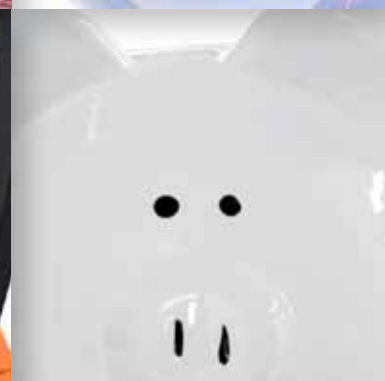
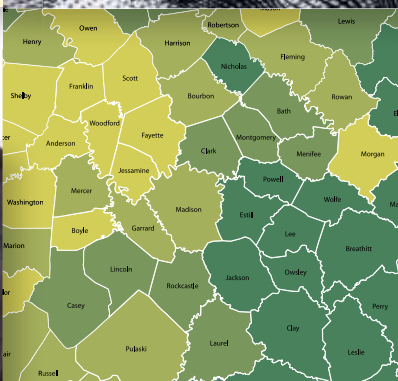
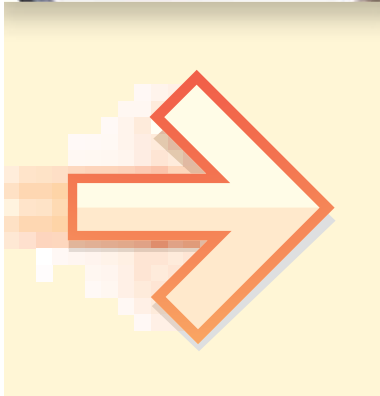
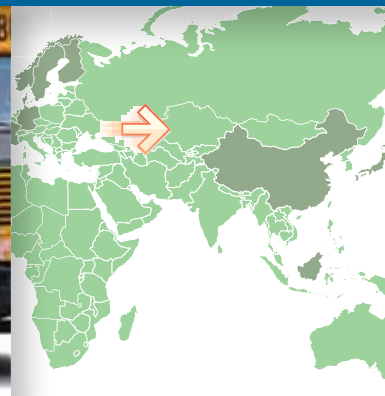
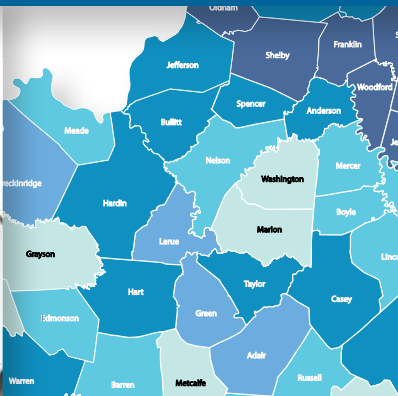




New Agenda for Kentucky 2010 Progress Report





Kentucky Chamber
Uniting Business. Advancing Kentucky.



New Agenda for Kentucky | 2010 Progress Report

INTRODUCTION

The New Agenda for Kentucky, released in early 2008, has become the foundation of the strategic plan for the Kentucky Chamber of Commerce. As such, it reflects the Chamber's organizational and policy priorities in its efforts to make Kentucky an even better place to live and work.

The New Agenda initiative was conceived as an effort to encourage Kentuckians to think creatively about the state's challenges and opportunities and to share ideas on ways to move our state forward. Guided by a private sector task force of established executives and young entrepreneurs, the initiative attracted hundreds of ideas from across the state. The task force selected 100 top ideas to include in the New Agenda, focusing on five transformational goals that are now the foundation of the Chamber's strategic plan:

1. Improving the education attainment of Kentuckians
2. Modernizing government
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

The Kentucky Chamber released the first progress report on the New Agenda in 2009, looking at developments in the Commonwealth during the preceding year that were related to the five goals. This 2010 report continues in the same fashion, updating Kentucky's progress in the past year. 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 the public and private sectors, including recent national rankings and/or state grades, relating to progress toward the goal.
- **Assessment of Progress:** A characterization of Kentucky's status as moving forward, standing still or falling behind.
- **Recommendations for Action:** Selected policy recommendations from the Chamber's current legislative agenda to accelerate Kentucky's progress toward the goal.

Despite the tough economy in the past year, we were pleased to find significant progress in several areas:

-  **Education:** Moving forward
-  **Modernizing Government:** Moving forward
-  **Health:** Standing still
-  **Global Competition:** Moving forward
-  **Energy:** Moving forward

Our purpose in preparing this update is to provide Kentuckians – both citizens and elected leaders – with meaningful data that will enable them to assess the state's progress and identify areas that need more attention as we work to build a stronger future.

Dave Adkisson
President and CEO
Kentucky Chamber of Commerce





Section 1

Improving the education attainment of Kentuckians at all levels

The past year brought what many long-time observers describe as the most significant changes to Kentucky education since the 1990 passage of the Kentucky Education Reform Act.

Legislation enacted by the 2009 General Assembly requires Kentucky to upgrade its standards – what students learn – to prepare students for college, work and global competition. New tests will be given, starting in the spring of 2012, to measure how well students and schools are performing under the revamped system.

The legislation established the foundation for Kentucky's subsequent work with 47 other states to develop common standards to ensure that students across the country will

be educated at the same level – a transformational change for the nation's schools. The standards also are benchmarked against what students learn in countries whose education systems rank as the best in the world.

Kentucky became the first state in the country to adopt the new standards



early in 2010, giving rise to optimism about what lies ahead for the students whose knowledge and skills are so critical for the state's future.

Meanwhile, the state continues to make progress compared to its performance in earlier years. The Kentucky Long-Term Policy Research Center's "Index of Kentucky's Educational Progress," published in May 2010, concluded that the state had moved from a national ranking of 43rd in 1992 to 32nd in 2009. The index was based on the state's performance in 11 indicators.¹

Another report from the Long-Term Policy Research Center found that Kentucky's investments in K-12 education have some of the highest returns in the nation when the obstacles facing our students are considered. The conclusion was based on Kentucky students' strong performance on national tests despite such barriers to learning as family poverty, parental education, health status, disability rates and missed school days.²

Education Indicators for Kentucky and National Rank, 2009

EDUCATION INDICATORS	KENTUCKY	RANK
HS Diploma of Higher*	87%	42
Two-Year Degree or Higher*	34%	45
Bachelor's Degree or Higher*	24%	45
9th-12th Grade Dropout Rates**	3%	12
ACT State Composite Score	19.4	48
8th Grade Math NAEP***	27%	38
8th Grade Reading NAEP	31%	19
8th Grade Science NAEP ⁺	31%*	22
4th Grade Math NAEP	37%	35
4th Grade Reading NAEP	36%	11
4th Grade Science NAEP ⁺	36%*	8

Source: Kentucky Long-Term Policy Research Center

NAEP = National Assessment of Educational Progress

*Percentage of adults 25 to 64 years old

2007 data*The six NAEP indicators show percentage of students scoring proficient or higher

+ 2005 data



Significant Developments

College transfer made easier:

Legislation that would make it easier for community college students to transfer to four-year public universities was enacted by the General Assembly. The measure requires the Kentucky Community and Technical College System to align its arts and science courses with bachelor's degree programs at the universities. It also prohibits the universities from requiring KCTCS graduates to repeat or take additional lower-level courses in the same major. The law will take effect for first-time students in the 2012-13 school year.³

Tuition caps continue:

The Kentucky Council on Postsecondary Education set tuition and mandatory fee ceilings for in-state undergraduate students for the 2010-11 academic year – continuing its effort to moderate the spiraling cost increases that occurred in the previous decade. The Council authorized a 4% ceiling for the Kentucky Community and Technical College System, a 5% ceiling at the six comprehensive, or regional, universities and a 6% ceiling at the University of Kentucky and University of Louisville.⁴

Postsecondary graduation increases:

An historic number of degrees and credentials were conferred during the 2009-10 academic year: an estimated 57,247. The degrees, awarded by the state's public and independent colleges and universities, included gains at the associate's, bachelor's master's and professional doctorate levels.⁵

Financial aid effort falters:

The General Assembly failed to act on legislation that would have simplified student financial aid programs and helped ensure affordability of postsecondary education through an approach that shares the financial responsibility among students, families, institutions and the state. The measure also would have changed the state scholarship program (KEES) to reward students who make better grades.

