

Executive Summary

This report provides a review and evaluation of Kentucky General Fund and Road Fund for the second quarter of Fiscal Year 2004 (FY04). General Fund receipts totaled \$1,824.7 million during the second quarter, an increase of 1.3 percent from the same period of FY03. This represents \$22.7 million more than reported receipts for the second quarter of FY03.

Road Fund receipts in the second quarter of FY04 were \$258.3 million, a decrease of 2.7 percent from the second quarter of FY03. This is \$7.3 million less than reported in the same period of FY03.

The second quarter of FY04 saw the economy solidifying as the recovery began to gather momentum. Real gross domestic product (GDP) expanded at an annual 3.6 percent rate in the second quarter. Personal income, a measure of spending power, was up by 4.8 percent annualized. Nonagricultural employment growth has finally resumed growth after several successive declining quarters, up 0.5 percent in the number of jobs from the previous quarter.

Kentucky's personal income was estimated at \$109.6 million in the second quarter of FY04, representing an increase of 2.9 percent from one year ago. Employment in the Commonwealth managed a meager 0.1 percent growth, with a gain of 1,500 jobs. Manufacturing, mining, information

services and "other" services reported job losses, while construction, the combined trade, transportation and utilities sector, and several service sectors all had healthy growth.

General Fund receipts in the second quarter rose by 1.3 percent largely due to strength in the individual income tax and sales and use tax revenues. Tax amnesty and large inheritance tax payments a year ago yielded unusually high revenues reducing the

General Fund growth rate in the second quarter of FY04. Performance by major tax type is detailed in Table 3 on page 9. Among the major accounts, the sales and use tax grew by 3.6 percent, the individual income tax rose 2.5 percent, and corporate income and license tax receipts fell by a combined 24.0 percent

compared to a year ago. The coal severance tax continued its slide by 4.1 percent, property taxes were up by 2.4 percent, and the lottery was unchanged. All other taxes in the General Fund combined for a growth of 6.5 percent.

The Road Fund posted a decrease in the second quarter of FY04, falling by 2.7 percent with total revenues of \$258.3 million. Summary data on second-quarter Road Fund receipts appears in Table 4 on page 11. During the second quarter, motor fuels taxes declined 1.7 percent, and the motor vehicle usage tax was down 1.2 percent. The weight distance



tax was off a slight 0.5 percent. The remaining accounts in the Road Fund fell by 11.3 percent, due principally to declines in highway toll and investment revenues.

The national economic outlook for the final two fiscal quarters of FY04 is for GDP growth to remain healthy at 4.6 percent. For the first quarter of FY05, GDP increases should be 4.1 percent. In Kentucky, during the remaining six months of FY04, personal income should grow by 3.9 percent compared to 4.7 percent nationally. This should rise to 5.0 percent in the first quarter of FY05 in Kentucky, and 5.4 percent nationally. Employment growth in the state is expected to be muted in the next half of the fiscal year, with a 0.5 percent rate of increase.

The General Fund and Road Fund outlook for the next three fiscal quarters is for General Fund revenue to grow by 2.7 percent during the final two quarters of FY04. The one-time revenues gained in FY03 will limit the rate of increase, although the improving economy should provide enough boost to create positive growth in the General Fund. Sales tax revenues should continue to strengthen, rising 5.9 percent during the

period. Individual income taxes will fall by 3.5 percent, affected by one-time growth in the final two quarters of FY03. Other revenue sources should exhibit positive growth with the exception of the lottery, which is expected to remain flat for the final half of the fiscal year, and coal severance taxes, which should continue to decline.

In the first quarter of FY05, General Fund receipts are expected to rise by 4.2 percent, led by steep growth in corporation income and license taxes. This reflects the additional revenue forecasted in corporate license tax receipts resulting from the *Illinois Tool Works* decision.

The interim forecast for the Road Fund is for a slight growth of 0.4 percent during the final two quarters of FY04. Motor fuels taxes are expected to grow by 2.4 percent, and motor vehicle usage tax receipts are forecasted to rise by 1.9 percent. These should be countered by declines in toll income and investment income, which are forecasted to drop by 62.7 percent and 64.4 percent respectively. For the first quarter of FY05, Road Fund receipts should rise by 0.6 percent overall.

