Updated Budget Outlook

Presentation to the
Senate Budget and Taxation Committee

October 14, 2021
# General Fund Revenues

## Fiscal 2021

($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Estimated</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>$10,699</td>
<td>$10,802</td>
<td>$11,705</td>
<td>$903</td>
<td>8.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>1,052</td>
<td>1,139</td>
<td>1,462</td>
<td>323</td>
<td>28.4%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Sales and Use Tax</td>
<td>4,635</td>
<td>4,591</td>
<td>4,988</td>
<td>397</td>
<td>8.6%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>State Lottery</td>
<td>549</td>
<td>627</td>
<td>632</td>
<td>5</td>
<td>0.8%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Other</td>
<td>1,700</td>
<td>1,620</td>
<td>1,686</td>
<td>66</td>
<td>4.1%</td>
<td>-4.7%</td>
</tr>
<tr>
<td><strong>On-Going General Funds</strong></td>
<td>$18,634</td>
<td>$18,779</td>
<td>$20,472</td>
<td>$1,694</td>
<td>9.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Total General Funds</strong></td>
<td>$18,634</td>
<td>$19,120</td>
<td>$20,831</td>
<td>$1,711</td>
<td>8.9%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

## Selected Special Funds

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fiscal 2020 Actual</th>
<th>Fiscal 2020 Estimate</th>
<th>Fiscal 2021 Actual</th>
<th>$ Diff.</th>
<th>% Diff.</th>
<th>Estimated</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax - Blueprint Fund</td>
<td>$231</td>
<td>$560</td>
<td>$423</td>
<td>$-136</td>
<td>-24.4%</td>
<td>141.9%</td>
<td>83.0%</td>
</tr>
<tr>
<td>Casinos - ETF</td>
<td>397</td>
<td>512</td>
<td>531</td>
<td>20</td>
<td>3.9%</td>
<td>28.9%</td>
<td>33.9%</td>
</tr>
<tr>
<td>Corporate Filing Fees - CIEEF</td>
<td>n/a</td>
<td>50</td>
<td>84</td>
<td>34</td>
<td>-67.4%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Sales Tax - Blueprint Fund

estimated under-distribution

|$560 | $423 | -136 |

ETF: Education Trust Fund

CIEFF: Commission on Innovation and Excellence in Education Fund

Source: Board of Revenue Estimates
# General Fund Forecast

($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2021 Actual</th>
<th>Fiscal 2022 Estimate</th>
<th>Percent Change vs. Fiscal 2021</th>
<th>Fiscal 2023 Estimate</th>
<th>Percent Change vs. Fiscal 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March</td>
<td>September</td>
<td>$ Diff.</td>
<td>%Diff.</td>
<td>March</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>$11,705</td>
<td>$11,401</td>
<td>$11,797</td>
<td>$396</td>
<td>3.5%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>1,462</td>
<td>1,249</td>
<td>1,446</td>
<td>197</td>
<td>15.7%</td>
</tr>
<tr>
<td>Sales and Use Tax</td>
<td>4,988</td>
<td>5,033</td>
<td>5,283</td>
<td>281</td>
<td>5.6%</td>
</tr>
<tr>
<td>State Lottery</td>
<td>632</td>
<td>592</td>
<td>641</td>
<td>49</td>
<td>8.3%</td>
</tr>
<tr>
<td>Other</td>
<td>1,686</td>
<td>1,937</td>
<td>2,009</td>
<td>72</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>On-Going General Funds</strong></td>
<td><strong>$20,472</strong></td>
<td><strong>$20,181</strong></td>
<td><strong>$21,176</strong></td>
<td><strong>$995</strong></td>
<td><strong>4.9%</strong></td>
</tr>
<tr>
<td>Volatility Adjustment</td>
<td>n/a</td>
<td>-$80</td>
<td>-$80</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td>One-time Revenue</td>
<td>$359</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total General Funds</strong></td>
<td><strong>$20,831</strong></td>
<td><strong>$20,101</strong></td>
<td><strong>$21,096</strong></td>
<td><strong>$995</strong></td>
<td><strong>5.0%</strong></td>
</tr>
</tbody>
</table>

**Selected Special Funds**

<table>
<thead>
<tr>
<th></th>
<th>December</th>
<th>December</th>
<th>$ Diff.</th>
<th>%Diff.</th>
<th>June</th>
<th>September</th>
<th>$ Diff.</th>
<th>%Diff.</th>
<th>December</th>
<th>September</th>
<th>$ Diff.</th>
<th>%Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax - Blueprint Fund</td>
<td>$423</td>
<td>$593</td>
<td>$671</td>
<td>13.1%</td>
<td>$583</td>
<td>58.5%</td>
<td>$611</td>
<td>-9.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casinos - ETF</td>
<td>531</td>
<td>512</td>
<td>561</td>
<td>49</td>
<td>9.6%</td>
<td>5.5%</td>
<td>571</td>
<td>1.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sales Tax - Blueprint Fund

**baseline transfer** $593 | $583 | -$10
**catch up for under-distribution in Fiscal 2021** 88
**total Fiscal 2022 transfer** $593 | $671 | $78

*The Budget Reconciliation and Financing Act of 2020 (Chapter 538) eliminated the Rate Stabilization Fund beginning in fiscal 2022. The insurance premiums tax revenue that was distributed to the fund will be directed to the General Fund. Adjusted for this law change, ongoing general fund revenue growth in fiscal 2022 would be about 2.0% over fiscal 2021.