Student performance improves:

The latest scores from the National Assessment of Educational Progress, sometimes called the nation's report card, show Kentucky students performing well. Our 4th graders outscored the nation on the 2009 reading test and tied the nation on math. Kentucky was one of only three states that registered a statistically significant increase in 4th-grade reading scores from 2007 to 2009. Kentucky's 8th-grade students also outscored the nation in reading in 2009 but scored below the national average in math.⁶

Dropout rate improves, but age unchanged:

Kentucky's drop-out rate declined to its lowest level since the state began the current tracking method 15 years ago, falling from 3.3% in 2008 to 2.9% in 2009. The biggest decline came in the drop-out rates of Hispanic students (down to 4.1% from 6%) and African-American students (down to 4.9% from 6%).⁷

Meanwhile, an effort to keep students in school and working toward a diploma until the age of 18, instead of 16, failed to win the approval of the General Assembly.

Graduation rate slips:

Although more high school graduates are entering college (56.4% in 2009 compared to 55.2% the previous year), the state's graduation rate declined to 83.9% in 2009 from 84.5% in 2008.⁸

Assessment of Progress toward Goal

Kentucky's adoption of internationally benchmarked academic standards, the continued improvement in students' academic performance and positive changes at the postsecondary level mean that Kentucky is **making progress** toward the goal of improving education attainment.

Recommendations for Progress

- Simplify financial aid programs to make college affordable for all students
- Develop and reward effective teachers
- Increase the compulsory school-attendance age to 18
- Prepare students for global competition
- Require school councils and superintendents to collaborate on hiring principals
- Invest in early childhood education and development
- Enhance workforce preparation



Section 2

Modernizing government at all levels

With an annual budget of more than \$29 billion in combined federal and state funds in fiscal year 2010-2011, state government is a major force in Kentucky's economy, both in terms of the taxes it collects and the money it spends on services and public employee salaries. The economic downturn has reduced state revenues, generating proposals to raise taxes on Kentuckians and the businesses that employ them. Deciding to take a look at the state's revenue situation from the spending side, the Kentucky Chamber launched a research initiative in 2009 to examine trends in state spending over the past decade.

The results were enlightening and revealed that Kentucky's spending priorities are shifting away from education and toward such high-growth areas as Medicaid, corrections and public employee health benefits.

Plugging the "Leaky Bucket"

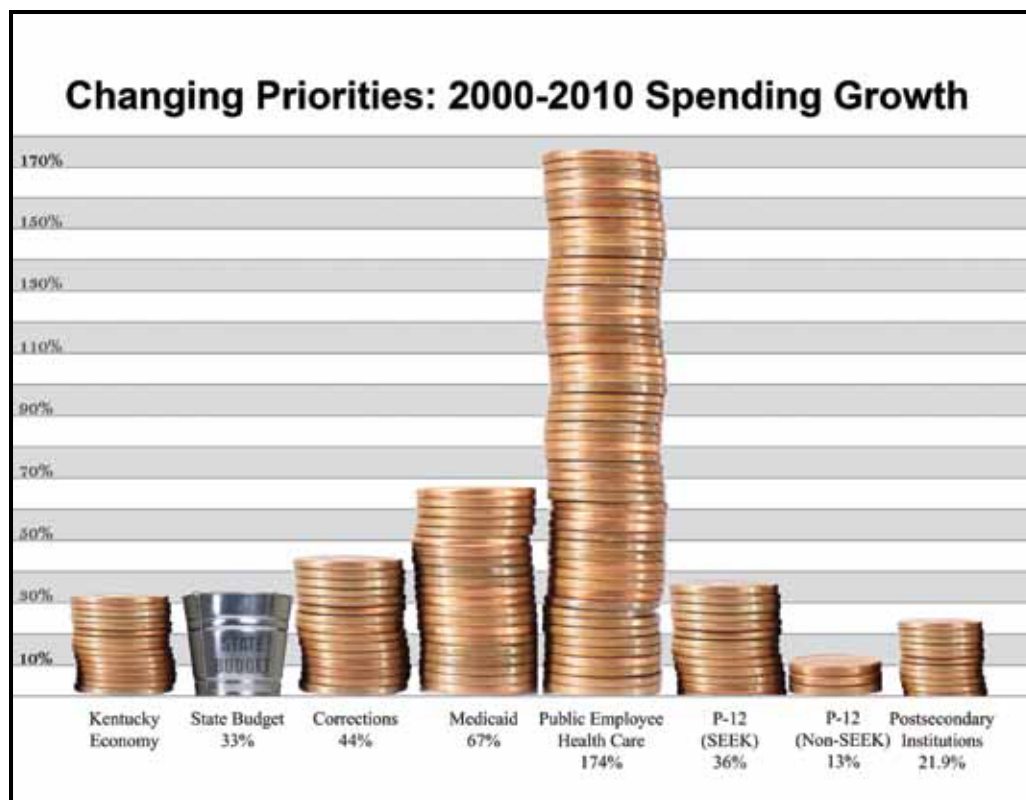
The Chamber's research revealed a "leaky bucket" of state revenue — a vessel that can never be filled because of unsustainable spending growth in those three major areas. As illustrated in the chart below, spending in corrections, Medicaid and public

employee health benefits is growing faster than the state budget overall and the state economy.

In fact, more than half of the growth in the state budget since 2000 has been in those three areas. One result of this rapid growth is that education's share of the budget has declined. Spending for elementary and secondary education has fallen from more than 48% of total state General Fund spending in FY 1986-88 to 43%. Similarly, the share devoted to postsecondary education has decreased from 16.9% to just 13% over the same period.⁹

The Kentucky Chamber made a

Changing Priorities: Kentucky Spending Growth 2000-2010



Source: *The Leaky Bucket*, Kentucky Chamber of Commerce, 2009

General Fund Savings in FY 2010-12 Kentucky State Budget

PROGRAM AREA	AVERAGE ANNUAL GENERAL FUND SAVINGS
Corrections	\$15 Million
Medicaid	\$15 Million
Public Employee Health Insurance	\$47 Million
Size of Government (Reduction in Contracts, Political Appointees & General Fund Expenditures)	\$149.9 Million
Total Savings from Spending Reductions	\$226.9 Million

Source: Enacted state budget (10 SS HB 1)

number of detailed recommendations to address this unsustainable state spending, and the 2010 Kentucky General Assembly responded positively by including several significant provisions in the state budget:

- **Corrections:** Efficiencies in corrections were budgeted at a savings of \$15 million per year, and authorization was included to engage the Pew Center on the States to conduct a review of

Kentucky's corrections system and penal code to identify additional savings.

