State Operating Funds Spending Growth Outpaced State’s Resources

Spending adjusted to exclude the impact of enhanced FMAP and the timing of payments.

Source: DOB
Primary Government Net Assets
(GAAP Basis of Accounting - Billions of Dollars)

2007: 48.9
2008: 47.7
2009: 33.9
2010: 28.1

2011 Financial Statements will be released on or about July 29, 2011.

Source: OSC Comprehensive Annual Financial Report
Enhanced Federal Medical Assistance Percentage
Expires June 30, 2011 -- Provided $9.9B in Fiscal Relief

(Dollars in Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>$1.3</td>
</tr>
<tr>
<td>2009-10</td>
<td>$3.6</td>
</tr>
<tr>
<td>2010-11</td>
<td>$4.6</td>
</tr>
<tr>
<td>2011-12</td>
<td>$0.4</td>
</tr>
<tr>
<td>2012-13</td>
<td>$0.0</td>
</tr>
</tbody>
</table>

$4.2B Loss of Aid in 2011-12 (est.)

Source: DOB Enacted Budget Financial Plan
Budget Outlook

- Enacted State Spending
- Available Resources

$86.9 Gap
$2.8 Gap
$2.4 Gap
$4.6 Gap

2011-12
2012-13
2013-14
2014-15
2012-13 Budget Growth and Gap

- Education: 0.8
- Healthcare: 0.6
- Other Local: 0.7
- Agency Operations: 0.8
- Fixed Costs: 1.1

$2.4 Billion Budget Gap

Taxes: 1.3
Other: 0.4

(billions)
Key Business Cycle Indicators

Real Personal Income Minus Transfers

Total Employment

Industrial Production

Real Manufacturing and Trade Sales

Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

- It could take years for the nation’s fundamental economic indicators to return to their prerecession peaks.
The U.S. labor market lost 8.8 million private sector jobs in the most recent downturn and is not expected to return to its prerecession level until the second half of 2014.

If since the June 2009 business cycle trough employment had grown at the average rate over the previous five recoveries, the U.S. labor market would have created 4 million more jobs.
The unemployment rate remains historically high two years into the economic recovery. The average weekly duration of unemployment also remains at a historically high level.
- CPI Inflation remains low.

Source: Moody’s Economy.com; DOB staff estimates.
State finance and insurance sector bonuses fell 37 percent decline in 2008-09 and are not projected to surpass their most recent 2007-08 peak until 2015-16.
Positive capital gains realizations peaked at $118 billion in 2007; the forecast for the 2012 tax year is only about half that amount.