
Spending Affordability Briefing

Department of Legislative Services

Office of Policy Analysis

Annapolis, Maryland

October 30, 2001

There Are Two Main Points to This Presentation

- For fiscal 2002 and 2003, forecasted general fund revenues are insufficient to cover the costs of current services and capital commitments.
- General fund and reserve fund balances, and announced cost containments will not balance the budget.

Doing the Math (\$ in Millions)

Fiscal 2002/2003 Combined

DLS Estimate General Fund Revenues	\$20,499	
DLS Estimate General Fund Expenditures	22,199	
Revenue/Expenditure Imbalance		(1,700)
Cost Containment (10/17)	205	
DLS Estimate GF and Rainy Day Fund Balances	725	
		930
Unresolved Imbalance		(\$770)

Potential Fiscal 2002 General Fund Deficiencies

(\$ in Millions)

<u>Program</u>	<u>Dollars</u>
Medicaid	\$173.1
Homeland Security	25.0
Mental Health	10.5
Foster Care (Placement Costs Rise and Federal Fund Attainment Falls Short)	9.3
Public Safety (Medical Care, Health Insurance, Data Center, etc.)	8.8
Public Defender (Salaries and Information Technology)	3.5
Labor, Licensing, and Regulations Operations	2.6
Child Welfare Computer System (Development Costs)	2.1
Other	3.7
Subtotal	238.6
Rainy Day Fund (Required under Tax Amnesty Legislation)	30.0
Total	\$268.6

Medicaid Deficit

- Fiscal 2002 budget proposed by executive was developed using three spurious assumptions:
 - Caseload drop from more than 440,000 in January 2001 to 428,000 in fiscal 2002.
 - No increase in managed care rates for calendar 2002.
 - Overly optimistic medical inflation of 3%.
- Fiscal picture has worsened since end of session producing \$173 million deficit.
 - Fiscal 2001 deficit \$40 million
 - Enrollment grows to 466,508 -- current enrollment is 457,000 \$42 million
 - Nursing home rates rise 13% \$33 million
 - Managed care rates for calendar 2002 \$16 million
 - Medical Inflation/Utilization \$27 million
 - MD Pharmacy Assistance -- enrollment grows by 10,000 \$15 million
- Continuing Fiscal Pressures
 - Managed Care Organizations are dissatisfied with calendar 2002 rates.
 - Sluggish economy could result in a surge in enrollment. Enrollment grew 10% during first year of recession in early 1990s. A 10% increase in fiscal 2002 or 2003 would cost the State anywhere from \$60 to \$75 million in general funds.
 - Physician rates: Medicaid rates are about one-third of Medicare rates. Raising Medicaid rates to Medicare level would cost State about \$200 million in general funds.
 - State could address some of the deficit through cost containment actions.

Mental Hygiene Administration Deficit

Summary of Budget Woes (\$ in Millions)

Item

Fiscal 1998-2000 deficit	\$34.3
Tax Amnesty/Dedicated Purpose Fund	<u>(28.5)</u>
Remaining fiscal 1998-2000 deficit	5.8
Fiscal 2001 deficit	<u>9.3</u>
Total deficit rolled into fiscal 2002	15.1
Unfunded fiscal 2002 increase in psychiatric hospital rates	3.5
Fiscal 2002 funds earmarked for deficit reduction	<u>(8.1)</u>
Projected Fiscal 2002 deficit	\$10.5

- During the 2001 legislative session, the General Assembly attempted to address deficit accumulated over multiple years by:
 - authorizing transfer of \$28.5 million from Dedicated Purpose Fund for deficit reduction; and
 - restricting \$8.1 million of fiscal 2002 funding for deficit reduction.
- Despite efforts to eradicate the deficit, a \$7 million deficit from prior years remains.
- Unfunded \$3.5 million increase in rates for private free-standing psychiatric hospitals accounts for the remainder of the fiscal 2002 deficit.
- Total deficit may exceed \$10.5 million if fiscal 2002 cost containment actions implemented by the Mental Hygiene Administration are ineffective.

Fiscal 2003 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- Current laws, policies, and practices are continued.
- Inflationary increases are recognized.
- Large one-time purchases and non-recurring PAYGO expenditures are removed.
- Anticipated deficiencies are identified.
- Federal mandates and multi-year commitments are observed.
- Legislation adopted in the prior session is funded.
- Non-discretionary changes in workload are recognized.
- Full year costs of programs started during the previous year are included.
- Amendments in the current year affecting ongoing expenditures are recognized.
- Positions and operating expenses associated with new facilities are recognized.
- Employee turnover is adjusted to reflect recent experience.

Caseload Assumptions

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	Percent Change <u>FY02 - 03</u>
Pupil Enrollment *	797,230	803,185	808,063	0.6%
Medicaid	443,186	466,508	486,569	4.3%
Children's Health	86,004	108,700	114,870	5.7%
Temporary Cash Asst.	75,710	73,484	72,090	-1.9%
Foster Care/Adoption	14,450	14,743	15,021	1.9%

* Data for 2001, 2002, and 2003 reflect 9/99, 9/00, and 9/01 (est.) enrollments respectively.

Fiscal 2003 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- Employee Health Insurance (14%)
- Medical Contracts and Supplies (5%)
- Prescription Drugs for State Facilities (14%)
- Human Service Providers (2%)
- Postage (3%)

Employee Compensation

- Fully fund phased-in fiscal 2002 general salary increase.
- Merit increases of 2% and 4% based on salary plan. Pay for performance program is fully funded.
- No general salary increase for fiscal 2003.
- Retirement rates rise to reflect contribution rate recommended by actuary.

