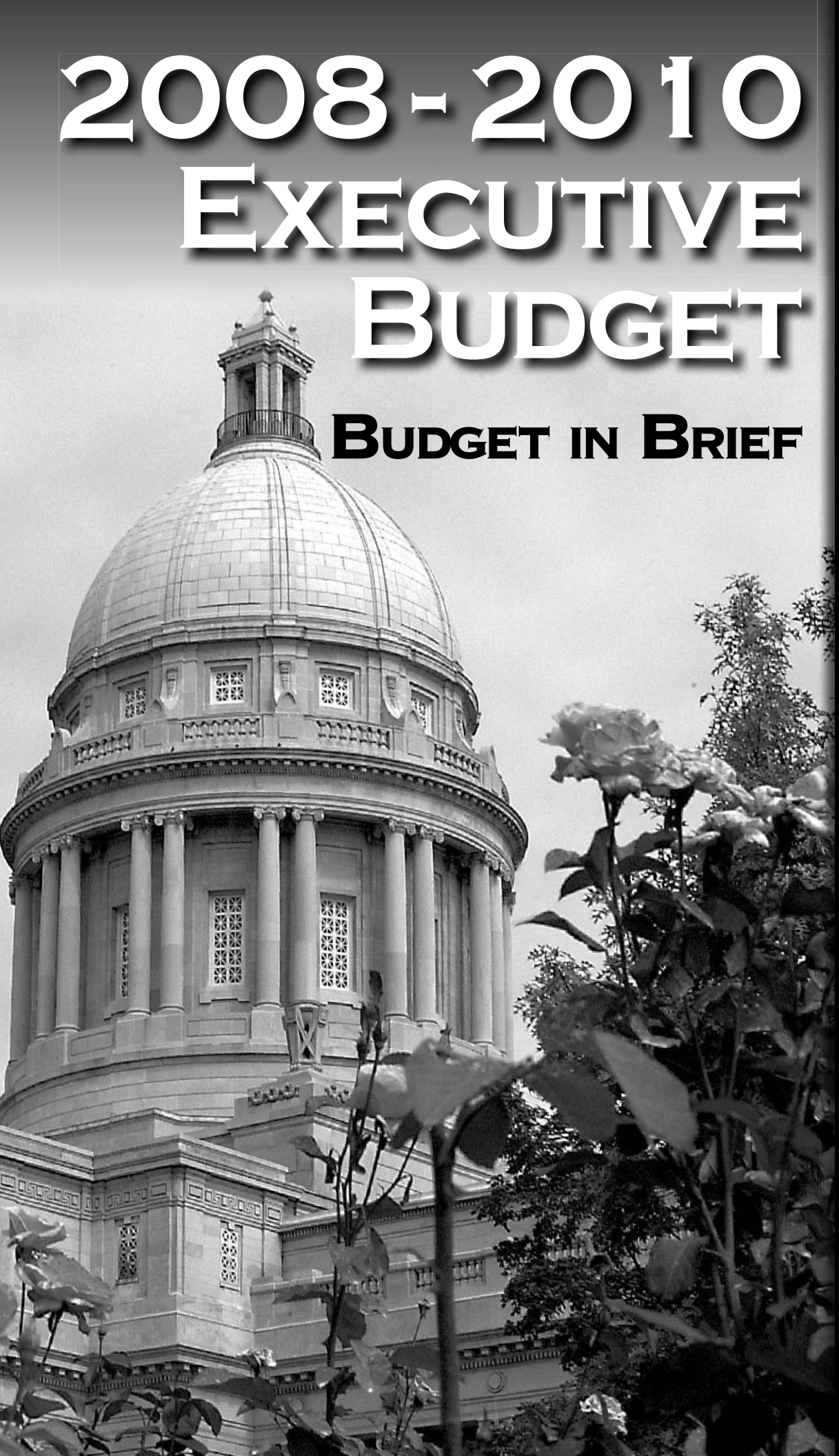
2008 - 2010 Executive Budget

Budget in Brief



Steven L. Beshear
Governor, Commonwealth of Kentucky

Mary E. Lassiter
State Budget Director

Kentucky
UNBRIDLED SPIRIT

PREFACE

The Executive Branch budget for the 2008-2010 biennium is the financial plan for Kentucky State Government as proposed by the Governor for consideration by the 2008 General Assembly. It is published by the Office of State Budget Director, Governor's Office for Policy and Management in accordance with KRS Chapter 48.

The 2008-2010 Budget is presented in four volumes:

- **Volume I**: State Agency Program Budget Detail
- **Volume II**: Capital Projects
- **Budget in Brief**: Budget Overview and Summary Data
  Revenue Estimates
  Capital Financing
- **Historical Data**: Actual Agency Revenue and Expenditure Data for the past two Fiscal Years

These documents provide the detail to support the budget in legislative form as presented in the budget bill.

The Cost of printing was paid for from state funds pursuant to KRS 57.375.

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January 29, 2008

The Honorable Steven L. Beshear, Governor
Commonwealth of Kentucky
700 Capitol Avenue
Frankfort, Kentucky 40601

Dear Governor Beshear:

It is a challenge for every new governor to assemble a management team and deliver a budget recommendation within just a few weeks of taking office. Your challenge, however, has been greater than your predecessors. The fiscal condition the Commonwealth faces over the next two years is unprecedented, with projected revenues in both years of the next biennium significantly below current spending levels.

The choices of how to allocate the scarce resources were much more difficult than in the past. Most governors have to choose where to spend the "new" money in the budget. Unfortunately, the choices now reflect where we must provide less resources. Your priorities are reflected in the choices you have made in this budget. The most consequential choice was to preserve funding for elementary and secondary education through maintaining the base per-pupil guarantee in the SEEK formula. No one can argue with that priority.

While the next two years will be challenging, your leadership in the development of this budget will put the Commonwealth on a firmer financial basis and lay the foundation for more sustainable growth in the future. We will find ways to be more efficient, and will be better stewards of the taxpayers' dollars. The budget you are recommending significantly reduces the Commonwealth's reliance on non-recurring resources.

I want to thank those who have been instrumental to the development of your budget recommendations. The employees of the Office of State Budget Director worked tremendously long hours and sacrificed time and attention from their families over the past weeks and months to complete the Executive Budget. They are an outstanding staff, and I am proud to work with them every day. Special thanks is due to the two Deputy State Budget Directors, John Hicks and Allen Holt, for their diligence and leadership.

Thank you to Larry Hayes, Secretary of the Executive Cabinet, the members of your Executive Cabinet and the Governor's Office for their assistance and patience throughout this process. I especially want to thank their budget staffs with whom we worked so closely; without their efforts, we would not be able to do our jobs.

Most importantly, Governor, thank you for your leadership.

Sincerely,

Mary E. Lassiter

Mary E. Lassiter
State Budget Director

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2008-2010 EXECUTIVE BUDGET
EXECUTIVE SUMMARY

Introduction

The Executive Budget for the 2008-2010 biennium represents the necessary response to an unprecedented and challenging fiscal environment for the Commonwealth. The imbalance between the state's recurring revenues and recurring expenditures, often referred to as a "structural imbalance," of the Commonwealth's General Fund budget combined with dampened revenue growth frame the conditions into which Governor Beshear recommends his first biennial budget to the 2008 Regular Session of the General Assembly.

Governor Beshear presents his budget recommendation without increasing taxes. The Executive Budget calls for a reduction in spending in most areas of the government. There are targeted areas of increased spending - in most all cases these are mandated or are commitments from which the Commonwealth may not retreat.

The increases in spending are limited to the Commonwealth's Medicaid Services program for its most needy citizens, housing the increased state felon population, health insurance cost increases for our educators and state employees, mandatory spending for retired teachers, improvements in mine safety, maintaining past commitments in the opening of new county courthouses and capital spending focusing on postsecondary education.

Overview of Fiscal Year 2008 and the Budget Outlook for Fiscal Year 2009 and Fiscal Year 2010

While the Commonwealth began the current fiscal year with a balance of $579 million in its accounts, $434 million was already appropriated for spending, leaving $145 million in surplus funds. General Fund revenues decreased by $120 million and other authorized spending from the 2007 Sessions of the General Assembly resulted in a budget shortfall in the amount of $265 million. Governor Beshear executed a Budget Reduction Order to resolve the budgetary shortfall in December 2007 soon after taking office. The Governor's Budget Reduction efforts consisted mainly of using the $145 million surplus, reducing spending by $76 million, and transferring other resources to the General Fund in the amount of $44 million. The Governor did not reduce the balance of the Budget Reserve Trust Fund, the state's Rainy Day Fund, which stands at $231 million.

In addition to addressing the budgetary shortfall, the Governor's budget recommendation for fiscal year 2008 includes about $150 million in additional spending for several areas of the government facing shortfalls. This is primarily due to an unbalanced Medicaid budget which requires an additional investment of $112 million and spending pressures created by a higher prison population requiring additional spending of $24 million. A few other areas such as the Department of Parks, Mental Health/Mental Retardation, and the State Police require supplemental funding in the current fiscal year in the amount of $14 million combined. The resources for this additional spending are created mainly from lower levels of expenditures than authorized, particularly debt service savings and other excess General Fund appropriations. The net effect of these changes results in an ending balance in fiscal year 2008 of approximately $59 million.

Prior to the budget reductions, total authorized spending for fiscal year 2008 was $9.4 billion. The revenue forecast for fiscal year 2009 is $8.8 billion and for fiscal year 2010 $9.1 billion. The Commonwealth's structural imbalance is highly evidenced by these figures. Current spending is almost $600 million more than forecasted revenues in the next year for a total General Fund budget recommendation of approximately $9.3 billion in fiscal year 2009.

The first response to an imbalance of this magnitude is to reduce spending. It is also typical of Kentucky's budget process to identify other available funds within the government that can be brought to bear on the budget situation. The Governor's budget recommendation incorporates both elements in the 2008-2010 biennium. In developing the budget recommendation, the Governor has sought spending

plans from all areas of the government that address the sizable gap between revenues and current spending.

In addition to the revenue estimate of $8.8 billion for fiscal year 2009, other resources in the amount of $350 million are slated to be transferred to the General Fund. The Executive Budget includes a total amount of spending of approximately $9.2 billion in fiscal year 2009. Within that figure are funding increases amounting to approximately $238 million. The $8.9 billion for continued services of the government is comparable to the $9.4 billion spending authorization in fiscal year 2008. Most areas of the government, by necessity, have reduced levels of spending than in the prior year.

In fiscal year 2010, the revenue estimate for the General Fund is $9.1 billion. In addition, the Governor's budget recommendation proposes to draw down nearly $190 million from the balance of the Budget Reserve Trust Fund. That combined with other resources of $135 million equate to $9.4 billion in total resources. The Governor's recommendation includes a total amount of spending of $9.4 billion. Within that figure is a continuation level of expenditures from fiscal year 2009 of $8.9 billion and additional spending of about $480 million. The draw down from the Budget Reserve Trust Fund would leave a total balance of $25 million at the end of the biennium. The Governor's surplus expenditure plan submitted as a part of his budget proposal provides the prospect of adding back to the Budget Reserve Trust Fund should revenues exceed estimates in fiscal year 2009.

Additional Spending Priorities

Education: Elementary and Secondary

Governor Beshear views education as the building block for improving quality of life and economic opportunities in the Bluegrass State. Although the economy has slowed of late, Governor Beshear's commitment to the education of Kentucky's young people remains as steadfast as ever. Accordingly, this area of government is granted special budgetary dispensation at a time when almost all of the rest of government is being challenged to manage within the limited dollars available.

Governor Beshear is recommending that the base per pupil guarantee within the SEEK (Support Education Excellence in Kentucky) formula be maintained at its current level, $3,822, throughout the biennium.

The Governor's recommended budget adds approximately **$115 million** over the next biennium **to meet the increases in the cost of providing health insurance for local school district employees.** Since this benefit was instituted three decades ago, the number of employees covered has grown by 75 percent and the annual cost has grown fifty-fold. The Governor is honoring this commitment to generations of public school teachers in allocating the resources necessary for this expense. However, this is a cost that must be met to give our school employees peace of mind and the same protection from illness and injury that they have come to expect.

In challenging economic times, a willingness to help those who help themselves is sound public policy. Governor Beshear **is recommending full funding for the Tier I program**. This program provides matching funds to local districts willing to make an extra effort to provide money for their educational offerings. He **is also recommending full funding for the Facilities Support Program of Kentucky program**. This program assists local school districts willing to raise local revenues for school facilities by equalizing such revenues so equal effort brings in equal resources. The Governor's recommended budget provides equalization funding for 15 local school districts enacting local levies for facilities during the past two years.

Governor Beshear is also continuing the $4 million each year for the "Read to Achieve" Program. The source of the funds is from coal severance taxes, and these funds enhance "Read to Achieve" efforts in coal-producing counties. Funds are used to strengthen Kentucky's capacity to have all students reading at grade level by time they enter fourth grade.

Postsecondary Education

The Governor's budget recommendation which spares the SEEK funding formula from the spending reductions required of the rest of the government, necessarily had to call on the public postsecondary education institutions to share in the difficulties of substantial spending reductions. The magnitude of the Commonwealth's structural budget imbalance has created the condition where postsecondary education will contend with fewer resources in the next biennium.

The Executive Budget includes **$9.7 million in debt service in fiscal year 2010 to support $113.7 million** in capital projects funded with General Fund supported bonds.

Need-Based Student Financial Aid and the Kentucky National Guard Tuition Assistance Program

One of the few areas that Governor Beshear has **spared from spending reductions is in the area of need-based student financial aid**. The College Access program (CAP) and the Kentucky Tuition Grant program (KTG) are the primary need-based student financial aid resources in Kentucky. The current funding level of $96 million from the General Fund is continued into both years of the 2008-2010 biennium. The Executive Budget also **continues funding for the Kentucky National Guard Tuition Assistance program**. This is a commitment that the Commonwealth has made to those who have chosen to serve Kentucky in the National Guard.

Education: Capital Budget Items

About 55 percent of the Governor's capital budget recommendation is devoted to the Commonwealth's education systems. Of the $609.6 million in new bond projects supported from the General Fund, $118.3 million is devoted to elementary and secondary education and $113.7 million is for postsecondary education.

The Executive Budget proposes **$100 million in new bonds** to the **School Facilities Construction Commission** (SFCC) to continue Kentucky's impressive progress over the past two decades in new construction and reconstruction at school buildings across the state.

The Governor's budget recommendation provides $18.3 million in bond funds for two information technology projects. The On Line Assessment project provides $15 million to enhance the testing program for elementary and secondary schools by providing an online platform for quicker turnaround time for test score results, the ability to provide an online statewide student assessment, and the introduction of diagnostic assessments in the classroom. A Knowledge Management Portal project, funded with $3,250,000, will enable the development of a rich set of curricula, lesson plans, resource materials, and other instructional tools that will be easily accessed by teachers, students and parents.

The Executive Budget includes **$633.2 million in new bond funding** for postsecondary education, the largest portion of the Governor's capital budget recommendation. The total includes $113.7 million in General Fund supported bonds, and $519.5 million in Agency bonds. Given the difficult fiscal condition, the Governor still felt it necessary to continue to invest in the long term for postsecondary education. Fifteen postsecondary education General Fund supported capital projects are from the list of 25 vetoed projects from the 2006-2008 biennial budget. The Governor's felt obliged to honor the commitment made by the 2006 Session of the General Assembly to appropriate these funds. Universities have a substantial list of capital needs that can be addressed with their own resources. These are commonly referred to Agency bonds. They finance projects for which an existing revenue stream exists or can be created such as student housing, dining, athletic, and auxiliary facilities. The budget acknowledges the flexibility that this budget proposal affords Kentucky's universities. The Agency bond projects recommended are comprised of all of the vetoed projects from this source as reconstituted and requested in the 2008-2010 biennium by the universities.

The **postsecondary education construction projects** supported from the General Fund focus on deferred maintenance, information technology, the sciences, and increasing access to Kentucky's community and technical colleges. The project list includes:

- $13.9 million for capital renewal and maintenance projects across all institutions. The $13.9 million will leverage some of the institution's own funds to enable a larger investment and address a portion of the backlog of deferred maintenance needs. This will be the first such pool funded for postsecondary education capital renewal and maintenance needs since the 2000-2002 budget.

- $10 million for an information technology and equipment acquisition pool which will provide funds to upgrade and replace technology supporting the Kentucky Virtual University and Virtual Library, and also provide funds to institutions to purchase new campus-based information technology and instructional equipment.

- $6 million for the University of Kentucky and the University of Louisville for lab renovation and equipment in research intensive areas.

- $14.1 million for the completion of the Owensboro Advanced Technology Center - a partnership between the Owensboro Community and Technical College and Western Kentucky University - honoring a long-standing commitment to that community.

- $13.5 million for the University of Kentucky's Livestock Disease Diagnostic Center - a critical component of the Commonwealth's agricultural infrastructure.

- $12 million to construct a community and technical college campus in Carrollton.

- $5.1 million for the Dairy Research project at Eastern Kentucky University.

- $9 million for phase three of Western Kentucky University's Renovate Science Campus project, $5.8 million for the first phase of replacing the College of Business building, $4.5 million to construct phase two of the Materials Characterization Center, the University's center for research and development.

- $5.3 million at Kentucky State University to expand or replace the Betty White Nursing Building.

- $5.3 million at Morehead State University for a Business Continuance Datacenter.

- $4 million to expand the Energy and Advanced Technology Center at KCTCS' Madisonville Community and Technical College.

- $1 million to add to the KCTCS Licking Valley Campus project in Cynthiana.

- $1.5 million to plan and design the Rowan County Campus of KCTCS.

Bucks for Brains

Governor Beshear is proposing $60 million for the Commonwealth's "Bucks for Brains" program. This is the first infusion of funds into the Bucks for Brains program since fiscal year 2003. The Research Excellence Trust Fund for the University of Kentucky and the University of Louisville will receive $50 million. These funds are used for an endowment matching program. By statute, the University of Kentucky will receive two-thirds of the $50 million, approximately $33.35 million, and the University of Louisville will receive one-third, approximately $16.65 million. The other $10 million will be devoted to the Regional University Excellence Trust Fund, a program that allocates the Bucks for Brains funding to the six regional, comprehensive universities.

Medicaid

The recommended budget reflects the Governor's commitment to strengthening the healthcare safety net for thousands of Kentuckians. Additional General Fund resources in the amount of $112 million in fiscal year 2008, $147.8 million in fiscal year 2009, and $242.5 million in fiscal year 2010 are recommended to continue the existing service levels for over 722,000 Kentuckians in the Medicaid program.

New funding is provided for community-based, consumer-directed services to support individuals' choice to live and receive services in the community. This budget includes $9.1 million over the biennium to increase the number of slots by 50 each year for a total of 100 by the end of the biennium. Additional resources of approximately $35 million are recommended over the biennium to implement a new waiver program to serve individuals with mental retardation and developmental disabilities who previously could not access community-based services.

The Governor's recommended budget provides $6.5 million in fiscal year 2009 and $18.7 million in fiscal year 2010 for the implementation of a new program to provide long-term care coverage to individuals with an acquired brain injury. The Governor continues to support the Money Follows the Person initiative that allows individuals in a nursing facility and other institutions to return home. Additional resources of approximately $14 million in fiscal year 2009 and $16 million in 2010 are included in the Governor's recommended budget for this initiative.

Economic Development and Commerce

Kentucky has seen substantial growth in defense spending since the federal Base Realignment and Closure (BRAC) actions of the late 1990's. Today's military industry contributes over $5 billion dollars to Kentucky's economy and its functions contribute to the overall economic strategy of the state. A recent report issued by a gubernatorial task force indicates Kentucky can expect a significant increase in the number of army missions and personnel employed at Fort Knox. Along with these increased missions comes a significant increase in people moving into the general area. Some estimates are as high as 12,000 new people. These new people and their families not only will contribute to the local and state economy, they will place extraordinary demands on the local infrastructure.

In recognition of this fact and to be prepared to accept this increase in population, Governor Beshear is recommending $100 million in new bonding authority for roads ($50 million) and water and sewer infrastructure ($50 million). In addition to any statutorily allowed uses, the Economic Development Bonds are intended to be a resource to assist the local communities in and around the Fort Knox area with water and sewer infrastructure associated with the anticipated increase in population due to the relocation of the U.S. Army missions from other states.

The Governor's recommended budget also includes $2,210,000 in fiscal year 2010 to pay debt service on $50 million in Economic Development Highway Bonds supporting the anticipated significant increase in population and corresponding increase in traffic congestion affecting the roads in close proximity to the army base at Fort Knox. A report issued by the Governor's Task Force recommended nine different transportation projects in the area. The Governor's recommended budget includes funding to proceed with preconstruction activities for the nine projects should that be deemed necessary by the Secretary of the Transportation Cabinet. All nine projects are currently included in the Six-Year Highway Plan.

Governor Beshear also recognizes the importance of Energy related research to the overall economy of Kentucky. Therefore, he is recommending $3.5 million from Kentucky's Local Government Economic Development Fund be directed and used for research projects relating to clean coal, new combustion technology, thin-seam coal extraction research, synthetic natural gas produced from coal through gasification processes, and the development of alternative transportation fuels produced by processes that convert coal or biomass resources or extract oil from oil shale and shall be targeted solely to Kentucky's Local Government Economic Development Fund-eligible counties.

Justice and Public Safety

The Executive Budget directs funds to an array of institutional and community beds to accommodate an estimated six percent growth in the state felon average daily population over the biennium, from 22,618 to 23,953, an increase of 1,335.

2008-2010 Prison and Community Beds

	FY 2008	FY 2009	FY 2010
Jails	7,414	7,752	7,912
Halfway Houses	1,176	1,315	1,515
Electronic Monitoring	300	400	400
Private Prisons	1,602	1,700	2,000
Adult Institutions	12,126	12,126	12,126
TOTAL*	**22,618**	**23,293**	**23,953**

***The above total includes 372 beds for probationers and parolees.

The Executive Budget recommends additional resources to accommodate the increase in the prison population in local jails, halfway houses, in-home incarceration, private prison beds, and additional usage of Recovery Kentucky Centers for felons with substance abuse problems.

The expansion of home incarceration to 400 slots is a cost effective means of incarcerating felons within 90 days of completing their sentence. To accommodate the growing prison population, an additional 140 halfway house beds are funded in fiscal year 2009 and 200 additional beds in fiscal year 2010. The budget provides for 100 additional beds at Recovery Kentucky centers. Funding is provided to support 150 new private prison beds in fiscal year 2009 and an additional 300 in fiscal year 2010.

Medical costs for prisoners continue to outpace normal inflationary increases. The budget projections are based on a 7.6 percent annual increase in medical costs.

The Governor's budget recommendation includes $39,799,000 in bond funds to construct an expansion of the Little Sandy Correctional Complex, a medium security correctional facility in Elliott County, by 816 beds. The growing inmate population and the projections for future years support the need for this project. These will be the first new medium security prison beds in the correctional system since 2006. The expansion is scheduled to be open in fiscal year 2011. The infrastructure of the existing facility was completed with the intent of the eventual expansion. Support areas are already in place for the expansion: the dining facility, programming areas, and recreational areas were all designed so that little addition would be required to accommodate the 816-bed expansion. The support areas are normally a substantial cost factor when constructing a new facility. Overall, the construction costs for an additional 816 beds will be much less than constructing a new facility due to the expandable design of the existing institution.

The budget continues the current level of funding for the **regional Drug Courts** ($1.8 million per year) in coal-producing counties and for **Operation Unite** ($1.25 million per year) to help fight the problem of drug abuse in rural areas.

The Governor's recommended budget includes $800,000 in fiscal year 2008 and $1.8 million in fiscal year 2009 and 2010 to accommodate the continued support of the Lexington public defender function by the state Department of Public Advocacy once the Fayette County Legal Aid Office discontinued operations.

The actions by the Department of Public Advocacy to operate the Lexington office were mandated by law.

Transportation

To remain competitive in the 21st Century economy, it is imperative that Kentucky's surface transportation system provide safe and efficient mobility of both goods and people. The Governor's budget recommendation demonstrates the commitment necessary to maintain and improve upon Kentucky's transportation system.

The Governor's budget recommendation provides approximately $69 million more to maintain Kentucky's existing infrastructure to ensure the safety of its citizens and provide for the efficient delivery of goods and services. Approximately $17 million more is provided to the State Resurfacing program to maintain and replace existing blacktop. Approximately $52 million more is provided for the Maintenance program to replace and repair guardrails, traffic lights, signage, striping and other related traffic control and safety devices. This additional money reflects Governor Beshear's commitment to maintaining Kentucky's existing roadway infrastructure.

The Governor's budget recommendation includes $50 million in Economic Development Highway Bonds to support the preconstruction phases of several roads in the vicinity of the army base at Fort Knox, Kentucky. Due to the federal Base Realignment and Closure program (BRAC), Kentucky is expected to receive several new army missions at Fort Knox. It has been projected by a Governor's task force that up to 12,000 new residents could relocate to the area. These bonds will ensure the roadway infrastructure will be ready to accommodate the anticipated influx of troops and families in the Hardin County area.

The Executive Budget includes $10.3 million in Road Funds to upgrade the existing road infrastructure at the Kentucky Horse Park in preparation for the 2010 Alltech FEI World Equestrian Games.

The Governor's budget recommendation provides continued support for the Cabinet's two scholarship programs: twenty scholarship stipends for students at Kentucky State University that study business administration and have an interest in learning the business of the Cabinet and how it relates to the transportation industry. Additionally, eighty engineering stipends are provided for students attending any state university with an accredited engineering program. Engineering students accepting a stipend are committed to working for the Cabinet on a year for year basis upon successfully graduating from the university for each year they receive the stipend.

Environmental and Public Protection

Coal mining is critical to the overall economy of Kentucky and the safety of Kentucky's miners is of utmost concern to Governor Beshear. To that end, Governor Beshear recommends $3 million in additional General Fund in each fiscal year to the Office of Mine Safety and Licensing for the personnel and equipment necessary to perform increased mine inspections and safety training. This will enable the number of inspections to increase from three to six annually. In addition, the Office of Mine Safety and Licensing will provide six additional hours of safety training each year for mine foremen on changes in mine safety laws, safe retreat mining practices, disciplinary cases litigated before the Mine Safety Review Commission, changes in mine safety technology, and ways to improve safe working procedures.

Governor Beshear is committed to the small businesses of Kentucky and assuring they can be competitive. Providing health insurance is one way that small businesses can attract and retain the employees necessary to ensure business success. To assist **small businesses** in providing **health insurance** for their employees, Governor Beshear is proposing to continue a pilot program to be administered by the Office of Insurance. That program is the Insurance Coverage, Affordability and Relief to Employers Program or ICARE. The program will provide an immediate, fixed monthly subsidy of $40-60 dollars to eligible small employers (2 to 25 employees) to purchase health insurance for their employees.

Personnel

The **salary and compensation policy** for state employees included in the Governor's Executive Budget provides for a salary increment of two percent (2%) in each year of the 2008-2010 biennium.

2008-2010 EXECUTIVE BUDGET
GENERAL FUND SUMMARY

	Recommended FY 2008	Recommended FY 2009	Recommended FY 2010
RESOURCES			
Beginning Balance	579,280,800	58,931,600	11,004,000
Consensus Revenue Forecast	8,633,038,000	8,823,597,000	9,096,259,000
Tobacco Settlement - Phase I	117,470,000	119,690,000	121,580,000
Other Resources		40,600,000	17,500,000
Fund Transfers -Enacted	76,089,200		
Fund Transfers - Budget Reduction Order	51,198,200		
Fund Transfers Recommended	43,952,400	262,446,700	105,162,800
Total Resources	**9,501,028,600**	**9,305,265,300**	**9,351,505,800**
Continued Appropriations Reserve			
Budget Reserve Trust Fund	231,489,700	214,775,400	214,775,400
Executive Branch	46,036,900	1,000,000	1,000,000
Legislative Branch	7,104,900	2,986,300	6,829,400
Judicial Branch	3,983,100	14,764,700	2,732,700
Total Continued Appropriations Reserve	**288,614,600**	**233,526,400**	**225,337,500**
TOTAL RESOURCES	**9,789,643,200**	**9,538,791,700**	**9,576,843,300**
APPROPRIATIONS			
Executive Branch			
2006 Session Appropriations	9,025,680,200	8,867,125,200	9,081,905,100
Tobacco Settlement - Phase I	117,470,000	119,690,000	121,580,000
Dedicated Revenue Adjustments	9,379,100		
2007 Session Appropriations	19,547,300		
2007 Special Session Appropriations	12,619,500		
Necessary Government Expenses	50,200,000		
Budget Reductions	(65,262,400)		
Current Year Appropriations	150,303,300		
Lapses	(188,719,600)	(2,500,000)	(2,250,000)
Total Executive Branch	**9,131,217,400**	**8,984,315,200**	**9,201,235,100**
Judicial Branch	**277,411,700**	**265,785,800**	**295,885,800**
Legislative Branch	**50,182,200**	**44,160,300**	**44,160,300**
TOTAL APPROPRIATIONS	**9,458,811,300**	**9,294,261,300**	**9,541,281,200**
BALANCE	**330,831,900**	**244,530,400**	**35,562,100**
Continued Appropriations Reserve			
Budget Reserve Trust Fund	214,775,400	214,775,400	25,000,000
Executive Branch	46,036,900	1,000,000	1,000,000
Legislative Branch	7,104,900	2,986,300	6,829,400
Judicial Branch	3,983,100	14,764,700	2,732,700
Total Continued Appropriations Reserve	**271,900,300**	**233,526,400**	**35,562,100**
ENDING BALANCE	**58,931,600**	**11,004,000**	**0**

2008-2010 EXECUTIVE BUDGET
ROAD FUND SUMMARY

	Revised FY 2008	Recommended FY 2009	Recommended FY 2010
RESOURCES			
Revenue Estimate: January 16, 2008	1,282,801,400	1,324,806,400	1,405,103,400
Road Fund surplus Plan	21,163,300		
TOTAL RESOURCES	**1,303,964,700**	**1,324,806,400**	**1,405,103,400**
APPROPRIATIONS			
Transportation Cabinet			
Revenue Sharing	265,848,100	287,800,600	318,180,600
Aviation	4,000,000	3,000,000	3,000,000
Highways	681,874,600	698,551,400	777,149,700
Vehicle Regulation	18,234,700	19,262,800	20,622,700
Debt Service	181,143,200	148,513,000	136,599,000
General Administration and Support	78,887,600	72,590,100	74,369,900
Capital Construction	6,795,000	27,192,000	7,280,000
Subtotal	1,236,783,200	1,256,909,900	1,337,201,900
Justice & Public Safety Cabinet (total)	63,881,500	63,881,500	63,881,500
Kentucky State Police	50,000,000	50,000,000	50,000,000
Vehicle Enforcement	13,881,500	13,881,500	13,881,500
Finance and Administration Cabinet (total)	2,400,000	2,725,000	2,725,000
Administration	400,000	400,000	400,000
Revenue	2,000,000	2,325,000	2,325,000
Commerce Cabinet (total)		490,000	495,000
Artisans Center		350,000	350,000
Kentucky Heritage Council		140,000	145,000
Environmental & Public Protection Cabinet	300,000	300,000	300,000
Kentucky State Treasurer	250,000	250,000	250,000
Homeland Security	350,000	250,000	250,000
TOTAL APPROPRIATIONS	**1,303,964,700**	**1,324,806,400**	**1,405,103,400**
ENDING BALANCE	**0**	**0**	**0**

2008-2010 EXECUTIVE BUDGET
TOBACCO SETTLEMENT - PHASE I SUMMARY

	Recommended FY 2009	Recommended FY 2010
Revenue *	**275,000**	**275,000**
Rural Development - (50%)		
Governor's Office of Agricultural Policy	35,291,000	36,234,600
Finance and Administration Debt Service	15,416,500	15,417,900
Environmental and Public Protection - Natural Resources	9,000,000	9,000,000
Subtotal	**59,707,500**	**60,652,500**
Health Improvement - (25%)		
Office of Drug Control Policy (KY ASAP)	1,923,400	1,923,400
Health and Family Services		
Governor's Office of Wellness and Physical Activity	2,793,000	2,840,300
Council on Postsecondary Education -		
Lung Cancer Research Program	5,586,100	5,680,600
Environmental and Public Protection - Insurance (Kentucky Access)	19,551,300	19,881,900
Subtotal	**29,853,800**	**30,326,200**
Early Childhood Development - (25%)		
Division of Early Childhood Development Services	1,525,000	1,525,000
Health and Family Services - Community Based Services	8,970,400	9,220,400
Health and Family Services - Human Support Services	175,000	175,000
Health and Family Services - Public Health	16,856,300	17,078,900
Health and Family Services - Mental Health/Mental Retardation	975,000	975,000
Health and Family Services - Children with Special Health Care Needs	352,000	352,000
Postsecondary Education -		
Kentucky Higher Education Assistance Authority	1,000,000	1,000,000
Subtotal	**29,853,700**	**30,326,300**
TOTAL TOBACCO SETTLEMENT - PHASE I	**119,690,000**	**121,580,000**

* House Bill 390, as enacted by the 2003 General Assembly, appropriated $275,000 of Phase I Tobacco Funds to carry out the provisions of KRS 131. This amount is deducted before the allocations to Rural Development, Health Improvement, and Early Childhood are made.

2008-2010 EXECUTIVE BUDGET
CAPITAL PROJECTS SUMMARY

	Recommended FY 2008	Recommended FY 2009	Recommended FY 2010	New Authorization
SOURCE OF FUNDS				
Executive Branch				
Restricted Funds	5,000,000	1,598,403,700	33,238,200	1,636,641,900
Federal Funds		109,333,700	14,046,500	123,380,200
Bond Fund	5,700,000	603,931,000		609,631,000
Road Fund		27,192,000	7,280,000	34,472,000
Agency Bond Fund	23,500,000	499,722,000		523,222,000
Capital Construction Surplus		3,000,000		3,000,000
Investment Income		7,601,000	10,501,000	18,102,000
Other Funds	67,000,000	535,607,000	2,909,000	605,516,000
TOTAL SOURCE OF FUNDS	101,200,000	3,384,790,400	67,974,700	3,553,965,100
EXPENDITURES BY CABINET				
Executive Branch				
General Government		237,801,700	3,491,000	241,292,700
Commerce		33,835,000	11,835,000	45,670,000
Economic Development		51,100,000		51,100,000
Department of Education		18,925,000	675,000	19,600,000
Education Cabinet		400,000	400,000	800,000
Environmental and Public Protection		43,800,000	6,800,000	50,600,000
Finance and Administration		54,605,000	4,400,000	59,005,000
Health and Family Services		24,000,000		24,000,000
Justice and Public Safety		44,549,000	2,750,000	47,299,000
Postsecondary Education	101,200,000	2,823,082,700	29,843,700	2,954,126,400
Transportation		52,692,000	7,780,000	60,472,000
TOTAL EXPENDITURES	101,200,000	3,384,790,400	67,974,700	3,553,965,100

Capital Projects Overview

The Commonwealth's capital projects program for the Executive Branch for the 2008-2010 biennium is presented in this single volume – Volume II of the Executive Budget. This overview section of the volume focuses on the capital projects priorities, policies, and fund sources for the next two years.

