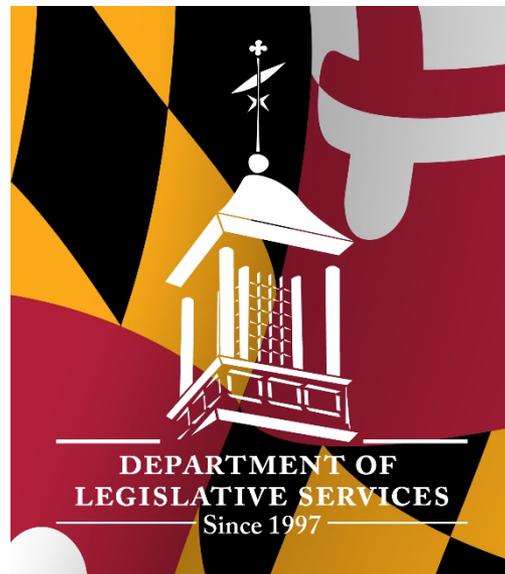

Updated Budget Outlook

**Presentation to the
Senate Budget and Taxation Committee**



October 14, 2021



General Fund Revenues

Fiscal 2021

(\$ in Millions)

	Fiscal 2020		Fiscal 2021			Fiscal 2020-2021 Percent Change	
	<u>Actual</u>	<u>Estimate</u>	<u>Actual</u>	<u>\$ Diff.</u>	<u>% Diff.</u>	<u>Estimated</u>	<u>Actual</u>
Personal Income Tax	\$10,699	\$10,802	\$11,705	\$903	8.4%	1.0%	9.4%
Corporate Income Tax	1,052	1,139	1,462	323	28.4%	8.3%	39.0%
Sales and Use Tax	4,635	4,591	4,988	397	8.6%	-0.9%	7.6%
State Lottery	549	627	632	5	0.8%	14.3%	15.2%
Other	1,700	1,620	1,686	66	4.1%	-4.7%	-0.8%
On-Going General Funds	\$18,634	\$18,779	\$20,472	\$1,694	9.0%	0.8%	9.9%
Total General Funds	\$18,634	\$19,120	\$20,831	\$1,711	8.9%	2.6%	11.8%
Selected Special Funds							
Sales Tax - Blueprint Fund	\$231	\$560	\$423	-\$136	-24.4%	141.9%	83.0%
Casinos - ETF	397	512	531	20	3.9%	28.9%	33.9%
Corporate Filing Fees - CIEFF	n/a	50	84	34	67.4%	n/a	n/a
<i>Sales Tax - Blueprint Fund</i>		<i>\$560</i>	<i>\$423</i>	<i>-\$136</i>			
<i>estimated under-distribution</i>			<i>88</i>				
		<i>\$560</i>	<i>\$511</i>	<i>-\$49</i>			