Other Assumptions

- General Funds will support some education programs previously funded with Cigarette Restitution Funds (CRF) to allow for scheduled expansion of CRF-supported health programs.
- Maryland's share of federal Temporary Assistance to Needy Families (TANF) funding will remain \$229.1 after Congressional re-authorization. TANF surplus will be completely exhausted in fiscal 2002. No utilization of the \$89.6 million set aside in the Dedicated Purpose Fund for Family Investment Program expenses is assumed.
- Executive cost containment actions save \$127 million in fiscal 2002 and \$78 million in fiscal 2003. Hiring freeze (\$41 million), 1.5% operating reduction (\$21 million), and cancelling PAYGO projects (\$65 million) produce fiscal 2002 savings. Hiring freeze (\$57 million) and 1.5% reduction (\$21 million) continue in fiscal 2003.

State Expenditures -- Building the Baseline
(\$ in Millions)

Fiscal 2003 Baseline Increase Over Projected Fiscal 2002 Spending	\$283.4
Estimated Fiscal 2002 Deficiencies	<u>268.6</u>
Total Baseline Increase in State Expenditures	<u>552.0</u>
Ongoing Requirements/Entitlements	536.7
Medical Assistance -- Inflation, MCO rates, enrollment, unpaid fiscal 2001 bills	268.8
Education and Libraries Formulas	147.9
Disparity Grant	24.9
Foster Care -- cost per case and lower federal fund attainment	21.2
Community Colleges -- Cade formula	22.1
Other (Health, non-public placements, community colleges, homeowner's tax credit, etc.)	14.4
Higher Education (BCCC, St. Mary's, Sellinger, Scholarships)	14.0
Temporary Cash Assistance caseload exceeds fiscal 2002 budget	13.7
Debt Service	9.7
Legislation/Commitments	241.3
Higher Education -- Continuing phase-in of MHEC guidelines for USM and MSU	96.1
Appropriation to Dedicated Purpose Fund -- required as part of Tax Amnesty legislation	30.0
Developmental Disabilities -- Phase-in of waiting list initiative	16.7
Raise rates for providers serving developmentally disabled -- Chapter 722, Acts of 2001	16.2
Medicaid Nursing Home Staffing -- Chapter 212, Acts of 2000	10.0
Higher Education -- Funding to comply with Office of Civil Rights agreement	9.5
Mental Health -- Annualization of initiatives	6.1
Comply with Health Insurance Portability and Accountability Act of 1996 (HIPAA)	5.7
Funding of circuit court law clerks -- Chapter 677, Acts of 2001	5.4
Annualize Costs of Chapters 134 and 135, Acts of 2001, Senior Prescription Drug Relief Act	5.3
Substance Abuse Treatment Outcomes Partnership (STOP) -- Chapter 675, Acts of 2000	4.0
Other legislation and commitments smaller than \$4 million each	36.3
State Agency Costs	267.3
Increments, annualize fiscal 2002 COLA, health insurance (13.9%)	103.0
Fund shifts from Cigarette Restitution Fund and other sources to General Fund	32.2
Homeland defense/security	30.0
Retirement rates increase	13.1
Reduce turnover expectancy at the Department of Juvenile Justice to 3.5%	14.5
Mental Hygiene -- Inflation and utilization	14.1
Fully fund pay for performance bonuses and annual salary review adjustments	13.2
Corrections -- Population growth, utilities, medical contract, IT, and 160 new positions	12.5
Public Defender -- Workload and information technology costs	9.6
Community Providers -- Increase to keep pace with annualization of State employee COLA	7.8
Other	17.3
Remove One-Time Expenses	(542.0)
PAYGO Capital	(511.0)
Various Operating (information technology and other)	(31.0)
State Reserve Fund	-0.3
Impact of Cost Containment Actions Taken by Governor Diminished in Fiscal 2003	\$49.0

**State Expenditures -- General Funds
(\$ in Millions)**

<u>Category</u>	<u>Work. Appr. FY 2001</u>	<u>Leg. Appr. FY 2002</u>	<u>Baseline FY 2003</u>	<u>\$ Diff. 02 to 03</u>	<u>% Diff. 02 to 03</u>
Debt Service	\$204.5	\$204.0	\$213.7	\$9.7	4.8%
Aid to Local Governments					
General Government	175.5	202.8	227.4	24.6	12.1%
Community Colleges	163.6	178.5	205.7	27.2	15.2%
Education & Libraries	2,719.8	2,857.9	3,034.8	176.9	6.2%
Health	52.2	56.9	62.1	5.2	9.1%
	<u>3,111.1</u>	<u>3,296.2</u>	<u>3,530.0</u>	<u>233.9</u>	<u>7.1%</u>
Entitlements					
Foster Care Payments	119.6	129.3	150.5	21.2	16.4%
Assistance Payments	65.3	62.7	76.4	13.7	21.9%
Medical Assistance	1,320.1	1,407.1	1,691.2	284.1	20.2%
Property Tax Credits	53.5	52.6	55.2	2.7	5.0%
	<u>1,558.4</u>	<u>1,651.7</u>	<u>1,973.3</u>	<u>321.6</u>	<u>19.5%</u>
State Agencies					
Health	1,006.2	1,106.6	1,200.9	94.3	8.5%
Human Resources	285.2	297.7	321.3	23.6	7.9%
Systems Reform Initiative	46.9	43.1	44.9	1.8	4.2%
Juvenile Justice	143.8	163.4	179.1	15.7	9.6%
Public Safety & Police	863.4	918.1	990.0	71.9	7.8%
State Colleges & Universities	886.5	974.5	1,078.3	103.8	10.7%
Other Education	248.6	277.5	308.6	31.2	11.2%
Agric./Nat'l Res./Environ.	125.5	151.5	153.6	2.1	1.4%
Other Executive Agencies	540.0	565.3	643.6	78.3	13.9%
Judicial & Legislative	281.4	317.7	334.5	16.8	5.3%
	<u>4,427.5</u>	<u>4,815.3</u>	<u>5,254.9</u>	<u>439.5</u>	<u>8.5%</u>
Anticipated Deficiencies	0.0	238.6	0.0	(238.6)	-100.0%
Workers' Compensation Charges	0.0	0.0	11.6	11.6	n.a.
Subtotal	\$9,301.5	\$10,205.8	\$10,983.5	\$777.7	7.6%
Capital	645.3	688.9	177.8	(511.1)	-74.2%
Transfers	2.0	2.0	0.0	(2.0)	-100.0%
Subtotal	\$9,948.8	\$10,896.6	\$11,161.3	\$264.7	2.4%
Reserve Fund	311.0	186.4	156.0	(30.3)	-16.3%
Appropriations	\$10,259.7	\$11,083.0	\$11,317.3	\$234.3	2.1%
Executive Cost Containment Actions	0.0	(127.0)	(78.0)	49.0	-38.6%
Reversions	(29.4)	(25.0)	(25.0)	0.0	0.0%
Grand Total	\$10,230.3	\$10,931.0	\$11,214.3	\$283.3	2.6%

