Overview of FY 05 Year End Closeout
Preview of 06-08 Biennium
Overview of 06-08 Biennial Budget
Instructions

Presented by
Office of State Budget Director
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www.osbd.ky.gov
THE BIG PICTURE
The view from 50,000 feet

– Overview of FY 05 Year End Closeout

– Preview of FY 06-08 Biennium
FY05 General Fund Surplus was up sharply

$214 million
### General Fund Surplus on June 30, 2005

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Revenues in excess of enacted</td>
<td>$195</td>
</tr>
<tr>
<td>Tobacco Settlement – Phase I payments in excess of enacted</td>
<td>$3</td>
</tr>
<tr>
<td>Fund Transfers less than enacted (due to injunction on KAPT $13.7m)</td>
<td>($5)</td>
</tr>
<tr>
<td>Necessary Government Expenses-unbudgeted expenditures</td>
<td>($14)</td>
</tr>
<tr>
<td>Judgments payments-unbudgeted expenditures</td>
<td>($3)</td>
</tr>
<tr>
<td>Off-budget expenditures (Abandoned Property Fund/KAPT)</td>
<td>($17)</td>
</tr>
<tr>
<td>Unbudgeted Lapses (excl. budgeted lapse of $15)</td>
<td>$52</td>
</tr>
<tr>
<td>Lapse of Continued Appropriation</td>
<td>$2</td>
</tr>
<tr>
<td><strong>General Fund Surplus</strong></td>
<td><strong>$214</strong></td>
</tr>
</tbody>
</table>
FY05 GF increased $195M over projections

Why GF revenue increased faster than expected?

- Stronger uptick in Kentucky economy than predicted
- Consistent with other states, national trends
Governor contributes $90M to trust fund

<table>
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<tr>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Target at 1.5% of FY 06 revenues</td>
<td>$119,015,085</td>
</tr>
<tr>
<td>BRTF ending balance for FY 05</td>
<td>$28,764,829</td>
</tr>
<tr>
<td>Maximum Deposit from surplus</td>
<td>$90,250,256</td>
</tr>
</tbody>
</table>

$124 million available for other options (teacher salaries, restore P-16 base, Medicaid, necessary government expenses)

Governor is currently studying options and evaluating the needs of the Medicaid program
FY06 Good News: Revenue (pre-Katrina)

Already budgeted:

✓ JOBS for Kentucky was revenue neutral over five year period (FY04-08), but included cash flow “bump” ($110M) in FY06 (already budgeted)

Not budgeted:

✓ Beginning balance is higher than anticipated due to lapse and stronger revenue in FY05
✓ CFG forecast for FY06 is $325.8 more than the enacted budget
FY06 Bad News: Expenditure Pressures

Medicaid is way out of balance
Budget challenges have shifted from lack of revenue to unsustainable expenditures

✓ Revenues are coming in nicely

✓ The big four (Medicaid, health insurance, pensions and Corrections) are competing with everything else in the budget
August 2005 CFG Revenue Outlook for General Fund FY06-08

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal Growth</th>
<th>Economic Growth</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2006</td>
<td>6.6%</td>
<td>4.6%</td>
<td>$8,151.6</td>
</tr>
<tr>
<td>FY 2007</td>
<td>1.9%</td>
<td>4.7%</td>
<td>$8,307.8</td>
</tr>
<tr>
<td>FY 2008</td>
<td>3.5%</td>
<td>3.6%</td>
<td>$8,602.4</td>
</tr>
</tbody>
</table>

Enacted Revenue:
- FY 2006: $7,825.8
- FY 2007: $8,151.6
- FY 2008: $8,307.8

Growth:
- Nominal Growth: 1.9% to 3.5%
- Economic Growth: 4.7% to 3.6%
Unsustainable rates of increase in cost of Medicaid (as much as $300+ M increase in GF in FY 07 over FY 06 enacted)

Double digit increases in state health insurance (12-18% or $73 M to $110 M)

Shift of debt service from half year to full year (+ $36M)

No appropriations for necessary government expenses (NGE averages $15-20 M/year)
FY 07 revenue growth slides down after Jobs for Kentucky FY 06 “bump” (1.9% growth in FY 07)

Big cash carryforward into FY 06 may not be available in FY 07 ($468 M from FY 05 to FY 06, of which $254 M was budgeted in HB 267)

Heavy reliance on Restricted Fund cash transfers to the General Fund ($184 M in FY 06)
Medicaid could absorb revenue gains

Fiscal Year 2006

$124 M balance of FY05 surplus

$132 M Current Medicaid FY06 deficit

Fiscal Year 2007

$156 M “new money” in FY07

$175 M increased cost of current Medicaid program in FY07
“Down in the Weeds”
Highlights of FY 06-08 Budget
Instructions

What is the same?
What has changed?
2006-2008 Biennium Budget
Instructions

WHAT IS THE SAME?

• Personnel “snapshot” will be August 1, 2005
• Due date for budget requests to GOPM and LRC is November 1, 2005
• Baseline budget is FY 06 enacted as revised (by appropriation unit, by fund)
• Defined calculations request (cost elements as described on pages 61 & 62)
• All other requests are Additional Budget Requests
WHAT HAS CHANGED?

• Legal citations for programs are required
• Further emphasis on detailed programmatic and performance measures in narratives, including statutory and regulatory authority, anticipated changes in organizational structure and contract practices
• Inclusion of FFTL and Interim in “other” personnel category
WHAT HAS CHANGED, cont.

• More detailed instructions for completing E (Restricted Funds) and G (Federal Funds) forms

• “Mandated Service/Activity” deleted from additional budget request (ABR) as it created confusion and is already incorporated into the rationale (B-4) for the ABR

• Appendix I (Management Data) – modified and consolidated amount of information requested
WHAT HAS CHANGED, cont.

• Appendix J (Schedule of Planned Contract Activity) – modified and consolidated amount of info requested
• Discrete Activity/Appendix K – No longer required. GOPM and LRC Budget Review may request additional level of detail outside the instructions, if needed
• Baseline Capital Outlay Expenses Record – this required agencies to detail equipment costing between $50,000 and $100,000 and computer systems costing between $50,000 and $400,000. Due to baseline being straight-lined, form was virtually unused. Replacement schedule still required. Additional information may be requested by GOPM and LRC, as needed
What is still to come?

• FY 06 State Group Health Insurance Fund Allocations by mid-week
• Defined calculations personnel runs for FY 07 & FY 08
• Worker’s Compensation allocations by agency
Budget Timeline

• October 15 - CFG Estimates FY 06 – 08
• November 1 - Agency Budget Requests Due
• January 3, 2006 – General Assembly Convenes
• January 17, 2006 – Executive Budget Recommendation
• April 11, 2006 - General Assembly Adjourns Sine Die
Tips for “new” budgeteers from “old” budgeteers

• When requesting appropriation increases, allotment revisions, cap increases, and other requests requiring GOPM approval
  – Indicate the purpose of the request in the first sentence
  – Provide Support for Your Request: Answer the questions who, what, when, where, why, how/how much and why funds are available?