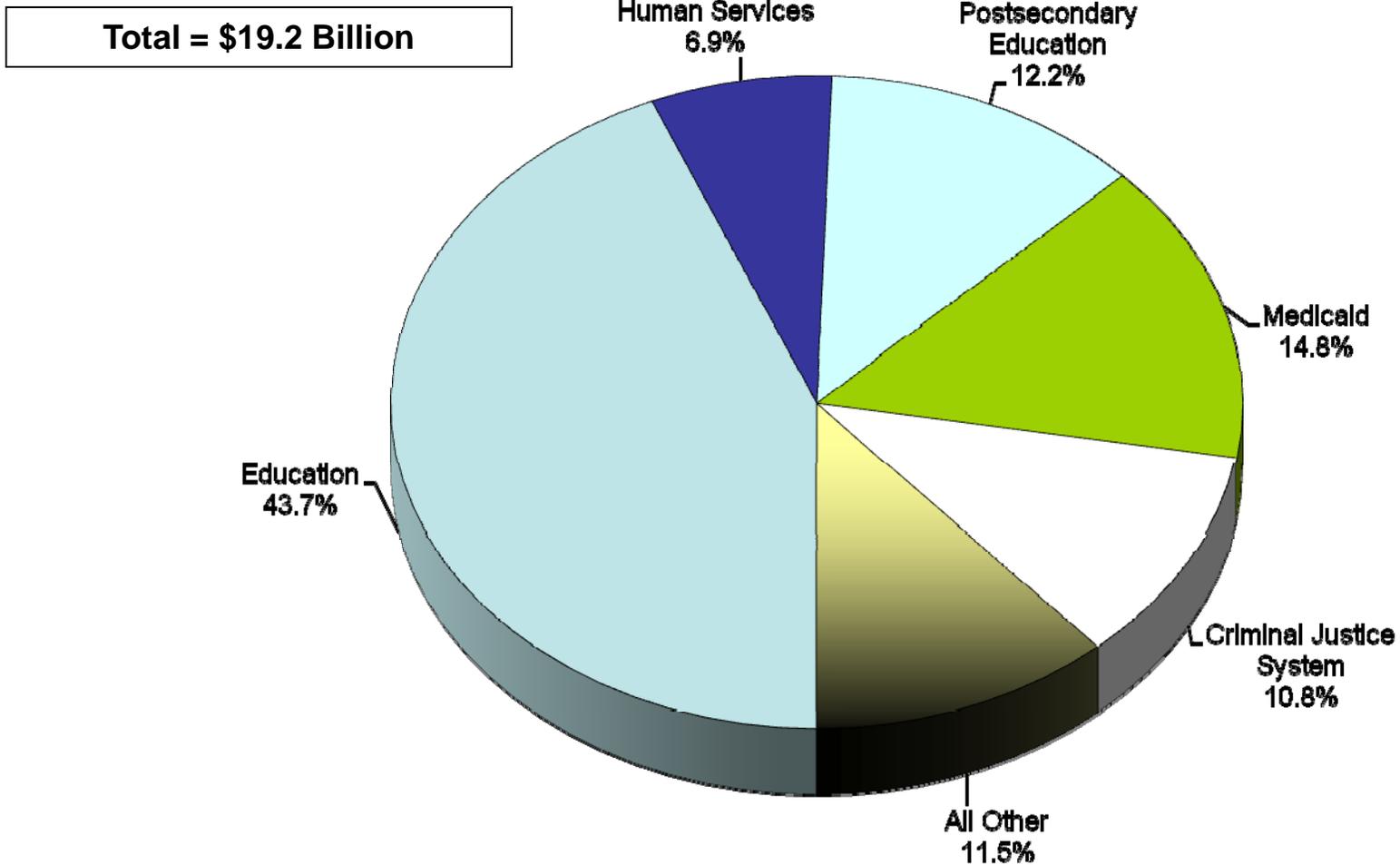
(Billions of dollars – rounded)



• Excludes Tobacco Settlement – Phase I Funds

2012-2014 Biennium

Distribution of General Fund Appropriations



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.

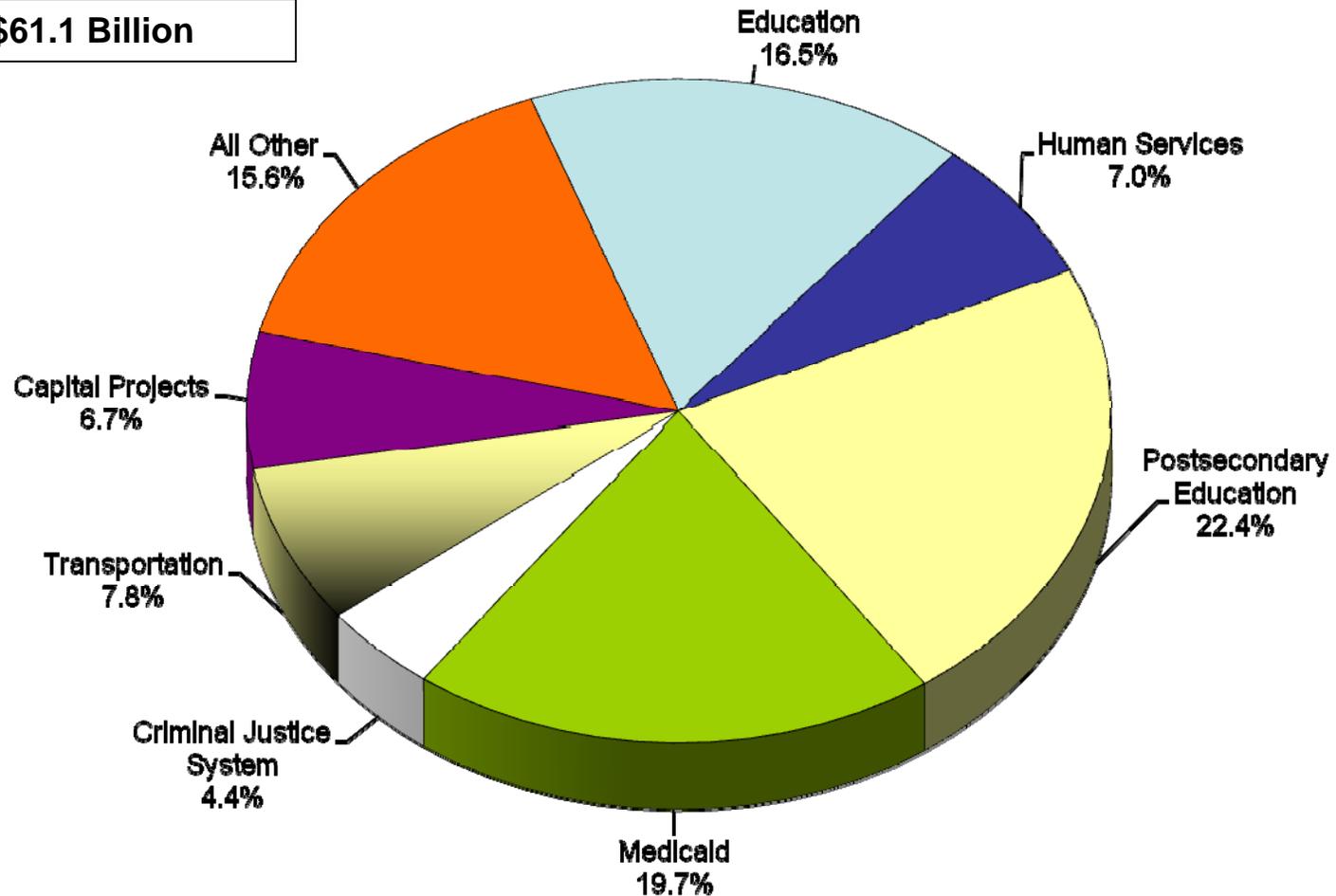
** Human Services include the Health and Family Services Cabinet (net of Medicaid).

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

2012-2014 Biennium

Distribution of All Funds Appropriations

Total = \$61.1 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

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	9,156,172,200	11,091,851,403	11,861,160,603	9,105,804,000	9,392,820,000
Surplus Expenditure Plan	121,722,500				
Special Appropriation	-116,239,600				
Current Year Appropriation	10,433,000				
Continuing Approp.-General Fund	42,806,347	10,869,200	7,279,200	132,036,000	71,722,500
Mandated Expenditure Reductions	-111,495,000	-22,000			
Mandated Allotments	36,743,203				
Other	34,691,000				
Total General Fund	9,174,833,650	11,102,698,603	11,868,439,803	9,237,840,000	9,464,542,500
Tobacco Settlement - Phase I					
Tobacco Settlement - Phase I	105,714,800	103,633,600	106,449,300	94,393,600	93,093,500
Continuing Approp.-Tobacco Settlement	37,651,000	18,735,200	7,895,500	17,216,500	9,035,100
Budget Reduction-General Fund Tobacco	-5,420,000				
Fund Transfers	-51,700				
Total Tobacco Settlement - Phase I	137,894,100	122,368,800	114,344,800	111,610,100	102,128,600
Restricted Funds					
Mandated Expenditure Reductions	-9,800				
Balance Forward	746,177,450	493,627,700	370,350,900	515,944,900	360,060,600
Current Receipts	5,577,501,668	5,980,883,800	6,184,720,200	5,989,901,500	6,183,029,200
Non-Revenue Receipts	1,346,210,682	869,883,000	850,711,500	943,261,900	881,708,400
Fund Transfers	-129,564,800	-4,155,900	-4,156,400	-104,855,900	-91,311,500
Total Restricted Funds	7,540,315,200	7,340,238,600	7,401,626,200	7,344,252,400	7,333,486,700
Federal Funds					
Balance Forward	123,586,742	30,967,600	14,476,500	34,884,700	16,719,800
Current Receipts	10,487,323,458	10,246,583,500	11,299,335,100	10,027,274,400	10,306,180,700
Non-Revenue Receipts	8,770,800	8,675,100	8,267,100	9,328,800	8,920,800
ARRA Receipts	175,551,800	11,023,400	800,800	10,974,500	784,900
Total Federal Funds	10,795,232,800	10,297,249,600	11,322,879,500	10,082,462,400	10,332,606,200
Road Fund					
Regular Appropriation	1,347,081,000	1,566,573,400	1,658,089,600	1,535,070,000	1,557,664,700
Surplus Expenditure Plan	67,517,600				
Current Year Appropriation	395,400				
Other	34,065,400				
Total Road Fund	1,449,059,400	1,566,573,400	1,658,089,600	1,535,070,000	1,557,664,700
TOTAL SOURCE OF FUNDS	29,097,335,150	30,429,129,003	32,365,379,903	28,311,234,900	28,790,428,700
EXPENDITURES BY CLASS					
Personnel Cost	5,640,394,001	6,212,507,250	6,421,640,550	5,858,264,209	5,994,571,729
Operating Expenses	3,011,873,446	3,340,998,950	3,430,713,050	3,164,667,691	3,247,185,571
Grants Loans Benefits	16,935,975,003	17,901,690,000	19,404,474,700	16,228,708,200	16,657,494,200
Debt Service	851,956,400	1,080,651,203	1,332,759,503	1,062,288,000	1,184,481,200
Capital Outlay	258,027,300	275,494,400	274,058,700	245,842,400	248,871,700
Construction	1,632,941,500	1,217,726,700	1,258,626,700	1,210,089,500	1,154,006,400
TOTAL EXPENDITURES	28,331,167,650	30,029,068,503	32,122,273,203	27,769,860,000	28,486,610,800
EXPENDITURES BY FUND SOURCE					
General Fund	8,982,075,150	11,095,429,403	11,868,449,803	9,088,179,800	9,374,805,100
Tobacco Settlement - Phase I	117,664,600	114,614,500	113,846,600	100,281,400	99,826,700
Restricted Funds	7,024,370,300	6,969,688,300	7,168,791,900	6,984,191,800	7,138,745,000
Federal Funds	10,760,348,100	10,282,773,100	11,313,105,500	10,065,742,600	10,319,174,900
Road Fund	1,446,709,500	1,566,573,400	1,658,089,600	1,531,464,400	1,554,059,100
TOTAL EXPENDITURES	28,331,167,650	30,029,078,703	32,122,283,403	27,769,860,000	28,486,610,800

EXPENDITURES BY UNIT

General Government	1,137,795,546	1,437,692,800	1,480,751,700	1,029,338,300	1,057,093,300
Economic Development	39,192,400	47,453,100	47,440,400	29,293,300	22,616,800
Department of Education	4,707,040,504	5,404,804,503	5,666,034,603	4,614,308,500	4,618,867,300
Education and Workforce Development	2,597,981,100	2,654,737,400	2,653,491,200	2,593,938,600	2,592,912,000
Energy and Environment	283,775,500	284,451,600	281,072,800	253,301,100	255,164,400
Finance and Administration	576,354,100	810,807,000	863,830,900	764,312,000	789,601,400
Health and Family Services	8,324,882,300	8,443,220,200	9,670,242,800	7,956,015,300	8,366,465,200
Justice and Public Safety	887,063,600	1,013,093,300	1,046,553,300	896,347,100	902,171,500
Labor	207,576,800	224,311,800	227,323,700	217,727,900	220,373,900
Personnel	66,821,700	67,710,700	70,574,300	67,856,600	69,360,400
Postsecondary Education	6,286,372,500	6,837,623,500	7,206,686,600	6,652,781,300	6,868,654,100
Public Protection	109,879,200	120,452,300	122,091,200	112,931,600	114,507,900
Tourism, Arts and Heritage	224,857,900	258,873,300	273,188,100	214,365,100	219,302,500
Transportation	2,880,374,500	2,423,847,200	2,513,001,800	2,367,343,300	2,389,520,100
Statewide	1,200,000				
TOTAL EXPENDITURES	28,331,167,650	30,029,078,703	32,122,283,403	27,769,860,000	28,486,610,800

General Government

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	606,954,600	1,036,384,900	1,079,460,100	644,474,400	679,018,900
State Salary and Compensation Allocation	8,239,000				
Current Year Appropriation	481,000				
Continuing Approp.-General Fund	68,246				
Mandated Expenditure Reductions	-15,276,300	-22,000			
Mandated Allotments	22,970,000				
Other	34,691,000				
Total General Fund	658,127,546	1,036,362,900	1,079,460,100	644,474,400	679,018,900
Tobacco Settlement - Phase I					
Tobacco Settlement - Phase I	19,741,600	25,754,000	27,282,700	19,350,600	16,291,800
Continuing Approp.-Tobacco Settlement	28,670,300	18,735,200	7,895,500	17,216,500	9,035,100
Fund Transfers	-51,700				
Total Tobacco Settlement - Phase I	48,360,200	44,489,200	35,178,200	36,567,100	25,326,900
Restricted Funds					
Balance Forward	70,282,000	60,713,700	52,006,700	60,769,600	50,398,800
Current Receipts	149,727,500	154,729,500	167,494,800	155,149,300	161,140,200
Non-Revenue Receipts	54,844,500	64,120,200	65,590,100	60,650,100	61,367,500
Fund Transfers	-6,124,200			-3,400,000	-3,300,000
Total Restricted Funds	268,729,800	279,563,400	285,091,600	273,169,000	269,606,500
Federal Funds					
Balance Forward	20,040,500	12,279,300	5,851,900	12,292,200	5,872,300
Current Receipts	221,382,500	128,048,100	121,707,500	125,602,200	119,467,100
Non-Revenue Receipts	-50,300				
ARRA Receipts	16,908,800	1,939,600	44,500	1,939,600	44,500
Total Federal Funds	258,281,500	142,267,000	127,603,900	139,834,000	125,383,900
Road Fund					
Regular Appropriation	500,000	623,200	635,100	600,000	600,000
Total Road Fund	500,000	623,200	635,100	600,000	600,000
TOTAL SOURCE OF FUNDS	1,233,999,046	1,503,305,700	1,527,968,900	1,094,644,500	1,099,936,200
EXPENDITURES BY CLASS					
Personnel Cost	278,189,500	321,634,900	330,483,300	283,181,900	288,297,000
Operating Expenses	81,733,046	89,022,500	87,120,400	78,503,500	78,904,400
Grants Loans Benefits	551,991,200	771,714,100	769,266,100	420,497,700	411,146,700
Debt Service	221,977,800	248,886,900	290,819,200	240,785,500	275,720,100
Capital Outlay	3,904,000	6,434,400	3,062,700	6,369,700	3,025,100
TOTAL EXPENDITURES	1,137,795,546	1,437,692,800	1,480,751,700	1,029,338,300	1,057,093,300
EXPENDITURES BY FUND SOURCE					
General Fund	651,268,746	1,036,362,900	1,079,460,100	644,474,400	679,214,600
Tobacco Settlement - Phase I	32,081,000	36,734,900	34,680,000	27,532,000	25,318,600
Restricted Funds	207,960,200	227,556,700	239,244,000	222,770,200	227,468,000
Federal Funds	245,989,300	136,415,100	126,732,500	133,961,700	124,492,100
Road Fund	496,300	623,200	635,100	600,000	600,000
TOTAL EXPENDITURES	1,137,795,546	1,437,692,800	1,480,751,700	1,029,338,300	1,057,093,300
EXPENDITURES BY UNIT					
Office of the Governor	8,241,400	9,126,400	9,311,500	8,108,100	8,125,200
Office of State Budget Director	3,146,700	3,444,800	3,647,000	3,228,900	3,392,800
State Planning Fund	173,200	176,700	176,700	158,700	158,700
Homeland Security	16,795,400	10,944,500	6,840,200	10,721,800	6,584,000
Department of Veterans' Affairs	46,699,600	56,552,700	57,970,400	52,688,600	55,701,800

Governor's Office of Agricultural Policy	32,136,600	35,044,500	32,619,000	25,949,700	23,381,500
Kentucky Infrastructure Authority	92,458,100	65,043,200	88,349,000	64,847,600	65,035,700
Military Affairs	173,319,000	103,495,200	103,491,300	92,591,100	93,085,400
Commission on Human Rights	1,916,100	2,860,200	2,889,800	1,849,700	1,882,300
Commission on Women	206,100	259,600	262,600	207,200	213,300
Department for Local Government	52,397,700	48,047,100	44,849,200	46,336,400	41,633,900
Local Government Economic Assistance Fund	68,851,100	67,281,600	67,281,600	70,942,800	73,936,400
Local Government Economic Development Fund	70,864,800	37,743,300	37,743,300	66,181,500	71,992,400
Area Development Fund	544,200	555,300	555,300	498,500	498,500
Executive Branch Ethics Commission	495,000	550,400	564,600	525,900	534,500
Secretary of State	2,712,000	3,197,500	3,128,800	3,344,600	3,255,900
Board of Elections	9,320,000	11,244,400	8,585,000	9,333,400	7,940,100
Registry of Election Finance	1,137,800	1,685,700	1,734,800	1,146,900	1,168,600
Attorney General	23,781,200	26,160,600	26,805,200	23,104,900	23,693,200
Unified Prosecutorial System	69,068,200	82,501,200	84,625,100	72,341,600	73,938,400
Treasury	2,887,100	3,688,100	3,757,100	3,144,700	3,195,900
Agriculture	30,182,100	34,087,900	33,552,700	29,447,200	28,882,500
Auditor of Public Accounts	10,706,600	12,181,800	12,557,800	10,856,700	10,995,700
Personnel Board	726,600	833,900	860,500	790,900	803,900
Kentucky Retirement Systems	38,282,300	42,848,600	43,595,900	39,645,000	40,255,900
Occupational & Professional Boards & Commissions	19,489,100	22,790,900	23,460,600	21,588,600	21,897,900
Kentucky River Authority	2,645,000	6,955,900	4,544,200	6,362,600	4,456,900
School Facilities Construction Commission	91,695,000	107,584,600	124,196,700	101,403,400	106,596,700
Teachers' Retirement System	250,667,300	624,560,100	636,549,700	256,700,400	278,564,400
Judgments	4,146				
Appropriations Not Otherwise Classified	16,246,100	16,246,100	16,246,100	5,290,900	5,290,900
TOTAL EXPENDITURES	1,137,795,546	1,437,692,800	1,480,751,700	1,029,338,300	1,057,093,300

Economic Development

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	21,194,500	33,449,100	37,601,400	19,002,800	20,214,600
State Salary and Compensation Allocation	350,000				
Continuing Approp.-General Fund	15,936,500	10,869,200	7,279,200	9,519,200	
Mandated Expenditure Reductions	-944,600				
Total General Fund	36,536,400	44,318,300	44,880,600	28,522,000	20,214,600
Restricted Funds					
Balance Forward	1,521,900	1,203,600	575,500	1,203,600	575,500
Current Receipts	445,000	445,000	445,000	445,000	445,000
Non-Revenue Receipts	1,149,600	1,386,000	1,427,900	1,243,200	1,270,000
Fund Transfers	-142,700				
Total Restricted Funds	2,973,800	3,034,600	2,448,400	2,891,800	2,290,500
Federal Funds					
Balance Forward	2,353,200	7,887,500	22,000	7,887,500	22,000
Current Receipts	16,181,600	89,400	89,400	89,500	89,700
Total Federal Funds	18,534,800	7,976,900	111,400	7,977,000	111,700
TOTAL SOURCE OF FUNDS	58,045,000	55,329,800	47,440,400	39,390,800	22,616,800
EXPENDITURES BY CLASS					
Personnel Cost	8,958,000	10,320,100	10,626,000	8,828,300	8,936,800
Operating Expenses	9,952,300	9,782,100	2,059,600	9,618,900	1,851,700
Grants Loans Benefits	20,282,100	23,635,900	27,324,800	10,846,100	10,744,800
Debt Service		3,715,000	7,430,000		1,083,500
TOTAL EXPENDITURES	39,192,400	47,453,100	47,440,400	29,293,300	22,616,800
EXPENDITURES BY FUND SOURCE					
General Fund	26,774,900	37,039,100	44,880,600	19,022,000	20,214,600
Restricted Funds	1,770,200	2,459,100	2,448,400	2,316,300	2,290,500
Federal Funds	10,647,300	7,954,900	111,400	7,955,000	111,700
TOTAL EXPENDITURES	39,192,400	47,453,100	47,440,400	29,293,300	22,616,800
EXPENDITURES BY UNIT					
Secretary	16,512,300	15,979,100	16,220,000	13,486,200	13,536,800
Business Development	3,656,600	3,902,000	3,908,600	3,343,000	3,248,400
Financial Incentives	19,023,500	27,572,000	27,311,800	12,464,100	5,831,600
TOTAL EXPENDITURES	39,192,400	47,453,100	47,440,400	29,293,300	22,616,800

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 citizen members appointed by the Governor who represent all sectors of the economic development community. 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 Office of Commercialization and Innovation is in the Office of the Secretary.

