



READY FOR JOBS?

HOW KENTUCKY
STACKS UP AS A PLACE
TO DO BUSINESS

JULY 2012



Kentucky Chamber
Uniting Business. Advancing Kentucky.



Kentucky Chamber

Uniting Business. Advancing Kentucky.

Uniting Business. Advancing Kentucky. From its beginnings more than 60 years ago, the Kentucky Chamber of Commerce has evolved into the premier business association in the state. Today, the Kentucky Chamber represents 2,700 member businesses – from family-owned shops to Fortune 500 companies – that employ over half of the Commonwealth's workforce. In 2011, the Chamber was awarded the status of being an Accredited State Chamber by the U.S. Chamber of Commerce.

The Kentucky Chamber's powerful grassroots network, through a partnership with more than 80 local chambers in the state, consists of 25,000 professionals. Strength in numbers continues to help the Chamber influence policymakers in areas such as business taxation and fiscal policy, environmental and safety issues and workers' compensation, health care and education reform.

Our mission is not always easy, but the Kentucky Chamber continues to provide leadership as a catalyst, consensus-builder and advocate to unite business and advance Kentucky.

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Ready for Jobs?

MOVING KENTUCKY FORWARD ...



Kentucky is a proud state, and rightly so. Our natural beauty, industrious citizens, strong family ties, championship sports teams and rich heritage of horses, music and bourbon are among the many reasons we at the Kentucky Chamber of Commerce are proud to call the Commonwealth home. But with this pride comes the responsibility to make sure the proper elements are in place to allow Kentucky to grow and improve for the benefit of future generations.

The Kentucky Chamber believes the path to prosperity lies in fostering conditions that promote the creation and expansion of jobs and the businesses that provide them.

With seven states along our border and technology making it increasingly easy for businesses to locate anywhere, it is essential that Kentucky maintain a competitive edge in the race for jobs and economic growth.

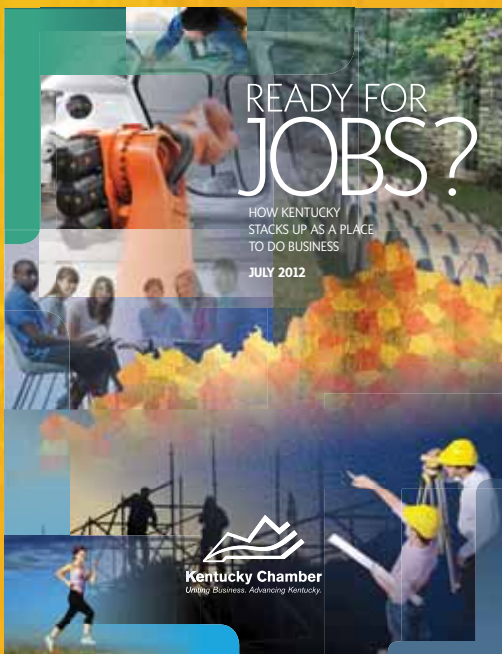
To determine how Kentucky compares with other states, the Chamber has undertaken a review of the key elements we believe make up the Commonwealth's business climate. From business taxes to employment policies to education attainment to health status, we have endeavored to take a balanced, unflinching look at how Kentucky stacks up.

The data and rankings we present in this report come primarily from national organizations and government agencies. The results are not always flattering. While Kentucky compares well in some areas, in many others we are falling behind.

This report shows we have serious work to do to make Kentucky a more competitive place to do business and achieve economic prosperity. We offer specific policy recommendations in each area that will improve our competitive position.

It is our hope the information in this report will promote action to create policies that will help businesses grow, create good jobs and build a stronger future for all Kentuckians. The Kentucky Chamber stands ready to work in a constructive partnership with policymakers and other businesses and organizations to achieve our shared goal of moving the state forward.

Dave Adkisson
President and CEO
Kentucky Chamber of Commerce



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Conclusion

Rankings Matter



In education, top-ranked universities attract the best students, and top-performing graduates get the best jobs and enjoy higher earnings. Highly ranked businesses attract more customers and investors, have higher earnings and create jobs through expansion. Top-ranked athletic teams attract the best players and win more championships. In short, excellence is rewarded.

This is particularly true in the competition for jobs and economic growth. States with a good business climate have greater opportunities to attract investment, create jobs and build more robust economies than states that rank poorly. A good business climate that spurs economic growth also benefits the state as a whole by generating more revenue from the taxes paid by new or expanded businesses and their employees.

This report examines how Kentucky compares to other states on key indicators of a competitive business environment:

- **Economic Climate:** An overview of Kentucky's economy and the cost of doing business.
- **Regulatory and Tax Environment:** Rankings of Kentucky tax and regulatory policies that have an impact on business.
- **Employment Climate:** How Kentucky compares with other states on workers' compensation, unemployment insurance, right-to-work legislation and other indicators.
- **Education and Worker Training:** Kentucky's performance on such key rankings as college and career preparation, overall education attainment and others.
- **Quality of Life:** How health and well-being in Kentucky rank with other states.
- **Infrastructure:** The relative condition of the state's roads and bridges.
- **Government Policy:** State government spending trends and debt levels.

The report also addresses the importance of protecting and promoting such key sectors as coal, bourbon, manufacturing and the equine industry, along with policy recommendations to enhance each industry.

The purpose of this report is to provide a look at the Commonwealth from the point of view of current and potential employers, using indicators to show how well Kentucky is doing in providing a business climate that encourages job growth through business creation, expansion and investment. Each section includes specific policy recommendations for improving Kentucky's performance and moving the state – and its economy – forward.

An overall assessment of how Kentucky measures up in the competition for jobs and economic growth is presented in the chart below summarizing the key data presented in each section.



CURRENT RANKINGS | AT-A-GLANCE

AREA	STRENGTHS	WEAKNESSES
ECONOMIC CLIMATE	Cost of doing business Cost of living Energy Costs (7 th)	Poverty rate (5 th) Unemployment rate (39 th) Economic mobility
REGULATORY & TAX ENVIRONMENT	Tax climate (22 nd)	Regulatory environment (30 th) Tort liability Total tax burden as a % of income (30 th)
EMPLOYMENT CLIMATE	Health insurance costs (41 st) Workers' compensation rates (31 st)	No right-to-work law Unemployment insurance rates
EDUCATION	Increasing college enrollment and degrees Improvement in national ranking (14 th)	Low overall education attainment (45 th) Low but improving ACT scores
QUALITY OF LIFE	Low cost of living Low crime rate	Health status (43 rd) Well-being ranking (49 th)
INFRASTRUCTURE	Highways (14 th) Fuel taxes	Urban interstate congestion Fatality rates
GOVERNMENT SPENDING & DEBT	Progress in limiting spending for corrections, Medicaid, public employee health insurance	State spending per capita (20 th) State debt (12 th) Pension debt (8 th)

Economic Climate

The economic climate of a state is a ready indicator of how well it is positioned to grow. Businesses and families have a better chance to succeed in a state with low unemployment, low poverty rates, lower costs of living and doing business and higher economic growth. A successful state will also attract more residents, businesses and investment as people naturally gravitate to places that are doing well.

KENTUCKY'S ECONOMY AT A GLANCE: 2012

CATEGORY	KENTUCKY	U.S.	Kentucky Rank
Total Population ¹	4,369,356	311,591,917	26 th
Per Capita Income ²	\$33,667	\$41,663	47 th
Poverty Rate ³	19.0%	15.3%	5 th Highest
Gross Domestic Product (2011) ⁴	\$164.7 Billion	\$14.5 Trillion	28 th
Unemployment Rate (2011 Average) ⁵	9.5%	8.9%	39 th
Total Exports (2011) ⁶	\$20.06 Billion	\$1.48 Trillion	20 th

COST OF DOING BUSINESS: With an economy that ranks 28th among the states in terms of gross domestic product, Kentucky enjoys a low cost of doing business. A CNBC special report, *America's Top States for Business 2011*, ranked Kentucky as the nation's fourth lowest-cost state for doing business. Key low-cost factors influencing the ranking included wages, taxes, utilities and office and industrial space.

COST OF LIVING: Kentucky routinely has one of the lowest costs of living in the country. The CNBC report ranked the Commonwealth as having the lowest cost of living in 2011. A similar ranking prepared by the Council for Community and Economic Research put Kentucky at No. 4 in lowest cost of living.⁷

INCOME/POVERTY: Kentucky's low cost of living is related to our low level of personal income. Kentuckians' per capita income of \$33,667 is only 80% of the national average (a level it has maintained for decades) ranking us near the bottom of the states at 47th. Kentucky also has the fifth highest poverty

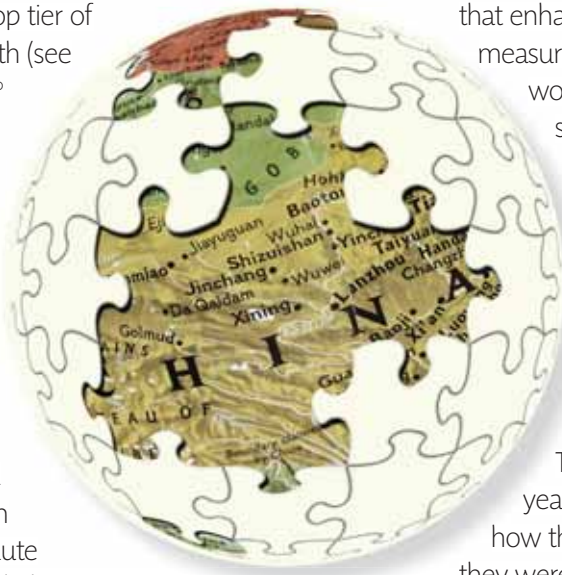
rate, with 19% of its citizens living below the poverty level compared to the national average of 15.3%. More than one-third (43) of Kentucky's counties have poverty rates of 20% or higher.

EXPORTS: Totaling more than \$20 billion, Kentucky exports increased 3.74% from 2010 to 2011 (from \$19.3 billion to \$20.06 billion). Kentucky ranks eighth among the states in exports per capita at \$3,569 (national average is \$2,594) and 20th in total exports.⁸ Canada is Kentucky's largest export foreign market, followed by the United Kingdom, Mexico, Japan, Germany, Brazil and the Netherlands. Kentucky's top exports are: transportation equipment, chemicals, machinery and computers and electronic products.⁹

ECONOMIC GROWTH: Kentucky's economy is in recovery from the recession – growing faster than the national average from 2009 to 2010 (the most recent year for which official data is available from the U. S. Bureau of Economic Analysis). From 2009 to 2010, Kentucky's real gross

domestic product (which is adjusted for inflation) grew 3.2%, compared to a national average of 2.6% placing Kentucky in the top tier of states for economic growth (see map on following page).¹⁰

Kentucky ranked 32nd among the states in economic performance over the past decade, according to the 2012 edition of *Rich States, Poor States*.¹¹ The report ranked states on their economic performance from 2000 to 2010 based on three variables: growth in personal income, absolute domestic migration (people leaving the state) and growth in non-farm payroll.



BUSINESS INCUBATION: The annual Beacon Hill Institute State Competitiveness Report ranks elements in each state that enhance its level of competitiveness. Business incubation measures factors such as venture capital investment per worker, deposits in commercial banks and employer start-ups. Kentucky ranked 32nd among the states in business incubation in the 2011 rankings.¹²

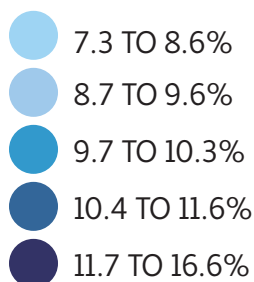
ECONOMIC MOBILITY: In April 2012, the Pew Center on the States released *Economic Mobility of the States*, an analysis of the ability of the citizens of each state to improve their earnings. The report identifies the states where residents are most likely to move up, or down, the economic ladder.