- **Medicaid:** Savings from mandated efficiencies in Medicaid were budgeted at \$15 million per year, and a study of cost savings in Medicaid was authorized.
- **Public Employee Health Insurance:** The growth in public employee health insurance was slowed with a \$47 million per year reduction in the funding that

would have been necessary to sustain benefits at current levels. Although the governor vetoed budget language about specific health benefit levels, the Personnel Cabinet will have to adjust benefits to achieve the mandated savings.

- **Size of Government:** The General Assembly also reduced General Fund spending overall and mandated a reduction in personal service contracts and political appointees for total savings of almost \$150 million per year. Again, the governor vetoed language about specific reductions in contracts and appointees, but the reduced appropriation means the Executive Branch will have to make cuts in those areas.

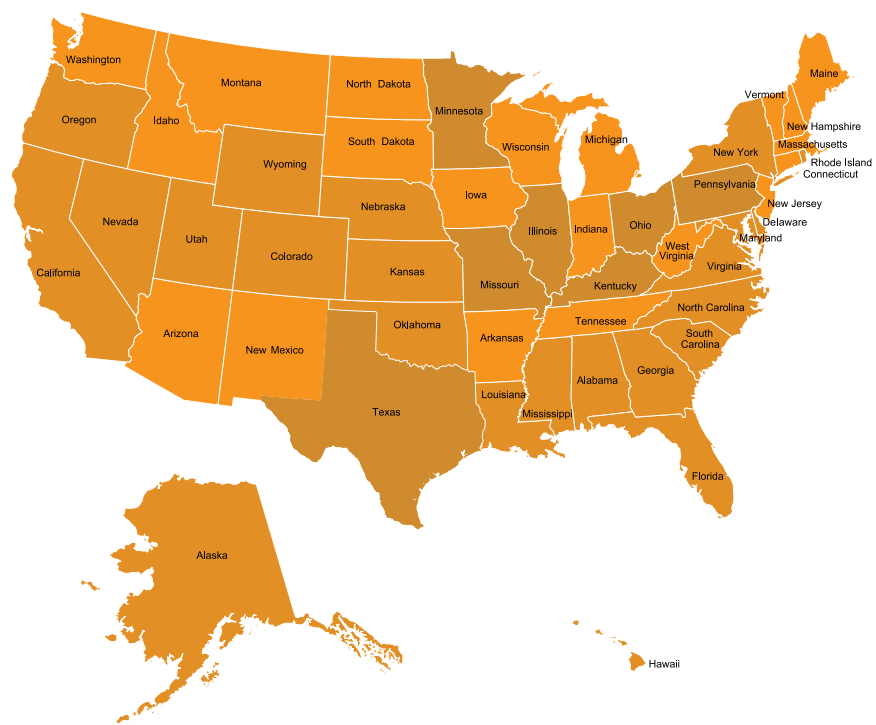
The 2010 General Assembly's unprecedented actions brought the savings total to nearly \$227 million a year – an excellent start on fixing the “Leaky Bucket.”

Following the Money

How States Rank in Providing Online Access to Government Spending Data

- Leading States**
States receiving an "A" or "B"
- Emerging States**
States receiving an "C" or "D"
- Lagging States**
States receiving an "F"

Source: Following the Money: How the 50 States Rate in Providing Online Access to Government Spending Data, U.S. PIRG, April 2010





Other Significant Developments

National Leader in Transparency:

Only one state in the nation - Kentucky - received an "A" from the U.S. Public Interest Research Group on its 2010 ranking of states' efforts to provide online access to state spending information. Kentucky's Open Door web site (<http://opendoor.ky.gov>), available since January 2009, posts state agency budget and salary information as well as a database of grants, contracts and line item spending. Kentucky was considered

a "Leading State," in the ranking, receiving 97 out of 100 possible points. Eighteen states received a failing grade.

The Center for Study of Responsive Law, a nonprofit organization that researches government and corporate accountability, also recognized Kentucky as a national leader for transparency for publishing the full text of state contracts. In a June 2010 report published by the center, Kentucky, Arizona and Massachusetts were cited for elevating



"Kentucky has made the most significant progress in online disclosure and transparency through its online portal."

their transparency efforts to "best practices."¹⁰

The report noted that, "Kentucky has made the most significant progress in online disclosure and transparency through its online portal." This is a dramatic improvement from a similar report issued by the same organization a year ago, which noted that Kentucky did not have contracts available online.

Retiree Insurance Improvement:

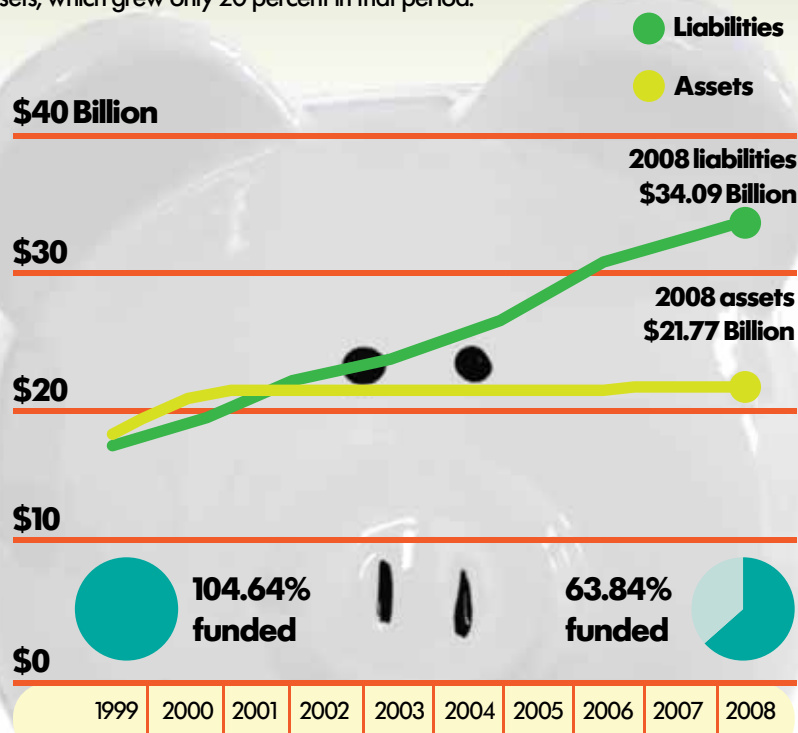
A collaborative effort among teachers, school administrators and legislators resulted in the General Assembly's approval of a long-term sustainable method for funding health insurance for retired teachers.

Slow Progress on Pensions:

A February 2010 survey conducted by the Pew Center on the States compared state pension systems on a number of factors and graded the performance of each state. Kentucky fell below the U.S. average in terms of total liabilities, funds set aside, percent of liabilities funded, and 10-year funding high and low, and the Pew report graded Kentucky as being Below Par. Only nine states were found to have adequately funded their pension systems and Kentucky was one of 19 states that had "serious concerns."¹¹

PENSIONS, 1999-2008

Kentucky's pension liabilities grew 97 percent between 1999 and 2008, outpacing assets, which grew only 20 percent in that period.