Note: FY 2002 Reserve Fund appropriation includes \$30 million deficiency appropriation.

**General Fund PAYGO Capital
Legislative Appropriation vs. Baseline**

(\$ in Millions)

	FY 2002 Leg. Approp.	FY 2003 Baseline	Change
State Facilities	\$21.5	\$5.0	(\$16.5)
Health/Social	1.6	1.6	0.0
Environment	41.2	16.0	(25.2)
Public Safety	2.6	0.0	(2.6)
School Construction	133.7	0.0	(133.7)
Higher Education	274.8	7.7	(267.2)
Housing/Community Development	36.1	35.0	(1.1)
Economic Development	52.1	34.6	(17.5)
Local Projects	80.3	8.0	(72.3)
Transportation	45.0	70.0	25.0
Total	\$688.9	\$177.8	(\$511.1)

What We Know: U.S. Economy

- Before the terrorist attacks of September 11, the U.S. economy was growing very weakly.

% change*	CY 2000 Actual	CY 2001 Y-T-D	2001 Notes:
Real GDP	4.1%	0.3%	<i>2nd Qtr. annual rate</i>
Employment	2.2%	0.7%	<i>January – September</i>
Personal Income	7.0%	5.7%	<i>January – August</i>
CPI	3.4%	3.2%	<i>January – September</i>
Consumer Confidence	-9.3%	-24.1%	<i>Sept. '01 vs Dec. '00</i>
S&P 500 Index	-9.3%	-13.9%	<i>since Jan. (10/26 close)</i>
30-Yr Mortgage Rate	8.1%	7.0%	<i>average Jan.-Sept.</i>
<i>* except mortgage rate</i>			

What We Know: Maryland Economy

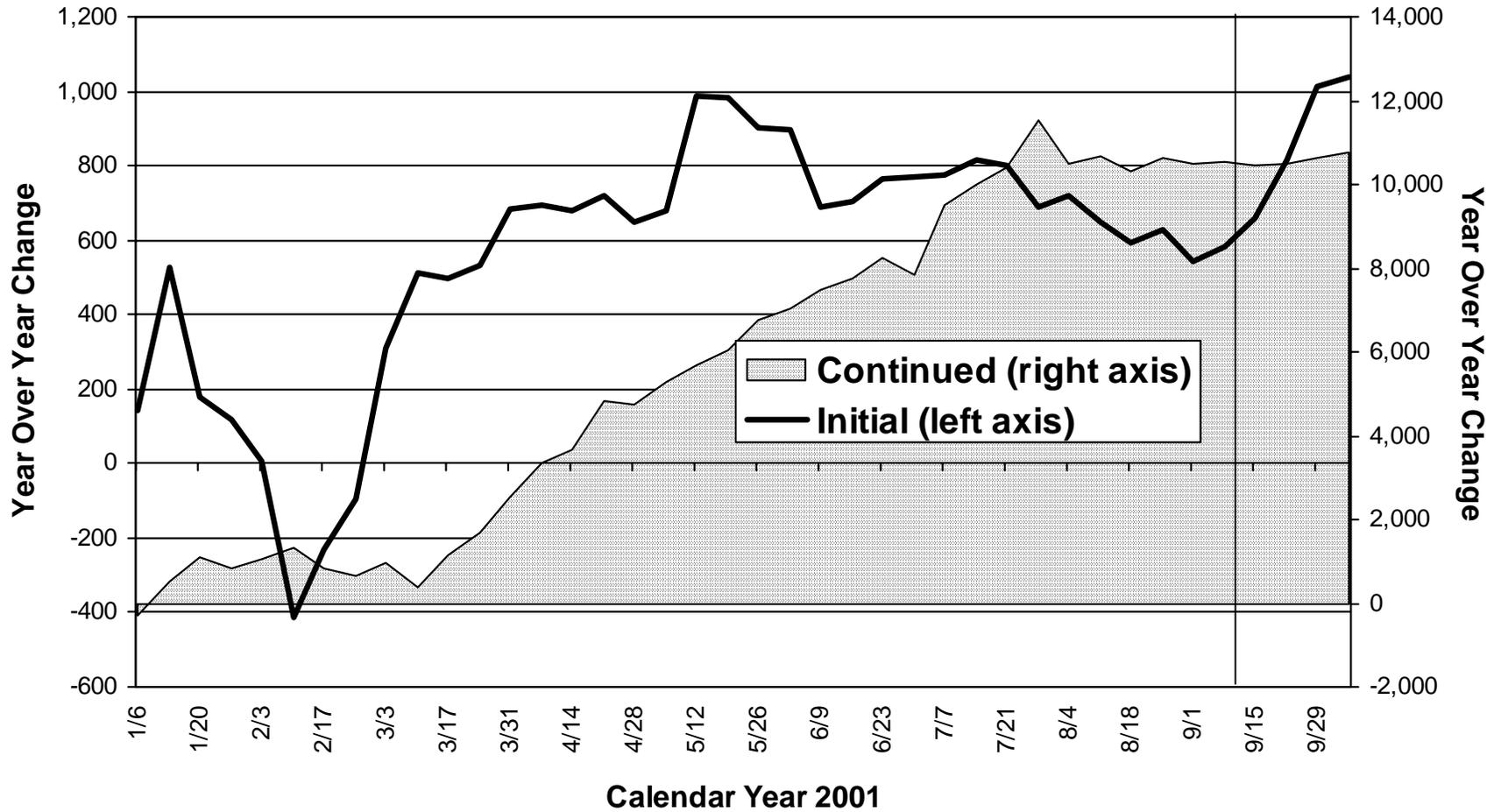
- Maryland's economy is mixed with employment growth slowing but personal income growth accelerating during the first half of the year.