Total Bonded Indebtedness

The Executive Budget includes a total of **$1,182,853,000** in debt financing. The $1,182,853,000 in budgeted debt includes **$609,631,000** in bond funded capital projects from the General Fund, **$523,222,000** in bond funded capital projects to be financed from Restricted Funds, and **$50,000,000** in Highway bonds.

Restoring Vetoed Bond Projects

To honor the commitments made by the 2006 Session of the General Assembly, Governor Beshear is recommending the restoration of the 25 vetoed capital projects funded from General Fund supported bonds. The 25 projects total $165,932,000. Nearly two-thirds ($108 million) of the amounts are for 15

postsecondary education projects. The Governor is also recommending the restoration of all of the vetoed University Agency bond projects as reconstituted and requested by the institutions.

RESTORED GENERAL FUND VETOED PROJECTS

Agency	Project	Amount
Governor's Office for Local Development	Community Development Projects - Lake Malone State Park Improvements	$200,000
Governor's Office for Local Development	Community Development Projects - Pikeville Medical Center	$1,500,000
Governor's Office for Local Development	Louisville Zoo - Glacier Run	$6,000,000
Agriculture	Animal Shelters	$2,500,000
Kentucky River Authority	Kentucky River Locks and Dams Maintenance and Renovations Pools	$17,500,000
Parks	Parks Renovation Pool	$8,000,000
Fair Board	Upgrade HVAC Systems	$2,000,000
Department of Education	On-Line Assessment	$15,000,000
Department of Education	Knowledge Management Portal	$3,250,000
Community Based Services	Brooklawn Child and Family Services	$2,000,000
Council on Postsecondary Education	Postsecondary Education Institutions - Capital Renewal Pool	$13,927,000
Council on Postsecondary Education	Postsecondary Education Institutions - Technology and Equipment Pool	$10,000,000
Council on Postsecondary Education	Postsecondary Education Institutions - Research Support/Lab Renovation	$6,000,000
Eastern Kentucky University	Dairy Research Farm - Meadowbrook	$5,300,000
Kentucky State University	Expand and Renovate Betty White Nursing Building	$4,900,000
Morehead State University	Business Continuance Datacenter - Collaborative with NKU	$2,500,000
University of Kentucky	Livestock Disease Diagnostic Center - Phase II	$13,500,000
Western Kentucky University	Renovate Science Campus - Phase III	$9,000,000
Western Kentucky University	Construct Materials Characterization Center/ICSET-Ph II	$4,500,000
Western Kentucky University	Replace Ford College of Business - Griese Hall Phase I	$5,800,000
Kentucky Community and Technical College System	Construct Licking Valley Campus - Phase II - Maysville CC - Additional	$1,000,000
Kentucky Community and Technical College System	Energy and Advanced Technology Center - Madisonville CC	$4,000,000
Kentucky Community and Technical College System	Construct Carrollton Campus - Jefferson CTC	$12,000,000
Kentucky Community and Technical College System	Rowan County Campus - Planning and Design	$1,500,000
Kentucky Community and Technical College System	Advanced Technology Center - Owensboro CTC	$14,055,000
	TOTAL	**$165,932,000**

Bond Financed Capital Policy Emphasis -
Bonds for Education and Economic Development and Infrastructure

By far, the largest proportion of new bond-financed project activity, $651.4 million (55 percent), is directed to education purposes, postsecondary education and elementary and secondary education. Of that amount, $633.2 is appropriated for postsecondary education purposes.

Postsecondary Education

Collectively, the postsecondary education system received $113.7 million in General Fund-supported bonds as well as $519.5 million in Restricted Fund-supported bonds (agency bonds) for a total of $633.2 in bonded indebtedness. The University agency bond total represents all of the agency bond projects requested by the Universities.

Governor Beshear also has included in the Executive Budget the necessary authority to enable Murray State University to complete its unfinished Chemistry building utilizing existing budgeted funds for its Science Complex.

- **Bucks for Brains**

Governor Beshear is proposing $60 million for the Commonwealth's "Bucks for Brains" program. The Research Excellence Trust Fund for the University of Kentucky and the University of Louisville will receive $50 million. These funds are used for an endowment matching program. By statute, the University of Kentucky will receive two-thirds of the $50 million, approximately $33.35 million, and the University of Louisville will receive one-third, approximately $16.65 million. The other $10 million will be devoted to the Regional University Excellence Trust Fund, a program that allocates the Bucks for Brains funding to the six regional, comprehensive universities.

- **Capital Pools for Maintenance, Information Technology, and Research Lab Renovation/Equipment**

The restoration of the vetoed projects will enable the postsecondary education institutions to have several project pools devoted to capital renewal and maintenance ($13.9 million), information technology and equipment ($10 million), and research support for lab renovation and equipment ($6 million). The postsecondary education system has not received a pool of state funds for capital renewal and maintenance since the 2000-2002 biennial budget. The $13.9 million will leverage some of the institutions' own funds to enable a larger investment in deferred maintenance on the campuses. The $10 million information technology and equipment acquisition pool will provide funds to upgrade and replace technology supporting the Kentucky Virtual University and Virtual Library, and also provide funds to institutions to purchase new campus based information technology and instructional equipment. The $6 million for research lab renovation and equipment will provide additional funds to UK and UofL to improve the support of the research missions of the two universities.

Elementary and Secondary Education

- **School Facilities**

The School Facilities Construction Commission (SFCC) was authorized by the 2006 General Assembly to make offers of assistance to local school districts for new construction and renovation projects. The 2008-2010 Executive Budget recommends $100 million in new bonds to honor these offers of assistance to local school districts. The 2008-2010 Executive Budget also authorizes SFCC to make an additional $100 million in offers of assistance over the next two years, to be funded in the 2010-2012 budget.

- **Education Technology**

The 2008-2010 Executive Budget provides $18.3 million in bond funds for two information technology projects. The On Line Assessment project provides $15 million to enhance the testing program for elementary and secondary schools by providing an online platform for quicker turnaround time for test score results, the ability to provide an online statewide student assessment, and the introduction of diagnostic assessments in the classroom. A Knowledge Management Portal project, funded with $3,250,000, will enable the development of a rich set of curricula, lesson plans, resource materials, and other instructional tools that will be easily accessed by teachers, students and parents.

Economic Development – Fort Knox Impact, Bluegrass Airport Runway, Horse Park Roads, and Bluegrass Station

The Executive Budget includes $50 million in new Economic Development bond funds supported from the General Fund. These bond funds will provide for critical infrastructure needs, including water and sewer projects needed to accommodate growth in the area around Fort Knox. The changes resulting from the 2005 recommendations of the Base Realignment and Closure Commission (BRAC) will significantly impact

Fort Knox and nearby local communities. To address the expected increase in traffic congestion of the roads in proximity to the army base at Fort Knox, the Executive Budget includes $50 million in Highway bonds for the costs of preconstruction activities for road projects deemed necessary by the Secretary of the Transportation Cabinet.

The Executive Budget includes $9 million from the Road Fund to contribute to the reconstruction of runway 9-27 at Bluegrass Field in Lexington. This funding is part of a larger expansion project at Bluegrass Field. The runway replacement will relocate runway 9-27 to eliminate the overlap with runway 8-26, improving safety for both runways. The Road Fund investment is solely for the construction of the runway and is not dedicated to any other component of the overall project.

The Executive Budget includes $10,300,000 in Road Funds to upgrade the roads and pedways at the Kentucky Horse Park in preparation for the 2010 World Equestrian Games.

The Executive Budget includes $3,700,000 in Agency Bonds for the renovation of water and electrical system infrastructure at Bluegrass Station in Fayette County. Bluegrass Station, formerly an Army Depot, is a state-owned facility managed by the Department of Military Affairs that provides leased space for private industry and governmental agencies, serving 37 tenants and containing over 2 million square feet of leased space. This investment is necessary to upgrade the fire suppression, drinking water, and electrical capacity at Bluegrass Station.

Corrections – Expansion of the Little Sandy Correctional Complex

The Executive Budget includes $39,799,000 in bond funds to construct an expansion of the Little Sandy Correctional Complex, a medium security correctional facility in Elliott County, by 816 beds. The project will consist of constructing two 408- bed dormitories, and costs for additional road development, site development and design. The growing inmate population and the projections for future years support the need for this project. The infrastructure of the existing facility was completed with the intent of the eventual expansion. Support areas are already in place for the expansion: the dining facility, programming areas, and recreational areas were all designed so that little addition would be required to accommodate the 816-bed expansion. The support areas are normally a substantial cost factor when constructing a new facility. These costs are negated when the expansion of Little Sandy Correctional Complex is considered.

Infrastructure Development and Community Development

The Executive Budget provides a $50,000,000 Infrastructure for Economic Development pool for Coal-Producing counties. The debt service for these bonds is funded from coal severance revenues within the General Fund.

The Governor's recommendation also includes $17.5 million in bonds for the Kentucky River Authority's Dam and Lock Renovation Pool. These funds will be used for critically needed repairs to several dams and locks on the Kentucky River. The renovation of Dam 9 in Jessamine County is currently underway. The Authority's capital improvement plans include the reconstruction of Dam 3 in Owen County, continuing to make progress with the Army Corps of Engineers on the design and construction of replacing Dam 10 near Boonesboro, and the renovations and improvements to Locks 1 through 4.

Human Services – Glasgow State Nursing Facility and Eastern State Hospital

The Executive Budget provides $20,000,000 to replace the Glasgow State Nursing Facility operated by the Department for Mental Health/Mental Retardation on the current campus site. Glasgow State Nursing Facility is a 100-bed nursing facility for the mentally ill and mentally retarded geriatric population. Admission to the facility is by referral or transfer from psychiatric facilities, and referrals of individuals with a history of treatment in the state mental health system. Examinations of the building have uncovered structural damage in the roof and support columns which can compromise the integrity of the building. The consulting engineers and the Finance and Administration Cabinet have recommended the replacement of the facility.

Governor Beshear has included in the Executive Budget a directive to the Secretary of the Cabinet for Health and Family Services to continue the planning process for the replacement of Eastern State Hospital, a psychiatric hospital in Lexington. He has asked the Secretary to evaluate options around the planning and financing of a replacement facility, and to propose that plan to the Governor by December, 2008.

Information Technology – Public Safety Communications Improvements and the Automated Vehicle Information System (AVIS) Replacement

Additional investment is proposed for information technology (IT) programs and upgraded business systems. The IT system replacements recommended in this budget replace IT systems dating back twenty or more years. These include the remaining phase of the public safety communications infrastructure known as KEWS (Kentucky Emergency Warning System), which was developed in the wake of the 1974 tornadoes that rampaged through Kentucky ($18 million in bonds). The additional funding will enable this critical public safety system to complete the installation of the statewide system in the remaining 48 counties in the western half of the state. The Transportation Cabinet and the 120 County Clerks have been providing motor vehicle licensing services to the public through an outdated statewide vehicle registration system. This system is known as the Automated Vehicle Information System (AVIS). The 2006 General Assembly added an additional $1 to vehicle registration fees to generate a fund source to replace the AVIS system. The Executive Budget includes a $25 million bond funded project to replace the old AVIS system with a modern system that will streamline and improve the vehicle registration process throughout the Commonwealth. The proceeds from the $1 fee will be transferred to the General Fund to support the debt service on the bonds.

Bond Project Implementation Timing Limitations

The Executive Budget provides authorization in fiscal year 2009 for most General Fund-supported bond financed projects, but provides practical limits on the timing of the implementation of the projects resulting from the appropriation of less than a full-year's debt service for the majority of projects in fiscal year 2010.

Maintenance Projects

The Executive Budget also includes funding for maintaining and restoring state owned assets, and to protect existing investments in important facilities. Agency Maintenance Pools finance maintenance and renovation projects costing less than $600,000 each and keep minor problems from escalating into more costly major maintenance or renovation needs. The 2008-2010 Executive Budget provides approximately $37.8 million for state agency maintenance pools. These pools are funded from a combination of cash sources ($17.8 million) and bond funds ($20 million). The cash funding is critical to enable the hundreds of small maintenance projects to be executed without the limitation that bonding imposes to fund only those projects with a useful life of at least 20 years. Another key investment in maintenance is $5,700,000 in bond funds for the Replacement of the Power Plant Pollution Control System at Morehead State University.

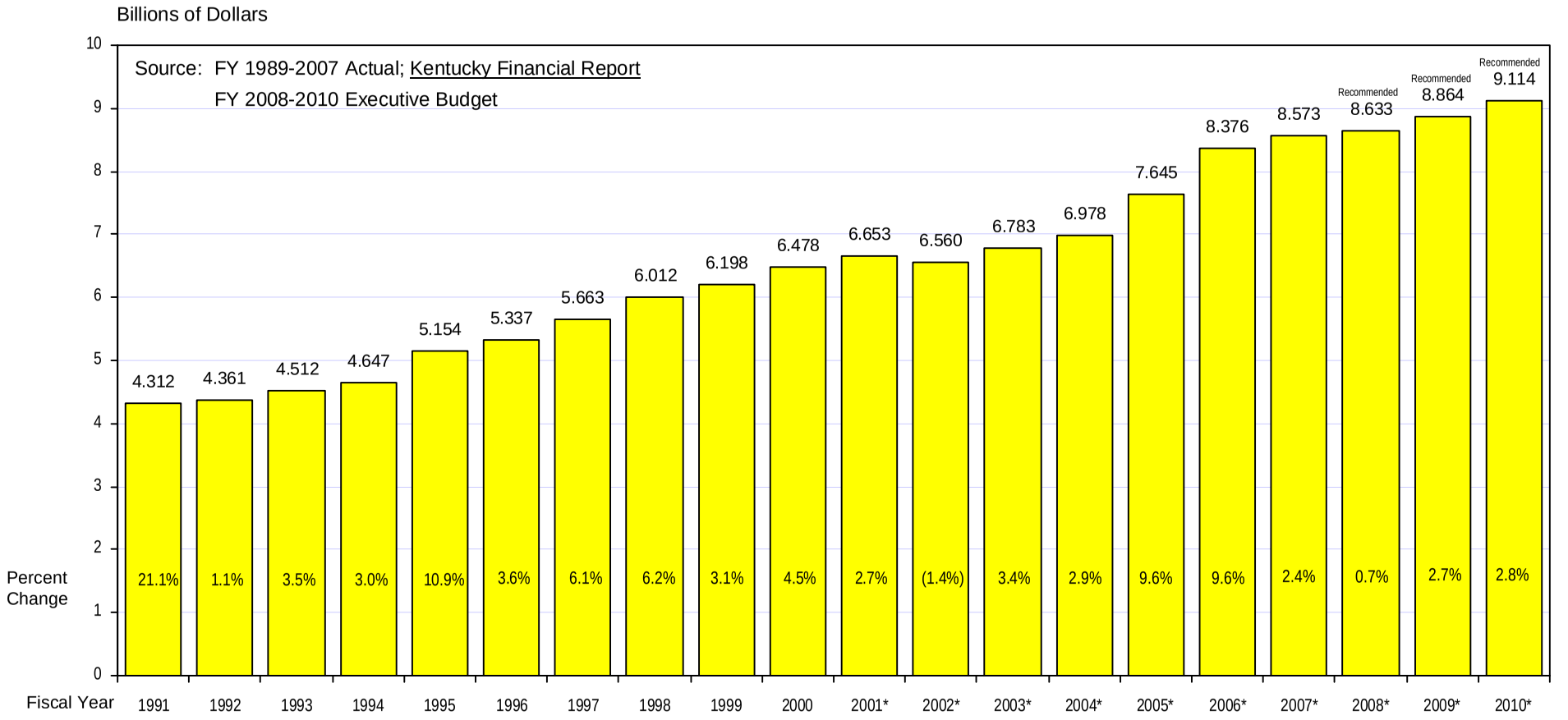
Life Safety – Protection of the Public

The Executive Budget includes capital projects that protect life safety and improve the general welfare of Kentuckians, including: funds for Flood Control and Dam Repair projects ($5 million), Funds in the capital budget will be used to assist local communities to meet the matching fund requirements for federal flood control projects, and to repair high-hazard state-owned dams to protect property and the lives of citizens living in the flood plain downstream from these dams. The Executive Budget also includes additional funding for the Drinking Water and Wastewater Revolving Loan funds within the Kentucky Infrastructure Authority's budget ($8 million in bonds to match $40 million in Federal Funds).

General Fund Revenue Receipts

Fiscal Years 1991-2010

(Billions of dollars – rounded)

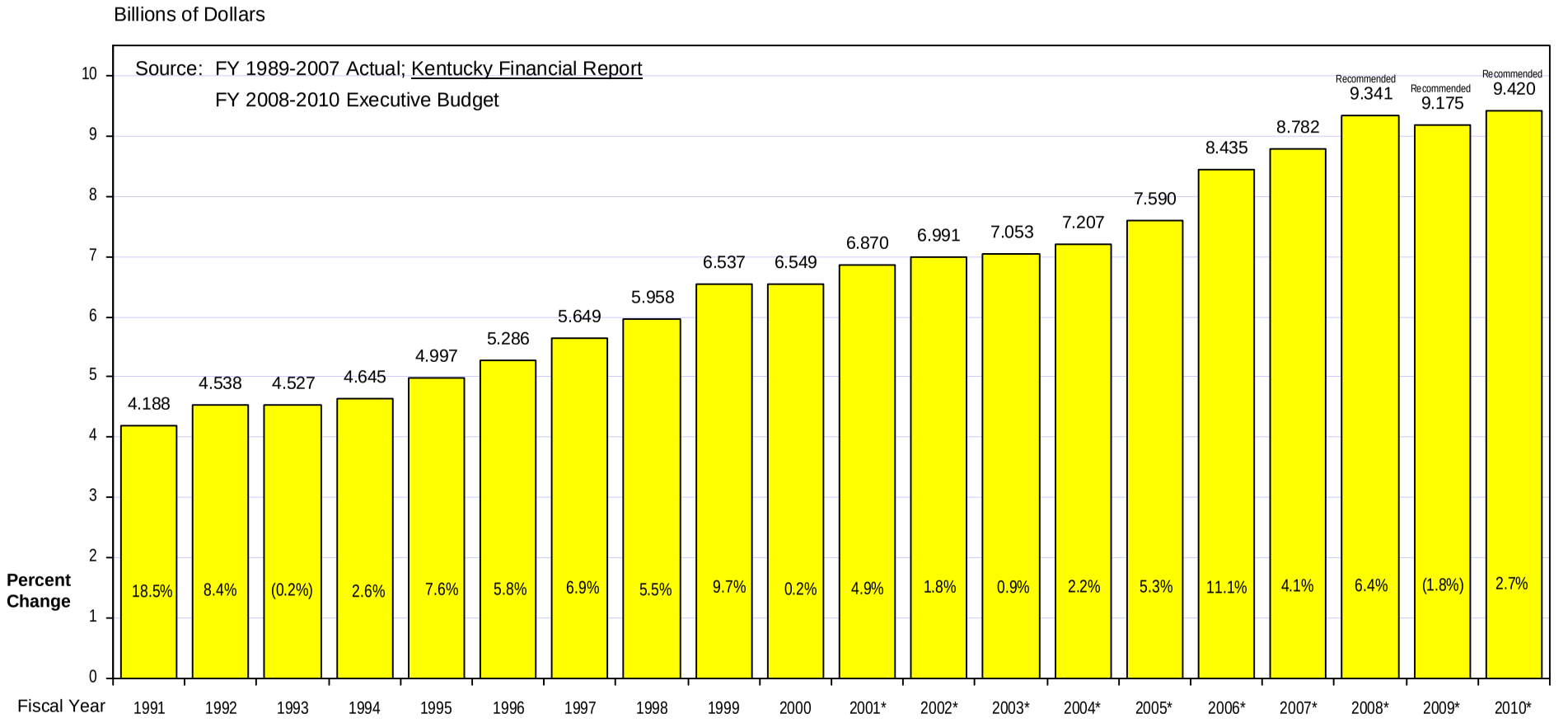


- Excludes Tobacco Settlement – Phase I Funds
- Excludes Fund Transfers

General Fund Expenditures

Fiscal Years 1991-2010

(Billions of dollars – rounded)

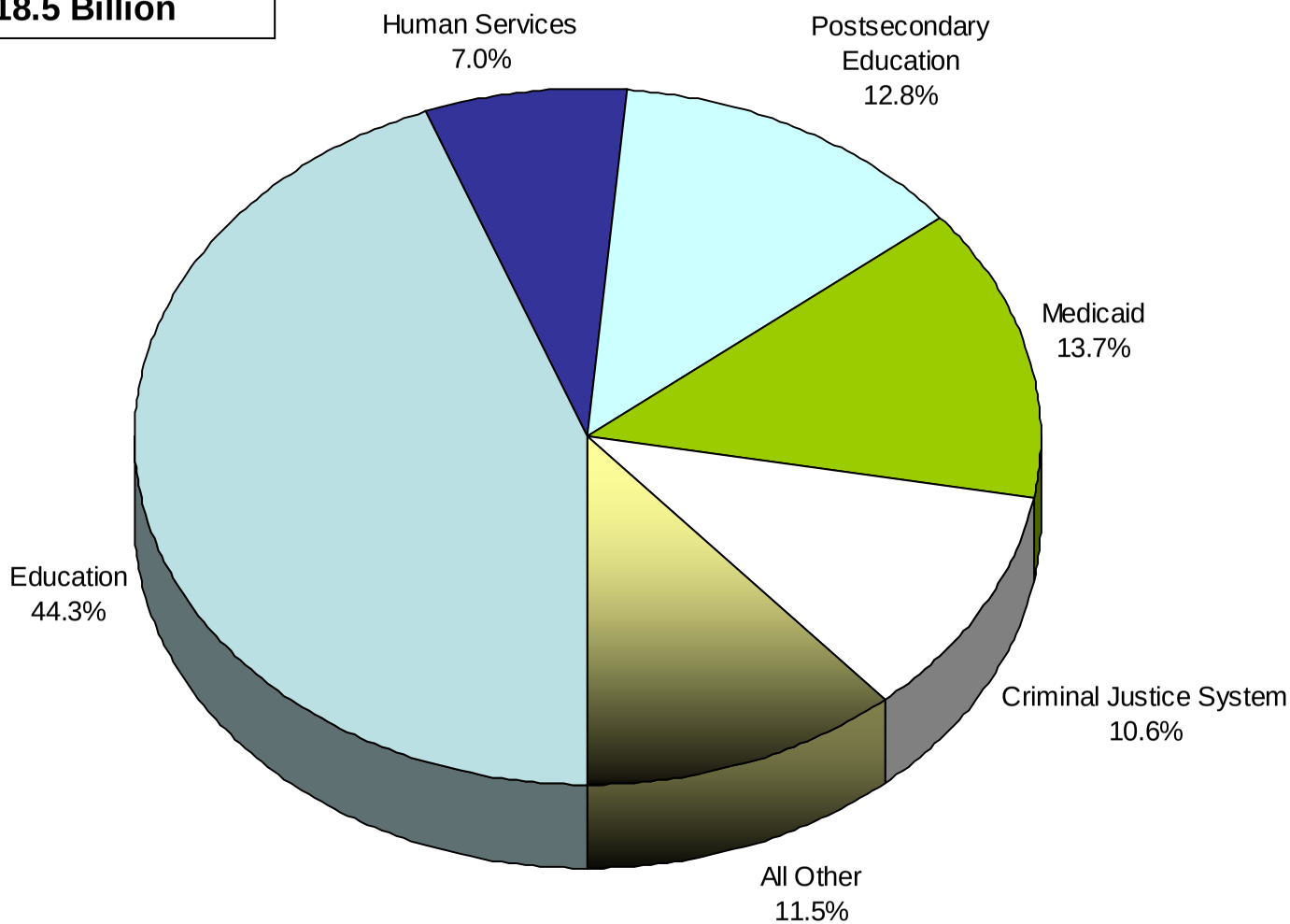


* Excludes Tobacco Settlement – Phase I Funds

2008-2010 Biennium

Distribution of General Fund Appropriations

Total = $18.5 Billion



Excludes Tobacco Settlement – Phase I Funds

* Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission and the Education Professional Standards Board.

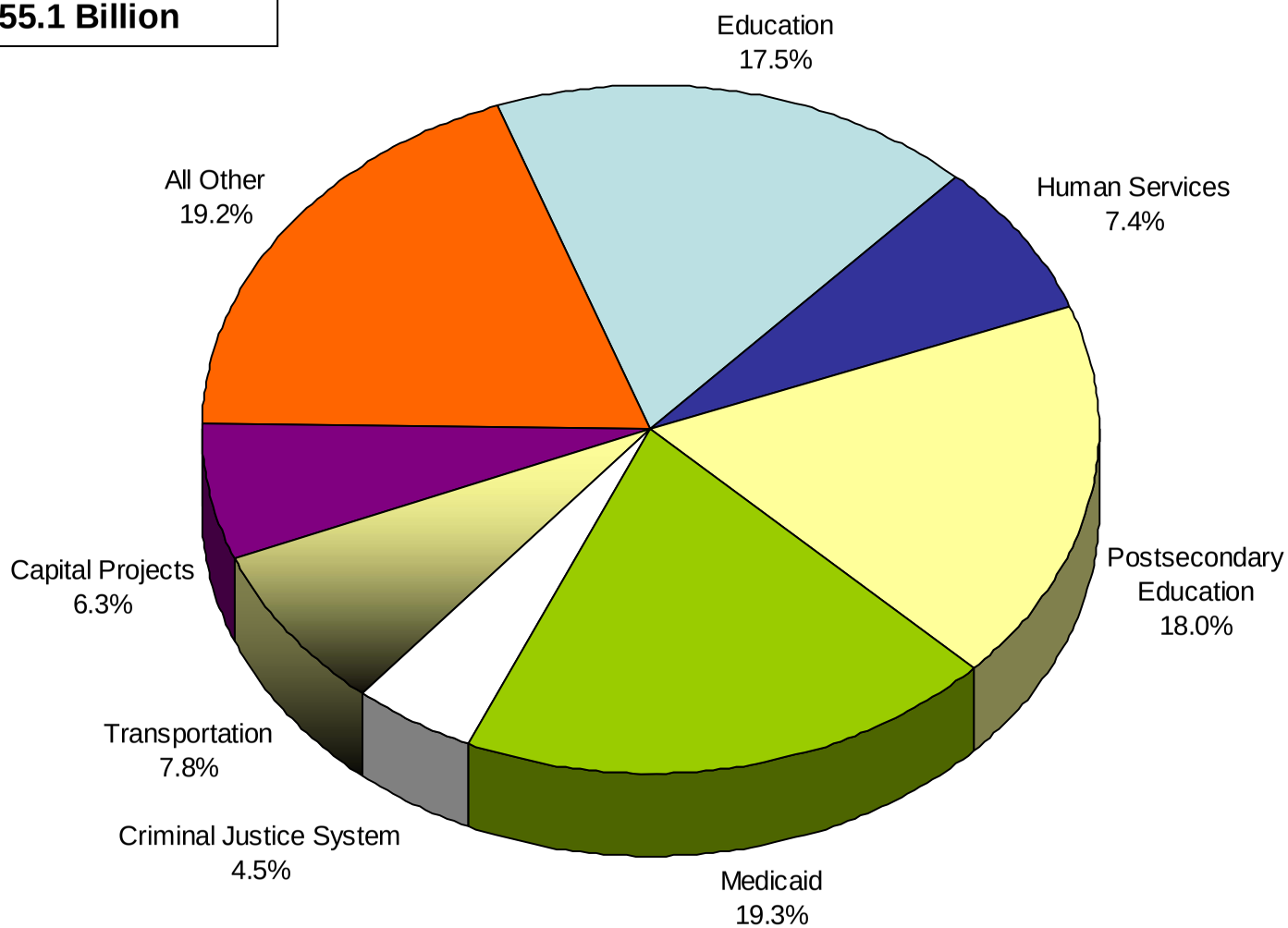
** Human Services include the Health and Family Services Cabinet (net of Medicaid).

*** Criminal Justice System includes the Unified Prosecutorial System, Justice and Public Safety Cabinet and the Judicial Branch.

2008-2010 Biennium

Distribution of All Funds Appropriations

Total = $55.1 Billion



Excludes Tobacco Settlement – Phase I Funds

* Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission and the Education Professional Standards Board.

** Human Services include the Health and Family Services Cabinet (net of Medicaid).

*** Criminal Justice System includes the Unified Prosecutorial System, Justice and Public Safety Cabinet and the Judicial Branch.

Executive Branch

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	9,014,177,200	11,398,421,150	12,352,779,350	8,867,125,200	9,081,905,100
Special Appropriation	32,066,800				
Current Year Appropriation	150,303,300	340,600	341,900		
Continuing Appropriation	277,526,600	232,489,700	232,489,700	215,775,400	26,000,000
Budget Reduction	-65,262,416				
Salary Compensation Fund		778,200	778,200		
Base Deduction	-17,377,500				
Mandated Allotments	47,714,600				
Other	9,379,100	2,000,000	2,000,000		
Total General Fund	9,448,527,684	11,634,029,650	12,588,389,150	9,082,900,600	9,107,905,100
Tobacco Settlement-Phase I					
Tobacco Settlement - I	94,000,000	120,109,300	121,999,200	119,690,000	121,580,000
Continuing Appropriation	57,159,100	28,921,200	15,978,400	19,903,700	6,960,900
Other	23,470,000				
Total Tobacco Settlement-Phase I	174,629,100	149,030,500	137,977,600	139,593,700	128,540,900
Restricted Funds					
Balance Forward	440,278,134	278,497,978	253,219,955	230,962,100	164,386,900
Current Receipts	4,429,451,707	4,590,974,400	4,750,683,700	4,426,437,300	4,438,469,200
Non-Revenue Receipts	979,417,459	715,972,600	732,471,300	705,165,900	670,580,800
Fund Transfers	-108,383,400			-111,561,100	-49,285,700
Total Restricted Funds	5,740,763,900	5,585,444,978	5,736,374,955	5,251,004,200	5,224,151,200
Federal Funds					
Balance Forward	73,722,400	34,714,845	26,082,500	36,509,100	29,245,800
Current Receipts	7,511,242,200	7,952,724,155	8,237,254,800	7,647,696,100	7,876,838,700
Non-Revenue Receipts	5,898,300	5,450,800	5,405,800	5,209,500	5,158,800
Total Federal Funds	7,590,862,900	7,992,889,800	8,268,743,100	7,689,414,700	7,911,243,300
Road Fund					
Regular Appropriation	1,255,136,900	1,342,901,500	1,427,431,300	1,297,614,400	1,397,823,400
Surplus Expenditure Plan	21,163,300				
Current Year Appropriation	98,100				
Other-Road	20,771,400				
Total Road Fund	1,297,169,700	1,342,901,500	1,427,431,300	1,297,614,400	1,397,823,400
Highway Bonds					
Balance Forward	45,755,300				
Non-Revenue Receipts	350,000,000			50,000,000	
Total Highway Bonds	395,755,300			50,000,000	
TOTAL SOURCE OF FUNDS	24,647,708,584	26,704,296,428	28,158,916,105	23,510,527,600	23,769,663,900
EXPENDITURES BY CLASS					
Personnel Cost	5,140,728,800	6,059,792,700	6,405,415,700	5,080,218,900	5,157,351,000
Operating Expenses	2,462,085,900	2,652,882,738	2,737,725,038	2,423,626,800	2,441,835,300
Grants, Loans or Benefits	13,640,515,700	15,175,390,750	15,935,496,950	13,518,093,300	13,848,330,300
Debt Service	766,612,400	878,300,700	1,054,290,300	844,130,000	861,965,500
Capital Outlay	200,871,200	220,429,500	215,045,700	174,018,600	174,069,000
Construction	1,735,723,000	1,002,618,662	1,088,884,962	1,051,571,000	1,104,397,900
TOTAL EXPENDITURES	23,946,537,000	25,989,415,050	27,436,858,650	23,091,658,600	23,587,949,000
EXPENDITURES BY FUND SOURCE					
General Fund	9,046,148,500	11,401,439,950	12,358,020,450	8,864,625,200	9,079,680,100
Tobacco Settlement-Phase I	143,307,900	133,052,100	128,960,100	132,632,800	128,540,900
Restricted Funds	5,509,801,800	5,338,585,423	5,502,094,500	5,086,617,300	5,092,548,900

Federal Funds	7,554,353,800	7,968,590,600	8,252,858,700	7,660,168,900	7,889,355,700
Road Fund	1,297,169,700	1,342,901,500	1,427,431,300	1,297,614,400	1,397,823,400
Highway Bonds	395,755,300			50,000,000	
TOTAL EXPENDITURES	23,946,537,000	26,184,569,573	27,669,365,050	23,091,658,600	23,587,949,000
EXPENDITURES BY UNIT					
General Government	1,062,929,700	1,626,008,000	1,742,903,300	976,936,700	1,007,338,500
Commerce	223,053,800	281,738,150	296,402,950	209,359,800	212,577,100
Economic Development	65,453,600	62,014,200	70,297,000	27,520,800	30,000,900
Department of Education	4,513,631,100	5,171,231,700	5,519,515,400	4,526,375,900	4,548,288,600
Education Cabinet	874,572,800	918,067,700	928,242,000	857,170,400	853,995,600
Environmental and Public Protection	627,912,000	674,317,900	702,187,900	557,174,700	581,401,100
Finance and Administration	560,589,600	793,929,900	803,335,500	729,598,700	729,327,100
Health and Family Services	7,129,672,900	7,856,859,800	8,257,142,000	7,221,261,200	7,498,174,900
Justice and Public Safety	876,905,300	1,093,512,623	1,141,848,500	858,148,100	890,353,800
Personnel	53,013,600	61,644,300	64,105,300	56,261,900	57,632,600
Postsecondary Education	5,105,569,000	5,532,349,000	5,927,018,300	4,957,260,100	4,984,559,400
Transportation	2,853,233,600	2,112,896,300	2,216,366,900	2,114,590,300	2,194,299,400
TOTAL EXPENDITURES	23,946,537,000	26,184,569,573	27,669,365,050	23,091,658,600	23,587,949,000

