



2008 ECONOMIC REPORT FOR KENTUCKY

PREPARED FOR
GOVERNOR STEVEN L. BESHEAR
AND LOCAL WORKFORCE INVESTMENT BOARDS

Prepared by the Kentucky Education and Workforce Development Cabinet
Office of Employment and Training
Research & Statistics Branch
June 30, 2008



2008 Economic Report for Kentucky

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Governor**

**Kentucky Education and Workforce Development Cabinet
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June 30, 2008

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EQUAL OPPORTUNITY EMPLOYER/PROGRAM

AUXILIARY AIDS AND SERVICES ARE AVAILABLE UPON REQUEST TO INDIVIDUALS WITH DISABILITIES

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Executive Summary

This economic report is completed in accordance with the Training and Employment Guidance Letter (TEGL) No. 29-06. Included in this report is data on employment and unemployment, income, wages, unemployment insurance, tax receipts, transfer payments, educational attainment, population, mass layoff events, and local employment dynamics.

From 1997 to 2004, the annual unemployment rate in Kentucky roughly mirrored the national annual unemployment rate. For most of this time period, Kentucky's annual unemployment rate exceeded the national annual unemployment rate. However, between 2005 and 2007, Kentucky's annual unemployment rate diverged from the national trend. The beginning of this period, 2005, coincides with the start of the automobile slump and layoffs in the automobile industry.

Kentucky's non-farm employment, which was already predominantly in service-providing industries, has continued to shift towards jobs in the service-providing sectors. Over the last ten years, the Kentucky economy has added 166,200 service-providing jobs and lost 49,900 goods-producing positions. Trade, Transportation, and Utilities constituted the largest supersector in Kentucky in 2007.

Over the last 10 years, the nominal per capita income growth in Kentucky has roughly mirrored the nominal per capita income growth nationally. However, the per capita income in Kentucky has continually been below the national per capita income. From 2004 to 2007, there was a minor divergence in the rates of per capita income growth. Nationally, the rate of nominal income growth exceeded the rate of per capita income growth in Kentucky.

Since 2001, there has been steady growth in the percentage of persons living in poverty in Kentucky and the U.S. With the exception of 1998, when the state was ranked 40th, Kentucky has consistently been ranked in the bottom poverty rate quintile this past decade. In 2005, Kentucky's rank improved to 44th, the same ranking Kentucky experienced in 1996.

In 2006, Kentucky's educational attainment lagged behind the nation. The percentage of Kentuckians with a high school diploma or less exceeded the proportion of Americans with this level of education, while the proportion of the U.S. population with at least some college education surpassed the percentage of Kentuckians who achieved this level of education by 2006. However, while the state's educational attainment level lags behind the nation, younger Kentuckians have lessened the educational gap.

While whites are the majority in both the U.S. and Kentucky, Kentucky is more predominantly white than the nation as a whole. Yet, since 1990, Kentucky's population has shifted toward a more diverse mix of ethnicities. Nevertheless, between 2006 and 2007, the proportion of Other Races in Kentucky declined from 3.2% in 2006 to 2.3% in 2007. This phenomenon is not unique to Kentucky. As the economy weakens and immigration policies tighten, individuals classified as Other Races are leaving the U.S.

Likewise, while females are the majority in both the U.S. and Kentucky, Kentucky has a larger percentage of females than the nation as a whole. However, since 1990, Kentucky's population has shifted toward a more equal distribution of males and females. Moreover, in 2007, Kentucky's population distribution consisted of a greater percentage of older individuals than the nation as a whole. Since 1990, Kentucky's population has shifted toward an older distribution.

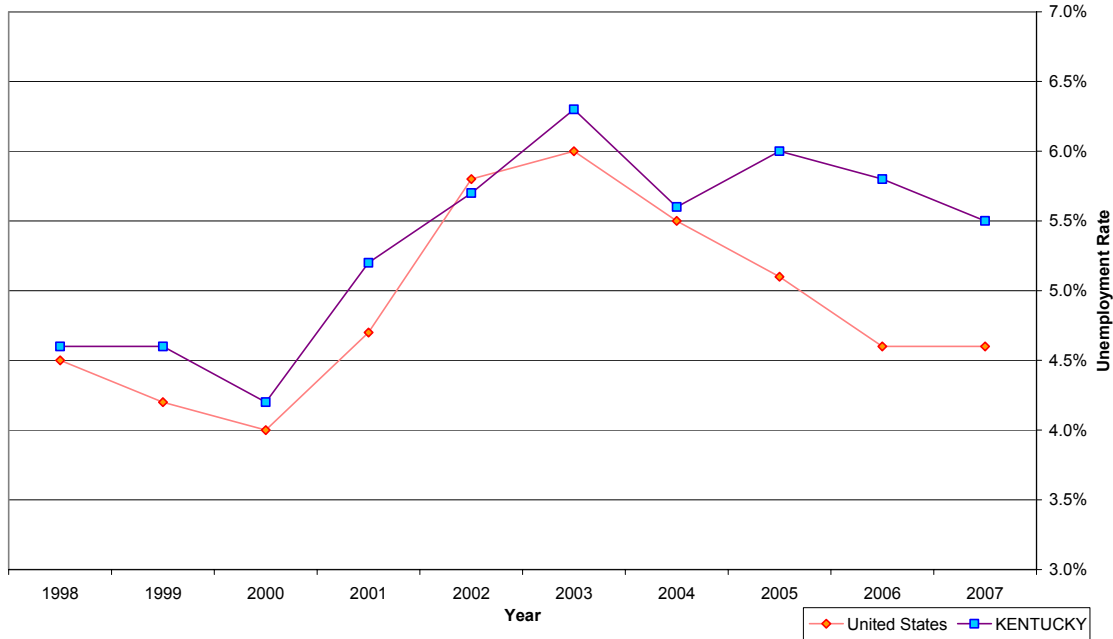
The average monthly wages earned by male new hires were 46% higher than those earned by female new hires in 2006. This gender gap reflects the difference in wages in the industries employing predominantly male workers and the industries employing primarily female workers. Women leaving the workforce to raise families contribute to the increase in the gender gap over time.

Beginning in 1999, on a per covered employee basis, the benefits paid have exceeded the unemployment insurance contributions made. As a result, since 2000, there has been a steady decline in Kentucky's unemployment insurance trust fund balance. Since 2005, there has been an uninterrupted string of increases in the magnitude of the loss per covered employee from \$3 in 2005 to \$41 in 2007. The increasing rate of growth in the loss per covered employee is exacerbating the diminution of the UI trust fund.

In the most recent four quarters, Road Fund Receipts increased 5.9% compared to the prior four quarters. The substantial increase in the Road Fund Receipts reflects the surge in gasoline prices over the past year.

Unemployment – U.S. and Kentucky (Ten-Year Summary)

Annual Unemployment Rate, 1998-2007, U.S. vs. Kentucky



Source: Kentucky Rates: Office of Employment and Training, Local Area Unemployment Statistics (LAUS) Program
U.S. Rates: U.S. Department of Labor, Bureau of Labor Statistics

In the last decade, there were three distinct periods concerning annual unemployment rates in the United States. The first period, 1998 – 2000, corresponds to the boom years of the late 1990s, when there was a steady decline in the national annual unemployment rate. The second period, 2001 – 2003, is one of uninterrupted growth in the U.S. annual unemployment rate. The beginning of this period, 2001, coincides with the last recession. In both 2001 and 2002, there were significant jumps in the U.S. annual unemployment rate. More specifically, the national annual unemployment rate climbed from 4.0% in 2000 to 4.7% in 2001 and 5.8% in 2002. The final period, 2004 – 2006, represents another interval of declining national annual unemployment rates. During this timeframe, the U.S. economy experienced a period of economic growth. These intervals reflect the inverse relationship between annual unemployment and economic growth. In 2007, the national unemployment rate held steady at 4.6%. The flattening of the U.S. unemployment rate curve is indicative of an inflection point, where the curve shifts from decreasing to increasing.

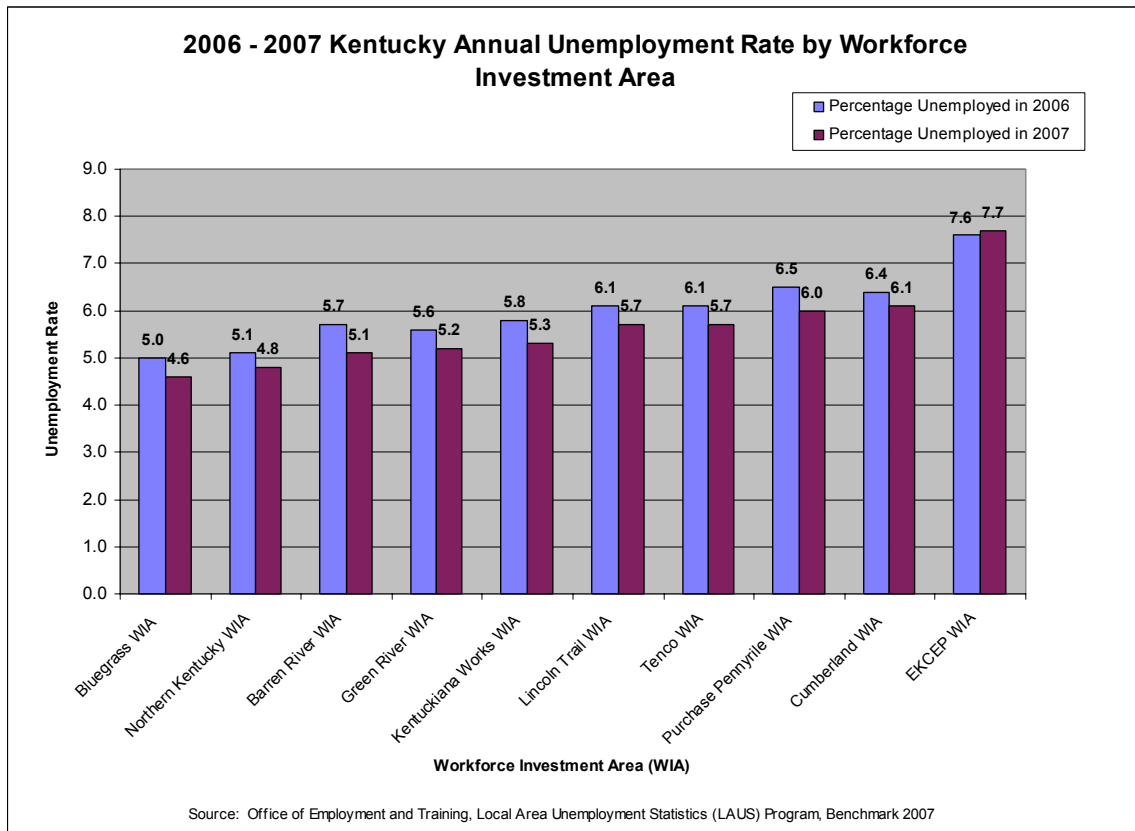
Over the last ten years, the annual unemployment rate in Kentucky has roughly mirrored the national annual unemployment rate. Kentucky's economy experienced declining annual unemployment rates between 1998 and 2000 followed by rising annual unemployment rates between 2001 and 2003. Kentucky endured a spike in its annual unemployment rate in 2001. During 2001, the statewide annual unemployment rate rose 1.0 percentage point from 4.2% in 2000 to 5.2%. In 2002 and 2003, Kentucky's annual unemployment rate continued to grow to 5.7% and 6.3%, respectively. In 2004, the

statewide annual unemployment rate declined to 5.6%, parallel with the reduction in the national annual unemployment rate. However, between 2005 and 2007, Kentucky's annual unemployment rate diverged from the national trend. The beginning of this period, 2005, coincides with the start of the automobile slump and layoffs in the automobile industry. Consequently, Kentucky suffered an increase in its annual unemployment rate in 2005. Moreover, in 2006, the annual unemployment rate in Kentucky remained higher than its 2004 level, albeit lower than in 2005. In addition, the rate of decline in the statewide annual unemployment rate was lower than the rate of regression in the U.S. annual unemployment rate. Yet, the drop in Kentucky's annual unemployment rate continued in 2007, with the statewide annual unemployment rate decreasing to 5.5%. However, in 2007, Kentucky's annual unemployment rate remained significantly higher than the corresponding national annual unemployment rate.

With the exception of 2002, Kentucky's annual unemployment rate has consistently been above the national annual unemployment rate this past decade. In 2002, Kentucky's annual unemployment rate of 5.7% was 0.1 percentage point below the national annual unemployment rate of 5.8%. The largest divergence between the state and national annual unemployment rates occurred in 2006, when Kentucky's annual unemployment rate exceeded the U.S. annual unemployment rate by 1.2 percentage point. In both 2005 and 2007, Kentucky experienced a statewide annual unemployment rate 0.9 percentage point higher than the U.S. annual unemployment rate. Prior to 2005, Kentucky's annual unemployment rate had not deviated more than 0.5 percentage point from the national annual unemployment rate this past decade.

In 2007, the U.S. annual unemployment rate stood at 4.6%, while Kentucky faced an annual unemployment rate of 5.5%. The national annual unemployment rate has increased 0.1 percentage point from 1998, when it stood at 4.5%. In contrast, the statewide annual unemployment rate has risen 0.9 percentage point from 1998, when an annual unemployment rate of 4.6% prevailed.

Unemployment – Kentucky WIAs (Two-Year Summary)

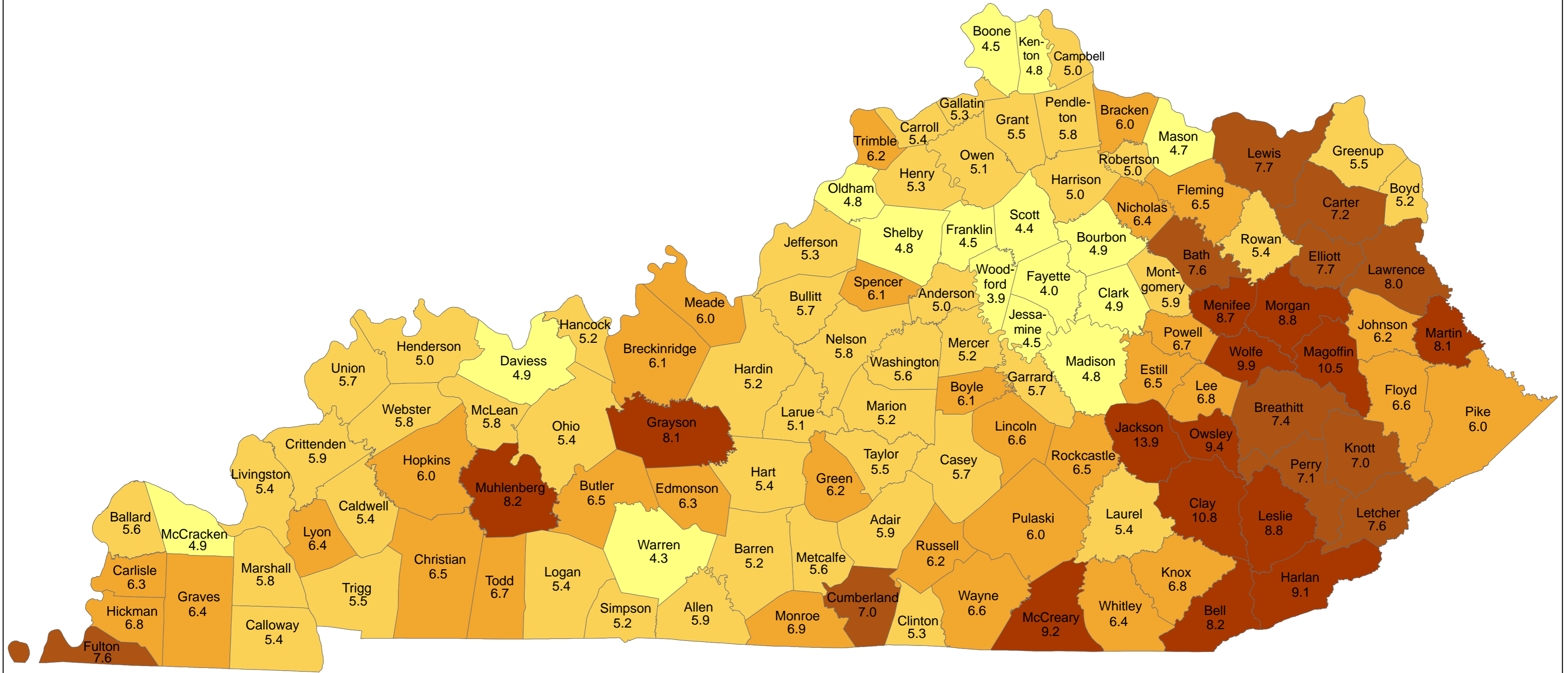


At the workforce investment area (WIA) level, annual unemployment rates in Kentucky exhibit significant variations. Bluegrass WIA experienced the lowest annual unemployment rate in Kentucky in both 2006 and 2007. Between 2006 and 2007, the annual unemployment rate in the Bluegrass WIA declined from 5.0% in 2006 to 4.6% in 2007. The Bluegrass WIA consists of Anderson, Bourbon, Boyle, Clark, Estill, Fayette, Franklin, Garrard, Harrison, Jessamine, Lincoln, Madison, Mercer, Nicholas, Powell, Scott, and Woodford Counties.

In both 2006 and 2007, the Eastern Kentucky Concentrated Employment Program (EKCEP) WIA suffered the highest annual unemployment rate in Kentucky. From 2006 to 2007, the annual unemployment rate in the EKCEP WIA climbed from 7.6% in 2006 to 7.7% in 2007. The EKCEP WIA encompasses Bell, Breathitt, Carter, Clay, Elliott, Floyd, Harlan, Jackson, Johnson, Knott, Knox, Lawrence, Lee, Leslie, Letcher, Magoffin, Martin, Menifee, Morgan, Owsley, Perry, Pike, and Wolfe Counties.

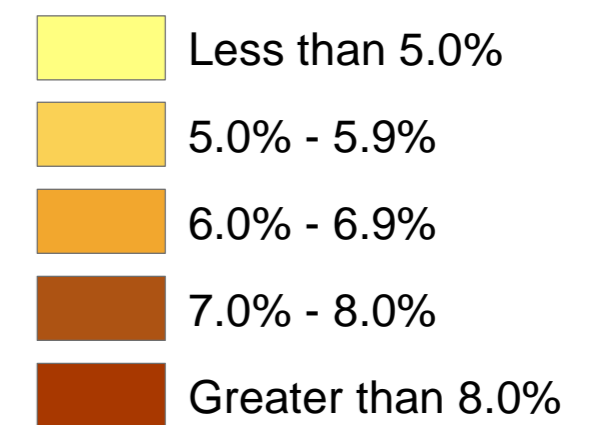
Between 2006 and 2007, all WIAs experienced a decrease in their annual unemployment rates with the exception of the EKCEP WIA. The Barren River WIA exhibited the largest reduction in its annual unemployment rate from 2006 to 2007. More specifically, the annual unemployment rate in the Barren River WIA declined 0.6 percentage point from 5.7% in 2006 to 5.1% in 2007. The Barren River WIA consists of Allen, Barren, Butler, Edmonson, Hart, Logan, Metcalfe, Monroe, Simpson, and Warren Counties.