Total Bill Coming Due:	\$34,094,002
Portion Unfunded:	\$12,328,429
Annual Required Contribution (ARC):	\$859,305
Percentage ARC Funded:	66.32%

Source: *The Trillion Dollar Gap, Underfunded State Retirement System and the Roads to Reform, Kentucky*

Note: In Thousands

STATE PENSION FUNDING LEVELS

Despite its relatively poor showing in pension performance compared to other states, the Pew survey found that Kentucky is making progress on reforming pensions. Pew noted that Kentucky is one of only three states (see map below) that have both reduced benefits for new employees *and* increased the employee contribution—important steps toward putting the pension system on the right track.¹²

The 2010 General Assembly also enacted legislation requiring public pension boards to include members with at least 10 years of investment experience.

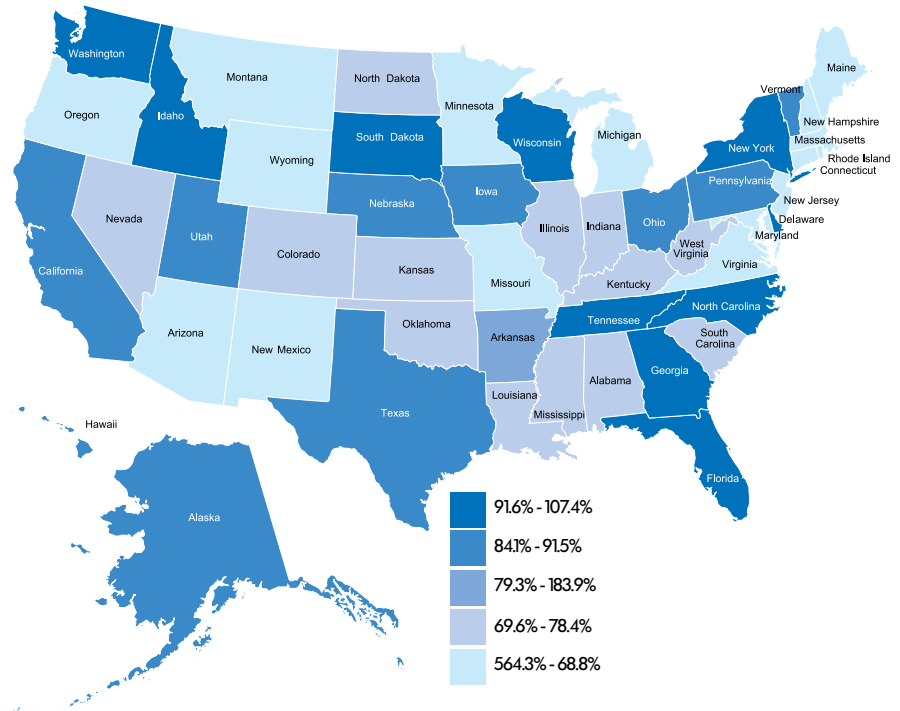
Assessment of Progress toward Goal

Based on the 2010 General Assembly's positive actions to address unsustainable state spending identified by the Kentucky Chamber as well as nationally recognized efforts by the executive branch to make state government more transparent and accessible online, Kentucky is making progress toward the goal of modernizing government.

Recommendations for Progress

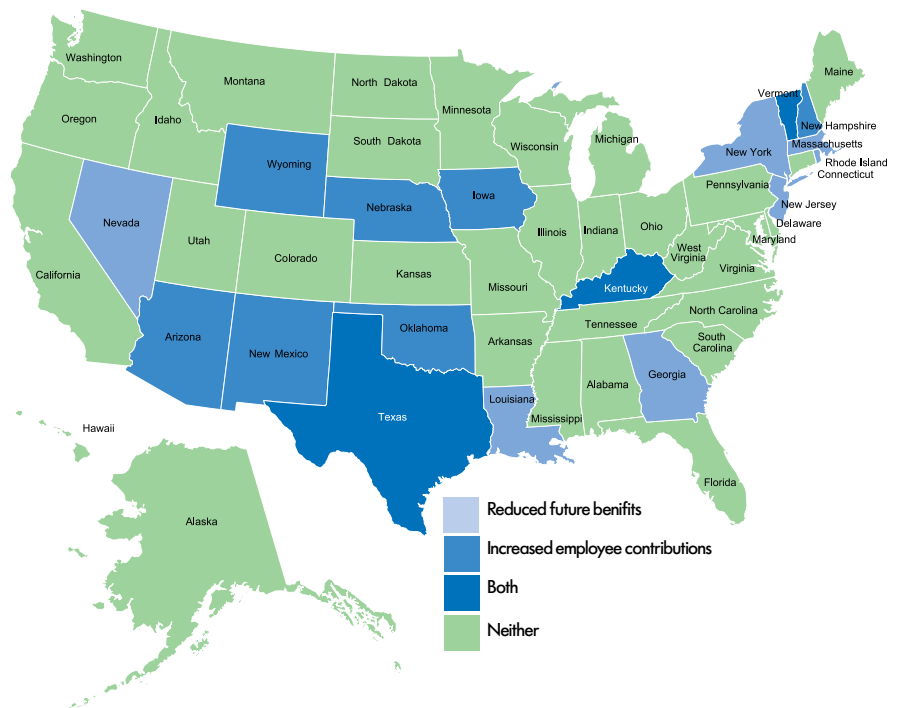
- Focus state spending on priorities for progress
- Promote streamlining of government services
- Advocate responsible state personnel policies
- Support sustainable state debt levels
- Create a culture of accountability

State Pension Funding Levels



Source: Pew Center on the States, 2010

State Pension Policy Reforms, 2008-2009



Source: Pew Center on the States, 2010



Section 3

Promoting wellness and healthy Kentuckians



Kentucky Health Facts At-A-Glance

	KY	U.S.
HEALTH COSTS & BUDGETS		
Health Spending per Capita	\$5,473	\$5,283
Avg. Annual Employee Contribution for Single Premium	\$806	\$882
Avg. Annual Employee Contribution for Family Premium	\$2,918	\$3,394
HEALTH COVERAGE		
Uninsured Population	626,000 (14.8%)	46,339,500 (15.4%)
Uninsured Children	102,000 (9.5%)	8,076,400 (10.3%)
Medicaid Enrollment	799,000 (19%)	61,401,310 (20%)
Medicare Enrollment	714,000 (17%)	46,050,982 (15%)
Monthly CHIP Enrollment, June 2009	53,991	4,966,030
HEALTH STATUS		
Infant Mortality Rate	7.0 per 1,000 live birth	6.8 per 1,000 live births
Teen Death Rate	75 per 100,000 pop.	64 per 100,000 pop.
AIDS Case Rate	6.9 per 100,000 pop.	12.5 per 100,000 pop.
Overweight or Obese Children	37.1%	31.6%
Adults who Visited the Dentist	64.3%	71.3%
Adults with Disabilities	17.0%	12.1%
Children Immunized	77%	78%
Adult Smoking	25.2%	18.3%
Heart Disease Death Rate	235.5 per 100,000 pop.	200.2 per 100,000 pop.
Cancer rate	504.3 per 100,000 pop.	461.8 per 100,000 pop.
<i>Source: statehealthfacts.org, Kaiser Family Foundation</i>		

