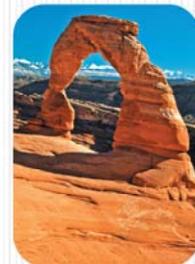


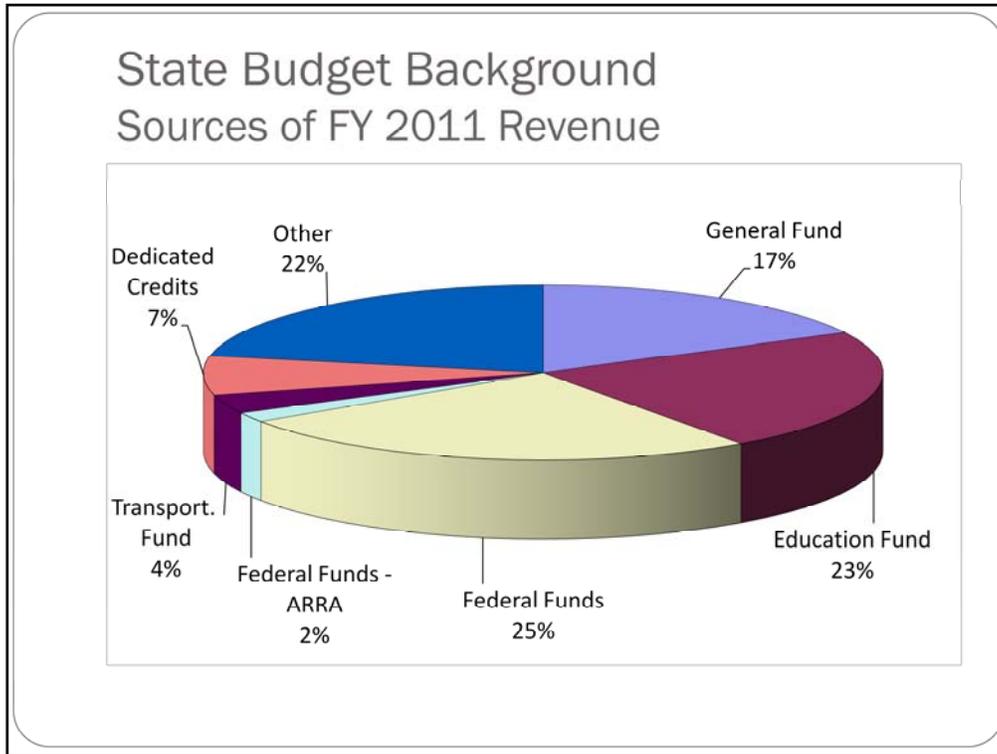
# Budgeting for FY 2012 and Beyond

January 11, 2011

Appropriations Subcommittee Meetings

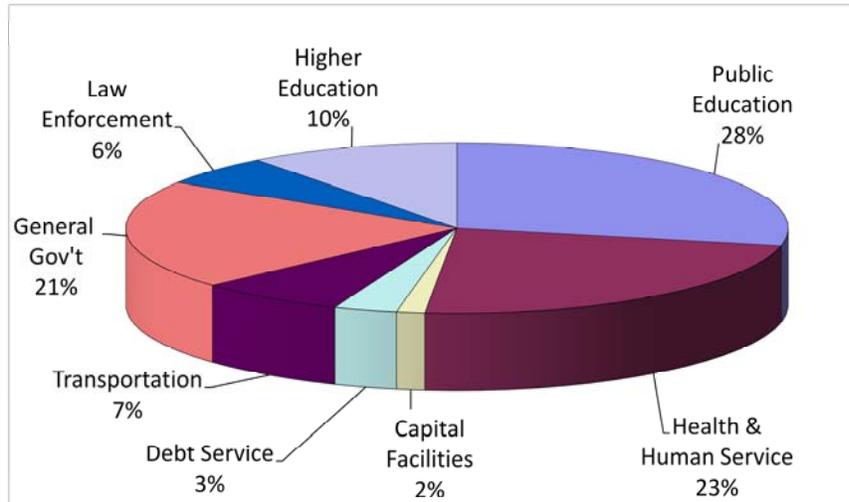


- The purpose of this presentation is to share with you the latest on our state budget.
- I'll start by sharing some basics about the State budget and detailing our recent challenges on the revenue side.
- I will then talk a bit about how and where demands for spending continue to rise.
- The combined effect of these two forces is less money for programs and projects that you might like.
- Our state is not as bad off as some but we face significant challenges, and those challenges will impact you directly.
- Finally I will review what we have been asked to do as we approach the 2011 general session.



