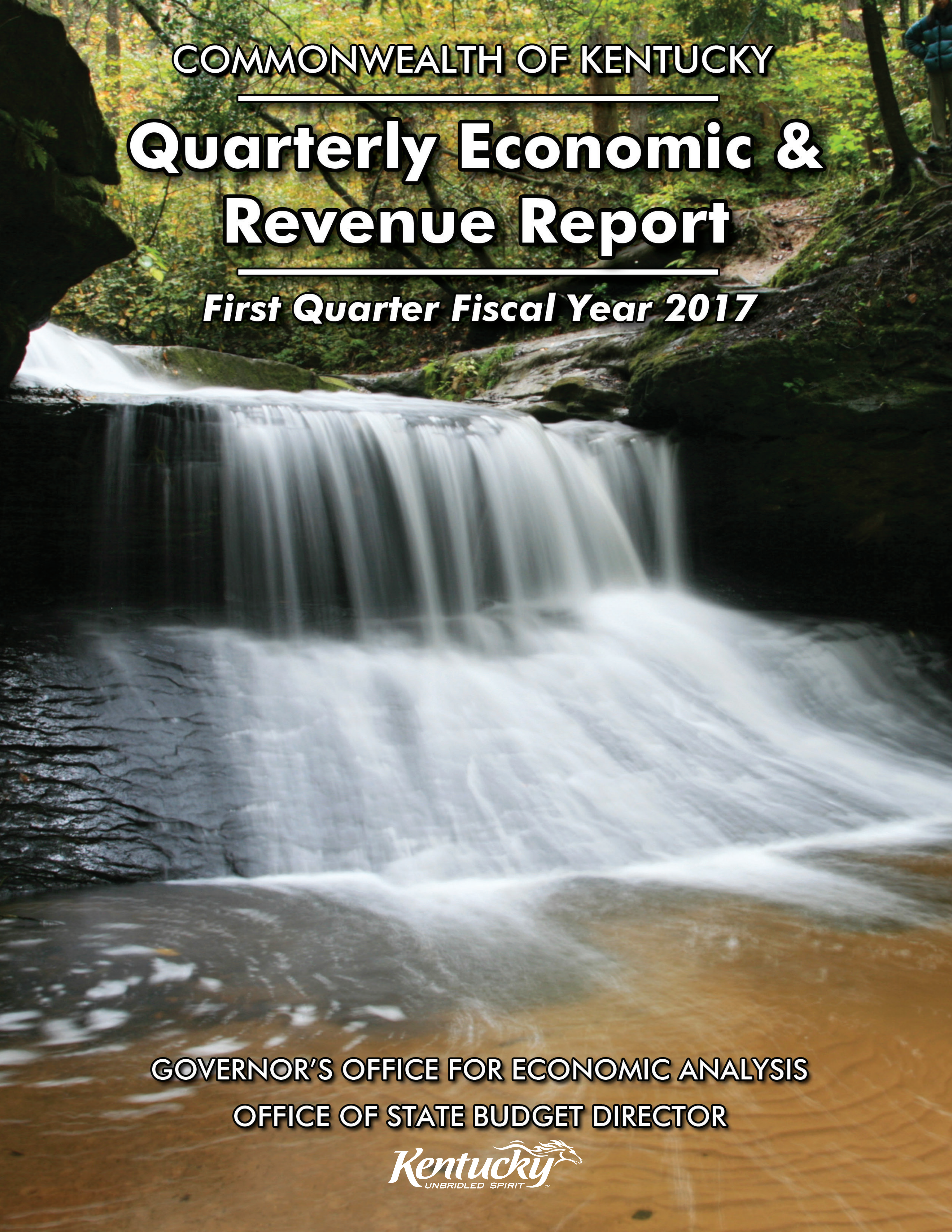
COMMONWEALTH OF KENTUCKY

Quarterly Economic & Revenue Report

First Quarter Fiscal Year 2017



GOVERNOR'S OFFICE FOR ECONOMIC ANALYSIS

OFFICE OF STATE BUDGET DIRECTOR

Kentucky
UNBRIDLED SPIRIT

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Governor's Office for Policy and Management
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October 31, 2016

The Honorable Matthew G. Bevin
Governor
Commonwealth of Kentucky
State Capitol Building
Frankfort, KY 40601

Dear Governor Bevin:

The *Quarterly Economic and Revenue Report* summarizes Kentucky's revenue and economic conditions for the first quarter of Fiscal Year 2017 (FY17). It also includes an interim economic and revenue forecast for the final three quarters of FY17.

Growth in the General Fund was consistent with previous forecasts for the first quarter of FY17. Income and sales taxes continue to be the engines of growth for Kentucky's fiscal economy. General Fund revenues increased 3.4 percent while the largest two revenue sources, the individual income tax and the sales tax grew at 4.8 and 4.2 percent, respectively.

General Fund growth in the final three quarters of FY17 is projected to be 3.0 percent compared to the final three quarters of FY16. Adding the first quarter of historical data, aggregate General Fund revenues for FY17 are predicted to equal $10,658.8 million or growth of 3.1 percent. Collections at the forecasted levels would produce a current year revenue surplus of $42.4 million above the official General Fund forecast of $10,616.4 million.

A tax-by-tax discussion of the forecast is presented in the Interim Outlook section of this report. In broad terms, the General Fund performed well in the first quarter and our internal outlook for the remainder of FY17 is consistent with the budgeted amount of General Fund revenue.

Road Fund revenues grew 3.6 percent in the first quarter of FY17, the second consecutive quarterly increase following five quarterly declines. Revenues are projected to fall over the remainder of the fiscal year with an expected decline of 1.6 percent Motor fuels taxes grew at a modest rate in the first three months of the year and are forecasted to continue on that trend for the remainder of the year. The motor vehicle usage tax grew sharply in the first quarter but is expected to decline over the next nine months, primarily for administrative, not economic reasons. Motor vehicle operators and weight distance receipts are expected to remain of similar growth paths as the first quarter of FY17 while the remaining accounts are forecasted to diverge from their current levels.

Of particular interest to the Kentucky economy has been the robust increase in US light-vehicle sales over the last six years. After reaching rock bottom in 2009 during the recession, the market for new cars and trucks reached record level in 2015. For calendar year 2016, sales have continued to remain strong, but there is growing concern that the light vehicle market could be reaching a plateau.

Looking ahead, Kentucky remains well-positioned in relation to the national economy. Strong growth in Kentucky personal income and wages and salaries will continue to influence the rate of revenue collection for the General Fund.

Sincerely,

John E. Chilton
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 first quarter of FY17. This report includes a synopsis of the current economic and fiscal conditions of the Commonwealth, as well as an outlook for the next three fiscal quarters (the forecasting horizon).

Kentucky's General Fund receipts rose for the sixth consecutive year in FY16 and topped $10 billion for the first time ever. The first quarter of FY17 marked the eleventh consecutive quarter of positive growth as receipts were 3.4 percent higher than the first quarter of FY16. General Fund growth over the forecasting horizon is expected to accrue at 3.0 percent which will result in revenues of $10,658.8 million for FY17. The official estimate for FY17 is $10,616.4 million, so this report projects $42.4 million of revenue in excess of the official estimate.

Major points that will be discussed in this report include the following:

- General Fund receipts in the first quarter of FY17 totaled $2,482.4 million compared to $2,401.6 million in the first quarter of FY16, for an increase of $80.7 million or 3.4 percent. The first quarter of FY17 revealed strong growth in five major accounts and modest to severe declines in four accounts.

