

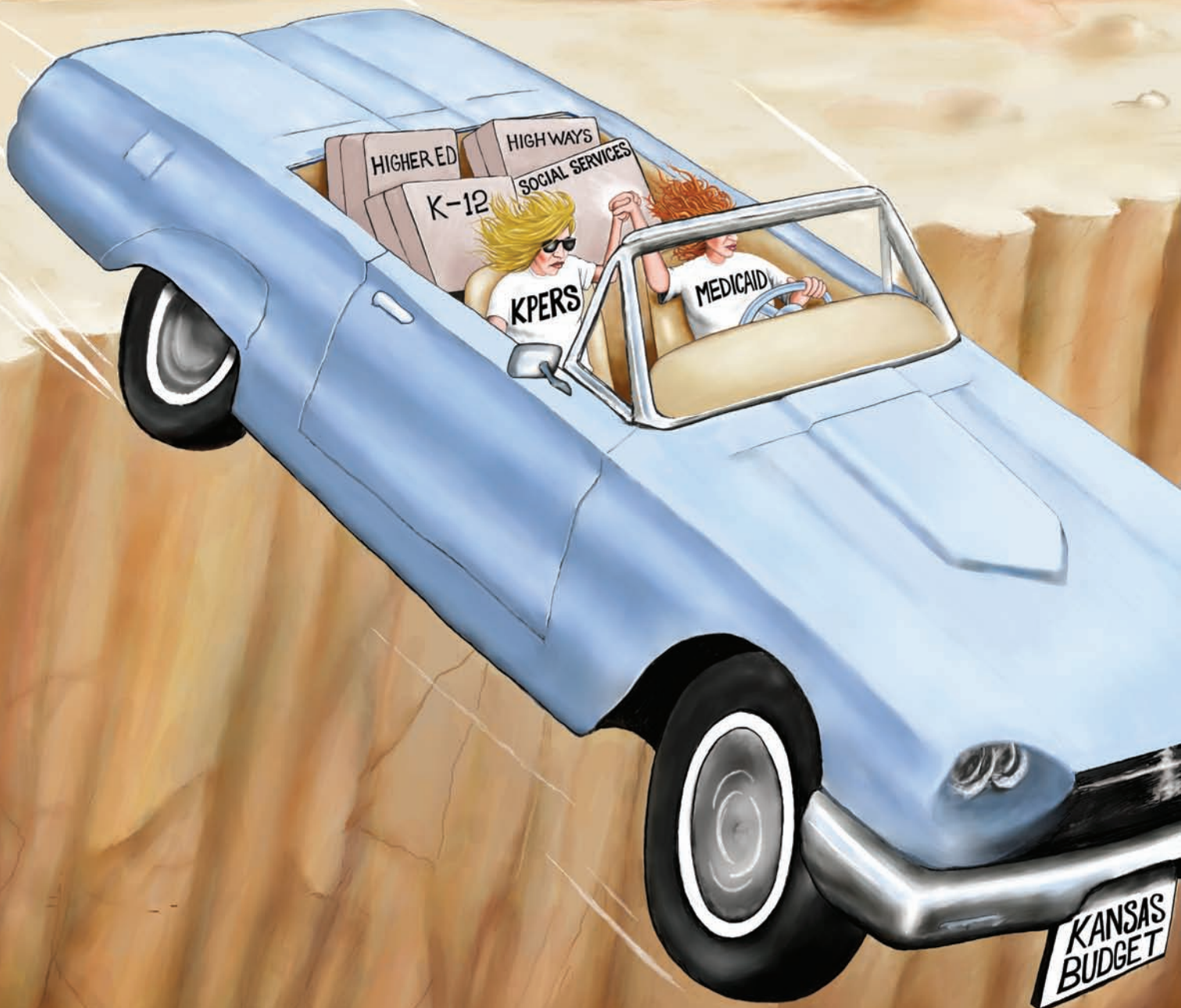
# Major Structural Deficits Looming in Kansas:

Like Thelma and Louise, Medicaid and KPERS  
are poised to drive the Kansas budget off a cliff.

by Arthur P. Hall, Ph.D.  
December, 2011



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## Executive Summary

At the end of the movie “Thelma and Louise,” the title characters sat in their car near the edge of a cliff, trying to decide how to deal with their legal problems. They ultimately chose to drive off the cliff.