Kentucky Unemployment Rates* by County 2007 Annual Average



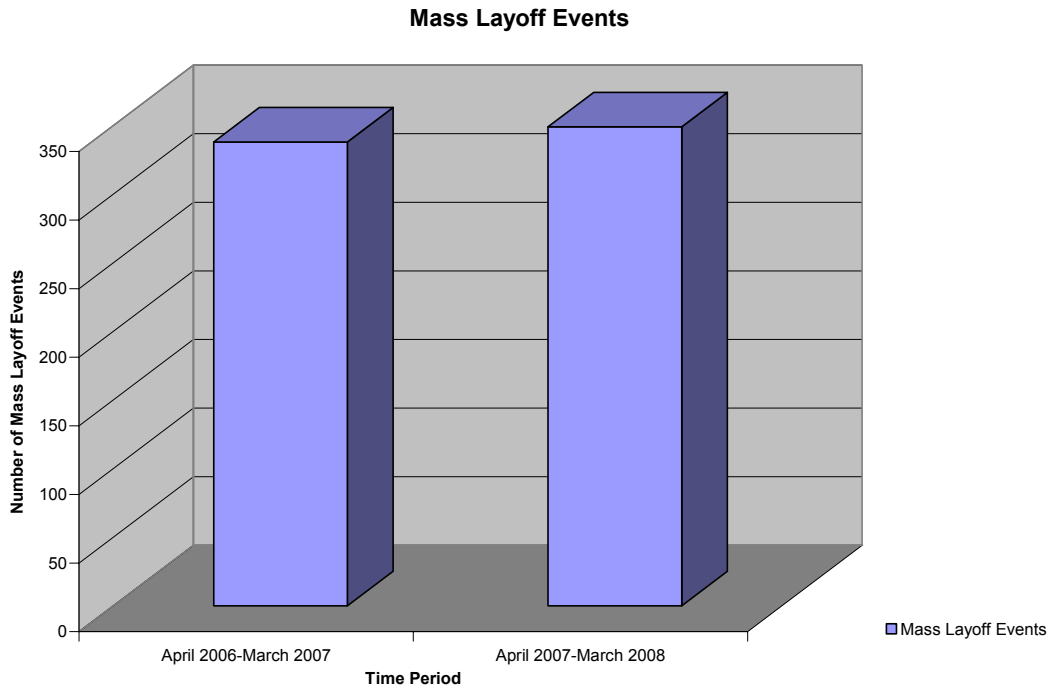
Statewide Rate: 5.5%
U.S. Rate: 4.6%

Unemployment Rate



*Data is nonseasonally adjusted.
Benchmark 2007.

Mass Layoff Events – Kentucky (Two-Year Summary)



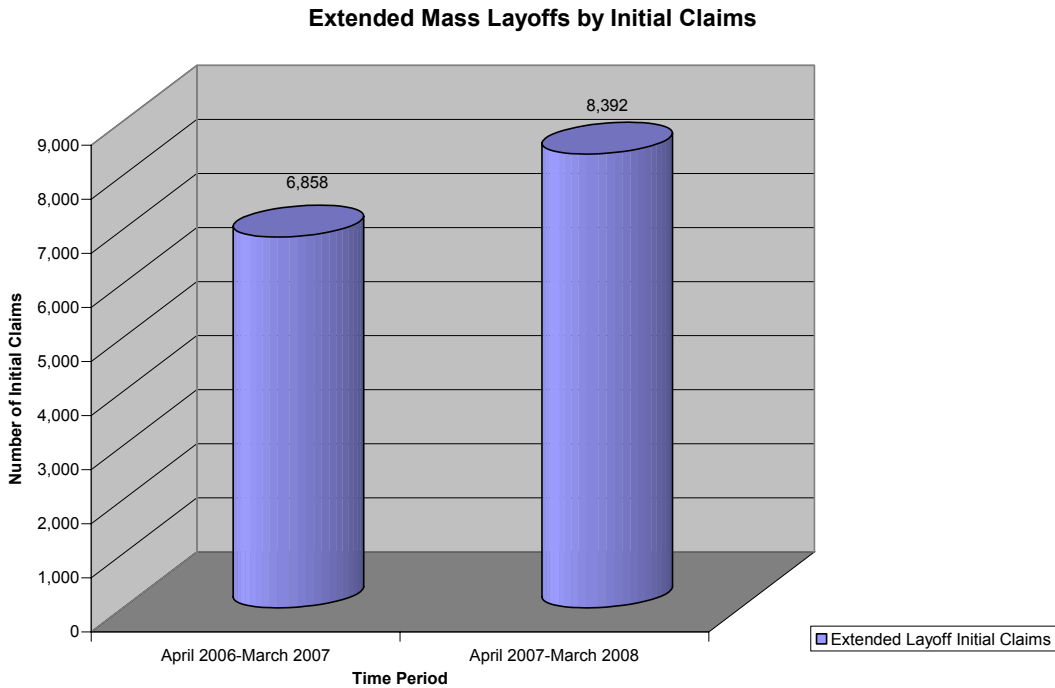
Source: Office of Employment and Training, Mass Layoff Statistics (MLS) Program

A mass layoff event is characterized by potential layoff activity based on 50 or more initial UI claims filed against an employer within a 5-week moving period prior to employer contact and regardless of duration. In other words, mass layoff events are associated with both temporary and permanent layoffs.

Between April 2007 and March 2008, there were 349 mass layoff events affecting 56,435 workers in all industries. This represented an increase of 11 mass layoff events in all industries from the 338 which occurred between April 2006 and March 2007. Yet, the number of workers impacted plummeted significantly from the 67,173 employees impinged on during the April 2006 to March 2007 time period, a decline of 10,738. Therefore, while mass layoffs events were more numerous in the April 2007 to March 2008 interval, the magnitudes of these occurrences were less severe.

This phenomenon was more pronounced for Total, Private, Non-Farm industries. From April 2007 to March 2008, Total, Private, Non-Farm industries suffered 329 mass layoff events impacting 54,641 workers. This embodied an increase of a mere 7 mass layoff events in Total, Private, Non-Farm industries from the 322 which transpired between April 2006 and March 2007. Yet, the amount of workers affected plunged appreciably from the 65,733 individuals impinged on during the April 2006 to March 2007 time frame, a reduction of 11,092.

Extended Mass Layoff Events – Kentucky (Two-Year Summary)



Source: Office of Employment and Training, Mass Layoff Statistics (MLS) Program

An extended mass layoff event describes a layoff activity involving at least 50 employees that has been confirmed by the employer as having lasted more than thirty days. Worker Adjustment and Retraining Notification (WARN) notices are received by Rapid Response teams which coordinate on-site services involving dislocated workers, employers, the community, and other local Workforce Investment Area resources and services available to help the employer manage the layoff and identify the specific needs of the affected employees.

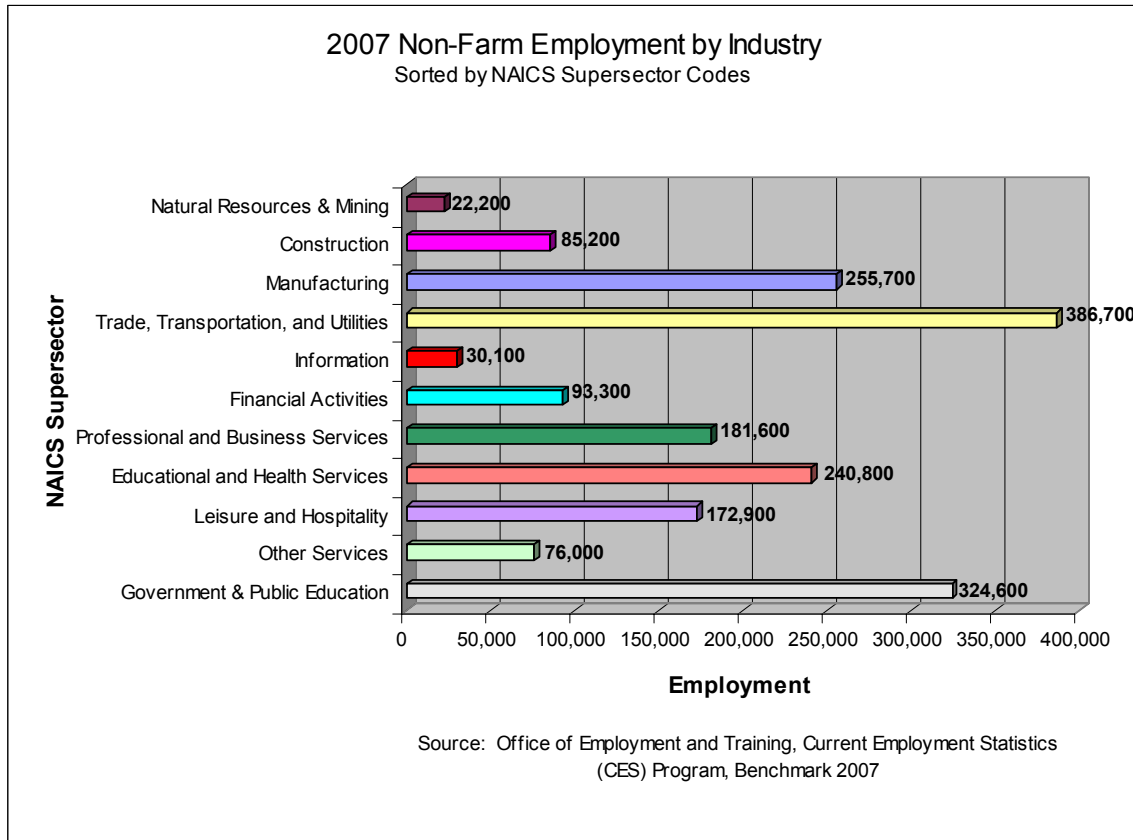
Between April 2007 and March 2008, 64 extended mass layoff events occurred in Total, Private Non-Farm industries, an increase of 3 from the 61 extended mass layoff events which transpired from April 2006 to March 2007. In the most recent period, April 2007 to March 2008, 8,392 workers were impinged on (as measured by initial claims for unemployment insurance), 1,534 more than the 6,858 individuals affected one year earlier. This divergence widens to 2,549 when comparing separations as reported by the employer in each time period. Employers conveyed 9,376 separations from April 2007 to March 2008, 984 more separations than reflected by initial claims filed. Individuals accepting severance packages, exiting the labor force, or who have lined up other employment are classified under separations, but may not qualify or choose to file for unemployment insurance benefits. In order to receive unemployment insurance benefits, an individual is required to actively seek work. In addition, an employee receiving a severance package is eligible for unemployment insurance benefits only after the exhaustion of the severance package. Seasonal workers and employees given ample

warning of an imminent layoff or plant closure have time to prepare and pursue other job opportunities. During the April 2006 to March 2008 interval, there was a closer alignment of initial claims and reported separations. Yet, the pattern reversed with 31 fewer separations recounted than initial claims filed. The number of separations reported falls below the count of initial claims when a permanent layoff is nested within a larger, temporary mass layoff event or when ongoing temporary layoffs transpire at the same time as a permanent mass layoff event.

The 27 WARN notices issued between April 2007 and March 2008 included 14 incidences which impacted Manufacturing companies. Overall, 3,292 workers were affected, counting 1,710 employees from the Manufacturing sector. The number of WARN notices diminished by 13 from the 40 occurrences from April 2006 to March 2007. Fifteen of these notices concerned Manufacturing firms. During this time period, 4,324 workers were impinged on including 1,318 in the Manufacturing industry.

In the most recent period, WARN notices for Manufacturing companies accounted for 51.9% of the 27 total WARN notices. In contrast, Manufacturing enterprises represented 37.5% of the 40 total WARN notices submitted one year prior. Hence, the number of WARN notices impacting Manufacturing businesses remained virtually unchanged, while the overall count of WARN notices plunged 32.5% from the year before. While the number of workers in Total, Private, Non-Farm industries impacted by the WARN notices declined 23.9%, the amount of employees in the Manufacturing industry impinged on climbed 29.7%.

Current Employment Statistics – Kentucky (Current Year Summary)



The average monthly non-farm employment in Kentucky was 1,869,000 in 2007. Trade, Transportation, and Utilities constituted the largest supersector in Kentucky with 386,700 jobs on average each month. This supersector, comprised of the Wholesale Trade, Retail Trade, Utilities, and Transportation and Warehousing sectors, accounted for 20.7% of all non-farm employment in Kentucky in 2007. This marked a slight increase from 2006 when 20.6% of Kentucky jobs occurred in the Trade, Transportation, and Utilities supersector. More strikingly, the number of jobs in this supersector exceeded total employment in all Goods-Producing industries in 2007.

The Government and Public Education supersector, which includes employment in public administration agencies, state and local public school systems, and state-owned hospitals, represented Kentucky's second largest supersector. Average monthly employment in this supersector equaled 324,600 in 2007. In 2007, employment in the Government and Public Education supersector comprised 17.4% of Kentucky's workforce, an increase of 0.2 percentage point from the 17.2% of employed Kentuckians in 2006.

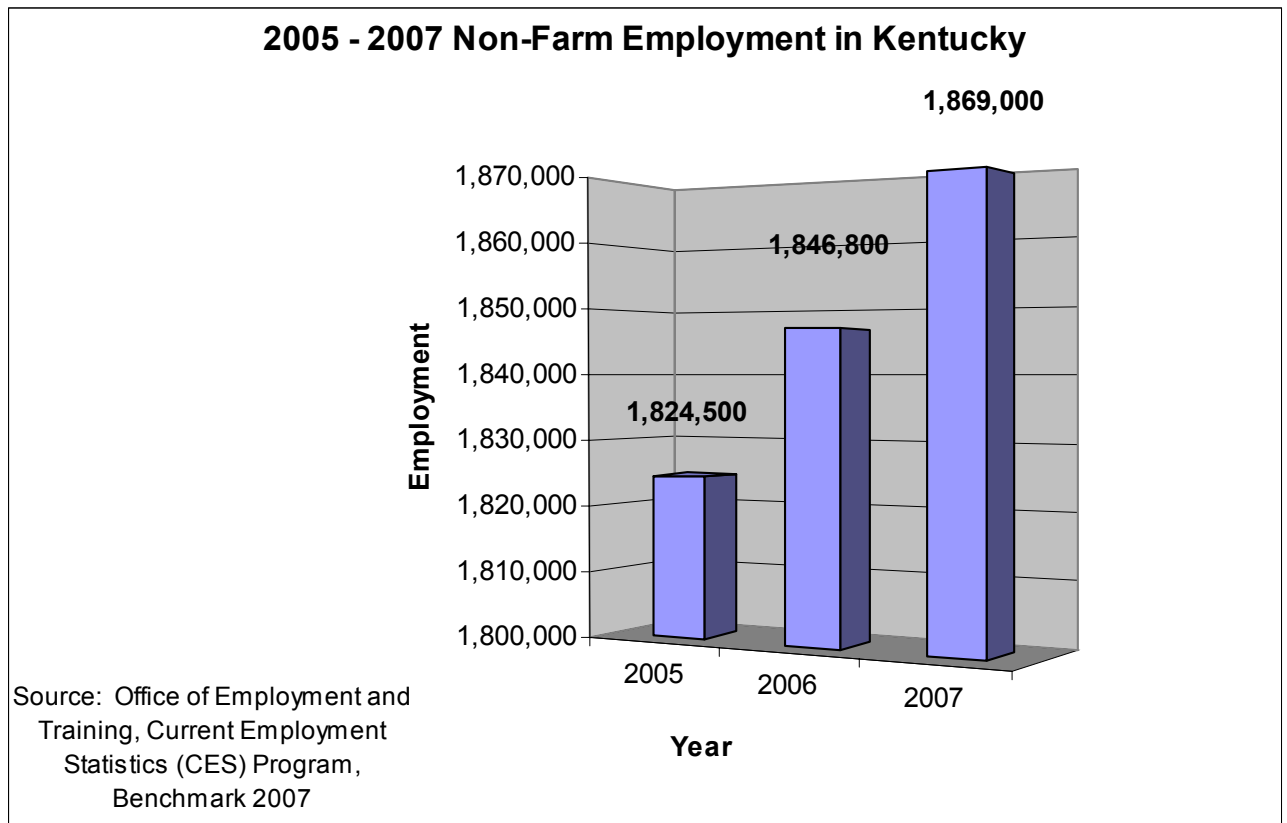
The Natural Resources and Mining supersector constituted the smallest supersector in Kentucky in 2007 with 22,200 jobs on average each month. The Information supersector, with an average monthly employment of 30,100, represented Kentucky's second smallest

supersector. In 2007, both of these supersectors maintained the same fractions of Kentucky's workforce they held in 2006, 1.2% and 1.6%, respectively.

The Service-Providing industries comprised 1,506,000 jobs on average each month in 2007. The Trade, Transportation, and Utilities; Information; Financial Activities; Professional and Business Services; Educational and Health Services; Leisure and Hospitality; Other Services; and Government and Public Education supersectors are all classified as Service-Providing industries. In 2007, 80.6% of all jobs in Kentucky were in Service-Providing industries, an increase of 0.5 percentage point from 2006 when 80.1% of employment in Kentucky occurred in Service-Providing industries. The 363,000 positions in the Natural Resources and Mining, Construction, and Manufacturing supersectors, all Goods-Producing industries, comprised the remaining 19.4% of non-farm employment in Kentucky in 2007. This represented a decrease of 0.5 percentage point from the 19.9% of Kentucky jobs located in Goods-Producing industries in 2006. Hence, Kentucky economy is shifting away from Goods-Producing industries and towards Service-Providing sectors.

Technical Note: Due to rounding, the sum of all industries does not equal total employment.

Current Employment Statistics – Kentucky (Three-Year Summary)



In 2007, the average monthly non-farm employment increased by 22,200 jobs to 1,869,000 from 1,846,800 positions in 2006. This represented a growth rate of 1.2%, equivalent to the 1.2% rate of job growth in 2006. On average, 22,300 net jobs were created in 2006. This constituted an expansion from an average of 1,824,500 positions each month in 2005. The Kentucky economy has experienced four consecutive years of non-farm job growth.