- Road Fund revenue grew 3.6 percent in the first quarter of FY17 as motor fuels tax collections continued their measured and steady growth. Receipts totaled $384.6 million compared to the $371.1 million received in the first quarter of the last fiscal year. The official Road Fund revenue estimate calls for a 1.7 percent decrease in receipts for the entire FY17. Based on year-to-date collections, revenues can fall 3.5 percent for the remainder of the fiscal year to meet the estimate.

- The first quarter of FY17 was characterized by weak real GDP growth (1.5 percent), improving US personal income (+3.3 percent), and weak US employment growth (+1.7 percent). Kentucky's economy was characterized by above average personal income growth (+4.9 percent), which was largely the result of extraordinary growth in wages and salaries (+6.0 percent) and supplements to wages and salaries also known as fringe benefits (+6.2 percent). The labor market in Kentucky was quite similar to the US labor market in terms of growth (+1.6 percent) for the first quarter of FY17.

- At the September meeting of the Federal Reserve committee, the target rate for the federal funds rate was held constant at 0.25-0.50 percent. The ground work has been laid for an increase in the federal funds rate of 25 basis points to occur in December.

- Of particular interest to the Kentucky economy has been the robust increase in US light-vehicle sales over the last six years. After reaching a nadir in 2009, the market for new cars and trucks reached a record level in 2015. For calendar year 2016, sales have continued to remain strong, but there is growing concern that the market could be reaching a plateau.

- Projected General Fund revenues are shown in Table 7. As the table indicates, General Fund growth is projected to be 3.0 percent over the forecast horizon.

- Individual income tax receipts are expected to total $4,479.7 million in FY17, partially due to solid growth of 4.8 percent in the first quarter of the fiscal year. Receipts are projected to increase by 4.5 percent during the final three quarters of FY17. Taken in aggregate, the individual income tax is forecasted to grow a robust 4.6 percent for FY17.

- The withholding component of the individual income tax is adding the most to overall growth, posting a 6.3 percent growth spurt in the first quarter of FY17. Withholding is expected to remain at 5.0 percent for the remainder of FY17 despite Kentucky non-agricultural employment growth of only 1.0 percent over the same period (Table 10). Wage growth is expected to maintain a solid pace of 4.3 percent for the remainder of FY17.

- Since declining in FY13, the sales and use tax has experienced three years of prosperous momentum. Growth of 3.6 percent in FY14 was followed by even faster growth of 4.4 percent during FY15. Fiscal year 2016 eclipsed both years with year-over-year growth of 6.0 percent. This interim report calls for continued growth in the sales and use tax, albeit at a slightly reduced rate of 3.1 percent growth for the final nine months of FY17, bringing the annual total to $3,579.9 million.

- Road Fund revenues grew 3.6 percent in the first quarter of FY17, the second consecutive quarterly increase following five quarterly declines. Collections, however, are projected to fall over the remainder of the fiscal year. Motor fuels taxes are forecasted to exhibit moderate growth for the remainder of the year. Motor vehicle usage tax grew sharply in the first quarter but is expected to decline over the next nine months for administrative, non-economic reasons. Motor vehicle operators and weight distance receipts are expected to remain on similar growth paths. Total Road Fund revenues are forecasted to decline 1.6 percent for the final nine months of the fiscal year.

Revenue Receipts . . . .

GENERAL FUND
First Quarter, FY17

General Fund receipts in the first quarter of FY17 totaled $2,482.4 million compared to $2,401.6 million in the first quarter of FY16, for an increase of $80.7 million or 3.4 percent. Collections in the major revenue categories are shown in summary form in Table 1. Detailed information on all General Fund accounts is available in the Appendix. The first quarter of FY17 revealed strong growth in five major accounts and modest to severe declines in four accounts. General Fund receipts have now registered eleven consecutive quarterly increases since falling in the second quarter of FY14.

General Fund revenues need to increase 2.5 percent for the remainder of the fiscal year to meet the official estimate.

Table 1
Summary General Fund Receipts
$ millions

	FY17 Q1	FY16 Q1	Diff $	Diff %
Individual Income	1,090.3	1,039.9	50.4	4.8
Sales and Use	895.5	859.7	35.8	4.2
Property	52.3	46.8	5.5	11.7
Corporation Income	136.5	124.9	11.6	9.3
Coal Severance	23.9	37.7	-13.8	-36.6
Cigarette Taxes	57.2	58.1	-0.9	-1.5
LLET	37.2	44.7	-7.5	-16.8
Lottery	58.1	53.5	4.6	8.6
Other	131.3	136.3	-5.0	-3.7
Total	**2,482.4**	**2,401.6**	**80.7**	**3.4**

Individual income tax receipts increased 4.8 percent in the first quarter of FY17. Receipts of $1,090.3 million were $50.4 million more than was collected in the first quarter of the previous fiscal year. Declaration payments and withholding receipts were up 1.5 percent and 4.9 percent, respectively, for the quarter.

The sales and use tax rose 4.2 percent in the first quarter of FY17. Receipts of $895.5 million compare to the $859.7 million collected in the first quarter of FY16. Positive growth in the first quarter marks the 13th consecutive quarter of growth in the sales tax following FY13, when the sales tax fell in three of the four fiscal quarters.

Property taxes were up 11.7 percent in the first quarter of FY17 due to timing of collections in the tangible and public service company accounts. Collections of $52.3 million compare favorably to $46.8 million received in the first quarter of the prior fiscal year.

Corporation income tax posted an increase of 9.3 percent, or $11.6 million, during the first quarter of FY17. Receipts totaled $136.5 million compared to the $124.9 million received a year earlier.

The limited liability entity tax (LLET) registered a $7.5 million decrease in tax collections in the first quarter of FY17 when compared to FY16. Total collections in the current fiscal year totaled $37.2 million and compare to revenues of $44.7 million in the same period a year earlier.

The coal severance tax receipts continued to decrease in the first quarter as receipts fell 36.6 percent. Receipts of $23.9 million compare to $37.7 million collected in the first quarter of FY16. Collections have fallen continuously since the fourth quarter of FY12.

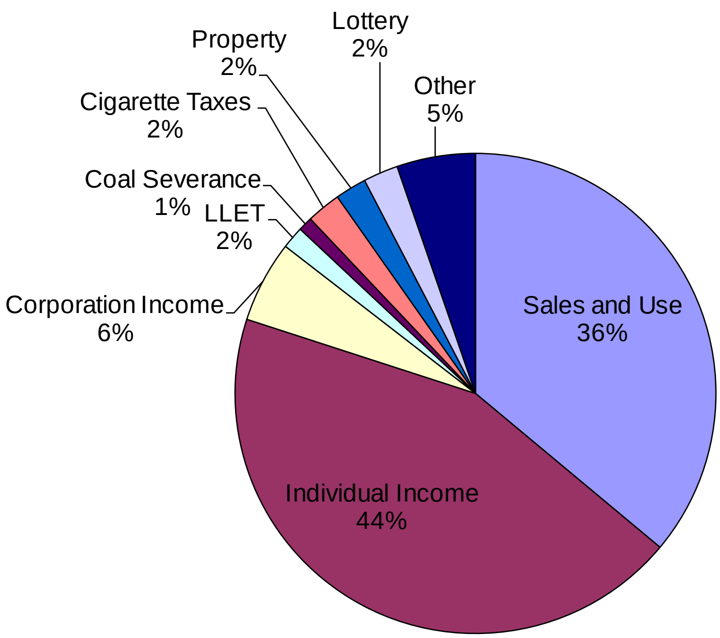
Cigarette taxes fell 1.5 percent in the first quarter with receipts of $57.2 million compare to $58.1 million in the first quarter of FY16. Receipts declined in spite of West Virginia raising its cigarette tax from $0.55 to $1.20 per pack effective July 1.