Year over year % change	CY 2000 Actual	CY 2001 Y-T-D	2001 Notes:
Employment	2.7%	1.3%	<i>January – September</i>
Personal Income	6.8%	7.2%	<i>January – June</i>
Wage & Salary Income	7.8%	8.6%	<i>January – June</i>
Vehicle Sales	3.6%	1.3%	<i>January – September</i>
Existing Home Sales	1.9%	13.1%	<i>January – September</i>
Sales Tax*	8.9%	3.5%	<i>January - August</i>

* Gross receipts (excludes assessments & refunds); CY 2001 adjusted for tax-free week.

Weekly Unemployment Insurance Claims

Four-Week Moving Average



General Fund Revenues: Fiscal 2001

(\$ in Millions)

Source	Actual	Fiscal Year 2001			% Change
	FY 2000	Estimated*	Actual	Difference	FY00-01
Personal Income Tax	\$4,746.3	\$5,066.0	\$5,133.7	\$67.7	8.2%
Sales and Use Tax	2,478.5	2,647.7	2,626.8	-20.9	6.0%
State Lottery	367.8	383.4	385.0	1.6	4.7%
Corporate Income Tax ⁽¹⁾	319.5	349.0	374.4	25.4	17.2%
Business Franchise Taxes ⁽¹⁾	178.7	169.7	167.4	-2.3	-6.3%
Insurance Premiums Tax	172.5	177.2	190.4	13.2	10.4%
Estate & Inheritance Taxes	157.0	142.4	168.8	26.4	7.5%
Tobacco Tax	210.0	195.0	205.6	10.7	-2.1%
Alcohol Beverages Tax	24.4	24.7	24.5	-0.2	0.5%
Motor Vehicle Fuel Tax	11.3	11.3	12.0	0.7	6.3%
District Courts	70.3	72.2	69.6	-2.5	-1.1%
Clerks of the Court	37.7	39.5	39.5	0.1	4.8%
Hospital Patient Recoveries	102.1	76.2	66.2	-10.0	-35.1%
Interest on Investments	128.4	123.7	140.6	16.9	9.5%
Miscellaneous	215.6	175.7	197.8	22.1	-8.2%
Total	\$9,220.1	\$9,653.5	\$9,802.4	\$148.9	6.3%

* From the report of the Board of Revenue Estimates, December 2000. The fiscal 2002 budget increased the Board's estimate of hospital patient recoveries by \$5.1 million which is reflected here. Also, the fiscal 2002 budget included a reversion of \$100,000 that is reflected here in miscellaneous revenues.

1. FY 2000 reflects a half-year impact, and FY 2001 reflects a full-year impact of the tax changes associated with utility restructuring.

General Fund Revenues: Fiscal 2002

(\$ in Millions)

Source	<i>Fiscal Year Through September</i>				Over/Under Estimate*
	FY 2001	FY 2002	\$ Diff.	% Diff.	
Personal Income Tax	\$804.4	\$777.4	-\$27.0	-3.4%	-\$68.5
Sales and Use Tax ⁽¹⁾	427.1	431.9	4.8	1.1%	-10.7
State Lottery	83.1	89.2	6.1	7.3%	-3.7
Corporate Income Tax	80.5	58.4	-22.1	-27.4%	-19.3
Business Franchise Taxes	39.0	40.1	1.1	2.9%	-0.8
Insurance Premiums Tax	46.1	45.9	-0.3	-0.6%	1.3
Estate & Inheritance Taxes	35.8	39.7	3.9	11.0%	7.7
Tobacco Tax	40.3	35.6	-4.7	-11.8%	-2.1
Alcohol Beverages Tax	4.3	4.5	0.2	4.5%	0.4
Motor Vehicle Fuel Tax	1.1	1.0	0.0	-2.3%	0.1
District Courts	17.5	18.0	0.5	2.7%	-0.5
Clerks of the Court	8.2	9.0	0.9	10.5%	0.2
Hospital Patient Recoveries ⁽²⁾	2.7	5.3	2.7	101.2%	3.2
Interest on Investments	9.6	11.2	1.6	16.9%	2.6
Miscellaneous	35.6	20.3	-15.3	-42.9%	2.7
Total	\$1,635.3	\$1,587.6	-\$47.6	-2.9%	-\$87.5

* Board of Revenue Estimates, March 2001 with adjustments for the legislative actions of the 2001 session.

1. FY 2002 reflects the impact of the tax-free week in August.
2. Does not include Medicaid recoveries and disproportionate share payments.

Forecasts: U.S. Economy

- U.S. economic forecasts have been revised downward since September 11. The U.S. is now certain to experience at least a mild recession.

Real U.S. Gross Domestic Product -- Annual Percent Change

CY		<i>August</i>		<i>October - Baseline</i>		<i>October - Pessimistic</i>	
		DRI-WEFA	Economy.com	DRI-WEFA	Economy.com	DRI-WEFA	Economy.com
2001Q1	A	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
2001Q2	A	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
2001Q3	E	1.3%	0.8%	-0.8%	-0.8%	-0.8%	-0.9%
2001Q4	E	2.1%	1.9%	-2.5%	-1.0%	-4.9%	-2.0%
2002Q1	E	2.3%	2.5%	1.4%	0.7%	-3.5%	-2.1%
2002Q2	E	2.8%	2.8%	3.4%	2.4%	0.9%	-0.5%
2002Q3	E	3.6%	4.0%	4.3%	4.3%	3.2%	3.0%
2002Q4	E	4.0%	4.4%	4.8%	4.7%	4.5%	5.4%
2001	E	1.5%	1.5%	1.0%	1.1%	0.8%	1.0%
2002	E	2.4%	2.4%	1.3%	1.2%	-1.0%	-0.4%
2003	E	3.4%	3.5%	4.3%	4.5%	4.5%	5.1%
2004	E	2.6%	3.0%	2.9%	3.2%	3.9%	3.0%

Forecast: Maryland Economy

- For Maryland, Economy.com is forecasting significantly slower growth especially in 2002.