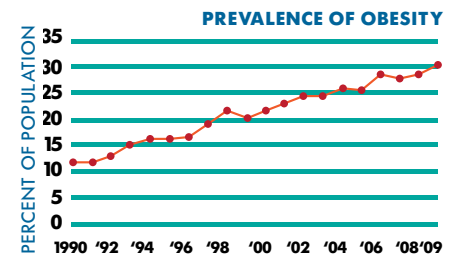
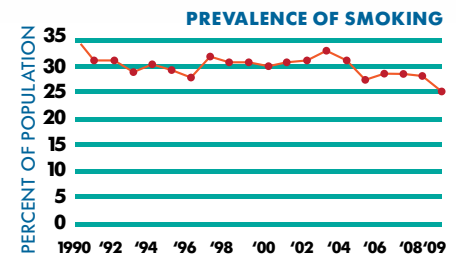
As these statistics indicate, Kentucky continues to struggle with poor health status among its citizens. In its 2009 annual state health rankings, the United Health Foundation ranked Kentucky 41st among the states—down from 39th in 2008. The report also outlined Kentucky's health strengths, challenges and significant changes since 2008¹³:

Strengths

- Low prevalence of binge drinking
- Low incidence of infectious disease
- Low violent crime rate

Challenges

- High prevalence of smoking
- High percentage of children in poverty



- High rate of cancer and cardiovascular disease deaths
- High rate of preventable hospitalizations
- High prevalence of obesity

Significant Changes

- In the past year, the number of poor mental health days per month increased by 24%
- In the past five years, the prevalence of smoking declined by 18%
- In the past ten years, immunization coverage increased by 29%
- Since 1990, the prevalence of obesity increased by 148%

A 2009 state scorecard issued by the Commonwealth Fund Commission on a High Performance Health System resulted in a similar ranking, with Kentucky 45th among the

states.¹⁴ The report also estimated how Kentucky would fare if its health performance improved to the level of the best-performing states:

- 336,169 more adults would be covered by health insurance
- 59,350 more children would be covered by health insurance
- 176,909 more adults would have a usual source of medical care
- \$126,197,281 would be saved from the reduction in preventable hospitalizations for older adults (65 and older)
- \$71,714,307 would be saved from reduction in hospital readmissions
- \$21,555,657 would be saved from the reduction in hospital admission of nursing home residents¹⁵

The Robert Wood Johnson Foundation released a report in 2010 ranking the health status of every county in the United States. The Population Health Institute ranked each county using two measures: health outcomes (such as mortality and morbidity) and health factors (such as health behaviors, clinical care and social and economic factors). A No. 1 ranking indicates the healthiest county. Here's how Kentucky counties were ranked:

Top 20 Kentucky Counties in Health Rankings

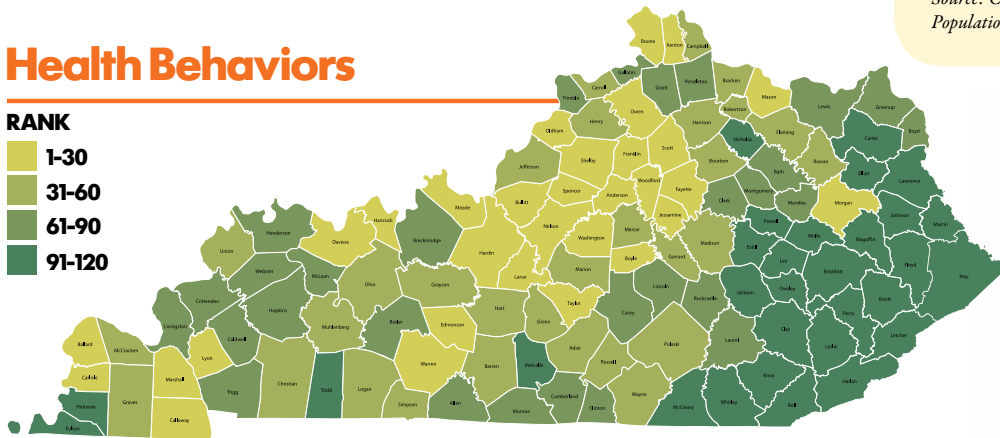
RANK	HEALTH OUTCOMES	RANK	HEALTH FACTORS
1	BOONE	1	WOODFORD
2	OLDHAM	2	FAYETTE
3	CALLOWAY	3	BOONE
4	SCOTT	4	OLDHAM
5	ANDERSON	5	HANCOCK
6	WOODFORD	6	JESSAMINE
7	OWEN	7	MADISON
8	FRANKLIN	8	SCOTT
9	SPENCER	9	CAMPBELL
10	FAYETTE	10	CALLOWAY
11	WASHINGTON	11	MARSHALL
12	BULLITT	12	BOYLE
13	MEADE	13	ANDERSON
14	MORGAN	14	WARREN
15	HARDIN	15	KENTON
16	JESSAMINE	16	HARRISON
17	NELSON	17	BARREN
18	LYON	18	MCCRACKEN
19	SHELBY	19	SPENCER
20	LARUE	20	DAVIESS

Source: County Health Rankings: 2010 Kentucky, Population Health Institute

Health Behaviors

RANK

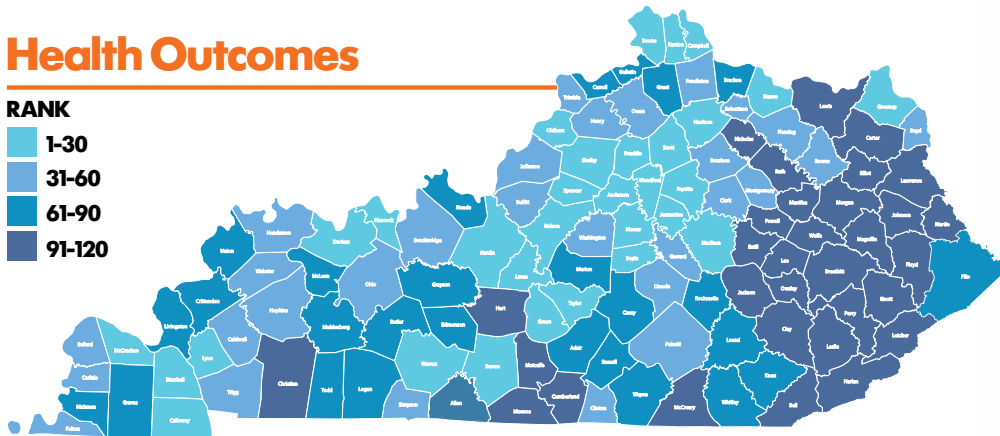
- 1-30
- 31-60
- 61-90
- 91-120



Health Outcomes

RANK

- 1-30
- 31-60
- 61-90
- 91-120



Source: County Health Rankings: 2010 Kentucky, Population Health Institute





Significant Developments

Smoking Cessation Coverage:

The federal Centers for Disease Control estimates the annual cost of treating smoking-related illnesses in Kentucky at approximately \$1.5 billion; almost one-third of that amount is paid by the state's Medicaid program.¹⁶ Despite the high cost of smoking, Kentucky had been one of only five states not offering Medicaid coverage for smoking cessation services. This status was reversed in 2010 when Governor Steve Beshear proposed funding Medicaid smoking cessation coverage as part of the biennial budget, and the General Assembly appropriated \$1.5 million for that purpose. When matched with federal Medicaid funds, Kentucky will have about \$11 million for the smoking cessation program.¹⁷

Child Coverage Improves:

An initiative launched in early 2009 to provide health coverage to more children under the Kentucky Child Health Insurance Program (KCHIP), or Medicaid, has yielded positive results: an addition of 35,000 children to the program.¹⁸

Wellness Incentives Stalled:

As noted previously, the prevalence of obesity has increased by 148% in Kentucky since 1990, and Kentucky ranks 46th among the states in the percent of adults who participate in moderate or vigorous physical activity. Legislation initially proposed in 2009 to provide state tax credits for employers who establish workplace wellness programs failed to pass in the 2010 session.¹⁹

Federal Health Reform:

Comprehensive health reform legislation was passed by the U.S. Congress and signed into law in March 2010. Many provisions of this bill will have a significant impact on Kentucky, such as a major expansion of Medicaid coverage to an estimated 261,000 additional Kentuckians as well as new requirements imposed on employers relating to employee health coverage. Since most of the major provisions of the new law have yet to take effect, the actual effect of the new reforms are yet to be determined.