Lottery receipts increased 8.6 percent, or $4.6 million, in the first quarter of FY17 with revenues of $58.1 million. Since ending FY16 above the budgeted amount, lottery payments have continued to show strength with an unusually large dividend payment in September.

The "Other" category represents the remaining accounts in the General Fund, and collections in this account decreased 3.7 percent with receipts of $131.3 million.

Figure 1 details the composition of first-quarter General Fund receipts by tax type. Eighty percent of General Fund revenues were collected in the areas of the individual income and sales taxes. The next largest source of revenue was corporation income taxes at six percent followed by the "Other" accounted for five percent. The major components in the "Other" category include the insurance premium tax, the bank franchise tax, the telecommunications tax, the beer wholesale tax, and the inheritance tax. Lottery receipts, property, cigarette taxes and LLET accounted for two percent each. Finally coal severance taxes accounted for one percent.

Figure 1
General Fund Receipts Composition
First Quarter, FY17



ROAD FUND
First Quarter FY17

Road Fund revenue grew 3.6 percent in the first quarter of FY17, a second consecutive quarter of growth. Receipts totaled $384.6 million compared to the $371.1 million received in the first quarter of the last fiscal year. The official Road Fund revenue estimate calls for a 1.7 percent decrease in receipts for the entire fiscal year of 2017. Based on year-to-date collections, revenues can fall 3.5 percent for the remainder of the fiscal year to meet the estimate. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Table 2
Summary Road Fund Receipts
$ millions

	FY17 Q1	FY16 Q1	Diff $	Diff %
Motor Fuels	198.5	196.4	2.1	1.1
Motor Vehicle Usage	132.7	123.7	9.0	7.3
Motor Vehicle License	18.8	18.7	0.1	0.4
Motor Vehicle Operators	4.2	4.2	0.0	-1.0
Weight Distance	20.9	20.6	0.3	1.5
Income on Investments	0.1	0.4	-0.3	-67.6
Other	9.4	7.0	2.4	33.7
Total	**384.6**	**371.1**	**13.5**	**3.6**

Motor fuels tax receipts increased 1.1 percent during the first quarter of FY17. Receipts were $198.5 million and compare to $196.4 million collected during the first quarter of FY16. Motor fuels receipts should stabilize in FY17 due to the tax rate being unchanged from FY16. The total amount of state taxes and fees for gasoline remains at 26 cents per gallon.

Motor vehicle usage tax receipts increased 7.3 percent, or $9.0 million, during the first quarter. Receipts were $132.7 million compared to $123.7 million collected during the same period last year. Growth for the first quarter is slightly inflated due to favorable timing issues in July and September.

Motor vehicle license tax receipts increased 0.4 percent during the first quarter of FY17. Receipts of $18.8 million compare to $18.7 million received during the first quarter of FY16.

Motor vehicle operators' license fees totaled $4.2 million, a 1.0 percent decrease compared to the level observed a year ago.

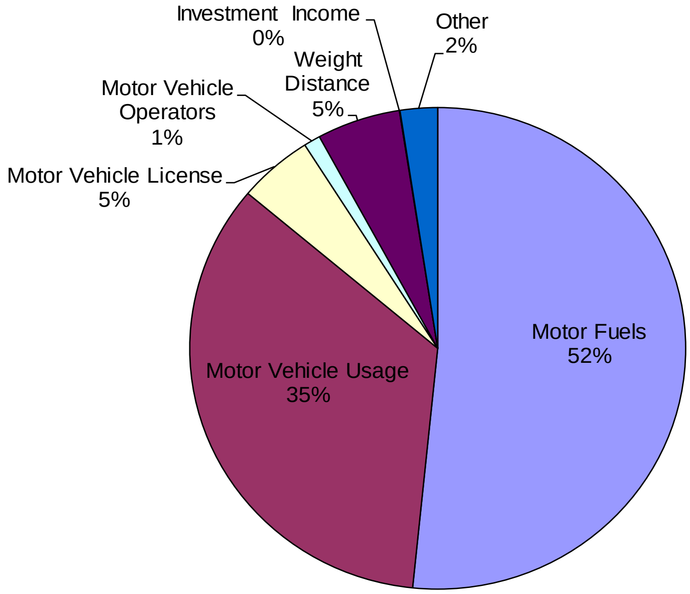
Weight distance tax receipts totaled $20.9 million, an increase of 1.5 percent from the first quarter of last year. The weight distance tax has some significance as a leading indicator of economic activity, as it is a rough proxy for goods in transit over Kentucky highways.

Income on investments receipts of $0.1 million compared to $0.4 million in the first quarter of FY16.

The remainder of the accounts in the Road Fund combined for an increase of 33.7 percent. Receipts for the "Other" category totaled $9.4 million during the first quarter, compared to $7.0 million in the first quarter of FY16.

Figure 2 details the composition of Road Fund revenues by tax type in the first quarter of FY17. Motor fuels taxes and the motor vehicle usage tax accounted for 87 percent of Road Fund revenues in the first quarter. The next-largest sources of revenue were weight distance and motor vehicle license tax with five percent for each account. The "Other" category accounted for two percent and motor vehicle operators accounted for one percent. Income on investments accounted for a negligible amount of the total Road Fund receipts.

Figure 2
Road Fund Receipts Composition
First Quarter, FY17



The Economy
First Quarter FY17. . . . .

NATIONAL ECONOMY

Real gross domestic product (real GDP) grew by 1.5 percent in the first quarter of FY17. Historically-speaking, that is a low annual growth rate for an expansion period. The adjacent-quarter growth rates for the last four quarters were 0.2, 0.2, 0.3, and 0.7 percent respectively, all of which are low adjacent-quarter growth rates. Despite the increase in the adjacent-quarter growth rates over the last three quarters, the growth during this recovery period has been weak. Historically-speaking, the entire period following the end of the 2007 recession has been one of the slowest recovery periods ever. Historically, average adjacent-quarter growth during a recovery period has been between 0.9 to 1.3 percent. The average adjacent-quarter growth rate in the last few recovery periods has been below that range. The average adjacent-quarter growth rate following the 2001 recession was 0.7 percent. The average adjacent-quarter growth rate following the 2007 recession has been 0.5 percent

Real consumption grew by 2.9 percent in the first quarter of FY17; this was by far the highest growth among the real GDP contributing components. Real consumption growth, on an adjacent-quarter basis, has picked up considerably in the last 10 quarters. During the last 10 quarters average adjacent-quarter growth was 0.8 percent, while the previous average growth during the previous 10 quarters was only 0.4 percent. Real consumption made up 69.4 percent of real GDP in the first quarter of FY17.

Real investment declined by 3.2 percent in the first quarter of FY17. On an adjacent-quarter basis, real investment grew by 0.7 percent in the first quarter. The small growth in the first quarter of FY17 follows three consecutive quarters of declines. Those declines were 0.6, 0.8, and 2.5 percent, respectively. So the large majority of the annual decline occurred in the fourth quarter of FY16. Real investment made up 16.7 percent of real GDP in the first quarter of FY17.

