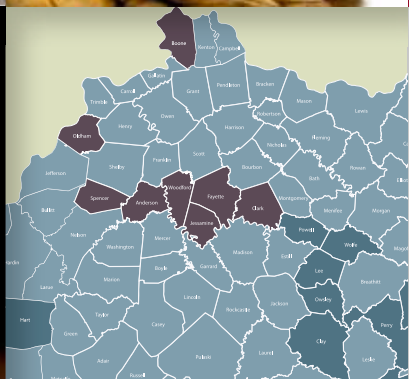




New Agenda for Kentucky First Progress Report 2009





Kentucky Chamber
Uniting Business. Advancing Kentucky.



New Agenda for Kentucky | First Progress Report 2009

INTRODUCTION

The New Agenda for Kentucky was launched in the spring of 2007 by the Kentucky Chamber of Commerce to encourage Kentuckians to look at things in a different way, think creatively about our challenges and opportunities and submit ideas to create an energetic new agenda to move our state forward. The project was guided by a private-sector task force of established executives and young entrepreneurs that used a web site and other strategies to solicit ideas for improving Kentucky.

The task force reviewed the more than 400 submitted ideas and selected the top 100 to create the New Agenda for Kentucky. The final report was presented to Governor Steve Beshear early in 2008. The New Agenda focused on five transformational goals that subsequently provided the foundation for the Kentucky Chamber's strategic plan:

1. Improving the education attainment of Kentuckians at all levels
2. Modernizing government at all levels
3. Promoting wellness and healthy Kentuckians
4. Preparing Kentucky to successfully compete in the global marketplace
5. Expanding Kentucky's role as an energy leader






We were very pleased that ConnectKentucky recognized our efforts to engage Kentuckians through the New Agenda process by presenting the Chamber with its 2008 Corporate Citizenship Award.

This first update of the New Agenda for Kentucky examines the progress Kentucky has made in the past year toward achieving these five goals. The five sections of the update, one for each of the transformational goals, contain four key elements:

- **Situational Review:** An overview of Kentucky's current situation relative to each goal using statistical data to illustrate our status.
- **Significant Developments:** A review of significant developments in both the public and private sectors, including recent national rankings and/or state grades, relating to progress toward the goal.
- **Assessment of Progress:** Kentucky's status is characterized as moving forward, standing still or falling behind.
- **Recommendations for Action:** Finally, each section includes selected policy recommendations from the Chamber's *Bold Steps to Advance Kentucky* to accelerate Kentucky's progress toward the goal.



Here's a quick look at our results:

-  **Education:**
Kentucky's moving forward
-  **Modernizing Government:**
Kentucky's standing still
-  **Health:**
Kentucky's moving forward
-  **Global Competition:**
Kentucky's moving forward
-  **Energy:**
Kentucky's moving forward

We hope that Kentuckians interested in the future of their state will find useful information in this update. We also hope that Kentucky's state officials and civic and business leaders will find this assessment of progress helpful in their continuing work to strengthen Kentucky and its future.

Dave Adkisson
President and CEO
Kentucky Chamber of Commerce





Section 1

Improving the education attainment of Kentuckians at all levels

Kentucky has dedicated much of its public policy attention and resources through the years to education. Beginning with the Kentucky Education Reform Act of 1990, which brought sweeping change to elementary and secondary education, the state has enacted legislation designed to reform, modernize or otherwise improve education at all levels – early childhood, elementary/secondary, postsecondary and adult. The consistent goal of these efforts has been to improve the education attainment and performance of Kentuckians, thereby pulling the state out of the bottom tier in national rankings and creating an educated workforce that generates economic and income growth.

There has been some progress, particularly at the elementary and

secondary level. Kentucky's students score well on national achievement tests in reading and science, although their math performance remains disappointing. The test that the state uses to determine school performance shows academic improvement by all groups of students in all subjects. More students are graduating from the state's two- and four-year institutions, although full-time enrollment has declined.

The Kentucky Long-Term Policy Research Center, in "An Index of Kentucky's Educational Progress," published in the fall of 2007, determined that the state had moved from a national ranking of 43rd in 1992 to 34th in 2005. That ranking had slipped to 35th based on 2007 data. The index was based on the state's performance in 11 indicators.¹

Significant Developments

College tuition levels off: College tuition at Kentucky public universities has been increasing rapidly in recent years. The overall increase at the institutions amounted to an average of 128% during the period from 1998 to 2006 – more than five times the rate of inflation. The Kentucky Council on Postsecondary Education moved in 2009 to moderate this trend by limiting tuition increases to no more than 5%. This was the lowest tuition increase in more than a decade.²

Postsecondary enrollment down: Enrollment calculated on the basis of full-time equivalent students declined by 2.2% from 2006-07 to 2007-08. Kentucky's decline was the fastest recorded in the nation.³

Selected Education Indicators

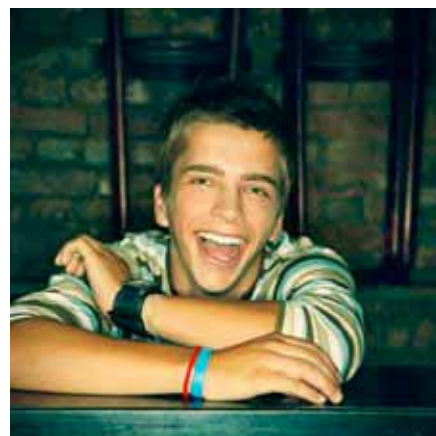
EDUCATION INDICATORS	KENTUCKY	RANK
HS Diploma or Higher	86.0%	43
Two-Year Degree or Higher	33.0%	45
Bachelor's Degree or Higher	24.0%	44
9th-12th Grade Dropout Rates	3.3%*	19
ACT State Composite Score	20.7%	36
8th Grade Math NAEP	27.0%	37
8th Grade Reading NAEP	28.0%	33
8th Grade Science NAEP	31.0%*	22
4th Grade Math NAEP	31.0%	42
4th Grade Reading NAEP	34.0%	27
4th Grade Science NAEP	36.0%*	9

Source: Kentucky Long-Term Policy Research Center

NAEP = National Assessment of Educational Progress

NAEP indicators show percentage of students scoring proficient or higher.