Department of Education

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	3,828,830,200	4,613,997,803	4,896,332,103	3,820,954,000	3,849,164,800
State Salary and Compensation Allocation	792,600				
Continuing Approp.-General Fund	1,894,401				
Mandated Expenditure Reductions	-9,428,800				
Mandated Allotments	234,703				
Other	517,300				
Total General Fund	3,822,840,404	4,613,997,803	4,896,332,103	3,820,954,000	3,849,164,800
Restricted Funds					
Mandated Expenditure Reductions	-9,800				
Balance Forward	8,066,962			772,800	772,800
Current Receipts	3,803,768	10,074,500	10,123,500	10,074,500	10,123,500
Non-Revenue Receipts	456,670	1,651,300	1,690,200	1,651,300	1,690,200
Fund Transfers	-8,300				
Total Restricted Funds	12,309,300	11,725,800	11,813,700	12,498,600	12,586,500
Federal Funds					
Balance Forward	2,860,565			2,547,800	
Current Receipts	873,934,835	779,075,500	757,889,000	779,075,500	757,889,000
Non-Revenue Receipts		5,400	-200	5,400	-200
Total Federal Funds	876,795,400	779,080,900	757,888,800	781,628,700	757,888,800
TOTAL SOURCE OF FUNDS	4,711,945,104	5,404,804,503	5,666,034,603	4,615,081,300	4,619,640,100
EXPENDITURES BY CLASS					
Personnel Cost	50,757,101	67,221,300	73,498,100	52,268,709	52,658,929
Operating Expenses	40,554,200	41,980,900	42,301,400	35,799,791	35,633,771
Grants Loans Benefits	4,615,613,603	5,295,252,000	5,549,884,800	4,526,124,400	4,530,459,000
Debt Service	115,600	350,303	350,303	115,600	115,600
TOTAL EXPENDITURES	4,707,040,504	5,404,804,503	5,666,034,603	4,614,308,500	4,618,867,300
EXPENDITURES BY FUND SOURCE					
General Fund	3,821,256,404	4,613,997,803	4,896,332,103	3,820,954,000	3,849,164,800
Restricted Funds	11,536,500	11,725,800	11,813,700	11,725,800	11,813,700
Federal Funds	874,247,600	779,080,900	757,888,800	781,628,700	757,888,800
TOTAL EXPENDITURES	4,707,040,504	5,404,804,503	5,666,034,603	4,614,308,500	4,618,867,300
EXPENDITURES BY UNIT					
Operations and Support Services	335,608,504	340,234,603	337,117,303	324,437,500	321,739,900
Learning and Results Services	1,471,934,000	1,557,192,200	1,610,716,100	1,390,373,000	1,397,629,400
Support Education Excellence in Kentucky (SEEK)	2,899,498,000	3,507,377,700	3,718,201,200	2,899,498,000	2,899,498,000
TOTAL EXPENDITURES	4,707,040,504	5,404,804,503	5,666,034,603	4,614,308,500	4,618,867,300

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 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	74,614,100	115,530,400	112,605,500	71,334,800	71,925,900
State Salary and Compensation Allocation	1,746,700				
Mandated Expenditure Reductions	-2,633,600				
Other	-517,300				
Total General Fund	73,209,900	115,530,400	112,605,500	71,334,800	71,925,900
Restricted Funds					
Balance Forward	8,993,200	4,883,100	5,308,800	4,203,500	4,866,500
Current Receipts	11,541,800	11,887,300	12,300,500	11,897,300	12,360,400
Non-Revenue Receipts	51,537,500	64,422,200	65,566,500	56,200,100	53,313,100
Fund Transfers	-1,312,200				
Total Restricted Funds	70,760,300	81,192,600	83,175,800	72,300,900	70,540,000
Federal Funds					
Balance Forward	5,912,200			1,356,400	1,356,400
Current Receipts	2,454,382,700	2,464,851,100	2,465,460,800	2,455,169,400	2,457,055,200
Non-Revenue Receipts		-1,500,000	-1,500,000		
ARRA Receipts	1,270,000				
Total Federal Funds	2,461,564,900	2,463,351,100	2,463,960,800	2,456,525,800	2,458,411,600
TOTAL SOURCE OF FUNDS	2,605,535,100	2,660,074,100	2,659,742,100	2,600,161,500	2,600,877,500
EXPENDITURES BY CLASS					
Personnel Cost	136,993,900	164,128,600	167,455,700	143,066,000	145,718,600
Operating Expenses	68,677,600	69,532,700	67,678,600	61,883,900	58,784,500
Grants Loans Benefits	2,388,752,900	2,411,313,500	2,411,742,900	2,386,839,200	2,386,260,000
Debt Service		4,007,000	2,563,000		
Capital Outlay	3,536,700	5,735,600	4,031,000	2,129,500	2,128,900
Construction	20,000	20,000	20,000	20,000	20,000
TOTAL EXPENDITURES	2,597,981,100	2,654,737,400	2,653,491,200	2,593,938,600	2,592,912,000
EXPENDITURES BY FUND SOURCE					
General Fund	71,215,800	115,530,400	112,605,500	71,334,800	71,925,900
Restricted Funds	66,556,800	75,855,900	76,924,900	67,434,400	63,930,900
Federal Funds	2,460,208,500	2,463,351,100	2,463,960,800	2,455,169,400	2,457,055,200
TOTAL EXPENDITURES	2,597,981,100	2,654,737,400	2,653,491,200	2,593,938,600	2,592,912,000
EXPENDITURES BY UNIT					
General Administration and Program Support	9,389,200	14,647,800	14,603,900	10,306,900	10,122,500
Deaf and Hard of Hearing	1,496,700	1,967,300	1,972,400	1,565,500	1,521,500
Kentucky Educational Television	15,042,400	18,045,000	17,691,200	13,312,000	13,500,200
Environmental Education Council	331,100	251,700	312,800	245,700	246,000
Libraries and Archives	17,217,700	24,474,900	24,883,700	16,091,700	16,147,300
Workforce Investment	2,546,056,400	2,582,254,600	2,580,793,900	2,544,231,800	2,543,236,500
Education Professional Standards Board	8,447,600	13,096,100	13,233,300	8,185,000	8,138,000
TOTAL EXPENDITURES	2,597,981,100	2,654,737,400	2,653,491,200	2,593,938,600	2,592,912,000

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 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	74,025,100	99,092,500	103,743,600	76,962,600	82,284,800
State Salary and Compensation Allocation	4,095,800				
Current Year Appropriation	952,000				
Continuing Approp.-General Fund	409,700				
Mandated Expenditure Reductions	-6,449,300				
Total General Fund	73,033,300	99,092,500	103,743,600	76,962,600	82,284,800
Tobacco Settlement - Phase I					
Tobacco Settlement - Phase I	6,000,000	2,810,000	2,810,000	2,500,000	2,500,000
Continuing Approp.-Tobacco Settlement	7,463,500				
Total Tobacco Settlement - Phase I	13,463,500	2,810,000	2,810,000	2,500,000	2,500,000
Restricted Funds					
Balance Forward	17,575,200	9,573,500	12,592,600	9,573,500	6,189,100
Current Receipts	21,732,300	22,876,000	23,408,900	21,908,800	22,378,200
Non-Revenue Receipts	116,491,600	72,403,800	72,289,200	101,310,300	103,137,700
Fund Transfers	-55,591,200			-35,500,000	-35,500,000
Total Restricted Funds	100,207,900	104,853,300	108,290,700	97,292,600	96,205,000
Federal Funds					
Balance Forward	68,500				
Current Receipts	86,730,100	84,453,300	84,602,900	82,342,400	82,328,000
Non-Revenue Receipts	-2,647,000	-2,465,600	-2,184,500	-2,465,600	-2,184,500
ARRA Receipts	25,528,000	8,000,700	168,300	8,000,700	168,300
Total Federal Funds	109,679,600	89,988,400	82,586,700	87,877,500	80,311,800
Road Fund					
Regular Appropriation	300,000	300,000	300,000	400,000	400,000
Total Road Fund	300,000	300,000	300,000	400,000	400,000
TOTAL SOURCE OF FUNDS	296,684,300	297,044,200	297,731,000	265,032,700	261,701,600
EXPENDITURES BY CLASS					
Personnel Cost	136,486,000	153,686,500	157,995,500	132,820,800	135,022,100
Operating Expenses	45,301,100	51,666,900	51,334,200	46,635,900	48,676,300
Grants Loans Benefits	72,306,100	47,257,500	42,171,900	43,749,600	38,621,000
Debt Service	589,000	589,000	589,000	1,897,100	6,079,200
Capital Outlay	8,532,200	7,599,500	7,057,500	4,545,500	4,841,100
Construction	20,561,100	23,652,200	21,924,700	23,652,200	21,924,700
TOTAL EXPENDITURES	283,775,500	284,451,600	281,072,800	253,301,100	255,164,400
EXPENDITURES BY FUND SOURCE					
General Fund	69,700,600	99,092,500	103,743,600	71,420,100	76,969,400
Tobacco Settlement - Phase I	13,463,500	2,810,000	2,810,000	2,500,000	2,500,000
Restricted Funds	90,634,400	92,260,700	91,632,500	91,103,500	94,983,200
Federal Funds	109,679,600	89,988,400	82,586,700	87,877,500	80,311,800
Road Fund	297,400	300,000	300,000	400,000	400,000
TOTAL EXPENDITURES	283,775,500	284,451,600	281,072,800	253,301,100	255,164,400
EXPENDITURES BY UNIT					
Secretary	5,188,400	6,916,200	7,081,400	5,771,500	6,117,900
Environmental Protection	114,385,600	119,912,900	122,372,600	111,959,300	119,344,500
Natural Resources	122,153,600	125,570,900	127,111,500	108,729,900	110,150,500
Energy Development and Independence	29,062,700	15,666,600	8,310,500	15,237,400	7,804,400
Environmental Quality Commission	239,000	235,600	239,400	222,000	223,400
Kentucky Nature Preserves Commission	2,580,700	1,959,600	2,018,800	1,357,700	1,387,100

Public Service Commission	10,165,500	14,189,800	13,938,600	10,023,300	10,136,600
TOTAL EXPENDITURES	283,775,500	284,451,600	281,072,800	253,301,100	255,164,400

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

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	444,934,300	606,122,300	655,933,600	579,247,200	596,900,300
State Salary and Compensation Allocation	6,258,400				
Mandated Expenditure Reductions	-59,322,100				
Total General Fund	391,870,600	606,122,300	655,933,600	579,247,200	596,900,300
Tobacco Settlement - Phase I					
Tobacco Settlement - Phase I	30,550,700	29,436,900	31,556,200	28,566,900	30,935,800
Continuing Approp.-Tobacco Settlement	100				
Budget Reduction-General Fund Tobacco	-2,717,200				
Total Tobacco Settlement - Phase I	27,833,600	29,436,900	31,556,200	28,566,900	30,935,800
Restricted Funds					
Balance Forward	56,773,300	43,572,800	29,743,800	45,518,000	34,266,100
Current Receipts	147,523,500	147,230,200	147,230,200	147,230,200	147,230,200
Non-Revenue Receipts	6,253,400	6,968,900	6,390,100	8,325,700	8,358,800
Fund Transfers	-19,292,400			-3,000,000	-3,000,000
Total Restricted Funds	191,257,800	197,771,900	183,364,100	198,073,900	186,855,100
Federal Funds					
Current Receipts	2,438,900	3,550,000	3,550,000	3,550,000	3,550,000
Non-Revenue Receipts	1,200				
ARRA Receipts	31,808,000	471,700	291,000	471,700	291,000
Total Federal Funds	34,248,100	4,021,700	3,841,000	4,021,700	3,841,000
Road Fund					
Regular Appropriation	2,725,000	3,198,000	3,198,000	3,857,200	3,910,200
Current Year Appropriation	395,400				
Total Road Fund	3,120,400	3,198,000	3,198,000	3,857,200	3,910,200
TOTAL SOURCE OF FUNDS	648,330,500	840,550,800	877,892,900	813,766,900	822,442,400
EXPENDITURES BY CLASS					
Personnel Cost	171,366,600	210,472,700	216,760,500	194,728,900	199,334,300
Operating Expenses	107,867,300	128,811,100	132,519,900	113,104,300	114,158,100
Grants Loans Benefits	34,761,400	5,217,200	5,036,500	5,717,200	5,036,500
Debt Service	252,965,400	449,919,200	494,754,600	434,311,300	454,755,800
Capital Outlay	9,393,400	16,386,800	14,759,400	16,450,300	16,316,700
TOTAL EXPENDITURES	576,354,100	810,807,000	863,830,900	764,312,000	789,601,400
EXPENDITURES BY FUND SOURCE					
General Fund	369,442,100	606,122,300	655,933,600	566,352,000	584,005,100
Tobacco Settlement - Phase I	23,901,500	29,436,900	31,556,200	26,273,300	28,642,200
Restricted Funds	145,739,800	168,028,100	169,302,100	163,807,800	169,202,900
Federal Funds	34,248,100	4,021,700	3,841,000	4,021,700	3,841,000
Road Fund	3,022,600	3,198,000	3,198,000	3,857,200	3,910,200
TOTAL EXPENDITURES	576,354,100	810,807,000	863,830,900	764,312,000	789,601,400
EXPENDITURES BY UNIT					
General Administration	64,797,200	42,240,100	42,857,200	38,249,900	38,227,300
Controller	15,372,300	15,623,100	16,087,400	16,773,500	16,911,700
Debt Service	252,935,300	449,889,100	469,018,500	433,844,200	453,226,700
Facilities and Support Services	41,455,700	55,725,000	80,609,300	43,941,800	46,460,300
County Costs	18,442,300	19,546,300	19,546,300	17,036,200	17,036,200
Commonwealth Office of Technology	64,639,400	77,471,900	80,394,500	75,719,100	79,174,700
Revenue	80,273,300	99,570,800	105,242,700	98,639,400	97,699,800
Property Valuation Administrators	38,438,600	50,740,700	50,075,000	40,107,900	40,864,700
TOTAL EXPENDITURES	576,354,100	810,807,000	863,830,900	764,312,000	789,601,400

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 eleven 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.

Health and Family Services

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	2,107,732,800	2,324,687,100	2,507,503,800	1,998,891,400	2,187,865,200
State Salary and Compensation Allocation	7,255,800				
Special Appropriation	-97,295,800				
Continuing Approp.-General Fund	16,350,700				
Mandated Expenditure Reductions	-6,161,200				
Total General Fund	2,027,882,300	2,324,687,100	2,507,503,800	1,998,891,400	2,187,865,200
Tobacco Settlement - Phase I					
Tobacco Settlement - Phase I	24,930,100	22,686,600	21,954,300	22,336,600	22,120,600
Continuing Approp.-Tobacco Settlement	1,516,900				
Budget Reduction-General Fund Tobacco	-1,476,400				
Total Tobacco Settlement - Phase I	24,970,600	22,686,600	21,954,300	22,336,600	22,120,600
Restricted Funds					
Balance Forward	73,103,606	17,746,600	9,741,600	17,509,000	8,654,700
Current Receipts	609,405,194	591,662,700	600,009,700	585,071,800	590,476,800
Non-Revenue Receipts	322,470,000	321,834,200	323,024,300	371,837,100	329,125,800
Fund Transfers	-6,537,100				
Total Restricted Funds	998,441,700	931,243,500	932,775,600	974,417,900	928,257,300
Federal Funds					
Balance Forward	79,018,700				
Current Receipts	5,217,702,500	5,174,127,300	6,210,110,100	4,968,806,800	5,229,651,700
Non-Revenue Receipts	217,300	217,300	217,300	217,300	217,300
ARRA Receipts	353,300				
Total Federal Funds	5,297,291,800	5,174,344,600	6,210,327,400	4,969,024,100	5,229,869,000
TOTAL SOURCE OF FUNDS	8,348,586,400	8,452,961,800	9,672,561,100	7,964,670,000	8,368,112,100
EXPENDITURES BY CLASS					
Personnel Cost	628,237,600	713,328,800	734,633,100	672,613,700	679,981,300
Operating Expenses	117,104,600	125,713,700	125,079,700	112,857,700	108,932,700
Grants Loans Benefits	7,577,439,600	7,598,597,100	8,788,991,700	7,167,503,500	7,566,964,100
Debt Service			16,862,000	540,500	8,926,800
Capital Outlay	1,980,500	5,460,600	4,556,300	2,379,900	1,540,300
Construction	120,000	120,000	120,000	120,000	120,000
TOTAL EXPENDITURES	8,324,882,300	8,443,220,200	9,670,242,800	7,956,015,300	8,366,465,200
EXPENDITURES BY FUND SOURCE					
General Fund	2,021,703,000	2,324,687,100	2,507,503,800	1,998,891,400	2,187,865,200
Tobacco Settlement - Phase I	24,954,800	22,686,600	21,954,300	22,336,600	22,120,600
Restricted Funds	980,932,700	921,501,900	930,457,300	965,763,200	926,610,400
Federal Funds	5,297,291,800	5,174,344,600	6,210,327,400	4,969,024,100	5,229,869,000
TOTAL EXPENDITURES	8,324,882,300	8,443,220,200	9,670,242,800	7,956,015,300	8,366,465,200
EXPENDITURES BY UNIT					
General Administration and Program Support	79,299,600	100,123,800	102,945,600	84,061,100	83,665,500
Comm for Children with Special Health Care Needs	16,292,300	17,666,500	17,888,300	16,408,600	16,298,500
Medicaid Services	6,189,849,300	6,147,074,800	7,339,777,500	5,909,886,900	6,323,089,600
Behavioral Health, Developmental & Intellectual Disabilities	459,090,600	493,395,400	518,450,600	445,123,900	459,811,800
Public Health	429,722,600	430,857,400	415,680,900	396,250,100	378,376,200
Health Policy	8,965,900	4,605,400	2,728,400	1,609,000	1,214,800
Family Resource Centers and Volunteer Services	3,843,000	3,983,100	4,015,600	3,601,000	3,601,800

Income Support	106,963,800	111,394,400	116,532,400	109,856,900	110,225,400
Community Based Services	967,451,600	1,058,645,300	1,074,368,000	930,275,900	931,652,300
Aging and Independent Living	63,403,600	75,474,100	77,855,500	58,941,900	58,529,300
TOTAL EXPENDITURES	8,324,882,300	8,443,220,200	9,670,242,800	7,956,015,300	8,366,465,200

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 Orders 2009-541, 2010-431 and 2011-353 and created the current appropriation unit and organizational structure of the Cabinet. Executive Order 2011-792 created the Kentucky All Schedule Prescription Electronic Reporting (KASPER) Advisory Council which is provided staff support by the Cabinet for Health and Family Services.

Justice and Public Safety

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	627,011,000	764,891,900	799,168,400	649,799,300	652,471,900
State Salary and Compensation Allocation	17,247,700				
Special Appropriation	-1,200,000				
Mandated Expenditure Reductions	-3,570,300				
Mandated Allotments	13,538,500				
Total General Fund	653,026,900	764,891,900	799,168,400	649,799,300	652,471,900
Tobacco Settlement - Phase I					
Tobacco Settlement - Phase I	1,923,400	1,821,900	1,821,900	1,724,500	1,700,200
Budget Reduction-General Fund Tobacco	-101,500				
Total Tobacco Settlement - Phase I	1,821,900	1,821,900	1,821,900	1,724,500	1,700,200
Restricted Funds					
Balance Forward	21,158,782	10,918,000	6,858,100	20,901,800	14,428,900
Current Receipts	38,632,106	40,550,800	40,328,300	39,875,100	39,294,300
Non-Revenue Receipts	82,007,812	76,239,400	78,673,900	80,976,700	86,236,300
Fund Transfers	-2,415,600			-12,000,000	-12,000,000
Total Restricted Funds	139,383,100	127,708,200	125,860,300	129,753,600	127,959,500
Federal Funds					
Balance Forward	6,628,277	4,652,000	2,453,800	4,652,000	2,228,500
Current Receipts	29,140,623	24,547,500	28,759,200	25,210,300	29,406,000
Non-Revenue Receipts	11,468,000	12,672,700	11,987,600	11,826,400	11,141,300
ARRA Receipts	5,569,500	611,400	297,000	562,500	281,100
Total Federal Funds	52,806,400	42,483,600	43,497,600	42,251,200	43,056,900
Road Fund					
Regular Appropriation	83,251,500	85,499,600	85,927,200	89,475,900	91,898,200
Total Road Fund	83,251,500	85,499,600	85,927,200	89,475,900	91,898,200
TOTAL SOURCE OF FUNDS	930,289,800	1,022,405,200	1,056,275,400	913,004,500	917,086,700
EXPENDITURES BY CLASS					
Personnel Cost	508,179,000	608,943,650	639,715,650	532,571,500	540,940,100
Operating Expenses	106,862,800	117,726,750	118,950,550	102,808,800	101,910,200
Grants Loans Benefits	260,097,700	263,453,300	268,676,300	251,456,700	249,612,100
Debt Service	2,211,400	4,226,000	2,210,700	2,456,500	2,944,200
Capital Outlay	9,712,700	18,743,400	16,999,900	7,053,600	6,764,900
TOTAL EXPENDITURES	887,063,600	1,013,093,100	1,046,553,100	896,347,100	902,171,500
EXPENDITURES BY FUND SOURCE					
General Fund	636,545,600	764,891,900	799,168,400	649,799,300	652,471,900
Tobacco Settlement - Phase I	1,819,500	1,821,900	1,821,900	1,724,500	1,700,200
Restricted Funds	118,481,300	120,850,100	118,892,000	115,324,700	115,167,300
Federal Funds	48,154,400	40,029,800	40,743,800	40,022,700	40,933,900
Road Fund	82,062,800	85,499,600	85,927,200	89,475,900	91,898,200
TOTAL EXPENDITURES	887,063,600	1,013,093,300	1,046,553,300	896,347,100	902,171,500
EXPENDITURES BY UNIT					
Justice Administration	28,909,000	31,553,900	30,653,300	27,622,900	29,242,700
Criminal Justice Training	48,922,300	52,105,800	52,980,900	51,993,400	53,006,200
Juvenile Justice	101,486,000	113,298,500	115,812,400	102,666,600	102,959,400
State Police	185,688,400	236,022,700	247,393,300	189,326,300	189,761,800
Corrections	477,975,500	516,534,300	527,115,200	478,301,700	480,057,500
Public Advocacy	44,082,400	63,578,100	72,598,200	46,436,200	47,143,900
TOTAL EXPENDITURES	887,063,600	1,013,093,300	1,046,553,300	896,347,100	902,171,500

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

	Labor				
	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	4,829,700	25,877,500	26,344,400	4,649,500	4,744,100
State Salary and Compensation Allocation	327,600				
Mandated Expenditure Reductions	-188,500				
Total General Fund	4,968,800	25,877,500	26,344,400	4,649,500	4,744,100
Restricted Funds					
Balance Forward	14,402,700	793,000	262,900	793,000	378,900
Current Receipts	93,166,700	90,568,200	92,060,800	107,533,500	109,000,300
Non-Revenue Receipts	92,667,700	103,154,300	104,285,400	101,338,400	102,277,600
Fund Transfers	-69,100				
Total Restricted Funds	200,168,000	194,515,500	196,609,100	209,664,900	211,656,800
Federal Funds					
Balance Forward	2,600				
Current Receipts	3,708,500	4,436,400	4,657,700	4,047,100	4,260,500
Non-Revenue Receipts	-218,400	-254,700	-253,100	-254,700	-253,100
Total Federal Funds	3,492,700	4,181,700	4,404,600	3,792,400	4,007,400
TOTAL SOURCE OF FUNDS	208,629,500	224,574,700	227,358,100	218,106,800	220,408,300
EXPENDITURES BY CLASS					
Personnel Cost	130,121,500	144,965,700	147,464,100	139,129,100	141,271,400
Operating Expenses	6,380,200	8,253,400	8,709,700	7,613,700	8,086,100
Grants Loans Benefits	70,604,200	70,604,200	70,604,200	70,604,200	70,604,200
Capital Outlay	470,900	488,500	545,700	380,900	412,200
TOTAL EXPENDITURES	207,576,800	224,311,800	227,323,700	217,727,900	220,373,900
EXPENDITURES BY FUND SOURCE					
General Fund	4,709,100	25,877,500	26,344,400	4,649,500	4,744,100
Restricted Funds	199,375,000	194,252,600	196,574,700	209,286,000	211,622,400
Federal Funds	3,492,700	4,181,700	4,404,600	3,792,400	4,007,400
TOTAL EXPENDITURES	207,576,800	224,311,800	227,323,700	217,727,900	220,373,900
EXPENDITURES BY UNIT					
Secretary	4,318,300	4,916,000	5,078,200	4,685,300	4,847,000
General Administration and Program Support	5,805,300	7,027,400	7,304,100	5,816,400	6,091,900
Workplace Standards	82,042,200	84,543,200	85,025,300	82,518,800	82,844,400
Workers' Claims	15,115,500	16,860,600	17,601,400	15,945,500	16,527,200
Occupational Safety and Health Review Commission	512,600	563,700	578,700	541,100	551,200
Workers' Compensation Funding Commission	99,782,900	110,400,900	111,736,000	108,220,800	109,512,200
TOTAL EXPENDITURES	207,576,800	224,311,800	227,323,700	217,727,900	220,373,900

The Labor Cabinet is created pursuant to KRS 336. 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.

