Commonwealth of Kentucky

Quarterly Economic & Revenue Report

Third Quarter
Fiscal Year 2011

Governor's Office for Economic Analysis

Office of State Budget Director

Kentucky
Unbridled Spirit

Office of State Budget Director
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Steven L. Beshear
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May 2, 2011

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 2011 (FY11) and provides an interim estimate for the next three fiscal quarters for the General Fund and the Road Fund. General Fund receipts for the third quarter of FY11 totaled $1,973.2 million, an increase of 5.2 percent compared to the same period in FY10. Road Fund revenues totaled $330.1 million, an increase of 12.4 percent from the third quarter of FY10.

The official General Fund estimate for FY11 is $8,593.4 million which includes $80.1 million in legislatively enacted changes during the 2010 Special Session of the General Assembly and $22.4 million from the 2011 Special Session. The official Road Fund estimate for FY11 is $1,265.8 million, unchanged from the Consensus Forecasting Group estimate in December 2009.

April's unofficial interim outlook calls for FY11General Fund revenues of $8,689.0 million or $95.7 million higher than the revised official estimate. Consistent with the FY11 *Second Quarter Economic and Revenue Report*, a large portion of the difference between the official estimate and the updated interim estimate results from increases in the coal severance tax. As you know, a portion of severance tax receipts are statutorily appropriated. For FY11 approximately $31.1 million of the projected excess revenues of $95.7 million would be appropriated to the severance tax funded programs. The resulting projected excess revenues are therefore estimated to be $64.6 million. Note however, that if these revenue estimates materialize, the final General Fund surplus will also consider any necessary adjustments on the expenditure side, including covering costs deemed to be Necessary Government Expenditures (NGE). With recent weather-related events, there is more uncertainty about the level of NGE for this year. The certified General Fund surplus at year end is subject to the Surplus Expenditure Plan in HB 1 of the First Extraordinary Session of the 2010 General Assembly. That plan provides that any FY11 surplus can only be used to pay NGE and to increase support to the Budget Reserve Trust Fund.

For the first half of FY12, revenues are expected to grow 3.8 percent over the first half of FY11. While receipts over the course of the fiscal year do not come in evenly, from a growth rate perspective this interim estimate is consistent with the official revenue estimate for FY12. The official revenue estimate for FY12 assumed 3.5 percent revenue growth for the entire year. It should be noted however, that similar to the General Fund budget for FY11 that required the Executive Branch to identify actions to close a $131 million imbalance, the FY12 General Fund budget requires the Executive Branch to identify actions necessary to close a $168.9 million imbalance.

The Road Fund revenues are forecasted to continue their growth in the final quarter of FY11. Growth rates for the fourth quarter of the current fiscal year and the first six months of FY12 are forecast to be 8.2 percent and 6.2 percent, respectively. The FY11 full-year forecast is $75.6 million more than the official revenue forecast. The additional statutorily dedicated revenues in the Road Fund to County and Municipal Road Aid are projected to be approximately $26.7 million, resulting in projected excess revenues of $48.9 million.

We are clearly seeing signs of economic recovery in state receipts. The impact on state taxes is broad-based as healthy growth rates are returning in the sales, income and corporate taxes. Recent economic events have added more uncertainty, however, that warrant close monitoring. The volatility and level of fuel prices are concerning and have lead to inflation in the goods markets that contain significant shipping charges. Food and gasoline are commodities with very little elasticity in the short run – that is, they are necessities. Therefore, as these goods consume a larger percentage of household disposable income, some of the upside in consumer spending is crowded out due to household budget constraints.

We continue to be cautious as the economic recovery has not yet produced job growth levels we would expect to see in a recovery period. We will continue to monitor the economic and fiscal conditions of the Commonwealth and will keep you apprised of developments.

Sincerely,

Mary E. Lassiter
State Budget Director

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Executive Summary

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) has prepared a Quarterly Economic and Revenue Report for the third quarter of FY11. As required by law, 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.

This third edition of the *Quarterly Report* provides a third unofficial estimate for the current year revenues as well as an examination of the first six months of the upcoming fiscal year. It is customary to juxtapose the latest unofficial estimates with the official enacted estimates that were included in the budget process. Both the General Fund and Road Fund estimates are included. Unless otherwise noted, the enacted estimates include the fiscal impact of all recently enacted laws that would affect revenues, including the $22.4 million increase in the General Fund that was included in HB 1 from the First Extraordinary Session of 2011. These impacts, which total $102.5 million in FY11, have been incorporated into the estimates for the major tax categories.

To fulfill the requirement to provide an update on current economic conditions, two sections of narrative information are included in this report. The first section profiles the most recent history of the US and Kentucky economies. Later, in the outlook section of the report, a three-quarter outlook is provided using the control forecast from Global Insight and the Kentucky Macroeconomic Model (MAK) for Kentucky which is developed, maintained, and operated by the Office of State Budget Director.

Some of the highlights of this report are summarized below. For greater detail, please refer to the relevant portion of the report.

- General Fund receipts rose for the fourth consecutive fiscal quarter following five consecutive declines.

- Road Fund receipts have now posted a fifth consecutive quarterly increase following a recession that led to seven consecutive quarters of declining revenues. The Road Fund is in full recovery mode due to current and projected strength in the motor fuels and motor vehicle usage taxes.

- The recovery for the General Fund is gaining some momentum after posting 5.2 percent growth in the third quarter following 6.3 percent growth in the second quarter. The reduction in the rate of growth was expected as the previous year's revenues posed a higher baseline to overcome before collections added to growth.

- Despite the fragile nature of the economic recovery, two revenue sources have established a growth pattern in excess of projections. The corporation income tax is clearly benefiting from the national growth in corporate profits. All of the corporate variables are well poised for growth in excess of the official estimates. Coal severance tax receipts are also coming in ahead of the pace set by the official estimates. The combination of corporate and coal is approximately $130 million ahead of projections for FY11.

- The individual income tax is also now slightly ahead of projections after another strong quarter of growth. Withholding and declaration payments are both areas of strength despite a lack of evidence that employment is rising in a manner consistent with a robust economic recovery.

- Offsetting these well-performing taxes, the remainder of the General Fund is slightly below the growth incorporated into the official estimates. Table 5 details how each tax compares to official projections.

- Compared to the official General Fund estimates, the unofficial interim estimate calls for growth of 5.6 percent in FY11 for a final sum of $8,689.0 million. If realized, the estimate would exceed the enacted estimate of $8,593.4 million by $95.7 million.

- Consistent with the FY11 *Second Quarter Economic and Revenue Report*, a large portion of the difference between the official estimate and the updated interim estimate results from increases in the coal severance tax. A portion of severance tax receipts are statutorily appropriated. For FY11 approximately $31.1 million of the projected excess revenues of $95.7 million would be appropriated to the severance tax funded programs.

- Interim estimates for the Road Fund also reveal a projected excess of revenues over the official estimates. Due largely to growth in the fuels taxes, the current unofficial estimate calls for $1,341.4 million in FY11, an amount $75.6 million higher than the official estimate.