The Economy

NATIONAL ECONOMY

Second Quarter, FY 2004

Though the recession of 2001 has been over for two years, the lack of job growth and consumer confidence has made this into a lackluster recovery at best. During the second quarter, however, businesses started adding jobs and consumers were more sanguine. Business investments have increased, suggesting that more jobs and further expansion are in the works.

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 a robust 3.6 percent in the second quarter. This marks the return of a much-awaited growth pattern in which output grows between 3.5 percent and 4.5 percent. Growth rates within this range are thought to be optimum for increasing employment. Even though the recession was technically over in November 2001, it took almost two years to shake off the ennui associated with the downturn. The turning point seems to have been the remarkable 8.2 percent growth in real GDP during the first quarter of FY04. That seems to have set the track for a general recovery in the U.S. economy.

The strength of the domestic economy is derived from the American consumer.

Consumption expenditures account for about two-thirds of real GDP. Even though total real consumption increased by just 1.1 percent in the second quarter, it was significant coming after a 6.6 percent growth rate in the previous quarter. The anticipated decline in the demand for automobiles (down 32.0 percent) caused the consumption of durable goods to decline by 13.1 percent. The two previous quarters had seen phenomenal growth in motor vehicles (over 30 percent) in response to incentives like zero-percent interest and large rebates. The October-to-December quarter was expected to be a period of respite for consumers as they refocused their spending from cars to Christmas presents. Consumption of nondurable goods was up 2.5 percent. Nondurables are normally quite stable and not prone to swings from interest rates and incentives. Services constitute a little over one-half of all consumption and about 35 percent of total GDP. The consumption of services increased by 3.5 percent in the second quarter. Much of the increase came from the area of personal and business services.

Investment spending proved to be the light at the end of the recession tunnel. Total investment comprises close to a fifth of real GDP and is usually sensitive to both interest rates and future expansion opportunities. The investment component of GDP increased by 21.3 percent during the second quarter after having posted robust growth of 9.3 percent in the previous quarter. One of the areas with the biggest gains was investment in equipment and software, up 14.4 percent.

GOEA monitors industrial production because it is a measure of the output of heavy industries like mining and manufacturing. These industries continue to play a vital role in Kentucky's economy. Industrial production is a raw measure of output, comprised of only the final products. Total industrial production was up 4.0 percent during the second quarter and 3.3 percent in the first quarter. Just a year ago industrial production was declining in response to several factors. Among them was the lack of consumer confidence which was shaken by the successive revelations of misstated financial statements from corporations like Enron and WorldCom. Other factors that depressed industrial production were overcapacity in production facilities abroad and the strong dollar. Both these fueled imports at the expense of domestic production. Now, however, with the economic recovery well underway and the U.S. dollar at a historic low with respect to both the euro and yen, industrial production is on the rise.

Personal income, which is a measure of spending power, was \$9,355.5 billion in the second quarter, for an annualized increase of 4.8 percent over the previous quarter. Real disposable income was up just 0.7 percent, but real expenditure was up 1.0 percent. The higher spending level is linked to the continuing rise in the stock market, low interest rates, and a bounce in consumer confidence.

Inflation was kept in check at 1.1 percent as energy prices remained stable and productivity increased. The unemployment rate, however, is estimated to have been 6.1 percent during the second quarter—partly in response to gains in productivity.

STATE ECONOMY

The long recession that had dragged down Kentucky's employment seems to be over. Employment has not returned to March 2000 levels, but there has been positive movement in the economy in response to the federal fiscal and monetary stimuli. The second quarter was far from stellar, but key measures like employment and income firmed up indicating that Kentucky is on a steady path to recovery.

Kentucky's personal income is estimated to be \$109.6 billion in the second quarter of FY04, an increase of 2.9 percent from a year ago. U.S. personal income grew by 3.8 percent during the same period. Wages and salaries constitute a little over half of personal income. Income derived from wages and salaries is estimated to have grown by just 1.6 percent in FY04:Q2, compared to 2.7 percent nationally. Kentucky's lower growth in wage and salary income is because of the continued erosion of the traditionally high-wage manufacturing sector. Other areas of personal income, namely dividends, interest, and rent as well as proprietors' income, grew more slowly in Kentucky than in the national economy.

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. Kentucky gained approximately 1,500 jobs during the second quarter compared to a year ago. This growth, though meager at 0.1 percent, is in contrast to the decline of 0.3 percent in U.S. employment.