The study focused on adults in their prime working years, between the ages of 35 and 39, and examined how their earnings either rose or fell 10 years later when they were between the ages of 45 and 49. Economic mobility was measured in several ways: absolute mobility, measuring

UNEMPLOYMENT RATE: Kentucky's annual average unemployment rate for 2011 was 9.5%. According to the Kentucky Office of Employment and Training, "the Kentucky economy clearly made strides in recovering from the recession. All three components of Kentucky's labor force made significant shifts in the right direction: the civilian labor force expanded, employment went up, and the number of unemployed declined by more than 13,000."¹³ Although the 2011 unemployment rate improved significantly from the 2010

rate of 10.2%, the jobless rate in the Commonwealth was still higher than the national average of 8.9%. (Only Georgia, Illinois, Michigan, Florida, North Carolina, Mississippi, South Carolina, Rhode Island, California and Nevada had higher unemployment rates than Kentucky in 2011.¹⁴) A report from HIS Global Insight predicts that employment in Kentucky will not reach the pre-recession peak level until the third quarter of 2014.¹⁵

KENTUCKY UNEMPLOYMENT RATES* BY COUNTY | 2011 ANNUAL AVERAGE

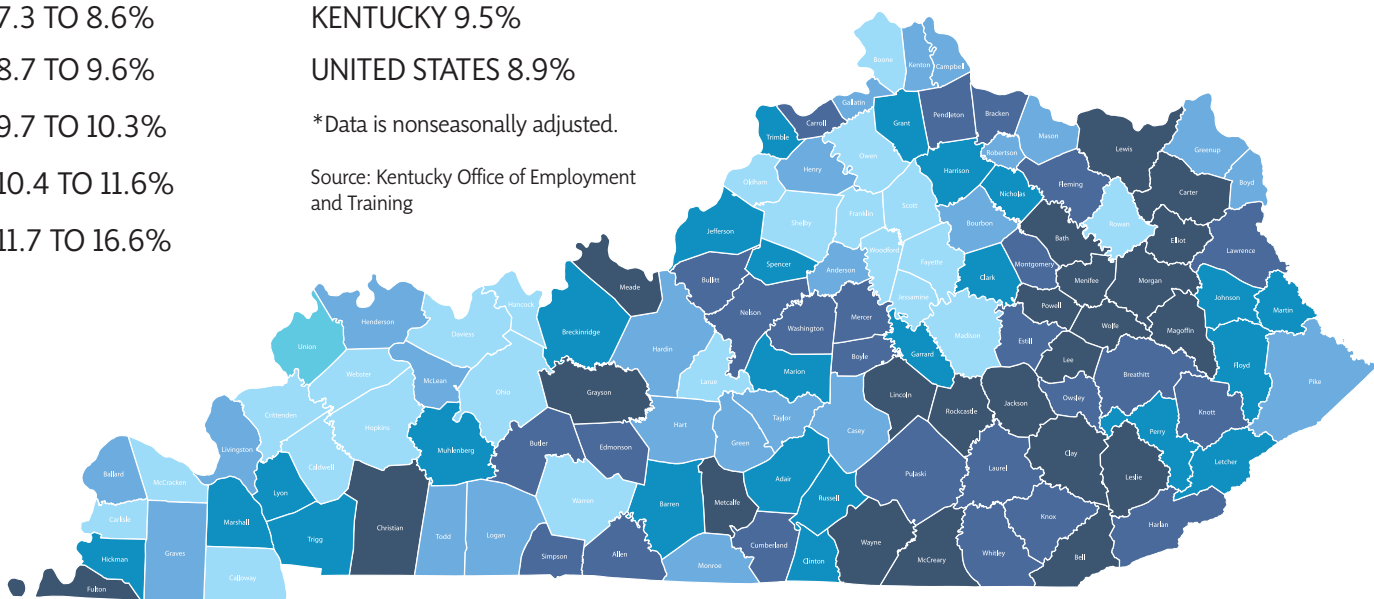


KENTUCKY 9.5%

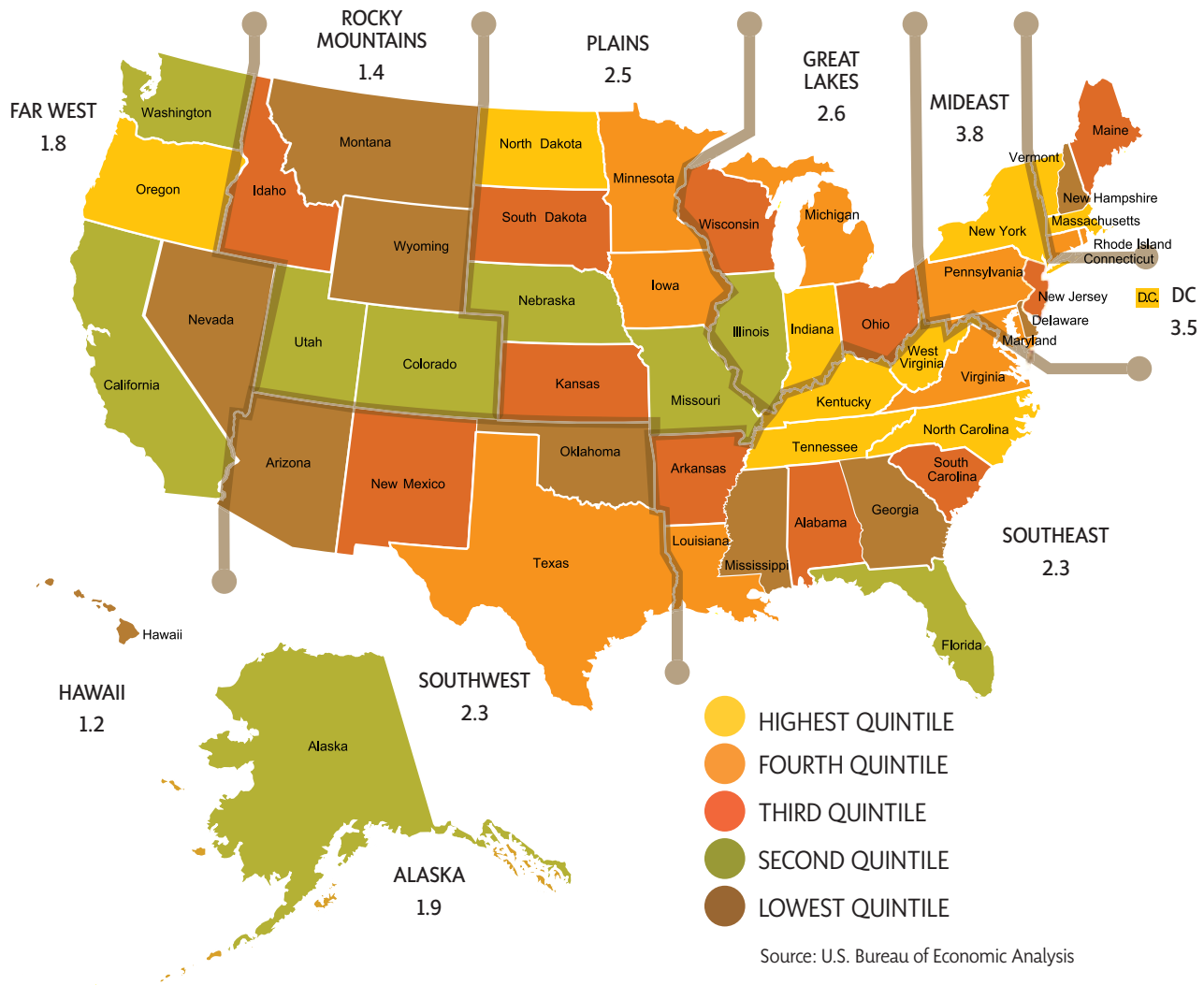
UNITED STATES 8.9%

*Data is nonseasonally adjusted.

Source: Kentucky Office of Employment and Training



PERCENT CHANGE IN REAL GDP BY STATE| 2009 - 2010



average earnings growth over time; upward and downward relative mobility, measuring how a person ranks on the earnings ladder relative to his/her peers; and a person's movement on the earnings ladder.

Kentucky was one of nine states (including Texas, Oklahoma, Louisiana, Mississippi, Alabama, Florida, North Carolina and South Carolina) where economic mobility trails the national average.¹⁶ The bottom line from the study is that Kentuckians are less likely to improve their economic standing at the end of their prime working years than are typical Americans.

ENERGY COSTS: Due to an abundance of coal, Kentucky's retail electric prices have traditionally been among the country's lowest. Kentucky has the lowest cost of electricity in the industrial sector among the states east of the Mississippi River, and the seventh lowest industrial rate in the country at 5.17 cents per kilowatt-hour (compared to a

national average of 6.52 cents).¹⁷ (See chart on next page.) Kentucky's energy outlook is not all optimistic, however. Given Kentucky's reliance on coal for electricity generation, our low electric rates are vulnerable to additional costs imposed by federal carbon legislation. Over the past decade, Kentucky's electricity prices have risen around 5% a year. In 2011, Kentucky's electric rates rose an average of 5.6%, the ninth-highest increase in the nation. If these trends continue, Kentucky's competitive advantage in the cost per kilowatt hour for industrial sectors will be greatly diminished; this would threaten the energy-intensive aluminum, automotive and paper manufacturing facilities in the state.¹⁸

According to the U.S. Energy Information Administration, at 8.88 cents per kilowatt-hour, only seven states (Missouri, Nebraska, Arkansas, Louisiana, Washington, North Dakota and Idaho) had lower residential electricity prices than Kentucky as of February 2012.

Kentucky Energy Facts

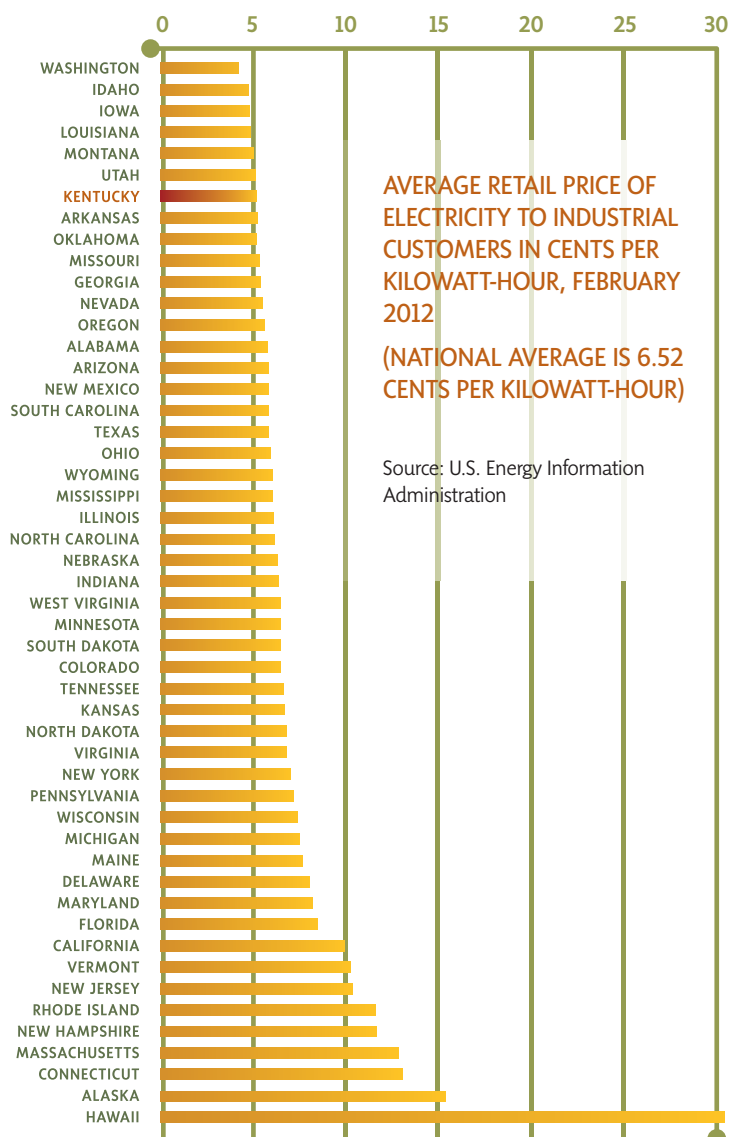
- Kentucky ranks third in the nation in coal production, after Wyoming and West Virginia. It accounts for about one-tenth of U.S. coal production and nearly one-fourth of U.S. production east of the Mississippi River.
- Nearly one-third of all the coal mines in the nation are found in Kentucky.
- Coal-fired 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.

- Kentucky's per capita consumption of residential electricity is among the highest in the United States. More than two-fifths of Kentucky households use electricity as their primary energy source for home heating.

Source: Kentucky Energy Profile, U.S. Energy Information Administration

Recommendations to Improve Kentucky's Ranking

- Strengthen economic development incentive programs by expanding angel investor and technology reinvestment tax credits.
- Repeal or revise the prevailing wage law.
- Grow Kentucky's exports by providing export training and promoting the benefits of global trade to the business community.
- Aggressively pursue partnerships and programs to increase exports from Kentucky.
- Continue to work to maintain Kentucky's low-cost utility rates.



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Regulatory and Tax Environment

The cost of state taxes and regulations imposed on business is an important factor in business profitability and growth. With the global economy creating ever-thinner profit margins, government-imposed costs can mean the difference between profit or loss for many businesses. States that impose lower costs on businesses will be more competitive in attracting new investment and generating economic growth.

BUSINESS TAX CLIMATE: The State Business Tax Climate Index, compiled annually by the Tax Foundation, a nonpartisan Washington, D.C., tax research group founded in 1937, ranks the tax climate for business in the 50 states based on the impact of five major taxes: corporate, individual income, sales, unemployment insurance and property. Kentucky ranked as the 22nd best state on business taxes in the 2012 rankings—moving down three spots from 19th in 2011. Kentucky moved up 14 spots in 2010, from 34th to 20th, because the Commonwealth had not followed many other states in raising business taxes during the recession to make up for declining revenues.¹ (See chart to right for detailed rankings.)