Real government expenditures rose by 0.7 percent in the first quarter of FY17. Adjacent-quarter growth increased by 0.4 percent in the first quarter. Last quarter, real government expenditures declined by 0.4 percent. It is not uncommon for government expenditures to contract during periods of expansion. As a general rule of thumb, government expenditures are countercyclical. That is, during expansions, expenditures decrease and during recessions, expenditures increase. So it is of particular note that during the current expansion, real government expenditures have increased on an adjacent-quarter basis in eight of the last 10 quarters.

Table 3
Summary of US Economic Series
First Quarter FY17 & FY16

	First Quarter			
	FY17	**FY16**	**Chg**	**% Chg**
Real GDP	16,693.8	16,454.9	238.9	1.5
Real Consumption	11,582.9	11,255.9	327.0	2.9
Real Investment	2,790.6	2,882.2	-91.6	-3.2
Real Govt. Expenditures	2,915.0	2,894.4	20.6	0.7
Real Exports	2,114.6	2,120.4	-5.8	-0.3
Real Imports	2,681.3	2,667.6	13.7	0.5
CPI all goods (% chg)	1.1	0.1	NA	NA
CPI Food (% chg)	0.0	1.6	NA	NA
CPI Energy (% chg)	-7.7	-16.3	NA	NA
CPI Core (% chg)	2.2	1.8	NA	NA
Industrial Production Index (% chg)	-0.8	0.1	NA	NA
Working Population[1]	253.9	251.1	2.8	1.1
Civilian Labor Force[2]	160.0	157.5	2.5	1.6
Employed[3]	152.1	149.3	2.8	1.9
Unemployed[4]	8.0	8.2	-0.2	-2.7
Not in Labor Force[5]	93.8	93.6	0.2	0.2
Labor Force Participation Rate[6] (%)	62.9	62.5	NA	NA
Unemployment Rate (%)	4.9	5.2	NA	NA

Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars.
Components do not sum to GDP because they are annualized independently.
Data for FY17 Q1 are September 2016 estimates.
Source: IHS Global Insight Inc., September 9, 2016 data release.

1 Working population is the group of persons who are 16 years or older, non-institutionalized, not in prison, not in an old-age home and not engaged in active military duty. It is meant to capture those persons who are capable of working and could work if suitable employment were found. Working population figures are listed in millions.
2 Civilian Labor Force is a subset of the working population who are currently employed or are actively looking for employment.
3 Employed is a subset of the civilian labor force who are employed regardless of industry or profession. This is therefore different than non-farm employment, which explicitly does not include those persons employed in the agricultural sector.
4 Unemployed is a subset of the civilian labor force who are not currently employed but are actively seeking employment.
5 Not in Labor Force is a subset of the working population who have decided not to be employed nor seek employment.
6 Labor Force Participation Rate is computed as the Civilian Labor Force divided by the Working Population.

Real government expenditures made up 17.5 percent of real GDP in the first quarter of FY17.

The US net trade deficit increased slightly in the first quarter of FY17 to $566.7 billion. The balance of trade is the difference between total US exports and total US imports. So a trade deficit means that total US imports are greater than total US exports. A trade surplus, which we have not experienced in many decades, is when total US exports are greater than total US imports. Exports are a function of foreign demand and US supply of goods and services which other countries may want to buy. The quantity of US imports is a function of US demand for foreign goods and services and the supply of foreign goods and services. Imports and exports are also influenced by the relative exchange rates between the currencies of the trading partners. Over the last two years, total US exports have decreased by $14.1 billion - so essentially flat. Meanwhile, over that same time period, total US imports have increased by $143.2 billion, or 5.6 percent. The flat exports are probably a statement about the stagnant incomes of our large trading partners, while the increase in imports is probably a statement about US incomes and favorable terms of trade (relative exchange rates).

Federal outlays as depicted in Table 4 reveal the major expenditure categories of the federal government. Outlays are slightly different than expenditures in a couple of ways. First, the outlays in Table 4 do not include gross investment, while expenditures do. Second, outlays in Table 4 are nominal annual rate data, while the government expenditures in Table 3 are real annual rate data. For these reasons, government expenditures and federal outlays are not identical. Several of the largest expenditures in the US federal budget are listed in Table 4. This is not a complete list. There are several dozen other much smaller expenditure items, which represent the remaining $890 billion of federal outlays, which are not detailed here.

Table 4
US Federal Outlays
$ billions, AR

	First Quarter			
	FY17	FY16	Chg	% Chg
Federal Outlays excl. Gross Investment	4,164.4	4,070.2	94.2	2.3
Social Security	900.6	874.5	26.1	3.0
Medicare	666.3	631.6	34.7	5.5
National Defense	590.0	589.2	0.8	0.1
Interest on Debt	457.4	468.5	-11.1	-2.4
Medicaid	368.0	359.3	8.7	2.4
Non-Medicaid Grants to S&L Govts	182.6	176.4	6.2	3.5
Subsidies	59.5	56.9	2.7	4.7
Aid to Foreign Governments	49.9	55.5	-5.6	-10.1

Not Seasonally Adjusted. Data for FY17 Q1 are September 2016 estimates.

Source: IHS Global Insight Inc., September 9, 2016 data release.

Medicare expenditures grew the fastest among the major categories, growing 5.5 percent in the first quarter of FY17. On an adjusted-quarter growth basis, Medicare expenditures have been growing by over 1.0 percent per quarter for over two decades. From the first quarter of FY04 to the third quarter of FY05, Medicare expenditures rose by over 2.0 percent per quarter. In the third quarter of FY06, Medicare receipts jumped by 14.2 percent over the previous quarter. This was not a timing issue. This was the implementation of the Medicare Part D for prescription drugs component which was added to Medicare in January of 2006. After expenditures jumped up that quarter, expenditures did not drop off. Expenditures continued their one to two percent quarterly increases immediately thereafter. Medicare spending is the second largest expenditure account in the federal budget and makes up 16.0 percent of all outlays excluding gross investment.

Subsidies grew by 4.7 percent in the first quarter of FY17. Subsidies are monetary grants paid by the federal government to private entities for the purpose of keeping a private entity's prices low or competitive. There is considerable quarterly variance in the subsidies history. This is because of distribution schedules, seasonality, and project prioritization. However, there has been a significant upward trend since 1975. On average, subsidy expenditures have risen by $1.1 billion per year since 1975 to their current level of $59.5 billion (annual rate).

Aid to foreign governments declined by 10.1 percent in the first quarter of FY17. Aid to foreign governments has grown significantly since 2000. In 2000, aid to foreign governments was $16.9 billion. It rose to its highest recent level in 2011 when the US gave $64.5 billion in aid to foreign governments. The level has slowly decreased to $49.9 billion (annual rate) in the first quarter of FY17.

Interest on the debt declined by 2.4 percent in the first quarter of FY17. Interest on the debt is affected by the quarterly increase (or decreases) in deficits and the interest rate on that debt. Even with near-zero interest rates for seven years, the interest on the debt has increased over that time. In 2000, the interest on the debt was $355.0 billion. In 2008, the interest on the debt was $400.6 billion. In the first quarter of FY17, the interest on the debt was $457.4 billion. The interest on the debt is the fourth largest expenditure in the federal budget. At its current rate of growth using some reasonable expectations about interest rates, it will surpass national defense spending by 2022.

US personal income rose by 3.3 percent in the first quarter of FY17. Since the recession ended, US personal income has only fallen one time and that was in the third quarter of FY13. Since that time, adjacent-quarter growth has averaged 1.0 percent, which is low in a historical sense for an expansion period. Supplements to wages and salaries (non-wage benefits or fringe benefits as they are sometimes called) was the fastest-growing personal income component in the first quarter. It grew by 4.1 percent. Transfer receipts and wages and salaries income also rose significantly in the first quarter, rising 3.9 and 3.8 percent, respectively.

