

Executive Summary

This report reviews activity in the Kentucky General Fund and Road Fund for fiscal year 2002 (FY02).

General Fund receipts totaled \$6,560.2 million, a decline from FY01 of 1.4 percent. This represents \$93.7 million less than reported receipts for FY01 and was \$155.3 million less than the revised consensus estimate for FY02. For the first time in 48 years, General Fund revenues declined from one fiscal year to the next. For the fourth quarter of FY02, General Fund revenues dropped three percent, to \$1,805.2 million.

Road Fund receipts in FY02 totaled \$1,119.0 million, an increase from FY01 of 5.2 percent. This is \$54.8 million more than reported for FY01, and \$29.5 million more than the revised consensus forecast for FY02.

The fiscal year began with the first quarterly contraction in output since 1991. The negative impact of the recession on state revenues was more evident than in the past. Real U.S. gross domestic product is estimated to have grown 1.1 percent in FY02, and 1.8 percent in the fourth quarter.

Kentucky's personal income is estimated to have grown by about four percent during both the fiscal year and the fourth quarter. Nonagricultural employment in the state grew by only 0.1 percent over a year

earlier, but growth during the fourth quarter was stronger at 1.2 percent.



The receipts for each major category of tax are shown in Table 1. In addition, Figure 1 on page 3 reveals the percentage of the General Fund produced by each type of tax. Several taxes were affected by singular factors that help explain the performance of the receipts.

Table 1
Summary of General Fund Comparison
FY02 and FY01

	FY02 (\$Mil)	FY01 (\$Mil)	Diff (\$Mil)	Diff (%)
Sales and Use	2,300.0	2,248.5	51.5	2.3
Individual Income	2,702.5	2,778.5	-76.0	-2.7
Corporation Income	207.4	289.9	-82.5	-28.5
Coal Severance	160.2	141.6	18.6	13.1
Property	433.0	407.5	25.5	6.3
Lottery	169.0	157.0	12.0	7.6
Other	588.1	630.9	-42.8	-6.8
TOTAL	6,560.2	6,653.9	-93.7	-1.4

Sales and Use Taxes: Sales and use tax revenue growth of 2.3 percent was the slowest in over ten years. Nevertheless it was not a factor in the revenue shortfall experienced in FY02 as it performed nearly as expected. Since this tax is also subject to erosion due to remote sales (internet and mail order), it will continue to receive scrutiny for the foreseeable future.

Individual Income Tax: The weak economy is responsible for the drop in individual income taxes, which were down by 2.7 percent from FY01. Withholding slowed considerably during the second half of the fiscal year. Declaration payments

also slowed, as the rise in asset values that had boosted payments earlier was reversed by stock market declines. The net balance of revenue from tax returns was off sharply due to higher refund requests and lower payments received with returns.

Corporation Income Tax: Corporation income tax receipts declined 28.5 percent during FY02, and refunds paid to taxpayers by the Revenue Cabinet climbed considerably from the FY01 level.

Other Taxes: Coal severance taxes grew strongly, but were lower in the fourth quarter as long-term trends took over. Property taxes were up 6.3 percent. Corporation license taxes dropped by 20.3 percent in FY02. The inheritance tax was nearly unchanged from the year before. The Lottery outperformed expectations.

As shown in Table 2, General Fund receipts fell short of the revised consensus forecast by \$155.3 million. (The original consensus forecast on which the budget was based was \$622.5 million higher than final receipts. The consensus estimate was revised in December 2001.) Among the major accounts, only the property tax exceeded expectations.

Table 2
Summary of General Fund Comparison
Actual FY02 vs. Consensus Estimate FY02

	FY02 (\$Mil)	Consensus		Diff (\$Mil)	Diff (%)
		Estimate (\$Mil)			
Sales and Use	2,300.0	2,306.1		-6.1	-0.3
Individual Income	2,702.5	2,786.9		-84.4	-3.0
Corp. Inc. & Lic.	324.9	406.6		-81.7	-20.1
Coal Severance	160.2	162.5		-2.3	-1.4
Property	433.0	412.7		20.3	4.9
Lottery	169.0	169.0		0.0	0.0
Other	470.6	471.7		-1.1	-0.2
TOTAL	6,560.2	6,715.5		-155.3	-2.3

The Road Fund receipts are presented in detail in Table 3. Most of the revenue comes from two sources: motor fuels tax of \$429.8 million and the motor vehicle usage tax, of \$429.3 million.

Table 3
Summary of Road Fund
FY02 vs. FY01

	FY02 (\$Mil)	FY01 (\$Mil)	Diff (\$Mil)	Diff (%)
Motor Fuels	429.8	408.8	21.0	5.1
Motor Vehicle Usage	429.3	396.8	32.5	8.2
Weight Distance	75.3	75.2	0.1	0.1
Investment Income	32.2	40.2	-8.0	-20.0
Other	152.4	143.2	9.2	6.4
TOTAL	1,119.0	1,064.2	54.8	5.2

Road Fund collections exceeded the revised consensus forecast by \$29.5 million. Motor vehicle usage taxes performed well in spite of the weakening economy. Dealer incentives and no interest financing contributed to strong car sales in FY02. Motor fuels taxes were affected by lower fuel prices that prevailed in FY02, thereby increasing consumption. Investment income was lower due to smaller Road Fund balances during FY02.

The state's fiscal year, which begins on July 1, will be used as the time frame throughout this report, i.e., the fourth quarter of FY02 covers the April-June 2002 period.

Table 4
Summary of Road Fund Comparison
Actual FY02 vs. Consensus Estimate FY02

	FY02 (\$Mil)	Consensus Estimate (\$Mil)	Diff (\$Mil)	Diff (%)
Motor Fuels, Normal & Surtax	443.9	441.5	2.4	0.5
Motor Vehicle Usage	429.3	420.7	8.6	2.0
Weight Distance	75.3	74.2	1.1	1.5
Investment Income	32.2	23.7	8.5	35.9
Other	138.3	120.9	17.4	14.4
TOTAL	1,119.0	1,089.5	29.5	2.7

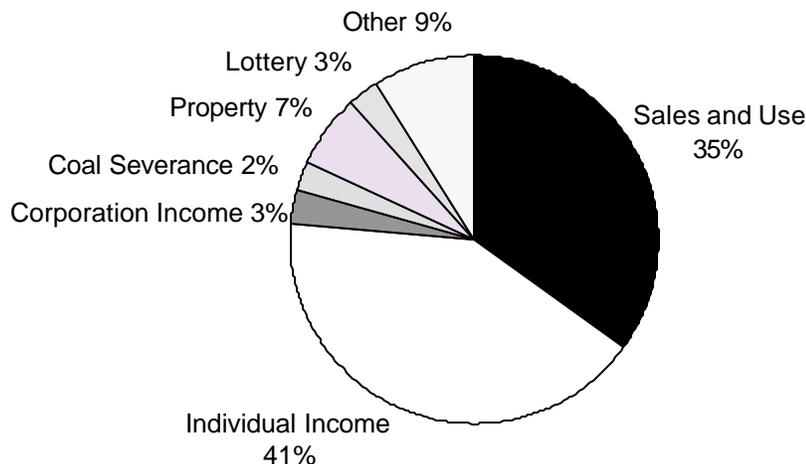
The outlook for the next three fiscal quarters is for General Fund revenue to increase by 3.3 percent over the first three quarters of FY02. Growth is expected in the major accounts with moderate growth of 3.3 percent and 4.7 percent in the sales and use tax and the individual income tax, respectively. The interim forecast for the Road Fund is for an increase of 0.8 percent during the first three quarters of FY03

compared to the prior year. The changes in the major taxes range from 2.2 percent growth for the motor vehicle usage tax to a decline of 35.2 percent in investment income.

This report also contains a review of the revenue estimating procedures used by the Governor’s Office for Economic Analysis in preparing both its three-quarter revenue estimate and the biennial forecast for the Consensus Forecasting Group. GOEA relies on a staff of economists and tax analysts to examine the structure of Kentucky’s economy and its relationship to General Fund and Road Fund revenues. We construct and maintain models of the economy and the tax structure, and have used a variety of estimating techniques that include formal econometric models, informal models, and time-series models to produce the revenue estimates.

Figure 1

**Composition of
 General Fund Revenues, FY02**





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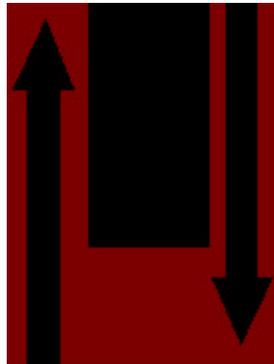
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The Economy

NATIONAL ECONOMY ***Fourth Quarter, FY02***

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by 1.8 percent in the FY02 April-to-June quarter on a seasonally adjusted annual rate. This is a drastic change compared to the robust 6.0 percent increase in the previous quarter. Throughout FY02 real GDP registered volatile changes as the economy slipped into recession. In the first quarter real GDP *declined* by 1.3 percent, then grew 1.7 percent and 6.0 percent in the second and third quarters, and finally increased 1.5 percent in the last quarter of FY02.

The rapid expansion of the 1990s owed a great deal to strong consumer demand. Consumption expenditures account for about two-thirds of real GDP. In the fourth quarter consumption was up 2.6 percent. This was modest compared to the four-to-six percent growth rates recorded during the last decade. Consumption of durable goods (goods intended to last for more than two years) was up strongly by 7.2 percent in response to historically low interest rates. The consumption of motor vehicles was up 8.4 percent, and furniture and appliances were up 8.5 percent. Both these categories are interest rate sensitive. Nondurable goods consumption was up just 0.5 percent.



Services constitute a little over one-half of all consumption and about 35 percent of total GDP. The consumption of services increased by 2.7 percent in the fourth quarter compared to 3.7 percent in the previous quarter.

Over the last 18 months business inventories have been steadily declining as businesses have reacted to tepid demand. However, businesses have recently begun to build up inventory.

Total investment grew by 10.7 percent in the fourth quarter compared to a decline of 12.1 percent a year ago. Most of the investment was related to office equipment including computer hardware and software.