Kentucky received good marks in the 2012 rankings for below-average sales tax rates and low property tax rates. Factors that hurt Kentucky's 2012 ranking included: high maximum unemployment tax rates, the imposition of a state alternative minimum tax on corporations, failure to index corporate tax brackets and the imposition of local option income taxes (known as occupational taxes in Kentucky) on top of state individual income taxes.²

2012 STATE
BUSINESS TAX
CLIMATE INDEX
RANKS AND
COMPONENT TAX
RANKS

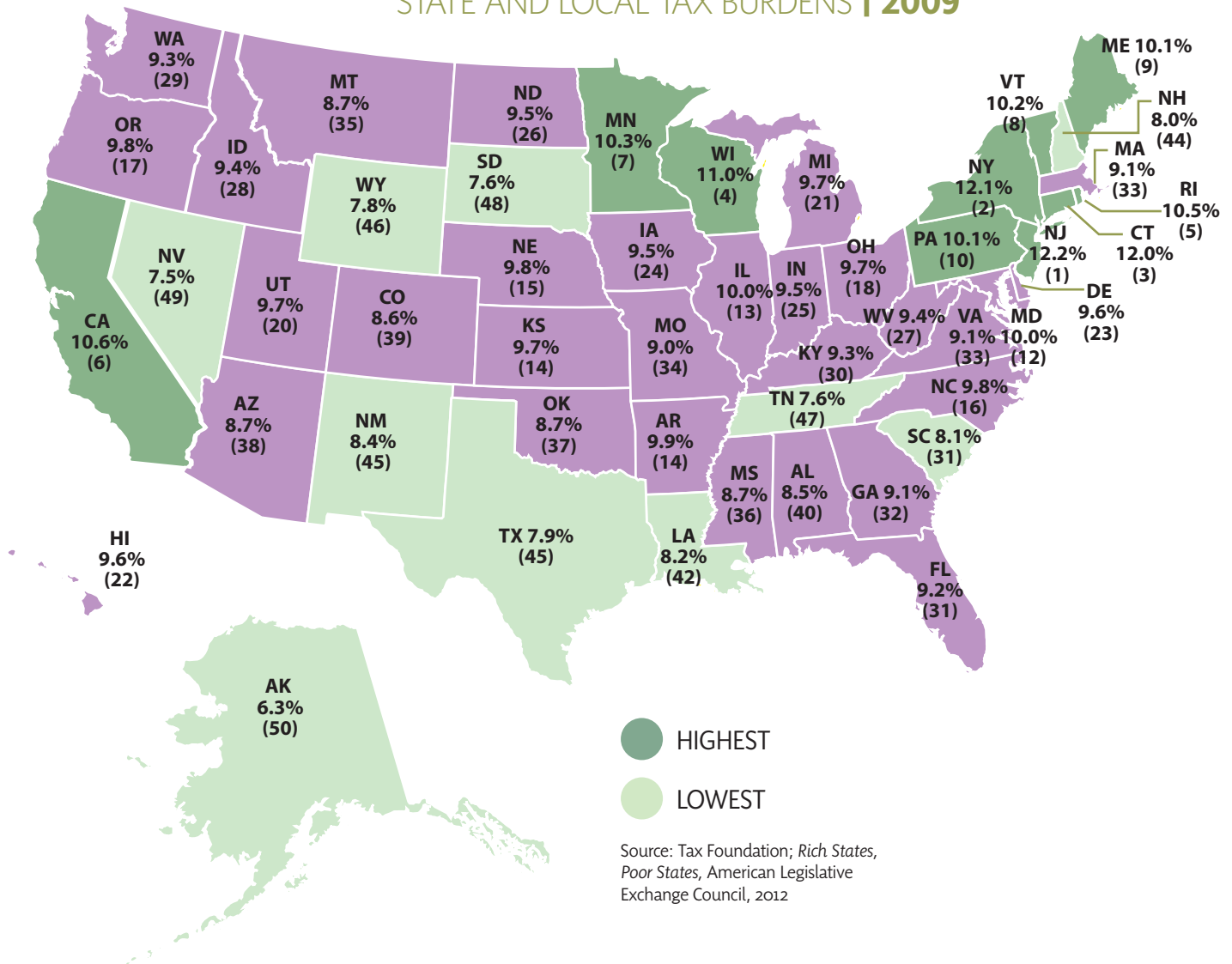
STATE	OVERALL RANK	CORPORATE TAX RANK	INDIVIDUAL INCOME TAX RANK	SALES TAX RANK	UNEMPLOYMENT INSURANCE TAX RANK	PROPERTY TAX RANK
Alabama	20	16	18	41	11	6
Alaska	4	27	1	5	28	13
Arizona	27	28	17	50	1	5
Arkansas	31	36	27	38	17	18
California	48	43	50	40	13	17
Colorado	16	20	16	44	23	9
Connecticut	40	25	31	30	32	50
Delaware	12	50	28	2	3	14
Florida	5	12	1	19	5	24
Georgia	34	9	40	12	22	39
Hawaii	35	4	41	31	30	15
Idaho	21	19	26	23	48	2
Illinois	28	45	13	33	43	44
Indiana	11	18	10	11	16	11
Iowa	41	48	32	25	35	36
Kansas	25	35	21	32	6	28
Kentucky	22	26	25	8	47	19
Louisiana	32	17	24	49	4	23
Maine	37	47	30	10	40	38
Maryland	42	14	46	9	45	40
Massachusetts	24	34	15	17	49	47
Michigan	18	49	11	7	44	30
Minnesota	45	42	44	36	34	26
Mississippi	17	11	19	28	8	29
Missouri	15	8	23	26	9	7
Montana	8	15	20	3	20	8
Nebraska	30	33	29	27	12	37
Nevada	3	1	1	42	42	16
New Hampshire	6	46	9	1	39	41
New Jersey	50	39	48	46	25	49
New Mexico	38	38	33	45	14	1
New York	49	23	49	37	46	45
North Carolina	44	29	43	47	7	35
North Dakota	29	21	35	15	31	4
Ohio	39	22	42	29	10	33
Oklahoma	33	7	38	39	2	12
Oregon	13	31	34	4	33	10
Pennsylvania	19	44	12	21	37	42
Rhode Island	46	40	36	24	50	46
South Carolina	36	10	39	20	38	21
South Dakota	2	1	1	34	41	20
Tennessee	14	13	8	43	27	48
Texas	9	37	7	35	15	31
Utah	10	5	14	22	24	3
Vermont	47	41	47	14	19	43
Virginia	26	6	37	6	36	27
Washington	7	30	1	48	18	22
West Virginia	23	24	22	18	26	25
Wisconsin	43	32	45	16	21	32
Wyoming	1	1	1	13	29	34

Note: A rank of 1 is more favorable for business than a rank of 50. Rankings do not average to total. States without a given tax rank equally as 1. Report shows tax systems as of July 1, 2011 (the beginning of Fiscal Year 2012). Source: Tax Foundation.

TAX BURDEN: The Tax Foundation ranks Kentucky as 22nd highest in the nation based on total state taxes paid. Although we rank near the bottom of the states in income, Kentucky ranks 30th in state and local tax burden as a percentage of income and 26th among the states in total state tax collections per capita. Kentucky ranks 31st in state corporate income tax collections per capita, at \$89 per person, compared to a national average of \$124 per person.

CATEGORY	KENTUCKY	U.S.	KENTUCKY RANK
Total State Taxes Paid ³	\$10,203,241,000	\$757,254,745,000	22 nd Highest
State and Local Tax Burden As a Percent of Income ⁴	9.3%	9.8%	30 th
Total State Tax Collections Per Capita ⁵	\$2,200	\$2,287	26 th
State Corporate Income Tax Collections Per Capita	\$89	\$124	31 st
Source: The Tax Foundation			

STATE AND LOCAL TAX BURDENS | 2009



The 2012 edition of *Rich States, Poor States* examined economic growth in states that had a high combined state and local tax burden compared to states with low total tax burdens. The study found higher economic growth from 2001 to 2010 in low tax burden states, like Tennessee and Texas, compared with higher tax burden states like California and New York.⁶ (Kentucky's total tax burden is ranked at 30th among the states.)

LEGAL LIABILITY: An estimated 2.2% of the U.S. gross domestic product is devoted to tort costs.⁸ The Tort Liability Index, prepared by the Pacific Research Institute, measures which states impose the highest and lowest tort liability costs and also assesses litigation risks across the states. States are also ranked according to their tort rules and reforms that reduce litigation costs and risks (such as award caps).

	STATE & LOCAL TAX BURDEN AS % OF INCOME	GROSS STATE PRODUCT GROWTH	NON-FARM PAYROLL EMPLOYMENT GROWTH	POPULATION GROWTH	STATE & LOCAL TAX REVENUE GROWTH
9 States with Lowest Total Tax Burden	7.67%	58.57%	4.72%	12.34%	120.94%
U.S. Average	9.38%	46.61%	0.51%	8.63%	70.23%
Kentucky	9.3%	40.44%	-2.4%	8.1%	Not Reported In Study
9 States with Highest Total Tax Burden	11.02%	38.24%	-2.89%	3.78%	57.46%

Source: *Rich States, Poor States*, American Legislative Exchange Council, 2012

REGULATORY ENVIRONMENT: *Forbes* magazine publishes an annual ranking of the best states for business based on six categories: business costs, labor supply, regulatory environment, economic climate, growth prospects and quality of life. The ranking of the regulatory environment includes metrics influenced by government, such as tax incentives and economic development efforts, bond ratings, infrastructure and whether a state is a right-to-work state.⁷

In the 2011 rankings, *Forbes* ranked Kentucky's regulatory environment as 30th among the states and gave the Commonwealth an overall ranking of 25th based on all six categories. The top 10 states with the best and worst regulatory environments were:

BEST REGULATORY ENVIRONMENT

1. NORTH CAROLINA
2. VIRGINIA
3. GEORGIA
4. TEXAS
5. SOUTH CAROLINA
6. TENNESSEE
7. ALABAMA
8. UTAH
9. MISSOURI
10. OHIO

WORST REGULATORY ENVIRONMENT

41. ALASKA
42. CONNECTICUT
43. DELAWARE
44. WYOMING
45. MAINE
46. HAWAII
47. VERMONT
48. NEW HAMPSHIRE
49. WEST VIRGINIA
50. RHODE ISLAND

Source: *Best States for Business 2011*, Forbes

The most recent index, released in 2010, ranks states on two sets of variables: output variables that affect tort liability, such as monetary tort losses and tort litigation risks; and input variables, such as award caps, substantive-law rules and procedural and structural items. Kentucky ranked 43rd for input variables and 36th for output variables (which included a ranking of 26th in the nation for \$1.66 billion in total tort losses, No. 1 in the country for farm owners' losses and a ranking of 20th for litigation risk).⁹

The index uses the input and output rankings to categorize states into one of four groups:

- 1. SAINTS:** States that have low tort costs and risks and strong tort laws
- 2. SINNERS:** States that have high tort costs and risks and weak laws
- 3. SUCKERS:** States that have weak tort laws but have low tort costs and risks
- 4. SALVAGEABLES:** States that have moderate to high tort costs and risks but have moderate to strong tort rules

The 2010 Index categorizes Kentucky as a "sinner" state for tort liability. The report notes: "(I)n 2006, job growth was 57 percent greater in the 10 states with the best tort climates than in the 10 states with the worst tort climates ... and state GDP grew 25 percent faster."¹⁰

SAINTS, SINNERS, SALVAGEABLES, AND SUCKERS

STATE	OUTPUTS RANKING	INPUTS RANKING	CLASSIFICATION
ALABAMA	25	33	SINNER
ALASKA	1	16	SAINT
ARIZONA	16	31	SALVAGEABLE
ARKANSAS	30	24	SINNER
CALIFORNIA	41	27	SINNER
COLORADO	32	4	SALVAGEABLE
CONNECTICUT	42	29	SINNER
DELAWARE	20	23	SALVAGEABLE
FLORIDA	48	21	SALVAGEABLE
GEORGIA	28	8	SALVAGEABLE
HAWAII	2	41	SUCKER
IDAHO	7	20	SUCKER
ILLINOIS	47	46	SINNER
INDIANA	29	11	SALVAGEABLE
IOWA	10	40	SUCKER
KANSAS	12	7	SAINT
KENTUCKY	36	43	SINNER
LOUISIANA	11	12	SAINT
MAINE	6	42	SUCKER
MARYLAND	24	44	SINNER
MASSACHUSETTS	17	10	SALVAGEABLE
MICHIGAN	43	6	SALVAGEABLE
MINNESOTA	26	47	SINNER
MISSISSIPPI	21	5	SALVAGEABLE
MISSOURI	45	25	SINNER
MONTANA	44	34	SINNER
NEBRASKA	33	18	SINNER
NEVADA	40	26	SINNER
NEW HAMPSHIRE	23	9	SALVAGEABLE
NEW JERSEY	50	13	SALVAGEABLE
NEW MEXICO	38	45	SINNER
NEW YORK	49	49	SINNER
NORTH CAROLINA	3	30	SUCKER
NORTH DAKOTA	5	28	SUCKER
OHIO	15	3	SAINT
OKLAHOMA	35	1	SALVAGEABLE
OREGON	34	39	SINNER
PENNSYLVANIA	46	48	SINNER
RHODE ISLAND	39	50	SINNER
SOUTH CAROLINA	14	14	SAINT
SOUTH DAKOTA	4	32	SUCKER
TENNESSEE	22	22	SALVAGEABLE
TEXAS	18	2	SALVAGEABLE
UTAH	13	15	SALVAGEABLE
VERMONT	37	38	SINNER
VIRGINIA	8	19	SUCKER
WASHINGTON	31	37	SINNER
WEST VIRGINIA	27	36	SINNER
WISCONSIN	9	35	SUCKER
WYOMING	19	17	SALVAGEABLE

Source: Tort Liability Index 2010, Pacific Research Institute

RECOMMENDATIONS TO IMPROVE KENTUCKY'S RANKING

- Support comprehensive tax reform in accordance with the following principles:
 - State and local tax systems should support growth-oriented tax policies that improve the competitiveness of Kentucky businesses in the national and global marketplace.

