

Office of Fiscal Analysis
General Fund Current Services Budget Projections [1]
as of September 25, 2008
(in millions)

| | Actual FY 08 | Projected FY 09 | Projected FY 10 | Projected FY 11 | Projected FY 12 |
|--|-----------------|--------------------|--------------------|--------------------|--------------------|
| Revenues | \$ 16,418.8 | \$ 16,712.5 | \$ 17,160.0 | \$ 17,862.0 | \$ 18,750.0 |
| Expenditures | <u>16,335.4</u> | <u>17,061.6</u> | <u>18,174.8</u> | <u>19,108.7</u> | <u>20,109.2</u> |
| Balance | \$ 83.4 | \$ (349.1) | \$ (1,014.8) | \$ (1,246.7) | \$ (1,359.2) |
| Governor's Recisions (net of holdbacks and tech. adj.) [2] | - | 56.5 | 59.3 | 62.3 | 65.4 |
| Operating Surplus/(Deficit) after Recisions | \$ 83.4 | \$ (292.6) | \$ (955.5) | \$ (1,184.4) | \$ (1,293.8) |

Highlights of General Fund Budget Projections:

FY 08 - the \$83.4 million operating surplus represents 0.5% of the budget and is largely attributable to higher than anticipated Personal Income Tax collections partially offset primarily by the Corporation Business Tax as well as various other revenue sources. The unappropriated FY 08 surplus of \$83.4 million was credited to FY 09 General Fund revenue and of this amount, \$79 was appropriated for energy assistance and home heating relief.

FY 09 - the \$292.6 million operating deficit (after recisions) represents 1.7% of the budget and is largely attributable to projected weakness in the following revenue sources: Personal Income, Sales and Use, Corporations, Public Service Corporations Tax, Inheritance and Estate, Insurance Companies, Cigarettes, Real Estate Conveyance, Indian Gaming, Sales of Commodities and Services and Investment Income partially offset by an increase in the Oil Companies Tax.

FY 10 through FY 12 - Projected shortfalls are primarily attributable to: 1) the ongoing impact of funding Teachers' Retirement expenditures in FY 09 from FY 07 anticipated surplus that will need to be restored to appropriations beginning in FY 10; 2) \$80 million one-time revenues provided in FY 09 from FY 07 anticipated surplus and a \$16 million revenue transfer from FY 08 to FY 09 that are no longer available in FY 10; 3) increased debt service costs related to the issuance of \$2 billion in pension obligation bonds to fund a portion of the shortfall in the Teachers' Retirement Fund; and 4) expenditure growth which is anticipated to exceed revenue growth in FY 10 and FY 11.

Implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2009 under current law. Our projections include the impact of the conversion to GAAP in FY 10, which adds approximately \$55.4 million to the budget on a net expenditure basis in that year and increases to approximately \$121.7 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The Comptroller's monthly report dated September 2, 2008 indicates that the cumulative General Fund GAAP deficit as of June 30, 2007 was \$994.3 million. Our projections also include \$133 million for the 27th state employee payroll, which will occur in FY 12.

Budget Reserve Fund Status - General Fund surpluses resulted in the following fiscal years: \$302.2 million in FY 04; \$363.9 million in FY 05; \$446.5 million in FY 06; and \$269.2 million in FY 07, each contributing toward a total Budget Reserve Fund (BRF) balance of \$1,381.8 million (which represents 80.5% of full BRF capacity). The unappropriated FY 08 surplus of \$83.4 million was credited to FY 09 General Fund revenue and of this amount, \$79 was appropriated for energy assistance and home heating relief. The Budget Reserve (Rainy Day) Fund had been depleted when its prior \$594.7 million balance was used to partially cover the \$817.1 million deficit in FY 02. The maximum allowable in the BRF is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 09 totaling \$17,162 million, the maximum allowable in the BRF is \$1,716.2 million or \$334.4 million more than currently deposited.

[1] The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. These preliminary projections will be updated by November 15, 2008.

[2] The FY 09 amount indicated is adjusted based on the following calculation: \$139.7 million original Governor's recisions minus \$25 million Personal Services and Other Expenses holdbacks minus \$58.2 million in technical decrease adjustments already accounted for in OFA's base expenditure projections.

Transportation Fund Projections FY 08 - FY 12
as of September 25, 2008
(in Millions)

| | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 |
|---------------------------------------|------------------|------------------|--------------------------------|------------------|------------------|
| | Preliminary | Estimate | -----Out-Year Projections----- | | |
| Operating Deficit Summary | | | | | |
| Revenues | \$1,063.6 | \$1,094.5 | \$1,102.2 | \$1,135.3 | \$1,145.1 |
| Expenditures | <u>\$1,078.3</u> | <u>\$1,142.1</u> | <u>\$1,201.5</u> | <u>\$1,256.8</u> | <u>\$1,292.1</u> |
| Balance | (\$14.7) | (\$47.6) | (\$99.3) | (\$121.5) | (\$147.0) |
| Governor's Recisions | | (\$18.8) | (\$19.7) | (\$20.7) | (\$21.8) |
| Net Operating Deficit After Recisions | (\$14.7) | (\$28.8) | (\$79.6) | (\$100.8) | (\$125.2) |

Impact of Operating Deficit on the Cumulative Transportation Fund Balance

| | | | | | |
|----------------------------------|----------------------|---------|---------|----------|-----------|
| Beginning Balance as of July 1st | \$192.9 ¹ | \$178.2 | \$149.4 | \$69.8 | (\$31.0) |
| Ending Balance as of June 30th | \$178.2 | \$149.4 | \$69.8 | (\$31.0) | (\$156.2) |

Highlights of Transportation Fund Projections

FY 08

The Transportation Fund is projected to end FY 08 with an annual operating deficit of \$14.7 million. This was \$37.3 million less than the budget plan surplus of \$22.6 million. The decrease was the result of revenues that were \$57.8 million less than anticipated partially offset by an increase of \$20.5 million in lapses. Revenues were lower than anticipated primarily because of lower than anticipated collections in motor fuels taxes and motor vehicle receipts.

The FY 08 operating deficit of \$14.7 combined with the prior year balance of \$192.9 million results in a cumulative fund balance of \$178.2 million as of June 30, 2008.

FY 09

FY 09 Transportation Fund operating deficit (after recisions) is projected at \$28.8 million (\$31.6 million lower than budgeted), which decreases the cumulative surplus to \$149.4 million. The change in the projections is mainly due to lower than anticipated revenues from the Motor Fuels Tax and Motor Vehicle Receipts.

FY 10 through FY 12

Out year projections indicate that the Transportation Fund will continue to experience operating deficits. The operating deficits are expected to eliminate the cumulative balance by FY 11. This is attributable to the combined effects of growth rates in expenditures accelerating faster than the anticipated growth in revenues.

¹ Per the November 1, 2007 Comptroller's Letter to Governor Rell, the FY 07 ending balance was \$192.9 million in the Transportation Fund.