

## Four-Year Outlook for the State's General Fund

Assuming the Governor's Proposed 2010 Supplemental Budget 12/09/09

Dollars in Millions

|   | 2010          | 2011          | 2009-11       | 2012          | 2013           | 2011-13        |
|---|---------------|---------------|---------------|---------------|----------------|----------------|
| Beginning Balance                       | 193           | 104           | 193           | 311           | (1,108)        | 311            |
| <b>REVENUES</b>                         |               |               |               |               |                |                |
| November forecast/4.8% growth           | 13,752        | 15,091        | 28,843        | 15,816        | 16,575         | 32,390         |
| Enacted fund transfers                  | 547           | 416           | 963           |               |                |                |
| Mandated transfer to Rainy Day Fund     | (120)         | (133)         | (252)         | (139)         | (146)          | (284)          |
| <b>Governor's Proposed Supplemental</b> |               |               |               |               |                |                |
| Fund transfers to GF-S                  | 309           | 112           | 421           |               |                |                |
| Use of Rainy Day Fund                   | 96            | 133           | 229           |               |                |                |
|   | <u>14,585</u> | <u>15,619</u> | <u>30,203</u> | <u>15,677</u> | <u>16,429</u>  | <u>32,106</u>  |
| <b>EXPENDITURES</b>                     |               |               |               |               |                |                |
| Baseline estimated expenditures         | 14,848        | 16,070        | 30,918        | 16,667        | 17,341         | 34,008         |
| Replace Federal recovery funding/Other  |               |               |               | 477           | 497            | 974            |
| Pension costs above the base            |               |               |               | 314           | 388            | 702            |
| Catch-up for Initiative 728 (HB 2356)   |               |               |               | 292           | 375            | 667            |
| Catch-up for Initiative 732 (HB 2363)   |               |               |               | 52            | 120            | 172            |
| <b>Governor's Proposed Supplemental</b> |               |               |               |               |                |                |
| Mandatory changes (Maintenance Level)   | 328           | 432           | 760           | 510           | 508            | 1,018          |
| Budget Reductions and other changes     | (502)         | (1,090)       | (1,592)       | (1,216)       | (1,072)        | (2,288)        |
|   | <u>14,674</u> | <u>15,412</u> | <u>30,086</u> | <u>17,096</u> | <u>18,157</u>  | <u>35,253</u>  |
| <b>RESERVES</b>                         |               |               |               |               |                |                |
| Ending GF-S Balance                     | 104           | 311           | 311           | (1,108)       | (2,836)        | (2,836)        |
| Rainy Day Fund Balance                  | 0             | 0             | 0             | 139           | 284            | 284            |
|   | <u>104</u>    | <u>311</u>    | <u>311</u>    | <u>(969)</u>  | <u>(2,552)</u> | <u>(2,552)</u> |

Without revisions, the biennial operating budget for the current biennium will end in a deficit. The Governor's proposed supplemental budget brings the current biennium's General Fund – State (GF-S) back to a positive balance and reduces the potential deficit for next biennium.

### Assumptions for 2011-13 Baseline Revenue and Expenditure Projections

- Revenue is assumed to grow at an annual rate of 4.8 percent, or the long-term average.
- Fiscal Year 2011 spending is used as a base for projecting subsequent years.
- Federal recovery funding was budgeted over three fiscal years, with \$760 million in Fiscal Year 2011. Some of this funding is restored with General Fund-State in 2011-13.

### **Assumptions for 2011-13 Baseline Revenue and Expenditure Projections (continued)**

- When salaries are projected, the following percentage increases apply:
  - Initiative 732 COLA for Teachers: 1.7 percent and 2.1 percent per year, plus staff growth, based on the Consumer Price Index (CPI).
  - Other employees: 1.8 percent and 1.6 percent per year, plus staff growth, based on the Implicit Price Deflator (IPD).
- Employee health benefits are expected to grow at a 6 percent per capita per year, plus staff growth.
- Medical Assistance is projected at a 6 percent annual per capita cost increase, plus caseload growth.
- Health Care related programs (Development Disabilities, Long-Term Care, Alcohol and Substance Abuse Services, Mental Health) grow at 60 percent of the rate of medical inflation.
- Vendor Payments are increased by IPD inflationary factors of 1.8 percent and 1.6 percent a year.
- Debt Service reflects 6 percent annual growth.
- All other programs are increased by the IPD general inflation factor plus associated caseload/population cohort growth.
- Baseline expenditures are projected to grow 3.7 percent in FY 2012 and 4.0 percent in FY 2013.

### **Effect of the Governor's Proposed Supplemental Budget**

The Governor's 2010 supplemental budget addresses the current biennial budget problem by using all \$229 million of the state's Rainy Day Fund, \$421 million from Other Funds transferred into the GFS, and a net of \$1.592 billion in expenditure reductions. While the fund transfers are one-time options, most budget cuts are assumed to continue, reducing budget pressures in the 2011-13 Biennium by nearly \$2.3 billion.

The Governor's supplemental budget results in a reserve of \$310.5 million for the current biennium; and reduces the projected budget problem for the next biennium (2011-13) from \$7.4 billion to \$2.8 billion. These estimates will change as the supplemental budget is finalized, and the state updates its forecasts of revenue and caseload/enrollment costs.

### **Challenges Next Biennium**

Assuming average annual revenue growth in the 2011-13 Biennium of just under 5 percent, plus caseload and inflationary pressures, the main challenges for the next budget period are:

- the likelihood of increased demand for essential state services as revenues slowly recover;
- the need to replace one-time federal recovery funding;
- pension obligations;
- statutory requirements related to voter-approved ballot measures which support K-12 class size reductions (Initiative 728) and cost of living increases for teachers (Initiative 732); and
- above-average inflationary pressures in medical assistance and other health care programs.