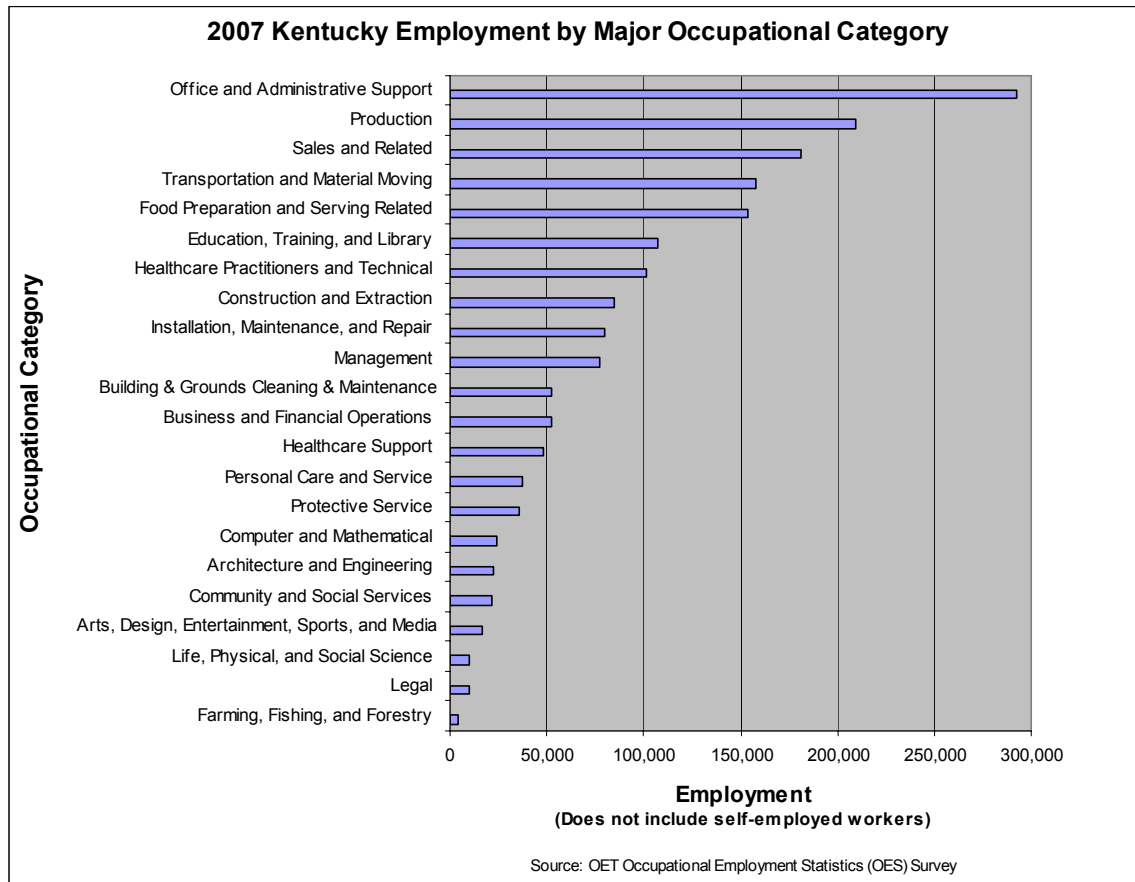
Since 2005, non-farm employment in Kentucky has increased by 2.4%. Despite this overall increase, employment in the Manufacturing (-2.4%) and Other Services (-0.1%) supersectors decreased during this same time period. In addition, the number of jobs in the Construction supersector increased 1.2% from 2005 to 2007. Thus, Kentucky's economy is shifting away from Manufacturing, Other Services, and Construction industries.

In contrast, between 2005 and 2007, employment in the Financial Activities (6.3%), Professional and Business Services (5.6%), Leisure and Hospitality (5.0%), Government and Public Education (3.4%), Natural Resources and Mining (3.3%), and Information (2.7%) supersectors increased at a rate faster than the overall non-farm growth rate. Therefore, Kentucky's workforce is shifting towards these industries.

Employment in the Trade, Transportation, and Utilities supersector and the Educational and Health Services supersector maintained the same proportions of Kentucky's workforce between 2005 and 2007. In other words, employment in both these supersectors climbed 2.4%, a rate equivalent to the non-farm employment growth rate, during this time period.

Kentucky's non-farm employment, which was already predominantly in service-providing industries, has continued to shift towards jobs in the service-providing sectors. Over the last ten years, the Kentucky economy has added 166,200 service-providing jobs and lost 49,900 goods-producing positions.

Occupational Employment – Kentucky (Current Year Summary)



In 2007, the three major occupational categories employing the highest number of workers consisted of Office and Administrative Support, Production, and Sales and Related professions. Office and Administrative Support, the top occupational category, comprised 292,820 jobs. Production jobs totaled 209,360, while Sales and Related professions encompassed 180,770 positions. The top three occupational categories in 2007 mirrored the three largest occupational categories in 2006.

Between 2006 and 2007, Office and Administrative Support occupations added 4,770 positions, an increase of 1.7%. Productions jobs surged by 7,240 professionals (3.6%), while Sale and Related professions rose by 1,540 workers (0.9%).

The three major occupational categories with the fewest number of employees in 2007 included Farming, Fishing, and Forestry; Legal; and Life, Physical, and Social Science. Farming, Fishing, and Forestry, the occupational category with the lowest number of jobs, consisted of 4,510 positions. Employment in Legal occupations comprised 10,000 jobs, while the Life, Physical, and Social Science occupations encompassed 10,350 positions. The bottom three occupational categories in 2007 comprised the same

groupings as in 2006. However, Life, Physical, and Social Science occupations surpassed Legal occupations in 2007, a reversal of 2006.

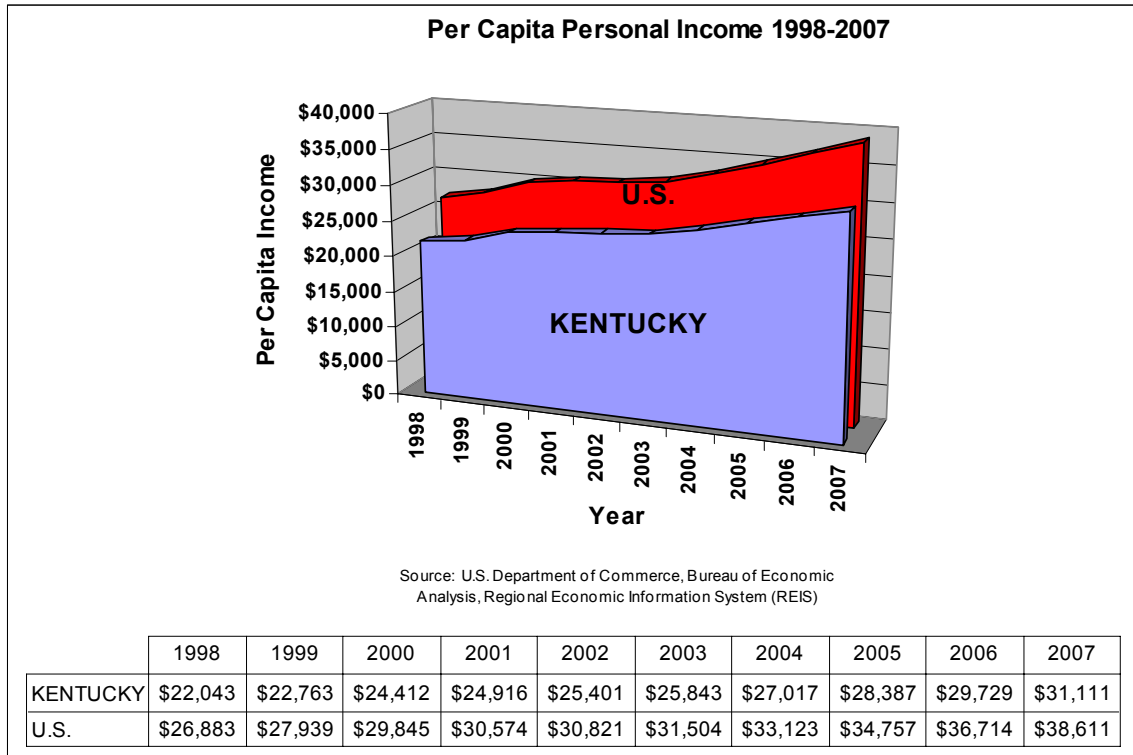
Between 2006 and 2007, Farming, Fishing, and Forestry occupations lost 380 positions, a decrease of 7.8%. Employment in Legal occupations remained at the 2006 level, while Life, Physical, and Social Science occupations added 430 professionals, an increase of 4.3%.

From 2006 to 2007, the Kentucky economy shifted away from Management; Healthcare Support; Architecture and Engineering; Farming, Fishing, and Forestry; Installation, Maintenance, and Repair; and Building and Grounds Cleaning and Maintenance occupations. All of these occupational groupings lost jobs in 2007. The occupations with the largest magnitudes of employment losses were Management; Healthcare Support; and Architecture and Engineering. Each of these occupational groupings lost over 1,000 professionals in 2007. Likewise, the occupations facing the largest downward trend rates in 2007 comprised Farming, Fishing and Forestry; Architecture and Engineering; and Healthcare Support.

In addition, Legal; Education, Training, and Library; Sales and Related; Computer and Mathematical; Construction and Extraction; and Healthcare Practitioners and Technical occupations exhibited growth rates below the overall growth rate for the Kentucky economy. Between 2006 and 2007, employment in all occupations grew by 26,870, an increase of 1.53%.

From 2006 to 2007, the Kentucky economy shifted towards Office and Administrative Support; Personal Care and Service; Transportation and Material Moving; Community and Social Services; Food Preparation and Serving Related; Production; Protective Service; Life, Physical, and Social Science; Arts, Design, Entertainment, Sports, and Media; and Business and Financial Operations occupations. All of these occupational groupings experienced growth rates above the overall growth rate for the Kentucky economy. The occupations facing the largest upward trend rates in 2007 consisted of Business and Financial Operations; Arts, Design, Entertainment, Sports, and Media; and Life, Physical, and Social Science. Likewise, the occupations with the largest magnitude of job gains were Production; Office and Administrative Support; and Food Preparation and Serving Related. Each of these occupational groupings gained over 4,700 professionals in 2007.

Per Capita Personal Income – U.S. and Kentucky (Ten-Year Summary)



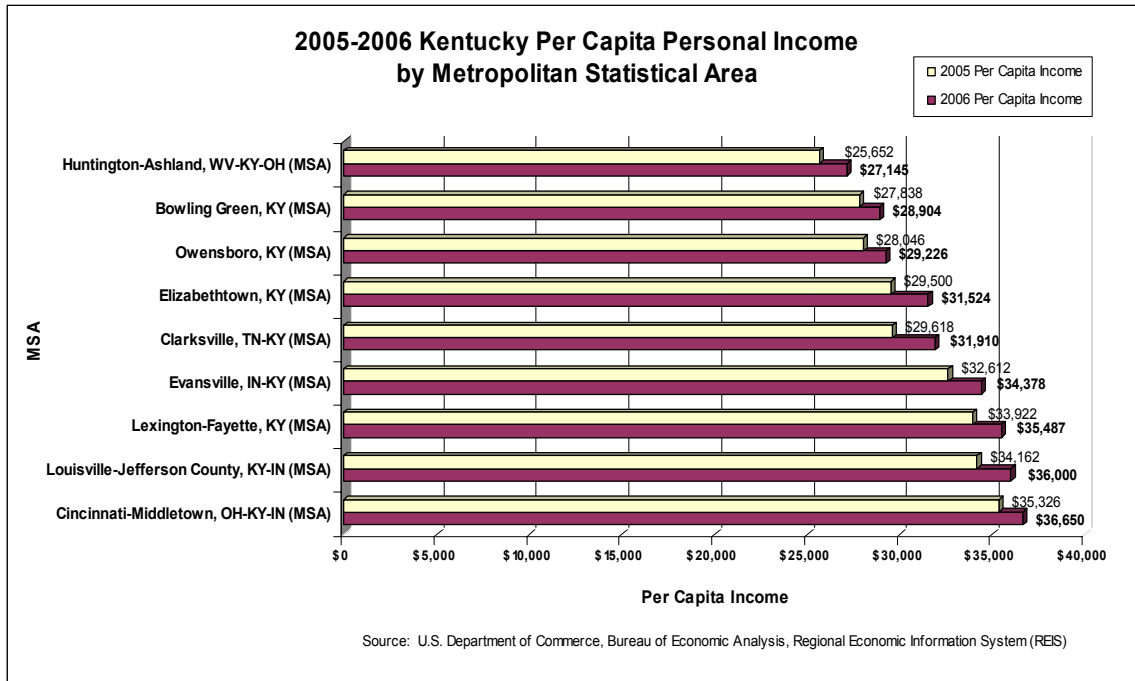
In the last decade, both the per capita income in the U.S. and the per capita income in Kentucky have steadily increased in nominal terms. Over the years, the rate of increase in per capita income has varied both nationally and statewide. Yet, over the last 10 years, the nominal per capita income growth in Kentucky has roughly mirrored the nominal per capita income growth nationally.

In 1998, both the U.S. and Kentucky exhibited rates of increase in per capita income in the 5% - 6% range. In 1999, there was a slight dip in the rate of nominal income growth, both nationally and statewide, to the 3% - 4% range. This dip was offset in 2000, when both the U.S. and Kentucky experienced a sharp increase in the rate of per capita income growth to 7%. Between 2001 and 2003, both the U.S. and Kentucky were faced with low rates of per capita income growth, between 1% and 2%. The beginning of this period coincides with the start of the last recession. From 2004 to 2007, there was a minor divergence in the rates of per capita income growth. Nationally, the rate of nominal income growth returned to the 5% - 6% range. However, in Kentucky, during this period, the rate of per capita income growth ranged from 4% - 5%. Hence, in the last decade, the per capita income in Kentucky has increased by \$9,068 or 41.1%, while the per capita income in the U.S. has increased by \$11,728 or 43.6%.

The per capita income in Kentucky has consistently been below the national per capita income. In 2007, Kentucky ranked 46th among all states and the District of Columbia in per capita income, the identical ranking as in 2006. Only Mississippi, West Virginia, Arkansas, and South Carolina had lower per capita incomes than Kentucky in 2007.

In 2007, the per capita income in thirty one states fell below the per capita income in the U.S. This represented a deterioration from 2006 when thirty states experienced per capita incomes lower than the national per capita income. The District of Columbia consistently experienced the highest per capita income at \$61,092 in 2007 and \$57,746 in 2006. In both years, Connecticut ranked second, with per capita income of \$54,117 in 2007 and \$50,762 in 2006. In both 2007 and 2006, Mississippi exhibited the lowest per capita income at \$28,845 and \$27,028, respectively.

Per Capita Personal Income – Kentucky MSAs (Two-Year Summary)



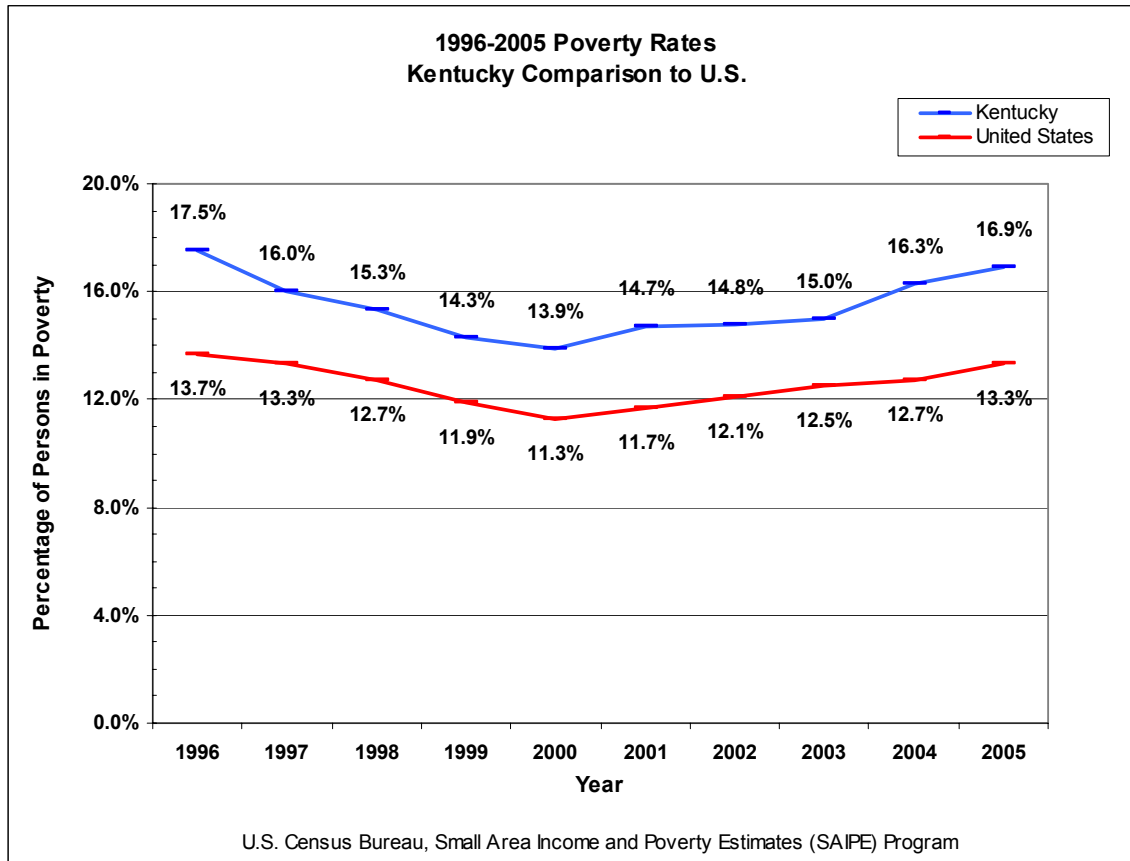
At the Metropolitan Statistical Area (MSA) level, per capita income in Kentucky exhibits wide variations. In both 2005 and 2006, the Cincinnati-Middletown MSA experienced the highest per capita income at \$35,326 in 2005 and \$36,650 in 2006. Likewise, the Huntington-Ashland MSA faced the lowest per capita income in both 2005 and 2006, at \$25,652 and \$27,145, respectively. The divergence between the per capita income in the Cincinnati-Middletown MSA and the per capita income in the Huntington-Ashland MSA decreased slightly from \$9,674 in 2005 to \$9,505 in 2006.

Overall, the highest per capita income levels are concentrated in the north-central region of the state. In both 2005 and 2006, the Cincinnati-Middletown MSA, Louisville-Jefferson County MSA, and Lexington-Fayette MSA comprised the areas with the top three per capita income levels. In this same time period, the Huntington-Ashland MSA, Bowling Green MSA, and Owensboro MSA exhibited the lowest per capita income levels.

In 2006, the Clarksville MSA experienced the largest rise in per capita income both in nominal dollars and in percentage. Per capita income in this area climbed \$2,292 from \$29,618 in 2005 to \$31,910 in 2006, which is an increase of 7.74%. During this same time period, the Bowling Green MSA exhibited the smallest augmentation in per capita income in nominal dollars. Per capita income in this area rose a mere \$1,066 from \$27,838 in 2005 to \$28,904, a 3.83% increase. However, the Cincinnati-Middletown MSA faced an even more minute ascension in per capita income in percentage terms. From 2005 to 2006, per capita income in this region grew 3.75% from \$35,326 in 2005 to \$36,650 in 2006, the equivalent of a \$1,324 increase.

In 2006, Woodford County exhibited the highest per capita income in the state at \$42,638. Jefferson County experienced the second highest per capita income in Kentucky at \$39,877. At the opposite end of the spectrum, Jackson County suffered the lowest per capita income in the state, a minuscule \$16,034. Elliott County faced the second lowest per capita income in Kentucky, a measly \$16,439.

Poverty Rates – U.S. and Kentucky (Ten-Year Summary)



In the last decade, there were two distinct periods concerning poverty rates in both the United States and Kentucky. The first period, 1996 – 2000, corresponds to the boom years of the late 1990s when there was a steady decline in the percentage of persons living in poverty. The second period, 2001 – 2005, is one of steady growth in the percentage of persons living in poverty. The beginning of this period, 2001, coincides with the last recession. The ensuing years were periods of slow nominal wage growth. In real terms, wages declined between 2001 and 2005 as increases in inflation outpaced the growth in wages.