The Federal Reserve Board has used monetary policy to aggressively jumpstart the economy. The targeted federal

fund rate is currently 1.75 percent. Low interest rates coupled with low inflation have made both consumption and investment more attractive. However, the strong dollar has caused imports to drag down real GDP growth. Imports were up 12.3 percent and exports declined by 2.0 percent.

Personal income, a measure of spending power, was \$8,954.3 billion in the fourth quarter, about three percent higher than the fourth quarter a year ago. This growth is in marked contrast to the 5.4 percent increase a year earlier. Wage and salary income growth has slowed down as

the unemployment rate has climbed to 6.1 percent. Wages grew by just 1.5 percent during the fourth quarter compared to 6.3 percent the previous year.

The employment news is dismal. Just two years ago the unemployment rate for the fourth quarter averaged 4.0 percent and nonagricultural employment was growing by 2.7 percent. In the fourth quarter of FY02 the unemployment rate climbed to 6.1 percent and nonagricultural employment contracted by 0.9 percent. With the exception of the service sector all major sectors of the economy registered job losses during the fourth quarter. The biggest drop in employment was in manufacturing, with a loss of 1.1 million jobs.

NATIONAL ECONOMY

Full Year, FY02

After a decade of remarkable economic growth the economy slipped considerably in FY02. The economy entered FY02 in recession, according to the National Bureau of Economic Research, the official arbiter of economic cycles. Output declined during the first quarter of FY02. Consumer sentiment also slid rapidly falling from 98.7 in FY01 to 90.5 in FY02.

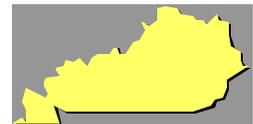
Real GDP is estimated to have grown by only 1.1 percent during FY02, making it the worst performance since the recession of 1991. However, unlike the last recession, average GDP for the year increased because low interest rates helped to keep consumption relatively high. Real consumption for FY02 rose 3.0 percent, with the consumption of durables growing at a heady 8.4 percent. Incentives like no

interest financing for cars and trucks during the second and fourth quarters of FY02 resulted in a 16.2 percent increase in the sales of light vehicles. Investments declined by 8.4 percent during the year, though there was strong recovery during the last quarter. The rapid decline in the over-built communications sector (down 25.0 percent) played a major role in the overall decline in business investment. Residential investment (up 3.7 percent) is the only area that showed growth during the year.

Nonagricultural employment declined by 0.5 percent to a total of 131.6 million jobs. As in past recessions, a weakening economy and less attractive wages caused more people to drop out of the work force, resulting in a contraction of the civilian labor force. This “discouraged worker” phenomenon caused a 0.9 percent decline in the labor force. Manufacturing employment continued to slide with a steep drop of 6.2 percent. The big turnaround was in mining, especially oil and coal, where prices soared and employment grew by 2.8 percent.

STATE ECONOMY

Fourth Quarter, FY02



Personal income is the broadest measure of a state's economic performance. Kentucky's personal income is estimated to be an annualized \$105.1 billion in the fourth quarter of FY02, an increase of about 4 percent from a year ago. (Under normal circumstances such an increase would be quite impressive given that the corresponding national figure is just 2.8

percent. However, data reported by the U. S. Bureau of Economic Analysis was flawed by significant misallocations. When corrected data become available, a more accurate picture of Kentucky's economy and meaningful comparisons with the rest of the country will be presented.

Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability and its impact on consumer spending and confidence. Nonagricultural employment in Kentucky during the fourth quarter is estimated to have increased by 1.2 percent or 21,300 jobs.

The fourth quarter was marked by a substantial decline in manufacturing employment (down 3.3 percent) especially in the durable goods sector. The strong dollar and overcapacity in the world market caused exports to decrease rapidly. This has impacted both production and employment in Kentucky. The turndown was expected in industries like fabricated metal products and industrial machinery, but it also percolated through the normally robust automobile sector. The decline in employment in the automobile sector is not due to curtailed demand for popular models manufactured in Kentucky, but because the ancillary manufacturers located in Kentucky provide parts to less popular models, their employment has dropped. Nondurable goods continued to post job losses, especially in the tobacco, chemicals, and apparel sectors.

Transportation, communication, and public utilities (TCPU) posted losses in the fourth quarter (down 2.1 percent) driven

primarily by an overall malaise in air transportation that pre-dated the September 11 terrorist attack.

Overcapacity in the communications sector and stiff competition have also resulted in decreased employment.

Until the fourth quarter the mining sector was growing due to an increase in the demand for coal. But by the fourth quarter the market had peaked and employment declined by 4.7 percent. The services sector continued to grow strongly with an overall increase of 3.4 percent. Both business services and health services showed large gains.

STATE ECONOMY

Full Year, FY02

In the early 1990s Kentucky was barely impacted by the national recession. As our industry mix diversified we were able to keep pace with the national economy, but we still rely on the manufacturing sector as a source of relatively well-paying jobs. In Kentucky, 16.5 percent of nonagricultural employment is in the manufacturing sector compared to 13.0 percent nationally. Over the past ten years

manufacturing employment has steadily declined in the U.S., but has grown in Kentucky. In FY02, however, our reliance on manufacturing proved to be failing. With the

manufacturing sector in a recession nationwide, we experienced a 5.0 percent decline in manufacturing jobs. This was even more severe than the 0.7 percent decline in 1991.

Our overall nonagricultural employment growth was 0.1 percent, compared to the

Data for fourth quarter FY02 U.S. economic activity are derived from estimates made by DRI-WEFA Control Scenario, June 2002.

national decline of 0.5 percent. Both services and construction grew relatively strongly by 2.0 percent and 1.7 percent, respectively. Mining, which is dominated by coal mining, typically declines every year, but managed to grow by 4.5 percent in FY02 due to the increased demand for coal during the first three quarters of the year.

Kentucky's personal income growth in FY02 averaged 4.6 percent, compared to

3.3 percent nationally. The wage and salary component grew strongly by 5.4 percent. Again, as mentioned in the section dealing with the fourth quarter much of this growth is due to the misallocation of income to Kentucky in preparing the national income and products account. Overall, it is expected that Kentucky's income and wages grew at or below the national average in FY02.

Table 5
National Economic Indicators
Fourth Quarter, FY02

	Fourth Quarter			Fiscal Year Average		
	FY01	FY02	Percent* Chg	FY01	FY02	Percent Chg
Real GDP (billion 1996 \$)	9,341.7	9,511.8	1.8	9,310.7	9,411.8	1.1
Personal Income (billion \$)	8,714.6	8,954.3	2.8	8,564.0	8,842.4	3.3
Consumer Price Index (1992-94=100)	177.3	180.0	1.5	175.1	178.3	1.8
Industrial Production (1992=100)	118.1	116.9	-1.0	120.6	115.9	-3.9
Civilian Labor Force (millions)	135.2	133.9	-1.0	135.4	134.2	-0.9
Total Nonagricultural Employment (millions)	132.5	131.3	-0.9	132.3	131.6	-0.5
Manufacturing Employment (millions)	17.9	16.8	-6.0	18.2	17.1	-6.2
Unemployment Rate (percent)	4.5	6.1	-	4.2	5.5	-

* Seasonally adjusted annual rate.

Sources: DRI-WEFA, and U.S. Department of Commerce, Bureau of Economic Analysis

Data for FY02 are June 2002 estimates.

Table 6
Selected Kentucky Economic Indicators
Seasonally Adjusted Data

	Fourth Quarter			Fiscal Year Average		
	FY01	FY02	Percent* Change	FY01	FY02	Percent Change
Total Personal Income (\$ millions)	100,528	105,148	4.6	99,590	104,142	4.6
Wage & Salary Income (\$ millions)	55,604	58,769	5.7	55,269	58,254	5.4
Total Nonag Employment (Thousands)	1,811.1	1,832.4	1.2	1,821.3	1,823.1	0.1
Mining	19.8	18.9	-4.7	19.2	20.1	4.5
Construction	87.3	88.1	1.0	87.4	88.9	1.7
Manufacturing	309.3	299.0	-3.3	316.9	301.0	-5.0
Transportation, Communication, & Public Utilities	108.1	105.9	-2.1	109.4	106.7	-2.5
Trade	421.5	440.2	4.5	426.5	429.3	0.7
Finance, Insurance, and Real Estate	75.0	71.7	-4.4	75.0	75.0	0.0
Services	480.4	496.9	3.4	480.7	490.2	2.0
Government	309.8	311.8	0.6	306.2	311.9	1.9

* Seasonally adjusted rate from a year ago.

Source: GOEA's Macromodel of Kentucky, June 2002

Note: State quarterly personal income estimates released by the U.S. Bureau of Economic Analysis have been revised as this report is being prepared. We have not had the opportunity to revise the Kentucky fourth quarter FY02 estimate in time to include it in this report. Future reports will incorporate this revision.

Revenue Receipts

FOURTH QUARTER, FY02 General Fund

The General Fund posted a net decline in the fourth quarter of FY02. Receipts in the fourth quarter totaled \$1,805.2 million compared to \$1,861.3 million for the fourth quarter of FY01, for a net decline of 3.0 percent. (First quarter FY02 growth was 0.8 percent, second quarter was 2.1 percent, and third quarter was a decline of 5.5 percent.) Total FY02

receipts fell by 1.4 percent. Collections in the major revenue categories are shown in summary form in Table 7. Detailed information on these and other accounts are presented in Appendix A.

As usual, variations in the quarterly receipts are affected by differences in the timing of payments and refunds in revenue accounts. In the fourth quarter, property taxes and both individual and corporate income taxes were significantly affected by timing differences.

The sales and use tax grew by 3.0 percent, compared to the growth rate during the

fourth quarter of FY01 of 4.0 percent. Receipts for the quarter totaled \$580.5 million, compared to \$563.8 million in the fourth quarter of FY01.

Individual income tax receipts exhibited a significant decline of 6.7 percent in the fourth quarter of FY02. Receipts of \$803.6 million for the fourth quarter compare to \$861.3 million collected during the same period last year.