	Personnel				
	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	59,740,900	7,275,800	7,963,700	8,157,800	8,457,800
State Salary and Compensation Allocation	-47,959,200				
Mandated Expenditure Reductions	-4,390,200				
Total General Fund	7,391,500	7,275,800	7,963,700	8,157,800	8,457,800
Restricted Funds					
Balance Forward	16,683,800	13,426,400	11,563,600	13,426,300	7,327,900
Current Receipts	49,888,900	52,699,900	53,178,000	52,672,500	53,073,600
Non-Revenue Receipts	9,060,900	8,563,400	8,670,600	7,919,100	7,198,400
Fund Transfers	-2,777,100	-2,691,200	-2,691,600	-6,991,200	-2,691,600
Total Restricted Funds	72,856,500	71,998,500	70,720,600	67,026,700	64,908,300
TOTAL SOURCE OF FUNDS	80,248,000	79,274,300	78,684,300	75,184,500	73,366,100
EXPENDITURES BY CLASS					
Personnel Cost	58,746,000	59,782,200	62,603,700	60,918,500	62,631,800
Operating Expenses	6,395,500	6,398,200	6,440,300	5,470,100	5,260,600
Grants Loans Benefits	1,591,500	1,520,100	1,520,100	1,457,800	1,457,800
Capital Outlay	88,700	10,200	10,200	10,200	10,200
TOTAL EXPENDITURES	66,821,700	67,710,700	70,574,300	67,856,600	69,360,400
EXPENDITURES BY FUND SOURCE					
General Fund	7,391,500	7,275,800	7,963,700	8,157,800	8,457,800
Restricted Funds	59,430,200	60,434,900	62,610,600	59,698,800	60,902,600
TOTAL EXPENDITURES	66,821,700	67,710,700	70,574,300	67,856,600	69,360,400
EXPENDITURES BY UNIT					
General Operations	31,466,900	31,429,300	32,229,500	29,645,300	26,818,800
Public Employees Deferred Compensation Authority	8,988,300	8,535,300	9,077,000	8,361,600	8,877,200
Workers' Compensation Benefits and Reserve	24,775,000	26,226,000	27,747,700	26,191,900	27,706,600
State Salary and Compensation Fund				2,200,000	4,500,000
State Group Health Insurance Fund	1,591,500	1,520,100	1,520,100	1,457,800	1,457,800
TOTAL EXPENDITURES	66,821,700	67,710,700	70,574,300	67,856,600	69,360,400

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.

On April 1, 2011 the new Kentucky Human Resources Information System (KHRIS) went live and replaced the Commonwealth's 1982 Unified Personnel/Payroll System (UPPS).

Executive Order 2011-352, dated May 19, 2011, reorganized the Personnel Cabinet and its organizational structure.

Postsecondary Education

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	1,245,875,600	1,359,395,600	1,518,001,000	1,172,249,700	1,177,683,000
State Salary and Compensation Allocation	215,200				
Special Appropriation	-18,943,800				
Continuing Approp.-General Fund	7,841,200			794,300	
Mandated Expenditure Reductions	-1,829,700				
Total General Fund	1,233,158,500	1,359,395,600	1,518,001,000	1,173,044,000	1,177,683,000
Tobacco Settlement - Phase I					
Tobacco Settlement - Phase I	5,987,600	5,417,700	5,317,700	5,047,800	4,887,800
Continuing Approp.-Tobacco Settlement	200				
Budget Reduction-General Fund Tobacco	-250,000				
Total Tobacco Settlement - Phase I	5,737,800	5,417,700	5,317,700	5,047,800	4,887,800
Restricted Funds					
Balance Forward	8,732,800	1,672,100	708,800	1,819,100	1,214,200
Current Receipts	4,106,096,100	4,503,910,900	4,677,421,900	4,503,918,300	4,677,464,400
Non-Revenue Receipts	11,698,100	13,240,000	13,070,000	15,333,800	15,963,400
Fund Transfers	-405,400				
Total Restricted Funds	4,126,121,600	4,518,823,000	4,691,200,700	4,521,071,200	4,694,642,000
Federal Funds					
Current Receipts	924,252,500	954,857,500	992,671,900	954,832,500	992,644,300
ARRA Receipts	5,000				
Total Federal Funds	924,257,500	954,857,500	992,671,900	954,832,500	992,644,300
TOTAL SOURCE OF FUNDS	6,289,275,400	6,838,493,800	7,207,191,300	6,653,995,500	6,869,857,100
EXPENDITURES BY CLASS					
Personnel Cost	2,902,489,500	3,147,836,000	3,251,753,500	3,086,902,900	3,176,826,500
Operating Expenses	2,029,923,200	2,234,814,800	2,334,080,200	2,174,047,700	2,262,169,600
Grants Loans Benefits	1,019,217,200	1,113,825,500	1,151,143,500	1,053,936,900	1,083,441,600
Debt Service	136,190,700	133,462,700	253,636,500	134,091,700	135,725,400
Capital Outlay	198,551,900	207,674,500	216,062,900	203,802,100	210,491,000
TOTAL EXPENDITURES	6,286,372,500	6,837,613,500	7,206,676,600	6,652,781,300	6,868,654,100
EXPENDITURES BY FUND SOURCE					
General Fund	1,232,074,700	1,359,405,600	1,518,011,000	1,173,044,000	1,177,683,000
Tobacco Settlement - Phase I	5,737,800	5,417,700	5,317,700	5,047,800	4,887,800
Restricted Funds	4,124,302,500	4,517,942,700	4,690,686,000	4,519,857,000	4,693,439,000
Federal Funds	924,257,500	954,857,500	992,671,900	954,832,500	992,644,300
TOTAL EXPENDITURES	6,286,372,500	6,837,623,500	7,206,686,600	6,652,781,300	6,868,654,100
EXPENDITURES BY UNIT					
Council on Postsecondary Education	79,791,600	80,112,800	200,049,000	72,936,900	74,120,600
Kentucky Higher Education Assistance Authority	222,393,500	264,804,600	272,722,400	221,551,300	222,362,900
Postsecondary Education Institutions	5,984,187,400	6,492,706,100	6,733,915,200	6,358,293,100	6,572,170,600
TOTAL EXPENDITURES	6,286,372,500	6,837,623,500	7,206,686,600	6,652,781,300	6,868,654,100

	Public Protection				
	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	7,181,900	9,108,400	9,538,200	6,688,000	6,814,300
State Salary and Compensation Allocation	263,000				
Mandated Expenditure Reductions	-281,600				
Total General Fund	7,163,300	9,108,400	9,538,200	6,688,000	6,814,300
Tobacco Settlement - Phase I					
Tobacco Settlement - Phase I	16,581,400	15,706,500	15,706,500	14,867,200	14,657,300
Budget Reduction-General Fund Tobacco	-874,900				
Total Tobacco Settlement - Phase I	15,706,500	15,706,500	15,706,500	14,867,200	14,657,300
Restricted Funds					
Balance Forward	56,190,600	50,220,200	57,218,600	50,296,200	36,954,600
Current Receipts	77,459,000	78,655,600	78,624,400	78,655,600	78,624,400
Non-Revenue Receipts	20,436,000	19,879,300	19,841,300	20,278,300	21,396,600
Fund Transfers	-21,305,100			-25,000,000	-22,155,100
Total Restricted Funds	132,780,500	148,755,100	155,684,300	124,230,100	114,820,500
Federal Funds					
Current Receipts	4,767,100	4,100,900	4,051,600	4,100,900	4,051,600
Total Federal Funds	4,767,100	4,100,900	4,051,600	4,100,900	4,051,600
TOTAL SOURCE OF FUNDS	160,417,400	177,670,900	184,980,600	149,886,200	140,343,700
EXPENDITURES BY CLASS					
Personnel Cost	73,042,400	81,312,100	83,551,300	75,935,000	77,460,800
Operating Expenses	11,376,200	12,142,100	11,913,700	11,641,500	11,428,900
Grants Loans Benefits	25,012,900	25,506,900	25,457,300	25,006,900	24,957,300
Capital Outlay	447,700	1,491,200	1,168,900	348,200	660,900
TOTAL EXPENDITURES	109,879,200	120,452,300	122,091,200	112,931,600	114,507,900
EXPENDITURES BY FUND SOURCE					
General Fund	6,921,300	9,108,400	9,538,200	6,688,000	6,814,300
Tobacco Settlement - Phase I	15,706,500	15,706,500	15,706,500	14,867,200	14,657,300
Restricted Funds	82,484,300	91,536,500	92,794,900	87,275,500	88,984,700
Federal Funds	4,767,100	4,100,900	4,051,600	4,100,900	4,051,600
TOTAL EXPENDITURES	109,879,200	120,452,300	122,091,200	112,931,600	114,507,900
EXPENDITURES BY UNIT					
Secretary	4,994,200	5,914,400	6,093,900	5,497,900	5,606,100
Boxing and Wrestling Authority	135,800	155,700	159,300	148,200	150,700
Alcoholic Beverage Control	5,273,800	5,979,400	6,293,100	5,641,000	5,894,600
Charitable Gaming	2,751,000	3,442,300	3,632,700	3,276,500	3,474,400
Board of Claims/Crime Victims' Compensation	2,612,700	3,192,600	3,069,300	2,261,700	2,125,800
Financial Institutions	9,719,700	11,298,000	11,329,600	10,528,000	10,449,800
Horse Racing Commission	27,896,700	29,601,500	29,244,500	27,997,000	28,286,600
Housing, Buildings and Construction	17,694,700	20,593,400	21,329,100	18,699,500	19,273,700
Insurance	38,390,100	39,815,800	40,466,100	38,481,100	38,837,400
Tax Appeals	410,500	459,200	473,600	400,700	408,800
TOTAL EXPENDITURES	109,879,200	120,452,300	122,091,200	112,931,600	114,507,900

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 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	48,718,700	88,756,600	99,665,100	49,135,800	50,511,700
State Salary and Compensation Allocation	1,167,400				
Current Year Appropriation	9,000,000				
Mandated Expenditure Reductions	-860,900				
Total General Fund	58,025,200	88,756,600	99,665,100	49,135,800	50,511,700
Restricted Funds					
Balance Forward	66,175,900	59,267,900	56,013,800	63,505,500	64,079,900
Current Receipts	155,088,200	161,953,300	167,202,600	161,829,700	166,501,800
Non-Revenue Receipts	-8,730,000	-14,905,000	-14,733,000	-14,727,200	-14,552,000
Fund Transfers	-2,356,600				
Total Restricted Funds	210,177,500	206,316,200	208,483,400	210,608,000	216,029,700
Federal Funds					
Balance Forward	6,148,800	6,148,800	6,148,800	6,148,800	7,240,600
Current Receipts	20,641,000	19,114,300	19,114,300	19,115,600	19,116,900
Total Federal Funds	26,789,800	25,263,100	25,263,100	25,264,400	26,357,500
Road Fund					
Regular Appropriation	350,000	700,000	700,000	677,400	703,200
Total Road Fund	350,000	700,000	700,000	677,400	703,200
TOTAL SOURCE OF FUNDS	295,342,500	321,035,900	334,111,600	285,685,600	293,602,100
EXPENDITURES BY CLASS					
Personnel Cost	132,731,400	153,036,900	157,533,300	137,682,300	140,170,700
Operating Expenses	73,351,900	71,532,500	72,897,800	60,329,900	61,896,400
Grants Loans Benefits	11,307,600	12,018,700	12,388,900	10,365,100	10,293,700
Debt Service	4,422,300	21,166,300	29,038,500	4,822,200	5,565,400
Capital Outlay	3,044,700	1,118,900	1,329,600	1,165,600	1,376,300
TOTAL EXPENDITURES	224,857,900	258,873,300	273,188,100	214,365,100	219,302,500
EXPENDITURES BY FUND SOURCE					
General Fund	57,194,900	88,756,600	99,665,100	49,135,800	50,511,700
Restricted Funds	146,672,000	150,302,400	153,708,700	146,528,100	150,790,200
Federal Funds	20,641,000	19,114,300	19,114,300	18,023,800	17,297,400
Road Fund	350,000	700,000	700,000	677,400	703,200
TOTAL EXPENDITURES	224,857,900	258,873,300	273,188,100	214,365,100	219,302,500
EXPENDITURES BY UNIT					
Secretary	12,710,000	14,957,100	16,768,200	12,841,300	12,915,200
Artisans Center	2,173,800	2,794,900	2,827,700	2,260,800	2,286,600
Travel	3,183,400	5,981,800	6,114,500	3,091,300	3,058,000
Parks	79,284,600	96,809,500	103,602,500	80,229,300	81,172,600
Horse Park Commission	13,460,600	13,316,100	14,526,500	11,745,400	11,848,800
State Fair Board	50,751,500	59,272,600	59,911,600	46,210,200	47,895,600
Fish and Wildlife Resources	50,372,200	49,530,600	52,530,600	45,613,500	47,703,300
Historical Society	6,442,400	7,576,200	7,476,600	6,158,700	6,195,700
Arts Council	3,826,200	4,110,200	4,205,400	3,683,300	3,709,100
Heritage Council	1,777,200	2,306,000	2,379,000	1,728,900	1,715,200
Kentucky Center for the Arts	876,000	2,218,300	2,845,500	802,400	802,400
TOTAL EXPENDITURES	224,857,900	258,873,300	273,188,100	214,365,100	219,302,500

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 and Tourism
- Office of the Secretary
- Capital Plaza Operations
- Creative Services
- The Kentucky Humanities Council

	Transportation				
	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	4,528,800	7,281,500	7,299,700	4,256,700	4,762,700
Continuing Approp.-General Fund	305,600				
Mandated Expenditure Reductions	-157,900				
Total General Fund	4,676,500	7,281,500	7,299,700	4,256,700	4,762,700
Restricted Funds					
Balance Forward	326,516,700	219,636,800	127,756,100	225,653,000	129,952,700
Current Receipts	112,991,600	113,639,900	114,891,600	113,639,900	114,916,100
Non-Revenue Receipts	585,866,900	130,925,000	104,925,000	130,925,000	104,925,000
Fund Transfers	-11,227,800	-1,464,700	-1,464,800	-18,964,700	-12,664,800
Total Restricted Funds	1,014,147,400	462,737,000	346,107,900	451,253,200	337,129,000
Federal Funds					
Balance Forward	553,400				
Current Receipts	632,060,600	605,332,200	606,670,700	605,332,200	606,670,700
ARRA Receipts	94,109,200				
Total Federal Funds	726,723,200	605,332,200	606,670,700	605,332,200	606,670,700
Road Fund					
Regular Appropriation	1,259,954,500	1,476,252,600	1,567,329,300	1,440,059,500	1,460,153,100
Surplus Expenditure Plan	67,517,600				
Other	34,065,400				
Total Road Fund	1,361,537,500	1,476,252,600	1,567,329,300	1,440,059,500	1,460,153,100
TOTAL SOURCE OF FUNDS	3,107,084,600	2,551,603,300	2,527,407,600	2,500,901,600	2,408,715,500
EXPENDITURES BY CLASS					
Personnel Cost	424,095,500	375,837,800	387,566,800	337,616,600	345,321,400
Operating Expenses	306,393,500	373,621,300	369,627,000	344,352,000	349,492,300
Grants Loans Benefits	286,997,000	261,774,000	280,265,700	254,602,900	267,895,400
Debt Service	233,484,200	214,328,800	234,505,700	243,267,600	293,565,200
Capital Outlay	17,163,900	4,350,800	4,474,600	1,206,900	1,304,100
Construction	1,612,240,400	1,193,934,500	1,236,562,000	1,186,297,300	1,131,941,700
TOTAL EXPENDITURES	2,880,374,500	2,423,847,200	2,513,001,800	2,367,343,300	2,389,520,100
EXPENDITURES BY FUND SOURCE					
General Fund	4,676,500	7,281,500	7,299,700	4,256,700	4,762,700
Restricted Funds	788,494,400	334,980,900	331,702,100	321,300,500	321,539,200
Federal Funds	726,723,200	605,332,200	606,670,700	605,332,200	606,670,700
Road Fund	1,360,480,400	1,476,252,600	1,567,329,300	1,436,453,900	1,456,547,500
TOTAL EXPENDITURES	2,880,374,500	2,423,847,200	2,513,001,800	2,367,343,300	2,389,520,100
EXPENDITURES BY UNIT					
General Administration and Support	68,202,000	74,555,400	75,534,900	66,950,400	69,260,100
Aviation	9,335,800	13,932,300	13,773,300	9,008,000	9,597,500
Debt Service	116,904,800	154,808,300	175,025,100	151,123,700	171,261,500
Highways	2,237,998,900	1,712,286,000	1,749,260,800	1,683,301,500	1,656,271,000
Public Transportation	54,453,900	38,974,900	39,152,000	37,126,600	37,303,700
Revenue Sharing	352,235,300	381,582,100	415,992,100	380,661,800	405,482,300
Vehicle Regulation	41,243,800	47,708,200	44,263,600	39,171,300	40,344,000
TOTAL EXPENDITURES	2,880,374,500	2,423,847,200	2,513,001,800	2,367,343,300	2,389,520,100

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.

Policy

The 2009 General Assembly amended KRS Chapter 48 to require the General Assembly to pass a separate bill for the Transportation Cabinet budget. In addition, the General Assembly is required to pass the Biennial Highway Construction Plan as a separate bill and the last four years of the six-year road plan as a joint resolution.

**Statewide
Budget Reserve Trust Fund**

	Revised FY 2012	Requested FY2013	Requested FY2014	Recommended FY 2013	Recommended FY 2014
SOURCE OF FUNDS					
General Fund					
Surplus Expenditure Plan	121,722,500				
Continuing Approp.-General Fund				121,722,500	71,722,500
Total General Fund	121,722,500			121,722,500	71,722,500
TOTAL SOURCE OF FUNDS	121,722,500			121,722,500	71,722,500

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 \$121,722,500. The entire balance resulted from a deposit from the fiscal year 2011 General Fund Surplus that was not needed to fund Necessary Government Expenses in fiscal year 2012. The Executive Budget, to address a difficult fiscal condition, proposes to use \$50,000,000 in fiscal year 2013 and \$51,709,100 in fiscal year 2014 to prevent further reductions in priority areas such as education, public safety, human services, and economic development.

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

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Revenue Estimates

Fiscal Years
2012-2014



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 and 48.120. 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. These estimates were based on a "control", or moderate, set of economic assumptions.

Since most General Fund revenues relate directly or indirectly to economic activity, 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 scenarios incorporated the control, optimistic, and pessimistic economic forecasts from Global Insight, a third-party forecaster of national economic variables. These national forecasts provide inputs into the Kentucky Macro model, developed and maintained by the Governor's Office for Economic Analysis.

Total General Fund revenue for fiscal year 2012 is projected to be \$9,007.7 million, for an increase of 2.8 percent from fiscal year 2011. Receipts for fiscal year 2013 are estimated to be \$9,220.6 million followed by \$9,500.3 million in fiscal year 2014.

Total Road Fund revenues for fiscal year 2012 are projected to be \$1,412.5 million, an increase of 5.5 percent from the previous fiscal year. Receipts for fiscal year 2013 are estimated to be \$1,498.9 million followed by \$1,568.0 million in fiscal year 2014. Growth in the Road Fund is predominantly influenced by the motor fuels tax, which continues to rise due to the statutorily determined formula for the rate of taxation.

ECONOMIC OUTLOOK

The Consensus Forecasting Group (CFG) met on December 21, 2011, to deliberate over the current economic conditions and expectations for the upcoming biennium. Since the CFG had already met in August and October for the preliminary and planning estimate process, much of the discussion centered on very current modifications in state and national economic variables (using forecasts from December 2011) 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 21, 2011 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 the control forecast based on the December baseline model. Thus, during the December 21st 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 the fiscal biennium 2012-2014 for both the General Fund and Road Fund.

NATIONAL ECONOMY

Recent History:

Real GDP rose by 1.3 percent (annual rate) in the fiscal quarter ending June 2011 over the previous quarter.¹ The Bureau of Economic Analysis third estimate was revised up slightly from 1.0 percent which was reported in the second estimate. The small upward revision was based on a small adjustment to personal consumption expenditures. The first estimate, published in July 2011, was also 1.3 percent. Real GDP grew by 1.2 percent (annual rate) in the first quarter of FY12 over the fourth quarter of FY11 (IHS Global Insight estimates).

⁽¹⁾Third estimate released by Bureau of Economic Analysis on September 29, 2011 data release. All other data in this report reflect data and forecasts from IHS Global Insight's September 8, 2011 estimates.

The last three quarters of growth are considerably muted compared to the moderate to good growth that occurred from the first quarter of FY10 to second quarter of FY11. Those six quarters of solid growth alone regained 76.2 percent of the losses from the 2007 recession. First quarter FY12 real GDP is still \$26.8 billion below its previous peak. During the 2007 recession, real GDP declined by \$684.7 billion, or 5.1 percent from peak to trough, a six-quarter period of contraction. From the fourth quarter of FY09 to the fourth quarter of FY11, real GDP grew a net 4.9 percent during that eight-quarter period.

Real consumption, which makes up 70.9 percent of real GDP, rose by 1.9 percent over the first quarter of FY11. In absolute terms, real consumption was the largest contributor to real GDP growth in the first quarter, adding \$179.4 billion.

Real investment, which makes up 13.5 percent of real GDP, rose by 1.8 percent over the first quarter of FY11. Growth has tapered considerably over the last five quarters. The last five quarters of year over year growth were 25.5, 14.0, 7.4, 2.9 and 1.8 percent respectively. Real investment was the largest loser in both absolute and percentage terms in the 2007 recession. From peak to trough, real investment declined by \$869.1 billion, a 38.3 percent net decline. Despite several quarters of strong growth, real investment has only made up 55.2 percent of its 2007 recession losses to date.

Real government expenditures, which makes up 18.7 percent of real GDP, declined by 3.5 percent over the first quarter of FY11. Government expenditures are countercyclical. That is, they rise during a contraction and fall during an expansion. In the case of real government expenditures, the real GDP relationship is also slightly lagged. During a contraction, demand falls, employers cut hours, then employers layoff workers, and then transfers like unemployment insurance, food stamps and housing subsidies rise. The lag occurs because employers do not lay off workers immediately and it takes time for some of the transfers to be paid out. Also, the longer the contraction, the more pronounced the increase in government expenditures. Real government expenditures have fallen (on an adjacent quarter basis) for the last four quarters and are now at the same level as they were in the fourth quarter of FY08. The previous peak for real GDP occurred in the second quarter of FY08.

Real exports, which makes up 13.4 percent of real GDP, rose by 5.6 percent over the first quarter of FY11. Real imports, a subtraction to real GDP, rose by 2.2 percent over the first quarter of FY11. Net exports rose slightly in the fourth quarter of FY11 from -\$421.2 billion to -\$411.3 billion, in the first quarter of FY12. The second consecutive quarter of improvement. For point of reference, net exports in the first quarter of FY08 (the quarter before the recession started) were -\$638.0 billion.

US personal income grew 0.6 percent in the first quarter of FY12 over the previous quarter. This was the eighth consecutive quarter of growth since reaching the trough in the first quarter of FY10. The 2007 recession had a significant impact on US personal income. Personal incomes declined for five consecutive quarters and lost a net 5.5 percent (\$697.6 billion) over that time. With solid growth immediately following the official end of the recession, US personal income surpassed its previous peak in the second quarter of FY11. While growth has tapered some in the first quarter, US personal income is 5.0 percent above its FY11 first quarter level.

Inflation has risen for the last four consecutive quarters. Inflation in the first quarter of FY12 was 3.8 percent, while inflation in the first quarter of FY11 was 1.2 percent. The money supply rose sharply in the first quarter 4.8 percent and that may have contributed to the increase in inflation.

US non-farm employment rose slightly in the first quarter to 131.1 million employed. This is only the fifth increase in employment since reaching a trough in the first quarter of FY11. US employment is still significantly below its pre-recession peak of 137.9 million employed.

Outlook:

Recent reports released by the Office of State Budget Director described an economy that was amidst a very robust recovery. The Christmas retail purchasing season was a pivotal period for the US economy, and by most accounts retailers were pleased with the turnout from consumers. Economists interpreted this retail resurgence as a signal that some of the pent-up demand that accumulated during the recession was beginning to push the reluctant consumer into a spending pattern more indicative of a robust recovery.