Year over Year Percent Change

CY		<i>BRE - December 2000</i>		<i>October - Baseline</i>		<i>October - Pessimistic</i>	
		Employment	Personal Income	Employment	Personal Income	Employment	Personal Income
2001Q1	A			1.9%	6.8%	1.9%	6.8%
2001Q2	A*			1.0%	6.0%	1.0%	6.0%
2001Q3	E			1.1%	5.2%	1.1%	5.2%
2001Q4	E			-0.1%	3.7%	-0.2%	3.6%
2002Q1	E			-0.1%	3.1%	-0.5%	2.4%
2002Q2	E			0.2%	3.1%	-0.5%	1.9%
2002Q3	E			0.6%	3.5%	-0.3%	1.7%
2002Q4	E			1.2%	4.3%	0.1%	2.3%
2001	E	1.6%	6.3%	1.0%	5.4%	0.9%	5.4%
2002	E	1.9%	6.2%	0.5%	3.5%	-0.3%	2.1%
2003	E	1.9%	5.6%	2.3%	5.6%	2.3%	5.1%
2004	E	1.8%	5.1%	1.8%	5.4%	2.5%	5.8%

* Employment for the 2nd quarter of 2001 is the actual, personal income is an estimate.

General Fund Revenue Projections

(\$ in Millions)

Source	Actual	Fiscal Year 2002			%Change	Estimate	%Change
	FY 2001	May*	October	\$ Diff.	FY01-02	FY 2003	FY02-03
Personal Income Tax ⁽¹⁾	\$5,133.7	\$5,227.9	\$5,077.0	-\$150.8	-1.1%	\$5,261.7	3.6%
Sales and Use Tax ⁽²⁾	2,626.8	2,763.6	2,665.8	-97.8	1.5%	2,770.7	3.9%
State Lottery	385.0	396.4	387.8	-8.6	0.7%	391.5	1.0%
Corporate Income Tax	374.4	341.3	290.3	-51.0	-22.5%	329.6	13.5%
Business Franchise Taxes	167.4	171.8	166.9	-4.9	-0.3%	174.0	4.3%
Insurance Premiums Tax	190.4	182.0	194.3	12.2	2.0%	199.8	2.8%
Estate & Inheritance Taxes ⁽¹⁾	168.8	133.2	148.3	15.1	-12.1%	125.4	-15.5%
Tobacco Tax	205.6	187.8	199.6	11.8	-2.9%	192.8	-3.4%
Alcohol Beverages Tax	24.5	25.0	24.8	-0.1	1.2%	25.1	0.9%
Motor Vehicle Fuel Tax	12.0	11.7	11.9	0.1	-1.0%	12.1	2.0%
District Courts	69.6	73.9	70.5	-3.5	1.2%	71.2	1.0%
Clerks of the Court	39.5	39.0	42.5	3.5	7.4%	42.0	-1.1%
Hospital Patient Recoveries ⁽³⁾	66.2	76.4	88.0	11.6	32.8%	63.2	-28.2%
Interest on Investments	140.6	82.5	95.8	13.3	-31.8%	92.4	-3.6%
Miscellaneous ⁽⁴⁾	197.8	166.4	176.9	10.4	-10.6%	167.0	-5.6%
Tax Amnesty	0.0	30.0	30.0	0.0	n.a.	0.0	n.a.
Total	\$9,802.4	\$9,908.9	\$9,670.4	-\$238.5	-1.3%	\$9,918.4	2.6%

* Board of Revenue Estimates, March 2001 with adjustments for the legislative actions of the 2001 session.

1. FY 2003 reflects the impact of the federal Economic Growth and Tax Relief Reconciliation Act of 2001.
2. FY 2002 reflects a partial impact, and FY 2003 reflects the full impact of transferring 100% of the sales tax on rental vehicles to the Transportation Trust Fund (HB 309, 2001 session).
3. FY 2001 includes \$5.4 million, and FY 2002 includes \$12.5 million in settlement of claims for reimbursement of prior year costs. FY 2001-03 reflect new federal caps on disproportionate share payments that limit the amount that can be recovered for state hospitals.
4. FY 2002 reflects the transfer of \$6 million of uninsured motorist penalty fees to the Transportation Trust Fund (TTF). FY 2003 reflects the transfer of all of those fees, \$9 of the \$14 in security interest filing fees and special license plate fees to the TTF (HB 309, 2001 session).

Impact of Tax Law Changes

(\$ in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Before Tax Impacts	\$9,802.4	\$9,750.1	\$10,146.8
\$ change over the prior year		-52.3	396.6
% change over the prior year		-0.5%	4.1%
Federal Changes			
-- income tax			-30.0
-- estate tax			-26.0
State Changes			
<i>Income Tax</i>			
-- income tax cut		-56.6	-118.8
-- refundable EITC		-4.3	-7.5
-- other		-0.4	-0.6
<i>Transit Initiative</i>			
-- sales tax on rental vehicles		-12.4	-26.0
-- uninsured motorist and other fees		-6.0	-19.4
Net General Fund Revenues	\$9,802.4	\$9,670.4	\$9,918.4
\$ change over the prior year		-132.1	248.1
% change over the prior year	18	-1.3%	2.6%

Revenue Projection Alternatives

(\$ in Millions)

