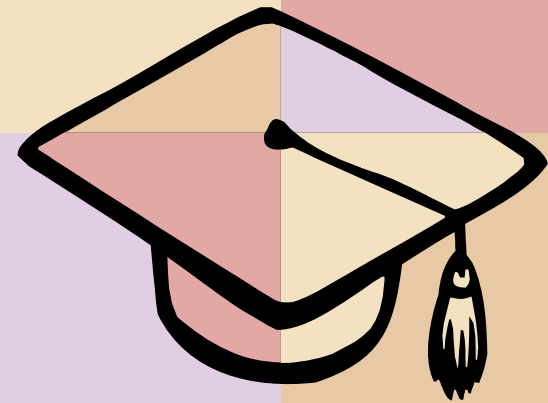


Update on the Financial Condition of the Commonwealth

Bradford L. Cowgill
State Budget Director



SCOPE Meeting
December 13, 2006

Agenda

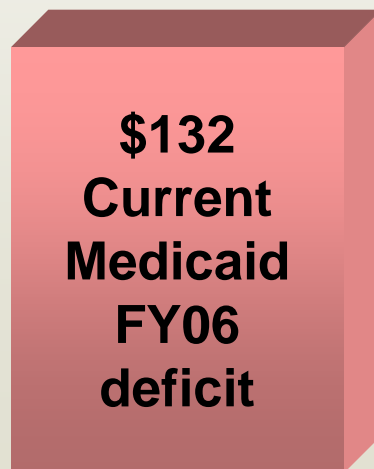
- ✓ How is our economy doing?
- ✓ What are the main features of the current budget?
- ✓ What is the outlook for our revenue?