That movie is playing out in real life right here in Kansas. The General Fund budget is nearing the edge of a cliff, with Medicaid and KPERS (Kansas Public Employees Retirement System) holding down the gas pedal. Absent sustained record-breaking revenues over the next decade, the budget is going off the cliff without substantive reforms to Medicaid and KPERS. As things stand today, Medicaid and KPERS will shortly present legislators with some very unsavory choices:

1. Reduce spending on all other categories of General Fund spending.
2. Implement large tax increases.
3. Some combination of the first two options.

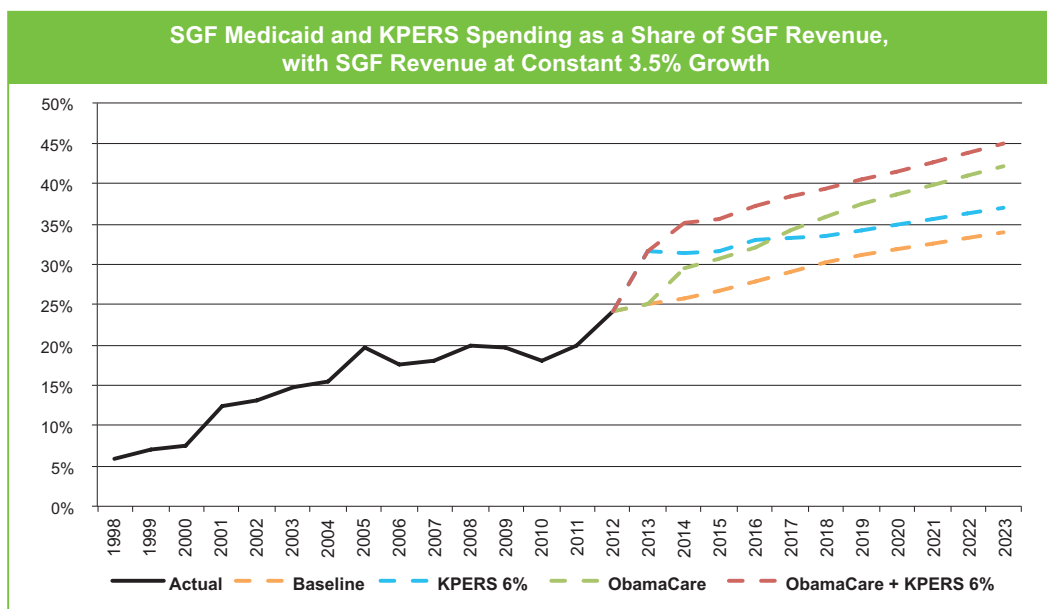
If revenues and all other spending keep pace with their recent averages, KPERS is funded at a presumed 6% rate of return instead of its presently assumed rate of 8% and the federal Patient Protection and Affordability Care Act, commonly referred to as ObamaCare, is *not* implemented, **General Fund deficits will total \$275 million between 2013 and 2023. If ObamaCare is implemented as scheduled in 2014 but KPERS funding remains based on an 8% rate of return, deficits will total \$1.7 billion. With ObamaCare and a lower rate of return assumed for KPERS, deficits soar to \$5.0 billion.** And these are

conservative projections for ObamaCare; actual costs could be much greater.

Alternatively, if all other spending is adjusted based on available revenue, the ‘crowding out’ effect of large increases in Medicaid and KPERS will force dramatic reductions in K-12, higher education, social services and all other functions of government.

Medicaid and KPERS accounted for 5.9% of General Fund revenue in 1998 and will consume 24.2% in 2012. Under the ‘best case’ scenario (no ObamaCare or change in KPERS funding assumptions, plus average annual revenue growth of 3.5%), they will account for 34% of General Fund revenue in 2023. If KPERS is funded at a 6% assumed rate of return, the combined revenue share will be 37%. If ObamaCare is implemented but KPERS is funded at an 8% rate of return, the combined revenue share will be 42.1%. And if both changes kick in, Medicaid and KPERS will consume 45.1% of General Fund revenue by 2023. The trends are shown in the chart below, with these scenarios identified as Baseline, KPERS 6%, ObamaCare, and ObamaCare + KPERS 6%.

Improved economic growth and the reform of Medicaid and KPERS offer two ways for the Kansas budget to avoid driving over the cliff. Both require decisive policy action. Economic research reveals that a consistent set of pro-growth economic policies significantly contributes to improved economic growth. Of course, Kansas policy makers do not have complete control over the reform of Medicaid and KPERS. The federal government, the Government Accounting Standards Board, and the courts can have significant influence on the reform options. Nevertheless, without decisive and creative effort Kansas will be effectively choosing to drive the budget off a cliff—just like Thelma and Louise.