General Government

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	617,619,500	1,203,205,600	1,305,276,800	573,768,100	615,191,500
Special Appropriation	5,400,000				
Current Year Appropriation		302,000	303,300		
Continuing Appropriation	4,978,700				
Budget Reduction	-2,226,400				
Salary Compensation Fund	3,007,500	35,200	35,200		
Base Deduction	-561,100				
Mandated Allotments	34,154,000				
Other	9,379,100				
Total General Fund	671,751,300	1,203,542,800	1,305,615,300	573,768,100	615,191,500
Tobacco Settlement-Phase I					
Tobacco Settlement - I	20,065,100	35,312,800	36,256,400	35,291,000	36,234,600
Continuing Appropriation	28,052,700	19,903,700	6,960,900	19,903,700	6,960,900
Other	11,735,000				
Total Tobacco Settlement-Phase I	59,852,800	55,216,500	43,217,300	55,194,700	43,195,500
Restricted Funds					
Balance Forward	54,345,703	46,008,357	37,906,957	35,763,600	28,628,400
Current Receipts	103,790,519	111,772,700	113,851,400	103,158,700	103,811,600
Non-Revenue Receipts	45,042,778	55,427,700	78,538,800	50,586,200	50,539,000
Fund Transfers	-10,938,600			-2,257,000	-2,107,000
Total Restricted Funds	192,240,400	213,208,757	230,297,157	187,251,500	180,872,000
Federal Funds					
Balance Forward	21,475,900	22,420,200	12,799,800	22,363,500	11,182,300
Current Receipts	209,989,300	189,507,000	185,293,100	187,630,500	183,733,100
Non-Revenue Receipts	-3,000,000	-3,000,000	-3,000,000	-3,000,000	-3,000,000
Total Federal Funds	228,465,200	208,927,200	195,092,900	206,994,000	191,915,400
Road Fund					
Regular Appropriation	600,000	620,000	627,900	500,000	500,000
Total Road Fund	600,000	620,000	627,900	500,000	500,000
TOTAL SOURCE OF FUNDS	1,152,909,700	1,681,515,257	1,774,850,557	1,023,708,300	1,031,674,400
EXPENDITURES BY CLASS					
Personnel Cost	247,643,300	333,411,800	357,307,500	240,393,500	248,145,300
Operating Expenses	86,849,600	100,752,700	100,023,200	83,409,600	83,882,200
Grants, Loans or Benefits	584,526,600	858,884,900	876,805,000	532,345,500	540,850,300
Debt Service	137,290,800	129,537,500	168,818,700	116,095,400	129,986,000
Capital Outlay	4,710,000	4,670,000	4,095,900	3,058,300	3,215,300
Construction	1,909,400	3,594,600	3,219,600	1,634,400	1,259,400
TOTAL EXPENDITURES	1,062,929,700	1,430,851,500	1,510,269,900	976,936,700	1,007,338,500
EXPENDITURES BY FUND SOURCE					
General Fund	659,802,100	1,203,542,800	1,305,615,300	573,768,100	615,191,500
Tobacco Settlement-Phase I	39,949,100	48,255,600	43,217,300	48,233,800	43,195,500
Restricted Funds	156,476,800	177,462,200	201,542,100	158,623,100	156,537,200
Federal Funds	206,101,700	196,127,400	191,900,700	195,811,700	191,914,300
Road Fund	600,000	620,000	627,900	500,000	500,000
TOTAL EXPENDITURES	1,062,929,700	1,626,008,000	1,742,903,300	976,936,700	1,007,338,500
EXPENDITURES BY UNIT					
Office of the Governor	9,998,900	11,926,200	12,513,100	9,390,300	8,949,500
Office of State Budget Director	4,945,800	5,247,100	5,554,700	3,926,400	3,877,200
State Planning Fund	250,000	500,000	500,000	220,000	220,000

Energy Policy	14,560,700	10,276,300	9,781,300	6,822,800	6,663,000
Homeland Security	28,624,400	28,762,200	24,446,100	27,991,900	24,104,600
Veterans' Affairs	43,949,300	58,717,700	63,056,300	43,920,300	45,507,900
Governor's Office of Agricultural Policy	45,059,800	49,004,800	43,879,100	48,781,600	43,676,200
Kentucky Infrastructure Authority	77,554,100	54,405,300	80,291,900	52,881,000	58,168,100
Military Affairs	116,651,600	115,688,500	115,162,000	89,775,000	90,276,700
Commission on Human Rights	2,348,300	7,750,400	8,134,600	2,181,600	2,245,700
Commission on Women	284,800	340,900	359,000	249,900	256,100
Governor's Office for Local Development	97,657,500	77,910,300	75,011,800	68,402,700	68,273,500
Local Government Economic Assistance Fund	56,876,700	51,443,100	51,443,100	55,693,000	57,755,100
Local Government Economic Development Fund	54,399,200	56,598,800	56,598,800	52,396,300	47,642,800
Area Development Fund	785,400	809,700	809,700	691,200	691,200
Executive Branch Ethics Commission	498,500	578,200	610,900	494,500	494,500
Secretary of State	3,132,500	4,355,600	4,208,400	2,947,000	3,011,000
Board of Elections	4,931,200	16,644,700	15,003,200	17,021,100	15,657,700
Registry of Election Finance	1,470,000	1,992,300	2,105,400	1,347,400	1,382,200
Attorney General	26,468,300	34,707,100	36,328,800	24,686,000	25,161,000
Commonwealth's Attorneys	33,579,200	51,131,700	53,751,200	33,879,300	34,679,100
County Attorneys	28,839,800	42,030,500	44,701,100	28,545,100	29,800,800
Treasury	3,178,400	4,047,700	4,208,400	2,962,900	2,978,700
Agriculture	34,484,500	43,367,800	44,648,000	31,075,500	31,504,100
Auditor of Public Accounts	10,224,800	13,612,800	14,874,300	9,636,500	9,927,000
Personnel Board	767,100	946,000	1,039,800	740,700	793,800
Kentucky Retirement Systems	24,253,100	29,703,600	31,335,600	23,905,600	24,725,500
Occupational & Professional Boards & Commissions	19,534,100	22,074,500	22,928,000	19,739,200	19,959,300
Kentucky River Authority	2,506,200	7,251,600	6,922,000	4,747,200	5,143,900
School Facilities Construction Commission	109,346,300	121,843,100	142,121,400	112,154,400	119,441,200
Teachers' Retirement System	192,866,600	687,572,000	755,807,800	187,462,800	212,103,600
Judgments	635,100	2,500,000	2,500,000		
Appropriations Not Otherwise Classified	12,267,500	12,267,500	12,267,500	12,267,500	12,267,500
TOTAL EXPENDITURES	1,062,929,700	1,626,008,000	1,742,903,300	976,936,700	1,007,338,500

Commerce

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	61,572,500	103,176,750	120,025,050	51,908,900	53,375,800
Current Year Appropriation	5,000,000	38,600	38,600		
Budget Reduction	-2,695,900				
Salary Compensation Fund	1,431,400				
Base Deduction	-99,600				
Total General Fund	65,208,400	103,215,350	120,063,650	51,908,900	53,375,800
Restricted Funds					
Balance Forward	54,072,100	49,916,400	40,278,600	53,213,900	42,397,700
Current Receipts	148,672,300	149,066,500	151,361,100	140,219,200	139,355,100
Non-Revenue Receipts	-135,300	2,940,900	1,441,100	2,599,800	1,100,000
Fund Transfers	-3,465,800			-10,000,000	
Total Restricted Funds	199,143,300	201,923,800	193,080,800	186,032,900	182,852,800
Federal Funds					
Balance Forward	7,427,500	7,363,400	5,300,000	9,060,000	8,637,700
Current Receipts	13,930,900	15,414,200	15,872,000	13,403,400	13,278,700
Non-Revenue Receipts		-500,000	-500,000	-500,000	-500,000
Total Federal Funds	21,358,400	22,277,600	20,672,000	21,963,400	21,416,400
Road Fund					
Regular Appropriation				490,000	495,000
Total Road Fund				490,000	495,000
TOTAL SOURCE OF FUNDS	285,710,100	327,416,750	333,816,450	260,395,200	258,140,000
EXPENDITURES BY CLASS					
Personnel Cost	133,068,100	175,348,500	180,773,600	132,858,300	135,297,900
Operating Expenses	61,852,700	69,663,500	70,569,900	58,734,300	58,469,700
Grants, Loans or Benefits	16,655,300	19,593,150	16,723,550	12,514,500	12,314,800
Debt Service	10,649,400	14,225,400	26,011,100	4,424,400	5,666,400
Capital Outlay	828,300	2,907,600	2,324,800	828,300	828,300
TOTAL EXPENDITURES	223,053,800	281,738,150	296,402,950	209,359,800	212,577,100
EXPENDITURES BY FUND SOURCE					
General Fund	64,826,000	103,115,350	119,617,650	51,908,900	53,375,800
Restricted Funds	145,929,400	161,645,200	159,384,200	143,635,200	145,267,000
Federal Funds	12,298,400	16,977,600	17,401,100	13,325,700	13,439,300
Road Fund				490,000	495,000
TOTAL EXPENDITURES	223,053,800	281,738,150	296,402,950	209,359,800	212,577,100
EXPENDITURES BY UNIT					
Secretary	4,172,700	5,240,300	5,363,400	3,810,800	3,909,400
Artisans Center	2,465,700	2,942,700	2,923,200	2,492,800	2,503,900
Tourism	14,628,300	27,481,500	19,355,800	14,478,900	14,401,700
Parks	93,266,700	105,004,000	124,082,500	87,003,500	87,862,500
Horse Park Commission	11,930,900	13,962,500	12,254,100	8,648,300	8,771,100
State Fair Board	39,347,700	50,902,300	52,572,500	38,804,400	39,526,000
Fish and Wildlife Resources	37,875,800	50,887,600	53,552,300	38,185,000	39,571,200
Historical Society	9,227,500	10,351,900	10,703,400	7,911,200	8,061,700
Arts Council	5,821,300	7,203,900	7,140,500	4,791,500	4,752,200
Heritage Council	3,052,800	4,847,600	4,782,000	2,120,700	2,104,700
Kentucky Center for the Arts	1,264,400	2,913,850	3,673,250	1,112,700	1,112,700
TOTAL EXPENDITURES	223,053,800	281,738,150	296,402,950	209,359,800	212,577,100

Executive Order 2003-064, ratified by the 2005 Regular Session of the General Assembly, created the Commerce Cabinet by combining the former Tourism Development Cabinet and elements of the Education, Arts and Humanities Cabinet. The Commerce Cabinet's mission (KRS 148.522) is to capitalize on the natural assets of the Commonwealth and draw from resources in business development, tourism, outdoor attractions, arts, and cultural heritage. Through unified efforts of its agencies, the Cabinet will continually strive to improve the quality of life of the people of Kentucky by creating new wealth and generating jobs.

Executive Order 2003-064 transferred the following entities from the Education, Arts, and Humanities Cabinet to the Commerce Cabinet:

- The Kentucky Arts Council
- The Kentucky Historical Society
- The Kentucky Center for the Arts
- The Kentucky Craft Marketing program
- The Governor's School for the Arts
- The Kentucky African-American Heritage Commission
- The Kentucky Heritage Council
- The Kentucky Humanities Council

Executive Order 2003-064 also transferred the following entities from the Governor's Office to the Commerce Cabinet:

- The Kentucky Coal Council and the Office of Coal Marketing and Export
- The Commission on Small Business Advocacy

Subsequent to the original reorganization, Executive Order 2004-723 transferred the following entities from the Finance and Administration Cabinet to the Commerce Cabinet:

- Capital Plaza Operations
- Creative Services

Each of the above Executive Orders was ratified in the 2005 Regular Session of the General Assembly by Senate Bill 40. Within Senate Bill 40, the Commission on Small Business Advocacy was transferred to the Economic Development Cabinet. Also added by Senate Bill 40 and attached to the Office of the Secretary's appropriation unit was the Office of Energy Policy. The old Division of Energy within the Environmental and Public Protection Cabinet was transferred to this new office by Senate Bill 41. In addition, Senate Bill 65 created the Kentucky Sports Authority and attached it to the Office of the Secretary's appropriation unit.

Economic Development

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	30,446,100	57,014,000	63,594,400	24,065,300	26,504,100
Special Appropriation	22,366,800				
Continuing Appropriation	10,376,200				
Budget Reduction	-1,371,300				
Salary Compensation Fund	57,300				
Base Deduction	-548,300				
Total General Fund	61,326,800	57,014,000	63,594,400	24,065,300	26,504,100
Restricted Funds					
Balance Forward	3,514,100	2,021,100	1,325,700		
Current Receipts	1,699,100	1,040,000	900,000	1,601,300	1,611,300
Non-Revenue Receipts	2,197,700	3,109,400	3,240,200	1,654,300	1,681,200
Fund Transfers	-3,439,500				
Total Restricted Funds	3,971,400	6,170,500	5,465,900	3,255,600	3,292,500
Federal Funds					
Balance Forward	31,000				
Current Receipts	124,400			199,900	204,300
Non-Revenue Receipts		155,400	155,400		
Total Federal Funds	155,400	155,400	155,400	199,900	204,300
TOTAL SOURCE OF FUNDS	65,453,600	63,339,900	69,215,700	27,520,800	30,000,900
EXPENDITURES BY CLASS					
Personnel Cost	12,133,000	24,034,700	25,067,500	11,583,900	11,841,000
Operating Expenses	1,587,500	1,998,900	1,798,900	1,562,800	1,575,600
Grants, Loans or Benefits	44,572,600	35,980,600	38,845,600	14,374,100	14,374,300
Debt Service	7,160,500		4,585,000		2,210,000
TOTAL EXPENDITURES	65,453,600	62,014,200	70,297,000	27,520,800	30,000,900
EXPENDITURES BY FUND SOURCE					
General Fund	61,326,800	57,014,000	65,161,400	24,065,300	26,504,100
Restricted Funds	3,971,400	4,844,800	4,980,200	3,255,600	3,292,500
Federal Funds	155,400	155,400	155,400	199,900	204,300
TOTAL EXPENDITURES	65,453,600	62,014,200	70,297,000	27,520,800	30,000,900
EXPENDITURES BY UNIT					
Secretary	21,221,400	31,675,400	38,132,600	17,236,200	17,351,700
New Business Development	1,999,400	2,442,300	2,522,700	1,802,400	1,824,600
Financial Incentives	38,575,600	22,078,000	23,694,500	4,938,400	7,199,400
Existing Business Development	3,657,200	5,818,500	5,947,200	3,543,800	3,625,200
TOTAL EXPENDITURES	65,453,600	62,014,200	70,297,000	27,520,800	30,000,900

The Cabinet for Economic Development is governed by the Kentucky Economic Development Partnership, pursuant to KRS 154.

The Partnership board has 11 voting members and two non-voting members. The 11 voting members are the Governor, who is chairman, the Secretary of the Finance and Administration Cabinet, the Secretary of the Environmental and Public Protection Cabinet, and eight private sector members representing all facets of the economic development community who are appointed by the Governor. The Secretary of the Cabinet for Economic Development (nominated by the Economic Development Partnership and appointed by the Governor) and the Secretary of the Commerce Cabinet serve as non-voting members.

The Cabinet has three main objectives:

- Create an atmosphere that encourages open communication between the Cabinet and the general public,
- Increase awareness of the link between education and economic development, and
- Propel Kentucky's new economy initiatives to a higher level.

The budgetary resources for the Cabinet are organized in four appropriation units: Office of the Secretary, New Business Development, Financial Incentives, and Existing Business Development. The Department for Commercialization and Innovation's budget is imbedded within of the Office of the Secretary.

Department of Education

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	3,827,289,100	4,432,178,300	4,780,266,800	3,793,472,800	3,815,385,500
Special Appropriation	300,000				
Continuing Appropriation	20,700,100				
Budget Reduction	-11,554,700				
Salary Compensation Fund	605,800	546,800	546,800		
Base Deduction	-12,000,000				
Other	310,300				
Total General Fund	3,825,650,600	4,432,725,100	4,780,813,600	3,793,472,800	3,815,385,500
Tobacco Settlement-Phase I					
Tobacco Settlement - I	1,508,400	1,508,400	1,508,400	1,525,000	1,525,000
Continuing Appropriation	1,258,800				
Other	100,000				
Total Tobacco Settlement-Phase I	2,867,200	1,508,400	1,508,400	1,525,000	1,525,000
Restricted Funds					
Balance Forward	2,126,231				
Current Receipts	2,289,988	3,955,900	3,955,900	3,955,900	3,955,900
Non-Revenue Receipts	5,415,081	5,875,400	5,875,400	875,400	875,400
Fund Transfers	-294,900				
Total Restricted Funds	9,536,400	9,831,300	9,831,300	4,831,300	4,831,300
Federal Funds					
Current Receipts	714,628,800	715,174,300	715,369,500	714,554,200	714,554,200
Non-Revenue Receipts	11,992,600	11,992,600	11,992,600	11,992,600	11,992,600
Total Federal Funds	726,621,400	727,166,900	727,362,100	726,546,800	726,546,800
TOTAL SOURCE OF FUNDS	4,564,675,600	5,171,231,700	5,519,515,400	4,526,375,900	4,548,288,600
EXPENDITURES BY CLASS					
Personnel Cost	74,344,400	82,745,700	85,899,500	73,214,200	74,569,200
Operating Expenses	31,393,500	35,792,500	42,816,100	31,280,200	31,307,200
Grants, Loans or Benefits	4,400,268,200	5,052,693,500	5,390,799,800	4,421,881,500	4,441,183,200
Debt Service	7,625,000				1,229,000
TOTAL EXPENDITURES	4,513,631,100	5,171,231,700	5,519,515,400	4,526,375,900	4,548,288,600
EXPENDITURES BY FUND SOURCE					
General Fund	3,774,606,100	4,432,725,100	4,780,813,600	3,793,472,800	3,815,385,500
Tobacco Settlement-Phase I	2,867,200	1,508,400	1,508,400	1,525,000	1,525,000
Restricted Funds	9,536,400	9,831,300	9,831,300	4,831,300	4,831,300
Federal Funds	726,621,400	727,166,900	727,362,100	726,546,800	726,546,800
TOTAL EXPENDITURES	4,513,631,100	5,171,231,700	5,519,515,400	4,526,375,900	4,548,288,600
EXPENDITURES BY UNIT					
Executive Policy and Management	679,800	760,300	800,100	702,600	729,000
Operations and Support Services	69,731,800	65,373,500	66,013,000	54,513,300	55,963,400
Learning and Results Services	1,556,667,400	1,755,049,800	1,817,847,400	1,556,296,900	1,603,690,100
Support Education Excellence in Kentucky (SEEK)	2,886,552,100	3,350,048,100	3,634,854,900	2,914,863,100	2,887,906,100
TOTAL EXPENDITURES	4,513,631,100	5,171,231,700	5,519,515,400	4,526,375,900	4,548,288,600

In enacting the Kentucky Education Reform Act (KERA), the 1990 General Assembly provided for a reconstituted Department of Education to implement KERA along with existing programs. In accordance with KRS 156.148, the Department of Education is headed by a Commissioner of Education appointed by the Kentucky Board of Education.

Education Cabinet

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	89,564,500	124,383,200	134,527,700	78,564,800	78,786,400
Budget Reduction	-944,500				
Salary Compensation Fund	1,096,100				
Base Deduction	-383,900				
Other	-310,300				
Total General Fund	89,021,900	124,383,200	134,527,700	78,564,800	78,786,400
Restricted Funds					
Balance Forward	6,296,800	1,716,500	1,055,400	1,461,500	703,300
Current Receipts	15,787,600	15,197,600	15,347,200	14,522,500	14,530,900
Non-Revenue Receipts	26,060,900	29,071,000	30,533,200	25,094,800	25,094,800
Fund Transfers	-1,188,800				
Total Restricted Funds	46,956,500	45,985,100	46,935,800	41,078,800	40,329,000
Federal Funds					
Balance Forward	3,413,400				1,374,000
Current Receipts	736,642,500	748,754,800	747,609,700	739,604,100	737,042,400
Total Federal Funds	740,055,900	748,754,800	747,609,700	739,604,100	738,416,400
TOTAL SOURCE OF FUNDS	876,034,300	919,123,100	929,073,200	859,247,700	857,531,800
EXPENDITURES BY CLASS					
Personnel Cost	145,115,600	173,768,300	184,734,800	140,584,800	142,116,000
Operating Expenses	42,867,100	49,324,600	48,020,300	40,544,200	38,588,500
Grants, Loans or Benefits	682,758,000	691,217,200	692,322,500	674,317,900	671,647,600
Debt Service	1,907,000	1,087,000	1,186,000		
Capital Outlay	1,925,100	2,670,600	1,978,400	1,723,500	1,673,500
TOTAL EXPENDITURES	874,572,800	918,067,700	928,242,000	857,170,400	854,025,600
EXPENDITURES BY FUND SOURCE					
General Fund	89,021,900	124,383,200	134,527,700	78,564,800	78,786,400
Restricted Funds	45,495,000	44,929,700	46,104,600	40,375,500	39,647,500
Federal Funds	740,055,900	748,754,800	747,609,700	738,230,100	735,591,700
TOTAL EXPENDITURES	874,572,800	918,067,700	928,242,000	857,170,400	854,025,600
EXPENDITURES BY UNIT					
General Administration and Program Support	10,075,700	15,941,200	16,745,900	9,479,400	9,594,700
Deaf and Hard of Hearing	1,381,200	1,730,300	1,804,800	1,283,400	1,283,400
Kentucky Educational Television	18,959,200	24,373,000	24,301,600	15,470,200	15,496,900
Environmental Education Council	1,456,100	700,600	726,200	529,800	542,600
Libraries and Archives	19,564,300	30,560,300	34,385,400	18,290,900	18,301,700
Office for the Blind	11,279,500	12,893,100	12,973,600	10,549,400	10,639,700
Employment and Training	671,271,700	678,863,800	682,074,200	671,050,200	668,375,900
Career and Technical Education	66,351,300	72,863,200	73,858,500	62,914,300	62,458,300
Vocational Rehabilitation	61,961,600	65,577,500	66,854,000	57,210,200	56,780,200
Education Professional Standards Board	12,272,200	14,564,700	14,517,800	10,392,600	10,552,200
TOTAL EXPENDITURES	874,572,800	918,067,700	928,242,000	857,170,400	854,025,600

The Education Cabinet was created by Senate Bill 105 during the 2006 Regular Session of the General Assembly and combines several departments and offices from the former Education, Arts, and Humanities Cabinet and the former Workforce Development Cabinet.

The following agencies comprise the Education Cabinet:

- Department of Education
- Department for Libraries and Archives
- Kentucky Educational Television
- Kentucky Commission on the Deaf and Hard of Hearing
- Kentucky Center for School Safety
- Department for Workforce Investment
- Council on Postsecondary Education
- Education Professional Standards Board
- Environmental Education Council

Environmental and Public Protection

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	109,122,500	178,757,300	189,003,500	85,809,300	92,274,100
Continuing Appropriation	1,155,200				
Budget Reduction	-4,164,900				
Salary Compensation Fund	1,198,600				
Base Deduction	-498,100				
Mandated Allotments	750,000				
Total General Fund	107,563,300	178,757,300	189,003,500	85,809,300	92,274,100
Tobacco Settlement-Phase I					
Tobacco Settlement - I	23,496,000	28,568,700	28,899,500	28,551,300	28,881,900
Continuing Appropriation	12,340,800				
Other	4,684,200				
Total Tobacco Settlement-Phase I	40,521,000	28,568,700	28,899,500	28,551,300	28,881,900
Restricted Funds					
Balance Forward	136,558,000	107,050,900	122,770,100	78,900,000	48,530,500
Current Receipts	200,426,100	193,406,600	200,687,900	209,244,600	213,025,600
Non-Revenue Receipts	209,553,300	212,682,000	218,544,600	218,877,600	199,993,200
Fund Transfers	-62,857,000			-89,020,000	-38,810,000
Total Restricted Funds	483,680,400	513,139,500	542,002,600	418,002,200	422,739,300
Federal Funds					
Balance Forward	100				
Current Receipts	79,973,600	79,781,600	87,609,200	78,825,500	86,156,500
Non-Revenue Receipts	-3,094,300	-3,268,300	-3,318,800	-3,283,100	-3,333,800
Total Federal Funds	76,879,400	76,513,300	84,290,400	75,542,400	82,822,700
Road Fund					
Regular Appropriation	300,000	109,200	45,000	300,000	300,000
Total Road Fund	300,000	109,200	45,000	300,000	300,000
TOTAL SOURCE OF FUNDS	708,944,100	797,088,000	844,241,000	608,205,200	627,018,000
EXPENDITURES BY CLASS					
Personnel Cost	232,885,800	300,068,600	322,157,500	234,794,100	244,084,600
Operating Expenses	180,174,800	182,774,500	184,352,200	165,681,700	165,545,800
Grants, Loans or Benefits	183,711,300	162,669,400	163,637,400	132,595,400	140,955,700
Debt Service	4,068,000	589,000	589,000	589,000	2,801,000
Capital Outlay	4,268,100	6,715,300	5,250,700	3,156,000	2,975,400
Construction	22,804,000	21,501,100	26,201,100	20,358,500	25,038,600
TOTAL EXPENDITURES	627,912,000	674,317,900	702,187,900	557,174,700	581,401,100
EXPENDITURES BY FUND SOURCE					
General Fund	105,431,200	178,757,300	189,003,500	83,309,300	90,049,100
Tobacco Settlement-Phase I	40,521,000	28,568,700	28,899,500	28,551,300	28,881,900
Restricted Funds	404,780,400	390,369,400	399,949,500	369,471,700	379,347,400
Federal Funds	76,879,400	76,513,300	84,290,400	75,542,400	82,822,700
Road Fund	300,000	109,200	45,000	300,000	300,000
TOTAL EXPENDITURES	627,912,000	674,317,900	702,187,900	557,174,700	581,401,100
EXPENDITURES BY UNIT					
General Administration and Program Support	16,283,700	21,410,400	22,864,000	15,632,500	15,530,600
Environmental Protection	84,684,800	98,256,400	101,149,500	72,559,900	80,722,400
Natural Resources	45,434,900	50,954,300	50,359,900	34,908,300	35,211,100
Mine Reclamation and Enforcement	32,303,600	42,800,500	47,094,000	36,338,900	39,175,600
Abandoned Mine Land Reclamation	22,000,000	22,000,000	29,000,000	22,000,000	29,000,000

Projects					
Environmental Quality Commission	221,000	331,200	350,900	232,100	239,100
Kentucky Nature Preserves Commission	2,169,400	2,447,300	2,534,300	1,543,600	1,572,400
Public Protection Commissioner	812,300	1,449,000	1,541,200	884,000	900,300
Boxing and Wrestling Authority	100,000	101,700	104,200	100,000	100,000
Petroleum Storage Tank Environmental Assurance Fund	32,357,400	30,233,800	30,325,500	29,183,100	30,940,000
Alcoholic Beverage Control	5,228,300	6,133,400	6,469,800	5,161,800	5,315,300
Charitable Gaming	3,143,200	3,551,200	3,780,800	3,057,600	3,092,900
Board of Claims/Crime Victims' Compensation Board	3,686,400	3,641,800	3,734,900	2,964,300	2,995,400
Financial Institutions	9,222,700	11,275,000	11,981,400	9,213,100	9,213,200
Horse Racing Authority	28,371,700	35,498,900	35,040,300	28,453,700	28,378,300
Housing, Buildings and Construction	17,096,700	24,528,700	27,144,500	18,147,400	19,613,500
Insurance	59,564,700	57,767,300	59,034,700	39,909,600	40,532,900
Mine Safety Review Commission	184,200	228,700	238,100	138,900	142,600
Mine Safety and Licensing	13,363,400	20,308,400	20,676,000	16,043,000	16,373,300
Public Service Commission	10,403,100	14,962,900	15,827,500	11,559,200	11,834,200
Tax Appeals	439,800	553,800	587,600	439,800	439,800
Labor	116,863,900	107,138,200	110,081,000	99,271,600	100,135,000
Occupational Safety and Health Review Commission	484,400	738,200	776,700	495,300	505,800
Workers' Compensation Board	920,200	1,136,000	1,207,300	949,200	969,000
Workers' Compensation Funding Commission	122,572,200	116,870,800	120,283,800	107,987,800	108,468,400
TOTAL EXPENDITURES	627,912,000	674,317,900	702,187,900	557,174,700	581,401,100

Pursuant to KRS 224.10-100, the Environmental and Public Protection Cabinet is charged with the protection and preservation of land, air and water resources; supervision and regulation of industries, and the administration of rules for the state concerning employer-employee relationships. The Cabinet has four departments: Environmental Protection, Natural Resources, Labor, and Public Protection.

A Secretary appointed by the Governor heads the Cabinet. The Secretary is responsible for environmental leadership, monitoring environmental trends and shaping a vision for Kentucky's environmental future. The Secretary enforces statutes and regulations through oversight activities relating to wages and hours, occupational safety and employee health, child labor, apprenticeship, and workers' compensation, ensuring the integrity of supervised industries and the safety of employees.

The Mine Safety Review Commission is part of the Environmental and Public Protection Cabinet under supervision of the Secretary. KRS 351.1041 establishes the Mine Safety Review Commission to enforce sanctions against licensed premises and certified and non-certified personnel whose willful and repeated violations of mine safety laws place miners in imminent danger of serious injury or death. The Commission is charged with conducting hearings and issuing orders regarding licensees, coal operators, and other persons involved in the mining of coal in accordance with KRS 351.194.

Finance and Administration

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	483,436,600	620,303,100	627,699,900	555,219,300	551,559,600
Budget Reduction	-2,060,500				
Salary Compensation Fund	1,896,700				
Total General Fund	483,272,800	620,303,100	627,699,900	555,219,300	551,559,600
Tobacco Settlement-Phase I					
Tobacco Settlement - I	18,022,400	15,591,500	15,592,900	15,691,500	15,692,900
Continuing Appropriation	9,017,500	9,017,500	9,017,500		
Total Tobacco Settlement-Phase I	27,039,900	24,609,000	24,610,400	15,691,500	15,692,900
Restricted Funds					
Balance Forward	28,312,400	18,598,700	12,269,000	20,511,900	14,046,100
Current Receipts	150,519,300	148,846,900	148,946,900	148,352,600	148,245,400
Non-Revenue Receipts	-4,059,000	-941,300	-931,300	4,016,900	4,221,800
Fund Transfers	-4,687,100			-4,272,400	-1,500,000
Total Restricted Funds	170,085,600	166,504,300	160,284,600	168,609,000	165,013,300
Federal Funds					
Balance Forward	159,600				
Current Receipts	1,615,400	1,400,000	1,400,000	1,400,000	1,400,000
Total Federal Funds	1,775,000	1,400,000	1,400,000	1,400,000	1,400,000
Road Fund					
Regular Appropriation	2,400,000	2,400,000	2,400,000	2,725,000	2,725,000
Total Road Fund	2,400,000	2,400,000	2,400,000	2,725,000	2,725,000
TOTAL SOURCE OF FUNDS	684,573,300	815,216,400	816,394,900	743,644,800	736,390,800
EXPENDITURES BY CLASS					
Personnel Cost	173,099,300	220,026,800	231,191,900	166,975,900	171,160,100
Operating Expenses	116,021,000	124,329,400	124,606,500	121,424,700	124,534,200
Grants, Loans or Benefits	5,325,000	2,425,000	2,425,000	2,425,000	2,425,000
Debt Service	249,560,200	428,812,500	426,732,000	427,612,500	420,513,000
Capital Outlay	9,913,800	11,636,200	11,380,100	4,460,600	4,460,600
Construction	5,974,000	6,700,000	7,000,000	6,700,000	6,234,200
TOTAL EXPENDITURES	559,893,300	793,929,900	803,335,500	729,598,700	729,327,100
EXPENDITURES BY FUND SOURCE					
General Fund	389,987,800	620,303,100	627,699,900	555,219,300	551,559,600
Tobacco Settlement-Phase I	15,622,400	15,591,500	15,592,900	15,691,500	15,692,900
Restricted Funds	150,804,400	154,235,300	156,242,700	154,562,900	157,949,600
Federal Funds	1,775,000	1,400,000	1,400,000	1,400,000	1,400,000
Road Fund	2,400,000	2,400,000	2,400,000	2,725,000	2,725,000
TOTAL EXPENDITURES	560,589,600	793,929,900	803,335,500	729,598,700	729,327,100
EXPENDITURES BY UNIT					
General Administration	44,178,800	50,085,000	50,674,700	41,326,500	43,689,800
Controller	16,697,400	16,610,100	17,086,200	17,522,700	17,479,400
Debt Service	249,560,200	428,810,500	420,384,000	427,612,500	420,513,000
Facilities and Support Services	38,422,000	46,714,300	51,061,700	41,399,100	41,830,000
County Costs	22,431,500	19,513,600	19,513,500	19,513,600	19,513,500
Commonwealth Office of Technology	68,592,400	77,341,400	80,676,400	68,165,600	69,082,100
Revenue	82,165,000	105,642,400	111,346,500	78,213,600	80,165,100
Property Valuation Administrators	38,542,300	49,212,600	52,592,500	35,845,100	37,054,200
TOTAL EXPENDITURES	560,589,600	793,929,900	803,335,500	729,598,700	729,327,100

The Finance and Administration Cabinet is responsible for managing the financial resources of the Commonwealth and providing central administrative services to agencies of state and local government. The mission of the Finance and Administration Cabinet is to provide its customers with assistance in the delivery of quality services, effective administration, and sound financial management. The Cabinet provides leadership, coordination, and support to other state agencies to ensure accountability and integrity in the use of public resources. The Finance and Administration Cabinet constantly strives to conduct government business more effectively. Moreover, among the highest priorities of the Cabinet is providing the nine cabinets and all other agencies of state government with the resources necessary to carry out their stated missions by equitable and efficient revenue collection.

The Cabinet's duties include construction of state facilities, property management including motor vehicles, tax administration and collection, management of the Commonwealth's information technology systems, expenditure control, and state purchasing.

The Department of Revenue is the statutory agency of state government responsible for the administration of all state revenue laws and the collection of taxes. In fulfilling this responsibility, the Department seeks to ensure taxpayers' voluntary compliance with the revenue laws and regulations, to enforce such laws in those instances where necessary, and to supervise and assist county property valuation administrators in their implementation of the property tax laws.

The Commonwealth Office of Technology (COT) provides leadership, policy direction, and technical support to all executive branch agencies of state government in the application of information technology and the delivery of information services. This broad statement of responsibility encompasses major information resource functions such as data center operations; voice, data, and video communications; application development; data and security administration; computer and data communications, hardware selection and installation; and related end-user and customer support services. The workload for COT is highly sensitive to agency programmatic shifts, particularly changes mandated by state and federal legislation.