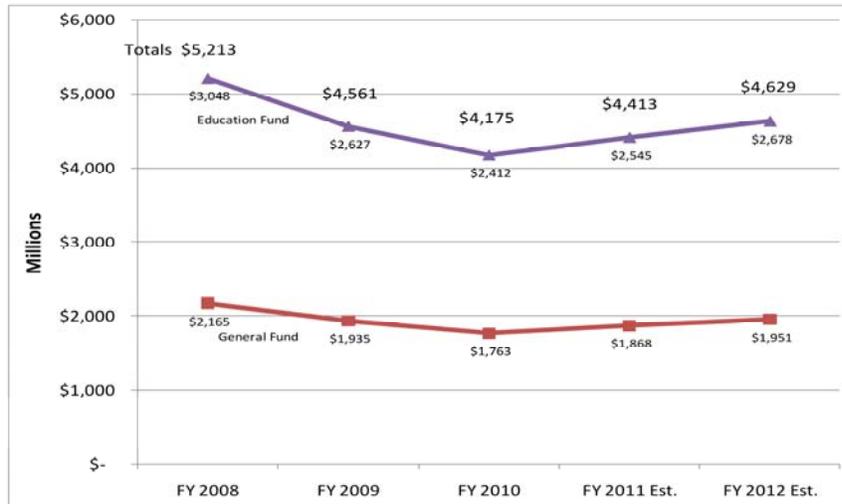
- First, let's talk about the "colors of money" in the state budget.
- Starting with the light purple color, we project that this year the state will get 17% of its money from the General Fund – that's sales tax for the most part.
- Next in maroon is a little less than a quarter (23%) from income taxes – individual and corporate.
- Federal funds – regular and "stimulus" – make up the next 27%, followed by gas taxes at 4%, Dedicated Credits – the sale of services – at 7%, and "Other" – largely restricted revenue sources and fees – at 22%.
- That brings us back to General Fund.
- That slice of the pie is the only one that's truly discretionary. All the rest are dedicated to something.
- Education and Transportation Funds Fund are self explanatory. They're dedicated in our state constitution.
- Federal Funds go to whatever program the Feds say it's for – largely Social Services.
- Dedicated Credits and "Other" go to the programs in which they are generated.

## State Budget Background Categories of FY 2011 Expenditure



- This next slide shows where we spend all that taxpayer money.
- 6% goes to our courts, prisons, and troopers. 38% to Education. 23% to social services like Medicaid. 12% to capital expenses (buildings, debt, and roads). 21% to General Government.

## Challenges Revenue History



- It's no secret that our economy has seen better days. And it will see better again in the future. But for now, that means less resources for government services.
- Between FY 2008 and last General Session, the "general tax" portion of that first pie I showed - the General and Education Funds - decreased by more than \$1 billion - from \$6 billion at its height in 2008 to \$4.8 billion now.
- This chart shows the ongoing revenue feeding into those "state" funds.
- The good news is that for the first time since December 2007, we've had a revenue report from our economists that doesn't include downgrades!
- They expect revenue will be as predicted in FY 2011 (+\$6m over Feb. 2010 estimates) and grow by about \$216 million from FY 2011 to FY 2012.