## Introduction: A Citizen’s Guide to the Kansas State Budget

The State of Kansas, in effect, has two budgets: the All Funds budget and the General Fund budget. As Chart 1a indicates, the All Funds budget is approximately twice the dollar size of the General Fund budget.

The All Funds budget includes the General Fund budget plus many other dedicated funds; dedicated funds must be spent on pre-defined activities. All federal government grants to the State (representing about 17 percent of the All Funds budget revenue) flow into dedicated funds. The Legislature has no discretion over how federal grants must be used, but it can change the laws governing State revenues used to fund pre-defined activities (unless a federal grant stipulates state matching funds). For example, the State Highway Fund—the largest dedicated-revenue fund at approximately \$1.4 billion—must be used to construct and maintain roadways. The State Highway Fund receives its money from motor fuel taxes, motor

vehicle registration fees, a dedicated portion of the state sales and use taxes, and the federal government.<sup>1</sup> However, the Legislature (and Governors) often sees fit to re-direct dedicated state sales tax money from the State Highway Fund to the State General Fund, in order to finance what a majority of legislators perceive as more urgent priorities. The same thing could happen with motor fuel taxes.

The State General Fund typically generates the budget debates citizens read about in the news. As stated in the Governor’s Budget Report: “The State General Fund receives the most attention in the budget because it is the largest source of the uncommitted revenue available to the state. It is also the fund to which most general tax receipts are credited. The Legislature may spend State General Fund dollars for any government purpose.”<sup>2</sup>

This citizen’s guide provides a history and set of forecasts related to the budget.

The history of total spending in the General Fund Budget and All Funds Budget begins in 1998, the first year of Governor Graves’ second term; the analytical goal was to provide a 10-year history, but it seemed inappropriate to begin in the middle of a gubernatorial term.

Charts 2a through 2d compare the broad functions of state government for both the All Funds and General Fund budgets for 1998 (actual) and 2012 (budget). The ‘All Other’ category includes spending on fee-funded agencies and boards, hospitals, police functions, prisons, agriculture, wildlife, parks and environment.

<sup>1</sup> Kansas Division of the Budget, *Governor’s Budget Report, Fiscal Year 2012, Vol. 1, p. 165.*

<sup>2</sup> *Ibid.*, p. 253

Chart 1a: State Government Spending

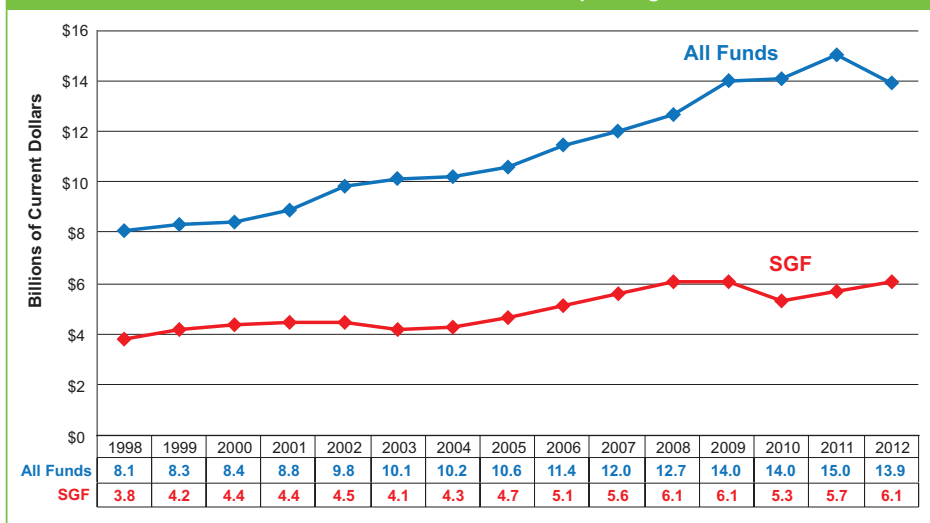
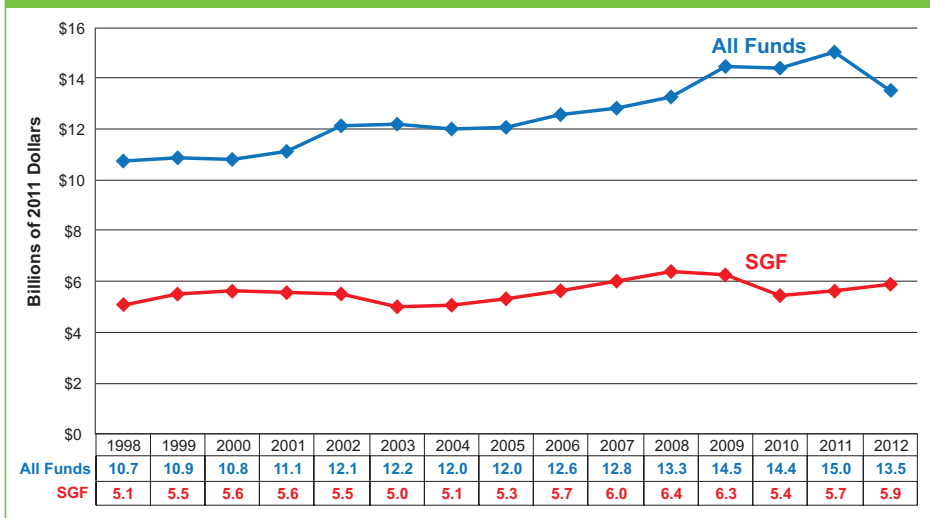