Assessment of Progress toward Goal

Despite positive strides in providing health coverage for more children and smoking cessation programs to Medicaid recipients, Kentucky's national health rankings continue to decline. Because of this and the lack of movement on wellness initiatives, Kentucky is standing still on the goal of promoting wellness and healthy Kentuckians.

Recommendations for Progress

- Create a culture of wellness in public health programs
- Promote policies to make employer-sponsored health plans affordable
- Promote wellness education to improve the health of all citizens
- Reduce smoking, obesity and other poor health choices
- Promote personal choice and responsibility in health decisions
- Increase the number of health professionals to improve access



Section 4

Preparing Kentucky to successfully compete in the global marketplace

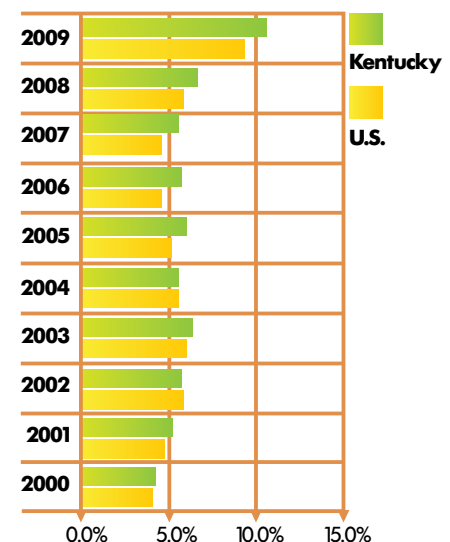
Kentucky Economy At-A-Glance

CATEGORY	KENTUCKY	U.S.	KENTUCKY RANK
Total Population ²⁰	4,314,113	307,006,550	26th
Cost of Doing Business Index ²¹	90.0	100.0	12th lowest cost state
Cost of Living Index ²²	90.5	100.0	4th lowest cost state
Total State Taxes Paid ²³	\$9,755,544,000	\$715,170,681,000	24th
State and Local Tax Burden ²⁴	9.4%	9.7%	25th
Per Capita Income ²⁵	\$32,076	\$40,208	47th
Gross Domestic Product ²⁶	\$156 Billion	\$14.17 Trillion	27th
Poverty Rate ²⁷	17.3%	13.2%	2nd Highest*
Unemployment Rate ²⁸	10.5%	9.3%	38th
Total Exports ²⁹	\$17.6 Billion	\$1.05 Trillion	19th

*Tied with Arkansas and Louisiana

Kentucky's annual unemployment rate has exceeded the national average in each of the past ten years:

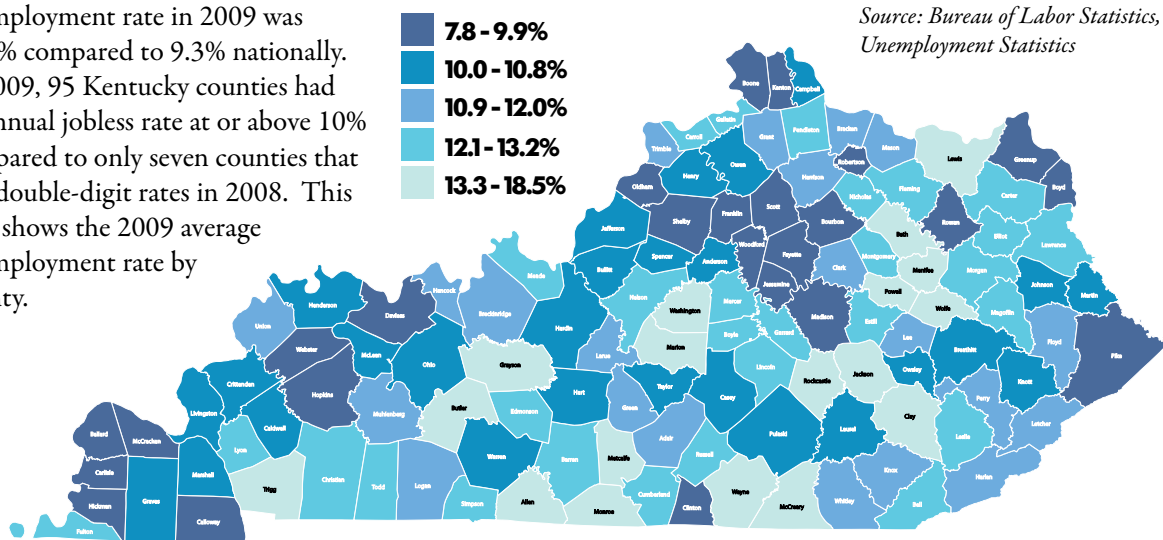
Average Annual Unemployment Rate, Kentucky vs. U.S., 2000-2009



Source: Bureau of Labor Statistics, Local Area Unemployment Statistics

The economy of the past year has been tough, nationally and in Kentucky. Kentucky's average unemployment rate in 2009 was 10.5% compared to 9.3% nationally. In 2009, 95 Kentucky counties had an annual jobless rate at or above 10% compared to only seven counties that had double-digit rates in 2008. This map shows the 2009 average unemployment rate by county.

2009 Average Annual Kentucky Unemployment Rates by County

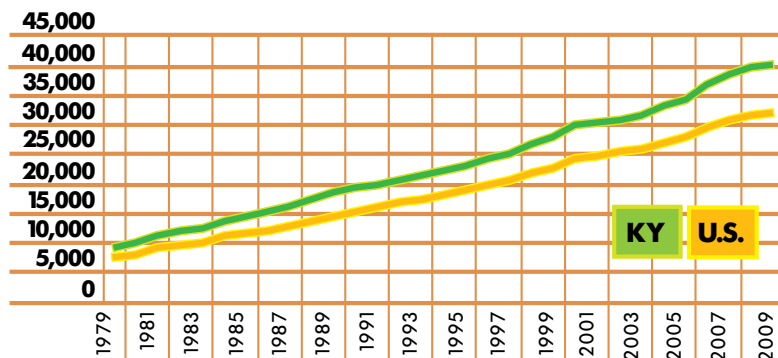


Source: Research and Statistics Branch, Office of Employment and Training, Kentucky Education and Workforce Development Cabinet



Just as unemployment in Kentucky has been worse than the national average over time, Kentucky's per capita income also lags behind, reaching about 80% of the national average over the past 30 years.