## Challenges

### Current Commitments

#### Structural Deficit:

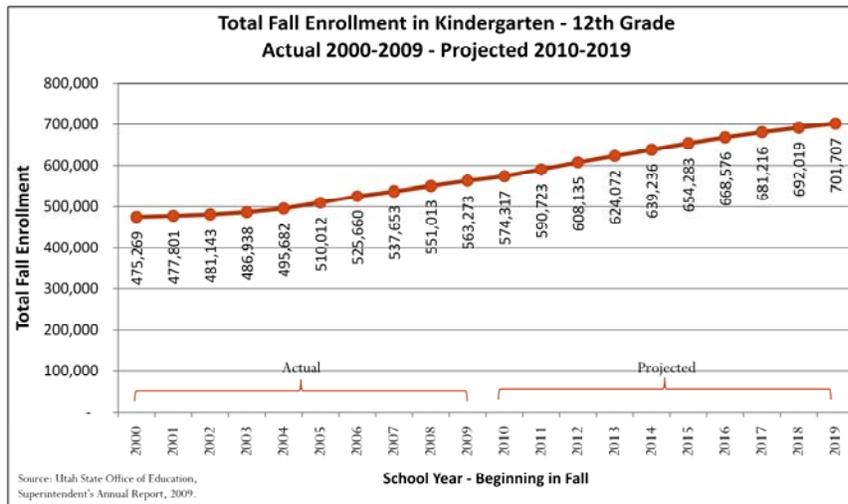
Ongoing commitments exceed ongoing revenue (like making a car payment out of a savings account).

We need \$313 million to maintain CURRENT commitments starting July 1 (FY 2012).

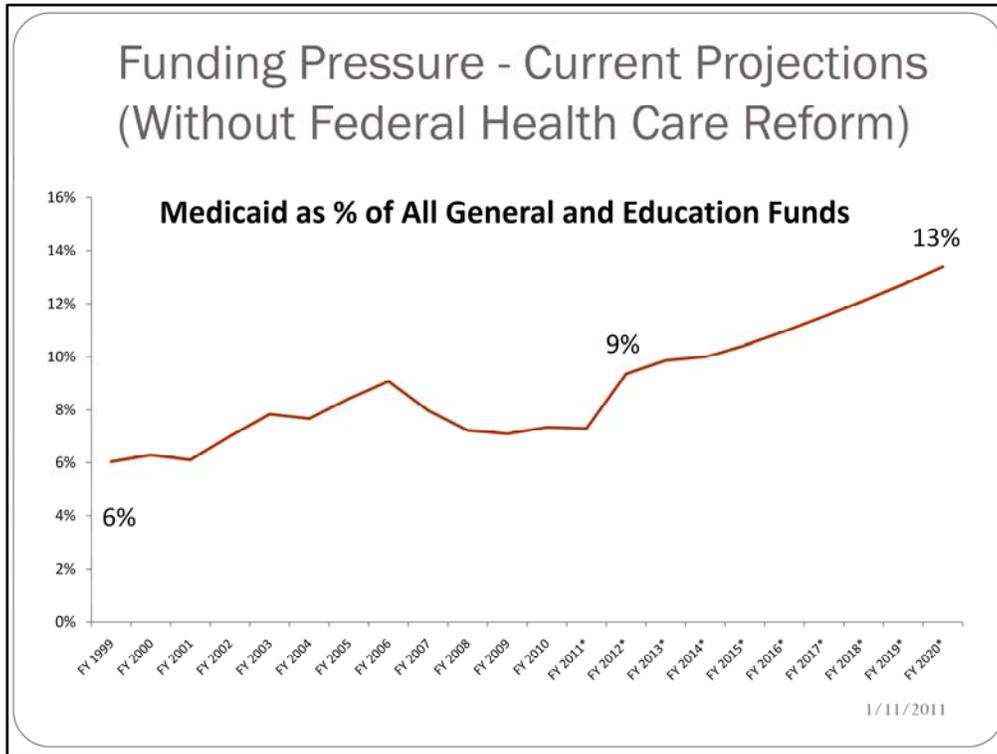


- The bad news is that we've committed more than that amount of new revenue to ongoing programs in our current budget.
- \$313 million of our current budget is coming from one-time sources like our Rainy Day funds and from sweeping balances in every corner we can find.
- Because those revenues are one-time, and the commitments are ongoing, if nothing else changes, our budget will be \$313 short on July 1 of next fiscal year.
- That's before the cost of new growth – in areas like public education, medicaid, and retirement.

