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State Budget Director

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April 30, 2010

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

Dear Governor Beshear:

The attached Quarterly Economic and Revenue Report summarizes the revenue and economic statistics for the third quarter of Fiscal Year 2010 (FY10). It also includes an interim economic and revenue forecast for the final quarter of FY10 and the first two quarters of FY11.

General Fund receipts for the third quarter of FY10 totaled $1,875.6 million, a decrease of 0.7 percent compared to the same period in FY09. Road Fund revenues totaled $293.7 million, an increase of 3.7 percent from the third quarter of FY09.

The interim General Fund forecast for the final quarter of FY10 calls for a decrease of 2.4 percent compared to the same period one year ago, resulting in a projected decline of 3.1 percent for the entire fiscal year. The interim forecast for the Road Fund for the final quarter of FY10 calls for an increase of 3.8 percent, resulting in a projected increase of 1.0 percent for the entire fiscal year.

Compared to the current official revenue estimates, the interim General Fund forecast for FY10 falls $33.6 million short. For the Road Fund, the interim forecast is $4.9 million more than the current official forecast.

We will continue to monitor the economic and fiscal conditions of the Commonwealth and will keep you apprised of developments.

Sincerely,

Mary E. Lassiter

Mary E. Lassiter
State Budget Director

Attachment

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Executive Summary

In accordance with KRS 48.400(2), the Office of State Budget Director has prepared a Quarterly Economic and Revenue Report for the third quarter of FY10. 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 which represents the final quarter of FY10 and the first half of FY11.

General Fund receipts fell 0.7 percent in the third quarter of FY10, marking the fifth consecutive quarterly decline in the General Fund. For the year, the General Fund has declined 3.4 percent. Road Fund receipts reversed a seven-quarter streak of consecutive declines with a 3.7 percent increase. For the year, the Road Fund is virtually flat vis-à-vis the first nine months of FY09. Given the recent history of the Road Fund, the third quarter Road Fund report represents substantial improvement and hopefully a harbinger of a full recovery in the Road Fund receipts.

Weakness through the first nine months of the fiscal year in the General Fund is broadly based. The larger accounts, both income taxes and the sales taxes, have been especially off in FY10. Despite growing 1.8 percent in the third quarter, individual income tax receipts have plummeted 5.2 percent this year. The sales tax continued its streak of quarterly declines with a 1.4 percent setback in the third quarter and now stands 4.3 percent in arrears year-to-date. Combined corporate income tax and the limited liability entity tax (LLET) are 14.2 percent less compared to the same period in FY09 despite a resounding 36.5 percent bulge in the LLET.

After almost two entire years of weakness, the Road Fund has finally emerged from the 2007 recession. Through March, the Road Fund has collected $875.4 million in revenues, of which 81.5 percent is derived from the two largest revenue sources: the motor fuels and motor vehicle usage accounts. A positive third quarter has pushed year-to-date motor fuels growth into positive territory at 3.9 percent, due primarily to the statutorily directed increases in the tax rate on motor fuels. Motor vehicle usage is down 2.8 percent year-to-date but the third quarter actually posted growth, albeit less than a million dollars higher than the levels in the third quarter of FY09. Growth in the motor vehicle tax was even more remarkable given that the HB3 motor vehicle usage tax credit is still serving to reduce receipts on new car purchases with trade-ins.

The remainder of this executive summary will concentrate on the highlights of the outlook portion of this report. The official Consensus Forecasting Group (CFG) General Fund estimate for FY10 is $8,196.0 million.

The interim estimates for FY10 projected in the January *Quarterly Report* equaled $8,168.5 million, an amount $27.5 million below the current official estimate. The current forecast calls for slightly lower revenues, $8,162.1 million, which would be $33.6 million below the official estimate. The outlook for the first half of FY11 calls for 1.7 percent growth in the General Fund as the state economy slowly builds steam on the heels of the prolonged recession.

The estimates in this report were prepared with the March 2010 forecast from both Global Insight and the Kentucky Macro Model (MAK) , which is operated by the Governor's Office for Economic Analysis. April's proximity to the prior estimates is a function of the inertia that has been building in the Global Insight national outlook, which in turn creates inertia in the Kentucky outlook produced by the MAK model. Moreover, actual receipts for the third quarter of FY10 produced few deviations from the officially projected amounts. Some accounts were adjusted upward, others down, but in the aggregate the projections have remained very stable.

A similar interim estimate was also prepared for the Kentucky Road Fund. Using the latest available information, Road Fund revenues are expected to reach an unofficial interim estimate of $1,204.0 million in FY10. The standing *official* estimate for the Road Fund in FY10 is $1,199.1 million. Comparing the two estimates, the current interim estimate is $4.9 million above the *official* estimate.

The latest national economic forecast rings this now-familiar theme: all major economic aggregates are poised for solid growth in 2010 with the glaring exception of employment. Employment is expected to tread water at current levels until the fourth calendar quarter of 2010, when slight growth will finally resume.

There are many similarities between the state and national outlooks. Most notably, personal income rebounds before employment. The first half of FY11 continues that pattern, with personal income rising 3.6 percent with only 0.3 percent growth in employment. Compared to the national forecast for the same period, the employment outlook is very similar but the rebound in personal income is slightly muted in Kentucky. The income disparity is partly explained by a slowing in the growth of transfer payments. Kentucky was somewhat insulated from the depths of the recession by sustained growth in transfer payments from the Federal Government, but those double-digit growth rates were not viewed as sustainable, long-run rates.

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. The same risks that apply to the national economy exist for the state economy as well. On the downside, tight credit conditions could retard or delay the rebound in state consumption, which would further delay the rebound in employment. Similarly, if credit flows freely, the state economy could exceed expectations and the recovery scenario could be accelerated somewhat vis-à-vis the control scenario, which was the basis for the revenue projections contained herein.

GENERAL FUND

General Fund receipts fell in each of the first three quarters of FY10. In the third quarter of FY10, revenue collections fell a very modest 0.7 percent, or $13.2 million. Notwithstanding the decline in revenues, the third quarter represents an improvement over the 3.6 percent decline in the second quarter and 5.6 percent decline in the first quarter of the year.

The third quarter collections were primarily affected by weak sales and use, withholding, corporate income, coal severance, and "other" tax receipts. Major accounts that showed positive growth for the quarter include individual income, LLET, cigarette tax and lottery. Despite weaker withholding payments, the individual income tax was able to muster minor growth due to the non-withholding components of the total tax collections.

Receipts in the third quarter totaled $1,875.6 million compared to $1,888.8 million received in the third quarter of FY09. The resulting rate of decline was 0.7 percent, and compares to a 4.3 percent rate of decline for the same quarter last year. Collections in the major revenue categories are shown in summary form in Table 1. Detailed information on these and other accounts is available in the Appendix.

