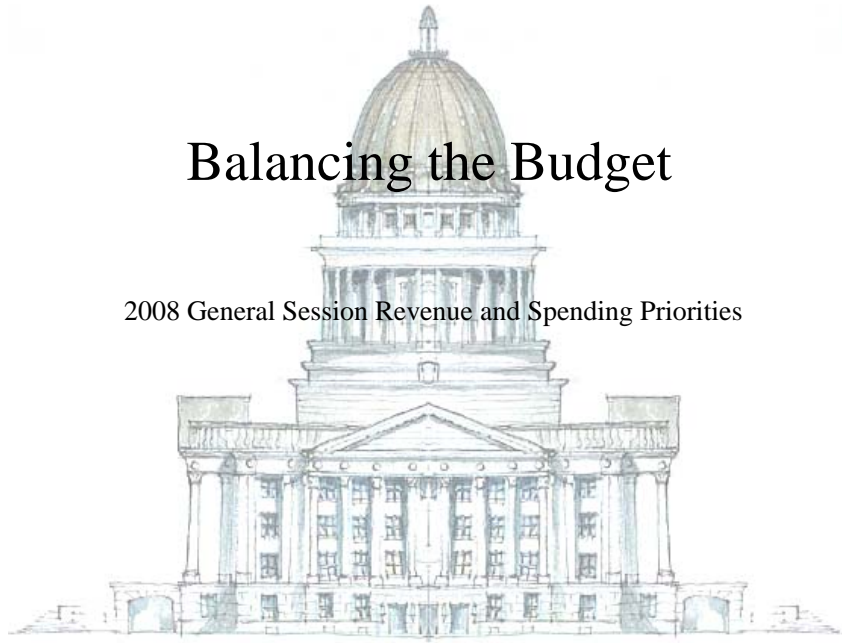


Balancing the Budget

2008 General Session Revenue and Spending Priorities



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Budget Issues Preview

- Cautious optimism on revenue
- High priorities addressed in base budget
- Spotlight on accountability & reallocation
- Budget Rules will focus attention on:
 - Education
 - Infrastructure
 - Rainy Day Funds
 - Tax Cuts



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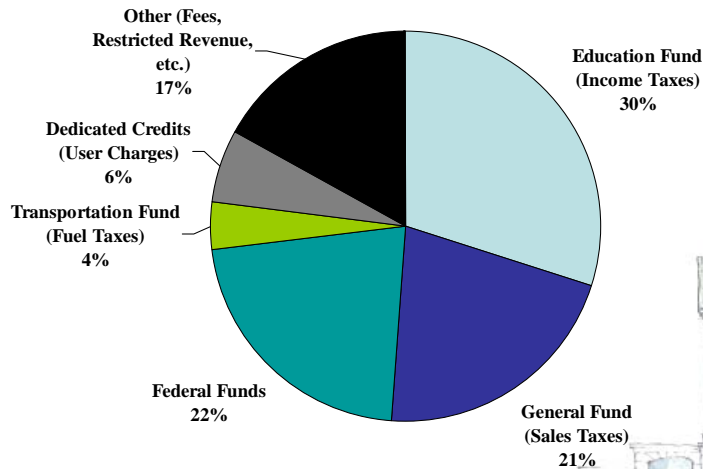
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This slide gives you a quick overview of what I want to communicate in the following slides.

Background – Where We Get It

FY 2008 Appropriation by Revenue Source



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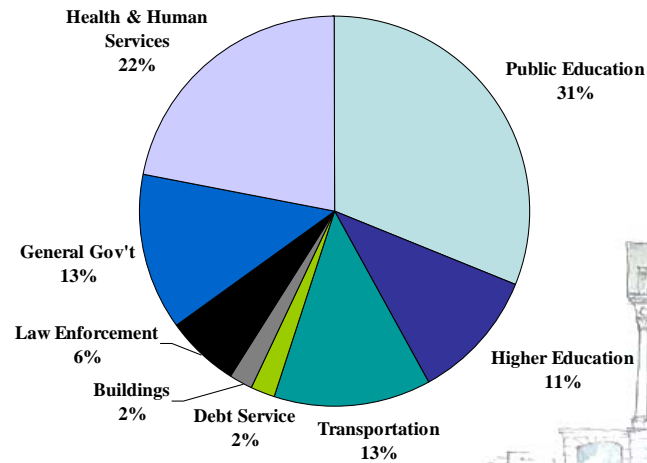
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These next two slides give you some background on current budgets as context in which to discuss next General Session.

