

FY14 Budget Gap

9/9/2012- Non consensus JFO draft

In May we projected a rough FY14 Gap estimate of up to \$44m. Since then FY14 revenue was downgraded in July by \$16.5M (after incorporating the net impact of enacted changes etc).

We are working with the administration to develop an update to the gap analysis. We anticipate this analysis will indicate a GF operating gap in the \$50 to \$70 million range. Key areas and issues for FY14 and beyond are:

Current Service Level Issues

1. Currently we anticipate continued modest Medicaid growth in FY14.
2. Federal funding changes will continue to exert significant pressure on the budget. There is continued reductions in the FMAP percentage (Medicaid match rate) ; LIHEAP funding will continue to be a pressure as will reductions in other federal funding streams. Some of this may be offset in the short run by ACA (Federal Health Care) provisions.
3. Retirement funding requirements continue to be significantly greater than revenue growth, the majority of which is in the teachers system. We are waiting actuarial numbers for FY 2014.
4. Continued reliance on what could be one-time carry forward balances and the need to replace tobacco funds which are no longer as available.

Structural Issues

1. Retired teacher's healthcare – this expense subset within the retirement appropriation is growing at a very high rate, currently we are funding this in a pay as you go manner with some of the funding being picked up in the teacher's retirement contribution. A multi-year transitional funding plan should be considered.
2. IT infrastructure does not have a stable funding mechanism, the need for replacement and maintenance is consistent and critical to state operations.
3. Retiree health care costs generally remain a major issue. This is known as the OPEB (Other Post-Employment Benefits) liability.

Other Non-GF Issues

1. Irene recovery costs – unknown FEMA participation for replacement of state complex and state hospital
2. Projected transportation infrastructure needs are significantly higher than current state and federal revenues. There is a study group working on this issue