Manufacturing jobs in Kentucky have been the hardest hit by the recession. During the

second quarter, manufacturing employment dropped by 2.3 percent resulting in a loss of 6,200 jobs. At the moment the only positive statement that can be made about manufacturing is that the slide in employment is not as severe as a year ago when Kentucky lost 9,800 manufacturing jobs for a decline of 3.5 percent. Nationally, manufacturing employment contracted by 4.1 percent during the October-to-December 2003 period. Among the large industries the hardest hit in Kentucky were electronic and electrical equipment, and fabricated metal productions. Both these sectors have suffered nationally, too, as jobs have moved overseas. The automotive sector posted a strong gain in response to brisk sales. The Ford F-series truck was the best selling vehicle in 2002

and the Camry was the best selling car—both are manufactured in Kentucky.

A little over one-third of Kentucky's nonagricultural jobs are in the services sector. The broad service-related industries are part of four newly categorized areas or super sectors: business services, educational and health services, leisure and hospitality services, and other services. Overall employment in services was up 0.5 percent with the strongest gains in business services. The business service category is dominated by temporary employment services, and it is possible that the strong growth in this sector is from the reluctance of businesses to hire permanent employees until the economic recovery has firmed.



Table 1
National Economic Indicators
Second Quarter, FY04

	FY03:2	FY04:1	FY04:2	SAAR** FY04:1 to FY04:2	FY03:2 to FY04:2 Percent Change
Real GDP (billion 1996 \$)	9,518.2	9,797.2	9,884.9	3.6	3.9
Personal Income (billion \$)	9,012.5	9,247.0	9,355.5	4.8	3.8
Real Disposable Income (billion 1987 \$)	7,082.3	7,280.7	7,293.2	0.7	3.0
Consumer Price Index (annual percent change)	2.0	2.3	1.1	-	-
Industrial Production (annual percent change)	-3.4	3.3	4.0	-	-
Civilian Labor Force (millions)	145.5	146.5	147.1	1.5	1.1
Total Nonagricultural Employment (millions)	130.3	129.8	130.0	0.5	-0.3
Manufacturing Employment (millions)	15.1	14.6	14.5	-3.2	-4.1
Unemployment Rate (percent)	5.9	6.1	6.1	-	-

Sources: Global Insight, Inc., and U.S. Dept. of Commerce, Bureau of Economic Analysis.

* Data for FY04:2 are November 2003 estimates and cover the period October to December 2003.

** Seasonally adjusted annual percent growth rate.

Table 2
Selected Kentucky Economic Indicators
Seasonally Adjusted Data

	Percent*		
	FY03:2	FY04:2	Change
Total Personal Income (\$ millions)	106,548	109,641	2.9%
Wage & Salary Income (\$ millions)	57,536	58,441	1.6%
Total Nonagricultural Employment	1,781.4	1,782.9	0.1%
Contract Construcion	83.7	86.8	3.7%
Mining	19.7	19.1	-3.2%
Manufacturing	272.5	266.3	-2.3%
Trade, Transportation & Utilities	367.0	372.3	1.4%
Information	31.9	30.5	-4.3%
Finance	85.2	86.3	1.3%
Business Services	154.4	158.1	2.4%
Educational and Health Services	224.5	225.1	0.3%
Leisure and Hospitality Services	153.6	155.6	1.3%
Other Services	76.0	72.6	-4.5%
Government	313.0	310.2	-0.9%

* Seasonally adjusted rate from a year ago.

Source: GOEA's Macromodel of Kentucky, November 2003

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Revenue Receipts

SECOND QUARTER, FY2004

General Fund

The second quarter of FY04 exhibited slight growth following a small decline in the first quarter of this fiscal year. Fiscal Year 2004 growth rates have been depressed due to unusual receipts in FY03, when extra revenues were received from the Tax Amnesty program and an unusual payment into the inheritance tax. Receipts in the second quarter totaled \$1,824.7 million compared to \$1,802.0 million received in the second quarter of FY03. The resulting growth rate was 1.3 percent, and compares to a growth rate of 5.1 percent for the same quarter last year. Collections in the major revenue categories are shown in summary form in Table 3. Detailed information on these and other accounts is available in the Appendix.