The first shows where we get the \$11.5 billion in revenue appropriated for FY 2008 (\$5.9 billion is from Education and General funds).

Background – Where It Goes

FY 2008 Appropriations by Area of Expenditure



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This next slide shows how we spend that total \$11.5 billion, the clear priorities being Education, Health and Human Services, and Transportation.

State Tax Revenue Cooling, but Still Growing

- Economists currently projecting 2.6% state fund revenue growth from FY08 – FY09
- Bi-partisan leaders set-aside 20% of new ongoing revenue pending updated economic indicators
- Base budget has \$163 M new state fund spending for high priorities and mandates
- Leaves \$838 M unallocated
 - \$452 one-time
 - \$386 ongoing

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Beyond the appropriations identified in those last slides, we had a \$242 million surplus in FY 2007, we're expecting greater than predicted growth in FY 2008, and, for now, our economists tell us that we'll see some modest growth in FY 2009.

But, our revenue estimates are based upon economic indicators that are currently in flux. So, the members of the Executive Approps committee set-aside most of the currently predicted FY 2009 growth (\$116 M out of \$139 M) until we have more data in February.

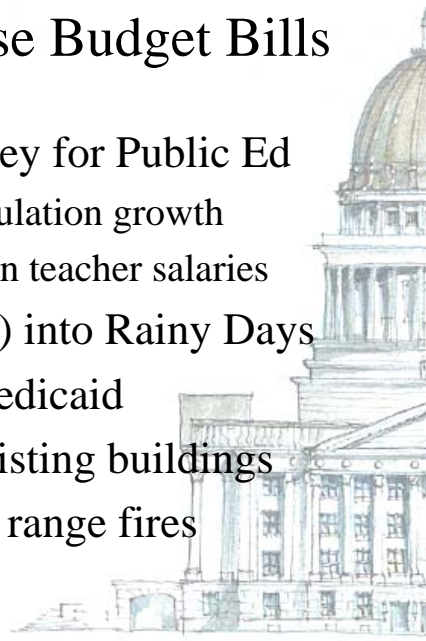
We also spent some new money in the Base Budget bills, which I'll describe in the next slide.

After the set-asides and new base budget spending, that leaves \$838 million in new state fund revenue "on-the-table" based upon our December estimates.

"State Fund" refers to General Fund and Education Fund revenue/spending from largely from sales and income taxes, respectively.

High Priorities in Base Budget Bills

- \$76 million new state money for Public Ed
 - \$34 million for student population growth
 - \$42 million to make good on teacher salaries
- 25% FY07 Surplus (\$60M) into Rainy Days
- \$14 million to shore-up Medicaid
- \$10 million to maintain existing buildings
- \$3 million to recover from range fires