- The tax code should encourage investment as it is the key to increased growth and productivity as well as higher wages for Kentuckians.
- The tax code should be simplified with the goal of reducing compliance costs for the private sector. Complex taxes impose costs on businesses that either reduce the return on investment or are passed on to consumers and workers.
- The tax system should promote fairness by creating a level playing field on which Kentucky businesses can compete. Double taxation, or pyramiding, should be prohibited, and tax expenditures should be carefully studied to determine effectiveness.
- Changes in the state tax code should be revenue neutral and undertaken only to increase fairness and competitiveness and not simply to generate additional state revenue. While tax changes cannot guarantee neutrality for every Kentucky business, the goal should be to not raise net taxes on the business community.
- To keep taxes competitive, expenditures must be examined and aligned with economic realities. Reforming the tax code must be coupled with a continued commitment by the legislature to reform and prioritize government spending.
- Enhance workforce flexibility by opposing state and local wage mandates, safety regulations and additional standards that exceed federal requirements.
- Enact comprehensive tort reform, including reasonable limits on civil liability and a constitutional change to permit caps on awards for non-economic damages.
- Permit businesses to challenge state actions by filing suit in the circuit court in the county in which the business is located.
- Impose a two-year statute of limitations on wrongful termination or discrimination cases arising out of an employment relationship.

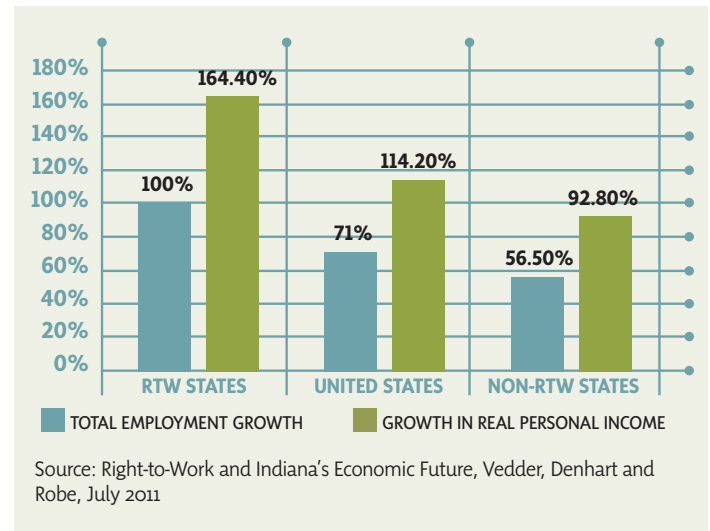
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- 2 Ibid
- 3 States Ranked by Total State Taxes, U.S. Census Bureau, 2011
- 4 State Tax Facts and Figures, Tax Foundation, 2012
- 5 Ibid
- 6 Rich States, Poor States, American Legislative Exchange Council, 2012
- 7 Best States for Business 2011, Forbes
- 8 Tort Liability Index 2010, Pacific Research Institute
- 9 Ibid
- 10 Ibid

Employment Climate

There is a well-documented relationship between pro-business state employment policies and economic growth. Laws and regulations that increase the cost of employment also inhibit job creation and business formation and slow economic growth. A state's employment climate is an important indicator of its ability to maintain and create jobs.

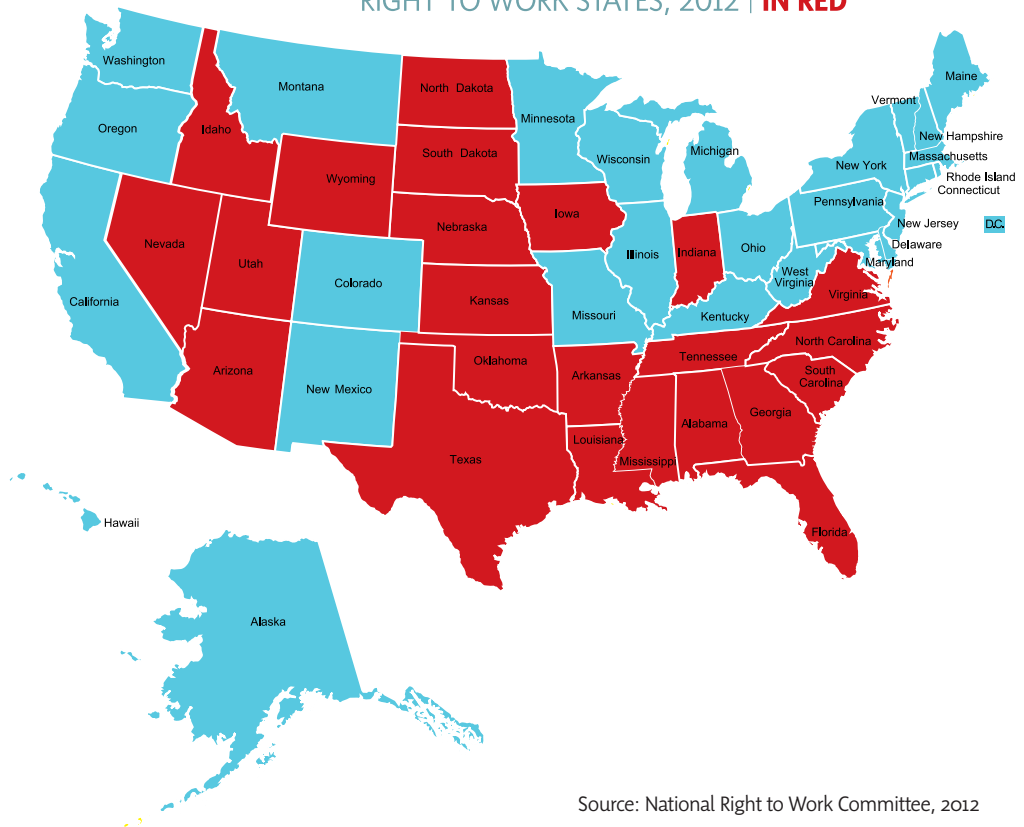
CHANGE IN TOTAL EMPLOYMENT AND REAL PERSONAL INCOME | 1977-2008



RIGHT TO WORK: Right-to-work laws, now in place in 23 states, prohibit agreements between unions and employers that require employees to join unions and pay dues as a condition of employment. An economic analysis conducted in Indiana, the most recent state to adopt right-to-work legislation, found that right-to-work laws are a "significant factor" in state economic growth. Total employment and income has grown faster in states with right-to-work laws compared to non-right-to-work states over the past 30 years.¹

A comprehensive review of research on the impact of right-to-work laws conducted at Louisiana State University found that right-to-work laws also have a significant positive influence on business location decisions as well as overall economic activity.²

RIGHT TO WORK STATES, 2012 | IN RED



Source: National Right to Work Committee, 2012

Kentucky is not a right-to-work state; however, with the recent enactment of a right-to-work law, Indiana now joins Virginia and Tennessee as states on Kentucky's border with laws that guarantee the right of an employee to work without being required to join a union. (See map on previous page.)

HEALTH INSURANCE: An estimated 53.2% of Kentucky businesses offer health insurance, which is slightly below the national average of 53.8%, ranking Kentucky 23rd among the states. In terms of the size of businesses offering coverage, 35% of Kentucky firms with fewer than 50 employees offer health coverage (the national average is 39.2%) while 95.8% of businesses with 50 or more employees offer coverage (the national average is 96.4%).³

The cost of health coverage is relatively low in Kentucky, with single coverage ranked at 41st and family coverage at 32nd. Of those offering coverage, Kentucky employers pay an average of 81% of single premiums and 77% of family premiums, which puts Kentucky in the top 10 in the country in this category. Kentucky ranks ninth among the states in the percent of employer contribution for single coverage and seventh in the percent of contribution for family coverage.⁴



UNEMPLOYMENT INSURANCE: Most employers are required to pay unemployment insurance taxes to the state to provide compensation to workers if they are laid off. The U.S. Department of Labor annually compiles estimated employer contribution rates for state unemployment insurance taxes, both as a percent of total wages and as a percent of the taxable wage base subject to the UI tax. The 2011 estimates indicate Kentucky is above the national average for UI employer contributions as a percent of both taxable wages and total wages. Kentucky employers pay UI taxes of 3.57% of taxable wages (compared to a national average of 3.24%) and 1.06% of total wages (compared to a 0.97% national average). These UI rates place Kentucky 16th highest in the nation based on UI taxes as a percent of taxable wages and

FIRMS OFFERING HEALTH INSURANCE

Firms Offering Insurance by Size	KY	US	KY RANK
Firms with fewer than 50 employees	35.0%	39.2%	31 ST
Firms with 50 employees or more	95.8%	96.4%	16 TH
Percent of firms offering insurance	53.2%	53.8%	23 RD

Source: Kaiser Family Foundation, statehealthfacts.org

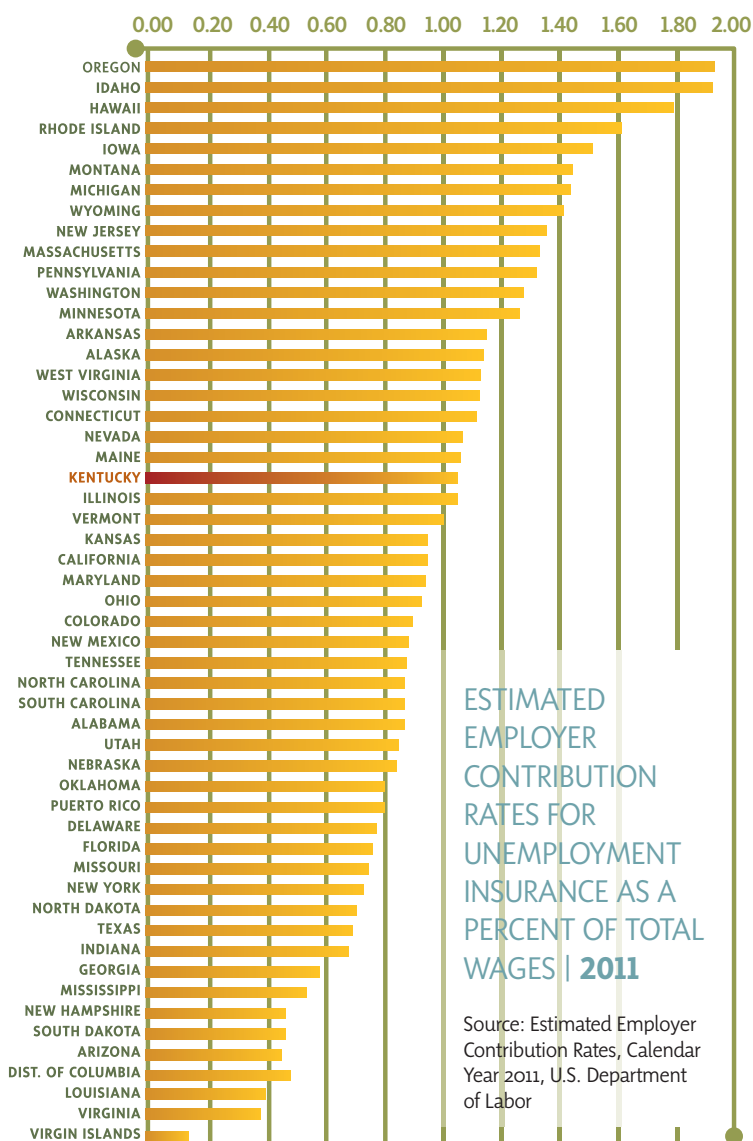
AVERAGE ANNUAL SINGLE AND FAMILY PREMIUM FOR EMPLOYER-BASED HEALTH INSURANCE | 2010

	EMPLOYEE CONTRIBUTION		EMPLOYER CONTRIBUTION		TOTAL	KY RANK	
	SINGLE	FAMILY	SINGLE	FAMILY		SINGLE	FAMILY
U.S. AVERAGE	\$1,021 (21%)	\$3,721 (27%)	\$3,919 (79%)	\$10,150 (73%)	\$4,940		
KENTUCKY	\$866 (19%)	\$3,060 (23%)	\$3,797 (81%)	\$10,292 (77%)	\$4,683	41 ST (Total Premium)	32 ND (Total Premium)

