

***Calculation of the  
Financial Status  
for the Following Biennium***

***FY2011-12 and FY2012-13***

*Legislative Fiscal Office  
April 2010*

---

## Overview

---

While the current FY10/FY11 biennial budget is balanced at the present time, the prospects for the following biennium financial status are at best pessimistic. The current financial status including 2010 budget actions yields a projected balance that is \$679.5 million **below** the minimum reserve assuming future obligations are maintained at estimates described in this report (page 4). This level of shortfall is obtained even with high revenue growth (7.2% per year) arrived at using the capped historical average methodology (see page 3).

This large budget shortfall, even with the high revenue growth utilized for planning purposes, is illustrative of the structural imbalance created with the low revenue growth over the three year period and the high amount of one-time items used to “balance” the current biennial budget.

There has been much discussion of a “cliff effect” which many associate with the additional General Funds needed in the following biennium to replace the one-time American Recovery and Reinvestment Act (ARRA) funds used in the current biennium. First, replacement of ARRA funds isn’t the only “cliff effect”. This effect results from replacement of any one-time use of

Use of One-Time Funds	FY2008-09	FY2009-10	FY2010-11
ARRA Funds	66,021,150	282,203,642	250,602,207
Cash Fund transfers	34,000,000	73,010,000	72,158,100
Cash Reserve Fund transfers	54,990,505	105,000,000	154,000,000
Education Innovation Fund monies	0	10,000,000	0
Total - Use of One Time Funds	155,011,655	470,213,642	476,760,307

funds and there were a substantial amount of other one-time funds used in the current biennium, specifically cash fund lapses and the use of the Cash Reserve Fund.

Second, utilization of a one-time source of monies will almost always lead to some level of a “cliff effect” if the monies are used to fund on-going items (revenue or spending). While it’s preferable that one-time funds be used for one-time items, in a significant shortfall situation this would then require offsetting cuts in on-going programs. In the current situation, the one-time monies were used to support on-going programs to possibly avoid or at least delay much deeper budget cuts. When the cliff effect occurs in the following biennium, it’s possible that the the level of cuts could be lower if additional new spending demands are less than projected and/or higher revenue growth occurs over the next 3 years.

Replacement of the ARRA funds is the single largest increase in the following biennium and accounts for 40% of the total increase in the budget. This includes \$140.3 million Education Stabilization funds (TEEOSA school aid), \$89.3 million of Medicaid federal matching rate (FMAP) including clawback, and \$17 million of General Stabilization funds (used in Dept of Corrections).

The one bright spot going into the following biennium is the \$321 million Cash Reserve Fund balance that is projected to be carried forward from the current biennium into the next.