Table 1
Summary General Fund Receipts
Third Quarter, FY10
(mil $)

	FY10	FY09	Diff ($)	Diff (%)
Sales and Use	681.6	691.4	-9.8	-1.4
Individual Income	626.6	615.5	11.1	1.8
Corp Income	24.7	26.3	-1.6	-6.0
LLET	26.9	26.5	0.4	1.7
Coal Severance	62.8	69.7	-6.9	-10.0
Cigarette Taxes	63.8	39.3	24.5	62.3
Property	133.1	139.7	-6.6	-4.7
Lottery	51.5	50.0	1.5	3.0
Other	204.6	230.4	-25.8	-11.2
TOTAL	**1,875.6**	**1,888.8**	**-13.2**	**-0.7**

Variations in the quarterly receipts are often affected by differences in the timing of payments into revenue accounts. While timing differences were not as prevalent as in the past, property tax receipts continue to record fluctuations because of these differences.

Total sales and use tax receipts for the quarter were $681.6 million, compared to $691.4 million in the third quarter of FY09. The $9.8 million difference translates to a decline of 1.4 percent compared to 2.9 percent decline for the third quarter of last year.

Individual income tax posted receipts of $626.6 million, compared to last year's third-quarter receipts of $615.5 million. Receipts grew 1.8 percent, or $11.1 million, as compared to the third quarter of last year. Declarations were off $17.0 million, withholding came in $0.7 million down, while fiduciary grew by $0.7 million. Net returns were $28.1 million more favorable than last year.

Combined corporation income and LLET receipts were lower in the third quarter of the fiscal year. Revenues of $51.6 million were 2.3 percent lower than year-earlier figures of $52.8 million. The LLET tax collections were up 1.7 percent while corporation income tax receipts were down 6.0 percent. Since the income tax fell more sharply than the LLET grew, the combined corporate category fell.

Coal severance tax revenue continued to decline in the third quarter, with receipts down by 10.0 percent. Collections of $62.8 million compare unfavorably to the FY09 third quarter total of $69.7 million. Tax receipts in the third quarter of FY09 rose by 24.9 percent. Through the first nine months of FY10, receipts are off 10.7 percent.

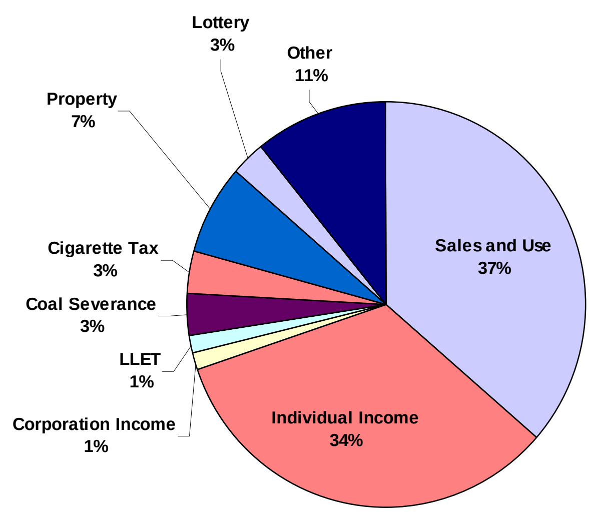
Cigarette tax receipts of $63.8 million in the third quarter of FY10 raised significantly over last year's total of $39.3 million due to a doubling of the tax rate from 30 cents per pack to 60 cents per pack. The $24.5 million increase amounted to a 62.3 percent growth rate.

Third-quarter property tax receipts were down 4.7 percent due to timing of collections in the tangible and public service property accounts. Receipts of $133.1 million for FY10 third-quarter compare with $139.7 million from the FY09 third quarter total.

Lottery receipts were $51.5 million, which was 3.0 percent higher than last year's third-quarter total of $50.0 million.

The "other" category, which represents the remaining accounts of the General Fund, declined $25.8 million, or 11.2 percent, in the third quarter. Third quarter receipts for FY10 were $204.6 million and compare to $230.4 million in FY09. Declines in beer consumption, corporation license and interest on investments largely accounted for the decline.

Figure 1
Third Quarter, FY10
General Fund Receipts



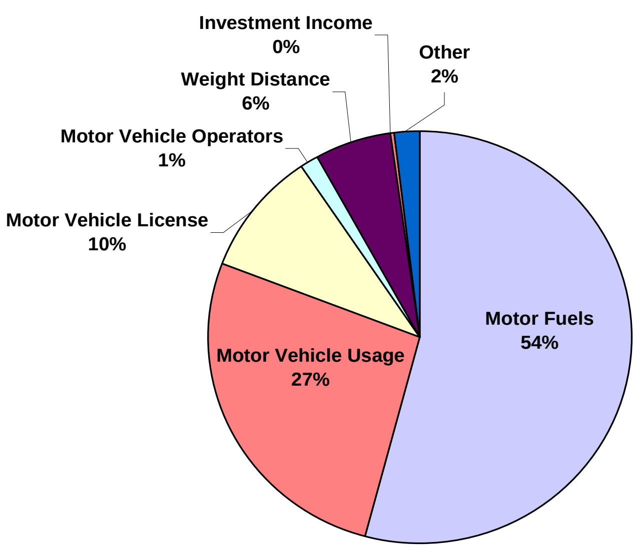
ROAD FUND

The Road Fund reported an increase of 3.7 percent in the third quarter of FY10. This is the first positive quarter following a prolonged seven quarter freefall in Road Fund collections. Receipts totaled $293.7 million and compare to $283.4 million from the third quarter of last year. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Table 2
Summary Road Fund Receipts
Third Quarter, FY10
(mil $)

	FY10	FY09	Diff ($)	Diff (%)
Motor Fuels	158.9	145.9	13.0	8.8
Motor Vehicle Usage	78.3	77.6	0.7	0.8
Motor Vehicle License	28.6	27.1	1.5	5.7
Motor Vehicle Operators	3.9	3.6	0.3	6.2
Weight Distance	17.8	17.8	0.0	0.0
Investment Income	0.5	2.4	-1.9	-79.8
Other	5.8	8.9	-3.1	-34.8
TOTAL	**293.7**	**283.4**	**10.3**	**3.7**

Figure 2
Third Quarter, FY10
Road Fund Receipts



Motor fuels tax receipts, historically a staple of the Road Fund growth, grew at a rate of 8.8 percent during the third quarter. Receipts were $158.9 million and compare to $145.9 million collected during the third quarter of last year. The statutorily-driven increases in the average wholesale price triggered increases in the fuel tax rate which have finally generated growth in the Road Fund.

Motor vehicle usage tax revenues rose a scant 0.8 percent in the third quarter. Receipts during the third quarter of FY10 totaled $78.3 million and compare to $77.6 million collected during the same period last year.

Motor vehicle license tax receipts rose by 5.7 percent, or $1.5 million, in the third quarter of FY10 to $28.6 million.

Motor vehicle operators license tax receipts were $3.9 million in the third quarter of FY10, an increase of 6.2 percent.