Source: Kaiser Family Foundation, statehealthfacts.org

21st highest based on UI taxes as a percent of total wages.⁵ (See chart below.) UI taxes were recently increased in Kentucky as a result of 2010 legislation to address a deficit in the unemployment insurance fund. Beginning in 2012, the taxable wage base was increased from \$8,000 to \$9,000 and will increase by \$300 each year until it reaches \$12,000.⁶

The 2012 State Business Tax Climate Index, cited earlier in this report, includes a ranking of state unemployment insurance taxes based on: minimum and maximum tax rates, taxable wage bases, experience formulas (which determine a business' actual UI tax rate) and charging methods. When these additional factors are taken into consideration, Kentucky was found to have one of the worst UI taxes, ranking 47th in the nation.⁷



LABOR AND EMPLOYMENT LAW CLIMATE: In 2011, the U.S. Chamber of Commerce rated states on the impact of state employment policies on job growth. Each state's labor and employment law climate was rated as good, fair or poor based on policies such as minimum wage laws, employment relationships and costs of separation, wage and hour policies and collective bargaining issues. Kentucky's labor and employment law climate was rated as fair, with the following positive and negative factors contributing to the rating:⁸

POSITIVE:

- Strong acceptance of employment-at-will doctrine
- No state WARN-type requirements (advance notice of layoffs) beyond federal law
- Relatively low amount of labor and employment litigation
- Few restrictions on employer pre-hire inquiries into applicant's history

NEGATIVE:

- Additional overtime requirements beyond federal standards
- High workers' compensation premiums
- Not a right-to-work state

WORKERS' COMPENSATION: Workers' compensation insurance provides coverage for an employee who has experienced a work-related injury or illness. Employers are required to provide workers' compensation coverage, which includes medical and rehabilitation costs and lost wages for employees injured on the job. Coverage may be obtained in the commercial insurance market or through state-created programs.

The *Oregon Worker's Compensation Premium Rate Ranking* is a nationally recognized comparison of average workers' compensation premium rates in each state. Based on the most recent Oregon ranking published in 2011, Kentucky had the 15th highest workers' compensation rate (at \$2.29 per \$100 of payroll), which was 12% higher than the national median rate in the study.⁹ (See map on next page.)

It should be noted there are limitations to the Oregon study, as it is based on the top 50 occupational classes in that state and on rates in effect in Kentucky in 2009. Kentucky Employers' Mutual Insurance, the largest provider of workers' compensation insurance in the Commonwealth, has provided

new estimated state rankings with data on rate changes in each state tracked by the National Council on Compensation Insurance since the Oregon study was published. These new estimates ranked Kentucky at 31st among the states, with an average rate of \$1.88, compared to a national average rate of \$2.03, placing Kentucky approximately 8% below the national average.¹⁰

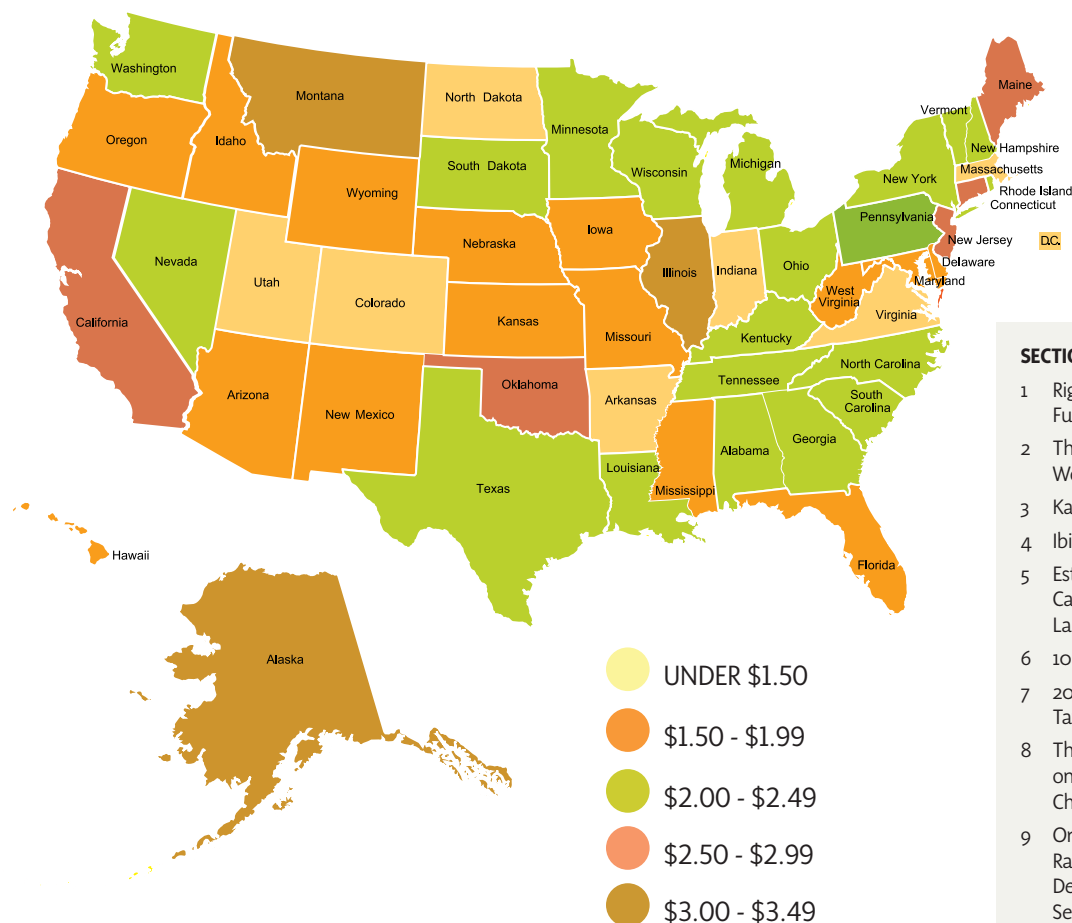
RECOMMENDATIONS TO IMPROVE KENTUCKY'S RANKING

- Enact right-to-work legislation to prohibit requiring any worker to join a union as a condition of employment and repeal the employer mandate to withhold union dues from an employee's salary.
- Improve workers' compensation by clearly defining injury and disability, requiring independent medical examinations and objective medical findings and controlling rising medical and prescription drug costs.

- To protect employers from the wrongful acts of third parties and bring Kentucky in line with nearly every other state, enact legislation that ensures workers' compensation subrogation claims are treated in the same manner as any other subrogation claim, such as automotive or health insurance.
- Monitor the implementation of 2010 unemployment insurance legislation to keep Kentucky competitive with other states.



2010 WORKERS' COMPENSATION PREMIUM INDEX RATES



SECTION 3 | REFERENCES

- 1 Right-to-Work and Indiana's Economic Future, Vedder, Denhart and Robe, July 2011
- 2 The Determinants and Effects of Right-to-Work Laws, Moore, 1998
- 3 Kaiser Family Foundation, statehealthfacts.org
- 4 Ibid
- 5 Estimated Employer Contribution Rates, Calendar Year 2011, U.S. Department of Labor
- 6 10 SS HB 5
- 7 2012 State Business Tax Climate Index, The Tax Foundation, January 2012
- 8 The Impact of State Employment Policies on Job Growth: A 50 State Review, U.S. Chamber of Commerce, 2011
- 9 Oregon Workers' Compensation Premium Rate Ranking, Calendar Year 2010, Oregon Department of Consumer and Business Services, February 2011
- 10 Workers' Compensation Rate Comparison, KEMI, June 2012

Source: Oregon Workers' Compensation Premium Rate Ranking, Calendar Year 2010, Oregon Department of Consumer and Business Services, February 2011

Education & Worker Training



Kentucky's economic well-being is inextricably linked to the education and skills of its citizens. The relationship between educational excellence and economic growth is more critical than it has ever been as Kentucky works to meet the challenges of – and to prosper in – the global economy.



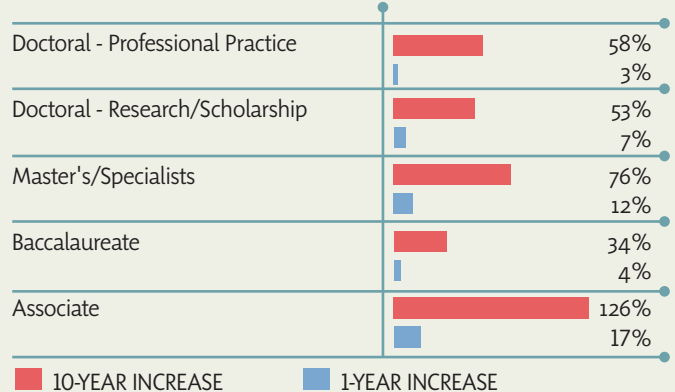
EDUCATION ATTAINMENT: Kentucky's colleges and universities continue to break records in the number of degrees and credentials conferred each year, but the state remains in the bottom 10 states in overall education attainment. A record 63,000 degrees and credentials were awarded during the 2011-12 academic year, a 4% increase over the previous year. As noted in the following chart, gains were made at all levels, especially among associate, master's and doctoral-degree levels.¹ The trends mirrored those of the past decade.

CREDENTIALS AWARDED STATEWIDE BY LEVEL, ESTIMATED | 2011-2012



Source: Kentucky Council on Postsecondary Education

ONE AND 10-YEAR INCREASES IN DEGREES AWARDED STATEWIDE, ESTIMATED | 2011-2012

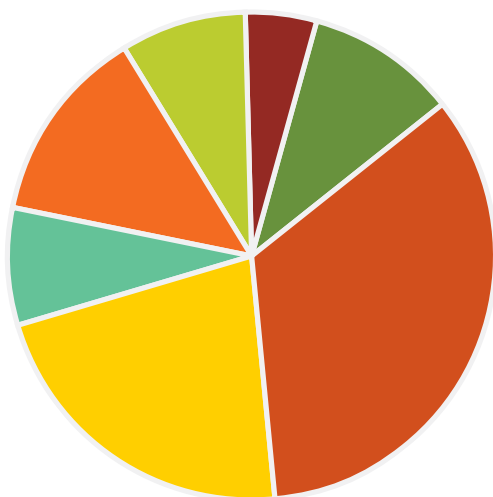


Source: Kentucky Council on Postsecondary Education

Kentucky has shown measurable gains in the number of adults with college degrees. Research by the National Center for Higher Education Management Systems ranked Kentucky No. 1 among states in the percent change (24.4) from 2000 to 2009 in the number of 25- to 64-year-old adults with college degrees. The state was ranked No. 2 in the percent change (23.6) during the period in the number of 25- to 44-year-old adults with college degrees.²

Overall education attainment remains low. The Lumina Foundation reports that 30% of Kentucky's 2.3 million working-age adults (25 to 64 years old) hold at least a two-year degree, giving the state a 45th-place national ranking. The degree-attainment rate of young adults (25 to 24 years old) is 33.3%, better than the adult population as a whole.³

LEVELS OF EDUCATION FOR
KENTUCKY RESIDENTS [AGES 25-64]



Source: Lumina Foundation

LESS THAN NINTH GRADE	[109,298]	4.7%
NINTH TO 12TH GRADE, NO DIPLOMA	[225,822]	9.72%
HIGH SCHOOL GRADUATE (OR EQUIVALENCY)	[791,985]	34.08%
SOME COLLEGE, NO DEGREE	[498,673]	21.46%
ASSOCIATE DEGREE	[181,248]	7.8%
BACHELOR'S DEGREE	[319,335]	13.74%
GRADUATE OR PROFESSIONAL DEGREE	[197,426]	8.5%
TOTAL	2,323,787	100%

Source: U.S. Census Bureau, 2010 American Community Survey

COLLEGE ATTENDANCE: All sectors of postsecondary education operating in Kentucky are now represented in the enrollment report issued by the Council on Postsecondary Education. The latest such report, for the fall of 2011, includes students enrolled in Kentucky's public colleges and universities, institutions operating under the Association of Independent Kentucky Colleges and Universities (AIKCU), proprietary schools, out-of-state schools with campuses in Kentucky and online institutions licensed to operate in the state. All of the institutions offer bachelor's degrees. Total enrollment in the fall of 2011 was 305,000, up from 267,000 in the fall of 2010.⁴

A BREAKDOWN BY CATEGORY OF COLLEGE ENROLLMENT:

- Public universities – 42%
- Kentucky Community and Technical College System – 36%
- AIKCU member institutions – 12%
- Other licensed institutions – 11%

HIGH SCHOOL ATTENDANCE/GRADUATION: Kentucky and other states are changing the way they calculate graduation rates to provide a more consistent measurement among the states. Until then, states are using the Averaged Freshman Graduation Rate. This divides the number of graduates receiving diplomas by the number of those students who were in grades 8, 9 and 10. The latest report, for 2009, ranked Kentucky 23rd in the nation with a rate of 77.6% (the national rate was 75.5%). The rankings fluctuate from year to year. In 2008, Kentucky's national position was 32nd, down from 27th the previous year.⁵

Kentucky's dropout rate, the percent of 9th- to 12th-graders who drop out of school, was 3.19% in 2009-2010. The state is ranked 12th in the nation on this indicator, according to the National Center for Education Statistics.⁶

COLLEGE AND CAREER PREPARATION: The state posted a dramatic increase this year in its national ranking on key education indicators – moving from 34th to 14th – reported by a national publication. As reflected in the table on the next page, *Education Week* tracks such key indicators as K-12 achievement, teaching and students' chances for success in its Quality Counts report. (The chance for success is an index combining 13 indicators that cover state residents' lives from birth to career.)⁷

Kentucky was the first state in the nation to adopt more challenging common core academic standards in mathematics and language arts to improve students' preparation for college and career. The standards, adopted

KENTUCKY'S NATIONAL EDUCATION RANKINGS

	KENTUCKY		NATION		KENTUCKY'S RANK	
	2011	2012	2011	2012	2011	2012
Overall Score	C	C+	C	C	34	14
K-12 Achievement	C -	C-	D+	C -	19	13
Standards, Assessments & Accountability	*n/a	A-	*n/a	B	*n/a	20
Teaching Profession	*n/a	B-	*n/a	C	*n/a	5
School Finance	C -	C-	C	C	35	35
Transitions & Alignment	B -	B -	C+	C+	14	14
Chance for Success	C	C	C+	C+	38	36

*Quality Counts does not provide ratings on all six categories each year.