Corporation income tax receipts posted an even sharper decline in the fourth quarter. Receipts totaled \$100.8 million, a decrease of 13.7 percent from the \$116.7 million collected during the fourth quarter last year.

Coal severance tax receipts fell, after posting four straight quarters of growth. Collections of \$37.5 million compare to \$38.7 million for the fourth quarter of FY01, a decline of 3.1 percent.

Total property tax receipts of \$57.0 million were collected compared to \$44.0 million collected in the fourth quarter of FY01, an increase of 29.4 percent. The growth was due to tangible and omitted tax collections, as well as timing differences.

Lottery receipts of \$42.0 million were up 7.7 percent from last year's fourth quarter total

<u>Type Tax</u>	<u>FY02</u>	<u>FY01</u>	<u>Percent Change</u>
Sales and Use	580.5	563.8	3.0
Individual Income	803.6	861.3	-6.7
Corporation Income	100.8	116.7	-13.7
Coal Severance	37.5	38.7	-3.1
Property	57.0	44.0	29.4
Lottery	42.0	39.0	7.7
All Other	183.8	197.8	-7.1
TOTAL	1,805.2	1,861.3	-3.0



of \$39.0 million, due partly to a larger fourth quarter earnings distribution.

The “all other” category, which represents the remaining

accounts of the General Fund, decreased by 7.1 percent with receipts of \$183.8 million for the fourth quarter.

Road Fund

The Road Fund posted a moderate increase of 3.2 percent during the fourth quarter of FY02. Receipts totaled \$301.0 million and compare to \$291.7 million from the fourth quarter of last year. The Road Fund increased by a healthy 5.2 percent for the year as a whole. Summary data are contained in Table 8 and detailed data are shown in Appendix A.

Motor fuels tax receipts increased 5.5 percent during the fourth quarter. Receipts were \$110.1 million and compare to \$104.3 million collected during the fourth quarter of last year. Year-end figures show growth of 5.1 percent for FY 02.

Motor vehicle usage tax receipts had a moderate increase of 4.1 percent during the fourth quarter, following two quarters of much larger growth. Receipts were \$111.0 million and compare to \$106.7 million collected during the same period last year.

Weight distance tax receipts of \$18.5 million represent a 0.5 percent increase

<u>Type Tax</u>	<u>FY02</u>	<u>FY01</u>	<u>Percent Change</u>
Motor Fuels	110.1	104.3	5.5
Motor Vehicle Usage	111.0	106.7	4.1
Weight Distance	18.5	18.4	0.5
All Other	61.4	62.3	-1.4
TOTAL	301.0	291.7	3.2

over receipts of \$18.4 million during the fourth quarter of last year.

The remainder of the accounts in the Road Fund combined for a

decrease of 1.4 percent. Receipts for the “all other” category totaled \$61.4 million during the fourth quarter, compared to \$62.3 million during the fourth quarter of FY01.

Annual Totals, FY02

Appendix A provides fourth quarter and fiscal year details of General Fund and Road Fund receipts for FY02 and FY01. Appendix B provides details on the changes in the major revenue sources of both funds for the past ten fiscal years.

As shown in Table 9, combined tax and non-tax receipts for the General and Road Funds decreased by 0.5 percent over the combined receipts in FY01. Table 10 compares only tax receipts for the two funds which decreased by 0.3 percent. Table 11 compares combined non-tax receipts, which decreased by 3.9 percent over the previous year.

**Table 9
Total Receipts
(millions of dollars)**

	<u>FY02</u>	<u>FY01</u>	<u>% Change</u>
General Fund	6,560.2	6,653.9	-1.4
Road Fund	1,119.0	1,064.2	5.2
TOTAL	7,679.2	8,818.1	-0.5

Table 10
Tax Receipts
(millions of dollars)

	FY02	FY01	% Change
General Fund	6,292.0	6,377.9	-1.3
Road Fund	1,052.8	992.1	6.1
TOTAL	7,344.8	7,370.0	-0.3

Table 11
Non-tax Receipts
(millions of dollars)

	FY02	FY01	% Change
General Fund	268.2	276.0	-2.8
Road Fund	66.2	72.1	-8.2
TOTAL	334.4	348.1	-3.9

General Fund

General Fund receipts for the year decreased by 1.4 percent over those reported in FY01. Total General Fund receipts of \$6,560.2 million compare to \$6,653.9 million collected in FY01.

While the sales tax growth rate continues to decrease from previous years, it also continues to be the most consistent performer of the large taxes. The growth rate for FY02 was 2.3 percent, and compares to the growth rate for FY01 of 3.5 percent. Receipts of \$2,300.0 million compare to prior year receipts of \$2,248.5 million.

Performance in the individual income tax dropped significantly from the small growth rate posted in FY01. Receipts in FY02 fell 2.7 percent, compared to 2.8 percent growth in FY01. Receipts totaled \$2,702.5 million and compare to \$2,778.5 million collected last year.

The corporate income tax declined by 28.5 percent for the year. Receipts of \$207.4

million compared to \$289.9 million collected in FY01. FY01 receipts had decreased 5.4 percent from FY00 collections.

Coal severance tax collections reversed a long trend by posting a 13.1 percent increase for the year. Receipts totaled \$160.2 million and compare to \$141.6 million collected during the prior fiscal year. The increase in coal severance tax receipts is primarily due to significant fluctuations in energy prices, which resulted in significantly increased demand for coal. Energy prices are stabilizing and the demand for coal has decreased significantly in recent months, so the increase in coal severance tax is not expected to continue.

Total property taxes experienced an increase of 6.3 percent during this fiscal year. Receipts totaled \$433.0 million compared to \$407.5 million collected in FY01. Part of this increase is due to a delay in distributions of certain property tax collections. There is normally a payment from the tangible property tax accounts to local governments during June of each year. This payment was not made in June 2002. Consequently, receipts are overstated by approximately \$11 million for FY02.

The growth in lottery receipts increased significantly from the previous year. Receipts of \$169.0 million grew by 7.6 percent over the \$157.0 million remitted to the state last fiscal year.

The “all other” category finished the year with a decrease of 6.8 percent. Receipts of \$587.8 million compare to \$630.9 million collected in FY01.

Table 12 compares the growth rates in major General Fund categories and the fund as a whole for the entire year and the four individual quarters.

**Table 12
General Fund Growth Rates
for the Four Quarters and Full Year, FY02
(Percent)**

	First Qtr	Second Qtr	Third Qtr	Fourth Qtr	FY02
Total Receipts	0.8	2.1	-5.5	-3.0	-1.4
Sales and Use	3.6	2.4	0.2	3.0	2.3
Individual Inc.	0.3	2.7	-6.3	-6.7	-2.7
Corporate Inc.	-16.8	-16.9	*	-13.7	-28.5
Coal Severance	21.1	20.8	15.9	-3.1	13.1
Property	3.5	9.9	-7.7	29.4	6.3
Lottery	-3.8	24.1	2.6	7.7	7.6
AlLOther	-1.6	-17.1	-2.8	-7.1	-6.8

*Corporate income tax receipts were negative for the third quarter of FY02.

Road Fund

Total Road Fund receipts increased by 5.2 percent during FY02. Total receipts of \$1,119.0 million compare to \$1,064.2 million collected in this fund during FY01.

Growth in the motor fuels taxes of 5.1 percent compares to a decline of 3.6 percent during FY01. Receipts of \$429.8 million compare to \$408.8 million collected during the previous fiscal year.

Motor vehicle usage tax receipts of \$429.3 million increased by 8.2 percent over the \$396.8 million collected in FY01. This compares to a decline of 3.1 percent experienced last year.

The performance of the weight distance tax was almost flat for the year and finished with a growth of 0.1 percent. Receipts totaled \$75.3 million for this year and \$75.2 million for the last fiscal year.

The “all other” category increased slightly by 0.7 percent over the previous year. Total receipts in this category were \$184.7 million, which compares to \$183.4 million collected in FY01.

Table 13 displays the growth rates for the Road Fund and its major tax categories for the year as a whole and the four individual quarters.

**Table 13
Road Fund Growth Rates
for the Four Quarters and Full Year, FY02
(Percent)**

	First Qtr	Second Qtr	Third Qtr	Fourth Qtr	FY02
Total Receipts	-2.5	12.1	8.6	3.2	5.2
Motor Fuels	-0.8	3.9	12.8	5.5	5.1
Motor Veh Usage	-2.0	19.7	12.9	4.1	8.2
Weight Distance	-1.5	0.6	1.0	0.5	0.1
All Other	-9.0	21.8	-4.9	-1.4	0.7

EMPOWER Kentucky

The EMPOWER Kentucky revenue enhancement initiatives have continued during FY02. Collections during the fiscal year are shown in Table 14. EMPOWER Kentucky funds procedures within the Revenue Cabinet to collect certain revenues that are owed to the Commonwealth but are not voluntarily paid.

**Table 14
EMPOWER Kentucky Collections during FY02
(Millions of Dollars)**

Type of Tax	Collections / FY02
Individual Income	27.6
Corporation Income	2.5
Sales and Use Tax	19.0
Property Tax	17.9
Other	3.5
TOTAL	\$70.5

Revenue Outlook

REVENUE OUTLOOK: Interim Forecast

The interim estimates of the General Fund and Road Fund do not represent a revision of the official revenue estimates of the Consensus Forecasting Group. The interim estimates are prepared independently by the Governor's Office for Economic Analysis in consultation with the Transportation and Revenue Cabinets, in compliance with KRS 48.400 and KRS 11.068. The estimates for the first three fiscal quarters of FY03 are presented.

General Fund

Projected General Fund revenues for the next three quarters are shown in Table 15. General Fund revenues were \$6,560.2 million in FY02, a decline of 1.4 percent from FY01. Anticipated revenues over the three-quarter forecast horizon total \$4,910.9 million, a growth rate of 3.3 percent over the same period in FY02. The anticipated resumption in growth is mainly attributed to the strengthening economy.