FY 2001 Actual \$9,802.4

FY 2002

		<i>difference over FY 2001</i>	
Official Estimate	\$9,908.9	\$106.4	1.1%
October Baseline	\$9,670.4	-\$132.1	-1.3%
October Pessimistic	\$9,585.6	-\$216.9	-2.2%

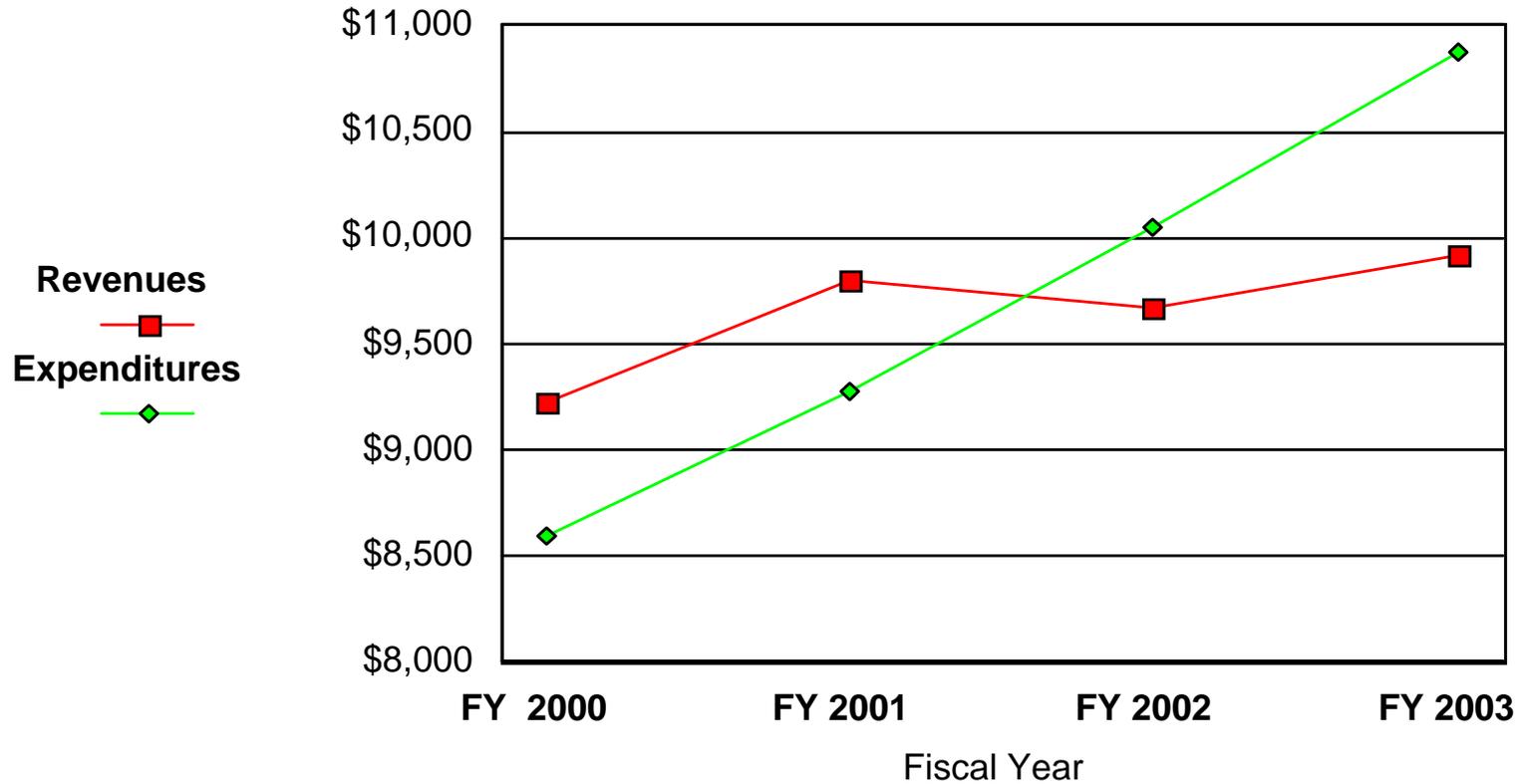
	<i>difference over Official Estimate</i>	
October Baseline	-\$238.5	
October Pessimistic	-\$323.3	

FY 2003

		<i>difference over FY 2002</i>	
October Baseline	\$9,918.4	\$248.1	2.6%
October Pessimistic	\$9,727.0	\$141.4	1.5%

Operating Revenues vs. Ongoing Expenditures

(\$ in Millions)



	FY 2000	FY 2001	FY 2002	FY 2003
Revenues	\$9,220	\$9,802	\$9,670	\$9,918
Expenditures	8,600	9,272	10,054	10,881
Difference	\$620	\$530	(\$384)	(\$963)
Revenues/Expenditures	1.07	1.06	0.96	0.91

5% Solution
Budget Summary: FY 2001-03
Amount Above 5% in Rainy Day Fund Utilized
(\$ in Millions)

	<u>Fiscal 2001</u>	<u>DLS Rev Est. Fiscal 2002</u>	<u>DLS Est. Fiscal 2003</u>
Beginning Fund Balances	\$ 936.2	\$ 538.4	\$ 0.0
<u>GF Revenues</u>			
GF Revenues ¹	\$ 9,802.4	\$ 9,908.9	\$ 9,918.4
DLS GF Revenue Revision (October 2001)		(238.5)	
Transfer from Revenue Stabilization Fund to GF	30.0	533.2	
	<u>\$9,832.4</u>	<u>\$10,203.5</u>	<u>\$9,918.4</u>
Total Revenue Available	\$ 10,768.7	\$ 10,741.9	\$ 9,918.4
<u>GF Expenditures</u>			
Legislative Appropriations, Including Reversions	\$ 10,234.7	\$ 10,789.4	\$ 11,292.3
Adjustment to Fiscal 2001 Reversions	(4.4)	-	-
DLS Estimated Fiscal 2002 Deficiencies	-	268.6	-
Executive reductions to GF expenditures	-	(127.0)	(78.0)
Total Expenditures	\$ 10,230.3	\$ 10,931.0	\$ 11,214.3
Ending Fund Balances - With No Additional Transfers in 2002 & 2003	\$ 538.4	\$ (189.1)	\$ (1,295.9)
 Additional Transfer of Rainy Day Fund Balance Above 5%		\$ 79.4	\$ 164.6
 Ending Fund Balances - Maintaining 5% of Revenues in Rainy Day Fund	\$ 538.4	\$ (109.7)	\$ (1,131.2)
 Rainy Day Fund at a Minimum of 5% of Estimated Revenues	\$ 888.3	\$ 483.5	\$ 495.9