*2006 data used for 2007 dropout rate; 2005 data used for 2007 science scores in 4th and 8th grades



Postsecondary graduation increases: Kentucky's public and independent colleges and universities conferred a record number of degrees, diplomas and certificates in the spring of 2009. The increase was 7% over 2008 and 40% over five years. Doctoral degrees and master's specialists degrees increased by 20% over 2008.⁴

New testing system: Senate Bill 1 was enacted by the 2009 General Assembly, creating a new testing system based on international benchmarks and directing that new standards be developed to deepen students' knowledge.

Drop-out rates improve: Kentucky's drop-out rates fell from 3.34% in 2006 to 3.17% in 2007.⁵

Science and technology graduates: In 2008, Kentucky improved its science and technology rankings over 2007 in the Beacon Hill Institute Annual State Competitiveness Report. Kentucky is currently ranked 44th in science and technology degrees awarded per 100,000 population and 45th in scientists and engineers as a percent of the labor force.⁶

Graduation rates: Kentucky's high school graduation rate was 72% for the class of 2006, exceeding the national average of 69.2%. Broken down by gender and race, Kentucky matched or exceeded the national average in all categories except for African-Americans.⁷

Assessment of Progress toward Goal

Based on the creation of a new testing system reflecting international benchmarks, coupled with increasing graduation rates at the secondary and postsecondary levels, Kentucky is moving forward toward its goals for education attainment.

Recommendations for Progress from the Chamber's Bold Steps to Advance Kentucky

- Promote Guaranteed Affordability Program (GAP) for college students
- Develop and reward effective teachers
- Improve academic achievement and performance
- Improve adult education
- Enhance workforce preparation





Section 2

Modernizing government at all levels

The structure of state and local government in Kentucky is based largely on our 1891 state constitution. The method of organization of city and county government has remained virtually unchanged for more than

115 years. The authority provided to cities to govern themselves, such as the form of local government, ability to raise revenue and fire and police protection, varies by city class (from first class to sixth class cities), with

smaller towns having less authority than larger cities. This system has left many local communities in Kentucky struggling with rising pension and benefit costs that threaten funding for essential services.

Key Government Indicators Compared to Other States

Key Indicator	Kentucky	50-State Average	Kentucky Rank
Total Population	4,206,074	N/A	26
Per Capita Income (2007 Dollars)	\$31,111	\$38,611	46
% of Population With Income Below Poverty Level	17%	13.3%	6
Gross State Product (GSP)	\$154.1 billion	\$13.7 trillion (U.S. total)	27
Total State & Local Spending (2006)	\$29.5 billion	\$2.5 trillion (U.S. total)	28
State & Local Spending Per Capita (2006)	\$7,020	\$8,393	39
State/Local Spending as a % of Personal Income	22.4%	21.5%	19
State (vs. Local) Share of Total Government Spending	74.5%	61.9%	9
State/Local Tax Burden 2008 (% of Personal Income Going to Taxes)	9.4%	9.7%	25
State/Local Debt Per Capita	\$7,725	\$7,367	14
Federal Aid Per Capita	\$1,604	\$1,514	17
Federal Spending Received Per Dollar of Federal Tax Paid (2005)	\$1.51	N/A	9
State Employees Per 10,000 Population	246	176	12
Average State Employee Salary	\$40,990	\$47,343	32
Local Government Employees per 10,000 Population	449	490	38

Sources: U. S. Census; U.S. Bureau of Economic Analysis; Tax Foundation; Governing State and Local Sourcebook

Significant Developments

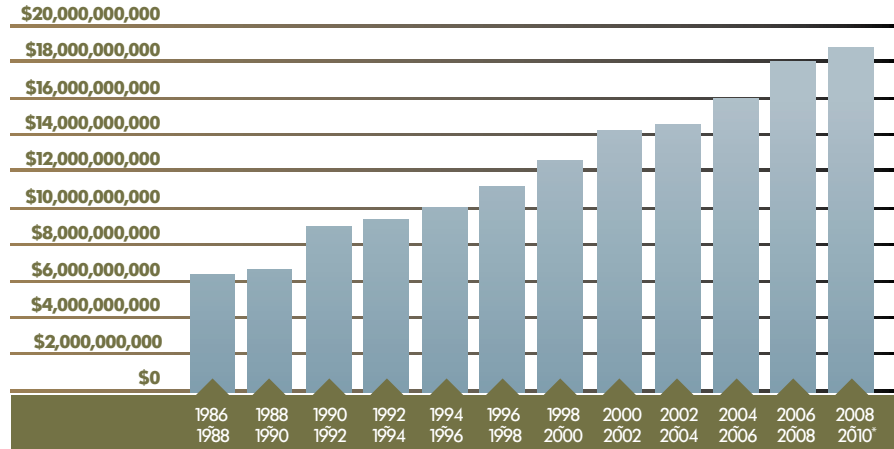
Government spending:

The state General Fund consists of state tax revenue collected by the Commonwealth under general tax laws and appropriated by the General Assembly to finance activities of state government. Since 1986, General Fund appropriations have increased almost three fold, from \$6.54 billion in the 1986-88 biennium to \$18.95 billion in the current biennium, 2009-2010.