- Regarding the economy, real GDP is expected to rise 3.4 percent in the first two quarters of FY12; this high rate of growth is largely based on the high growth in real private investment and real exports.

- Kentucky personal income is expected to grow 4.0 percent in the final quarter of FY11, followed by a more robust 4.7 percent for the first half of FY12.

- ♦ The three-quarter outlook calls for no drastic changes to the national forecast, especially the economic forecast that prevailed when the official estimates were approved. January and February were months of good growth and higher expectations, but the continued rise in fuel prices have bled over into other commodity prices and have eroded the disposable income of many consumers. The disaster in Japan has also taken a toll on the auto industry. With Kentucky's presence in manufacturing and parts suppliers, the length of these disruptions to production will be crucial to our short-run outlook. For a more detailed analysis of this situation, please refer to the national economic outlook later in this report.

- ♦ Recent regional projections have shown Kentucky in a favorable light vis-à-vis the recovery path of other states.

As may be inferred in the previous bulleted items, the recovery is viewed by national experts as somewhat fragile, such that moderate disruptions have a greater possibility than usual of escalating into full-blown setbacks. It is worth noting that a period of rising fuel prices in the summer of 2008 exacerbated a fragile economy that was beset with a housing bubble and troubles in the major financial sectors. The financial sector is on much firmer footing now compared to 2008, so it remains unlikely that the higher fuel prices alone will trigger another prolonged setback. Most economists are very cautious about the potential for escalations of hostilities which would cause further economic uncertainty. Since the control forecast incorporates a moderate level of unrest, it is the overwhelming choice for short-term forecasting.

Given this volatility and given the presence of the significant downside risks, both the General Fund and Road Fund estimates prepared in this report should be interpreted to be "slightly ahead of schedule" rather than "significantly ahead of schedule". Both amounts in excess of the official estimates are within the normal error range of economic models, especially models with as many volatile components as the Global Insight, MAK, and the Kentucky revenue models. The next report in July 2011 should give us a better indicator of FY12 revenues, given that we will be able to observe several important taxes which are heavily dependent on the early year refund season.

Finally, it is often useful to know what the experts are saying about the Kentucky economy. While this is difficult to do on a totally objective scale, the intangible remarks from the experts seem to be saying that Kentucky has rebounded more rapidly from the recession since our peak-to-trough losses in several key variables is a much smaller gap than states that have been decimated by the housing sector crisis. By most accounts, the losses endured by Kentucky from the national recession that ended in June 2009 were somewhat less severe than most states. There are three primary factors at play. First, the loss of household wealth from home equity was not as severe in Kentucky since there was a smaller run-up in prices and less speculative buying. Second, all mineral extraction states had hard assets to fall back to when other sectors failed. Finally, Kentucky has a broad mix of manufacturing instead of an overreliance on a single industry. The diversity and stability of our tax code also limits the downside risks during recessions by sustaining government services and interjecting resources into the private economy.

Revenue Receipts

GENERAL FUND

General Fund receipts in the third quarter of FY11 totaled $1,973.2 million compared to $1,875.6 million in the third quarter of FY10, for an increase of 5.2 percent or $97.6 million. Revenues have grown in four consecutive quarters following the five quarters of revenue declines during the recession. 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. The magnitude of revenue growth in the third quarter of FY11 is further evidence that the state economy is rebounding robustly from the abrupt revenue declines from the recession, especially in the individual income and the limited liability entity tax (LLET) taxes.

Table 1
Summary General Fund Receipts
(million $)

	FY11 Q3	FY10 Q3	Diff ($)	Diff (%)
Sales and Use	706.0	681.6	24.4	3.6
Individual Income	692.8	626.6	66.2	10.6
Corporation Income	25.6	24.7	0.9	3.7
LLET	42.0	26.9	15.1	56.0
Coal Severance	69.9	62.8	7.2	11.4
Cigarette Tax	57.3	63.8	-6.6	-10.3
Property	116.0	133.1	-17.1	-12.8
Lottery	48.5	51.5	-3.0	-5.8
Other	215.1	204.6	10.5	5.1
TOTAL	**1,973.2**	**1,875.6**	**97.6**	**5.2**

Total sales and use tax receipts for the quarter were $706.0 million, compared to $681.6 million in the third quarter of FY10. The $24.4 million difference translates to an increase of 3.6 percent, compared to 1.4 percent decline for the third quarter of last year. Sales and use tax receipts have been positive for the last four quarters.

Individual income tax receipts increased 10.6 percent in the third quarter of FY11. Receipts of $692.8 million were $66.2 million more than was collected in the third quarter of the previous fiscal year. Much like the sales tax, individual income tax receipts have rebounded nicely from recessionary levels.

Corporation income tax posted an increase of 3.7 percent, or $0.9 million, during the third quarter of FY11. Receipts totaled $25.6 million compared to the $24.7 million received a year earlier. The third fiscal quarter of each year is a low collection period for corporate taxes due to the schedule of payments for calendar-year filers.

The LLET saw an increase in tax collections in the third quarter of FY11 when compared to FY10. Total collections in the current fiscal year totaled $42.0 million and compare to revenues of $26.9 million in the same period a year earlier. The LLET have been positive for the last three quarters.

The coal severance tax increased 11.4 percent as coal prices have increased. Receipts of $69.9 million compare to $62.8 million collected in the third quarter of FY10. Through the first nine months of FY11, receipts have grown by 10.5 percent.

Cigarette taxes decreased in the third quarter. Receipts of $57.3 million were 10.3 percent less than collected in the third quarter of FY10. The presence of roll-your-own substitutes for cigarettes appears to be eroding the tax base for traditional cigarette sales.

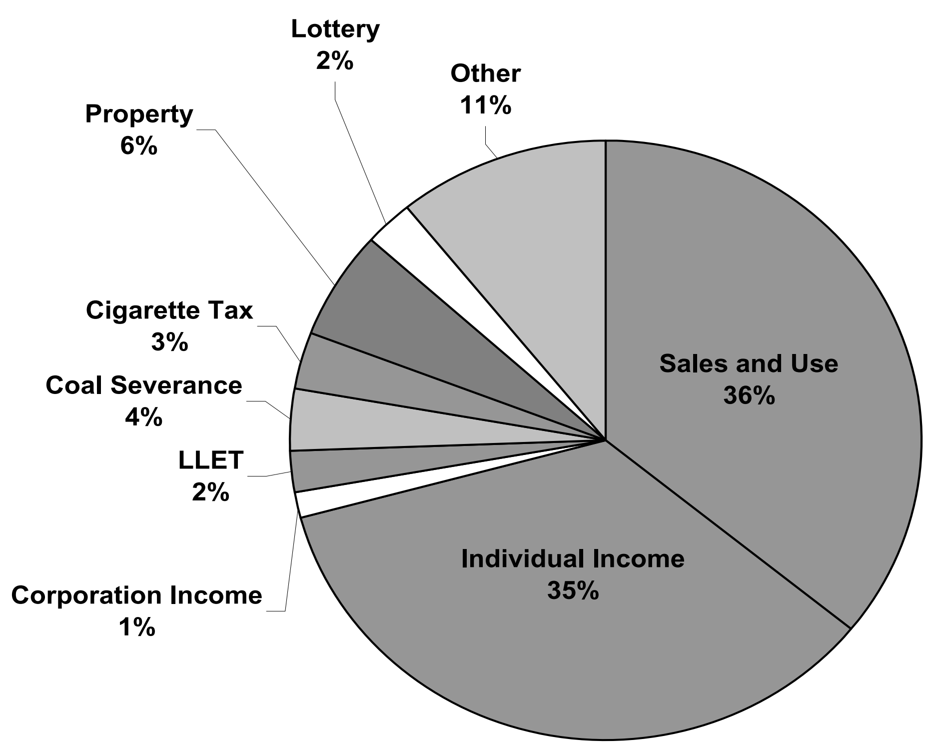
Property taxes were down 12.8 percent in the third quarter of FY11 due to timing of collections in the tangible and public service property accounts. Collections of $116.0 million compare to $133.1 million received in the third quarter of the prior fiscal year.