# General Fund Financial Status – End of 2010 Session

	Prior Yr	Biennial Budget		Upcoming Biennium	
	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
<b>1 BEGINNING BALANCE</b>					
2 Beginning Cash Balance	584,106,356	423,814,730	163,192,457	208,363,496	(147,219,724)
3 Cash Reserve transfers-automatic	(116,976,571)	0	(250,000)	0	0
4 Carryover obligations from FY09 (net)	0	(201,218,375)	0	0	0
5 2010 Session Reduce FY09 reappropriations	0	91,102	0	0	0
6 Allocation for potential deficits	0	0	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	<u>467,129,785</u>	<u>222,687,457</u>	<u>157,942,457</u>	<u>203,363,496</u>	<u>(152,219,724)</u>
<b>8 REVENUES</b>					
9 Net Receipts (Feb NEFAB+ 2010 Actions + Hist Avg)	3,350,510,248	3,281,350,000	3,422,222,331	3,669,173,120	3,962,965,120
10 General Fund transfers-out (current law)	(120,200,000)	(126,050,000)	(120,700,000)	(121,700,000)	(119,200,000)
11 General Fund transfers-in (current law)	in forecast	in forecast	in forecast	0	0
12 Cash Reserve transfers (current law)	54,990,505	105,000,000	154,000,000	0	0
13 General Fund Net Revenues	<u>3,285,300,753</u>	<u>3,260,300,000</u>	<u>3,455,522,331</u>	<u>3,547,473,120</u>	<u>3,843,765,120</u>
<b>14 APPROPRIATIONS</b>					
15 Appropriations Per 2010 Session	3,328,615,808	3,319,795,000	3,405,101,292	3,405,101,292	3,405,101,292
16 Mainline Budget Adjustments (following biennium)	0	0	0	492,955,048	744,547,295
17 General Fund Appropriations	<u>3,328,615,808</u>	<u>3,319,795,000</u>	<u>3,405,101,292</u>	<u>3,898,056,340</u>	<u>4,149,648,587</u>
<b>18 ENDING BALANCE</b>					
19 Dollar ending balance (Financial Status as shown)	423,814,730	163,192,457	208,363,496	(147,219,724)	(458,103,190)
20 Dollar ending balance (at Minimum Reserve)	203,883,255	--	207,943,312	--	221,347,623
21 Excess (shortfall) from Minimum Reserve	219,931,475	--	<b>420,184</b>	--	<b>(679,450,814)</b>
22 Biennial Reserve (%)	6.4%		3.0%		-5.7%
23 Annual % Change - Appropriations (w/o deficits)	5.3%	-4.5%	2.4%	14.5%	6.5%
24 Two Year Average	4.6%	--	-1.1%	--	10.4%
25 Four Year Average	--	--	--	--	4.5%
<u>General Fund Revenues</u>					
26 Est. Revenue Growth (rate/base adjusted)	-4.4%	-2.4%	5.2%	7.2%	7.2%
27 Two Year Average	1.3%	--	1.4%	--	7.2%
27 Five Year Average	5.6%	--	2.3%	--	2.5%
28 Structural Revenues vs Approp. (w/o ARRA)	(164,326,710)	(438,618,642)	(354,181,168)	(350,583,220)	(305,883,467)

<b>CASH RESERVE FUND</b>	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
Beginning Balance	545,545,797	578,191,863	467,191,863	321,992,863	321,992,863
Excess of certified forecasts (line 3 in Status)	116,976,571	0	250,000	0	0
To/from Gen Fund per current law	(54,990,505)	(105,000,000)	(154,000,000)	0	0
To Nebr Capital Construction Fund (NCCF)	(9,590,000)	0	0	0	0
To Job Training Cash Fund	(5,000,000)	0	0	0	0
To Microenterprise Development Program	(1,000,000)	0	0	0	0
To Building Entrepreneurial Communities Act	(250,000)	0	0	0	0
To/From Water Contingency Cash Fund	0	0	8,551,000	0	0
To State Fair relocation	(5,000,000)	0	0	0	0
To Cultural Endowment fund	(1,000,000)	0	0	0	0
To Roads Operations Cash Fund	0	(5,000,000)	0	0	0
To Governors Emergency Fund	(7,500,000)	0	0	0	0
To Visitors Promotion (Special Olympics)	0	(1,000,000)	0	0	0
Projected Unobligated Ending Balance	<u>578,191,863</u>	<u>467,191,863</u>	<u>321,992,863</u>	<u>321,992,863</u>	<u>321,992,863</u>

# Revenue Assumptions

The Nebraska Economic Forecast Advisory Board (NEFAB) does not make official forecasts for the following biennium or what's commonly referred to as the "out years", FY11-12 and FY12-13). Although different methodologies could be utilized, in the current financial status the revenue estimates used for the following biennium are derived using a "capped" historical average methodology. This "smoothing" technique derives a revenue estimate for the "out years" by calculating the level of revenues that would yield a five year average growth (FY08 to FY13) roughly equal to the historical average from FY81 to FY09 (5.2%). Inherent in this methodology is the concept that within any five-year period, below average revenue growth in some years will be offset by above average growth in others.