Consumers had been deleveraging in the aftermath of the housing crash. In the height of the housing market, household wealth from homeowner equity was about \$13.0 trillion. Current estimates place homeowner equity at around \$7.0 trillion. Losses in wealth are noteworthy because they affect consumer sentiment and the ability to purchase goods and services beyond what could be spent from current wages and salaries. While inflation and nominal interest rates are at historic lows, consumers will remain cautious until household wealth and employment gain a more firm foothold. On the positive side, periods of deleveraging (saving) are typically followed by periods of above-trend spending. If domestic consumption can continue to build momentum it could become the engine of growth for increased demand if employment and consumer sentiment also find firmer footing.

Unfortunately, most recent events have added more uncertainty than clarity. Fuel prices have been on an upward march for nearly a year due to the risks associated with future supplies of oil in many middle-eastern wellheads. Higher fuel costs have led to inflation in the goods markets that contain significant shipping up charges. Food and gasoline are commodities with very little elasticity in the short run – that is, they are necessities. Therefore, as these goods consume a larger percentage of household disposable income, some of the upside in consumer spending is choked off due to budget constraints.

For the Commonwealth, the combined effect of increased food and energy costs will be mixed. Higher food and energy prices will result in increased investment in agriculture, energy exploration and mining. However, firms in other sectors will likely reduce investment expenditures as these firms will face difficulty in passing through higher input costs into market prices. The resulting squeeze in their profit margins, at least in the short run, will reduce the marginal return on investment for capital. Moreover, to the extent that higher oil prices are associated with greater uncertainty about the economic outlook, businesses may decide to put off key investment decisions until that uncertainty subsides.

The national disaster in Japan has also created a ripple effect in Kentucky. March exports and overseas shipments from Japan fell by 2.2% from the previous year. However, the significant impact is seen more clearly by examining the data associated with the automobile industry and shipments to the United States. Automobile related exports declined by 28% and shipments to the United States declined by 3.4%. Disruptions in the production of automobiles, components, and electronics have led to shutdowns in automobile production. More importantly, parts suppliers have also had disruptions in their normal production schedule. While some parts suppliers have been able to expand their markets to help alleviate supply chain shortages for Japanese-based suppliers, others have faced drastic reductions in orders as their components are unneeded until automobile manufactures resume a full production schedule. Kentucky is particularly vulnerable to these disruptions, so the magnitude and duration of the current production anomalies will be closely watched.

Domestic corporations remain a critical link in the period of recovery. It has been widely reported that corporations are “awash with cash”. This prime cash position is a function of streamlining production, reducing fixed costs, and extreme caution with their workforce levels. Evidence to date indicates that some corporate investment is taking place, but the emphasis is on replacement machinery and updating computers and software. While all investment is stimulative, investments in workforce and productive capacity typically have a higher impact on the overall economy. Through this period of corporate streamlining, domestic companies have positioned themselves well in the area of global competitiveness and profitability. The next step to growing corporate profits must come from growing revenues, which typically requires new productive machinery and additional workers. The path to this stage of the recovery is unclear. It will be required, however, to advance the economy beyond the tepid growth of the current fragile recovery.

Unfortunately, the inherent lagging nature of the employment rebound has several consequences that add considerable uncertainty to the current economic forecast. Employment, at least the wages and salaries from employment, is highly correlated with household consumption, which in turn is a driver for many other elements of the economy. Uncertainty about employment has a dampening effect on two of the largest consumer goods – housing and vehicles. This uncertainty is compounded by the aftermath of the financial crisis, as consumer lending has tightened especially as it pertains to higher-risk loans. The arguments above would suggest that until the employment picture becomes more clear, sectors like housing, automobiles, and business planned investment will likely tread water. However, pent-up demand and an aging vehicle fleet are two exogenous factors that will spur vehicle sales beyond the underlying wealth calculations would imply.

Like most economic forecasts, there are both upside and downside risks to this control forecast. The single largest downside concern is further dominoes falling in the growing unrest in the middle east. Tunisia and Egypt were mild compared to Libya, a country that produces 1.6 million barrels of oil per day. If this turmoil creates greater instability in Bahrain, Yemen, Iraq, and Jordan, then the price of oil may remain elevated for a significant period of time due to a risk premium. Such an occurrence may trigger more widespread inflation, which could in turn trigger actions by the Fed to increase interest rates.

The upside risk involves a scenario where the private sector recovers more quickly than expected. Financial markets will respond by easing credit to consumers who are ready to start buying again after a long period of deleveraging. The weakening of the dollar vis-à-vis European trading partners also should provide upside risk in terms of higher demand for US exported goods. Global Insight has assigned a 20 percent probability to the pessimistic scenario and a 20 percent probability to the upside scenario. All of the state economic and revenue projections use only the control from Global Insight, which continues to carry an overwhelming majority as the desired point estimate.

KENTUCKY ECONOMY

Recent History:

Kentucky personal income grew by 2.7 percent in the first quarter of FY12 over the previous quarter. This is 6.4 percent above the first quarter of FY11. While the first quarter growth is better than US personal income growth, it is still not a robust or even an average recovery. The previous peak in Kentucky personal income occurred in the fourth quarter of FY08. The trough occurred in the third quarter of FY09, three quarters later. Growth in the nine quarters following the trough were 0.7, -0.1, 0.5, -0.1, 1.3, 1.2, 0.4, 1.9, and 1.2 percent respectively. Over the last two expansionary periods, average Kentucky personal income growth was 1.3 percent. So Kentucky personal income has been well below the historical average for most of this expansion period.

Kentucky wages and salaries rose by 0.5 percent in the first quarter over the fourth quarter of FY11. Wages and salary growth has slowed over the last three quarters. In the third and fourth quarters of FY11, wages and salaries grew by 1.5 and 1.4 percent respectively on an adjacent-quarter basis. The two fastest growing segments of Kentucky personal income in the first quarter were transfer income and dividends, interest and rents income, which grew at 0.9 and 1.0 percent respectively.

The components of personal income have shifted over the last decade. Wages and salaries income made up 49.7 percent of Kentucky personal income in the first quarter of FY12. This share has gone down only slightly over the last decade, falling from 53.9 percent in the first quarter of 2001. Transfer payments, on the other hand, have risen sharply in the last decade, rising from 17.4 percent share of Kentucky personal income in the first quarter of FY01 to 24.6 percent share in the first quarter of FY12.

It is expected that transfer payments increase during recessions, as individuals apply for unemployment insurance, food stamps and Medicaid, as other sources of income are reduced. It is surprising, however, that the share of transfer income does not go down during the last two expansion periods, as employment improves and incomes rise.

The shares of only two categories of personal income grew over the last decade, transfer income and supplement income. The share of supplement income grew from 11.8 percent of personal income in the first quarter of FY01 to 14.0 percent share in the first quarter of FY12. The other categories of personal income each fell by small amounts over the last decade.

Kentucky non-farm employment rose by 1.3 percent from the first quarter of FY11 to the first quarter of FY12. Growth has been small or declining since employment reached its trough in the third quarter of FY10. No particular supersector of employment showed good growth in the first quarter. The fastest growing supersector on a percentage basis was mining employment which grew by 11.1 percent compared to a year ago. Manufacturing employment grew by the largest absolute amount, contributing an additional 6,500 jobs, or 3.1 percent, to non-farm employment gains. Only one supersector contracted from the first quarter of FY11 to the

first quarter of FY12 and that was government employment. Government employment includes state, county and local government employment and declined by 6,800 jobs, a 2.1 percent decrease over that period. Construction employment grew by 4.2 percent in the first quarter over the fourth quarter of FY11. This increase in jobs follows 12 consecutive quarters of losses in construction employment in the state. The previous peak in construction employment was 86,200 jobs, which occurred in the second quarter of FY08. Current construction employment is 67,300 jobs.

Outlook:

By most accounts, the losses endured by Kentucky from the national recession that ended in June 2009 were somewhat less severe than most states. The loss of household wealth was muted in Kentucky since the Commonwealth never really experienced a pronounced run-up in home values. Second, Kentucky's abundance of coal provided stable employment and wealth in the mining sector. Finally, Kentucky has a broad mix of manufacturing employment rather than an overreliance in a single industry. The automobile industry was one of the first sectors to rebound from the recession, and Kentucky is overrepresented in the automotive industries.

It bears reiteration that Kentucky non-farm employment was particularly hard hit by the 2007 recession. After peaking almost simultaneously with the start of the recession, the trough occurred in the third quarter of FY10, nine quarters later. Since then, Kentucky non-farm employment has only clawed back around 32 percent of its recession losses.

The weakness in employment has been stubborn across nearly every sector of Kentucky employment, with mining being the primary exception. Looking forward, both the goods producing and service providing employment sectors should continue to post gains consistent with an expansion.

A comparison of state and national economies shows that personal income growth in Kentucky is expected to remain stubbornly below the national average. The rebound in employment for Kentucky will likely be slower as well, but the peak to trough declines were less severe in Kentucky. US growth will tend to be higher during the adjustment period since the US economy experienced larger peak to trough declines.

Selected U.S. and Kentucky Economic Indicators
Global Insight: Control Scenario
December 2011

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
OUTPUT							
US Real GDP (Bil 2000\$)	13,293 1.8%	12,844 -3.4%	12,876 0.3%	13,214 2.6%	13,442 1.7%	13,693 1.9%	14,121 3.1%
Industrial Production Index, Total	1.2%	-10.5%	-2.3%	5.6%	3.1%	2.5%	3.9%
Industrial Production Index, Durables	-1.2%	-10.0%	-0.8%	3.0%	0.9%	1.2%	1.7%
INCOME							
KY Personal Income (Mil\$)	136,854 5.4%	138,473 1.2%	138,775 0.2%	144,063 3.8%	149,033 3.4%	154,231 3.5%	160,429 4.0%
KY Wage & Salary Income (Mil\$)	72,072 4.1%	71,407 -0.9%	71,295 -0.2%	73,507 3.1%	75,940 3.3%	78,664 3.6%	81,902 4.1%
KY Supplements to W&S (Mil\$)	18,167 4.4%	19,194 5.6%	19,722 2.8%	20,259 2.7%	20,912 3.2%	21,437 2.5%	22,155 3.3%
KY Proprietors' Income (Mil\$)	10,161 -1.6%	9,352 -8.0%	8,080 -13.6%	7,931 -1.8%	8,339 5.1%	9,015 8.1%	9,714 7.8%
KY Dividend, Interest, & Rent (Mil\$)	22,100 10.6%	21,379 -3.3%	19,547 -8.6%	20,767 6.2%	21,656 4.3%	22,351 3.2%	22,918 2.5%
KY Transfer Payments (Mil\$)	27,908 8.0%	31,070 11.3%	34,214 10.1%	35,468 3.7%	36,234 2.2%	37,688 4.0%	39,673 5.3%
KY Social Insurance (Mil\$)	11,413 4.6%	11,546 1.2%	11,544 0.0%	11,199 -3.0%	11,065 -1.2%	11,720 5.9%	12,507 6.7%
US Personal Income (Bil\$)	12,271 5.8%	12,190 -0.7%	12,069 -1.0%	12,708 5.3%	13,148 3.5%	13,634 3.7%	14,234 4.4%
EMPLOYMENT							
KY Nonfarm Employment (Thous)	1,866.4 0.5%	1,807.7 -3.1%	1,762.5 -2.5%	1,781.8 1.1%	1,799.5 1.0%	1,820.4 1.2%	1,846.6 1.4%
US Nonfarm Employment (Mil)	137.7 0.6%	133.9 -2.8%	129.7 -3.1%	130.4 0.6%	131.8 1.1%	133.6 1.4%	136.0 1.8%
KY Manufacturing Employment (Thou)	252.3 -2.4%	228.2 -9.5%	208.1 -8.8%	211.5 1.6%	215.1 1.7%	217.1 0.9%	221.2 1.9%
US Manufacturing Employment (Mil)	13.7 -2.3%	12.7 -7.7%	11.5 -8.9%	11.6 0.8%	11.8 1.6%	12.0 1.3%	12.2 1.6%
OTHER KEY MEASURES							
Consumer Sentiment Index (Michigan)	73.9	62.2	71.6	71.1	65.3	76.2	80.1
Rate of Inflation (%)	3.7%	1.4%	1.0%	2.0%	2.7%	1.3%	1.9%
US Retail Sales (%)	2.9%	-7.4%	1.2%	7.3%	6.0%	4.5%	4.3%
US Corporate Profits(%)	-5.5%	-21.7%	41.2%	2.9%	7.2%	4.7%	7.0%
Three-month Treasury Bills (%)	2.8%	0.5%	0.1%	0.1%	0.0%	0.1%	0.5%
Oil Price, West Texas (\$/barrel)	97.01	69.76	75.20	89.42	88.41	91.17	110.89

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

ANNUAL TOTALS - FISCAL YEAR 2011

General Fund

The General Fund grew by 6.5 percent, or \$534.3 million, in fiscal year 2011, the first increase in three years and the highest growth rate since FY06. Seven of the nine major accounts showed growth while two of the smaller accounts – cigarette and property taxes, posted declines. Receipts totaled \$8,759.4 million compared to \$8,225.1 million 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 2011 were \$166.1 million above the revised official estimate rendered in December 2009 by the Consensus Forecasting Group, as modified by the legislative actions. The largest overages occurred in the individual and corporation income taxes, the LLET and coal severance tax. On the other hand, sales and use, cigarette and property taxes all came in below forecasted levels.

Sales tax receipts grew 3.7 percent fiscal year 2011, or \$102.2 million, as the recovery from the national recession increased consumers' ability to make taxable purchases. Receipts of \$2,896.3 million compare to prior year receipts of \$2,794.1 million.

Individual income tax receipts increased \$263.3 million from last year as all components of the tax showed growth. Receipts totaled \$3,417.8 million and compare to \$3,154.5 million collected last year.

Corporate income tax collections grew \$62.9 million in fiscal year 2011 and totaled \$300.8 million compared to \$237.9 million collected in fiscal year 2010. The limited liability entity tax increased 47.8 percent compared to the prior year with receipts of \$215.7 million.

Coal severance taxes increased 8.8 percent in fiscal year 2011. Total collections for the fiscal year were \$295.8 million or \$23.9 million more than fiscal year 2010 receipts.

Total property taxes fell 0.3 percent during the fiscal year. Receipts totaled \$514.8 million compared to \$516.2 million collected in fiscal year 2010.

Lottery receipts increased 0.2 percent, or \$0.5 million, from the previous year. Receipts of \$200.5 million compare \$200.0 million remitted to the state in fiscal year 2010.

The "Other" category finished the year up 4.7 percent. Receipts of \$655.5 million compare to \$626.2 million collected in fiscal year 2010.

Figure A details the composition of fiscal year 2011 General Fund receipts by tax type. Seventy-four percent of General Fund revenues were in the areas of the individual income tax and the sales tax. The corporation income tax category accounted for 6 percent of General Fund receipts. "Other" taxes accounted for 7 percent of General Fund receipts in fiscal year 2011. The largest component in this category includes insurance premium taxes, bank franchise tax, and inheritance tax. LLET, cigarette and coal severance taxes each accounted for 3 percent. Lottery revenues accounted for 2 percent of General Fund revenues.

Table 7 and Figure B detail the growth rates in General Fund revenues by each fiscal quarter of fiscal year 2011. Growth was strong in all four quarters of the fiscal year with growth ranging from 4.4 percent in the first quarter to 9.6 percent in the final quarter.

Table 5
FY11 General Fund Revenues Compared to Previous Years
(\$ millions)

	<u>Million \$</u>			<u>Growth Rate (%)</u>		
	<u>FY11</u>	<u>FY10</u>	<u>FY09</u>	<u>FY11</u>	<u>FY10</u>	<u>FY09</u>
Individual Income	3,417.8	3,154.5	3,315.4	8.3	-4.9	-4.8
Sales and Use	2,896.3	2,794.1	2,857.7	3.7	-2.2	-0.7
Property	514.8	516.2	513.1	-0.3	0.6	2.5
Corporation Income	300.8	237.9	268.0	26.4	-11.2	-38.4
LLET	215.7	145.9	121.7	47.8	20.0	23.6
Coal Severance	295.8	271.9	292.6	8.8	-7.1	25.6
Cigarette Tax	262.2	278.4	203.0	-5.8	37.1	19.8
Lottery	200.5	200.0	193.5	0.2	3.4	3.2
Other	655.5	626.2	661.4	4.7	-5.3	-2.6
TOTAL	8,759.4	8,225.1	8,426.4	6.5	-2.4	-2.7

Table 6
FY11 General Fund Revenues Compared to Official Estimate
(\$ millions)

	<u>Actual</u>	<u>Estimate</u>	<u>Diff. (\$)</u>	<u>Diff. (%)</u>
Individual Income	3,417.8	3,334.6	83.2	2.5
Sales and Use	2,896.3	2,939.4	-43.1	-1.5
Property	514.8	540.2	-25.3	-4.7
Corporation Income	300.8	258.8	42.0	16.2
LLET	215.7	145.1	70.6	48.7
Coal Severance	295.8	230.4	65.4	28.4
Cigarette Tax	262.2	280.9	-18.7	-6.7
Lottery	200.5	205.4	-4.9	-2.4
Other	655.5	658.6	-3.1	-0.5
TOTAL	8,759.4	8,593.3	166.1	1.9

Table 7
General Fund Growth Rates for the Four Quarters and Full Year FY11
(percent)

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY11</u>
Individual Income	3.8	5.2	10.6	13.5	8.3
Sales and Use	3.4	6.1	3.6	1.7	3.7
Property	-14.2	8.5	-12.8	1.8	-0.3
Corporation Income	42.5	1.1	3.7	37.3	26.4
LLET	45.0	48.1	56.0	45.1	47.8
Coal Severance	9.0	11.1	11.4	4.6	8.8
Cigarette Tax	-7.1	-0.5	-10.1	-5.3	-5.7
Lottery	2.3	2.0	-5.8	2.7	0.2
Other	3.3	3.0	5.0	6.8	4.0
TOTAL	4.4	6.3	5.2	9.6	6.5

Figure A
Composition of FY11 General Fund Receipts by Tax Type

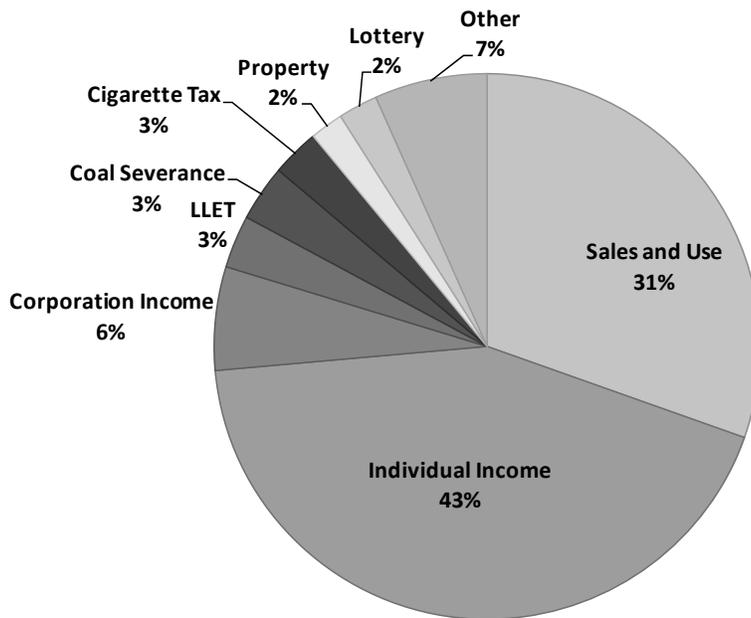
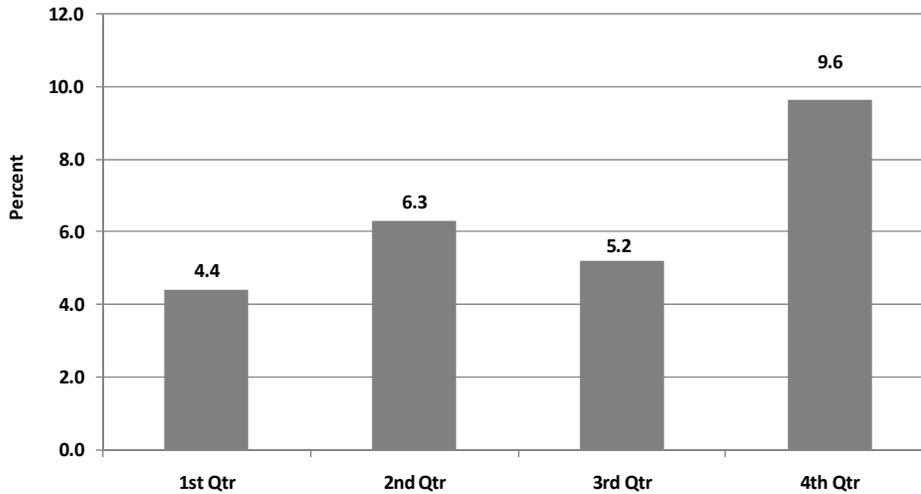


Figure B
Quarterly General Fund Growth



Road Fund

Total Road Fund receipts grew by 11.0 percent during fiscal year 2011. Total receipts of \$1,338.8 million compare to \$1,206.6 million collected during fiscal year 2010. Road Fund collections are detailed in table 8.

Motor fuels taxes increased by 11.8 percent on receipts of \$732.8 million, compared to \$655.8 million collected during the previous fiscal year. Motor fuels taxes were primarily affected by a statutory tax rate increase tied to the wholesale price of gasoline.

Motor vehicle usage tax receipts of \$381.8 million represent an increase of 14.7 percent compared to the \$332.8 million collected in fiscal year 2010. Increased motor vehicle sales as well as the expiration of the one-time trade-in credit contributed to growth in this account

Weight distance tax revenues increased 4.9 percent with receipts of \$74.0 million compared to \$70.5 million collected in fiscal year 2010.

Motor vehicle license tax receipts were up 1.0 percent with collections of \$97.8 million compared to \$96.8 million collected in fiscal year 2010.

Investment income declined 45.1 percent. Receipts totaled \$2.0 million compared to \$3.6 million in fiscal year 2010.

The “Other” category rose 11.3 percent from fiscal year 2010. Total receipts in this category were \$34.7 million, compared to \$31.2 million collected in fiscal year 2010.

Road Fund collections for fiscal year 2011 were \$73.0 million above the official revenue estimate (the consensus estimate of December 2009 as modified by legislation). This was 5.8 percent more than anticipated in the official

estimate. The largest surplus occurred in the motor fuels tax which was \$52.0 million, or 7.6 percent above the forecasted level. All other accounts, taken together, were within \$21.0 million of the forecasted levels.

Figure C details the composition of fiscal year 2011 Road Fund receipts by tax type. Eighty-three percent of the Road Fund comes from motor vehicle usage taxes and motor fuels taxes. Following these, the motor vehicle license tax accounted for 7 percent and the weight distance tax accounted for 6 percent. "Other" taxes combined to account for 3 percent, investment income and motor vehicle operators revenue each were 1 percent or less.

Table 10 details the growth rates in Road Fund revenue by each fiscal quarter in fiscal year 2011. Road Fund receipts grew strongly in the first three quarters with increases in the 12 percent to 12.5 percent range. Growth in the fourth quarter slowed but was still a robust 7.4 percent.