In 2005, the percentage of persons living in poverty was 13.3% nationwide and 16.9% in Kentucky. This represents a decline from 1996, when the percentage of persons living in poverty was 13.7% in the U.S. and 17.5% statewide. However, from 2000 to 2005, Kentucky's poverty rate increased by 3.0 percentage points from 13.9% in 2000. During this same period, the U.S. rate increased at a slower rate, rising only 2.0 percentage points from 11.3% in 2000.

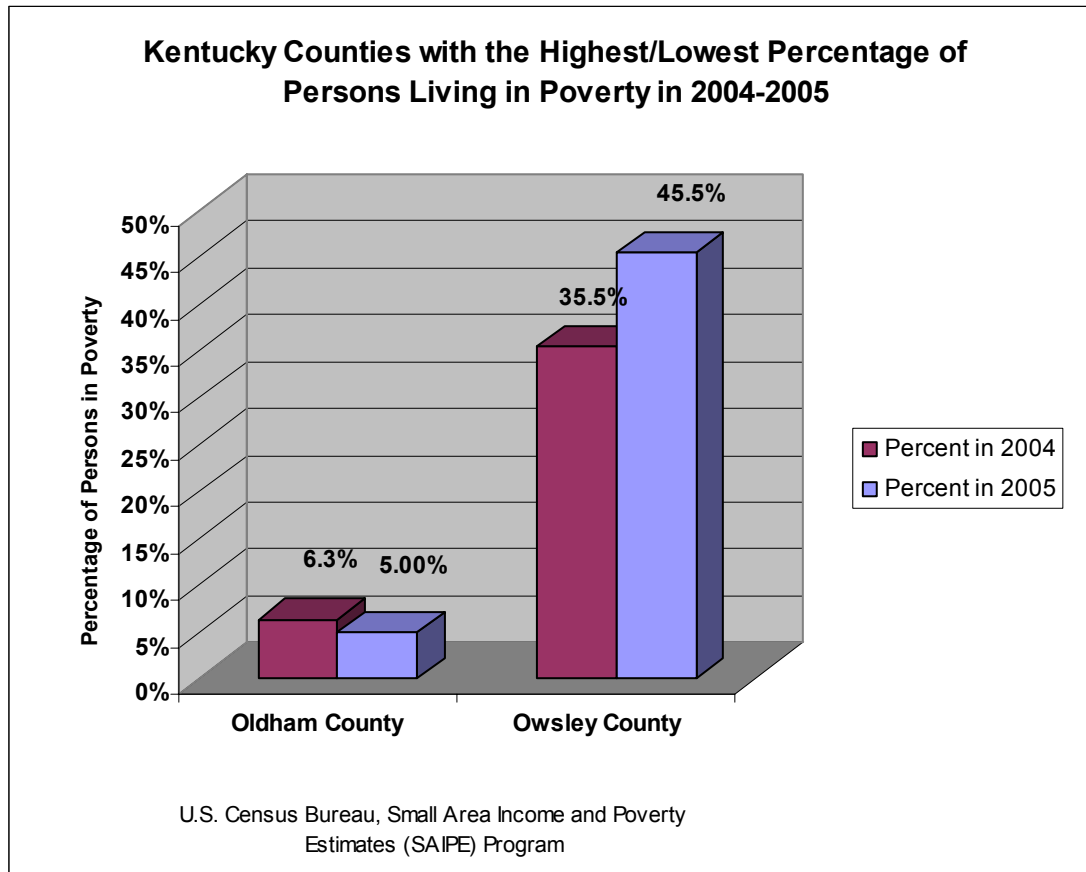
With the exception of 1998, when the state was ranked 40th, Kentucky has consistently been ranked in the bottom poverty rate quintile this past decade. From 2000 to 2003, Kentucky continually ranked 43rd among other states in terms of its poverty rate. Kentucky's lowest ranking, 47th, occurred in 2004, when only New Mexico (16.7%),

Louisiana (19.2%), and Mississippi (19.3%) were ranked lower. In 2005, Kentucky's rank improved to 44th, the same ranking Kentucky experienced in 1996.

Kentucky endured a spike in poverty in 2004. The percentage of Kentuckians living in poverty climbed 1.3 percentage points from 15.0% in 2003 to 16.3% in 2004. During that same period, the U.S. rate increased a mere 0.2 percentage point from 12.5% to 12.7%. In 2005, the poverty rate continued to grow in Kentucky, albeit at a slower rate. Between 2004 and 2005, the percentage of Kentuckians living in poverty increased 0.6 percentage point, the same level of increase as in the U.S.

In 2005, Kentucky's poverty rate for persons under the age of 18 was 23.0%, while the corresponding national rate stood at 18.5%. The poverty rate for Kentucky's under age 18 population increased from 22.2% in 2004 but decreased from 25.5% in 1996. Likewise, the U.S. poverty rate for persons under the age of 18 increased from 17.8% in 2004 but decreased from 20.5% in 1996.

Poverty Rates – Kentucky Counties (Two-Year Summary)



At the county level, poverty rates in Kentucky exhibit wide variations. Owsley County, which had the highest percentage of Kentuckians living in poverty in both 2004 and 2005, experienced a significant increase in its poverty rate in 2005. More specifically, the poverty rate in Owsley County rose sharply from 35.5% in 2004 to 45.5% in 2005. In contrast, the poverty rate in Oldham County decreased from 6.3% in 2004 to 5.0% in 2005. Oldham County maintained Kentucky's lowest poverty rate between 2004 and 2005.

From 2004 to 2005, poverty rates rose in 94 Kentucky counties, declined in 23 counties, and held steady in 3 counties (Boyd, Bracken, and Meade). Two counties, Owsley (10.0%) and Martin (11.7%), endured double-digit increases in their poverty rates. The net impact was an increase in the statewide poverty rate from 16.3% in 2004 to 16.9% in 2005. This represented a slower rate of growth than between 2003 and 2004, when all 120 counties in Kentucky experienced an increase in the percentage of persons living in poverty.

In 2005, Owsley County exhibited the 5th highest poverty rate of all U.S. counties, while Martin County ranked 8th. In a national ranking of the 100 county areas with the highest poverty rates, fourteen were Kentucky counties in 2005, an improvement over the twenty

Kentucky counties included in 2004. Oldham County was the only Kentucky county ranked among the 100 county areas with the lowest poverty rates in 2005. However, this still represents a step forward from 2004, when no Kentucky county was included in the list of 100 county areas with the lowest poverty rates.

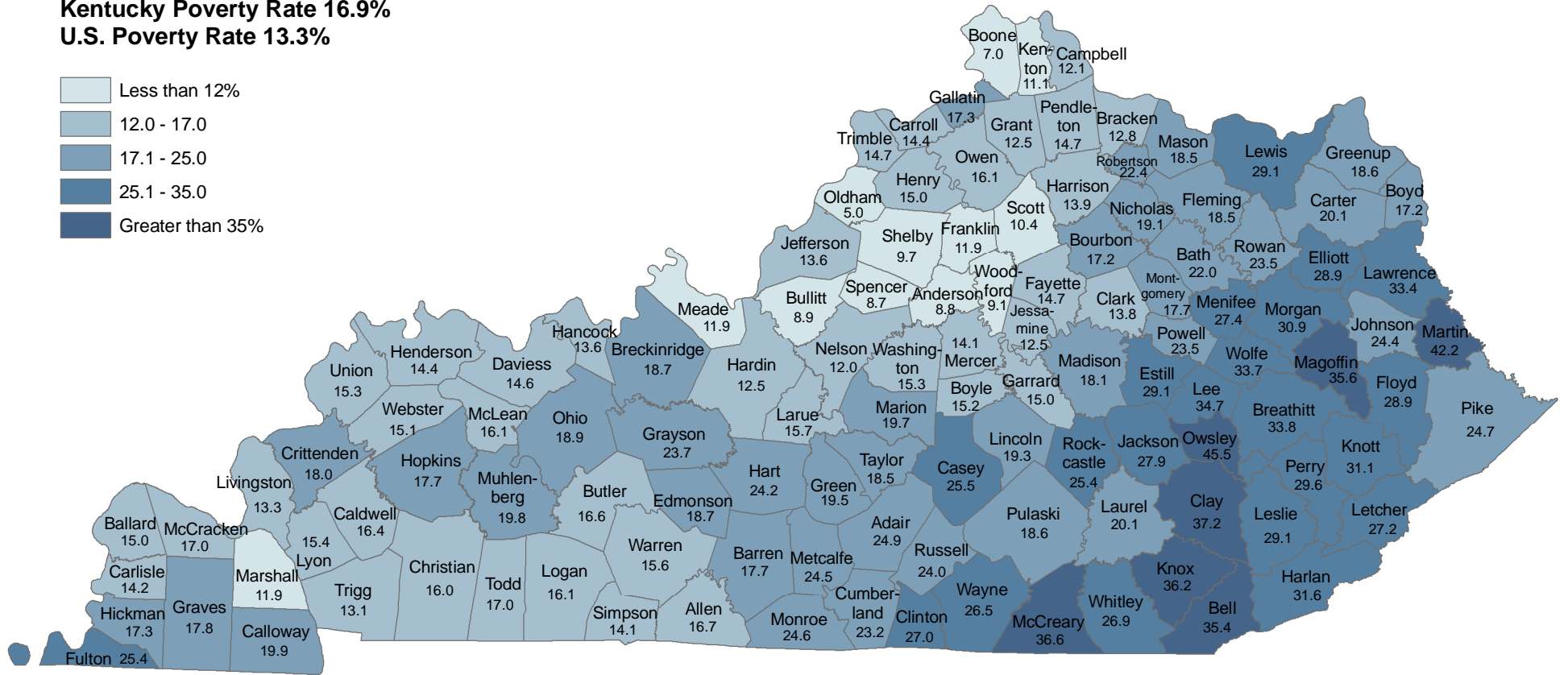
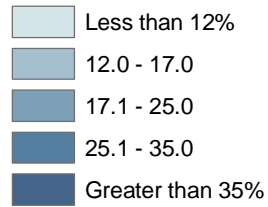
Nineteen counties in Kentucky exhibited poverty rates below the national average of 13.3% in 2005. One county, Livingston County, experienced the same rate as the national average, while the remaining 100 Kentucky counties encountered poverty rates above the national average. Once again, this is an improvement over 2004, when only fourteen counties in Kentucky experienced poverty rates below the national average of 12.7% and the remaining 106 counties faced poverty rates above the national average.

In Owsley County, 61.9% of all children under the age of 18 were living in poverty in 2005. This was the second highest under the age of 18 poverty rate for a county area in the entire nation. Moreover, it represents a significant deterioration from 2004, when 48.0% of all children under the age of 18 in Owsley County were living in poverty.

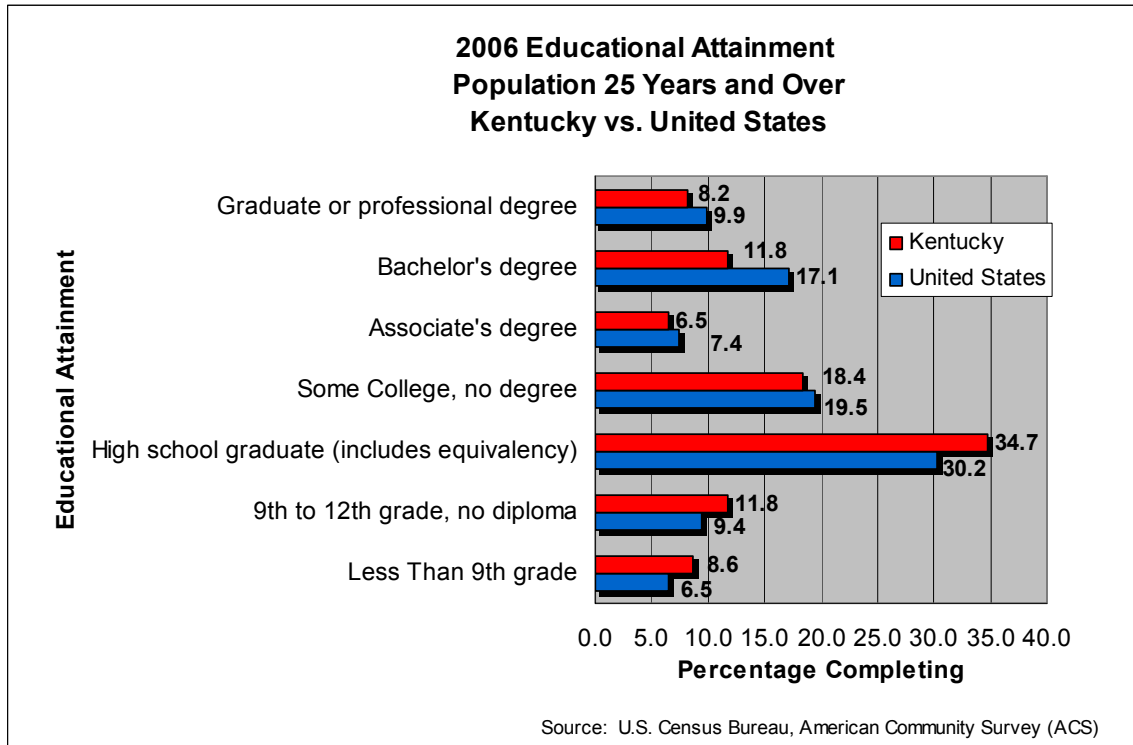
In 2005, thirty-six Kentucky counties exhibited under the age of 18 poverty rates in the bottom 10% of the nation. This is an improvement from 2004, when thirty-eight Kentucky counties experienced under the age of 18 poverty rates in the bottom 10% of the nation. In 2005, two Kentucky counties, Oldham and Boone, encountered under the age of 18 poverty rates in the top 10% of the nation, the same as in 2004.

2005 Poverty Rates in Kentucky

Kentucky Poverty Rate 16.9%
U.S. Poverty Rate 13.3%



Educational Attainment – U.S. and Kentucky (Current Year)



In 2006, Kentucky’s education attainment lagged behind the nation for individuals 25 years of age and older. The percentage of Kentuckians with a high school diploma or less exceeded the proportion of Americans with this level of education. More specifically, 55.1% of the Kentucky population 25 years of age and older achieved at most a high school education. Nationally, 46.1% of those 25 years and older attained at most a high school education. All categories pertaining to some level of high school education maintained this relationship in 2006. The number of high school graduates in Kentucky represented 34.7% of the 25 years of age and older population compared to 30.2% nationally. Kentuckians reaching the 9th to 12th grade education level without receiving a diploma accounted for 11.3% of the population age 25 and older, higher than the national percentage of 9.4%. The fraction of individuals 25 years of age and older in Kentucky with less than a 9th grade education was 8.6%, which exceeded the 6.5% of Americans with this level of education.

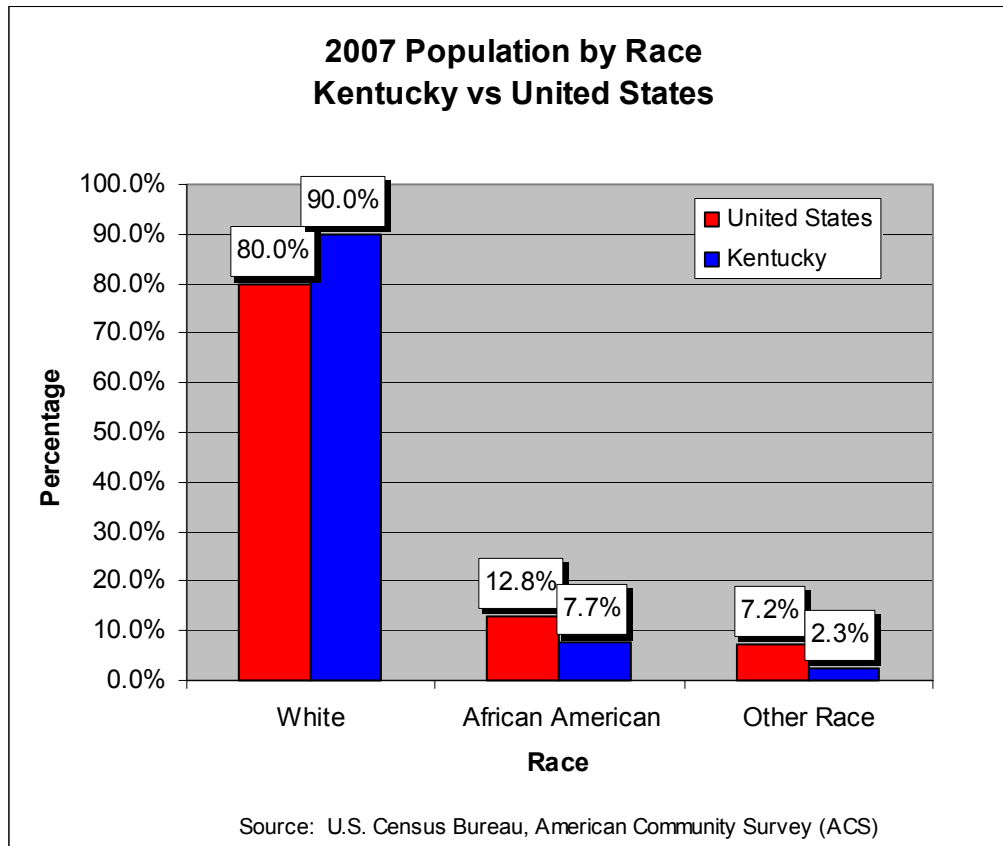
The proportion of the U.S. population with some form of college education surpassed the percentage of Kentuckians who achieved this level of education by 2006. Forty-four percent of the U.S. population age 25 and older attained at least a semester of college education, while only 36.7% of Kentuckians age 25 and older completed any college work. This deviation held for all levels of college education in 2006. Nationally, 19.5% of the population 25 years of age and older attended college, but received no degree. In Kentucky, 18.4% of individuals 25 years of age and older reached this same education level. In the U.S., 7.4% of persons at least 25 years of age achieved an Associate’s

degree, while 17.1% completed a Bachelor's degree. While 6.5% of Kentuckians at least 25 years of age attained an Associate's degree, only 11.8% earned a Bachelor's degree.

Likewise, the national percentage of persons 25 years of age and older who achieved a graduate or professional degree by 2006 outpaced the fraction of Kentuckians earning these degrees. Nationally, 9.9% of individuals at least 25 years old held a graduate or professional degree. In Kentucky, only 8.2% of individuals at least 25 years old accomplished this same feat.

For persons between the ages of 18 and 24, these comparisons are sustained, albeit to a lesser degree. Kentuckians age 18 to 24 with less than a high school education represented 18.5% of the population, higher than the U.S. proportion of 18.0%. Similarly, 35.1% of individuals between the ages of 18 and 24 living in Kentucky achieved a high school education compared to 33.9% nationally. In contrast, 39.3% of the Kentucky population between the ages of 18 and 24 attended college and received at most an associate's degree. Nationally, 39.5% of Americans attained this level of education. Likewise, 7.1% of Kentuckians between the ages of 18 and 24 earned at least a bachelor's degree, significantly lower than the national proportion of 8.6%. Hence, while the state's educational attainment level lags behind the nation, younger Kentuckians have lessened the educational gap.

