

COMMONWEALTH OF KENTUCKY

QUARTERLY ECONOMIC & REVENUE REPORT

FOURTH QUARTER
FISCAL YEAR 2011
ANNUAL REPORT



GOVERNOR'S OFFICE FOR
ECONOMIC ANALYSIS

OFFICE OF
STATE BUDGET DIRECTOR

Kentucky
UNBRIDLED SPIRIT™



Office of State Budget Director

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Governor

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Mary E. Lassiter
State Budget Director

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August 1, 2011

The Honorable Steven L. Beshear
Governor
Commonwealth of Kentucky
State Capitol Building
Frankfort, KY 40601

Dear Governor Beshear:

The *Quarterly Economic and Revenue Report Annual Edition* summarizes Kentucky's revenue and economic statistics for the fourth quarter of Fiscal Year 2011 (FY11). It also includes a recap of FY11 collections and an interim economic and revenue forecast for the first three quarters of FY12.

For the fiscal year that ended June 30, 2011 (FY11), General Fund receipts totaled \$8,759.4 million, a sum 6.5 percent higher than FY10 collections. For FY11 receipts were also noteworthy in that the General Fund exceeded the pre-recession total of \$8,664.3 million achieved in FY08. Final FY11 revenues were \$166.1 million, or 1.9 percent more than the official revised revenue estimate which projected a 4.5 percent increase in revenues. A portion of the excess revenues from severance taxes are statutorily dedicated to local governments. As a result, \$31.1 million of the revenues in excess of the official revenue estimate will be distributed to local governments. Unbudgeted excess revenues for FY11 are \$135.0 million.

After two years of weak growth followed by two years of declining receipts, General Fund receipts posted solid growth, increasing 6.5 percent. The Consensus Forecasting Group (CFG) correctly predicted a rebounding economy in FY11 but revenues grew more strongly than even they predicted. Kentucky is one of a minority of states that have exceeded FY08 nominal revenues in FY11, a testament to our diverse economy and resilient tax base. Growth in the four quarters was 4.4 percent, 6.3 percent, 5.2 percent and 9.6 percent.

Governor Beshear
August 1, 2011
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The official General Fund estimate for FY12 stands at \$8,871.2 million. General Fund and Road Fund projections in this report cover only the first three quarters of FY12. Clearly the economy is improving, despite stubborn and persistently high unemployment levels. This report predicts 3.2 percent General Fund revenue growth during the first three quarters of FY12.

Road Fund revenues for FY11 were \$1,338.8 million, an increase of 11.0 percent from the previous fiscal year. Strong growth in the motor fuels taxes, as well as an improving market for new and used vehicles, provided the perfect environment for a robust recovery in Road Fund collections. The Road Fund is expected to increase 6.3 percent during the first three quarters of FY12.

The Consensus Forecasting Group is scheduled to meet on August 4, 2011 to prepare the five-year planning estimates prescribed by KRS 48.115.

Sincerely,

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

Mary E. Lassiter
State Budget Director

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Executive Summary

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) has prepared a Quarterly Economic and Revenue Report for the fourth quarter of FY11. In accordance with the statutes, this report includes a current synopsis of the economic and fiscal conditions of the Commonwealth, as well as an outlook for the next three fiscal quarters.

The fourth quarter edition of the *Quarterly Report* is typically the longest report of the year due to the reporting of both quarterly and annual data. The *Annual Edition* also includes the latest interim projections and an expanded statistical appendix containing a 10-year history of the major General Fund and Road Fund accounts with a corresponding history of growth rates. Major points that will be discussed in this report include the following:

- Annual General Fund receipts rose for the first time in three fiscal years.
- Annual Road Fund receipts posted a sizable increase following nominal gains in FY10. The Road Fund has now increased for two consecutive years.
- Both the General Fund and Road Fund exceeded the revised official estimates for FY11.
 - ◆ The General Fund was \$166.1 million, or 1.9 percent, higher than the official estimates. Statutory dedications lower the revenues in excess of projected \$31.1 million for a net total of \$135.0 million.
 - ◆ The Road Fund exceeded estimates by \$73.0 million, or 5.8 percent. Statutory dedications lower the revenues in excess of projected \$27.9 million for a net total of \$45.1 million.
- In the fourth quarter of FY11, General Fund receipts posted a fifth consecutive quarterly increase, a streak that began in the fourth quarter of FY10.
- The Road Fund continues to post prodigious growth on the strength of the motor fuels and motor vehicle usage taxes. The expiration of the motor vehicle usage tax credit on trade-ins for new car purchases, coupled with a strong underlying automotive sector, has buoyed receipts in the usage account.

- The economy is fraught with uncertainty, but the near-term outlook remains positive. After a two-quarter lull, the production economy is poised for stronger growth into FY12.
- Non-farm employment growth continues to be a challenge for Kentucky. Only 30.3 percent of Kentucky's recession job losses have been recovered to date.
- Revenue growth is projected in the first three fiscal quarters of FY12 in both the Road Fund and General Fund. Comparisons between these interim estimates and the revised official estimates for the entire fiscal year are very difficult to make due to the seasonality of quarterly revenue collections, especially the fourth quarter when many major taxes are due.
- The short-run outlook for General Fund receipts calls for continued growth over the higher base, but growth rates will be somewhat mitigated due to the newly established baselines for each tax from the strong performances in FY11.
- Leading growth forward will be the corporate and individual income taxes and the coal severance tax.
- The Road Fund outlook is predominantly a function of the fuels taxes which are based on the prevailing wholesale gasoline and special fuels tax rates. Recent prices have triggered the full 10 percent increase in the statutory calculation and the short-term outlook does not predict fuel price reductions that would imperil those assumptions.

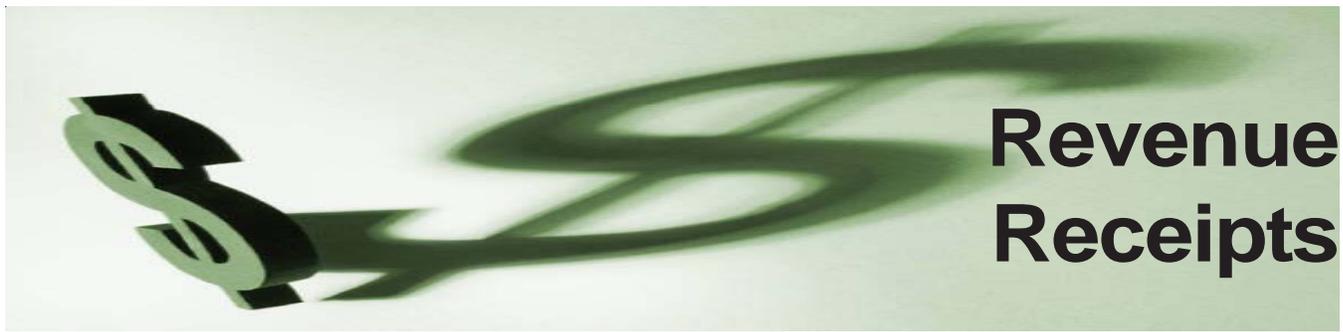
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I.

Fourth Quarter

Fiscal Year 2011

General and Road Fund Receipts



FOURTH QUARTER, FY11 General Fund

General Fund receipts in the fourth quarter of FY11 totaled \$2,432.8 million compared to \$2,218.8 million in the fourth quarter of FY10, an increase of 9.6 percent. Collections in the major revenue categories are shown in summary form in Table 1. Detailed information on these and other accounts is available in Appendix A.

Tax receipts increased in all of the major accounts for the quarter as the economic recovery continued to take hold in Kentucky. Only cigarette tax revenues failed to increase during the quarter.

Individual income tax receipts rose 13.5 percent in the fourth quarter of FY11 compared to collections in the fourth quarter of FY10. Receipts of \$1,050.2 million were \$125.2 million more than was collected in the fourth quarter of the previous fiscal year. All components of the tax – fiduciary, declarations, withholding, and net returns increased in FY11 compared to the same time last year.

The sales and use tax rose 1.7 percent in the fourth quarter of FY11 as consumer spending increased.

Corporation income taxes posted an increase of 37.3 percent during the fourth quarter of FY11. Receipts totaled \$149.2 million and were \$40.5 million more than collected a

year earlier. Like the individual income tax, all components of the corporation income tax increased.

The limited liability entity tax had collections of \$76.0 million in the fourth quarter of the fiscal year, an increase of 45.1 percent.

The coal severance tax increased 4.6 percent in the fourth quarter. Receipts of \$80.9 million compare to \$77.3 million collected in the fourth quarter of FY10.

Cigarette taxes decreased in the fourth quarter due to a reduction in smoking as well as the impact of roll-your-own cigarettes. Receipts of \$69.0 million were 5.3 percent less than collected in the fourth quarter of FY10.

Property taxes grew 1.8 percent in the fourth quarter of FY11. Collections of \$48.0 million compare to \$47.1 million received in the final quarter of the prior fiscal year. Growth

	FY11 Q4	FY10 Q4	Diff \$	Diff %
Individual Income	1,050.2	925.1	125.2	13.5
Sales and Use	740.1	727.7	12.4	1.7
Corp. Inc.	149.2	108.7	40.5	37.3
LLET	76.0	52.4	23.6	45.1
Coal Severance	80.9	77.3	3.5	4.6
Cigarette Taxes	69.0	72.9	-3.8	-5.3
Lottery	57.0	55.5	1.5	2.7
Property	48.0	47.1	0.9	1.8
Other	162.4	152.1	10.3	6.8
Total	2,432.8	2,218.8	214.1	9.6

in the public service account helped offset reductions in tangible receipts.