**Table 8
Fiscal Year 2011 Road Fund Revenues Compared to Previous Years
(\$ millions)**

	Million \$			Growth Rate (%)		
	FY11	FY10	FY09	FY11	FY10	FY09
Motor Fuels	732.8	655.8	622.5	11.8	5.3	2.3
Motor Vehicle Usage	381.8	332.8	336.3	14.7	-1.0	-17.1
Motor Vehicle License	97.8	96.8	98.2	1.0	-1.4	5.0
Motor Vehicle Operators	15.7	15.9	15.5	-1.3	2.7	1.0
Weight Distance	74.0	70.5	75.4	4.9	-6.6	-10.6
Investment Income	2.0	3.6	10.7	-45.1	-65.9	-45.2
Other	34.7	31.2	33.4	11.3	-6.6	-6.0
TOTAL	1,338.8	1,206.6	1,192.0	11.0	1.2	-5.6

**Table 9
Fiscal Year 2011 Road Fund Revenues Compared to Official Estimate
(\$ million)**

	FY11 Actual	FY11 Estimate	Diff. (\$)	Diff. (%)
Motor Fuels	732.8	680.8	52.0	7.6
Motor Vehicle Usage	381.8	362.9	18.9	5.2
Motor Vehicle License	97.8	94.6	3.2	3.4
Motor Vehicle Operators	15.7	15.4	0.3	2.2
Weight Distance	74.0	77.4	-3.4	-4.4
Investment Income	2.0	1.4	0.6	42.6
Other	34.7	33.3	1.4	4.2
TOTAL	1,338.8	1,265.8	73.0	5.8

Table 10
Road Fund Growth Rates for the Four Quarters and Full Year FY11
(percent)

	Q1	Q2	Q3	Q4	FY11
Motor Fuels	19.0	15.9	7.5	5.2	11.8
Motor Vehicle Usage	1.5	16.5	28.5	15.0	14.7
Motor Vehicle License	5.2	3.5	-2.2	0.5	1.0
Motor Vehicle Operators	-2.1	3.2	-0.6	-5.3	-1.3
Weight Distance	7.9	4.2	3.0	4.8	4.9
Investment Income	-63.4	-62.8	-50.0	9.9	-45.1
Other	36.7	-28.8	42.3	13.1	11.3
TOTAL	11.9	12.6	12.4	7.4	11.0

Figure C
Composition of Fiscal Year 2011

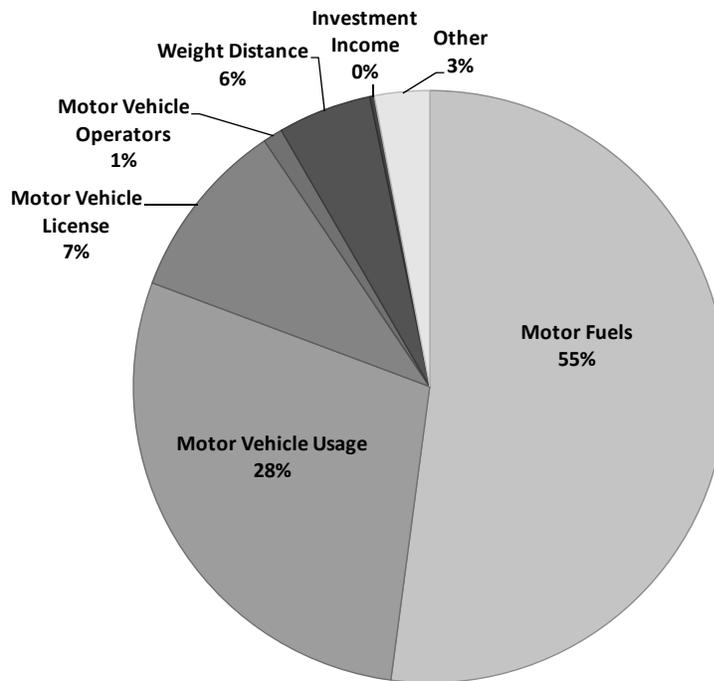
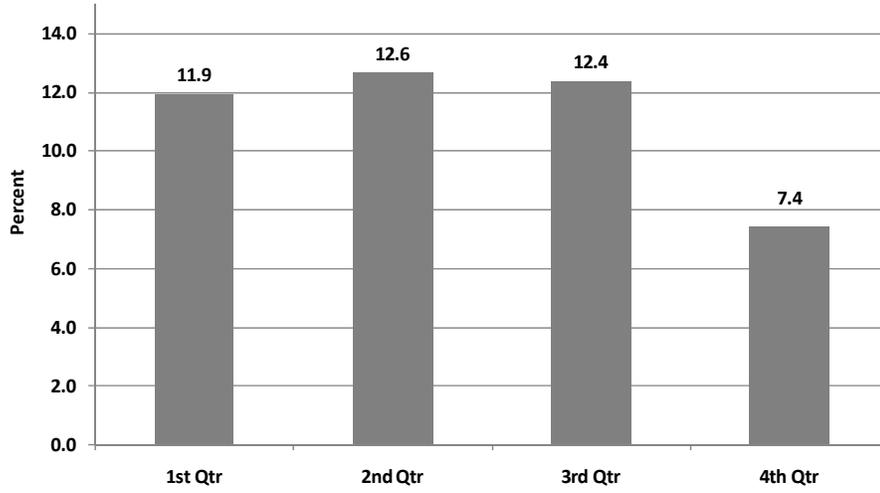


Figure D
Quarterly Road Fund Growth



REVENUE ESTIMATES DETAILED FOR FISCAL YEAR 2012 THROUGH FISCAL YEAR 2014

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 2011), a planning estimate is prepared. The second estimates, the preliminary projections, are due on or before October 15. Finally, before the 15th day of the legislative session in each even-numbered year, official estimates must be presented.

The CFG relies almost exclusively upon forecasting results 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 weighed against the forecaster's knowledge of economic events, past revenue trends, and administrative considerations. Analysts from the Transportation Cabinet and the Department of Revenue provide additional information about the administration of various taxes. After GOEA's analysis is completed, the revenue estimates are presented to the CFG for consideration and approval. The CFG is a select group of distinguished economists, leaders in banking and finance, 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, 2011, as seen in an attachment below.

General Fund: Major Accounts

Total General Fund revenue for fiscal year 2012 is projected to be \$9,007.7 million, for an increase of 2.8 percent from fiscal year 2011. Receipts for fiscal year 2013 are estimated to be \$9,220.6 million followed by \$9,500.3 million in fiscal year 2014.

Individual Income Tax

Individual income tax posted receipts of \$843.0 million compared to last year's second quarter receipts of \$829.1 million. The resulting growth rate was 1.7 percent and compared to a growth rate of 5.2 percent for the second quarter of last year. Withholding and declarations receipts, two components of the individual income tax grew compared to the same time frame last year. Fiduciary and net returns payments, another two components of the tax, displayed typical reductions due to seasonal and timing differences.

In forecasting the individual income tax, the first step was to estimate "withholding" collections. Withholding results in roughly 96% of the total individual income tax receipts. Declaration (estimated) payments are historically positive, but offset nearly dollar for dollar by net refunds, which are negative due to the spring refunds.

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 years 2012 through 2014. 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 2012 are \$3,482.2 million, following by revenues of \$3,563.5 million in fiscal year 2013 and \$3,689.4 million in fiscal year 2014. The corresponding growth rates are 1.9 percent, 2.3 percent, and 3.5 percent.

Sales and Use Tax

Total sales and use tax receipts for the quarter were \$742.6 million, compared to \$732.9 million in the second quarter of fiscal year 2011. Year-to-date sales tax receipts have increased 4.2 percent.

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 \$3,007.4 million in fiscal year 2012, which would represent a 3.8 percent increase relative to fiscal year 2011 actual revenues. Receipts for fiscal year 2013 are projected to be \$3,075.2 million followed by \$3,172.7 million in fiscal year 2014. Respective growth rates are 2.3 percent and 3.2 percent for the upcoming biennium.

Corporation Income Tax

In the first half of fiscal year 2012, corporation income taxes rose 126.0 percent and are up 48.2 percent for the year. Corporation income tax increased approximately \$50 million over December 2010 levels.

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 2012, estimated receipts from corporation income taxes are \$333.5 million, representing an increase of 10.9 percent from the previous year. For fiscal year 2013, revenues are expected to increase again, reaching \$359.5 million. In the following year, collections are expected to remain relatively unchanged, with receipts of \$365.3 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 2012,

revenues from this equaled \$38.2 million.

The fiscal year 2012 estimate of \$218.3 million is based on consultation with Department of Revenue personnel and is consistent with prior trends and inclusive of the latest plans concerning ongoing compliance efforts. Tax receipts from the tax are expected to increase slightly over the next two fiscal years with receipts of \$222.9 million in fiscal year 2013 and \$227.3 million in fiscal year 2014.

Coal Severance Tax

Coal severance tax revenue increased in the second quarter with receipts up 10.4 percent. Collections of \$79.7 million compared to the fiscal year 2011 second quarter total of \$72.2 million.

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.

Anticipated receipts of \$326.7 million in fiscal year 2012 are expected to exceed the previous year by 10.4 percent. For the upcoming biennium, revenues are forecasted to be \$337.0 million and \$353.4 million in successive years. The estimates for all three years include some enhanced collections revenue.

Cigarette Taxes

Cigarette tax receipts of \$60.3 million in the second quarter of fiscal year 2012 declined slightly compared to last year's total of \$66.9 million. Year-to-date cigarette tax receipts have fallen 6.7 percent due to lower sales.

The forecast for the upcoming biennium was prepared by estimating the number of cigarette packs sold in Kentucky. The forecast assumes a confluence of three 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. Second, competitive forces within the industry have led to demand-side substitute products, like RYO cigarettes and little cigars, to siphon off additional sales. Both of these products have gained in popularity and pose a challenge for cigarette sales. 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 posted revenues that were \$20.2 million less than the second quarter of fiscal year 2011. The difference is due mainly to timing issues in the real property sub-category. Fiscal year 2012 second quarter receipts of \$279.0 million compare with \$299.2 million from the second quarter of fiscal year 2011.

Collections are expected to total \$518.8 million in fiscal year 2012, 0.8 percent higher than actual fiscal year 2011 receipts. Receipts for fiscal year 2013 are estimated at \$531.8 million followed by \$547.4 million in fiscal year 2014.

Kentucky Lottery

Lottery revenues were \$55.5 million which were 11.0 percent over last year's second-quarter total of \$50.0 million. The lottery is expected to grow over the upcoming biennium due again to counterbalancing forces. On the positive side, the Kentucky Lottery Corporation continues to seek out new games to entice new players to continue purchasing products. On the down side, the recession continues to clamp disposable income – a shift variable in the demand for lottery products.

Other Revenue Sources

The “other” revenue category contains over 100 revenue accounts and decreased 1.0 percent in the second quarter. Second quarter receipts for fiscal year 2012 were \$137.1 million compared to \$138.5 million in fiscal year 2011.

After tallying all of the accounts, the forecast calls for revenues of \$654.2 million in fiscal year 2012, a decline of 0.2 percent compared to fiscal year 2011 actual collections. Receipts for fiscal year 2013 are estimated at \$664.4 million followed by \$676.9 million in fiscal year 2014. The respective growth rates over the upcoming biennium are 1.6 percent and 1.9 percent.

Road Fund: Major Accounts

Total Road Fund revenues for fiscal year 2012 are projected to be \$1,412.5 million, an increase of 5.5 percent from the previous fiscal year. Receipts for fiscal year 2013 are estimated to be \$1,498.9 million followed by \$1,568.0 million in fiscal year 2014. Growth in the Road Fund is predominantly influenced by the motor fuels tax, which continues to rise due to the statutorily determined formula for the rate of taxation.

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

Motor fuels tax collections, were \$199.6 million for the quarter and compare to \$183.7 million collected during the second quarter of last year. The 8.6 percent growth is due primarily to the increase in the formula-driven tax rate.

The motor fuels forecast consists of two pieces: regular collections and the “rate impact”. Regular collections are motor fuels tax collections net of revenue resulting from an increase in the variable portion of the tax rate. The rate 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 2012 due to lower consumption of gasoline. The forecasted growth rate for fiscal year 2012 is 6.4 percent, representing total collections of \$779.5 million. Growth in collections is expected to accelerate in fiscal year 2013 at 9.1 percent with receipts of \$850.4 million. Growth, driven by rising fuel prices, is expected to moderate in fiscal year 2014, with an increase of 6.1 percent and collections of \$901.9 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 2012 receipts have increased 10.7 percent. The strong growth in this account is the result of an increase in motor vehicle sales.

Receipts in fiscal year 2012 are expected to total \$402.7 million, an increase of 5.5 percent as vehicle sales continue to rebound. In fiscal years 2013 and 2014, the outlook is for receipts to continue to grow at moderated rates, 1.8 percent and 2.7 percent, respectively.

Motor Vehicle License

Motor vehicle license tax increased 33.9 percent in the second quarter of fiscal year 2012 to \$22.5 million. License receipts were estimated using a structural model with registered vehicles as a driver. Motor vehicle license receipts are estimated to be \$100.8 million in fiscal year 2012, followed by \$99.3 million in fiscal year 2013 and \$99.6 million in fiscal year 2014.

Motor Vehicle Operators

Motor vehicle operators collections were estimated using a time series (ARIMA) model. This tax collections were \$3.9 million in the second quarter of fiscal year 2012. The forecast is for revenues to be essentially flat with 0.4 percent in fiscal year 2012. During the next biennium receipts are expected to be \$15.9 million in fiscal year 2013 and \$16.1 million in fiscal year 2014.

Weight Distance

Weight distance tax receipts of \$19.0 million in the second quarter of FY12 represent a 1.6 percent increase over fiscal year 2011. The weight distance tax is estimated by a structural model with the U.S. industrial production index as the driver. Receipts for fiscal year 2012 are expected to total \$79.4 million, a 7.3 percent increase. The weight distance tax is typically considered as a good leading indicator of the amount of manufacturing output, so growth in this account is an encouraging sign that the recovery in factory activity is indeed occurring.

Investment

Income from investment is estimated by examining historical and current trends in investment balances and interest rate forecasts. Investment receipts were down 51.1 percent over the total collected in the second quarter of fiscal year 2012. Investment income for the current year is estimated at \$0.5 million, followed by \$2.3 million in fiscal year 2013 and \$4.1 million in fiscal year 2014.

Other Revenue Sources

“Other” receipts include fees, fines, and miscellaneous receipts. These accounts combined for an increase of 33.2 percent from a year earlier in the second quarter of FY12. 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 \$33.8 million in the current fiscal year, followed by \$34.9 million in fiscal year 2013 and \$35.2 million in fiscal year 2014.

**GENERAL FUND CONSENSUS FORECAST
December 2011**

General Fund Revenues (million \$)

	FY11 <u>Actual</u>	FY12 <u>Estimate</u>	FY13 <u>Estimate</u>	FY14 <u>Estimate</u>
Sales and Use	\$2,896.3	\$3,007.4	\$3,075.2	\$3,172.7
Individual Income	3,417.8	3,484.2	3,563.5	3,689.4
Corporation Income	300.8	333.5	359.5	365.3
LLET	215.7	218.3	222.9	227.3
Coal Severance	295.8	326.7	337.0	353.4
Cigarette	262.4	253.6	252.3	249.9
Property	514.8	518.8	531.8	547.4
Lottery	200.5	211.0	214.0	218.0
Other	<u>655.3</u>	<u>654.2</u>	<u>664.4</u>	<u>676.9</u>
Total General Fund	\$8,759.4	\$9,007.7	\$9,220.6	\$9,500.3

Annual Percentage Growth Rates

	FY11 <u>Actual</u>	FY12 <u>Estimate</u>	FY13 <u>Estimate</u>	FY14 <u>Estimate</u>
Sales and Use	3.7	3.8	2.3	3.2
Individual Income	8.3	1.9	2.3	3.5
Corporation Income	26.4	10.9	7.8	1.6
LLET	47.8	1.2	2.1	2.0
Coal Severance	8.8	10.4	3.2	4.9
Cigarette	-5.8	-3.3	-0.5	1.0
Property	-0.3	0.8	2.5	2.9
Lottery	0.3	5.2	1.4	1.9
Other	<u>4.6</u>	<u>-0.2</u>	<u>1.6</u>	<u>1.9</u>
Total General Fund	6.5	2.8	2.4	3.0

ROAD FUND CONSENSUS FORECAST

Road Fund Revenues (million \$)

	<u>FY11 Actual</u>	<u>FY12 Estimate</u>	<u>FY13 Estimate</u>	<u>FY14 Estimate</u>
Motor Fuels	732.8	779.5	850.4	901.9
Motor Vehicle Usage	381.8	402.7	410.1	421.1
Motor Vehicle License	97.8	100.8	99.3	99.6
Motor Vehicle Operators	15.7	15.8	15.9	16.1
Weight Distance	74.0	79.4	86.0	90.0
Investment	2.0	0.5	2.3	4.1
Other	<u>34.7</u>	<u>33.8</u>	<u>34.9</u>	<u>35.2</u>
Total Road Fund	1,338.8	1,412.5	1,498.9	1,568.0

Annual Percentage Growth Rates

	<u>FY11 Actual</u>	<u>FY12 Estimate</u>	<u>FY13 Estimate</u>	<u>FY14 Estimate</u>
Motor Fuels	11.8	6.4	9.1	6.1
Motor Vehicle Usage	14.7	5.5	1.8	2.7
Motor Vehicle License	1.0	3.1	-1.5	0.3
Motor Vehicle Operators	-1.3	0.4	0.6	1.3
Weight Distance	4.9	7.3	8.3	4.7
Investment	45.1	74.9	360.0	78.3
Other	<u>14.9</u>	<u>-2.6</u>	<u>3.3</u>	<u>0.9</u>
Total Road Fund	11.0	5.5	6.1	4.6

General Fund Detailed Estimates December 2011

<u>Source</u>	<u>Actual 2011</u>	<u>Estimated 2012</u>	<u>Estimated 2013</u>	<u>Estimated 2014</u>
<u>Selected Sales and Gross Receipts Taxes</u>				
Sales & Use	\$2,896,251,816	\$3,007,400,000	\$3,075,200,000	\$3,172,700,000
Cigarette	\$262,220,720	\$253,600,000	\$252,300,000	\$249,900,000
Cigarette Floor Stock Tax	\$150,038			
Distilled Spirits Case Sales	(\$232,830)	\$113,072	\$116,405	\$119,836
Insurance Tax Foreign Companies	\$40,662,149	\$40,625,678	\$41,241,062	\$41,856,447
Insurance Tax Companies Other Than Life	\$83,478,519	\$83,898,850	\$84,039,477	\$84,180,104
Insurance Tax Fire Prevention Fund	\$4,590,895	\$4,592,844	\$4,594,793	\$4,596,744
Pari-Mutuel	\$4,607,322	\$3,212,105	\$3,473,027	\$3,755,145
Race Track Admission	\$178,957	\$174,699	\$166,483	\$162,522
Beer Consumption	\$6,118,817	\$6,194,904	\$6,277,409	\$6,323,649
Distilled Spirits Consumption	\$10,942,531	\$11,056,469	\$11,171,593	\$11,287,916
Wine Consumption	\$2,584,039	\$2,620,470	\$2,657,414	\$2,694,879
Beer Wholesale	\$51,914,445	\$52,560,000	\$53,260,000	\$53,652,320
Distilled Spirits Wholesale	\$28,175,617	\$28,473,424	\$29,101,193	\$29,742,802
Wine Wholesale	\$13,748,696	\$13,601,211	\$14,532,987	\$15,528,595
Other Tobacco Products and Snuff	\$21,391,009	\$21,800,000	\$22,200,000	\$22,600,000
Telecommunications Taxes	\$62,286,497	\$64,072,891	\$65,910,520	\$67,800,852
TOTAL SEL. SALES AND GROSS RECEIPTS TAXES	\$3,489,069,237	\$3,593,996,617	\$3,666,242,363	\$3,766,901,811
<u>License and Privilege Taxes</u>				
Coal Severance Tax	\$295,836,611	\$326,700,000	\$337,000,000	\$353,400,000
Mineral Severance Tax	\$13,256,853	\$13,647,427	\$13,681,393	\$14,882,144
Natural Gas Severance Tax	\$24,938,411	\$25,700,000	\$26,250,000	\$27,015,000
Oil Production	\$8,287,566	\$8,170,375	\$7,822,980	\$8,124,735
Corporate License	\$10,654,547	\$1,000,000	\$250,000	\$100,000
Cigarette License	\$78,101	\$78,284	\$78,000	\$78,000
Amusement Machine License				
Race Track License	\$262,175	\$251,000	\$240,000	\$230,000
Marijuana and Controlled Substance Tax	\$79,477	\$75,407	\$78,674	\$74,454
Bank Franchise Tax	\$88,400,971	\$90,000,000	\$91,500,000	\$93,000,000
Corporation Organization	\$69,928	\$100,000	\$100,000	\$100,000
Cir. Ct. Clk. - Driver License Receipts	\$602,721	\$600,377	\$607,851	\$615,417
Sand and Gravel License	\$8,175	\$6,600	\$5,475	\$4,541
Alcoholic Beverage License Suspension	\$377,550	\$325,175	\$285,257	\$247,952
Limited Liability Entity Tax	\$215,741,157	\$218,300,000	\$222,900,000	\$227,300,000
TOTAL LICENSE AND PRIVILEGE TAXES	\$658,594,243	\$684,954,645	\$700,799,630	\$725,172,243
<u>Income Taxes</u>				
Corporation Income Tax	\$300,782,364	\$333,500,000	\$359,500,000	\$365,300,000
Individual Income Tax	\$3,417,778,504	\$3,484,200,000	\$3,563,500,000	\$3,689,400,000
TOTAL INCOME TAXES	\$3,718,560,868	\$3,817,700,000	\$3,923,000,000	\$4,054,700,000
<u>Property Taxes</u>				
Real Property	\$247,034,036	\$247,000,000	\$250,700,000	\$255,700,000
Tangible Personal Property	\$82,716,213	\$85,500,000	\$87,000,000	\$88,700,000
Intangible Personal Property				
Motor Vehicles	\$106,044,102	\$112,100,000	\$118,900,000	\$126,300,000
Bank Deposits	\$561,375	\$535,000	\$535,000	\$535,000
Distilled Spirits Ad Valorem	\$730,146	\$750,000	\$750,000	\$850,000
Building and Loan Association Capital Stock	\$2,457,458	\$2,500,000	\$2,500,000	\$2,500,000
Omitted and Delinquent	\$28,140,461	\$23,200,000	\$23,300,000	\$23,300,000
Apportioned Vehicles	(\$2,094,634)	\$3,500,000	\$3,500,000	\$3,500,000
Public Service Companies	\$49,210,400	\$43,700,000	\$44,600,000	\$46,000,000
Other Property	\$15,412	\$15,000	\$15,000	\$15,000
TOTAL PROPERTY TAXES	\$514,814,969	\$518,800,000	\$531,800,000	\$547,400,000

Inheritance Taxes

Inheritance Tax	\$41,350,929	\$41,249,037	\$41,880,094	\$42,533,821
TOTAL INHERITANCE TAXES	\$41,350,929	\$41,249,037	\$41,880,094	\$42,533,821

Departmental Fees, Sales and Rentals

Public Service Commission Assessments- Insurance - Retaliatory Taxes & Fees- Sec. of State - Process Agents Fees Insurance - Miscellaneous Receipts	\$16,266,055 \$4,457,447	\$13,000,000 \$3,905,474	\$14,000,000 \$4,337,435	\$14,000,000 \$4,821,560
Circuit Court Clk. - Civil Filing Fee Receipts- Circuit Court Clk. - Bond Filing Fee- Circuit Court Clk. - 10% Bond Fee- Circuit Court Clk. - Receipts for Services- Strip Mining & Reclamation Fees- Strip Mining & Reclamation - Fines Coll. Miscellaneous - Pub Advoc; Sec State Fee	\$12,044,581 \$3,130,612 \$679,037 \$6,314,262 \$883,704 \$1,996,047	\$12,466,144 \$2,767,912 \$515,173 \$6,582,672 \$914,954 \$971,226 \$1,453,744	\$12,902,459 \$2,788,182 \$464,038 \$6,916,587 \$947,309 \$929,376 \$1,459,446	\$13,354,045 \$2,692,881 \$423,910 \$7,250,501 \$980,808 \$935,155 \$1,408,271
TOTAL DEPARTMENT FEES, SALES AND RENTALS	\$45,771,745	\$42,577,299	\$44,744,832	\$45,867,131

Investment Receipts

General Depository Investment Income ** Circuit Court Clk. - Interest Income Ky Asset/Liab - TRAN	\$110,938 \$656,668	\$1,500,000	\$1,500,000	\$1,500,000
TOTAL INVESTMENT RECEIPTS	\$767,606	\$1,500,000	\$1,500,000	\$1,500,000