ETF: Education Trust Fund

CIEFF: Commission on Innovation and Excellence in Education Fund

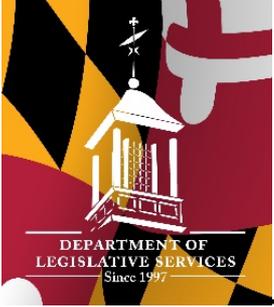
Source: Board of Revenue Estimates

General Fund Forecast

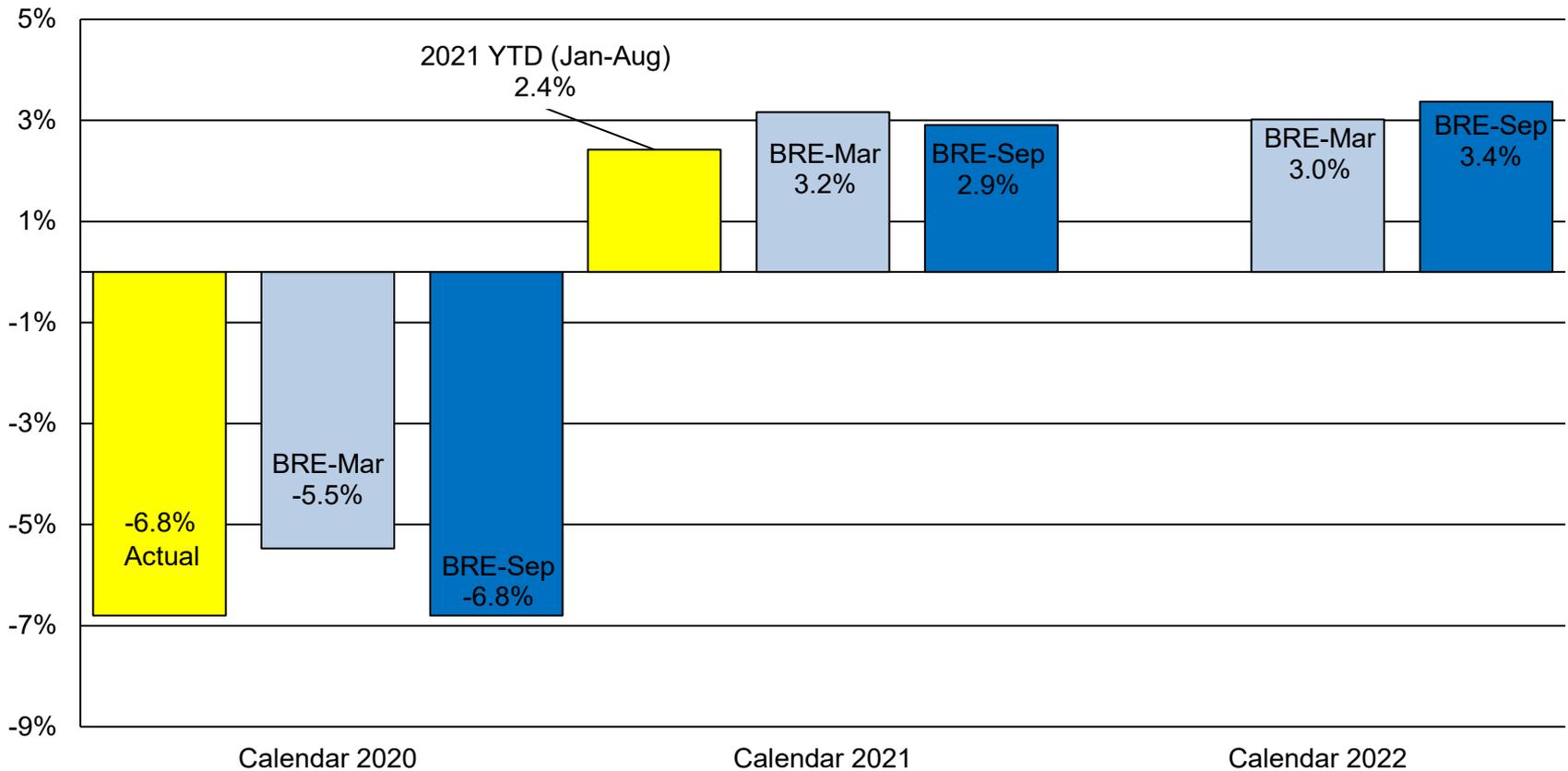
(\$ in Millions)

	Fiscal	Fiscal 2022 Estimate				Percent		Percent	
	2021					Change vs.	Fiscal 2023	Change vs.	
	<u>Actual</u>	<u>March</u>	<u>September</u>	<u>\$ Diff.</u>	<u>%Diff.</u>	<u>Fiscal 2021</u>	<u>Estimate</u>	<u>Fiscal 2022</u>	
Personal Income Tax	\$11,705	\$11,401	\$11,797	\$396	3.5%	0.8%	\$12,634	7.1%	
Corporate Income Tax	1,462	1,249	1,446	197	15.7%	-1.1%	1,556	7.6%	
Sales and Use Tax	4,988	5,003	5,283	281	5.6%	5.9%	5,520	4.5%	
State Lottery	632	592	641	49	8.3%	1.5%	651	1.6%	
Other	1,686	1,937	2,009	72	3.7%	19.2%	1,985	-1.2%	
On-Going General Funds*	\$20,472	\$20,181	\$21,176	\$995	4.9%	3.4%	\$22,346	5.5%	
Volatility Adjustment	n/a	-\$80	-\$80	\$0	n/a	n/a	-\$100	25.0%	
One-time Revenue	\$359	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Total General Funds	\$20,831	\$20,101	\$21,096	\$995	5.0%	1.3%	\$22,246	5.5%	
Selected Special Funds									
Sales Tax - Blueprint Fund	\$423	\$593	\$671	\$78	13.1%	58.5%	\$611	-9.0%	
Casinos - ETF	531	512	561	49	9.6%	5.5%	571	1.8%	
<i>Sales Tax - Blueprint Fund</i>									
<i>baseline transfer</i>		\$593	\$583	-\$10					
<i>catch up for under-distribution in Fiscal 2021</i>			88						
<i>total Fiscal 2022 transfer</i>		\$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.