Per Capita Income 1979 to 2009 United States and Kentucky



Source: U. S. Census Bureau, *The 2010 Statistical Abstract, Personal Income Per Capita in Current Dollars by State*

Significant Developments

Business Tax Climate Improves:

The State Business Tax Climate Index, compiled annually by 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. Kentucky's business tax climate ranking jumped to 20th in 2010, up from 34th in both 2008 and 2009.³⁰

This dramatic increase in Kentucky's ranking reflects the Kentucky General Assembly's refusal to raise business taxes during the economic downturn, as many other states have done.



Kentucky rose through the ranks faster than any other state this year, up 14 spots from 34th best in the 2009 Index to 20th this year.

That might be surprising to Kentuckians who have not seen much change in their tax system, but sometimes standing fast is a virtue. Many economically damaging changes were enacted in other states that previously ranked better than Kentucky.

This was particularly true in the personal income tax, where Kentucky saw gains as other states added more brackets with higher rates.

-- *The Tax Foundation 2010 State Business Tax Climate Index*

Competitiveness Ranking Drops:

Kentucky's ranking dropped in the 2009 state competitiveness survey conducted annually by the Beacon Hill Institute. Unlike the business tax climate index, this ranking focuses on other factors important to business (infrastructure, human resources, technology, etc.) and identifies advantages and disadvantages in each state. Kentucky had been ranked 38th in 2008 (up from 39th in 2007), but fell to 43rd in the 2009 rankings.³¹

Business Activity:

Despite a rough economy, 2009 brought a number of new and expanded industries to the state. The Kentucky Economic Development Cabinet reports that 203 new or existing Kentucky companies invested more than \$976 million in 2009, creating 6,887 new full-time jobs.³² During the same period, Kentucky lost a reported 6,283 full time jobs due to industrial facility closings.³³ While the dollar value of Kentucky exports dropped by 7.7% in 2009 over the prior year (from \$19.1 billion in 2008 to \$17.6 billion in 2009), the state's percentage share of total U.S. exports actually increased—from 1.5% in 2008 up to 1.7% in 2009. The largest decline in exports was recorded for motor vehicles and related parts.³⁴

Unemployment Insurance:

A positive development for the Kentucky business community was the General Assembly's passage of landmark unemployment insurance reforms. Kentucky's unemployment insurance trust fund, under stress due to economic conditions, has borrowed more than \$800 million from the federal government to pay increased jobless benefits. Unless the state acted to restore the trust fund balance, a federal tax imposed on employers was scheduled to increase significantly to

Kentucky's Competitive Advantages and Disadvantages: 2009 (1st is best)

Advantages	Rank	Disadvantages	Rank
Security (Crime rate)	16th	Fiscal Policy (workers' compensation rates, budget deficit, # of government employees)	39th
Infrastructure (Electricity prices, travel time to work, housing costs)	14th	Human Resources (high school graduation rate, 4th grade math proficiency, % of adults in labor force, # of physicians per 100,000 residents, unemployment rate)	40th
Business Incubation (low minimum wage, union presence in workforce)	37th	Technology (academic R&D, science and engineering graduates, science & engineers as % of labor force, high technology jobs)	44th
Openness (exports and foreign investment)	22nd	Environmental Policy (toxic and carbon emissions, air quality)	35th

Source: State Competitiveness Report 2009, Beacon Hill Institute, Suffolk University

pay off the state's debt. To avert this, Kentucky's legislation will increase employer contributions to the trust fund beginning in 2012 and make modest reductions to benefits to save employers and the state an estimated \$700 million over the next decade.

Assessment of Progress toward Goal

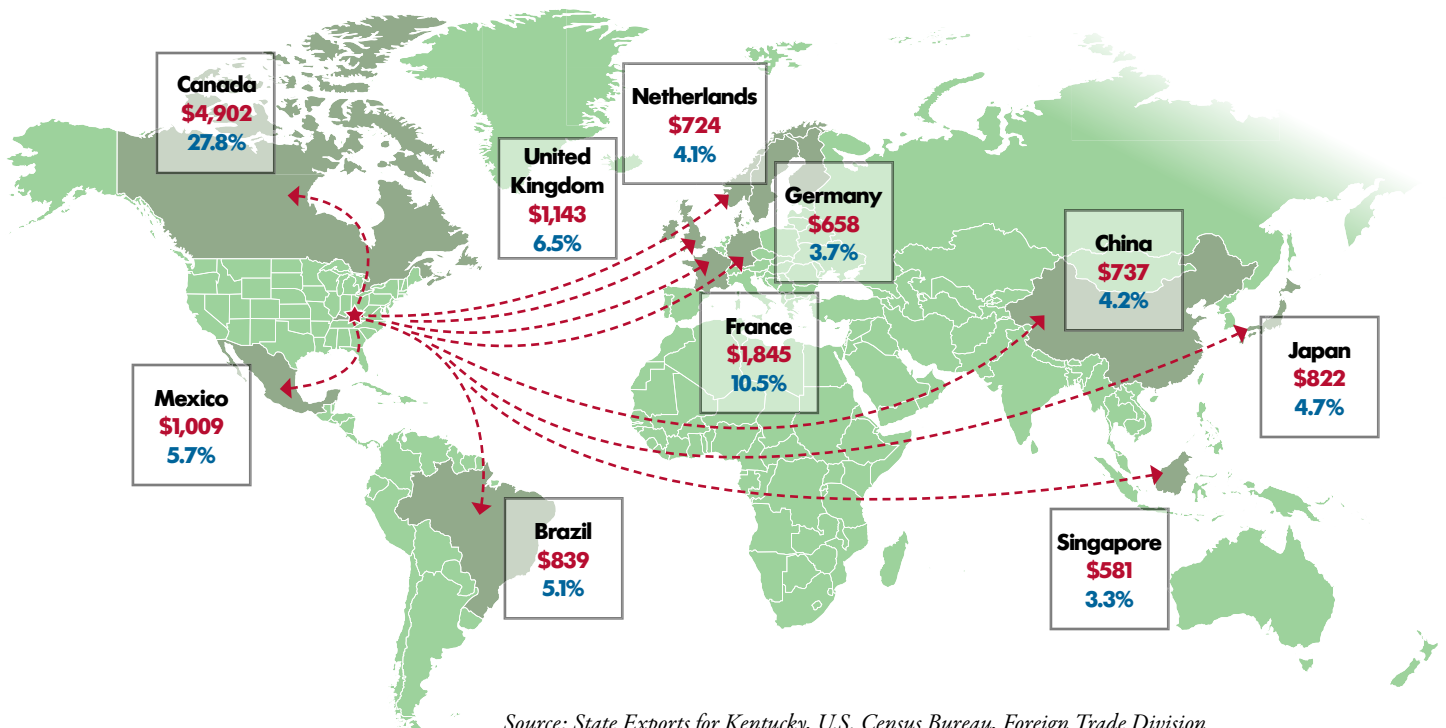
The world economic downturn had a negative effect on employment, exports and overall economic growth in Kentucky. However, the improvement in Kentucky's business tax climate and the legislature's action saving employers millions of dollars on unemployment insurance mean Kentucky is moving forward toward successfully competing in the global market.