Lottery receipts of $48.5 million were down $3.0 million or 5.8 percent over the total collected in the third quarter of FY10.

The "Other" category represents the remaining accounts in the General Fund, and collections in this account increased 5.1 percent with receipts of $215.1 million.

Figure 1 details the composition of third-quarter General Fund receipts by tax type. Seventy-one percent of General Fund revenues were collected in the areas of the sales and individual income taxes. The next largest source of revenue was the "Other" account at 11.0 percent. The major components in this category include insurance premium taxes, telecommunications taxes, beer

Figure 1
General Fund Receipts Third Quarter FY11



wholesale sales tax, inheritance taxes and the natural gas severance tax. Property tax accounted for 6.0 percent. Coal severance taxes accounted for 4.0 percent of the revenues while cigarette taxes accounted for 3.0 percent. Lottery receipts and LLET each accounted for 2.0 percent of the General Fund. Finally, corporation income accounted for 1.0 percent.

Table 2
Summary Road Fund Receipts
(million $)

	FY11 Q3	FY10 Q3	Diff ($)	Diff (%)
Motor Fuels	170.8	158.9	11.9	7.5
Motor Vehicle Usage	100.7	78.3	22.3	28.5
Motor Vehicle License	28.0	28.6	-0.6	-2.2
Motor Vehicle Operators	3.8	3.9	0.0	-0.6
Weight Distance	18.4	17.8	0.5	3.0
Investment Income	0.2	0.5	-0.2	-49.9
Other	8.2	5.8	2.4	42.3
TOTAL	**330.1**	**293.7**	**36.3**	**12.4**

ROAD FUND

Road Fund revenue increased 12.4 percent in the third quarter of FY11. Receipts totaled $330.1 million compared to the $293.7 million received in the third quarter of the last fiscal year. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Motor fuels tax receipts increased 7.5 percent during the third quarter of FY11. Receipts were $170.8 million and compare to $158.9 million collected during the third quarter of last year. Motor fuels taxes were affected by a statutory tax rate increase tied to the wholesale price of gasoline.

Motor vehicle usage tax receipts increased 28.5 percent, or $22.3 million, during the third quarter. Receipts were $100.7 million compared to $78.3 million collected during the same period last year. The trade-in credit for last year and pent up demand for autos this year have finally generated growth in this important source of Road Fund revenue.

Motor vehicle license tax receipts were down 2.2 percent during the third quarter of FY11. Receipts of $28.0 million compare to $28.6 million received during the third quarter of FY10.

Motor vehicle operators' license fees totaled $3.8 million, a 0.6 percent decrease compared to the level observed a year ago.

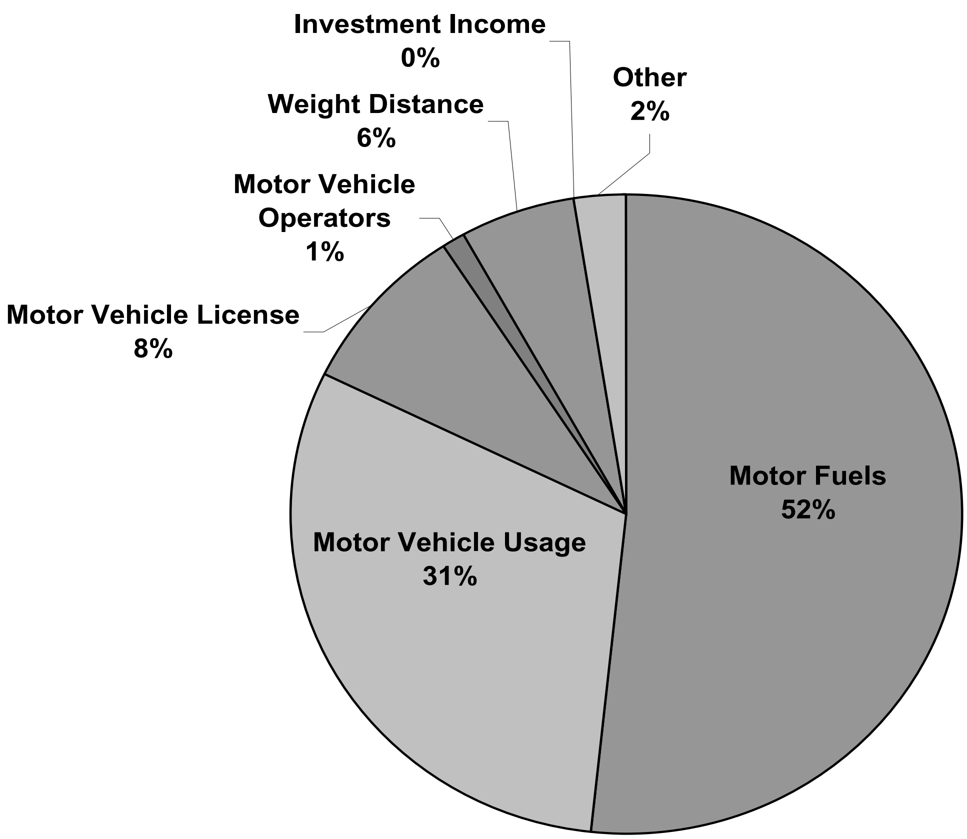
Weight distance tax receipts of $18.4 million increased 3.0 percent compared to receipts of $17.8 million collected during the third quarter of last year. The weight distance tax has some usefulness as an unofficial leading indicator of economic activity, as it is a good proxy for goods in transit over Kentucky highways.

Investment income fell 49.9 percent in the third quarter due to lower investible balances. Receipts of $0.2 million compare to $0.5 million in the third quarter of FY10.

The remainder of the accounts in the Road Fund combined for an increase of 42.3 percent. Receipts for the “Other” category totaled $8.2 million during the third quarter, compared to $5.8 million in the third quarter of FY10.

