

FY 2010 and FY 2011 Baseline Estimates

January 2010

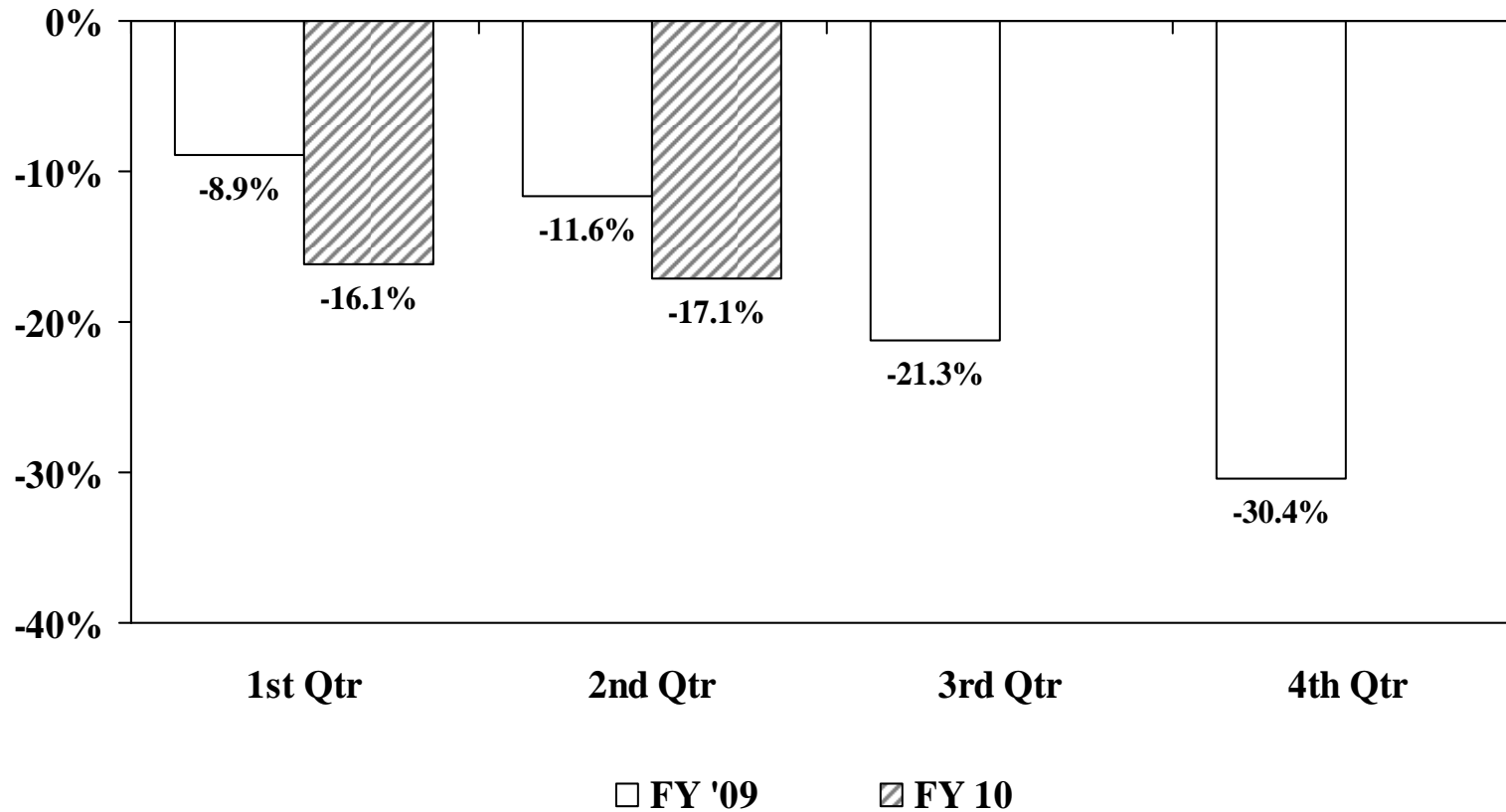
JLBC

Baseline Guidelines

- Reflects consensus revenue forecast
- Funds statutory formula growth, prison bed openings, and debt service payments
- Backfills one-time federal funds used to support state statutory funding formulas
- Results in Baseline shortfall of \$(1.5) B in FY '10 and \$(2.6) B in FY '11