Recommendations for Progress

- Increase the 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
- Entice business development
- Defend employers against government-imposed costs

Top Ten Countries that "Buy Kentucky"

Value of Exports (In thousands) - Percent of Total State Exports



Source: State Exports for Kentucky, U.S. Census Bureau, Foreign Trade Division



Section 5

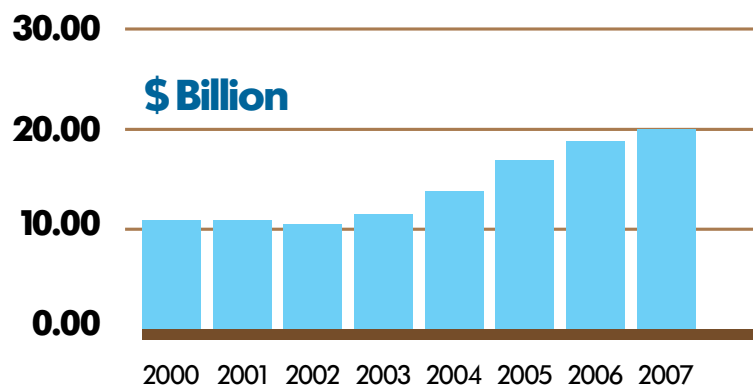
Expanding Kentucky's role as an energy leader

Kentucky Energy Quick Facts

- Kentucky ranks 3rd in the nation in coal production and 5th in total energy production, accounting for about one-tenth of U.S. coal production and nearly 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 nine-tenths of the electricity produced in Kentucky.
- Kentucky ranks 7th in the nation in per capita energy consumption.
- Kentucky ranks 14th in total net electricity generation and 19th in crude oil production.
- The majority of Kentucky's natural gas is supplied by pipeline from the Gulf Coast.
- The price of electricity in Kentucky remains among the lowest in the country. With a national average price of 9.43 cents per kilowatthour (average of commercial, residential and industrial rates), Kentucky's overall average price of 6.38 cents per kilowatthour is lower than only Wyoming and Missouri.

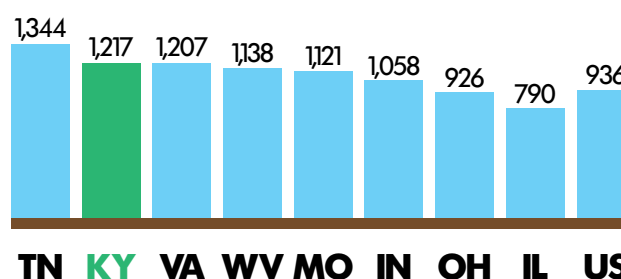
Source: U.S. Energy Information Administration

2000 - 2007 Kentucky Total Energy Expenditures



Source: 2009 Annual Report, Kentucky Department for Energy Development and Independence

2007 Average Monthly Electric Consumption (kwh)



Source: 2009 Annual Report, Kentucky Department for Energy Development and Independence

Significant Developments

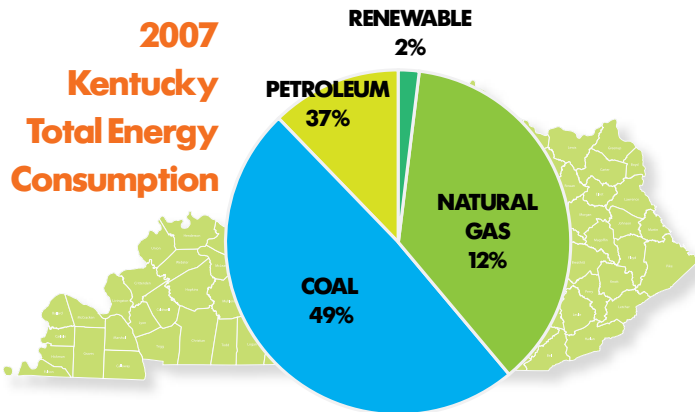
Energy Efficiency:

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 2009 scorecard ranked Kentucky 33rd among the states, down two spots from its 2008 ranking of 31st.³⁵

Biomass Task Force:

Governor Beshear appointed an Executive Task Force on Biomass



Source: 2009 Annual Report, Kentucky Department for Energy Development and Independence

and Biofuels development to recommend ways to support the growth of the biomass industry. The task force found that, with recommended improvements in productivity, Kentucky could produce 25 million tons of biomass per year in a sustainable manner by 2025—generating up to \$3.4 billion in annual economic activity and creating up to 10,000 jobs in rural areas.³⁶

Stimulus Funds:

Kentucky received more than \$52 million in funds for energy programs under the American Recovery and Reinvestment Act of 2009. The programs that the Kentucky Department for Energy Development and Independence is supporting with these funds include those that reduce energy consumption in schools and state buildings, work with industry to improve energy efficiency and to encourage efficiency and renewable energy production on Kentucky farms.³⁷

Battery Technology:

The proposed Kentucky-Argonne Battery Manufacturing Research and Development Center in Lexington will receive up to \$7 million in state and federal funds. The center will support development of lithium-ion batteries, develop the manufacturing technologies needed to cut production costs and accelerate the commercialization of those technologies.³⁸

In the private sector, the National Alliance for Advanced Transportation Batteries (NAATBatt) failed to win U.S. Department of Energy support for the \$600 million advanced lithium-ion battery manufacturing facility it had proposed for a Hardin County site.

Energy Research Center:

A new energy research facility will be built at the University of Kentucky with \$11.8 million in federal stimulus funds. UK was one of 11 recipients chosen from among 167 applications for the federal grants. The 36,000-square-foot building, to be located at the Spindletop Research Park, is expected to be finished by Fall 2011.³⁹

Hybrid School Buses:

Twenty-two public school districts in Kentucky are scheduled to receive 34 hybrid electric school buses this year, courtesy of a \$12.9 million grant from the U.S. Department of Energy to the Kentucky Education and Workforce Cabinet. Once in place, Kentucky will have 213 hybrid buses, giving Kentucky the largest hybrid school bus fleet in the nation.⁴⁰

Carbon Removal Study:

The University of Kentucky won a \$1.9 million federal grant to research cheaper ways to remove carbon dioxide from the gas released by coal-fired power plants. The project is aimed at making coal-fired power

plants more environmentally friendly by developing cheaper, simpler methods to separate carbon dioxide from flue gas.⁴¹ In announcing the grant, the U.S. Department of Energy said the project could change the way the United States uses and produces energy.

Alltech to Create Algae Farm:

Alltech, a leading animal health and nutrition company headquartered in Nicholasville, is planning a large algae factory in Kentucky to make bio-fuel and research new approaches for mitigating climate change. When developed, it will be the nation's second-largest algae factory. Algae shows great promise for dealing with improving energy production and climate change, as one acre of algae can produce 5,000 gallons of bio-fuel per year, and one ton of algae can absorb two tons of carbon dioxide, converting it to oxygen and carbohydrates, according to Alltech officials.⁴²

Assessment of Progress toward Goal

Although the Commonwealth slipped in its state energy efficiency rating, significant efforts under way to reduce energy consumption and expand research and development of alternative energy means Kentucky is making progress toward expanding its role as an energy leader.

Recommendations for Progress

- Promote sensible, cost-effective carbon management solutions
- Utilize Kentucky coal as a key source of energy
- Invest in clean technologies
- Promote conservation and efficiency measures
- Support biomass and alternative energy initiatives



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