

GOVERNOR'S OFFICE OF MANAGEMENT & BUDGET

THREE YEAR BUDGET PROJECTION (General Funds), FY12-FY14

Pay the Bills and Establish Fiscal Stability

| | |
|------------------------|--|
| REVENUE | Increase individual income tax (IIT) rate from 3.00% to 5.00%; increase corporate income tax (CIT) rate from 4.80% to 7.00%. Reinstatement of estate tax. Increase cigarette tax by \$1.01 per pack. |
| SPENDING REFORM | Enact Medicaid and police/fire pension reforms, adhere to spending caps and eliminate mandates. |
| BORROWING | Issue debt restructuring bonds with proceeds to be applied to existing accounts payable, corporate tax refund and group insurance backlogs. |

Legislative action taken in January / *Requires future legislative action
All bills referenced below are from the 96th General Assembly

(\$ in millions)

| | Base case | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2011 | 2012 | 2013 | 2014 |
| RESOURCES | | | | |
| <u>Base resources</u> | | | | |
| State resources | \$19,685 | \$20,192 | \$20,630 | \$21,214 |
| Federal resources | \$5,976 | \$5,937 | \$6,293 | \$6,671 |
| Transfers in | \$1,622 | \$1,791 | \$1,713 | \$1,765 |
| Total base resources | \$27,283 | \$27,920 | \$28,636 | \$29,650 |
| <u>Other resources & adjustments</u> | | | | |
| Short term borrowing | \$1,300 | \$0 | \$0 | \$0 |
| Interfund borrowing | \$500 | \$0 | \$400 | \$0 |
| Railsplitter effect to GRF ¹ | \$1,250 | (\$140) | (\$140) | (\$140) |
| Loss of Medicaid match from reform | \$0 | (\$200) | (\$300) | (\$400) |
| FY11 pension borrowing | \$4,050 | \$0 | \$0 | \$0 |
| *Proceeds from 2011 deficit refinancing bond ⁶ | \$0 | \$1,450 | \$0 | \$0 |
| <u>Primary revenue enhancements</u> | | | | |
| IIT: increase from 3% to 5% (SB2505) | \$2,632 | \$6,050 | \$6,219 | \$6,394 |
| CIT: increase from 4.8% to 7% (SB2505) | \$150 | \$770 | \$804 | \$839 |
| *Cigarette tax increase of \$1.01 per pack (SB44) | \$88 | \$330 | \$359 | \$356 |
| Estate tax (SB2505) | \$0 | \$182 | \$243 | \$243 |
| Suspend net operating loss (SB2505) ² | \$100 | \$250 | \$250 | \$250 |
| Total Resources | \$37,353 | \$36,613 | \$36,472 | \$37,191 |
| SPENDING | | | | |
| <u>Operating budget priorities</u> | | | | |
| 1. Providing a quality education and opportunities for growth | \$9,536 | \$9,866 | \$10,063 | \$10,265 |
| 2. Enhancing the economic well-being of citizens | \$155 | \$166 | \$168 | \$169 |
| 3. Protecting the lives and property of citizens | \$1,444 | \$1,620 | \$1,636 | \$1,653 |
| 4. Protecting the most vulnerable among us | \$13,515 | \$14,334 | \$13,962 | \$13,297 |
| 5. Improving quality of life for citizens | \$64 | \$77 | \$78 | \$79 |
| 6. Improving the efficiency and fiscal stability of state government | \$1,009 | \$1,114 | \$1,186 | \$1,198 |
| Total operating budget | \$25,723 | \$27,177 | \$27,093 | \$26,660 |
| <u>Additional expenditures</u> | | | | |
| Pension contributions ⁴ | \$4,157 | \$4,492 | \$4,863 | \$5,239 |
| Statutory transfers out | \$1,823 | \$1,870 | \$1,917 | \$1,966 |
| Repay interfund borrowing | \$0 | \$505 | \$0 | \$404 |
| Repay short-term borrowing | \$1,506 | \$0 | \$0 | \$0 |
| Debt service: existing capital | \$570 | \$548 | \$494 | \$520 |
| Debt service: 2003 pension obligation bonds | \$516 | \$560 | \$556 | \$552 |
| Debt service: 2010 & 2011 pension obligation notes | \$1,209 | \$935 | \$947 | \$1,054 |
| *Debt service: deficit restructuring bond(s) (SB336) ⁵ | \$120 | \$425 | \$523 | \$587 |
| Total Spending ⁷ | \$35,624 | \$36,512 | \$36,393 | \$36,981 |
| Surplus/Deficit for Current FY | \$1,729 | \$100 | \$79 | \$210 |

FY11 Accounts Payable Resources / Spending Not Included Above

| | |
|---|----------------|
| *Proceeds from deficit restructuring bond (SB336) | \$4,380 |
| *Accounts payable backlog paid by deficit restructuring bond and FY11 surplus | (\$4,610) |
| Total of Accounts Payable Adjustments Not Presented Above | (\$230) |
| \$230 from FY11 operating budget surplus applied to backlog of unpaid bills | |
| FY11 Surplus/Deficit Net of Accounts Payable Adjustments | \$1,499 |

¹ As a result of the Dec. 2010 Railsplitter tobacco settlement revenue securitization, GRF will need to compensate for shortfalls due to diminished tobacco settlement revenues.

² The ability for corporations to use NOLs to reduce income will be suspended for four years.

³ All projected revenues and expenditures are subject to change during the budget development process. A detailed budget will be presented with the Governor's budget speech on February 16.

⁴ FY11 pension of \$4.157 billion contribution financed through pension obligation note.

⁵ Proposed \$8.75 billion deficit restructuring authorization for accounts payable, business tax refunds and group insurance backlogs. SB3 in 97th GA.

⁶ Remaining balance of debt restructuring proceeds after restoration of normal payment cycle of accounts payable, approximately \$1.45 billion, applied to FY12 base resources.

⁷ SB2505 enacts for spending limits of: \$36,818 in 2012; \$37,554 in 2013; \$38,305 in 2013.