Figure 2 details the composition of Road Fund revenues by tax type in the third quarter of FY11. Motor fuels taxes and the motor vehicle usage tax accounted for 83.0 percent of Road Fund revenues in the third quarter. The next-largest sources of revenue were the motor vehicle license tax with 8.0 percent followed by weight distance with 6.0 percent. The "Other" category accounted for 2.0 percent, while motor vehicle operators' license fees comprised 1.0 percent. Investment income accounted for less than half of one percent of total Road Fund receipts.

Figure 2
Road Fund Receipts Third Quarter FY11



The Economy Third Quarter FY11

NATIONAL ECONOMY

The national economy, as measured by real gross domestic product (real GDP), improved for the seventh consecutive month. Real GDP is the largest single measure of the US economy. It is defined as the sum of all final goods and services sold within the physical borders of the United States in a given year. Real GDP has five components: consumption, investment, government expenditures, imports and exports. In the third quarter, real GDP rose 2.6 percent over the third quarter in FY10. Real GDP rose by 0.8 percent compared to the second quarter of FY11. At this point in the recovery, that growth rate is consistent with those growth rates in previous recoveries. Moreover, this recovery is very similar to the previous two, at least in terms of duration.

This recovery period, measured using real GDP, has been symmetric with the contraction period during the 2007 recession. That is, the length of time it took to go from peak-to-trough was roughly equivalent to the length of time it took to go from the trough to the point in the expansion which surpassed the previous peak. This symmetry was also present in the previous two recessions/recovery periods.

In the 1990 recession, there were three quarters between peak and trough. The depth was 1.4 percent of total real GDP. There were also three quarters between the trough and the point where real GDP surpassed its previous peak. In the 2001 recession, there was technically only one quarter from peak-to-trough (a total of two declines in real GDP occurred in the recession, but they were separated by an intervening increase which surpassed the previous peak). The depth of this single-quarter decline was 0.3 percent of total real GDP. There was also one quarter between the trough and the point where real GDP surpassed its previous peak. In the 2007 recession, there were six quarters between peak and trough. The depth was 4.1 percent of total real GDP. There were also precisely six quarters between the trough and the point where real GDP surpassed its previous peak.

Consumption is the largest component of real GDP, making up just over 70 percent of the total. Consumption was by far the largest contributor in absolute dollars to real GDP in the third quarter among the components. Consumption rose by $259.9 billion compared to the third quarter of 2010. That is 76.6 percent of the total gains in real GDP. Consumption has grown moderately since the end of the recession, averaging just 0.6 percent quarter-to-quarter growth.

Real investment, which makes up 13.3 percent of real GDP, grew 6.4 percent in the third quarter. Real investment has experienced solid growth since the recession ended. Despite the loss last quarter, real investment has grown by a net 23.8 percent since the first quarter of FY10.

Real government expenditures, which makes up 19.0 percent of real GDP, was the smallest contributor to real GDP growth this quarter. Real government expenditures grew by 0.7 percent over the third quarter of FY10, contributing only $18.1 billion towards real GDP growth.

The largest (percentage) contributor to real GDP growth in the third quarter was real exports, which rose by 8.9 percent over the third quarter of last year. Unfortunately, real imports grew even faster with 9.3 percent growth and the trade deficit grew over the third quarter of FY10. While the trade deficit grew compared to last year, it has decreased slightly in each of the last two quarters. In the first quarter of FY11, the trade deficit was $505.0 billion. In the second quarter it fell to $395.0 billion. Currently, the trade deficit is $375.8 billion. It is worth noting that this is significantly lower than pre-recession levels of the trade deficit, which regularly hovered near $700 billion for many quarters.

Overall, the economy contains a balance of positive components and negative components. Real GDP is growing modestly. Personal income and wages and salary are experiencing solid growth. Meanwhile, the civilian labor force is shrinking, nonfarm employment is growing uncharacteristically slowly for the seventh quarter of an expansion, and unemployment is hovering near 9.0 percent and inflation has ticked down to 2.15 percent.

Table 3
Summary of US Economic Series
Third Quarters of FY10 & FY11

	Q3			
	FY11	**FY10**	**Chg**	**% Chg**
Real GDP	13,478.0	13,138.8	339.2	2.6
Real Consumption	9,485.3	9,225.4	259.9	2.8
Real Investment	1,798.7	1,690.2	108.5	6.4
Real Govt. Expenditures	2,558.3	2,540.2	18.1	0.7
Real Exports	1,760.3	1,616.4	143.9	8.9
Real Imports	2,136.1	1,954.8	181.3	9.3
Personal Income ($ billions)	12,957.7	12,350.3	607.4	4.9
Wages and Salaries (billions)	6,557.7	6,291.4	266.3	4.2
Inflation (% chg CPI)	2.15	2.40	NA	NA
Industrial Production Index (% chg)	95.9	90.6	NA	NA
Civilian Labor Force (millions)	153.3	153.6	-0.3	-0.2
Total Nonfarm Employment (millions)	130.5	129.3	1.2	0.9
Manufacturing Employment (millions)	11.7	11.5	0.2	1.6
Unemployment Rate (percent)	8.9	9.7	NA	NA

Not Seasonally Adjusted. Real series are in billions of chained 2000 dollars.
GDP components may not sum due because different chain-weighted prices are used to convert series into real levels.
Data for FY11 Q3 are March 2011 estimates.
Source: IHS Global Insight Inc., March 9, 2011 data release

KENTUCKY ECONOMY

Kentucky personal income and wages and salary income both rose at a healthy level but still by slightly less than the US rose. Kentucky personal income rose by 1.7 percent over the second quarter. This is the best single-quarter growth in personal income since the fourth quarter of FY08. Kentucky wages and salary income grew by 1.2 percent over the second quarter. This is the best single quarter growth in wages and salary income since the fourth quarter of FY10.

Non-farm employment growth has been weak in Kentucky since the official end of the 2007 recession. In the third quarter, non-farm employment grew by 1.6 percent over the third quarter of FY10. It grew by 0.3 percent over the second quarter of FY11. In the thirteen months after the trough in non-farm employment, employment has grown by a slow net 1.6 percent. The 2007 recovery was very similar to the 2001 recession in this respect. In the thirteen months following the 2007 recession trough, Kentucky non-farm employment grew by a net 0.7 percent. In the thirteen months following the 2001 recession trough, Kentucky non-farm employment grew by a net 0.2 percent. Historically, both of these are very small recovery growth rates. In the thirteen months following the 1981 recession trough, employment grew by a net 4.3 percent. In the thirteen months following the 1990 recession trough, employment grew by a net 2.5 percent.

While the expansion period growth rates following the 2001 and 2007 troughs are similar, the recessions themselves were very different. The 2007 recession was both deeper (in terms of real GDP) and occurred over a shorter period of time than the 2001 recession. Therefore, it is entirely possible it will take a significantly longer period of time to regain the contraction losses from the 2007 recession, than it took to recover following the 2001 recession. The 2001 net peak-to-trough losses in Kentucky non-farm employment were 56,100 seasonally adjusted jobs. This was a 3.1 percent net loss. The non-farm employment contraction occurred over 40 months. It took 28 months before non-farm employment regained all those losses. In comparison, the 2007 recession was far more severe by many measures. The 2007 net peak-to-trough losses in Kentucky were 112,600 seasonally adjusted jobs. This was a net 6.0 percent net loss. This non-farm employment contraction occurred over just 19 months. So over double the absolute and percentage losses occurred in half the time in the 2007 recession. It has been 19 months since the trough in non-farm employment, and non-farm employment has regained 18.4 percent of its recession losses.