Variations in the quarterly receipts are often affected by differences in the timing of payments into revenue accounts. While

timing differences were not as prevalent as in the past, property tax receipts continue to record fluctuations because of these differences.

Total sales and use tax receipts for the quarter were \$620.3 million, compared to \$598.9 million in the second quarter of FY03. The result is a growth rate of 3.6 percent. Amnesty inflated the receipts for the second quarter of FY03, so economic growth would likely be slightly higher than this rate of growth.

Individual income tax posted receipts of \$699.7 million, compared to last year's second-quarter receipts of \$682.7 million. The resulting growth rate was a small 2.5 percent, and compares to a growth rate of 3.4 percent for the second quarter of last year.

Combined corporation income and license tax receipts dropped very significantly in the second quarter of the fiscal year. Revenues of \$84.6 million were 24.0 percent lower than

Table 3
Summary General Fund Receipts
Second Quarter, FY 2004
(millions of dollars)

Type Tax	FY04	FY03	Percent Change
Sales and Use	620.3	598.9	3.6
Individual Income	699.7	682.7	2.5
Corporation Inc./Lic.	84.6	111.2	-24.0
Coal Severance	35.4	36.9	-4.1
Property	224.4	219.3	2.4
Lottery	40.0	40.0	0.0
All Other	<u>120.3</u>	<u>113.0</u>	<u>6.5</u>
TOTAL	1,824.7	1,802.0	1.3

year-earlier figures of \$111.2 million. Tax amnesty receipts also influenced corporate tax revenues for the second quarter of FY03.

Second quarter property tax receipts posted revenues that were 2.4 percent higher than the second quarter of FY03. Fiscal Year 2004 second-quarter receipts of \$224.4 million compare with \$219.3 million from the second quarter of FY03.

Coal severance tax revenue continued to decline in the second quarter, with receipts down by 4.1 percent. Collections of \$35.4 million compare to the FY03 second-quarter total of \$36.9 million. This continues the slow but steady decline that existed for nearly ten years before the gains of FY02.

Lottery receipts were \$40.0 million, unchanged from last year's second-quarter total.

The "all other" category, which represents the remaining accounts of the General Fund, showed steady growth, posting a 6.5 percent increase in the second quarter. Second-quarter receipts for FY04 were \$120.3 million and compare to \$113.0 million in FY03.

Road Fund

The Road Fund reported a decrease of 2.7 percent in the second quarter of FY04, after slight growth in the

first quarter. Receipts totaled \$258.3 million and compare to \$265.6 million from the second quarter of last year. Summary data are contained in Table 4 and detailed data are shown in the Appendix.

Motor fuels tax receipts declined at a rate of 1.7 percent during the second quarter. Receipts were \$108.7 million and compare to \$110.6 million collected during the second quarter of last year.

The motor vehicle usage tax also declined slightly in the second quarter, with receipts down by 1.2 percent. Receipts during the second quarter of FY04 totaled \$97.9 million and compare to \$99.1 million collected during the same period last year.

Weight distance tax receipts of \$19.6 million represent a 0.5 percent decline from receipts of \$19.7 million during the second quarter of FY03.

The remainder of the accounts in the Road Fund combined for a decrease of 11.3 percent from a year earlier. In the "all other" category, revenues of \$32.1 million compare to \$36.2 million in the second quarter of FY03. Accounts with the largest change include the investment income account, which posted a decline of \$5.4 million from

the second quarter of FY03, and the highway tolls account, which declined \$1.5 million.



Table 4
Summary Road Fund Receipts
Second Quarter, FY 2004
(millions of dollars)

<u>Type Tax</u>	<u>FY04</u>	<u>FY03</u>	<u>Percent Change</u>
Motor Fuels	108.7	110.6	-1.7
Motor Vehicle Usage	97.9	99.1	-1.2
Weight Distance	19.6	19.7	-0.5
All Other	<u>32.1</u>	<u>36.2</u>	<u>-11.3</u>
TOTAL	258.3	265.6	-2.7

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Economic and Revenue Outlook

ECONOMIC OUTLOOK: Interim Forecast

The economic outlook presented here is for the three-quarter period from January to September 2004. In terms of fiscal years this period is the second half of FY04 (quarters 3 and 4) and the first quarter of FY05. The national outlook is based on Global Insight's November 2003 forecast, and the Kentucky outlook is from GOEA's November 2003 forecast. The economic outlook is identical to that adopted by the Consensus Forecasting Group in preparing the official budget estimates for the upcoming biennium.