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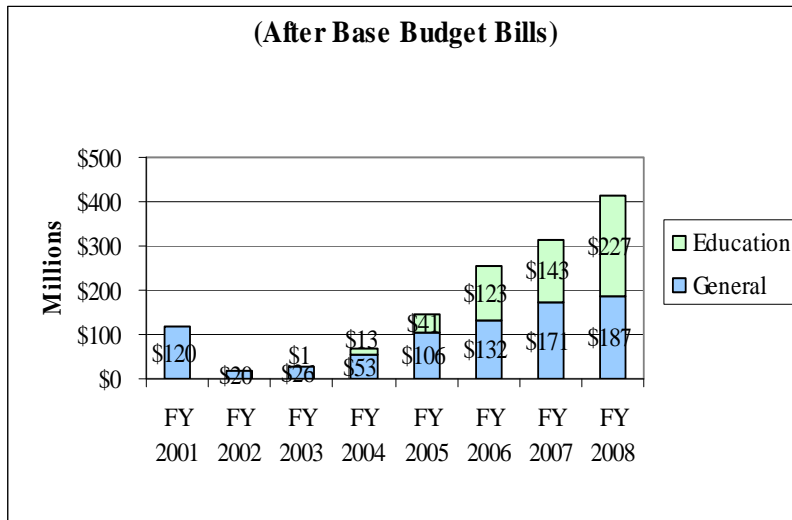
The Executive Appropriations Committee has already approved some high-priority spending increases in the Base Budget Bills.

These bills will be introduced within the first ten days of General Session.

Noteably, one of the first things we will do is address student population growth in public education AND assure that all school teachers get the \$2,500 per year raise we promised them last session.

Rainy Day Fund Status

(After Base Budget Bills)



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As noted on the previous slide, the base budget bills also add money to the states two Rainy Day funds, bringing the projected balances at the end of FY 2008 to more than \$410 million (7% of FY 2008 state fund appropriations).

For the first time there will be more in the Education Rainy Day Fund than in the General Rainy Day fund because deposits are based upon proportion of surplus and most of our surpluses have been in Income Tax.

Base Bills not a Done Deal – Spotlight on Accountability and Reallocation

- FY09 base allocations 14% lower (\$5.1B) than total appropriated for FY08 (\$5.9B)
- All-day pre-session meetings (1/16/2008) exclusively for accountability
- Staff directed to identify cuts and offsets from within existing budgets
- New reporting follows-up on past allocations and fiscal note estimates

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While base budgets have some new spending, they also have a lot of old spending. Those base bills will account for more than 80% of total spending in the next General Session.

We don't consider them a done deal. We want subcommittees to scrutinize the spending already taking place in state agencies before we approve new spending.

Here are some of the actions we have taken to encourage the subcommittees:

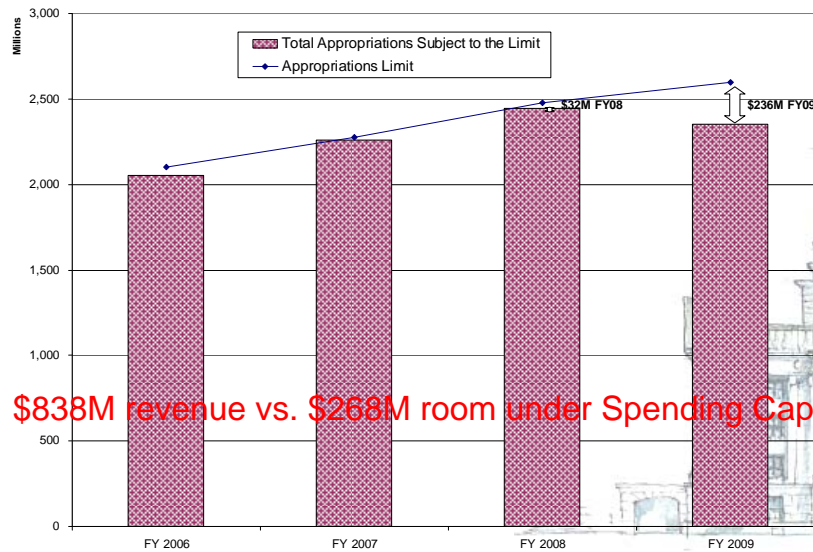
Allocated to subcommittees 14% less (\$5.1B) than total appropriated for current year (\$5.9B)

Scheduled all-day pre-session meetings (1/16/2008) exclusively for accountability

Directed staff to identify cuts and offsets from within existing budgets

Developed new reporting to follow-up on past allocations and fiscal note estimates

Budget Rules Focus Attention Spending Limit Applies to Gen. Gov't



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Beyond base budgets, our budget rules will influence how we spend and/or return to taxpayers projected new revenue.