While all of non-farm employment grew slowly, mining employment grew by 6.8 percent. This was the fastest growing subsector by percentage in the third quarter of FY11. Business services employment added the most absolute number of jobs in the third quarter, growing by 8,600 seasonally adjusted jobs in the third quarter.

There were only a few subsectors which actually lost jobs during the third quarter. The slowest growing subsector by percentage was in finance services employment, which declined by 2.0 percent. Kentucky government employment (which includes local and state employment) contracted by the largest amount among the subsectors, declining by 2,100 seasonally adjusted jobs.

Table 4
Summary of Kentucky Economic Series
Third Quarters of FY10 & FY11

	Q3			
	FY11	**FY10**	**Chg**	**% Chg**
Personal Income ($ millions)	148,314.9	142,097.0	6,217.9	4.4
Wages and Salary Income ($ millions)	74,027.8	71,152.0	2,875.8	4.0
Nonagricultural Employment (thousands)	1,784.2	1,755.5	28.7	1.6
Goods Producing (thousands)	306.6	296.3	10.3	3.5
Construction	68.1	65.6	2.5	3.9
Mining	24.8	23.2	1.6	6.8
Manufacturing	213.7	207.5	6.2	3.0
Service Providing (thousands)	1,155.8	1,135.4	20.5	1.8
Trade, Transportation & Utilities	368.0	362.2	5.8	1.6
Information	26.2	26.5	-0.3	-1.0
Finance	85.3	87.0	-1.7	-2.0
Business Services	184.6	176.0	8.6	4.9
Educational Services	253.5	248.6	4.9	2.0
Leisure and Hospitality Services	168.4	167.3	1.1	0.6
Other Services	69.9	67.8	2.0	3.0
Government (thousands)	321.8	323.9	-2.1	-0.6

Not Seasonally Adjusted. Data for FY11 Q3 are March 2011 estimates.
Source: IHS Global Insight Inc. and Governor's Office for Economic Analysis MAK model

GENERAL FUND

The revenue estimates in this report were prepared using the March 2011 control economic forecast from both Global Insight and the Kentucky Macro Model (MAK), which is operated by the Office of State Budget Director. Projections have stabilized during the interim period between official estimates due to two primary factors; actual FY10 revenues were very close to the base projected by the Consensus Forecasting Group (CFG) during the budget forecast; and second, Global Insight has made few changes to their outlook, aside from some slight differences in timing.

The official General Fund estimate for FY11 is $8,593.4 million, a tally which includes $80.1 million in legislatively enacted policy changes during the 2010 Special Session of the General Assembly and $22.4 million from the 2011 Special Session. April's unofficial interim outlook calls for General Fund revenues of $8,689.0 million, or $95.7 million higher than the revised official estimate. For FY11 approximately $31.1 million of the projected excess revenues of $95.7 million would be appropriated to the severance tax funded programs. The resulting projected excess revenues are therefore estimated to be $64.6 million. For the first half of FY12 revenue is expected to climb 3.8 percent over the first half of FY11.

Projected General Fund revenues for the next three quarters are shown in Table 5. As the table suggests, growth has been strong through the first three quarters of FY11 and is projected to end the year on a positive note as well. The largest two revenue sources, the individual income tax and the sales tax,

Table 5
General Fund Interim Forecast
($ millions)

	FY11 Q1, Q2 & Q3		FY11 Q4		FY11 Full Year		FY12 Q1 & Q2		FY11 Off. Budget	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Sales & Use	2,156.2	4.3	760.2	4.5	2,916.4	4.4	1,504.7	3.8	2,939.3	-22.9
Individual Income	2,367.5	6.2	993.4	7.4	3,361.0	6.5	1,763.4	5.3	3,334.6	26.4
Corporation Inc & LLET	291.3	30.8	173.1	7.5	464.4	21.0	216.5	-3.2	403.9	60.5
Coal Severance	215.0	10.5	85.1	10.0	300.1	10.3	160.9	11.0	230.4	69.7
Cigarettes	193.2	-6.0	70.6	-3.1	263.9	-5.2	134.6	-1.0	280.9	-17.0
Property	466.8	-0.5	63.2	34.1	530.0	2.7	352.1	0.4	540.2	-10.2
Lottery	143.5	-0.7	57.5	3.6	201.0	0.5	97.5	2.6	205.4	-4.4
Other	493.0	4.0	159.2	4.7	652.3	4.2	289.4	4.1	658.7	-6.4
Total General Fund	**6,326.6**	**5.3**	**2,362.4**	**6.5**	**8,689.0**	**5.6**	**4,519.1**	**3.8**	**8,593.4**	**95.7**

are projected to collectively end the year within $3.5 million of the official estimates, certainly within the range of rounding. The projected revenue surplus over official projection is primarily attributable to expected growth in the corporation taxes and the coal severance tax. The coal severance tax in particular is benefiting from higher energy prices, while the corporate taxes are continuing to show positive signs after significant recessionary declines.

The sales tax grew 4.3 percent in the first three quarters of FY11 with growth expected to increase slightly to 4.5 percent in the fourth quarter. As the economic outlook will explain, the sales tax does have some potential vulnerability to the crowding out of disposable income created by high fuel prices. Higher fuel prices also increase the price of food. Since neither groceries nor gasoline are subject to the sales tax, there is some downside risk to the current sales tax forecast. Many consumers continue to pay down debts and have limited access to credit. Also, until the employment picture comes into better focus, consumers will be cautious in spending, knowledgeable that a disruption to their current employment is possible.

The individual income tax is expected to grow 7.4 percent in the final quarter of FY11 following a strong showing of 6.2 percent growth through March. Relative to the enacted estimate, the individual income interim forecast is $26.4 million higher. The withholding and estimated payments portion of the income tax have performed increasingly well coming out of the recession despite slow employment growth. For the first half of FY12, the individual income tax will continue to be a strong source of General Fund revenue growth, climbing 5.3 percent over the first half of FY11.

The corporation income tax, the LLET, and the coal severance tax have been strong performers in the first half of FY11, and the momentum is expected to continue through the forecasting horizon. By any measure, corporate profits are running very high. Apportioned profits are the basis of the corporate income tax, and the first three declaration periods for tax year 2010 calendar filers have posted sizable growth. Moreover, refund balances are at historic lows as the Kentucky Department of Revenue has put a higher priority on the timely handling of refund requests in an effort to minimize interest payments. The other major corporation tax, the LLET, has also outperformed expectations. Substantial compliance efforts were undertaken to ensure proper taxpayer understanding of the LLET. While a component of these compliance efforts led to one-time catch-up payments, it appears as if compliance efforts are also paying dividends in terms of proper payment of the tax for estimated payments. The FY11 interim estimate for the combination of the corporation income tax and the LLET is $464.4 million, which is $60.5 million greater than the official estimate.