Total sales and use tax receipts for the first three quarters of FY03 are anticipated to total \$1,777.0 million for a growth rate of 3.3 percent over the same period in FY02. All statutory changes from legislation enacted in 2000 have been phased in; therefore growth will strictly be a function of economy activity. Sales taxes were among the few major revenue sources that posted growth throughout the latest recession; this trend is expected to continue.

The interim forecast for the individual income tax calls for growth of 4.7 percent.

Individual income tax revenues declined by 2.7 percent in FY02. This forecast expects a return to more "normal" growth in withholding and declaration payments. In addition, it is expected that the net balance of revenues collected with tax returns will become more favorable than in the latest tax year.

The outlook for corporation income and license taxes is for a mild recovery from the same period last year. Growth is anticipated to be 4.2 percent for the first three quarters of FY03. Fiscal Years 2002 witnessed a decline of 25.7 percent in these two revenue sources. This was largely driven by the weakening corporate profits picture and a higher inventory of unpaid refunds. In the upcoming three fiscal quarters, we expect an upturn in declaration payments. This should be largely, but not entirely, offset by larger refund payments.

The rebound in the coal severance tax has run its course and the expectation is for a resumption in the long-term decline of this revenue source. Because of this situation,



coal severance tax receipts should decline in the next three fiscal quarters by 4.6 percent.

Property taxes ended FY02 6.3 percent higher

than FY01 at \$433.0 million. The timing of property tax payments can affect the receipts during the fiscal year. Last year receipts normally distributed to other funds in the fourth quarter were retained in the General Fund. This transfer will therefore take place in the first quarter of FY03, resulting in a forecast for the next three quarters of a 2.4 percent decline.

Lottery revenues grew 7.6 percent in FY02. Growth in lottery receipts was affected by large Powerball sales in the summer of 2001. We do not anticipate the large jackpots that gave rise to those sales to recur. This will result in a decline in lottery revenues in the next three fiscal quarters of 5.8 percent.

The profuse “other” revenue category contains estimates for several of the smaller revenue sources not otherwise classified. For this fiscal year, it also includes anticipated revenues from the tax amnesty program that began August 1. We anticipate growth of 6.8 percent for collections of \$367.7 million during the first three quarters of FY03. Some of the larger items include investment income, inheritance taxes, cigarette and liquor excise taxes, and the bank franchise tax.

Road Fund

Road Fund revenues for FY02 totaled \$1,119.0 million, or an increase of 5.2

percent from FY01. Growth over the three-quarter forecasting horizon is expected to equal 0.8 percent as shown in Table 16. Lower fuel prices in FY02 and higher sales of automobiles led to increases in Road Fund revenues. With energy prices and auto sales stabilizing, the outlook is for modest growth in the major accounts of the Road Fund.

Motor fuels tax receipts are expected to increase by 1.7 percent during the first three quarters of FY03. Gasoline taxes should rise by more than this amount, but be offset by lower special fuels tax receipts.

Motor vehicle usage tax collections are expected to rise by 2.2 percent following their strong performance in FY02. This is a consequence of steady sales of automobiles and lower price increases as dealer incentives are continued.

To estimate the growth of all other components of the Road Fund, transportation officials and GOEA together assessed recent growth patterns as well as administrative factors. Based on the latest evaluation, license and privilege taxes are expected to grow by 0.3 percent over the forecasting horizon. The weight distance tax and surcharge are estimated to increase by 1.4 percent. Toll income is expected to grow by 2.0 percent.

Table 16
Road Fund: Interim Forecast
 (millions of dollars)
The Following Table is Produced in Compliance with KRS 48.400
July 2002

	<i>FY02</i>		<i>FY02</i>		<i>Difference from Official Estimate</i>	<i>FY03</i>	
	<i>Actual</i>	<i>% Chg Year Ago</i>	<i>Full Year Official Estimate</i>	<i>% Chg Year Ago</i>		<i>Interim Estimate</i>	<i>% Chg Year Ago</i>
Motor Fuels & MF Use/Surtax	114.7	5.2	441.5	4.7	2.8	335.1	1.7
Motor Vehicle Usage & Rental	111.0	4.0	420.7	8.2	8.6	325.3	2.2
License & Privilege (excl. WD)	38.1	4.4	98.6	8.8	5.3	66.0	0.3
Weight Distance Tax/Surtax	18.5	0.5	74.2	0.3	1.1	57.6	1.4
Nontax Receipts & Fees	18.7	-11.0	54.5	-8.6	11.7	40.2	-15.4
Toll Income	3.6	5.9	13.5	11.3	0.3	10.4	2.0
Investment	10.3	-18.9	23.7	-19.7	8.5	14.2	-35.2
Other	4.8	-2.0	17.3	1.5	2.9	15.6	1.3
Road Fund	301.0	3.2	1,089.5	5.2	29.5	824.2	0.8

The Art of Forecasting Applied to Revenue Estimating

The Governor's Office for Economic Analysis (GOEA) has statutory responsibility to prepare the revenue estimates for the General Fund and the Road Fund. On October 15 of each odd-number year (such as 2001), a preliminary detailed estimate of revenues for the two upcoming fiscal years must be presented to the head of the budgeting agencies for each branch of state government. Then in the following January, by the 15th legislative day of the Regular Session of the General Assembly, a revised estimate is required.

To provide accurate forecasts of revenues for the Commonwealth, GOEA relies on a series of techniques and tools ranging from simple trend analysis to more sophisticated time-series and econometric analysis. Economic and revenue forecasting, it should be observed, is not an exact science. The reliance on computer models, regression techniques, and large data sets, while improving the process, should not be confused with the precision often seen in the physical sciences where all the relevant variables can be controlled and the output of the model can be stated with certainty. All forecasting models have their limitations because they deal with human behavior and ever-changing institutions.

Figure 2 summarizes the methods used by GOEA in preparing the official revenue estimates. This figure reveals several important points to consider about forecasting. First, despite the rigor and

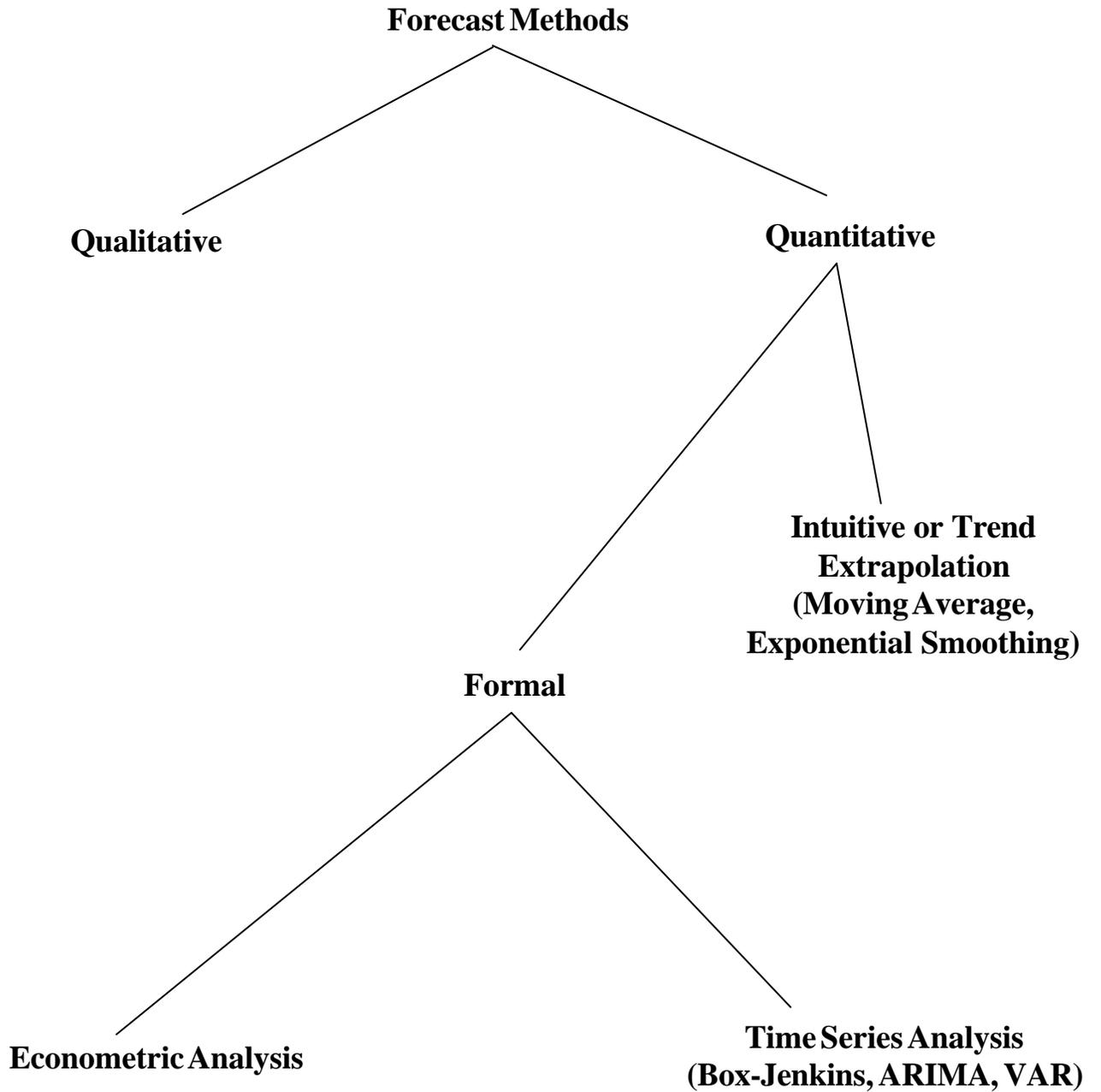
sophistication of the most complex mathematical models, often the forecaster must rely on his or her judgment, intuition, and experience in preparing the estimates. Second, there should be no bias in choosing the appropriate method to use in constructing forecasts. Such considerations as the availability of data, the cost of constructing the model, and the time constraints mean that no single model can be shown to be consistently superior to another. Third, sometimes conflicting forecasts of the same variable are obtained by using a variety of techniques. When this happens, as it often does, forecasters are forced to choose among the contending forecasts, and often select a compromise between two or more competing models.