FY '10 Revenues Are (16.6)% Below FY '09 through December

- % Decline Unlikely to be Replicated for Full Year



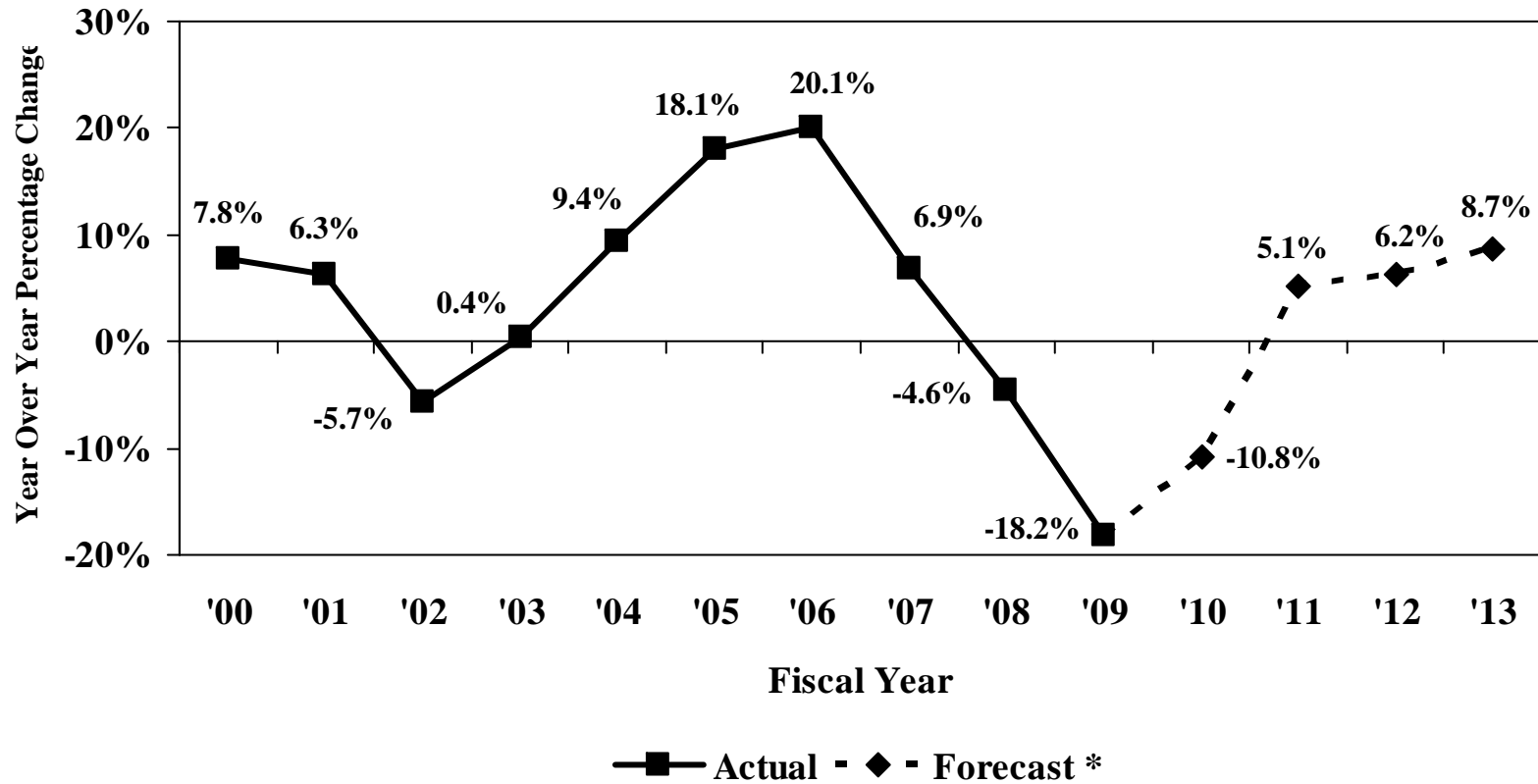
Percent Change From Prior Year

While Economic Indicators Have Stabilized, Recovery Could Take 3 to 5 Years

	<u>Stabilized</u>	<u>Long Recovery</u>
Jobs	– Total employment	– 276,500 job loss since 12/07
Housing	– Home prices	– 50,000 surplus homes, 80 M sq. ft. surplus commercial space
Sales	– 3-month tax collections	– 48% of mortgages “underwater”