Health and Family Services

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	1,777,534,400	2,226,643,400	2,428,246,100	1,877,502,500	1,979,159,300
Special Appropriation	2,000,000				
Current Year Appropriation	116,409,600				
Continuing Appropriation	426,100				
Budget Reduction	-2,751,400				
Salary Compensation Fund	4,377,500				
Base Deduction	-198,500				
Total General Fund	1,897,797,700	2,226,643,400	2,428,246,100	1,877,502,500	1,979,159,300
Tobacco Settlement-Phase I					
Tobacco Settlement - I	23,393,500	30,341,700	30,861,300	30,121,700	30,641,600
Continuing Appropriation	6,009,000				
Other	5,861,900				
Total Tobacco Settlement-Phase I	35,264,400	30,341,700	30,861,300	30,121,700	30,641,600
Restricted Funds					
Balance Forward	19,804,300	9,551,000	12,271,900	4,501,800	7,263,500
Current Receipts	555,836,300	585,909,600	580,748,000	560,751,500	552,752,500
Non-Revenue Receipts	309,461,700	310,872,900	294,371,300	309,528,500	294,060,600
Fund Transfers	-4,522,700			-43,700	-43,700
Total Restricted Funds	880,579,600	906,333,500	887,391,200	874,738,100	854,032,900
Federal Funds					
Balance Forward	37,975,600				
Current Receipts	4,282,653,400	4,705,813,100	4,918,372,200	4,446,162,400	4,636,961,500
Total Federal Funds	4,320,629,000	4,705,813,100	4,918,372,200	4,446,162,400	4,636,961,500
TOTAL SOURCE OF FUNDS	7,134,270,700	7,869,131,700	8,264,870,800	7,228,524,700	7,500,795,300
EXPENDITURES BY CLASS					
Personnel Cost	598,529,300	781,239,200	832,737,100	588,875,200	601,340,400
Operating Expenses	115,712,600	137,475,100	139,924,400	114,852,900	114,909,100
Grants, Loans or Benefits	6,414,145,000	6,934,332,900	7,243,666,200	6,517,419,100	6,780,659,400
Debt Service	1,172,000		37,941,000		1,152,000
Capital Outlay	114,000	3,812,600	2,873,300	114,000	114,000
TOTAL EXPENDITURES	7,129,672,900	7,856,859,800	8,257,142,000	7,221,261,200	7,498,174,900
EXPENDITURES BY FUND SOURCE					
General Fund	1,897,701,700	2,226,643,400	2,428,246,100	1,877,502,500	1,979,159,300
Tobacco Settlement-Phase I	35,264,400	30,341,700	30,861,300	30,121,700	30,641,600
Restricted Funds	876,077,800	894,061,600	879,662,400	867,474,600	851,412,500
Federal Funds	4,320,629,000	4,705,813,100	4,918,372,200	4,446,162,400	4,636,961,500
TOTAL EXPENDITURES	7,129,672,900	7,856,859,800	8,257,142,000	7,221,261,200	7,498,174,900
EXPENDITURES BY UNIT					
General Administration and Program Support	89,570,500	121,123,600	164,704,800	84,129,500	86,069,000
Comm for Children with Special Health Care Needs	17,065,800	21,687,500	22,718,900	16,354,600	16,674,000
Medicaid Services	5,044,905,000	5,464,032,600	5,730,236,400	5,188,404,700	5,451,544,000
Mental Health and Mental Retardation Services	462,371,700	530,226,400	541,161,100	454,995,600	454,698,000
Public Health	356,851,300	375,429,600	377,883,500	348,427,000	349,518,300
Health Policy	2,014,400	7,915,000	14,160,200	1,131,700	1,162,000
Human Support Services	17,348,000	18,028,500	18,186,800	11,738,300	11,766,000
Ombudsman	5,948,600	8,348,200	8,927,000	5,430,400	5,601,100
Disability Determination Services	46,598,800	56,257,600	58,608,500	50,498,700	51,531,000

Community Based Services	1,021,876,800	1,179,026,700	1,240,933,300	1,007,320,000	1,016,706,100
Aging and Independent Living	65,122,000	74,784,100	79,621,500	52,830,700	52,905,400
TOTAL EXPENDITURES	7,129,672,900	7,856,859,800	8,257,142,000	7,221,261,200	7,498,174,900

The Cabinet for Health and Family Services is the primary state agency responsible for leadership in protecting and promoting the health and well being of all Kentuckians through the delivery of quality health and human services. The following departments and/or offices comprise the Cabinet for Health and Family Services: Office of the Secretary, Office of Legislative and Public Affairs, Office of the Inspector General, Office of Legal Services, Office of Technology, Office of Human Resource Management, Office of Fiscal Services, Office of Contract Oversight, Governor's Office of Wellness and Physical Activity, Office of the Ombudsman, Office of Health Policy, Department for Medicaid Services, Department for Mental Health/Mental Retardation Services, Department for Public Health, Department for Aging and Independent Living, Department for Community Based Services, Department for Disability Determination Services, Department for Human Support Services, and the Commission for Children with Special Health Care Needs.

Justice and Public Safety

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	604,549,900	843,860,900	887,049,700	632,538,700	661,765,800
Current Year Appropriation	28,893,700				
Continuing Appropriation	205,600				
Budget Reduction	-629,000				
Salary Compensation Fund	7,178,200	48,000	48,000		
Mandated Allotments	12,810,600				
Total General Fund	653,009,000	843,908,900	887,097,700	632,538,700	661,765,800
Tobacco Settlement-Phase I					
Tobacco Settlement - I	1,923,400	2,195,100	2,195,100	1,923,400	1,923,400
Continuing Appropriation	271,700				
Total Tobacco Settlement-Phase I	2,195,100	2,195,100	2,195,100	1,923,400	1,923,400
Restricted Funds					
Balance Forward	8,217,400	6,958,921	5,773,698	5,059,700	3,758,300
Current Receipts	44,381,800	41,409,000	41,808,000	44,344,000	44,492,500
Non-Revenue Receipts	67,717,400	77,926,100	81,011,800	71,013,600	73,150,000
Fund Transfers	-2,367,400				
Total Restricted Funds	117,949,200	126,294,021	128,593,498	120,417,300	121,400,800
Federal Funds					
Balance Forward	3,201,200	4,931,245	7,982,700	5,085,600	8,051,800
Current Receipts	46,288,300	50,485,955	50,466,800	46,111,700	45,998,000
Non-Revenue Receipts		71,100	76,600		
Total Federal Funds	49,489,500	55,488,300	58,526,100	51,197,300	54,049,800
Road Fund					
Regular Appropriation	63,881,500	73,399,400	76,297,500	63,881,500	63,881,500
Total Road Fund	63,881,500	73,399,400	76,297,500	63,881,500	63,881,500
TOTAL SOURCE OF FUNDS	886,524,300	1,101,285,721	1,152,709,898	869,958,200	903,021,300
EXPENDITURES BY CLASS					
Personnel Cost	489,791,600	687,485,700	730,806,100	492,651,500	506,586,700
Operating Expenses	104,915,500	126,303,900	121,384,200	100,253,100	99,200,500
Grants, Loans or Benefits	271,033,700	260,979,200	275,773,300	259,251,000	276,612,400
Debt Service	3,373,800	3,376,400	3,378,100	3,376,400	5,402,100
Capital Outlay	7,490,700	15,369,400	10,633,800	2,616,100	2,552,100
Construction	300,000				
TOTAL EXPENDITURES	876,905,300	1,093,514,600	1,141,975,500	858,148,100	890,353,800
EXPENDITURES BY FUND SOURCE					
General Fund	653,535,300	843,908,900	887,097,700	632,538,700	661,765,800
Tobacco Settlement-Phase I	2,195,100	2,195,100	2,195,100	1,923,400	1,923,400
Restricted Funds	112,889,500	124,720,323	127,153,400	116,659,000	119,788,000
Federal Funds	44,403,900	49,288,900	49,104,800	43,145,500	42,995,100
Road Fund	63,881,500	73,399,400	76,297,500	63,881,500	63,881,500
TOTAL EXPENDITURES	876,905,300	1,093,512,623	1,141,848,500	858,148,100	890,353,800
EXPENDITURES BY UNIT					
Justice Administration	31,124,700	33,734,600	34,502,800	28,470,200	28,623,100
Criminal Justice Training	48,121,800	59,846,500	61,780,600	52,471,800	54,488,600
Juvenile Justice	115,691,400	143,676,300	151,084,800	111,859,400	113,150,200
State Police	160,220,100	247,534,100	250,377,800	150,293,200	153,697,700
Corrections	459,861,500	509,500,300	538,783,500	454,614,100	478,657,400
Vehicle Enforcement	21,515,500	31,522,700	34,626,900	21,414,100	21,397,300
Public Advocacy	40,370,300	67,698,123	70,692,100	39,025,300	40,339,500

TOTAL EXPENDITURES	876,905,300	1,093,512,623	1,141,848,500	858,148,100	890,353,800

The Kentucky Justice Cabinet was created in 1974 pursuant to KRS 15A.010. On March 23, 2007, Senate Bill 144 amended KRS 15A.020 (effective June 26, 2007) to allow the Justice Cabinet to be renamed to the Justice & Public Safety Cabinet, created the Office of Drug Control Policy within the cabinet, delineated the independent aspects of the Department of Public Advocacy's operation with the Cabinet, and transferred the Division of Motor Vehicle Enforcement from the Transportation Cabinet to a new department within Justice named Kentucky Vehicle Enforcement.

The Cabinet is comprised of seven departments:

- Department of Justice Administration
- Department of Kentucky Vehicle Enforcement
- Department for Public Advocacy
- Department of Kentucky State Police
- Department of Juvenile Justice
- Department of Criminal Justice Training
- Department of Corrections

Personnel

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	27,408,200	3,340,700	3,340,700	2,380,700	2,380,700
Continuing Appropriation	3,842,500				
Budget Reduction	-2,328,816				
Salary Compensation Fund	-20,911,900	148,200	148,200		
Base Deduction	-138,000				
Other		2,000,000	2,000,000		
Total General Fund	7,871,984	5,488,900	5,488,900	2,380,700	2,380,700
Restricted Funds					
Balance Forward	17,540,900	20,263,500	14,590,200	19,910,200	13,830,500
Current Receipts	46,734,100	45,905,700	47,878,100	42,401,500	44,581,900
Non-Revenue Receipts	6,940,000	4,576,400	5,777,400	5,400,000	5,400,000
Fund Transfers	-1,053,600				
Total Restricted Funds	70,161,400	70,745,600	68,245,700	67,711,700	63,812,400
TOTAL SOURCE OF FUNDS	78,033,384	76,234,500	73,734,600	70,092,400	66,193,100
EXPENDITURES BY CLASS					
Personnel Cost	46,408,000	54,883,000	58,106,700	49,898,700	52,009,600
Operating Expenses	6,518,800	6,628,900	5,873,600	6,243,100	5,508,800
Capital Outlay	86,800	132,400	125,000	120,100	114,200
TOTAL EXPENDITURES	53,013,600	61,644,300	64,105,300	56,261,900	57,632,600
EXPENDITURES BY FUND SOURCE					
General Fund	2,762,400	5,488,900	5,488,900	2,380,700	2,380,700
Restricted Funds	50,251,200	56,155,400	58,616,400	53,881,200	55,251,900
TOTAL EXPENDITURES	53,013,600	61,644,300	64,105,300	56,261,900	57,632,600
EXPENDITURES BY UNIT					
General Operations	20,849,300	26,450,300	26,826,500	22,114,700	21,605,000
Public Employees Deferred Compensation Authority	6,172,400	7,386,300	7,845,600	6,930,400	7,236,200
Workers' Compensation Benefits and Reserve	23,653,900	25,399,200	27,024,700	25,136,100	26,710,700
State Group Health Insurance Fund	2,338,000	2,408,500	2,408,500	2,080,700	2,080,700
TOTAL EXPENDITURES	53,013,600	61,644,300	64,105,300	56,261,900	57,632,600

The Personnel Cabinet provides human resources management for Kentucky state government agencies. The Cabinet coordinates the personnel and payroll functions for most of state government. It coordinates state employee benefit packages, such as health and life insurance, workers' compensation, and deferred compensation programs. The Cabinet coordinates state government's employee application and testing processes, as well as recruiting and retention functions.

Currently, the Personnel Cabinet is comprised of four appropriation units: General Operations, Public Employees Deferred Compensation Authority, the Workers' Compensation Benefits and Reserve, and the State Group Health Insurance Fund.

The Department of Personnel was created in 1960 under KRS 18.160. At the time of its inception, it was headed by a personnel board consisting of five members appointed by the Governor. The terms of the board members were for four years, but the first board appointed was on staggered terms. At the first meeting of the Personnel Board, the board appointed

a committee of three persons to conduct an examination of qualified applicants for the position of Commissioner of Personnel. Upon the completion of the examination the board forwarded to the Governor names of three qualified applicants from the classified service for appointment. In 1972, the legislature made the Commissioner of Personnel a direct appointee of the Governor without nominations from the Personnel Board.

In 1982, KRS 18.160 was repealed and re-enacted under KRS chapter 18A.015. Legislation enacted that year also authorized the Department to charge other state agencies their pro rata share of costs associated with the administration of the Executive Branch's personnel related functions. This was a pre-cursor to the department's "benefit assessment fee." In 1998, the General Assembly elevated the Department to Cabinet status.

Executive Order 2007-500, dated June 21, 2007, reorganized the Personnel Cabinet and its organizational structure.

Postsecondary Education

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	1,379,564,800	1,595,720,000	1,803,772,700	1,186,716,600	1,196,987,100
Special Appropriation	2,000,000				
Continuing Appropriation	996,300	1,000,000	1,000,000	1,000,000	1,000,000
Budget Reduction	-34,509,400				
Salary Compensation Fund	62,800				
Total General Fund	1,348,114,500	1,596,720,000	1,804,772,700	1,187,716,600	1,197,987,100
Tobacco Settlement-Phase I					
Tobacco Settlement - I	5,591,200	6,591,100	6,685,600	6,586,100	6,680,600
Continuing Appropriation	208,600				
Other	1,088,900				
Total Tobacco Settlement-Phase I	6,888,700	6,591,100	6,685,600	6,586,100	6,680,600
Restricted Funds					
Balance Forward	2,255,000	781,700	258,200	1,150,400	322,400
Current Receipts	3,046,836,300	3,193,546,900	3,343,003,400	3,053,132,000	3,066,095,500
Non-Revenue Receipts	19,269,900	14,975,100	14,611,800	15,593,800	14,539,800
Fund Transfers	-250,000				
Total Restricted Funds	3,068,111,200	3,209,303,700	3,357,873,400	3,069,876,200	3,080,957,700
Federal Funds					
Balance Forward	4,500				
Current Receipts	691,017,500	720,992,400	757,686,600	694,403,600	699,934,300
Total Federal Funds	691,022,000	720,992,400	757,686,600	694,403,600	699,934,300
TOTAL SOURCE OF FUNDS	5,114,136,400	5,533,607,200	5,927,018,300	4,958,582,500	4,985,559,700
EXPENDITURES BY CLASS					
Personnel Cost	2,568,964,400	2,731,758,600	2,873,641,300	2,510,776,800	2,522,147,300
Operating Expenses	1,487,367,900	1,585,327,100	1,671,211,900	1,457,484,500	1,461,222,500
Grants, Loans or Benefits	785,377,300	951,484,400	1,015,578,800	743,480,000	745,508,400
Debt Service	105,280,300	95,107,000	194,046,100	91,892,100	101,860,600
Capital Outlay	158,579,100	168,671,900	172,540,200	153,626,700	153,820,600
TOTAL EXPENDITURES	5,105,569,000	5,532,349,000	5,927,018,300	4,957,260,100	4,984,559,400
EXPENDITURES BY FUND SOURCE					
General Fund	1,340,697,500	1,595,720,000	1,804,772,700	1,186,716,600	1,196,987,100
Tobacco Settlement-Phase I	6,888,700	6,591,100	6,685,600	6,586,100	6,680,600
Restricted Funds	3,066,960,800	3,209,045,500	3,357,873,400	3,069,553,800	3,080,957,400
Federal Funds	691,022,000	720,992,400	757,686,600	694,403,600	699,934,300
TOTAL EXPENDITURES	5,105,569,000	5,532,349,000	5,927,018,300	4,957,260,100	4,984,559,400
EXPENDITURES BY UNIT					
Council on Postsecondary Education	120,539,400	125,345,400	240,805,200	85,529,500	95,523,300
Kentucky Higher Education Assistance Authority	213,493,400	328,816,300	345,047,600	198,631,200	198,052,900
Postsecondary Education Institutions	4,771,536,200	5,078,187,300	5,341,165,500	4,673,099,400	4,690,983,200
TOTAL EXPENDITURES	5,105,569,000	5,532,349,000	5,927,018,300	4,957,260,100	4,984,559,400

Transportation

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	6,069,100	9,837,900	9,976,000	5,178,200	8,535,200
Continuing Appropriation	3,356,200				
Budget Reduction	-25,600				
Base Deduction	-2,950,000				
Total General Fund	6,449,700	9,837,900	9,976,000	5,178,200	8,535,200
Restricted Funds					
Balance Forward	107,235,200	15,630,900	4,720,200	11,719,800	6,136,900
Current Receipts	112,478,300	100,917,000	102,195,800	104,753,500	106,011,000
Non-Revenue Receipts	291,953,000	-543,000	-543,000	-75,000	-75,000
Fund Transfers	-13,318,000			-5,968,000	-6,825,000
Total Restricted Funds	498,348,500	116,004,900	106,373,000	110,430,300	105,247,900
Federal Funds					
Balance Forward	33,600				
Current Receipts	734,378,100	725,400,800	757,575,700	725,400,800	757,575,700
Total Federal Funds	734,411,700	725,400,800	757,575,700	725,400,800	757,575,700
Road Fund					
Regular Appropriation	1,187,955,400	1,266,372,900	1,348,060,900	1,229,717,900	1,329,921,900
Surplus Expenditure Plan	21,163,300				
Current Year Appropriation	98,100				
Other-Road	20,771,400				
Total Road Fund	1,229,988,200	1,266,372,900	1,348,060,900	1,229,717,900	1,329,921,900
Highway Bonds					
Balance Forward	45,755,300				
Non-Revenue Receipts	350,000,000			50,000,000	
Total Highway Bonds	395,755,300			50,000,000	
TOTAL SOURCE OF FUNDS	2,864,953,400	2,117,616,500	2,221,985,600	2,120,727,200	2,201,280,700
EXPENDITURES BY CLASS					
Personnel Cost	418,049,700	495,021,800	522,992,200	437,612,000	448,052,900
Operating Expenses	226,824,900	232,511,638	227,143,838	242,155,700	257,121,200
Grants, Loans or Benefits	252,142,700	205,130,500	218,919,800	207,489,300	221,799,200
Debt Service	238,525,400	205,565,900	191,003,300	200,140,200	191,145,400
Capital Outlay	12,955,300	3,843,500	3,843,500	4,315,000	4,315,000
Construction	1,704,735,600	970,822,962	1,052,464,262	1,022,878,100	1,071,865,700
TOTAL EXPENDITURES	2,853,233,600	2,112,896,300	2,216,366,900	2,114,590,300	2,194,299,400
EXPENDITURES BY FUND SOURCE					
General Fund	6,449,700	9,837,900	9,976,000	5,178,200	8,535,200
Restricted Funds	486,628,700	111,284,700	100,754,300	104,293,400	98,266,600
Federal Funds	734,411,700	725,400,800	757,575,700	725,400,800	757,575,700
Road Fund	1,229,988,200	1,266,372,900	1,348,060,900	1,229,717,900	1,329,921,900
Highway Bonds	395,755,300			50,000,000	
TOTAL EXPENDITURES	2,853,233,600	2,112,896,300	2,216,366,900	2,114,590,300	2,194,299,400
EXPENDITURES BY UNIT					
General Administration and Support	88,215,600	91,339,900	92,079,200	80,447,300	80,358,400
Aviation	10,842,800	10,723,200	10,836,400	8,770,900	8,701,800
Debt Service	181,143,200	148,512,900	134,388,000	148,513,000	136,599,000
Highways	2,183,780,300	1,486,470,700	1,583,956,100	1,513,657,200	1,577,341,000
Public Transportation	46,432,500	38,370,500	38,458,900	35,941,600	35,994,800
Revenue Sharing	308,567,200	287,956,500	317,240,700	287,800,600	318,180,600
Vehicle Regulation	34,252,000	49,522,600	39,407,600	39,459,700	37,123,800

TOTAL EXPENDITURES	2,853,233,600	2,112,896,300	2,216,366,900	2,114,590,300	2,194,299,400

The Transportation Cabinet, under KRS 12.250, is responsible for maintaining and improving transportation services in the Commonwealth. All modes of transportation are addressed by the Cabinet, including air transportation, railroads, waterways, public transit, and highways. The Secretary of Transportation, who is appointed by the Governor, heads the organization. The duties and responsibilities of the Cabinet are found in Titles XV and XVI of the Kentucky Revised Statutes.

The Cabinet receives funding from the state Road Fund, proceeds from bonds issued by the Kentucky Turnpike Authority, and federal aid apportionments for highways. Other revenue sources are agency receipts, non-highway federal aid, the state General Fund, and most recently a federal fund leveraging mechanism titled Grant Anticipation Revenue Vehicle (GARVEE) bonds. The revenue components of the Road Fund are the motor fuels tax, motor vehicle usage taxes, license and privilege taxes, interest income, and miscellaneous departmental fees, permits, and sales.

Seven major budget units comprise the Transportation Cabinet: General Administration and Support, Air Transportation, Public Transportation, Revenue Sharing, Highways, Vehicle Regulation, and Debt Service. Organizationally, the agency is divided into five departments and fifteen offices. The departments, each headed by a commissioner directly responsible to the Secretary, are Transportation Safety, Aviation, Vehicle Regulation, Intergovernmental Programs, and Highways. The remaining units are the Office of Public Affairs, the Office of Budget and Fiscal Management, the Office of Legal Services, the Office for Civil Rights and Small Business Development, the Office of Inspector General, the Office of Personnel Management, the Office of Support Services, and the Office of Information Technology. These units are responsible to the Office of the Secretary. The following offices report to the State Highway Engineer in the Department of Highways: the Office of Project Development, the Office of Project Delivery, and the Office of System Preservation and Operations. The Office of Special Programs, the Office of Rural and Secondary Roads, and the Office of Transportation Delivery are responsible to the Commissioner of the Department of Governmental Relations.

The Transportation Cabinet has its origin as an agency of the Commonwealth of Kentucky in 1912 when the General Assembly established the Department of Highways. Legislation in 1974 created the Department of Transportation by consolidating the Departments of Highways, Motor Transportation, and Aeronautics, plus certain transportation-related functions of the Department of Public Safety and the Department of Revenue. Subsequently, the 1982 General Assembly established the Transportation Cabinet as the successor to the Department of Transportation, and it assumed all of the duties formerly associated with the Department.

Executive Order 2007-504, dated June 21, 2007 reorganized the Transportation Cabinet to its current organizational structure.

Policy

On January 16, 2008, the Consensus Forecasting Group established the Road Fund revenue estimate for the fiscal biennium 2008-2010. For fiscal year 2009, the estimate is $1,324,806,400 and $1,405,103,400 for fiscal year 2010.

Statewide
Budget Reserve Trust Fund

	Revised FY 2008	Requested FY 2009	Requested FY 2010	Recommended FY 2009	Recommended FY 2010
SOURCE OF FUNDS					
General Fund					
Continuing Appropriation	231,489,700	231,489,700	231,489,700	214,775,400	25,000,000
Total General Fund	231,489,700	231,489,700	231,489,700	214,775,400	25,000,000
TOTAL SOURCE OF FUNDS	231,489,700	231,489,700	231,489,700	214,775,400	25,000,000

The Budget Reserve Trust Fund is the Commonwealth's "Rainy Day Fund." KRS 48.705 provides for deposits to the Budget Reserve Trust Fund from direct appropriations, excess receipts, and unexpended appropriations, up to five percent of actual General Fund revenue receipts. These funds are appropriated and available in the event that actual General Fund revenue receipts during the biennium are not sufficient to meet the General Fund appropriation levels authorized in the budget. These funds are also available as a resource for Necessary Governmental Expenses when there is no General Fund surplus.

The balance of the Budget Reserve Trust Fund at the end of fiscal year 2007 was $231,489,700.

Policy

House Bill 380, the 2006-08 budget Act, as modified by House Bill 557 from the 2006 General Assembly, decreased the Budget Reserve Trust Fund by $27,290,300 in fiscal year 2008, making that amount available for appropriations elsewhere. This budgeted use of the Budget Reserve Trust Fund was lessened as a result of vetoes made to House Bill 380, requiring that only $16,714,300 be made available for appropriations from the Fund. This brings the balance of the Fund to $214,775,400.

The Executive Budget draws down the Budget Reserve Trust Fund in fiscal year 2009-10 by $189,775,400 to a balance of $25,000,000. The unprecedented fiscal situation facing the Commonwealth requires the use of this resource to sustain critical spending areas.

The General Fund Surplus Expenditure Plan provides for the prospect of additional deposits to the Budget Reserve Trust Fund should the Commonwealth enjoy any undesignated General Fund balances at the end of fiscal years 2007-08 and 2008-09.

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Revenue Estimates

Fiscal Years
2008-2010

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Office of State Budget Director

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Mary E. Lassiter
State Budget Director

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
Governor's Office for Policy Research

January 17, 2008

Ms. Mary E. Lassiter
State Budget Director
Office of State Budget Director
Room 284, Capitol Annex
Frankfort, Kentucky 40601

Mr. Robert Sherman, Director
Legislative Research Commission
Room 300, State Capitol
Frankfort, Kentucky 40601

Mr. Jason Nemes, Director
Administrative Office of the Courts
100 Millcreek Park
Frankfort, Kentucky 40601

Dear Ms. Lassiter, Mr. Sherman and Mr. Nemes:

Pursuant to Kentucky Revised Statutes 48.115 and 48.120, the attached report includes the official detailed revenue estimates for the General Fund, Road Fund, and Phase I Master Settlement Agreement (MSA) for Fiscal Years 2008, 2009, and 2008. The revenue estimates for the upcoming biennium, which were determined at the January 16, 2008 meeting of the Consensus Forecasting Group, are as follows:

Fiscal Year	General Fund	Road Fund	MSA
FY08	$8,633,038,000	$1,282,801,405	$117,470,000
FY09	$8,823,597,000	$1,324,806,407	$119,690,000
FY10	$9,096,259,000	$1,405,103,409	$121,580,00

The official forecast reflects a 0.7 percent increase in General Fund receipts for FY 2008 when compared to FY 2007. Fiscal Year 2009 General Fund receipts are expected to grow by 2.2 percent. Fiscal Year 2010 receipts are forecasted to grow by 3.1 percent compared to FY 2009.

Compared to the December 18, 2007 revised General Fund revenue estimate, the forecast for Fiscal Year 2008 is reduced by $11.0 million. The reductions for FY 2009 and FY 2010 are compared to the October 15, 2007 consensus revenue since these forecasts were not revisited in December. Relative to that estimate, the outlook for FY 2009 is for a reduction of $54.0 million, and expected revenues for FY 2010 are reduced by $104.2 million. The estimate for Fiscal Year 2008 is $132.2 million below the estimated levels upon which the Fiscal Year 2008 budget was enacted.

Road Fund revenues are forecasted to grow in Fiscal Year 2008 by 4.6 percent over their level in Fiscal Year 2007. For Fiscal Year 2009 Road Fund revenues are expected to exceed Fiscal Year 2008 receipts by 3.3 percent. In Fiscal Year 2010 growth should equal 6.1 percent.

Relative to the December 18, 2007 forecast for the Road Fund, the latest estimate represents a decrease of $4.3 million in the current fiscal year. For Fiscal Year 2009 and Fiscal Year 2010, compared to the October 15, 2007 estimate, the reductions are $20.8 million and $17.1 million, respectively.

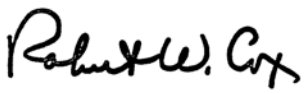
The outlook for revenues received under the MSA is for Fiscal Year 2008 revenues to be $117.47 million, followed by receipts of $119.69 million in Fiscal Year 2009 and $121.58 million in Fiscal Year 2010. Compared to revenues in Fiscal Year 2007, the estimate projects growth of 8.9 percent in Fiscal Year 2008, 1.9 percent for Fiscal Year 2009, and 1.6 percent in Fiscal Year 2010. The estimate for Fiscal Year 2008 is $26.57 million higher than the previous consensus estimate of January 30, 2007.

In summary, the General Fund, Road Fund, and MSA estimates were prepared by the Consensus Forecasting Group and represent an agreement as to the most likely outcome for revenues in the current fiscal year and upcoming biennium, given the available information on January 16, 2008.

The Consensus Forecasting Group consisted of Dr. Larry Lynch (chairman), Ms. Maria G. Hampton, Dr. Bruce Johnson, Dr. James McCabe, Dr. Frank O'Connor, Dr. David Wildasin, and Dr. Virginia Wilson. Support was provided by the Governor's Office for Economic Analysis and the Legislative Research Commission.

Detailed estimates for each account and summary tables for the General Fund and Road Fund are attached.

Sincerely,



Robert W. Cox
Deputy Executive Director
Governor's Office for Economic Analysis

Attachments

EXECUTIVE SUMMARY

Revised revenue estimates for the General Fund and the Road Fund for fiscal year 2009 and fiscal year 2010 are transmitted in the "Revenue Estimates" section of this report.

The General Fund forecast for fiscal year 2009 was estimated to be $8.824 billion in January 2008 by the Consensus Forecasting Group (CFG). The revenue estimate is $9.096 billion for fiscal year 2010.

These estimates reflect the consensus forecasting process authorized by Kentucky Revised Statute 48.115. Consensus forecasting is a joint effort by the executive and legislative branches, assisted by selected academic economists.

Since most General Fund taxes relate in some way to the performance of the state's economy, the first step in the revenue forecasting process was deciding upon a reasonable view of how the national and state economies would evolve over the forecast period. Three plausible national scenarios were provided by Global Insight and Economy.com. Both firms are nationally recognized economic consultants and specialize in preparing macroeconomic forecasts of the U.S. economy. Two scenarios developed by Global Insight, a "control" forecast (deemed the most likely by that agency) and a "pessimistic" alternative forecasts were considered. The economic outlook developed by Economy.com was also presented. Beginning at the September meeting of the CFG, and continuing throughout the estimation process, the members decided that a weighted blend of the Global Insight control and pessimistic scenarios presented the most likely economic landscape to be used for developing the final revenue estimates.

The common assumption of both scenarios is that energy prices will peak in the current fiscal year and begin to subside moderately over the upcoming biennium. The forecast for the fiscal year 2009 – 2010 biennium is that growth as measured by real gross domestic product (GDP) will slow to 1.2 percent in fiscal year 2009, rising to 2.6 percent in fiscal year 2010. Employment growth is forecasted to rise by 0.4 percent in fiscal year 2009, increasing to 1.1 percent in fiscal year 2010.

Kentucky's economy is projected to closely mirror the U.S. economy according to the blended outlook. Personal income is estimated to be $141.5 billion in fiscal year 2009, with a corresponding growth rate projected at 4.3 percent. In fiscal year 2010, personal income is expected to rise 5.3 percent. Employment growth in nonagricultural industries is expected to be 0.8 percent in fiscal year 2009, followed by 1.0 percent in fiscal year 2010. By the end of fiscal year 2010, employment should top 1,895,500 workers.

Through the first half of fiscal year 2008, General Fund revenue has slipped by 0.4 percent, reflecting the softness in the national and state economies. Receipts began to slow noticeably in the second quarter (October-December), falling by 2.1 percent after growing by 1.5 percent in the first quarter. This continues a trend that began late in the previous fiscal year. The outlook for the remainder of fiscal year 2008 is for General Fund collections to total $8.633 billion, a growth rate of 0.7 percent from the previous fiscal year. Fiscal year 2009 revenues are estimated to be $8.824 billion, an increase of 2.2 percent from fiscal year 2008. For fiscal year 2010, General Fund revenues should reach $9.096 billion, rising by 3.1 percent.

Table 1
Economic Assumptions Used in the Revenue Estimate
(Based on Blended Global Insight Scenarios)

	FY08	FY09	FY10
KY Nonfarm Employment (Thous)	1,861.1	1,876.7	1,895.9
Change	0.6%	0.8%	1.0%
KY Personal Income (Mil $)	135,679	141,543	149,056
Change	5.5%	4.3%	5.3%

Table 2
General Fund Revenue FY 2007 Actual
Fiscal Years 2008-10 Estimates

	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Total Receipts (Mil $)	8,573.8	8,633.0	8,823.6	9,096.3
Percent Change (%)	2.4	0.7	2.2	3.1
New Dollars (Mil $)	197.7	59.2	190.6	272.7

Road Fund collections are summarized in Table 3. Road Fund revenue should be $1.283 billion in fiscal year 2008. This represents an increase of 4.6 percent from the prior fiscal year. In fiscal year 2009, growth of 3.3 percent is forecasted, producing revenues of $1.325 billion. Fiscal year 2010 Road Fund growth will rise to 6.1 percent. The primary source of growth in the Road Fund is the motor fuels tax, which is affected by a formulaic rise in the rate tied to the price of gasoline. Even without further increases in gasoline prices, the annual cap on the maximum increase will result in the statutory tax rate continuing to rise each year of the forecast period.

Table 3
Road Fund Revenue FY 2007 Actual
Fiscal Years 2008-10 Estimates

	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Total Receipts (Mil $)	1,225.9	1,282.8	1,324.8	1,405.1
Percent Change (%)	5.2	4.6	3.3	6.1
New Dollars	60.5	56.9	42.0	80.3

ECONOMIC OUTLOOK

NATIONAL OUTLOOK

Forecasting Methodology

In formulating Kentucky's General Fund and Road Fund estimates the Governor's Office for Economic Analysis (GOEA) used a variety of forecasting techniques. These included simultaneous equation econometric models, simple regression models, vector autoregression, time-series analysis, and judgment based on familiarity with the administrative rules governing revenue receipts and tax laws.

The first step in the revenue forecasting process was deciding upon a reasonable view of how the national and state economies will evolve over the forecast period. Four plausible national scenarios were initially provided to the Consensus Forecasting Group (CFG). Three of these were from Global Insight and one from Economy.com. Both firms are nationally recognized economic consultants and specialize in preparing macroeconomic forecasts of the U.S. economy. Given the current uncertainty in the economy the CFG opted for a 50:40 blend of Global Insight's Control (also called baseline) and Pessimistic scenarios.

Assumptions

The forecasting process always contains some degree of uncertainty. The uncertainty has been heightened during this forecast cycle by the possibility of a recession. Since late August the drag related to the subprime lending market has taken center stage. In distancing themselves from mortgage-backed securities, investors roiled the financial markets and moved toward traditional safe havens like precious metals and government securities. This was followed by a dramatic slowdown in employment. In December the U.S. nonfarm employment report showed a gain of just 18,000 jobs instead of an expected gain of 100,000. Since August oil prices have surged by over $20 per barrel from a year ago in response to increased worldwide demand.

Fortunately, both the twin shocks from the housing market and the energy market have manifested themselves before the estimates were finalized. This has allowed GOEA to analyze and incorporate them into the national and Kentucky outlook. At the broadest level the assumption is that the economy continues to be soft and is threatened by the weak housing market and high energy prices. Strong growth in Asia and the weak dollar is helping exports, but has lowered the purchasing power of domestic consumers.

Even though the economy has been battered it is expected to avoid a recession. Energy prices are expected to have peaked in December and will slide in response to a weakened economy. Inflation is expected to average 3.2 percent in fiscal year 2008 and then fall to below two percent during the next biennium. The Federal Reserve is expected to cut rates by another 50 basis points during the current quarter bringing the Fed funds rate to 3.5 percent.*

Forecast

The economic landscape changed substantially by the last quarter of fiscal year 2007. The drag related to the subprime lending market has taken center stage. In distancing themselves from mortgage-backed securities, investors roiled the financial markets and moved toward traditional safe havens like precious metals and government securities. This was followed by a surge in energy prices. Since November crude oil prices have periodically soared to near $100 per barrel. The economic outlook has now become tentative and calls for modest growth in both the U.S. and Kentucky economies.

***Note:** The forecast was prepared before the Federal Reserve Board's announcement on January 22 that it would reduce the federal funds rate by 75 basis points.