The unprecedented revenue growth in coal severance tax revenue for FY09 was only partially reversed in FY10. Despite moderate declines in the first three quarters, the fourth quarter of FY10 posted growth of 3.6 percent over the record levels set in FY09. Coal severance finished FY10 at $271.9 million in collections, $27.2 million higher than the official estimate. With the higher base heading into FY11, it is reasonable to assume that the projections going forward would be slightly higher than the official estimates. That was indeed the case in the first three quarters of FY11, and revenues during the three-quarter forecasting horizon of this report are expected to sustain this momentum. The current interim estimate of $300.1 million is $69.7 million higher than the official estimate. Due to the statutory distribution for revenue sharing of severance taxes, the projected coal revenues will trigger higher current-year appropriations of approximately $31.1 million in conformance with the statutes.

Cigarette taxes totaled $193.2 million through the first nine months of FY11, a decline of 6.0 percent. Cigarette taxes have been underperforming vis-à-vis the official estimates all fiscal year. Investigations to date reveal product substitution as the main reason for the declining revenues. In many retail outlets, shop owners have installed machines that can be used to manufacture cigarettes on the spot. The customer buys empty “cigarette tubes” and loose “smoking tobacco”. The machines then assemble the cigarettes at a rate of one carton of ten packs of 20 per 8 minutes. This was unforeseen in previous forecasting processes due to the high federal excise tax on “smoking tobacco” which is $24.50 per pound. Pipe tobacco, however, has a much lower tax at only $2.83 per pound. Due to the tax differential, it is expected that these machines are assembling “cigarettes” with pipe tobacco or perhaps smoking tobacco is being incorrectly taxed as pipe tobacco to save the $21.67 per pound tax differential. Regardless of the specifics, it is believed that the practice of manufacturing cigarettes is eroding the tax base for conventional cigarettes.

The property tax forecast is virtually unchanged in this interim forecast. Expected receipts of $530.0 million are $10.2 million lower than the enacted estimate for property taxes. Real property tax collections were not expected to post growth in FY11 due to the stagnation of property tax assessments and the rash of properties facing foreclosure.

Estimates for lottery revenues for FY10 were lowered from $202.0 million to $200.0 million at the December 2009 meeting of the CFG. The FY10 dividend payments from the Kentucky Lottery Corporation were exactly $200.0 million, right on estimate. The official estimate for FY11 is $206.0 million. Lottery sales to date have been under projections, so the interim estimate in January for the FY11 lottery dividend was lowered to $196.5 million, or -1.8 percent. Since then, online sales have increased so the estimate for FY11 was revised upward to $201.0 million, still $5.0 million below originally enacted levels.

Revenues in the “Other” category have risen 4.0 percent through the first three quarters of FY11. The numerous accounts within this category are a variety of large versus small and stable versus erratic revenue sources, many of which also have timing idiosyncrasies that dominate any underlying autoregressive patterns. Collectively, the interim forecast calls for 4.7 percent growth in the fourth quarter of FY11 for total collections of $652.3 million as compared to the official estimate of $658.7 million. Each account is examined during an interim forecast. Slight downward revisions were done based on year-to-date performance. The largest reductions were made to the oil production tax and the natural gas severance tax.

ROAD FUND

Road Fund revenues are forecasted to continue their solid growth in the final quarter of FY11, although at a less robust rate than was seen in the first nine months. Growth in revenues will continue, but continue slow in the first two quarters of FY12 as shown in Table 6. Growth rates for the fourth quarter of the current fiscal year and the first six months of FY12 are forecast to be 8.2 percent and 6.2 percent, respectively. The FY11 full-year forecast is $75.6 million more than the official revenue forecast as approved by the CFG on December 21, 2009.

Motor fuels tax collections are forecasted to grow 7.1 percent over the final three months of FY11, due primarily to the increase in the tax rate on motor fuels. Receipts in the first two quarters of FY12 look to continue their strong growth, increasing 6.0 percent.

Motor vehicle usage tax collections will remain strong, increasing 14.4 percent in the fourth quarter. However, growth in motor vehicle receipts is estimated to abate in the first two quarters of FY12, increasing 8.2 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 increase by 0.7 percent in the final quarter of FY11 but fall 0.2 percent in the first two quarters of FY12. Motor vehicle operators' licenses are projected to fall 0.2 percent in the remainder of the fiscal year and then increase by 4.4 percent in the first six months of FY12. Weight distance tax revenue is forecasted to continue to show improvement, increasing 8.4 percent for the remainder of the fiscal year and 6.8 percent over the first two quarters of FY12. Investment income is forecasted to fall 63.9 percent over the remainder of the fiscal year and by 7.2 percent in the first half of FY12 due to lower fund balances. All other revenues should combine for an increase of 8.0 percent during the last three months of FY11 and increase 3.0 percent in the first two quarters of FY12.

Table 6
Road Fund Interim Forecast
($ millions)

	FY11 Q1, Q2 & Q3		FY11 Q4		FY11 Full Year		FY12 Q1 & Q2		FY11 Off. Budget	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Motor Fuels	547.5	14.2	188.6	7.1	736.1	12.2	399.3	6.0	680.8	55.3
Motor Vehicle Usage	280.0	14.6	101.3	14.4	381.3	14.6	194.1	8.2	362.9	18.4
Motor Vehicle License	62.7	1.3	35.2	0.7	97.9	1.1	34.6	-0.2	94.6	3.3
Motor Vehicle Operators	11.9	0.1	4.0	-0.2	15.9	0.0	8.5	4.4	15.4	0.5
Weight Distance	55.8	5.0	18.8	8.4	74.6	5.8	40.0	6.8	77.4	-2.8
Investment	1.1	-60.8	0.3	-63.9	1.4	-61.5	0.8	-7.2	1.4	0.0
Other	24.0	10.5	10.2	8.0	34.2	9.7	16.3	3.0	33.3	0.9
Total Road Fund	**983.1**	**12.3**	**358.3**	**8.2**	**1,341.4**	**11.2**	**693.6**	**6.2**	**1,265.8**	**75.6**

NATIONAL ECONOMY

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

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

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

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

The national disaster in Japan has also created a ripple effect in Kentucky. March exports and overseas shipments from Japan fell by 2.2 percent from the previous year. However, the significant impact is seen more clearly by examining the data associated with the automobile industry and shipments to the United States. Automobile related exports declined by 28.0 percent and shipments to the United States declined by 3.4 percent. Disruptions in the production of automobiles, components, and electronics have lead to shutdowns in automobile production. More importantly, parts suppliers have also had disruptions in their normal production schedule. While some parts suppliers have been able to expand their markets to help alleviate supply chain shortages for Japanese-based suppliers, others have faced drastic reductions in orders as their components are unneeded until automobile manufacturers resume a full production schedule. Kentucky is particularly vulnerable to these disruptions, so the magnitude and duration of the current production anomalies will be closely watched.