Source: Kentucky Department of Education

by 46 states and the District of Columbia, were developed by a consortium of state policy and education leaders. The standards are internationally benchmarked and require students to have a deeper understanding of the subjects they are studying.

Kentucky requires all students to take the ACT in grade 11, one of only eight states to require 100% participation (the

others are Colorado, Illinois, Louisiana, Michigan, Mississippi, Tennessee and Wyoming). The higher participation rate is at least part of the reason Kentucky's ACT scores have slipped in recent years. However, students showed slight improvement in 2011 in three of the four subjects included in the test; Kentucky's overall composite score of 19.6 continued to trail the national average of 21.1. The highest possible score is 36.

ACT AVERAGE | 2011 SCORES

GRAD YEAR	KY STUDENTS TESTED	ENGLISH		MATH		READING		SCIENCE		COMPOSITE	
		KY	US	KY	US	KY	US	KY	US	KY	US
2007	30,929	20.3	20.7	20.0	21.0	21.2	21.5	20.6	21.0	20.7	21.2
2008	31,728	20.5	20.6	20.2	21.0	21.5	21.4	20.7	20.8	20.9	21.1
2009	45,419	18.8	20.6	19.0	21.0	19.8	21.4	19.7	20.9	19.4	21.1
2010	45,763	18.9	20.5	19.1	21.0	19.7	21.3	19.5	20.9	19.4	21.0
2011	46,428	19.2	20.6	19.1	21.1	20.0	21.3	19.6	20.9	19.6	21.1

Source: ACT High School Profile: Kentucky State Report 2011



ACT-established benchmarks indicate that students have a 50% chance of obtaining a B or higher and a 75% chance of obtaining a C or higher in a credit-bearing college course. The ACT benchmarks are:

- English: 18
- Math: 22
- Reading: 21
- Science: 24

RECOMMENDATIONS TO IMPROVE KENTUCKY'S RANKING

- Support and retain higher academic standards for Kentucky students.
- Invest in early childhood education.
- Raise the dropout age to 18 and develop alternative learning tracks to help struggling students.
- Conduct a review of the effectiveness of teacher preparation and professional development programs.

PERCENT OF STUDENTS | 2011 • MEETING ACT COLLEGE READINESS BENCHMARKS

GRAD YEAR	KY STUDENTS TESTED	ENGLISH		MATH		READING		SCIENCE		MEETING ALL 4	
		KY	US	KY	US	KY	US	KY	US	KY	US
2007	30,929	67	69	35	43	50	53	24	28	18	23
2008	31,728	68	68	35	43	53	53	25	28	19	22
2009	45,419	55	67	26	42	41	53	20	28	15	23
2010	45,763	55	66	28	43	40	52	21	29	16	24
2011	46,428	57	66	28	45	43	52	21	30	16	25

Source: ACT High School Profile: Kentucky State Report 2011

Some of ACT's college readiness benchmarks differ from those adopted by the Kentucky Council on Postsecondary Education as part of the state's college admissions regulations. Those regulations require all public postsecondary institutions to place students in a credit-bearing course if they make the following scores on the ACT (there is no benchmark science score):

- English: 18
- Math: 19
- Reading: 20

Students scoring below those levels have to take either a non-credit, developmental course or a credit-bearing course that includes additional support such as extra class sessions, tutoring or monitoring.

The number of Kentucky students taking and passing Advanced Placement (AP) courses and exams continues to increase under the Advance Kentucky program. Most colleges and universities use AP exam results as part of the admissions process; they are considered an indication of a student's ability and can be the basis of college credit or placement into higher-level courses. The number of Kentucky high school graduates participating in AP exams increased from 12.6% in 2002 to 24.4% in 2010, moving Kentucky's ranking from 33rd to 26th. The percentage of students who passed the exams also increased significantly, from 6.5% to 12.2%, improving the state's rank from 40th to 30th.⁸

- Professionalize the teacher compensation system to reward excellence and provide incentives to attract educators to underserved areas.
- Hold individuals and institutions accountable for student achievement through performance measures that gauge teacher, student and administrator performance.
- Develop a clearer, more consistent process to ensure the removal of poor teachers from the classroom.
- Simplify the state's financial assistance process to make postsecondary education affordable for more students.
- Support the use of industry-based credentials to establish uniform standards in workforce preparation.

SECTION 4 | REFERENCES

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- 2 Realizing Kentucky's Educational Attainment Goal: A Look in the Rear View Mirror and Down the Road Ahead, National Center for Higher Education Management Systems, 2011
- 3 A Stronger Nation Through Higher Education: Kentucky, Lumina Foundation, March 2012
- 4 Council on Postsecondary Education releases expanded enrollment report, May 7, 2012
- 5 Compendium of State Education Rankings 2011, Legislative Research Commission, Office of Education Accountability
- 6 National Center for Education Statistics, 2009-2010 report
- 7 Kentucky Leaps 20 Spots in National Education Ranking, Kentucky Department of Education, Jan. 12, 2012
- 8 Compendium of State Education Rankings 2011, Legislative Research Commission, Office of Education Accountability

Quality of Life

The quality of life generally refers to the health and well-being of residents of a particular place. The benefits of a good quality of life are obvious and make a state a more pleasant place to live and work. Good health and well-being can also be a boon to businesses as healthy employees are more productive and have lower health costs.

HEALTH STATUS: Kentucky continues to be plagued by some of the worst health indicators in the United States, leading the nation in a number of grim categories.

The United Health Foundation publishes the annual America's Health Rankings, comparing the health of state populations based on four groups of health determinates:

1. Behaviors that affect personal health
2. Community and environmental factors that affect health
3. Public and health policies relating to resources that encourage and maintain health
4. Clinical care reflecting the quality, appropriateness and cost of health care

KENTUCKY HEALTH STATISTICS | AT-A-GLANCE

HEALTH INDICATOR	KENTUCKY	U.S. AVERAGE	KENTUCKY RANK
Death rate per 100,000	902.4	758.3	6 th
Cancer incidence per 100,000	517.5	465.1	2 nd
Cancer deaths per 100,000	205.9	175.3	1 st
Asthma prevalence among adults	10.4%	8.6%	4 th
Disability prevalence among adults	16.4%	10.4%	3 rd
Poor mental health (% of adults reporting)	36.7%	34.0%	5 th
Adult obesity rate	67.5%	63.87%	5 th
Adult smoking rate	25.2%	18.4%	2 nd
Child obesity rate	37.1%	31.6%	4 th
Low birthweight births (% of all births)	8.9%	8.2%	11 th
Infant death rate	7.0	6.8	23 rd
Stroke/cerebrovascular deaths per 100,000	45.9	40.7	14 th
Heart disease death rate per 100,000	217.8	186.5	11 th
Alzheimer's death rate per 100,000	30.2	24.4	10 th
Child death rate per 100,000	22	18	13 th
Percent of population uninsured	15%	16%	20 th
Life expectancy	76.2	78.6	43 rd

Source: Kaiser Family Foundation, statehealthfacts.org



Kentucky's health status was ranked overall at 43rd among the states in the 2011 ranking, up one spot from 44th in 2010. While smoking has decreased over the past 10 years, only West Virginia has more adult smokers than Kentucky. More than one million Kentucky adults are obese, an increase of more than a third over the past decade, and the rate of people who are uninsured increased from 13% to 15% of the population over the past five years.¹

Kentucky's health strengths included a low prevalence of binge drinking and a low violent crime rate – the same as those noted by the rankings in recent years. The report also identified Kentucky's continuing health challenges:²

- High prevalence of smoking
- High prevalence of obesity
- High rate of cancer deaths
- High rate of preventable hospitalizations

The Commonwealth was also found to have a number of health disparities, including a higher prevalence of obesity and diabetes among non-Hispanic blacks.³

WELL-BEING: The annual Gallup-Healthways Well-Being Index ranks states on a number of measures of well-being, including: emotional health, work environment, physical health, healthy behavior and basic access to health. In the 2011 ranking, Kentucky was rated 49th out of the 50 states, with only West Virginia rated lower.⁴

RECOMMENDATIONS TO IMPROVE KENTUCKY'S RANKING

- Enact a statewide smoke-free law to reduce the rate of smoking and the \$1.7 billion per year in related health costs for smoking-related illness.
- Support policies that promote wellness and encourage personal responsibility for health, such as tax incentives for the creation of employee wellness programs.
- Intensify efforts to control drug abuse, including monitoring the implementation of 2012 legislation to control prescription drugs.
- Increase the number of health care professionals and improve Kentucky's medical liability climate through tort reform.
- Expand mandate-free health insurance to reduce the costs of premiums.



SECTION 5 | REFERENCES

- 1 America's Health Rankings 2011, United Health Foundation
- 2 Ibid
- 3 Ibid
- 4 Gallup-Healthways Well Being Index, 2011

Infrastructure

HIGHWAYS AND BRIDGES: Kentucky has 79,000 miles of federal, state and local roads, including nine major state parkways and five major interstate highways (Interstates 24, 64, 65, 71 and 75). These interstates provide direct routes to the Great Lakes and Canada, Florida, the Gulf states, the Atlantic seaboard and St. Louis. Located in the geographical center of the eastern United States, Kentucky is within 600 miles of more than 60% of the nation's population, making it a prime location for the logistics industry.¹

The Reason Foundation's most recent Annual Performance of State Highway Systems report (2010) gave Kentucky the 14th highest overall rating in state highway performance and cost-effectiveness. Kentucky fell four spots from the previous year's rating. The report compares the performance of state highway systems in 13 categories. Kentucky ranked first in both the rural interstate condition and administrative disbursements categories, but scored poorly for urban interstate congestion,

KENTUCKY RANKINGS: 19TH ANNUAL REPORT ON THE PERFORMANCE OF STATE HIGHWAY SYSTEMS (1984-2008) REASON FOUNDATION | 2010

PERFORMANCE BY CATEGORY IN 2008	RANK
State-Controlled Highway Miles	8
State Highway Agency Miles	10
Total Disbursements	13
Capital and Bridge Disbursements	17
Maintenance Disbursements	11
Administrative Disbursements	1
Rural Interstate Condition	1
Rural Other Principal Arterial Condition	17
Urban Interstate Condition	11
Urban Interstate Congestion	43
Deficient or Functionally Obsolete Bridges	37
Fatality Rates	44
Narrow Rural Lanes	39
Overall Rank	14

fatality rates, deficient or functionally obsolete bridges and narrow rural lanes.²

The Kentucky section of the American Society of Civil Engineers prepares an annual Kentucky Infrastructure Report Card assessing the condition of various components of Kentucky's infrastructure and assigning a letter grade to each. In the 2011 report card, Kentucky roads received a D due to factors that included: congestion and delays, pavement condition, needed improvements and insufficient road funding.