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. In fiscal year 2007 real GDP was up 2.1 percent. This seemed to indicate that the economy was slowing down. A rule of thumb among economists is that real GDP growth at three percent or above is required for employment growth to be sustained; otherwise productivity gains keep employment growth down. The blended forecast for real GDP is for an increase of 2.3 percent in fiscal year 2008 followed by 1.2 and 2.6 percent in the next biennium. The marked slowdown in fiscal year 2009 is from the expected resetting of adjustable rate mortgages to a higher rate resulting in further foreclosures.

Consumers are the main driver for both the national and Kentucky economies. Two-thirds of GDP is comprised of consumption expenditures. Total real consumption increased by 3.0 percent during fiscal year 2007. It is expected to slow to 2.4 percent during the current year, and dampen further to 2.0 percent in fiscal year 2009. By fiscal year 2010 the demand for durable goods is expected to increase as the economy recovers, resulting in a 2.6 percent increase in overall consumption.

U.S. personal income grew by an annual average of 5.2 percent during the last five years. Inflation during this period was 2.8 percent. The relatively slow growth in income—given the high inflation—resulted from sluggish employment increases. Growth in personal income during fiscal year 2008 is expected to be 5.5 percent with inflation at 3.2 percent. The blended forecast calls for U.S. personal income gains to be just 4.3 and 5.0 percent during the next biennium as a result of a general economic slowdown and drop in productivity growth.

During the initial recovery period from the 2001 recession the employment news was disappointing. Then in the last three years U.S. nonfarm employment was up an average of 1.9 percent as the economy gathered steam. With the economic downturn in early fiscal year 2008 employment growth is expected to be 0.9 percent for the current year followed by 0.4 percent in fiscal year 2009 and 1.1 percent in fiscal year 2010. The general slow down is due to a sharp decline in aggregate demand as both savings and wealth are eroded through the subprime fiasco, rising energy prices, and a skittish stock market.

KENTUCKY OUTLOOK

Forecasting Methodology

The blended forecast preference of the CFG was also applicable to the state forecast. Both the Control and Pessimistic scenarios were used in preparing two different forecasts for the Kentucky economy and these were then averaged in a 50:40 ratio. At the heart of the revenue estimation process is a dynamic response econometric model that forecasts the economic environment in which revenue collection will occur. The model estimates the effect of changes in the national economic outlook on the Kentucky economy. The U.S. economy is considered to be a “driver” for the state economy to the extent that certain fundamental economic factors are common to both and that the state economy is demand driven. As an example, interest rates and energy prices are common to both economies. The demand for goods in the larger economy is assumed to drive the production of goods in Kentucky and the composition of Kentucky’s employment.

Economic Forecast

Following the recession the initial economic recovery occurred in terms of output of goods and services, and not employment. The Kentucky economy was hit hard during the recession, and continued to suffer during the first three years of recovery. Sharp gains in productivity and the increased outsourcing of jobs abroad, especially in businesses like call centers and payroll processing meant that employment actually declined during this period. Since the recession was global it idled production activity in low-wage countries, too. During the recovery the initial increased demand for goods meant that low-wage factories off-shore were staffed first. These factors suppressed employment and income growth in Kentucky more than the nation because much of the productivity gains were in lower-wage manufacturing and service jobs.

In fiscal year 2008, personal income is estimated to increase by 5.5 percent to $135.7 billion. Wages and salaries comprise about 53 percent of total income. These were up by 5.3 percent during fiscal year 2007 and are expected to slow to 5.0 percent in fiscal year 2008 and 3.9 percent in fiscal year 2009. The low growth rates are tied to the general economic slowdown related to the subprime lending crisis and the spike in energy prices. By fiscal year

2010 Kentucky's personal income is expected to bounce back to 5.3 percent and wage and salary income by 5.4 percent.

Kentucky's employment composition has changed over the last decade and has converged closer to the national average. However, employment is still dominated by manufacturing and construction. The goods-producing sector accounts for 20 percent of all jobs in Kentucky compared to the national average of 16 percent. In the last few years this has been to Kentucky's disadvantage as manufacturing facilities have moved to low-cost centers abroad, and the ones that remain have seen a surge in productivity.

The subprime meltdown has had some impact on Kentucky, but not at the same scale as states like California or Florida. However, Kentucky will feel the impact of a prolonged financial crisis at the national level. The sliding dollar is expected to help Kentucky's exports, but the wage differential between newly industrialized economies and the U.S. is difficult to bridge. This means manufacturing employment in Kentucky will continue to decline in fiscal year 2008 and for both years of the next biennium.

Nonfarm employment in Kentucky increased by 1.5 percent in fiscal year 2006 resulting in the addition of 26,600 jobs. During fiscal year 2007 the job market weakened substantially with employment increasing by 0.7 percent and the creation of just 12,900 jobs. Further weakening is expected in both fiscal year 2008 and fiscal year 2009 with nonfarm employment growth rates of 0.6 and 0.8 percent. By fiscal year 2010 as the economy recovers employment growth is forecasted to increase by 1.0 percent.

Table 4: Selected U.S. and Kentucky Economic Indicators
Global Insight: Weighted Forecast January 2008

	FY06	FY07	FY08	FY09	FY10
OUTPUT					
US Real GDP (Bil 2000$)	11,182	11,416	11,679	11,819	12,121
	3.2%	2.1%	2.3%	1.2%	2.6%
Industrial Production Index, Total	3.5%	3.2%	1.4%	0.8%	2.1%
Industrial Production Index, Durables	1.4%	2.0%	0.2%	0.1%	1.2%
INCOME					
KY Personal Income (Mil$)	121,687	128,643	135,679	141,543	149,056
	5.8%	5.7%	5.5%	4.3%	5.3%
KY Wage & Salary Income (Mil$)	66,273	69,811	73,289	76,137	80,249
	4.6%	5.3%	5.0%	3.9%	5.4%
KY Supplements to W&S (Mil$)	17,432	18,246	19,214	20,127	21,075
	6.4%	4.7%	5.3%	4.8%	4.7%
KY Proprietors' Income (Mil$)	9,036	8,967	9,427	9,659	9,988
	6.1%	-0.8%	5.1%	2.5%	3.4%
KY Dividend, Interest, & Rent (Mil$)	17,793	19,190	20,580	21,143	22,056
	9.2%	7.9%	7.2%	2.7%	4.3%
KY Transfer Payments (Mil$)	23,414	25,450	26,892	28,729	30,561
	6.5%	8.7%	5.7%	6.8%	6.4%
KY Social Insurance (Mil$)	10,305	10,873	11,370	11,676	12,073
	5.3%	5.5%	4.6%	2.7%	3.4%
US Personal Income (Bil$)	10,650	11,319	11,946	12,458	13,082
	6.2%	6.3%	5.5%	4.3%	5.0%
EMPLOYMENT					
KY Nonfarm Employment (Thous)	1,837.7	1,850.6	1,861.1	1,876.7	1,895.9
	1.5%	0.7%	0.6%	0.8%	1.0%
US Nonfarm Employment (Mil)	135.0	137.2	138.4	139.0	140.4
	1.9%	1.6%	0.9%	0.4%	1.1%
KY Manufacturing Employment (Thou)	262.0	259.4	256.1	253.2	251.0
	-0.3%	-1.0%	-1.3%	-1.1%	-0.9%
US Manufacturing Employment (Mil)	14.2	14.1	13.9	13.5	13.3
	-0.6%	-0.5%	-1.4%	-2.8%	-1.5%
OTHER KEY MEASURES					
Consumer Sentiment Index (Michigan)	85.7	88.9	81.0	82.6	83.7
Rate of Inflation (%)	3.8%	2.6%	3.2%	1.8%	2.1%
US Retail Sales (%)	6.8%	4.4%	3.7%	1.8%	4.2%
US Corporate Profits(%)	20.9%	8.7%	-1.4%	-4.6%	-0.3%
Three-month Treasury Bills (%)	4.1%	4.9%	3.4%	3.4%	4.9%
Oil Price, West Texas ($/barrel)	64.30	63.40	85.64	77.88	77.50

MAK: Macromodel of Kentucky

Governor's Office for Economic Analysis
Office of State Budget Director

RECEIPTS
GENERAL FUND & ROAD FUND

Fiscal Year 2007

Total receipts for the General Fund and the Road Fund in fiscal year 2007 increased by 2.7 percent from the prior year. The growth in the General Fund was 2.4 percent. The Road Fund increased by 5.2 percent compared to fiscal year 2006. The growth rate and total receipts for both the General Fund and the Road Fund are shown in Table 5 below.

Table 5
Total Receipts
($ mil)

	FY07	FY06	Percent Change
General Fund	$8,573.8	$8,376.1	2.4
Road Fund	1,225.9	1,165.4	5.2
COMBINED	**$9,799.7**	**$9,541.5**	**2.7**

General Fund

The General Fund grew by 2.4 percent in fiscal year 2007, much slower than the growth recorded in fiscal year 2006 when revenues rose 9.6 percent. Receipts totaled $8.574 billion compared to $8.376 billion for the previous year. Collections in the major revenue categories are shown in summary form in Table 6.

The sales tax growth rate for fiscal year 2007 was 2.5 percent, less than half of last year's growth rate. Receipts of $2.818 billion compare to prior year receipts $2.750 billion.

Individual income tax receipts grew by 4.2 percent for fiscal year 2007, for an increase of $122.9 million from last year. Individual income tax receipts grew partly as a result of tax shifts mandated by House Bill 1 of the 2006 special session of the General Assembly. The bill reduced business taxes and shifted payments from the corporation income tax to the individual income tax for pass-through business entities, a reversal of a law change that occurred in 2005. Receipts totaled $3.042 billion and compare to $2.919 billion collected last year.

Corporation income tax revenue fell slightly in fiscal year 2007, largely as a result of changes enacted in House Bill 1. Revenues from the corporation income tax dipped by 1.4 percent with total collections of $988.1 million. Corporate license taxes, meanwhile, were down sharply, falling by 73.0 percent. (The corporate license tax was abolished for taxpayers whose tax year ended on or after December 31, 2005. Late payments continued to be received throughout fiscal year 2007 for this tax.)

Coal severance tax collections leveled off following a trend of sharp increases by dropping 1.1 percent for fiscal year 2007. Receipts totaled $222.0 million compared to $224.5 million collected during the prior fiscal year. Coal severance tax receipts have remained relatively high primarily due to increases in coal prices that have persisted for the last three years.

Tobacco tax receipts for the year as a whole declined by 3.7 percent from the previous fiscal year. Fiscal year 2007 receipts totaled $177.4 million and compare to $184.2 million for fiscal year 2006. Fiscal year 2006 receipts were boosted by the imposition of the cigarette floor stocks tax in 2005, some receipts of which were paid in fiscal year 2006.

Total property taxes experienced a decrease of 2.0 percent during this fiscal year. Receipts totaled $492.5 million compared to $502.5 million collected in fiscal year 2006. The elimination of the property tax on most intangible property and the removal of telecommunications companies from the Public Service Company property tax reduced revenues from this source.

Lottery receipts dipped by 1.8 percent from the previous year. Receipts of $186.6 million compare to $190 million remitted to the state last fiscal year. Lottery receipts in the previous year were positively affected by unusually large Powerball sales, which were not repeated this year.

The "other" category finished the year with growth of 13.3 percent. Receipts of $636.4 million compare to $561.4 million collected in fiscal year 2006. Several factors were responsible for the growth: the imposition of the telecommunications tax, receipts from the sale of abandoned property, and investment income.

Table 7 details the growth rates in General Fund revenues by each fiscal quarter of fiscal year 2007. Overall, growth was moderate or good through the third quarter, but then weakened in the fourth. No single major revenue source was consistently strong throughout fiscal year 2007.

Table 6
Summary General Fund Receipts Year End Totals, FY 2007
(millions of dollars)

Type Tax	FY07	FY06	Diff.	Percent Change
Sales and Use	2,817.7	2,749.8	67.9	2.5
Individual Income	3,041.5	2,918.6	122.9	4.2
Corp. Inc. & License	999.8	1,045.2	-45.3	-4.3
Coal Severance	222.0	224.5	-2.5	-1.1
Tobacco Taxes	177.4	184.2	-6.8	-3.7
Property	492.5	502.5	-10.0	-2.0
Lottery	186.6	190.0	-3.4	-1.8
Other	636.3	561.4	74.9	13.3
TOTAL	**8,573.8**	**8,376.1**	**197.7**	**2.4**

Table 7
Summary General Fund Growth Rates for the Four Quarters and Full Year FY 2007
(percent)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	FY07
Sales and Use	2.7	3.2	1.1	2.8	2.5
Individual Income	-3.8	1.7	7.1	12.0	4.2
Corp. Inc. & License	34.4	5.6	0.0	-27.1	-4.3
Coal Severance	4.7	6.6	-10.7	-3.8	-1.1
Tobacco Taxes	-21.4	1.1	-0.5	5.2	-3.7
Property	-23.1	-7.5	30.9	-24.7	-2.0
Lottery	10.8	19.1	-2.9	-21.8	-1.8
Other	24.1	-3.1	9.1	25.2	13.4
TOTAL	**3.6**	**1.6**	**5.2**	**-0.1**	**2.4**

Road Fund

Total Road Fund receipts rose by 5.2 percent during fiscal year 2007. Total receipts of $1.226 billion compare to $1.165 billion collected in this fund during fiscal year 2006. Road Fund collections are detailed in Table 8.

Motor fuels and motor fuels use taxes increased by 6.6 percent on receipts of $563.4 million, compared to $528.3 million collected during the previous fiscal year. Motor fuels taxes for the entire fiscal year were impacted by a statutory rate increase tied to the wholesale price of gasoline.

Motor vehicle usage tax receipts of $411.3 million represent a rise of 4.0 percent compared to the $395.6 million collected in fiscal year 2006. Usage tax receipts have rebounded following a decrease in the previous fiscal year.

Weight distance tax revenues were nearly flat with just a 0.1 percent rise and receipts of $85.4 million compared to $85.3 million collected in the previous fiscal year.

Motor vehicle license tax receipts were up by 8.3 percent with collections of $101.7 million, compared to $93.9 million collected in fiscal year 2006. A reclassification of special fees boosted this revenue source.

Investment income rose by 152.6 percent as Road Fund balances increased in fiscal year 2007. Receipts totaled $16.1 million, compared to $6.4 million in fiscal year 2006.

The "Other" category fell by 22.0 percent from the previous fiscal year. Total receipts in this category were $32.2 million, which is down from the $41.3 million collected in fiscal year 2006.

Table 8
Summary Road Fund Receipts Year End Totals, FY 2007
(millions of dollars)

Type Tax	FY07	FY06	Diff.	Percent Change
Motor Fuels	563.4	528.3	35.1	6.6
Motor Vehicle Usage	411.3	395.6	15.7	4.0
Motor Vehicle License	101.7	93.9	7.8	8.3
Motor Vehicle Operators	15.8	14.6	1.2	8.6
Weight Distance	85.4	85.3	0.1	0.1
Investment Income	16.1	6.4	9.7	152.6
Other	32.2	41.3	-9.1	-22.0
TOTAL	**1,225.9**	**1,165.4**	**60.5**	**5.2**

Table 9
Summary Road Fund Growth Rates for the Four Quarters
and Full Year FY 2007
(percent)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	FY07
Motor Fuels	5.9	7.0	9.1	4.3	6.6
Motor Vehicle Usage	-7.6	11.0	11.2	5.3	4.0
Motor Vehicle License	0.8	1.1	3.0	25.7	8.3
Motor Vehicle	-13.2	4.4	0.7	-0.6	8.6
Weight Distance	24.2	13.3	-0.7	-0.7	0.1
Investment	336.3	515.0	126.6	57.4	152.6
Other	-16.5	-24.5	-21.4	7.5	-22.0
TOTAL	**-0.4**	**7.7**	**6.9**	**7.1**	**5.2**

First Half, Fiscal Year 2008

Total General Fund receipts for the first half of fiscal year 2008 were $4.243 billion, which is a 0.4 percent decrease from the first half of fiscal year 2007, when $4.259 billion was generated. Summary results for the first six months of fiscal year 2008 are shown in Table 10.

Sales and use tax collections totaled $1.446 billion. This is a 2.6 percent increase over the $1.409 billion collected in the first half of fiscal year 2007.

Individual income tax receipts grew by 8.2 percent during the first half of fiscal year 2008 with receipts of $1.621 billion. Collections for the first half of fiscal year 2007 were $1.498 billion. Growth in this revenue source is due to changes in tax law that restored reporting for certain limited liability entities to the individual income tax, rather than the corporation income tax.

Corporation income taxes and the limited liability entity tax collectively fell by 40.4 percent during the first half of fiscal year 2008. Collections during the period were $308.8 million, compared to the $518.5 million during the first half of fiscal year 2007. The decrease in corporation income tax revenues is the mirror effect of the shift in reporting among limited liability entities.

Coal severance receipts fell by 0.4 percent for the first half of the year. Collections for the current period totaled $110.9 million compared to $111.4 million for the first half of fiscal year 2007.

Tobacco taxes including taxes on cigarettes, other tobacco products and cigarette papers rose by 0.7 percent in the first six months of fiscal year 2008 with collections of $89.6 million. Collections in the first two quarters of fiscal year 2007 were $89.0 million.

Property tax collections rose by 4.1 percent in the first half of fiscal year 2008. Collections for the period were $304.2 million compared to $292.2 million during the first half of fiscal year 2007.

Lottery receipts of $92.3 million represented an increase of 4.1 percent over the $88.6 million collected during the first half of fiscal year 2007.

All other General Fund accounts combined for total revenues of $270.7 million, a rise of 7.2 percent from the $252.6 million raised in the same period one year earlier.

Table 10
Summary General Fund Receipts, First Half, FY 2008
(millions of dollars)

Type Tax	FY08	FY07	Percent Change
Sales and Use	1,446.2	1,409.0	2.6
Individual Income	1,620.6	1,498.1	8.2
Corp. Inc. & LLET	308.8	518.5	-40.4
Coal Severance	110.9	111.4	-0.4
Tobacco Taxes	89.6	89.0	0.7
Property	304.2	292.2	4.1
Lottery	92.3	88.6	4.1
Other	270.7	252.6	7.2
TOTAL	**4,243.3**	**4,259.4**	**-0.4**

Road Fund

In the Road Fund, total receipts grew by 6.7 percent to $627.3 million. Collections for the first half of fiscal year 2007 were $587.9 million. Summary results for the first half of fiscal year 2008 are displayed in Table 11.

Motor fuels taxes increased by 9.9 percent. Receipts of $311.6 million in the first half of fiscal year 2008 compare to $283.6 million collected during the same period of fiscal year 2007. Motor fuels tax receipts were boosted by a formula-driven increase in the tax rate tied to the price of gasoline.

Motor vehicle usage tax receipts rose by 2.8 percent with collections of $204.5 million, compared to $199.0 million received in the first six month of the previous fiscal year. During the first half of fiscal year 2008, the weight distance tax rose by 0.1 percent. Collections for the first half of fiscal year 2007 were $43.3 million. All other accounts in the Road Fund combined for growth of 9.5 percent, with total revenue of $67.9 million.

Table 11
Summary Road Fund Receipts, First Half FY 2008
(millions of dollars)

Type Tax	FY08	FY07	Percent Change
Motor Fuels	311.6	283.6	9.9
Motor Vehicle Usage	204.5	199.0	2.8
Motor Vehicle License	35.8	31.6	13.5
Motor Vehicle Operators	7.8	8.0	-2.6
Weight Distance	43.3	43.3	0.1
Investment Income	7.9	6.9	14.1
Other	16.4	15.5	5.8
TOTAL	**627.3**	**587.9**	**6.7**

REVENUE ESTIMATES
DETAILED FOR FISCAL YEAR 2009 & FISCAL YEAR 2010

The Consensus Forecasting Group (CFG) produces revenue estimates for the General Fund and the Road Fund. On October 15 of each odd-numbered year (such as 2007), a preliminary detailed revenue estimate for the upcoming two fiscal years must be presented to the head of the budget agencies for each branch of state government. Then by the following January, by the 15th day of the legislative session, a revised estimate is required.

The CFG relies extensively upon input from the Governor's Office for Economic Analysis (GOEA). To fulfill its obligation to provide accurate and timely revenue forecasts, GOEA relies on several forecasting techniques, ranging from simple trend extrapolation to the latest econometric methods. GOEA uses output from the Macroeconomic Model of Kentucky (MAK) in the estimation of several revenue sources. MAK is a structural forecasting model of the Kentucky economy that uses the forecast for the national economy in its underlying estimation. This model provides, among other things, estimates for future income and employment for the Commonwealth of Kentucky.

In addition to data from MAK, revenue forecasting models use past values for the various categories of revenue and other economic and financial data. Some revenue forecasts use detailed, highly theoretical estimating techniques with several data inputs. Other forecasts use more intuitive equations with basic data. Regardless of the method or data inputs, each estimate is carefully weighted against the forecaster's knowledge of economic events, past revenue trends, and administrative considerations. Analysts from the Transportation Cabinet and the Department of Revenue provide additional information about the administration of various taxes. After GOEA's analysis is completed, the revenue estimates are presented to the CFG for consideration and approval. The CFG is a select group of distinguished economists and budgetary experts who examine and may modify the estimates based on their own experience and considerations of the relevant facts.

The CFG met on December 18, 2007 to agree on an economic forecast to develop revenue estimates for fiscal years 2008, 2009, and 2010. The group decided to base its revenue estimates on two economic forecasts for Kentucky, a so-called "control" forecast, considered to be the most likely, and an alternative "pessimistic" forecast. The CFG preferred a weighted average of the two based on the relative likelihood of each forecast transpiring. Following the December meeting, the CFG requested that GOEA prepare an updated economic outlook incorporating more recent information for use in January. The updated economic outlook formed the basis for the January 16, 2008, CFG revenue estimates.

General Fund: Major Accounts

Total General Fund revenue for fiscal year 2008 is projected to be $8.633 billion, for an increase of 0.7 percent from fiscal year 2007. Receipts for fiscal year 2009 are estimated to be $8.824 billion followed by $9.096 billion in fiscal year 2010.

Individual Income Tax

Individual income tax receipts increased 8.2 percent in the first half of fiscal year 2008 compared to a decline of 1.1 percent for the same period a year ago. Withholding, the largest component, was up 4.7 percent compared to 3.2 percent a year ago. Declaration payments were up 33.9 percent compared to an decrease of 14.8 percent a year ago. The increases were an expected result of HB 1 from the 2006 special session, which restored filings for limited liability pass-through entities to the individual income tax.

In forecasting the individual income tax, the first step was to estimate "regular" collections, ignoring one-time changes that impacts receipts. When preparing the final forecast, these one-time changes as well as the numerous adjustments brought about by tax modernization and HB 1 were added to the estimate.

Two forecasting models for withholding receipts were tested: a vector autoregression (VAR) model incorporating Kentucky personal income, US retail sales, and Kentucky manufacturing employment; and a structural model of the

economy using Kentucky wage and salary income, and consumer sentiment as drivers. The input variables were based on the "blended" economic scenario as directed by the CFG. The results from these competing models were averaged to produce the forecast for withholding. Non-withheld components were projected using various extrapolation techniques, and were adjusted for administrative and/or timing considerations.

Forecasted individual income tax receipts for fiscal year 2008 are $3.370 billion in fiscal year 2008, following by revenues of $3.473 billion in fiscal year 2009 and $3.630 billion in fiscal year 2010. The corresponding growth rates are 10.8 percent, 3.1 percent, and 4.5 percent. The growth rate in the current fiscal year is affected by HB 1 as described above.

Sales and Use Tax

Sales and use taxes rose by 2.6 percent in the first half of fiscal year 2008 compared to 3.0 percent growth for the same period a year ago.

The sales tax forecast is based on a regular collection series that adjusts for one-time or noneconomic events. Similar to the methodology for the individual income tax, a VAR model and a structural model were averaged to produce the expected revenues for the fiscal year 2008 – fiscal year 2010 period. The VAR used is the same specification as that for the individual income tax model, and the structural model was based on U.S. retail sales and Kentucky wage and salary income. After the estimation of regular collections, the noneconomic factors were included for a final sales tax estimate.

Forecasted sales and use tax revenues are $2.898 billion in fiscal year 2008. Receipts for fiscal year 2009 are $2.969 billion followed by $3.058 billion in fiscal year 2010. Respective growth rates are 2.8 percent, 2.5 percent, and 3.0 percent.

Corporation Income Tax

In the first half of the fiscal year corporation income taxes declined by 61.6 percent compared to an increase of 27.4 percent a year ago. The source of much of this decline is the restructuring of business taxes in HB 1 as described earlier.

A structural model was used to forecast the regular receipts of the corporation income tax. Before-tax U.S. corporate profits served as the explanatory variable for the model.

For fiscal year 2008, the estimated receipts from corporation income taxes are $551.5 million, representing a decrease of 44.2 percent from the previous year. For fiscal year 2009, revenues are expected to decline further by 6.9 percent, reaching $513.4 million. In the following year, the decrease is expected to moderate to a 1.4 percent drop, with receipts of $506.0 million.

Limited Liability Entity Tax

The limited liability entity tax was created in the 2006 special session of the General Assembly as a replacement for the alternative minimum calculation of the corporation income tax. In the first six months of the year, revenues from this equaled $37.0 million.

The fiscal year 2008 estimate of $93.0 million is based on a linear extrapolation whereby the first half of fiscal year 2008 makes up 40 percent of total fiscal receipts and the second half of fiscal year 2008 makes up 60 percent of total fiscal receipts. This was based on information from the Department of Revenue regarding expectations for the pattern of collections in the current year. The base estimates for fiscal year 2009 and fiscal year 2010 were generated by using the final estimated quarter from fiscal year 2008 and copying it uniformly into the next eight quarters. The result was adjusted by the forecasted growth rates of the U.S. Corporate Tax (nominal values). U.S. Corporate Tax was the best available proxy for corporate gross receipts.

Coal Severance Tax

Coal severance tax receipts were down 0.4 percent in the first half of the year. Receipts are expected to grow modestly in the final six months of fiscal year 2008. Spot prices for coal have been inching upward in recent months in response to rising oil and natural gas prices.

The forecast was prepared with both time-series and structural models. The exogenous variables in the latter were the U.S. Consumer Price Index for Energy, real Gross Domestic Product, and the Producer Price Index for coal.

Results of the two forecasts were combined and averaged to produce a nearly flat estimate for the forecast period. Receipts of $223.7 million in fiscal year 2008 are expected to exceed the previous year by 0.8 percent. For the upcoming biennium, revenues are forecasted to be $223.7 million and $224.0 million in successive years.

Tobacco Taxes

Cigarette taxes have grown a scant 0.2 percent in the first half of the current year. Taxes on other tobacco products have risen 7.7 percent. Combined, all taxes on tobacco products have yielded $89.6 million thus far in fiscal year 2008, with the resulting growth rate of 0.7 percent.

The forecast for the upcoming biennium was prepared with a Winters Additive Method to predict the number of cigarette packs sold in Kentucky. This was used in conjunction with the tax rate to derive an estimate, which was then adjusted for the border effect of tax increases in neighboring states. Receipts from taxes on other tobacco products were extrapolated using year-to-date trends in revenues.

The resulting forecast is for tobacco taxes to generate $179.7 million in the current fiscal year. Tax receipts in fiscal year 2009 are projected to be $179.3 million followed by $178.2 million in fiscal year 2010.

Property Taxes

Property Tax receipts were up by 4.1 percent in the first half of fiscal year 2008 compared to a decline of 10.1 percent during the same period a year ago. Property taxes are forecast based on historical receipts, property assessments, the Kentucky economic outlook, statutory and judicial changes, and administrative factors.

Collections are expected to total $497.0 million in fiscal year 2008, 0.9 percent over fiscal year 2007. Receipts for fiscal year 2009 are estimated at $518.9 million followed by $542.3 million in fiscal year 2010.

Kentucky Lottery

Lottery revenues are estimated jointly by staff from the Governor's Office for Economic Analysis and the Kentucky Lottery Corporation. Based on the financial results of the first half of fiscal year 2008, the Lottery Corporation recommended a forecast of $187.5 million in the current year. In fiscal year 2009, lottery revenues should increase to $191.5 million, with $195.0 million expected in fiscal year 2010.

Other Revenue Sources

The "other" revenue category contains over 100 revenue accounts. Despite their aggregation for display purposes, the line items in the "other" account are estimated separately. In most cases, estimates were derived based on trend analyses of historical data. In all cases the estimates are scrutinized to ensure a proper accounting for administrative and legal anomalies. Some of the larger accounts, insurance taxes, telecommunications taxes, the inheritance tax, and investment income, were estimated in close consultation with the administrators of each revenue source.

After tallying all of the accounts, the forecast calls for revenues of $633.1 million in fiscal year 2008, a decline of 0.5 percent compared to fiscal year 2007. Receipts for fiscal year 2009 are estimated at $646.0 million followed by $650.4 million in fiscal year 2010.

Road Fund: Major Accounts

Total Road Fund revenues for fiscal year 2008 are projected to be $1.283 billion for an increase of 4.6 percent from the previous fiscal year. Receipts for fiscal year 2009 are estimated to be $1.325 billion followed by $1.405 billion in fiscal year 2010.

Motor Fuels (Normal, Normal Use Tax, and Fuels Surtax)

Motor fuels tax collections, including use and surtax, were up 9.9 percent in the first half of fiscal year 2008 compared to growth of 6.5 percent a year ago.

Motor fuels taxes are estimated using a structural model with the price of oil, U.S. average gasoline pump prices, and Kentucky wages and salaries as relevant inputs. Fuel receipts have experienced strong growth in fiscal year 2008 due to the formula-driven increase in the tax rate tied to the average wholesale price of gasoline. The forecasted growth rate for fiscal year 2008 is 8.6 percent, representing total collections of $611.7 million. The growth rate is expected to be robust in fiscal year 2009 at 8.1 percent for receipts of $661.4 million. Growth driven by rising fuel prices is expected to continue rapidly, with an increase of 9.5 percent in fiscal year 2010 and collections of $724.4 million.

Motor Vehicle Usage

Motor vehicle usage tax receipts were estimated using a structural model containing consumer spending on light vehicles and consumer sentiment as drivers. Fiscal year 2008 receipts have slowed in the first six months of the year with growth of 2.8 percent, and this is expected to decline for a total growth in the current year of just 0.1 percent and revenues of $411.7 million.

Receipts in fiscal year 2009 are expected to total $411.9 million, virtually unchanged from the previous year. In fiscal year 2010 the outlook is for receipts to expand by 3.3 percent yielding revenues of $425.3 million.

Motor Vehicle License

License receipts were estimated using a structural model with registered vehicles as a driver and include an adjustment by the analyst. Motor vehicle license receipts are estimated to be $108.6 million in fiscal year 2008, followed by $109.5 million in fiscal year 2009 and $112.5 million in fiscal year 2010.

Motor Vehicle Operators

Motor vehicle operators collections were estimated using a time series (ARIMA) model. The forecast is for revenues to decline by 2.5 percent in fiscal year 2008. During the next biennium receipts are expected to be $15.5 million in fiscal year 2009 and $16.3 million in fiscal year 2010.

Weight Distance

The weight distance tax is estimated by a structural model with the U.S. industrial production index as the driver. Receipts for fiscal year 2008 are expected to total $85.5 million, a 0.1 percent increase. The forecast calls for $85.9 million in fiscal year 2009 and $87.7 million in fiscal year 2010.

Investment

Income from investment is estimated by examining historical and current trends in investment balances and interest rate forecasts. Investment income for the current year is estimated at $15.8 million, followed by $5.8 million in fiscal year 2009 and $3.7 million in fiscal year 2010.

Other Revenue Sources

“Other” receipts include fees, fines, and miscellaneous receipts. The estimates of these revenue sources are based on econometric models, historical growth patterns, recent statutory changes, and administrative factors that

influence the flow of revenues. Receipts are forecasted to be $34.1 million in fiscal year 2008, followed by $34.8 million in fiscal year 2009 and $35.2 million in fiscal year 2010.