Funding priorities are shifting:

Over the past 20 years, the share of the General Fund dedicated to K-12 and postsecondary education has been declining while significant spending growth has occurred in Medicaid, Corrections and public employee health insurance. Since 2000:

Total General Fund Appropriations 1986-2010



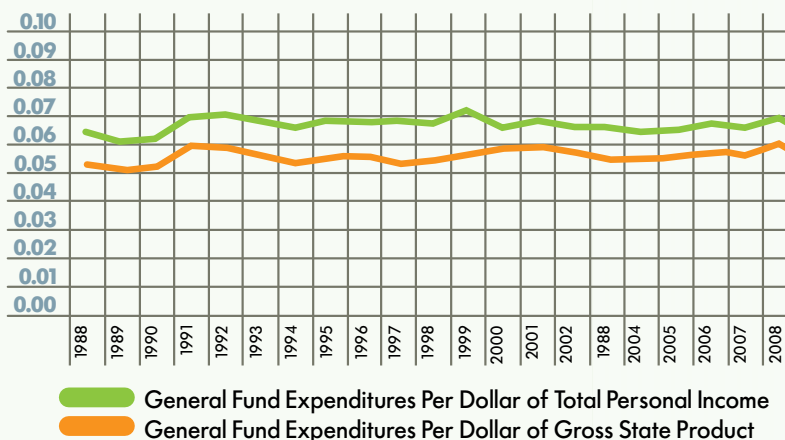
*Reflects March 2009 budget revisions

Source: Enacted state budgets, 1986-88 to 2008-10, Governor's Office of Policy and Management

- The General Fund has grown 33%, from \$14.3 billion to \$19 billion.
- Corrections increased by more than 44%, from \$619 million in FY 2000-02 to \$894 million in FY 2008-10.
- Medicaid increased by more than 67%, from \$1.52 billion in FY 2000-02 to \$2.54 billion in FY 2008-10.
- The per employee cost of health insurance has increased by 146%, from \$221/month in 2000 to \$544/month in 2008.

Size of Government: Compared to the size of Kentucky's economy, the size of state government is as large as it has ever been. This chart demonstrates that Kentucky's current tax structure has been producing revenue over the past 20 years that is tracking the Commonwealth's economic performance.

State Government Expenditures as a Share of the Kentucky Economy



Source: Center for Business and Economic Research, University of Kentucky

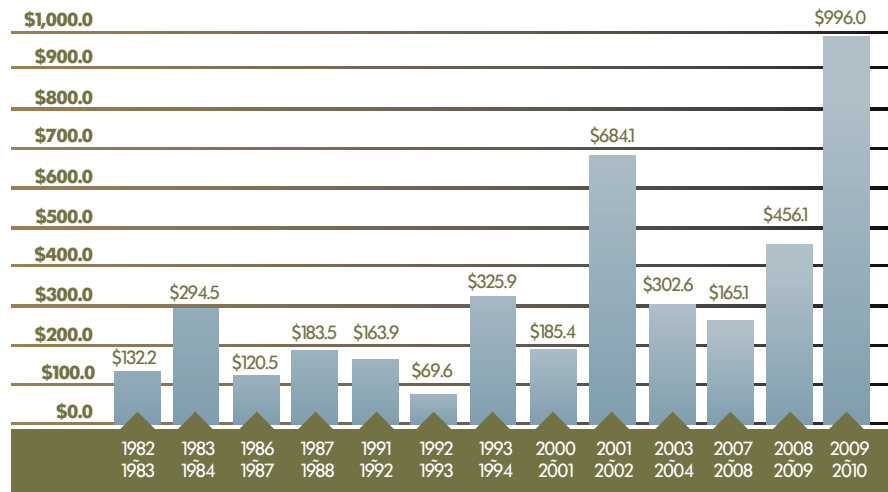




State budget deficits:

Kentucky state government consistently spends beyond its means, resulting in frequent state budget deficits:

History of General Fund Shortfalls (In Millions)



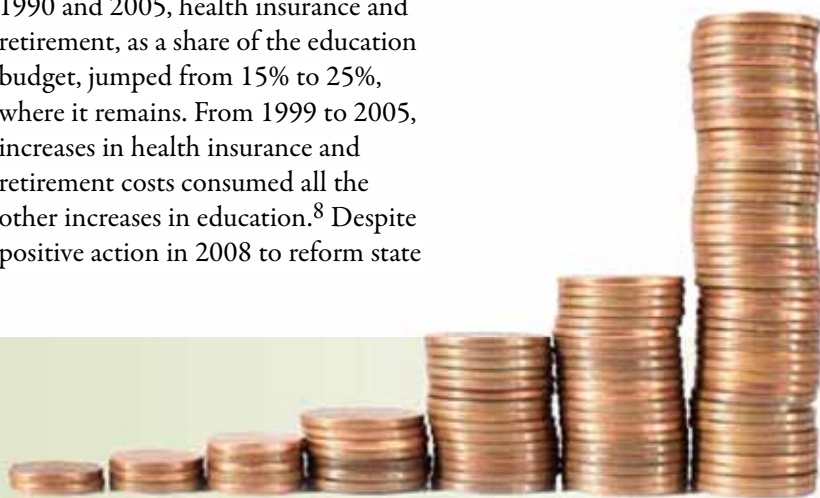
Source: FY 2009 Governor's Budget Reduction Proposal, Governor's Office of Policy and Management, January 13, 2009

Despite positive action in 2008 to reform state pensions by reducing benefit levels for future employees, the system still faces an estimated \$26 billion deficit.