Kentucky nonfarm employment

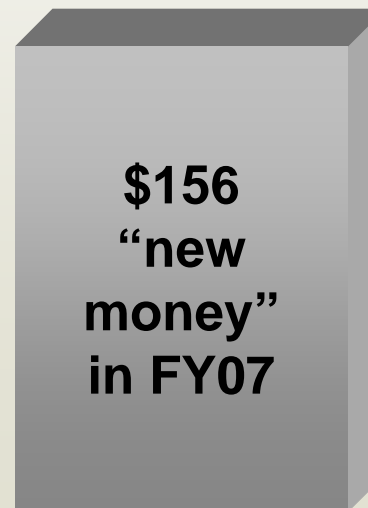


Medicaid could absorb revenue gains

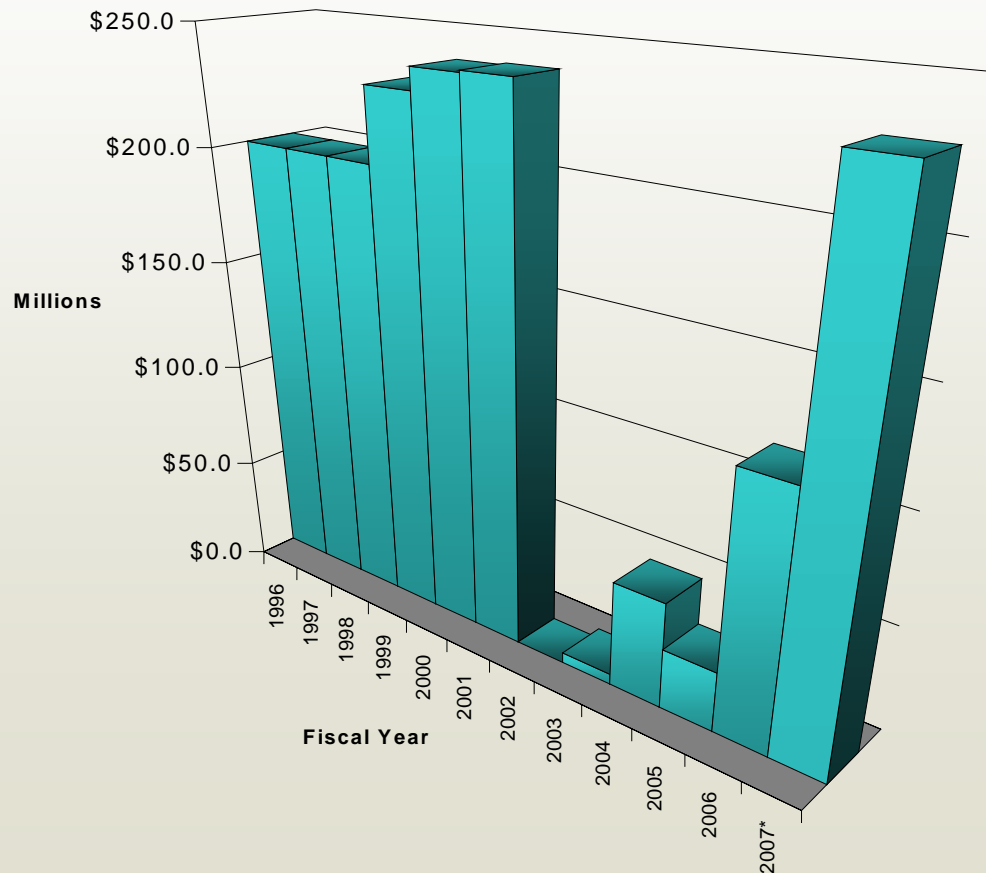
Fiscal Year 2006



Fiscal Year 2007



Rainy day fund returned to earlier levels



- ✓ Current balance is \$231.5 million (shown as FY07).
- ✓ Recent deposit was \$112.5 million (largest in state's history)
- ✓ For previous 11 years, graph depicts fiscal year end balance
- ✓ Current balance represents 2.8% of projected FY07 General Fund receipts (statutory target is 5%)
- ✓ Rainy day fund must occasionally be drawn down to avoid disruption of essential services

Where will **new** money (\$1.4 billion) be used?

Commitments

- ✓ Medicaid
- ✓ Employee benefits
- ✓ Others

\$995 million (70%)

Policy initiatives

- ✓ Education
- ✓ Economic Dev
- ✓ Others

\$420 million (30%)

Where is the \$1.4 billion coming from?

Growth revenue

- ✓ New FY07 - FY08 rev
- ✓ Increased FY06 rev
- ✓ Transfers, other rev

\$978 million (69%)