The Residence Adjustment accounts for those persons who live outside the United States and work inside the United States and those persons who live inside the United States and work outside the United States. As this income is lumped together based on origin of the worker, and not by type, it is not included as a component of personal income for purposes of analysis, even though it is clearly part of the calculation. The changes in Residence Adjustment have more to do with the number of workers who are moving across the border than it has to do with how various components of income are changing. Therefore, very little weight is given to this component in the analysis.

To avoid duplication, Social Insurance is a deduction from personal income as it is already included in supplements to wages and salaries. Social Insurance is made up of social security Old Age, Survivors, and Disability (OASD), unemployment insurance, railroad retirement, military medical insurance, and a handful of other very small accounts. The largest component of Social Insurance is OASD, which makes up over 87 percent of the receipts. Social Insurance receipts rose by 3.5 percent in the first quarter of FY17. Social Insurance makes up 7.8 percent of US personal income.

The laborforce increased by 1.6 percent in the first quarter of FY17. Moreover, the laborforce increased by 0.6 percent compared to the fourth quarter of FY16. That is historically not a high rate, but it is high relative to quarterly growth since the 2001 recession. Average adjacent-quarter growth since the end of the 2001 recession has been 0.2 percent growth. This weakness in this aspect of the labor market has gotten worse in the period following the 2007 recession, where average adjacent-quarter growth has been 0.1 percent. There is some good news. The laborforce participation rate increased in the first quarter of FY17 to 62.9 percent. In the first quarter of FY16, the laborforce participation rate reached 62.5 percent which was the worst it has been in well over two decades.

The US non-farm employment grew by 1.7 percent in the first quarter of FY17. Employment grew by 0.4 percent in the first quarter of FY17 compared to the fourth quarter of FY16. This is the 26th consecutive quarter of growth for non-farm employment. US construction employment grew by the most on a percentage basis in the first quarter, growing at 3.2 percent over the same quarter last year. That is, just over 200,000 jobs gained during that time in this sector. On an absolute basis, educational services grew by the most, gaining just over 600,000 jobs in the first quarter compared to the same quarter last year. The mining sector declined by the most in absolute and percentage terms in the first quarter, losing approximately 100,000 jobs or 15.0 percent relative to the same quarter last year. US mining employment has declined (on an adjacent-quarter basis) for seven quarters in a row.

KENTUCKY ECONOMY

Kentucky personal income increased by 4.9 percent in the first quarter of FY17. Personal income grew by 0.8 percent from the fourth quarter of FY16 to the first quarter of FY17. That is the 14th consecutive quarter of growth for Kentucky personal income. All five contributing components to personal income grew in the first quarter.

The strongest growth occurred in supplements to wages and salaries, which is commonly referred to as fringe benefits. Fringe benefits grew by 6.2 percent in the first quarter. Meanwhile, wages and salaries grew by 6.0 percent. These two income components together make up 62.7 percent of total Kentucky personal income. When these two move in tandem like this, it is a good sign that full-time employment wages are increasing. While social insurance is a deduction from personal income, it is still a good sign that it is increasing along with wages and salaries. This movement alone indicates either an increase in wages or an increase in employment has occurred.

Kentucky non-farm employment grew by 1.6 percent in the first quarter of FY17. Employment grew by 0.6 percent in the first quarter of FY17 compared to the fourth quarter of FY16. This is a good bounce back considering that total non-farm employment had fallen by 0.1 percent in the fourth quarter of FY16 relative to the third quarter of FY16. Business services employment grew by the most in absolute and percentage terms, growing 3.7 percent for an increase of 7,900 jobs.

Mining employment declined by the most in absolute and percentage terms, losing 11.0 percent for a net loss of 1,500 jobs. The great majority of mining jobs in Kentucky are in coal and limestone. Kentucky mining employment grew slightly in the first quarter of FY17 compared to the fourth quarter of FY16. Mining employment grew from 11,700 in the fourth quarter of FY16 to 12,200 in the first quarter of FY17. That is an increase of 4.4 percent. Unfortunately, that has been a rare occurrence for Kentucky mining employment in the last five years. On an adjacent-quarter basis, Kentucky mining employment has declined 18 times in the last 20 quarters. Last quarter was the lowest level of mining employment in Kentucky in well over 30 years.

Table 5
Personal Income
$ billions, SAAR

	Q1			
	FY17	**FY16**	**$ Diff**	**% Diff**
United States				
Personal Income	16,065	15,556	509	3.3
Social Insurance	1,251	1,208	42	3.5
Residence Adjustments	-632	-604	-27	4.5
Dividends, Interest and Rents	2,985	2,943	42	1.4
Transfer Receipts	2,796	2,692	104	3.9
Wages & Salaries	8,193	7,894	299	3.8
Supplements to W&S	2,552	2,451	101	4.1
Proprietor's Income	1,422	1,389	33	2.4
Kentucky				
Personal Income	182	173	8	4.9
Social Insurance	15	14	1	4.6
Residence Adjustments	-2	-2	0	-6.3
Dividends, Interest and Rents	28	27	1	2.7
Transfer Receipts	44	43	2	3.7
Wages & Salaries	91	85	5	6.0
Supplements to W&S	24	22	1	6.2
Proprietor's Income	13	13	0	1.7

Table 6
Summary of US & KY Employment
First Quarter FY17 & FY16

	US Q1 (millions)			KY Q1 (thousands)		
	FY17	**FY16**	**% Chg**	**FY17**	**FY16**	**% Chg**
Non-farm Employment	144.6	142.2	1.7	1,916.4	1,886.8	1.6
Goods-producing	19.6	19.6	0.3	332.3	332.2	0.0
Construction	6.7	6.4	3.2	78.5	76.1	3.2
Mining	0.7	0.8	-15.0	12.2	13.7	-11.0
Manufacturing	12.3	12.3	-0.3	241.5	242.3	-0.3
Service-providing	102.8	100.5	2.2	1,266.1	1,237.2	2.3
Trade, Transportation & Utilities	27.4	27.0	1.5	394.9	387.8	1.8
Information	2.8	2.8	0.8	25.2	25.1	0.2
Finance	8.3	8.1	2.1	95.4	92.3	3.4
Business Services	20.3	19.7	2.8	223.5	215.6	3.7
Educational Services	22.8	22.1	2.8	271.4	264.6	2.6
Leisure and Hospitality Services	15.6	15.2	2.7	193.1	188.4	2.5
Other Services	5.7	5.6	1.3	62.5	63.3	-1.2
Government	22.2	22.0	0.8	318.1	317.5	0.2

Not Seasonally Adjusted. Data for FY17 Q1 are September 2016 estimates.

Source: IHS Global Insight Inc., September 9, 2016 data release.

Interim Outlook . . . .

GENERAL FUND

The revenue forecasts presented in Table 7 and Table 8 were estimated using the September 2016 "control scenario" economic forecast from both IHS Global Insight (hereafter Global Insight) and the Kentucky MAK model. Forecasted revenues prepared pursuant to KRS 48.400 (2) are internal estimates prepared by the staff of the Office of State Budget Director.

Projected General Fund revenues for the next three quarters are shown in Table 7. As the table indicates, General Fund growth is projected to be 3.0 percent compared to the final three quarters of FY16. Adding the first quarter of historical data, aggregate General Fund revenues for FY17 are projected to equal $10,658.8 million for growth of 3.1 percent. Collections at the forecasted levels would produce current year revenue of $42.4 million above the official General Fund forecast of $10,616.4 million.