Public employee benefit costs escalating:

Public retirement and health care costs are draining money away from vital programs such as education, and continuing increases place essential services at both the state and local levels at risk. Between 1996 and 2008, health insurance and retirement consumed 50% of all new money appropriated for education. Between 1990 and 2005, health insurance and retirement, as a share of the education budget, jumped from 15% to 25%, where it remains. From 1999 to 2005, increases in health insurance and retirement costs consumed all the other increases in education.⁸ Despite positive action in 2008 to reform state

pensions by reducing benefit levels for future employees, the system still faces an estimated \$26 billion deficit. A 2008 consultant's report also found that pension investment performance has been "unacceptable" compared to peers, losing out on as much as \$5 billion in profits over the past ten years.⁹



Government performance ranking drops:

The performance of Kentucky state government is average when compared with other states, based on a national assessment. The Pew Center for the States periodically grades all 50 states on a number of performance measures (money, people, infrastructure and information) and issues report cards for each state. Kentucky's 2008 overall grade is B minus, the national average. This grade is below the B plus Kentucky received in the last report conducted in 2005. Grades from the 2008 report in specific categories along with strengths and weaknesses in each area are outlined below:

Kentucky State Government 2008 Report Card

B-

ACTIVITY

MONEY:

Long-term Outlook
Structural Balance
Contracting/Purchasing
Financial Control/Reporting

PEOPLE:

Strategic Workforce Planning
Hiring
Retaining Employees
Training and Development
Managing Employee Performance

INFRASTRUCTURE:

Capital Planning
Project Monitoring
Maintenance
Internal Coordination
Intergovernmental Coordination

INFORMATION:

Strategic Direction
Budgeting for Performance
Managing for Performance
Performance Auditing & Evaluation
Online Services & Information

PERFORMANCE

C+

MID-LEVEL

MID-LEVEL

MID-LEVEL

STRENGTH

C+

MID-LEVEL

MID-LEVEL

MID-LEVEL

MID-LEVEL

MID-LEVEL

A-

STRENGTH

STRENGTH

MID-LEVEL

STRENGTH

STRENGTH

B

MID-LEVEL

MID-LEVEL

MID-LEVEL

MID-LEVEL

MID-LEVEL

Source: Measuring Performance, The State Management Report Card for 2008, Pew Center on the States, 2008

Top ten in E-government:

The 2008 Digital States Survey ranked Kentucky seventh in the nation in the use of technology by state governments.¹⁰ The biennial survey is a comprehensive study that examines best practices, policies and progress made by state governments in their use of digital technologies to better serve their citizens and streamline operations. Kentucky has recently launched an e-government web site that gives the public access to state budget, expenditure and contracting information.

Assessment of Progress Toward Goal

Given state budget deficits for three years in a row and the downgrading of state government performance in the Pew Center report, Kentucky is standing still with respect to modernizing government at all levels. (The assessment would have been "losing ground" had it not been for Kentucky's high ranking in the use of technology by state government.)

Recommendations for Progress from the Chamber's Bold Steps to Advance Kentucky

- Promote streamlining of government services
- Address areas of rapid growth in state budget
- Advocate responsible state personnel policies
- Support sustainable state debt levels
- Create a culture of accountability



Section 3

Promoting wellness and healthy Kentuckians

Health Status of Kentuckians

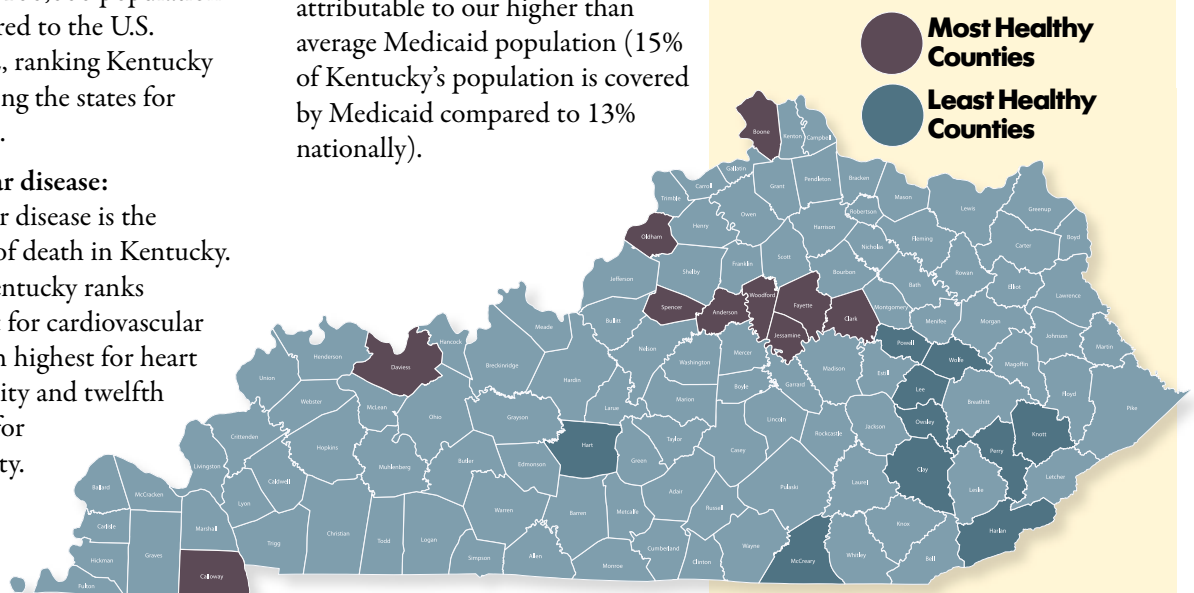
An assessment of the health of Kentuckians prepared by the Institute of Medicine at the University of Kentucky revealed that Kentucky has a number of health-related challenges and leads the nation in a number of grim statistics. Many of these health problems are due to poor lifestyle choices, which lead to preventable diseases and premature deaths:¹¹