Chart 1b: Inflation-Adjusted State Spending



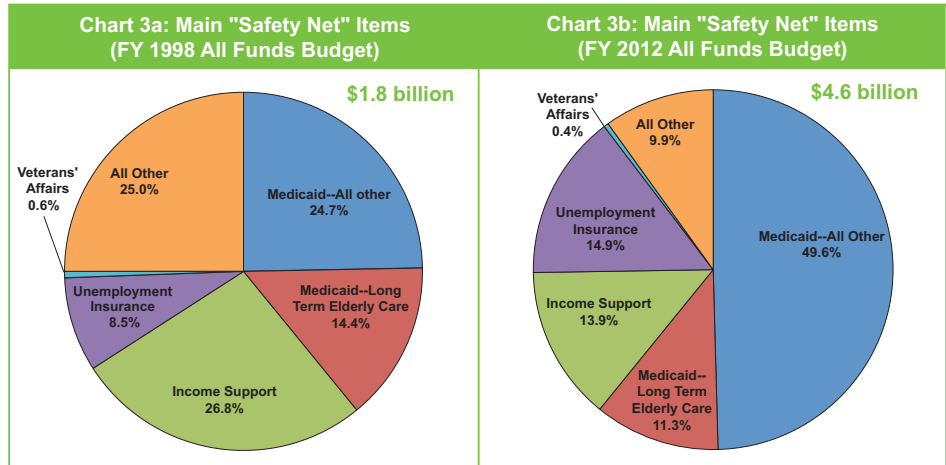
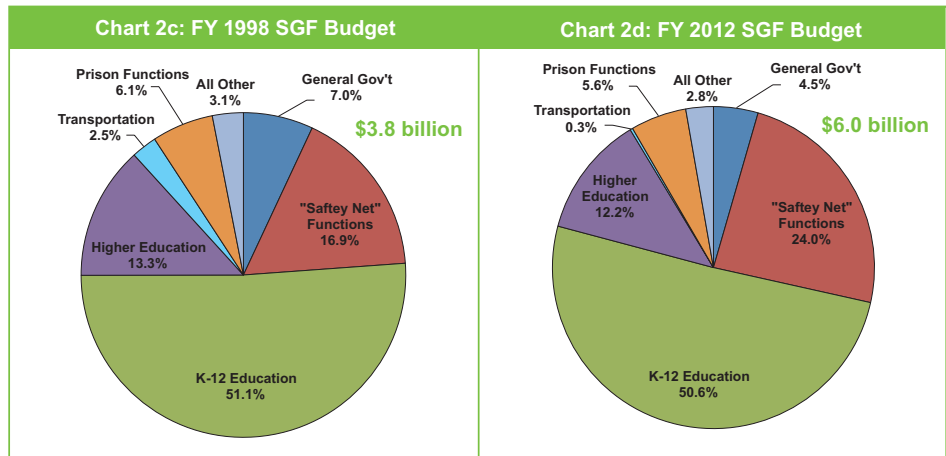
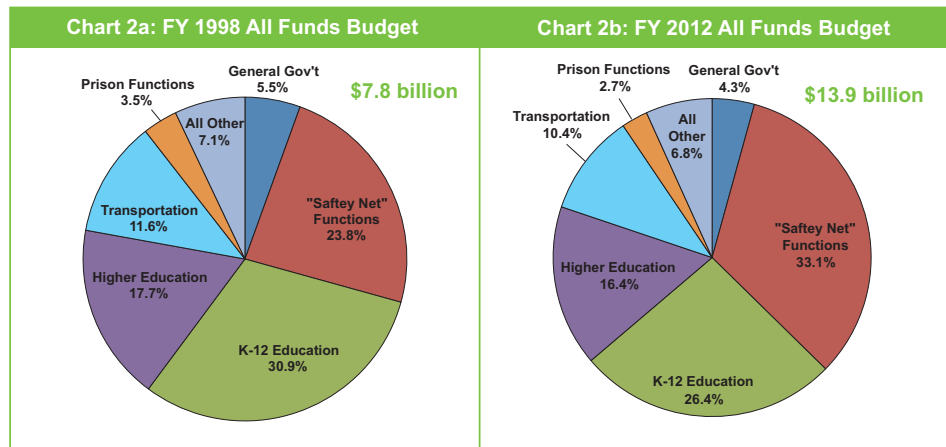
## A Snapshot Comparison of the Kansas State Budget: FY 1998 vs. FY 2012

