



New Agenda for Kentucky 2011 Progress Report





Kentucky Chamber

Uniting Business. Advancing Kentucky.



New Agenda for Kentucky | 2011 Progress Report

INTRODUCTION

The New Agenda for Kentucky is the foundation of the strategic plan for the Kentucky Chamber of Commerce, reflecting the Chamber's organizational and policy priorities in its efforts to make Kentucky an even better place to live and work.

Released in early 2008, 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 formed the basis 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

Since 2009, the Kentucky Chamber has released annual progress reports on the New Agenda, looking at developments in the Commonwealth during the preceding year that were related to the five goals. As in previous progress reports, the five sections of the 2011 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 *2011 Kentucky Chamber Legislative Agenda* to accelerate Kentucky's progress toward the goal.

Despite challenging economic conditions and a contentious legislative session in the past year, there was significant progress in most areas:

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

We encourage citizens and elected leaders to use the data in this report 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 was one of transition for Kentucky education as schools started preparing to incorporate new academic standards into the instruction that students receive. The state adopted the new standards, which define what students are expected to know as they move from one grade to the next, early in 2010. The goal: better preparing students to succeed in college and career.

The new standards will be the basis of state tests that are given in the spring of 2012. The intervening months are being used to prepare teachers to use the standards as the foundation of what they teach students. The work has also extended to the postsecondary level, with colleges and universities developing collaborative initiatives, networks, workshops and online tools to support professional development for postsecondary faculty as well as elementary and secondary teachers.



Kentucky has garnered attention for these joint efforts of elementary/secondary and postsecondary educators to improve student prospects for success under the new academic standards. As noted by the Southern Regional Education Board:

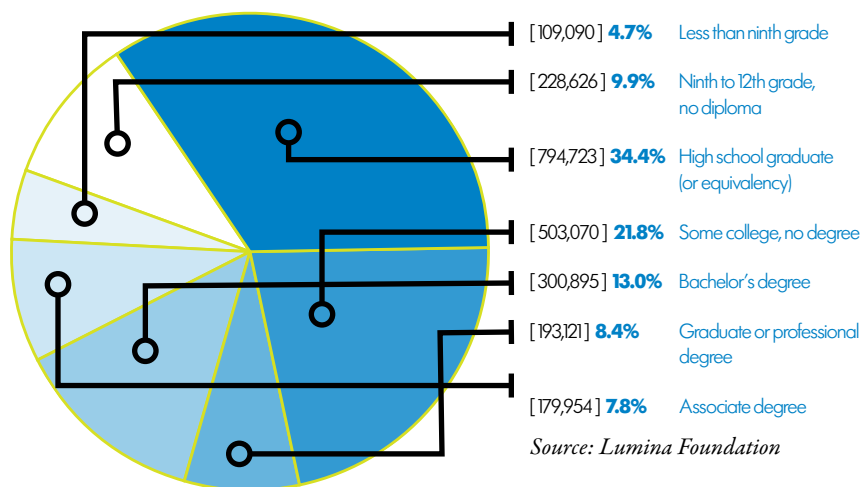
“The CPE (Council on Postsecondary Education) and the KDE (Kentucky Department of Education) partnered to develop a unified strategic plan ... to promote college and career readiness and degree completion. ... The activities ... represent a model of collaboration with a shared vision of having all students prepared for postsecondary and career success.”¹

Significant Developments

Dropout rate up slightly, age unchanged:

Kentucky's overall high school dropout rate increased less than one-half of a percentage point, from 2.89% in 2009 to 3.19% in 2010, according to the state Department of Education.

Levels of Education for Kentucky [AGES 25-64]



HIGH SCHOOL DROPOUT RATES BY RACE AND GENDER

	MALE	FEMALE	WHITE	AFRICAN AMERICAN	HISPANIC	ASIAN	AMERICAN INDIAN	OTHER
2006	3.91%	2.69%	3.03%	5.45%	6.11%	1.11%	2.64%	3.67%
2007	3.69%	2.64%	2.94%	4.77%	5.46%	1.22%	2.45%	3.96%
2008	3.77%	2.79%	2.87%	6.14%	6.07%	1.82%	4.28%	4.09%
2009	3.26%	2.50%	2.60%	4.91%	4.06%	2.27%	3.04%	3.49%
2010	3.62%	2.74%	2.87%	5.52%	5.58%	1.84%	4.23%	0.95%

Source: Kentucky Department of Education

The percentage of students held back a grade – the school retention rate – decreased from 2.75% to 2.36%. Another slight decrease was recorded in school attendance, from 94.18% to 94.05%.² An initiative to raise the dropout age from 16 to 18 failed once again to win the approval of the Kentucky General Assembly.

Principal hiring process improved

The 2011 General Assembly enacted legislation to improve accountability in schools by allowing superintendents to play a greater role in principal selection. Previously, superintendents did not participate in the selection process. Under the new legislation, they will chair the school council and have voting rights when principal candidates are being considered.

More teachers nationally certified

Kentucky continued its strong performance in adding to the ranks of National Board Certified Teachers, who undergo a rigorous process to earn the designation. The National Board for Professional Teaching Standards announced last December that 316 Kentucky teachers were awarded the certification. Kentucky has 2,156 nationally board certified teachers and is ranked 12th nationally.³

Working conditions surveyed

Kentucky teachers responded in record numbers to the state's first working conditions survey, known as the Teaching, Empowering, Leading and Learning (TELL) Kentucky Survey. According to the nonprofit New Teacher Center that administered the survey, Kentucky's response rate was 80.27%.⁴

The survey results are to be used by school councils, districts, state education officials and other organizations to improve the teaching and learning conditions in schools. They will not, however, be used as part of an accountability system for schools and districts.

Teacher policies graded low

The National Council on Teacher Quality gave Kentucky a D+ in 2009 for state policies on teachers. The areas assessed

included identifying and retaining effective teachers and delivering well-prepared teachers.⁵

Advance Kentucky expands

Another 20 high schools have chosen to participate in AdvanceKentucky for 2011-12. This groundbreaking initiative focuses on improving participation and success in mathematics, science and English as measured on Advanced Placement exams. The design is based on a proven model from the National Math and Science Initiative. Students who participate in AdvanceKentucky, an initiative of the Kentucky Science and Technology Corporation, have shown steady improvement in test scores. As of the 2010-11 school year, 44 high schools were participating, with 11,000 student enrollments in AP classes in math, science and English being taught by AP teachers.⁶ Unfortunately, no Jefferson County High School participates in the program even though 14% of Kentucky's public school students attend Jefferson County schools.

College graduation hit record levels

Kentucky's public and independent colleges and universities conferred 62,700 degrees and credentials during the 2010-11 academic year, an all-time high, according to a preliminary report from the Council on Postsecondary Education.

The number of degrees represented an 11% increase over the previous year and included gains at all levels, particularly workforce-oriented certificates, diplomas, associates degrees and professional-practice doctorate degrees. Bachelor's degrees increased 6%; associate degrees climbed 13% and graduate degrees increased 9.5%.⁷

Tuition increased

The Kentucky Council on Postsecondary Education repeated its action of previous years and set maximum tuition rates for the state's public institutions. A ceiling of 4% was established for the Kentucky Community and Technical College System while the University of Kentucky and University of Louisville were limited to 6% increases.

A cap of 5% was set for the state's comprehensive institutions – Eastern Kentucky University, Kentucky State University, Morehead State University, Murray State University, Northern Kentucky University and Western Kentucky University.