Lottery receipts increased 2.7 percent, or \$1.5 million, in the fourth quarter of FY11 with revenues of \$57.0 million. Despite continued weakness in the scratch-off ticket market, the Lottery Corporation was still able to meet the dividend schedule approved in their spring meeting.

The “Other” category represents the remaining accounts in the General Fund, and combined for \$162.4 million in receipts, an increase of 6.8 percent from FY10.

Figure A details the composition of fourth-quarter 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 next-largest source of revenue was the “Other” category at 7 percent. The largest components in the "Other" category include insurance premium taxes, the inheritance tax,

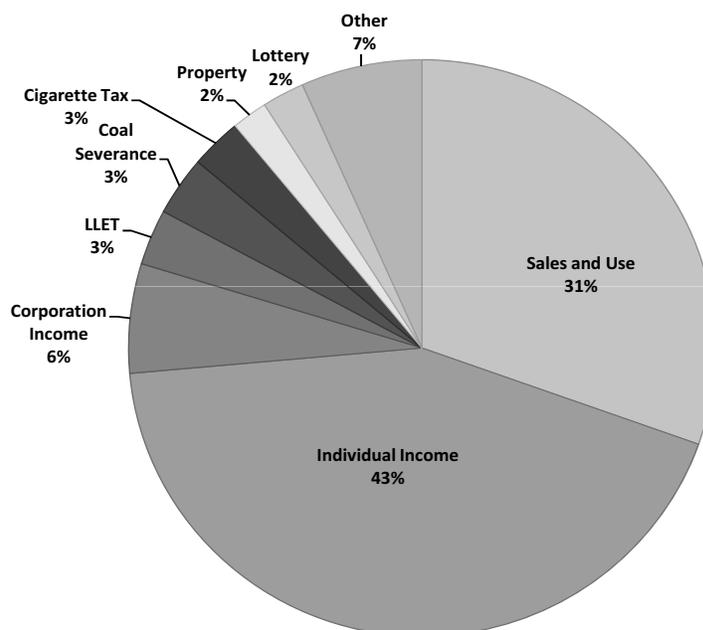
beer wholesale sales tax, the natural gas severance tax, investment income, abandoned property, departmental fees, and fines and forfeitures. Corporation income taxes accounted for 6 percent. The coal severance tax, cigarette tax, property tax, the limited liability entity tax, and lottery receipts each accounted for 3 percent or less of total General Fund receipts.

Road Fund

Road Fund receipts grew 7.4 percent in the fourth quarter of FY11 as six of the seven major accounts grew. Receipts totaled \$355.8 million compared to the \$331.2 million received in the fourth quarter of FY10. Summary data are contained in Table 2 and detailed data are shown in Appendix A.

Motor fuels receipts were \$185.3 million in the fourth quarter of FY11, \$9.2 million above the fourth quarter of FY10. Motor vehicle usage receipts increased by 15.0 percent during the fourth quarter due to im-

Figure A
Composition of Fourth Quarter FY11 General Fund Receipts



proved automobile sales. Motor vehicle usage receipts were \$101.8 million in the fourth quarter of FY11 compared to \$88.5 million in FY10.

Weight distance tax receipts of \$18.2 million were 4.8 percent more than collected in the fourth quarter of last year.

Motor vehicle license tax receipts increased 0.5 percent during the fourth quarter of FY11. Receipts of \$35.1 million compare to \$35.0 million received during the fourth quarter of FY10.

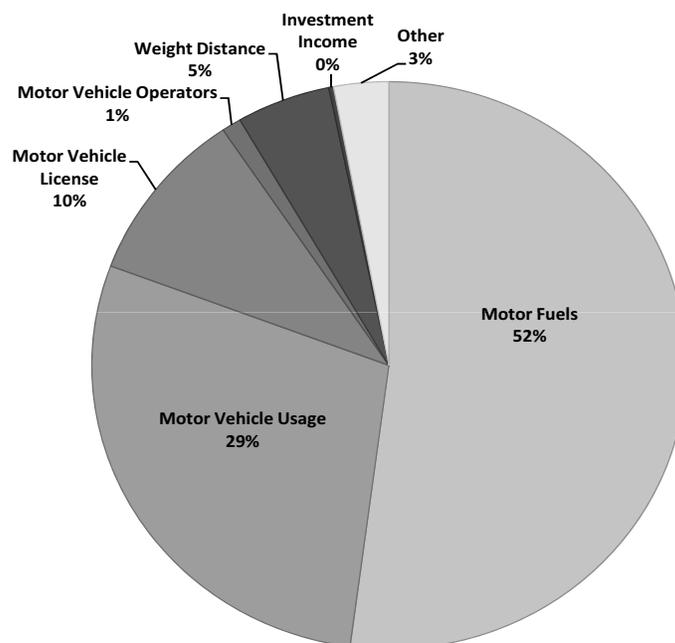
Investment income increased slightly in the fourth quarter of FY11, growing \$0.1 million to \$0.9 million.

The remainder of the accounts in the Road Fund combined for an increase of 13.1 percent. Receipts for the “Other” category totaled \$10.7 million during the fourth quarter, compared to \$9.4 million in the fourth quarter of FY10.

Table 2 Fourth Quarter Road Fund Receipts \$ millions				
	FY11 Q4	FY10 Q4	Diff \$	Diff %
Motor Fuels	185.3	176.2	9.2	5.2
Motor Vehicle Usage	101.8	88.5	13.3	15.0
Motor Vehicle License	35.1	35.0	0.2	0.5
Motor Vehicle Operators	3.8	4.0	-0.2	-5.3
Weight Distance	18.2	17.3	0.8	4.8
Investment Income	0.9	0.8	0.1	9.9
Other	10.7	9.4	1.2	13.1
Total	355.8	331.2	24.6	7.4

Figure B details the composition of Road Fund revenues by tax type in the fourth quarter of FY11. Motor fuels taxes and motor vehicle usage taxes comprised 81 percent of Road Fund revenues in the fourth quarter. The next-largest source of revenue was the motor vehicle license tax with 10 percent, followed by weight distance taxes with 5 percent. The “Other” category accounted for 3 percent, investment income and motor vehicle operators both accounted for 1 percent or less.

Figure B
Composition of Fourth Quarter FY11 Road Fund Receipts



**ANNUAL TOTALS, FY11
General Fund**

The General Fund grew 6.5 percent, or \$534.3 million, in FY11, 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 3. Detailed information on these and other accounts is available in Appendix A.

Corporate income tax collections grew \$62.9 million in FY11 and totaled \$300.8 million compared to \$237.9 million collected in FY10. 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 FY11. Total collections for the fiscal year were \$295.8 million or \$23.9 million more than FY10 receipts.

Total property taxes fell 0.3 percent during the fiscal year. Receipts totaled \$514.8 million compared to \$516.2 million collected in FY10.

**Table 3
General Fund Revenues Compared to Previous Years
\$ millions**

	Full Year Receipts			Growth Rates (%)		
	FY11	FY10	FY09	FY11	FY10	FY09
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
Corporate 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 Taxes	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

Lottery receipts increased 0.2 percent, or \$0.5 million, from the previous year. Receipts of \$200.5 million compare to \$200.0 million remitted to the state in FY10.

The “Other” category finished the year up 4.7 percent. Receipts of \$655.5 million compare to \$626.2 million collected in FY10.

Sales tax receipts grew 3.7 percent in FY11, 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 \$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.

General Fund collections for FY11 were \$166.1 million above the revised official estimate rendered in December 2009 by the Consensus Forecasting Group (CFG) and later modified by legislative actions. The largest overages occurred in the individual income, 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.

Figure C details the composition of FY11 General Fund receipts by tax type. Seventy-

two percent of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the property tax. "Other" taxes accounted for 8 percent of General Fund receipts in FY11. The largest component in

this category includes insurance premium taxes, bank franchise tax, and inheritance tax. Corporation income, LLET, cigarette and coal severance taxes each accounted for 3 percent. Lottery revenues accounted for 2 percent of General Fund revenues.