In the All Funds comparison, every major function has shrunk as a share of the budget except "Safety Net" Functions.<sup>3</sup> The Safety Net Functions have been the primary item driving down the shares of the other items. In times past, Safety Net Functions might have been termed "welfare." (Charts 3a and 3b provide additional detail about the components of the Safety Net Functions.) In the General Fund comparison, every major function has shrunk except Safety Net Functions.<sup>4</sup>

When adjusted for inflation, several items have shrunk in terms of dollar outlay as well as in terms of budget shares. For the All Funds budget, the items are: Executive Functions; Legislative Functions; Fee-Funded Agencies/Boards; Hospitals; Prison Functions; and Wildlife, Parks, Environment. For the General Fund, the items are: Executive Functions; Transportation; Police Functions; and Wildlife, Parks, Environment. Note that a significant portion of Transportation spending has been defined out of the General Fund into its own fund.

<sup>3</sup> Comparisons of the individual components of 'All Other' also reflect small increases in Police Functions and Judicial Functions.

<sup>4</sup> Hospital Functions had a small increased within the individual components of General Fund 'All Other' Functions.



Spending Item	1998	2012	% Change
Medicaid—All Other	\$459.1	\$2,301.2	401%
Medicaid—Long-Term Elderly Care	267.8	524.1	96%
Income Support*	498.1	644.5	29%
Unemployment Insurance	158.4	691.6	337%
Veterans' Affairs	10.7	19.5	83%
All Other*	464.9	461.2	-1%
<b>Total</b>	<b>\$1,859.0</b>	<b>\$4,642.1</b>	<b>150%</b>

\* includes related administration

Source: Kansas Division of the Budget

## A Snapshot of “Safety Net” Functions: FY 1998 vs. FY 2012

As shown in Table 1, spending on most “Safety Net” categories is significantly higher than in 1998, but a 401% increase in ‘Medicaid – All Other’ drove down the share of total spending for each category. When adjusted for inflation, two items have shrunk in terms of dollar outlay as well as in terms of budget shares: Income Support and All Other.

“Safety Net” breakouts for the General Fund are not shown because many of the Safety Net items derive significant funding from federal grants, which are not reported in the General Fund as a source of revenue. The portion of Medicaid paid for from the General Fund is supported 100% by state taxpayer funds and explains the growth of the Safety Net Function in Chart 2d compared to Chart 2c.

Unemployment Insurance is much larger as a share of the Safety Net Functions in 2012. Unlike Medicaid, this result derives from the “Great Recession” and its

aftermath rather than a structural budget issue. Nevertheless, the result helps highlight how the growth of Medicaid places constraints on the State’s ability to respond financially to unique situations or emergencies.

