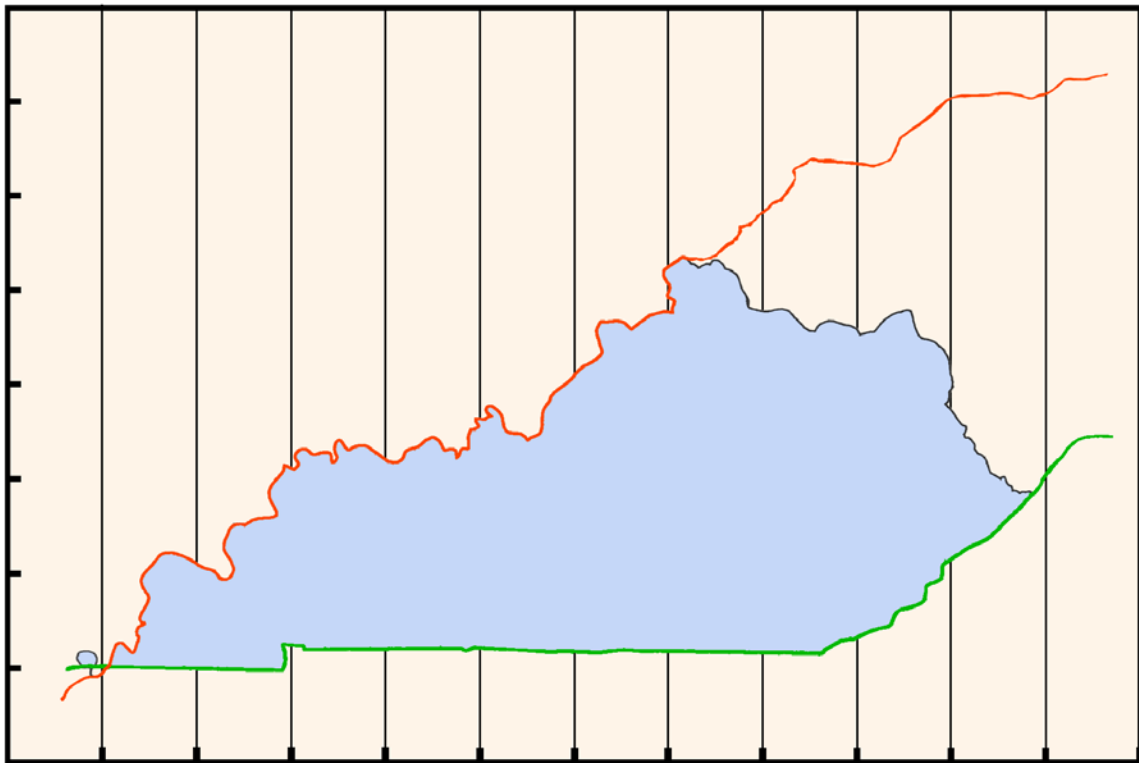


2007 Economic Report for Kentucky

Prepared for the Governor and Local
Workforce Investment Boards



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Kentucky 2007 Economic Report

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Executive Summary

This economic report is completed in accordance with the Training and Employment Guidance Letter (TEGL) No. 3-06. 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.

Kentucky's non-farm employment, which was already predominantly in service-providing industries, has continued to shift towards jobs in the service-providing sectors. Trade, Transportation, and Utilities constituted the largest supersector in Kentucky in 2006.

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.

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 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 ethnicity. 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 2006, 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

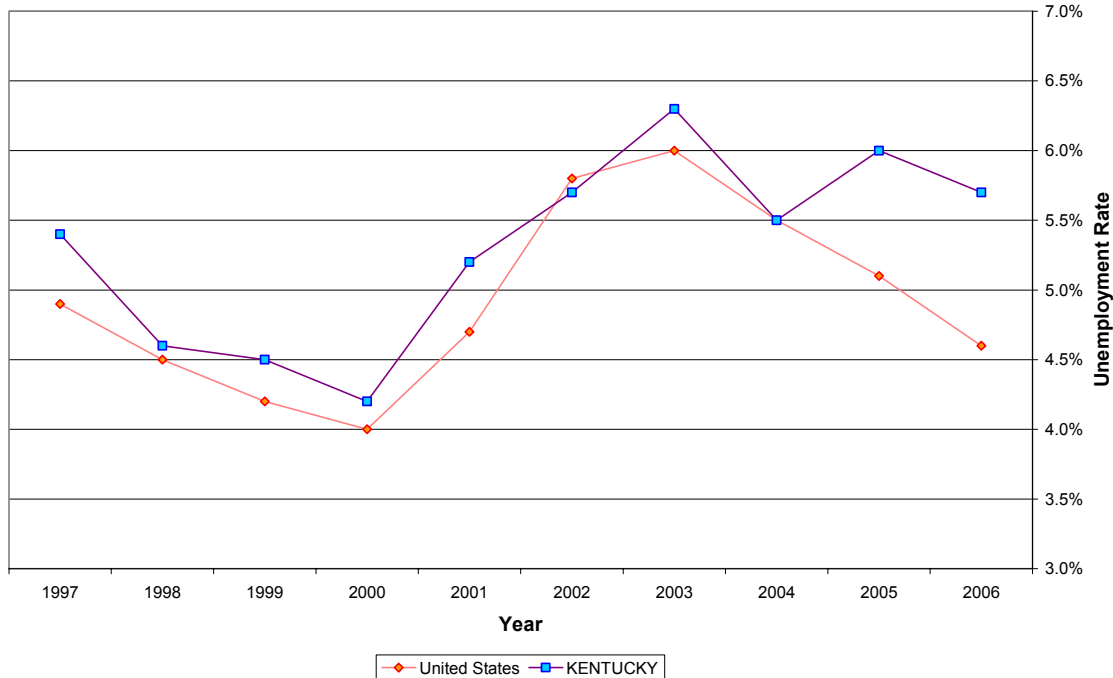
primarily female workers. Women leaving the workforce to raise families contribute to the increase in the gender gap over time.

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.

In the most recent four quarters, Road Fund Receipts increased 7.3% 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, 1997-2006, U.S. vs. Kentucky



Sources: 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, 1997 – 2000, corresponds to the boom years of the late 1990s, when there was a steady decline in the annual unemployment rate. The second period, 2001 – 2003, is one of uninterrupted growth in the 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 annual unemployment rate. More specifically, national annual unemployment 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 annual unemployment. 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.

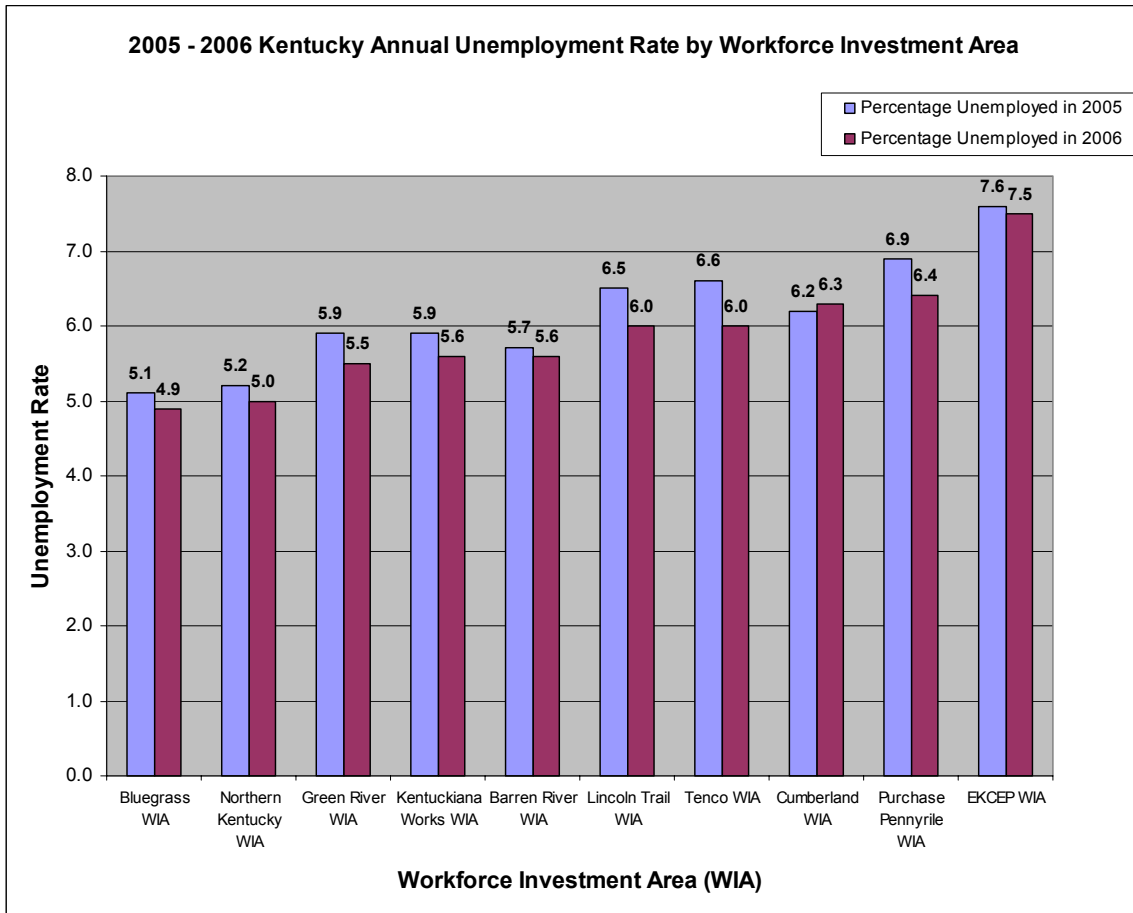
Over the last ten years, the annual unemployment rate in Kentucky has roughly mirrored the national annual unemployment rate. Kentucky's economy experienced declining annual unemployment between 1997 and 2000 followed by rising annual unemployment between 2001 and 2003. Kentucky endured a spike in annual unemployment in 2001. During 2001, annual unemployment rose 1.0 percentage point from 4.2% in 2000 to 5.2%. In 2002 and 2003, Kentucky's annual unemployment continued to grow to 5.7% and 6.3%, respectively. However, between 2004 and 2006, Kentucky's annual unemployment rate diverged from the national trend. While annual unemployment

declined in 2004, 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.

With the exception of 2002 and 2004, 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%, while in 2004 Kentucky's annual unemployment rate matched the national annual unemployment rate of 5.5%. 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 1.1 percentage point. 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 2006, the U.S. annual unemployment rate stood at 4.6%, while Kentucky faced an annual unemployment rate of 5.7%. The national annual unemployment rate has decreased 0.3 percentage point from 1997, when it was 4.9%. In contrast, the statewide annual unemployment rate has risen 0.3 percentage point from 1997, when an annual unemployment rate of 5.4% prevailed.

Unemployment – Kentucky WIAs (Two-Year Summary)



Source: Office of Employment and Training, Local Area Unemployment Statistics (LAUS) Program

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 2005 and 2006. Between 2005 and 2006, the annual unemployment rate in the Bluegrass WIA declined from 5.1% in 2005 to 4.9% in 2006. The Bluegrass WIA consists of Anderson, Bourbon, Boyle, Clark, Estill, Fayette, Franklin, Garrard, Harrison, Jessamine, Lincoln, Madison, Mercer, Nicholas, Powell, Scott, and Woodford Counties.