National Economy

The long-awaited economic recovery gathered steam during the first half of FY04. Almost all indicators associated with a broad recovery were strongly positive. The biggest movement was in real GDP which moved up by 8.2 percent during the first quarter and 3.6 percent in the second quarter of FY04. Other factors like investment, productivity, and consumer confidence showed robust growth. And finally, even employment showed a slight upward movement during the first two quarters of FY04.

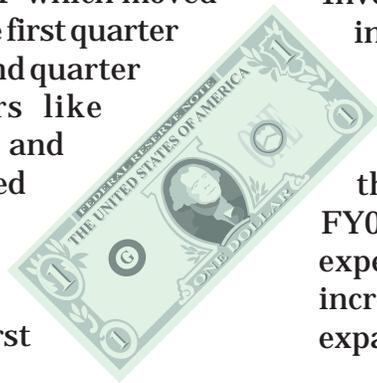
During the second half of FY04 real GDP is expected to grow by 4.6 percent from a year ago. Growth is expected to moderate to 4.1 percent in the first quarter of FY05 primarily because the corresponding quarter in FY04

posted strong gains. Employment in nonagricultural industries, which has been flat or negative during the recovery so far, is forecasted to finally begin growing, rising by 0.5 percent in the remainder of the fiscal year, and then by 1.6 percent in FY05:Q1.

The consumption component of GDP has recently been the major factor in sustaining growth. During the last two quarters of FY04 real consumption expenditures are projected to increase by 3.7 percent with durable goods rising dramatically by 6.9 percent. Consumption growth during the FY05:Q1 is expected to be 3.2 percent. The slight drop is from the expected decline in motor vehicle sales which had posted strong growth a year ago in response to low interest rates.

Investment spending has been accelerating in recent months, and the outlook is for a continuation of that trend. During the second half of FY04 investment is expected to rise by 10.7 percent, and then by 10.1 percent in the first quarter of FY05. The surge in investment is from the expectation that consumer demand will increase and the economy will continue to expand.

The weak dollar is expected to cause a surge in exports, but at the same time it is not weak enough to squelch the appetite for relatively cheap foreign goods. U.S. exports are forecasted to show gains of 7.3 percent in the latter half of FY04 and 9.9 percent in the first



quarter of FY05. The corresponding import numbers are 6.1 percent and 7.7 percent.

State Economy

The impact of the national recovery is being felt in the state economy. However, the dominance of the goods-producing sector in the state economy has slowed the recovery. During the final two quarters of FY04 personal income is estimated to increase by 3.9 percent compared to a 4.7 percent increase nationally. The recovery is expected to be stronger during the first quarter of FY05 with income growth of 5.0 percent compared to the national average of 5.4 percent.

During the first half of FY04 total nonagricultural employment in Kentucky declined compared to a year ago. A combination of factors are, however, expected to push employment growth to 0.7 percent in the second half of the year, followed by a robust 1.9 percent growth in the first quarter of FY05. These factors are related to a boost in consumer confidence and the subsequent increase in consumer demand.

Employment in goods-producing industries had declined dramatically in Kentucky in response to productivity gains and the shift of some manufacturing facilities abroad. However, the lower dollar and increased consumer demand is expected to result in gains in manufacturing jobs by the first quarter of FY05. During the second half of FY04 employment in the goods producing sector is expected to decline by 0.3 percent. The corresponding decline for the U.S. is projected to be 1.3 percent. During the first quarter of FY05, however, as manufacturing recovers, employment in

the goods producing sector is expected to be up 1.2 percent.

Service-providing industries are forecasted to do well during the second half of FY04 with an addition of 14,000 jobs. The growth rate during the first quarter of FY05 is expected to be a robust 2.7 percent. The improvement in employment is related to the continuing expansion of business services and health care services which have done well in Kentucky even during the recession years.

General Fund

Projected General Fund revenues for the next three quarters are shown in Table 6. General Fund revenues are anticipated to total \$3,431.8 million in the final two quarters of FY04, yielding a growth rate of 2.7 percent over the same period a year ago. For the entire fiscal year, total General Fund collections are expected to grow 1.5 percent, with total revenues of \$6,884.7 million. In the initial quarter of FY05, General Fund revenues should grow by 4.2 percent when compared to the same period one year earlier.