Weight distance tax receipts of $17.8 million for the third quarter are essentially flat compared to the same quarter last year. While posting no growth, the third quarter performance indicates some improvement over previous quarters of decline.

Investment receipts of $0.5 million were down $1.9 million, or 79.8 percent, over the total collected in the third quarter of FY09.

The remainder of the accounts in the Road Fund combined for a decrease of 34.8 percent from a year earlier. In the “other” category, revenues of $5.8 million compare to $8.9 million in the third quarter of FY09.

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The Economy Third Quarter FY10

NATIONAL ECONOMY

Real gross domestic product (real GDP) has risen for the third consecutive quarter. The third quarter grew 0.6 percent over the second quarter of FY10. While these last few growth rates are nowhere near historical highs, they are promising considering that the previous four quarters declined by 0.7, 1.4, 1.6, and 0.2 percent, respectively. Given that real GDP has grown in three consecutive quarters one could say that the economy, in terms of output, has turned the corner. However, the national employment data is still very weak. The last official turning point, which was identified by the National Bureau of Economic Research (NBER), was in December 2007. This date marks the beginning of the contraction period in the current business cycle. As of April 21, 2010, the trough has not been identified by NBER.

Real GDP is composed of five components: consumption, investment, government expenditures, exports and imports. Second quarter FY10 real GDP growth was essentially flat with a 0.1 percent increase over the same quarter FY09. The third quarter FY10 real GDP growth estimate is a 2.5 percent improvement over the third quarter of FY09. Third quarter growth in the components of real GDP were quite different from those in the second quarter. The largest mover in the third quarter was exports, with an 11.2 percent increase. Real investment increased 7.6 percent over FY09, adding the second most to real GDP. Real consumption and real government expenditures rose modestly with 1.6 and 2.1 percent growth, respectively. Real imports, which are a deduction from real GDP, increased commensurate with real exports thus neutralizing much of the net GDP effect from foreign trade. Real imports rose 7.9 percent in the third quarter over the same quarter in FY09.

Real consumption on an adjacent-quarter basis has improved moderately for the last three quarters, growing 0.7, 0.4 and 0.6 percent, respectively. While this is not stellar growth, it is considerably better than the previous six quarters, during which time real consumption fell in four of those quarters.

Real investment is one of the biggest surprises within real GDP. Real investment finally rose in the third quarter. This is following 13 consecutive quarterly declines. During this time, investment lost a net $587.3 billion, or 25.9 percent of its value.

The two fastest growing segments of the economy in the last decade are real exports and real government expenditures. Real exports have grown a net 23.9 percent in the last decade, while real GDP has risen 15.7 percent. Real government expenditures have risen a

Table 3
Summary of US Economic Series
Third Quarters of FY09 & FY10

	Third Quarter			
	FY10	**FY09**	**Diff**	**% Chg**
Real GDP	13,245.4	12,925.4	320.0	2.5
Real Consumption	9,352.1	9,209.2	142.8	1.6
Real Investment	1,677.4	1,558.5	118.9	7.6
Real Govt. Expenditures	2,580.2	2,527.2	53.0	2.1
Real Exports	1,594.5	1,434.5	160.0	11.2
Real Imports	1,964.9	1,821.0	143.9	7.9
Personal Income ($ billions)	12,187.9	11,952.7	235.2	2.0
Consumer Price Index (% change)	2.5	-0.2	NA	NA
Industrial Production Index	101.0	99.1	1.9	1.9
Civilian Labor Force (millions)	153.5	154.2	-0.8	-0.5
Total Nonfarm Employment (millions)	129.6	132.8	-3.2	-2.4
Manufacturing Employment (millions)	11.6	12.4	-0.8	-6.6
Unemployment Rate (%)	9.7	8.2	NA	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 FY10 Q3 are March 2010 estimates.
Source: IHS Global Insight Inc., March 8, 2010 data release

net 22.3 percent in the last decade. While the two series have grown by similar net amounts exports and government are very different in how they have grown. Real exports have a higher variance and a larger range than real government expenditures. That is, the smallest annual growth rate in real exports in the last decade was -9.6 percent, while the largest annual growth rate was +9.5 percent. Several factors accounted for this strong export growth during the last decade. Since January 2000, the U.S. has implemented free trade agreements with 11 countries. This has increased trade with those 11 countries by 75.0 percent. Also, import demand for U.S. goods has expanded in China and Canada.

Real government expenditures grew more evenly than real exports and were non-decreasing on an annual basis for the entire decade. In the last decade, the smallest annual growth rate in real government expenditures was +0.3 percent, while the largest annual growth rate was +4.7 percent. Real government expenditures have risen sharply in the last decade, despite the tapered growth during FY10. Several factors, including recessions, changes in laws affecting outlays, and involvement in wars, contribute to the pattern of government expenditure growth.

To more clearly see the trends, it is helpful to analyze real government expenditures relative to real GDP. Government expenditures as a share of real GDP (defined as the ratio of total government expenditures to real GDP) fell for the second consecutive quarter to 19.5 percent of national income. Average real GDP growth over the last four quarters was 0.6 percent and 0.5 percent for government expenditures. Total government expenditures GDP are growing at nearly the same rate during the last year, but the share is declining. This is because the real GDP growth rate is rising and the real government expenditures growth rate is declining. The share reached a 14-year high of 19.9 percent, in the fourth quarter of FY09 and has fallen only slightly since then.

The share of federal transfer payments (defined as the ratio of nominal federal transfer payments to nominal government expenditures) has changed considerably in the last seven quarters. In the fourth quarter of FY09, the transfer payment share rose from 68.8 percent to 75.0 percent. The third quarter FY10 share hit a new 50-year high of 75.8 percent. According to an April 2010 Bureau of Economic Analysis report, second quarter FY10 transfer payments were increased due to some American Recovery and Reinvestment Act (ARRA) benefit payments. No analysis was supplied regarding ARRA and transfer payments for the third quarter. Increases in the share of federal transfer payments to total government spending have occurred in three 'bursts' over the last 50 years. The first burst occurred in the early 1970s when the share rose from 30 percent to 54 percent by 1975. The second burst occurred in the early 1990s when the share rose from 48 percent to 63 percent by 1996. The third burst occurred in the fourth quarter of FY09 when the share rose over six percent in a single quarter to 75.0 percent.

Defense spending has doubled in the last decade. Defense purchases in 2000 were $371.1 billion (annual rate) compared to $811.8 billion in the third quarter FY10 (annual rate). Defense spending in the third quarter rose by 8.1 percent compared to the third quarter of FY09. Growth has slowed since 2008, when year-over-year growth was above 10 percent for the entire calendar year. Annual growth remains high; it has been above five percent in every year of the decade.