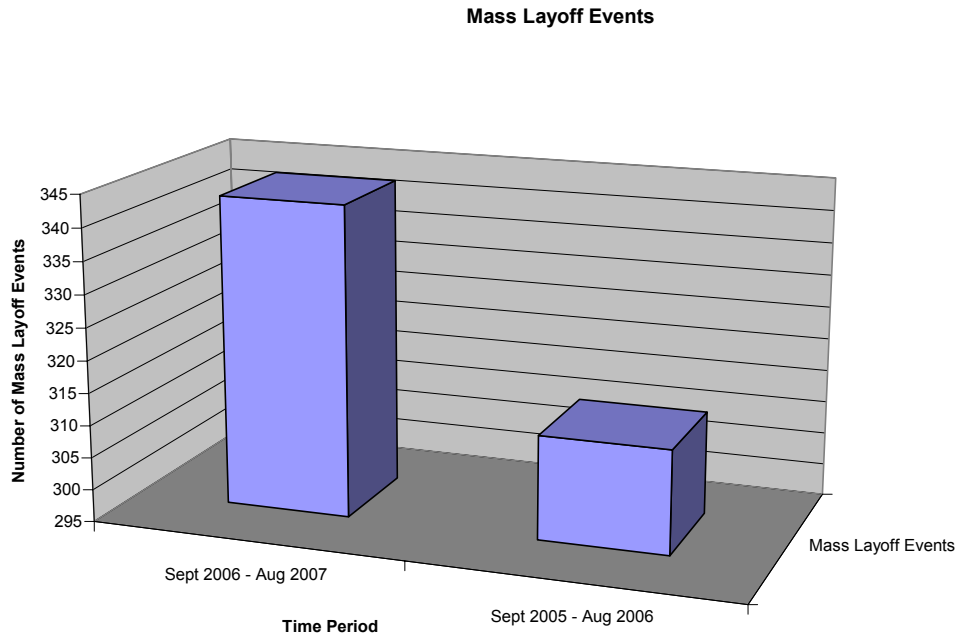
In both 2005 and 2006, the Eastern Kentucky Concentrated Employment Program (EKCEP) WIA suffered the highest annual unemployment rate in Kentucky. From 2005 to 2006, the annual unemployment rate in the EKCEP WIA dropped from 7.6% in 2005 to 7.5% in 2006. The EKCEP WIA encompasses Bell, Breathitt, Carter, Clay, Elliott, Floyd, Harlan, Jackson, Johnson, Knott, Knox, Lawrence, Lee, Leslie, Letcher, Magoffin, Martin, Menifee, Morgan, Owsley, Perry, Pike, and Wolfe Counties.

Between 2005 and 2006, all WIAs experienced a decrease in their annual unemployment rates with the exception of the Cumberland WIA. The annual unemployment rate in the

Cumberland WIA rose from 6.2% in 2005 to 6.3% in 2006. The Cumberland WIA comprises Adair, Casey, Clinton, Cumberland, Green, Laurel, McCreary, Pulaski, Rockcastle, Russell, Taylor, Wayne, and Whitley Counties.

The Ten Counties (TENCO) WIA exhibited the largest reduction in its annual unemployment rate from 2005 to 2006. More specifically, the annual unemployment rate in the TENCO WIA declined 0.6 percentage point from 6.6% in 2005 to 6.0% in 2006. The TENCO WIA consists of Bath, Boyd, Bracken, Fleming, Greenup, Lewis, Mason, Montgomery, Robertson, and Rowan Counties.

Mass Layoff Events – Kentucky (Two-Year Summary)



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

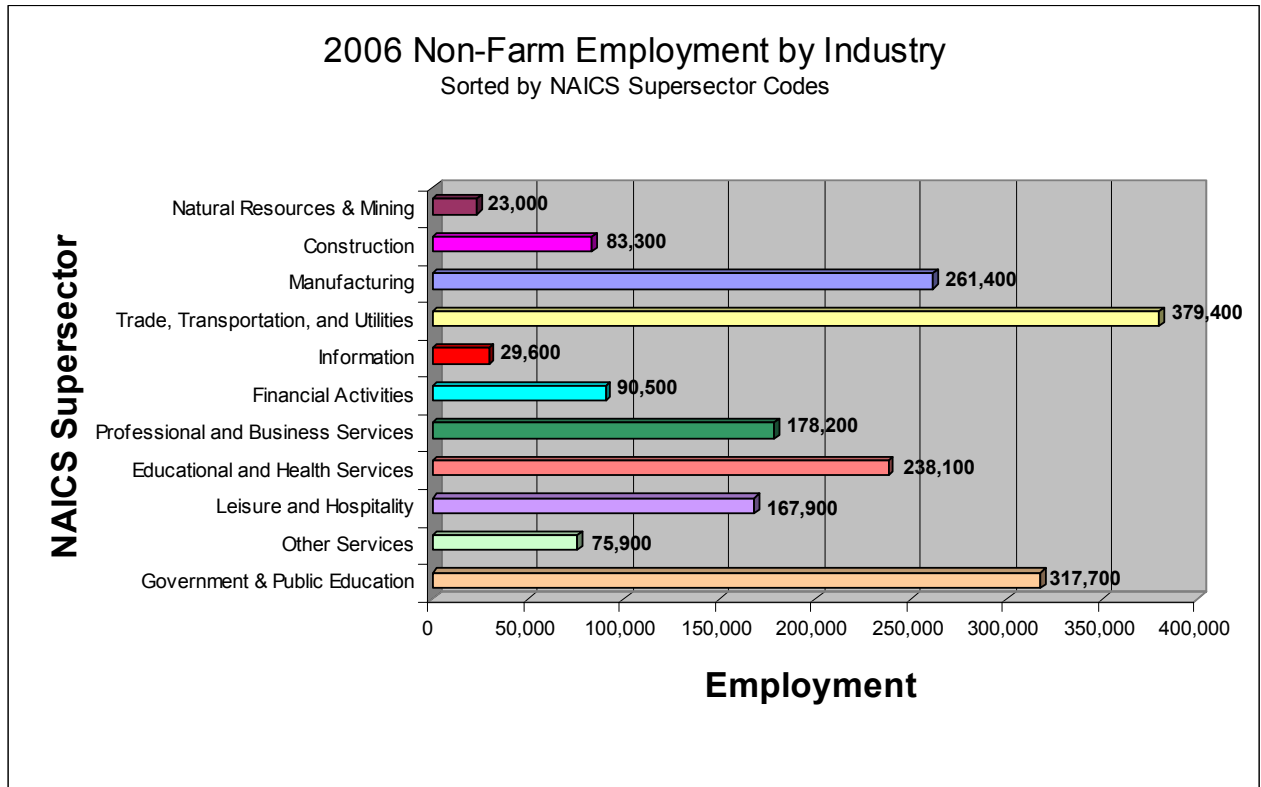
A mass layoff event is characterized by potential layoff activity based on 50 or more initial UI claims filed against an employer within a 5 week moving period prior to employer contact and regardless of duration. In other words, mass layoff events are associated with both temporary and permanent layoffs. Between September 2006 and August 2007, there were 343 mass layoff events affecting 69,959 workers. This represented an increase from 311 mass layoff events impacting 47,722 members of the workforce from September 2005 to August 2006.

Yet, between July 2006 and June 2007, 65 extended mass layoff events occurred, a decline of 12 from the 77 extended mass layoff events transpiring from July 2005 to June 2006. In the most recent period, July 2006 to June 2007, 8,343 workers were impinged on, 323 less than the 8,666 individuals affected one year earlier. 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. The 34 WARN notices issued between September 2006 and August 2007 included 11 incidences which impacted manufacturing companies. Overall,

4,457 workers were affected, counting 1,233 employees from the manufacturing sector. The number of WARN notices diminished by 15 from the 49 occurrences from September 2005 to August 2006. Twenty-seven of these notices concerned manufacturing firms. During this time period, 6,223 workers were impinged on including 3,832 in the manufacturing sector.

Current Employment Statistics – Kentucky (Current Year Summary)



Source: Office of Employment and Training, Current Employment Statistics (CES) Program

The average monthly non-farm employment in Kentucky was 1,845,100 in 2006. Trade, Transportation, and Utilities constituted the largest supersector in Kentucky with 379,400 jobs on average each month. This supersector, comprised of the Wholesale Trade, Retail Trade, Utilities, and Transportation and Warehousing sectors, accounted for 21% of all non-farm employment in Kentucky in 2006.

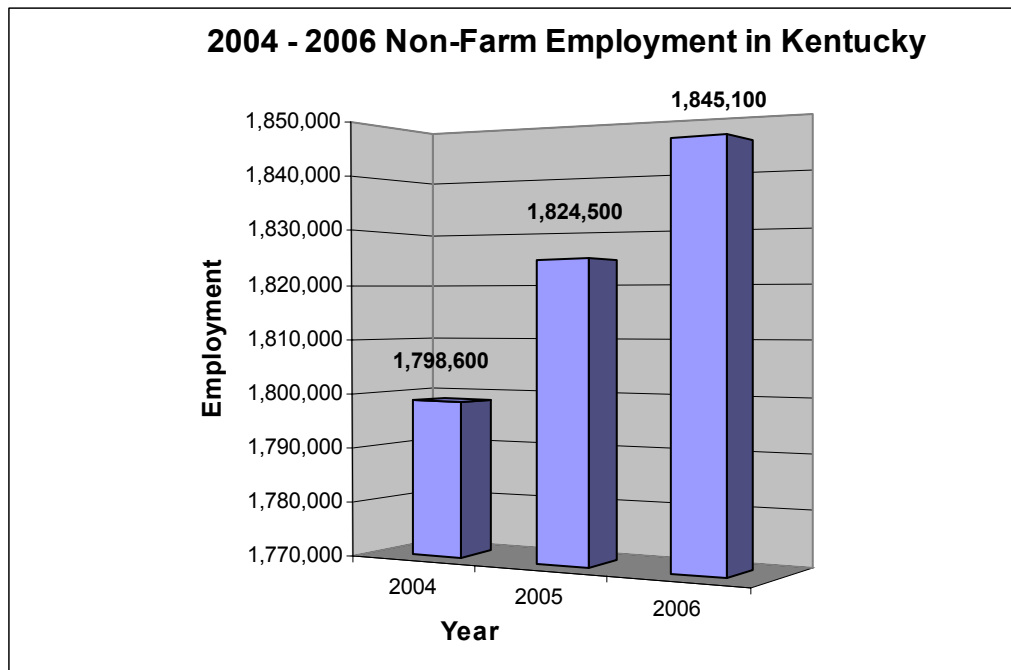
The Government & Public Education supersector, which includes employment in public administration agencies, state and local public school systems, and state-owned hospitals, represented Kentucky's second largest supersector. Average monthly employment in this supersector equaled 317,700 in 2006.

In 2006, the Natural Resources and Mining supersector constituted the smallest supersector in Kentucky with 23,000 jobs on average each month. The Information supersector, with an average monthly employment of 29,600, represented Kentucky's second smallest supersector.

The service-providing industries comprised 1,477,400 jobs on average each month in 2006. 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. Eighty percent of all jobs in Kentucky were in service-providing industries in 2006. The 367,700 positions in the Natural Resources and Mining, Construction, and Manufacturing supersectors, all goods-producing industries, comprised the remaining 20% of non-farm employment in Kentucky in 2006.