Sales and use tax receipts are estimated to grow by 5.9 percent in the final two quarters of FY04. Year-to-date growth in sales and use tax revenue has been negative as an aftereffect of one-time monies realized in the previous fiscal year. Expectations are for this tax to grow considerably in the final two quarters of FY04 as the economy strengthens. In the first quarter of FY05, the sales and use tax will grow by 5.6 percent reflecting economic growth.

The interim forecast for the individual income tax calls for receipts in the remaining two quarters to fall by 3.5 percent. As in the sales tax, one-time monies were realized in this account during FY03, which boosted receipts

in the last half of the previous fiscal year above the level predicted for the remainder of the current fiscal year. As a result, revenues for the fiscal year should total \$2,747.5 million, showing no growth for the year. In the first quarter of FY05, individual income tax revenue is expected to rise by 1.5 percent.

The outlook for **corporation income and license taxes** projects a growth of 18.4 percent in the final two quarters of FY04. In the first two quarters, these two revenue sources fell by 21.6 percent. Revenues were positively affected by one-time payments in the first half of FY03 resulting from tax amnesty. As a result, receipts have lagged behind so far in FY04. For the remainder of the fiscal year, revenues should rise principally due to the impact of the *Illinois Tool Works* decision. Corporation income and license taxes should continue to rise in the first quarter of FY05 for the same reason, by a combined rate of 28.6 percent.

Coal severance tax revenue has fallen in the first half of FY04 as the coal industry contracted in the face of declining demand. For the remaining two quarters of the fiscal year, coal severance tax receipts should fall by 1.6 percent. Overall for the fiscal year, revenues should decline by 3.3 percent for a total of \$137.0 million. The decline in coal severance tax revenues should extend into the first quarter of FY05, when receipts are projected to fall by 2.5 percent.

Property taxes were slightly down in the first half of FY04 due to timing differences in receipts. Following the decrease of 0.3 percent, revenues for the remainder of the fiscal year are expected to rise by 5.9 percent, leading to overall revenue growth for FY04 of 2.1 percent, and revenues of \$443.8 million. Property tax receipts in the first quarter of FY05 should rise by 6.8 percent.

Lottery revenues for the remaining two quarters of FY04 are projected to match those for the last half of FY03. This includes a windfall from a large Powerball jackpot that should lead to greater revenues than anticipated earlier. Total lottery revenues for the entire fiscal year should be \$173.8 million, an increase of 1.6 percent from the previous fiscal year. Due to the institution of a Tennessee lottery, receipts from this source are projected to decline by 6.2 percent in the first quarter of FY05.

Revenues in the “**other**” category should rise by 9.2 percent for the remainder of the fiscal year. Total revenues should therefore equal \$537.7 million. Due to continuing expected losses in the inheritance tax as well as loss of abandoned property revenue, this category should decline by 0.7 percent in the first quarter of FY05.

Road Fund

The Road Fund in the first two quarters of FY04 fell by 0.5 percent. The projection for the remaining two fiscal quarters is for slight growth of 0.4 percent. For the entire fiscal year, the Road Fund should be virtually unchanged from the previous year, with a total of \$1,122.8 million. In the first quarter of FY05, revenues are expected to rise by 0.6 percent.

The combined total of **motor fuels normal, heavy vehicle fuel surtax, and motor fuels normal use tax** is estimated to rise by 2.4 percent in the final two quarters and to rise by 1.1 percent for the entire fiscal year, with revenues of \$459.0 million. In the first quarter of FY05, the growth is forecasted to be 3.7 percent.

Motor vehicle usage taxes are expected to grow by 1.9 percent in the remainder of the

fiscal year. For the entire FY04, revenues should be 1.0 percent higher than in FY03 and yield \$437.4 million. The growth is projected to continue into the first quarter of FY05, with gains of 2.4 percent.

To estimate growth of all other components of the Road Fund, Transportation Cabinet officials assessed the growth patterns of FY03

as well as administrative factors in developing an updated estimate. As a result of a change in the timing of receipts, license and privilege taxes (excluding the weight distance tax) are expected to rise 13.5 percent for the fiscal year, with total revenues of \$108.5 million. Toll and investment revenues are projected to decline sharply. These losses will persist into the first quarter of FY05.