Miscellaneous Revenue

Lottery Legal Process - Clk. Supreme Court Legal Process - Clk. Court of Appeals Dept. of Rev. Legal Process Taxes - Co. Clk. Dept. of Rev. Penalty & Int. of Co. Officials TVA - In Lieu of Taxes - State Portion F.H.A. - In Lieu of Taxes R.E.C.C. and R.T.C.C. In Lieu of Taxes Business Development - In Lieu of Taxes Abandoned Property Circuit Court Clk. - Fish & Wildlife Fines Cir. Ct. Clk. - Criminal/Traffic Fines & Costs Circuit Court Clk. - Bond Forfeitures Fines Dept Insurance Workplace & Employment Standards, Fees, Fines Sale of NOx Credits Other Fines & Unhonored Checks Court Costs	\$200,500,000 \$109,415 \$4,774 \$2,316,475 (\$24,232) \$12,992,023 \$88,992 \$313 \$23,983,964 \$58,014 \$21,874,427 \$1,523,129 \$36,825 \$5,744,475 \$17,897,166	\$211,000,000 \$108,592 \$3,606 \$2,431,643 (\$30,298) \$15,176,511 \$100,000 \$315 \$22,294,349 \$55,484 \$23,170,487 \$1,480,147 \$0 \$5,695,550 \$20,159,796	\$214,000,000 \$105,203 \$3,828 \$2,386,370 (\$29,473) \$16,516,380 \$115,000 \$320 \$20,301,963 \$50,603 \$23,919,899 \$1,330,941 \$0 \$5,341,237 \$21,394,130	\$218,000,000 \$103,376 \$3,828 \$2,314,779 (\$28,890) \$17,453,483 \$130,000 \$325 \$18,674,591 \$47,867 \$24,669,310 \$1,290,995 \$0 \$6,173,827 \$22,217,019
TOTAL MISCELLANEOUS REVENUE	\$287,105,760	\$301,646,182	\$305,436,401	\$311,050,510
MISC. NOT IN REVENUE ESTIMATES	\$3,407,285	\$5,270,219	\$5,182,295	\$5,186,734

REVENUE INITIATIVES**2008 Legislative Impact**

TOTAL GENERAL FUND	\$8,759,442,642	\$9,007,693,999	\$9,220,585,615	\$9,500,312,250
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Road Fund Detailed Estimates December 2011

	FY 2011 <u>Actual</u>	FY2012 <u>Estimate</u>	FY 2013 <u>Estimate</u>	FY 2014 <u>Estimate</u>
<u>Sales and Gross Receipts Taxes</u>				
Motor Fuels Normal and Normal Use	\$732,416,222	\$779,000,000	\$849,900,000	\$901,400,000
Motor Vehicle Usage	352,371,959	373,200,000	380,100,000	390,100,000
Motor Vehicle Rental Usage	29,167,706	29,500,000	30,000,000	31,000,000
Truck Trip Permits	409,890	425,000	450,000	475,000
Sales and Use	228,204	75,000	50,000	25,000
Usage Tax on Buses	0		0	0
Supplemental Fuel Surtax	0		0	0
Usage Tax on Historical Vehicles	0		0	0
TOTAL SALES AND GROSS RECEIPTS TAX	\$1,114,593,981	\$1,182,200,000	\$1,260,500,000	\$1,323,000,000
<u>License and Privilege Taxes</u>				
Drive Away Utility Trailer Permits	\$7,225	\$7,000	\$7,000	\$7,000
Amateur Radio Plate	9,087	9,000	9,000	9,000
Passenger Car License	32,913,648	33,650,000	33,500,000	33,600,000
Truck License - State Share	14,952,702	15,700,000	14,950,000	14,800,000
Motorcycle License	615,209	645,000	630,000	640,000
Motorcycle License-Program GA19				
Dealers License	234,341	230,000	230,000	230,000
Transfer License	986,550	990,000	1,000,000	1,050,000
Trailer License	1,637,120	1,720,000	1,720,000	1,700,000
County Clerk Penalty	186,499	25,000	25,000	25,000
Bus License - Except City	31,733	31,800	31,900	32,000
City and Suburban Bus License				
Bus Certificates and Permits	2,075	2,100	2,100	2,100
Taxi License	24,885	25,000	25,000	25,000
Truck Permits	27,350	25,000	25,000	25,000
Contract Taxicab Permit	16,420	18,000	20,000	22,000
Motor Vehicle Operator's License	13,819,891	13,800,000	13,940,000	14,100,000
Motor Vehicle Operator's License-Program GA19				
Highway Special Permits	6,685,221	6,700,000	7,200,000	7,500,000
U-Drive-It Permits	8,100	8,000	8,000	8,000
U-Drive-Licenses	1,097,663	1,200,000	1,100,000	1,050,000
Junk Yard License	2,906	3,000	3,100	3,200
Historic Vehicle License	319,914	325,000	350,000	375,000
Operator's License-Driver Education	626,153	680,000	610,000	600,000
Truck Proportional Registration	37,360,963	38,400,000	38,000,000	38,300,000
Operator's License - Photography Program	1,290,762	1,333,000	1,350,000	1,400,000
Industrial Hauling Permits	2,920	3,000	3,000	3,000
General Assembly License Plates	2,379	2,800	2,800	2,800
Pearl Harbor Survivor Plates				
Collegiate Plates	849,130	875,000	900,000	925,000
Personalized License Plates	1,290,246	1,450,000	1,325,000	1,350,000
Army Reserve Plates	667,152	700,000	710,000	720,000
Purple Heart Plates	-107,061	35,000	35,000	35,000
Judicial License Plates	268	250	250	250
Civil Air Patrol Plates	1,170	1,200	1,200	1,200
National Guard License Plates	6,085	6,100	6,100	6,100
Civic Event Plates	423	425	425	425
Street Rod Plates	1,879	1,900	1,900	1,900
Fraternal Order of Police Plates	93,006	93,000	93,000	93,000
Environmental License Plate	751,488	725,000	700,000	675,000
Dealer Demonstrator Tags	3,878	3,500	3,500	3,500
Volunteer Fireman License Tags	82,556	80,000	80,000	80,000
P.O.W. License Plates	62	50	50	50
Motor Carrier Identification Cards	5,297,945	5,000,000	5,000,000	5,000,000
Weight Distance Tax	73,983,781	79,400,000	86,000,000	90,000,000
DES License Plates	11,451	12,000	12,500	13,000
Child Victims License Plates	78,966	75,000	75,000	75,000
Masonic License Plates	62,132	62,000	62,000	62,000
Horse Council Plates	359,247	380,000	370,000	360,000
Law Enforcement	154,509	160,000	165,000	170,000

Independent College	62,861	65,000	65,500	66,000
Ducks Unlimited	33,831	34,000	34,000	34,000
Spay and Neuter Plate	191,426	189,000	188,000	187,000
Share The Road	109,966	111,000	112,000	113,000
Ky Colonels	77,363	78,000	78,500	79,000
Sportsman	181,978	182,500	183,000	183,500
Breast Cancer	342,907	350,000	355,000	360,000
Choose Life	62,692	60,000	60,000	60,000
Zoo Foundation Plate	36,780	37,000	37,000	37,000
Lincoln Bicentennial	15,534	15,500	15,500	15,500
Kentucky Dental Association	6,386	6,200	6,200	6,200
Ryder Cup	24,089	22,000	21,000	20,000
Autism Awareness	46,036	48,000	50,000	52,000
Quail Unlimited	42,841	43,000	43,500	44,000
Temporary Tags	386,543	375,000	375,000	375,000
Nonreciprocal Permits	220,150	225,000	225,000	225,000
Overweight Coal Truck Permit	793,715	785,000	800,000	800,000
Friends of Coal	605,682	675,000	635,000	650,000
Temporary Truck Decal Permits				
Kentucky Lineman	23,609	20,000	20,000	20,000
Silver Star	398	400	400	400
Bronze Star Valor	39	50	50	50
Keeneland Association	28,122	35,000	37,000	38,000
In God We Trust	793,044	800,000	810,000	820,000
Gold Star Spouse	2	25	25	25
TOTAL LICENSE AND PRIVILEGE TAX	\$200,536,023	\$208,749,800	\$214,434,500	\$219,266,200
<u>Departmental Fees, Sales and Rentals</u>				
Proposal Sales	\$457,532	\$500,000	\$600,000	\$700,000
Specification and Blue Print Sales				
Miscellaneous Rentals	304,199	300,000	300,000	300,000
MVL Computer Services				
Fines and Forfeitures				
Traffic Offenders School Fees	779,828	780,000	800,000	900,000
Record Copy Sales	330,675	350,000	375,000	350,000
Highway Sign Logo Rental	619,858	620,000	620,000	620,000
Driving History Record Fee	7,320,955	7,000,000	7,100,000	7,150,000
Operator's License Reinstatement Fees	1,108,921	1,100,000	1,200,000	1,200,000
Operator's License Name Sales				
Penalty & Interest - Weight and Use Taxes	1,626,502	1,500,000	1,500,000	1,300,000
Medical Alert Stickers	113	100	100	100
Motor Vehicle Title Receipts	4,954,640	4,500,000	4,600,000	4,700,000
Proceeds from Asset Disposition	1,409,995	1,400,000	1,540,000	1,400,000
Coal Road Recovery Fines	28,799	30,000	32,000	34,000
U-Drive-It Penalty and Interest	5,587	6,000	6,000	6,000
TOTAL DEPARTMENT FEES, SALES AND RENTALS	\$18,947,604	\$18,086,100	\$18,673,100	\$18,660,100
<u>Investment Income</u>				
Investment Income	\$1,995,228	\$500,000	\$2,300,000	\$4,100,000
TOTAL INVESTMENT INCOME	\$1,995,228	\$500,000	\$2,300,000	\$4,100,000
<u>Miscellaneous Income</u>				
Property Damage	\$989,197	\$1,000,000	\$1,000,000	\$1,000,000
Cold Check Account	0		0	0
TOTAL MISCELLANEOUS INCOME	\$989,197	\$1,000,000	\$1,000,000	\$1,000,000
Misc. Not in Revenue Estimates	\$1,749,883	\$2,000,000	\$2,000,000	\$2,000,000
TOTAL ROAD FUND REVENUE	\$1,338,811,916	\$1,412,535,900	\$1,498,907,600	\$1,568,026,300

TOBACCO MASTER SETTLEMENT AGREEMENT

The Tobacco Settlement-Phase I revenue forecast is \$97.3 million in fiscal year 2012, \$92.1 million in fiscal year 2013 and \$90.8 million in fiscal year 2014.

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.

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 2012

Kentucky State Government Revenue General Fund Revenue

	Second Quarter FY 2012	Second Quarter FY 2011	% Change	Year-To-Date FY 2012	Year-To-Date FY 2011	% Change
TOTAL GENERAL FUND	\$2,329,932,420	\$2,298,360,130	1.4%	\$4,486,385,916	\$4,353,455,925	3.1%
Tax Receipts	\$2,234,206,299	\$2,208,186,199	1.2%	\$4,330,184,659	\$4,198,380,061	3.1%
Sales and Gross Receipts	\$866,023,795	\$860,905,811	0.6%	\$1,784,177,398	\$1,730,558,647	3.1%
Beer Consumption	1,457,401	1,447,280	0.7%	3,140,296	3,239,317	-3.1%
Beer Wholesale	12,757,604	13,013,403	-2.0%	27,903,605	27,836,959	0.2%
Cigarette	60,334,763	66,934,536	-9.9%	126,832,431	135,935,849	-6.7%
Distilled Spirits Case Sales	28,835	28,641	0.7%	58,231	(287,866)	---
Distilled Spirits Consumption	2,769,400	2,792,090	-0.8%	5,651,177	5,559,929	1.6%
Distilled Spirits Wholesale	7,379,882	7,333,476	0.6%	14,582,708	14,238,493	2.4%
Insurance Premium	12,348,893	10,798,710	14.4%	40,574,297	40,471,956	0.3%
Pari-Mutuel	755,764	673,880	12.2%	1,305,884	2,619,216	-50.1%
Race Track Admission	56,521	59,915	-5.7%	138,999	146,651	-5.2%
Sales and Use	742,607,150	732,928,187	1.3%	1,511,006,738	1,450,157,680	4.2%
Wine Consumption	707,091	656,510	7.7%	1,346,067	1,259,055	6.9%
Wine Wholesale	3,775,606	3,479,412	8.5%	7,006,898	6,858,188	2.2%
Telecommunications Tax	15,634,646	15,396,765	1.5%	33,574,655	31,550,380	6.4%
OTP	5,419,930	5,340,136	1.5%	11,047,653	10,909,801	1.3%
Floor Stock Tax	(9,692)	22,871	---	7,762	63,039	-87.7%
License and Privilege	\$134,571,760	\$144,634,290	-7.0%	\$276,459,052	\$278,979,400	-0.9%
Alc. Bev. License Suspension	84,925	94,290	-9.9%	134,800	193,540	-30.4%
Coal Severance	79,717,679	72,190,401	10.4%	159,926,317	145,030,253	10.3%
Corporation License	216,915	5,512,812	-96.1%	727,038	8,916,553	-91.8%
Corporation Organization	21,667	9,456	129.1%	21,667	28,868	-24.9%
Occupational Licenses	17,926	31,382	-42.9%	43,070	64,484	-33.2%
Oil Production	2,211,487	1,928,101	14.7%	4,550,444	3,749,683	21.4%
Race Track License	100,000	103,750	-3.6%	195,000	208,750	-6.6%
Bank Franchise Tax	2,812,181	414,863	577.9%	1,888,274	2,903,880	-35.0%
Driver License Fees	142,718	148,269	-3.7%	305,439	313,333	-2.5%
Minerals Severance	4,610,562	4,024,929	14.6%	8,897,393	8,002,226	11.2%
Natural Gas Severance	6,455,890	6,670,799	-3.2%	12,942,091	11,807,270	9.6%
Limited Liability Entity	38,179,810	53,505,238	-28.6%	86,827,520	97,760,561	-11.2%
Income	\$937,495,451	\$885,104,809	5.9%	\$1,915,601,977	\$1,800,707,652	6.4%
Corporation	94,534,260	56,022,973	68.7%	186,682,141	125,924,331	48.2%
Individual	842,961,191	829,081,835	1.7%	1,728,919,837	1,674,783,320	3.2%
Property	\$279,047,087	\$299,216,380	-6.7%	\$317,100,370	\$350,841,882	-9.6%
Building & Loan Association	(43,835)	0	---	(46,134)	(53,180)	---
General - Real	152,057,032	185,355,800	-18.0%	151,686,908	184,671,832	-17.9%
General - Tangible	88,419,538	93,210,570	-5.1%	115,665,335	115,511,607	0.1%
Omitted & Delinquent	14,409,844	5,118,238	181.5%	11,558,481	20,433,744	-43.4%
Public Service	23,777,037	15,023,073	58.3%	37,477,398	29,532,705	26.9%
Other	427,471	508,699	-16.0%	758,382	745,176	1.8%
Inheritance	\$8,596,779	\$9,493,103	-9.4%	\$19,827,894	\$20,826,110	-4.8%
Miscellaneous	\$8,471,426	\$8,831,806	-4.1%	\$17,017,968	\$16,466,369	3.3%
Legal Process	4,843,440	5,028,624	-3.7%	9,980,828	10,237,125	-2.5%
T. V. A. In Lieu Payments	3,627,987	3,783,341	-4.1%	7,032,186	6,183,626	13.7%
Other	0	19,841	-100.0%	4,954	45,619	-89.1%
Nontax Receipts	\$95,345,052	\$89,111,827	7.0%	\$155,009,978	\$153,446,712	1.0%
Departmental Fees	6,665,281	6,209,670	7.3%	10,102,058	12,048,668	-16.2%
PSC Assessment Fee	13,658	45,653	-70.1%	5,436,227	8,915,158	-39.0%
Fines & Forfeitures	5,913,180	6,591,148	-10.3%	12,669,932	12,900,746	-1.8%
Interest on Investments	168,534	159,573	5.6%	416,133	350,156	18.8%
Lottery	55,500,000	50,000,000	11.0%	101,500,000	95,000,000	6.8%
Sale of NOx Credits	0	0	---	0	22,513	-100.0%
Miscellaneous	27,084,399	26,105,782	3.7%	24,885,629	24,209,472	2.8%
Redeposit of State Funds	\$381,069	\$1,062,104	-64.1%	\$1,191,279	\$1,629,152	-26.9%

Kentucky State Government Revenue Road Fund Revenue

	Second Quarter FY 2012	Second Quarter FY 2011	% Change	Year-To-Date FY 2012	Year-To-Date FY 2011	% Change
TOTAL ROAD FUND	\$347,134,999	\$314,319,740	10.4%	\$701,509,261	\$653,002,433	7.4%
Tax Receipts-	\$341,129,455	\$309,488,486	10.2%	\$690,677,281	\$640,828,192	7.8%
Sales and Gross Receipts	\$292,900,808	\$267,962,923	9.3%	\$597,794,353	\$556,084,126	7.5%
Motor Fuels Taxes	199,606,417	183,718,476	8.6%	401,323,292	\$376,728,440	6.5%
Motor Vehicle Usage	93,294,391	84,244,448	10.7%	196,471,061	\$179,355,687	9.5%
License and Privilege	\$48,228,647	\$41,525,562	16.1%	\$92,882,928	\$84,744,066	9.6%
Motor Vehicles	22,487,697	16,798,487	33.9%	41,992,340	\$34,698,986	21.0%
Motor Vehicle Operators	3,855,254	3,949,277	-2.4%	7,884,214	\$8,101,101	-2.7%
Weight Distance	18,984,385	18,681,324	1.6%	37,900,183	\$37,435,753	1.2%
Truck Decal Fees	26,316	32,785	-19.7%	77,118	\$67,052	15.0%
Other Special Fees	2,874,994	2,063,689	39.3%	5,029,073	\$4,441,174	13.2%
Nontax Receipts	\$5,636,760	\$4,385,831	28.5%	\$10,251,031	\$10,440,211	-1.8%
Departmental Fees	4,821,691	3,698,469	30.4%	9,104,016	\$8,735,903	4.2%
In Lieu of Traffic Fines	182,087	181,364	0.4%	369,561	\$374,337	-1.3%
Investment Income	186,518	380,995	-51.0%	230,189	\$862,947	-73.3%
Miscellaneous	446,465	125,003	257.2%	547,265	\$467,024	17.2%
Redeposit of State Funds	\$368,784	\$445,424	-17.2%	\$580,949	\$1,734,030	-66.5%

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Appendix B

Summary Statistics for General Fund and Road Fund

Major Revenue Sources Fiscal Years 2002 – 2011

SUMMARY STATISTICS FOR GENERAL FUND MAJOR REVENUE SOURCES FISCAL YEARS 2002-2011

	FY02	FY03	FY04	FY05	FY06
TOTAL GENERAL FUND	6,560,216,551	6,783,458,295	6,977,623,200	7,645,046,634	8,376,083,216
Tax Receipts	6,292,004,457	6,543,157,657	6,686,290,589	7,350,335,469	8,065,347,817
Sales and Gross Receipts	2,497,020,953	2,577,542,870	2,668,210,228	2,838,701,120	3,174,734,842
Beer Consumption	6,286,734	6,334,169	6,320,886	6,387,318	6,393,753
Beer Wholesale	34,596,592	35,969,890	37,439,919	37,815,717	45,206,839
Cigarette	13,943,208	16,367,947	17,136,198	24,966,880	172,069,493
Cigarette Floor Stock	---	---	---	8,701,966	12,089,404
Distilled Spirits Case Sales	81,922	85,601	87,662	92,178	94,806
Distilled Spirits Consumption	8,266,005	8,680,833	8,985,826	9,190,089	9,900,035
Distilled Spirits Wholesale	15,129,146	16,088,048	16,957,192	18,150,313	23,524,032
Insurance Premium	105,102,951	114,988,790	120,523,955	123,410,091	122,824,056
Pari-Mutuel	5,179,952	5,953,247	3,629,292	4,710,111	5,626,849
Race Track Admission	260,232	193,114	232,350	195,068	230,285
Sales and Use	2,299,990,621	2,364,182,478	2,447,584,698	2,594,966,373	2,749,765,011
Wine Consumption	1,786,984	1,902,818	2,005,265	2,279,162	1,945,945
Wine Wholesale	6,396,603	6,795,936	7,306,985	7,835,853	10,510,955
Telecommunications Tax	---	---	---	---	14,553,379
Other Tobacco Products	---	---	---	---	---
License and Privilege	356,591,984	379,857,645	368,122,494	427,823,269	386,264,573
Alc. Bev. License & Suspension	220,800	227,850	223,700	237,101	280,450
Coal Severance	160,160,116	141,664,981	147,498,230	184,436,935	224,490,111
Corporation License	117,500,770	152,595,257	124,096,012	134,149,794	43,516,942
Corporation Organization	144,233	190,494	143,804	613,048	221,281
Occupational Licenses	226,609	197,977	223,002	188,761	174,122
Oil Production	2,590,722	3,116,954	3,387,884	4,710,832	6,386,501
Race Track License	37,423	322,825	335,625	324,642	289,258
Bank Franchise Tax	50,549,169	53,747,906	55,467,195	63,837,587	59,603,147
Driver License Fees	505,187	499,003	523,979	522,904	600,903
Minerals Severance	12,355,174	12,580,912	13,711,874	13,494,541	14,502,342
Natural Gas Severance	12,301,781	14,713,486	22,511,188	25,307,125	36,199,516
LLET					
Income	2,909,863,799	3,024,422,738	3,099,593,870	3,514,735,211	3,920,229,525
Corporation	207,353,777	278,035,794	303,262,821	478,504,505	1,001,618,543
Individual	2,702,510,022	2,746,386,944	2,796,331,049	3,036,230,706	2,918,610,982
Property	433,029,587	434,768,249	448,765,511	472,596,276	502,510,631
Bank Deposits	460,334	456,527	467,711	474,098	505,351
Building & Loan Association	2,249,927	3,181,373	2,513,083	3,192,911	2,071,523
Distilled Spirits	363,410	442,092	375,637	388,612	410,798
General - Intangible	23,113,567	25,883,197	27,547,183	26,912,813	30,955,124
General - Real	179,678,050	186,000,177	192,534,530	202,182,555	215,351,439
General - Tangible	151,308,795	149,426,286	149,155,206	159,883,091	165,622,948
Omitted & Delinquent	25,649,592	20,368,623	15,829,225	20,646,846	30,330,629
Public Service	49,991,359	48,836,372	60,178,393	58,787,595	57,259,849
Other	214,551	173,603	164,542	127,756	2,970
Inheritance	83,359,872	95,864,480	66,083,705	63,174,866	45,990,266
Miscellaneous	12,138,263	30,701,674	35,514,782	33,304,727	35,617,980
Legal Process	5,263,021	22,994,148	27,322,798	24,696,032	25,118,948
T. V. A. In Lieu Payments	6,814,492	7,660,437	8,146,924	8,559,023	10,248,314
Other	60,750	47,090	45,061	49,672	250,719
Nontax Receipts	260,466,324	233,694,271	280,871,754	286,661,124	302,629,799
Departmental Fees	19,570,116	21,982,797	22,161,022	22,542,182	23,932,336
PSC Assessment Fee	10,455,826	8,702,466	5,389,636	13,568,805	9,041,415
Fines & Forfeitures	40,069,496	28,888,326	27,991,293	25,405,780	26,129,275
Interest on Investments	13,342,627	(7,157,704)	1,017,305	6,950,902	18,681,492
Lottery	169,000,000	171,000,000	173,800,000	161,252,000	190,000,000
Sale of NOx Credits	---	---	11,836,125	3,696,675	1,126,000
Miscellaneous	8,028,259	10,278,386	38,676,373	53,244,780	33,719,282
Redeposit of State Funds	7,745,769	6,606,367	10,460,857	8,050,041	8,105,601