Population by Race – U.S. and Kentucky (Current Year)



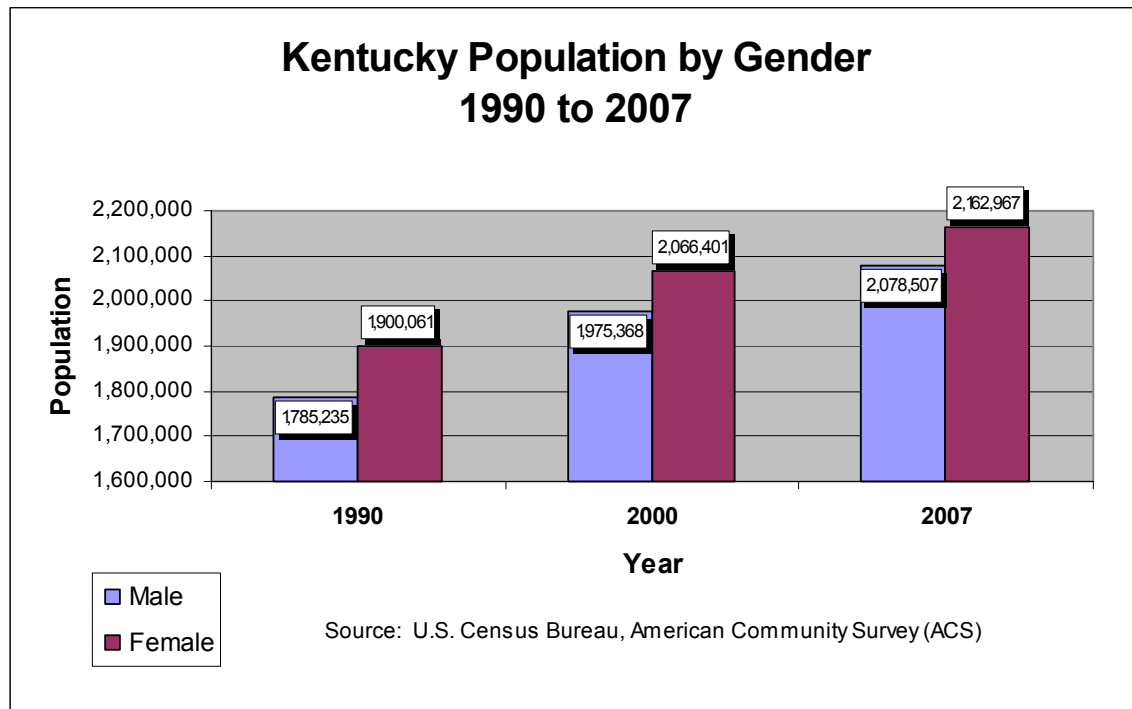
In 2007, Whites comprised 80.0% of the U.S. population and 90.0% of the Kentucky population. Thus, while Whites are the majority in both the U.S. and Kentucky, Kentucky is more predominantly White than the nation as a whole. African Americans encompassed 12.8% of the national population and 7.7% of the state population. Other Races accounted for the remaining 7.2% of the national population and 2.3% of the Kentucky population in 2007. Hence, the Kentucky population comprised less of an ethnic mix than the national population.

However, since 1990 Kentucky's population has shifted toward a more diverse mix of ethnicities. In 1990, Whites embodied 92.0% of the state population, while African Americans and Other Races comprised 7.1% and 0.8%, respectively. By 2000, Whites encompassed 90.1% of the population in Kentucky, while African Americans and Other Races accounted for 7.3% and 2.6%, respectively. Therefore, while all races exhibited growth between 1990 and 2007, African Americans and Other Races are growing at a faster pace than Whites. Moreover, Other Races experienced the highest growth rate. In fact, in 2007 the Other Races population equaled 3.2 times the Other Races population in 1990.

Yet, between 2000 and 2007, the proportion of Other Races in Kentucky declined from 2.6% in 2000 to 2.3% in 2007. This is in stark contrast to 2006, when the fraction of

Other Races in Kentucky stood at 3.2%. This phenomenon is not unique to Kentucky. The percentage of Other Races in the U.S. diminished from 13.7% in 2006 to 7.2% in 2007, a decrease of 6.5 percentage points. As the economy weakens and immigration policies tighten, individuals classified as Other Races are leaving the U.S. The rate of departure in Kentucky is below the national departure rate. The proportion of Other Races in Kentucky in 2007 was 73.2% of the fraction of Other Races in Kentucky in 2006. In contrast, the percentage of Other Races in the U.S. in 2007, stood at 52.9% of the proportion of Other Races in the U.S. in 2006.

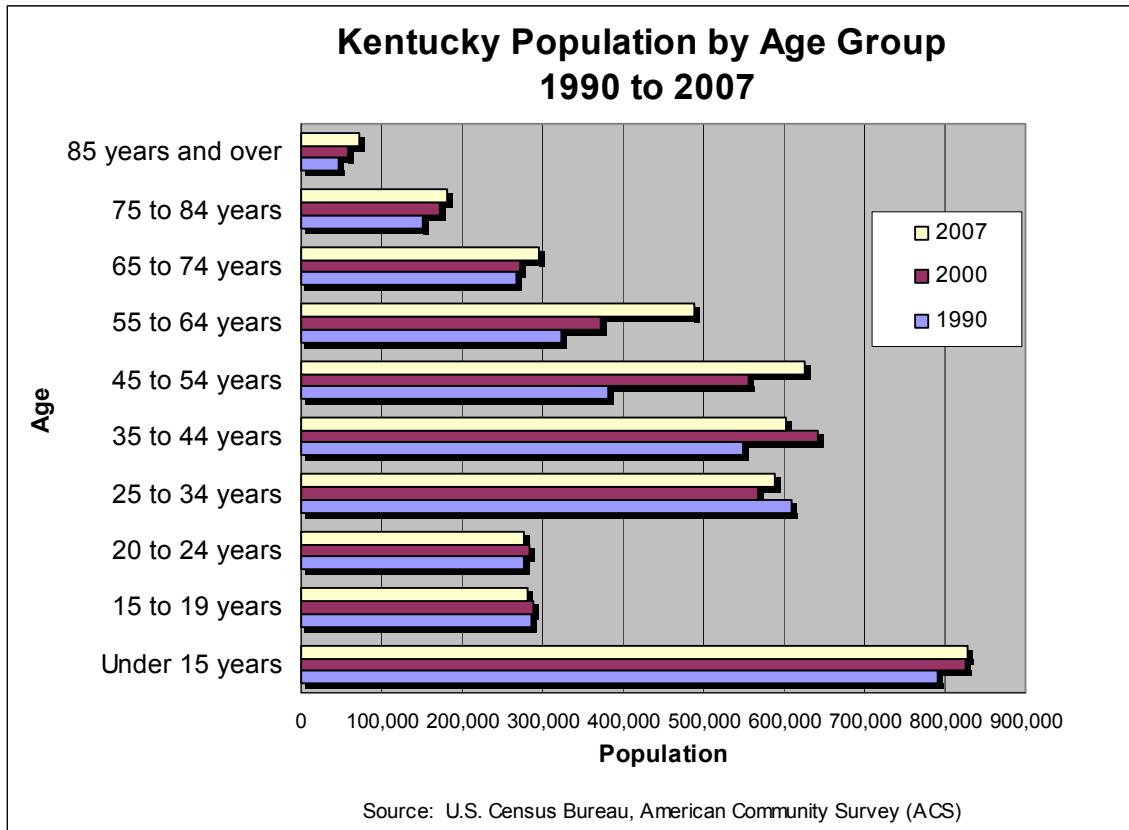
Population by Gender – Kentucky (1990 to 2007)



In 2007, males comprised 49.3% of the U.S. population and 49.0% of the Kentucky population. Females encompassed 50.7% of the national population and 51.0% of the state population. Therefore, while females are the majority in both the U.S. and Kentucky, Kentucky has a larger percentage of females than the nation as a whole.

However, since 1990 Kentucky's population has shifted toward a more equal distribution of males and females. In 1990, males embodied 48.4% of the state population, while females comprised 51.6%. By 2000, males encompassed 48.9% of the population in Kentucky, while females accounted for 51.1%. Therefore, while both genders exhibited growth between 1990 and 2006, males are growing at a faster pace than females. Yet, this divergence in growth rate slowed between 2000 and 2007. During this period, the number of males increased by 5.2%, while the number of females rose by 4.7%. In contrast, between 1990 and 2000, the amount of males grew at a rate of 10.7%, while the amount of females climbed at a rate of 8.8%, a difference of 1.9 percentage points.

Population by Age – Kentucky (1990 to 2007)



In 2007, Kentucky’s population consisted of 19.5% persons under the age of 15 years, 6.7% individuals between 15 and 19 years of age, 6.5% persons between the ages of 20 and 24, 13.9% individuals between 25 and 34 years of age, 14.2% persons between the ages of 35 and 44, 14.7% individuals between 45 and 54 years of age, 11.5% persons between the ages of 55 and 64, 7.0% individuals between 65 and 74 years of age, 4.3% persons between the ages of 75 and 84, and 1.7% persons 85 years of age and older. This closely mirrored the distribution of the U.S. population. The 2007 U.S. population comprised 20.2% persons under the age of 15 years, 7.1% individuals between 15 and 19 years of age, 7.0% persons between the ages of 20 and 24, 13.5% individuals between 25 and 34 years of age, 14.3% persons between the ages of 35 and 44, 14.5% individuals between 45 and 54 years of age, 10.8% persons between the ages of 55 and 64, 6.4% individuals between 65 and 74 years of age, 4.3% persons between the ages of 75 and 84, and 1.8% persons 85 years of age and older.

Thus, in 2007, individuals under the age of 24 encompassed 34.3% of the U.S. population and 32.7% of the Kentucky population. Persons between the ages of 25 and 54 comprised 42.3% of the national population and 42.8% of the state population. Individuals 55 years of age and older accounted for the remaining 23.4% of the national population and 24.5% of the Kentucky population in 2007. Hence, Kentucky’s

population distribution consisted of a greater percentage of older individuals than the nation as a whole.

Since 1990, Kentucky's population has shifted toward an older distribution. In 1990, persons under the age of 24 embodied 36.7% of the state population, while individuals between the ages of 25 and 54 comprised 41.8% and persons 55 years of age and older consisted of 21.4% of Kentucky's population. By 2000, individuals under the age of 24 encompassed 34.6% of the population in Kentucky, while persons between the ages of 25 and 54 accounted for 43.7% and individuals 55 years of age and older comprised 21.7% of the state population. Therefore, while all age groups exhibited growth between 1990 and 2007, individuals between the ages of 25 and 54 as well as persons 55 years of age and older are growing at a faster pace than the state as a whole. Moreover, individuals 55 years of age and older experienced the highest growth rate at 31.4%.

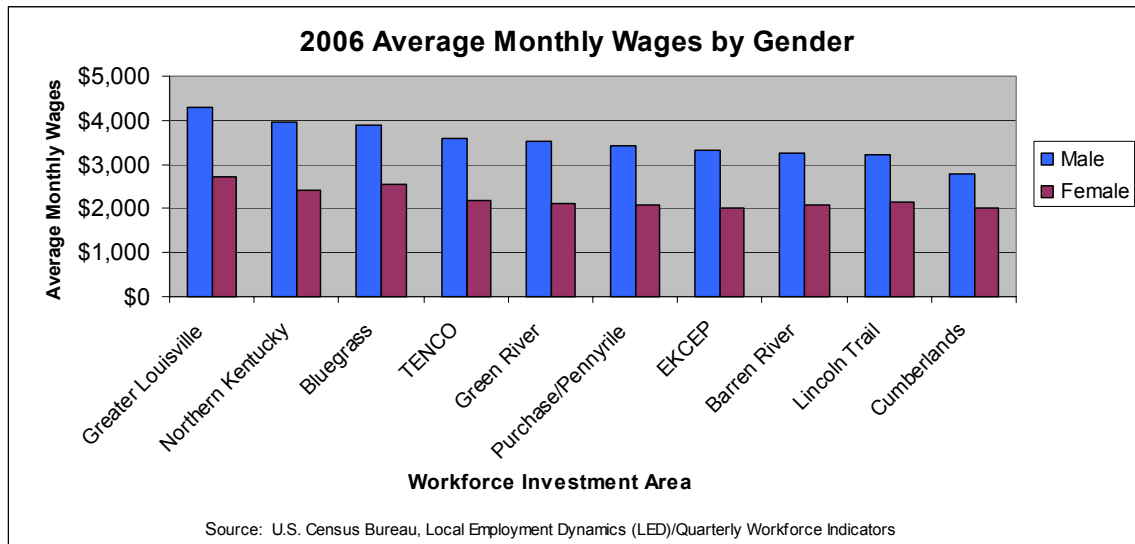
Between 2000 and 2007, the aging of Kentucky's population is exacerbated. During this period, persons under the age of 24 decreased by 0.6%, while individuals between the ages of 25 and 54 grew at a meager 2.7% pace. At the same time, persons 55 years of age and older climbed by a staggering 18.4% rate. For all age groupings from persons between the ages of 45 and 54 to individuals 85 years of age and older, the percentage of the Kentuckians included in each age group in 2007 exceeded the percentage of Kentuckians in that age group in 2000. The remaining age groupings experienced a decrease in the percentage of people incorporated in them in 2007 as compared to 2000.

With the exception of those individuals between the ages of 65 and 74, these deviations are maintained when evaluating 1990 and 2007. In general, older age groupings exhibited higher percentages of Kentuckians in 2007 than in 1990, while younger age groupings experienced lower percentages of Kentuckians in 2007 than in 1990.

From 1990 to 2000, persons between the ages of 25 and 34 decreased by 6.9%. This represented the only age grouping to exhibit a decline during this period. At the same time, individuals between the ages of 45 and 54 climbed 45.7%, the highest growth rate during this decade. As these individuals aged, so did the age groupings with the lowest and highest growth rates. Between 2000 and 2007, persons between the ages of 35 and 44 dropped 6.2%. During this same period, individuals between the ages of 55 and 64 exhibited a 31.0% rate of growth.

Since 1990, persons between the ages of 25 and 34 experienced a decline of 3.6%, while individuals between the ages of 45 and 54 exhibited an increase of 63.5%. Persons between the ages of 55 and 64 as well as individuals aged 85 and older displayed sizable growth rates during this period. More specifically, persons between the ages of 55 and 64 climbed 51.2%, while individuals aged 85 and older rose 54.7%. Persons between the ages of 15 and 19 were the only other age grouping to suffer a decline during this period. The percentage of individuals included in this age grouping dropped 1.0% between 1990 and 2007. The 2.4% regression in this age grouping between 2000 and 2007 outweighed the 1.3% expansion from 1990 to 2000.

Local Employment Dynamics – Kentucky Average Monthly Wages by Gender (Current Year)



In 2006, there were 881,523 males and 857,513 females employed in Kentucky. Thus, males represented 50.7% of the statewide employment, while females comprised 49.3% of the statewide employment.

For new hires, the statewide average monthly wages in all industries were \$2,209 for males and \$1,509 for females. Thus, the average monthly wages earned by male new hires were 46% higher than those earned by female new hires in 2006. This gender gap reflects the difference in wages in the industries employing predominantly male workers and the industries employing primarily female workers.

In all industries, the statewide average monthly wages were \$3,774 for males and \$2,385 for females. Hence, the average monthly wages earned by males were 58% higher than those earned by females in 2006. Therefore, the gender gap grows over time. Women leaving the workforce to raise families contributes to the increase in the gender gap.

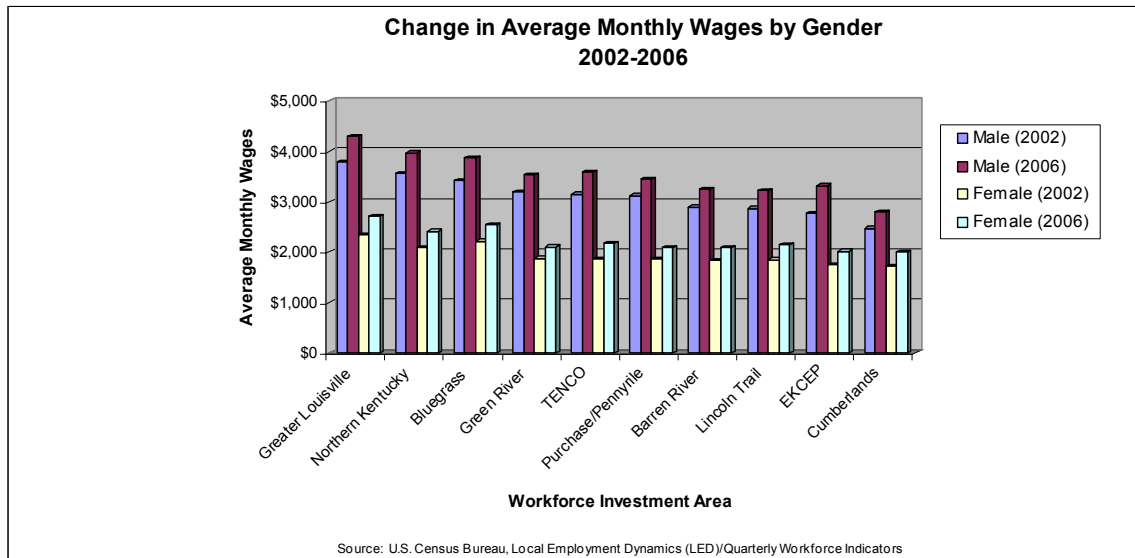
In 2006, the three Workforce Investment Areas (WIAs) with the highest average monthly wages for males are the Greater Louisville WIA (\$4,296), the Northern Kentucky WIA (\$3,972), and the Bluegrass WIA (\$3,880). Likewise, the WIAs with the highest average monthly wages for females are the Greater Louisville WIA (\$2,713), the Bluegrass WIA (\$2,542), and the Northern Kentucky WIA (\$2,416). These WIAs are concentrated around major urban centers – the Greater Louisville WIA surrounds Louisville, the Northern Kentucky WIA borders Cincinnati, and the Bluegrass WIA envelops Lexington.

The three Workforce Investment Areas with the lowest average monthly wages for males are the Cumberlands WIA (\$2,789), the Lincoln Trail WIA (\$3,231), and the Barren River WIA (\$3,248). Moreover, in 2006, the three WIAs with the lowest average monthly wages for females are the Cumberlands WIA (\$1,509), the EKCEP WIA

(\$2,017), and the Purchase/Pennyrile WIA (\$2,089). These WIAs encompass more rural areas of the state.

In 2006, the average monthly wages in the Greater Louisville WIA were \$3,522, while the average monthly wages in the Cumberland WIA were \$2,387. Hence, the average monthly wages earned by workers in the Greater Louisville WIA were 48% higher than those earned by workers in the Cumberland WIA. This illustrates the difference between average monthly wages around urban centers and in rural areas.