## Funding Pressure Education



- You saw on the second slide that Public and Higher Education use 38% of all our resources. They use 100% of income tax, plus nearly \$500 million from the General Fund.
- This year, Public and Higher Education will get 65% of our general tax revenue (sales and income taxes).
- Public Education alone will get 50% of General and Education funds.
- This graph shows that we keep having kids. No surprise there.
- We expect our public education rolls to continue rising by 3% per year. That's 25-30% over the next ten years.
- In typical years, we fund this growth FIRST – in the Base Budget bill – without much debate or acknowledgement.
- Each year, this will cost us between \$50 and \$100 million depending upon the number of kids and the performance of local property taxes.
- As these kids enter our schools, because we fund them on a per-unit basis, the new costs will require increased general and education fund revenue.

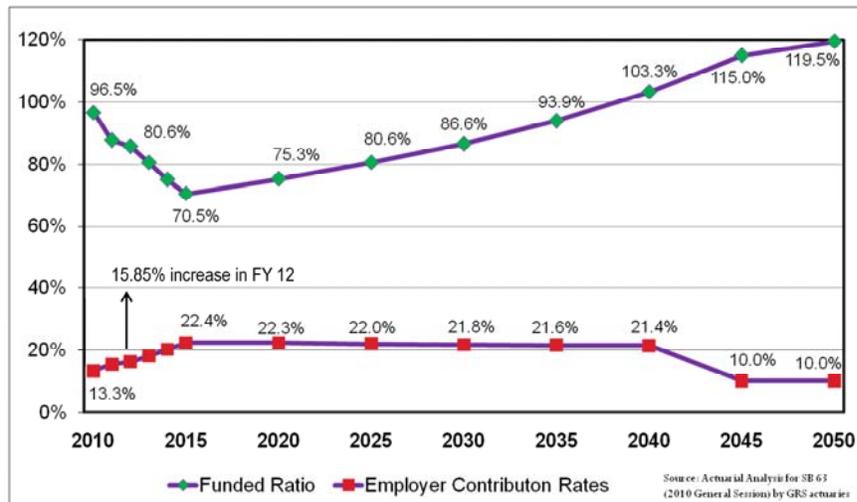


- Next is Medicaid.
- 13 years ago, Medicaid accounted for 6% of all of our General & Education Funds.
- This year, it's 9%.
- By FY 2010 without federal health care reform, Medicaid is projected to use 13% of all General and Education Funds.
- And if we can't bring medical costs down, Medicaid's share of our budget will continue to grow exponentially.

**•Notes**

- Medicaid growth based on average annual growth of 8% based on experience of FY 1999 through FY 2010
- General and Education Fund growth based on a conservative (low range) estimate of revenue growth

## Funding Pressure Retirement



- Then there's retirement.
- This state has prided itself on covering its retirement commitments.
- Just a few years ago, we were 100% funded.
- Given recent market performance, without further reform, we will need to increase contribution rates to 22.4% of salary in order to be actuarially sound.
- That's a cost increase of nearly 70% in the next four years. It will cost us \$316 million more in that timeframe.
- It's a nearly 16% increase next year.

## The Hole Defined in Millions

### Spending

• Structural Deficit =	\$313
• 2012 School Kids =	\$80
• 2011 School Kids =	\$70
• Medicaid/CHIP =	\$91
• Retirement =	\$41
• Health Insurance =	\$38
• Bond Coverage =	\$15
• Settlements =	\$5
<b>TOTAL =</b>	<b>\$653</b>