CPE officials said the tuition increases were needed to partially offset state funding cuts, including a \$9.9 million reduction in net funds for fiscal year 2012. The institutions also projected that fixed costs would increase by an estimated \$63.4 million in fiscal 2012.⁸

Overall: Making Progress

Although developments on the dropout age and rate and tuition increases were disappointing, the work during this transition year at all education levels toward the use of tougher academic standards holds promise for significantly improving the preparation of Kentucky students. In addition, the long-awaited change in the principal hiring process, the increasing number of nationally certified teachers and the continuing growth in the number of postsecondary degrees and credentials mean that Kentucky is **making progress** toward the goal of improving education attainment.

Recommendations for Progress

- Develop a system to hold educators accountable for student success
- Professionalize the teacher compensation system to reward excellence and provide incentives to attract teachers to underserved areas, both geographic and subject matter
- Invest in early childhood education and development
- Reduce the dropout rate and raise the age for compulsory attendance to 18
- Hold postsecondary institutions accountable for the preparation of high-quality teachers
- Improve student preparation for college, decreasing the need for remediation
- Reward colleges and universities for graduating more students on time



Section 2

Modernizing government at all levels

In November 2009, the Kentucky Chamber released the *Leaky Bucket*—a study that found state spending on corrections, Medicaid and public employee health insurance to be growing at a faster rate than the overall state budget and Kentucky's economy. From 2000 to 2010, more than half the growth in the state budget came in these three areas while education's share of state spending declined.⁹

The trend revealed by the study is sobering: Kentucky is spending an increasing amount of money on jails, health insurance and Medicaid at the expense of education, which has the greatest potential to help the state prosper. The Chamber described its findings as a "leaky bucket" of state revenue—a container that can never be filled because of the unsustainable spending in the three major areas that will continue to be major leaks unless action is taken.

Significant Developments

Since the *Leaky Bucket* report was released, Kentucky policymakers have made significant progress in addressing the areas of unsustainable spending.

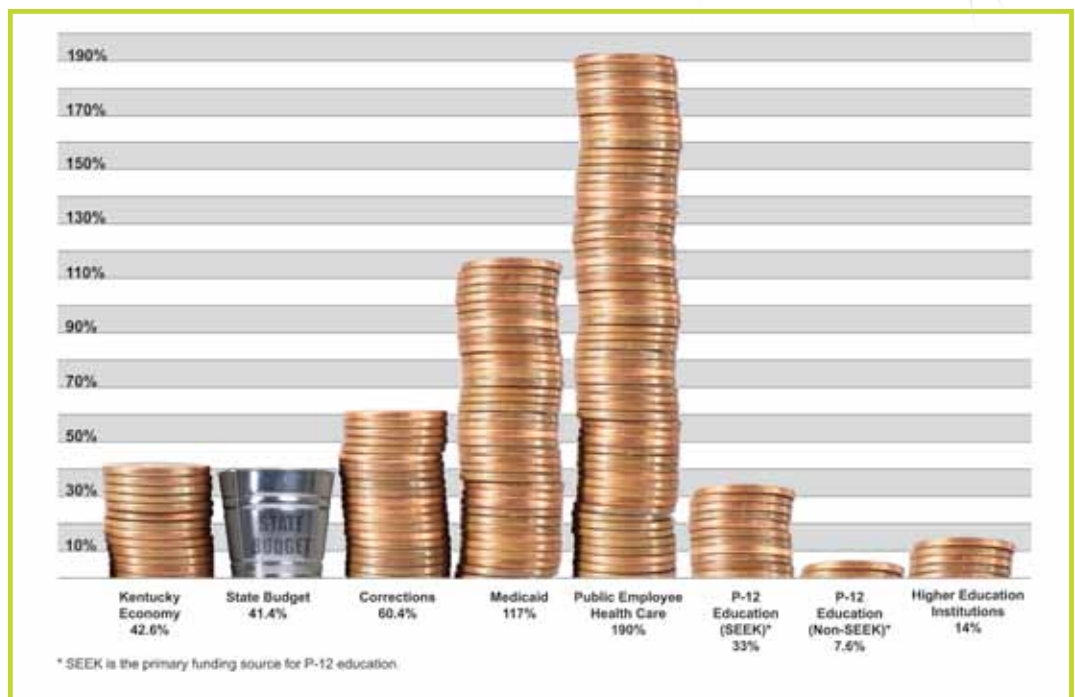
Medicaid managed care expands

Growing at a rate about three times faster than the overall state budget since 2000 (117% vs. 41%), Medicaid provides health coverage to 819,000 low-income and disabled Kentuckians through more than 40,000 participating health providers. As eligibility for Medicaid is income based, the program has been growing by more the 3,000 new recipients per month due to the economic downturn. The program faced a budget deficit of approximately \$166 million in state funds for FY 2011 due in part to congressional action that resulted in Kentucky and other states receiving less federal funding than expected and reductions mandated by the budget.

After a special legislative session and several gubernatorial vetoes of budget cuts in other areas, the shortfall was addressed by shifting money from the 2012 Medicaid budget to the 2011 fiscal year. In April 2011 the administration issued a request for proposals to private vendors to implement a statewide managed care system for Medicaid—a move long advocated by the Chamber. Medicaid officials anticipated that managed care contracts would be in place by July 1, 2011.



Changing Priorities: Kentucky Spending Growth 2000-2012



Corrections reforms enacted

Despite Kentucky's relatively low violent crime rate, our prison population is one of the fastest growing in the nation. As a result, corrections expenditures have increased about 50% faster than state spending overall. To address this problem, the 2010 General Assembly created a bipartisan task force, with the support of the Governor, Chief Justice and legislative leaders, to collect and analyze corrections data with the assistance of the Pew Center on the States. The study identified the key drivers of Kentucky's prison population:

- An increase in arrests and court cases
- A high percentage of offenders being sent to prison
- A high rate of technical parole violators
- An increase in drug offenders¹⁰

As a result of the task force's study and recommendations, the 2011 General Assembly enacted landmark bipartisan legislation that focused on four key goals:

1. Strengthening probation and parole by:

- Basing key decisions on risk and needs data
- Boosting the chances that offenders will successfully transition to the community
- Improving parole and probation supervision

2. Adopting common sense sentencing reforms by:

- Adjusting penalties for possession of small amounts of drugs
- Reinvesting savings in drug treatment programs
- Expanding medical parole

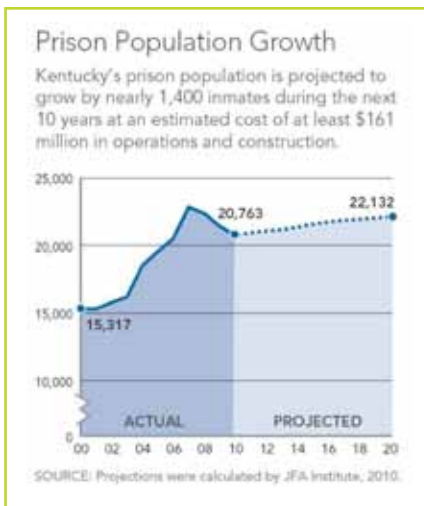
3. Supporting and restoring victims by:

- Developing a web-based system to track offenders
- Supporting the statewide automated restitution system

4. Improving government performance by:

- Defining success as reducing recidivism and criminal behavior
- Establishing mechanisms to measure and incentivize success
- Improving the fiscal impact statement for legislation that affects incarceration
- Require prior approval for the construction of new county jail cells

These reforms are estimated to save \$422 million over 10 years from a reduction in incarceration. A net savings of \$218 million over 10 years would be realized while \$204 million would be reinvested in strengthening probation and parole, expanding treatment programs and adding pre-trial officers. The legislation also reauthorized the task force for another year to continue its review of Kentucky's criminal law.