Local Employment Dynamics – Kentucky Average Monthly Wages by Gender (2002 to 2006)



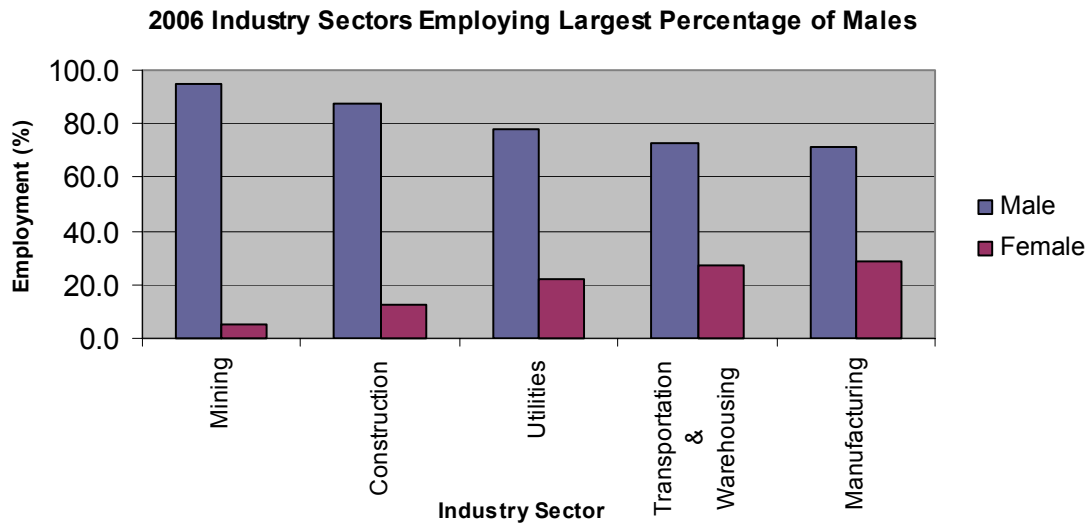
Since 2002, Kentucky’s average monthly wages have increased by 13.8% from \$2,712 in 2002 to \$3,086 in 2006. The EKCEP WIA exhibited the largest rise in average monthly wages in percentage terms. Average monthly wages in this area climbed \$413 from \$2,264 in 2002 to \$2,677 in 2006, which is an augmentation of 18.2%. The Ten Counties (TENCO) WIA (15.3%), Lincoln Trail WIA (14.5%), Cumberlands WIA (14.5%), and Greater Louisville WIA (13.9%) each experienced a higher rate of increase in average monthly wages than the statewide growth rate. In other words, average monthly wage escalation in these localities outpaced the rate of increase in the statewide average monthly wage. In addition, the Greater Louisville WIA showed the greatest appreciation in average monthly wages in nominal dollars. Average monthly wages in this region ascended \$427 from \$3,083 in 2002 to \$3,510 in 2006.

In contrast, the Green River WIA suffered the lowest increase in average monthly wages both in nominal dollars and in percentage terms. Average monthly wages in this area rose a meager \$219 from \$2,572 in 2002 to \$2,863 in 2006, an escalation of a mere 11.3%. The Purchase/Pennyrile WIA (12.3%), Northern Kentucky WIA (13.0%), Barren River WIA (13.2%), and Bluegrass WIA (13.3%) each exhibited a lower growth rate in average monthly wages than the rate of increase in the statewide average monthly wage. In other words, average monthly wage augmentation in these regions lagged behind the statewide growth rate.

With the exception of the EKCEP WIA, the rate of increase in average monthly wages for females outpaced the growth rate for males. The Lincoln Trail WIA exhibited the greatest rise in average monthly wages for females in percentage terms. Average monthly wages for females in this area climbed \$308 from \$1,847 in 2002 to \$2,155 in 2006, which is an augmentation of 16.7%. However, the Greater Louisville WIA experienced the largest appreciation in average monthly wages for females in nominal dollars. Average monthly

wages for females in this region ascended \$371 from \$2,342 in 2002 to \$2,713 in 2006. In comparison, the EKCEP WIA faced the highest increase in average monthly wages for males both in nominal dollars and in percentage terms. Average monthly wages for males in this locality soared \$543 from \$2,778 in 2002 to \$3,321 in 2006, an escalation of 19.5%.

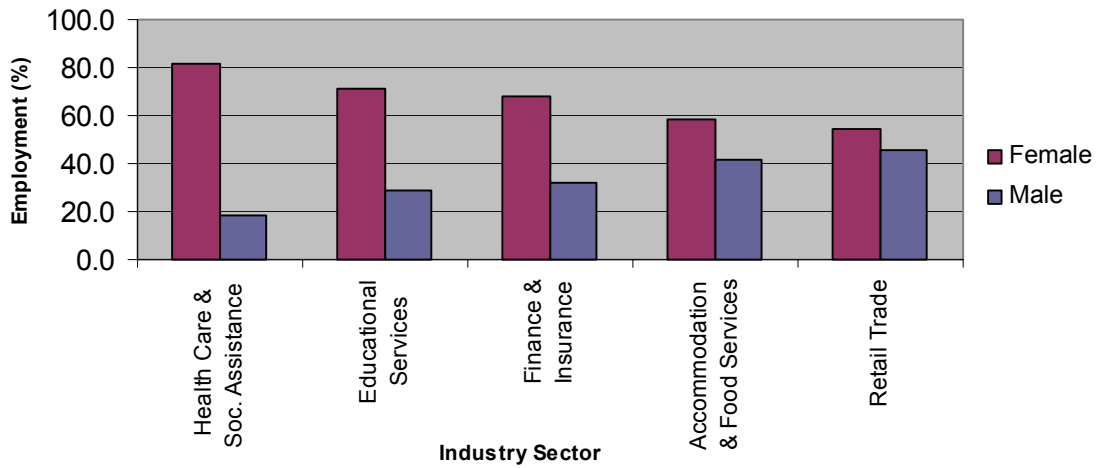
Local Employment Dynamics – Kentucky Industry Sector Employment by Gender (Current Year)



Source: U.S. Census Bureau, Local Employment Dynamics (LED)/Quarterly Workforce Indicators

In 2006, the industry sectors employing predominantly male workers were the Mining, Construction, Utilities, Transportation & Warehousing, and Manufacturing sectors. The percentage of male workers in each of these industry sectors was at least 71%. Mining, Construction, and Manufacturing are classified as goods-producing industries, while Utilities and Transportation & Warehousing are categorized as service-providing industries. The average monthly wages were \$4,641 in the Mining sector, \$3,108 in the Construction sector, \$4,593 in the Utilities sector, \$3,553 in the Transportation & Warehousing sector, and \$3,787 in the Manufacturing sector. Mining and Utilities were the industry sectors with the second and third highest average monthly wages in Kentucky in 2006.

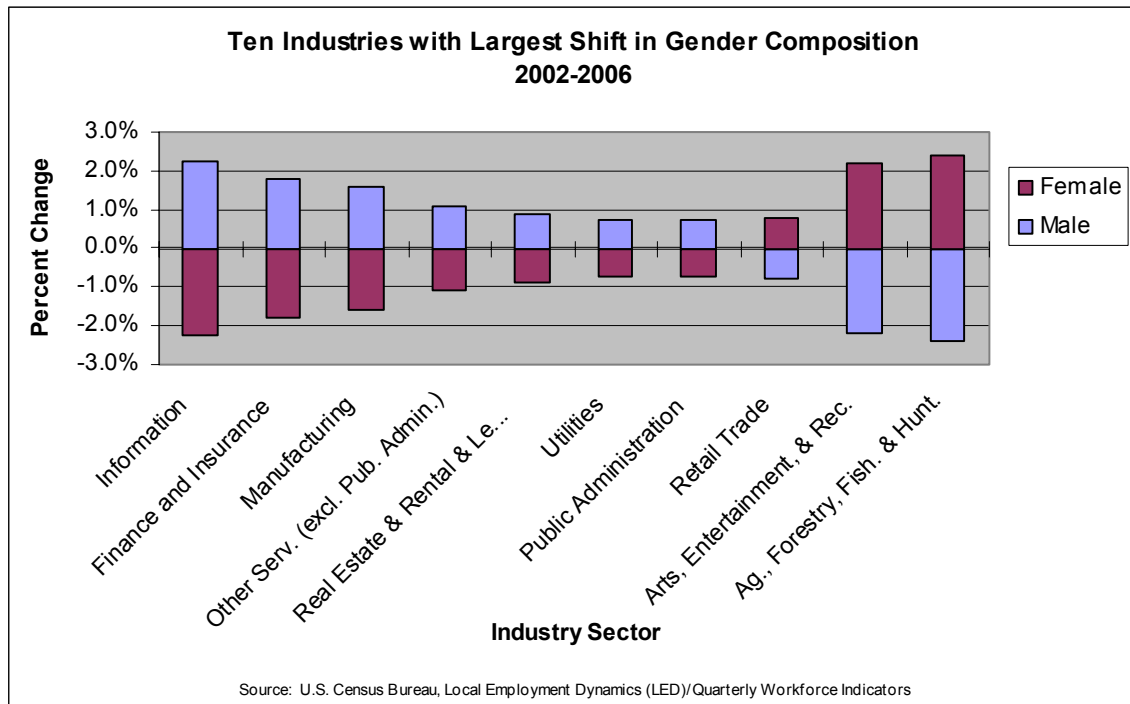
2006 Industry Sectors Employing Largest Percentage of Females



Source: U.S. Census Bureau, Local Employment Dynamics (LED)/Quarterly Workforce Indicators

In 2006, the industry sectors employing primarily female workers were the Health Care & Social Assistance, Educational Services, Finance & Insurance, Accommodation & Food Services, and Retail Trade sectors. The percentage of female workers in each of these industry sectors was at least 55%. All of these sectors are classified as service-providing industries. The average monthly wages were \$3,048 in the Health Care & Social Assistance sector, \$2,822 in the Educational Services sector, \$4,216 in the Finance & Insurance sector, \$1,046 in the Accommodation & Food Services sector, and \$1,829 in the Retail Trade sector. The Accommodation and Food Services sector had the lowest average monthly wages in Kentucky in 2006. With the exception of the Finance and Insurance sector, all sectors with primarily female workers experienced lower average monthly wages than the five industry sectors employing predominantly male workers.

Local Employment Dynamics – Kentucky Industry Sector Employment by Gender (2002 to 2006)



Since 2002, the percentage of Kentucky’s workforce comprised of females has increased by 0.2 percentage point from 49.1% in 2002 to 49.3% in 2006. Conversely, the portion of statewide employment represented by males has decreased by 0.2 percentage point from 50.9% in 2002 to 50.7% in 2006. In other words, the composition of Kentucky’s workforce is shifting to a more equal distribution between males and females.

Between 2002 and 2006, the top four industry sectors employing predominantly male workers were unchanged, including their order of ranking. However, the percentage of male professionals in the Mining and Construction industries decreased during this same time period. In contrast, the portion of male workers in the Utilities and Transportation & Warehousing sectors climbed from 2002 to 2006. In 2006, Manufacturing replaced Wholesale Trade as the fifth ranked industry hiring primarily male employees.

Likewise, between 2002 and 2006, the top five industry sectors employing predominantly female workers remained the same, including their order of ranking. Yet, the percentage of female professionals in the Health Care & Social Assistance and Finance & Insurance industries declined during this same time period. In contrast, the portion of female workers in the Retail Trade sector rose from 2002 to 2006. Educational Services & Accommodation & Food Services industries maintained a constant percentage of female employees between 2002 and 2006.

The Agriculture, Forestry, Fishing, & Hunting sector experienced the largest percentage change in gender composition of its employment from 2002 to 2006. The portion of

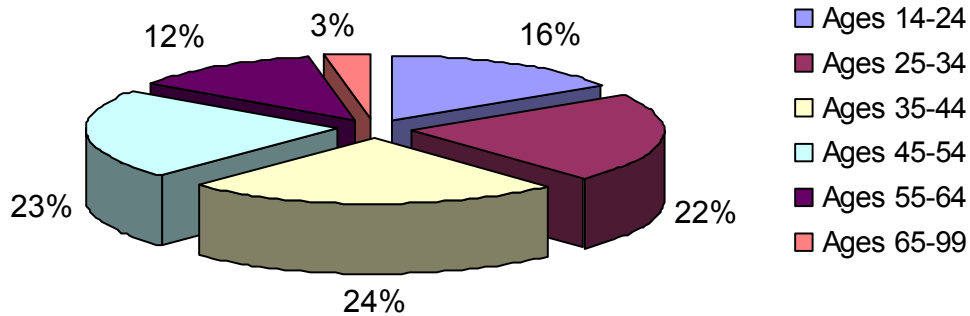
female workers climbed from 30.1% in 2002 to 32.5% in 2006, a gain of 2.4%. In contrast, the Information industry exhibited the greatest percentage increase in male employment between 2002 and 2006. The fraction of male professionals rose from 47.8% in 2002 to 50.1% in 2006, a boost of 2.3%.

Between 2002 and 2006, the portion of female employees in the Agriculture, Forestry, Fishing, & Hunting, Arts, Entertainment, & Recreation, Retail Trade, Construction, Mining, and Management of Companies & Enterprises sectors increased at a rate faster than the rate of change in the statewide workforce composition. Therefore, these industries are shifting towards female workers at a faster pace than the overall workforce.

The Educational Services, Professional, Scientific, & Technical Services, & Accommodation & Food Services sectors maintained the same percentage of female employees between 2002 and 2006. In addition, the Transportation & Warehousing, Health Care & Social Assistance, Administrative & Support & Waste Management & Remediation Services, Wholesale Trade, Public Administration, Utilities, Real Estate & Rental & Leasing, Other Services, Manufacturing, Finance & Insurance, and Information industries increased the proportion of male workers. All of these sectors failed to emulate the compositional change in the statewide employment.

Local Employment Dynamics – Kentucky Employment by Age Group (Current Year)

2006 Kentucky Employment by Age Group

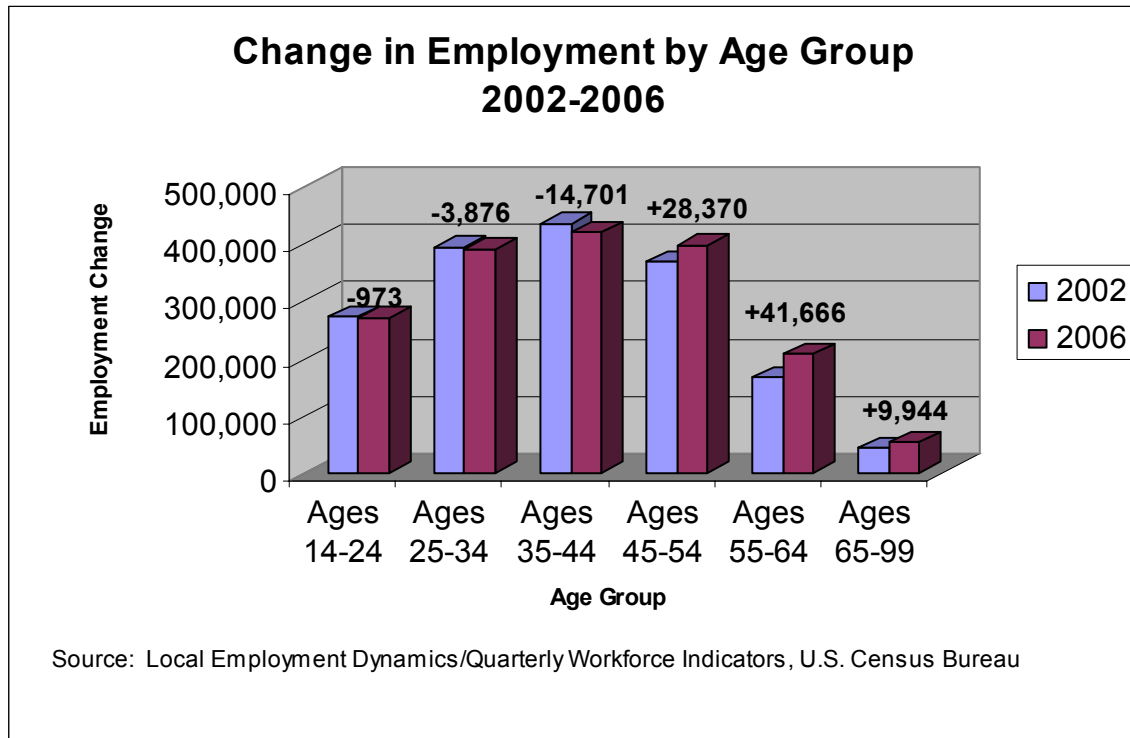


Source: Local Employment Dynamics/Quarterly Workforce Indicators, U.S. Census Bureau

In 2006, individuals between the ages of 35 and 44 comprised the largest percentage of total employment in Kentucky. Twelve percent of the working population were in the age group from 55-64 in 2006, a slight increase from 11% in 2005. In contrast, the age group from 25-34 experienced a minute decrease from 23% of total employment in 2005 to 22% of the working population in 2006. All other age groups maintained the same percentage of total employment between 2005 and 2006.

Fifteen percent of Kentucky's total employment in 2006 consisted of persons age 55 and over. Of the 261,543 employed Kentuckians age 55 and over, 53,641 are at least 65 years of age. Thus, in 2006, individuals age 65 and over comprised 3% of Kentucky's total employment. Kentuckians between the ages of 25 and 54 accounted for 69% of the working population in 2006, a minor decline from 70% in 2005. The remaining 16% of employed Kentuckians in 2006 were below the age of 25, the same percentage as in 2005.

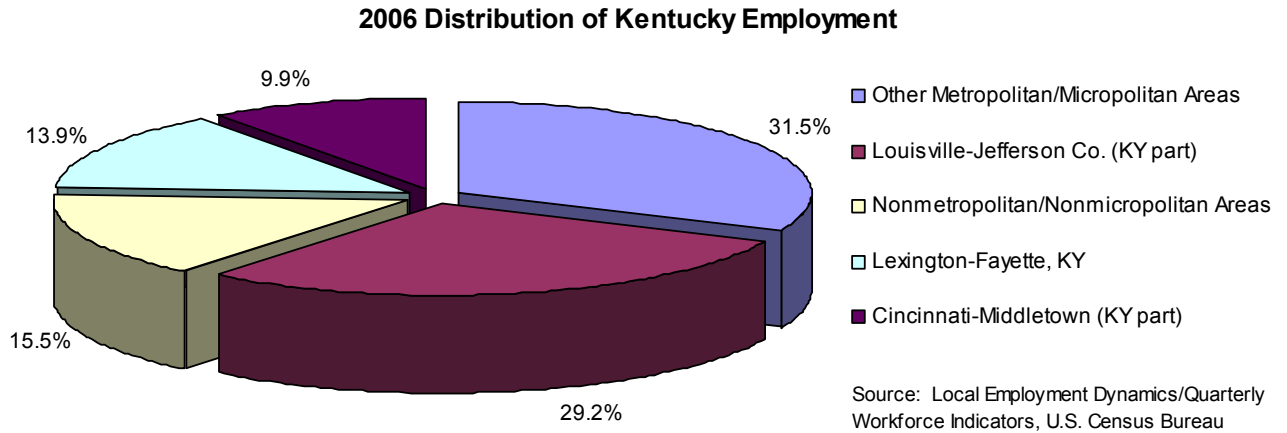
Local Employment Dynamics – Kentucky Employment by Age Group (2002 to 2006)



Since 2002, employment in all age groups increased by 3.6%. Despite this overall increase, employment of persons from age 14 to age 24 (-0.4%), employment of individuals between the ages of 25 and 34 (-1.0%), and employment of Kentuckians from age 35 to age 44 (-3.4%) decreased during this same time period. Thus, Kentucky’s workforce is shifting away from workers under the age of 45. Altogether, the number of workers under the age of 45 decreased by 19,550 (-1.8%) from 1,099,936 in 2002 to 1,080,386 in 2006.