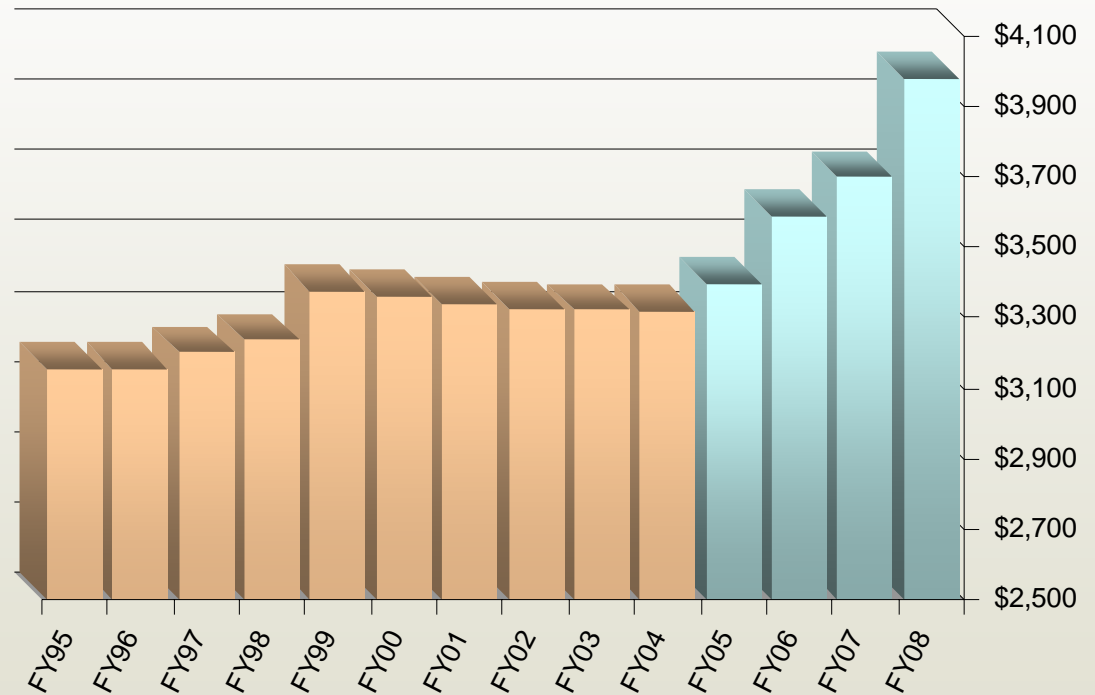
Efficiency savings

- ✓ Saved FY05 surplus
- ✓ Budget stability
- ✓ Cuts to base funding

\$436 million (31%)

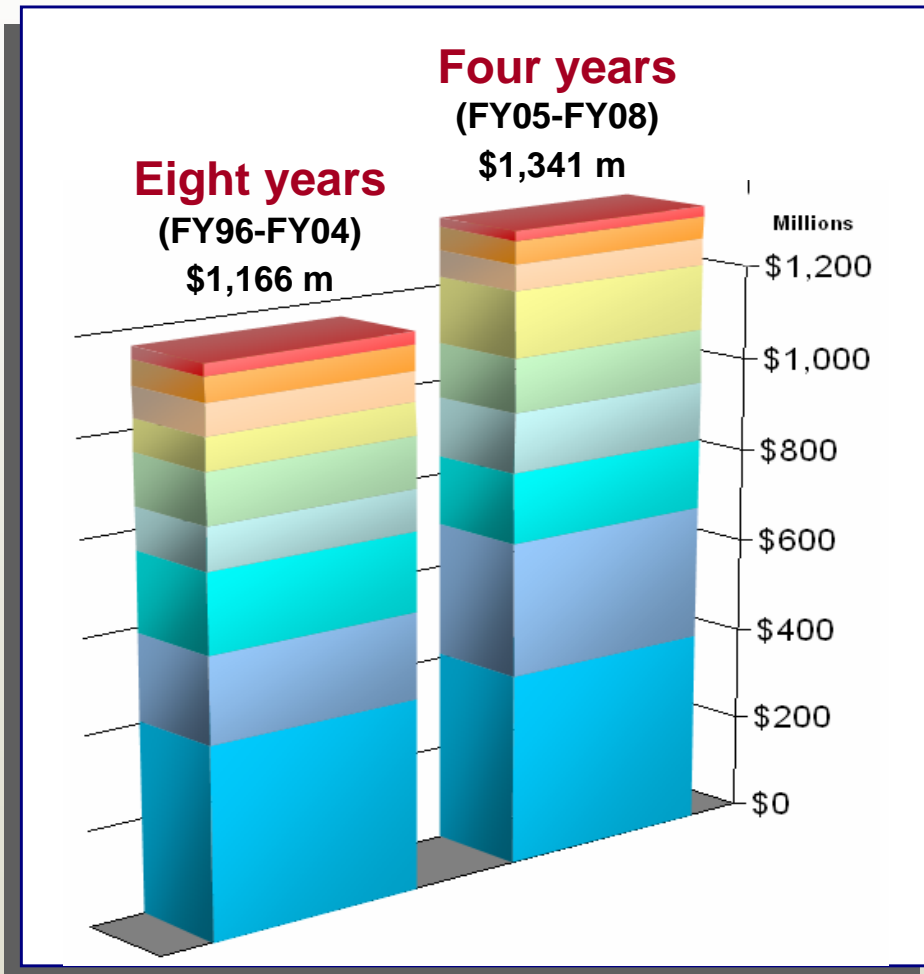
Dramatic rise in total education spending

Aggregate General Fund Education Spending, Inflation Adjusted, in Millions	
FY95	\$ 3,153
FY96	\$ 3,156
FY97	\$ 3,201
FY98	\$ 3,236
FY99	\$ 3,373
FY00	\$ 3,359
FY01	\$ 3,340
FY02	\$ 3,325
FY03	\$ 3,321
FY04	\$ 3,319
FY05	\$ 3,398
FY06	\$ 3,586
FY07 Budget	\$ 3,698
FY08 Budget	\$ 3,976



The Governor's recommended budget for FY07 included \$26 million more than was enacted. The enacted budget for FY08 included \$116 million more than the Governor's recommended budget for that year.