	FY07	FY08	FY09	FY10	FY11
TOTAL GENERAL FUND	8,573,819,250	8,664,336,663	8,426,351,594	8,225,127,620	8,759,442,646
Tax Receipts	8,233,789,253	8,329,734,971	8,112,768,934	7,917,980,032	8,455,775,175
Sales and Gross Receipts	3,280,448,981	3,354,581,311	3,374,871,927	3,396,530,945	3,489,069,236
Beer Consumption	6,344,079	6,535,066	6,478,525	6,165,525	6,118,817
Beer Wholesale	46,806,186	49,531,545	51,696,564	51,596,255	51,914,445
Cigarette	168,768,467	169,547,927	186,756,010	278,159,743	262,220,720
Cigarette Floor Stock	9,746		16,292,300	274,940	150,038
Distilled Spirits Case Sales	98,874	104,154	109,333	453,002	-232,830
Distilled Spirits Consumption	10,094,572	10,378,013	10,676,604	10,719,543	10,942,531
Distilled Spirits Wholesale	25,139,117	26,628,403	27,884,547	27,517,432	28,175,617
Insurance Premium	125,877,984	129,296,901	125,168,149	125,063,475	128,731,563
Pari-Mutuel	5,489,552	5,327,540	4,387,515	-82,480	4,607,322
Race Track Admission	190,362	219,939	230,888	187,994	178,957
Sales and Use	2,817,652,253	2,877,814,014	2,857,665,168	2,794,057,329	2,896,251,816
Wine Consumption	2,326,331	2,353,476	2,392,069	2,442,113	2,584,039
Wine Wholesale	11,392,111	11,977,256	12,356,700	12,082,136	13,748,696
Telecommunications Tax	51,623,000	55,972,928	61,228,833	66,786,669	62,286,497
Other Tobacco Products	8,636,348	8,894,150	11,548,724	21,107,290	21,391,009
License and Privilege	352,829,122	468,666,009	561,746,597	539,421,718	658,594,243
Alc. Bev. License & Suspension	659,151	830,310	393,050	562,082	377,550
Coal Severance	221,952,516	232,977,827	292,591,094	271,943,100	295,836,611
Corporation License	11,734,452	2,822,279	9,154,338	5,470,951	10,654,547
Corporation Organization	115,755	259,654	38,101	167,841	69,928
Occupational Licenses	207,198	191,571	257,200	172,153	165,753
Oil Production	6,198,342	10,201,113	8,430,228	7,564,121	8,287,566
Race Track License	283,675	245,360	350,225	271,425	262,175
Bank Franchise Tax	63,912,315	71,976,055	73,339,144	69,085,922	88,400,971
Driver License Fees	603,807	599,370	579,919	596,348	602,721
Minerals Severance	14,822,013	16,360,844	12,807,705	13,266,156	13,256,853
Natural Gas Severance	32,339,897	33,794,313	42,155,501	24,373,188	24,938,411
LLET		98,407,313	121,650,092	145,948,432	215,741,157
Income	4,029,600,561	3,918,359,883	3,583,353,074	3,392,355,392	3,718,560,868
Corporation	988,064,957	435,222,566	267,984,858	237,867,392	300,782,364
Individual	3,041,535,604	3,483,137,317	3,315,368,217	3,154,488,000	3,417,778,504
Property	492,462,208	500,646,790	513,122,060	516,169,947	514,814,972
Bank Deposits	513,619	532,436	542,716	589,597	561,375
Building & Loan Association	2,921,484	2,649,630	2,898,977	2,920,507	2,457,458
Distilled Spirits	506,754	513,549	624,280	685,815	730,146
General - Intangible	48,841	-	-		
General - Real	228,282,174	237,153,330	241,008,338	248,756,857	247,034,036
General - Tangible	192,343,695	205,763,426	203,783,916	193,234,982	186,665,683
Omitted & Delinquent	25,253,460	17,519,651	22,945,670	24,952,198	28,140,461
Public Service	42,588,669	36,511,473	41,315,048	45,026,921	49,210,400
Other	3,512	3,295	3,115	3,071	15,412
Inheritance	43,578,107	51,001,299	41,234,240	37,201,611	41,350,929
Miscellaneous	34,870,274	36,479,679	38,441,036	36,300,419	33,384,927
Legal Process	24,759,470	24,060,840	23,782,419	21,807,020	20,303,600
T. V. A. In Lieu Payments	10,037,326	12,389,344	14,593,246	14,335,091	12,992,023
Other	73,478	29,495	65,371	158,308	89,304
Nontax Receipts	327,878,702	330,053,277	311,791,847	301,799,304	300,260,186
Departmental Fees	25,043,719	30,382,254	31,912,667	29,530,171	29,505,690
PSC Assessment Fee	14,593,067	14,306,084	14,104,836	12,685,063	16,266,055
Fines & Forfeitures	26,606,686	28,118,106	29,298,014	29,046,803	26,117,800
Interest on Investments	31,991,861	23,868,325	4,183,825	-303,103	767,606
Lottery	186,625,113	187,461,591	193,500,000	200,000,000	200,500,000
Sale of NOx Credits	811,600	12,251,950	0	625,230	36,825
Miscellaneous	42,206,657	33,664,968	38,792,505	30,215,139	27,066,209
Redeposit of State Funds	12,151,295	4,548,415	1,790,813	5,348,284	3,407,285

**GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 2002-2011**

	FY02	FY03	FY04	FY05	FY06
TOTAL GENERAL FUND	-1.4%	3.4%	2.9%	9.6%	9.6%
Tax Receipts	-1.3%	4.0%	2.2%	9.9%	9.7%
Sales and Gross Receipts	2.5%	3.2%	3.5%	6.4%	11.8%
Beer Consumption	0.2%	0.8%	-0.2%	1.1%	0.1%
Beer Wholesale	6.2%	4.0%	4.1%	1.0%	19.5%
Cigarette	-0.5%	17.4%	4.7%	45.7%	589.2%
Cigarette Floor Stock	---	---	---	---	---
Distilled Spirits Case Sales	-0.7%	4.5%	2.4%	5.2%	2.9%
Distilled Spirits Consumption	1.0%	5.0%	3.5%	2.3%	7.7%
Distilled Spirits Wholesale	2.2%	6.3%	5.4%	7.0%	29.6%
Insurance Premium	8.5%	9.4%	4.8%	2.4%	-0.5%
Pari-Mutuel	-16.2%	14.9%	-39.0%	29.8%	19.5%
Race Track Admission	20.1%	-25.8%	20.3%	-16.0%	18.1%
Sales and Use	2.3%	2.8%	3.5%	6.0%	6.0%
Wine Consumption	2.5%	6.5%	5.4%	13.7%	-14.6%
Wine Wholesale	4.8%	6.2%	7.5%	7.2%	34.1%
Telecommunications Tax	---	---	---	---	---
Other Tobacco Products	---	---	---	---	---
License and Privilege	-4.5%	6.5%	-3.1%	16.2%	-9.7%
Alc. Bev. License Suspension	13.9%	3.2%	-1.8%	6.0%	18.3%
Coal Severance	13.1%	-11.5%	4.1%	25.0%	21.7%
Corporation License	-20.3%	29.9%	-18.7%	8.1%	-67.6%
Corporation Organization	-36.6%	32.1%	-24.5%	326.3%	-63.9%
Occupational Licenses	110.3%	-12.6%	12.6%	-15.4%	-7.8%
Oil Production	-22.9%	20.3%	8.7%	39.0%	35.6%
Race Track License	-88.3%	762.6%	4.0%	-3.3%	-10.9%
Bank Franchise Tax	1.9%	6.3%	3.2%	15.1%	-6.6%
Driver License Fees	28.9%	-1.2%	5.0%	-0.2%	14.9%
Minerals Severance	-2.8%	1.8%	9.0%	-1.6%	7.5%
Natural Gas Severance	-29.0%	19.6%	53.0%	12.4%	43.0%
LLET	---	---	---	---	---
Income	-5.2%	3.9%	2.5%	13.4%	11.5%
Corporation	-28.5%	34.1%	9.1%	57.8%	109.3%
Individual	-2.7%	1.6%	1.8%	8.6%	-3.9%
Property	6.3%	0.4%	3.2%	5.3%	6.3%
Bank Deposits	11.6%	-0.8%	2.4%	1.4%	6.6%
Building & Loan Association	-9.4%	41.4%	-21.0%	27.1%	-35.1%
Distilled Spirits	0.9%	21.7%	-15.0%	3.5%	5.7%
General - Intangible	2.5%	12.0%	6.4%	-2.3%	15.0%
General - Real	4.8%	3.5%	3.5%	5.0%	6.5%
General - Tangible	7.7%	-1.2%	-0.2%	7.2%	3.6%
Omitted & Delinquent	24.5%	-20.6%	-22.3%	30.4%	46.9%
Public Service	2.3%	-2.3%	23.2%	-2.3%	-2.6%
Other	3.2%	-19.1%	-5.2%	-22.4%	-97.7%
Inheritance	-0.1%	15.0%	-31.1%	-4.4%	-27.2%
Miscellaneous	25.2%	152.9%	15.7%	-6.2%	6.9%
Legal Process	46.3%	336.9%	18.8%	-9.6%	1.7%
T. V. A. In Lieu Payments	12.7%	12.4%	6.4%	5.1%	19.7%
Other	13.5%	-22.5%	-4.3%	10.2%	404.7%
Nontax Receipts	-2.4%	-10.3%	20.2%	2.1%	5.6%
Departmental Fees	14.7%	12.3%	0.8%	1.7%	6.2%
PSC Assessment Fee ⁷	-17.0%	-16.8%	-38.1%	151.8%	-33.4%
Fines & Forfeitures	-1.7%	-27.9%	-3.1%	-9.2%	2.8%
Interest on Investments	-52.7%	-153.6%	-114.2%	583.3%	168.8%
Lottery	7.6%	1.2%	1.6%	-7.2%	17.8%
Sale of NOx Credits	---	---	---	---	---
Miscellaneous	-27.9%	28.0%	276.3%	37.7%	-36.7%
Redeposit of State Funds	-15.7%	-14.7%	58.3%	-23.0%	0.7%

	FY07	FY08	FY09	FY10	FY11
TOTAL GENERAL FUND	2.4%	1.1%	-2.7%	-2.4%	6.5%
Tax Receipts	2.1%	1.2%	-2.6%	-2.4%	6.8%
Sales and Gross Receipts	3.3%	2.3%	0.6%	0.6%	2.7%
Beer Consumption	-0.8%	3.0%	-0.9%	-4.8%	-0.8%
Beer Wholesale	3.5%	5.8%	4.4%	-0.2%	0.6%
Cigarette	-1.9%	0.5%	10.1%	48.9%	-5.7%
Cigarette Floor Stock	-99.9%	-100.0%	---	-98.3%	-45.4%
Distilled Spirits Case Sales	4.3%	5.3%	5.0%	314.3%	-151.4%
Distilled Spirits Consumption	2.0%	2.8%	2.9%	0.4%	2.1%
Distilled Spirits Wholesale	6.9%	5.9%	4.7%	-1.3%	2.4%
Insurance Premium	2.5%	2.7%	-3.2%	-0.1%	2.9%
Pari-Mutuel	-2.4%	-3.0%	-17.6%	-101.9%	-5686.0%
Race Track Admission	-17.3%	15.5%	5.0%	-18.6%	-4.8%
Sales and Use	2.5%	2.1%	-0.7%	-2.2%	3.7%
Wine Consumption	19.5%	1.2%	1.6%	2.1%	5.8%
Wine Wholesale	8.4%	5.1%	3.2%	-2.2%	13.8%
Telecommunications Tax	254.7%	8.4%	9.4%	9.1%	-6.7%
Other Tobacco Products	---	3.0%	29.8%	82.8%	1.3%
License and Privilege	-8.7%	32.8%	19.9%	-4.0%	22.1%
Alc. Bev. License Suspension	135.0%	26.0%	-52.7%	43.0%	-32.8%
Coal Severance	-1.1%	5.0%	25.6%	-7.1%	8.8%
Corporation License	-73.0%	-75.9%	224.4%	-40.2%	94.7%
Corporation Organization	-47.7%	124.3%	-85.3%	340.5%	-58.3%
Occupational Licenses	19.0%	-7.5%	34.3%	-33.1%	-3.7%
Oil Production	-2.9%	64.6%	-17.4%	-10.3%	9.6%
Race Track License	-1.9%	-13.5%	42.7%	-22.5%	-3.4%
Bank Franchise Tax	7.2%	12.6%	1.9%	-5.8%	28.0%
Driver License Fees	0.5%	-0.7%	-3.2%	2.8%	1.1%
Minerals Severance	2.2%	10.4%	-21.7%	3.6%	-0.1%
Natural Gas Severance	-10.7%	4.5%	24.7%	-42.2%	2.3%
LLET			23.6%	20.0%	47.8%
Income	2.8%	-2.8%	-8.5%	-5.3%	9.6%
Corporation	-1.4%	-56.0%	-38.4%	-11.2%	26.4%
Individual	4.2%	14.5%	-4.8%	-4.9%	8.3%
Property	-2.0%	1.7%	2.5%	0.6%	-0.3%
Bank Deposits	1.6%	3.7%	1.9%	8.6%	-4.8%
Building & Loan Association	41.0%	-9.3%	9.4%	0.7%	-15.9%
Distilled Spirits	23.4%	1.3%	21.6%	9.9%	6.5%
General - Intangible	-99.8%	-100.0%			
General - Real	6.0%	3.9%	1.6%	3.2%	-0.7%
General - Tangible	16.1%	7.0%	-1.0%	-5.2%	-3.4%
Omitted & Delinquent	-16.7%	-30.6%	31.0%	8.7%	12.8%
Public Service	-25.6%	-14.3%	13.2%	9.0%	9.3%
Other	18.2%	-6.2%	-5.5%	-1.4%	401.9%
Inheritance	-5.2%	17.0%	-19.2%	-9.8%	11.2%
Miscellaneous	-2.1%	4.6%	5.4%	-5.6%	-8.0%
Legal Process	-1.4%	-2.8%	-1.2%	-8.3%	-6.9%
T. V. A. In Lieu Payments	-2.1%	23.4%	17.8%	-1.8%	-9.4%
Other	-70.7%	-59.9%	121.6%	142.2%	-43.6%
Nontax Receipts	8.3%	0.7%	-5.5%	-3.2%	-0.5%
Departmental Fees	4.6%	21.3%	5.0%	-7.5%	-0.1%
PSC Assessment Fee	61.4%	-2.0%	-1.4%	-10.1%	28.2%
Fines & Forfeitures	1.8%	5.7%	4.2%	-0.9%	-10.1%
Interest on Investments	71.2%	-25.4%	-82.5%	-107.2%	-353.2%
Lottery	-1.8%	0.4%	3.2%	3.4%	0.2%
Sale of NOx Credits	-27.9%	1409.6%	-100.0%	---	-94.1%
Miscellaneous	25.2%	-20.2%	15.2%	-22.1%	-10.4%
Redeposit of State Funds	49.9%	-62.6%	-60.6%	198.7%	-36.3%

**ROAD FUND GROWTH RATES
MAJOR REVENUE SOURCES – FISCAL YEARS 2002-2011**

	FY02	FY03	FY04	FY05	FY06
TOTAL STATE ROAD FUND	1,119,005,317	1,123,103,133	1,116,734,272	1,126,554,402	1,165,409,505
Tax Receipts-	1,052,848,911	1,059,296,184	1,082,189,464	1,094,354,041	1,133,247,862
Sales and Gross Receipts	873,623,010	886,809,027	889,251,190	898,340,426	923,879,353
Motor Fuels Taxes	444,319,790	453,905,728	460,008,663	490,815,064	528,296,727
Motor Vehicle Usage	429,303,220	432,903,299	429,242,527	407,525,361	395,582,626
License and Privilege	179,225,901	172,487,157	192,938,274	196,013,615	209,368,509
Motor Vehicles	84,510,332	76,192,363	93,388,573	91,933,157	93,902,097
Motor Vehicle Operators	5,564,009	5,610,829	5,623,874	5,899,247	14,553,623
Weight Distance	75,265,639	76,851,211	79,574,022	83,069,296	85,336,610
Truck Decal Fees	807,089	673,481	725,403	1,041,912	954,706
Other Special Fees	13,078,832	13,159,273	13,626,402	14,070,003	14,621,473
Nontax Receipts	64,071,745	62,789,372	32,932,009	30,432,049	30,208,832
Departmental Fees	15,137,452	18,430,002	15,258,391	16,685,742	15,617,220
In Lieu of Traffic Fines	1,960,687	1,374,668	1,521,583	1,326,645	1,269,800
Highway Tolls	13,785,486	13,263,429	7,958,452	6,299,049	6,296,786
Investment Income	32,156,652	29,115,311	7,507,462	5,524,646	6,372,788
Miscellaneous	1,031,468	605,962	686,121	595,967	652,239
Redeposit of State Funds	2,084,661	1,017,577	1,612,799	1,768,312	1,952,811
	FY07	FY08	FY09	FY10	FY11
TOTAL STATE ROAD FUND	1,225,943,515	1,262,798,750	1,191,982,894	1,206,622,639	1,338,811,926
Tax Receipts-	1,186,074,087	1,219,349,262	1,159,379,226	1,181,341,209	1,315,130,011
Sales and Gross Receipts	974,732,028	1,014,576,337	958,780,727	988,541,345	1,114,593,981
Motor Fuels Taxes	563,480,031	608,779,123	622,479,527	655,761,466	732,826,112
Motor Vehicle Usage	411,251,997	405,797,215	336,301,200	332,779,879	381,767,869
License and Privilege	211,342,059	204,772,925	200,598,500	192,799,864	200,536,031
Motor Vehicles	101,660,768	93,523,748	98,186,733	96,839,803	97,812,587
Motor Vehicle Operators	15,811,880	15,372,618	15,521,191	15,941,488	15,736,805
Weight Distance	85,435,610	84,353,543	75,444,283	70,498,757	73,983,781
Truck Decal Fees	842,239	774,379	832,653	679,383	793,715
Other Special Fees	7,591,561	10,748,637	10,613,640	8,840,433	12,209,142
Nontax Receipts	39,469,278	41,805,267	31,375,092	23,871,991	21,932,031
Departmental Fees	17,787,658	20,291,394	19,106,827	18,487,783	18,167,778
In Lieu of Traffic Fines	1,174,453	1,112,801	958,790	779,495	779,828
Highway Tolls	3,717,965	-	-	-	-
Investment Income	16,094,719	19,460,549	10,661,790	3,633,987	1,995,228
Miscellaneous	694,483	940,522	647,685	970,725	989,197
Redeposit of State Funds	400,150	1,644,222	1,228,575	1,409,439	1,749,883

**ROAD FUND GROWTH RATES
MAJOR REVENUE SOURCES – FISCAL YEARS 2002-2011**

	FY02	FY03	FY04	FY05	FY06
TOTAL STATE ROAD FUND	5.2%	0.4%	-0.6%	0.9%	3.4%
Tax Receipts-	6.1%	0.6%	2.2%	1.1%	3.6%
Sales and Gross Receipts	6.3%	1.5%	0.3%	1.0%	2.8%
Motor Fuels Taxes	4.6%	2.2%	1.3%	6.7%	7.6%
Motor Vehicle Usage	8.2%	0.8%	-0.8%	-5.1%	-2.9%
License and Privilege	5.1%	-3.8%	11.9%	1.6%	6.8%
Motor Vehicles	10.0%	-9.8%	22.6%	-1.6%	2.1%
Motor Vehicle Operators	-0.5%	0.8%	0.2%	4.9%	146.7%
Weight Distance	0.1%	2.1%	3.5%	4.4%	2.7%
Truck Decal Fees	10.9%	-16.6%	7.7%	43.6%	-8.4%
Other Special Fees	6.9%	0.6%	3.5%	3.3%	3.9%
Nontax Receipts	-7.4%	-2.0%	-47.6%	-7.6%	-0.7%
Departmental Fees	9.9%	21.8%	-17.2%	9.4%	-6.4%
In Lieu of Traffic Fines	-2.2%	-29.9%	10.7%	-12.8%	-4.3%
Highway Tolls	11.1%	-3.8%	-40.0%	-20.9%	0.0%
Investment Income	-20.0%	-9.5%	-74.2%	-26.4%	15.4%
Miscellaneous	24.5%	-41.3%	13.2%	-13.1%	9.4%
Redeposit of State Funds	-26.4%	-51.2%	58.5%	9.6%	10.4%
		FY08	FY09	FY10	FY11
TOTAL STATE ROAD FUND	5.2%	3.0%	-5.6%	1.2%	11.0%
Tax Receipts-	4.7%	2.8%	-4.9%	1.9%	11.3%
Sales and Gross Receipts	5.5%	4.1%	-5.5%	3.1%	12.8%
Motor Fuels Taxes	6.7%	8.0%	2.3%	5.3%	11.8%
Motor Vehicle Usage	4.0%	-1.3%	-17.1%	-1.0%	14.7%
License and Privilege	0.9%	-3.1%	-2.0%	-3.9%	4.0%
Motor Vehicles	8.3%	-8.0%	5.0%	-1.4%	1.0%
Motor Vehicle Operators	8.6%	-2.8%	1.0%	2.7%	-1.3%
Weight Distance	0.1%	-1.3%	-10.6%	-6.6%	4.9%
Truck Decal Fees	-11.8%	-8.1%	7.5%	-18.4%	16.8%
Other Special Fees	-48.1%	41.6%	-1.3%	-16.7%	38.1%
Nontax Receipts	30.7%	5.9%	-24.9%	-23.9%	-8.1%
Departmental Fees	13.9%	14.1%	-5.8%	-3.2%	-1.7%
In Lieu of Traffic Fines	-7.5%	-5.2%	-13.8%	-18.7%	0.0%
Highway Tolls	-41.0%	-100.0%			
Investment Income	152.6%	20.9%	-45.2%	-65.9%	-45.1%
Miscellaneous	6.5%	35.4%	-31.1%	49.9%	1.9%
Redeposit of State Funds	-79.5%	310.9%	-25.3%	14.7%	24.2%

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Capital Financing Analysis



EXECUTIVE SUMMARY

The Governor proposes \$777,727,500 in new debt-financed projects, the lowest level since the 1996-1998 biennium. The proposal for the 2012-2014 biennium is compared to previous biennia in Table 12 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:

- FY12-13 General Fund revenues are based on the December 21, 2011 Consensus Forecasting Group's Official Revenue Estimates as adjusted. FY12 is projected to be \$136.5 million higher than the official General Fund revenue estimate enacted in the 2010-12 biennial budget during the 2010 Special Session. FY13 General Fund revenues are projected using a 2.4 percent growth rate. FY14 General Fund Revenues are projected using a 3.1 percent growth rate.
- FY12-14 Road Fund revenues are based on the December 21, 2011 Consensus Forecasting Group's Official Revenue Estimates. FY12 is projected to be \$71.6 million higher than the official Road Fund revenue estimate enacted in the 2010-12 biennial budget during the 2010 Special Session. FY13-14 Road Fund revenues are projected using 6.1 percent and 4.6 percent growth rates, respectively.
- Agency Fund revenues are based on actual FY11 revenue from the Supplementary Information to the FY11 Comprehensive Annual Financial Report and FY12-14 assume 3% growth in each fiscal year.
- Tobacco Settlement Funds are based on the Official Revenue Estimates and are considered General Fund revenue.
- Interest rate subsidies of 35% on bonds that were issued as Build America Bonds (BABs) from the American Recovery and Reinvestment Act (ARRA) of 2009 are included in the General Fund, Road Fund, and Agency Fund Revenues.
- Currently authorized but un-issued debt is assumed to be issued during the balance of FY12 with no additional debt service to be paid in FY12 but with debt service payments to be made in FY13 and FY14 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.
- \$6,000,000 of previously authorized but unissued General Fund Bonds and \$175,702,000 of previously authorized but unissued Agency Fund Bonds are assumed to be deauthorized.

**Table 12
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>
1990-92	1,148,218,400	2002-04 ⁵	835,188,380
1992-94	439,375,100	2004-06 ⁶	1,906,315,300
1994-96 ¹	429,575,900	2006-08 ⁷	2,110,528,000
1996-98 ²	313,575,000	2008-10 ⁸	2,015,494,000
1998-00 ³	1,168,030,000	2010-12 ⁹	1,553,199,800
2000-02 ⁴	1,046,927,600	2012-14 ¹⁰	777,727,500

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

² Enacted in the 1996-1998 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.