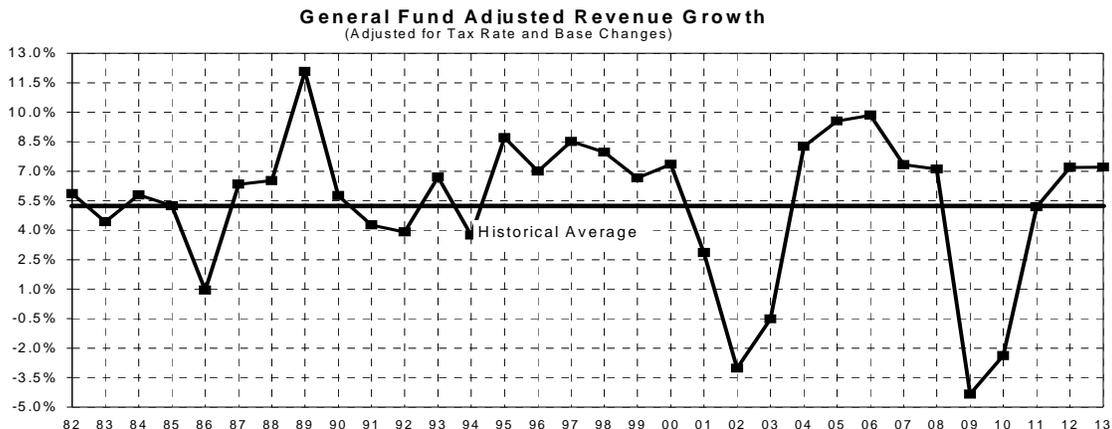
The capped portion of the methodology means that the derived number can't result in an average growth that's higher than the average of the "above average growth years" or lower than the average of the "below average growth years". Because an average growth of 13% per year would be required to achieve a five year average of 5.2%, the capped provision is invoked and the two out-years are capped at an average 7.2%. Even with this high growth, this yields a five year average of only 2.5% per year, less than half the 28 year average of 5.2%.

Avg Adjusted General Fund Revenue Growth

Above Average Years (19)	7.2%
Below Average Years (9)	1.4%
Historical Average (28 yrs)	5.2%

Table 1 General Fund Revenue Forecasts (Feb 2010)

	Actual FY2008-09	NEFAB FY2009-10	NEFAB FY2010-11	LFO Prelim FY2011-12	LFO Prelim FY2012-13
<b>Actual/Forecast</b>					
Sales and Use Tax	1,326,161,017	1,310,000,000	1,365,000,000	1,458,000,000	1,556,000,000
Individual Income Tax	1,600,418,236	1,561,100,000	1,630,000,000	1,806,000,000	1,981,000,000
Corporate Income Tax	198,483,786	159,000,000	185,000,000	213,000,000	238,000,000
Miscellaneous receipts	232,405,148	251,000,000	225,000,000	191,000,000	187,000,000
<b>Total General Fund Revenues</b>	<b>3,357,468,187</b>	<b>3,281,100,000</b>	<b>3,405,000,000</b>	<b>3,668,000,000</b>	<b>3,962,000,000</b>
<b>Adjusted Growth</b>					
Total General Fund Revenues	-4.4%	-2.4%	5.2%	7.2%	7.2%
Five Yr Average	5.6%	--	2.3%	--	2.4%



Other methods yield lower revenue estimates. In addition to the historical average methodology used in the financial status, both the Nebraska Dept of Revenue (NDR) and