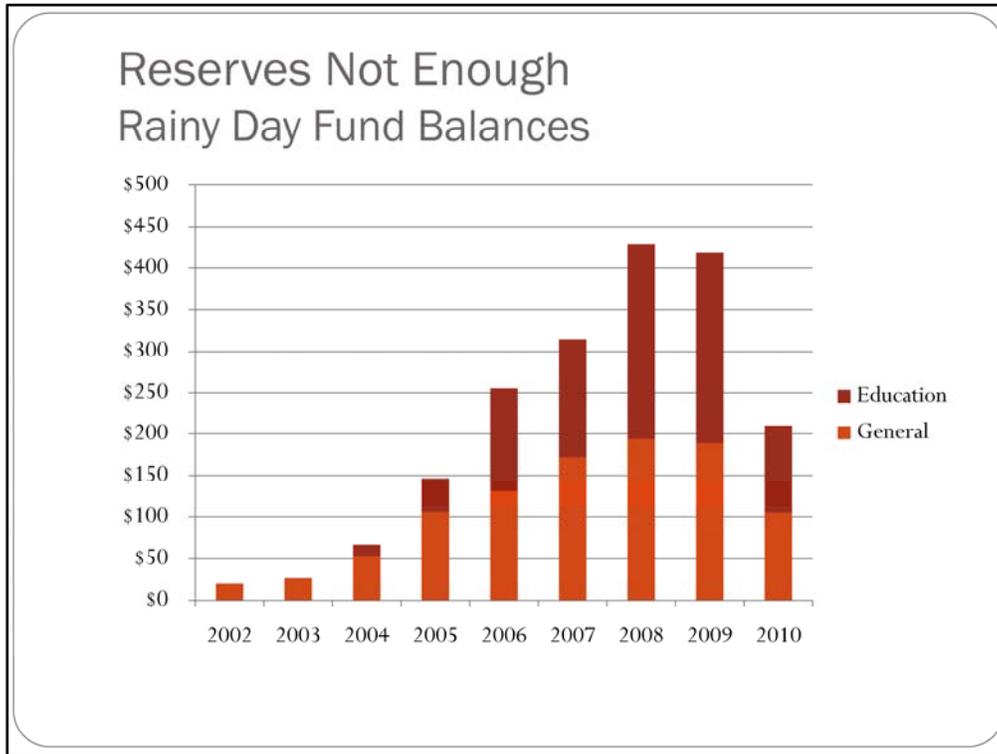
### Revenue

• FY 2012 =	\$216
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### Difference

\$437 m left to fill.

- Add to those big ticket items health insurance, double coverage on build America bonds, and payment of lawsuit settlements, and you have \$653 million in needs.
- Versus \$216 million in revenue growth.
- Leaving \$437 million to fill or go without.



- We have some money in our rainy day funds to help cover that \$653 million.
- But, it's not enough to cover the whole thing. We only have \$210 million in reserve.
- And it's one time – meaning that if we use it to cover ongoing costs in FY 2012, we'll face the same problem in FY 2013.
- Dealing with these numbers will be one of the major decisions to be made by the Legislature in the 2011 session.

## Where do we go from here?

EAC motion, 12/14/10:

“Prepare and number a base budget bill equal to ongoing state funds in the current year, adjusted to a level that eliminates the structural deficit.”

\$313M structural deficit = 7%

- In its last meeting, the Executive Appropriations Committee adopted a motion to have staff prepare a base budget bill equal to ongoing state funds in the current year, adjusted to a level that eliminates the structural deficit.
- Eliminating the \$313M structural deficit translates to an adjustment of 7%.

## Where do we go from here?

### Timeline

#### JR4-5-201:

Each legislator shall receive a copy of each base budget bill for the next fiscal year by calendared floor time on the first day of the annual general session.

#### Action:

As directed by EAC, staff will prepare a base budget bill (or bills) with 7% across-the-board reductions, ready by the first day of session. It will change.

- The next two slides show how we plan to meet the requirements of legislative rules with the base budget bill.
- Rules require a base budget bill (or bills) on your desks by the morning of the first day of session.
- The introductory bill will simply reduce all budgets across the board by 7%.
- However, as the subcommittees do their work, the bill will change to include more surgical cuts.

## Where do we go from here?

### Timeline

#### JR4-5-201:

By noon on the tenth day, but not before the third day, the Legislature shall either pass or defeat each base budget bill.

#### Action:

Subcommittees discuss specific changes on Jan. 19, and 2 or 3 more meetings during session. Bill substituted with surgical changes by the tenth day.

- Rules require the base budget bill (or bills) to be acted upon by the 10<sup>th</sup> day of session.
- This gives subcommittees the meeting on the 19<sup>th</sup>, plus 2 or 3 more during the session, to replace the across-the-board cuts in the introductory bill with surgical cuts.
- This leaves the remaining meetings of the general session to discuss changes to the base budget, including potential add-backs, fees, intent language, projects, and so forth.