Current Employment Statistics – Kentucky (Three-Year Summary)

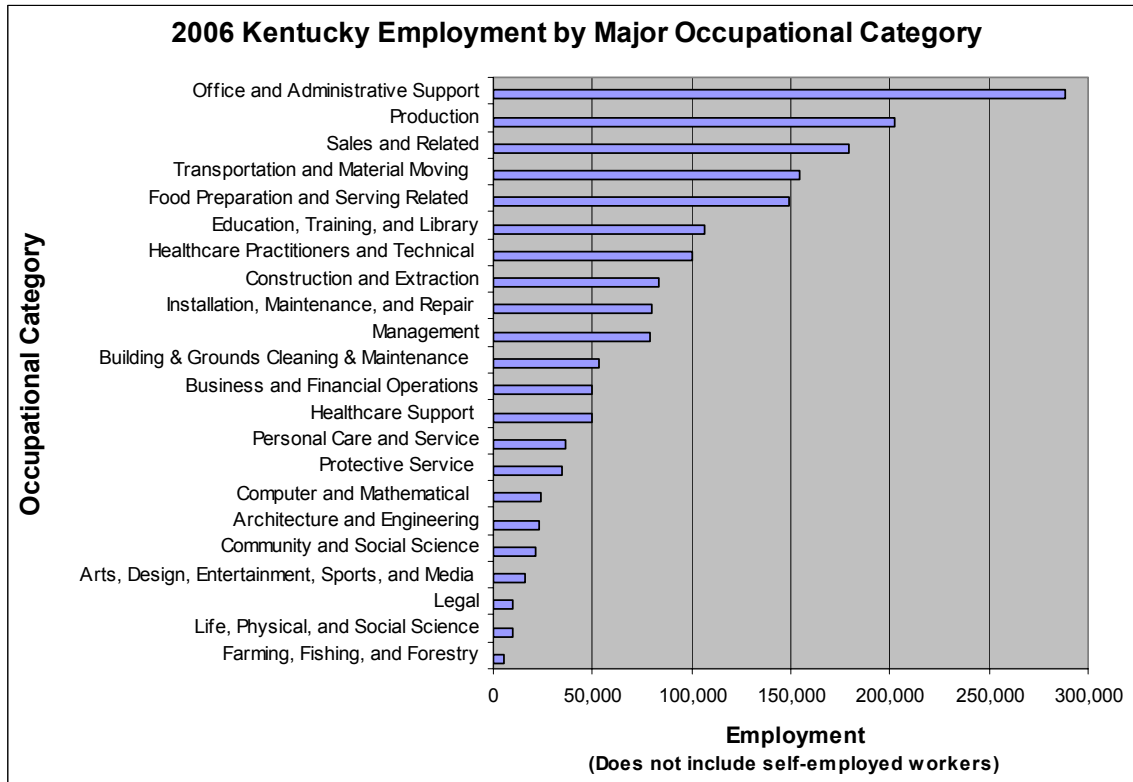


Source: Office of Employment and Training, Current Employment Statistics (CES) Program

In 2006, the average monthly non-farm employment increased by 20,600 jobs to 1,845,100 from 1,824,500 positions in 2005. This represented a growth rate of 1.1%, slightly lower than the 1.4% rate of job growth in 2005. On average, 25,900 net jobs were created each month in 2005. This constituted an expansion from an average of 1,798,600 positions each month in 2004.

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 five years, the Kentucky economy has added 71,900 service-providing jobs and lost 32,200 goods-producing positions.

Occupational Employment – Kentucky (Current Year Summary)

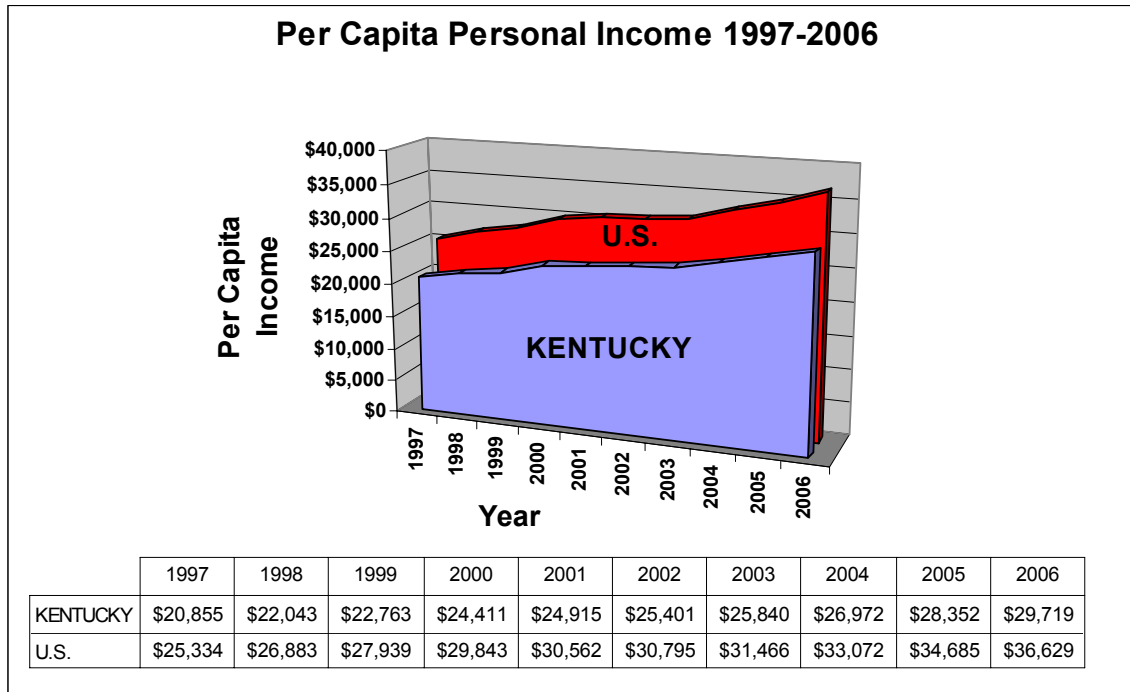


Source: Office of Employment and Training, Occupational Employment Statistics (OES) Survey

In 2006, 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 288,050 jobs. Production jobs totaled 202,120, while Sales and Related professions encompassed 179,230 positions.

The three major occupational categories with the fewest number of employees in 2006 included Farming, Fishing, and Forestry; Life, Physical, and Social Science; and Legal. Farming, Fishing, and Forestry, the occupational category with the lowest number of jobs, consisted of 4,890 positions. Employment in the Life, Physical, and Social Science occupations comprised 9,920 jobs, while Legal occupations encompassed 10,000 positions.

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



Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System (REIS)

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.

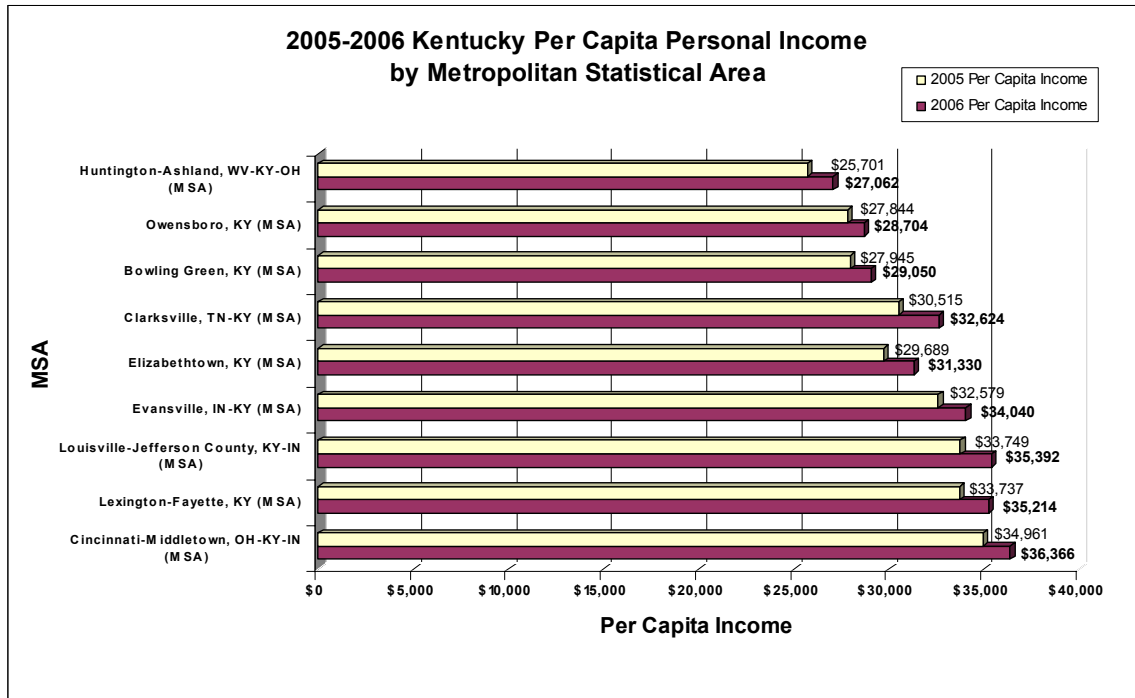
From 1997 to 1998, both the U.S. and Kentucky exhibited rates of increase in per capita income in the 5% - 6% range. In 1999, there was a slight dip in the rate of nominal income growth, both nationally and statewide, to the 3% - 4% range. This dip was offset in 2000, when both the U.S. and Kentucky 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 2006, 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 \$9,865 or 47%, while the per capita income in the U.S. has increased by \$12,454 or 49%.

The per capita income in Kentucky has consistently been below the national per capita income. In 2006, Kentucky ranked 47th among all states and the District of Columbia in per capita income, a deterioration from 2005 when Kentucky was ranked 44th. Only

Mississippi, West Virginia, Arkansas, and South Carolina had lower per capita incomes than Kentucky in 2006.

In both 2005 and 2006, the per capita income in thirty states fell below the per capita income in the U.S. The District of Columbia consistently experienced the highest per capita income at \$57,358 in 2006 and \$53,594 in 2005. In both years, Connecticut ranked second, with per capita income of \$50,787 in 2006 and \$47,701 in 2005. In 2006, Mississippi exhibited the lowest per capita income at \$26,908. In contrast, Louisiana faced the lowest per capita income at \$24,781 in 2005.

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



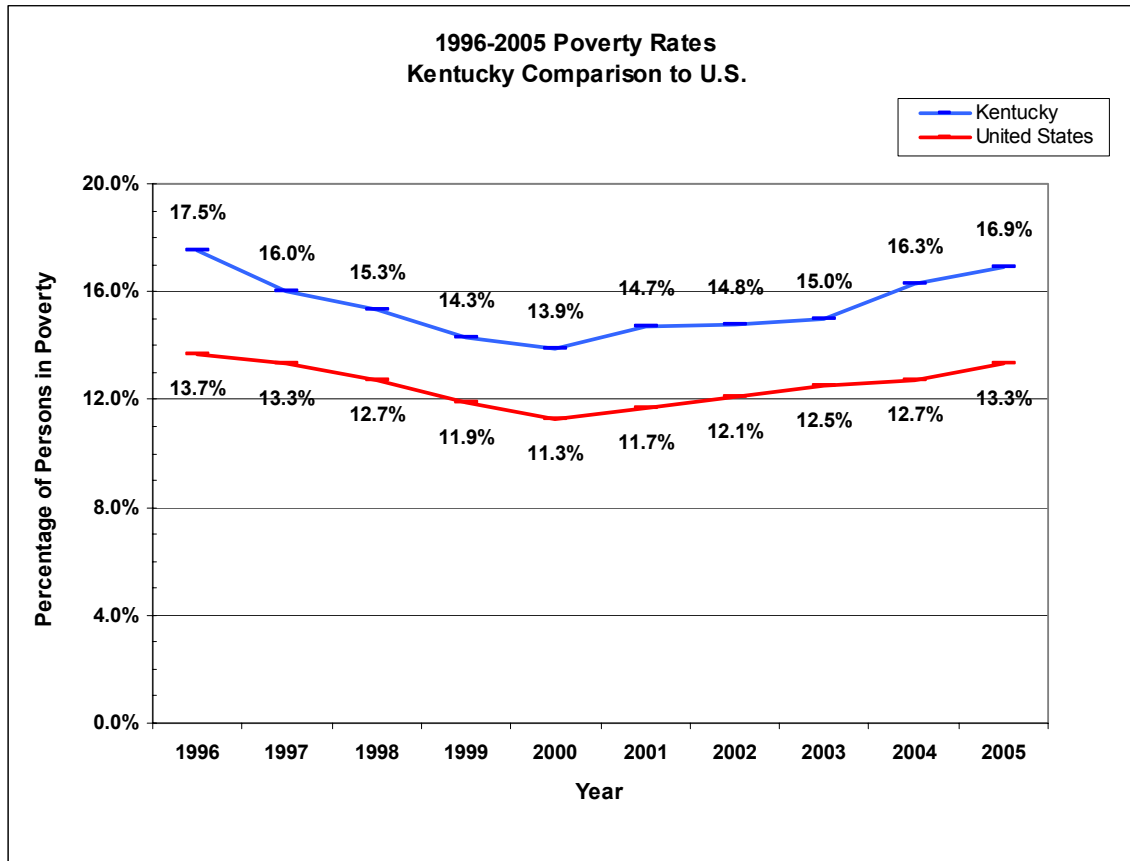
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System (REIS)