In contrast, from 2002 to 2006, employment of persons between the ages of 45 and 54 (7.7%), employment of individuals from age 55 to age 64 (25.1%), and employment of Kentuckians at least 65 years of age (22.8%) increased at a rate faster than the overall growth rate. Therefore, Kentucky’s workforce is shifting towards workers at least 45 years of age. In other words, the workforce in Kentucky is aging. In total, the number of workers at least 45 years of age surged by 79,980 (13.8%) from 578,667 in 2002 to 658,647 in 2006. More strikingly, the amount of workers at least 55 years old soared 51,610 (24.6%) between 2002 and 2006.

Local Employment Dynamics – Distribution of Kentucky Employment (Current Year)



The Office of Management and Budget defines Metropolitan and Micropolitan areas as geographic entities consisting of a population nucleus and adjacent communities that are amalgamated with the urban core. The links between the communities and the urban core are both economic and social.

Louisville – Jefferson County, Kentucky’s largest MSA, comprised 29.2% of Kentucky’s total employment in 2006, the same fraction as in 2005. The Kentucky portion of the Louisville – Jefferson County MSA consists of Jefferson, Oldham, Trimble, Henry, Shelby, Spencer, Nelson, Larue, Hardin, Meade and Bullitt Counties.

Lexington-Fayette MSA, which includes Fayette, Jessamine, Woodford, Scott, Bourbon, and Clark Counties, consisted of 13.9% of employed Kentuckians in 2006. Between 2005 and 2006, Lexington – Fayette MSA’s share of Kentucky’s working population decreased by 0.1 percentage point from 14.0% in 2005.

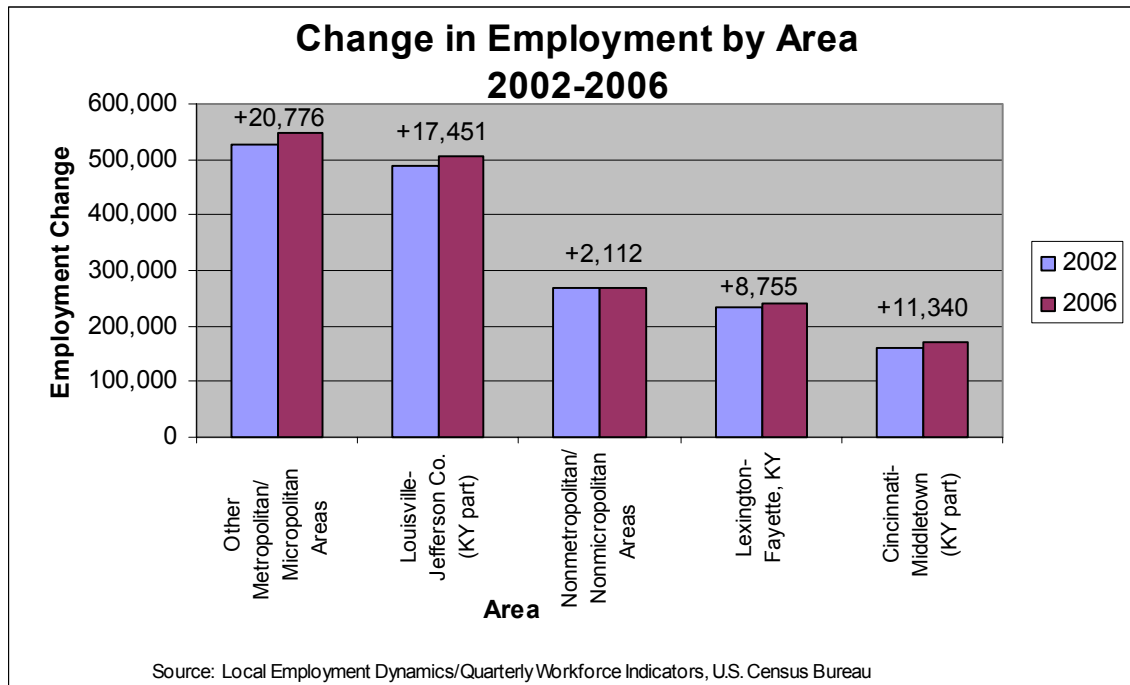
In 2006, the Cincinnati – Middletown MSA accounted for 9.9% of working Kentuckians, the same percentage as in 2005. The Kentucky segment of the Cincinnati – Middletown MSA encompasses Bracken, Pendleton, Grant, Gallatin, Boone, Kenton, and Campbell Counties.

All other metropolitan and micropolitan areas comprised the largest share of Kentucky’s total employment in 2006. In addition, the percentage of Kentuckians employed in these locales increased from 31.2% in 2005 to 31.5% in 2006.

The remaining 15.5% of employed Kentuckians in 2006 worked in non-metropolitan or non-micropolitan areas. This represents a 0.2 percentage point decrease from the 15.7% employed in these regions in 2005.

In 2006, 52.9% of total statewide employment occurred in Kentucky’s three largest MSAs. Employment in these localities decreased 0.2 percentage point from 53.1% in 2005. In contrast, the percentage of employed Kentuckians working in metropolitan or micropolitan areas increased by 0.2 percentage point from 84.3% in 2006 to 84.5% in 2006. Thus, Kentucky’s employment is increasingly concentrated in its urban centers.

Local Employment Dynamics – Distribution of Kentucky Employment (2002 to 2006)



Since 2002, employment in all areas increased by 3.6%. Despite this overall increase, employment in non-metropolitan and non-micropolitan areas increased a mere 0.8%. Therefore, Kentucky's workforce is shifting away from non-metropolitan and non-micropolitan areas. Only 3.5% of the employment growth from 2002 to 2006 occurred in non-metropolitan and non-micropolitan areas. In addition, between 2002 and 2006, the share of employed Kentuckians working in non-metropolitan and non-micropolitan areas declined from 16.0% to 15.5%.

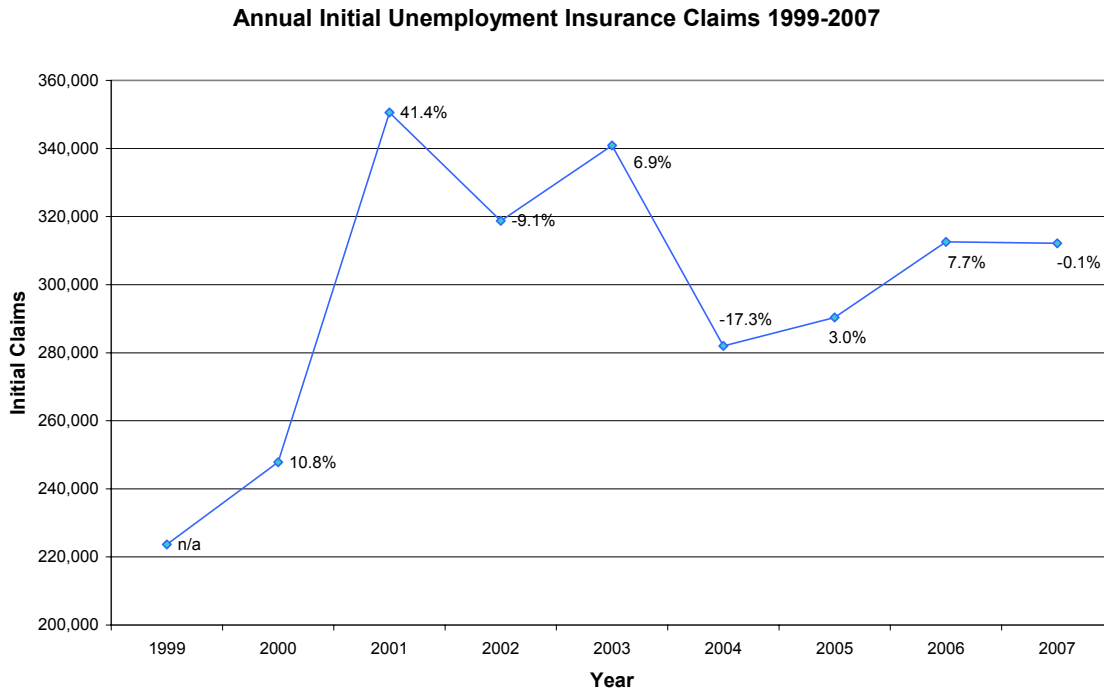
In contrast, from 2002 to 2006, employment in the Cincinnati – Middletown MSA increased 7.1%, a rate significantly higher than the overall growth rate. Hence, Kentucky's workforce is shifting towards the Cincinnati – Middletown MSA. The Cincinnati – Middletown MSA, the fastest growing area in Kentucky, accounted for 18.8% of the overall employment growth between 2002 and 2006.

All other metropolitan and micropolitan areas comprised 34.4% of the aggregate employment growth from 2002 to 2006. However, employment in other metropolitan and micropolitan areas increased by 3.9%, only slightly faster than the overall growth rate. Likewise, employment in the Lexington – Fayette MSA rose by 3.8%, a rate marginally higher than the statewide growth rate. The Lexington – Fayette MSA encompassed 14.5% of employment growth in all areas between 2002 and 2006. Ergo, Kentucky's workforce is shifting towards other metropolitan and micropolitan areas as well as the Lexington – Fayette MSA at a meager pace.

Employment in the Louisville – Jefferson MSA represented 28.9% of the overall employment growth from 2002 to 2006. Yet, employment in the Louisville – Jefferson MSA climbed by 3.6%, a rate equivalent to the statewide growth rate. In other words, the Louisville – Jefferson MSA maintained the same proportion of Kentucky’s workforce (29.2%) between 2002 and 2006.

From 2002 to 2006, the fraction of total statewide employment occurring in Kentucky’s three largest MSAs increased by 0.3 percentage point from 52.6% to 52.9%. Likewise, the percentage of employed Kentuckians working in metropolitan or micropolitan areas rose by 0.5 percentage point from 84.0% in 2002 to 84.5% in 2006. Hence, Kentucky’s employment is shifting towards its urban centers.

Unemployment Insurance – Kentucky Annual Initial Claims (1999 to 2007)

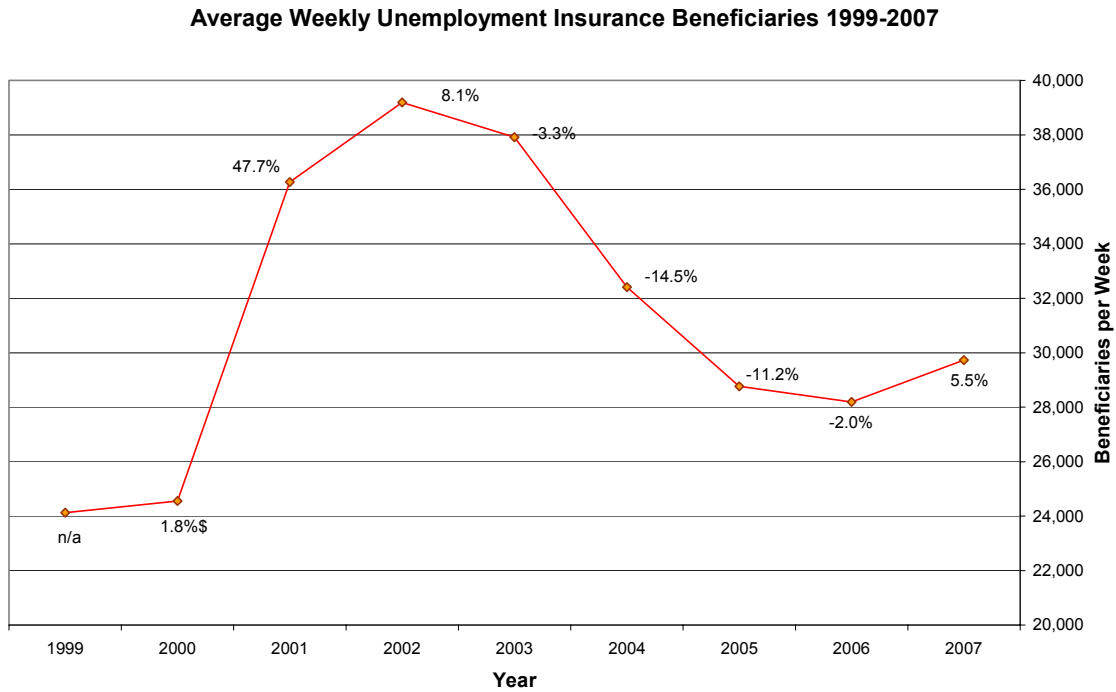


Source: Office of Employment and Training, Unemployment Insurance (UI) Program

In 2007, there was a 0.1% decrease in initial claims for unemployment insurance. This was the first decrease in initial claims since 2004. It represented a significant improvement over 2006, when there was a 7.7% increase in initial claims for unemployment insurance. Movements in the number of workers filing initial claims are followed closely by economists who consider initial claims activity to be an excellent indicator of the strength of the job market. During an economic downturn, when there is a weak job market, there is a corresponding increase in initial unemployment insurance claims.

From 2000 to 2001, there was an increase in the number of initial claims for unemployment insurance. During 2001, the Kentucky economy suffered a recession. Initial claims for unemployment insurance remained high in 2002 and 2003, during the jobless recovery. In 2004, there was a significant decrease in initial claims for unemployment insurance. However, annual initial claims in 2004 remained well above the number of initial claims in 1999, the last of the boom years in the late 1990s. From 2005 to 2006, there was an increase in the number of initial claims for unemployment insurance. However, in 2007, the level of initial unemployment insurance essentially leveled off. Yet, the number of initial claims in 2007 was less than in 2003.

Unemployment Insurance – Kentucky Average Weekly Beneficiaries (1999 to 2007)

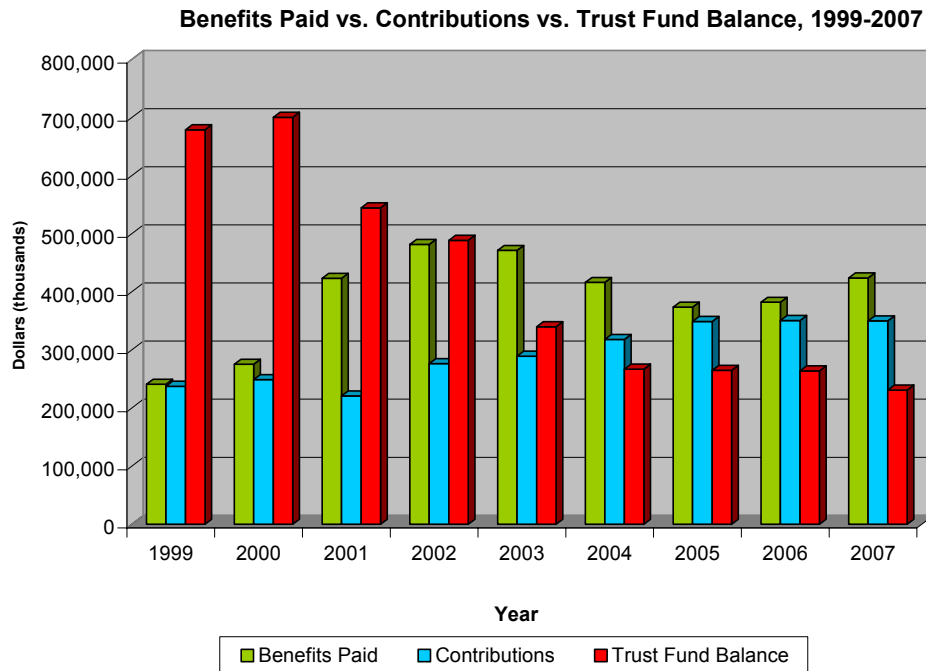


Source: Office of Employment and Training, Unemployment Insurance (UI) Program

During 2007, 1,545,966 weeks were compensated amounting to \$424M dollars in regular unemployment insurance benefits. During each week of 2007, on average, 29,730 Kentuckians were paid unemployment insurance benefits. This represented a 5.5% increase from the number of average weekly beneficiaries in 2006. The rise in the number of average weekly beneficiaries, despite a drop in the annual initial unemployment insurance claims, indicates Kentuckians remained on the unemployment insurance rolls longer in 2007 than in 2006.

The number of average weekly beneficiaries declined every year from 2002 to 2006. However, there was a significant leveling out of the rate of decrease in 2006. In 2006, the number of average weekly beneficiaries reached an inflection point, when the curve shifted from decreasing to increasing. The rise in average weekly beneficiaries in 2007 demonstrated weakness in the employment climate in Kentucky. Prior to 2007, the last increase in number of average weekly beneficiaries occurred between 2000 and 2002, when the Kentucky economy was in the middle of an economic downturn.

Unemployment Insurance – Kentucky Benefits Paid, Contributions, and Trust Fund Balance (1999 to 2007)



Source: Office of Employment and Training, Unemployment Insurance (UI) Program

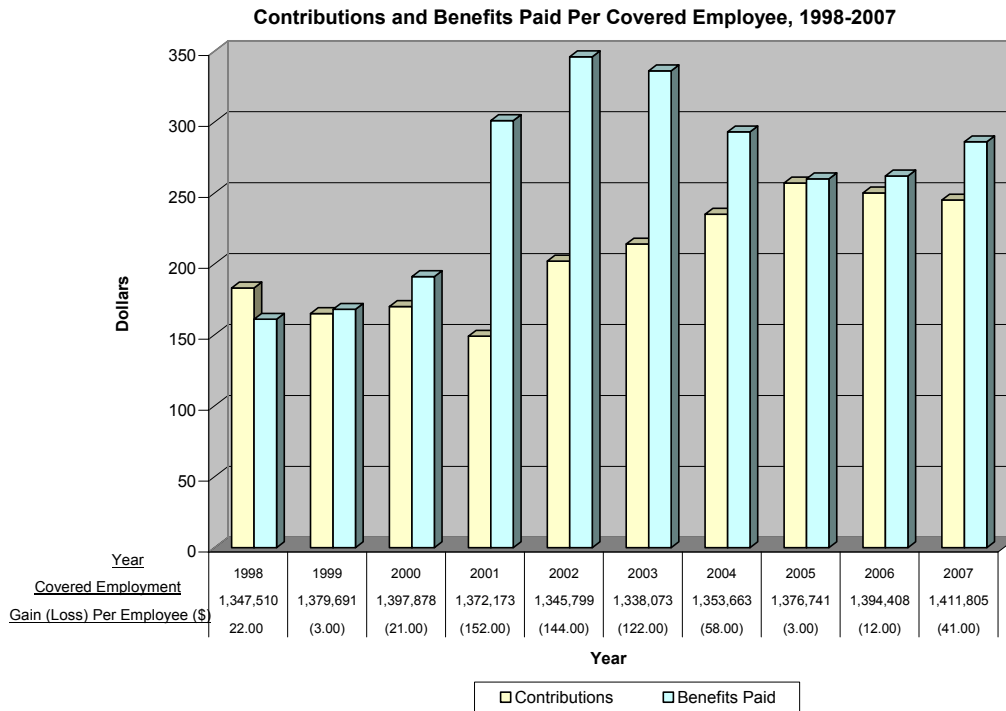
Since 2000, there has been a steady decline in the unemployment insurance trust fund balance from \$700.2M to \$230.8M. In each of these years, the unemployment insurance benefits paid exceeded the unemployment insurance trust fund contributions. This disparity is most pronounced in the period between 2001 and 2003. During 2001, the Kentucky economy suffered a recession. During economic downturns, there is an increase in the number of people on unemployment rolls due to job cuts and layoffs. This acts to increase the level of unemployment insurance benefits paid. At the same time, there is a decrease in the number of individuals working. Kentucky requires employers to pay unemployment insurance taxes on the first \$8,000 of an employee's income. Therefore, fewer individuals working acts to reduce the level of contributions to the UI trust fund. These two factors combine to create a structural imbalance in the UI trust fund during recessions.