¹ Fiscal 2001 revenues are actuals, fiscal 2002 revenues are from the Fiscal Digest, and fiscal 2003 revenues are the DLS October 2001 estimate.

No % Solution
Budget Summary: FY 2001-03
Entire Rainy Day Fund Utilized
(\$ in Millions)

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Funds Available			
Beginning Fund Balances	\$1,518.1	\$1,426.7	\$369.1
Interest on Reserve Fund Balances & Transfers from Dedicated Purpose Fund	101.4	31.3	5.8
Estimated General Fund Revenues	9,802.4	9,670.4	9,918.4
	<u>\$11,422.0</u>	<u>\$11,128.4</u>	<u>\$10,293.4</u>
Appropriations and Deficiencies			
Operating Budget/Current Services Estimate/Deficiencies ¹	\$9,350.0	\$10,197.4	\$10,963.5
Capital Plan	645.3	688.9	177.8
Potential Executive Branch Cost Savings	0.0	-127.0	-78.0
	<u>\$9,995.3</u>	<u>\$10,759.2</u>	<u>\$11,063.3</u>
Balance Remaining	\$1,426.7	\$369.1	-\$769.9

¹ Less appropriations to the Reserve Fund from the General Fund of \$235.0 million in fiscal 2001, \$171.8 million in fiscal 2002, and \$151.0 million in fiscal 2003.

**General Fund Projections
Assuming 5% Solution
(\$ in Millions)**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Annual Growth Rate FY02-03</u>	<u>Avg. Annual Growth Rate FY03-07</u>
Revenues								
Individual Income	\$5,077	\$5,262	\$5,632	\$5,971	\$6,327	\$6,720	3.6%	5.0%
Sales and Use	2,666	2,771	2,934	3,072	3,214	3,367	3.9%	4.0%
Lottery	388	391	398	406	416	428	0.9%	1.8%
Other	1,540	1,495	1,552	1,551	1,559	1,597	-2.9%	1.3%
Subtotal	\$9,670	\$9,918	\$10,515	\$11,001	\$11,516	\$12,111	2.6%	4.1%
Adjustments:								
Balance	\$538	\$0	\$0	\$0	\$0	\$0		
Transfer - Reserve Fund	613	165	0	2	2	0		
	\$10,821	\$10,083	\$10,515	\$11,003	\$11,518	\$12,111	-6.8%	3.7%
Expenditures								
Debt Service	\$204	\$214	\$234	\$255	\$271	\$285	4.8%	5.9%
Local Aid	3,296	3,530	3,726	3,912	4,072	4,233	7.1%	3.7%
Entitlements (includes deficiencies)	1,834	1,973	2,131	2,279	2,439	2,614	7.6%	5.8%
State Operations (includes deficiencies)	4,745	5,188	5,505	5,763	5,979	6,190	9.3%	3.6%
Reversions	-25	-25	-25	-25	-25	-25	0.0%	0.0%
Subtotal	\$10,054	\$10,881	\$11,571	\$12,183	\$12,736	\$13,297	8.2%	4.1%
Capital	\$689	\$178	\$336	\$449	\$198	\$148	-74.2%	-3.6%
Transfers	2	0	0	0	0	0	n.a.	n.a.
Reserve Fund	186	156	0	0	0	0	-16.3%	-100.0%
Total Expenditures	\$10,931	\$11,215	\$11,907	\$12,632	\$12,934	\$13,445	2.6%	3.7%
Surplus (Shortfall)	-\$110	-\$1,132	-\$1,392	-\$1,629	-\$1,416	-\$1,334		
Annual Change		-1,022	-260	-237	213	82		
Revenue Stabilization Fund								
Ending Balance	\$484	\$496	\$523	\$550	\$576	\$605		
As a Percent of Revenues	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%		
Ratio of Operating Revenues to Expenditures	0.96	0.91	0.91	0.90	0.90	0.91		