(Projections were made prior to the 2011 legislation)





Public employee health insurance cost increases reduced

Growing at a rate of 190% since 2000, state spending on public employee health insurance has increased at almost five times the rate of overall state spending. An estimated \$1.4 billion is spent each year on more than 250,000 state employees, teachers, retirees and their dependents in the Kentucky Employees Health Plan. Recognizing the need to control these costs, the 2010 General Assembly reduced funding for health insurance by \$100 million over the FY 2010-12 biennium and mandated savings in the health plan.

This legislative action reduced the growth in health insurance spending by almost half in the FY 2010-12 biennium. From 2000 to 2010, spending on public employee health insurance increased an average of 15% per year. In 2011-12, this growth is reduced to 7.8% each year.

These savings are also reflected in the four health insurance plans from which public employees and teachers could choose for 2011:¹¹

- Premiums increased about 5% in 2011 over 2010 rates, with the employee being required to pick up the increased cost.
- State government's contribution was the same in 2010 and 2011 for all plan levels, with one exception.
- The employee contribution for the least expensive plan was \$0 in both 2010 and 2011 (less than 3% of employees selected this plan last year).
- The employee contribution increased by about \$30/month for single coverage for all other plan levels.
- Annual deductibles increased in 2011 by approximately \$300 to \$500 depending on the level of coverage.
- Co-pays for prescriptions increased by \$5 per prescription.
- A collaborative effort among teachers, school administrators and the General Assembly resulted in a "shared responsibility" approach to stabilize funding for retired teachers health insurance in which active and retired teachers will make additional contributions for health coverage.

Revenue and spending decline

The economic downturn had a significant impact on both state revenue and spending in FY 2009 and FY 2010. As illustrated on the facing page, spending declined 3.3% in 2009 and 6.2% in 2010.

Kentucky's economy as measured by the gross state product has declined in recent years—from \$144.3 billion in 2008 to \$141.7 billion in 2009, or a reduction of 1.8%.¹² State spending, which has remained relatively consistent at between 5% and 6% since 1990, increased slightly as a percent of the state economy in 2009.

Transparency efforts recognized

Kentucky continues to be recognized for its efforts to provide online access to government spending data. In March 2011, the U.S. Public Interest Research Group released a report that graded Kentucky as the best state in the country (tied with Texas) giving both an "A" for websites that provide state spending data. The report estimated that Kentucky's website will eliminate 40% of the administrative costs associated with procurement assistance requests and could reduce the cost of complying with open records requests by as much as 10%.¹³



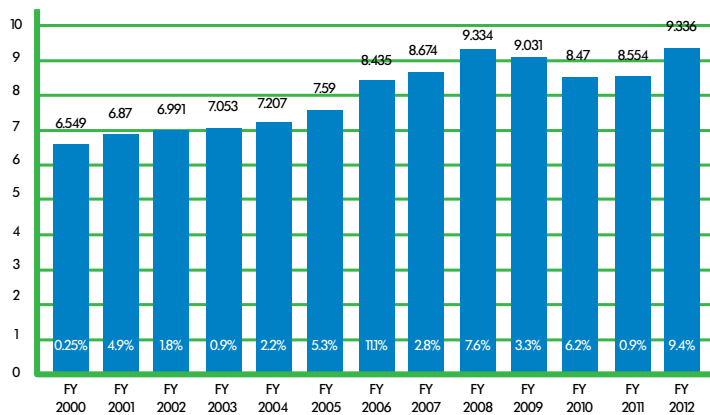
Pension reform stalled

As reported in the 2010 New Agenda Progress Report, the Pew Center on the States released a survey in 2010 that graded the performance of state pension systems. 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. The Pew



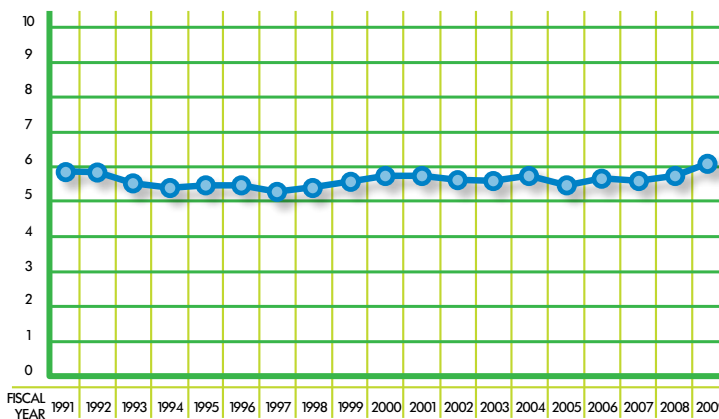
Kentucky General Fund Expenditures Fiscal Years 2000 to 2012 (budgeted) (Billions of Dollars, Excluding Federal Stimulus Funds)

Source: "General Fund Expenditures, FY 1995-2012," GPM and 2010-2012 Budget of the Commonwealth, General Fund Summary, GPM



Kentucky General Fund Expenditures as a Percent of Gross State Product: 1990 to 2009 (Excluding federal stimulus funds)

Data Source: Governor's Office of Policy and Management (Expenditure Data); Bureau of Economic Analysis (Gross State Product)



report graded Kentucky as being Below Par (grades assigned were Top Performer, Needs Improvement and Below Par). Kentucky was one of 19 states about which the report had "serious concerns" about adequately funded pensions.¹⁴

A 2011 update of the Pew report found that Kentucky's poor pension performance has continued, with the system funded at only 58% of its \$35.6 billion liabilities, compared to a national average of 78% in fiscal year 2009. Kentucky also paid only 58% of its required employer contributions for pensions, compared to 64% nationally.¹⁵

The 2011 General Assembly failed to enact legislation to address Kentucky's pension problems. Legislation supported by the Chamber to put new employees into a 401K-style defined contribution retirement program was passed by the Kentucky Senate but died in the House.

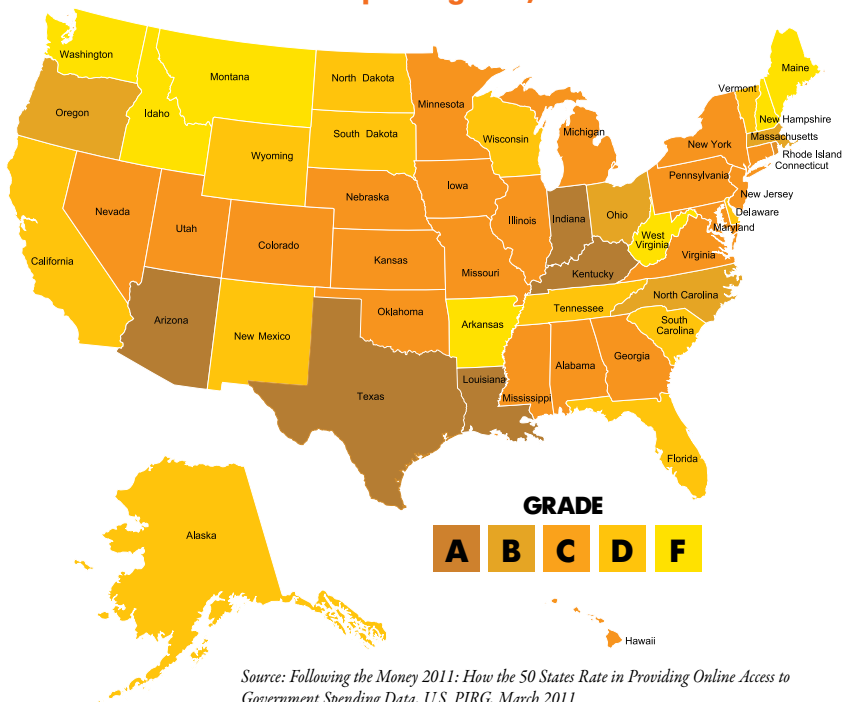
Overall: Moving Forward

Based on the significant actions by the General Assembly and administration to address unsustainable spending in corrections, Medicaid and public employee health insurance, and continued national recognition for state transparency efforts in spending, Kentucky is **making progress** toward the goal of modernizing government.