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 \$34,961 in 2005 and \$36,366 in 2006. Likewise, the Huntington-Ashland MSA faced the lowest per capita income in both 2005 and 2006, at \$25,701 and \$27,062, respectively. The divergence between the per capita income in the Cincinnati-Middletown MSA and the per capita income in the Huntington-Ashland MSA increased slightly from \$9,260 in 2005 to \$9,304 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, Owensboro MSA, and Bowling Green 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 \$2,109 from \$30,515 in 2005 to \$32,624 in 2006, which is an increase of 6.9%. During this same time period, the Owensboro MSA exhibited the smallest augmentation in per capita income in both nominal dollars and percentage terms. Per capita income in this area rose a mere \$860 from \$27,844 in 2005 to \$28,704, a 3.1% increase.

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



Source: U.S. Census Bureau, Small Area Income and Poverty Estimates (SAIPE) Program

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.

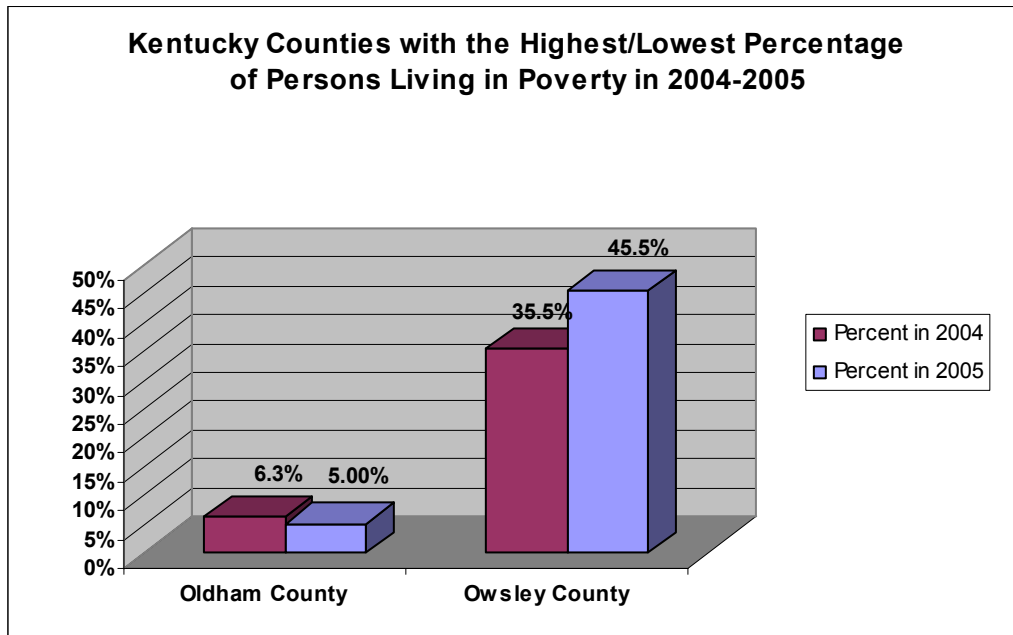
With the exception of 1998, when the state was ranked 40th, Kentucky has consistently been ranked in the bottom poverty rate quintile this past decade. From 2000 to 2003,

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)



Source: U.S. Census Bureau, Small Area Income and Poverty Estimates (SAIPE) Program

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.

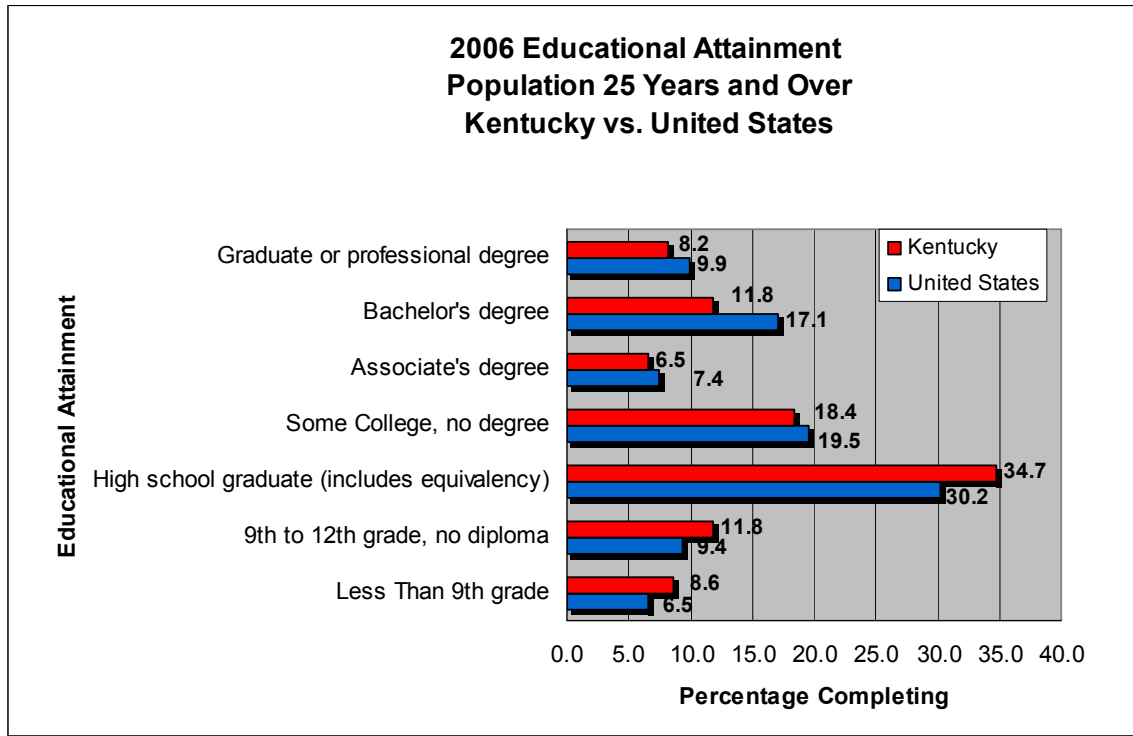
In 2005, Owsley County exhibited the 5th highest poverty rate of all U.S. counties, while Martin County ranked 8th. In a national ranking of the 100 county areas with the highest poverty rates, fourteen were Kentucky counties in 2005, an improvement over the twenty Kentucky counties included in 2004. 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.

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



Source: U.S. Census Bureau, American Community Survey (ACS)

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.

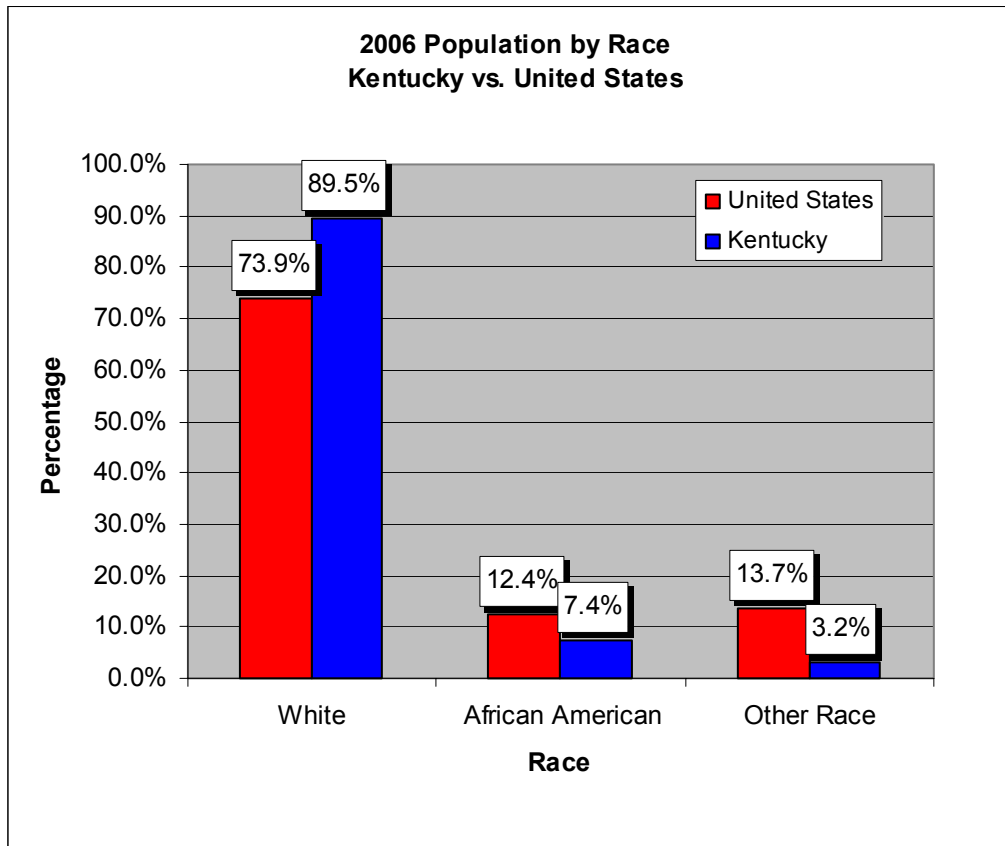
The proportion of the U.S. population with some form of college education surpassed the percentage of Kentuckians who achieved this level of education by 2006. Forty-four percent of the U.S. population age 25 and older attained at least a semester of college education, while only 36.7% of Kentuckians 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)