Table 7
General Fund Interim Forecast
$ millions

	FY17						FY17	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Individual Income	1,090.3	4.8	3,389.4	4.5	4,479.7	4.6	4,411.1	68.6
Sales & Use	895.5	4.2	2,684.3	3.1	3,579.9	3.4	3,539.8	40.1
Property	52.3	11.7	542.0	2.1	594.3	2.9	585.2	9.1
Corporation Income	136.5	9.3	418.9	4.3	555.4	5.5	579.4	-24.0
Coal Severance	23.9	-36.6	63.9	-23.0	87.8	-27.2	120.7	-32.9
Cigarettes	57.2	-1.5	168.7	1.5	225.9	0.7	222.5	3.4
LLET	37.2	-16.8	164.1	3.7	201.3	-0.8	223.7	-22.4
Lottery	58.1	8.6	182.0	-3.3	240.2	-0.7	236.0	4.2
Other	131.3	-3.7	563.1	-0.1	694.4	-0.8	698.0	-3.6
General Fund	**2,482.4**	**3.4**	**8,176.4**	**3.0**	**10,658.8**	**3.1**	**10,616.4**	**42.4**

Individual income tax receipts are expected to total $4,479.7 million in FY17, partially due to solid growth of 4.8 percent in the first quarter of the fiscal year. Receipts are projected to increase by 4.5 percent during the final three quarters of FY17. Taken in aggregate, the individual income tax is forecasted to grow a robust 4.6 percent for FY17.

The withholding component of the individual income tax, the largest contributor to overall growth, grew 4.9 percent in the first quarter of FY17. Among other things, withholding is affected by Kentucky employment and Kentucky wages and salaries.

Withholding is expected to remain near 5.0 percent for the remainder of FY17 despite Kentucky non-agricultural employment growth of only 1.0 percent over the same period. (See Table 10) As employment limps forward, Kentucky wages and salaries played the rabbit with 6.0 percent growth in the first quarter of FY17. Wage growth is expected to maintain a solid pace of 4.3 percent for the remainder of FY17, thus matching the pattern of overall withholding where projections call for slight moderation following a brisk opening quarter.

Since declining in FY13, the sales and use tax has experienced positive momentum. Growth of 3.6 percent in FY14 was followed by even faster growth of 4.4 percent during FY15. The crème de la crème came in FY16 with year-over-year growth of 6.0 percent. This interim report calls for continued growth in the sales and use tax, albeit at a slightly reduced rate of 3.1 percent growth for the final nine months of FY17, bringing the annual total to $3,579.9 million. While the recent wave of consecutive quarterly growth has been a welcome sight, growth in excess of wage growth is clearly difficult to sustain, especially in light of the recent history of strong collections.

Property tax revenues are expected to increase by 2.1 percent over the forecasting horizon following growth of 11.7 percent in the first quarter. Due to the sustained effects of the recession on the housing market, the state rate on real property has remained at 12.2 cents since valuation year 2008, an unprecedented run of eight consecutive years without a rate decline. As the housing market shores up, growth in new property and existing values can be expected to eventually return to more traditional growth patterns, but this interim forecast assumes that this reversion to "normal" will not occur during the forecasting horizon.

The corporation income tax fell 0.3 percent in FY16 following an impressive string of five consecutive years of high growth. A modest decline after five strong years of growth could have been a harbinger of a downturn, but corporate receipts showed resilience with growth of 9.3 percent in the first quarter of FY17. Growth over the forecasting horizon is expected to be 4.3 percent, bringing the annual total to $555.4 million for 5.5 percent growth.

LLET receipts have been volatile over the last five fiscal years, recording two years of positive growth sandwiched between three years of steep declines. Fiscal year 2017 has started off with a weak quarter where receipts fell 16.8 percent. While the interim forecast calls for growth of 3.7 percent for the remainder of FY17, the effect of the weak first quarter is expected to generate a FY17 decline of 0.8 percent.

Coal severance receipts fell short of the official estimate in FY16 and are expected to decline further in FY17. Energy markets and coal markets in particular, have become quite volatile with downside risk. The interim estimate calls for receipts of $87.8 million, or a 27.2 percent decline in FY17 following a 33.1 percent plunge in FY16. The official estimate for the current fiscal year is $120.7 million, a level which illustrates the depths of the decline in the current coal market. With the federal regulation changes, mine closures, and power plants going offline, a return to the levels near the FY12 peak ($298.3 million) is implausible regardless of the forecasting horizon.

Cigarette tax receipts increased by a modest 1.5 percent in FY16. The outlook for cigarette tax receipts is for a nominal 0.7 percent increase in FY17. A downward trend in smoking rates is still expected, but the $0.65 per pack increase in West Virginia, the $1.00 per pack increase in the tax rate for Illinois and the $0.35 per pack increase in Ohio should serve to create a small positive revenue impact for cigarette purchases in Kentucky. The Ohio border impact has the potential to become a major impact as the markets transition to a new equilibrium. Total state cigarette taxes in Ohio went from $1.25 per pack to $1.60 per pack, a full $10.00 per carton higher than the Kentucky rate. The West Virginia and Illinois carton price differentials are now at $6.00 on the West Virginia border and $13.80 crossing the river into Illinois. Notwithstanding these minor border impacts, the national consumption of cigarettes has steadily been trending downward.

Lottery dividends are expected to exceed the FY17 official estimate by $4.2 million on the basis of continued strength in scratch-off sales and a recovery in online games. The continued low fuel prices have helped the market for scratch-off games. Changes implemented by the Kentucky Lottery Corporation have increased play and profitability in the online games as well.

The “Other” category contains dozens of smaller accounts, which make up the remainder of the General Fund. Insurance premiums tax, bank franchise and telecommunications tax are the three largest accounts in the “Other” category. The “Other” category of taxes is expected to decline marginally by 0.1 percent during the forecasting horizon. Each account was re-examined after FY16 and the proper adjustments were made to calibrate the models. The “Other” accounts projected sum is $694.4 million in FY17, a decline of 0.8 percent compared to FY16.

ROAD FUND

Road Fund revenues grew 3.6 percent in the first quarter of FY17, the second consecutive quarterly increase following five quarterly declines. Road Fun revenues are projected to fall over the remainder of the fiscal year, declining 1.6 percent as shown in Table 8.

Table 8
Road Fund Interim Forecast
$ millions

	FY17						FY17	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Motor Fuels	198.5	1.1	559.7	1.1	758.2	1.1	747.3	10.9
Motor Vehicle Usage	132.7	7.3	343.6	-4.7	476.3	-1.7	469.5	6.8
Motor Vehicle License	18.8	0.4	88.0	-6.8	106.8	-5.6	105.0	1.8
Motor Vehicle Operators	4.2	-1.0	12.0	-0.7	16.2	-0.8	16.1	0.1
Weight Distance	20.9	1.5	61.5	1.2	82.4	1.3	82.1	0.3
Income on Investments	0.1	-67.6	2.1	1.7	2.2	-10.9	1.4	0.8
Other	9.4	33.7	27.3	-1.7	36.7	5.4	35.5	1.2
Road Fund	**384.6**	**3.6**	**1,094.2**	**-1.6**	**1,478.8**	**-0.3**	**1,456.9**	**21.9**

Motor fuels tax receipts are forecasted to grow 1.1 percent for the remainder of the fiscal year which, coincidently, is identical to the rate of growth seen in the first quarter. Legislation has had a significant impact on motor fuels revenue. HB299, enacted in the 2015 Regular Session of the General Assembly, made changes to the motor fuels tax rate as well as the rate setting procedure. Most significant for revenue estimating purposes was the raising of the tax floor as well as a change from a quarterly to an annual tax rate. Low oil prices have prevented the tax rate from increasing above the floor which means that any change to motor fuels revenue must come from a change in consumption. Projections of consumption are expected to be positive but small.