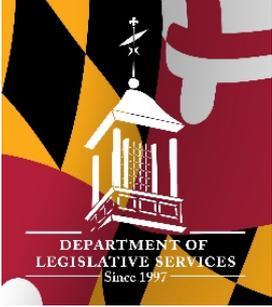


Employment: Year-over-year Percent Change

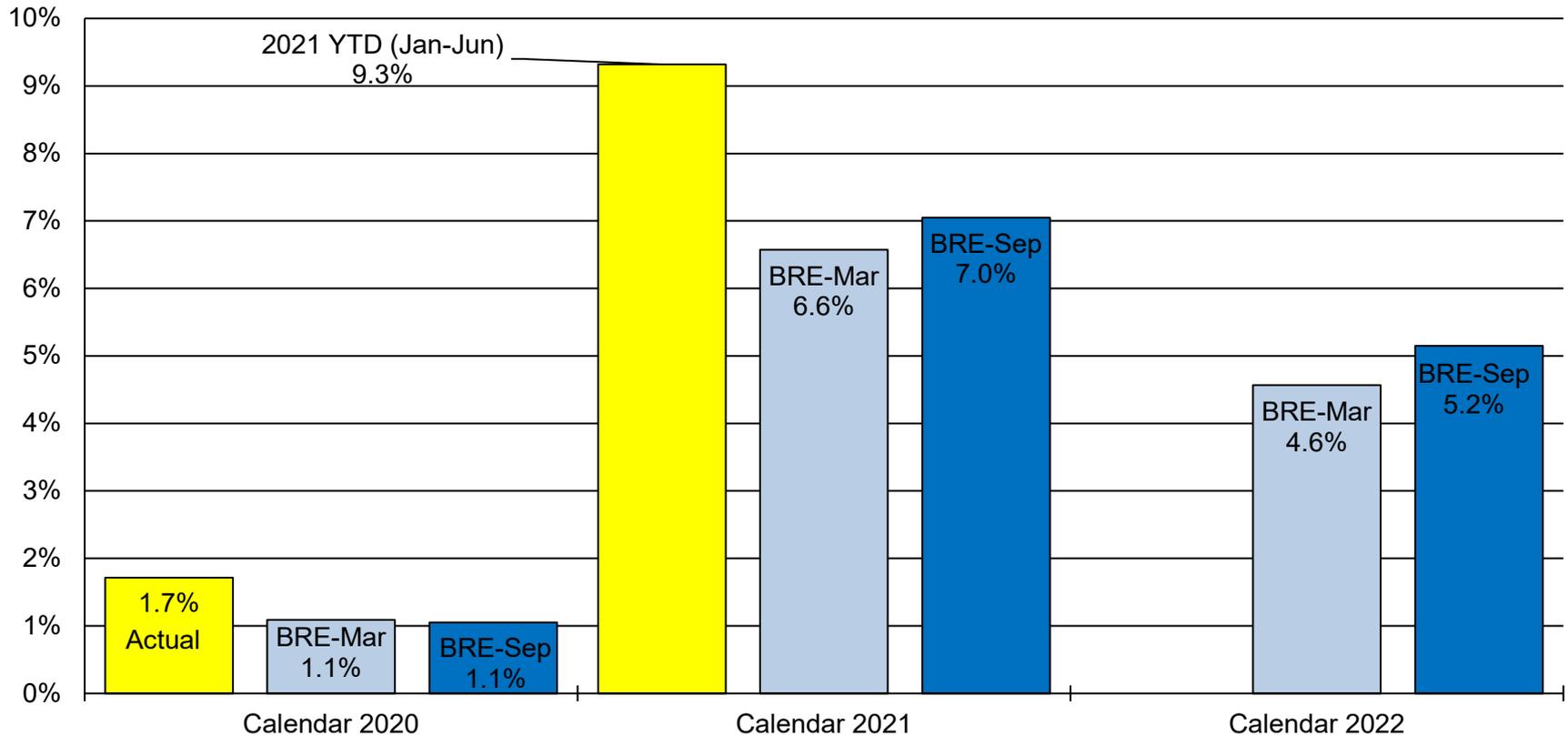


BRE: Bureau of Revenue Estimates
YTD: Year-to-date

Source: Department of Legislative Services

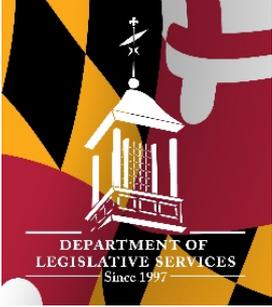


Wage and Salary Income: Year-over-year Percent Change

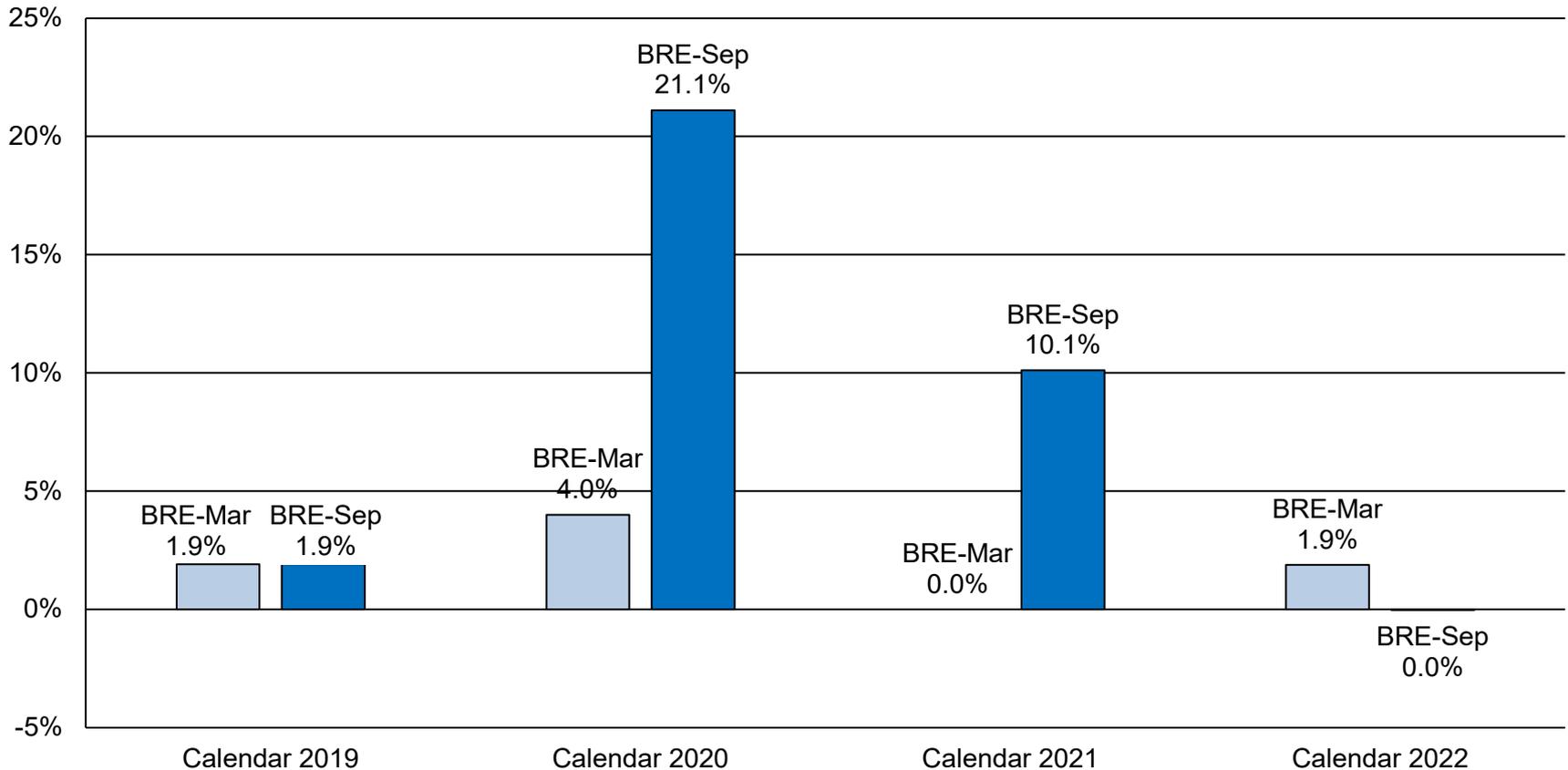


BRE: Bureau of Revenue Estimates
YTD: Year-to-date

Source: Department of Legislative Services

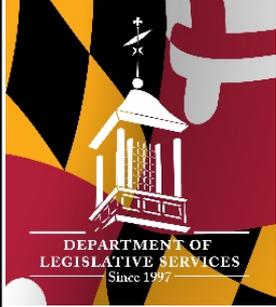


Capital Gains Income: Year-over-year Percent Change



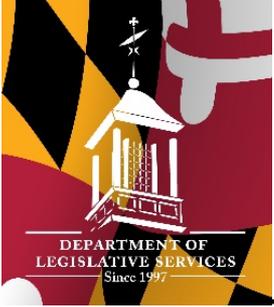
BRE: Bureau of Revenue Estimates
YTD: Year-to-date

Source: Department of Legislative Services



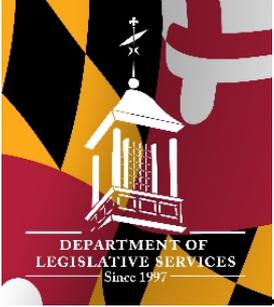
Fiscal 2021 Closeout \$1.8 Billion Better than Expected