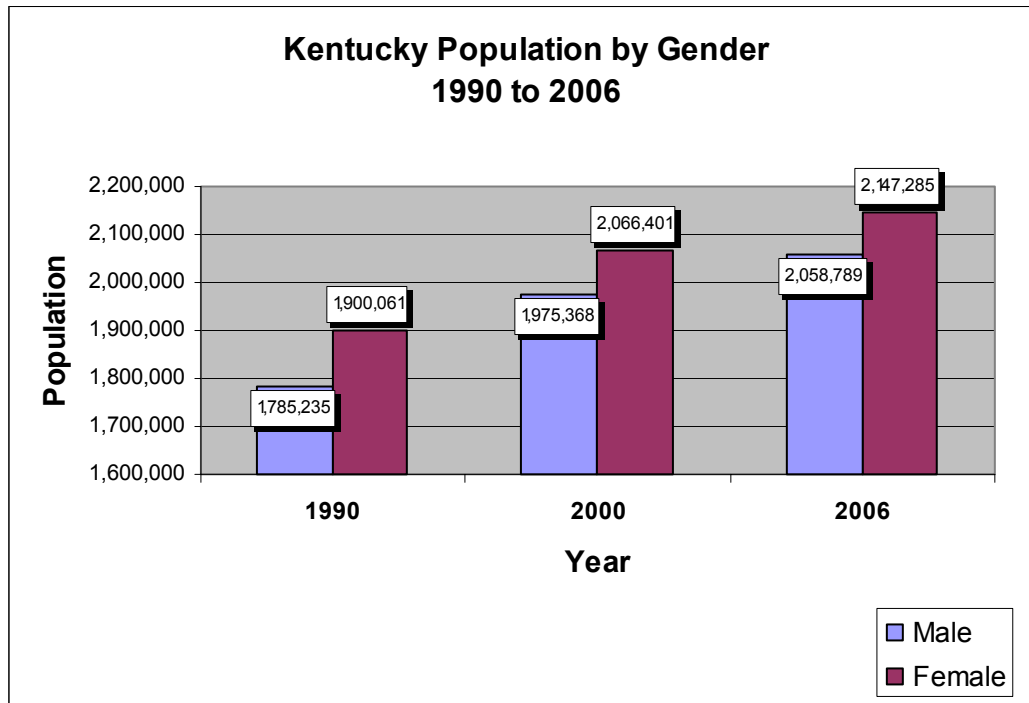


Source: U.S. Census Bureau, American Community Survey (ACS)

In 2006, whites comprised 73.9% of the U.S. population and 89.5% 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 12.4% of the national population and 7.4% of the state population. Other races accounted for the remaining 13.7% of the national population and 3.2% of the Kentucky population in 2006. 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 ethnicity. 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 2006, African Americans and other races are growing at a faster pace than whites. Moreover, other races experienced the highest growth rate. In fact, in 2006 the other races population equaled 4.4 times the other races population in 1990.

Population by Gender – Kentucky (1990 to 2006)

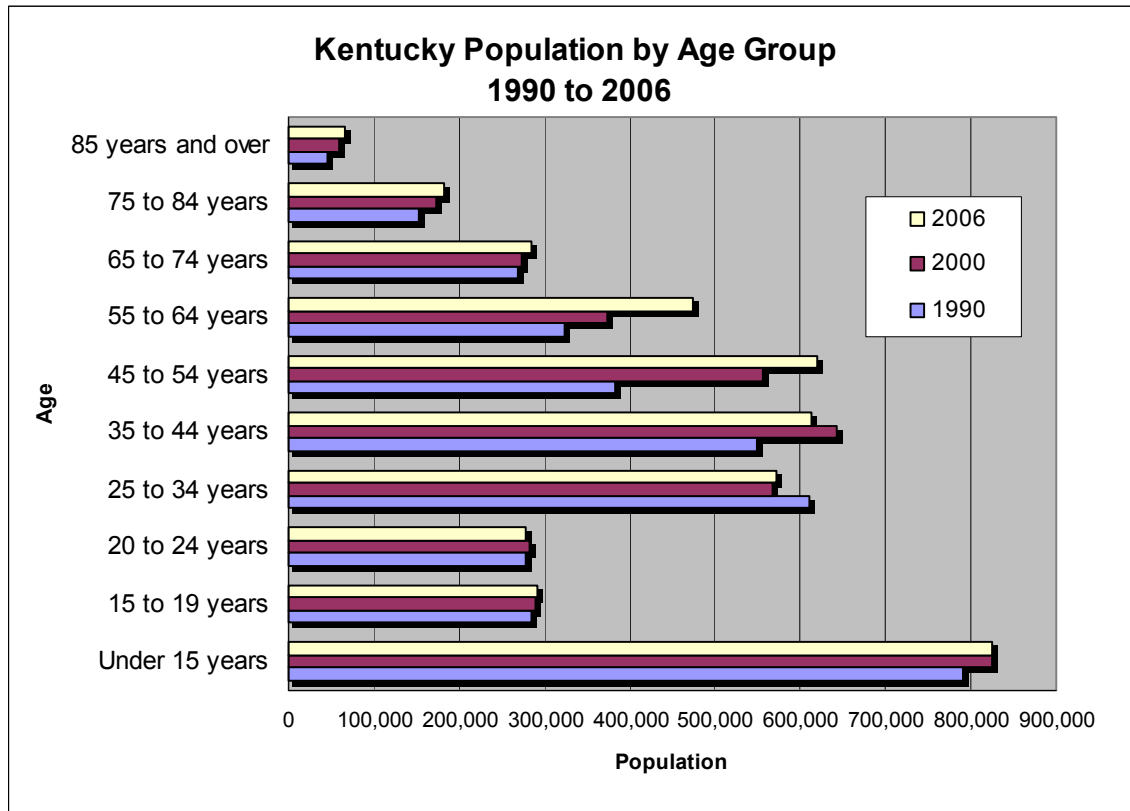


Source: U.S. Census Bureau, American Community Survey (ACS)

In 2006, males comprised 49.2% of the U.S. population and 48.9% of the Kentucky population. Females encompassed 50.8% of the national population and 51.1% 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 2006. During this period, the number of males increased by 4.2%, while the number of females rose by 3.9%. 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 2006)



Source: U.S. Census Bureau, American Community Survey (ACS)

In 2006, Kentucky’s population consisted of 19.6% persons under the age of 15 years, 6.9% individuals between 15 and 19 years of age, 6.6% persons between the ages of 20 and 24, 13.6% individuals between 25 and 34 years of age, 14.6% persons between the ages of 35 and 44, 14.7% individuals between 45 and 54 years of age, 11.2% persons between the ages of 55 and 64, 6.8% individuals between 65 and 74 years of age, 4.4% persons between the ages of 75 and 84, and 1.6% persons 85 years of age and older. This closely mirrored the distribution of the U.S. population. The 2006 U.S. population comprised 20.3% persons under the age of 15 years, 7.2% individuals between 15 and 19 years of age, 7.0% persons between the ages of 20 and 24, 13.3% individuals between 25 and 34 years of age, 14.7% persons between the ages of 35 and 44, 14.5% individuals between 45 and 54 years of age, 10.6% persons between the ages of 55 and 64, 6.3% individuals between 65 and 74 years of age, 4.4% persons between the ages of 75 and 84, and 1.7% persons 85 years of age and older.

Thus, in 2006, individuals under the age of 24 encompassed 34.6% of the U.S. population and 33.1% of the Kentucky population. Persons between the ages of 25 and 54 comprised 42.5% of the national population and 42.9% of the state population. Individuals 55 years of age and older accounted for the remaining 23.0% of the national population and 24.0% of the Kentucky population in 2006. 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 2006, 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 27.7%.

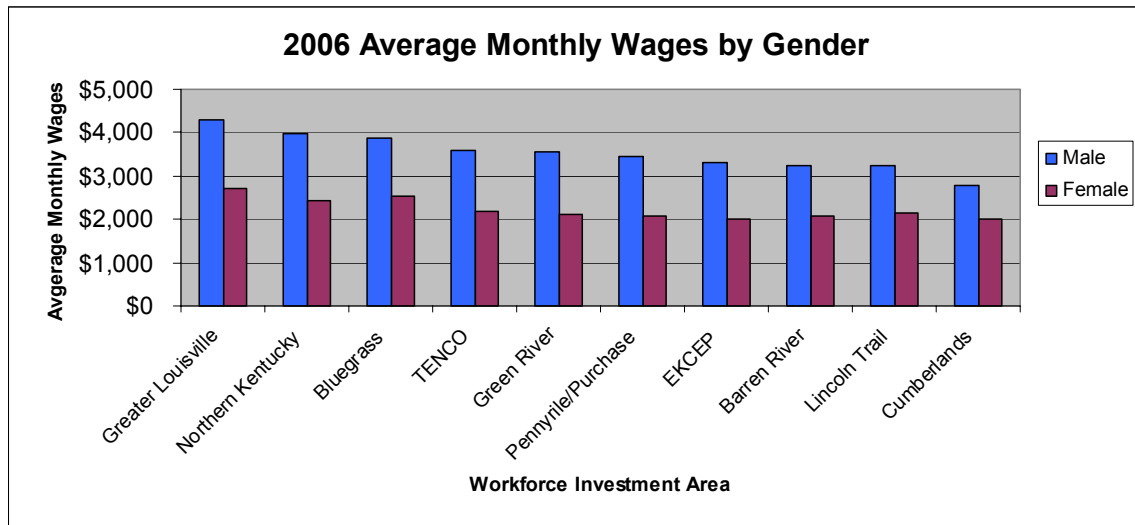
Between 2000 and 2006, the aging of Kentucky's population is exacerbated. During this period, persons under the age of 24 decreased by 0.2%, while individuals between the ages of 25 and 54 grew at a meager 2.1% pace. At the same time, persons 55 years of age and older climbed by a staggering 15.1% rate. 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 2006 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 2006 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 2006. In general, older age groupings exhibited higher percentages of Kentuckians in 2006 than in 1990, while younger age groupings experienced lower percentages of Kentuckians in 2006 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 2006, persons between the ages of 35 and 44 dropped 4.7%. During this same period, individuals between the ages of 55 and 64 exhibited a 27.0% rate of growth.

Since 1990, persons between the ages of 25 and 34 experienced a decline of 6.1%, while individuals between the ages of 45 and 54 exhibited an increase of 61.9%. 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 46.5%, while individuals aged 85 and older rose 43.5%. Persons between the ages of 20 and 24 were the only other age grouping to suffer a decline during this period. The percentage of individuals included in this age grouping dropped 0.1% between 1990 and 2006. The 2.2% regression in this age grouping between 2000 and 2006 outweighed the 2.1% expansion from 1990 to 2000.

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



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

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 contribute to the increase in the gender gap.

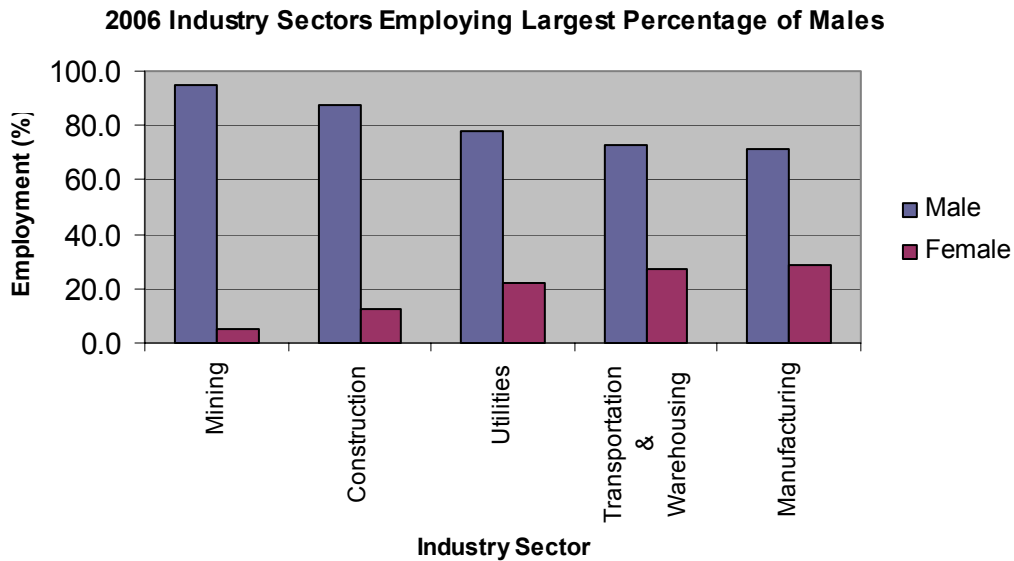
In 2006, the three Workforce Investment Areas (WIAs) with the highest average monthly wages for males are Greater Louisville (\$4,296), Northern Kentucky (\$3,972), and Bluegrass (\$3,880). Likewise, the WIAs with the highest average monthly wages for females are Greater Louisville (\$2,713), Bluegrass (\$2,542), and Northern Kentucky (\$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 Cumberlands (\$2,789), Lincoln Trail (\$3,231), and Barren River (\$3,248). Moreover, in 2006, the three WIAs with the lowest average monthly wages for females are

Cumberlands (\$2,009), EKCEP (\$2,017), and Pennyriple/Purchase (\$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.