- **No. 1 in mortality:** Kentucky has the highest total mortality rate in the United States – 987 per 100,000 population vs. 842 nationally – largely due to high cancer and heart disease death rates.
- **Cancer deaths:** Kentucky's cancer death rate per 100,000 population is 237, compared to the U.S. average of 202, ranking Kentucky the worst among the states for cancer burden.
- **Cardiovascular disease:** Cardiovascular disease is the leading cause of death in Kentucky. Nationally, Kentucky ranks fourth highest for cardiovascular mortality, fifth highest for heart disease mortality and twelfth in the nation for stroke mortality.
- **Obesity:** Kentucky ranks sixth in obesity, with 29% of adults considered obese, compared to a national average of 24%.
- **Dental health:** Oral health is also a concern, with Kentucky ranking eighth in the number of adults who have lost at least one tooth to dental disease.
- **Access to primary care:** Kentucky has 2.5 primary care physicians per 3,500 population, substantially lower than the national ratio of 3.7.
- **Insurance coverage:** The percentage of Kentuckians without health coverage is slightly lower than the national average. Approximately 14% of Kentucky's population under the age of 65 (500,000 people) have no health coverage compared to about 17% nationally. This is primarily attributable to our higher than average Medicaid population (15% of Kentucky's population is covered by Medicaid compared to 13% nationally).

- **High smoking rate:** Until recently, Kentucky ranked No.1 in the percent of adults who smoke. (The state now ranks third in the nation.) Approximately 29% of adult Kentuckians smoke, compared to 21% nationally. An estimated 25% of high school students smoke, compared to 23% nationally.
- **Quality of care:** The quality of overall health care available in Kentucky is also in need of improvement. The National Healthcare Quality Report, produced annually by the U.S. Agency for Healthcare Research and Quality, rates the overall quality of health care in Kentucky as weak (on a scale from very weak, weak, average, strong, to very strong).¹²

The UK study ranked Kentucky's 120 counties based on a number of health indicators. The map below shows the 10 most- and least-healthy counties.

Source: The Health of Kentucky: A County Assessment, Kentucky Institute of Medicine, 2007



Significant Developments

Adult smoking rates drop:

Since the 2007 U.K. report was released, Kentucky improved its national ranking relative to adult smoking – dropping from first to third among the states. Public health officials attribute the drop to higher cigarette taxes and local smoking ordinances.¹³ The Kentucky Chamber supported an increase in the tobacco tax that was enacted by the 2009 Kentucky General Assembly.

Worksite Wellness Toolkit:

The Kentucky Chamber produced a Worksite Wellness Toolkit to help employers start and maintain a cost-effective wellness program. An instant hit, the toolkit has already been downloaded more than 1,000 times from the Chamber's web site, kychamber.com.

Lack of wellness incentives:

Legislation that would have created the Wellness Project Credit to provide state tax credits for employers who establish workplace wellness programs, failed to pass the 2009 General Assembly.¹⁴



Efforts to improve child health:

Gov. Beshear launched an initiative early in 2009 to provide health coverage to an additional 30,000 Kentucky children under the Kentucky Child Health Insurance program (KCHIP). Changes in KCHIP to boost enrollment include simplifying the application process, increasing retention efforts and increasing outreach. More than two-thirds of uninsured Kentucky children are estimated to be eligible, but not signed up, for KCHIP.¹⁵

State health ranking improves:

Kentucky moved six rungs up the ladder, from 43rd to 37th among the states, in the 2008 annual state health rankings conducted by the United Health Foundation.¹⁶ Significant changes cited were a reduction of children in poverty, an increase in public health funding and a reduction in infectious disease. However, the prevalence of obesity has increased by 135% since 1990. The report identified Kentucky's health strengths and challenges.

Assessment of Progress toward Goal

Based on Kentucky's significant improvement in the latest edition of America's Health Rankings, as well as the drop in the adult smoking rate, Kentucky is making progress towards promoting wellness and healthy Kentuckians.