The forecasts prepared by GOEA are not the results of enigmatic "black-box" models. In other words, the results obtained, regardless of the technique, are checked against the forecaster's knowledge of economic events, revenue trends, and administrative considerations.

Estimates that will be used for budgeting are also reviewed by the Consensus Forecasting Group, a select group of economists and budgetary experts who sometimes modify them based on their consideration of the relevant facts. The outcome, it is hoped, represents the best, most-reasoned approach to forecasting revenues that is possible.



Figure 2



Brief History of Revenue Estimating in Kentucky

The nature of the revenue estimates has changed considerably in recent years from earlier procedures. From 1988 to 1999, revenue estimates were provided by the predecessor to GOEA, the Office of Financial Management and Economic Analysis within the Finance and Administration Cabinet. The estimates were prepared as required by KRS 48.120, which mandated only a preliminary estimate in October before the biennium, and a final estimate once the General Assembly convened in January. If revenues appeared to be deviating significantly from the official estimate once the biennium was under way, then a revised forecast was prepared as conditions warranted.

In 1993 Governor Brereton Jones signed an executive order requiring the Secretary of the Finance and Administration Cabinet to coordinate the preparation of the official revenue estimates with the Legislative Research Commission. The consensus forecast procedure was based on a recommendation of the Governor's Commission on Quality and Efficiency. For the first time the Executive Branch and Legislative Branch worked jointly to develop a forecast that satisfied both branches of government. The procedure was codified by the 1996 General Assembly in KRS 48.115.

The 1994 General Assembly passed a provision requiring the Executive Branch to provide, with each quarterly economic and revenue report, updated revenue

estimates for the next three fiscal quarters (KRS 48.400). This requirement changed the nature of revenue forecasting from one that was based almost entirely on the budget preparation to one that is ongoing throughout the budgetary cycle. From a practical point of view, GOEA is developing and refining revenue estimating techniques through the two-year period, rather than only at the beginning or during times of unexpected developments.



Forecasting the Kentucky Economy

At the heart of the revenue estimation process is a dynamic response econometric model that forecasts the economic landscape in which revenue collection will occur. The Macroeconomic Model of Kentucky (MAK) is a quarterly econometric

model that provides an analytical base for assessing the future economic course of the Commonwealth. The 35-equation model is designed to produce forecasts for personal income and its components, and employment by industrial sector. It also estimates the effect of changes in the national economic outlook for the Kentucky economy. This latter feature enables the preparation of several possible scenarios for the state economy and an examination of the revenue stream resulting from each of them.

Most national econometric models are modifications of a Keynesian general equilibrium system with commodity

markets, labor markets, financial markets, and government operations.

Unfortunately, this procedure cannot be translated to a state model for several reasons. First, there is the lack of state-specific data for imports, exports, investment, and financial markets. In addition, topics of particular interest to states like net migration and “export,” to the rest of the nation are different from those that are of interest in the national economy. Due to these limitations, the basic structure of MAK is a modified export-based one. It is a top-down model, where national events drive the state equations.

The MAK model has a sectoral design. This means that a broad economic concept - for example, personal income - is configured as a block of equations with the components of personal income defined as separate equations within the block. The equations are of several types: simultaneous, recursive, and identities. The simultaneity occurs both within a particular sector and between sectors.

The model is designed under the assumption that events in the national economy drive the state economy. This implies that factors like interest rates and the price of commodities are set outside the state. This does not, of course, preclude the existence of local wage rates, but it is assumed that these move in step with national rates.

Individual equations in the model are solved by ordinary least squares. Each equation is then checked for statistical significance. The final model structure is solved iteratively by a method called Gauss-Siedel. This allows the output from

one equation to feed into another as an input and preserves the simultaneous and recursive nature of the model.

Major Taxes in the General Fund

Individual Income Tax: Withholding constitutes over 90 percent of individual income tax. The withholding component of the individual income tax is estimated using two different methods: 1) modeling withholding as a function of personal income; and 2) modeling withholding through a vector autoregression (VAR) model. For biennial forecasts the first two methods, or a combination, seem to work the best.

The regression method that considers withholding a function of personal income has two major advantages: It uses fairly current data (income data available with a lag of four months), and it is tied closely to economic fluctuations. This makes the forecast easy to explain and understand. Its disadvantage is that because of a data lag it could miss the short-term forecast. This method is preferred for the biennial forecast horizon.

The withholding forecast is generated by regressing seasonalized quarterly withholding data on the wages and salaries component of personal income. This methodology strongly anchors the forecast to the economic outlook. Since the Consensus Forecasting Group normally selects the economic scenario for the forecast, this method closely mirrors their way of thinking in estimating individual income tax. The reliance on a regression equation also means that changes in withholding patterns can be tied back to wages and salaries.

A separate withholding forecast is prepared using a vector autoregression model. The primary advantage of a VAR is that it combines econometric modeling techniques with time series analysis. The resulting model allows for the interaction of terms that typically influence withholding – including the feedback effect of sales tax - without the rigid restrictions normally found in a structural model. The VAR model uses both withholding and sales taxes as endogenous variables and Kentucky personal income, Kentucky nonagricultural employment, U.S. nominal GDP, and the University of Michigan Consumer Sentiment Index.

The other three components of individual income tax are estimated jointly from current trends and administrative factors. These components are: declaration payments, fiduciary returns, and returns, i.e., the net of pays with returns and refunds. Especially in the case of returns, administrative factors - like processing speed, and the number of seasonal employees in the Revenue Cabinet influence the estimation. This makes it important to explicitly include such exogenous factors.

Sales and Use Tax: The sales and use tax is estimated using two different methods: 1) Modeling activity-based sales tax as a function of personal income; and 2) modeling sales tax through time series analysis.

It seems reasonable to hypothesize that retail sales track current income. However, the reporting and collection mechanism of the sales tax is such that the actual sales may precede the reported sales tax by two months. To correct for this lag a transaction-based sales tax

series is used for forecasting sales tax when using the output from the econometric model.

The first method, a regression of activity-based sales tax as a function of personal income, has some advantages. It uses fairly current data (income data is available with a lag of four months), and is tied closely to economic fluctuations. This makes the forecast easy to explain and understand. Its major disadvantage is because of the data lag it could miss the short-term forecast. Therefore this method is better suited for the biennial forecast horizon.

The activity-based sales tax series is linked directly to the economic output from the MAK model by using a lagged value of personal income. This allows any changes in economic activity to directly impact sales tax. Since the Consensus Forecasting Group normally selects the economic scenario for the forecast, this method closely mirrors their thinking in estimating sales tax.

A separate sales tax forecast is prepared using the VAR model. The model allows for the interaction of terms that typically influence sales – including the feedback effect of withholding tax – without the rigid restrictions normally found in a structural model. The VAR model uses both sales and withholding taxes as endogenous variables and Kentucky personal income, Kentucky nonagricultural employment, U.S. nominal GDP, and the University of Michigan Consumer Sentiment Index.

Corporation Income and License Taxes: The corporation income and license taxes continue to be very

challenging to predict. Factors such as net operating loss carry-backs and the growing population of business tax incentives have complicated the forecasting process. Our model has been completely re-specified due to an administrative change at the Kentucky Revenue Cabinet. In the past, the portion of the license tax that was remitted with the income tax was “vouchered” over to the license tax account, but due to personnel reallocations the journal vouchering has ceased. This administrative change will alter distribution between the corporation income and license taxes, but the total dollars reported as corporation taxes should not be affected.

Since the corporation income and license taxes are interrelated, and in fact remitted with a single tax form, our estimating model forecasts the two taxes in the same framework. We have corrected for the journal vouchering change by combining gross pays and license tax receipts into a single equation.

Our **declaration payments** estimate is really a composite forecast. We have a VAR model for declarations as well as a structural model. The structural model was estimated using two-staged least squares. The first stage OLS is used to get residuals, which are lagged in the second stage to correct for autocorrelation. The equation in the second stage uses the lagged residuals from stage one, taxable U.S. corporate profits from the DRI forecast, and an index of Kentucky employment in selected industries. In the VAR model, we used the same variables as the structural model, but they were all endogenous in the VAR. We also try autoregressive integrated moving average

(ARIMA or Box-Jenkins) models from time to time, but recent fluctuations in the data have made the ARIMA models very erratic.

The **combined license and gross pay returns** equation was estimated by using the ARIMA forecasting technique.

No formal equations are used to estimate **corporation refunds**. Several models were tested, but we were unable to obtain statistically significant coefficients in structural models. Time series models were also tried; no ARIMA or VAR model generated believable results. Therefore, we rely on institutional knowledge and conversations with Revenue Cabinet personnel to predict revenues in the short term. These estimates are derived from a working knowledge of the refund inventories and administrative information concerning processing schedules. As additional data are collected, we hope to use refund inventory data and other information to refine our estimating process.

Besides the econometric models, all of the elements in the corporation tax forecast are closely scrutinized using anecdotal information from other states and federal tax collections.

Coal Severance Tax:

We have recently modified our normal coal severance tax estimating procedure. Our previous approach was to obtain third-party forecasts for Kentucky coal production and Kentucky coal prices. We would then multiply these forecasts to obtain the value of mined coal,



from which the estimate for coal severance tax receipts was simple application of the tax rate. Due to some turnover at our supplier of the external coal forecast, we were unable to obtain a timely projection for Kentucky coal production. Instead, we used a time series estimation procedure for receipts. The specific model was an ARIMA (3,1,3), meaning 1 integrated term, 3 autoregressive terms, and 3 moving average terms. This methodology is consistent with our other tax forecasts, and the specific modeling technique was dictated by the statistical properties of the time series of revenues.

We also consult with the Kentucky Coal Association and members of industry to track recent trends in coal prices and supply/demand conditions across the Commonwealth. If the predominance of industry information is not in conformity with our forecast, additional models are tested until we are comfortable with the overall specification and results.