Figure C
Composition of FY11 General Fund Receipts

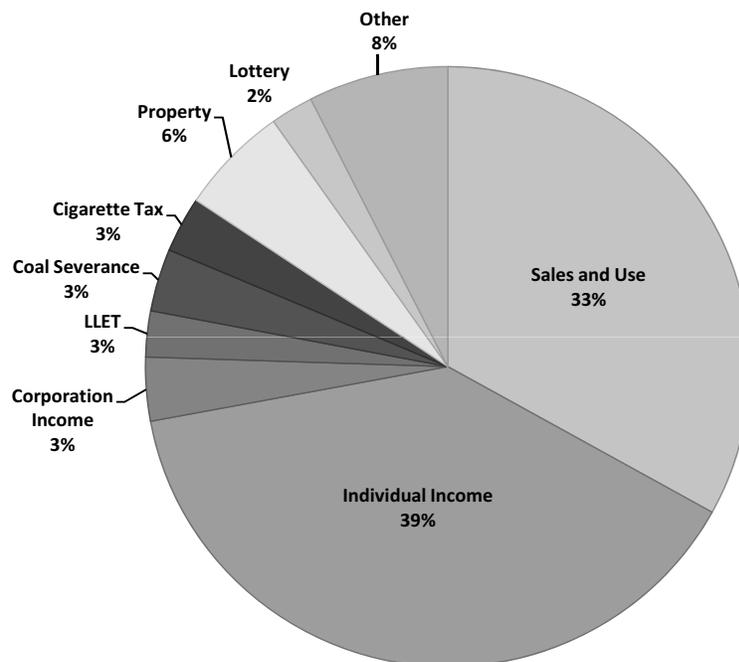


Table 4
FY11 General Fund Receipts Compared to Official Estimate
\$ millions

	FY11		Difference	
	Actual	Estimate	\$	%
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 5 and Figure D detail the growth rates in General Fund revenues by each fiscal quarter of FY11. 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
General Fund Quarterly Growth Rates
percents

	Q1	Q2	Q3	Q4	FY11
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 D
Quarterly General Fund Detailed Growth Rates by Quarter
percent

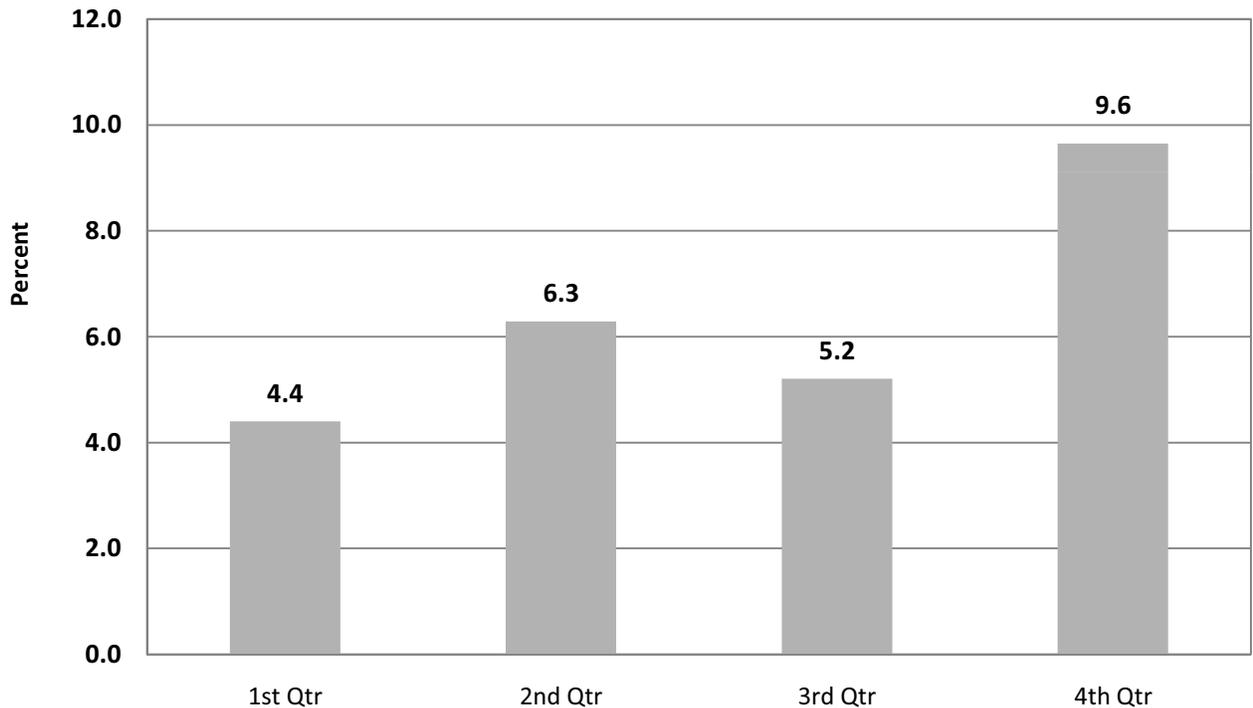


Table 6
General Fund Quarterly Revenue Receipts
\$ millions

	Q1	Q2	Q3	Q4	FY11
Individual Income	845.7	829.1	692.8	1,050.2	3,417.8
Sales and Use	717.2	732.9	706.0	740.1	2,896.3
Property	51.6	299.2	116.0	48.0	514.8
Corporation Income	69.9	56.0	25.6	149.2	300.8
LLET	44.3	53.5	42.0	76.0	215.7
Coal Severance	72.8	72.2	69.9	80.9	295.8
Cigarette Tax	69.0	67.0	57.2	69.0	262.3
Lottery	45.0	50.0	48.5	57.0	200.5
Other	856.7	138.5	215.1	162.4	1,372.7
Total	2,055.1	2,298.4	1,973.2	2,432.8	8,759.4

Road Fund

Total Road Fund receipts grew 11.0 percent during FY11. Total receipts of \$1,338.8 million compare to \$1,206.6 million collected during FY10. Road Fund collections are detailed in Table 7.

Motor fuels taxes increased 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 FY10.

Weight distance tax revenues increased 4.9 percent with receipts of \$74.0 million compared to \$70.5 million collected in FY10. Increased motor vehicle sales as well as the expiration of the one-time trade-in credit contributed to growth in this account.

Motor vehicle license tax receipts were up 1.0 percent with collections of \$97.8 million compared to \$96.8 million collected in FY10.

Table 7
Road Fund Revenues Compared to Previous Years
\$ millions

	Full Year Receipts			Growth Rates (%)		
	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

Investment income declined 45.1 percent. Receipts totaled \$2.0 million compared to \$3.6 million in FY10.

The “Other” category rose 11.3 percent from FY10. Total receipts in this category were \$34.7 million, compared to \$31.2 million collected in FY10.

Road Fund collections for FY11 were \$73.0 million above the official revenue estimate (the consensus estimate of December 2009 as modified by legislation) as shown in Table 8. 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 E details the composition of FY11 Road Fund receipts by source 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 9 details the growth rates in Road Fund revenue by each fiscal quarter in FY11. 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.

Figure E
Composition of FY11 Road Fund Receipts

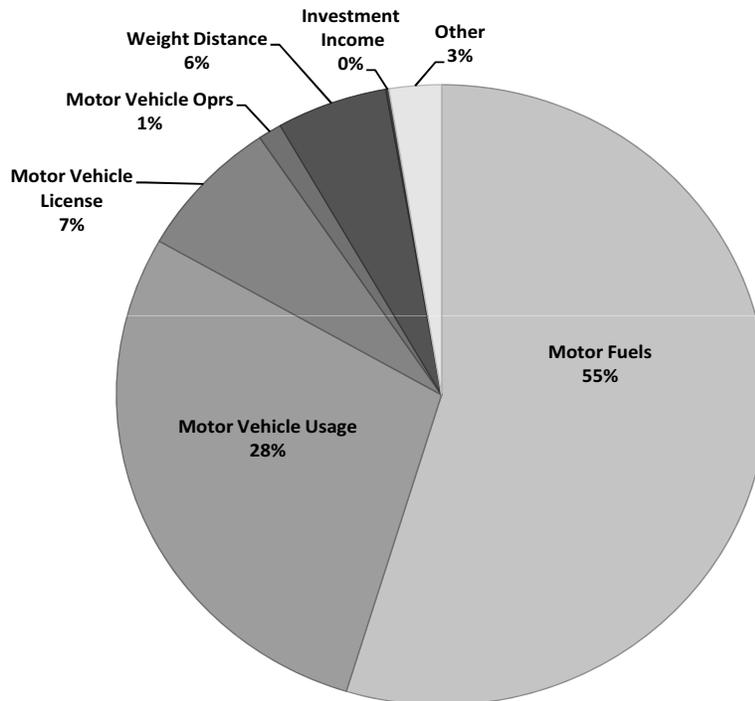


Table 8
FY11 Road Fund Receipts Compared to Official Estimate
\$ millions

	FY11		Difference	
	Actual	Estimate	\$	%
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 9
Road Fund Quarterly Growth Rates
percents

	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 F
Quarterly Road Fund Detailed Growth Rates by Quarter
percent

