

Background to General Fund Outlook Methodology

Attached is the September 2008 Six Year General Fund Outlook.

The information generally reflects the assumption that future revenue and spending corresponds to historical trends. However, due to the complexity and potential volatility surrounding the state's economy and factors impacting state expenditures, this estimate should be seen as a baseline estimate of the current budget outlook and aid in longer term fiscal planning.

As they have done in past, it is anticipated that the Governor and the Legislature will use available reserves and implement spending reductions and/or revenue changes to balance the 2009-11 budget.

ESTIMATED SIX YEAR GF-S OUTLOOK (September 22, 2008 Update)
(Dollars in Millions)

| | 2007-09 Biennium | 2009-11 Biennium | 2011-13 Biennium |
|--|-----------------------------|-----------------------------|-----------------------------|
| <u>Revenue</u> | | | |
| Beginning Fund Balance GF-S | \$781 | \$87 | (\$3,205) |
| June 2008 Forecast | 29,402 | 31,755 | 35,061 |
| September 2008 Forecast Update | (273) | (256) | (253) |
| Transfer to Budget Stabilization Account | (132) | (286) | (317) |
| Legislatively Enacted Fund Transfers | 147 | - | - |
| Total Revenue | \$29,925 | \$31,299 | \$31,286 |
| <u>Expenditures</u> | | | |
| Baseline Expenditures | \$29,623 | \$32,326 | \$35,076 |
| Additional Pension Costs | - | 132 | 180 |
| 2008 Supplemental Budget | 209 | 610 | 661 |
| Family Medical Leave | 6 | 72 | 89 |
| Near General Funds & Account Backfill | - | 1,365 | 1,621 |
| Total Expenditures | \$29,838 | \$34,504 | \$37,626 |
| Unrestricted GF-S Ending Balance | \$87 | (\$3,205) | (\$6,341) |
| Budget Stabilization Account | \$442 | \$728 | \$1,045 |
| Total Reserves | \$529 | (\$2,477) | (\$5,295) |

Assumptions

- 1) GF-S revenues based on September 2008 forecast for FY 2008-2011 and an assumption of 5 percent per year growth after FY 2011. A change in overall economic conditions could significantly impact this estimate.
- 2) Growth rates for functional areas of the budget (public schools, health care, employee health benefits, debt service, etc) utilize historical trends and, if available, current caseload and inflation forecasts. This results in an aggregate assumption that overall GF-S spending will increase by the approximate historical growth rate.
- 3) Pensions are adjusted to reflect the State Actuary estimate produced on 12/24/2007.
- 4) 2008 supplemental budget is based on the enacted budget including Governor's vetoes.
- 5) Near general fund account & backfill information based on current projections updated through September 2008.

Detailed Assumptions & Caveats

- 1) GF-S revenues based on September 2008 forecast for FY 2008-2011 and an assumption of 5 percent per year growth after FY 2011. A change in overall economic conditions could significantly impact this estimate.
- 2) The assumption is that functional areas of the budget will increase at the rates displayed below. These estimated growth rates utilize historical trends and, if available, current caseload and inflation forecasts. The aggregate result is an assumption that GF-S baseline spending will increase by slightly over 4 percent per year growth during the forecasted time period. This will change based on caseload, inflation, and other budget factors.

| <u>Annual Functional Area Growth Assumptions</u> | <u>2009-11</u> | <u>2011-13</u> |
|---|-----------------------|-----------------------|
| <i>Medical Assistance</i> | 6.0% | 6.0% |
| <i>Other Health Care</i> | 5.5% | 5.5% |
| <i>State Employee Health Benefits</i> | 6.0% | 6.0% |
| <i>K-12 Employee Health Benefits</i> | 5.5% | 5.5% |
| <i>Other Human Services (without health care)</i> | 5.0% | 5.0% |
| <i>Public Schools (without health care)</i> | 3.9% | 2.8% |
| <i>Debt Service</i> | 6.0% | 6.0% |
| <i>All Other</i> | 2.5% | 2.5% |

** Public school growth reflects variation in CPI projected inflation during the forecasted time periods.*

- 3) The 2008 supplemental budget is based on the enacted budget including Governor's vetoes and projected bow-wave adjusting for one-time factors.
- 4) Pensions are adjusted to reflect the State Actuary rates and estimate produced on 12/24/2007. Revised rates and estimates will be available in November 2008.
- 5) The near general fund account and backfill information is based on current projections updated through September 2008. Future revenue and spending updates will likely change this projection.