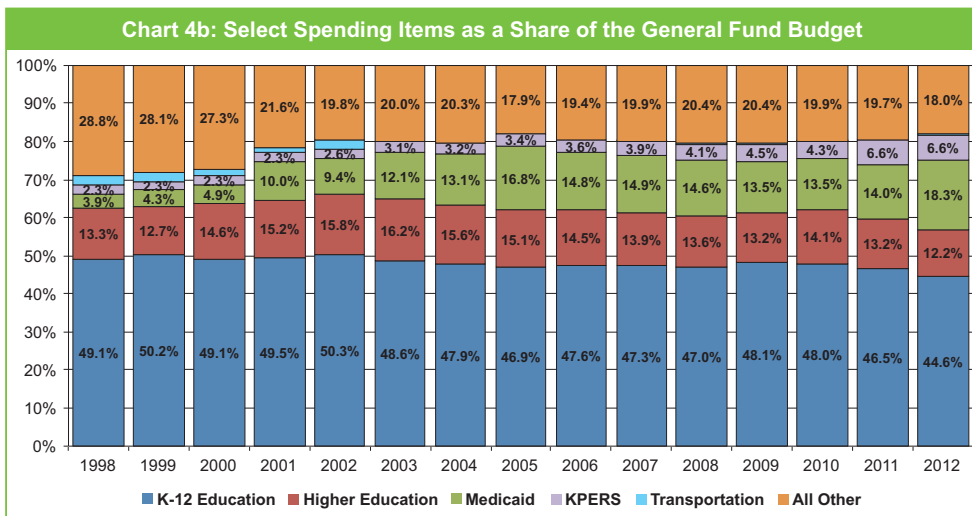
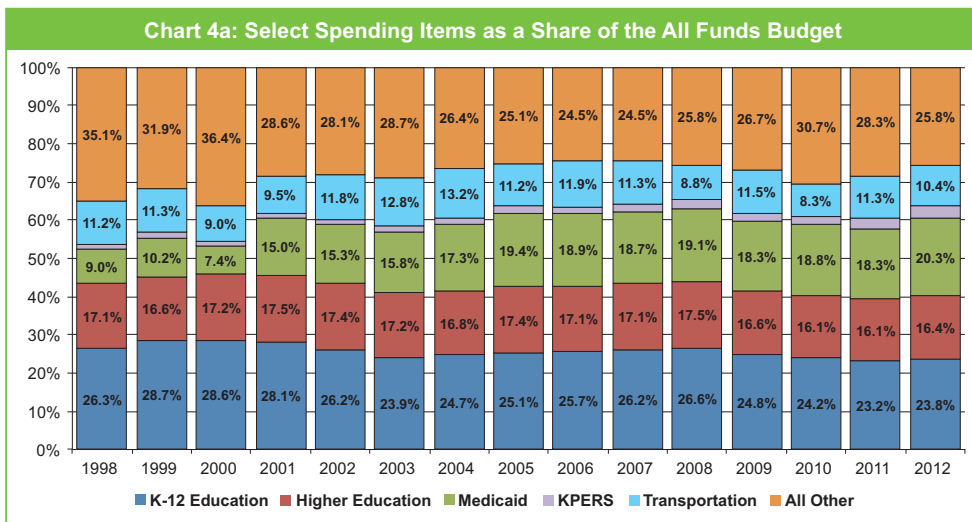
## Trends in Select Spending Items: FY 1998 through FY 2012

Chart 4a and 4b show that Medicaid, and to a lesser extent, KPERS, have been consistently consuming larger shares of the General Fund and All Funds budgets. Unless substantive changes are soon enacted, these trends will rapidly accelerate. The soundness of the state budget—especially the General Fund budget—depends heavily on what happens to Medicaid. The future of Medicaid, in turn, depends heavily on whether or not ObamaCare becomes binding. Many of its provisions are scheduled to begin in FY 2013 with full implementation in FY 2014. Issues related to the long term solvency of KPERS also play a role, but pale in comparison to

the potential influence of Medicaid.<sup>5</sup>

The one-time increase in federal payments to states in connection with the “Great Recession” helps explain the spike in “All Other” in Chart 4a. The percentage of K-12 Education relative to total spending is lower in Charts 4a and 4b than in Charts 2a through 2d because it is shown here with KPERS extracted.

<sup>5</sup> The challenges of Medicaid and KPERS are extensive discussions in their own right and are separately addressed in other studies published by Kansas Policy Institute. “The Effect of Federal Health Care ‘Reform’ on Kansas General Fund Medicaid Expenditures” by Dr. Jagadeesh Gokhale and Angela C. Erikson and “A Comprehensive Reform of the Kansas Public Employees Retirement System” by Dr. Barry Poulson are both available at [www.KansasPolicy.org](http://www.KansasPolicy.org).