Appropriated bonds for higher education

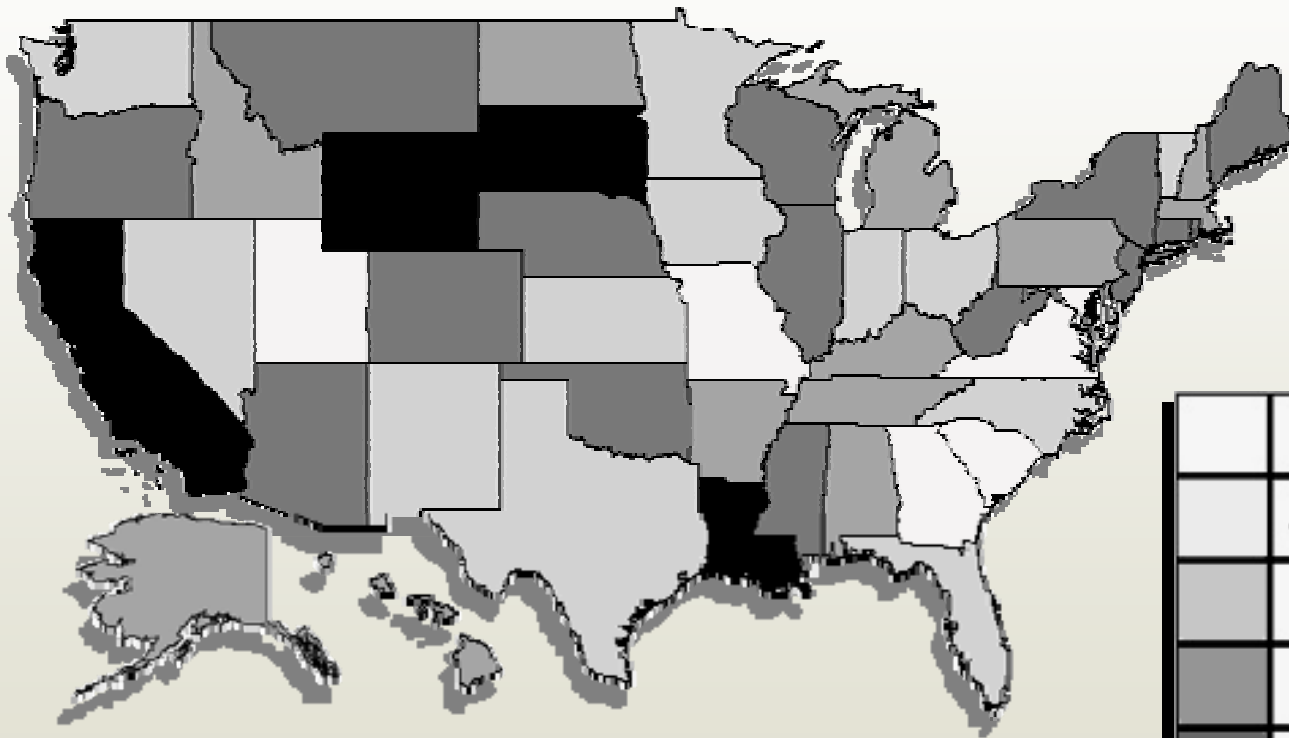


More higher ed bonds have been authorized in the current four years than in the previous eight years

Institution	1996-1998 Budget: 1997 Special Session: 1998-2000 Budget: 2000-2002 Budget: 2002-2004 Budget	2004-2006 Budget: 2006-2008 Budget
KSU	\$25,423,000	\$20,359,000
Morehead	\$51,827,000	\$47,600,000
Murray	\$64,021,000	\$56,154,000
NKU	\$69,487,000	\$137,010,000
EKU	\$107,506,000	\$114,258,000
WKU	\$89,432,000	\$125,750,000
U of L	\$167,900,000	\$147,409,000
KCTCS	\$182,616,000	\$283,050,000
UK	\$407,935,000	\$409,392,000
Total	\$1,166,147,000	\$1,340,982,000