Based on Feb 2010 Revenue Forecasts	Current Status	Average Global Insight	Average All Forecasts	High Est LFO-Fair	Low Est LFO-Global
FY2008-09 Actual	3,357,468	3,357,468	3,357,468	3,357,468	3,357,468
FY2009-10 NEFAB	3,281,100	3,281,100	3,281,100	3,281,100	3,281,100
FY2010-11 NEFAB	3,405,000	3,405,000	3,405,000	3,405,000	3,405,000
FY2011-12 Prelim	3,668,000	3,582,560	3,644,154	3,711,044	3,553,261
FY2012-13 Prelim	3,962,000	3,752,843	3,850,711	3,968,119	3,712,183
<u>Calculated Growth (adjusted)</u>					
FY2008-09 Actual	-4.4%	-4.4%	-4.4%	-4.4%	-4.4%
FY2009-10 NEFAB	-2.4%	-2.4%	-2.4%	-2.4%	-2.4%
FY2010-11 NEFAB	5.2%	5.2%	5.2%	5.2%	5.2%
FY2011-12 Prelim	7.2%	4.9%	6.6%	8.3%	4.1%
FY2012-13 Prelim	7.2%	4.2%	5.1%	6.2%	4.0%
Two Year Average	7.2%	4.6%	5.8%	7.3%	4.0%
Five Year Average	2.5%	1.5%	2.0%	2.6%	1.3%
<u>\$ Difference from Status</u>					
FY2011-12	0	(85,440)	(23,847)	43,044	(114,739)
FY2012-13	0	(209,157)	(111,289)	6,119	(249,817)
Cumulative Total	0	(294,597)	(135,135)	49,163	(364,556)

Legislative Fiscal Office (LFO) have calculated revenue estimates for these two "out years" using the same models and input from Global Insight, the national forecasting service used as input into the tax forecast models. While these forecasts work well for the 1 to 3 year forecasts, when extended further they have a tendency to flatten

out and follow the 3 year trend into the 4<sup>th</sup> and 5<sup>th</sup> year. In other words, they have difficulty picking up changes in the trend. The historical average methodology, the method used since 1991 and used in the current financial status, utilizes a smoothing technique which derives a revenue growth for the "out years" by calculating the level of revenues that would yield a five year average growth (FY09 to FY13) roughly equal to the historical average from FY81 to FY09 (currently 5.2%).

Preliminary estimates for the two "out years" arrived at using the historical average concept (as used in the Financial Status), are significantly higher than the model estimates. Forecasts using Global Insight input are much lower reflecting a continued much lower growth specifically in FY2009-10. The FAIR based forecasts are much higher than the Global Insight forecasts and in fact somewhat higher than the "historical average" based estimates.

---

## Spending Assumptions

---

For the "following biennium" (FY2011-12 and FY2012-13), the budget numbers reflect the annualized impact of the current budget actions plus an estimate of future year increases in entitlement programs, salary and health insurance increases, and other funding requirements that are normally not optional. It is an estimate based on "current law", ie.. an estimate of future obligations with no change to underlying law that creates the obligation. While the

actual funding needs in these areas will not be known until the biennial budget process starts again next session, some level of funding for these items must be acknowledged and shown as likely funding commitments for planning purposes. The following is a summary of the major items with a separate breakdown of the amounts necessary to replace the one-time use of ARRA funds.

Summary of Projected Increases	Biennial Budget Basis			% of Total
	FY2011-12	FY2012-13	2 Yr Total	
Replace ARRA related one-time funds	250,602,207	250,602,207	501,204,414	40.5%
TEEOSA School Aid (excluding ARRA impact)	72,026,271	181,895,158	253,921,429	20.5%
Medicaid (excluding ARRA impact)	44,490,546	93,101,099	137,591,645	11.1%
Salary and Health Insurance	39,806,740	81,739,602	121,546,341	9.8%
Retirement (Schools, Patrol, Judges)	56,215,154	56,566,154	112,781,308	9.1%
All Other	29,814,129	80,643,075	110,457,205	8.9%
<b>Total General Fund increase (biennial basis)</b>	<b>492,955,048</b>	<b>744,547,295</b>	<b>1,237,502,342</b>	<b>100.0%</b>

Annual Percent Change

With replacement of ARRA funds	14.5%	6.5%	10.5%
Without replacement of ARRA funds	7.1%	6.5%	7.0%

Replacement of the ARRA funds is the single largest increase in the following biennium and accounts for 40% of the total increase in the budget. This includes \$140.3 million Education Stabilization funds (TEEOSA school aid), \$89.3 million of Medicaid federal matching rate (FMAP), and \$17 million of General Stabilization funds (used in Dept of Corrections). Table 3 shows the individual items and assumption used in arriving at a projected budget showing projected increases on an annual basis.