Recommendations for Progress from the 2011 Kentucky Chamber Legislative Agenda

- Prioritize government spending to emphasize education and economic development
- Monitor debt levels to ensure sustainability
- Ensure sustainable public employee benefits by reducing the cost of health and retirement benefits—including the adoption of a 401-K style plan for new state employees
- Modernize Medicaid by expanding managed care and incorporating wellness incentives into the program
- Engage nationally recognized Medicaid experts to conduct a top-to-bottom, data-driven review of Kentucky's program

How the 50 States Rate in Providing Online Access to Government Spending Data, 2011





Section 3

Promoting wellness and healthy Kentuckians



Kentucky Health Facts At-A-Glance

	KY#	KY%	U.S.#	U.S.%	
Health Insurance Costs					
Avg. Annual Employee Contribution for Single Premium	\$1,000	23%	\$957	20%	% of total premium
Avg. Annual Employer Contribution for Single Premium	\$3,336	77%	\$3,712	80%	% of total premium
Avg. Annual Employee Contribution for Family Premium	\$3,408	28%	\$3,474	27%	% of total premium
Avg. Annual Employer Contribution for Family Premium	\$8,999	73%	\$9,553	73%	% of total premium
Health Coverage					
Uninsured Population	688,000	16%	50,674,300	17%	% of total population
Uninsured Children	103,200	10%	8,284,500	10%	% of children
Medicaid Enrollment	819,000	19%		19%	% of total population
Medicare Enrollment	724,600	17%		15%	% of total population
KCHIP Enrollment	64,533		5,539,773		Total Number
Health Status					
Infant Mortality Rate	7.0		6.8		per 1,000 live births
Teen Death Rate	74		62		per 100,000 population
AIDS Diagnosis Rate	5.3		11.2		per 100,000 population
Overweight or Obese Children		37.1%		31.6%	% of children
Adults who Visited the Dentist		64.3%		71.3%	% of adults
Adults with Disabilities		17.0%		12.1%	% of adults
Children Immunized		67%		72%	% of children
Adult Smoking		25.2%		18.4%	% of adults
Heart Disease Death Rate		220.9		190.9	per 100,000 population
Cancer Rate		517.5		465.1	per 100,000 population
Source: statehealthfacts.org, Kaiser Family Foundation; Centers for Medicare and Medicaid Services; Centers for Disease Control					

These statistics illustrate Kentucky's continuing challenge to improve the health status of its citizens. Unfortunately, the results of the past year provide little to celebrate. Kentucky continued to fall in the annual state health rankings produced by the United Health Foundation, dropping from 41st among the states in 2009 to 44th

in 2010. This drop is disturbing because Kentucky ranked 39th in 2008. The report identified Kentucky's continuing health challenges:

- High prevalence of smoking at 25.6% of the population
- High prevalence of obesity at 32.3% of the population
- High rate of cancer deaths at 227.0 deaths per 100,000 population
- High rate of preventable hospitalizations with 102.0 discharges per 1,000 Medicare enrollees
- Many poor mental and physical health days per month at 4.6 days and 5.2 days, respectively, in the previous 30 days¹⁶



The Commonwealth's health strengths were a low prevalence of binge drinking and a low violent crime rate—the same as in recent years in the survey. Significant health changes include:

- An increase in poor physical health days
- A reduction in the violent crime rate
- An increase in obesity
- A reduction in the rate of deaths from cardiovascular disease¹⁷

The Population Health Institute conducts an annual report ranking the health status of each county in the United States using two measures: health outcomes (such as mortality and morbidity) and health factors (such as health behaviors and social and economic factors). To the right are the top and bottom 20 Kentucky counties, based on the 2011 rankings.

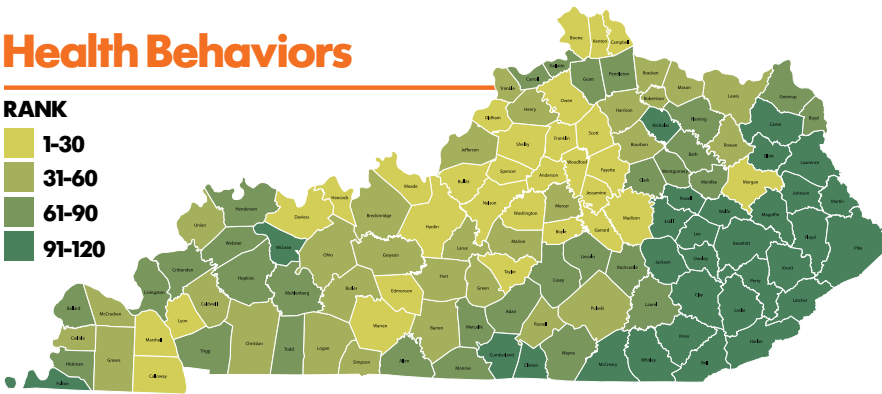
Kentucky Top 20 Counties in Health Rankings

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

Health Behaviors

RANK

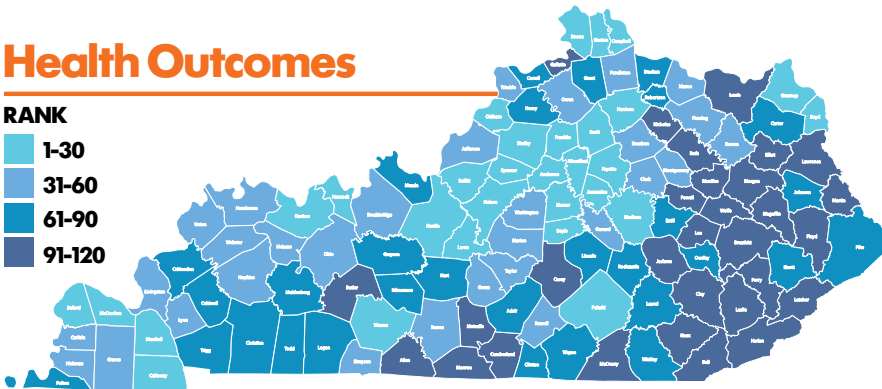
- 1-30
- 31-60
- 61-90
- 91-120



Health Outcomes

RANK

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



Kentucky Bottom 20 Counties in Health Rankings

RANK	HEALTH OUTCOMES	RANK	HEALTH FACTORS
100	LEE	101	LAWRENCE
102	BELL	102	CUMBERLAND
103	ELLIOTT	103	MONROE
104	BREATHITT	104	METCALFE
105	LAWRENCE	105	ELLIOTT
106	NICHOLAS	106	MORGAN
107	KNOX	107	LEE
108	JACKSON	108	LEWIS
109	CLAY	109	KNOX
110	FLOYD	110	POWELL
111	KNOTT	111	MARTIN
112	LETCHER	112	BATH
113	HARLAN	113	WOLFE
114	PIKE	114	LESLIE
115	PERRY	115	MENIFEE
116	MAGOFFIN	116	MAGOFFIN
117	FULTON	117	BREATHITT
118	WOLFE	118	JACKSON
119	MARTIN	119	CLAY
120	OWSLEY	120	McCREARY