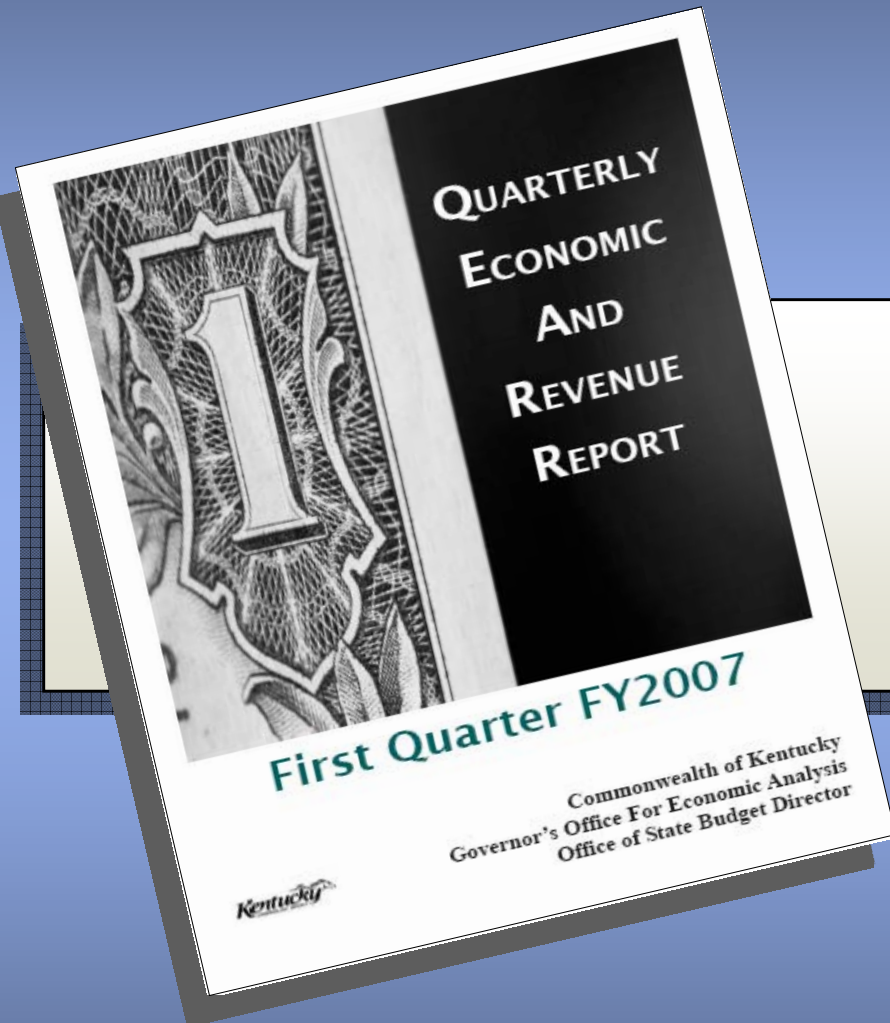
Moody's state ratings

July 17, 2006



Identified are general obligation ratings except for lease ratings (CO, NE, SD) and issuer ratings (AZ, IN, IA, ID, KS, KY, ND).