Motor vehicle usage tax collections are anticipated to decline 4.7 percent over the final nine months of FY17, after increasing 7.3 percent in the first quarter. A timing issue in FY16 is primarily responsible for the large swing in the growth rate seen in this account. Last September, a payment of approximately $8.0 million inadvertently lapsed into the second quarter. This had the effect of artificially increasing the growth rate for first quarter receipts in FY17 but also lowering anticipated growth for the remainder of the year. If we adjusted collections for the timing effect and recalculated the growth rates, motor vehicle usage tax receipts would have grown 0.8 percent in the first quarter and the forecast for the remainder of the year would be for a decline of 2.6 percent. Forecasted receipts for this account are also depressed due to a weakened forecast of vehicle sales vis-à-vis the vigorous pace set in FY16.

Motor vehicle operators and weight distance receipts are expected to remain on similar growth paths while the remaining accounts are forecasted to diverge from their current levels.

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 assessed recent growth patterns as well as administrative and statutory factors to formulate the projections. Motor vehicle license taxes are forecasted to decrease 6.8 percent in the final three quarters of FY17. Motor vehicle operators' licenses are projected to fall 0.7 percent in the remainder of the fiscal year. Weight distance tax revenue is expected to grow 1.2 percent for the remainder of the fiscal year. Income on investments should increase 1.7 percent. All other revenues combined are projected to decline 1.7 percent during the last nine months of FY17.

NATIONAL ECONOMY

As we enter the second quarter of the 2017 fiscal year, the level of uncertainty facing the US economy is elevated due to the elections and the entry of a new administration, the anticipated actions of the Federal Reserve, and the anticipation of reductions in OPEC output. While the raucous election cycle will end shortly, the economic issues will remain as policymakers return to focusing on the issues at hand.

The Bureau of Economic Analysis (BEA) released their third estimate of real GDP growth for the second calendar quarter, and the annualized rate of growth was revised upward to 1.4 percent from the previous estimate of 1.1 percent growth. Weighing down the estimate was inventory investment, which subtracted 1.2 percentage points from the estimated growth rate. Real final sales to domestic purchasers increased at a 2.4 percent annual rate, double the rate observed in the first quarter. Combined with these trends, two factors will help increase the growth in real GDP in the next few quarters.

The first of these growth factors will be a reversal of the role of inventories in the growth of real GDP. As the rate of inventory drawdowns increases through the fourth calendar quarter and then plateaus in the first half of calendar 2017, inventories will provide support for higher measured real GDP growth that more closely tracks growth in final sales. The second growth factor is an anticipated increase in business fixed investment, as the slow recovery in commodity prices continues. The price increases in the recovery stage will drive up expectations for future commodity prices, which should in turn foment an increase in capital spending in mining and petroleum production equipment and structures.

After reaching a nine-year high earlier this fiscal quarter, new home sales have declined and existing home sales have also seen reduced momentum. However, the 2016 calendar year completed sales are still on pace to be the highest observed since 2006. The story of the housing market is one of still fairly robust demand with a persistent lack of supply, as the lack of significant inventory expansion has led to record or near record high home prices in many areas. The overall demand for housing had been showing strength in spite of a limited supply of homes for sale, but the tight inventories are now hindering the overall housing market. Looking forward, homebuilders are expected to continue facing a challenge in hiring skilled labor, despite recent upward pressure in construction wages. The ratio of construction job openings to hires has been reported at the second highest level in the 15-year history of the data series.

The previous discussion highlights the continued uncertainty in what actions the Federal Reserve will take going forward. If the Federal Reserve's decision was based solely on household spending and employment trends, the Fed would have already raised rates without fear of creating a downturn. However, the Federal Reserve tracks several data series which show that the overall improvement in the economy has lacked the breadth of growth across many economic categories. Chief among these sectors has been business fixed investment, which has fallen in four of the previous five quarters. The weakness has been concentrated in oil and gas drilling, but with energy prices beginning to recover, rig counts are beginning to increase from their recent lows.

At the September meeting of the Federal Reserve committee, the target rate for the federal funds rate was held constant at 0.25-0.50 percent, with the committee stating that there was a desire to wait for "further evidence of the continued progress toward its objectives" before raising the target rate again. Market commentators have often criticized the Federal Reserve for making statements that lack clear conviction, but the language of their statements and the number of dissenting votes would seem to indicate that the ground work has been laid for an increase in the federal funds rate of 25 basis points to occur in December. As the labor market continues to improve and inflation moves toward the Federal Reserve's two percent target, interest rates will be expected to rise further. The overall expectation is for the federal funds rate to increase to 2.0 percent by the end of calendar 2018.

Table 9
US Economic Outlook
Quarters 2, 3, & 4

	Q2, Q3, & Q4			Full Year	
	FY17	**FY16**	**% Chg**	**FY17**	**% Chg**
Real GDP	16,901.2	16,528.6	2.3	16,849.4	2.1
Real Consumption	11,720.9	11,390.6	2.9	11,686.4	2.9
Real Investment	2,881.9	2,825.6	2.0	2,859.1	0.7
Real Govt. Expenditures	2,936.2	2,905.7	1.1	2,930.9	1.0
Real Exports	2,141.7	2,105.3	1.7	2,134.9	1.2
Real Imports	2,753.2	2,670.3	3.1	2,735.2	2.5
CPI all goods (% chg)	2.1	0.9	NA	1.9	NA
CPI Food (% chg)	0.9	0.9	NA	0.6	NA
CPI Energy (% chg)	4.5	-11.7	NA	1.2	NA
CPI Core (% chg)	2.2	2.2	NA	2.2	NA
Industrial Production Index (% chg)	0.5	-1.4	NA	0.2	NA
Unemployment Rate (%)	4.9	4.9	NA	4.9	NA

Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars.
Components do not sum to GDP because they are annualized independently.
Source: IHS Global Insight Inc., September 9, 2016 data release.

KENTUCKY ECONOMY

Employment gains in the Commonwealth should slightly lag the national average, with growth in the non-farm sector of 1.0 percent for the remainder of the fiscal year. However, growth in employment in the goods producing sector is expected to slightly decline, with growth forecasted to be -0.3 percent in the remaining three quarters of FY17. The strongest sector of employment growth in the goods producing sectors is expected to be in construction with 4.1 percent growth. Employment in government—including federal, state, and local—is expected to continue to remain weak as government at all levels adjust to continued budgetary constraints. Overall, the sector is expected to increase by 0.7 percent for the remainder of FY17.

As shown in Table 10, Kentucky personal income growth is expected to be 4.4 percent over the forecast horizon, slightly lagging the national the average of 4.5 percent. The continued increased growth in personal income and wages and salaries will continue to influence the rate of revenue collection for the General Fund. Specifically, the sales and use tax accounts for approximately one-third of the Commonwealth's revenues. The forecast is for continued growth in the collection of sales and use taxes, with 3.1 percent growth expected for the remainder of the fiscal year. The combination of increasing income growth and continued increases in employment is also helping to fuel increased corporate income tax collections, which are forecasted to increase by 5.5 percent over the levels collected in the previous fiscal year.