December estimates are that Legislature will have \$281 million in room under the cap for the coming session (\$35 m in FY 2008, \$246 m for FY 2009)

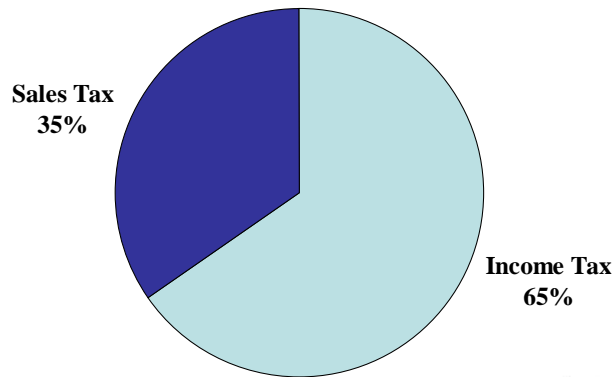
The base budget appropriates about \$12 million in new spending subject to the cap, leaving \$268 million in room between the cap and base budget expenditures (we call this the “cap gap”).

As shown earlier, December estimates also suggest that we will have more than \$838 M in available revenue after base budget increases and set-asides.

So, only about 1/3 of available revenue could be spent on General Government programs that are subject to the cap.

Budget Rules Focus Attention Income Tax Must Be Spent on Education

Share of Available Revenue for FY09



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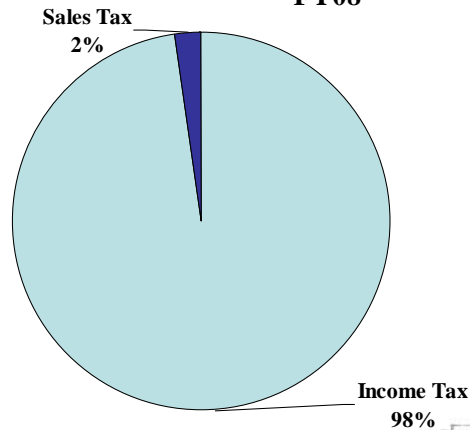
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The Constitution states that all income tax revenue must be spent on education (higher and public).

A little under 2/3 of our available revenue is from Income Tax, meaning only 1/3 could be spent outside Education (unless we supplant existing Education General Fund Appropriations with new Income Tax revenue).

Budget Rules Focus Attention Little Ed Sales Tax Left to be Supplanted

Higher and Public Education State Funding Mix for FY08



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Currently, (FY 2008) all income tax, plus about \$75M in sales tax, is spent on education.

Traditionally much bigger share of sales tax in higher ed. For FY08 we have little ability to move sales out of higher ed and into other areas of gov't.

General Fund share of education funding in FY09 base budget higher than this due to one-time GF spending in FY 08, but still limited.

Budget Focus for 2008 General Session

- Areas that are outside spending limit
 - Tax Cuts
 - Public (NOT Higher) Education Operations
 - Buildings
 - Roads
 - Debt Service
 - Rainy Day Funds
- Areas that qualify for income tax
 - Tax Cuts
 - Public and Higher Education Operations
 - Public and Higher Education Buildings
 - Debt Service
 - Rainy Day Funds



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So, based upon just those two budgeting rules, there are clearly some areas on which we will have to focus:

Areas that are outside spending limit

Tax Cuts
Public (NOT Higher) Education Operations
Buildings
Roads
Debt Service
Rainy Day Funds

Areas that qualify for income tax

Tax Cuts
Public and Higher Education Operations
Public and Higher Education Buildings
Debt Service
Rainy Day Funds

Summary

- Economic growth continues, but at slower pace
- Spotlight will be on accountability and reallocation
- “Catch-up” from last year will allow some new tax cuts or additional spending
- Budget rules focus attention on tax cuts, infrastructure, education and rainy day funds
- Already demonstrated commitment to infrastructure, education and rainy day funds in Base Budget bills