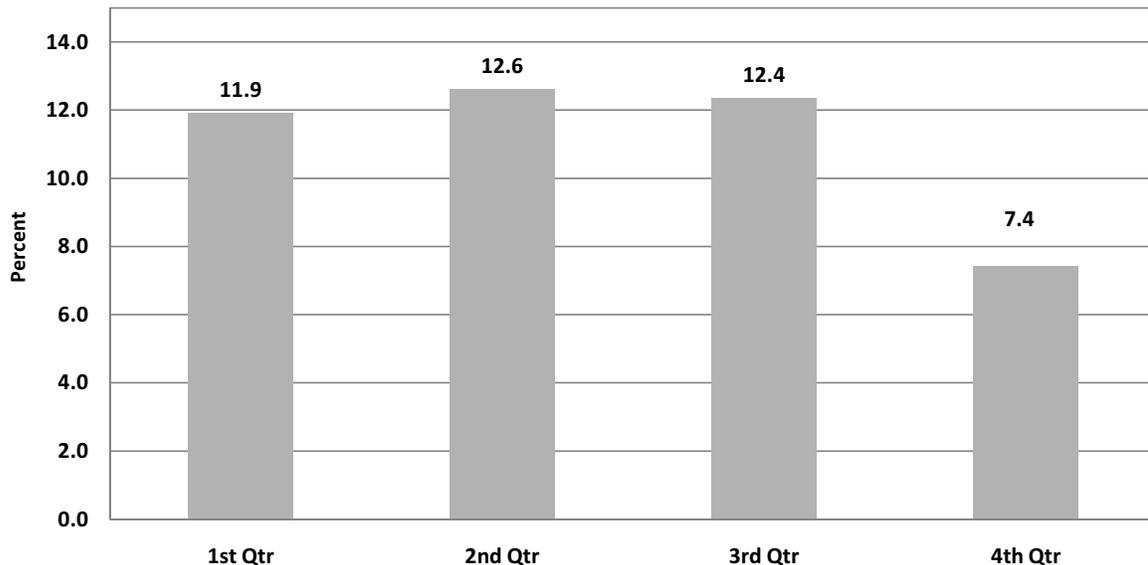


Table 10
Road Fund Quarterly Revenue Receipts
\$ millions

	Q1	Q2	Q3	Q4	FY11
Motor Fuels	193.0	183.7	170.8	185.3	732.8
Motor Vehicle Usage	95.1	84.2	100.7	101.8	381.8
Motor Vehicle License	17.9	16.8	28.0	35.1	97.8
Motor Vehicle Operators	4.2	3.9	3.8	3.8	15.7
Weight Distance	18.8	18.7	18.4	18.2	74.0
Investment Income	0.5	0.4	0.2	0.9	2.0
Other	9.3	6.5	8.2	10.7	34.7
Total	338.7	314.3	330.1	355.8	1,338.8

Tobacco Master Settlement Agreement

For the fourth quarter of FY11, the Commonwealth was forecasted to receive a total of \$102.7 million in Tobacco Master Settlement Agreement (MSA) payments from the participating tobacco manufacturers. The actual payments received in mid-April (which were the only payments in FY11) totaled \$99.8 million as compared to \$105.5 million in FY10. To date, Kentucky has received \$1.4 billion from the MSA.

This year's MSA payment reflects the first time all three of the Original Participating Manufacturers (OPMs) paid into the Disputed Payment Account. The Disputed Payment Account is established by the MSA to allow firms to set aside a portion of their payments reflecting the amount the firms argue should not be due to the Settling

States under the Non-Participating Manufacturers (NPM) adjustment. 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 this year, the amount placed into the disputed account represents a collective reduction in payments to Kentucky of approximately \$14.6 million. The 2003 NPM adjustment is currently being decided through a national arbitration process. The Commonwealth will vigorously defend the diligent enforcement of all of the MSA statutes and hopes to fully prevail in the arbitration procedure.

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II.

The Economy



The Economy Fourth Quarter FY11

NATIONAL ECONOMY

In the fourth quarter of FY11 real gross domestic product (real GDP) improved by 2.4 percent over the fourth quarter of FY10.¹ This was the eighth consecutive increase in quarterly real GDP, with quarterly growth rates cooling down following annualized rates of 5.0 percent and 3.7 percent in the second and third quarters of FY10 respectively. Real GDP surpassed its previous peak in the second quarter of FY11.

The long-run growth rate has returned to pre-recession levels over the last eight quarters. The average annualized growth rate in the eight quarters preceding the 2007 real GDP peak was 2.4 percent. The average annualized growth rate in the eight quarters following the 2009 real GDP trough was 2.7 percent. It took six quarters for real GDP to regain all of its recession losses. The 2007 recession contained five declines in real GDP over a six quarter period. The resulting peak-trough-recovery path has a clear symmetric valley shape.

The components of real GDP did not contribute to real GDP growth uniformly in the fourth quarter (See Table 11). Real consumption contributed the most in abso-

lute amount with 2.5 percent growth. Real consumption, which makes up 70.4 percent of real GDP, followed a valley-shaped pattern over the peak-trough-recovery period quite similar to the real GDP pattern.

Real investment makes up 13.5 percent of real GDP and contributed only \$31 billion of the \$313 billion in real GDP gains in the fourth quarter. Fiscal Year 2011 was an erratic year for real investment. In the first quarter of FY11, real investment grew by 3.6 percent over the fourth quarter of FY10. In the second quarter real investment fell by 5.1 percent over first quarter. In the third quarter of FY11, real investment rose by 2.9 percent over the second quarter. And finally, in the fourth quarter real investment rose by 0.5 percent over the third quarter of FY11². Real investment ended FY11 with \$1,822.9 billion, which is 1.8 percent above the level in the fourth quarter of FY10.

Real government expenditures was the only component of real GDP which declined in the fourth quarter, failing \$23 billion or 0.9 percent compared to the fourth quarter of FY10. It is not uncommon for government expenditures to be countercyclical. As unemployment rises during a recession, more government services are consumed, and sometimes government fiscal policy leads to increased spend-

¹This is not an annualized rate. The growth rates provided are computed as the change in the quarterly real GDP figure over the quarterly real GDP figure from the same quarter one year ago.

²The FY11 Q4 figures are estimates from IHS Global Insight's June 6, 2011 release.

Table 11
Summary of US Economic Series
Fourth Quarter FY11

	Fourth Quarter			Fiscal Year Average		
	FY11	FY10	% Chg	FY11	FY10	% Chg
Real GDP	13,508.8	13,194.9	2.4	13,402.5	13,053.4	2.7
Real Consumption	9,504.9	9,275.7	2.5	9,433.0	9,211.4	2.4
Real Investment	1,822.9	1,791.5	1.8	1,813.1	1,640.5	10.5
Real Govt. Expenditures	2,541.0	2,564.9	-0.9	2,563.6	2,553.7	0.4
Real Exports	1,790.9	1,652.1	8.4	1,734.2	1,583.0	9.6
Real Imports	2,159.9	2,101.1	2.8	2,151.7	1,960.1	9.8
Personal Income (\$ billions)	13,067.6	12,517.1	4.4	12,823.7	12,317.6	4.1
Consumer Price Index (1992-99=1.00)	2.24	2.17	3.3	2.21	2.17	2.0
Inflation (% chg in CPI)	3.3	1.8	NA	2.0	1.0	NA
Ind. Production Index (2002=100)	93.2	89.5	4.1	92.2	87.3	5.6
Civilian Labor Force (millions)	153.6	154.1	-0.4	153.7	153.9	-0.2
Non-farm Employment (millions)	131.2	130.0	0.9	130.4	129.7	0.6
Manufacturing	11.7	11.5	1.6	11.6	11.5	0.8
Unemployment Rate (%)	9.0	9.6	NA	9.3	9.7	NA

Not seasonally adjusted. Real series are in billions of chained 2000 dollars.

GDP components may not sum due to rounding at lower levels of detail.

Data for FY11 Q4 are June 2011 estimates.

Source: IHS Global Insight Inc., June 6, 2011 data release

ing in an effort to stimulate the economy. Both of these factors lead to an increase in government expenditures. This was again the case in the period leading up to and after the 2007 recession.

There was a distinct increase in real government expenditure growth in 2007, leading up to the 2007 recession start date. From the third quarter of FY03 to the third quarter of FY07 real government expenditures rose by \$105.8 billion. Real government expenditures rose by an average of \$6.6 billion per quarter during this time. During the next seven quarters, real government expenditures rose by \$124.0 billion, for an average of \$17.7 billion per quarter, nearly triple the average from the preceding period. Over the next 11 quarters (from the second quarter of FY09 to the first quarter of FY11), real government expenditures were erratic but rose on net. Real government expenditures

rose by a net of \$58.9 billion, which is an average of \$5.4 billion per quarter. Real government expenditures fell for the last three quarters of FY11, losing a combined \$48.6 billion over the three-quarter period. Real government expenditures have now fallen in six of the last 10 quarters, dampening but not completely cancelling out the short bursts of increased growth that occurred over the previous two years.

Real exports was the largest percentage contributor and the second most in absolute amount. Real exports grew by 8.4 percent over the fourth quarter of FY10. Real imports, a deduction from real GDP, grew 2.8 percent over the fourth quarter of FY10. This means that the trade deficit declined over that time. In the fourth quarter of FY10 the trade deficit was -\$449.0 billion. In the fourth quarter of FY11 the trade deficit was -\$368.9 billion, an improvement of \$80.1

billion. This improvement was due to several factors including a slowing of US demand for imported goods, improved terms of trade and a value of the dollar which was beneficial to US exports. Oil prices rose to \$104.76 (West Texas Intermediate) in the fourth quarter, an increase of 11.5 percent increase over the third quarter of FY11. The US imports approximately 11.7 million barrels of oil per day.³

Real imports have reentered a period of weak and even declining growth, seemingly picking up right where it left off before the recession. Before the recession officially began in December of 2007, real imports started to show signs of no growth and even some declines. Real imports reached a peak in the first quarter of FY08 at \$2,244.6 billion. Real imports were stagnant for the next five quarters. By the first quarter of FY09 real imports were just slightly below that mark with \$2,189.8 billion. Following these recession losses, real imports did experience a five-quarter period of recovery, but still have not surpassed their previous peak. Fourth quarter FY11 real imports stand at \$2,159.9 billion, which is \$84.7 billion below the peak from four years ago.

