

# GOVERNOR'S OFFICE OF MANAGEMENT & BUDGET

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

*Pay the Bills and Establish Fiscal Stability*

<b>REVENUE</b>	Increase individual income tax (IIT) rate from 3.00% to 5.00%; increase corporate income tax (CIT) rate from 4.80% to 7.00%. Reinstate estate tax. Increase cigarette tax by \$1.01 per pack.
<b>SPENDING REFORM</b>	Enact Medicaid and police/fire pension reforms, adhere to spending caps and eliminate mandates.
<b>BORROWING</b>	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
<b>RESOURCES</b>				
<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 &amp; adjustments</u>				
Short term borrowing	\$1,300	\$0	\$0	\$0
Interfund borrowing	\$500	\$0	\$400	\$0
Railsplitter effect to GRF <sup>1</sup>	\$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 <sup>6</sup>	\$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) <sup>2</sup>	\$100	\$250	\$250	\$250
<b>Total Resources</b>	<b>\$37,353</b>	<b>\$36,613</b>	<b>\$36,472</b>	<b>\$37,191</b>

**SPENDING**Operating budget priorities

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

Additional expenditures

Pension contributions <sup>4</sup>	\$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) <sup>5</sup>	\$120	\$425	\$523	\$587
<b>Total Spending <sup>7</sup></b>	<b>\$35,624</b>	<b>\$36,512</b>	<b>\$36,393</b>	<b>\$36,981</b>

**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)
<b>Total of Accounts Payable Adjustments Not Presented Above</b>	<b>(\$230)</b>

\$230 from FY11 operating budget surplus applied to backlog of unpaid bills

**FY11 Surplus/Deficit Net of Accounts Payable Adjustments**

**\$1,499**

<sup>1</sup> 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.

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

<sup>3</sup> 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.

<sup>4</sup> FY11 pension of \$4.157 billion contribution financed through pension obligation note.

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

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

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