Consensus Forecasts 5% Growth in '11

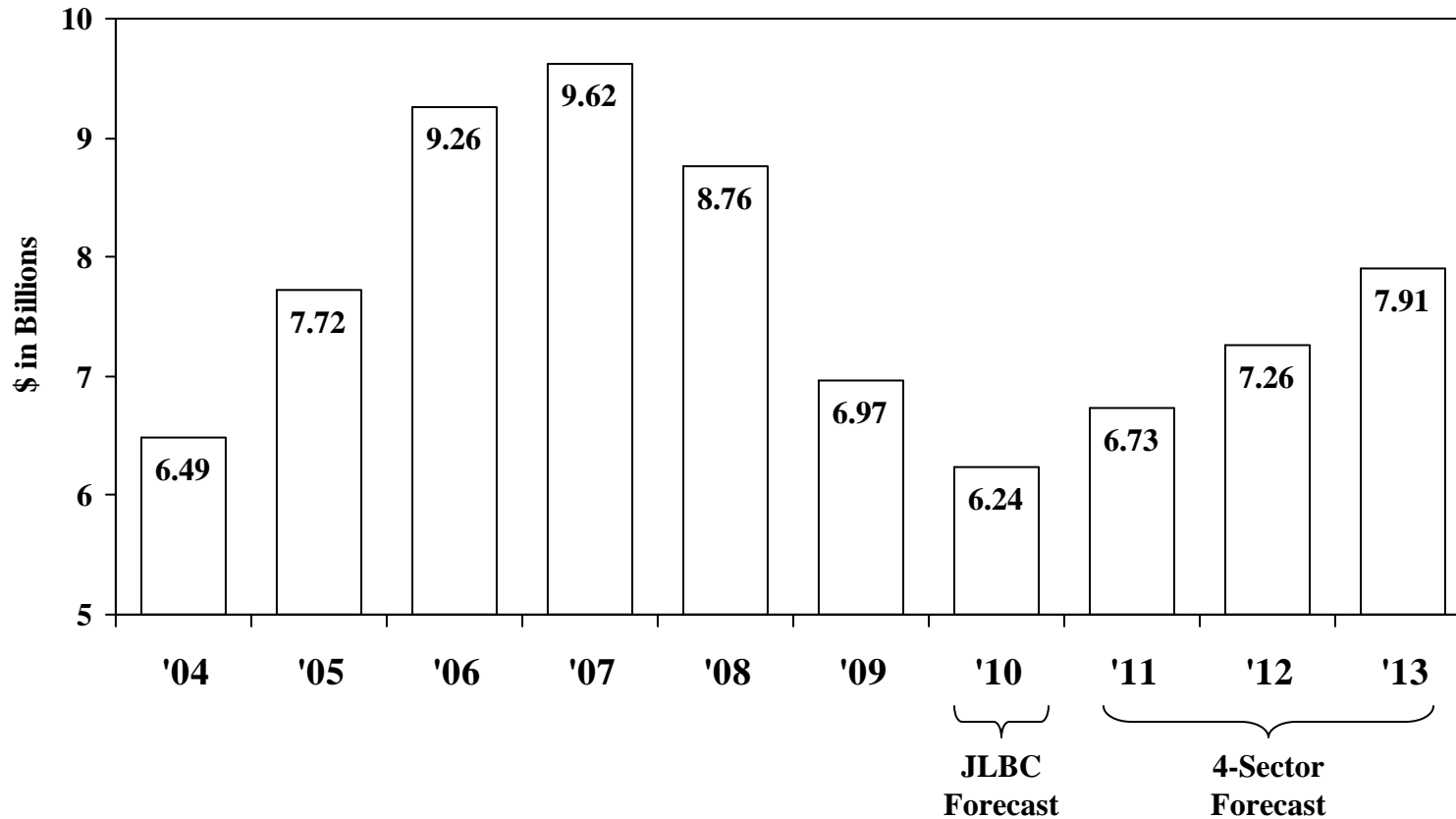
- Moderate Recovery in Out Years



* JLBC forecast in '10, and 4-sector forecast in '11 – '13

While Moderate Recovery, Revenues Far Below '07 Level

- Would Take 4 Years of 11% Growth to Reach FY '07 Level



- Excludes balance forward and other one-time revenues

- Urban Revenue Sharing drops from \$629 M in '10 to \$474 M in '11



FY '11 Baseline Increases by \$1.1 B Above FY '10

- Excluding One-Time Federal Backfill,
Growth is \$335 M or 3.5%

Federal Stimulus Statutory Backfill \$776 M
Title 19 Health and Welfare Formula \$436 M
K-12 Formula \$(103) M
Corrections \$68 M
SFB Debt Service \$23 M
Leaseback Debt Service \$43 M