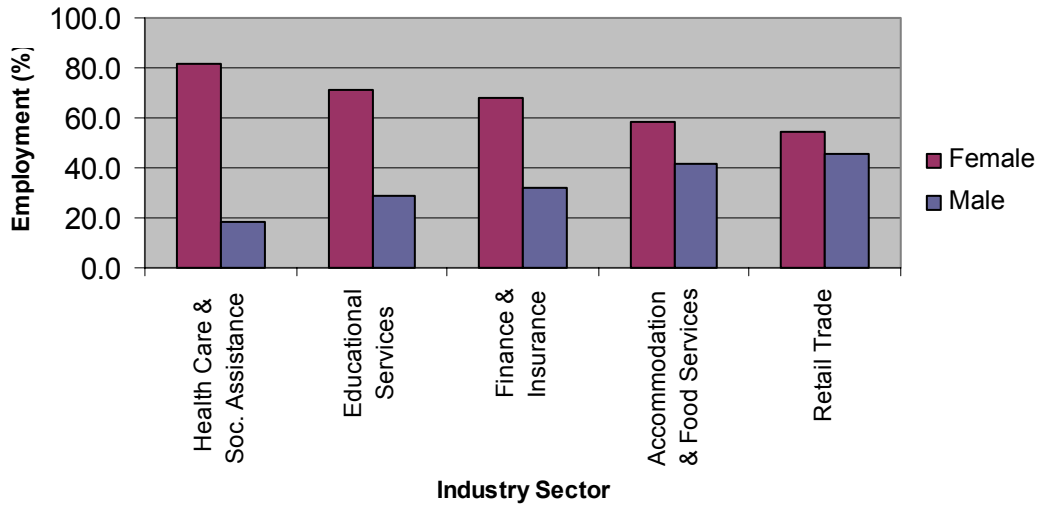
Local Employment Dynamics – Kentucky Industry Sector Employment by Gender (Current Year)



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 and 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 and 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 and 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.

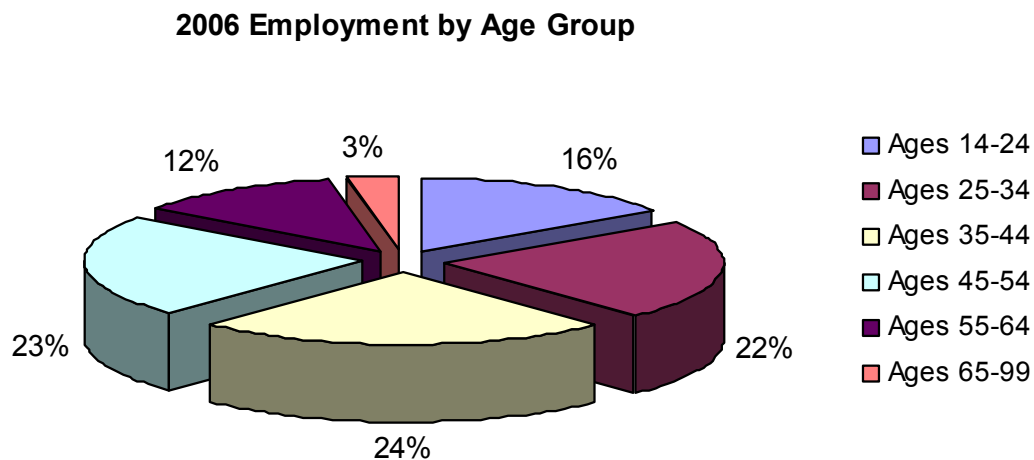
2006 Industry Sectors Employing Largest Percentage of Females



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 and Social Assistance, Educational Services, Finance and Insurance, Accommodation and 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 and Social Assistance sector, \$2,822 in the Educational Services sector, \$4,216 in the Finance and Insurance sector, \$1,046 in the Accommodation and 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 Employment by Age Group (Current Year)

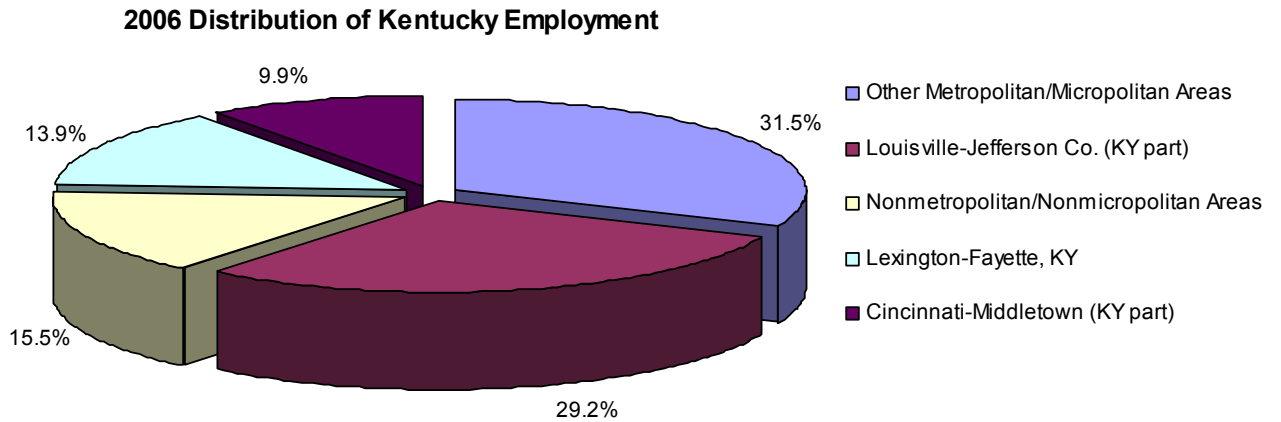


Source: U.S. Census Bureau, Local Employment Dynamics (LED)/Quarterly Workforce Indicators

In 2006, individuals between the ages of 35 and 44 comprised the largest percentage of total employment in Kentucky. Twenty-four percent of the working population was in the age group from 35-44 in 2006, a slight decrease from 25% in 2005. In contrast, the age group from 14-24 experienced a minute increase from 15% of total employment in 2005 to 16% 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 employed Kentuckians in 2006, a minor decline from 70% in 2005. The remaining 16% of the working population in 2006 were below the age of 25.

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



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

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 increased by 0.2 percentage point from 13.7% in 2005.

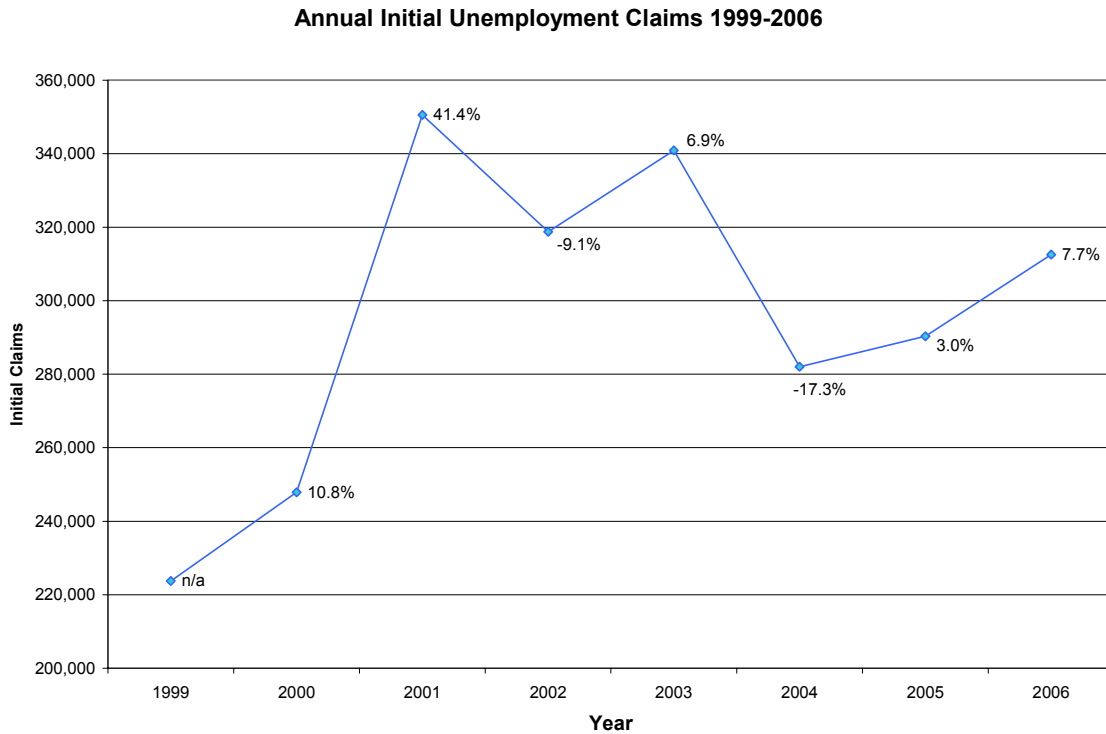
In 2006, the Cincinnati – Middletown MSA accounted for 9.9% of working Kentuckians, an increase of 0.1 percentage point from 9.8% in 2005. The Kentucky segment of the Cincinnati – Middletown MSA encompasses Bracken, Pendleton, Grant, Gallatin, Boone, Kenton, and Campbell Counties.

All other metropolitan and micropolitan areas comprised the largest share of Kentucky’s total employment in 2006. However, the percentage of Kentuckians employed in these locales decreased from 31.7% 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 0.1 percentage point decrease from the 15.6% employed in these regions in 2005.

In 2006, 53% of total statewide employment occurred in Kentucky's three largest MSAs. Employment in these localities increased 0.3 percentage point from 52.7% in 2005. Likewise, the percentage of employed Kentuckians working in metropolitan or micropolitan areas increased by 0.1 percentage point from 84.4% in 2006 to 84.5% in 2006. Thus, Kentucky's employment is increasingly concentrated in its urban centers.