Source: County Health Rankings: 2011 Kentucky, Population Health Institute

Source: County Health Rankings: 2011 Kentucky, Population Health Institute



Significant Developments

Small businesses eligible for insurance tax credits

More than 89.2% of Kentucky businesses with up to 25 employees are eligible for new federal tax credits to help pay for employee health coverage, according to a report issued last year.¹⁸ The tax credit program, a key element of the new federal health reform law, targets small employers by offering a tax credit of up to 35% of health insurance premium costs for coverage provided to employees. The tax credit increases to 50% of premium in 2014. In Kentucky, this means 51,100 small businesses with 25 or fewer employees qualify.

KCHIP premium eliminated

As of August 2010, families in the Kentucky Children's Health Insurance Program (KCHIP), which offers free or low-cost health insurance to eligible children, no longer had to pay monthly premiums to ensure coverage for their child. Previously, some KCHIP families were required to pay a \$20 monthly premium to receive KCHIP coverage. Governor Steve Beshear recommended and the General Assembly approved suspending the monthly charge because of concerns that it deterred enrollment and caused some children to drop out of the program.¹⁹

Federal funding increased for health activities

Kentucky has received \$35.9 million in new federal grants for health-related activities under the Affordable Care Act, including:

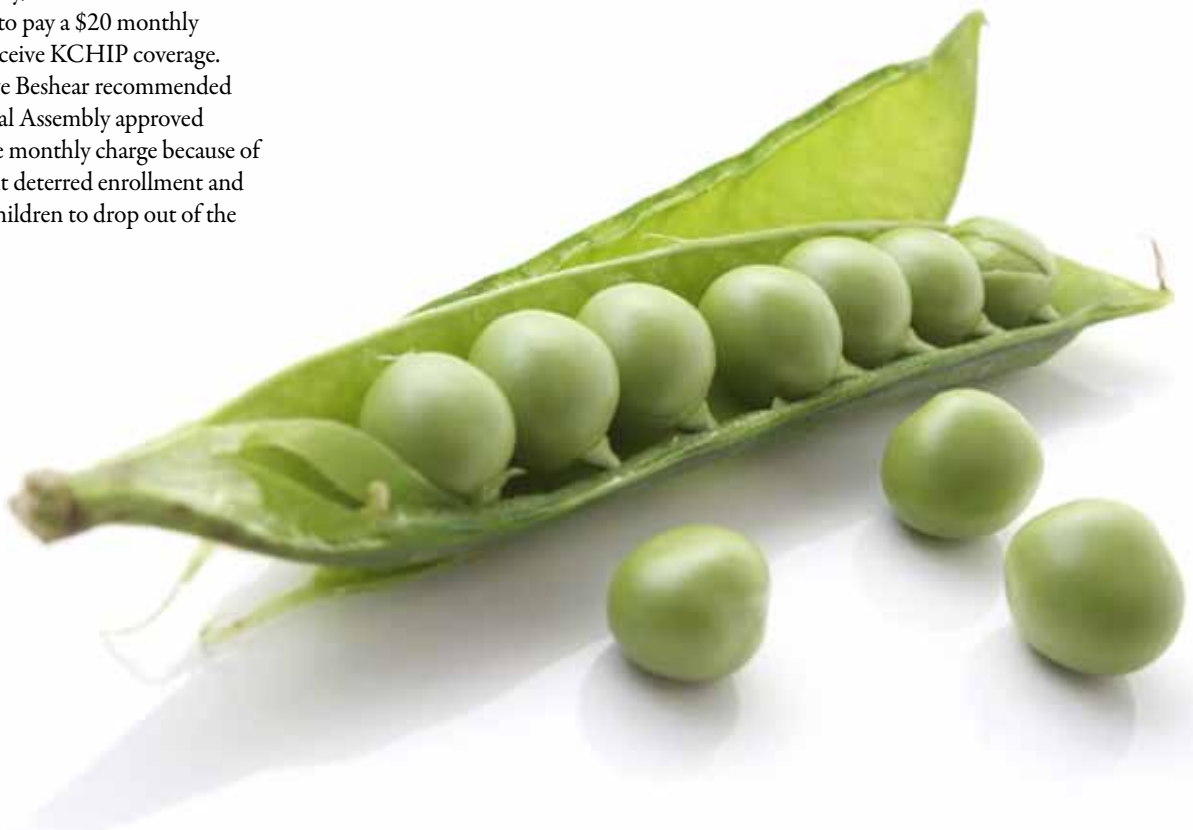
- \$23.5 million for capital development in community health centers
- \$1 million for health insurance premium review
- \$1 million for planning for a health insurance exchange in 2014
- \$4.3 million to support biomedical research
- \$1.3 million for prevention and public health
- \$1.8 million for projects to address health professions workforce needs
- \$1.4 million for Maternal, Infant and Early Childhood home visiting programs²⁰

Overall: Standing Still

Despite some positive developments as a result of new federal health reforms, the drop of Kentucky's national health ranking for the second consecutive year is cause for serious concern. Coupled with the lack of legislative action to provide employers with tools to incentivize wellness, Kentucky is **standing still** on the goal of promoting wellness and healthy Kentuckians.

Recommendations for Progress from the 2011 Kentucky Chamber Legislative Agenda

- Continue efforts to reduce smoking in Kentucky, including a statewide smoking ban in public places
- Increase the number of health care professionals
- Promote informed health care consumerism
- Expand the availability of health insurance free from state-mandated coverages
- Promote eHealth policies
- Promote competition in the health insurance market



Section 4

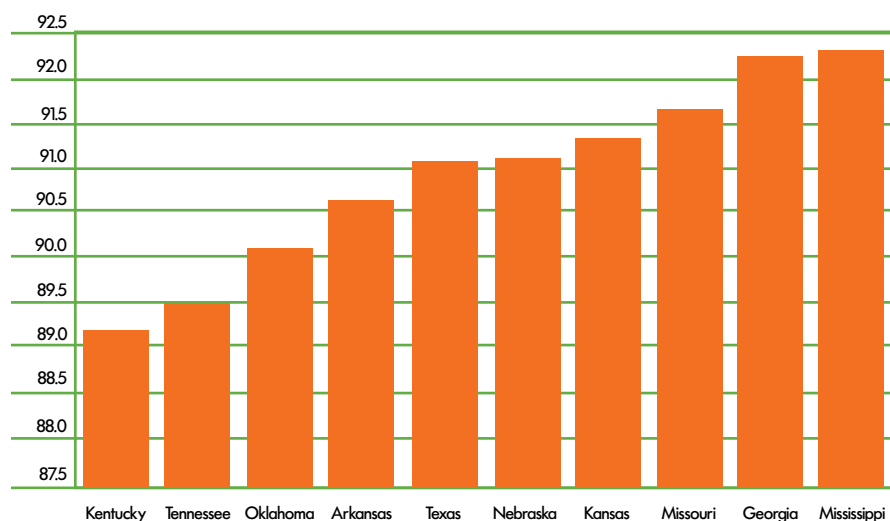
Preparing Kentucky to successfully compete in the global marketplace

Kentucky Economy At-A-Glance

Category	Kentucky	U.S.	Kentucky Rank
Total Population ²¹	4,339,435	309,050,816	26th
Cost of Doing Business Index ²²	90	100.0	9th lowest-cost state
Cost of Living Index ²³	89.25	100.0	1st lowest-cost state
Total State Taxes Paid ²⁴	\$9,531,507,000	\$704,554,611,000	23rd
State and Local Tax Burden As a Percent of Income ²⁵	9.3%	9.8%	30th
Per Capita Income ²⁶	\$33,348	\$40,584	44th
Gross Domestic Product ²⁷	\$141 Million	\$12.9 Trillion	28th
Poverty Rate ²⁸	17.3%	13.2%	2nd highest
Unemployment Rate (2010 Average) ²⁹	10.5%	9.6%	45th
Total Exports (2010) ³⁰	\$19.3 Billion	\$1.8 Trillion	19th



State with Lowest Cost of Living Indices 4th Quarter 2010



Source: Missouri Economic Research and Information Center, 2010.