Following four consecutive declines, U.S. personal income rose in the third quarter, gaining 2.0 percent. The 2007 recession for U.S. personal income was completely unlike the previous two recessions. The last peak for U.S. personal income occurred in the fourth quarter of FY08 with $12,292.9 billion (annual rate). The last trough occurred in the third quarter of FY09 with $11,952.7 billion. That is a loss of $340.2 billion, a decline of 2.8 percent. To date, U.S. personal income has made up 69 percent of the recession losses. In the previous two recessions, U.S. personal income did not decline at all.

Total non-farm employment has declined for the last eight consecutive quarters. Total non-farm employment reached 129.6 million in the third quarter. This is 2.4 percent below a year ago and 0.03 percent below the second quarter of FY10. Manufacturing employment may be reaching its bottom, as this is the second quarter that it has held steady with 11.6 million employed. Following the recent sharp declines, third quarter year-over-year growth is still showing large declines with -6.6 percent, while adjacent-quarter growth has become nearly flat with +0.03 percent. Meanwhile, the unemployment rate has remained above nine percent unemployment for the fourth consecutive month. The third quarter unemployment rate fell slightly to 9.7 percent.

KENTUCKY ECONOMY

Kentucky personal income increased for the third consecutive month with 3.0 percent growth in the third quarter. On an adjacent-quarter basis, Kentucky personal income had declined in four of the preceding five quarters during the 2007 recession. The previous peak occurred in the fourth quarter of FY08 with $137,979 million. The trough occurred in the third quarter of FY09 with $135,738 million. That is a decline of $2,241 million, or a 1.6 percent net loss. Third quarter Kentucky personal income is estimated at $139,746 million. Kentucky personal income surpassed the previous peak in the second quarter of FY10 and has now fully recouped the losses experienced during the 2007 recession.

In the third quarter of FY09, Kentucky wages and salaries declined sharply, falling 3.2 percent over the second quarter. Since then Kentucky wages and salaries have increased each quarter. In the third quarter of FY10 Kentucky wages and salaries rose by 0.5 percent over the second quarter and by 1.5 percent over third quarter of FY09.

Kentucky wages and salaries make up about 51 percent of total Kentucky personal income. Kentucky transfer payments were the fastest growing segment of Kentucky personal income in the third quarter. Transfer payment income grew at over three times the rate of total personal income, increasing 1.9 percent over the second quarter. This is not a historically large single-quarter growth rate, but it is significant as transfer payment growth has surpassed total personal income growth in nine of the last 11 quarters.

Kentucky non-farm employment fell for the sixth time in seven quarters in the third quarter with a 0.1 percent decline over the second quarter. This is a 1.3 percent decline compared to the third quarter of FY09. It does not appear that Kentucky employment has found a bottom yet. Only three supersectors, mining, business services and education and health services have increased employment during the third quarter. Kentucky mining employment grew by 2.3 percent over the second quarter, while the other two sectors increased by less than half of a percent each. The other nine supersectors experienced employment declines compared to the second quarter. These losses were small historically and in comparison to the losses during the recession. The largest loss was in the construction supersector, which lost 600 seasonally adjusted jobs, a 0.9 percent decline.

There is a considerable difference in improvement among the three classifications of non-farm employment during the third quarter. Total non-farm employment declined a net 1.3 percent compared to a year ago. The goods-producing supersectors, which make up 17 percent of non-farm employment, declined a net 6.9 percent compared to a year ago. The service-providing supersectors, which make up 64 percent of non-farm employment, only lost 0.5 percent in jobs compared to a year ago. Kentucky government employment (includes state and local government employment), which makes up over 18.0 percent of non-farm employment, increased by 1.5 percent compared to a year ago.

Kentucky government employment peaked in the second quarter of FY10 with 326,100 seasonally adjusted jobs. Employment in the third quarter fell by 500 seasonally adjusted jobs, a 0.2 percent decline from the second quarter. The recent W-shape in government employment was preceded by a four year period of steady growth in government employment. Between 2004 and 2008, Kentucky government employment increased by a net 16,700 seasonally adjusted jobs. By the first quarter of FY09, government employment had fallen from that peak by 5,000 to 320,500 seasonally adjusted jobs. Third quarter FY10 government employment is 4,700 seasonally adjusted jobs, or 1.5 percent, higher than the third quarter FY09 level.

Table 4
Summary of Kentucky Economic Series
Third Quarters of FY09 & FY10

	Third Quarter			
	FY10	**FY09**	**Chg**	**% Chg**
Personal Income ($ millions)	139,746.0	135,738.0	4,008.0	3.0
Wages and Salary Income ($ millions)	71,389.4	70,342.0	1,047.4	1.5
Non-farm Employment (thousands)	1,763.4	1,787.0	-23.5	-1.3
Goods Producing (thousands)	301.5	323.7	-22.2	-6.9
Construction	70.1	77.7	-7.6	-9.7
Mining	23.4	25.3	-1.9	-7.7
Manufacturing	208.0	220.7	-12.7	-5.8
Service Providing (thousands)	1,136.4	1,142.4	-6.1	-0.5
Trade, Transportation & Utilities	358.2	367.4	-9.2	-2.5
Information	26.5	27.9	-1.4	-5.0
Finance	86.7	89.5	-2.8	-3.1
Business Services	178.4	171.8	6.7	3.9
Educational Services	249.5	245.6	3.9	1.6
Leisure and Hospitality Services	169.0	169.1	-0.1	-0.1
Other Services	68.0	71.3	-3.2	-4.5
Government (thousands)	325.6	320.9	4.7	1.5

Data for FY10 Q3 are March 2010 estimates.
Source: IHS Global Insight Inc. and Governor's Office for Economic Analysis MAK model March 8, 2010 estimates

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Projected General Fund revenues for the next three quarters are shown in Table 5. The official CFG General Fund estimate for FY10 is $8,196.0 million. The interim estimates for FY10 projected in the January Quarterly Report equaled $8,168.5 million, an amount $27.5 million below the current official estimate. The current forecast calls for slightly lower revenues, $8,162.1 million, which would be $33.6 million below the official estimate. The outlook for the first half of FY11 calls for 1.7 percent growth in the General Fund as the state economy slowly builds steam on the heels of the prolonged recession.

The estimates in this report were prepared with the March 2010 forecast from both Global Insight and the MAK model, which is operated by the Governor's Office for Economic Analysis. April's proximity to the prior estimates is a function of the inertia that has been building in the Global Insight national outlook, which in turn creates inertia in the Kentucky outlook produced by the MAK model. Moreover, actual receipts for the third quarter of FY10 produced few deviations from the originally projected amounts. Some accounts were adjusted upward, others down, but in the aggregate the projections have remained very stable.

