

FY 2013 JLBC Baseline Summary

January 2012

The FY 2013 Baseline provides an estimate of the state's General Fund balances. The revenue projections reflect a consensus economic forecast while the spending estimates represent active funding formula requirements and other obligations. The Baseline does not represent a budget proposal, but an estimate of available resources after statutory requirements.

The 3-Year Budget Outlook

- Given current forecasts of revenue and expenditures, the General Fund is expected to generate substantial balances at the end of FY 2012 (\$583 million) and FY 2013 (\$431 million). In FY 2013, projected revenue of \$8.79 billion would be offset by \$8.36 billion in spending.
- The FY 2014 budget is projected to have a small shortfall (\$172 million) with the expiration of the 1-cent sales tax. This estimate does not include the use of prior year balances.
- Changing a few assumptions could alter this outlook. Slightly slower economic growth and plaintiff verdicts in budget lawsuits could create shortfalls of \$(360) million in FY 2013 and \$(1) billion in FY 2014.

The Caveats to the Budget Outlook

- The Baseline estimates assume that the state does not embark on any new permanent initiatives.
- 3-year budget forecasts are not reliable. If the revenue forecast has an annual 2% error, total revenues could change by \$500 million by the third year.
- Unknown future political events and natural disasters could negatively affect the performance of the economy. Examples of these events in 2011 were the Arab Spring and the Japanese earthquake.
- The 2012 elections could influence the direction on national fiscal policy. Any serious effort to resolve the federal deficit would probably involve a reduction in federal aid to the states.
- Pending "budget" lawsuits at the state level could cost over \$475 million if the plaintiffs are successful.

Legislative Fiscal Policy Considerations

- Any balances are still projections. At the end of FY 2011, the General Fund balance was \$3 million.
- The state's lack of reserves in the Rainy Day Fund continues to hamper the state's credit rating. Prior to the recession, those reserves exceeded \$600 million.
- The state is still annually suspending over \$700 million in statutory funding formulas. If funded, those formulas would eliminate the short-term balances and create a long-term structural shortfall.
- The legislative role in the budget process continues to decline. The General Fund accounts for only 31% of state spending, compared to 44% in FY 2000.

General Fund Revenues

While base revenues are forecast to grow in FY 2013, one-time factors would reduce FY 2013 collections to \$8.79 billion, or \$(121) million below FY 2012:

- Based on JLBC's 4-sector consensus, base revenues are projected to grow by \$415 million, or 5.1%.
- The state set-aside for urban revenue sharing formula distributions would grow from \$424 million to \$519 million, thereby reducing state revenue by \$(89) million.
- Previously enacted legislative changes would reduce state revenue by \$(91) million, primarily from ending the early June sales tax payment of some businesses.
- The elimination of fund transfers and county cash contributions reduces revenue by \$(357) million.

General Fund Spending

Statutory funding formulas and other obligations are expected to result in FY 2013 General Fund costs of \$8.36 billion, a \$30 million or 0.4% increase above FY 2012. The key changes include:

- Medicaid spending would increase by \$99 million due to caseload growth and a reduction in the federal match rate.
- K-12 spending would decline by \$(28) million, primarily due to a (1.2)% decline in student enrollment and implementation of new Homeowner's Rebate restrictions enacted during the last session.
- Debt service payments increase by \$50 million, primarily for the \$1 billion state building sale/leaseback.
- State payrolls would decline by \$(79) million due to the elimination of one-time funding for an additional 27th employee payroll in FY 2011.