January 19, 2005

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

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

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

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Fund</th>
<th>Road Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$7,433,000,000</td>
<td>$1,119,700,000</td>
</tr>
<tr>
<td>2006</td>
<td>$7,665,000,000</td>
<td>$1,127,100,000</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>MSA Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$108,800,000</td>
</tr>
<tr>
<td>2006</td>
<td>$108,600,000</td>
</tr>
</tbody>
</table>

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

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

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

Sincerely,

Lawrence K. Lynch
Acting Chairman, Consensus Forecasting Group

Attachments