## Spending Scenarios for Medicaid

Charts 5a and 5b illustrate historic trends and forecasts in Medicaid spending under two scenarios.

The first scenario assumes that ObamaCare does not become binding (perhaps because the law is repealed before it takes full effect). The second scenario assumes that the new law will become binding — and thereby exert an influence on Medicaid spending.

For the All Funds budget the difference in scenario amounts to an almost \$2 billion difference by 2023 (not inflation-adjusted); for the General Fund budget, the difference is almost \$750 million.<sup>6</sup>

It should be noted (and cannot be over-emphasized) that these Medicaid projections are intended to be quite conservative. They assume that the federal government will be able to provide matching funds at currently-prescribed levels, which is not at all certain given the federal budget situation. The projections also make no allowance for additional Medicaid enrollees as a result of employers dropping group coverage in anticipation of ObamaCare.

Chart 5a: Medicaid Spending and Projections (All Funds Budget)

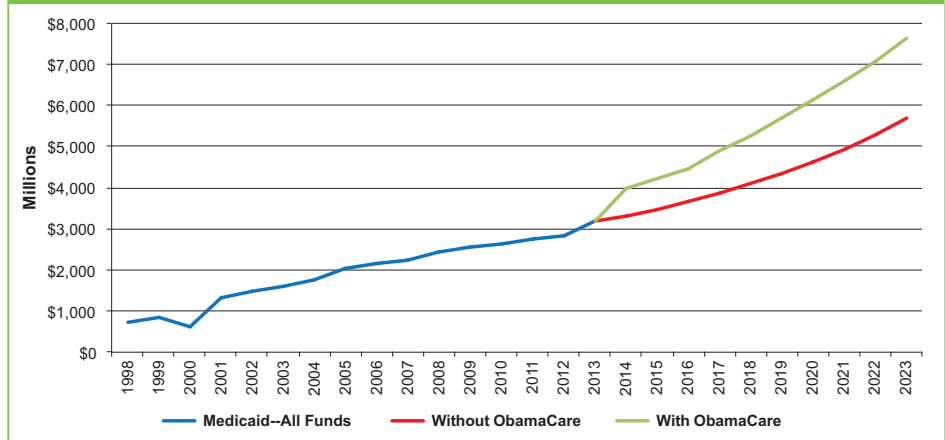
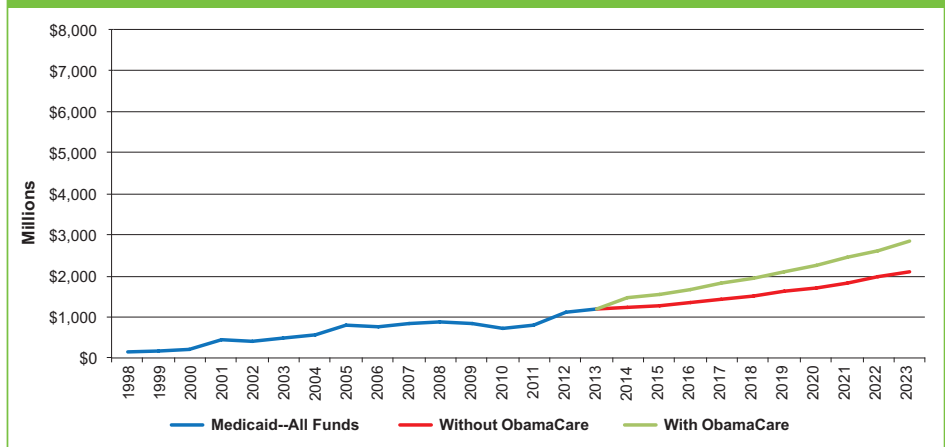


Chart 5b: Medicaid Spending and Projections (General Fund Budget)

