

Planning/Budget Considerations

How much growth is required to balance budget?

How much new budget is needed to fund growth?

- Enrollment Management Funding Model

Can we accomplish the second issue while still balancing the budget? Will reallocation be required to accomplish both objectives?



Reallocation Models

- ◆ **University of Michigan**
 - < Forced 2% reallocation each year
 - All areas receive 98% of prior year budget
 - 2% set aside for Strategic Investments

- ◆ **Washington State University**
 - < Areas submit 3% Reduction and 3% Investment Plans
 - Highest Priority Investments are funded by Lowest Priority Reductions





November 2007

HIGHLIGHTS

\$373 Million Deficit Projected for FY 2008-09 Budget

A weaker U.S. economic forecast has changed the state's budget outlook. General fund revenues now are forecast to fall \$739 million (2.2 percent) below end-of-session estimates, while spending is projected to be \$66 million (0.2 percent) higher. A budget deficit of \$373 million is now projected for the biennium. Previously a balance of \$294 million had been expected.

Slow Economic Growth Forecast through Mid-2008

Expectations of further weakening in the housing sector, higher oil prices, and tighter credit standards have led Global Insight (GII) to scale back their U.S. economic outlook. Economic growth in the last two quarters has been strong, but GII forecasts three quarters of very weak growth with annual real GDP growth rates of 2.3 percent in FY 2008 and 2.2 percent in FY 2009. In February's forecast real growth rates of 2.9 percent and 3.1 percent were used.

The long term economic outlook has also been cut back. Weaker growth in 2008 and 2009 leaves the economy starting the next biennium from a lower point than was assumed in February. Projected growth rates for 2010 and 2011 also are slightly lower due to a reduction in assumed long-term productivity growth.

GII's baseline forecast does not contain a recession, but the low growth rate projected for the near term leaves the economic outlook very fragile. GII assigns a probability of 55 percent to their baseline forecast and 35 percent to a more pessimistic scenario which includes a recession beginning in the current quarter. A more optimistic scenario is assigned a probability of 10 percent.

Structural Shortfall Expected in 2010-11 Biennium

Budget planning estimates for the next biennium show a \$211 million structural shortfall – a small shortfall in FY 2010 followed by a small balance in FY 2011. Projected spending levels for FY 2010-11 do not include general inflation. Adjusting for inflation would add \$337 million to the spending estimates in FY 2010 and \$697 million in FY 2011.

November 2007 Forecast