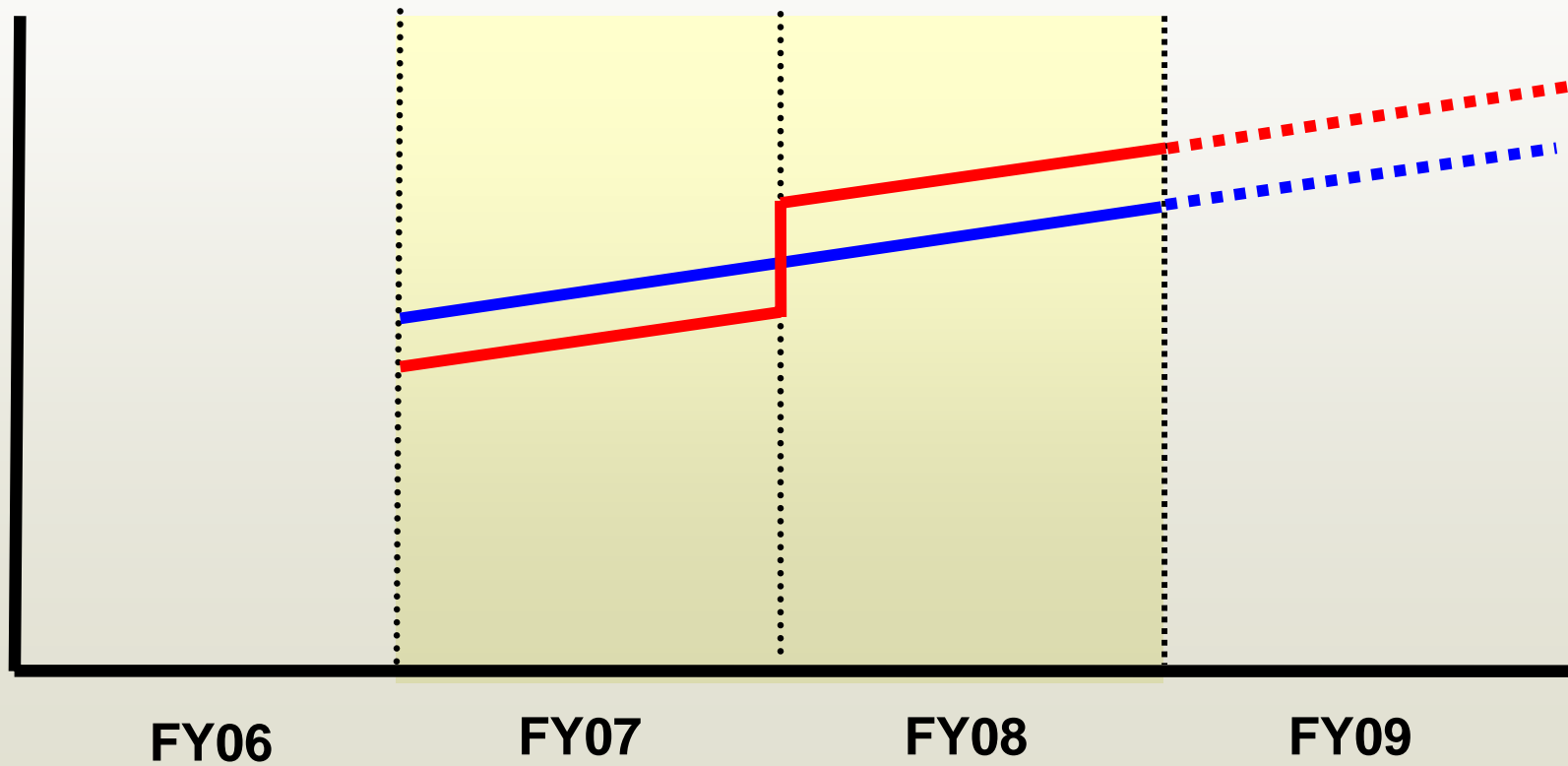
	Rating	No. of States
	Aaa (highest)	7
	Aa1	12
	Aa2	12 (incl. Ky.)
	Aa3	15
	A1, A2 and Not Rated	4



Quarterly report

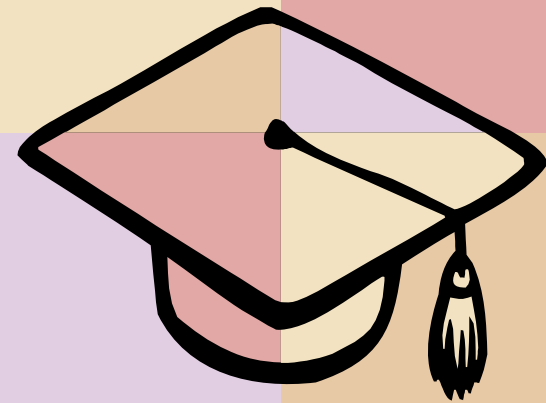
October 2006

Revenue side structural imbalance



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