Property Taxes: Estimates of property tax revenues are developed in cooperation with the Kentucky Revenue Cabinet. Receipts data has not proven reliable for purposes of estimation, so we rely on tax assessment data instead. The assessment data is very stable and allows for simple extrapolation to be applied to extend the series into the forecast period. This extrapolation is modified based on expectations for the economy.

The extrapolated assessment data is applied to the existing tax rates for each class of property to determine estimated revenue. For real property, a statutory limitation prevents revenues from rising more than four percent annually. In most years revenues would rise by an amount

greater than this if the rate were not adjusted, which means that the estimate of growth is capped at the four percent level. (An offsetting reduction in the real property tax rate is applied to keep revenues in line with the provision.) Changes in the tax laws that affect the assessment value or rate of taxation are incorporated into the forecasts.

Not all property tax accounts can be accurately estimated using assessment data so analysts rely on DRI-WEFA forecasts to determine tax receipts for these accounts. Tangible property and motor vehicle property tax receipts are two accounts found to be accurately estimated using this approach. Quarterly DRI-WEFA forecasts are examined and combined with historical data to arrive at a reliable estimate.

General Fund Miscellaneous Taxes and Nontax Revenues: The basic methodology used to estimate the various miscellaneous taxes is relatively simple. A simple average growth rate over time is used to initially predict these accounts. GOEA then makes any necessary adjustments for legislative, judicial, or administrative changes and consults with the Revenue Cabinet for information such as an expected increase in refunds due to court cases or administrative changes that will affect the account.

Most of the larger miscellaneous taxes are administered by the Revenue Cabinet. These include the inheritance tax, the corporate license tax, and the bank franchise tax. Other taxes are collected by the Circuit Court, Treasury, and Alcoholic Beverage Control. Administrators in these areas are consulted when necessary. The Finance and Administration Cabinet's

Office of Financial Management investment section supply the information used in estimating interest receipts.

For the quarterly updates to the forecast, GOEA maintains a schedule of the average receipts per quarter in each account. These averages compare current receipts to expectations in the estimate. If the numbers seem out of line, GOEA consults the tax administrators to identify any unusual circumstance causing the deviation.

Lottery: Estimates of dividends received from the Kentucky Lottery Corporation and deposited in the General Fund are developed in conjunction with officials from the Lottery. Sales and dividend goals are set by the Board of Directors of the Lottery. GOEA monitors sales and dividends and may ask the Lottery to review its projections for the year if it appears necessary.

Road Fund Taxes

Road Fund revenue estimates are developed in conjunction with the Transportation Cabinet, which administers several of the taxes and other revenue sources for this fund. Compared to General Fund taxes, the Road Fund taxes generally are much more stable. Although there have been fluctuations in the trends for most of these series, the taxes themselves are not as complex as the individual income or corporation income tax, and therefore are more easily forecasted using relatively basic methods. In most instances, the major taxes in this fund are forecasted fairly accurately using



simple structural models coupled with allowances for institutional factors.

Motor Fuels and Motor Fuels Usage: Since motor fuels taxes are levied on a “per gallon” basis, consumption determines growth. Motor fuels consumption is analyzed in two categories: gasoline and special fuels.

Growth in gasoline consumption has been estimated based on historical data as increases in the miles drive have been offset by improved fuel efficiency. The price of oil and personal income strongly influence these receipts.

Diesel fuel has been found to be much more closely tied to economic cycles, reflecting commercial trucking activity. Nonrecurring factors, like changes in the point of taxation and various tax compliance initiatives, have complicated analysis of this tax. A general approach has been to revise upward or downward the long-term trend of revenue growth for this tax depending on the outlook for the economy.

Motor Vehicle Usage Tax: Two factors affect this tax: the number of sales and the price of the vehicles being sold. To a lesser extent, the mix of new car sales compared to used car sales can have an impact since trade-in credit is allowed for the purpose of calculating tax when a consumer purchases a used vehicle, but not a new one. The outlook for this tax is modified depending on the expected economic conditions. Consumer confidence and manufacturers’ expectations are two key variables, as well as the expected change in vehicle prices.

License and Privilege Taxes: Most of the taxes and fees in this category are for passenger vehicle registrations and operators' licenses. These have historically grown only slightly faster than the state's population, and therefore are fairly easy to predict. A few of the fees relate to commercial trucks, and economic factors are taken into consideration to estimate revenues from those sources.

Weight Distance Tax: This tax is estimated using a basic structural model

based on the forecast for U.S. industrial production and manufacturing employment.

Toll Income and Other Taxes:

These are based on extrapolations of past trends, except for investment income, which is forecast based on the pattern of the Transportation Cabinet' receipts and expenditures, using interest rate forecasts supplied by DRI-WEFA.

APPENDIX A

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KENTUCKY STATE GOVERNMENT REVENUE - GENERAL FUND REVENUE

	Fourth Quarter 2001 - 2002	Fourth Quarter 2000 - 2001	Percent Change	Year-to Date 2001 - 2002	Year-to Date 2000 - 2001	Percent Change
TOTAL GENERAL FUND	\$1,805,230,987	\$1,861,349,957	-3.0%	\$6,560,216,551	\$6,653,897,654	-1.4%
Tax Receipts	\$1,737,632,898	\$1,782,612,319	-2.5%	\$6,292,004,457	\$6,377,917,220	-1.3%
Sales and Gross Receipts	\$638,339,434	\$618,448,087	3.2%	\$2,497,020,953	\$2,435,481,566	2.5%
Beer Consumption	1,687,864	1,682,463	0.3%	6,286,734	6,272,031	0.2%
Beer Wholesale	9,189,064	8,847,483	3.9%	34,596,592	32,582,889	6.2%
Cigarette	3,629,683	3,686,503	-1.5%	13,943,208	14,007,582	-0.5%
Distilled Spirits Case Sales	20,208	20,207	0.0%	81,922	82,529	-0.7%
Distilled Spirits Consumption	2,049,993	1,940,755	5.6%	8,266,005	8,184,798	1.0%
Distilled Spirits Wholesale	3,768,478	3,673,079	2.6%	15,129,146	14,809,730	2.2%
Insurance Premium	33,109,346	30,381,655	9.0%	105,102,951	96,825,818	8.5%
Pari-Mutuel	2,287,727	2,465,827	-7.2%	5,179,952	6,182,083	-16.2%
Race Track Admission	56,829	40,953	38.8%	260,232	216,615	20.1%
Sales and Use	580,483,998	563,827,393	3.0%	2,299,990,621	2,248,471,100	2.3%
Wine Consumption	438,782	430,918	1.8%	1,786,984	1,743,393	2.5%
Wine Wholesale	1,617,463	1,450,850	11.5%	6,396,603	6,102,998	4.8%
License and Privilege	\$107,697,246	\$117,500,340	-8.3%	\$356,591,984	\$373,309,229	-4.5%
Alc. Bev. License Suspension	64,600	100,350	-35.6%	220,800	193,800	13.9%
Coal Severance	37,532,696	38,730,776	-3.1%	160,160,116	141,553,087	13.1%
Corporation License	57,607,852	65,931,613	-12.6%	117,500,770	147,515,402	-20.3%
Corporation Organization	18,554	48,427	-61.7%	144,233	227,655	-36.6%
Occupational Licenses	96,064	57,674	66.6%	226,609	107,737	110.3%
Oil Production	699,996	879,088	-20.4%	2,590,722	3,358,036	-22.9%
Race Track License	53,850	37,500	43.6%	37,423	320,800	-88.3%
Bank Franchise Tax	6,286,101	3,242,010	93.9%	50,549,169	49,610,220	1.9%
Driver License Fees	135,419	119,254	13.6%	505,187	391,939	28.9%
Minerals Severance	2,721,180	2,936,661	-7.3%	12,355,174	12,710,667	-2.8%
Natural Gas Severance	2,480,935	5,416,988	-54.2%	12,301,781	17,319,885	-29.0%
Income	\$904,331,722	\$978,075,255	-7.5%	\$2,909,863,799	\$3,068,472,461	-5.2%
Corporation	100,765,814	116,732,629	-13.7%	207,353,777	289,931,017	-28.5%
Individual	803,565,908	861,342,626	-6.7%	2,702,510,022	2,778,541,444	-2.7%
Property	\$56,972,010	\$44,040,522	29.4%	\$433,029,587	\$407,494,858	6.3%
Bank Deposits	51,882	57,070	-9.1%	460,334	412,646	11.6%
Building & Loan Association	2,082,153	2,113,171	-1.5%	2,249,927	2,482,623	-9.4%
Distilled Spirits	232	145,402	-99.8%	363,410	360,248	0.9%
General - Intangible	402,782	484,300	-16.8%	23,113,567	22,551,153	2.5%
General - Real	5,627,889	5,625,944	0.0%	179,678,050	171,524,695	4.8%
General - Tangible	39,218,360	29,745,800	31.8%	151,308,795	140,466,295	7.7%
Omitted & Delinquent	5,706,526	-671,096	—	25,649,592	20,605,462	24.5%
Public Service	3,799,704	6,477,726	-41.3%	49,991,359	48,883,924	2.3%
Other	82,482	62,205	32.6%	214,552	207,813	3.2%
Inheritance	\$26,716,406	\$22,125,404	20.7%	\$83,359,872	\$83,461,499	-0.1%
Miscellaneous	\$3,576,081	\$2,422,711	47.6%	\$12,138,263	\$9,697,606	25.2%
Legal Process	1,238,247	948,554	30.5%	5,263,021	3,597,385	46.3%
T. V. A. In Lieu Payments	2,331,301	1,447,794	61.0%	6,814,492	6,046,676	12.7%
Other 6,533	26,363	-75.2%	60,750	53,545	13.5%	
Nontax Receipts	\$66,212,104	\$75,466,769	-12.3%	\$260,466,324	\$266,792,632	-2.4%
Departmental Fees	5,417,270	4,578,950	18.3%	19,570,116	17,062,102	14.7%
PSC Assessment Fee	8,824,184	9,380,805	-5.9%	10,455,826	12,598,396	-17.0%
Fines & Forfeitures	10,288,506	10,162,052	1.2%	40,069,496	40,749,856	-1.7%
Interest on Investments	-440,344	11,910,389	—	13,342,627	28,217,850	-52.7%
Lottery	42,000,000	39,000,000	7.7%	169,000,000	157,030,000	7.6%
Miscellaneous	122,489	434,573	-71.8%	8,028,259	11,134,428	-27.9%
Redeposit of State Funds	1,385,985	3,270,870	-57.6%	7,745,769	9,187,802	-15.7%