Of particular interest to the Kentucky economy has been the robust increase in US light-vehicle sales over the last six years. After reaching a nadir in 2009, the market for new cars and trucks had reached an all-time record level in 2015. For calendar year 2016, sales have continued to remain strong, but there is growing concern that the market could be reaching a plateau. While recent months have shown surprisingly strong sales growth, the growth has come at the expense of vehicle profit margins, as manufacturers have begun having to offer more incentives to spur sales. Additionally, the average length of a new car loan has reached a record level, at 68 months; and, the average credit quality of borrowers has declined while the amount borrowed and the amount of the monthly payment have reached record highs. Overall, these trends are expected to continue as manufacturers attempt to move their 2016 model-year vehicles to make way for 2017 models. For the Kentucky economy, the trends in light-vehicle sales will be closely watched.

Table 10
Kentucky Economic Outlook
Quarters 2, 3, & 4

	Q2, Q3, & Q4			Full Year	
	FY17	FY16	% Chg	FY17	% Chg
Personal Income ($ millions)	185,919.2	178,160.4	4.4	184,910.6	4.5
Wages and Salaries ($ millions)	92,705.9	88,907.3	4.3	92,157.2	4.7
Non-farm Employment (thousands)	1,923.2	1,904.1	1.0	1,921.5	1.1
Goods-producing	331.5	332.3	-0.3	331.7	-0.2
Construction	79.6	76.4	4.1	79.3	3.9
Mining	12.2	12.5	-1.9	12.2	-4.4
Manufacturing	239.7	243.4	-1.5	240.2	-1.2
Service-providing	1,273.8	1,256.1	1.4	1,271.9	1.6
Trade, Transportation & Utilities	396.4	394.9	0.4	396.1	0.7
Information	25.3	24.5	3.2	25.3	2.4
Finance	95.9	94.2	1.8	95.7	2.1
Business Services	226.8	219.4	3.4	226.0	3.4
Educational Services	273.4	270.7	1.0	272.9	1.4
Leisure and Hospitality Services	194.7	189.4	2.8	194.3	2.7
Other Services	61.4	62.9	-2.4	61.7	-2.1
Government	317.8	315.6	0.7	317.9	0.6

Not Seasonally Adjusted.
Source: IHS Global Insight, Inc. and the Kentucky Governor's Office for Economic Analysis MAK model, September 2016.

APPENDIX

General and Road Fund Receipts
First Quarter FY17

KENTUCKY STATE GOVERNMENT – GENERAL FUND REVENUE

	First Quarter FY 2017	First Quarter FY 2016	% Change
TOTAL GENERAL FUND	**$2,482,372,191**	**$2,401,629,510**	**3.4%**
Tax Receipts	**$2,410,951,877**	**$2,330,423,702**	**3.5%**
Sales and Gross Receipts	**$1,048,818,108**	**$1,007,805,640**	**4.1%**
Beer Consumption	1,725,849	1,814,258	-4.9%
Beer Wholesale	16,663,784	17,487,598	-4.7%
Cigarette	57,242,279	58,098,297	-1.5%
Distilled Spirits Case Sales	35,998	34,627	4.0%
Distilled Spirits Consumption	3,388,958	3,255,125	4.1%
Distilled Spirits Wholesale	10,057,280	9,551,462	5.3%
Insurance Premium	37,051,246	30,230,841	22.6%
Pari-Mutuel	1,109,502	926,196	19.8%
Race Track Admission	80,349	111,140	-27.7%
Sales and Use	895,514,677	859,749,606	4.2%
Wine Consumption	743,155	710,162	4.6%
Wine Wholesale	4,129,937	4,008,872	3.0%
Telecommunications Tax	15,603,077	16,393,290	-4.8%
Other Tobacco Products	5,471,974	5,429,560	0.8%
Floor Stock Tax	43	4,608	-99.1%
License and Privilege	**($1,147,471)**	**($301,255)**	**---**
Alc. Bev. License Suspension	136,650	121,725	12.3%
Corporation License	(22,646)	47,203	---
Corporation Organization	5,945	0	---
Occupational Licenses	41,957	53,636	-21.8%
Race Track License	95,000	132,500	-28.3%
Bank Franchise Tax	(1,589,026)	(829,985)	---
Driver License Fees	184,648	173,666	6.3%
Natural Resources	**$30,436,526**	**$46,800,693**	**-35.0%**
Coal Severance	23,884,809	37,672,835	-36.6%
Oil Production	1,243,610	1,631,724	-23.8%
Minerals Severance	4,485,334	5,488,597	-18.3%
Natural Gas Severance	822,772	2,007,537	-59.0%
Income	**$1,263,965,074**	**$1,209,446,743**	**4.5%**
Corporation	136,478,444	124,863,217	9.3%
Individual	1,090,295,534	1,039,892,021	4.8%
Limited Liability Entity	37,191,097	44,691,505	-16.8%
Property	**$52,348,575**	**$46,848,648**	**11.7%**
Building & Loan Association	16,633	0	---
General - Real	41,168	(354,737)	---
General - Tangible	31,028,971	28,167,592	10.2%
Omitted & Delinquent	3,736,085	712,466	424.4%
Public Service	17,525,787	18,318,369	-4.3%
Other	(68)	4,958	---
Inheritance Tax	**$10,559,472**	**$13,749,815**	**-23.2%**
Miscellaneous	**$5,971,593**	**$6,073,419**	**-1.7%**
Legal Process	3,382,142	3,718,413	-9.0%
T. V. A. In Lieu Payments	2,545,668	2,352,675	8.2%
Other	43,784	2,331	1778.7%
Nontax Receipts	$70,081,294	$70,479,667	-0.6%
Departmental Fees	3,019,735	2,831,760	6.6%
PSC Assessment Fee	12,925,985	10,761,872	20.1%
Fines & Forfeitures	4,925,999	5,598,233	-12.0%
Income on Investments	(69,550)	(165,406)	---
Lottery	58,127,129	53,500,000	8.6%
Sale of NOx Credits	0	0	---
Miscellaneous	(8,848,004)	(2,046,792)	---
Redeposit of State Funds	**$1,339,020**	**$726,140**	**84.4%**

KENTUCKY STATE GOVERNMENT – ROAD FUND REVENUE

	First Quarter FY 2017	First Quarter FY 2016	% Change
TOTAL ROAD FUND	$384,569,848	$371,068,910	3.6%
Tax Receipts-	$379,624,985	$365,454,969	3.9%
Sales and Gross Receipts	$331,198,235	$320,108,555	3.5%
Motor Fuels Taxes	198,496,156	196,412,067	1.1%
Motor Vehicle Usage	132,702,079	123,696,488	7.3%
License and Privilege	$48,426,750	$45,346,414	6.8%
Motor Vehicles	18,755,870	18,673,778	0.4%
Motor Vehicle Operators	4,169,319	4,213,332	-1.0%
Weight Distance	20,935,699	20,623,080	1.5%
Truck Decal Fees	1,907	30,180	-93.7%
Other Special Fees	4,563,955	1,806,045	152.7%
Nontax Receipts	$4,733,153	$5,298,835	-10.7%
Departmental Fees	3,815,138	4,640,139	-17.8%
In Lieu of Traffic Fines	91,255	104,039	-12.3%
Income on Investments	144,948	447,102	-67.6%
Miscellaneous	681,812	107,555	533.9%
Redeposit of State Funds	$211,710	$315,105	-32.8%