US personal income grew by 1.1 percent in the fourth quarter compared to the third quarter. This fourth quarter growth rate culminates seven consecutive quarters of solid increases. US personal income is now 4.4 percent above its fourth quarter FY10 level. US personal income surpassed its previous peak in the fourth quarter of FY10 and has now returned to its long-run growth path.

Inflation, as measured by the quarterly growth rates of the consumer price index

(CPI), has risen sharply over the last year. The CPI fell from the third quarter of FY10 to the fourth quarter of FY10 by 0.1 percent. While the CPI rose from the third quarter of FY11 to the fourth quarter of FY11 by 1.0 percent. The last two quarters of CPI growth were particularly high with 1.3 percent and 1.0 percent respectively. There was also high inflation in the last three quarters of FY08 and the first quarter of FY09. High inflation has particularly important implications for all measures of income and consumer spending.

The civilian labor force rose in the fourth quarter by 0.2 percent, an amount that is historically 'normal'. The civilian labor force declined in the first three quarters of this fiscal year, losing a net 700,000 persons. This has created particular difficulties for non-farm employment which continues to struggle following the 2007 recession. Non-farm employment is up by 0.9 percent over the fourth quarter of FY10, but is still down a net 6.8 million jobs since the previous peak in employment, which was in the second quarter of FY08.

KENTUCKY ECONOMY

Non-farm employment in Kentucky was particularly hard hit by the 2007 recession. The previous peak for Kentucky non-farm employment, 1,865,200 occurred in the second quarter of FY08. The trough, 1,756,200 occurred in the third quarter of FY10. The duration from peak-to-trough for Kentucky non-farm employment was historically long, lasting nine quarters. Employment fell by a net 113,000 jobs during that time, a 6.0 percent loss. Since that trough, employment growth has been weak. In the last four quarters, employment has changed by -0.1,

³This is based on 2009 data.

+0.5, +0.3, and +0.3 percent, respectively. Kentucky non-farm employment has regained a net 34,200 seasonally adjusted jobs since the trough. Kentucky non-farm employment has only recovered 30.3 percent of its recession losses in the two years following the official end of the recession.

The weakness in employment has been pervasive across nearly every sector of Kentucky employment. All three goods sectors were hard hit by the 2007 recession. Kentucky construction employment was nearly flat from 2002 to 2008. The employment fell in every quarter from the first quarter of FY09 to the third quarter of FY11. Kentucky construction employment lost 21,300 seasonally adjusted jobs, a 24.7 percent loss during that time. Construction employment finally stopped falling in the fourth quarter of FY11 with growth of 3.2 percent over the third quarter. It is not clear whether construction employment has found a bottom.

Government employment, which includes state, county, and local government employment, fell by 0.9 percent in the fourth quarter. This is the third time in four quarters that government employment has fallen. Government employment, like government expenditures, can be countercyclical. So this pattern is not particularly unusual. Government employment makes up 18.3 percent of non-farm employment in the state.

There are a handful of sectors which show some signs of promise. Mining employment is expanding again. Leisure and hospitality services employment is showing some signs of improvement over the last year. And the biggest surprise of all, manufacturing employment appears to have finally found a bottom.

Kentucky mining employment is not a typical employment sector. Most employment series are pro-cyclical but contain some lag around the turning points. Pro-cyclical means that employment rises when the business cycle is expanding and employment falls when the business cycle is contracting. There is some lag in most series, because even after productivity, output and incomes have started to rebound during an expansion, employers are slow to hire back new workers.

The mining sector, on the other hand, is not mobile or flexible like other industries. That is, the miners must live near where the coal, limestone, aluminum, granite, etc. is mined. Furthermore, the hiring of miners can be a long process which includes training and certification. The demand for miners is also subject to the demand for the mined ores and minerals, which can be erratic. All of these factors generate a unique acyclical employment sector, which increases when the energy sectors are doing well and decreases when the energy sectors are doing poorly. This can coincide with expansions and contractions, but does not need to. Kentucky mining peaked in early 2006 and fell continuously until the end of 2007. Coal prices started to skyrocket by January of 2008. That is the same time that mining employment started to rise precipitously. By the end of 2009, mining employment began to fall just as sharply as it had risen. Kentucky mining employment fell by 3,800 jobs in less than one year, a 14.9 percent decline. For the last five quarters mining employment has slowly begun to rise again. In the fourth quarter of FY11, mining employment rose back up to 24,100 total employed, an increase of 6.7 percent over the third quarter. Mining employment makes up 1.3 percent of Kentucky non-farm employment.

Leisure and hospitality services employment is also showing signs of improvement. There has been above average quarterly growth for three of the last five quarters. As a result of this strong growth, this sector made up all of its recession losses. Unfortunately, leisure and hospitality employment fell by 1.1 percent in the fourth quarter of FY11, again falling below the previous peak. Leisure and hospitality services employment is now at 171,500 jobs and is still 2.6 percent above the fourth quarter of FY10. Leisure and hospitality services employment makes up 9.6 percent of total non-farm employment in Kentucky.

Kentucky manufacturing employment has increased with modest growth for the last five consecutive quarters. This is a reassuring sign that manufacturing employment has found a bottom and is starting to turn

around. Manufacturing employment did not experience an expansion period following the end of the 2001 recession. Instead, employment sort of plateaued for six years right around the 260,000 employed mark. The 2007 recession was harsh on Kentucky manufacturing employment. Employment declined for 15 of the 16 quarters prior to April 2010. During that time, employment decreased by a net 48,600 persons, a net loss of 19.1 percent. Over the last five quarters, growth has been modest. Manufacturing employment increased by a net 8,100 jobs during this time. This is good news for Kentucky, a state with a rich history of being a manufacturing state. Manufacturing makes up 12.0 percent of total employment in Kentucky. In comparison, manufacturing employment makes up 8.9 percent of total US non-farm employment. Both shares have declined in recent years.

Table 12
Summary of Kentucky Economic Series
Fourth Quarter FY11

	Fourth Quarter			Fiscal Year Average		
	FY11	FY10	%	FY11	FY10	%
Personal Income (\$ millions)	150,253	144,171	4.2	147,933	141,537	4.5
Wages and Salary	75,445	72,474	4.1	74,425	71,448	4.2
Non-farm Employment (thousands)	1,790.4	1,772.1	1.0	1,781.4	1,762.5	1.1
Goods Producing	305.1	298.9	2.1	301.0	300.4	0.2
Construction	66.9	68.2	-2.0	66.3	70.3	-5.6
Mining	24.1	21.9	9.9	23.0	22.1	4.0
Manufacturing	214.1	208.7	2.6	211.8	208.1	1.8
Service Providing	1,157.4	1,139.5	1.6	1,149.8	1,133.2	1.5
Trade, Transportation & Utilities	362.0	360.1	0.5	360.3	360.1	0.0
Information	26.2	26.2	0.0	26.0	26.5	-1.7
Finance	86.2	86.1	0.1	85.8	86.9	-1.3
Business Services	186.2	179.9	3.5	183.7	174.9	5.1
Educational Services	253.4	249.5	1.6	251.8	248.6	1.3
Leisure and Hospitality Services	171.5	167.2	2.6	170.6	166.6	2.4
Other Services	72.0	70.4	2.2	71.6	69.6	2.8
Government	327.9	333.8	-1.8	330.5	328.9	0.5

Data for FY10 Q3 are June 2011 estimates.

Source: IHS Global Insight Inc. and Governor's Office for Economic Analysis MAK model June 6, 2011 estimates

Kentucky personal income growth has returned to its long-run trend. Fourth quarter FY11 personal income grew by 0.9 percent over the third quarter. Incidentally 0.9 percent is the average growth rate over the last decade for Kentucky personal income. The 2007 US recession had a severe impact on Kentucky personal income. Kentucky personal income fell for three consecutive quarters, losing a total of \$2,309.0 million, a 1.7 percent net decline resulting from the recession.

A drop of three consecutive quarters in personal income is rare. In the 1990 recession, Kentucky personal income was hardly affected at all; it did not decline a single quarter and growth was not noticeably affected. In the 2001 recession, personal income growth slowed substantially and fell for just a single quarter in the first quarter of FY02 with a 0.1 percent decline.