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

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

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

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

KENTUCKY ECONOMY

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

A comparison of Tables 7 and 8 shows that personal income growth in Kentucky is expected to be 4.0 percent in the fourth quarter of FY11 compared to the 4.7 percent national average. The rebound in employment for Kentucky will likely be slower, but the peak to trough declines were less severe in Kentucky. US growth will tend to be higher during the adjustment period since the US economy experienced larger peak-to-trough declines.

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

Table 7
US and KY Economic Outlook
Fourth Quarter of FY10 & FY11

	Q4			
	FY11	**FY10**	**Chg**	**% Chg**
United States				
Real GDP	13,616.9	13,194.9	422.0	3.2
Real Consumption	9,559.5	9,275.7	283.9	3.1
Real Investment	1,898.2	1,791.5	106.7	6.0
Real Government Expenditures	2,555.7	2,564.9	-9.2	-0.4
Real Exports	1,801.3	1,652.1	149.2	9.0
Real Imports	2,199.5	2,101.1	98.4	4.7
Personal Income ($ billions)	13,132.8	12,517.1	615.7	4.9
Wage & Salary ($ billions)	6,668.0	6,388.8	279.2	4.4
Inflation (% chg CPI)	2.5	1.8	NA	NA
Industrial Production Index (% chg)	5.3	7.4	NA	NA
Civilian Labor Force (millions)	153.7	154.1	-0.4	-0.3
Total Nonfarm Employment (millions)	131.1	130.0	1.1	0.9
Manufacturing Employment (millions)	11.8	11.5	0.2	2.0
Unemployment Rate (percent)	8.9	9.6	NA	NA
Kentucky				
Personal Income ($ millions)	150,013.3	144,228.0	5,785.3	4.0
Wage & Salary ($ millions)	75,108.9	72,262.0	2,846.9	3.9
Non-farm Employment (thousands)	1,791.5	1,778.6	12.9	0.7
Goods Producing (thousands)	309.5	304.7	4.9	1.6
Service Providing (thousands)	1,160.8	1,145.7	15.2	1.3
Government (thousands)	321.1	328.3	-7.2	-2.2

Not Seasonally Adjusted. Real series are in billions of chained 2000 dollars.
GDP components may not sum due because different chain-weighted prices
are used to convert series into real levels.
Data for Q4 of FY10 & FY11 are estimates based on the IHS Global Insight Control scenario.
Source: IHS Global Insight Inc., March 9, 2011 data release

Table 8
US and KY Economic Outlook
First and Second Quarters of FY11 & FY12

	Q1 & Q2			
	FY12	**FY11**	**Chg**	**% Chg**
United States				
Real GDP ($ billions)	13,779.2	13,324.3	454.9	3.4
Real Consumption	9,666.8	9,378.2	288.5	3.1
Real Investment	1,998.0	1,799.0	199.0	11.1
Real Government Expenditures	2,536.4	2,584.7	-48.3	-1.9
Real Exports	1,869.7	1,698.8	170.9	10.1
Real Imports	2,282.3	2,148.8	133.5	6.2
Personal Income ($ billions)	13,369.2	12,655.4	713.8	5.6
Wage & Salary ($ billions)	6,801.5	6,470.4	331.1	5.1
Inflation (% chg CPI)	2.6	1.2	NA	NA
Industrial Production Index (% chg)	5.1	6.4	NA	NA
Civilian Labor Force (millions)	154.4	153.9	0.5	0.3
Total Nonfarm Employment (millions)	132.0	130.0	2.0	1.5
Manufacturing Employment (millions)	11.9	11.6	0.4	3.0
Unemployment Rate (percent)	8.7	9.6	NA	NA
Kentucky				
Personal Income ($ millions)	152,402.0	145,539.5	6,862.4	4.7
Wage & Salary ($ millions)	76,473.5	72,995.8	3,477.7	4.8
Non-farm Employment (thousands)	1,800.6	1,775.9	24.7	1.4
Goods Producing (thousands)	311.9	302.0	9.9	3.3
Service Providing (thousands)	1,169.2	1,149.8	19.4	1.7
Government (thousands)	319.5	324.1	-4.6	-1.4

Not Seasonally Adjusted. Real series are in billions of chained 2000 dollars.
GDP components may not sum due because different chain-weighted prices
are used to convert series into real levels.
Data for FY12 Q1 & Q2 are estimates based on the IHS Global Insight Control scenario.
Source: IHS Global Insight Inc., March 9, 2011 data release

Table 9
Summary of US Economy Series Quarterly Growth Rates
FY11 Q2, Q3, Q4 & FY12 Q1 & Q2

	FY11			FY12	
	Q2 Actual	Q3 Estimate	Q4 Estimate	Q1 Estimate	Q2 Estimate
Real GDP	2.7	2.6	3.2	3.3	3.5
Real Consumption	2.6	2.8	3.1	3.2	3.0
Real Investment	9.9	6.4	6.0	6.3	16.2
Real Government Expenditures	1.2	0.7	-0.4	-1.7	-2.0
Real Exports	9.2	8.9	9.0	10.1	10.0
Real Imports	11.0	9.3	4.7	3.9	8.6
Personal Income ($ billions)	3.9	4.9	4.9	5.6	5.7
Wage & Salary ($ billions)	3.4	4.2	4.4	4.8	5.4
Inflation (% chg CPI)	1.2	2.1	2.5	2.7	2.5
Industrial Production Index (% chg)	5.9	5.8	5.3	5.0	5.2
Civilian Labor Force (millions)	0.1	-0.2	-0.3	0.1	0.5
Total Nonfarm Employment (millions)	0.5	0.9	0.9	1.4	1.7
Manufacturing Employment (millions)	0.6	1.6	2.0	2.7	3.4
Unemployment Rate (percent)	9.6	8.9	8.9	8.8	8.6

Quarter-over-same-quarter-last-year growth rates
Source: IHS Global Insight Inc., March 9, 2011 data release