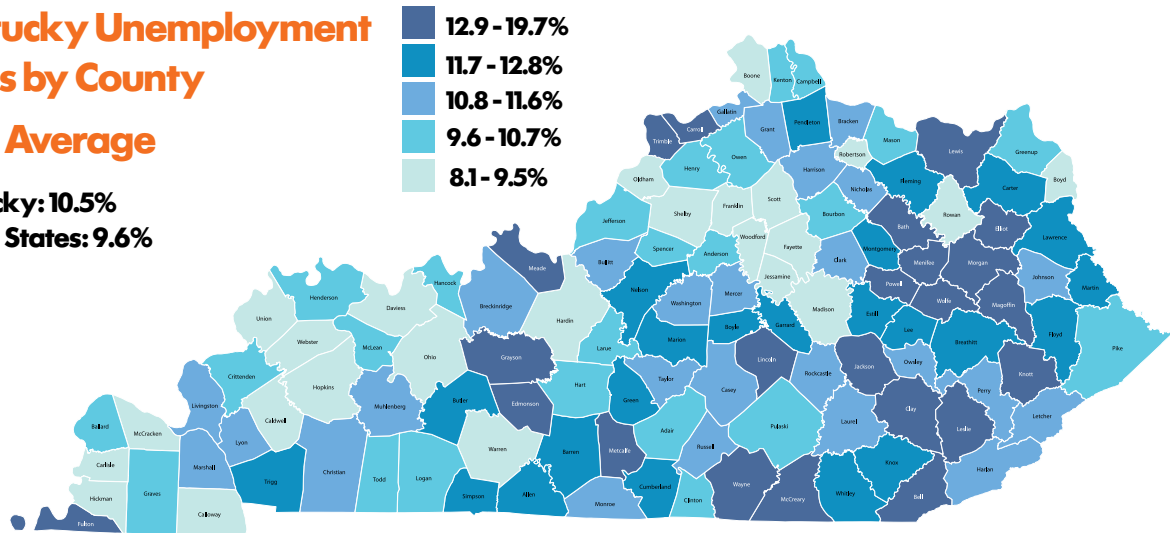
The state's economy, like the rest of the country, has faced a number of challenges in the past year. Kentucky's average unemployment rate in 2010 was 10.5% compared to 9.6% nationally. Unemployment rates fell in 108 counties between March 2010 and March 2011, while rates increased in 12 counties. Kentucky's economy has also contracted in recent years. From 2008 to 2009, the most recent period for which data is available, the state's economy declined by 1.8%. State gross domestic product fell to \$141.7 billion in 2009 from \$144.3 billion in 2008. Kentucky fared slightly better than the average state as, nationally, real GDP by state declined 2.1% in 2009.³¹



Kentucky Unemployment Rates by County

2010 Average

Kentucky: 10.5%
United States: 9.6%



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

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, unemployment insurance and property. Kentucky's business tax climate continues to improve in these rankings, moving up to 19th in 2011 from 20th in 2010. In 2010, Kentucky had moved up an impressive 14 spots, from 34th to 20th. Kentucky received high marks in the 2011 rankings for below-average sales tax rates, low excise tax rates, low property tax rates, and low maximum tax rates.³²

Economic momentum strong

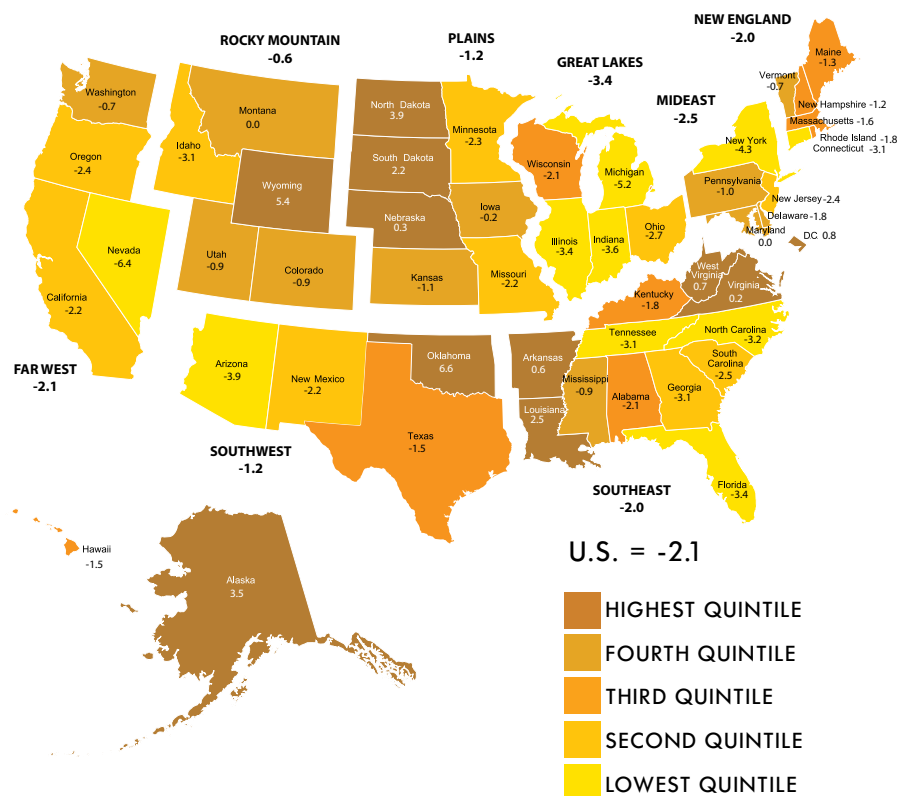
The Index of State Economic Momentum, developed by Federal Funds Information for States, quarterly ranks states performance in three key economic measures: personal income growth, employment growth and population growth. Kentucky ranked fifth among the 50 states in the March 2011 rankings.³³

Competitiveness ranking improves

Kentucky's ranking improved in the 2010 state competitiveness survey conducted annually by the Beacon Hill Institute. This ranking focuses on other factors important to business in addition to state fiscal policy (infrastructure, human resources, technology, etc.) and identifies advantages and disadvantages in each state. Kentucky was ranked 41st in the 2010 rankings, up from 43rd in 2009.