Unemployment Insurance – Kentucky Annual Initial Claims (1999 to 2006)

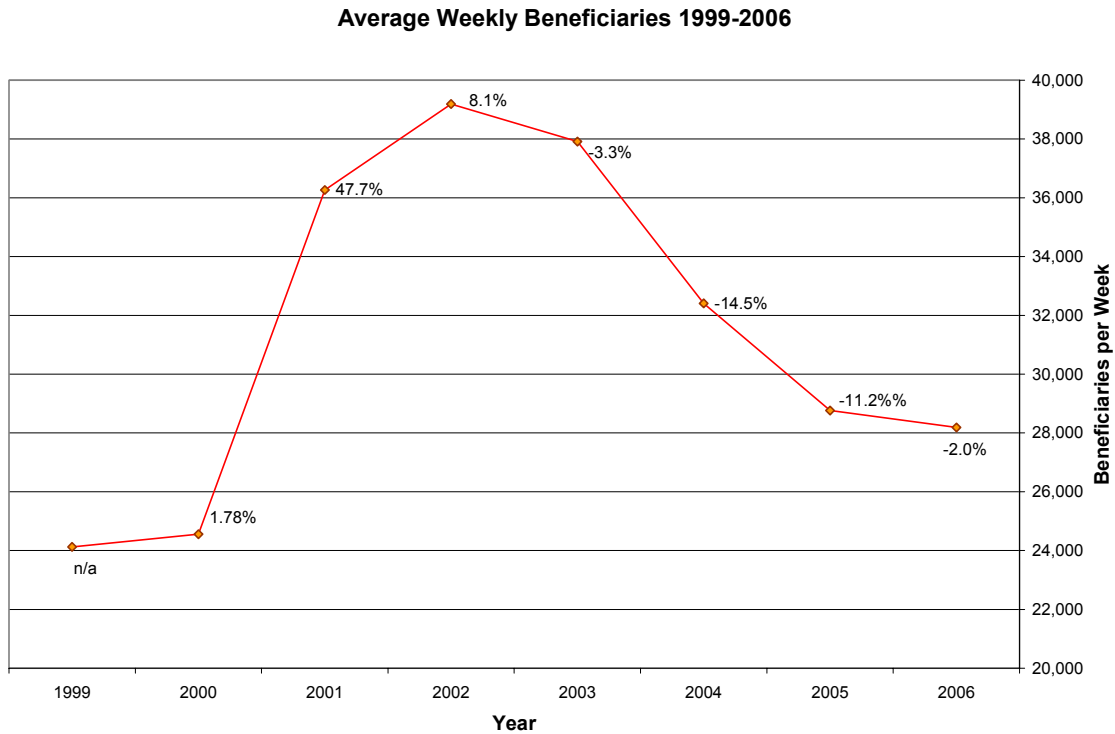


Source: Office of Employment and Training, Unemployment Insurance (UI) Program

In 2006, there was a 7.7% increase in initial claims for unemployment insurance. This is the largest increase in initial claims since 2001, when the Kentucky economy was in the midst of a recession. 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.

Since 2004, there has been an increase in the number of initial claims for unemployment insurance. However, the level of initial unemployment insurance claims in 2006 is less than in 2003. In 2003, there was a similar increase (in terms of magnitude). In that year, the number of initial claims increased 6.9%.

Unemployment Insurance – Kentucky Average Weekly Beneficiaries (1999 to 2006)

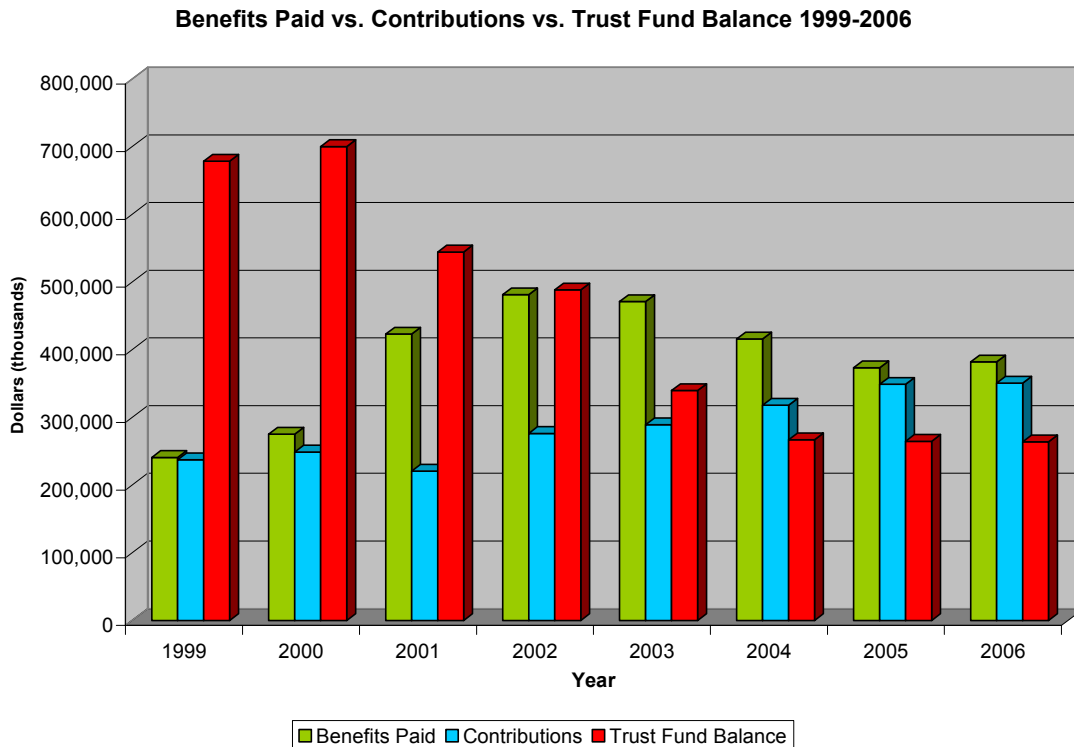


Source: Office of Employment and Training, Unemployment Insurance (UI) Program

During 2006, 1,465,898 weeks were compensated amounting to \$382M dollars in regular unemployment insurance benefits. During each week of 2006, on average, 28,190 Kentuckians were paid unemployment insurance benefits. This represents a 2.0% decrease from the number of average weekly beneficiaries in 2005.

The number of average weekly beneficiaries has declined every year since 2002. However, there was a significant leveling out of the rate of decrease in 2006. This means the number of average weekly beneficiaries may be approaching an inflection point, when the curve shifts from decreasing to increasing. 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 2006)



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

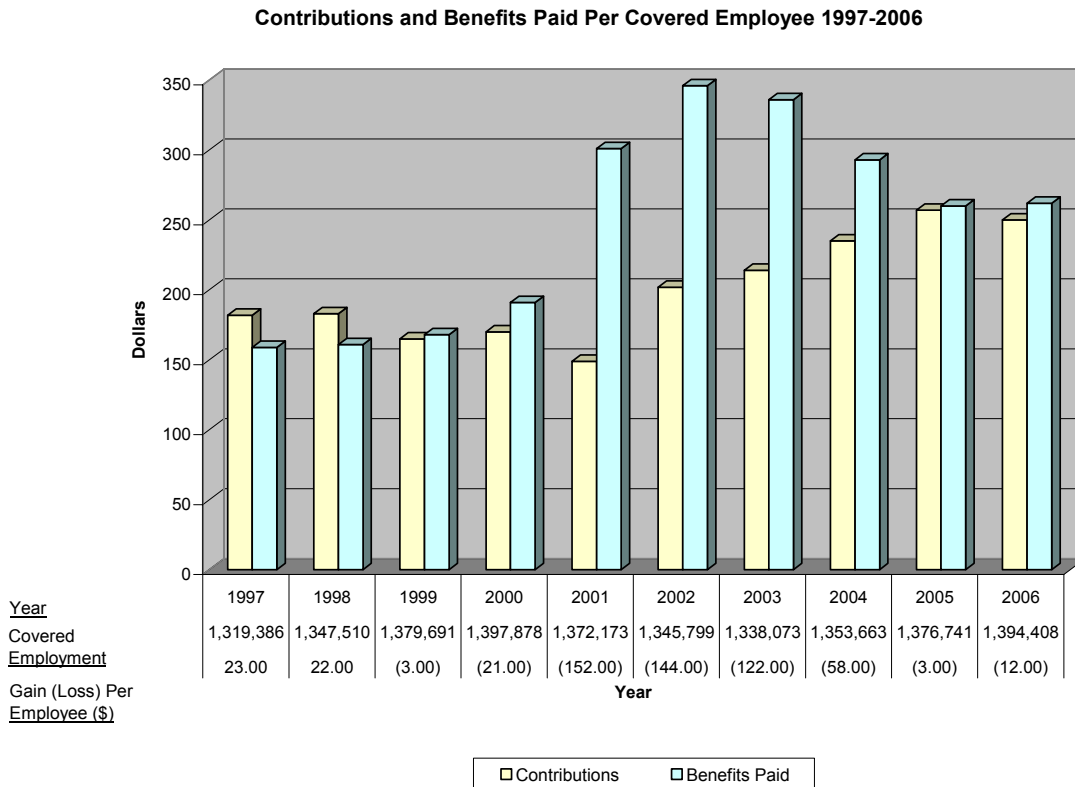
Since 2000, there has been a steady decline in the unemployment insurance trust fund balance from \$700.2M to \$263.9M. In each of these years, the unemployment insurance benefits paid exceeded the unemployment insurance trust fund contributions. This disparity is most pronounced in the period between 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 2001 to 2002, there was an increase in regular UI benefits paid from \$423.2M in 2001 to \$481.3M in 2002. After this, 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 a slight increase in regular UI benefits paid in 2006. However, at \$385.0M, the regular UI benefits paid in 2006 were still \$96.4M, or 20.0%, lower than the peak in 2002. Since 2001, there has been 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. This represents a 58.8% increase over 5 years. This string of increases has not ameliorated Kentucky's trust fund position, which decreased from \$544.3M in 2001 to a low of \$263.9M in 2006. Over the 5-year period, there was a 51.5% decrease in the trust fund balance as benefits paid continued to exceed contributions.

In 2006, there was a slight increase in regular UI benefits paid to \$385.0M from \$373.3M in 2005, a 3.1% increase. At this same time, contributions increased slightly from \$349.0M in 2005 to \$350.7M in 2006, a mere 0.5% increase. In response, Kentucky's UI trust fund balance dipped slight from \$264.6M in 2005 to \$263.9M in 2006, a 0.3% decrease.

Unemployment Insurance – Kentucky Contributions and Benefits Paid per Covered Employee (1997 to 2006)



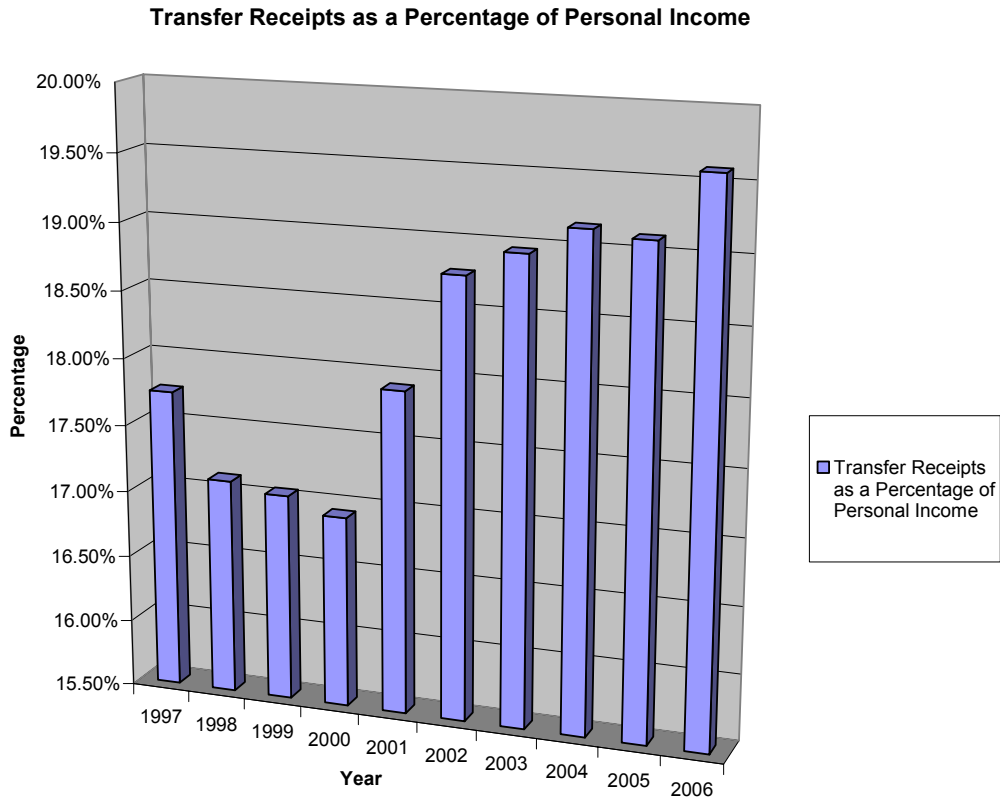
Source: Office of Employment and Training, Unemployment Insurance (UI) Program

Since 1999, on a per covered employee basis, the benefits paid have exceeded the unemployment insurance contributions made. This divergence is 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.