Since the FY09 decline, Kentucky personal income has quickly increased back to its

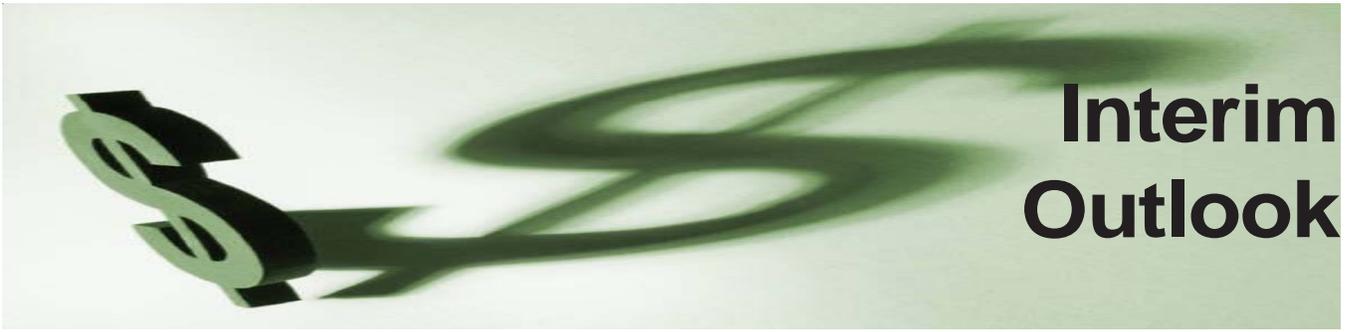
trend and therefore quickly surpassed its previous peak. The previous peak was reached in the fourth quarter of FY08. There were three quarters of decline and it only took three quarters to regain all those recession losses. In the first three quarters of FY11, personal income rose by 1.0, 0.9, and 1.3 percent respectively. This is only slightly lower than the growth experienced immediately before personal income started to fall in the first quarter of FY09. In the four quarters preceding the fall, the personal income growth was 0.5, 1.7, 1.3, and 2.1 percent respectively.

Kentucky wages and salary, which makes up 50.2 percent of personal income, was the component which impacted personal income the most both during the recessionary downturn and the subsequent rebound. During the three quarters of personal income decline, wages and salary fell by 0.6, 0.4, and 3.0 percent respectively. Kentucky wages and salary have risen by at least 0.9 percent for each of the last five quarters.

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III.

Interim Outlook



Interim Outlook

GENERAL FUND

The revenue estimates in this report were prepared using the June 2011 control economic forecast from both Global Insight and the Kentucky Macro Model, which is operated by the Governor's Office for Economic Analysis. Global Insight has changed their sectors of emphasis slightly due to recent events, but the overall outlook has only deviated very slightly with regard to the magnitude and timing of the recovery.

As stated in a prior section of this report, the official CFG General Fund estimate for FY12 stands at \$8,871.2 million. Actual collections for FY11 were \$8,759.4 million, \$166.1 million higher than the official estimate. With FY11 now in the books, attention turns to FY12. The base of revenue has increased from the forecasted amount, but the challenge comes in determining whether the balance of receipts in excess of forecast will be "recurring" or if there was some "one-time money" that will not be expected in FY12, thus making FY11 artificially larger.

While there were some revenues projected in FY11 in excess of the original official estimate, many of these fiscal impacts should carry through to FY12 as well. The actions of the General Assembly added an estimated \$80.1 million to the General Fund. The same set of measures will likely bring in \$62.4 million in FY12. There was also an expansion of collection activity that occurred

within the Department of Revenue. We expect similar activity in FY12, as well as some lasting effect of taxpayers indentified and billed in FY11 who will continue compliant behavior moving forward.

The interim forecast incorporated a fresh look at all accounts with the completion of FY11 actual data. If a trend is forming, it would be that taxes that outperformed estimates in FY11 will continue to outperform. Taxes that fell short of estimates in FY11 will likely fall deeper from estimated amounts in FY12. The primary growth taxes are individual income, corporation income, and coal severance. Consumption taxes, like the sales tax and cigarette taxes, will continue to perform under prior expectations. The sales tax will continue to grow (3.7 percent growth in FY11), but the rate of growth is expected to diminish dropping it further behind the official estimate.

Projected General Fund revenues for the next three quarters are shown in Table 13. All of the major revenue sources are poised for growth in the next three quarters.

The interim forecast for the individual income tax calls for receipts to increase 4.1 percent over the next three quarters, where receipts are projected to equal \$2,464.8 million compared to \$2,367.6 million over the same period in FY11. The accuracy of this projection will be closely tied to the rebound in employment. As discussed in the Eco-

Table 13
General Fund Interim Forecast
\$ millions

	FY11 Q4		FY11 Full Year		FY12 Q1, Q2 & Q3	
	Actual	% Chg	Actual	% Chg	Estimate	% Chg
Individual Income	1,050.2	13.5	3,417.8	8.3	2,464.8	4.1
Sales and Use	740.1	1.7	2,896.3	3.7	2,212.2	2.6
Property	48.0	1.8	514.8	-0.3	481.8	3.2
Corporation Income	149.2	37.3	300.8	26.4	170.0	12.2
LLET	76.0	45.1	215.7	47.8	124.8	-10.7
Coal Severance	80.9	4.6	295.8	8.8	229.3	6.7
Cigarette Tax	69.0	-5.3	262.3	-5.7	186.2	-3.7
Lottery	57.0	2.7	200.5	0.2	149.5	4.2
Other	162.4	6.8	1,372.7	4.0	513.3	4.1
Total General Fund	2,432.8	9.6	8,759.4	6.5	6,531.9	3.2

conomic Outlook section of this report, both the national and state employment forecasts carry the most uncertainty in the current economic environment. Nevertheless, the models seem to be tracking the control forecast very tightly, so derailment of these projections should only occur if unforeseen shocks that would lead to a decline in employment.

Sales tax receipts are projected to grow 2.6 percent over the forecasting horizon, which is the first three quarters of FY12. The interim sales tax estimate is demonstratively lower than the official projections that call for 4.1 percent growth. In recent years, the sales tax has been particularly vulnerable to the underlying weaknesses in employment and income during the stubborn recession. However, positive growth in the final quarter of FY10 reversed a six-quarter streak of consecutive declines in the sales tax. The official forecast called for pent-up demand to buoy sales tax growth, but wealth effects, inflation, and slow employment growth have delayed this response.

Corporation taxes continue to be a pleasant surprise to state coffers. The corporation income tax yielded just over \$300 million in FY11 with another \$215.7 million in the LLET. As the introduction to the section might suggest, corporate taxes are a primary area where enhanced compliance from the Department of Revenue can swing collections. Granted, corporate profits are high and NOL deductions have been exhausted in prior years, so collections would be strong even without heightened compliance efforts. The forecast calls for additional growth in the corporate income tax but a slight decline of the pace set by the LLET last year.

The unprecedented revenue growth in coal severance tax revenue in FY09 was only partially reversed in FY10, but the slowdown was short-lived. Fiscal Year 2011 made up all of the losses from FY10 and set a new collection record for the coal severance tax, \$295.8 million in FY11. Our interim forecast calls for growth to continue at 6.7 percent for nominal collection of \$229.3 million in the first three quarters of FY12.

Readers should be reminded monies deposited to severance accounts participate in a statutory revenue-sharing program. Roughly half of the amounts received over the official estimate are sent back to local governments pursuant to the statutes regarding distribution of severance funds.

Cigarette taxes totaled \$262.3 million in FY11, a down year. Compared to the official projections for FY10, when the estimate missed the mark by six-tenths of one percent, the variance of \$18.7 million in FY11 has led to a major reexamination of the underlying market. Cigarette taxes have been underperforming vis-à-vis the official estimates all fiscal year. Investigations to date reveal product substitution as the main reason for the declining revenues. In many retail outlets, shop owners have installed machines that can be used to manufacture cigarettes on the spot. The customer buys empty “cigarette tubes” and loose “smoking tobacco”. The machines then assemble the cigarettes at a rate of one carton of ten packs of 20 per 8 minutes. This was unforeseen in the forecasting process due to the high federal excise tax on “smoking tobacco” at \$24.50 per pound. Pipe tobacco, however, has a much lower tax (\$2.83 per pound). Due to the tax differential, it is expected that either these machines are assembling “cigarettes” with pipe tobacco, or perhaps smoking tobacco is being incorrectly taxed as pipe tobacco to save the \$22.00 per pound tax differential. Regardless of the specifics, it is believed that the practice of offering on-premise cigarette machines directly to retail purchasers is eroding the tax base for conventional cigarettes. Our latest forecast calls for a 3.7 percent decline despite having 23 states raise their cigarette taxes since Kentucky last changed its rate in 2009. All else equal,

higher taxes in other states should raise Kentucky cigarette sales.

Property taxes are expected to rise marginally at 3.2 percent during the first three quarters of FY12. Revenues fell 0.3 percent in FY11. Looking ahead, the Department of Revenue officially posted the 2011 millage rate on real property at 12.2 cents per \$100 in assessed value. This marks the fourth consecutive year with a state rate at 12.2 cents, yet another sign of the continued weakness in the real estate market. Four consecutive years without a drop in the state tax rate is unprecedented since the passage of HB44 almost three decades ago.

Lottery revenues for FY11 totaled \$200.5 million. While demand for scratch-off products continues to be weak, online sales of mega-jackpot tickets and daily online draws have served to more than counterbalance poor instant tickets. Moreover, the addition of the Mega Millions game in the spring of 2010 should continue to rejuvenate the sale of online tickets and produce growth in the lottery dividend. The annualized dividend is expected to be \$206.0 million, with nearly \$149.5 million arriving during the three-quarter forecasting horizon.

Revenues in the “Other” category rose 4.0 percent in FY11. The “Other” category contains a variety of accounts, some of which are producing stable revenues while others perform erratically. Many of these smaller accounts are subject to fluctuations due to timing, processing and infrequent return periods (annual). These fluctuations require constant adjusting to account for these factors. Collectively, the interim forecast calls for improvement in these taxes for FY12, with 4.1 percent growth projected in the first three quarters.