**Projected Budget Increases**

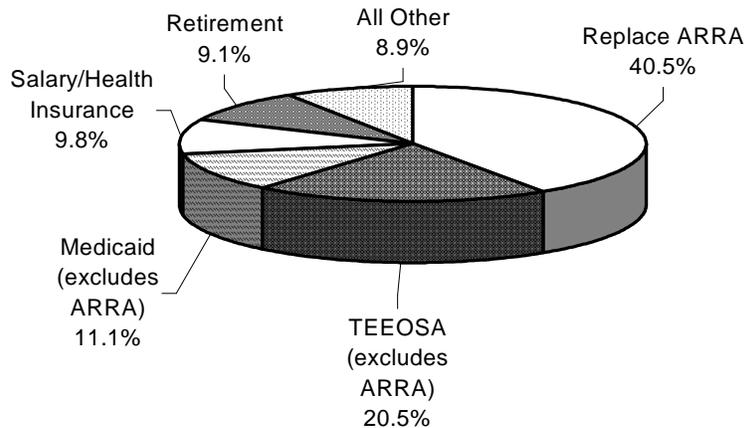


Table 3 Projected Budget Increases-Following Biennium

Numbers are annual increases	Factor	Est for Following Biennium	
		FY2011-12	FY2012-13
<b><u>Aid to Local Govt</u></b>			
TEEOSA School Aid (excluding ARRA impact)	9.5%	72,026,271	109,868,887
Special Education	5.0%	9,244,692	9,706,927
Community Colleges	3.0%	2,697,123	2,778,036
Aid to County changes (net) LB218-2009	--	864,771	393,422
Homestead Exemption	3.0%	1,950,000	2,008,500
Aid to NRD's	--	3,000	0
Aid to ESU's	2.5%	397,189	407,119
Gov Emergency Fund (replace one-time reduction)	--	500,000	0
Aid to Learning Communities	--	(72,000)	(36,000)
<b><u>Aid to Individuals</u></b>			
Medicaid (excluding ARRA impact)	7.5%	44,490,546	48,610,552
Public Assistance (excluding ARRA impact)	8.5%	21,488,935	23,264,611
Developmental Disability aid	3.0%	2,751,242	2,833,779
Behavioral Health aid	3.0%	2,262,867	2,330,753
Childrens Health Insurance (CHIP)	8.8%	1,028,477	1,101,929
<b><u>Operations</u></b>			
Retirement (Schools, Patrol, Judges)	calculated	56,215,154	351,000
Employee Salaries (includes University & St Colleges)	2.5%	24,727,360	25,345,544
Health Insurance (includes University & St Colleges)	10.0%	15,079,380	16,587,318
Operations increase	2.0%	5,707,762	5,821,917
Inmate per diem costs	6.0%	2,205,936	2,338,292
Child support enforcement, one time use of funds	calculated	1,800,000	0
Takeover county assessor	calculated	(616,540)	(616,540)
BSDC funding, assumed recertification (HHS)	calculated	(24,477,558)	0
Other (Oper)	calculated	366,661	301
<b><u>Replace Use of Onetime ARRA Funds</u></b>			
ARRA Education Stabilization (TEEOSA)	--	140,287,176	0
ARRA General Stabilization (Corrections)	--	17,000,000	0
ARRA Ehandced FMAP (Medicaid)	--	73,682,483	0
ARRA Unemployment Bonus FMAP (Public Assistance)	--	15,600,000	0
ARRA Child Care, FFP (Public Assistance)	--	4,032,548	0
	reaffirm only	1,711,573	(1,504,100)
<b><u>Construction</u></b>			
-			
Annual \$ Increase		492,955,048	251,592,247
Annual % Increase		14.5%	6.5%

## **Aid to Local Governments**

---

*Special Education:* Increases for FY2011-12 and FY2012-13 reflect a 5% per year increase as provided for in current law as enacted in LB1243-2000.