BRIDGES: Transportation for America, a national transportation reform coalition, produced a 2011 report that ranked the states based on the percent of bridges in the state that were deemed "structurally deficient" (defined as needing significant maintenance, rehabilitation or replacement). Kentucky ranked 30th with 9.5% of the state's 13,842 bridges found to be structurally deficient.³ The Kentucky Infrastructure Report Card gave Kentucky bridges a D and rated 32% of Kentucky bridges as deficient.⁴

AIRPORTS: Kentucky has three airports with international flights and/or connections: Cincinnati/Northern Kentucky International Airport, Louisville International Airport and Blue Grass Airport in Lexington. Regional airports with commuter service are also located in Paducah and Owensboro. *Air Cargo World* magazine conducts an annual survey of cargo airports and ranks them based on tonnage. In the 2012 rankings, Louisville (home of UPS) ranked 7th and Cincinnati/Northern Kentucky ranked 27th in North America.⁵

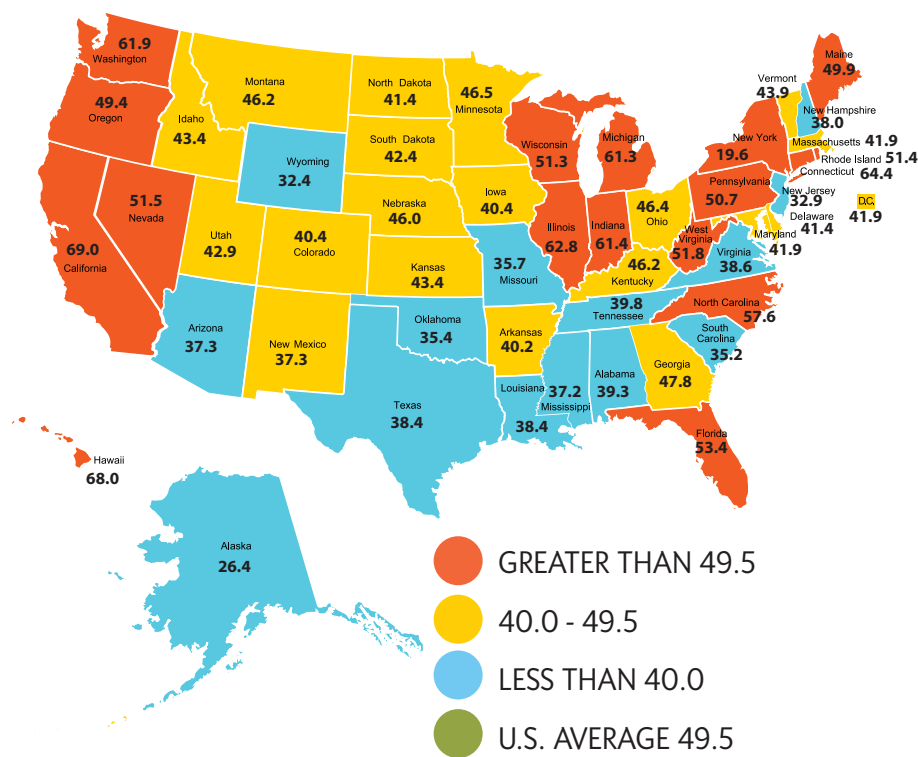
The Federal Aviation Administration also ranks the United States' 403 airports on the number of passenger boardings. Kentucky airports ranked as follows on the most recent list (2010): Cincinnati/Northern Kentucky, 48th, Louisville, 68th and Lexington, 118th.⁶

The 2011 Kentucky Infrastructure Report Card gives Kentucky aviation a C+, citing the need to increase airport capacity and airport funding. The report notes: "Kentucky airports have a total economic impact of nearly \$15 billion annually, yielding nearly 115,000 jobs," with the Louisville and Cincinnati/Northern Kentucky airports accounting for more than 88% of the economic impact.⁷

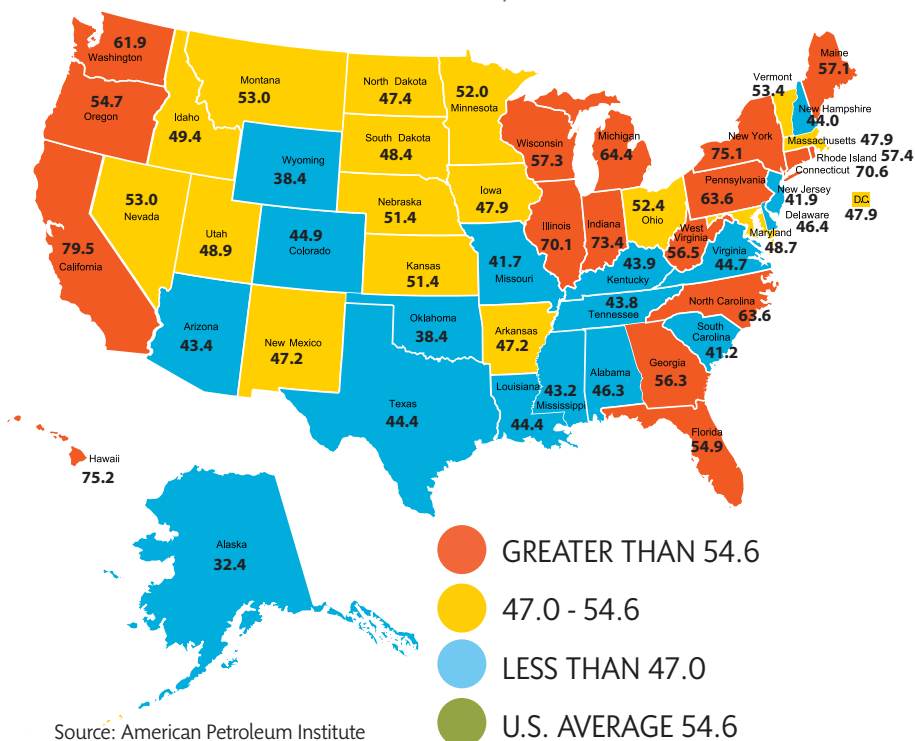
FUEL TAXES: The American Petroleum Institute tracks combined local, state and federal gasoline taxes and lists Kentucky with a combined rate of 46.2 cents per gallon – below the national average of 49.5 cents – as of April 2012. Kentucky's gas tax is lower than the surrounding states of Illinois, Indiana, Ohio and West Virginia, but higher than those imposed by Missouri, Tennessee and Virginia. (See map.) Kentucky's gas tax increased 2.1 cents per gallon effective July 1, 2012.

Kentucky fares better than surrounding states on diesel taxes. At 43.9 cents per gallon for combined local, state and federal taxes, Kentucky is considerably below the national average of 54.6 cents per gallon, and lower than all border states except Missouri and Tennessee.

COMBINED LOCAL, STATE AND FEDERAL GASOLINE TAXES | APRIL 2012



COMBINED LOCAL, STATE AND FEDERAL DIESEL TAXES | APRIL 2012



Source: American Petroleum Institute

BROADBAND: The National Broadband Map, maintained by the National Telecommunications and Information Administration in the U.S. Department of Commerce, documents broadband availability across the United States. States are ranked using several indicators of broadband availability:

- **NUMBER OF WIRELINE SERVICE PROVIDERS:** Indicates the percent of the state population that has access to wired broadband providers.
- **NUMBER OF WIRELESS SERVICE PROVIDERS:** Indicates the percent of the state population that has access to wireless broadband providers.

- **TECHNOLOGY:** Indicates the percent of the state population that has broadband access through wired or wireless service providers.
- **SPEED:** Indicates the percent of the population that has access to a download speed of at least three megabytes per second and an upload speed of at least 0.768 megabytes per second.

Although 98.2% of Kentucky's population has access to either wired or wireless broadband, the Commonwealth is ranked near the bottom of the states in measures of availability.

INDICATOR	KENTUCKY % AND RANK
# OF WIRELINE PROVIDERS (% of population with access to two or more wireline providers)	73.9% (38 TH)
# OF WIRELESS PROVIDERS (% of population with access to two or more wireless providers)	86.7% (51 ST)*
TECHNOLOGY (% of population with access through wired or wireless providers)	98.2% (48 TH)
SPEED	94.1% (49 TH)
% OF HOUSEHOLDS WITH BROADBAND ACCESS	93.9% (48 TH)

*Rankings include the District of Columbia and American territories

The following tables provide detailed data showing that Kentuckians have less choice in the selection of broadband providers than the average American. More than 41% of Americans have access to three or more wired broadband providers, compared to 21.5% of Kentuckians. The typical American has even more choices of wireless providers, with 92% having access to three or more wireless providers, compared to 74.6% of Kentuckians. A national report by Connected Nation (a nonprofit that expands access to and use of broadband) that estimated state-by-state economic impact of accelerating broadband development and adoption, found the total annual impact to Kentucky's economy would be more than \$1.5 billion.⁸

PERCENT OF KENTUCKY POPULATION WITH BROADBAND ACCESS BY TYPE OF TECHNOLOGY		
TECHNOLOGY	% OF KENTUCKY POPULATION	NATIONWIDE
DSL	84.6%	88.0%
Fiber	4.8%	17.3%
Cable	75.0%	83.3%
Wireless	91.9%	98.5%

PERCENT OF KENTUCKY POPULATION WITH BROADBAND ACCESS BY NUMBER OF WIRELINE PROVIDERS

NUMBER OF WIRELINE PROVIDERS	PERCENT OF KENTUCKY POPULATION	NATIONWIDE
0	5.1%	4.0%
1	21.0%	12.9%
2	52.5%	41.6%
3	20.4%	29.1%
4	1.0%	9.9%
5	0.1%	1.8%
6	0.0%	0.3%
7	0.0%	0.2%
8+	0.0%	0.2%

Source on all tables: National Broadband Map

PERCENT OF KENTUCKY POPULATION WITH BROADBAND ACCESS BY NUMBER OF WIRELESS PROVIDERS

NUMBER OF WIRELESS PROVIDERS	PERCENT OF KENTUCKY POPULATION	NATIONWIDE
0	1.4%	0.4%
1	11.9%	2.4%
2	12.1%	5.3%
3	17.3%	9.9%
4	13.7%	31.6%
5	28.0%	25.3%
6	15.4%	14.6%
7	0.2%	6.3%
8+	0.0%	4.3%

PERCENT OF KENTUCKY POPULATION WITH BROADBAND ACCESS BY SPEED

SPEED	% OF KY POPULATION	NATIONWIDE
Download > 0.768 Mbps, Upload>0.2 Mbps	98.2%	99.5%
Download>3 Mbps, Upload>0.768 Mbps	94.1%	98.3%

Source on all tables: National Broadband Map



RECOMMENDATIONS TO IMPROVE KENTUCKY'S RANKING

- Support investments in infrastructure development.
- Protect the integrity of the dedicated Road Fund by not diverting funds to pay for General Fund obligations.
- Promote development and investments in wireless and broadband.

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Government Spending and Debt

Government fiscal policy has a direct influence on a state's business climate. Businesses are more likely to locate in a state that exhibits financial discipline, as demonstrated by balanced budgets, high bond ratings and low tax rates. Kentucky has both high levels of spending and state debt, especially considering the fact that its per capita income is among the lowest in the country, ranking 47th among the states.

The Kentucky Chamber of Commerce has tracked state government spending in recent years as reported in *The Leaky Bucket* and *Building a Stronger Bucket* reports. These reports found that half of all spending increases in Kentucky's General Fund budget were attributable to three program areas: corrections, Medicaid and public employee health insurance. Meanwhile, funds appropriated for education are falling behind the growth in overall state General Fund spending. The chart below updates state spending trends based on the enacted fiscal year 2014 budget.

As the chart on the following page demonstrates, these trends continue as total state General Fund spending has increased almost 50% since 2000, with corrections growing at a rate of 15% more, Medicaid at a rate almost three times overall spending and public employee health insurance at a rate four times the growth in all state spending.

**GROWTH IN GENERAL FUND EXPENDITURES IN SELECTED STATE PROGRAMS
FY 2000 TO FY 2014**

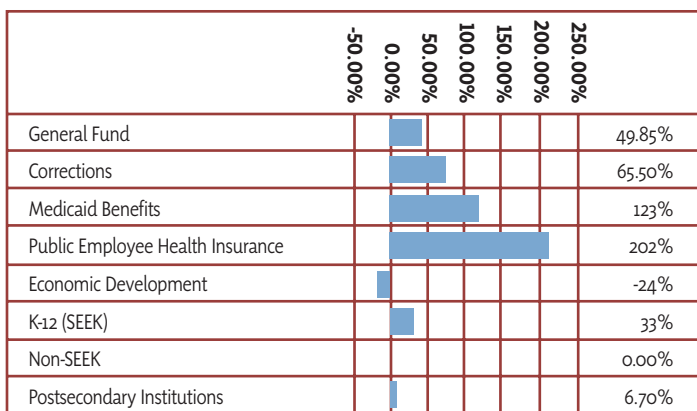
PROGRAM AREA	FY 2000	FY 2014 ENACTED	DOLLAR GROWTH FY 2000 TO FY 2014	PERCENT GROWTH FY 2000 TO FY 2014
General Fund ^a	\$6.549 billion	\$9.719 billion	\$3.264 billion	49.85%
Corrections	\$273.9 million	\$453.3 million	\$176.4 million	65.5%
Medicaid Benefits	\$659.8 million	\$1.477 billion	\$817.7 million	123%
Public Employee Health Insurance	\$477.3 million	\$1.441 billion	\$963.7 million	202%
Economic Development	\$25.44 million	\$19.13 million ^b	-\$6.3 million	-24%
K-12 (SEEK)	\$2.18 billion	\$2.899 billion	\$719.8 million	33%
K-12 (Non-SEEK) ^c	\$301.24 million	\$300.5 million	-\$650,000	-.002%
Postsecondary Institutions	\$881.8 million	\$941.5 million	\$59.77 million	6.7%

Source: 12 HB 265; Governor's Office of Policy and Budget, 2012

^a Does not include tobacco settlement funds

^b Budget allows use of \$9.5 million in unobligated bond funds from 2011-12

^c Does not include school district health insurance



There are promising signs, however, that spending trends in these three program areas are slowing:

- **CORRECTIONS:** The prison population is projected to decrease by fiscal year 2014 as a result of penal code reforms enacted in 2011 that reduced jail time for some drug offenses and places a heavier reliance on treatment, probation and parole.
- **MEDICAID:** A new system of managed care implemented in November 2011 for about two-thirds of the Medicaid population is expected to save \$375 million over a three-year period, according to the Kentucky Cabinet for Health and Family Services.
- **PUBLIC EMPLOYEE HEALTH INSURANCE:** Spending on public employee health insurance increased an average of 15% per year from 2000 to 2010. The budget for FY 2010-12 reduced the annual increase to 7.8% per year and the enacted FY 2013-14 budget continues this trend, holding the increase in public employee health insurance to just under 2% in each year of the biennium.