Percent Change in Real GDP by State, 2009-2010

Source: U. S. Bureau of Economic Analysis



Personal income up

Kentucky ranked third among the states for percentage growth in personal income from 2009 to 2010. The U.S. Bureau of Economic Analysis reports Kentucky's personal income – the income received by all residents from all sources – grew 4% from 2009 to 2010. The national average was 3%.³⁴

Kentucky's Competitive Advantages and Disadvantages: 2010 (1st is best)

Advantages	Rank	Disadvantages	Rank
Security (Crime rate)	16th	Fiscal Policy (workers' compensation rates, budget deficit, # of government employees)	43rd
Infrastructure (Electricity prices, travel time to work, housing costs)	21st	Human Resources (high school graduation rate, 4th grade math proficiency, % of adults in labor force, # of physicians per 100,000 residents, unemployment rate)	41st
Business Incubation (low minimum wage, union in workforce)	38th	Technology (academic R&D, science and engineering graduates, science & engineers as % of labor force, high technology jobs)	45th
Openness (exports and foreign investment)	17nd	Environmental Policy (toxic and carbon emissions, air quality)	36th

Source: State Competitiveness Report 2010, Beacon Hill Institute, Suffolk University

Overall: Moving Forward

Despite the negative impact of a sour economy, particularly in terms of unemployment and the state gross domestic product, the improvement in Kentucky's business tax climate and competitiveness rankings, along with the increase in state exports, means Kentucky is **moving forward** toward successfully competing in the global market.

Recommendations for Progress from the 2011 Kentucky Chamber Legislative Agenda

- Ensure a competitive tax climate
- Enact right-to-work legislation
- Revise the prevailing wage law
- Develop and maintain transportation and broadband infrastructure
- Promote an equitable civil justice system

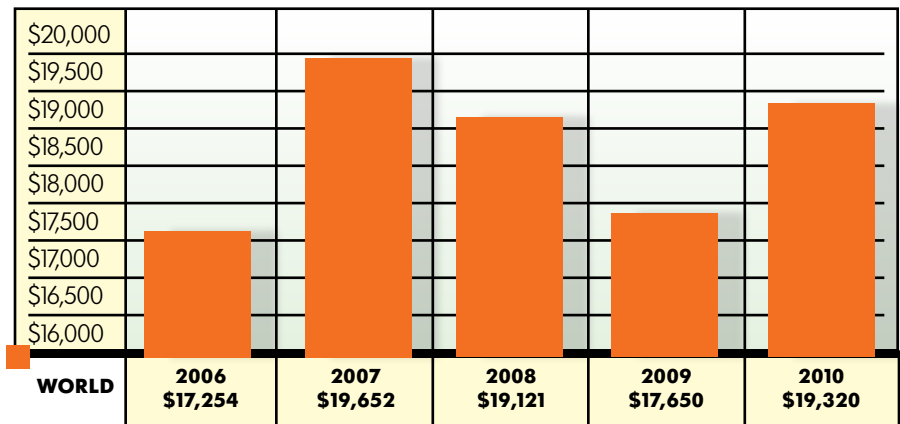
Business activity increases

The Kentucky Economic Development Cabinet reported that 186 new or existing Kentucky companies invested more than \$1.5 billion in 2010, creating 6,122 new full-time jobs. During the same period, Kentucky lost a reported 3,128 full-time jobs due to industrial facility closings. It is important to note that this was a significant improvement over the previous year, as investment is up by more than \$500 million and the total number of jobs lost to closings in 2010 was about half of the total number in 2009.

Exports up

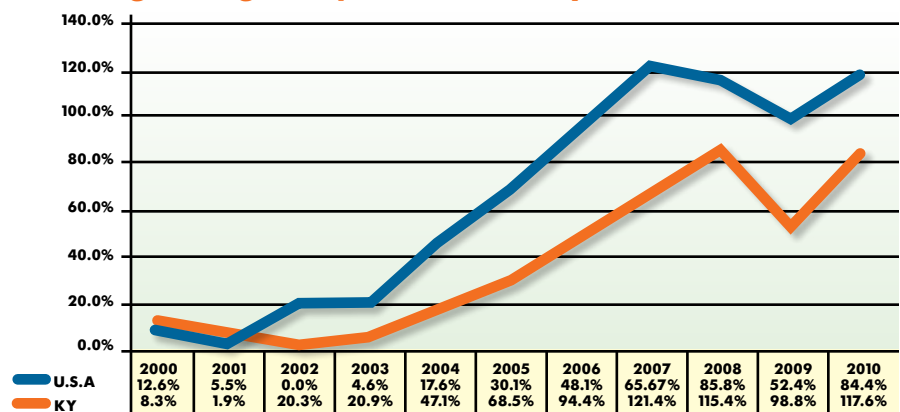
Kentucky's exports were up in 2010, increasing by more than \$2 billion over 2009, and the Commonwealth's total exports accounted for 1.5% of the nation's exports in 2010. From 2000 to 2010, Kentucky's total exports increased by 101%—the 16th highest increase among the states. Kentucky ranks 11th nationally in exports per capita, and the Cabinet for Economic Development estimates that exports contributed \$4.7 billion to Kentucky's gross domestic product. Kentucky's top exports are transportation equipment, chemicals, machinery and computers and electronic products.³⁵

Kentucky's Annual Exports to the World Values in Millions \$U.S. Dollars



Source: Derived from data provided by the Office of Trade and Industry Information, Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, tse.export.gov/TSEhome.aspx.

Percentage Change in Exports for Kentucky and the U.S. 1999 to 2010



Source: Derived from data provided by the Office of Trade and Industry Information (OTII), Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, tse.export.gov/TSEhome.aspx.

Section 5

Expanding Kentucky's role as an energy leader

Quick Facts about Kentucky Energy

- Kentucky ranks third in the nation in coal production. It accounts 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.
- The majority of Kentucky's natural gas is supplied by pipeline from the Gulf Coast.

The sectors of Kentucky's economy that use the most energy are, in order: industrial, transportation, residential and commercial.³⁶

In terms of the type of fuel used, coal counts for more than half of Kentucky's energy consumption, followed by petroleum, natural gas and renewable energy sources.³⁷

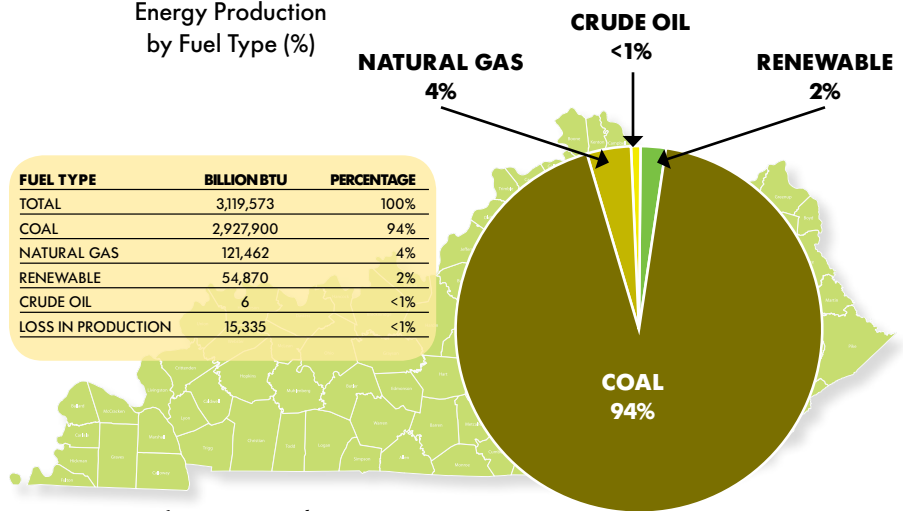
Competitive electric rates

Due to the abundance of coal, Kentucky's retail electric prices have traditionally been among the country's lowest. According to the U.S. Energy Information Administration, in January 2011 the national average retail price of electricity was 9.7 cents per kilowatt-hour (average of commercial, residential and industrial rates) compared to 6.95 cents for Kentucky—ranking Kentucky 7th among the 50 states (Wyoming, Idaho, Utah, Arkansas, North Dakota and Washington have lower overall electricity rates). Kentucky also ranks 7th in industrial rates.