*State Aid to Schools (TEEOSA)* The estimates for FY2011-12 and FY2012-13 are based on the same methodology utilized for the November 15 estimates required under current law for a proposed biennial budget but with Fiscal Office assumptions and should be considered Fiscal Office estimates. They are based on LB 545 as enacted in the 2009 Session and LB 5 enacted in the 2009 Special Session and reflect a growth in total TEEOSA school aid of 7.6% in FY11-12 and 10.8% in FY12-13. However, the growth in General Funds for TEEOSA amounts to 26.6% in FY12 reflecting the replacement of the \$140.3 million of ARRA Education Stabilization funds used in the FY11 budget. A detailed calculation sheet can be found on page 7.

*Aid to ESU's* The amount of aid to ESU's is based on funding of a certain level of core services and technology infrastructure. Growth in aid is set at the same rate as the basic allowable growth rate under the school spending limitation (2.5% per year).

*Aid to Community Colleges* A basic 3% per year annual increase is included for the following biennium budget. This increase amounts to about a \$2.8 million per year increase.

*Homestead Exemption* A 3% per year annual increase is included for the following biennium budget reflecting some level of inflationary increases.

*Aid to County (net change under LB218-2009)* Prior to FY2011-12 there were three aid programs from which counties receive assistance, general aid to counties program in the State Treasurer's budget, the County Property Tax Relief program budgeted under the Dept of Revenue and the county jail reimbursement program under the Dept of Correctional Services. LB218 passed in the 2009 Session, eliminated these three programs starting July 1, 2011, and replaces them with a new aid program based solely on the share of statewide taxable value found in each county. The level of funding for the new county aid program is derived by multiplying a percentage which ranges from 0.0075% to 0.0125% times the total real and personal property valuation of all counties. Each county will receive \$30,000, while the remaining funding will be distributed based on each county's percentage of the total valuation of all counties. The increase shown here is based on the difference between the existing aid amounts and an estimated amount per LB218.