From 1999 to 2002, there was a series of increases in regular UI benefits paid from \$240.8M in 1999 to \$481.3M in 2002. The most pronounced increase (53.7%) occurred between 2000 and 2001, at the beginning of the last recession in Kentucky. After 2002, an unbroken sequence of declines in the regular UI benefits paid proceeded from a high of \$481.3M in 2002 to a low of \$373.3 in 2005. This string of declines was followed by increases in regular UI benefits paid in 2006 and 2007. Moreover, the augmentations in regular UI benefits are climbing at an increasing rate. However, at \$423.9M, the regular UI benefits paid in 2007 were still \$54.4M, or 11.3%, lower than the peak in 2002.

Between 1999 and 2001, contributions to the UI trust fund alternated from increasing to decreasing. However, from 2001 to 2006, there was an uninterrupted series of increases in contributions to the UI trust fund from a low of \$220.8M in 2001 to a high of \$350.7M in 2006. This represented a 58.8% increase over 5 years. In 2007, there was a slight decrease in contribution to the UI trust fund to \$350.0M. The string of increases in contributions to the UI trust fund has not ameliorated Kentucky's trust fund position, which decreased from \$544.3M in 2001 to a low of \$230.8M in 2007. Over the 6-year period, there was a 57.6% decrease in the trust fund balance as benefits paid continued to exceed contributions.

In 2007, there was an increase in regular UI benefits paid to \$423.9M from \$382.0M in 2006, an 11.0% increase. At this same time, contributions decreased slightly from \$350.7M in 2006 to \$350.0M in 2007, a mere 0.2% decrease. In response, Kentucky's UI trust fund balance dipped from \$263.9M in 2006 to \$230.8M in 2007, a 12.6% decrease. The rise in regular UI benefits paid combined with the reduction in contributions to the UI trust fund compounded the decline in the UI trust fund balance.

Unemployment Insurance – Kentucky Contributions and Benefits Paid per Covered Employee (1998 to 2007)



Source: Office of Employment and Training, Unemployment Insurance (UI) Program

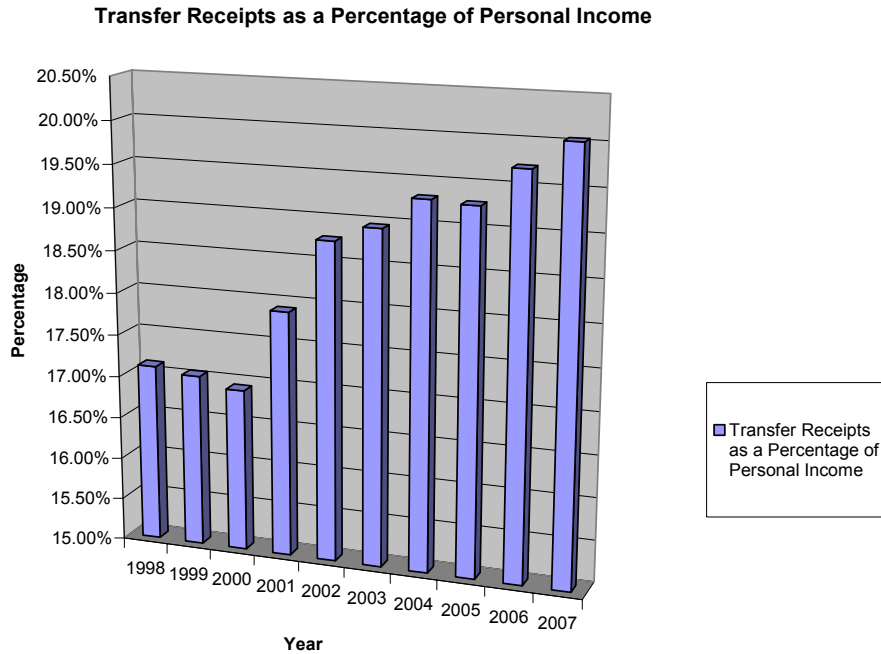
In 1998, on a per covered employee basis, the benefits paid were lower than the unemployment insurance contributions made. This generated a gain of \$22 per covered employee in 1998. However, since 1999, on a per covered employee basis, the benefits paid have exceeded the unemployment insurance contributions made. This divergence was most prominent in the period between 2001 and 2003. During 2001, the Kentucky economy faced an economic downturn. During recessions, the number of individuals on the unemployment rolls increases due to job cuts and layoffs. As a result, there is a rise in the level of unemployment insurance benefits paid. Concurrently, there are fewer people working and an ensuing reduction in the level of contributions to the UI trust fund. This phenomenon is clearly illustrated during 2001, when Kentucky last faced an economic downturn. In 2001, there was a sharp decrease in contributions per covered employee from \$170 in 2000 to \$149 in 2001. At the same time, there was a substantial increase in benefits paid per covered employee from \$191 in 2000 to \$301 in 2001. This engendered a loss of \$152 per covered employee in 2001.

Between 1999 and 2001, there was an uninterrupted rise in the magnitude of the loss per covered employee commencing at \$3 in 1999 and culminating at \$152 in 2001, when the Kentucky economy suffered a recession. In contrast, from 2001 to 2005, there was a steady decline in the magnitude of the loss per covered employee. During this period, from 1999 to 2005, there was a continual drawdown of the UI trust fund. The decline in

the magnitude of the loss per covered employee, after 2001, merely acted to reduce the speed of the depletion of the UI trust fund.

In 2006, there was a slight increase in the magnitude of the loss per covered employee from \$3 in 2005 to \$12 in 2006. This means there was an inflection point, where the curve shifted from decreasing to increasing. This trend continued in 2007, when the loss per covered employee increased to \$41. The increasing rate of growth in the loss per covered employee is exacerbating the diminution of the UI trust fund.

Personal Current Transfer Receipts – Kentucky (Ten-Year Summary)

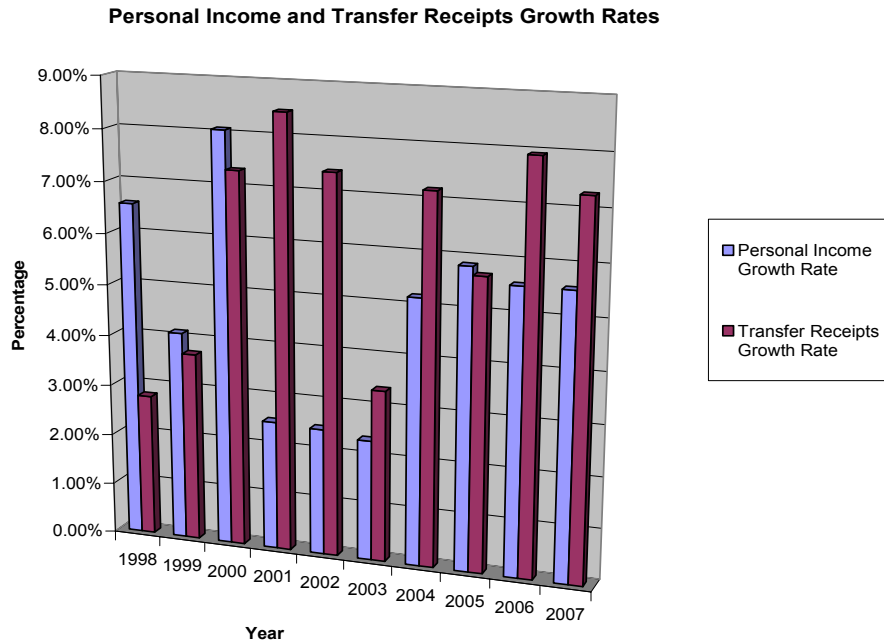


Over the last 10 years, personal current transfer receipts for Kentucky have grown from \$15,035,014,000 in 1998 to \$26,442,540,000 in 2007. During this same time, personal income for Kentucky has grown from \$87,850,643,000 to \$131,956,161,000.

In the last decade, there were two distinct periods regarding personal current transfer receipts for Kentucky as a percentage of personal income. The first period, 1998 – 2000, corresponds to the boom years of the late 1990s when personal current transfer receipts for Kentucky as a percentage of personal income exhibited a steady decline. The second period, 2001 – 2007, was one of steady growth in personal current transfer receipts for Kentucky as a percentage of personal income, with the exception of a slight dip in 2005. This period began with sharp increases in 2001 and 2002, corresponding to the recession occurring during that period. From 2002 to 2007, there has been a substantial increase in personal current transfer receipts as a percentage of personal income. However, from 2003 to 2004 this increase occurred at significantly smaller rates than in 2001 and 2002. In other words, there was a flattening of the curve representing personal current transfer receipts for Kentucky as a percentage of personal income. This period of growth is followed by a slight decrease in 2005 and modest increases in 2006 and 2007.

Personal income comprises wage and salary disbursements, proprietors' income, rental income, personal dividend income, personal interest income, and personal current transfer receipts. In 2007, personal current transfer receipts represented 20.0% of personal income for Kentucky. This was a significant increase from 1998 and 2000, when personal current transfer receipts were 17.1% and 16.9% of personal income, respectively.

Personal Income and Personal Current Transfer Receipts Growth Rates – Kentucky (Ten-Year Summary)



Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts

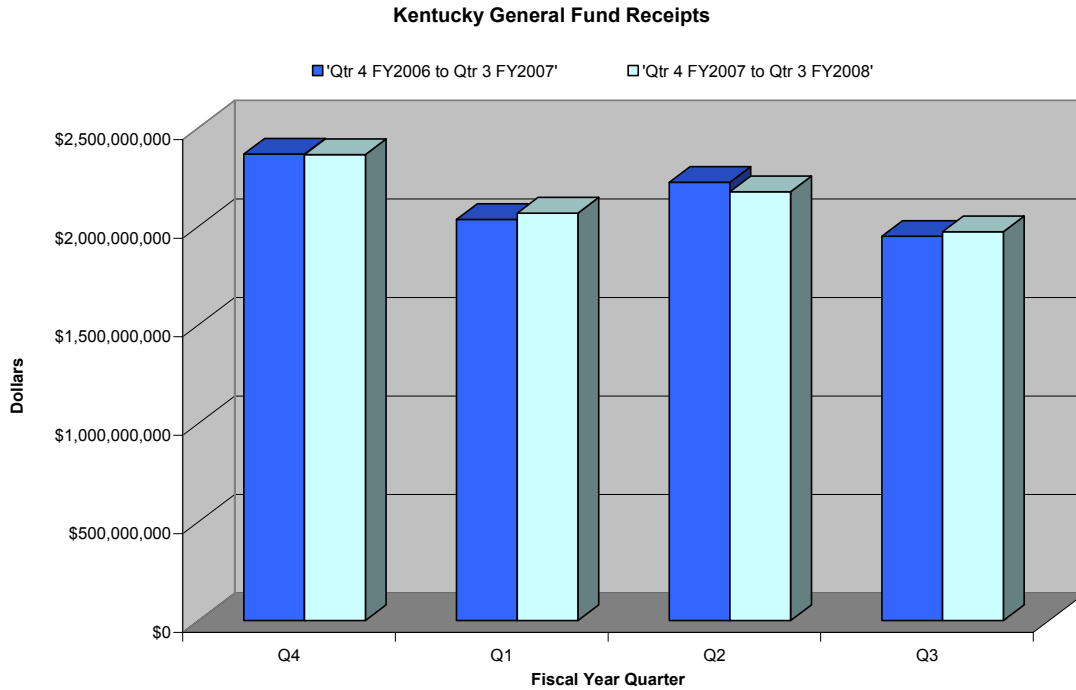
In 1999, 2000, 2003, and 2005, the growth rates for personal income and personal current transfer receipts for Kentucky were similar. However, in 1998, 2001, 2002, 2004, 2006, and 2007 there were significant variations between these growth rates. During the period between 1998 and 2000, the growth rate for personal income exceeded the growth rate for personal current transfer receipts for Kentucky. This difference was most pronounced in 1998, when the growth rates for personal income and personal current transfer receipts for Kentucky were 6.57% and 2.79%, respectively. Personal current transfer receipts include retirement and disability insurance benefits, medical benefits, income maintenance benefits, unemployment insurance compensation, veterans' benefits, and other transfer receipts. Medical benefits such as Medicaid, income maintenance benefits including food stamps, and unemployment insurance compensation are inversely related to a state's economic health. Therefore, it is not surprising for personal income growth to outpace personal current transfer receipts growth during boom years such as 1998.

During the period between 2001 and 2004, the growth rate for personal income fell short of the growth rate for personal current transfer receipts for Kentucky. This difference was most pronounced in 2001, when the growth rates for personal income and personal current transfer receipts for Kentucky were 2.53% and 8.46%, respectively, and 2002, when the growth rates for personal income and personal current transfer receipts for Kentucky were 2.49% and 7.41%, respectively. These years, when Kentucky's economy was in the midst of a recession, were mirror images of 1998. Since personal current

transfer receipts are inversely related to a state's economic health, it is not surprising for personal income growth to lag behind personal current transfer receipts growth during recession years such as 2001 and 2002.

In 2006 and 2007, the growth rates for personal income, 5.57% in both years, fell short of the growth rates for personal current transfer receipts for Kentucky, 7.94% and 7.29%, respectively. While there were sizable differences in the growth rates, they were not as pronounced as in 2001 and 2002. The growth rates for personal current transfer receipts were in the same range as in 2001 and 2002. However, the growth rates for personal income in Kentucky were over twice as high as in 2001 and 2002. Thus, while this phenomenon is not fortuitous, it is also not dire. In 2007, Kentucky experienced modest GDP growth at 2.3%, a slight decline from the 2.6% rate of economic growth in 2006.

Tax Receipts – Kentucky General Fund Receipts (Current Year)

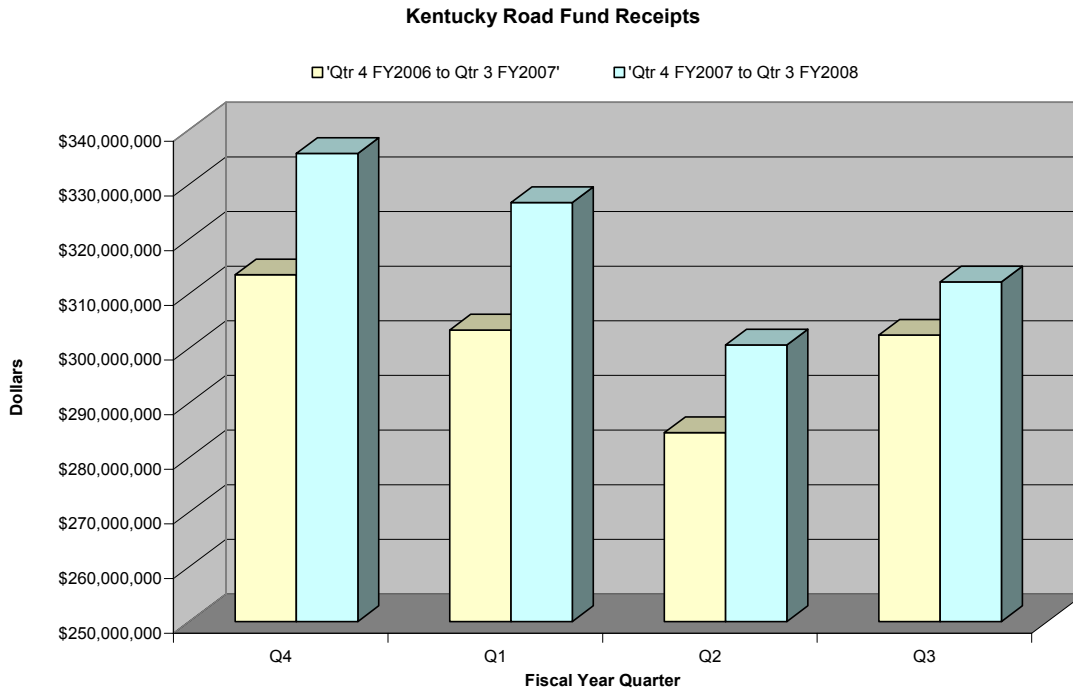


Source: Office of State Budget Director, Quarterly Economic and Revenue Reports and Monthly Tax Receipts Reports

Kentucky General Fund Revenue consists of sales and gross receipts, including general sales taxes and excise taxes on alcohol and cigarettes; license and privileges taxes; income taxes, both corporate and individual; property taxes; inheritance taxes; miscellaneous receipts; and non-tax receipts such as the lottery. In the most recent four quarters, income taxes comprised the largest component of General Fund Receipts, while sales and gross receipts represented the second largest portion. Together these two categories encompassed 84.4% of General Fund Revenue. In the four prior quarters, these two groupings accounted for 85.3% of General Fund Revenue.

General Fund Receipts aggregated to \$8,580.9M for the most recent four quarters. This corresponded to a meager 0.1% increase from the \$8,576.6M received in the prior four quarters. Year-over-year decreases in the fourth and second quarters were offset by year-over-year increases in the first and third quarters. In each four-quarter period, the fourth quarter exemplified the quarter with the largest total General Fund Receipts. In contrast, the third quarter represented the quarter with the smallest amount of General Fund Receipts. The largest year-to-year difference occurred in the second quarter. In the current four-quarter period, second quarter General Fund Receipts totaled \$2,176.2M. This represented a 2.1% decrease from the \$2,223.7M collected in the previous second quarter.

Tax Receipts – Kentucky Road Fund Receipts (Current Year)



Source: Office of State Budget Director, Quarterly Economic and Revenue Reports and Monthly Tax Receipts Reports

Kentucky Road Fund Revenue consists of sales and gross receipts, including motor vehicle use taxes and motor fuels taxes, use taxes, and surtaxes; license and privileges taxes on motor vehicles; and non-tax receipts such as the department fees and investment income. In the most recent four quarters, sales and gross receipts encompassed the largest component of Road Fund Receipts, accounting for 79.7% of Road Fund Revenue. In the prior four quarters, this category accounted for 80.0% of Road Fund Revenue.

Road Fund Receipts summed to \$1,275.0M for the most recent four quarters. This corresponded to a 5.9% increase from the \$1,203.7M received in the prior four quarters. In each four-quarter period, the fourth quarter represented the quarter with the largest total Road Fund Receipts. In contrast, the second quarter exemplified the quarter with the smallest amount of Road Fund Receipts. The largest year-to-year difference occurred in the first quarter, although all quarters demonstrated significant increases. In the current four-quarter period, first quarter Road Fund Receipts totaled \$326.7M. This represented a 7.7% increase over the \$303.3M collected in the previous first quarter.

The substantial increase in the Road Fund Receipts reflects the surge in gasoline prices over the past year, including record-setting prices in March 2008. Gasoline taxes in Kentucky are statutorily tied to the price of gasoline; a higher wholesale gasoline price results in higher state motor fuels taxes. Fuel prices typically peak around the Memorial Day holiday. Therefore, record gasoline prices in March point toward even higher prices and signify a significant uptick in gasoline costs over the last year.

Appendix

Kentucky Workforce Investment Areas



Kentucky 2000 Metropolitan Statistical Areas