General Fund receipts through the first three quarters of FY10 totaled $6,006.4 million, a reduction of 3.4 percent from the amount collected in the same period of FY09. The projections included in this report call for a 2.4 percent reduction for the remainder of FY10, resulting in an overall loss of 3.1 percent for FY10. By comparison, General Fund

Table 5
General Fund: Interim Forecast
(millions of dollars)

	FY10 Q 1, Q2 & Q3		FY10 Q4		FY10 Full Year		Difference From Dec CFG	FY11 Q1 & Q2	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	$ millions	Estimate	% Chg
Sales and Use	2,066.4	-4.3	705.9	1.1	2,772.3	-3.0	-20.3	1,422.2	2.7
Individual Income	2,229.4	-5.2	922.1	-4.3	3,151.5	-4.9	2.7	1,639.0	2.3
Corporation Inc & LLET	222.8	-14.2	122.0	-6.3	344.7	-11.5	-31.5	156.2	-8.7
Coal Severance	194.6	-10.7	68.4	-8.4	263.0	-10.1	18.3	128.0	-2.9
Cigarette Tax	205.3	70.7	69.4	-16.2	274.7	35.3	-5.5	140.3	-1.0
Property	469.0	2.2	53.9	-0.7	522.9	1.9	4.2	342.3	1.9
Lottery	144.5	2.1	55.5	6.7	200.0	3.4	0.0	95.0	2.2
Other	474.4	-6.6	158.9	3.6	633.3	-4.2	-1.5	276.6	2.6
General Fund	**6,006.4**	**-3.4**	**2,156.0**	**-2.4**	**8,162.4**	**-3.1**	**-33.6**	**4,199.6**	**1.7**

revenues fell 2.7 percent in FY09. If the projected decline in FY10 manifests, it will be the first time in the modern rate era that the General Fund has declined in consecutive fiscal years.

One of the accounts that received a downward revision is the sales and use tax. Sales tax receipts are now expected to total $2,772.3 million in FY10, a tally $20.3 million lower than the official estimate. Sales and use tax receipts are expected to grow 1.1 percent in the fourth quarter of FY10 despite falling 4.3 percent through the first nine months of FY10. The sales tax has been particularly vulnerable to the underlying weaknesses in employment and income, both of which are expected to improve slightly during the forecast horizon. During the current six-quarter streak of consecutive declines in the sales tax, the rates of decline grew as the recession endured up to the last quarter. The six consecutive quarterly declines have created a lower base of comparison while computing the rates of growth for the final quarter of FY10, so the projected increase is more indicative of a low base rather than an overwhelming endorsement of the health of the sales tax. Nevertheless, all of the economic aggregates that most closely correlate with the sales tax are expected to improve sharply over the forecast horizon, so improvement in this revenue source is strongly indicated.

The interim forecast for the individual income tax calls for receipts to fall by 4.9 percent in FY10. The FY10 income tax receipts are expected to total $3,151.5 million, which is $2.7 million higher than the official revenue estimate. Individual income tax receipts fell 5.2 percent in the first nine months of FY10 but the rate of decline is expected to mitigate to 4.3 percent in the final quarter of the fiscal year. While the weakness in this revenue source is widespread, payroll withholding taxes have been notably weak in recent quarters, a result closely aligned with underlying weakness in the Kentucky and national labor markets. The improved plight of the individual income tax will be directly correlated with forecasted improvements in the Kentucky employment picture. Also, like the sales tax, the lower months of comparison in FY09 will make growth much more obtainable as FY10 comes to a close.

In terms of revisions from the official estimates, the combined corporate taxes represent the largest nominal and percentage reductions. Combined corporation income and LLET receipts have fallen 14.2 percent thus far in FY10 but the rate of decline is predicted to stabilize at 6.3 percent in the fourth quarter. The FY10 total estimate is $344.7 million, an 11.5 percent reduction compared to FY09. The combined LLET and corporate income tax account masks a tale of two different taxes, one increasing and the other falling. On the positive side, the LLET has grown 36.5 percent through the first nine months of FY10 with collections of $93.6 million. Counteracting this growth has been a 32.4 percent free fall in the corporation income tax on actual collections of $129.2 million. A portion of the LLET tax increase in collections is attributable to compliance efforts by the Department of Revenue and prior year tax liabilities being paid in the current year. However, the base of the LLET is Kentucky gross receipts or gross profits, both of which exhibit more stability than net income. Moreover, the LLET credit is nonrefundable and not subject to carry-forward provisions, so the LLET is a natural stabilizer when corporation income tax receipts are in a cyclical decline.

The exceptional revenue growth in coal severance tax revenue for FY09 came to an abrupt halt thus far in FY10, as that revenue source fell 10.7 percent compared to the extremely high bar set in the first nine months of FY09. The FY10 estimate for the coal severance tax is $263.0 million, a decline of 10.1 percent. Compared to the official estimate from December 2009, the coal severance estimate has improved $18.3 million. The primary reason for the upward revision is an increase in the outlook for coal prices, and energy prices in general. Despite the negative growth in the current fiscal year, the level of coal severance receipts is still quite robust compared to the grim outlook in years prior to FY08.

Cigarette taxes totaled $205.3 million through March, an improvement of 70.7 percent over FY09. The new interim estimate for FY10 projects $274.7 million in cigarette tax collections, for an annual growth rate of 35.3 percent. While it is too early to compute elasticities from the tax increase, it does appear that there were very modest consumption declines in line with the projections. The rate of growth for the remainder of FY10 diminishes off the torrid pace set thus far this fiscal year, but such a slowdown is expected in recognition of the fact that the higher tax rates took effect in April 2009, and also in recognition of the nearly $16.3 million in floor stock taxes collected in FY09 that will not be collected in FY10. Other tobacco taxes are expected to show similar growth to the anticipated increases in the cigarette tax.

Property taxes are expected to rise marginally by 1.9 percent in FY10. The rate of increase in property tax revenues was 2.2 percent through the first nine months of FY10. In the previous *Quarterly Report*, it was noted that real property tax growth was unusually high, as receipts bulged with growth of 14.8 percent through December. Given the underlying data on the appreciation of real property, it was noted that the growth appeared to be aberrant, a mere acceleration of the timing in payments. That predilection was borne out in the data for the third quarter of FY10, as real property tax receipts fell 17.1 percent. The remaining property tax accounts are also producing collections in line with expectations, so the current outlook is still very much in line with the official estimates. For FY10, total property taxes are expected to exceed the official mark by $4.2 million.

Lottery revenues for FY10 were lowered from $202.0 million to $200.0 million at the December meeting of the CFG. Lottery receipts in the current year have fallen prey to a poor economy which has led to weak scratch-off sales and weaker on-line game revenue. Both of these factors contributed to the decline in the official estimate. Revenues in the “other” category fell 6.7 percent in the first three quarters of FY10 with an additional 4.3 percent slide predicted for the final quarter. Expected modest growth in the wholesale alcohol taxes, the bank franchise tax, and insurance premium taxes will be counterbalanced by weaknesses in mineral taxes, pari-mutuel taxes, and other miscellaneous revenues.