Other \$(2) M
Technical Adjustments \$(130) M



Adding inflation/rate adjustments would cost \$160 M

Backfilling One-Time Federal Savings Would Cost \$776 M in FY '11

- *Higher Federal Medicaid match rate for statutory indigent health care programs ends 12/10*
- *Education Stabilization exhausted at end of FY '10 – used to support K-12 formula*
- *Baseline does not backfill federal funds used for non-statutory programs*

Components of Backfill

	<u>\$ in M</u>
Medicaid match	\$304
Education Stabilization	472
Government Services	
Corrections (\$50 M)	0
DES/DHS (\$26 M)	<u>0</u>
Total	\$776

Congress May Extend Stimulus Funding

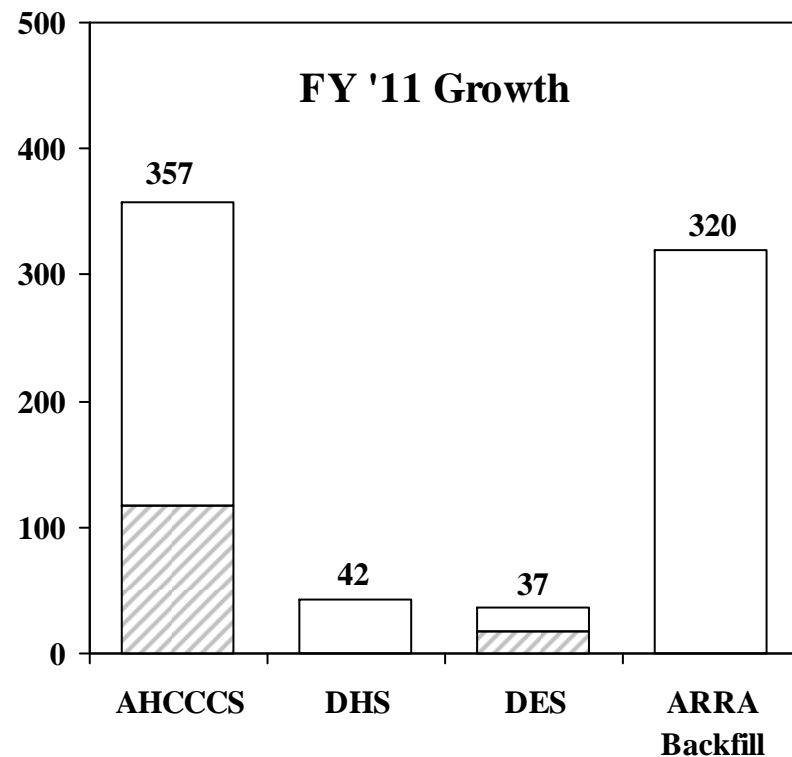
- U.S. House Passed Legislation in December