ROAD FUND

The Road Fund is expected to increase 6.3 percent during the first three quarters of FY12, as shown in Table 14. The Road Fund grew 11.0 percent in FY11 due to strong growth in motor fuels and motor vehicle usage tax collections.

Motor fuels tax receipts are expected to increase 7.7 percent, due in large part to an increase in the tax rate caused by rising average wholesale prices of gasoline. The tax rate will be at the maximum statutorily allowable rate in the first quarter and is expected to remain there for each of the three remaining fiscal quarters.

Motor vehicle usage taxes are expected to grow 6.2 percent during the first three quarters of FY12 as motor vehicle sales continue to increase. In FY11, receipts from this

category rose 14.7 percent. The FY11 growth rate does not reflect true economic activity because of the motor vehicle trade-in credit which reduced receipts for 10 months in FY10 and two months in FY11. Adjusting receipts to account for the credit, economic growth in this account was 10.1 percent in FY11.

To estimate growth of the other components of the Road Fund, GOEA consulted with officials in the Transportation Cabinet and the Department of Revenue to assess recent growth patterns as well as administrative factors in developing an updated estimate. Motor vehicle operator's license (driver's license) fees are expected to decrease 0.3 percent. Weight distance taxes are expected to rise 4.5 percent, motor vehicle license taxes are forecasted to decline 1.6 percent, and investment income should increase \$900,000 to \$2 million. The "Other" category should rise by 0.2 percent.

Table 14
Road Fund Interim Forecast
\$ millions

	FY11		FY11		FY12	
	Q4		Full Year		Q1, Q2 & Q3	
	Actual	% Chg	Actual	% Chg	Estimate	% Chg
Motor Fuels	185.3	5.2	732.8	11.8	589.7	7.7
Motor Vehicle Usage	101.8	15.0	381.8	14.7	297.3	6.2
Motor Vehicle License	35.1	0.5	97.8	1.0	61.7	-1.6
Motor Vehicle Operator	3.8	-5.5	15.7	-1.3	11.9	-0.3
Weight Distance	18.2	4.8	74.0	4.9	58.3	4.5
Investment	0.7	-12.0	2.0	-45.1	2.0	81.8
Other	10.8	15.1	34.7	11.3	24.1	0.2
Total Road Fund	355.8	7.4	1,338.8	11.0	1,045.0	6.3

NATIONAL ECONOMY

The previous quarterly report released by the OSBD described an economy that was awash with short-run uncertainty despite being in a longer-run period of very robust recovery. In the intervening quarter, the uncertainty persists but the intermediate outlook calls for the recovery to plod forward.

Early indications were calling for GDP growth below 2.0 percent in the first quarter of calendar year 2011, a temporary slowdown. When the natural disaster hit Japan, a one-quarter pause became a two-quarter slowdown, as the resulting supply disruptions in the automotive sector shaved nearly one percent of second quarter GDP growth. Nevertheless, 2011 GDP is still projected to record nearly 2.5 percent growth, albeit back-loaded into the final two quarters. This period corresponds to the first half of FY12, so the economic backdrop for revenue growth remains solid.

The recovery continues to be quite mixed in nature. 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 nominal and real interest rates are at historic lows, consumers will remain cautious until household wealth and employment gain a more firm foothold. Moreover, the underwriting standards for all consumer loans have tightened dramatically in the aftermath of the financial sector meltdown. The inability for consumers to obtain credit and tap into equity adds serious

headwind to the recovery of the household sector. It has also led to increasing rental costs as the demand curve for rental units shifts outward in response to foreclosures and lower rates of home ownership.

On the positive side, periods of deleveraging (saving) are typically followed by periods of above-trend spending. 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 from delivery charges in the goods markets. 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 they 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.

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.

The national disaster in Japan continues to affect Kentucky. May exports and overseas shipments from Japan continued to experience steep declines. Overall exports fell by 10.3 percent 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 38.9 percent and shipments of car parts declined by 18.5 percent. Among key export regions, U.S.-bound auto exports declined precipitously by 43.5 percent, shipments to Asia and the European Union were down 27.6 percent and 35.8 percent respectively. Most disturbingly, shipments to China, Japan's largest trading partner declined by 40.1 percent. In the Commonwealth, many manufacturers have been able to recover more quickly than expected from the disruptions associated with the Japanese disaster. Current expectations

are for full capacity to be achieved by the beginning of the second quarter of FY12.

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. Current supply shortages have also delayed some purchases and buoy the data going forward.

KENTUCKY ECONOMY

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 30.3 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 Tables 15 and 16 show that personal income growth in Kentucky is expected to be 3.7 percent during the first three quarters of FY12, as compared to a 4.3 percent national average. US growth will tend to be higher during the adjustment period since the US economy experienced larger peak-to-trough declines.

In summary, the forecast calls for growth much in line with the projections used by the

CFG during the December 2009 official estimates. The projections for some of the national economic aggregates have actually increased since the official estimates, but the main revenue drivers (employment, wages, and personal income) are very much congruous with the official estimates. One positive note is that the upside and downside risks have equalized at a 20 percent chance. In earlier reports, the pessimistic risk outweighed the optimistic scenarios, but recent data trends have given more reason for equal weighting.

Table 15
Economic Outlook
FY12 Q1, Q2, & Q3

	Q1, Q2, & Q3			
	FY12	FY11	Chg	% Chg
United States				
Real GDP	13,824.0	13,443.8	380.2	2.8
Real Consumption	9,700.7	9,467.1	233.6	2.5
Real Investment	1,999.3	1,799.1	200.2	11.1
Real Government Expenditures	2,495.3	2,554.9	-59.7	-2.3
Real Exports	1,925.4	1,752.5	172.9	9.9
Real Imports	2,286.3	2,140.9	145.4	6.8
Personal Income (\$ billions)	13,450.2	12,899.8	550.4	4.3
Consumer Price Index (1992-99=100)	2.27	2.22	NA	2.2
Inflation (% chg CPI)	2.25	2.22	NA	NA
Ind. Production Index (2002=100)	96.3	92.5	3.7	4.0
Civilian Labor Force (millions)	154.7	153.6	1.1	0.7
Non-farm Employment (millions)	132.8	130.6	2.2	1.7
Manufacturing	12.0	11.6	0.3	2.7
Unemployment Rate (percent)	8.6	9.2	NA	NA
Kentucky				
Personal Income (\$ millions)	154,129	148,685	5,444.2	3.7
Wages and Salary	77,982.7	74,757.3	3,225.4	4.3
Non-farm Employment (thousands)	1,811.2	1,785.0	26.2	1.5
Goods Producing	310.4	301.6	8.8	2.9
Service Providing	1,176.6	1,153.5	23.1	2.0
Government	324.2	329.9	-5.7	-1.7

Real series are in billions of chained 2000 dollars.

Source: IHS Global Insight, Inc. June 6, 2011 data release and Kentucky MAK model.

Table 16
History and Outlook for US Economic Series
Annual Growth Rates (%)

	FY10				FY11				FY12		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
United States											
Real GDP	-2.7	0.2	2.4	3.0	3.2	2.8	2.3	2.4	2.7	2.7	2.9
Real Consumption	-0.9	0.2	0.8	1.7	1.8	2.6	2.7	2.5	2.6	2.4	2.4
Real Investment	-24.0	-9.6	10.5	23.3	24.1	11.1	7.3	1.8	2.5	12.3	10.5
Real Government Expenditures	1.5	0.8	1.1	0.6	1.2	1.1	0.2	-0.9	-2.3	-2.6	-2.1
Real Exports	-11.0	-0.1	11.4	14.1	12.7	8.9	8.4	8.4	9.1	9.7	9.9
Real Imports	-14.1	-7.2	6.2	17.4	16.1	10.9	10.0	2.8	1.1	7.1	6.2
Personal Income	-2.3	-0.9	2.1	2.6	3.5	3.8	4.7	4.4	5.0	5.3	3.8
Consumer Price Index	-1.6	1.5	2.4	1.8	1.2	1.2	2.2	3.3	3.5	3.1	2.2
Industrial Production Index	-10.6	-5.5	1.6	6.5	6.9	6.2	5.4	4.1	3.7	4.2	4.0
Civilian Labor Force	-0.2	-0.7	-0.4	-0.3	-0.2	0.1	-0.2	-0.4	0.0	0.3	0.9
Non-farm Employment	-4.9	-4.2	-2.6	-0.8	-0.1	0.5	1.0	0.9	1.4	1.6	1.8
Manufacturing	-13.0	-11.6	-7.4	-2.9	-0.6	0.6	1.6	1.6	1.9	2.6	2.4
Unemployment Rate (levels)	9.7	10.0	9.7	9.6	9.6	9.6	8.9	9.0	8.8	8.6	8.5
Kentucky											
Personal Income	0.5	1.3	3.4	3.5	4.4	4.6	4.8	4.2	4.3	4.5	3.3
Wages and Salary	-2.4	-1.6	1.7	2.9	3.7	4.1	4.8	4.1	4.0	4.2	4.3
Non-farm Employment	-4.8	-3.6	-1.7	0.3	0.6	1.0	1.6	1.0	1.5	1.4	1.5
Goods Producing	-13.6	-12.3	-8.4	-3.9	-1.7	-0.3	0.8	2.1	2.8	2.7	3.7
Service Providing	-3.9	-2.5	-1.0	0.7	0.8	1.4	2.1	1.6	2.2	1.9	1.9
Government	1.8	1.5	2.5	2.9	1.9	1.0	0.9	-1.8	-1.9	-1.8	-2.1

Not Seasonally Adjusted. Real series are in billions of chained 2000 dollars.