ROAD FUND

Road Fund revenues are forecasted to grow moderately in the final quarter of FY10, then grow more strongly in the first two quarters of FY11 as shown in Table 6. Growth rates for the fourth quarter of the current fiscal year and the first six months of FY10 are forecast to be 3.8 and 8.0 percent, respectively. The FY10 full-year forecast is $4.9 million more than the official revenue forecast as approved by the CFG on December 21, 2009.

Motor fuels tax collections are forecasted to grow 8.4 percent over the final three months of FY10, due primarily to the increase in the tax rate on motor fuels that went into effect on January 1, 2010. Receipts in the first two quarters of FY11 will continue their strong growth, increasing 9.8 percent.

Motor vehicle usage tax collections will rebound as receipts fall by only 0.1 percent in the fourth quarter. However, vehicle sales will take off in the first two quarters of FY11 with growth in receipts of 7.9 percent.

To estimate the growth of all other components of the Road Fund, officials of the Kentucky Transportation Cabinet and staff of the Governor's Office for Economic Analysis together assessed recent growth patterns as well as administrative and statutory factors.

Motor vehicle license taxes are forecasted to decrease by 1.7 percent in the final quarter of FY10 but grow 4.7 percent in the first two quarters of FY11. Motor vehicle operators' licenses are projected to rise 7.0 percent in the remainder of the fiscal year and weaken slightly in the first six months of FY10, growing only 2.9 percent. Weight distance tax revenue will finally show improvement, increasing 4.7 percent for the remainder of the fiscal year and 4.5 percent over the first two quarters of FY11. Investment income will fall 64.1 percent over the remainder of the fiscal year and by 65.7 percent in the first half of FY11 due to lower fund balances. All other revenues should combine for an increase of 1.9 percent during the last three months of FY10 and increase 2.0 percent in the first two quarters of FY11.

Table 6
Road Fund: Interim Forecast
(millions of dollars)

	FY10 Q 1, Q2 & Q3		FY10 Q4		FY10 Full Year		Difference From Dec CFG	FY11 Q1 & Q2	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	$ millions	Estimate	% Chg
Motor Fuels	479.6	3.9	174.4	8.4	654.0	5.1	-1.6	352.1	9.8
Motor Vehicle Usage	244.3	-2.8	84.8	-0.1	329.1	-2.1	0.5	179.1	7.9
Motor Vehicle License	61.9	2.9	37.4	-1.7	99.3	1.1	5.8	34.8	4.7
Motor Vehicle Operators	11.9	2.6	4.2	7.0	16.1	3.7	0.8	8.3	2.9
Weight Distance	53.2	-9.1	17.7	4.7	70.9	-6.0	0.5	36.9	4.5
Investment	2.8	-61.8	1.2	-64.1	4.0	-62.5	0.1	0.8	-65.7
Other	21.8	-12.0	8.8	1.9	30.6	-8.4	-1.2	16.3	2.0
Road Fund	**875.4**	**0.0**	**328.6**	**3.8**	**1,204.0**	**1.0**	**4.9**	**628.3**	**8.0**

NATIONAL ECONOMY

When our second quarter FY10 report was issued, the outlook for the national economy was expected to turn decidedly rosier in calendar year 2010 and beyond. GDP, personal income, industrial production, exports, and retail sales – the major national economic aggregates that feed into the Kentucky economy – were all expected to post solid growth in 2010. The lone exception to a forecast of a solid recovery was the employment outlook, which called for continued weakness in the labor market. Moving ahead to the present day, the latest economic forecast rings this now-familiar theme; all major economic aggregates are poised for solid growth in 2010 with the glaring exception of employment. Employment is expected to tread water at current levels until the fourth calendar quarter of 2010, when slight growth will finally resume.

Tables 7 and 8 demonstrate the dichotomy between economic aggregates and employment. The upcoming quarter is summarized in Table 7, where real GDP is projected to rise 3.3 percent, personal income 2.5 percent, and industrial production a robust 6.0 percent. Despite these favorable projections, U.S. employment is expected to *decline* marginally, -0.8 percent. Manufacturing employment is expected to shed another 300,000 jobs, or 2.9 percent during the April-June quarter of 2010. Table 8 shows the outlook for the first two quarters of FY11 (July-December 2010). Real GDP, industrial production, and personal income are projected to post growth indicative of a solid recovery. Employment, however, is projected to inch forward only fractionally, 0.2 percent. While not depicted, retail sales are expected to grow 2.0 percent in the current quarter but 4.6 percent and 5.6 percent in the first two quarters of FY11.

A small, albeit transitory boost to employment is also expected as the U.S. census workers hit the streets to complete the 2010 official population census. The timing of the census hiring is fortuitous, as it will provide some gap employment in the period before more permanent and sustainable hiring occurs in the private sector.

While these projections of weak employment growth in the early stages of recovery are certainly cause for concern, the same pattern played out during the recovery stage of the 2001-2002 recession. Heading into that national recession, U.S. nonfarm employment averaged 132.0 million in the first quarter of 2001. It took four and a half years before employment finally eclipsed in the second quarter of FY05.

Before turning to the Kentucky economy, it is worth charting the expansion path for economy in the absence of an immediate turnaround in employment. Several economic factors are expected to converge which will allow production and consumption to rise sharply before employment follows suit. Production can rise before employment in a variety of scenarios, as labor is but one input into production. Simply put, exports, federal stimulus policy, and stronger business investment will be the primary driving forces behind the recovery. The forecast calls for business investment to build upon solid growth posted in the fourth calendar quarter of 2009. Business equipment and software spending rose 18.2 percent during that quarter. Clearly that rate of growth is unsustainable, but it clearly signals that businesses are beginning to invest in growing their top-lines. In a period of recovery, business planned investment typically leads expansion of their workforce. Businesses first increase the hours of the existing workforce before making more permanent decisions to hire additional employees. As demand swells from stronger exports and the federal stimulus spending, employment will eventually expand and unleash some consumer-driven pent-up demand to fortify demand even further.

Like any economic forecast, there are both upside and downside risks to this control forecast. The control forecast has remained very stable between November 2009 and now, so there is some comfort in knowing that the outlook has inertia. However, the recovery is still somewhat fragile and derailment could still occur. The single largest concern is that the projected recovery in consumption will get choked off due to tight credit. In the early stages, consumers will need access to credit for any substantial pent-up demand to move the needle on spending. Credit is available in small pockets but not universally so; risk premiums are creating situations of greater divergence in access to capital. If willing buyers are not paired with accommodating creditors, demand will not materialize as projected. Regarding upside risk, credit markets are still the protagonist but the plot line is reversed. In the optimistic scenario, commercial lenders follow the lead of the Federal Reserve and open the spigot to available credit. This leads to a faster and more robust recovery, but also fans the flames of long-run inflation which ultimately snuffs out the recovery a few quarters ahead of the baseline recovery. The baseline assumes that the Federal Reserve will usher in the perfect Goldilocks amount of credit availability — a delicate balance which is neither too hard nor too soft.