Recommendations for Progress from the Chamber's Bold Steps to Advance Kentucky

- Promote wellness and education to improve overall health
- Incentivize wellness by investing Medicaid dollars to reward healthy lifestyles and wellness
- Reduce smoking and other poor health choices
- Reduce obesity, particularly among children
- Increase the number of health professionals to improve access



Kentucky's Health Strengths and Challenges

STRENGTHS

Low prevalence of binge drinking
Low incidence of infectious disease
High immunization coverage

CHALLENGES

High prevalence of smoking
High rate of cancer/cardiovascular deaths
High rate of preventable hospitalizations

Source: America's Health Rankings, 2008 Edition, United Health Foundation



Section 4

Preparing Kentucky to successfully compete in the global marketplace

The rise of the global economy, fueled in part by the availability of low-wage skilled workers and the development of the Internet, means that quality goods and services are now produced around the globe. Once dominant in the world economy, the U.S. share of the global market has decreased to about 25 percent, and the nation had an annual trade deficit of more than \$677 billion in 2008. Given this profound economic shift, Kentucky's future prosperity rests on its preparation to compete in the global marketplace.

Kentucky's Economy by the Numbers

- **GSP:** Kentucky's economy, as measured by the Gross State Product, is \$154.1 billion per year.¹⁷ Six counties (Jefferson, Fayette, Boone, Kenton, Christian and Warren) account for over half of Kentucky's total GSP.¹⁸
- **Income:** Our per capita income, \$31,111 in 2007 dollars, is ranked 46th among the states by the U.S. Census Bureau, compared to the U.S. average of \$38,611.¹⁹

- **Major Industries:** The four major sectors of Kentucky's economy, constituting over 80% of economic activity, are:²⁰

1. Services	34%
2. Utilities, Trade and Transportation	20%
3. Government and Public Education	17%
4. Manufacturing	34%

- **Exports:** Total exports in 2008 were \$19.08 billion.²¹ Manufactured goods accounted for more than 95% and the rest were primarily agricultural products. Export-supported jobs linked to

manufacturing account for an estimated 6.2 % of Kentucky's total private-sector employment. Nearly one-fifth (19.6%) of all manufacturing workers in Kentucky depend on exports for their jobs.²²

- **Foreign investment:** Foreign companies from 25 countries have invested more than \$27 billion in Kentucky and employ approximately 90,000 workers, more than half in the manufacturing sector. Foreign investment is responsible for over 5% of Kentucky's private sector employment.²³



Significant Developments

Competitiveness ranking has improved:

Kentucky moved up in the 2008 state competitiveness rankings conducted by the Beacon Hill Institute. This annual report ranks states on a number of economic factors and identifies the economic advantages and disadvantages in each state. Kentucky was ranked 39th nationally in 2007 but moved to 38th in 2008.²⁴ Kentucky's competitive advantages and disadvantages were identified as follows:

Kentucky's Competitive Advantages and Disadvantages			
ADVANTAGES	RANK	DISADVANTAGES	RANK
Security (Crime rate)	20th	Fiscal Policy (workers' compensation rates, bond rating, budget deficit, state spending)	44th
Infrastructure (Electricity prices, travel time to work, housing costs)	15th	Human Resources (high school graduation rate, 4th grade math proficiency, health insurance coverage, unemployment rate)	42nd
Business Incubation (low minimum wage, availability of venture capital)	34th	Technology (academic R&D, science and engineering graduates, science & engineers as % of labor force, high technology jobs)	44th
Openness (exports and foreign investment)	19th	Environmental Policy (toxic and carbon emissions)	33rd
Source: State Competitiveness Report 2008, Beacon Hill Institute, Suffolk University			

The ranking on openness gauges how well connected states are to the rest of the world in terms of exports, foreign investment and the percent of the population born abroad. With respect to exports and foreign investment, Kentucky fares substantially better than the rest of the country, ranking 6th in exports per capita and 4th in foreign direct investment per capita. However, Kentucky ranks 45th in the percent of population born abroad, resulting in an overall openness ranking of 19th among the states.²⁵

Business tax climate holds steady:

In its annual State Business Tax Climate Index, the Tax Foundation ranks the overall state tax climate for business in all 50 states based on the impact of five major taxes: corporate, individual income, sales tax, unemployment insurance and property tax. Kentucky's business tax climate, ranked at 34th by the Tax Foundation, remained unchanged from 2008 to 2009.²⁶

Top ten in new and expanding industries ranking:

Site Selection magazine ranked Kentucky 9th in the nation for new and expanded industry activity in 2008-Kentucky's highest score since the rankings began in 1978.²⁷ The Kentucky Economic Development Cabinet reported 279 new manufacturing and expansion projects in 2008 with a total new capital investment of \$1.6 billion creating over 7,700 jobs.²⁸ Notable new projects include:

- A \$70 million U. S. Playing Card manufacturing facility in Erlanger.

- Charles Medley Distillers, a \$25 million project in Owensboro.
- A packaging materials manufacturer, Sealed Air Corporation, invested \$11 million in a Louisville facility.
- Agresti Biofuels invested \$200 million in Pike County to distill ethanol from solid waste.
- Wabash National Corp invested \$26.5 million in Franklin to manufacture semi-trailers.
- An expansion by Akebono Brake in Glasgow that created 105 new jobs.
- A \$25 million expansion by Givaudan Flavor in Florence.



- NPR Manufacturing, a Japanese manufacturer of piston rings, opened a \$48.7 million manufacturing facility in Bardstown.
- Coca-Cola Enterprises opened a new information technology development center in Louisville that will create 35 jobs.
- Bowling Green was the site of a new \$10 million automobile parts facility by American Howa.
- Pliant created 60 new jobs in Danville with an expansion of its packaging products manufacturing facility.