- 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



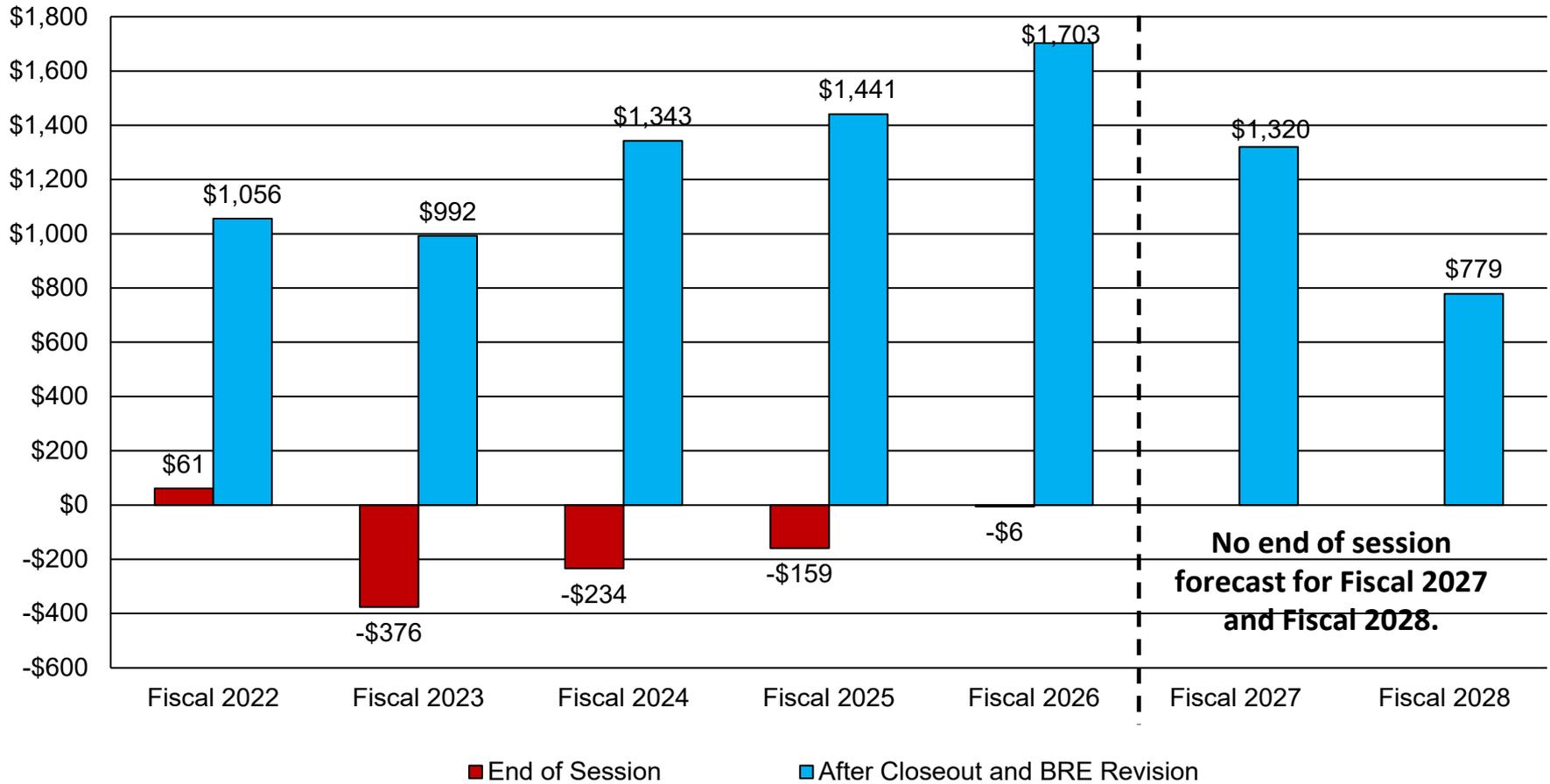
Revenue Outlook Improves for All Years of BRE Forecast

Fiscal 2021	Actual	\$1,711 Million
Fiscal 2022	Estimate	995 Million
Fiscal 2023	Estimate	1,368 Million
Fiscal 2024	Estimate	1,493 Million
Fiscal 2025	Estimate	1,483 Million
Fiscal 2026	Estimate	1,578 Million