KENTUCKY ECONOMY

Forecasting the state economy is seemingly an easier proposition than the national counterpart, but reality seldom follows convention. At the national level, the diversity between and among states creates situations where some states under and over perform and the errors tend to offset one another vis-à-vis the business cycle. When forecasting for a single state, the law of averages does not apply and point estimates become crucial. These difficulties are magnified in periods of downturn and recovery since the precise timing of the recovery makes a material difference in the downstream revenue forecasts. It is during these turning points where extra reliance is placed on the relationships built into the state econometric models.

The bottom section of Tables 7 and 8 display the highlights of the current forecast. There are many similarities between the state and national outlooks. Most notably, personal income rebounds before employment, as seen in Table 7. In the fourth quarter of FY10, personal income in Kentucky is expected to grow by 2.5 percent while employment is projected to be virtually flat. The first half of FY11 continues that pattern, with personal income rising 3.6 percent with only 0.3 percent growth in employment. Compared to the national forecast for the same period, the employment outlook is very similar but the rebound in personal income is slightly muted in Kentucky. The income disparity is partly explained by a slowing in the growth of transfer payments. Kentucky was somewhat insulated from the depths of the recession by sustained growth in transfer payments from the Federal Government, but the double-digit growth rates have subsided in the most recent quarter to more sustainable, long-run rates.

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 similar to the drivers underlying the official estimates. The same risks that apply to the national economy exist for the state economy as well. On the downside, tight credit conditions could retard or delay the rebound in state consumption, which would further delay the rebound in employment. Similarly, if credit flows freely, the state economy could exceed expectations and the recovery scenario could be accelerated somewhat vis-à-vis the control scenario, which was the basis for the revenue projections highlighted below.

Table 7
Economic Outlook
Fourth Quarters of FY09 & FY10

	Fourth Quarter			
	FY10	**FY09**	**Chg**	**% Chg**
United States				
Real GDP	13,325.1	12,901.5	423.6	3.3
Personal Income ($ billions)	12,344.8	12,048.8	296.0	2.5
Consumer Price Index (% chg)	1.9	-1.0	NA	NA
Industrial Production Index (2002=100)	102.2	96.4	5.8	6.0
Nonfarm Employment (millions)	130.1	131.1	-1.0	-0.8
Manufacturing Employment (millions)	11.6	11.9	-0.3	-2.9
Unemployment Rate (percent)	9.6	9.3	NA	NA
Kentucky				
Personal Income ($ millions)	141,327.7	137,838.0	3,489.7	2.5
Wage & Salary ($ millions)	72,214.1	70,623.0	1,591.1	2.3
Nonfarm Employment (thousands)	1,769.7	1,767.8	1.9	0.1
Goods Producing (thousands)	301.5	311.3	-9.8	-3.2
Service Providing (thousands)	1,139.8	1,132.6	7.2	0.6
Government (thousands)	328.4	323.8	4.5	1.4

Real series are in billions of chained 2000 dollars.
Source: IHS Global Insight, Inc. March 8, 2010 data release and Kentucky MAK model.

Table 8
Economic Outlook
First & Second Quarters of FY10 & FY11

	Q1 & Q2		
	FY11	**FY10**	**% Chg**
United States			
Real GDP	13,462.9	13,067.1	3.0
Personal Income ($ billions)	12,558.5	12,059.8	4.1
Consumer Price Index (1992-99=100)	2.19	2.16	1.3
Industrial Production Index (2002=100)	104.0	98.7	5.4
Nonfarm Employment (millions)	130.2	129.9	0.2
Manufacturing Employment (millions)	11.6	11.6	-0.3
Unemployment Rate (percent)	9.6	9.8	NA
Kentucky			
Personal Income ($ millions)	143,241.2	138,303.5	3.6
Wage & Salary ($ millions)	73,058.7	70,894.0	3.1
Nonfarm Employment (thousands)	1,767.9	1,762.3	0.3
Goods Producing (thousands)	300.6	303.4	-0.9
Service Providing (thousands)	1,144.4	1,133.8	0.9
Government (thousands)	322.9	325.2	-0.7

Real series are in billions of chained 2000 dollars.
Source: IHS Global Insight, Inc. March 8, 2010 data release and Kentucky MAK model.

Table 9
History and Outlook for US Economic Series
Annual Growth Rates (%)

	FY10				FY11	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Real GDP	-2.6	0.1	2.5	3.3	3.4	2.7
Real Consumption	-0.2	1.0	1.6	2.5	2.6	2.9
Real Investment	-25.9	-12.3	7.6	16.1	16.2	8.1
Real Govt. Expenditures	1.9	1.3	2.1	1.1	0.6	0.9
Real Exports	-10.7	-0.8	11.2	14.9	12.0	8.2
Real Imports	-14.0	-6.7	7.9	15.2	11.9	10.0
Personal Income ($ billions)	-2.3	-1.0	2.0	2.5	4.1	4.2
Consumer Price Index (percent change)	-1.6	1.5	2.5	1.9	1.5	1.2
Industrial Production Index (percent change)	-9.4	-4.7	1.9	6.0	5.6	5.2
Civilian Labor Force (millions)	-0.2	-0.7	-0.5	-0.7	-0.1	0.6
Total Nonfarm Employment (millions)	-4.8	-4.0	-2.4	-0.8	0.0	0.5
Manufacturing Employment (millions)	-12.6	-11.0	-6.6	-2.9	-1.1	0.5
Unemployment Rate (percent)	9.6	10.0	9.7	9.6	9.7	9.6

Not Seasonally Adjusted. Real series are in billions of chained 2000 dollars.
Data for FY10 Q3 and forward are March 2010 estimates.
Source: IHS Global Insight Inc., March 8, 2010 data release