From 2001 to 2005, there has been a steady decline in the magnitude of the loss per covered employee. During this period, there has been a continual drawdown of the UI trust fund. The decline in magnitude merely acts 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. However, it is too early to determine if this is a trend.

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



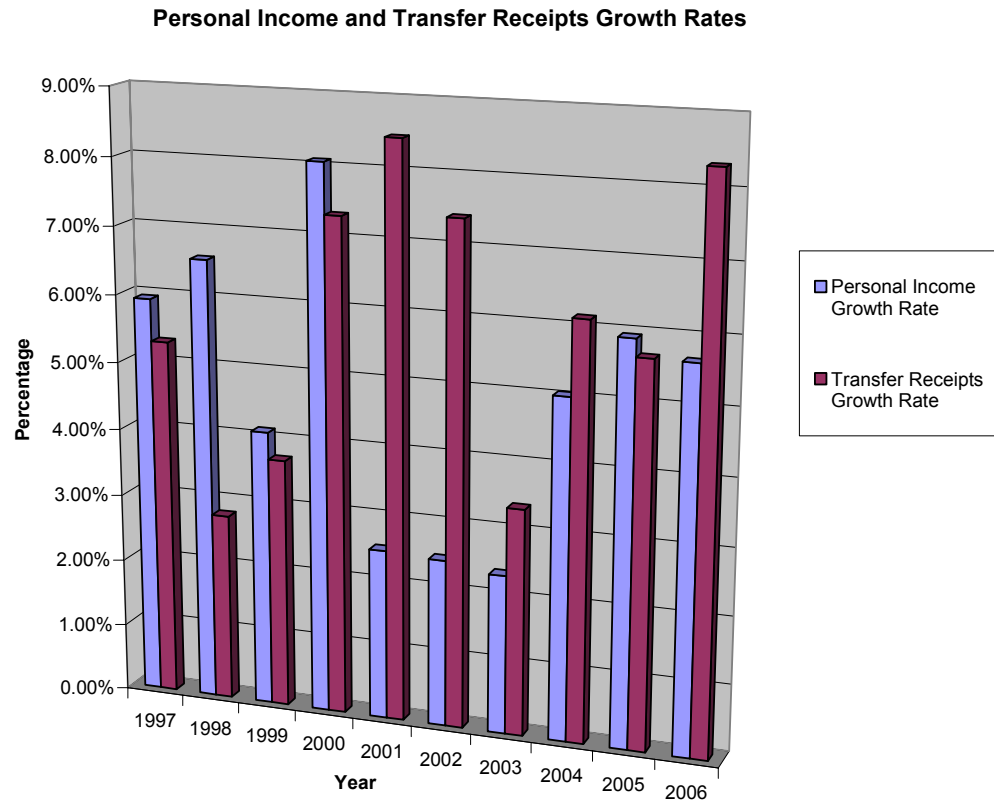
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts

In the last decade, personal current transfer receipts for Kentucky have grown from \$14,627,252,000 in 1997 to \$24,486,548,000. During this same time, personal income for Kentucky has grown from \$82,435,707,000 to \$125,000,728,000.

In looking at personal current transfer receipts for Kentucky as a percentage of personal income, there were two distinct periods. The first period, 1997 – 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 – 2006, 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 2006, there has been a substantial increase in personal current transfer receipts as a percentage of personal income. However, from 2002 to 2004, this increase occurred at a decreasing rate. 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 a modest increase in 2006.

Personal income comprises wage and salary disbursements, proprietors' income, rental income, personal dividend income, personal interest income, and personal current transfer receipts. In 2006, personal current transfer receipts represented 19.6% of personal income for Kentucky. This was a significant increase from 1997 and 2000, when personal current transfer receipts were 17.9% 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

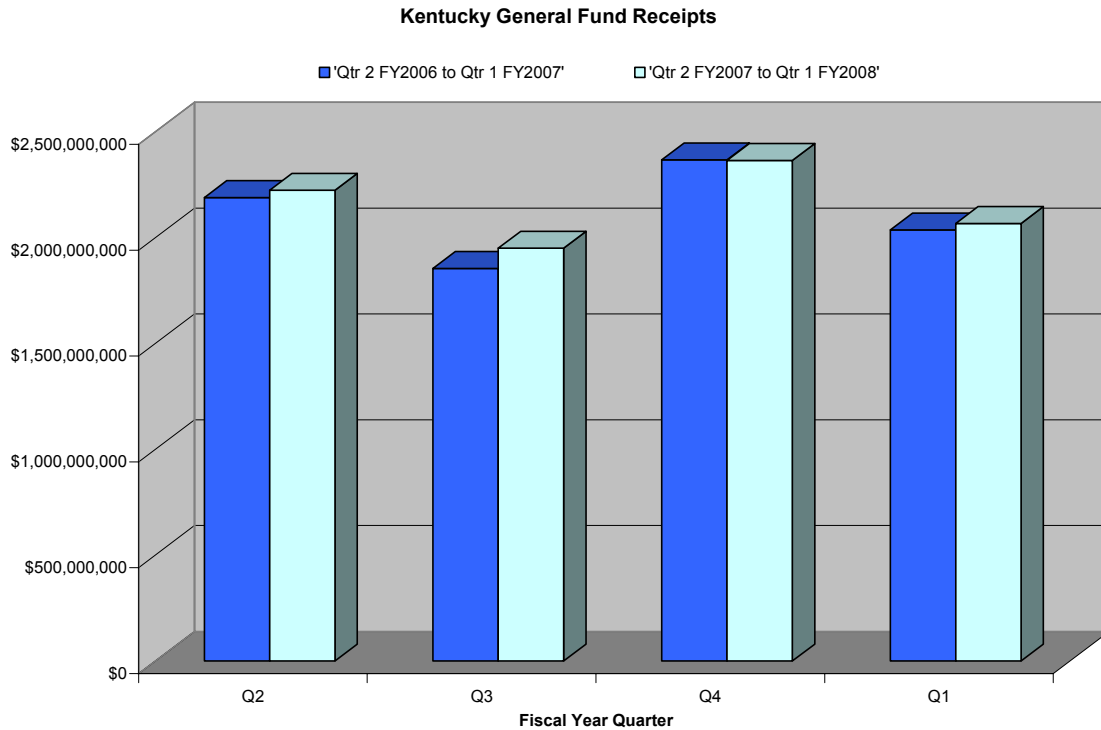
In most years, the growth rates for personal income and personal current transfer receipts for Kentucky were similar. However, there were four notable exceptions: 1998, 2001, 2002, and 2006. During the period between 1997 and 2000, the growth rate for personal income exceeded the growth rate for personal 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, the growth rate for personal income, 5.66%, fell short of the growth rate for personal current transfer receipts for Kentucky, 8.32%. While there was a sizable difference in the growth rates, it was not as pronounced as in 2001 and 2002. The growth rate for personal current transfer receipts was in the same range as in 2001 and 2002. However, the growth rate for personal income in Kentucky was over twice as high as in 2001 and 2002. Thus, while this phenomenon is not fortuitous, it is also not dire. In 2006, Kentucky experienced modest GDP growth at 2.2%.

Tax Receipts – Kentucky General Fund Receipts (Current Year)

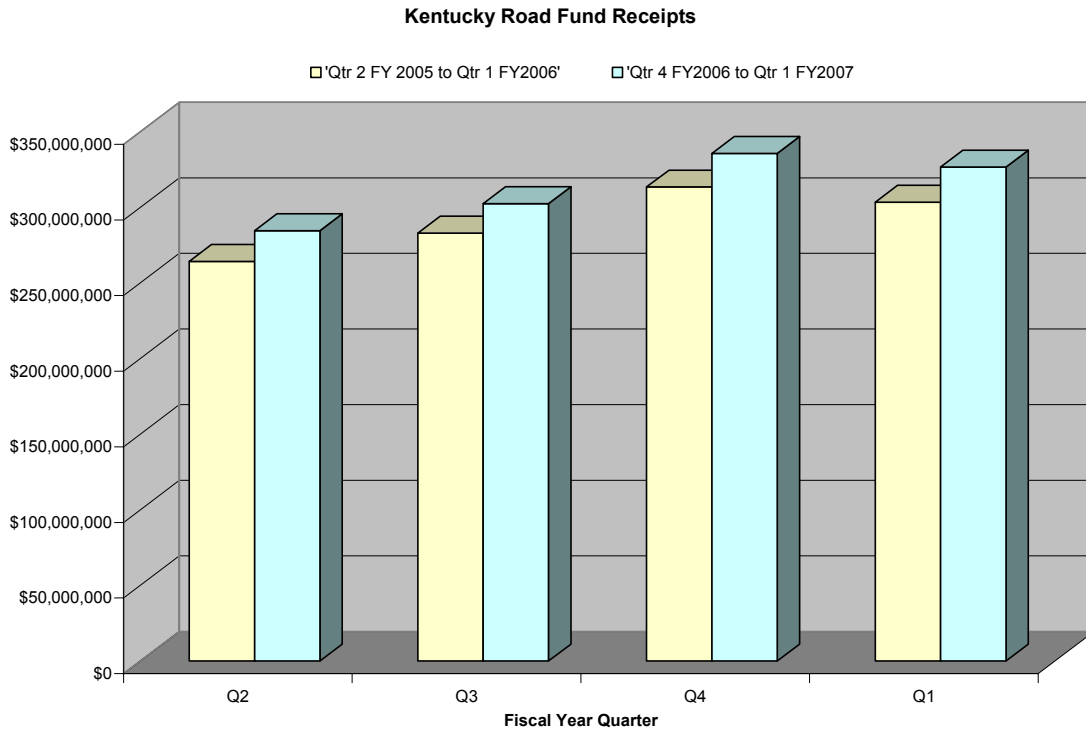


Source: Office of State Budget Director, Quarterly Economic and Revenue Reports and Monthly Tax Receipts Reports

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. Income taxes comprise the largest component of General Fund Receipts, while sales and gross receipts represent the second largest portion. Together these two categories encompass 85% of General Fund Revenue.

General Fund Receipts aggregated to \$8,605.2M for the most recent four quarters. This corresponds to a 1.9% increase from the \$8,446.1M received in the prior four 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 third quarter. In the current four-quarter period, third quarter General Fund Receipts totaled \$1,950.0M. This represents a 5.2% increase over the \$1,854.5M collected in the previous third 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. Sales and gross receipts encompass the largest component of Road Fund Receipts, accounting for 79% of Road Fund Revenue.

Road Fund Receipts summed to \$1,249.3M for the most recent four quarters. This corresponds to a 7.3% increase from the \$1,164.1M 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 represents 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 May. Gasoline taxes in Kentucky are statutorily tied to the price of gasoline; a higher wholesale gasoline price results in higher state motor fuels taxes.

Appendix

Kentucky Workforce Investment Areas



Kentucky 2000 Metropolitan Statistical Areas