- Medicaid match rate extended to June '11
 - Would save state \$400 M
 - Prevents changes in eligibility
- Education Stabilization Funds would increase by \$480 M
 - Maintenance of effort implications need further review

Health & Welfare Caseloads Cost \$436 M in '11

- Plus \$320 M for Federal Funds Backfill

- Population growth
 - June '10 over '09 = 14.4%
 - June '11 over '10 = 5.5%
- No capitation adjustment
- DHS rate adjusted for actual population counts



- Capitation rate = monthly provider payment, typically adjusted for inflation and utilization.

- Shaded area related to payment deferral.

FY '11 K-12 Decline is \$(103) M

- Becomes \$369 M Increase with Backfill

<u>\$ in M</u>	
\$ 52	– 0.9% enrollment growth
5	– 1.2% inflation on limited base
(38)	– (3)% net assessed value (NAV) decline and QTR increase from \$2.75 to \$2.86 <ul style="list-style-type: none"> • Under TNT, offsets (4)% existing property decline
(116)	– Cash balances one-time adjustment
<u>(6)</u>	– No early kindergarten repeaters
(103)	Subtotal
<u>472</u>	– Backfill one-time federal funds
\$ 369	– Total

FY '11 Corrections Spending Increases \$68 M

- 5,000 Bed Shortfall at End of '11

	<u>\$ in M</u>
• Open 4,000 new state beds	\$ 69.1
• Annualize 2,000 private beds	40.0
• Backfill unachieved health savings	20.0
• Eliminate 2,912 provisional beds	<u>(60.7)</u>
Total	\$ 68.4

There Are 3 Measures of State's Fiscal Condition

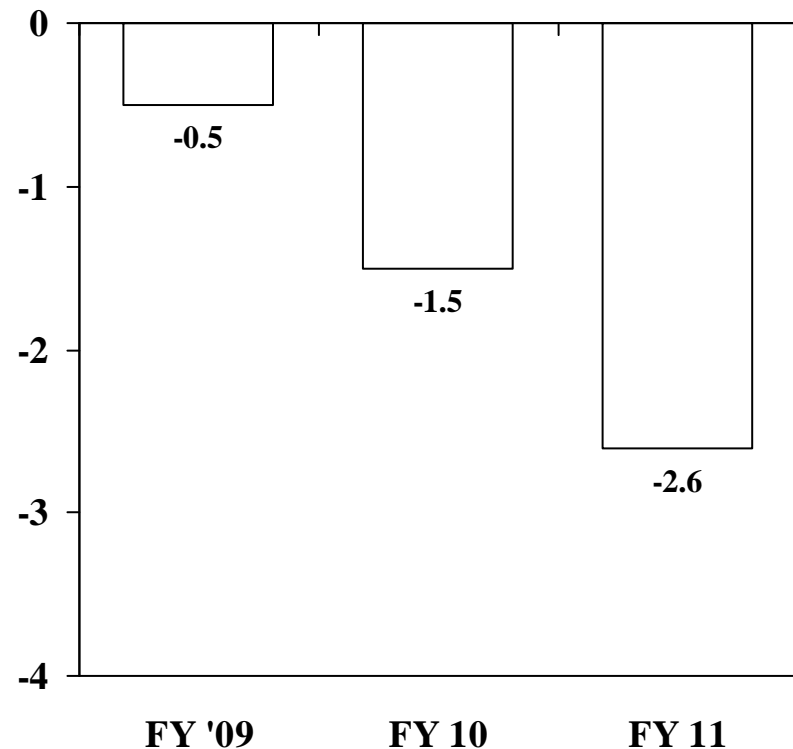
- General Fund Budget Balance
- General Fund Structural Balance
- Operating Fund Balance
 - the actual checkbook