APPENDIX

KENTUCKY STATE GOVERNMENT REVENUE
GENERAL FUND REVENUE

	Third Quarter FY 2010	Third Quarter FY 2009	% Change	Year-To-Date FY 2010	Year-To-Date FY 2009	% Change
TOTAL GENERAL FUND	**$1,875,556,647**	**$1,888,783,211**	**-0.7%**	**$6,006,374,958**	**$6,217,076,623**	**-3.4%**
Tax Receipts	$1,807,023,041	$1,810,321,906	-0.2%	$5,778,424,575	$5,986,163,877	-3.5%
Sales and Gross Receipts	$836,814,856	$820,725,582	2.0%	$2,504,445,273	$2,503,963,505	0.0%
Beer Consumption	617,410	1,396,243	-55.8%	4,529,639	4,766,175	-5.0%
Beer Wholesale	11,842,944	11,308,746	4.7%	38,062,087	38,391,194	-0.9%
Cigarette	63,809,740	39,309,008	62.3%	205,297,090	120,297,469	70.7%
Distilled Spirits Case Sales	26,516	26,725	-0.8%	80,992	81,004	0.0%
Distilled Spirits Consumption	2,607,796	2,646,309	-1.5%	7,991,491	7,987,403	0.1%
Distilled Spirits Wholesale	6,685,599	7,002,705	-4.5%	20,454,086	20,846,469	-1.9%
Insurance Premium	44,817,878	45,401,022	-1.3%	84,926,586	86,037,875	-1.3%
Pari-Mutuel	323,773	460,106	-29.6%	(752,815)	2,407,598	---
Race Track Admission	14,938	2,921	411.4%	152,816	196,579	-22.3%
Sales and Use	681,576,097	691,419,777	-1.4%	2,066,384,549	2,159,142,170	-4.3%
Wine Consumption	620,900	618,556	0.4%	1,828,368	1,793,650	1.9%
Wine Wholesale	3,186,991	3,184,693	0.1%	9,285,884	9,303,184	-0.2%
Telecommunications Tax	15,551,134	15,806,908	-1.6%	50,322,067	46,122,026	9.1%
OTP	5,096,036	2,141,829	137.9%	15,661,618	6,590,677	137.6%
Floor Stock Tax	(146,604)	35	---	37,105	35	---
License and Privilege	$169,852,321	$192,173,394	-11.6%	$390,893,656	$422,766,391	-7.5%
Alc. Bev. License Suspension	176,700	100,300	76.2%	382,475	263,800	45.0%
Coal Severance	62,769,229	69,706,820	-10.0%	194,596,504	217,930,637	-10.7%
Corporation License	635,732	4,156,512	-84.7%	2,302,860	8,312,346	-72.3%
Corporation Organization	25,206	0	---	148,856	34,065	337.0%
Occupational Licenses	26,628	36,181	-26.4%	99,649	141,404	-29.5%
Oil Production	1,927,546	825,992	133.4%	5,469,373	7,098,885	-23.0%
Race Track License	8,750	3,675	138.1%	226,750	301,875	-24.9%
Bank Franchise Tax	68,663,815	78,264,364	-12.3%	68,235,674	73,050,284	-6.6%
Driver License Fees	141,709	132,756	6.7%	440,569	438,321	0.5%
Minerals Severance	2,225,706	2,171,991	2.5%	10,120,513	10,393,068	-2.6%
Natural Gas Severance	6,322,905	10,285,719	-38.5%	15,274,424	36,213,643	-57.8%
Limited Liability Entity	26,928,395	26,489,084	1.7%	93,596,009	68,588,063	36.5%
Income	$651,303,168	$641,790,584	1.5%	$2,358,570,202	$2,542,667,569	-7.2%
Corporation	24,725,797	26,294,520	-6.0%	129,154,133	190,926,762	-32.4%
Individual	626,577,372	615,496,064	1.8%	2,229,416,068	2,351,740,807	-5.2%
Property	$133,069,829	$139,659,854	-4.7%	$469,041,888	$458,882,480	2.2%
Building & Loan Association	7,156	14,612	-51.0%	98,299	223,978	-56.1%
General - Real	68,151,267	82,215,311	-17.1%	241,819,786	233,494,545	3.6%
General - Tangible	44,143,865	49,184,214	-10.2%	151,284,116	167,913,551	-9.9%
Omitted & Delinquent	6,021,761	5,845,088	3.0%	19,573,901	16,995,108	15.2%
Public Service	14,162,960	1,875,196	655.3%	54,992,012	39,102,470	40.6%
Other	582,820	525,434	10.9%	1,273,773	1,152,828	10.5%
Inheritance	$7,005,254	$7,926,153	-11.6%	$29,257,350	$29,944,496	-2.3%
Miscellaneous	$8,977,613	$8,046,340	11.6%	$26,216,205	$27,939,436	-6.2%
Legal Process	5,232,926	5,735,831	-8.8%	16,536,930	17,888,047	-7.6%
T. V. A. In Lieu Payments	3,600,426	2,279,819	57.9%	9,534,522	10,012,861	-4.8%
Other	144,260	30,690	370.0%	144,753	38,527	275.7%
Nontax Receipts	$67,408,484	$75,939,679	-11.2%	$225,415,338	$227,747,424	-1.0%
Departmental Fees	8,763,279	9,419,512	-7.0%	20,538,868	23,189,468	-11.4%
PSC Assessment Fee	112,624	17,297	551.1%	8,368,593	9,374,179	-10.7%
Fines & Forfeitures	6,942,532	7,563,088	-8.2%	22,141,698	21,668,203	2.2%
Interest on Investments	199,127	271,381	-26.6%	622,876	2,350,308	-73.5%
Lottery	51,500,000	50,000,000	3.0%	144,500,000	141,500,000	2.1%
Sale of NOx Credits	7,500	0	---	608,930	0	---
Miscellaneous	(116,576)	8,668,401	---	28,634,372	29,665,267	-3.5%
Redeposit of State Funds	$1,125,122	$2,521,627	-55.4%	$2,535,046	$3,165,322	-19.9%

KENTUCKY STATE GOVERNMENT REVENUE
ROAD FUND REVENUE

	Third Quarter FY 2010	Third Quarter FY 2009	% Change	Year-To-Date FY 2010	Year-To-Date FY 2009	% Change
TOTAL ROAD FUND	**$293,740,193**	**$283,366,277**	**3.7%**	**$875,447,431**	**$875,395,883**	**0.0%**
Tax Receipts-	$288,919,948	$275,049,996	5.0%	$856,662,365	$851,799,769	0.6%
Sales and Gross Receipts	$237,163,651	$223,593,157	6.1%	$723,919,822	$713,067,149	1.5%
Motor Fuels Taxes	158,855,055	145,943,992	8.8%	479,607,926	461,622,810	3.9%
Motor Vehicle Usage	78,308,596	77,649,165	0.8%	244,311,895	251,444,339	-2.8%
License and Privilege	$51,756,297	$51,456,839	0.6%	$132,742,544	$138,732,620	-4.3%
Motor Vehicles	28,627,662	27,074,832	5.7%	61,876,721	60,120,472	2.9%
Motor Vehicle Operators	3,851,336	3,625,525	6.2%	11,921,132	11,614,204	2.6%
Weight Distance	17,834,259	17,777,961	0.3%	53,151,463	58,495,309	-9.1%
Truck Decal Fees	9,658	49,046	-80.3%	55,287	125,820	-56.1%
Other Special Fees	1,433,382	2,929,476	-51.1%	5,737,942	8,376,814	-31.5%
Nontax Receipts	$5,133,143	$7,658,901	-33.0%	$17,558,540	$22,712,002	-22.7%
Departmental Fees	4,034,895	4,894,647	-17.6%	13,406,120	14,188,152	-5.5%
In Lieu of Traffic Fines	204,498	239,126	-14.5%	578,049	721,218	-19.9%
Investment Income	492,285	2,439,638	-79.8%	2,827,797	7,391,032	-61.7%
Miscellaneous	401,465	85,491	369.6%	746,574	411,601	81.4%
Redeposit of State Funds	($312,898)	$657,380	---	$1,226,525	$884,112	38.7%