General Fund
Consensus Forecast for FY08 to FY10
January 16, 2008

General Fund Revenues (million $)

	FY06 Actual	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Sales & Use	2,749.8	2,817.7	2,897.6	2,969.1	3,057.5
Individual Income	2,918.6	3,041.5	3,370.0	3,472.8	3,629.7
Corporation Inc & LLET*	1,045.1	999.8	644.5	622.3	619.2
Coal Severance	224.5	222.0	223.7	223.7	224.0
Cigarette & OTP	184.2	177.4	179.7	179.3	178.2
Property	502.5	492.5	497.0	518.9	542.3
Lottery	190.0	186.6	187.5	191.5	195.0
Other	561.4	636.3	633.1	646.0	650.4
Total General Fund	**8,376.1**	**8,573.8**	**8,633.0**	**8,823.6**	**9,096.3**

Annual Percentage Growth Rates

	FY06 Actual	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Sales & Use	6.0	2.5	2.8	2.5	3.0
Individual Income	-3.9	4.2	10.8	3.1	4.5
Corp. Inc & LLET*	70.6	-4.3	-35.5	-3.4	-0.5
Coal Severance	21.7	-1.1	0.8	0.0	0.1
Cigarette & OTP	446.5	-3.7	1.3	-0.2	-0.6
Property	6.3	-2.0	0.9	4.4	4.5
Lottery	17.8	-1.8	0.5	2.1	1.8
Other	2.2	13.3	-0.5	2.0	0.7
Total General Fund	**9.6**	**2.4**	**0.7**	**2.2**	**3.1**

* Includes corporate license tax for FY06 & FY07 only

October 07 CFG Estimate (December 07 for FY08 Only)

	FY06 Actual	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Sales & Use	2,749.8	2,817.7	2,889.4	2,975.9	3,087.1
Individual Income	2,918.6	3,041.5	3,352.5	3,488.2	3,653.3
Corporation Inc & LLET*	1,045.1	999.8	685.7	698.3	709.3
Coal Severance	224.5	222.0	225.5	217.3	217.0
Cigarette & OTP	184.2	177.4	181.7	196.2	195.3
Property	502.5	492.5	497.0	518.9	542.3
Lottery	190.0	186.6	187.5	191.5	195.0
Other	561.4	636.3	624.8	591.3	601.2
Total General Fund	**8,376.1**	**8,573.8**	**8,644.0**	**8,877.6**	**9,200.5**

Change from October (December 07 for FY08 Only) to January (Million $)

	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Sales & Use	0.0	8.2	-6.8	-29.6
Individual Income	0.0	17.5	-15.4	-23.6
Corporation Inc & LLET*	0.0	-41.2	-76.0	-90.1
Coal Severance	0.0	-1.8	6.4	7.0
Cigarette & OTP	0.0	-2.0	-16.9	-17.1
Property	0.0	0.0	0.0	0.0
Lottery	0.0	0.0	0.0	0.0
Other	0.0	8.3	54.7	49.2
Total General Fund	0.0	-11.0	-54.0	-104.2

Source	Actual 2006-07	Estimate 2007-08	Estimate 2008-09	Estimate 2009-10
Selected Sales and Gross Receipts Taxes				
Sales & Use	$2,817,652,253	$2,897,600,000	$2,969,100,000	$3,057,500,000
Cigarette Excise Tax	13,056,369	14,900,000	14,900,000	14,800,000
Cigarette Surtax	155,712,098	155,500,000	155,100,000	154,100,000
Cigarette Floor Stock Tax	9,746	0	0	0
Distilled Spirits Case Sales	98,874	102,000	106,000	110,000
Insurance Tax Foreign Companies	36,952,894	36,500,000	37,000,000	37,500,000
Insurance Tax Companies Other Than Life	84,547,124	85,800,000	88,800,000	90,900,000
Insurance Tax Fire Prevention Fund	4,377,967	4,700,000	4,900,000	5,200,000
Pari-Mutuel	5,489,552	5,300,000	5,200,000	5,000,000
Race Track Admission	190,362	200,000	200,000	200,000
Beer Consumption	6,344,079	6,300,000	6,300,000	6,300,000
Distilled Spirits Consumption	10,094,572	10,500,000	10,900,000	11,300,000
Wine Consumption	2,326,331	2,300,000	2,400,000	2,400,000
Beer Wholesale	46,806,186	46,700,000	47,800,000	48,900,000
Distilled Spirits Wholesale	25,139,117	27,300,000	29,400,000	31,700,000
Wine Wholesale	11,392,111	12,400,000	13,400,000	14,500,000
Other Tobacco Products and Snuff	8,636,348	9,300,000	9,300,000	9,300,000
Telecommunications Taxes	51,623,000	53,000,000	52,000,000	51,900,000
TOTAL SEL. SALES AND GROSS RECEIPTS TAXES	**$3,280,448,983**	**$3,368,402,000**	**$3,446,806,000**	**$3,541,610,000**
License and Privilege Taxes				
Coal Severance Tax	$221,952,516	$223,700,000	$223,700,000	$224,000,000
Mineral Severance Tax	14,822,013	15,500,000	16,300,000	17,200,000
Natural Gas Severance Tax	32,339,897	26,500,000	29,300,000	30,000,000
Oil Production	6,198,342	8,000,000	8,000,000	8,000,000
Corporate License	11,734,452	7,600,000	6,000,000	4,000,000
Cigarette License	92,106	70,000	70,000	70,000
Race Track License	283,675	300,000	300,000	300,000
Marijuana and Controlled Substance Tax	109,992	0	0	0
Bank Franchise Tax	63,912,315	67,200,000	69,800,000	72,300,000
Corporation Organization	115,755	200,000	200,000	200,000
Cir. Ct. Clk. - Driver License Receipts	603,807	600,000	600,000	600,000
Sand and Gravel License	5,100	0	0	0
Alcoholic Beverage License Suspension	659,151	800,000	800,000	800,000
Limited Liability Entity Tax	0	93,000,000	108,900,000	113,200,000
TOTAL LICENSE AND PRIVILEGE TAXES	**$352,829,121**	**$443,470,000**	**$463,970,000**	**$470,670,000**
Income Taxes				
Corporation Income Tax	$988,064,957	$551,500,000	$513,400,000	$506,000,000
Individual Income Tax	3,041,535,604	3,370,000,000	3,472,800,000	3,629,700,000
TOTAL INCOME TAXES	**$4,029,600,561**	**$3,921,500,000**	**$3,986,200,000**	**$4,135,700,000**
Property Taxes				
Real Property	$228,300,000	$242,000,000	$256,500,000	$271,900,000
Tangible Personal Property	$81,700,000	$86,100,000	$89,300,000	$92,200,000
Motor Vehicles	$103,700,000	$106,900,000	$110,200,000	$113,600,000
Building and Loan Association Capital Stock	$2,900,000	$3,000,000	$3,100,000	$3,200,000
Delinquent Property	$7,500,000	$7,500,000	$7,500,000	$7,500,000
Omitted Intangible Personal Property	$7,100,000	$250,000	$0	$0
Omitted Tangible Personal Property	$10,700,000	$6,000,000	$6,100,000	$6,200,000
Apportioned Vehicles	$7,000,000	$5,500,000	$5,100,000	$5,200,000
Public Service Companies	$42,600,000	$38,700,000	$40,100,000	$41,500,000
Other Property	$1,000,000	$1,000,000	$1,000,000	$1,000,000
TOTAL PROPERTY TAXES	**$492,500,000**	**$496,950,000**	**$518,900,000**	**$542,300,000**

January 16, 2008 General Fund Detailed Report Consensus Forecasting Group

Source	Actual 2006-07	Estimate 2007-08	Estimate 2008-09	Estimate 2009-10
Inheritance Taxes				
Inheritance Tax	$43,578,107	$48,000,000	$48,000,000	$48,000,000
TOTAL INHERITANCE TAXES	**$43,578,107**	**$48,000,000**	**$48,000,000**	**$48,000,000**
Departmental Fees, Sales and Rentals				
Public Service Commission Assessments-	$14,593,067	$10,706,000	$13,000,000	$13,000,000
Insurance - Retaliatory Taxes & Fees-	1,547,010	1,900,000	2,100,000	2,200,000
Sec. of State - Process Agents Fees	0	100,000	100,000	100,000
Insurance - Miscellaneous Receipts	0	200,000	200,000	200,000
Circuit Court Clk. - Civil Filing Fee Receipts-	11,338,790	12,400,000	12,900,000	13,600,000
Circuit Court Clk. - Bond Filing Fee-	519,733	500,000	500,000	490,000
Circuit Court Clk. - 10% Bond Fee-	686,538	704,000	690,000	676,000
Circuit Court Clk. - Receipts for Services-	5,075,912	5,600,000	6,000,000	6,500,000
Strip Mining & Reclamation Fees-	1,108,250	1,500,000	1,500,000	1,500,000
Strip Mining & Reclamation - Fines Coll.	799,708	1,000,000	1,200,000	1,400,000
Miscellaneous - Pub Advoc; Sec State Fee	3,967,778	4,500,000	4,700,000	5,000,000
TOTAL DEPARTMENT FEES, SALES AND RENTALS	**$39,636,786**	**$39,110,000**	**$42,890,000**	**$44,666,000**
Investment Receipts				
General Depository Investment Income **	$30,501,690	$16,400,000	$20,000,000	$23,700,000
Circuit Court Clk. - Interest Income	1,490,170	0	0	0
Ky Asset/Liab - TRAN	0	0	0	0
TOTAL INVESTMENT RECEIPTS	**$31,991,860**	**$16,400,000**	**$20,000,000**	**$23,700,000**
Miscellaneous Revenue				
Lottery	$186,625,113	$187,500,000	$191,500,000	$195,000,000
Legal Process - Clk. Supreme Court	116,706	131,000	136,000	118,000
Dept. of Rev. Legal Process Taxes - Co. Clk.	3,135,400	3,100,000	3,000,000	2,900,000
Dept. of Rev. Penalty & Int. of Co. Officials	(29,468)	0	0	0
TVA - In Lieu of Taxes - State Portion	10,037,326	12,400,000	13,000,000	13,800,000
F.H.A. - In Lieu of Taxes	73,168	0	0	0
R.E.C.C. and R.T.C.C. In Lieu of Taxes	310	0	0	0
Business Development - In Lieu of Taxes	0	0	0	0
Abandoned Property	38,238,637	31,100,000	11,300,000	11,300,000
Circuit Court Clk. - Fish & Wildlife Fines	70,595	70,000	70,000	70,000
Cir. Ct. Clk. - Criminal/Traffic Fines & Costs	24,852,725	25,000,000	25,300,000	25,600,000
Circuit Court Clk. - Bond Forfeitures	1,483,153	1,500,000	1,500,000	1,500,000
Fines Dept Insurance	717,032	800,000	820,000	870,000
Workplace & Employment Standards, Fees, Fines	1,199,815	1,800,000	1,800,000	1,900,000
Sale of NOx Credits	811,600	2,850,000	13,350,000	1,900,000
Other Fines & Unhonored Checks	23,788,218	21,830,000	21,630,000	21,230,000
TOTAL MISCELLANEOUS REVENUE	**$291,120,330**	**$288,081,000**	**$283,406,000**	**$276,188,000**
MISC. NOT IN REVENUE ESTIMATES	**$12,151,295**	**$10,000,000**	**$10,000,000**	**$10,000,000**
REVENUE INITIATIVES	**$0**	**$1,125,000**	**$3,425,000**	**$3,425,000**
TOTAL GENERAL FUND	**$8,573,857,043**	**8,633,038,000**	**8,823,597,000**	**9,096,259,000**

Road Fund
Consensus Forecast for FY08 to FY10
January 16, 2008

Road Fund Revenues (million $)

	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Motor Fuels	563.4	611.7	661.4	724.4
Motor Vehicle Usage	411.3	411.7	411.9	425.3
Motor Vehicle License	101.7	108.6	109.5	112.5
Motor Vehicle Operators	15.8	15.4	15.5	16.3
Weight Distance	85.4	85.5	85.9	87.7
Investment	16.1	15.8	5.8	3.7
Other	32.2	34.1	34.8	35.2
Total Road Fund	1,225.9	1,282.8	1,324.8	1,405.1

Annual Percentage Growth Rates

	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Motor Fuels	6.6	8.6	8.1	9.5
Motor Vehicle Usage	4.0	0.1	0.0	3.3
Motor Vehicle License	8.3	6.8	0.8	2.7
Motor Vehicle Operators	8.2	-2.5	0.6	5.2
Weight Distance	0.1	0.1	0.5	2.1
Investment	151.6	-1.9	-63.3	-36.2
Other	-22.0	5.9	2.1	1.1
Total Road Fund	5.2	4.6	3.3	6.1

October 07 CFG Estimate (December 07 for FY08 Only)

	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Motor Fuels	563.4	610.6	661.3	721.9
Motor Vehicle Usage	411.3	418.9	425.7	435.5
Motor Vehicle License	101.7	107.5	107.5	110.9
Motor Vehicle Operators	15.8	15.7	16.1	16.2
Weight Distance	85.4	86.0	87.7	89.6
Investment	16.1	14.0	13.1	14.0
Other	32.2	34.4	34.2	34.1
Total Road Fund	1,225.9	1,287.1	1,345.6	1,422.2

Change from October (December 07 for FY08 Only) to January (Million $)

	FY07 Actual	FY08 Estimate	FY09 Estimate	FY10 Estimate
Motor Fuels	0.0	1.1	0.1	2.5
Motor Vehicle Usage	0.0	-7.2	-13.8	-10.2
Motor Vehicle License	0.0	1.1	2.0	1.6
Motor Vehicle Operators	0.0	-0.3	-0.6	0.1
Weight Distance	0.0	-0.5	-1.8	-1.9
Investment	0.0	1.8	-7.3	-10.3
Other	0.0	-0.3	0.6	1.1
Total Road Fund	0.0	-4.3	-20.8	-17.1

	FY 2007 Actual	FY 2008 Estimated	FY 2009 Estimated	FY 2010 Estimated
Sales and Gross Receipts Taxes				
Motor Fuels Normal and Normal Use	$563,169,131	$611,330,000	$660,950,000	$724,000,000
Motor Vehicle Usage	377,321,335	378,100,000	378,200,000	391,500,000
Motor Vehicle Rental Usage	33,863,836	33,600,000	33,700,000	33,800,000
Truck Trip Permits	310,900	400,000	400,000	400,000
Sales and Use	66,826	0	0	0
Usage Tax on Buses	0	0	0	0
Supplemental Fuel Surtax	0	0	0	0
Usage Tax on Historical Vehicles	0	0	0	0
TOTAL SALES AND GROSS RECEIPTS TAX	**$974,732,028**	**$1,023,430,000**	**$1,073,250,000**	**$1,149,700,000**
License and Privilege Taxes				
Drive Away Utility Trailer Permits	$7,249	$6,500	$6,501	$6,502
Amateur Radio Plate	9,439	9,500	9,500	9,500
Passenger Car License	26,588,981	29,600,000	29,150,000	29,800,000
Truck License - State Share	21,291,558	23,900,000	23,300,000	23,800,000
Motorcycle License	528,257	470,000	470,000	490,000
Motorcycle License-Program GA19		0	0	0
Dealers License	261,416	290,000	390,000	490,000
Transfer License	778,123	660,000	760,000	860,000
Trailer License	1,629,254	1,800,000	1,800,000	1,950,000
County Clerk Penalty	39,576	75,850	75,850	75,850
Bus License - Except City	31,595	30,000	30,000	30,000
City and Suburban Bus License		0	0	0
Bus Certificates and Permits	2,100	4,000	4,000	4,000
Taxi License	30,005	29,500	29,500	29,500
Truck Permits	131,630	91,500	100,500	102,500
Contract Taxicab Permit	16,375	15,000	15,000	15,000
Motor Vehicle Operator's License	13,869,458	13,400,000	13,450,000	14,190,000
Motor Vehicle Operator's License-Program GA19		0	0	0
Highway Special Permits	7,063,872	7,100,000	7,000,000	7,000,000
U-Drive-It Permits	7,588	12,000	12,000	12,000
U-Drive-Licenses	1,411,309	1,710,000	1,810,000	1,960,000
Junk Yard License	4,139	4,500	4,500	4,500
Historic Vehicle License	263,020	250,000	250,000	260,000
Operator's License-Driver Education	616,464	650,000	670,000	680,000
Truck Proportional Registration	42,684,710	43,150,000	44,090,000	44,600,000
Operator's License - Photography Program	1,325,959	1,400,000	1,420,000	1,450,000
Industrial Hauling Permits	3,580	5,000	5,000	5,000
General Assembly License Plates	2,342	2,000	2,000	2,000
Pearl Harbor Survivor Plates	48	150	150	150
Collegiate Plates	739,896	870,000	950,000	1,000,000
Personalized License Plates	1,184,757	1,100,000	1,300,000	1,500,000
Army Reserve Plates	506,457	550,000	600,000	650,000
Purple Heart Plates	35,273	31,000	31,000	31,000
Judicial License Plates	382	750	750	750
Civil Air Patrol Plates	1,257	1,000	1,000	1,000
National Guard License Plates	18,743	7,500	7,500	7,500
Civic Event Plates	455	750	750	750
Street Rod Plates	2,022	2,000	2,000	2,000
Fraternal Order of Police Plates	82,507	260,000	280,000	300,000
Environmental License Plate	1,060,884	1,100,000	1,300,000	1,350,000
Dealer Demonstrator Tags	5,077	6,200	6,200	6,200
Volunteer Fireman License Tags	66,732	68,000	68,000	68,000
P.O.W. License Plates	80	130	130	130
Motor Carrier Identification Cards	399,095	5,500,000	5,000,000	5,000,000
Weight Distance Tax	85,435,610	85,500,000	85,900,000	87,700,000

Source	FY 2007 Actual	FY 2008 Estimated	FY 2009 Estimated	FY 2010 Estimated
Sportsman	211,324	282,000	320,000	350,000
Breast Cancer	48,209	49,000	49,000	49,000
Choose Life	273,418	275,000	300,000	375,000
Zoo Foundation Plate	22,500	23,000	23,000	23,000
Temporary Tags	464,468	490,000	510,000	520,000
Nonreciprocal Permits	120,875	120,000	140,000	140,000
Overweight Coal Truck Permit	842,239	850,000	910,000	900,000
Temporary Truck Decal Permits		50,000	50,000	50,000
TOTAL LICENSE AND PRIVILEGE TAX	**$211,342,060**	**$223,095,230**	**$224,020,231**	**$229,586,232**
Departmental Fees, Sales and Rentals				
Proposal Sales				
Specification and Blue Print Sales	445,203	420,000	430,000	420,000
Miscellaneous Rentals	506,283	520,000	520,000	520,000
MVL Computer Services				
Fines and Forfeitures				
Traffic Offenders School Fees	1,174,453	1,500,000	1,600,000	1,750,000
Record Copy Sales	111,256	68,000	68,000	68,000
Highway Sign Logo Rental	622,126	670,000	670,000	670,000
Driving History Record Fee	7,009,055	7,000,000	7,100,000	6,800,000
Operator's License Reinstatement Fees	1,195,254	1,350,000	1,450,000	1,350,000
Operator's License Name Sales		0	0	0
Penalty & Interest - Weight and Use Taxes	1,542,829	1,500,000	1,700,000	1,500,000
Medical Alert Stickers	122	175	175	175
Motor Vehicle Title Receipts	4,870,434	4,850,000	4,900,000	5,800,000
Proceeds from Asset Disposition	1,473,973	1,300,000	1,700,000	1,600,000
Coal Road Recovery Fines	1,043	3,000	3,000	3,000
U-Drive-It Penalty and Interest	10,080	10,000	10,000	10,000
TOTAL DEPARTMENT FEES, SALES AND RENTALS	**$18,962,111**	**$19,191,175**	**$20,151,175**	**$20,491,175**
Toll Facility Income				
Audubon Parkway	$898,316	$0	$0	$0
Green River Parkway	2,819,649	0	0	0
Daniel Boone Parkway	0	0	0	0
Cumberland Parkway	0	0	0	0
TOTAL TOLL FACILITY INCOME	**$3,717,965**	**$0**	**$0**	**$0**
Investment Income				
Investment Income	$16,094,719	$15,800,000	$5,800,000	$3,700,000
TOTAL INVESTMENT INCOME	**$16,094,719**	**$15,800,000**	**$5,800,000**	**$3,700,000**
Miscellaneous Income				
Property Damage	$691,087	$600,000	$550,001	$600,002
Cold Check Account		0	0	0
Toll Credit Card Receipts	3,395	85,000	85,000	85,000
TOTAL MISCELLANEOUS INCOME	**$694,482**	**$685,000**	**$635,001**	**$685,002**
Misc. Not in Revenue Estimates	$400,150	$600,000	$950,000	$941,000
TOTAL ROAD FUND REVENUE	**$1,225,943,515**	**$1,282,801,405**	**$1,324,806,407**	**$1,405,103,409**

TOBACCO MASTER SETTLEMENT AGREEMENT

History of the Tobacco Master Settlement Agreement (MSA)

On November 23, 1998 the attorneys general of forty-six states, five territories, and the District of Columbia reached an agreement with five major tobacco companies, representing 97.5 percent of the tobacco industry. Worth approximately $229 billion over the next twenty-six years, the Master Settlement Agreement (MSA) will provide payments to states based on a formula developed by the attorneys general. Four additional states – Florida, Minnesota, Mississippi, and Texas – individually settled with the tobacco industry for more than $40 billion.

In the early years of the agreement, the participating states received "initial" payments, which are distinct from the "annual" payments (which are ongoing). The initial payments ended in 2003. The annual payments commenced in 2000 and continue indefinitely. These payments have a disbursement date of April 15th. The third and final type of payment made to states is the "strategic contribution fund" payment, which begins in 2008 and sunsets in 2017. This category was included to reward states for contributions to the tobacco settlement. To date, Kentucky has received $944.2 million from the MSA.

Risks to the MSA Payments

Non-Participating Manufacturer (NPM) Adjustment – The model statute contains reciprocal language that mandates escrow payments for tobacco product manufacturers in lieu of their obligations as signatories to the MSA. These retaliatory contributions from non-MSA manufacturers are an attempt to create a level playing field in the retail tobacco markets. A reduction to state payments is made for states that fail to enact and diligently enforce a model statute. Kentucky's statutes are currently in full compliance with the MSA, and the provisions of statute are being diligently enforced.

In August of 2007, the Consensus Forecasting Group (CFG) addressed the potential impact of an NPM adjustment on the MSA payments to be made to the Commonwealth. The formula for calculating the amount of the potential NPM adjustment provides for triple the market share loss of the participating manufacturers. The NPM adjustment that potentially could reduce the payments to the Commonwealth in fiscal year 2008 is over $700 million dollars, nationally. While the states hope to prevail, there is a significant chance that the decision of whether the states have diligently enforced the MSA will result in an NPM adjustment for some or all states. The decision is expected to be made shortly before the April, 2008 payment is due, and the tobacco firms are expected to put the $700 million in a "disputed account". The remaining amount will be distributed to the settling states. For Kentucky, the result would be a $12.50 million reduction in the April, 2008 payment.

The question of diligent enforcement will have to be decided on a state by state basis. Unfortunately, the term "diligent enforcement" is not defined in the MSA. Therefore, each state will have to uniquely present their case based on their own strategies and methods for NPM enforcement. *If* the Commonwealth was found to *not* have diligently enforced our statutes, the result could be a complete loss of our fiscal year 2009 payment.

Deciding Diligent Enforcement Through Arbitration - The first decision by an independent, economic analysis firm on the question of whether the MSA was a significant factor in the declining market share of the participating firms was issued on March 1, 2006. The economic consulting firm ruled that the MSA *was a significant factor* in the reduction of the participating firms' declining market share. The question of diligent enforcement was expected to be decided in each state's relevant court of jurisdiction. However, the participating manufacturers have argued that, legally, the decision of diligent enforcement must be decided through an arbitration process as prescribed in the MSA. The participating manufacturers have entered orders compelling arbitration of the issue in each state's jurisdictional court. At this time, every state that has been served with an order compelling arbitration (including Kentucky) has lost the issue and faces an arbitration proceeding to determine the question of diligent enforcement. While many states that lost their argument to prevent arbitration may appeal, the odds are long that many states will prevail upon appeal. The one exception has been the state of North Dakota, which successfully blocked the order to compel arbitration.

We believe the Commonwealth has diligently enforced all of our tobacco statutes. Two recently enacted bills, House Bill 390 in 2003 and House Bill 97 in 2004 provide evidence of our diligent enforcement of the MSA. House Bill 390 was the complementary legislation that created the directory of cigarette brands that could be legally sold within the Commonwealth. It has been an overwhelming success in enforcing the MSA in Kentucky. HB 97 was the allocable share cap bill which closed a loophole in the MSA and escrow statutes that allowed NPM cigarette companies to park their escrow requirement in their account for a few days until their cap release application was processed. The bill disallowed these cap release applications, thus creating an escrow pool of funds the state can use for recovery in the event that legal judgment is ever awarded against an NPM escrow payer.

The Office of State Budget Director (OSBD) has organized a workgroup to monitor all facets of the MSA. Representatives from the State Attorney General's Office, Department of Revenue, OSBD, and the Finance and Administration Cabinet have combined forces to track the MSA payments. Other responsibilities include monitoring the enforcement of the model statute and the prudent financial management of the payments.

Settlement Discussions to Replace the NPM Adjustment – All parties to the MSA believe that the current NPM Adjustment mechanism is flawed. There have been ongoing, confidential negotiations between the settling states and the participating manufacturers to replace the NPM Adjustment mechanism. While the proposed changes are confidential, the overall structure of the proposal may be discussed. Any proposal would attempt to settle the previous, unresolved NPM adjustments for the calendar years 2003 through 2006. Additionally, the new mechanism would provide for objectively measured benchmarks to determine which states would be subject to the adjustment.

At this time the negotiations are not complete. The MSA and the adjustments to the payments contained in the original agreement are still the basis for the forecasted revenues to be received by the Commonwealth.

Fiscal Year 2006 and 2007 Payments – Kentucky received $103.0 million in MSA payments during fiscal year 2006 and $107.8 million in fiscal year 2007. The budgeted receipts for fiscal year 2008 are $117.5 million.

Forecast

OSBD was asked by the Consensus Forecasting Group to aid in projecting the payments to be received by the Commonwealth from the Master Settlement Agreement. The forecast adopted by the CFG in August of 2007 for fiscal year 2009 and fiscal year 2010 is $119.7 and $121.6 million, respectively.

Forecasting Methodology

The forecasting methodology was dictated by the terms of the Master Settlement Agreement (MSA). The MSA contains several caveats and reduction factors that could potentially diminish the payments to the states. Therefore, OSBD's forecasting model started with the black-letter payments that are outlined in the MSA. We then adjusted these payments by our best forecast of the reduction factors. Since all states participating in the MSA are affected by the reduction factors, OSBD was able to compare forecasting ideas with other states and organizations, including the National Governors' Association and the National Association of Attorneys General.

The order of the adjustment factors is important. The inflation adjustment precedes the volume adjustment, which precedes the adjustment for previously settled states. The NPM adjustment is the last to be applied, since the effect of the NPM adjustment is not borne equally by the states.

Inflation Adjustment

Each year, an inflation adjustment is applied to that year's annual payment amount. The inflation adjustment equals the greater of growth in the Consumer Price Index or three percent. Since inflation has been in check in recent years, the three percent growth was used in the forecast for this biennium.

Volume Adjustment

After the inflation adjustment is made, the volume adjustment is applied to the annual payment. The formula for the volume adjustment is specified directly in the MSA: "In the event the Actual Volume is less than the Base Volume,

the Applicable Base Payment shall be reduced by subtracting from it the amount equal to such Applicable Base Payment multiplied by 0.98 and by the result of 1 minus the ratio of Actual Volume to Base Volume."

There are several important considerations in the formula for the volume adjustment. First, in the event that actual volume falls below the 1997 base volume, a two percent automatic reduction occurs before multiplying the resultant by the volume ratio. Second, volume adjustments are cumulative. Since the base volume never changes, consistent declines in domestic shipments will build cumulatively upon one another. Finally, domestic shipment data are used in the formula. Therefore, the forecast of MSA payments will necessarily rely on a forecast of domestic shipments from the manufacturers participating in the MSA.

Previously Settled States Adjustment

The third step in calculating the payment is to apply the previously settled states reduction (PSS). This reduction reflects payment to the four states —Florida, Mississippi, Minnesota, and Texas—that settled with the industry prior to the MSA. The percentage is 12.45 percent on payments through 2006, 12.24 percent from 2007-2017, and 11.07 percent in 2018 and thereafter.

Appendix A

Receipts First Half of Fiscal Year 2008

KENTUCKY STATE GOVERNMENT REVENUE
GENERAL FUND REVENUE

	Second Quarter FY 2008	Second Quarter FY 2007	% Change	Year-To-Date FY 2008	Year-To-Date FY 2007	% Change
TOTAL GENERAL FUND	**2,176,219,588**	**2,223,651,510**	**-2.1%**	**$4,243,331,177**	**$4,259,389,619**	**-0.4%**
Tax Receipts	2,086,358,555	2,142,266,982	-2.6%	$4,083,751,820	$4,108,963,542	-0.6%
Sales and Gross Receipts	819,932,657	799,436,590	2.6%	$1,660,666,221	$1,615,904,287	2.8%
Beer Consumption	1,601,136	1,499,062	6.8%	3,443,065	3,290,413	4.6%
Beer Wholesale	11,886,463	10,901,798	9.0%	26,081,766	24,111,457	8.2%
Cigarette	41,196,626	43,026,113	-4.3%	84,970,466	84,727,463	0.3%
Distilled Spirits Case Sales	25,653	24,822	3.3%	51,025	48,808	4.5%
Distilled Spirits Consumptior	2,565,972	2,559,757	0.2%	5,129,975	5,014,278	2.3%
Distilled Spirits Wholesale	6,643,104	6,442,249	3.1%	12,979,184	12,363,604	5.0%
Insurance Premium	16,943,483	10,333,741	64.0%	41,001,026	39,131,024	4.8%
Pari-Mutuel	1,411,780	1,481,352	-4.7%	2,121,562	2,220,635	-4.5%
Race Track Admission	24,764	66,435	-62.7%	177,415	184,208	-3.7%
Sales and Use	717,998,725	705,161,669	1.8%	1,446,206,256	1,408,984,762	2.6%
Wine Consumption	606,770	615,173	-1.4%	1,158,432	1,145,268	1.1%
Wine Wholesale	3,129,886	2,967,363	5.5%	5,790,165	5,500,616	5.3%
Telecommunications Tax	13,616,512	12,255,490	11.1%	26,942,344	24,896,915	8.2%
OTP	2,281,784	2,101,568	8.6%	4,613,541	4,284,837	7.7%
License and Privilege	93,381,614	72,913,874	28.1%	$181,166,109	$143,912,014	25.9%
Alc. Bev. License Suspension	114,400	156,381	-26.8%	433,170	257,381	68.3%
Coal Severance	57,470,985	56,622,015	1.5%	110,903,103	111,385,164	-0.4%
Corporation License	1,832,883	3,008,873	-39.1%	3,735,164	4,696,543	-20.5%
Corporation Organization	97,643	13,006	650.7%	185,700	54,406	241.3%
Occupational Licenses	22,174	41,053	-46.0%	62,769	71,562	-12.3%
Oil Production	2,345,236	1,251,928	87.3%	4,384,853	3,110,696	41.0%
Race Track License	3,210	115,200	-97.2%	189,785	275,700	-31.2%
Bank Franchise Tax	(180,810)	156,733	-215.4%	(226,658)	(61,094)	---
Driver License Fees	137,055	147,302	-7.0%	313,970	308,564	1.8%
Minerals Severance	5,350,767	4,600,255	16.3%	9,928,116	8,771,374	13.2%
Natural Gas Severance	7,783,202	6,801,127	14.4%	14,249,899	15,041,718	-5.3%
Limited Liability Entity	18,404,870	0	---	37,006,239	0	---
Income	905,779,716	999,073,807	-9.3%	$1,892,464,419	$2,016,553,373	-6.2%
Corporation	107,855,997	238,818,741	-54.8%	271,828,161	518,457,673	-47.6%
Individual	797,923,719	760,255,066	5.0%	1,620,636,258	1,498,095,700	8.2%
Property	$245,394,830	$251,054,831	-2.3%	$304,214,424	$292,176,080	4.1%
Building & Loan Association	0	1,599	-100.0%	93,832	425,552	-78.0%
General - Real	149,422,381	148,722,854	0.5%	149,998,530	149,007,816	0.7%
General - Tangible	86,005,978	81,100,935	6.0%	112,270,144	104,071,490	7.9%
Omitted & Delinquent	(9,071,570)	9,358,910	---	10,485,846	21,056,879	-50.2%
Public Service	18,684,404	11,326,339	65.0%	30,848,895	17,054,611	80.9%
Other	353,637	544,195	-35.0%	517,178	559,732	-7.6%
Inheritance	$12,583,156	$11,165,909	12.7%	$26,644,818	$23,403,116	13.9%
Miscellaneous	$9,286,581	$8,621,970	7.7%	$18,595,829	$17,014,671	9.3%
Legal Process	5,984,126	5,698,604	5.0%	12,537,454	12,484,687	0.4%
T. V. A. In Lieu Payments	3,302,455	2,923,366	13.0%	6,058,375	4,525,485	33.9%
Other	0	0	---	0	4,499	-100.0%
Nontax Receipts	$86,555,375	$80,651,093	7.3%	$154,532,449	$142,542,330	8.4%
Departmental Fees	7,040,744	5,919,002	19.0%	14,393,044	12,576,700	14.4%
PSC Assessment Fee	71,598	22,580	217.1%	10,601,255	12,281,406	-13.7%
Fines & Forfeitures	6,788,052	7,284,872	-6.8%	14,404,055	13,946,821	3.3%
Interest on Investments	377,122	330,567	14.1%	813,751	691,854	17.6%
Lottery	50,761,591	47,625,113	6.6%	92,261,591	88,625,113	4.1%
Sale of NOx Credits	0	112,000	-100.0%	0	199,500	-100.0%
Miscellaneous	21,516,268	19,356,958	11.2%	22,058,753	14,220,937	55.1%
Redeposit of State Funds	$3,305,658	$733,435	350.7%	$5,046,908	$7,883,748	-36.0%

KENTUCKY STATE GOVERNMENT REVENUE
ROAD FUND

	Second Quarter FY 2008	Second Quarter FY 2007	% Change	Year-To-Date FY 2008	Year-To-Date FY 2007
TOTAL ROAD FUND	**$300,612,035**	**$284,553,276**	**5.6%**	**$627,267,597**	**$587,890,919**
Tax Receipts-	$290,965,340	$274,921,383	5.8%	$607,820,067	$569,100,169
Sales and Gross Receipts	$245,829,909	$230,318,491	6.7%	$516,219,870	$482,567,444
Motor Fuels Taxes	143,614,421	133,949,388	7.2%	293,512,144	$270,353,042
Motor Fuels Use & Surtax	7,796,587	5,922,550	31.6%	18,045,373	$13,037,296
Truck Trip Permits (fuel)	58,920	73,580	-19.9%	127,760	$153,220
Motor Vehicle Usage	94,359,981	90,372,974	4.4%	204,534,593	$199,023,886
License and Privilege	$45,135,431	$44,602,892	1.2%	$91,600,196	$86,532,725
Motor Vehicles	17,294,082	17,342,963	-0.3%	35,836,236	$31,575,239
Motor Vehicle Operators	3,811,165	3,980,108	-4.2%	7,817,867	$8,024,545
Weight Distance	21,263,281	21,488,185	-1.0%	43,322,010	$43,283,809
Truck Decal Fees	14,417	26,738	-46.1%	50,469	$70,051
Other Special Fees	2,752,486	1,764,898	56.0%	4,573,614	$3,579,082
Nontax Receipts	$9,586,377	$9,814,149	-2.3%	$19,326,988	$18,611,528
Departmental Fees	4,535,680	4,542,559	-0.2%	10,305,084	$8,196,243
In Lieu of Traffic Fines	274,154	253,849	8.0%	567,723	$564,398
Highway Tolls	0	1,103,966	-100.0%	0	$2,687,722
Investment Income	4,540,966	3,762,180	20.7%	7,900,220	$6,920,967
Miscellaneous	235,577	151,595	55.4%	553,961	$242,198
Redeposit of State Funds	$60,318	($182,257)	---	$120,543	$179,222