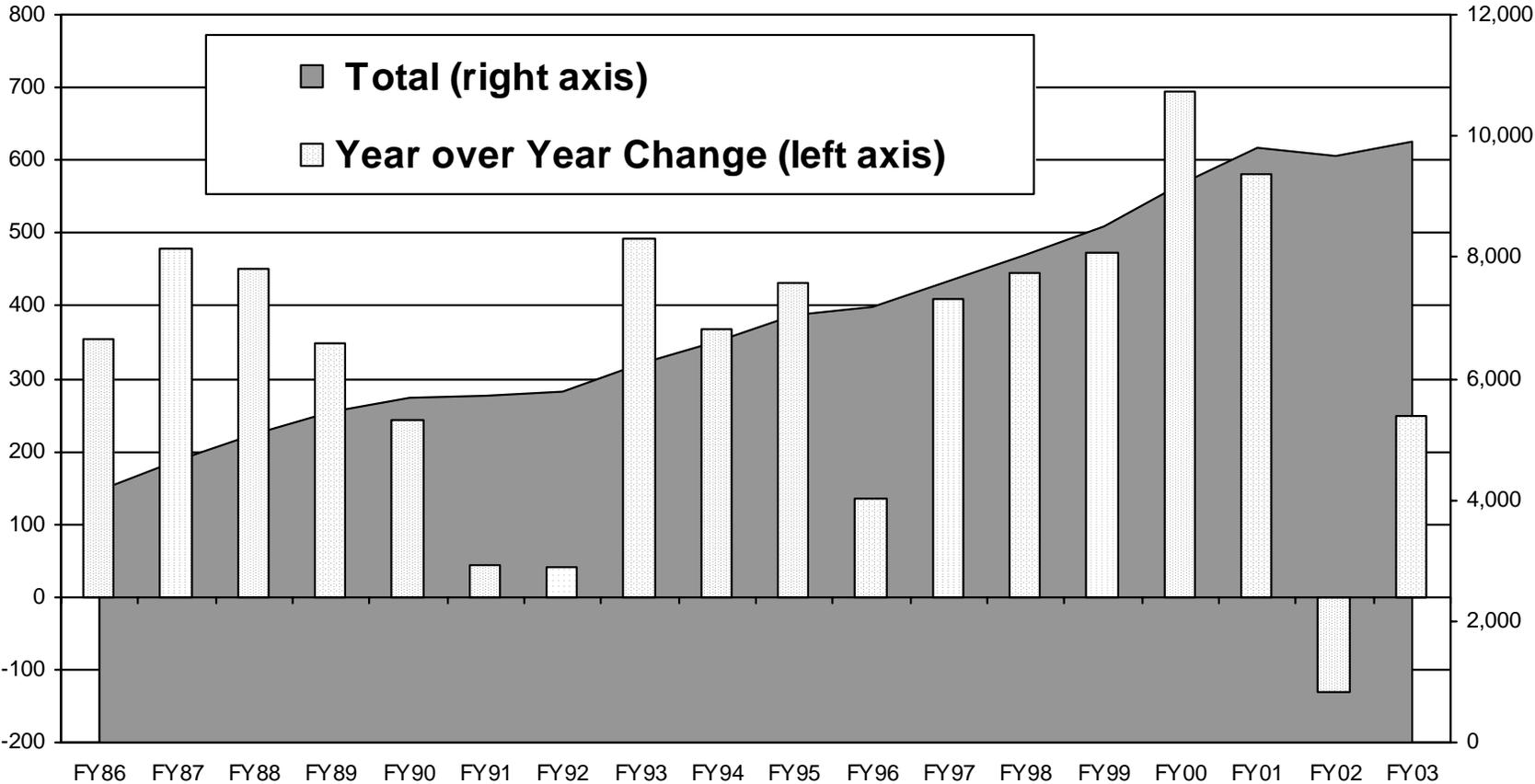
**General Fund PAYGO Capital
Out Year Funding Plan
(\$ in Millions)**

	Baseline FY 2003	FY 2004	FY 2005	FY 2006	Total
State Facilities	\$5.0	\$13.0	\$68.4	\$8.0	\$94.4
Health/Social	1.6	1.6	38.9	1.6	43.7
Environment	16.0	59.9	44.1	49.3	169.2
Public Safety	0.0	0.0	0.0	0.0	0.0
School Construction	0.0	0.2	22.0	25.2	47.4
Higher Education	7.7	79.0	46.3	18.5	151.4
Housing/Community Development	35.0	42.9	47.2	39.0	164.1
Economic Development	34.6	47.7	34.2	33.0	149.5
Local Projects	8.0	21.5	23.0	13.0	65.5
Transportation	70.0	70.0	125.0	10.0	275.0
Total	\$177.8	\$335.7	\$449.1	\$197.5	\$1,160.2

Source:
 Fiscal 2003 -- Department of Legislative Services, Office of Policy Analysis
 Fiscal 2004-2006 -- Fiscal 2002 *Capital Improvement Program*

General Fund Revenues*: Fiscal 1986-2003

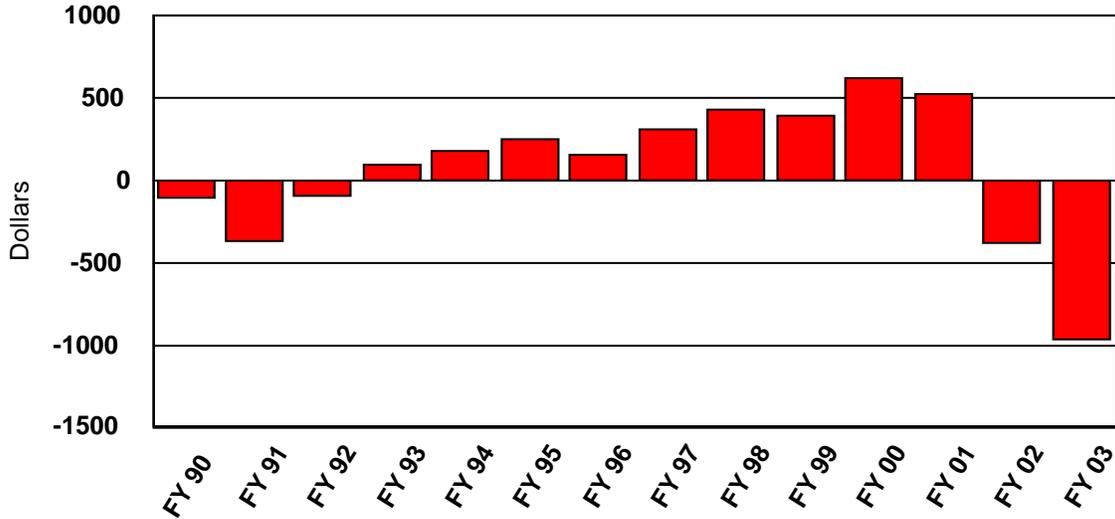
(\$ in Millions)



* Excludes transfers (FY 1990-1997) and the Medicaid provider tax (FY 1991-1993). FY 2002 and 2003 are DLS estimates.

Ongoing Revenues No Longer Exceed Operating Expenses

(\$ in Millions)



Ongoing Revenue Per Dollar of Operating Spending