STATE DEBT: Moody's Investors Service reports that Kentucky was in the top 10 states (8th) in 2010 with state debt measured as a share of personal income. Kentucky also ranked 6th in the country in net tax-supported debt as a percent of the gross state domestic product and 15th in the total amount of net tax-supported debt.¹ In 2011 both Moody's Investor Service and

Fitch Ratings downgraded Kentucky's bond ratings, due in part to pension liabilities and use of nonrecurring revenue to balance the state budget.²

PUBLIC EMPLOYEE PENSIONS: The Chamber has also reported on the challenges facing Kentucky's public pension system, which has unfunded liabilities in excess of \$30 billion. Estimates released by Fitch Ratings in March 2012 rank the states based on unfunded pension obligations as a percentage of personal income. Kentucky had the 9th highest percentage with an estimated 15.3%, compared to a median rate of 3.7%.³

New data released by the Pew Center on the States in June 2012 showed that Kentucky is one of the worst states in the country (along with Connecticut, Illinois and Rhode Island) in pension funding, with the Commonwealth's pension system funded at only 54% of liabilities in 2010. Experts say a healthy pension system should be at least 80% funded.⁴

RECOMMENDATIONS TO IMPROVE KENTUCKY'S RANKING

- Support the full implementation of 2011 sentencing-reform legislation to control the growth in corrections costs.
- Monitor the expansion of Medicaid managed care and include more wellness activities and incentives in the program.
- Require public employees to contribute a reasonable amount for health insurance and urge more focused efforts to provide incentives for wellness.
- Move to a defined contribution plan for new employees, in place of the current defined benefit pension system, and use a portion of the employer share of the contribution to help finance the transition to a new system.
- Suspend COLAs for state retirees until the system is adequately funded.
- Oppose any local or statewide expansion of public employee collective bargaining.

	KY	U.S. AVG.	KY RANK
STATE SPENDING PER CAPITA	\$5,978	\$5,251	20 TH
STATE TAX-SUPPORTED DEBT PER CAPITA	\$1,961	\$1,408	12 TH
STATE DEBT AS A % OF PERSONAL INCOME	6.1%	3.5%	8 TH

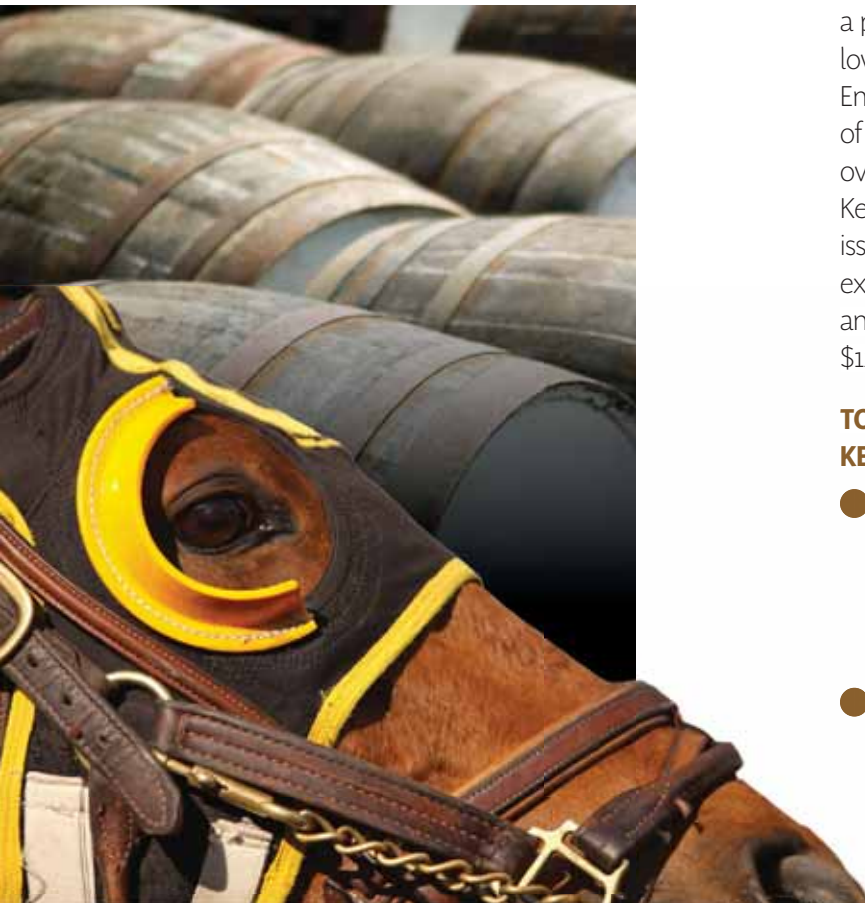
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Protecting and Growing Key Industries

Historically, Kentucky is known around the world for its three signature industries: coal, bourbon and horses. These industries not only contribute to the Commonwealth's unique identity, they also make a major contribution to our economy. It is essential state policies encourage these signature industries to prosper and expand.



COAL INDUSTRY: Kentucky is the third largest coal-producing state and accounts for 10% of U.S. coal production. The coal industry has a significant economic impact on Kentucky's economy. In 2009, the Kentucky coal industry:

- paid \$1.437 billion in direct wages (average annual wage for coal miners more than \$63,000).
- employed 23,340 people – indirectly providing three jobs for every miner employed.
- brought approximately \$5.3 billion into Kentucky through coal sales to 25 other states and four foreign countries.¹
- paid over \$290 million to Kentucky state government in coal severance taxes.²

Approximately 73% of all coal produced in Kentucky is sold outside the state, and electric power plants account for 94% of all sales. The abundance of Kentucky coal is a prime reason electric rates in Kentucky are among the lowest in the country, but that ranking is threatened. The U.S. Environmental Protection Agency's increased enforcement of carbon emissions and rejection of 36 coal mine permits over the past two years have created serious problems for Kentucky's economy. The EPA objections have prevented the issuance of all individual Clean Water Act permits for new or expanded surface coal mining activities in eastern Kentucky and cost Kentucky 3,800 coal-related jobs and more than \$123 million in coal severance taxes.³

TO PROMOTE AND PROTECT THE COAL INDUSTRY, THE KENTUCKY CHAMBER:

- supports efforts by the Kentucky Energy and Environment Cabinet to ensure existing environmental laws and regulations are applied and enforced in a consistent, non-discriminatory manner at both public and private facilities.
- urges the cabinet to aggressively assert its authority as primary administrator of delegated environmental programs in cases where the U.S. Environmental Protection Agency attempts to overstep its oversight role or demand action that is inconsistent with past state regulatory actions or determinations.

- supports sensible state and local environmental regulations that are no more stringent than federal rules.

DISTILLING INDUSTRY: Kentucky bourbon is a signature state product, and the distilling industry has a significant impact on the state's economy.

- Kentucky produces 95% of the world's bourbon and ships about \$2.5 billion in products annually.
- Distilling companies in Kentucky employ about 3,100 people, with an annual payroll of approximately \$246 million – ranking fourth among all manufacturing industries in Kentucky.
- The Kentucky distilling industry is responsible for an additional 8,690 jobs in supporting industries, with an annual payroll of \$413 million.
- Despite the recession, distilling employment rose more than 6% in the past decade.
- State and local governments receive \$125 million in taxes every year from spirits production and consumption.
- The Kentucky Bourbon Trail promotes Kentucky tourism, with more than 1.7 million visits in the past five years.⁴

Kentucky taxes distilled spirits at a higher rate than any other open market state except Alaska.⁵ The Chamber strongly supports initiatives to protect and grow the distilling industry, including a revision of burdensome state tax policies that threaten to force distilling operations to move to states with lower taxes.

EQUINE INDUSTRY: Giving the state an international reputation as the "Horse Capital of the World," Kentucky's equine industry contributes an estimated \$4 billion to Kentucky's economy and is responsible for an estimated 100,000 direct and indirect jobs. In addition:

- The value of horses sold at auction was \$650 million in 2003.
- The horse industry is a signature attraction of the state's \$8.8 billion tourism industry.
- The Kentucky Derby has an estimated economic impact of \$217 million.
- The Kentucky Horse Park has an estimated economic impact of \$240 million.
- Horses account for an estimated \$127 million in Kentucky exports.⁶

Pro-gaming states like Pennsylvania, Louisiana, Indiana and West Virginia are attracting Kentucky horse owners and breeders and industry-related jobs, threatening the viability of a signature industry in Kentucky. The Chamber strongly supports legislation to authorize alternative gaming options to provide assistance to the state's equine industry and to recover millions in tax revenue being lost to neighboring states with casino gaming.

MANUFACTURING: Equally important to Kentucky's economy is manufacturing, representing the third largest sector of Kentucky's economy (the service sector is the largest, followed by the trade, transportation and utility sector). Manufacturing in Kentucky generates more than \$25 billion per year and accounts for more than 16% of the gross state product.⁷ More than 4,100 manufacturers employ more than 200,000 Kentuckians at an average annual salary of \$63,540 – nearly 54% higher than other nonfarm employers in the Commonwealth.⁸ Nearly 17% of the state's manufacturing workforce is employed in motor vehicle-related companies that employ more than 68,000 full time workers. Kentucky ranks fifth in light vehicle production and has the third highest level of auto industry-related employment in the nation.⁹

TO PROMOTE AND SUPPORT THE MANUFACTURING INDUSTRY IN KENTUCKY, THE KENTUCKY CHAMBER SUPPORTS:

- repealing the inventory tax.
- adopting a single sales factor apportionment formula for the corporate income tax.
- expanding angel investor and technology reinvestment tax credits.
- enacting a right-to-work law.

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Conclusion

Kentucky enjoys excellent rankings in the cost of living and doing business and above-average rankings in our business tax climate and infrastructure. We also have lower-than-average health insurance and workers' compensation costs. However, we trail the nation in income, poverty, health status, education attainment, tort liability and quality of life. Our income is low, our health is poor and our government spending and debt are high.



THE POOR SHOWING IN THESE AREAS CONSISTENTLY DRAGS KENTUCKY'S PERFORMANCE DOWN IN RANKINGS OF STATE BUSINESS CLIMATE. Although Kentucky scored at the top of cost of living and business indexes, *Forbes* ranked Kentucky 25th overall in its 2011 *Best States for Business* survey, and CNBC ranked Kentucky 35th overall.

The Commonwealth fared even worse in the state competitiveness survey conducted annually by the Beacon Hill Institute. This ranking focuses on factors important to business (infrastructure, human resources, state fiscal policy technology, etc.) and identifies advantages and disadvantages in each state.

Kentucky ranked 46th in the 2011 rankings, down five spots from 41st in 2010. Kentucky was in the bottom tier in rankings of human resources (education attainment, unemployment, adults in labor force), technology (science and engineering students and graduates, patents awarded, high-tech employment), business incubation (venture capital, employer growth, tort index) and environmental policy (carbon emissions, air quality and toxic releases).⁶⁹

If Kentucky is to reverse these negative trends and realize the full potential of our state and its citizens, it is essential we grow our economy and create more good-paying jobs. The Chamber believes education attainment and jobs offer the best solution to many of the problems highlighted here. Along with a paycheck that will increase income and improve living conditions, a good job includes insurance coverage that can improve health.

A good job also reduces reliance on state programs such as Medicaid, which is growing almost three times faster than the overall state budget. Quality education is the key to a good job and a stronger future for individual Kentuckians and the state as a whole. Job creation also benefits state and local governments. The Kentucky Cabinet for Economic Development estimates that creating just 100 new manufacturing jobs has a total economic impact of \$25 million per year and generates an additional \$6.3 million in state and local taxes.

Based on the indicators presented in this report, there is much work to be done to make Kentucky more competitive and ready to create jobs.



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