		Certified FY2008-09	Certified FY2009-10	Certified FY2010-11	Est Aid FY2011-12	Est Aid FY2012-13
	<b>TEEOSA AID ESTIMATES</b>					
1	AFR Data Year	Actual 06-07	Actual 07-08	Actual 08-09	Est 09-10	Est 10-11
2	Property Valuation Year	2007 actual	2008 actual	2009 actual	2010 est	2011 est
	<b>Key Assumptions</b>					
3	School Disbursements	6.01%	5.42%	5.63%	4.40%	5.00%
4	Gen Fund Operating Expenditures (GFOE)	5.2%	5.2%	5.6%	4.4%	5.0%
5	Property Valuations (assessed)	5.5%	5.8%	5.7%	2.50%	3.5%
9	Cost Growth Factor	6.00%	5.50%	3.75%	3.25%	4.50%
10	Local Effort Rate	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
12	Total Adjusted GF Operating Expenditures	2,084,314,436	2,105,833,612	2,152,618,365	2,241,980,766	2,399,329,902
13	Lost to Basic Funding Calculation	(12,460,342)	(17,529,066)	(15,110,877)	(15,775,756)	(16,564,543)
14	Basic Funding	2,071,854,094	2,088,304,546	2,137,507,488	2,226,205,010	2,382,765,359
15	Transportation Allowance	41,935,001	51,141,071	55,706,376	56,755,202	59,592,962
16	Special Education Allowance	177,329,966	180,911,697	188,305,700	189,733,751	189,703,052
17	Distance Ed & Telecomm Allowance	3,785,994	6,051,679	5,899,838	6,159,431	6,467,402
18	Poverty Allowance	63,043,393	75,804,111	85,641,661	89,409,894	93,880,389
19	Limited English Proficiency Allowance	34,705,494	37,421,837	40,158,230	41,925,192	44,021,452
20	Elementary Class Size Allowance	63,902,060	100,536,264	105,380,143	110,016,869	115,517,713
22	Elementary Site Allowance	12,615,237	7,040,043	6,852,064	7,153,555	7,511,233
23	Summer School Allowance	6,566,914	11,867,466	14,324,734	14,955,022	15,702,773
24	Teacher Education Allowance	0	0	24,995,151	26,094,938	27,399,685
25	Instructional time allowance	0	29,497,036	25,659,633	26,788,657	28,128,090
26	System Averaging Adjustment	32,621,579	80,008,551	81,858,062	85,459,817	74,959,817
27	Teacher Education Adjustment	23,960,540	23,991,065	to Allowance	0	0
28	Local Choice Adjustment	(10,064,809)	(7,027,681)	(3,590,069)	(3,748,032)	(3,935,434)
29	New learning community transport adjustment	0	0	1,482,000	1,547,208	1,624,568
30	Student growth adjustment	0	8,896,539	11,139,136	11,629,258	12,210,721
31	New school adjustment	0	6,582,451	8,119,236	9,000,000	9,450,000
32	NEED stabilization provisions	1,134,266	10,281,942	26,182,345	27,334,368	27,334,368
33	Poverty / LEP Corrections	na	(5,264,655)	(690,067)	(720,430)	(756,451)
35	<b>Total Formula Need</b>	2,523,389,730	2,706,043,962	2,814,931,661	2,925,699,710	3,091,577,698
36	Effective Yield from Local Effort Rate	1,272,897,946	1,358,880,880	1,426,395,769	1,460,841,511	1,513,856,606
37	Net Option Funding	60,282,834	60,280,316	61,924,329	64,648,999	67,881,449
38	Allocated Income Tax	22,006,982	42,009,501	20,365,488	37,640,818	34,408,368
39	Other Actual Receipts	412,053,352	413,898,102	424,433,932	429,290,141	431,945,896
40	Minimum Levy Adjustment	6,200,414	8,741,245	12,556,423	12,556,423	12,556,423
41	Retirement Aid	na	15,000,000	15,000,000	15,000,000	15,000,000
42	<b>Total Formula Resources</b>	1,773,441,528	1,898,810,043	1,960,675,941	2,019,977,892	2,075,648,742
43	Calculated Equalization Aid	749,948,202	807,233,919	854,255,719	905,721,818	1,015,928,955
44	Net Option Funding	60,282,834	60,280,316	61,924,329	64,648,999	67,881,449
45	Allocated Income Tax	22,006,982	42,009,501	20,365,488	37,640,818	34,408,368
46	Stabilization Factor	6,573,376	9,893,804	0	0	0
47	Non Equalized Levy Adjustment	(227,356)	(566,813)	(433,628)	(433,628)	(433,628)
48	Reorganization Incentive payments	834,516	0	0	0	0
49	Prior yr deficiencies/negative balances/other	(27,973)	25,291	(890,173)	0	0
50	Retirement Aid	na	15,000,000	15,000,000	15,000,000	15,000,000
51	<b>TEEOSA State Aid</b>	839,390,581	933,876,018	950,221,736	1,022,578,007	1,132,785,144
52	State General Funds	825,056,857	824,960,159	796,734,560	1,009,048,007	1,118,916,894
53	Insurance Premium Tax (w/o deficit)	14,333,724	15,247,109	13,200,000	13,530,000	13,868,250
54	ARRA Stabilization Funds	0	93,668,750	140,287,176	0	0
55	Total TEEOSA Aid	839,390,581	933,876,018	950,221,736	1,022,578,007	1,132,785,144
56	Dollar Change from prior year	70,776,608	94,485,437	16,345,718	72,356,271	110,207,137
57	Percent Change from prior year	9.2%	11.3%	1.8%	7.6%	10.8%
	<b>State General Fund Aid</b>					
58	TEEOSA (General Funds)	825,056,857	824,960,159	796,734,560	1,009,048,007	1,118,916,894
59	Dollar Change from prior year	71,501,309	(96,698)	(28,225,599)	212,313,447	109,868,887
60	Percent Change from prior year	9.5%	0.0%	-3.4%	26.6%	10.9%