Table 5
Economic Outlook: Second Half of FY04 and the First Quarter of FY05

	FY03 Q3 & Q4	FY04 Q3 & Q4	Percent Change	FY04 Q1	FY05 Q1	Percent Change
United States						
Real GDP (bil96\$)	9,590.7	10,030.8	4.6%	9,797.2	10,196.6	4.1%
Personal Income (bil\$)	9,118.1	9,551.2	4.7%	9,247.0	9,750.7	5.4%
Nonagricultural Employment (mil)	130.1	130.7	0.5%	129.8	131.9	1.6%
Unemployment Rate (%)	6.1	6.0	-	6.1	5.9	-
Kentucky						
Personal Income (mil\$)	107,635	111,852	3.9%	108,527	113,980	5.0%
Nonagricultural Employment ('000)	1,778.9	1,791.2	0.7%	1,772.5	1,805.5	1.9%
Goods producing ('000)	373.4	372.3	-0.3%	369.7	374.3	1.2%
Service Providing ('000)	1,094.6	1,108.6	1.3%	1,091.1	1,120.5	2.7%
Government	310.9	310.3	-0.2%	311.6	310.7	-0.3%

Table 6
General Fund: Interim Forecast
 (millions of dollars)
January 2004

	FY04		FY04		FY04		FY05	
	Quarters 1 & 2		Quarters 3 & 4		Full Year		Quarter 1	
	Actual	% Chg Year Ago	Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Estimate	% Chg Year Ago
Sales & Use	1,226.2	-0.6	1,197.5	5.9	2,423.7	2.5	640.1	5.6
Individual Income	1,403.5	3.7	1,344.0	-3.5	2,747.5	0.0	714.4	1.5
Corporation Income & Lic.	174.0	-21.6	247.2	18.4	421.2	-2.2	115.0	28.6
Coal Severance	69.6	-4.9	67.4	-1.6	137.0	-3.3	33.3	-2.5
Property	265.5	-0.3	178.3	5.9	443.8	2.1	43.8	6.8
Lottery	82.8	3.5	91.0	0.0	173.8	1.6	40.1	-6.2
Other	231.4	8.0	306.3	9.2	537.7	8.7	110.4	-0.7
General Fund	3,452.9	0.3	3,431.8	2.7	6,884.7	1.5	1,697.1	4.2

Table 7
Road Fund: Interim Forecast
 (millions of dollars)
 January 2004

	FY04 Quarters 1 & 2		FY04 Quarters 3 & 4		FY04 Full Year		FY05 First Quarter	
	Actual	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago
Motor Fuels & MF Use/Surtax	231.0	-0.1	228.0	2.4	459.0	1.1	121.2	3.7
Motor Vehicle Usage & Rental	216.5	0.1	220.9	1.9	437.4	1.0	121.4	2.4
License & Privilege (excl. WD)	45.3	26.6	63.3	5.7	108.5	13.5	25.0	-0.1
Weight Distance Tax/Surtax	39.3	0.0	39.7	5.6	79.0	2.7	20.5	4.1
Toll Income	4.8	-27.3	2.5	-62.7	7.3	-45.1	1.6	-50.0
Investment	6.0	-61.5	4.8	-64.4	10.8	-62.9	0.7	-87.0
Other	9.1	-6.7	11.7	1.4	20.8	-2.3	4.9	3.2
Road Fund	551.9	-0.5	570.9	0.4	1,122.8	0.0	295.3	0.6