Data for FY11 Q4 and forward are June 2011 estimates.

Source: IHS Global Insight Inc., June 6, 2011 data release

Appendix A

KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	Fourth Quarter FY 2011	Fourth Quarter FY 2010	% Change	Year-To-Date FY 2011	Year-To-Date FY 2010	% Change
TOTAL GENERAL FUND	\$2,432,832,119	\$2,218,752,662	9.6%	\$8,759,442,646	\$8,225,127,620	6.5%
Tax Receipts	\$2,350,576,236	\$2,139,555,458	9.9%	\$8,455,775,175	\$7,917,980,032	6.8%
Sales and Gross Receipts	\$902,087,042	\$892,085,672	1.1%	\$3,489,069,236	\$3,396,530,945	2.7%
Beer Consumption	1,600,138	1,635,866	-2.2%	6,118,817	6,165,505	-0.8%
Beer Wholesale	13,009,302	13,534,168	-3.9%	51,914,445	51,596,255	0.6%
Cigarette	69,029,224	72,862,652	-5.3%	262,220,720	278,159,743	-5.7%
Distilled Spirits Case Sales	29,405	372,010	-92.1%	(232,830)	453,002	---
Distilled Spirits Consumption	2,877,104	2,728,052	5.5%	10,942,531	10,719,543	2.1%
Distilled Spirits Wholesale	7,513,375	7,063,346	6.4%	28,175,617	27,517,432	2.4%
Insurance Premium	41,057,991	40,136,889	2.3%	128,731,563	125,063,475	2.9%
Pari-Mutuel	1,707,339	670,335	154.7%	4,607,322	(82,480)	---
Race Track Admission	30,334	35,178	-13.8%	178,957	187,994	-4.8%
Sales and Use	740,075,643	727,672,780	1.7%	2,896,251,816	2,794,057,329	3.7%
Wine Consumption	663,390	613,745	8.1%	2,584,039	2,442,113	5.8%
Wine Wholesale	3,470,694	2,796,251	24.1%	13,748,696	12,082,136	13.8%
Telecommunications Tax	15,557,509	16,464,602	-5.5%	62,286,497	66,786,669	-6.7%
OTP	5,423,605	5,445,672	-0.4%	21,391,009	21,107,290	1.3%
Floor Stock Tax	41,988	54,125	-22.4%	150,038	274,940	-45.4%
License and Privilege	\$180,399,726	\$148,528,062	21.5%	\$658,594,243	\$539,421,718	22.1%
Alc. Bev. License Suspension	74,943	179,607	-58.3%	377,550	562,082	-32.8%
Coal Severance	80,878,417	77,346,596	4.6%	295,836,611	271,943,100	8.8%
Corporation License	412,405	3,168,091	-87.0%	10,654,547	5,470,951	94.7%
Corporation Organization	13,528	18,985	-28.7%	69,928	167,841	-58.3%
Occupational Licenses	66,382	72,504	-8.4%	165,753	172,153	-3.7%
Oil Production	2,568,797	2,094,749	22.6%	8,287,566	7,564,121	9.6%
Race Track License	45,725	44,675	2.4%	262,175	271,425	-3.4%
Bank Franchise Tax	10,035,499	850,248	1080.3%	88,400,971	69,085,922	28.0%
Driver License Fees	148,156	155,779	-4.9%	602,721	596,348	1.1%
Minerals Severance	3,150,880	3,145,643	0.2%	13,256,853	13,266,156	-0.1%
Natural Gas Severance	7,027,256	9,098,763	-22.8%	24,938,411	24,373,188	2.3%
Limited Liability Entity	75,977,739	52,352,423	45.1%	215,741,157	145,948,432	47.8%
Income	\$1,199,444,901	\$1,033,785,190	16.0%	\$3,718,560,868	\$3,392,355,392	9.6%
Corporation	149,214,688	108,713,259	37.3%	300,782,364	237,867,392	26.4%
Individual	1,050,230,212	925,071,931	13.5%	3,417,778,504	3,154,488,000	8.3%
Property	\$47,995,649	\$47,128,060	1.8%	\$514,814,972	\$516,169,947	-0.3%
Building & Loan Association	2,247,679	2,822,208	-20.4%	2,457,458	2,920,507	-15.9%
General - Real	7,371,527	6,937,071	6.3%	247,034,036	248,756,857	-0.7%
General - Tangible	27,194,880	41,950,866	-35.2%	186,665,683	193,234,982	-3.4%
Omitted & Delinquent	(1,228,477)	5,378,297	---	28,140,461	24,952,198	12.8%
Public Service	12,397,639	(9,965,091)	---	49,210,400	45,026,921	9.3%
Other	12,401	4,710	163.3%	1,306,933	1,278,483	2.2%
Inheritance	\$12,047,148	\$7,944,261	51.6%	\$41,350,929	\$37,201,611	11.2%
Miscellaneous	\$8,601,770	\$10,084,213	-14.7%	\$33,384,927	\$36,300,419	-8.0%
Legal Process	5,195,212	5,270,090	-1.4%	20,303,600	21,807,020	-6.9%
T. V. A. In Lieu Payments	3,404,199	4,800,569	-29.1%	12,992,023	14,335,091	-9.4%
Other	2,358	13,555	-82.6%	89,304	158,308	-43.6%
Nontax Receipts	\$82,312,158	\$76,383,966	7.8%	\$300,260,186	\$301,799,304	-0.5%
Departmental Fees	8,494,104	8,991,303	-5.5%	29,505,690	29,530,171	-0.1%
PSC Assessment Fee	7,537,842	4,316,470	74.6%	16,266,055	12,685,063	28.2%
Fines & Forfeitures	6,463,657	6,905,105	-6.4%	26,117,800	29,046,803	-10.1%
Interest on Investments	256,937	(925,979)	---	767,606	(303,103)	---
Lottery	57,000,000	55,500,000	2.7%	200,500,000	200,000,000	0.3%
Sale of NOx Credits	14,313	16,300	---	36,825	625,230	---
Miscellaneous	2,545,306	1,580,767	61.0%	27,066,209	30,215,139	-10.4%
Redeposit of State Funds	(\$56,275)	\$2,813,238	---	\$3,407,285	\$5,348,284	-36.3%

KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	Fourth Quarter FY 2011	Fourth Quarter FY 2010	%	Year-To-Date FY 2011	Year-To-Date FY 2010	%
			Change			Change
TOTAL ROAD FUND	\$355,752,737	\$331,175,208	7.4%	\$1,338,811,926	\$1,206,622,639	11.0%
Tax Receipts-	\$349,726,954	\$324,678,843	7.7%	\$1,315,130,011	\$1,181,341,209	11.3%
Sales and Gross Receipts	\$287,101,400	\$264,621,523	8.5%	\$1,114,593,981	\$988,541,345	12.8%
Motor Fuels Taxes	185,340,869	176,153,539	5.2%	732,826,112	655,761,466	11.8%
Motor Vehicle Usage	101,760,531	88,467,984	15.0%	381,767,869	332,779,879	14.7%
License and Privilege	\$62,625,555	\$60,057,320	4.3%	\$200,536,031	\$192,799,864	4.0%
Motor Vehicles	35,126,535	34,963,082	0.5%	97,812,587	96,839,803	1.0%
Motor Vehicle Operators	3,806,403	4,020,356	-5.3%	15,736,805	15,941,488	-1.3%
Weight Distance	18,177,209	17,347,294	4.8%	73,983,781	70,498,757	4.9%
Truck Decal Fees	709,415	624,096	13.7%	793,715	679,383	16.8%
Other Special Fees	4,805,993	3,102,491	54.9%	12,209,142	8,840,433	38.1%
Nontax Receipts	\$6,017,386	\$6,313,451	-4.7%	\$21,932,031	\$23,871,991	-8.1%
Departmental Fees	4,617,898	5,081,663	-9.1%	18,167,778	18,487,783	-1.7%
In Lieu of Traffic Fines	211,250	201,447	4.9%	779,828	779,495	0.0%
Investment Income	885,562	806,190	9.8%	1,995,228	3,633,987	-45.1%
Miscellaneous	302,676	224,151	35.0%	989,197	970,725	1.9%
Redeposit of State Funds	\$8,397	\$182,914	-95.4%	\$1,749,883	\$1,409,439	24.2%

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Appendix B
Summary Statistics for General and Road Funds
FY02 - FY11

Summary Statistics for General Fund (\$ mil)
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

Summary Statistics for General Fund (\$ mil)
Major Revenue Sources - Fiscal Years 2002-2011

	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%

General Fund Growth Rates
Major Revenue Sources - Fiscal Years 2002-2011

	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%

Summary Statistics for Road Fund (\$ mil)
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

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%

**Summary Statistics for Road Fund (\$ mil)
Major Revenue Sources - Fiscal Years 2002-2011**

	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**

	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%