Exports down slightly:

Kentucky exports in total dollars were down slightly from 2007 (\$19.6 billion) to 2008 (\$19.08 billion). The U. S. Census Bureau ranks Kentucky 17th among the states in the dollar value of goods exported in 2007.²⁹ This reduction was also reflected in terms of per capita exports by state, with Kentucky dropping from 7th to 8th among the states.³⁰

International sports events:

The 2008 Ryder Cup, featuring the best golfers from Europe and the U.S., was held at Valhalla Golf Club in Louisville, attracting more than 40,000 spectators and placing Kentucky at the center of international attention. The U.S. team, which included Kentuckians Kenny Perry and J. B. Holmes, recorded its first victory over the European team since 1999. The 16½ to 11½ win posted by the Americans was the largest margin of victory for a U.S. team since 1991.³¹ The 2010 World Equestrian Games, held once every four years, are scheduled to be held at the Kentucky Horse Park – the first time outside

Europe. The 2006 games, held in Aachen, Germany, drew more than 570,000 spectators. The games will be broadcast by NBC Sports and are expected to have a statewide economic impact of \$150 million.³²

Foreign investment remains strong:

The Organization for International Investment Kentucky ranks 19th nationally in the number of employees supported by foreign companies. Kentucky's exports have increased 247% faster than our GSP since 2002.³³

Assessment of Progress toward Goal

Based on Kentucky's slight improvement in its competitiveness ranking and strong performance in attracting foreign investment, Kentucky is moving forward toward successfully competing in the global market.

Recommendations for Progress from the Chamber's Bold Steps to Advance Kentucky

- Increase number of science, technology, engineering and math (STEM) graduates
- Promote a competitive tax code that encourages investment
- Promote an equitable civil justice system
- Develop and maintain infrastructure
- Defend employers against government-imposed costs



The Organization
for International
Investment

Kentucky ranks
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Section 5

Expanding Kentucky's role as an energy leader

For the past 50 years, Kentucky has ranked as one of the top three coal producers in the nation. The state currently ranks third behind Wyoming and West Virginia. The Energy Information Administration reports that Kentucky supplies roughly 10% of the coal used in the United States.³⁴ Our abundance of coal and an efficient system of power generation has also resulted in some of the lowest electric rates in the nation—a plus for households and industries engaged in manufacturing.

Facts about Kentucky Energy³⁵

- The price of electricity in Kentucky remains among the lowest in the country for residential, industrial and commercial use. Only West Virginia, Wyoming and Idaho have lower overall rates.
- Kentucky accounts for about one-tenth of U.S. coal production and approximately one-fourth of U.S. production east of the Mississippi River.
- Nearly one-third of all the coal mines in the nation are found in Kentucky.
- Coal-fired plants typically generate more than 90% of the electricity produced in Kentucky.



- The majority of Kentucky's natural gas demand is supplied by pipelines from the Gulf Coast.
- Kentucky is the fifth largest hydroelectric power producer east of the Mississippi River.
- Kentucky was No. 1 among states with the greatest increase in electricity generation from biomass (energy generated from plants and waste matter) from 2001 to 2006.

While coal production remains strong, rising oil prices and dependence on foreign suppliers have increased interest in the development of alternative sources of energy (synfuels, wind, solar, etc.) as well as the development of energy policies that promote conservation through more efficient use of energy. Although Kentucky is a clear leader in energy production, it lags behind the rest of the nation in the efficient use of energy. With the current national focus on climate change, our heavy reliance on coal to generate electricity makes Kentucky particularly vulnerable to efforts to reduce the effects of burning coal on the environment.





Significant Developments

Coal gasification plant: In 2007, Kentucky granted Kentucky Syngas LLC, a subsidiary of Peabody Energy, up to \$250 million in state incentives to build an estimated \$3 billion synthetic natural gas facility in Kentucky. The project would result in one of the largest commercial coal-to-natural gas facilities in the United States. The subsidies were a result of legislation passed in 2007 that created incentives for alternative energy sources.

Tax credits for renewable energy and energy efficiency:

Legislation enacted in 2008 established a host of state tax credits for homeowners and businesses who install energy-efficient components such as windows, doors, heating and cooling systems, solar heaters, upgraded insulation and wind turbines. The tax credits range from \$100 to as much as \$1000 and are available through 2015.

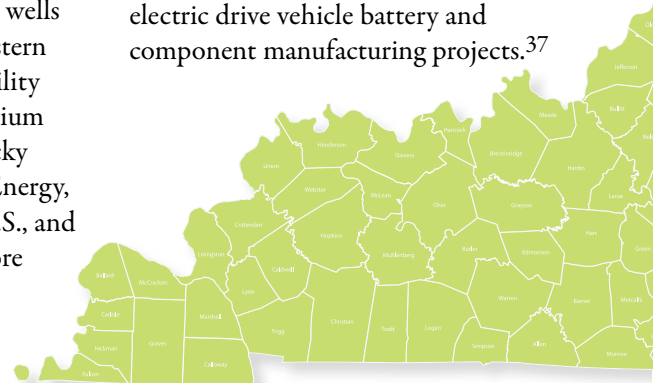
Carbon sequestration advances:

Storing carbon dioxide (CO₂) underground or in water or plants, known as carbon sequestration, holds great promise to reduce the amount of carbon dioxide in the atmosphere. This would be of great benefit to Kentucky's coal industry as CO₂ is a primary product of burning coal, oil and natural gas. The Kentucky Consortium for Carbon Storage, formed as a result of the 2007 alternative energy incentive legislation, is drilling research wells in Kentucky's eastern and western coal fields to assess the suitability for CO₂ storage. The consortium is a partnership of the Kentucky Geological Survey, Peabody Energy, ConocoPhillips and E.ON U.S., and will drill a research well to store CO₂ in Hancock County, pending EPA approval.³⁶

Battery technology on the move:

Kentucky is the site of two major developments in research and manufacturing of batteries for electric cars. A new Battery Manufacturing Research and Development Center is being established in Lexington to conduct research into advanced battery technologies for automobiles. The center is a partnership among the state, the University of Kentucky, the University of Louisville and the Argonne National Laboratory.