KENTUCKY STATE GOVERNMENT REVENUE - ROAD FUND REVENUE

	Fourth Quarter 2001 - 2002	Fourth Quarter 2000 - 2001	Percent Change	Year-to Date 2001 - 2002	Year-to Date 2000 - 2001	Percent Change
TOTAL ROAD FUND	\$300,992,931	\$291,657,609	3.2%	\$1,119,005,317	\$1,064,181,565	5.2%
Tax Receipts-	\$282,351,588	\$270,635,219	4.3%	\$1,052,848,911	\$992,142,884	6.1%
Sales and Gross Receipts	\$225,702,379	\$215,729,065	4.6%	\$873,623,010	\$821,552,966	6.3%
Motor Fuels Taxes	110,063,646	104,281,431	5.5%	429,812,296	408,801,115	5.1%
Motor Fuels Use & Surtax	4,486,141	4,641,219	-3.3%	14,124,035	15,492,738	-8.8%
Truck Trip Permits (fuel)	111,080	115,760	-4.0%	383,460	447,020	-14.2%
Motor Vehicle Usage	111,041,512	106,690,654	4.1%	429,303,220	396,812,093	8.2%
License and Privilege	\$56,649,209	\$54,906,155	3.2%	\$179,225,901	\$170,589,918	5.1%
Motor Vehicles	33,628,356	31,505,549	6.7%	84,510,332	76,861,958	10.0%
Motor Vehicle Operators	1,450,542	1,570,075	-7.6%	5,564,009	5,592,769	-0.5%
Weight Distance	18,520,561	18,420,076	0.5%	75,265,639	75,170,141	0.1%
Truck Decal Fees	593,821	574,571	3.4%	807,089	727,675	10.9%
Other Special Fees	2,455,930	2,835,883	-13.4%	13,078,832	12,237,376	6.9%
Nontax Receipts	\$18,534,630	\$20,822,589	-11.0%	\$64,071,745	\$69,204,781	-7.4%
Departmental Fees	4,111,302	3,893,991	5.6%	15,137,452	13,772,863	9.9%
In Lieu of Traffic Fines	421,711	558,167	-24.4%	1,960,687	2,005,215	-2.2%
Highway Tolls	3,601,571	3,412,540	5.5%	13,785,486	12,410,901	11.1%
Investment Income	10,267,711	12,686,948	-19.1%	32,156,652	40,187,239	-20.0%
Miscellaneous	132,335	270,944	-51.2%	1,031,468	828,562	24.5%
Redeposit of State Funds	\$106,713	\$199,800	-46.6%	\$2,084,661	\$2,833,900	-26.4%

APPENDIX B
Summary Statistics for General and Road Funds
Fiscal Years 1992/93 - 2001/02

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APPENDIX B
SUMMARY STATISTICS FOR GENERAL AND ROAD FUNDS
MAJOR REVENUE SOURCES
FISCAL YEARS 1992-2002

GENERAL FUND			ALCOHOLIC BEVERAGE TAXES		
Total Receipts			Malt Beverage		
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
2001-02	\$ 6,560,216,551	-1.4%	2001-02	\$ 40,883,326	5.2%
2000-01	6,653,897,653	2.7%	2000-01	38,854,920	1.2%
1999-00	6,478,385,032	4.5%	1999-00	38,385,890	4.1%
1998-99	6,198,387,525	3.1%	1998-99	36,870,323	2.6%
1997-98	6,011,806,561	6.1%	1997-98	35,937,878	3.2%
1996-97	5,663,553,824	6.1%	1996-97	34,830,419	1.0%
1995-96	5,336,883,824	3.5%	1995-96	34,489,349	2.0%
1994-95	5,154,077,980	10.9%	1994-95	33,812,169	3.9%
1993-94	4,647,078,322	3.0%	1993-94	32,553,876	4.4%
1992-93	4,511,721,822	3.5%	1992-93	31,172,541	2.5%

GENERAL FUND			Distilled Spirits		
TOTAL TAX RECEIPTS					
Fiscal Year	Receipts	Percent Change	Fiscal Year	Receipts	Percent Change
2001-02	\$ 6,292,004,457	-1.3%	2001-02	\$ 23,477,073	1.7%
2000-01	6,377,917,219	2.9%	2000-01	23,077,057	3.3%
1999-00	6,200,475,504	4.8%	1999-00	22,349,780	4.3%
1998-99	5,917,216,645	3.4%	1998-99	21,432,736	2.2%
1997-98	5,722,452,608	5.8%	1997-98	20,979,849	2.1%
1996-97	5,408,832,505	6.2%	1996-97	20,548,503	0.3%
1995-96	5,095,157,184	3.3%	1995-96	20,493,441	3.0%
1994-95	4,931,201,083	10.6%	1994-95	19,897,599	-0.3%
1993-94	4,459,648,594 *	3.0%	1993-94	19,960,515	0.2%
1992-93	4,329,156,325	3.6%	1992-93	19,923,344	2.2%

*Adjusted for small math error.

Wine

Fiscal Year	Receipts	Percent Change
2001-02	\$ 8,183,587	4.3%
2000-01	7,846,391	2.3%
1999-00	7,672,648	8.8%
1998-99	7,049,136	7.6%
1997-98	6,551,316	7.6%
1996-97	6,085,828	8.5%
1995-96	5,610,308	15.7%
1994-95	4,847,726 *	7.9%
1993-94	4,492,841	0.9%
1992-93	4,454,161	4.2%

COAL SEVERANCE TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 160,160,116	13.1%
2000-01	141,553,087	-2.5%
1999-00	145,139,909	-6.0%
1998-99	154,476,772	-5.7%
1997-98	163,731,038	0.1%
1996-97	163,545,844	-1.5%
1995-96	166,101,045	-7.3%
1994-95	179,116,944	-0.4%
1993-94	179,844,327	-0.2%
1992-93	180,117,668	-2.7%

*Adjusted for small math error

CIGARETTE TAX*

Fiscal Year	Receipts	Percent Change
2001-02	\$ 13,943,208	-0.5%
2000-01	14,007,582	-1.2%
1999-00	14,184,888	-3.3%
1998-99	14,673,839	-3.0%
1997-98	15,130,443	-5.7%
1996-97	16,044,967	2.3%
1995-96	15,680,704	3.7%
1994-95	15,126,270	5.9%
1993-94	14,285,746	2.1%
1992-93	13,994,590	-0.4%

CORPORATION INCOME TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 207,353,777	-28.5%
2000-01	289,931,017	-5.4%
1999-00	306,442,050	-1.8%
1998-99	312,066,675	-6.5%
1997-98	333,666,393	14.0%
1996-97	292,753,126	2.8%
1995-96	284,732,573	-16.5%
1994-95	340,912,408	26.7%
1993-94	269,067,231	5.6%
1992-93	254,775,357	-6.0%

*The cigarette tax is levied at the rate of 3 cents per pack. These totals reflect the 2.5 cents per pack that are deposited into the General Fund. The remaining 0.5 cent per pack is dedicated to tobacco research and is deposited in the Tobacco Research Trust Fund.

CORPORATION LICENSE TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 117,500,770	-20.3%
2000-01	147,515,402	6.0%
1999-00	139,127,819	10.5%
1998-99	125,912,523	11.7%
1997-98	112,763,161	4.9%
1996-97	107,498,746	18.8%
1995-96	90,515,183 **	-7.1%
1994-95	97,449,950 *	18.8%
1993-94	82,031,324 *	-5.8%
1992-93	87,061,523	6.3%

* Adjusted for small math error.

** Corrected for posting error.

INHERITANCE AND ESTATE TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 83,359,872	-0.1%
2000-01	83,461,499	12.0%
1999-00	74,489,981	-8.6%
1998-99	81,483,083	-22.8%
1997-98	105,538,130	10.8%
1996-97	95,287,282	17.0%
1995-96	81,441,427 *	2.4%
1994-95	79,511,634	4.4%
1993-94	76,135,351	7.3%
1992-93	70,965,470	-8.3%

*Phase-in of Class A beneficiary exemption began July 1, 1995.