General Fund Shortfall is \$(1.5)B in '10 and \$(2.6) B in '11

- Represents Financial Condition on the “Balance Sheet”

\$ in Billions

- '09: 1st negative year in memory
- '10: lagging revenues, '09 carryover, \$147 M supplemental
- '11: projection based on current trends
- '11 shortfall assumes no '10 carryover
- Any on-going '10 solution reduces '11

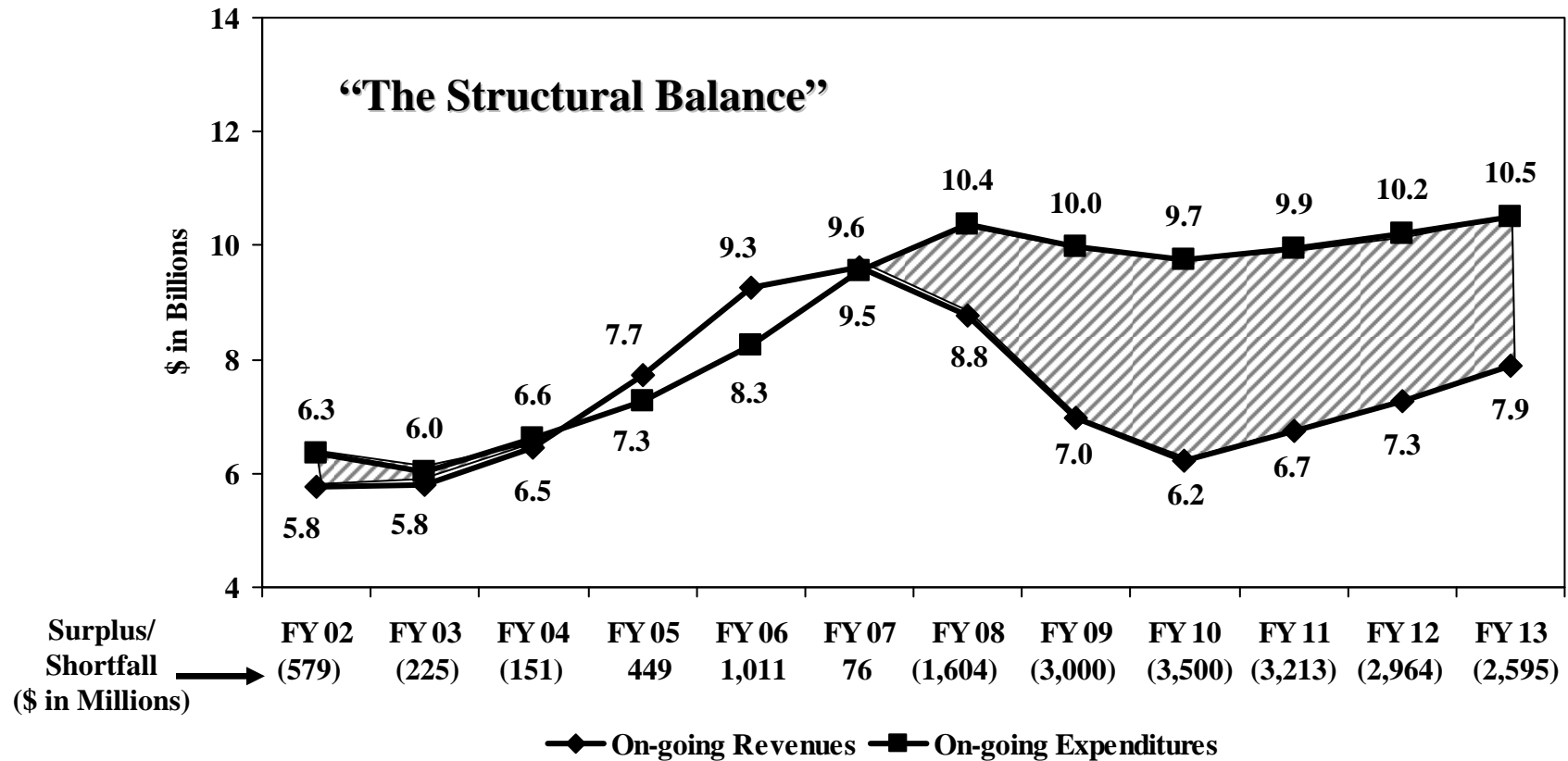


In FY '11, General Fund Revenues Would Be \$6.9 B Compared to \$9.5 B in Spending

	<u>\$ in Billions</u>	
	<u>FY '10</u>	<u>FY '11</u>
Beginning Balance	\$ (0.5)	\$ 0.0
Revenues	<u>7.4</u>	<u>6.9</u>
Total Revenues	6.9	6.9
Spending	<u>8.4</u>	<u>9.5</u>
Shortfall	\$ (1.5)	\$ (2.6)