In the private sector, the National Alliance for Advanced Transportation Batteries (NAATBatt) has selected a site in Hardin County for its proposed \$600 million advanced lithium-ion battery manufacturing and headquarters complex. NAATBatt is a consortium of more than 50 corporations, associations and research institutions that has submitted a proposal to the U. S. Department of Energy for stimulus funds that have been set aside for electric drive vehicle battery and component manufacturing projects.³⁷

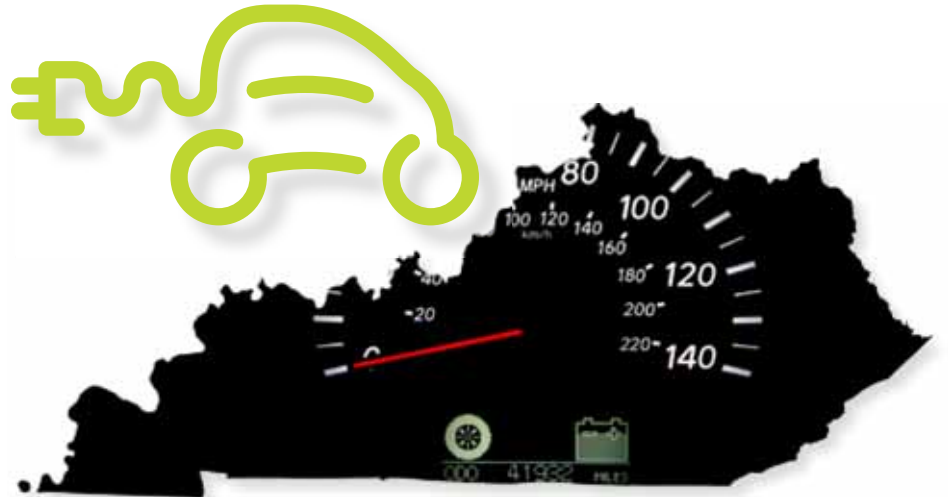


Alternative fuel and renewable energy fund:

A new \$5 million state fund, the Kentucky New Energy Ventures, was launched in 2008 to stimulate investment in Kentucky-based alternative fuel and renewable energy enterprises. Administered by the Kentucky Science and Technology Corporation, the fund will invest in “high-growth potential, early-stage Kentucky-based companies” developing alternative fuels and renewable energy technologies.³⁸

New biorefinery on hold:

Alltech, a leading animal health and nutrition company headquartered in Nicholasville, is planning a \$70 million rural community biorefinery in Springfield. The biorefinery would be one of the first in the nation to use cellulose (made from raw materials such as switch grass, corn cobs, corn stover and other agricultural waste) to produce ethanol and other value-added products. The U. S. Department of Energy has awarded Alltech a \$30 million grant to build the biorefinery, one of only three grants awarded nationwide. Alltech has placed the project on hold, with permission from the DOE, due to the availability of capital as a result of the current financial situation.³⁹



State energy efficiency ranking improves:

The American Council for an Energy-Efficient Economy produces annual state energy efficiency scorecards, ranking states in energy efficiency categories such as building codes, utility efficiency programs, tax incentives, transportation policies and state government practices. The 2008 scorecard ranked Kentucky 31st among the states, four spots better than its 2007 ranking of 35th, a significant improvement primarily due to new state incentives.⁴⁰

“Clean” job growth:

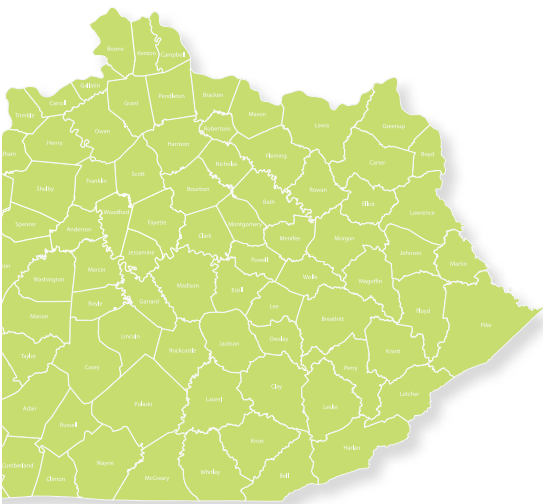
A recent report by the Pew Charitable Trusts found that the growth rate of “clean” energy jobs in Kentucky outpaced total job growth in our economy. Clean energy jobs were measured in five categories: clean energy production; energy efficiency; environmentally friendly production; conservation and pollution mitigation; and training and support.⁴¹

Assessment of Progress toward Goal

Given Kentucky’s improved state ranking in energy efficiency, new state energy-efficiency incentives, as well as the development of significant public/private projects in coal gasification, carbon sequestration and battery research and development, Kentucky is moving forward toward expanding its role as an energy leader.

Recommendations for Progress from the Chamber's Bold Steps to Advance Kentucky

- Utilize Kentucky coal as key source of energy
- Promote conservation and efficiency measures
- Support biomass initiatives and alternative energy
- Invest in clean technologies





Endnotes

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