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Appendix B

Summary Statistics for General Fund and Road Fund

Major Revenue Sources Fiscal Years 1997/98 - 2006/07

SUMMARY STATISTICS FOR GENERAL FUND MAJOR REVENUE SOURCES
FISCAL YEARS 1998-2007

	FY98	FY99	FY00	FY01	FY02
TOTAL GENERAL FUND	**6,011,806,562**	**6,198,387,526**	**6,478,385,032**	**6,653,897,653**	**6,560,216,551**
Tax Receipts	**5,722,452,611**	**5,917,216,646**	**6,200,475,504**	**6,377,917,219**	**6,292,004,457**
Sales and Gross Receipts	**2,155,185,940**	**2,263,517,959**	**2,356,212,660**	**2,435,481,566**	**2,497,020,953**
Beer Consumption	6,149,889	6,258,224	6,284,242	6,272,031	6,286,734
Beer Wholesale	29,787,991	30,612,099	32,101,648	32,582,889	34,596,592
Cigarette[1]	15,130,443	14,673,839	14,184,888	14,007,582	13,943,208
Cigarette Floor Stock[2]	---	---	---	---	---
Distilled Spirits Case Sales	79,121	78,333	82,871	82,529	81,922
Distilled Spirits Consumption	7,926,002	7,955,925	8,211,541	8,184,798	8,266,005
Distilled Spirits Wholesale	12,974,726	13,398,478	14,055,368	14,809,730	15,129,146
Insurance Premium	90,231,192	90,171,779	95,355,564	96,825,818	105,102,951
Pari-Mutuel	4,845,922	7,179,163	6,645,098	6,182,083	5,179,952
Race Track Admission	211,759	241,307	220,824	216,615	260,232
Sales and Use	1,981,297,580	2,085,899,677	2,171,397,969	2,248,471,100	2,299,990,621
Wine Consumption	1,615,634	1,625,711	1,748,839	1,743,393	1,786,984
Wine Wholesale	4,935,682	5,423,425	5,923,809	6,102,998	6,396,603
Telecommunications Tax[3]	---	---	---	---	---
Other Tobacco Products[4]	---	---	---	---	---
License and Privilege	**338,964,050**	**349,549,943**	**364,098,883**	**373,309,229**	**356,591,984**
Alc. Bev. License & Suspension	549,768	87,800	49,150	193,800	220,800
Coal Severance	163,731,038	154,476,772	145,139,909	141,553,087	160,160,116
Corporation License	112,793,160	125,912,523	139,127,819	147,515,402	117,500,770
Corporation Organization	1,001,719	500,429	369,916	227,655	144,233
Occupational Licenses	92,140	99,658	132,811	107,737	226,609
Oil Production	2,135,212	1,344,942	2,967,395	3,358,036	2,590,722
Race Track License	407,750	395,525	405,500	320,800	37,423
Bank Franchise Tax	35,059,801	47,059,959	53,061,798	49,610,220	50,549,169
Driver License Fees	3,001,375	717,453	475,167	391,939	505,187
Minerals Severance	11,115,009	11,848,098	13,923,246	12,710,667	12,355,174
Natural Gas Severance	9,077,076	7,106,785	8,446,173	17,319,885	12,301,781
Income	**2,751,810,830**	**2,844,072,023**	**3,008,055,957**	**3,068,472,461**	**2,909,863,799**
Corporation	333,666,392	312,066,675	306,442,050	289,931,017	207,353,777
Individual	2,418,144,438	2,532,005,348	2,701,613,908	2,778,541,444	2,702,510,022
Property	**362,792,504**	**370,404,549**	**387,257,800**	**407,494,858**	**433,029,587**
Bank Deposits	324,856	398,666	433,962	412,646	460,334
Building & Loan Association	4,533,322	3,046,010	2,491,414	2,482,623	2,249,927
Distilled Spirits	389,838	417,610	443,880	360,248	363,410
General - Intangible[5]	21,129,328	18,103,920	22,721,743	22,551,153	23,113,567
General - Real	154,245,454	161,723,137	167,326,472	171,524,695	179,678,050
General - Tangible	125,753,465	125,564,658	130,960,896	140,466,295	151,308,795
Omitted & Delinquent	13,019,424	11,926,947	15,543,134	20,605,462	25,649,592
Public Service	43,528,408	50,461,577	46,882,427	48,883,924	49,991,359
Other	(131,590)	(1,237,976)	453,871	207,812	214,551
Inheritance[6]	**105,538,130**	**81,483,083**	**74,489,981**	**83,461,499**	**83,359,872**
Miscellaneous	**8,161,157**	**8,189,088**	**10,360,222**	**9,697,606**	**12,138,263**
Legal Process	3,468,753	3,568,621	3,457,280	3,597,385	5,263,021
T. V. A. In Lieu Payments	4,646,467	4,586,009	6,842,117	6,046,676	6,814,492
Other	45,937	34,458	60,824	53,545	60,750
Nontax Receipts	**284,461,380**	**272,298,984**	**271,911,197**	**266,792,632**	**260,466,324**
Departmental Fees[7]	21,975,158	26,095,000	32,719,509	17,062,102	19,570,116
PSC Assessment Fee[7]	---	---	---	12,598,397	10,455,826
Fines & Forfeitures	40,670,559	45,023,992	46,056,986	40,749,856	40,069,496
Interest on Investments	60,019,607	38,324,530	28,077,454	28,217,850	13,342,627
Lottery	153,000,000	153,800,000	156,300,000	157,030,000	169,000,000
Sale of NOx Credits[8]	---	---	---	---	---
Miscellaneous	8,796,056	9,055,462	8,757,248	11,134,428	8,028,259
Redeposit of State Funds	**4,892,572**	**8,871,896**	**5,998,332**	**9,187,802**	**7,745,769**

(Footnotes appear at end of table)

SUMMARY STATISTICS FOR GENERAL FUND MAJOR REVENUE SOURCES
FISCAL YEARS 1998-2007

	FY03	FY04	FY05	FY06	FY07
TOTAL GENERAL FUND	**6,783,458,295**	**6,977,623,200**	**7,645,046,634**	**8,376,083,216**	**8,573,819,250**
Tax Receipts	**6,543,157,657**	**6,686,290,589**	**7,350,335,469**	**8,065,347,817**	**8,233,789,253**
Sales and Gross Receipts	**2,577,542,870**	**2,668,210,228**	**2,838,701,120**	**3,174,734,842**	**3,280,448,981**
Beer Consumption	6,334,169	6,320,886	6,387,318	6,393,753	6,344,079
Beer Wholesale	35,969,890	37,439,919	37,815,717	45,206,839	46,806,186
Cigarette[1]	16,367,947	17,136,198	24,966,880	172,069,493	168,768,467
Cigarette Floor Stock[2]	---	---	8,701,966	12,089,404	9,746
Distilled Spirits Case Sales	85,601	87,662	92,178	94,806	98,874
Distilled Spirits Consumption	8,680,833	8,985,826	9,190,089	9,900,035	10,094,572
Distilled Spirits Wholesale	16,088,048	16,957,192	18,150,313	23,524,032	25,139,117
Insurance Premium	114,988,790	120,523,955	123,410,091	122,824,056	125,877,984
Pari-Mutuel	5,953,247	3,629,292	4,710,111	5,626,849	5,489,552
Race Track Admission	193,114	232,350	195,068	230,285	190,362
Sales and Use	2,364,182,478	2,447,584,698	2,594,966,373	2,749,765,011	2,817,652,253
Wine Consumption	1,902,818	2,005,265	2,279,162	1,945,945	2,326,331
Wine Wholesale	6,795,936	7,306,985	7,835,853	10,510,955	11,392,111
Telecommunications Tax[3]	---	---	---	14,553,379	51,623,000
Other Tobacco Products[4]	---	---	---	---	8,636,348
License and Privilege	**379,857,645**	**368,122,494**	**427,823,269**	**386,264,573**	**352,829,122**
Alc. Bev. License & Suspension	227,850	223,700	237,101	280,450	659,151
Coal Severance	141,664,981	147,498,230	184,436,935	224,490,111	221,952,516
Corporation License	152,595,257	124,096,012	134,149,794	43,516,942	11,734,452
Corporation Organization	190,494	143,804	613,048	221,281	115,755
Occupational Licenses	197,977	223,002	188,761	174,122	207,198
Oil Production	3,116,954	3,387,884	4,710,832	6,386,501	6,198,342
Race Track License	322,825	335,625	324,642	289,258	283,675
Bank Franchise Tax	53,747,906	55,467,195	63,837,587	59,603,147	63,912,315
Driver License Fees	499,003	523,979	522,904	600,903	603,807
Minerals Severance	12,580,912	13,711,874	13,494,541	14,502,342	14,822,013
Natural Gas Severance	14,713,486	22,511,188	25,307,125	36,199,516	32,339,897
Income	**3,024,422,738**	**3,099,593,870**	**3,514,735,211**	**3,920,229,525**	**4,029,600,561**
Corporation	278,035,794	303,262,821	478,504,505	1,001,618,543	988,064,957
Individual	2,746,386,944	2,796,331,049	3,036,230,706	2,918,610,982	3,041,535,604
Property	**434,768,249**	**448,765,511**	**472,596,276**	**502,510,631**	**492,462,208**
Bank Deposits	456,527	467,711	474,098	505,351	513,619
Building & Loan Association	3,181,373	2,513,083	3,192,911	2,071,523	2,921,484
Distilled Spirits	442,092	375,637	388,612	410,798	506,754
General - Intangible[5]	25,883,197	27,547,183	26,912,813	30,955,124	48,841
General - Real	186,000,177	192,534,530	202,182,555	215,351,439	228,282,174
General - Tangible	149,426,286	149,155,206	159,883,091	165,622,948	192,343,695
Omitted & Delinquent	20,368,623	15,829,225	20,646,846	30,330,629	25,253,460
Public Service	48,836,372	60,178,393	58,787,595	57,259,849	42,588,669
Other	173,603	164,542	127,756	2,970	3,512
Inheritance[6]	**95,864,480**	**66,083,705**	**63,174,866**	**45,990,266**	**43,578,107**
Miscellaneous	**30,701,674**	**35,514,782**	**33,304,727**	**35,617,980**	**34,870,274**
Legal Process	22,994,148	27,322,798	24,696,032	25,118,948	24,759,470
T. V. A. In Lieu Payments	7,660,437	8,146,924	8,559,023	10,248,314	10,037,326
Other	47,090	45,061	49,672	250,719	73,478
Nontax Receipts	**233,694,271**	**280,871,754**	**286,661,124**	**302,629,799**	**327,878,702**
Departmental Fees[7]	21,982,797	22,161,022	22,542,182	23,932,336	25,043,719
PSC Assessment Fee[7]	8,702,466	5,389,636	13,568,805	9,041,415	14,593,067
Fines & Forfeitures	28,888,326	27,991,293	25,405,780	26,129,275	26,606,686
Interest on Investments	(7,157,704)	1,017,305	6,950,902	18,681,492	31,991,861
Lottery	171,000,000	173,800,000	161,252,000	190,000,000	186,625,113
Sale of NOx Credits[8]	---	11,836,125	3,696,675	1,126,000	811,600
Miscellaneous	10,278,386	38,676,373	53,244,780	33,719,282	42,206,657
Redeposit of State Funds	**6,606,367**	**10,460,857**	**8,050,041**	**8,105,601**	**12,151,295**

(Footnotes appear at end of table)

GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES – FISCAL YEARS 1998-2007

	FY98	FY99	FY00	FY01	FY02
TOTAL GENERAL FUND	**6.1%**	**3.1%**	**4.5%**	**2.7%**	**-1.4%**
Tax Receipts	**5.8%**	**3.4%**	**4.8%**	**2.9%**	**-1.3%**
Sales and Gross Receipts	**5.0%**	**5.0%**	**4.1%**	**3.4%**	**2.5%**
Beer Consumption	3.7%	1.8%	0.4%	-0.2%	0.2%
Beer Wholesale	3.1%	2.8%	4.9%	1.5%	6.2%
Cigarette[1]	-5.7%	-3.0%	-3.3%	-1.2%	-0.5%
Cigarette Floor Stock[2]	---	---	---	---	---
Distilled Spirits Case Sales	-1.0%	-1.0%	5.8%	-0.4%	-0.7%
Distilled Spirits Consumption	0.6%	0.4%	3.2%	-0.3%	1.0%
Distilled Spirits Wholesale	3.1%	3.3%	4.9%	5.4%	2.2%
Insurance Premium	5.0%	-0.1%	5.7%	1.5%	8.5%
Pari-Mutuel	-18.0%	48.1%	-7.4%	-7.0%	-16.2%
Race Track Admission	2.1%	14.0%	-8.5%	-1.9%	20.1%
Sales and Use	5.2%	5.3%	4.1%	3.5%	2.3%
Wine Consumption	5.0%	0.6%	7.6%	-0.3%	2.5%
Wine Wholesale	8.5%	9.9%	9.2%	3.0%	4.8%
Telecommunications Tax[3]	---	---	---	---	---
Other Tobacco Products[4]	---	---	---	---	---
License and Privilege	**-0.5%**	**3.1%**	**4.2%**	**2.5%**	**-4.5%**
Alc. Bev. License Suspension	-72.5%	-84.0%	-44.0%	294.3%	13.9%
Coal Severance	0.1%	-5.7%	-6.0%	-2.5%	13.1%
Corporation License	4.9%	11.6%	10.5%	6.0%	-20.3%
Corporation Organization	217.4%	-50.0%	-26.1%	-38.5%	-36.6%
Occupational Licenses	-26.0%	8.2%	33.3%	-18.9%	110.3%
Oil Production	-29.9%	-37.0%	120.6%	13.2%	-22.9%
Race Track License	-7.0%	-3.0%	2.5%	-20.9%	-88.3%
Bank Franchise Tax	-14.2%	34.2%	12.8%	-6.5%	1.9%
Driver License Fees	9.4%	-76.1%	-33.8%	-17.5%	28.9%
Minerals Severance	6.4%	6.6%	17.5%	-8.7%	-2.8%
Natural Gas Severance	-5.5%	-21.7%	18.8%	105.1%	-29.0%
Income	**10.2%**	**3.4%**	**5.8%**	**2.0%**	**-5.2%**
Corporation	14.0%	-6.5%	-1.8%	-5.4%	-28.5%
Individual	9.7%	4.7%	6.7%	2.8%	-2.7%
Property	**-12.6%**	**2.1%**	**4.5%**	**5.2%**	**6.3%**
Bank Deposits	-46.9%	22.7%	8.9%	-4.9%	11.6%
Building & Loan Association	-21.8%	-32.8%	-18.2%	-0.4%	-9.4%
Distilled Spirits	-0.2%	7.1%	6.3%	-18.8%	0.9%
General - Intangible[5]	-54.7%	-14.3%	25.5%	-0.8%	2.5%
General - Real	-9.3%	4.8%	3.5%	2.5%	4.8%
General - Tangible	0.9%	-0.2%	4.3%	7.3%	7.7%
Omitted & Delinquent	-13.8%	-8.4%	30.3%	32.6%	24.5%
Public Service	-12.8%	15.9%	-7.1%	4.3%	2.3%
Other	-107.7%	840.8%	---	---	3.2%
Inheritance[6]	**10.8%**	**-22.8%**	**-8.6%**	**12.0%**	**-0.1%**
Miscellaneous	**1.4%**	**0.3%**	**26.5%**	**-6.4%**	**25.2%**
Legal Process	3.8%	2.9%	-3.1%	4.1%	46.3%
T. V. A. In Lieu Payments	2.1%	-1.3%	49.2%	-11.6%	12.7%
Other	-70.2%	-25.0%	76.5%	-12.0%	13.5%
Nontax Receipts	**12.7%**	**-4.3%**	**-0.1%**	**-1.9%**	**-2.4%**
Departmental Fees[7]	-2.7%	18.7%	25.4%	-9.3%	14.7%
PSC Assessment Fee[7]					-17.0%
Fines & Forfeitures	4.5%	10.7%	2.3%	-11.5%	-1.7%
Interest on Investments	93.8%	-36.1%	-26.7%	0.5%	-52.7%
Lottery	1.3%	0.5%	1.6%	0.5%	7.6%
Sale of NOx Credits[8]	---	---	---	---	---
Miscellaneous	-1.3%	2.9%	-3.3%	27.1%	-27.9%
Redeposit of State Funds	**108.6%**	**81.3%**	**-32.4%**	**53.2%**	**-15.7%**

(Footnotes appear at end of table)

GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES – FISCAL YEARS 1998-2007

	FY03	FY04	FY05	FY06	FY07
TOTAL GENERAL FUND	**3.4%**	**2.9%**	**9.6%**	**9.6%**	**2.4%**
Tax Receipts	**4.0%**	**2.2%**	**9.9%**	**9.7%**	2.1%
Sales and Gross Receipts	**3.2%**	**3.5%**	**6.4%**	**11.8%**	3.3%
Beer Consumption	0.8%	-0.2%	1.1%	0.1%	-0.8%
Beer Wholesale	4.0%	4.1%	1.0%	19.5%	3.5%
Cigarette[1]	17.4%	4.7%	45.7%	589.2%	1.8%
Cigarette Floor Stock[2]	---	---	---	40.0%	-99.9%
Distilled Spirits Case Sales	4.5%	2.4%	**5.2%**	2.9%	4.3%
Distilled Spirits Consumption	5.0%	3.5%	2.3%	7.7%	2.0%
Distilled Spirits Wholesale	6.3%	5.4%	7.0%	29.6%	6.9%
Insurance Premium	9.4%	4.8%	2.4%	-0.5%	2.5%
Pari-Mutuel	14.9%	-39.0%	29.8%	19.5%	-2.4%
Race Track Admission	-25.8%	20.3%	-16.0%	18.1%	-17.3%
Sales and Use	2.8%	3.5%	6.0%	6.0%	2.5%
Wine Consumption	6.5%	5.4%	13.7%	-14.6%	19.5%
Wine Wholesale	6.2%	7.5%	7.2%	34.1%	8.4%
Telecommunications Tax[3]	---	---	---	---	254.7%
Other Tobacco Products[4]	---	---	---	---	37.3%
License and Privilege	**6.5%**	**-3.1%**	**16.2%**	**-9.7%**	**-8.7%**
Alc. Bev. License Suspension	3.2%	-1.8%	6.0%	18.3%	135.0%
Coal Severance	-11.5%	4.1%	25.0%	21.7%	-1.1%
Corporation License	29.9%	-18.7%	8.1%	-67.6%	-73.0%
Corporation Organization	32.1%	-24.5%	326.3%	-63.9%	-47.7%
Occupational Licenses	-12.6%	12.6%	-15.4%	-7.8%	19.0%
Oil Production	20.3%	8.7%	39.0%	35.6%	-2.9%
Race Track License	762.6%	4.0%	-3.3%	-10.9%	-1.9%
Bank Franchise Tax	6.3%	3.2%	15.1%	-6.6%	7.2%
Driver License Fees	-1.2%	5.0%	-0.2%	14.9%	0.5%
Minerals Severance	1.8%	9.0%	-1.6%	7.5%	2.2%
Natural Gas Severance	19.6%	53.0%	12.4%	43.0%	-10.7%
Income	**3.9%**	**2.5%**	**13.4%**	**11.5%**	**2.8%**
Corporation	34.1%	9.1%	57.8%	109.3%	-1.4%
Individual	1.6%	1.8%	8.6%	-3.9%	4.2%
Property	**0.4%**	**3.2%**	**5.3%**	**6.3%**	**-2.0%**
Bank Deposits	-0.8%	2.4%	1.4%	6.6%	1.6%
Building & Loan Association	41.4%	-21.0%	27.1%	-35.1%	41.0%
Distilled Spirits	21.7%	-15.0%	3.5%	5.7%	23.4%
General - Intangible[5]	12.0%	6.4%	-2.3%	15.0%	-99.8%
General - Real	3.5%	3.5%	5.0%	6.5%	6.0%
General - Tangible	-1.2%	-0.2%	7.2%	3.6%	16.1%
Omitted & Delinquent	-20.6%	-22.3%	30.4%	46.9%	-16.7%
Public Service	-2.3%	23.2%	-2.3%	-2.6%	-25.6%
Other	-19.1%	-5.2%	-22.4%	-97.7%	18.2%
Inheritance[6]	**15.0%**	**-31.1%**	**-4.4%**	**-27.2%**	**-5.2%**
Miscellaneous	**152.9%**	**15.7%**	**-6.2%**	**6.9%**	**-2.1%**
Legal Process	336.9%	18.8%	-9.6%	1.7%	-1.4%
T. V. A. In Lieu Payments	12.4%	6.4%	5.1%	19.7%	-2.1%
Other	-22.5%	-4.3%	10.2%	404.7%	-70.7%
Nontax Receipts	**-10.3%**	**20.2%**	**2.1%**	**5.6%**	**8.3%**
Departmental Fees[7]	12.3%	0.8%	1.7%	6.2%	4.6%
PSC Assessment Fee[7]	-16.8%	-38.1%	151.8%	-33.4%	61.4%
Fines & Forfeitures	-27.9%	-3.1%	-9.2%	2.8%	1.8%
Interest on Investments	---	---	583.3%	168.8%	71.2%
Lottery	1.2%	1.6%	-7.2%	17.8%	-1.8%
Sale of NOx Credits[8]	---	---	-68.8%	-68.6%	-27.9%
Miscellaneous	28.0%	276.3%	37.7%	-36.7%	25.2%
Redeposit of State Funds	**-14.7%**	**58.3%**	**-23.0%**	**0.2%**	**49.9%**

(Footnotes appear at end of tables)

SUMMARY STATISTICS FOR ROAD FUND
MAJOR REVENUE SOURCES – FISCAL YEARS 1998-2007

	FY98	FY99	FY00	FY01	FY02
TOTAL STATE ROAD FUND	**1,011,789,674**	**1,056,596,153**	**1,090,777,822**	**1,064,181,565**	**1,119,005,317**
Tax Receipts-	**942,129,035**	**991,641,312**	**1,031,467,147**	**992,142,884**	**1,052,848,911**
Sales and Gross Receipts	**780,911,374**	**820,802,014**	**849,700,352**	**821,552,966**	**873,623,010**
Motor Fuels Taxes	396,123,781	427,848,100	423,876,351	408,801,115	429,812,296
Motor Fuels Use & Surtax	17,473,744	16,853,163	15,905,613	15,492,738	14,124,035
Truck Trip Permits (fuel)	521,868	441,870	451,689	447,020	383,460
Motor Vehicle Usage	366,791,982	375,658,882	409,466,699	396,812,093	429,303,220
License and Privilege	**161,217,661**	**170,839,298**	**181,766,795**	**170,589,918**	**179,225,901**
Motor Vehicles	74,397,814	80,133,334	85,623,787	76,861,958	84,510,332
Motor Vehicle Operators	5,610,817	5,400,685	5,689,329	5,592,769	5,564,009
Weight Distance	66,665,457	70,155,867	75,144,201	75,170,141	75,265,639
Truck Decal Fees	808,104	822,074	738,342	727,675	807,089
Other Special Fees	13,735,469	14,327,339	14,571,136	12,237,376	13,078,832
Nontax Receipts	**69,349,054**	**64,340,643**	**58,580,537**	**69,204,781**	**64,071,745**
Departmental Fees	12,026,690	12,949,131	13,184,983	13,772,863	15,137,452
In Lieu of Traffic Fines	1,344,786	1,575,742	1,662,261	2,005,215	1,960,687
Highway Tolls	12,998,548	13,342,667	13,474,101	12,410,901	13,785,486
Investment Income	41,950,532	35,588,653	29,418,349	40,187,239	32,156,652
Redeposit of State Funds	**311,586**	**614,199**	**730,138**	**2,833,900**	**2,084,661**

(Footnotes appear at end of table)

	FY03	FY04	FY05	FY06	FY07
TOTAL STATE ROAD FUND	**1,123,103,133**	**1,116,734,272**	**1,126,554,402**	**1,165,409,505**	**1,225,943,515**
Tax Receipts-	**1,059,296,184**	**1,082,189,464**	**1,094,354,041**	**1,133,247,862**	**1,186,074,087**
Sales and Gross Receipts	**886,809,027**	**889,251,190**	898,340,426	**923,879,353**	**974,732,028**
Motor Fuels Taxes	438,564,438	441,382,996	469,621,779	501,927,927	538,568,693
Motor Fuels Use & Surtax	14,969,884	18,185,947	20,748,200	25,982,599	24,600,438
Truck Trip Permits (fuel)	371,406	439,720	445,085	386,200	310,900
Motor Vehicle Usage	432,903,299	429,242,527	407,525,361	395,582,626	411,251,997
License and Privilege	**172,487,157**	**192,938,274**	**196,013,615**	**209,368,509**	**211,342,059**
Motor Vehicles	76,192,363	93,388,573	91,933,157	93,902,097	101,660,768
Motor Vehicle Operators	5,610,829	5,623,874	5,899,247	14,553,623	15,811,880
Weight Distance	76,851,211	79,574,022	83,069,296	85,336,610	85,435,610
Truck Decal Fees	673,481	725,403	1,041,912	954,706	842,239
Other Special Fees	13,159,273	13,626,402	14,070,003	14,621,473	7,591,561
Nontax Receipts	**62,789,372**	**32,932,009**	**30,432,049**	**30,208,832**	**39,469,278**
Departmental Fees	18,430,002	15,258,391	16,685,742	15,617,220	17,787,658
In Lieu of Traffic Fines	1,374,668	1,521,583	1,326,645	1,269,800	1,174,453
Highway Tolls	13,263,429	7,958,452	6,299,049	6,296,786	3,717,965
Investment Income	29,115,311	7,507,462	5,524,646	6,372,788	16,094,719
Redeposit of State Funds	**1,017,577**	**1,612,799**	**1,768,312**	**1,952,811**	**400,150**

(Footnotes appear at end of table)

ROAD FUND GROWTH RATES
MAJOR REVENUE SOURCES – FISCAL YEARS 1998-2007

	FY98	FY99	FY00	FY01	FY02
TOTAL STATE ROAD FUND	**5.4%**	**4.4%**	**3.2%**	**-2.4%**	**5.2%**
Tax Receipts-	**4.5%**	**5.3%**	**4.0%**	**-3.8%**	**6.1%**
Sales and Gross Receipts	**4.4%**	**5.1%**	**3.5%**	**-3.3%**	**6.3%**
Motor Fuels Taxes	1.4%	8.0%	-0.9%	-3.6%	5.1%
Motor Fuels Use & Surtax	14.1%	-3.6%	-5.6%	-2.6%	-8.8%
Truck Trip Permits (fuel)	6.0%	-15.3%	2.2%	-1.0%	-14.2%
Motor Vehicle Usage	7.4%	2.4%	9.0%	-3.1%	8.2%
License and Privilege	**5.2%**	**6.0%**	**6.9%**	**-6.8%**	**5.1%**
Motor Vehicles	4.3%	7.7%	7.7%	-10.6%	10.0%
Motor Vehicle Operators	4.8%	-3.7%	5.3%	-1.7%	-0.5%
Weight Distance	5.7%	5.2%	7.1%	0.0%	0.1%
Truck Decal Fees	-1.3%	1.7%	-10.2%	-1.4%	10.9%
Other Special Fees	8.5%	4.3%	1.7%	-16.0%	6.9%
Nontax Receipts	**17.9%**	**-7.2%**	**-9.0%**	**18.1%**	**-7.4%**
Departmental Fees	8.4%	7.7%	1.8%	4.5%	9.9%
In Lieu of Traffic Fines	7.1%	17.2%	5.5%	20.6%	-2.2%
Highway Tolls	3.3%	2.6%	1.0%	-7.9%	11.1%
Investment Income	31.8%	-15.2%	-17.3%	36.6%	-20.0%
Miscellaneous	-49.2%	-14.0%	-4.9%	-1.5%	24.5%
Redeposit of State Funds	**97.9%**	**97.1%**	**18.9%**	**288.1%**	**-26.4%**

(Footnotes appear at end of tables)

	FY03	FY04	FY05	FY06	FY07
TOTAL STATE ROAD FUND	**0.4%**	**-0.6%**	**0.9%**	**3.4%**	**5.2%**
Tax Receipts-	**0.6%**	**2.2%**	**1.1%**	**3.6%**	**4.7%**
Sales and Gross Receipts	**1.5%**	**0.3%**	**1.0%**	**2.8%**	**5.5%**
Motor Fuels Taxes	2.0%	0.6%	6.4%	6.9%	7.3%
Motor Fuels Use & Surtax	6.0%	21.5%	14.1%	25.2%	-5.3%
Truck Trip Permits (fuel)	-3.1%	18.4%	1.2%	-13.2%	-19.5%
Motor Vehicle Usage	0.8%	-0.8%	-5.1%	-2.9%	4.0%
License and Privilege	**-3.8%**	**11.9%**	**1.6%**	**6.8%**	**0.9%**
Motor Vehicles	-9.8%	22.6%	-1.6%	2.1%	8.3%
Motor Vehicle Operators	0.8%	0.2%	4.9%	146.7%	8.6%
Weight Distance	2.1%	3.5%	4.4%	2.7%	0.1%
Truck Decal Fees	-16.6%	7.7%	43.6%	-8.4%	-11.8%
Other Special Fees	0.6%	3.5%	3.3%	3.9%	-48.1%
Nontax Receipts	**-2.0%**	**-47.6%**	**-7.6%**	**-0.7%**	**30.7%**
Departmental Fees	21.8%	-17.2%	9.4%	-6.4%	13.9%
In Lieu of Traffic Fines	-29.9%	10.7%	-12.8%	-4.3%	-7.5%
Highway Tolls	-3.8%	-40.0%	-20.9%	0.0%	-41.0%
Investment Income	-9.5%	-74.2%	-26.4%	15.4%	152.6%
Miscellaneous	-41.3%	13.2%	-13.1%	9.4%	6.5%
Redeposit of State Funds	**-51.2%**	**58.5%**	**9.6%**	**10.4%**	**-79.5%**

(Footnotes appear at end of tables)

Footnotes to Appendix B

1 Prior to June 1, 2005, the cigarette tax was composed of a 3-cent excise tax per pack, divided into the General Fund which receives 2.5 cents and 0.5 cents is dedicated to the Tobacco Research Trust Fund. On June 1, 2005, a surtax of 26 cents per pack, and a one-cent per pack tax dedicated to cancer research became effective. The 26-cent tax all flows to the General Fund, while the other one-cent tax is not included in General Fund revenues.

2 The cigarette floor stock tax was a one-time tax levied on cigarettes in inventory of wholesalers and retailers as of midnight, May 31, 2005.

3 The telecommunications tax became effective January 1, 2006, and is composed of three separate taxes. An excise tax of three percent is applied to cable and direct broadcast satellite (DBS) charges. In addition, an internal gross receipts tax is levied on cable and DBS providers at a rate of 2.4 percent of gross receipts, and on telephone service providers at a rate of 1.3 percent of gross receipts.

4 Other tobacco products were subjected to a tax based either on value or weight effective August 1, 2005. For more information please refer to KRS 138.140.

5 Taxes on most categories of intangible property not already exempted were removed for property held after December 31, 2005.

6 Phase-in of Class A beneficiary exemption began July 1, 1995. The phase-in period ended for deaths occurring after June 30, 1998. In 2001, the federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) phased out the federal estate tax, which affected Kentucky inheritance and estate tax receipts through the "pick up" tax.

7 Prior to FY03, PSC Assessment was included in Departmental Fees.

8 The sale of NOx credits was authorized beginning in fiscal year 2004.

Capital Financing Analysis

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EXECUTIVE SUMMARY

The Governor proposes $1,182,853,000 in new debt-financed projects. The proposal for the 2008-2010 biennium is compared to previous biennia in Table 12 and is described in more detail in Appendix E.

The **Capital Financing Analysis** provides an overview of the structure of debt issuance in the Commonwealth. In addition, historical information about the status of the debt program is provided in the Appendices. This information is required pursuant to KRS 42.410.

Assumptions

This analysis is premised on the following assumptions:

- Fiscal year 2008 – fiscal year 2010 General Fund revenues are based on the January 16, 2008 Consensus Forecasting Group's Official Revenue Estimates. Fiscal year 2008 is projected using a 0.7 percent growth rate over fiscal year 2007 actual. Fiscal year 2009 – fiscal year 2010 General Fund revenues are projected using 2.2 percent and 3.1 percent growth rates respectively.

- Fiscal year 2008 – fiscal year 2010 Road Fund revenues are based on the Official Revenue Estimates. Fiscal year 2008 is projected using a 4.6 percent growth rate over fiscal year 2007 actual. Fiscal year 2009 – fiscal year 2010 Road Fund revenues are projected using 3.3 percent and 6.1 percent growth rates respectively.

- Agency Fund revenues are based on actual fiscal year 2007 revenue from the Supplementary Information to the fiscal year 2007 Comprehensive Annual Financial Report and fiscal year 2008 – fiscal year 2010 assume a 2.0 percent growth rate each fiscal year.

- Tobacco Settlement Funds are based on the Official Revenue Estimates and are considered General Fund revenue.

- No currently authorized but un-issued debt is assumed to be issued during the balance of fiscal year 2008. One half of the currently authorized but un-issued debt is assumed to be issued during fiscal year 2009 and the remaining half to be issued in fiscal year 2010, all at the template rates except for School Facilities Construction Commission debt that is authorized at a slightly lower level.

- Cost of issuance is assumed to be two percent (2%) of bond size.

- Where actual debt service is unknown, required debt service is estimated from amortization schedules using the debt service template rates.

Table 12
DEBT AUTHORIZED BY RECENT SESSIONS OF THE GENERAL ASSEMBLY

Biennium	Principal Debt Authorized	Biennium	Principal Debt Authorized
1988-90	364,171,900	2000-02[4]	1,046,927,600
1990-92	1,148,218,400	2002-04[5]	835,188,380
1992-94	439,375,100	2004-06[6]	1,906,315,300
1994-96[1]	429,575,900	2006-08[7]	2,110,528,000
1996-98[2]	313,575,000	2008-10[8]	1,182,853,000
1998-00[3]	1,168,030,000		

[1] This includes debt authorized in the 1995 Extraordinary Session of the General Assembly and debt authorized by the Surplus Expenditure Plan.

[2] Enacted in the 1996-1998 Budget of the Commonwealth, and the Second 1997 Extraordinary Session of the Kentucky General Assembly.

Reauthorized: $69,393,000 General Fund and $2,000,000 Agency Fund
New Authorization: $103,796,000 General Fund and $35,000,000 Agency Fund
May 1997 Extraordinary Session: Includes $103,386,000 of Bond Funded Projects

Excludes the $60,000,000 of Agency Bonds in the Finance and Administration Cabinet (KY Infrastructure Authority leveraging), which pursuant to KRS 56.870 (3) legislative authorization is required when revolving fund repayments are used to support bonds. This authorization was never acted upon or reauthorized.

[3] Debt Enacted in the 1998-2000 Budget of the Commonwealth.

Reauthorized: $74,102,000 General Fund and $2,000,000 Agency Fund
New Authorizations: $600,830,000 General Fund; $268,100,000 Road Fund; and $96,100,000 Agency Fund
$126,898,000 was authorized in the General Fund Surplus Expenditure Plan
$201,000,000 was authorized for the School Facilities Construction Commission, however, debt service was appropriated for only $108,130,000

[4] Debt Enacted in the 2000-2002 Budget of the Commonwealth.

General Fund Authorization:	$901,202,600
Road Fund Authorization:	$ 28,200,000
Agency Fund Authorization:	$117,525,000

The 2000 Session of the Kentucky General Assembly authorized $1,053,015,600 of debt. The Secretary of the Finance and Administration Cabinet determined that $6,088,000 of debt authorized projects would be funded with General Fund cash, thereby reducing the authorized amount to $1,046,927,600.

[5] Debt Enacted in the 2002-2004 Budget of the Commonwealth.

General Fund Authorization:	$628,188,380
Agency Fund Authorization:	$207,000,000

[6] Debt Enacted in the 2004-2006 Budget of the Commonwealth.

General Fund Authorization:	$1,204,589,300
Road Fund Authorization:	$ 450,000,000
Agency Fund Authorization:	$ 251,726,000

The 2005 Session of the Kentucky General Assembly also authorized $150,000,000 of Grant Anticipation Revenue Vehicle (GARVEE) bonds supported by Transportation Cabinet Federal Highway Trust Funds.

[7] Debt Enacted in the 2006-2008 Budget of the Commonwealth and subsequent 2007 Second Extraordinary Session of the General Assembly.

General Fund Authorization:	$1,492,991,000
Road Fund Authorization:	$ 350,000,000
Agency Fund Authorization:	$ 267,537,000

The 2006 Session of the Kentucky General Assembly also authorized $290,000,000 of Grant Anticipation Revenue Vehicle (GARVEE) bonds supported by Transportation Cabinet Federal Highway Trust Funds.

[8] $1,182,853,000 New Debt Recommended in the 2008-2010 Executive Budget of the Commonwealth.