ETF: Education Trust Fund

Source: Board of Revenue Estimates

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Employment: Year-over-year Percent Change

2021 YTD (Jan-Aug) 2.4%
BRE-Mar 3.2%
BRE-Sep 2.9%
BRE-Mar 3.0%
BRE-Sep 3.4%

Calendar 2020
-6.8% Actual
BRE-Mar -5.5%
BRE-Sep -6.8%

Calendar 2021

Calendar 2022

BRE: Bureau of Revenue Estimates
YTD: Year-to-date
Source: Department of Legislative Services
Wage and Salary Income:
Year-over-year Percent Change

2021 YTD (Jan-Jun) 9.3%
BRE-Mar 6.6%
BRE-Sep 7.0%
BRE-Mar 4.6%
BRE-Sep 5.2%

Calendar 2020
Calendar 2021
Calendar 2022

BRE: Bureau of Revenue Estimates
YTD: Year-to-date

Source: Department of Legislative Services
Capital Gains Income: Year-over-year Percent Change

BRE: Bureau of Revenue Estimates
YTD: Year-to-date

Source: Department of Legislative Services
Fiscal 2021 Closeout $1.8 Billion Better than Expected

- Revenues up $1,711 Million

- Agencies Return Unspent Funds – $185 Million
  - Department of Health $90 Million
  - State Police $12 Million
  - Information Technology $9 Million
  - Juvenile Services $9 Million

- Fewer Transfers to General Fund – $96 Million
## Revenue Outlook Improves for All Years of BRE Forecast

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Description</th>
<th>Revenue (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2021</td>
<td>Actual</td>
<td>$1,711</td>
</tr>
<tr>
<td>Fiscal 2022</td>
<td>Estimate</td>
<td>995</td>
</tr>
<tr>
<td>Fiscal 2023</td>
<td>Estimate</td>
<td>1,368</td>
</tr>
<tr>
<td>Fiscal 2024</td>
<td>Estimate</td>
<td>1,493</td>
</tr>
<tr>
<td>Fiscal 2025</td>
<td>Estimate</td>
<td>1,483</td>
</tr>
<tr>
<td>Fiscal 2026</td>
<td>Estimate</td>
<td>1,578</td>
</tr>
</tbody>
</table>
Structural Budget Outlook

Fiscal 2022: $1,056
Fiscal 2023: $992
Fiscal 2024: $1,343
Fiscal 2025: $1,441
Fiscal 2026: $1,703
Fiscal 2027: $1,320
Fiscal 2028: $779

BRE: Bureau of Revenue Estimates

Source: Department of Legislative Services
Estimated End of Year Cash Balances
Fiscal 2021 to 2026

Note: Fiscal 2021 is Actual. All other years are estimates.

Source: Department of Legislative Services
Blueprint Fund Outlook

• Projected Blueprint Fund revenues and fund balance are adequate to fund implementation of Kirwan enhancements through fiscal 2026

• Beginning in fiscal 2027, Kirwan costs will exceed available Blueprint dollars. A shortfall of about $429 million in fiscal 2027 and $1.1 billion in fiscal 2028 is projected

• The out-year forecast assumes the General Fund covers the shortfall
Potential Uses of Cash Balance

• Raise Rainy Day Fund balance to 8-10% of general fund revenues
  – Fiscal 2022 balance is 5.5% of revenues
  – Historically, revenues in first two years of a recession have fallen short of the estimate by about 10%
  – The State has generally avoided drawing the balance below 5.0%
  – Maintaining a balance of 8.0% to 10.0% would provide sufficient funding to cover about half the short-term impact of a typical recession while still maintaining a balance of 3% to 5% in the Rainy Day Fund
  – Increasing balance from 5.5% to 8.0% costs about $500 million (about $900 million to reach 10%)
Potential Uses of Cash Balance

• PAYGO Capital
  – Temporarily Expand Capital Program
  – Use cash to avoid taxable debt; and/or
  – Utilize to Reduce Sale of Debt

• Deferred Maintenance and Renewal at State Facilities – capital/operating backlog including State Parks (but not higher education) is about $300 million

• Targeted One-time Investments in State Priorities

• Invest in Cybersecurity/Information Technology Infrastructure

• Reduce Unfunded Liabilities
  – Under current law, there are no planned investments to reduce the unfunded liabilities related to retiree health benefits ($16 Billion+), Workers’ Compensation for State Employees ($200 Million+), and portions of the money borrowed from the Local Income Tax Reserve ($739 Million)