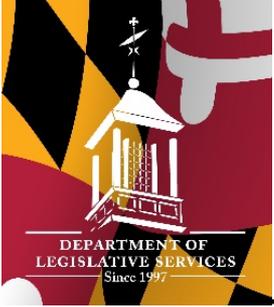


Structural Budget Outlook

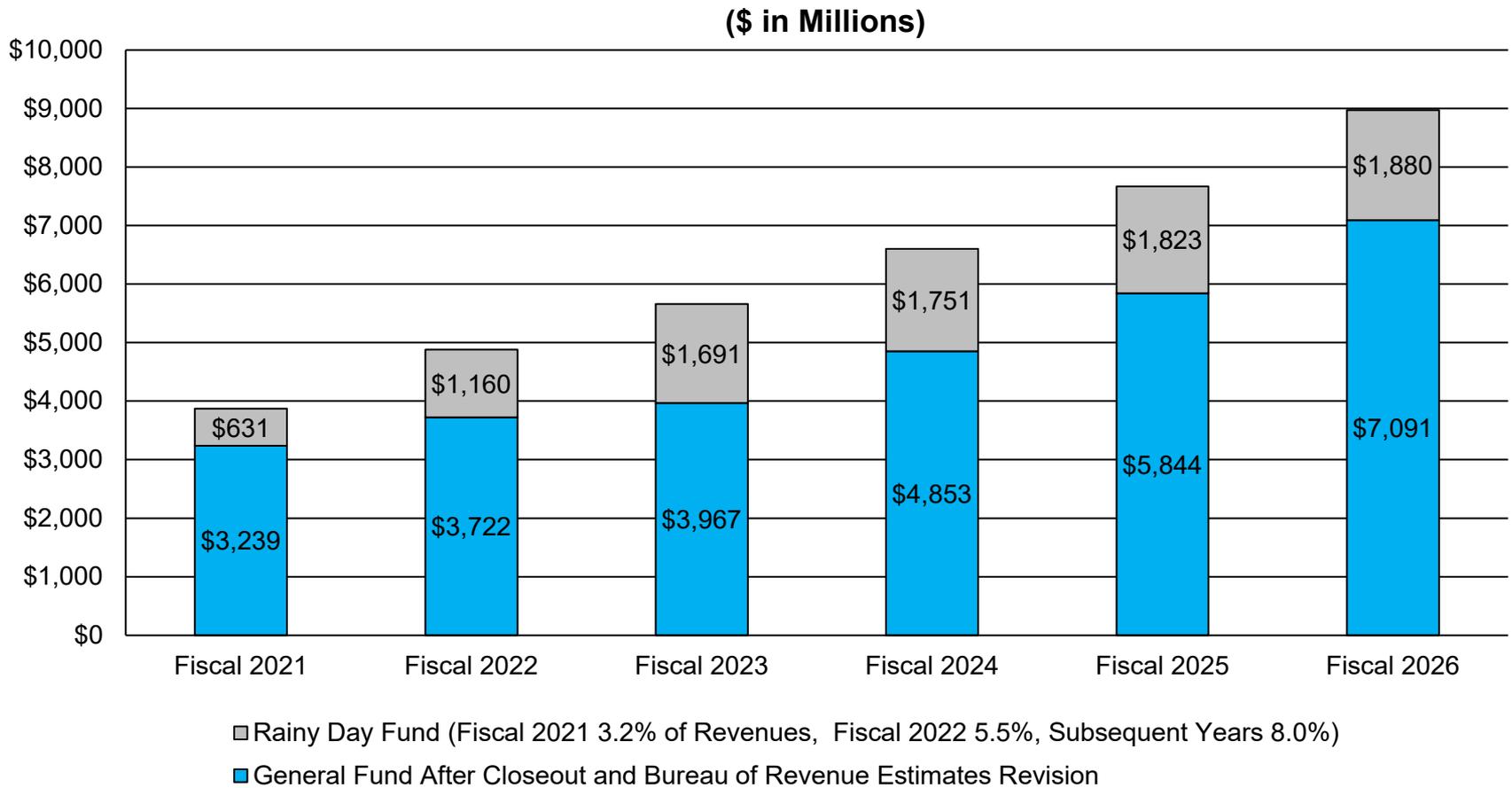
(\$ in Millions)



BRE: Bureau of Revenue Estimates

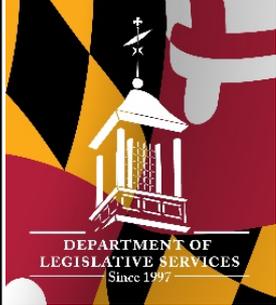


Estimated End of Year Cash Balances Fiscal 2021 to 2026



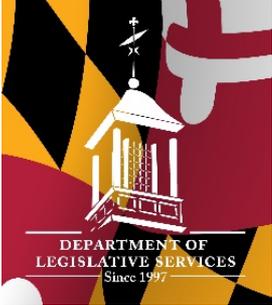
Note: Fiscal 2021 is Actual. All other years are estimates.

Source: Department of Legislative Services



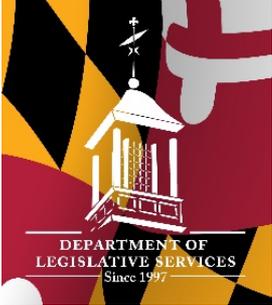
Blueprint Fund Outlook

- 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)