DEBT CAPACITY ANALYSIS

Purpose

This report provides a review of pertinent historical information about the Commonwealth's debt and debt management goals. The Governor's recommendation for new debt-financed capital projects for the fiscal year 2008 - fiscal year 2010 biennium is evaluated against various measures of debt affordability and previous biennial authorizations.

The goals of the debt management program of the Commonwealth are:

- Maintain debt at levels that eliminate questions concerning the state's willingness or ability to make timely payments on appropriation supported obligations.
- Use debt to finance projects prudently, while addressing the capital investment needs of the state.
- Issue debt only for those projects that will provide benefits equal to or longer than the life of the obligation.
- Amortize debt consistent with the useful life of the project. Monitor principal levels by fund source within the broader parameters of 27-30 percent maturing in 5 years and 55-60 percent maturing within 10 years.
- Maintain or improve the state's current Aa3/A+/AA- State Property and Buildings Commission General Fund lease appropriation debt rating by Moody's Investors Service, Standard & Poor's, and Fitch Ratings respectively.
- Maintain or improve the state's current Aa3/AA+/AA- Turnpike Authority of Kentucky Road Fund lease appropriation debt rating by Moody's Investors Service, Standard & Poor's, and Fitch Ratings respectively.
- Initiate reviews of debt management processes that are consistent with reviews by external entities such as rating agencies.
- Continue to develop the program to manage the net interest expense of the Commonwealth.
- Continually strive to reduce the expense of debt through ongoing management of outstanding debt and analysis of low-cost alternatives.
- Use tax-exempt rather than taxable funding sources for project financing whenever possible to minimize overall governmental operating costs.

These goals continue to be important to the assessment by outside entities of the use of debt by the Commonwealth and provide an appropriate backdrop for any discussion about long-term capital expenditures.

Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt.

Appropriation supported debt carries the name of the Commonwealth and is either (i) a general obligation of the state, or (ii) a lease revenue obligation of one of its debt issuing agencies created by the Kentucky General Assembly to finance various projects subject to state appropriation for all or a portion of the debt service on the bonds.

General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth for the repayment of the debt. The Kentucky Constitution requires voter approval by general referendum prior to the issuance of general obligation bonds in amounts exceeding $500,000. Kentucky has not issued general obligation bonds since 1966. The Commonwealth has no general obligation bonds outstanding.

Project revenue notes and bonds are issued by various debt issuing authorities of the Commonwealth. The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project revenue debt is not a direct obligation of the Commonwealth. Project revenues are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases, the direct revenues generated from the project funded constitute the entire source of payment.

The payment of debt service by the state universities is enhanced by a state intercept provision that provides that in the event of a default, the Secretary of the Finance and Administration Cabinet is required to intercept any funds appropriated to the University but not yet disbursed and to remit those funds to the Trustee to remedy the default.

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall, the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Kentucky Infrastructure Authority Governmental Agencies Program and certain Kentucky Higher Education Student Loan Corporation bond issues no longer carry the moral obligation provision.

Default Record

The Commonwealth has never defaulted in the payment of principal or interest on its general obligation or its project revenue obligations. Nor has the moral obligation provision been exercised.

Table 13
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/PURPOSE	DEBT LIMITATIONS	RATINGS*
State Property and Buildings Commission	**KRS 56.450** Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
Kentucky Asset/Liability Commission	**KRS 56.860** Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky	**KRS 175.410-175.990** Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA+/AA-
The State Universities (consisting of nine)	**KRS 56.495** Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	See Appendix C
Kentucky Housing Corporation	**KRS 198A** Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents of the State.	Limited to $ 2.5 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	**KRS 224A** Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of $500 million.	Aa3/A+/AA-
Kentucky Higher Education Student Loan Corporation	**KRS 164A** Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to $5.0 billion of debt outstanding.	NR/AAA/AAA (Sr. Series) NR/A/A (Subord. Series)
School Facilities Construction Commission	**KRS 157.611-157.665** Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance Authority	**KRS 154** Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	**KRS 441.605-441.695** Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Aaa/AAA/NR (Insured)

*Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch.
Certain State Property and Buildings Commission Agency Fund Revenue bonds may have ratings different from those identified above.
The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA" by Standard & Poor's and are backed by the loans of the borrowers.

Definitions

Debt service is defined as all debt service appropriated by the General Assembly to the Executive Branch. This includes debt service on all bond issues of the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, state universities (general receipts bonds, consolidated educational buildings revenue bonds, and housing and dining system revenue bonds), the Turnpike Authority of Kentucky, and the state appropriation-supported portion of both the School Facilities Construction Commission and the Kentucky Infrastructure Authority.

Revenue is defined to include the General Fund, Road Fund, and Agency Funds and is reported on an actual cash (budgetary) basis. Although the state adopted a modified accrual basis of accounting in 1983, the use of the cash basis allows for an analysis of debt for a longer time period. Revenues for the General Fund and Road Fund for fiscal year 2009 and fiscal year 2010 are based upon the Consensus Forecasting Group's January 16, 2008 Official Revenue Estimates. Agency Fund estimates are based upon actual results for fiscal year 2007 and assume 2.0 percent growth each fiscal year.

Historical revenue figures and debt service levels were obtained from the ***Kentucky Comprehensive Annual Financial Report*** and the supplementary information reports for the various years.

Debt capacity is the total amount of new asset bonds that can be supported by a calculated amount of state appropriations (assuming a 20-year term with a tax-exempt interest rate of 5.85 percent or other applicable rates). Asset bonds equate to project costs plus cost of issuance and assume no debt service reserves.

Historical Information

Table 14 displays the historical comparison of debt outstanding in current and constant dollars.

Table 15 displays the comparison of debt outstanding and required debt service as a percent of assessed property, personal income, and on a per capita basis.

Table 16 provides the historical comparison of total appropriation required debt service as a percentage of total revenue. This is the key indicator of debt affordability for the Commonwealth and is used to assess the impact of any capital program.

Table 17 provides an update of Table 16 to include the Governor's proposed debt financed projects.

Table 14
APPROPRIATION SUPPORTED DEBT
PRINCIPAL DEBT OUTSTANDING
(000,000)

Fiscal Year	Current	Percent Change	CPI Constant Dollar Adjustment	Constant (1984)	Percent Change
1985	2,098.89	-0.09	1.076	1,950.64	-3.52
1986	2,197.98	4.72	1.096	2,005.46	2.81
1987	2,627.29	19.53	1.136	2,312.76	15.32
1988	2,771.07	5.47	1.183	2,342.41	1.28
1989	2,726.69	-1.60	1.240	2,198.94	-6.12
1990	2,752.78	0.96	1.307	2,106.18	-4.22
1991	3,277.26	19.05	1.362	2,406.21	14.25
1992	3,537.60	7.94	1.403	2,521.45	4.79
1993	3,837.66	8.48	1.445	2,655.82	5.33
1994	3,785.78	-1.35	1.482	2,554.51	-3.81
1995	3,809.20	0.62	1.524	2,499.47	-2.15
1996	3,775.38	-0.89	1.569	2,406.23	-3.73
1997	3,557.74	-5.76	1.605	2,216.66	-7.88
1998	3,600.08	1.19	1.630	2,208.64	-0.36
1999	3,589.95	-0.28	1.666	2,154.83	-2.44
2000	3,556.97	-0.92	1.722	2,065.60	-4.14
2001	3,966.22	11.51	1.771	2,239.53	8.42
2002	4,423.93	11.54	1.799	2,459.10	9.80
2003	4,102.63	-7.26	1.840	2,229.69	-9.33
2004	4,483.53	9.28	1.889	2,373.49	6.45
2005	4,658.95	3.91	1.953	2,385.53	0.51
2006	5,103.48	9.54	2.016	2,531.49	6.12
2007	5,455.69	6.90	2.058	2,650.53	4.70
2008*	5,748.03	5.36	2.104	2,732.45	3.09
2009*	6,199.47	7.85	2.150	2,883.61	5.53
2010*	6,636.48	7.05	2.197	3,020.43	4.74

*Estimated

Assumes no additional debt is issued in fiscal year 2008

Assumes half of remaining un-issued debt authorization is issued in fiscal year 2009 and the remaining half in fiscal year 2010.

Assumes no additional debt authorization for the 2008-2010 Biennium

Table 15
APPROPRIATION SUPPORTED DEBT
KENTUCKY ECONOMIC DEBT INDICATORS
(Current Dollars)

Fiscal Year	Debt as a % of Assessed Property	Required Debt Service as a % of Assessed Property	Debt as a % of Personal Income	Required Debt Service as a % of Personal Income	Debt Per Capita ($)	Required Debt Service Per Capita ($)
1985	1.59	0.18	5.00	0.56	568.06	63.31
1986	1.54	0.17	4.93	0.55	596.01	67.08
1987	1.69	0.16	5.55	0.52	713.29	67.17
1988	1.71	0.17	5.48	0.55	753.01	75.46
1989	1.50	0.16	5.06	0.54	741.49	79.38
1990	1.42	0.16	4.82	0.53	746.64	82.57
1991	1.58	0.15	5.39	0.52	882.24	84.71
1992	1.62	0.18	5.51	0.61	941.76	105.00
1993	1.71	0.18	5.72	0.59	1,006.68	103.55
1994	1.56	0.16	5.35	0.56	983.55	102.87
1995	1.49	0.17	5.11	0.57	979.88	109.24
1996	1.48	0.17	4.83	0.56	963.22	111.17
1997	1.51	0.19	4.31	0.56	900.07	116.26
1998	1.43	0.18	4.08	0.52	903.32	114.78
1999	1.36	0.17	3.94	0.50	893.46	114.50
2000	1.29	0.20	3.62	0.57	878.52	137.44
2001	1.35	0.19	3.92	0.55	974.78	135.95
2002	1.33	0.16	4.23	0.50	1,080.88	128.75
2003	1.17	0.17	3.80	0.55	996.31	145.26
2004	1.24	0.16	3.90	0.51	1,081.43	141.46
2005	1.22	0.15	3.92	0.47	1,116.34	135.36
2006	1.49	0.18	4.13	0.50	1,213.36	148.04
2007	1.53	0.16	4.12	0.42	1,297.81	132.83
2008*	1.57	0.22	4.14	0.59	1,360.76	194.16
2009*	1.61	0.20	4.27	0.54	1,460.56	185.60
2010*	1.63	0.19	4.37	0.51	1,555.99	181.17

*Estimated

Assumes no additional debt is issued in fiscal year 2008

Assumes half of remaining un-issued debt authorization is issued in fiscal year 2009 and the remaining half in fiscal year 2010.

Assumes no additional debt authorization for the 2008-2010 Biennium

Table 16
APPROPRIATION SUPPORTED DEBT SERVICE
AS A PERCENT OF TOTAL REVENUE
(000,000)

Fiscal Year	Revenue ($)	Debt Service ($)	Debt Service/ Revenue (%)
1985	3,959.25	233.91	5.91
1986	4,248.08	247.38	5.82
1987	4,934.00	247.42	5.01
1988	5,134.54	277.69	5.41
1989	5,407.11	291.89	5.40
1990	5,814.85	304.43	5.24
1991	6,120.63	314.66	5.14
1992	6,383.17	394.44	6.18
1993	6,588.49	394.76	5.99
1994	6,716.11	395.95	5.90
1995	7,447.43	424.65	5.70
1996	7,759.59	435.72	5.62
1997	8,188.69	459.56	5.61
1998	8,675.09	457.44	5.27
1999	9,104.41	460.08	5.05
2000	9,427.31	556.47	5.90
2001	9,920.62	553.15	5.58
2002	10,172.25	526.97	5.18
2003	10,499.22	598.16	5.70
2004	10,877.02	586.47	5.39
2005	11,749.64	564.92	4.81
2006	12,746.44	622.68	4.89
2007	13,022.81	558.39	4.29
2008*	13,203.84	820.14	6.21
2009*	13,499.96	787.77	5.84
2010*	13,917.39	772.71	5.55

*Estimated

Assumes no additional debt is issued in fiscal year 2008

Assumes half of remaining un-issued debt authorization is issued in fiscal year 2009 and the remaining half in fiscal year 2010

Assumes no additional debt authorization for the 2008-2010 Biennium

Table 17
APPROPRIATION SUPPORTED DEBT SERVICE
AS A PERCENT OF TOTAL REVENUE (%)

Fiscal Year	Assuming No New Authorization	$1,182,853,000 Executive Budget Recommended New Authorization
1985	5.91	
1986	5.82	
1987	5.01	
1988	5.41	
1989	5.40	
1990	5.24	
1991	5.14	
1992	6.18	
1993	5.99	
1994	5.90	
1995	5.70	
1996	5.62	
1997	5.61	
1998	5.27	
1999	5.05	
2000	5.90	
2001	5.58	
2002	5.18	
2003	5.70	
2004	5.39	
2005	4.81	
2006	4.89	
2007	4.29	
2008	6.21*	
2009	5.84*	
2010	5.55*	6.34*

*Estimated

Assumes no additional debt is issued in fiscal year 2008

Assumes half of remaining un-issued debt authorization is issued in fiscal year 2009 and the remaining half in fiscal 2010

Appendix A – Economic Indicators

The following data reflect Kentucky's debt (principal outstanding) and debt service in comparison with various economic indicators or measures of wealth. Appropriation supported debt and three categories of debt service are presented in terms of the economic variables of assessed property values, personal income and population.

Tables A-1, A-2 and A-3 show the annual debt and debt service in three different categories: required, appropriated and actual. "Required debt service" is the net debt service that is actually due to the bondholders regardless of source of revenue. Debt service may be paid from interest earnings on the debt service reserve funds as well as by direct appropriations or projected revenues. The "required debt service" category is the most accurate reflection of the Commonwealth's liability.

"Appropriated debt service" reflects those funds that were appropriated in the various budgets for debt service. In many cases, these figures are estimated well in advance of debt being issued or refinanced. These figures are neither an accurate nor consistent reflection of the Commonwealth's debt liability and are presented pursuant to KRS 42.410.

"Actual debt service" reflects those funds that flowed through the Debt Service Fund within the state's accounting system. These figures include not only debt service but also proceeds from refundings, costs of issuance and accrued interest on newly issued bonds, rebate and arbitrage penalty payments and trustee fees. These data are not an accurate reflection of the Commonwealth's debt liability, but are being presented pursuant to KRS 42.410.

Table A-4 reflects Kentucky's non-appropriation supported debt in relation to the economic variables of assessed property value, personal income and population. Non-appropriation supported debt is the debt of those authorities for which appropriation of state funds is not used to pay the debt service. The authorities include the Kentucky Housing Corporation, Kentucky Higher Education Student Loan Corporation, Kentucky Local Correctional Facilities Construction Authority, and certain debt of the Kentucky Infrastructure Authority.

Table A-1
APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE
AS A PERCENT OF ASSESSED PROPERTY
(Current Dollars)

Fiscal Year	Debt as a % of Assessed Property	Required Debt Service as a % of Assessed Property	Appropriated Debt Service as a % of Assessed Property	Actual Debt Service as a % of Assessed Property
1998	1.43	0.18	0.18	0.23
1999	1.36	0.17	0.17	0.19
2000	1.29	0.20	0.19	0.16
2001	1.35	0.19	0.20	0.19
2002	1.33	0.16	0.18	0.17
2003	1.17	0.17	0.17	0.17
2004	1.24	0.16	0.17	0.19
2005	1.22	0.15	0.15	0.16
2006	1.49	0.18	0.21	0.17
2007	1.53	0.16	0.21	0.18

Table A-2
APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE
AS A PERCENT OF PERSONAL INCOME
(Current Dollars)

Fiscal Year	Debt as a % of Personal Income	Required Debt Service as a % of Personal Income	Appropriated Debt Service as a % of Personal Income	Actual Debt Service as a % of Personal Income
1998	4.08	0.52	0.52	0.66
1999	3.94	0.50	0.50	0.55
2000	3.62	0.57	0.54	0.46
2001	3.92	0.55	0.59	0.56
2002	4.23	0.50	0.58	0.55
2003	3.80	0.55	0.55	0.56
2004	3.90	0.51	0.55	0.59
2005	3.92	0.47	0.47	0.51
2006	4.13	0.50	0.59	0.48
2007	4.12	0.42	0.57	0.50

Table A-3
APPROPRIATION SUPPORTED DEBT AND DEBT SERVICE
PER CAPITA
(Current Dollars)

Year	Debt Per Capita ($)	Required Debt Service Per Capita ($)	Appropriated Debt Service Per Capita ($)	Actual Debt Service Per Capita ($)
1998	903.32	114.78	114.78	145.46
1999	893.46	114.50	114.50	125.57
2000	878.52	137.44	131.37	112.08
2001	974.78	135.95	146.26	139.36
2002	1,080.88	128.75	148.31	140.38
2003	996.31	145.26	143.33	146.07
2004	1,081.43	141.46	151.79	163.06
2005	1,116.34	135.36	133.11	145.80
2006	1,213.36	148.04	172.79	141.79
2007	1,297.81	132.83	179.72	156.27

Table A-4
NON-APPROPRIATION SUPPORTED DEBT
KENTUCKY ECONOMIC DEBT INDICATORS

Fiscal Year	Debt as a % of Assessed Property	Debt as a % of Personal Income	Debt Per Capita ($)
1998	0.62	1.77	391.54
1999	0.63	1.82	413.46
2000	0.68	1.92	466.68
2001	0.66	1.91	475.93
2002	0.61	1.94	495.29
2003	0.67	2.17	568.58
2004	0.62	1.96	544.02
2005	0.69	2.20	628.17
2006	0.98	2.72	797.97
2007	1.17	3.15	993.13

Appendix B: Fiscal Debt Indicators

In the following table, total appropriated revenue is shown in terms of the three categories of debt service as described in Appendix A. Appropriated revenue is the revenue of the General Fund, Road Fund and Agency Funds in the Executive Branch budget. Table B-1 compares required, appropriated and actual debt service to total revenue.

Table B-2 reflects the three categories of debt service in terms of "available appropriated revenues." This form of revenue is from the same sources as described above less funds that are statutorily dedicated to a specific purpose. In the case of the Road Fund (Table B-3), the following receipts are subtracted: County Road Aid, Rural Secondary Road Aid, Municipal Road Aid within the Motor Fuels Normal and Motor Fuels Normal Use accounts, Kentucky Transportation Center Funds, Coal Haul Cooperative Agreements, Extended Weight and Coal Haul Fines, Drivers Education program and Drivers License Photo program.

The Agency Fund receipts include those agency funds that are actually applied to debt service. These include primarily the debt service for university general receipts and housing and dining issues. In addition certain university consolidated educational buildings revenue bonds and State Property and Buildings Commission bonds are supported by Agency Fund appropriations.

Table B-1
APPROPRIATED DEBT SERVICE
AS A PERCENT OF TOTAL REVENUE
(Budget Basis)

Fiscal Year	Total Revenue (000,000)	Required Debt Service/ Revenue (%)	Appropriated Debt Service/ Revenue (%)	Actual Debt Service/ Revenue (%)
1998	8,675.09	5.27	5.27	6.68
1999	9,104.41	5.05	5.05	5.54
2000	9,427.31	5.90	5.64	4.81
2001	9,920.62	5.58	6.00	5.72
2002	10,172.25	5.18	5.97	5.65
2003	10,499.22	5.70	5.62	5.73
2004	10,877.02	5.39	5.79	6.22
2005	11,749.64	4.81	4.73	5.18
2006	12,746.44	4.89	5.70	4.68
2007	13,022.81	4.29	5.80	5.04

Table B-2
APPROPRIATED DEBT SERVICE
AS A PERCENT OF AVAILABLE REVENUE
(Budget Basis)

Fiscal Year	Available Revenue (000,000)	Required Debt Service/ Revenue (%)	Appropriated Debt Service/ Revenue (%)	Actual Debt Service/ Revenue (%)
1998	6,834.06	6.69	6.69	8.48
1999	7,042.47	6.53	6.53	7.16
2000	7,396.68	7.52	7.19	6.14
2001	7,648.48	7.23	7.78	7.41
2002	7,622.59	6.91	7.96	7.54
2003	7,912.92	7.56	7.46	7.60
2004	8,079.32	7.26	7.79	8.37
2005	8,681.45	6.51	6.40	7.01
2006	9,444.88	6.59	7.69	6.31
2007	9,709.60	5.75	7.78	6.77

Table B-3
ROAD FUND DEBT SERVICE
AS A PERCENT OF ROAD FUND REVENUE
(000,000)

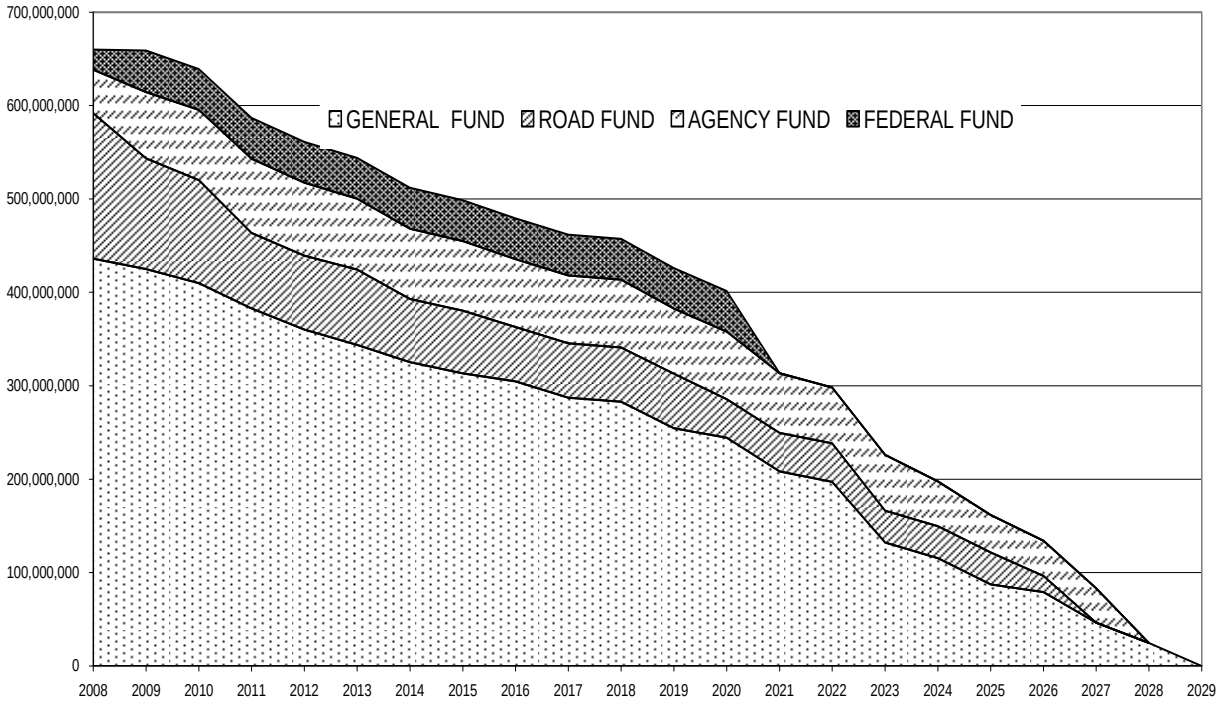
Fiscal Year	Available Road Fund Revenue	Debt Service	Debt Service as a Percent of Available Revenue
1985	394.07	137.14	34.80
1986	398.29	134.90	33.87
1987	505.67	130.03	25.71
1988	464.35	134.67	29.00
1989	555.71	126.13	22.70
1990	579.76	129.11	22.27
1991	594.36	155.46	26.16
1992	604.94	154.37	25.52
1993	635.27	141.08	22.21
1994	674.77	145.90	21.62
1995	705.97	152.34	21.58
1996	743.94	155.65	20.92
1997	760.41	160.96	21.17
1998	807.63	152.19	18.84
1999	829.84	151.79	18.29
2000	875.38	168.50	19.25
2001	856.39	154.31	18.02
2002	901.63	172.86	19.17
2003	901.46	170.97	18.97
2004	891.98	153.30	17.19
2005	879.54	102.89	11.70
2006	920.91	137.49	14.93
2007	983.20	146.10	14.86

Appendix C: University Rating Agency Information

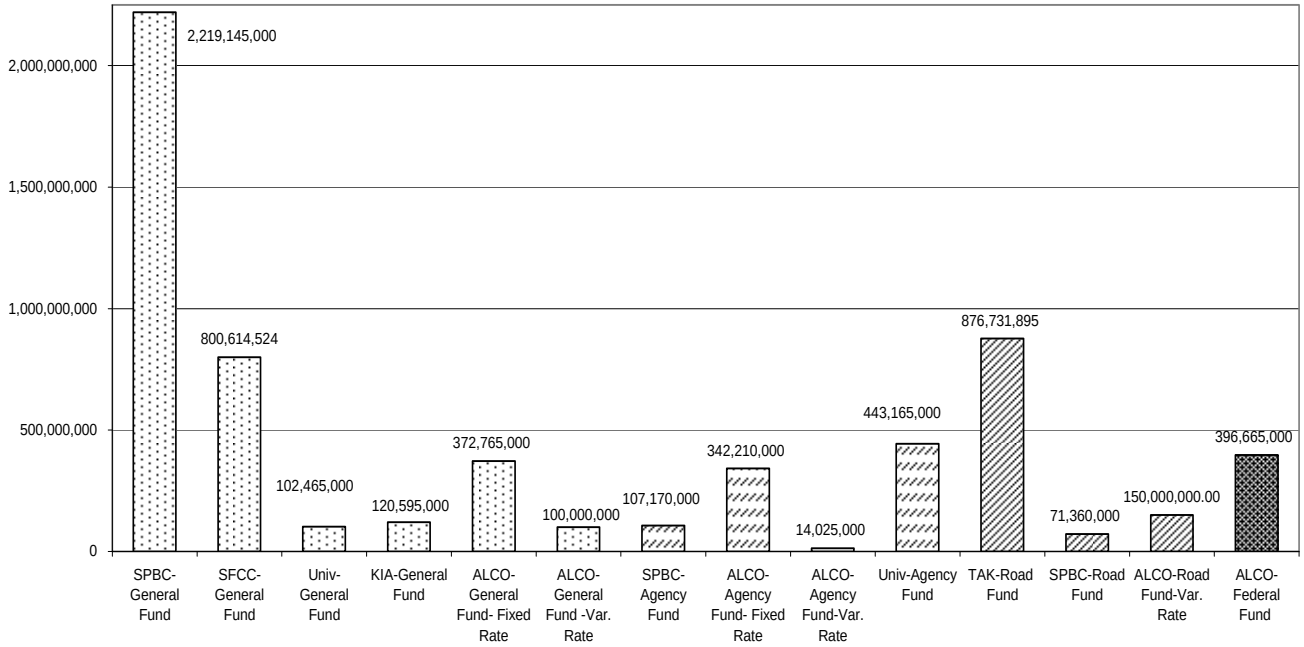
University	Consolidated Education Underlying Rating	Housing & Dining Underlying Rating	General Receipts Underlying	General Receipts Enhanced
Eastern Kentucky*				
Moody's	A2	A3	A2	A1
S&P	A	A-	Not Rated	A+
Kentucky State*				
Moody's	A3	Baa1	A3	A1
S&P	Not Rated	Not Rated	Not Rated	Not Rated
Morehead State				
Moody's	A2	A3	A2	A1
S&P	Not Rated	Not Rated	Not Rated	Not Rated
Murray State				
Moody's	A2	Not Rated	A2	A1
S&P	A	A-	Not Rated	A+
Northern Kentucky				
Moody's	A2	A3	A2	A1
S&P	A	Not Rated	Not Rated	A+
University of Kentucky*				
Moody's	Aa3	Aa3	Aa3	Not Rated
S&P	Not Rated	Not Rated	AA-	Not Rated
University of Louisville				
Moody's	Aa3	A1	Aa3	Not Rated
S&P	AA-	A	AA-	Not Rated
Western Kentucky*				
Moody's	A2	Not Rated	A2	A1
S&P	A	Not Rated	Not Rated	A+

* No Housing and Dining System Bonds are outstanding.

Appropriation Supported Debt Service
By Fund Source
As of 12/31/07
(Fixed Rate Only)



Appropriation Debt Principal Outstanding
By Fund Source
As of 12/21/07
(Includes Variable Bond Anticipation Notes)



Appendix E: Recommended New Debt Authorization

AGENCY	PROJECT	GENERAL FUND
Agriculture	Animal Shelters	2,500,000
Commonwealth Office of Technology	Public Safety Communications Infrastructure-Additional	18,000,000
Community Based Services	Brooklawn Child and Family Services	2,000,000
Corrections	Repair, Maintenance & Replacement	4,000,000
Corrections	Expand Little Sandy Correctional Complex	39,799,000
Dept. of Education	On-Line Assessment	15,000,000
Dept. of Education	Knowledge Management Portal	3,250,000
Economic Development	Economic Development Bonds	50,000,000
Eastern Kentucky University	Dairy Research Farm-Meadowbrook	5,300,000
Environmental Protection	State Owned Dam Repair	2,000,000
Facilities and Support Services	Repair, Maintenance & Replacement	8,000,000
Fair Board	Upgrade HVAC Systems	2,000,000
Fish and Wildlife Resources	Kentucky Wetland and Stream Mitigation Fund	10,000,000
GOLD	Community Development Projects-Lake Malone State Park Improvements	200,000
GOLD	Community Development Projects-Pikeville Medical Center	1,500,000
GOLD	Louisville Zoo- Glacier Run	6,000,000
GOLD	Flood Control Matching Funds	2,200,000
Health and Family Services	Repair, Maintenance & Replacement	4,000,000
KCTCS	Licking Valley Campus-Phase II-Maysville CC	1,000,000
KCTCS	Energy and Advanced Technology Center-Madisonville CC	4,000,000
KCTCS	Construct Carrollton Campus-Jefferson CTC	12,000,000
KCTCS	Rowan County Campus-Planning and Design	1,500,000
KCTCS	Advanced Technology Center-Owensboro CTC	14,055,000
Kentucky State University	Expand and Renovate Betty White Nursing Building	4,900,000
Ky Infrastructure Authority	Wastewater Projects-Fund A-State Match	4,000,000
Ky Infrastructure Authority	Drinking Water Projects-Fund F-State Match	4,000,000
Ky Infrastructure Authority	Water and Sewer Infrastructure Projects Pool for Coal-Producing Counties	50,000,000
Ky River Authority	Kentucky River Locks and Dams Maintenance and Renovations Pool	17,500,000
Mental Health/Mental Retardation	Construct New Glasgow State Nursing Facility	18,000,000
Morehead State University	Business Continuance Datacenter-Collaborative with NKU	2,500,000
Morehead State University	Replace Power Plant Pollution Control and Boiler	5,700,000
Natural Resources	Heritage Land Conservation Program	10,000,000
Parks	Parks Renovation Pool	8,000,000
Parks	Repair, Maintenance & Replacement	4,000,000
Petroleum Underground Storage Tank	Petroleum Underground Storage Tank	25,000,000
CPE	Postsecondary Education Institutions-Capital Renewal Pool	13,927,000
CPE	Postsecondary Education Institutions-Technology & Equipment Pool	10,000,000
CPE	Postsecondary Education Institutions-Research Support/Lab Renovation & Equipment	6,000,000
Postsecondary Education	Research Challenge Trust Fund	50,000,000
Postsecondary Education	Regional University Excellence Trust Fund	10,000,000
SFCC	Offers of Assistance	100,000,000
Transportation Cabinet	Replace AVIS System	25,000,000
University of Kentucky	Livestock Disease Diagnostic Center-Phase II	13,500,000
Western Kentucky University	Renovate Science Campus-Phase III	9,000,000
Western Kentucky University	Construct Materials Characterization Center/ICSET-Ph II	4,500,000
Western Kentucky University	Replace Ford College of Business-Griese Hall Phase I	5,800,000
Total - General Fund Bond Authorization		**609,631,000**

Appendix E: Recommended New Debt Authorization (continued)

AGENCY	PROJECT	AGENCY FUND
Military Affairs	Bluegrass Station - Infrastructure Improvements	3,700,000
Eastern Kentucky University	Renovate Residence Hall	10,000,000
Eastern Kentucky University	Construct New Student Housing	21,000,000
Kentucky State University	Construct Parking Structure	7,000,000
Morehead State University	Capital Renewal & Maintenance Pool - Auxiliary	1,383,000
Morehead State University	Construct Campus Recreation Center	39,000,000
Morehead State University	Renovate Alumni Tower Residence Hall	4,631,000
Morehead State University	Construct Food Services Facility in Housing Complex	8,251,000
Morehead State University	Comply with ADA - Auxiliary	2,727,000
Morehead State University	Renovate Mignon Tower Residence Hall	5,682,000
Morehead State University	Construct Parking Structure	7,000,000
Murray State University	Replace Franklin Hall	15,000,000
Murray State University	Replace Richmond Hall - Additional	1,923,000
Murray State University	Renovate White Hall	9,600,000
Murray State University	Complete Capital Renewal: H&D Pool <$600,000	7,617,000
Murray State University	Abate Asbestos: H&D Pool <$600,000	1,423,000
Murray State University	Complete ADA Compliance: H&D Pool<$600,000	744,000
Murray State University	Renovate Buildings: H&D Pool <$600,000	605,000
Murray State University	Complete Life Safety Project: H&D Pool <$600,000	388,000
Murray State University	Renovate Curris Center T-Room & Food Service Equipment	908,000
Murray State University	Renovate Regents Hall	10,200,000
Northern Kentucky University	Acquire & Renovate Residence Halls	23,500,000
Northern Kentucky University	Construct Parking Garage #4	11,500,000
Northern Kentucky University	Construct/Acquire New Residence Hall	30,000,000
Northern Kentucky University	Renovate/Expand Norse Commons	7,000,000
University of Kentucky	Construct New Housing	28,000,000
University of Kentucky	Renovate Blazer Hall Cafeteria	2,800,000
University of Kentucky	Renovate Student Center Food Court	2,675,000
University of Kentucky	Sanitary Sewer Expansion	10,000,000
University of Kentucky	Upgrade Existing Dorms for Housing	7,000,000
University of Louisville	Construct - HSC Research III (Additional)	15,800,000
University of Louisville	Construct - HSC Parking Structure II	30,700,000
University of Louisville	Expand - Student Activities Center	9,960,000
University of Louisville	Construct - Westside Dining Facility	5,370,000
University of Louisville	Expand/Renovate Dental School	38,700,000
University of Louisville	Construct - HSC Parking Structure III	38,735,000
University of Louisville	Purchase - Central Station Property	9,000,000
Western Kentucky University	Van Meter Hall Renovation	18,400,000
Western Kentucky University	Ivan Wilson Fine Arts Center Expansion Phase I	9,200,000
Western Kentucky University	Acquire Property and Construct Parking Lots	4,600,000
Western Kentucky University	Expand Preston Center	11,500,000
Western Kentucky University	Renovate Downing University Center Phase III	46,000,000
Western Kentucky University	Renovate Garrett Conference Center	4,000,000
Total - Agency Fund Bond Authorization		**523,222,000**

	PROJECT	ROAD FUND
Road Fund Bond Authorization	Economic Development Road Bonds for BRAC	**50,000,000**
TOTAL-ALL BOND PROJECTS		**1,182,853,000**

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