Kentucky Total Energy Production 2008

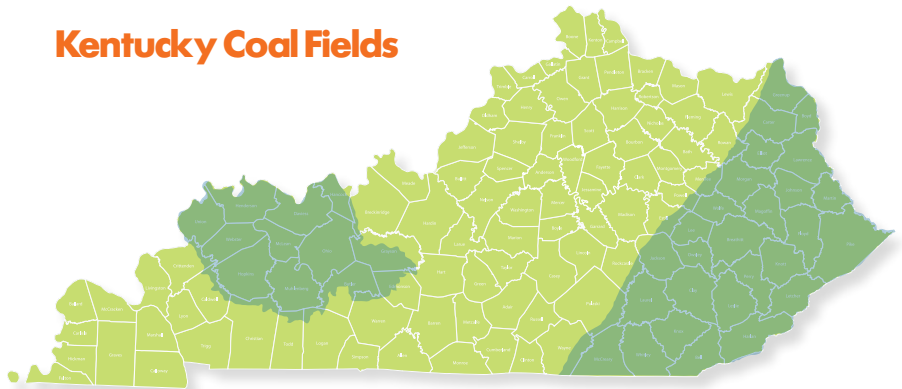
Energy Production by Fuel Type (%)

FUEL TYPE	BILLION BTU	PERCENTAGE
TOTAL	3,119,573	100%
COAL	2,927,900	94%
NATURAL GAS	121,462	4%
RENEWABLE	54,870	2%
CRUDE OIL	6	<1%
LOSS IN PRODUCTION	15,335	<1%



Source: Kentucky Energy Database, EEC-DEDI, 2010

Kentucky Coal Fields



Significant Developments

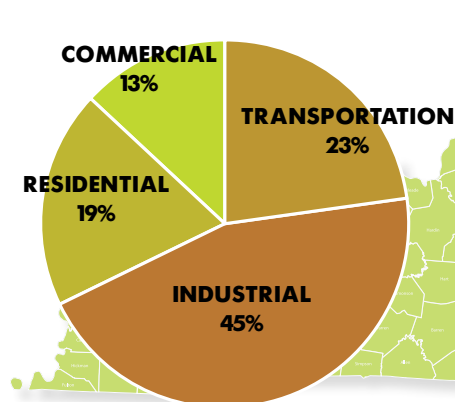
State pursues EPA litigation

In October 2010, the Beshear Administration joined the Kentucky Coal Association in a lawsuit filed in U. S. District Court against the U. S. Environmental Protection Agency for blocking state-issued

coal mining permits under the Clean Water Act. The administration said that "the arbitrary and unreasonable decisions being made by the EPA threaten to end the responsible mining of coal and eliminate the jobs of an estimated 18,000 Kentucky miners who depend on mining for their livelihood."³⁸ In May 2011 testimony before a congressional subcommittee, Kentucky Energy and Environment Cabinet Secretary

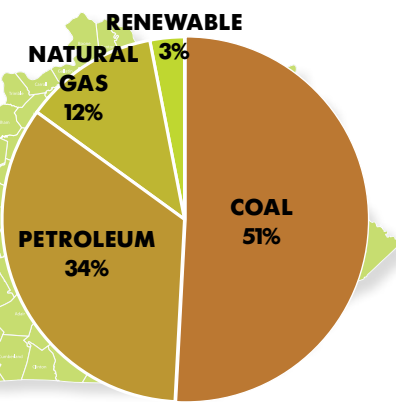
2008 Kentucky Total Energy Consumption

Consumption by Sector (%)



2008 Kentucky Total Energy Consumption

Consumption by Fuel Type (%)



Source: Kentucky Energy Database, EEC-DEDI, 2010

Len Peters said the EPA refused to talk with states regarding the issuance of coal mining permits and noted that the EPA objected to permits it had supported a year earlier.³⁹

Renewable energy lab breaks ground

Construction began in October 2010 on a new renewable energy research laboratory at the University of Kentucky's Center for Applied Energy Research. The \$19.8 million laboratory, funded by a competitive grant from the National Institute of Standards and Technology and state funds, will focus on renewable energy industries, such as biomass and biofuels; electrochemical power sources, such as capacitors and batteries for electric vehicles; and distributed solar energy technologies. The 43,000-square-foot research facility will be a "living laboratory" that will include interpretive displays and activities for school children and visitors related to the building's energy consumption and the work being done in the facility.⁴⁰

Research focuses on alternative fuels

A new research facility at Eastern Kentucky University – the Center for Renewable and Alternative Fuel Technologies (CRAFT) – features two large laboratories for biomass analysis and algae research. The center will

focus on the cellulosic-derived biofuel initiative, which converts biomass, such as switchgrass, into usable transportation fuels. Sugars from the biomass can be fed to specialized algae that produce large quantities of oil for conversion to biodiesel and jet fuel.⁴¹

The University of Kentucky also has received a \$6.9 million grant to reduce America's reliance on imported oil. UK researchers will work with the University of Wisconsin, the Oak Ridge National Laboratory and Agricultural Research Services to study the process of growing switchgrass and miscanthus to create biofuel for farm machinery.⁴²

State energy efficiency score slips

The American Council for an Energy-Efficient Economy produces annual energy efficiency scorecards that rank states in such categories as building codes, utility efficiency programs, tax incentives, transportation policies and state government practices. The 2010 scorecard ranked Kentucky 36th among the states, down three spots from its 2009 ranking of 33rd. Kentucky received low scores for efficiency programs and policies, transportation (vehicle fuel consumption) and appliance efficiency.⁴³

Companies garner stimulus funds for energy efficiency

In August 2010, three Kentucky companies received \$3.35 million in federal stimulus funds for energy efficiency upgrades. Companies receiving funding were the General Electric Company in Louisville (\$2.5 million), Arch Chemicals Inc. in Brandenburg (\$450,000), and International Paper Company in Henderson (\$400,000). The purpose of the funding is to accelerate energy efficiency and renewable energy industrial projects that create or retain jobs while saving energy and reducing carbon emissions. Companies were selected using a competitive process that scored applicants on criteria that included potential energy savings per dollar invested, jobs created or saved, private dollar match and degree of investment/impact in the local community.⁴⁴

Overall: Moving Forward

Despite Kentucky's drop in state energy efficiency rankings, the fact that significant new research efforts are under way in battery technology and biofuels means that Kentucky is **making progress** toward expanding its role as an energy leader.

Recommendations for Progress from the 2011 Kentucky Chamber Legislative Agenda

- Strive for energy independence and a pro-energy economic policy
- Adopt a sensible regulatory approach
- Encourage a comprehensive energy strategy





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During the 2011 General Assembly, the Kentucky Chamber continued its fight for legislation that is good for your business, working toward these goals:



Improving the education attainment level of Kentuckians.



Modernizing government at all levels.



Promoting wellness and healthy Kentuckians.



Preparing Kentucky to successfully compete in the global marketplace.



Expanding Kentucky's role as an energy leader.

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