³ Debt Enacted in the 1998-2000 Budget of the Commonwealth.

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

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

\$126,898,000 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

⁴ 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.

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

General Fund Authorization: \$628,188,380

Agency Fund Authorization: \$207,000,000

⁶ 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.

⁷ 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.

⁸ 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.

⁹	Debt Enacted in the 2010-2012 Budget of the Commonwealth.	
	General/Tobacco Fund Authorization:	\$ 507,395,800
	Road Fund Authorization:	\$ 522,500,000
	Agency Fund Authorization:	\$ 519,304,000

The 2010 Extraordinary Session of the Kentucky General Assembly also authorized \$435,000,000 of Grant Anticipation Revenue Vehicle (GARVEE) bonds supported by Transportation Cabinet Federal Highway Trust Funds. The 2010 Session authorized \$4,000,000 of Agency Bonds for the Department of Military Affairs.

¹⁰ **\$777,727,500 New Debt Recommended in the 2012-2014 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 FY12 – FY14 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 Aa2/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 13
ACTIVE DEBT ISSUING ENTITIES**

ENTITY	STATUTORY AUTHORITY/PURPOSE	DEBT LIMITATIONS	RATINGS¹
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3 ² /A+/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa2/AA+/AA-
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	See Appendix C
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents of the State.	Limited to \$5.0 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million.	Aa3 ² /A+/AA- ³
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$5.0 billion of debt outstanding.	NR/AAA/AAA (Sr. Series) NR/A/A (Subord. Series) ⁴
School Facilities Construction Commission	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3 ²
Kentucky Economic Development Finance Authority	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Baa2/BBB/NR (National Insured)

1 Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch. Certain State Property and Buildings Commission Agency Fund Revenue Bonds and Road Fund Revenue Bonds may have ratings different from those identified above.

2 On March 30, 2011, Moody's downgraded the Commonwealth's General Obligation Issuer Rating to "Aa2" from "Aa1", General Fund and related lease obligation debt to "Aa3" from "Aa2", and moral obligation debt to "A1" from "Aa3".

3 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 Infrastructure Authority's Wastewater and Drinking Water Revolving Fund Revenue Bonds Series 2010A are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's, and Fitch, respectively.

4 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 Letter of Credit provider for the transaction. The Kentucky Higher Education Student Loan Corporation, Series 2010 A-1 and A-2 are rated "AA+" by Standard & Poor's due to Standard & Poor's decision to downgrade the U.S. long-term sovereign credit rating to "AA+" from "AAA."

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 for FY13 and revenues for the Road Fund for FY13 and FY14 are based upon the Consensus Forecasting Group's December 21, 2011 Official Revenue Estimates. FY14 General Fund Revenues are assumed to be \$9,510,677,800. Agency Fund estimates are based upon actual results for FY11 and assume 3% growth each fiscal year. Interest rate subsidies of 35% on bonds issued as BABs are also included in the revenues for the General Fund, Road Fund, and Agency Fund.

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 7.50 percent or with a taxable interest rate of 8.50 percent or other applicable rates). Asset bonds equate to project costs plus cost of issuance and assume no debt service reserves.

Historical Information

Table 14 displays the historical comparison of debt outstanding in current and constant dollars.

Table 15 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 16 provides an update of Table 15 to include the Governor's proposed debt financed projects as it relates to personal income.

Table 17 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 18 provides an update of Table 17 to include the Governor's proposed debt financed projects.

Table 19 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 14
APPROPRIATION SUPPORTED DEBT
PRINCIPAL DEBT OUTSTANDING
(000,000)

Fiscal Year	Current	Percent Change	CPI Constant Dollar Adjustment	Constant (1984)	Percent Change
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	7,815.33	14.41	2.171	3,599.88	12.72
2011	8,763.50	12.13	2.204	3,976.18	10.45
2012*	9,551.63	8.99	2.239	4,266.03	7.29
2013*	9,001.23	-5.76	2.276	3,954.85	-7.29
2014*	8,434.43	-6.30	2.314	3,644.96	-7.84

*Estimated

Assumes remaining un-issued debt authorization is issued in FY12.

Assumes no additional debt authorization for the 2012-2014 Biennium.

Table 15
APPROPRIATION SUPPORTED DEBT
KENTUCKY ECONOMIC DEBT INDICATORS
(Current Dollars)

Fiscal Year	Debt as a % of Assessed Property	Required Debt Service as a % of Assessed Property	Debt as a % of Personal Income	Required Debt Service as a % of Personal Income	Debt Per Capita (\$)	Required Debt Service Per Capita (\$)
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	1.76	0.16	4.90	0.46	1,583.44	147.73
2010	1.97	0.10	5.55	0.29	1,798.17	92.57
2011	2.18	0.16	5.97	0.45	2,045.94	154.48
2012*	2.36	0.17	6.33	0.46	2,220.73	162.02
2013*	2.20	0.22	5.76	0.58	2,084.41	210.54
2014*	2.02	0.22	5.16	0.56	1,945.64	212.90

*Estimated

Assumes remaining un-issued debt authorization is issued in FY12.

Assumes no additional debt authorization for the 2012-2014 Biennium.

Note: Total required debt service for Fiscal Years 2009-2012 was reduced by debt restructurings.

Table 16
APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE
AS A PERCENT OF PERSONAL INCOME
(000,000)

Fiscal Year	Debt as a % of Personal Income Assuming No New Authorization	Required Debt Service as a % of Personal Income Assuming No New Authorization	Debt as a % of Personal Income with \$777,727,500 Executive Budget Recommended New Authorization	Required Debt Service as a % of Personal Income with \$777,727,500 Executive Budget Recommended New Authorization
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	4.90	0.46		
2010	5.55	0.29		
2011	5.97	0.45		
2012*	6.33	0.46		
2013*	5.76	0.58		
2014*	5.16	0.56	5.63	0.61

*Estimated

Assumes remaining un-issued debt authorization is issued in FY12.

Assumes new debt authorization for the 2012-2014 Biennium with full year debt service in FY14.

Note: Total required debt service for Fiscal Years 2009-2012 was reduced by debt restructurings.

Table 17
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>
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	13,249.29	637.34	4.81
2010	13,525.62	402.34	2.97
2011	14,529.38	661.71	4.55
2012*	14,982.07	696.86	4.65
2013*	15,406.66	909.20	5.90
2014*	15,899.29	922.92	5.80

*Estimated

Assumes remaining un-issued debt authorization is issued in FY12.

Assumes no additional debt authorization for the 2012-2014 Biennium.

Note: Total required debt service for Fiscal Years 2009-2012 was reduced by debt restructurings.

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

Fiscal Year	Assuming No New Authorization	\$777,727,500 Executive Budget Recommended New Authorization
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	2.97	
2011	4.55	
2012	4.65*	
2013	5.90*	
2014	5.80*	6.29

*Estimated

Assumes remaining un-issued debt authorization is issued in FY12.

Assumes new debt authorization for the 2012-2014 Biennium with full year debt service in FY14.

Note: Total required debt service for Fiscal Years 2009-2012 was reduced by debt restructurings.

**Table 19
 APPROPRIATION SUPPORTED DEBT SERVICE
 AS A PERCENT OF AVAILABLE REVENUE (%)**

Fiscal Year	Available Revenue (\$Millions)	Appropriated Debt Service/ Revenue (%)	\$777,727,500 Executive Budget Recommended New Authorization
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	9,339.15	9.49	
2011	9,986.71	8.06	
2012*	10,241.42	8.47	
2013*	10,460.14	8.69	
2014*	10,749.17	8.59	9.27

*Estimated

Assumes remaining un-issued debt authorization is issued in FY12.

Assumes new debt authorization for the 2012-2014 Biennium with full year debt service in FY14.

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)

Fiscal Year	Debt as a % of Assessed Property	Required Debt Service as a % of Assessed Property	Appropriated Debt Service as a % of Assessed Property	Actual Debt Service as a % of Assessed Property
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	1.76	0.16	0.22	0.19
2010	1.97	0.10	0.22	0.22
2011	2.18	0.16	0.20	0.20

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

Fiscal Year	Debt as a % of Personal Income	Required Debt Service as a % of Personal Income	Appropriated Debt Service as a % of Personal Income	Actual Debt Service as a % of Personal Income
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	4.90	0.46	0.61	0.52
2010	5.55	0.29	0.63	0.62
2011	5.97	0.45	0.55	0.56

Note: Total required debt service for Fiscal Years 2009-2012 was reduced by debt restructurings.

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

Fiscal Year	Debt Per Capita (\$)	Required Debt Service Per Capita (\$)	Appropriated Debt Service Per Capita (\$)	Actual Debt Service Per Capita (\$)
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	1,583.44	147.73	198.57	169.03
2010	1,798.17	92.57	203.94	201.78
2011	2,045.94	154.48	187.84	192.02

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

Fiscal Year	Debt as a % of Assessed Property	Debt as a % of Personal Income	Debt Per Capita (\$)
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	3.17	1,024.85
2010	0.90	2.55	824.22
2011	0.83	2.27	779.95

Note: Total required debt service for Fiscal Years 2009-2012 was reduced by debt restructurings.

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)**

Fiscal Year	Total Revenue (000,000)	Required Debt Service/ Revenue (%)	Appropriated Debt Service/ Revenue (%)	Actual Debt Service/ Revenue (%)
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	13,249.29	4.81	6.47	5.50
2010	13,525.62	2.97	6.55	6.48
2011	14,529.38	4.55	5.54	5.66

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

Fiscal Year	Available Revenue (000,000)	Required Debt Service/ Revenue (%)	Appropriated Debt Service/ Revenue (%)	Actual Debt Service/ Revenue (%)
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
2010	9,339.15	4.31	9.49	9.39
2011	9,986.71	6.63	8.06	8.24

Note: Total required debt service for Fiscal Years 2009-2012 was reduced by debt restructurings.

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

Fiscal Year	Available Road Fund Revenue	Debt Service	Debt Service as a Percent of Available Revenue
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
2010	916.43	31.01	3.38
2011	1,012.51	97.07	9.59

Note: Total required debt service for Fiscal Year 2010 was reduced by debt restructuring.

Appendix C: University Rating Agency Information

University	Consolidated Education		Housing & Dining	General Receipts	
	Underlying Rating		Underlying Rating	Underlying	Intercept*
Eastern Kentucky					
Moody's	A1		Not Outstanding	A1	Aa3
S&P	A		Not Outstanding	A	A+
Kentucky State					
Moody's	Not Outstanding		Not Outstanding	A2	Aa3
S&P	Not Outstanding		Not Outstanding	Not Rated	Not Rated
Morehead State					
Moody's	A2		Not Outstanding	A2	Aa3
S&P	A		Not Outstanding	Not Rated	Not Rated
Murray State					
Moody's	A1		Not Outstanding	A1	Aa3
S&P	A		Not Outstanding	Not Rated	A+
Northern Kentucky ⁽¹⁾					
Moody's	A1		A2	A1	Aa3
S&P	A		Not Rated	Not Rated	A+
University of Kentucky					
Moody's	Aa2		Not Outstanding	Aa2	Not Rated
S&P	AA-		Not Outstanding	AA-	Not Rated
University of Louisville					
Moody's	Aa2		Aa3	Aa2	Aa3 ⁽³⁾
S&P	AA-		A+	AA-	Not Rated
Western Kentucky ⁽²⁾					
Moody's	A1		Not Rated	A1	Aa3
S&P	A		Not Rated	Not Rated	A+

* With State Intercept

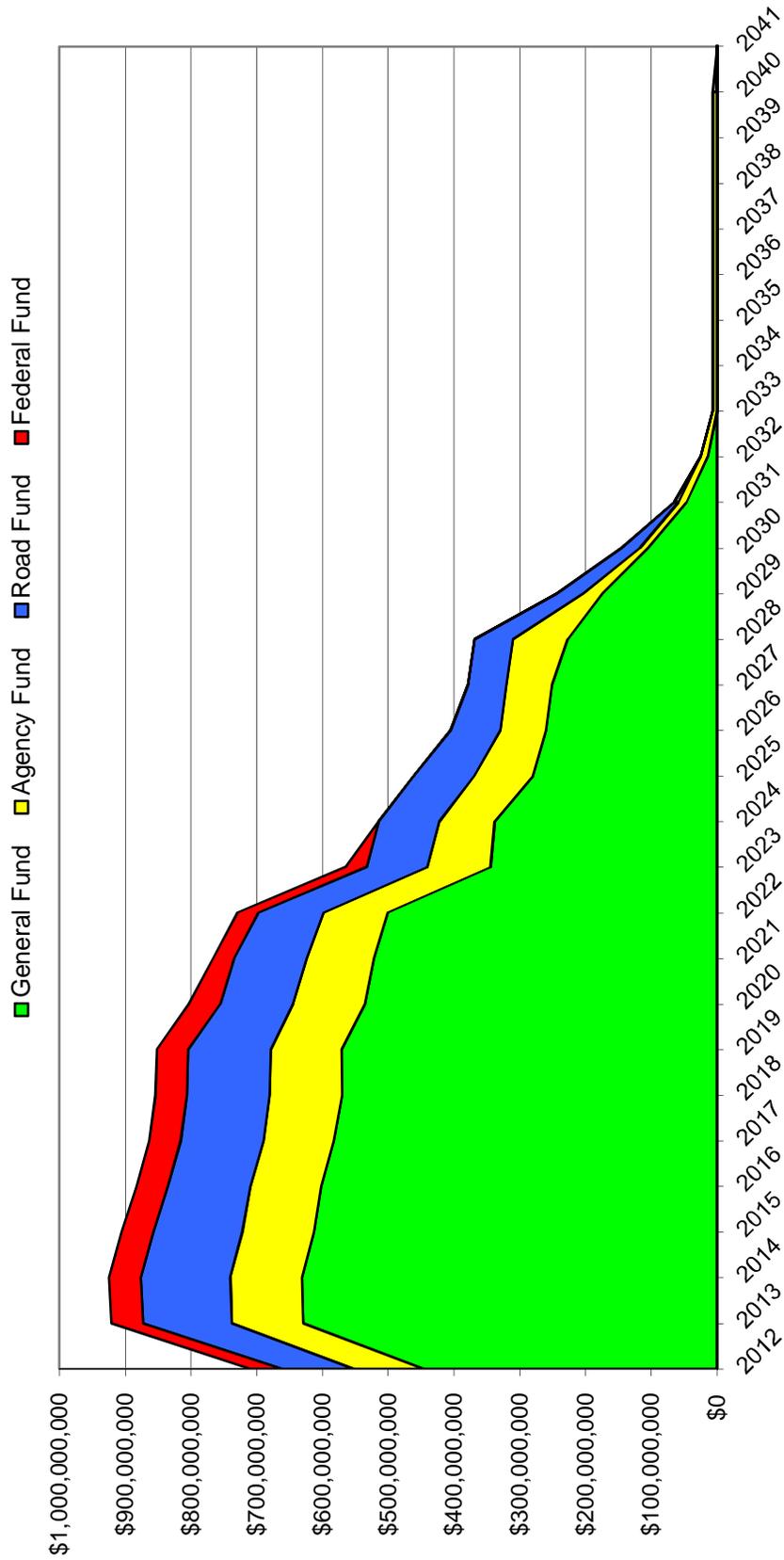
(1) Has Certificates Of Participation (COPs) outstanding.

(2) All outstanding housing debt was issued through the Student Life Foundation, not the University.

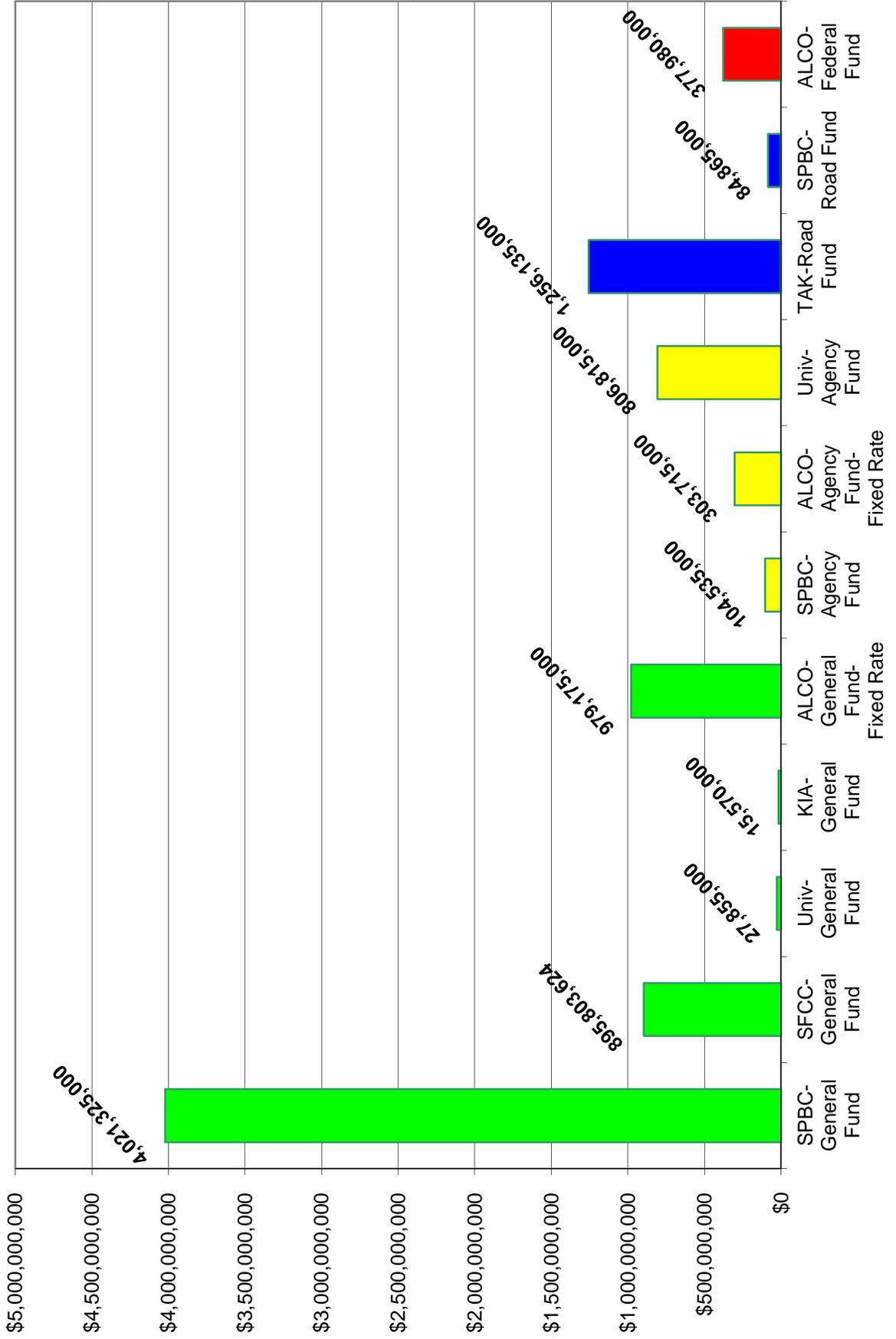
(3) Doesn't completely benefit from the state intercept mechanism.

APPENDIX D

**Appropriation Supported Debt Service
by Fund Source as of 12/31/2011**



Appropriation Debt Principal Outstanding
by Fund Source as of 12/31/2011



Appendix E: Recommended New Debt Authorization

<u>AGENCY</u>	<u>PROJECT</u>	<u>GENERAL FUND</u>
SFCC	School Facilities Construction Commission – 2010-12 Offers of Assistance	100,000,000
Kentucky Infrastructure Authority	Ky Infrastructure Authority - Clean Water Revolving Fund Match	1,500,000
Kentucky Infrastructure Authority	Ky Infrastructure Authority - Drinking Water Revolving Fund Match	2,200,000
Local Government	Flood Control - State Match	2,000,000
Veterans' Affairs	4th Nursing Home-Ft. Knox - 35% of Costs	14,000,000
Economic Development	High-Tech Construction/Investment Pool	20,000,000
Energy & Environment-Office of Secretary	Ky Heritage Land Conservation Fund Projects	4,600,000
Environmental Protection	Maxey Flats Cap	17,000,000
Environmental Protection	Petroleum Underground Storage Tank Projects	54,000,000
Natural Resources	State Owned Dam Repair	2,500,000
Finance-Facilities and Support Services	Maintenance Pool 2012-14	6,000,000
Finance-Facilities and Support Services	Statewide Microwave Network (KEWS) Maintenance	2,200,000
Finance-Facilities and Support Services	Parking Garage Maintenance	1,500,000
Finance-Facilities and Support Services	Council of State Government's Building Complex	5,500,000
Finance-General Administration	Lexington Downtown Redevelopment Project-Planning and Design	3,500,000
Health and Family Services-GAPS	Maintenance Pool 2012-14	5,000,000
Behavioral Health	Electrical System Upgrade at Western - Design	960,000
Medicaid Administration	Medicaid Eligibility System	5,000,000
Justice Administration - Medical Examiner	Site Acquisition and Design - New Medical Examiner Lab and Office	1,000,000
Kentucky State Police	Renovation of New Academy Buildings & Grounds	2,000,000
Corrections-Adult Institutions	Maintenance Pool 2012-14	5,500,000
Council on Postsecondary Education	Asset Preservation/Renovation Pool	25,000,000
Tourism - Parks	Maintenance Pool 2012-14	6,000,000
Tourism - Parks	Upgrade Wastewater System-Ft Boonesborough	2,000,000
Tourism - Parks	Splash Park Development – Various Parks	3,000,000
Kentucky Fair Board	Parking Garage Maintenance	2,000,000
Transportation	Wetland & Stream Mitigation Payments	10,000,000
TOTAL - GENERAL FUND BOND AUTHORIZATION		303,960,000

<u>AGENCY</u>	<u>PROJECT</u>	<u>ROAD FUND</u>
Transportation – Vehicle Regulation	Replace Driver Licensing System	12,500,000
Transportation	Aviation Development	10,000,000
TOTAL - ROAD FUND BOND AUTHORIZATION		22,500,000

<u>AGENCY</u>	<u>PROJECT</u>	<u>AGENCY FUND</u>
Eastern Kentucky University	Renovate Residence Hall-Additional	6,000,000
Eastern Kentucky University	Refinance Energy Savings Performance Contract (ESPC)	27,000,000
Eastern Kentucky University	Construct University Activity Center, Phase II	31,275,000
Morehead State University	Renovate West Mignon Residence Hall - Additional	614,000
Morehead State University	Renovate Cartmell Residence Hall	11,064,000
Morehead State University	Renovate Mignon Residence Hall	9,268,000
Morehead State University	Construct Food Service/Retail & Parking Structure - Additional	2,081,000
Morehead State University	Replace Exterior Precast Panels – Nunn Hall - Additional	372,000
Morehead State University	Construct Residential Facility at University Farm - Additional	313,000

Appendix E: Recommended New Debt Authorization (continued)

Murray State University	Construct New University Library – Student Funded	3,800,000
Murray State University	Renovate Hester Hall	8,400,000
Murray State University	Complete Capital Renewal: H & D Pool < \$600,000	6,534,000
Northern Kentucky University	Expand/Renovate Albright Health Center	45,000,000
Northern Kentucky University	Acquire/Renovate New Residence Hall	10,000,000
Northern Kentucky University	Expand University Drive Parking Garage	12,000,000
University of Kentucky	Agency Bond Pool	200,000,000
University of Louisville	Purchase Land for Support Services in Northeast Quadrant	15,000,000
University of Louisville	Guaranteed Energy Savings Performance Contract	4,516,500
University of Louisville	Expand Student Activities Center	19,530,000
Western Kentucky University	Renovate Downing University Center – Phase V	16,500,000
Western Kentucky University	Construct Honors College Facility	<u>22,000,000</u>
TOTAL - AGENCY FUND BOND AUTHORIZATION		451,267,500
TOTAL BOND AUTHORIZATION		777,727,500

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