INDIVIDUAL INCOME TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$2,702,510,022	-2.7%
2000-01	2,778,541,444	2.8%
1999-00	2,701,613,908	6.7%
1998-99	2,532,005,348	4.7%
1997-98	2,418,144,438	9.7%
1996-97	2,205,022,964	6.3%
1995-96	2,074,572,167	5.6%
1994-95	1,964,843,490	13.6%
1993-94	1,729,182,293	-0.2%
1992-93	1,733,415,059	3.3%

**INSURANCE PREMIUMS TAX
Foreign Life Insurance Companies**

Fiscal Year	Receipts	Percent Change
2001-02	\$ 36,058,437	3.7%
2000-01	34,775,487	-3.2%
1999-00	35,909,807	8.5%
1998-99	33,085,292	-5.8%
1997-98	35,116,933	6.1%
1996-97	33,086,032	-8.5%
1995-96	36,165,049	6.5%
1994-95	33,966,941	-10.7%
1993-94	38,057,960	11.1%
1992-93	34,268,972	1.7%

Insurance Companies Other than Life

Fiscal Year	Receipts	Percent Change
2001-02	\$ 65,899,201	11.5%
2000-01	59,118,323	3.7%
1999-00	57,000,964	4.7%
1998-99	54,431,503	3.5%
1997-98	52,600,230	4.5%
1996-97	50,318,931	3.4%
1995-96	48,687,419	7.0%
1994-95	45,515,163	6.5%
1993-94	42,720,970	5.1%
1992-93	40,631,761	2.1%

MINERALS AND NATURAL GAS TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 24,656,955	-17.9%
2000-01	30,030,552	34.2%
1999-00	22,369,419	18.0%
1998-99	18,954,883	-6.1%
1997-98	20,192,086	0.7%
1996-97	20,051,609	15.4%
1995-96	17,378,785	17.6%
1994-95	14,783,614	-11.6%
1993-94	16,718,727	8.1%
1992-93	15,463,902	18.0%

LOTTERY RECEIPTS

Fiscal Year	Receipts	Percent Change
2001-02	\$ 169,000,000	7.6%
2000-01	157,030,000	0.5%
1999-00	156,300,000	1.6%
1998-99	153,800,000	0.5%
1997-98	153,000,000	1.3%
1996-97	151,000,000	2.7%
1995-96	147,000,000	8.1%
1994-95	136,000,000	19.3%
1993-94	114,000,000	14.0%
1992-93	100,000,000	0.0%

OIL PRODUCTION TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 2,590,722	-22.9%
2000-01	3,358,036	13.2%
1999-00	2,967,395	120.6%
1998-99	1,344,942	-37.0%
1997-98	2,135,211	-29.9%
1996-97	3,044,497	15.1%
1995-96	2,644,656	-5.0%
1994-95	2,784,562	3.2%
1993-94	2,697,560	-38.9%
1992-93	4,413,136	-7.2%

PARI-MUTUEL TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 5,179,952	-16.2%
2000-01	6,182,083	-7.0%
1999-00	6,645,098	-7.4%
1998-99	7,179,163	48.1%
1997-98	4,845,921	-18.0%
1996-97	5,911,958	-17.3%
1995-96	7,148,951	-1.5%
1994-95	7,256,986	18.3%
1993-94	6,134,317	-1.8%
1992-93	6,247,368	-8.8%

Property Taxes - Real Estate

Fiscal Year	Receipts	Percent Change
2001-02	\$ 179,678,050	4.8%
2000-01	171,524,695	2.5%
1999-00	167,326,472	3.5%
1998-99	161,723,137	4.8%
1997-98	154,245,453	-9.3%
1996-97	170,063,059 *	19.2%
1995-96	142,728,406	7.2%
1994-95	133,200,108	0.8%
1993-94	132,125,477	4.6%
1992-93	126,333,184	3.4%

* Some tangible property tax receipts were erroneously credited to real property receipts accounts.

TOTAL PROPERTY TAXES

Fiscal Year	Receipts	Percent Change
2001-02	\$ 433,029,587	6.3%
2000-01	407,494,858	5.2%
1999-00	387,257,800	4.5%
1998-99	370,404,549	2.1%
1997-98	362,792,501	-12.6%
1996-97	414,858,124	1.4%
1995-96	409,176,706	3.5%
1994-95	395,324,665	6.8%
1993-94	370,199,709	4.4%
1992-93	354,757,842	4.8%

Property Taxes - Tangible

Fiscal Year	Receipts	Percent Change
2001-02	\$ 151,308,795	7.7%
2000-01	140,466,295	7.3%
1999-00	130,960,896	4.3%
1998-99	125,564,658	-0.2%
1997-98	125,753,465	0.9%
1996-97	124,637,468 *	-9.6%
1995-96	137,812,773	20.8%
1994-95	114,122,717	9.2%
1993-94	104,501,822	10.8%
1992-93	94,346,047	4.5%

* Some tangible property tax receipts were erroneously credited to real property receipts accounts.

Property Taxes - Intangible

Fiscal Year	Receipts	Percent Change
2001-02	\$ 23,113,567	2.5%
2000-01	22,551,153	-0.8%
1999-00	22,721,743	25.5%
1998-99	18,103,920	-14.3%
1997-98	21,129,328 *	-54.7%
1996-97	46,631,437 *	-29.9%
1995-96	66,489,089	-20.4%
1994-95	83,479,482	7.9%
1993-94	77,393,521	-0.5%
1992-93	77,751,342	11.1%

*Shares of stock were exempted from property tax.

BANK FRANCHISE TAX*

Fiscal Year	Receipts	Percent Change
2001-02	\$ 50,549,168	1.9%
2000-01	49,610,220	-6.5%
1999-00	53,061,789	12.8%
1998-99	47,059,959	34.2%
1997-98	35,059,801	-14.2%
1996-97	40,878,664	----

*Kentucky's bank franchise tax was instituted in July 1996.

SALES AND USE TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 2,299,990,621	2.3%
2000-01	2,248,471,100	3.5%
1999-00	2,171,397,969	4.1%
1998-99	2,085,899,677	5.3%
1997-98	1,981,297,580	5.2%
1996-97	1,882,681,995	5.5%
1995-96	1,783,881,316	6.2%
1994-95	1,680,520,815	7.7%
1993-94	1,560,085,519	6.7%
1992-93	1,462,251,261	7.2%

**ROAD FUND
TOTAL RECEIPTS**

Fiscal Year	Receipts	Percent Change
2001-02	\$ 1,119,005,317	5.2%
2000-01	1,064,181,565	-2.4%
1999-00	1,090,777,822	3.2%
1998-99	1,056,596,153	4.4%
1997-98	1,011,789,675	5.4%
1996-97	960,183,780	2.2%
1995-96	939,910,490	4.4%
1994-95	900,619,387	4.4%
1993-94	862,826,425	5.2%
1992-93	820,411,480	4.9%

MOTOR FUELS TAXES
Motor Fuels Normal

Fiscal Year	Receipts	Percent Change
2001-02	\$ 429,812,296	5.1%
2000-01	408,801,115	-3.6%
1999-00	423,876,351	-0.9%
1998-99	427,848,100	8.0%
1997-98	396,123,781	1.4%
1996-97	390,688,336	3.3%
1995-96	378,142,941	1.3%
1994-95	373,316,977	4.2%
1993-94	358,435,307	1.4%
1992-93	353,651,330	4.5%

MOTOR VEHICLE OPERATOR'S LICENSE

Fiscal Year	Receipts	Percent Change
2001-02	\$ 5,564,009	-0.5%
2000-01	5,592,769	-1.7%
1999-00	5,689,329	5.3%
1998-99	5,400,685	3.0%
1997-98	5,241,595	-2.1%
1996-97	5,355,648	4.8%
1995-96	5,110,387	-1.2%
1994-95	5,170,423	-3.5%
1993-94	5,358,710	6.7%
1992-93	5,020,733	-3.8%

Motor Fuels Normal Use and Surtax

Fiscal Year	Receipts	Percent Change
2001-02	\$ 14,124,035	-8.8%
2000-01	15,492,738	-2.6%
1999-00	15,905,613	-5.6%
1998-99	16,853,163	-3.6%
1997-98	17,473,744	14.1%
1996-97	15,316,702	-32.1%
1995-96	22,554,473	-2.2%
1994-95	23,052,951	7.7%
1993-94	21,399,126	3.9%
1992-93	20,591,812	-1.9%

MOTOR VEHICLE REGISTRATIONS
Passenger Car Registration

Fiscal Year	Receipts	Percent Change
2001-02	\$ 25,355,086	9.5%
2000-01	23,162,962	-1.4%
1999-00	23,485,625	0.6%
1998-99	23,356,526	-1.1%
1997-98	23,604,679	1.4%
1996-97	23,276,395	-0.5%
1995-96	23,389,132	0.0%
1994-95	23,398,303	-0.3%
1993-94	23,473,690	1.7%
1992-93	23,083,164	0.8%

**ROAD FUND
TOTAL TAX RECEIPTS**

Fiscal Year	Receipts	Percent Change
2001-02	\$1,052,848,911*	3.9%
2000-01	1,013,143,743	-4.0%
1999-00	1,055,295,426	4.2%
1998-99	1,013,091,830	5.4%
1997-98	961,522,616	4.5%
1996-97	919,796,955	2.3%
1995-96	899,036,284	3.5%
1994-95	868,711,393	3.8%
1993-94	836,526,817	5.5%
1992-93	792,914,736	6.9%

**MOTOR VEHICLE
RENTAL USAGE TAX**

Fiscal Year	Receipts	Percent Change
2001-02	\$47,840,871	-7.3%
2000-01	51,619,167	3.3%
1999-00	49,957,851	12.4%
1998-99	44,465,916	7.3%
1997-98	41,450,720	13.3%
1996-97	36,593,748	25.9%
1995-96	29,054,964	26.5%
1994-95	22,966,441	34.7%
1993-94	17,055,319	40.7%
1992-93	12,124,476	33.2%

**MOTOR VEHICLE
USAGE TAX**

Fiscal Year	Receipts	Percent Change
2001-02	\$381,398,176	10.5%
2000-01	345,120,799	-4.0%
1999-00	359,437,723	8.5%
1998-99	331,187,817	1.8%
1997-98	325,308,554	6.7%
1996-97	304,868,491	2.1%
1995-96	298,585,859	5.2%
1994-95	283,820,829	2.0%
1993-94	278,157,347	19.1%
1992-93	233,527,651	11.4%

MOTOR VEHICLE USAGE TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$381,398,176	10.5%
2000-01	345,120,799	-4.0%
1999-00	359,437,723	8.5%
1998-99	331,187,817	1.8%
1997-98	325,308,554	6.7%
1996-97	304,868,491	2.1%
1995-96	298,585,859	5.2%
1994-95	283,820,829	2.0%
1993-94	278,157,347	19.1%
1992-93	233,527,651	11.4%

MOTOR VEHICLE RENTAL USAGE TAX

Fiscal Year	Receipts	Percent Change
2001-02	\$ 47,840,871	-7.3%
2000-01	51,619,167	3.3%
1999-00	49,957,851	12.4%
1998-99	44,465,916	7.3%
1997-98	41,450,720	13.3%
1996-97	36,593,748	25.9%
1995-96	29,054,964	26.5%
1994-95	22,966,441	34.7%
1993-94	17,055,319	40.7%
1992-93	12,124,476	33.2%

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