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APPENDIX

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KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	Second Quarter 2003 - 2004	Second Quarter 2002 - 2003	% Change
TOTAL GENERAL FUND	\$1,824,676,249	\$1,802,002,556	1.3%
Tax Receipts	\$1,737,578,017	\$1,740,126,732	-0.1%
Sales and Gross Receipts	\$656,430,520	\$633,238,977	3.7%
Beer Consumption	1,420,429	1,488,505	-4.6
Beer Wholesale	8,515,185	8,549,279	-0.4
Cigarette	4,177,808	3,871,211	7.9
Distilled Spirits Case Sales	21,904	22,112	-0.9
Distilled Spirits Consumption	2,245,393	2,235,053	0.5
Distilled Spirits Wholesale	4,265,040	4,171,295	2.2
Insurance Premium	12,265,054	9,979,195	22.9
Pari-Mutuel	750,121	1,606,037	-53.3
Race Track Admission	58,931	63,044	-6.5
Sales and Use	620,269,287	598,930,386	3.6
Wine Consumption	515,892	496,412	3.9
Wine Wholesale	1,925,476	1,826,447	5.4
License and Privilege	\$59,422,242	\$72,274,558	-17.8%
Alc. Bev. License Suspension	41,200	38,050	8.3
Coal Severance	35,408,561	36,941,223	-4.1
Corporation License	13,212,753	26,774,932	-50.7
Corporation Organization	58,213	35,475	64.1
Occupational Licenses	14,676	18,364	-20.1
Oil Production	755,416	727,947	3.8
Race Track License	118,925	126,600	-6.1
Bank Franchise Tax	(1,853)	(19,801)	—
Driver License Fees	122,441	117,729	4.0
Minerals Severance	4,413,171	3,834,412	15.1
Natural Gas Severance	5,278,739	3,679,626	43.5
Income	\$771,085,907	\$767,091,006	0.5%
Corporation	71,354,496	84,437,566	-15.5
Individual	699,731,411	682,653,440	2.5
Property	\$224,439,004	\$219,271,132	2.4%
Bank Deposits	(279)	-	—
Building & Loan Association	-	(90,023)	—
Distilled Spirits	234,935	385,444	-39.0
General - Intangible	21,550,380	19,508,783	10.5
General - Real	122,776,207	117,682,909	4.3
General - Tangible	61,055,235	56,548,318	8.0
Omitted & Delinquent	3,008,775	15,994,632	-81.2
Public Service	15,762,469	9,144,986	72.4
Other	51,283	96,083	-46.6
Inheritance	\$17,417,289	\$39,732,455	-56.2%
Miscellaneous	\$8,783,054	\$8,518,605	3.1%
Legal Process	6,603,950	6,458,684	2.2
T. V. A. In Lieu Payments	2,156,929	2,038,210	5.8
Other	22,175	21,710	2.1
Nontax Receipts	\$85,360,274	\$60,966,351	40.0%
Departmental Fees	5,170,194	5,158,791	0.2
PSC Assessment Fee	1,754	28,524	-93.9
Fines & Forfeitures	7,733,579	6,869,520	12.6
Interest on Investments	351,311	258,315	36.0
Lottery	40,000,000	40,000,000	0.0
Sale of NOx Credits	2,433,075	-	—
Miscellaneous	29,670,361	8,651,201	243.0
Redeposit of State Funds	\$1,737,959	\$909,473	91.1%

KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	Second Quarter 2003 - 2004	Second Quarter 2002 - 2003	% Change
TOTAL ROAD FUND	\$258,345,178	\$265,624,388	-2.7%
Tax Receipts-	\$251,812,298	\$251,449,245	0.1%
Sales and Gross Receipts	\$211,973,554	\$213,880,342	-0.9%
Motor Fuels Taxes	108,681,999	110,594,610	-1.7
Motor Fuels Use & Surtax	5,269,623	4,072,639	29.4
Truck Trip Permits (fuel)	106,600	99,200	7.5
Motor Vehicle Usage	97,915,332	99,113,893	-1.2
License and Privilege	\$39,838,744	\$37,568,903	6.0%
Motor Vehicles	15,422,496	13,162,258	17.2
Motor Vehicle Operators	1,392,199	1,405,671	-1.0
Weight Distance	19,630,044	19,720,530	-0.5
Truck Decal Fees	19,717	14,287	38.0
Other Special Fees	3,374,287	3,266,157	3.3
Nontax Receipts	\$6,036,427	\$14,059,638	-57.1%
Departmental Fees	3,295,291	4,497,443	-26.7
In Lieu of Traffic Fines	373,217	326,098	14.4
Highway Tolls	1,561,921	3,023,540	-48.3
Investment Income	619,250	6,066,681	-89.8
Miscellaneous	186,748	145,875	28.0
Redeposit of State Funds	\$496,453	\$115,505	329.8%

1 ***Executive Summary***

3 ***The Economy***

9 ***Revenue Receipts***

13 ***Economic and Revenue Outlook***

21 ***Appendix: Second Quarter Receipts***