Structural Shortfall Remains Above \$2.5 B through FY '13

- Fiscal Condition Also Measured by On-Going Revenues vs. Spending

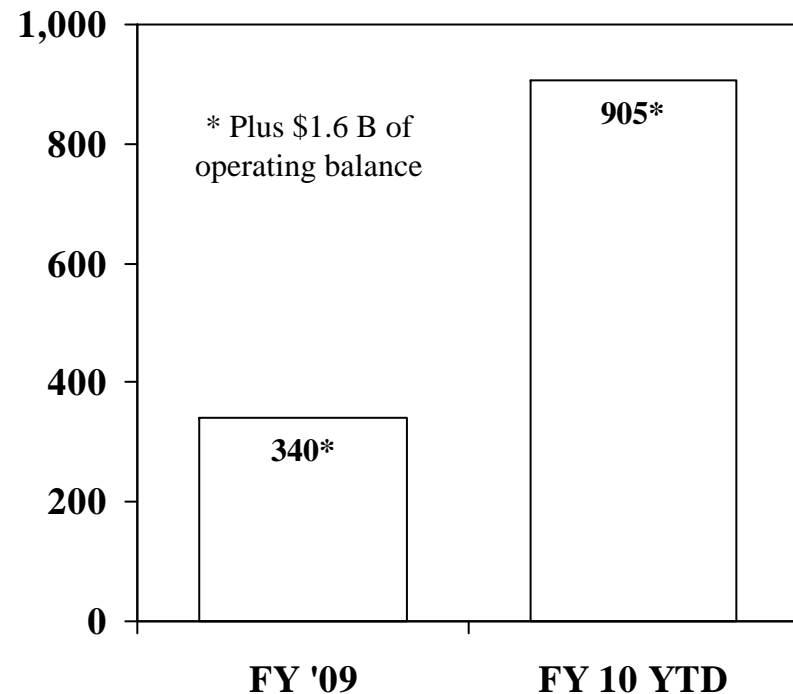


The Operating Fund Balance Went Negative in '09

- 1st Time Since 1930's

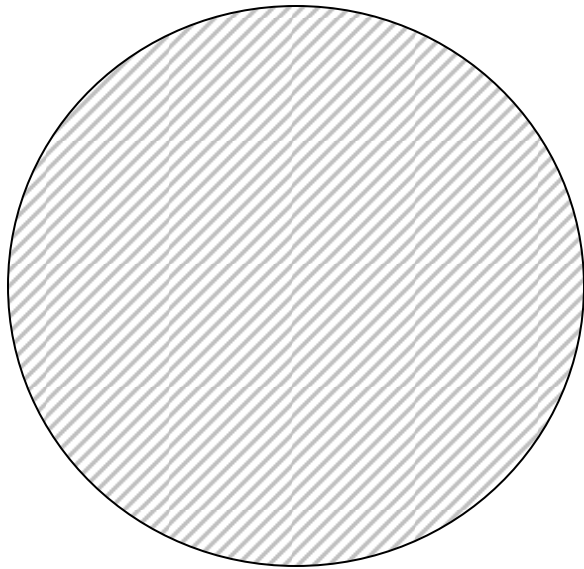
- State pays daily bills from this Fund > \$30 B a year
- Since General Fund short, state uses \$1.6 B in non-GF accounts to pay GF bills
- When negative, state borrows daily
- First commercial, then intrafund

Single Highest Daily Borrowing
\$ in Millions



After Operating Fund, Borrow From Bank and Pool 3

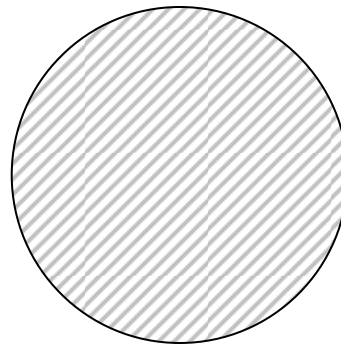
- Borrowing Capacity is \$1.25 B; Used \$900 M in December



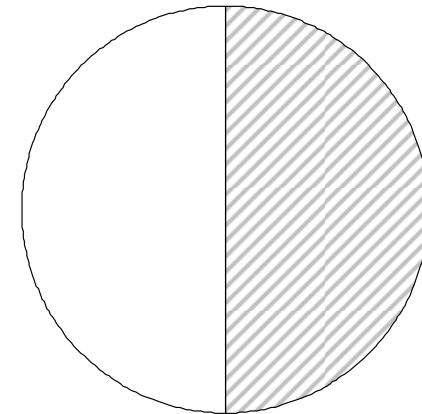
Operating Fund
\$1.6 B

Non Interest Fund Examples

Employee Health
Risk Management
University Collections
Land Clearing Funds



Bank Loan
Up to \$700 M



50% of Pool 3
\$550 M

Interest Fund Examples

1st Things 1st
Growing Smarter
Heritage
DES Long Term Care

When Does State “Run Out” of Money?

- Projections are difficult – over 2/3rd of dollars are non-General Fund – little forecasting experience
- ADOA projects being near borrowing cap in April – Treasurer forecasts being below cap for remainder of year