## **Aid to Individuals**

---

*Medicaid* For the following biennium, a 7.5% per year increase is used. This approximates the average growth over the past 10 years excluding federal match rate changes and legislative changes. The growth in General Funds in FY12 is 27% reflecting the replacement of the \$89.3 million of ARRA enhanced FMAP funds used in the FY11 budget.

*Public Assistance* A growth rate of 8.5% per year is utilized for the various Public Assistance programs for the following biennium. This approximates the average growth over the past 10 years. . The growth in General Funds in FY12 is 10.2% reflecting the replacement of the \$4.0 million of ARRA enhanced FFP and Child Care funds used in the FY11 budget.

*Children's Health Insurance (CHIP)* For the following biennium, a 7.5% per year increase is used which is the same as Medicaid. The growth in General Funds however is closer to 9% as the General Fund covers all increases in this program due to the fixed nature of the \$5 million allocation from the Health Care Cash Fund.

*Developmental Disability Aid* A 3% per year increase is included. This provides the equivalent of 2.5% per year for rate equity similar to the employee salary assumption and .5% for clients transitioning from K-12 programs. As this projected budget assumes no expanded programs, nothing is assumed for funding of the waiting list.

*Behavioral Health Aid.* This area includes substance abuse and mental health aid. The increases in the following biennium reflect a 3% increase to reflect some annual increase in provider rates.

## **Agency Operations / Construction**

---

*Employee Salary Increases* Although salary increases will be the result of bargaining, some level of increase is factored in more for illustration than planning purposes. A 2.5% per year increase is included which approximates inflation and the current biennium funding.

*Employee Health Insurance* For planning purposes, a 10% per year increase in health insurance is included for the following biennium. This rate of growth is similar to increases in the current proposed budget as well as the average growth over the past 5 to 10 years.

*Operations Inflation* Included in the projected status is an across the board 2% increase in agency non-personnel operating costs.

*Inmate Per Diem Costs* While some costs at the Dept of Correctional Services such as staffing are "fixed" within a range of inmate population, some costs change directly with each

inmate. This includes items such as food, clothing, and medical care. A 6% per year increase is included to reflect both inflationary costs and an increase in the number of inmates.

*BSDC recertification (HHS)* This projection assumes a re-certification of BSDC and restoration of federal funds for the institution allowing for deletion of the \$25 million supplemental funding in FY11.

*Replace ARRA funds, Corrections* The budget for the Dept of Correctional Services uses ARRA general stabilization funds of \$35 million in FY10 and \$17 million in FY11. The FY12 projected budget restores general funds to replace the use of the \$17 million.

*Retirement (defined benefit plans)* Shortfalls in defined benefit and cash balance retirement plans were projected at \$33.9 million in FY11, \$87.3 million in FY12, and \$131.7 in FY13. The increases here reflect the annual increases to achieve these funding levels adjusted for the contribution changes enacted during the 2009 Session.

*Capital Construction* General Fund dollars included in the projected budget for the following biennium for capital construction reflect reaffirmations only based on the proposed FY10/FY11 biennial budget. These are dollar amounts needed to complete funding of previously approved projects.