APPENDIX

KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	Third Quarter FY 2011	Third Quarter FY 2010	Percent Change	Year-To-Date FY 2011	Year-To-Date FY 2010	Percent Change
TOTAL GENERAL FUND	**$1,973,154,602**	**$1,875,556,647**	**5.2%**	**$6,326,610,527**	**$6,006,374,958**	**5.3%**
Tax Receipts	$1,906,818,879	$1,807,023,041	5.5%	$6,105,198,939	$5,778,424,575	5.7%
Sales and Gross Receipts	$856,423,547	$836,814,856	2.3%	$2,586,982,194	$2,504,445,273	3.3%
Beer Consumption	1,279,362	617,410	107.2%	4,518,679	4,529,639	-0.2%
Beer Wholesale	11,068,184	11,842,944	-6.5%	38,905,143	38,062,087	2.2%
Cigarette	57,255,647	63,809,740	-10.3%	193,191,495	205,297,090	-5.9%
Distilled Spirits Case Sales	25,631	26,516	-3.3%	(262,235)	80,992	---
Distilled Spirits Consumption	2,505,497	2,607,796	-3.9%	8,065,427	7,991,491	0.9%
Distilled Spirits Wholesale	6,423,748	6,685,599	-3.9%	20,662,241	20,454,086	1.0%
Insurance Premium	47,201,616	44,817,878	5.3%	87,673,571	84,926,586	3.2%
Pari-Mutuel	280,767	323,773	-13.3%	2,899,983	(752,815)	---
Race Track Admission	1,972	14,938	-86.8%	148,623	152,816	-2.7%
Sales and Use	706,018,493	681,576,097	3.6%	2,156,176,174	2,066,384,549	4.3%
Wine Consumption	661,594	620,900	6.6%	1,920,649	1,828,368	5.0%
Wine Wholesale	3,419,814	3,186,991	7.3%	10,278,001	9,285,884	10.7%
Telecommunications Tax	15,178,608	15,551,134	-2.4%	46,728,988	50,322,067	-7.1%
OTP	5,057,603	5,096,036	-0.8%	15,967,403	15,661,618	2.0%
Floor Stock Tax	(18,028)	37,105	---	45,011	220,814	-79.6%
License and Privilege	$199,215,117	$169,852,321	17.3%	$478,194,517	$390,893,656	22.3%
Alc. Bev. License Suspension	109,068	176,700	-38.3%	302,608	382,475	-20.9%
Coal Severance	69,927,941	62,769,229	11.4%	214,958,194	194,596,504	10.5%
Corporation License	1,325,588	635,732	108.5%	10,242,141	2,302,860	344.8%
Corporation Organization	27,532	25,206	9.2%	56,400	148,856	-62.1%
Occupational Licenses	34,887	26,628	31.0%	99,371	99,649	-0.3%
Oil Production	1,969,086	1,927,546	2.2%	5,718,769	5,469,373	4.6%
Race Track License	7,700	8,750	-12.0%	216,450	226,750	-4.5%
Bank Franchise Tax	75,461,592	68,663,815	9.9%	78,365,472	68,235,674	14.8%
Driver License Fees	141,233	141,709	-0.3%	454,566	440,569	3.2%
Minerals Severance	2,103,747	2,225,706	-5.5%	10,105,973	10,120,513	-0.1%
Natural Gas Severance	6,103,885	6,322,905	-3.5%	17,911,156	15,274,424	17.3%
Limited Liability Entity	42,002,858	26,928,395	56.0%	139,763,418	93,596,009	49.3%
Income	$718,408,316	$651,303,168	10.3%	$2,519,115,967	$2,358,570,202	6.8%
Corporation	25,643,345	24,725,797	3.7%	151,567,676	129,154,133	17.4%
Individual	692,764,971	626,577,372	10.6%	2,367,548,291	2,229,416,068	6.2%
Property	$115,977,440	$133,069,829	-12.8%	$466,819,322	$469,041,888	-0.5%
Building & Loan Association	262,960	7,156	3574.7%	209,779	98,299	113.4%
General - Real	54,990,677	68,151,267	-19.3%	239,662,509	241,819,786	-0.9%
General - Tangible	43,959,196	44,143,865	-0.4%	159,470,802	151,284,116	5.4%
Omitted & Delinquent	8,935,195	6,021,761	48.4%	29,368,939	19,573,901	50.0%
Public Service	7,280,057	14,162,960	-48.6%	36,812,761	54,992,012	-33.1%
Other	549,355	582,820	-5.7%	1,294,532	1,273,773	1.6%
Inheritance	$8,477,671	$7,005,254	21.0%	$29,303,781	$29,257,350	0.2%
Miscellaneous	$8,316,789	$8,977,613	-7.4%	$24,783,158	$26,216,205	-5.5%
Legal Process	4,871,262	5,232,926	-6.9%	15,108,387	16,536,930	-8.6%
T. V. A. In Lieu Payments	3,404,199	3,600,426	-5.5%	9,587,824	9,534,522	0.6%
Other	41,328	144,260	-71.4%	86,946	144,753	-39.9%
Nontax Receipts	$64,501,316	$67,408,484	-4.3%	$217,948,028	$225,415,338	-3.3%
Departmental Fees	8,962,918	8,763,279	2.3%	21,011,586	20,538,868	2.3%
PSC Assessment Fee	(186,945)	112,624	-266.0%	8,728,213	8,368,593	4.3%
Fines & Forfeitures	6,753,398	6,942,532	-2.7%	19,654,144	22,141,698	-11.2%
Interest on Investments	160,514	199,127	-19.4%	510,670	622,876	-18.0%
Lottery	48,500,000	51,500,000	-5.8%	143,500,000	144,500,000	-0.7%
Sale of NOx Credits	0	7,500	-100.0%	22,513	608,930	-96.3%
Miscellaneous	311,431	(116,576)	---	24,520,903	28,634,372	-14.4%
Redeposit of State Funds	$1,834,407	$1,125,122	63.0%	$3,463,559	$2,535,046	36.6%

KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	Third Quarter FY 2011	Third Quarter FY 2010	Percent Change	Year-To-Date FY 2011	Year-To-Date FY 2010	Percent Change
TOTAL ROAD FUND	**$330,056,756**	**$293,740,193**	**12.4%**	**$983,059,189**	**$875,447,431**	**12.3%**
Tax Receipts-	$324,574,865	$288,919,948	12.3%	$965,403,057	$856,662,365	12.7%
Sales and Gross Receipts	$271,408,455	$237,163,651	14.4%	$827,492,581	$723,919,822	14.3%
Motor Fuels Taxes	170,756,803	158,855,055	7.5%	547,485,243	479,607,926	14.2%
Motor Vehicle Usage	100,651,652	78,308,596	28.5%	280,007,338	244,311,895	14.6%
License and Privilege	$53,166,410	$51,756,297	2.7%	$137,910,476	$132,742,544	3.9%
Motor Vehicles	27,987,065	28,627,662	-2.2%	62,686,052	61,876,721	1.3%
Motor Vehicle Operators	3,829,302	3,851,336	-0.6%	11,930,402	11,921,132	0.1%
Weight Distance	18,370,820	17,834,259	3.0%	55,806,572	53,151,463	5.0%
Truck Decal Fees	17,248	9,658	78.6%	84,301	55,287	52.5%
Other Special Fees	2,961,975	1,433,382	106.6%	7,403,149	5,737,942	29.0%
Nontax Receipts	$5,474,434	$5,133,143	6.6%	$15,914,645	$17,558,540	-9.4%
Departmental Fees	4,813,977	4,034,895	19.3%	13,549,880	13,406,120	1.1%
In Lieu of Traffic Fines	194,241	204,498	-5.0%	568,579	578,049	-1.6%
Investment Income	246,719	492,285	-49.9%	1,109,666	2,827,797	-60.8%
Miscellaneous	219,497	401,465	-45.3%	686,521	746,574	-8.0%
Redeposit of State Funds	$7,456	($312,898)	---	$1,741,486	$1,226,525	42.0%