- Can Treasurer generate more capacity?
 - As example, 50% of Pool 3 is only a guideline

Rating Agencies Downgraded Credit Level

- Still remains in “A” range, but borrowing costs higher
- Outlook labeled as “negative” due to:
 - Structural imbalance
 - Lack of action
 - Constitutional limits on raising revenues and reducing spending

Sale Leaseback May Affect Future Fiscal Policy

- State is currently marketing \$735 M state property sale-leaseback
- State will give title to trustee – but retains building control as long as we make payments
- To get tax exempt financing, annual state reserves cannot exceed 5% in next 20 years
 - Otherwise must pay back debt

Baseline Shortfall Estimates

	<u>FY '10</u>	<u>FY '11</u>
Executive	\$ 1.4 B	\$ 3.2 B
JLBC	\$ 1.5 B	\$ 2.6 B

- Revenues comparable – Executive \$103 M higher in '10, \$44 M in '11
- Executive Baseline includes inflation and discretionary federal funds backfill

Primary Baseline Differences Executive Above JLBC - Preliminary Estimate

	<u>\$ in M</u>
• Discretionary Federal Funds Backfill	\$ 150
• Inflation/Rate Adjustment	140
• On-Going Fund Transfer	140
• Contingency/Capital/Health Insurance	90

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