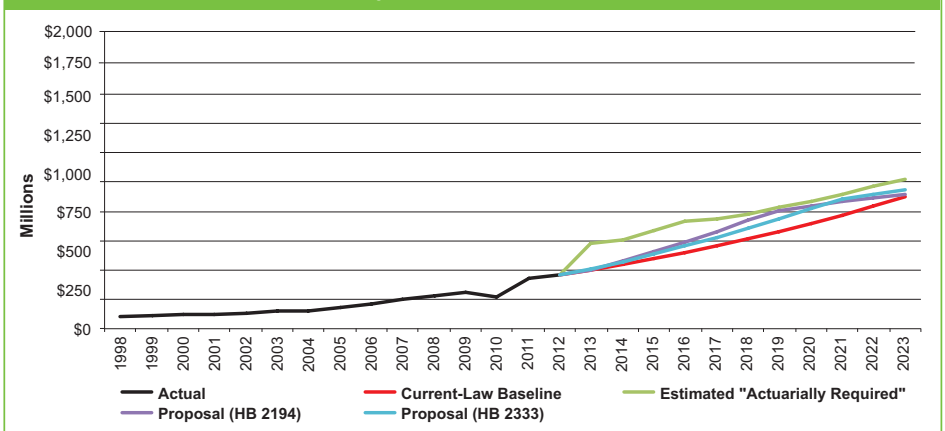


<sup>6</sup> For a detailed explanation of the forecast methodology for the General Fund, see Jagadeesh Gokhale and Angela C. Erickson, "The Effect of Federal Health Care 'Reform' on Kansas General Fund Medicaid Expenditures," Kansas Policy Institute, June 2011. The All Funds forecasts use those General Fund forecasts and add federal matching funds based on the rate structure in ObamaCare.

## Spending Scenarios for KPERs

Charts 6a and 6b illustrate potential outlay requirements for the State as an employer that must fund the pension plan of government workers. The charts reflect the State's combined responsibilities for State employees and public school employees. Chart 6a focuses on estimates for three different scenarios compared to the current-law baseline (which is currently insufficient to maintain the long-term

Chart 6a: State Outlays for KPERs under Different Scenarios

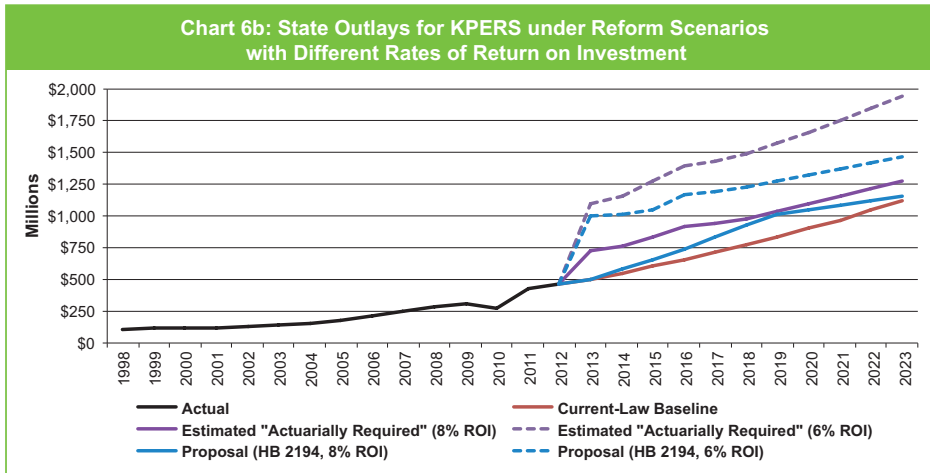




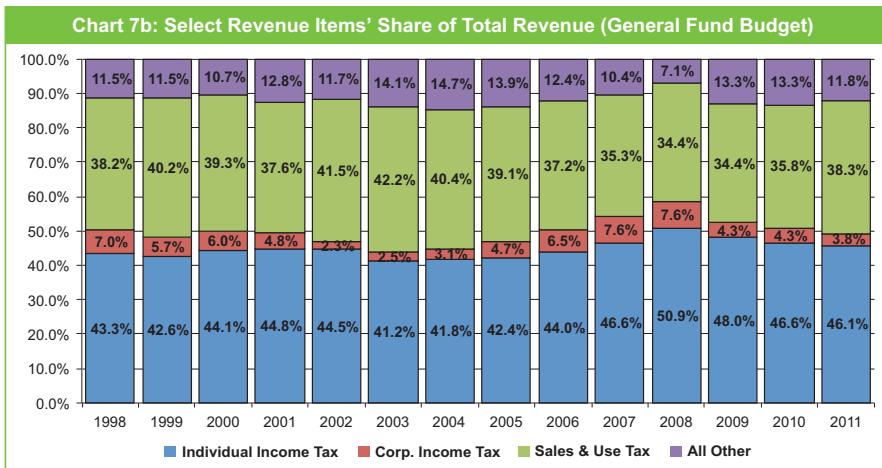
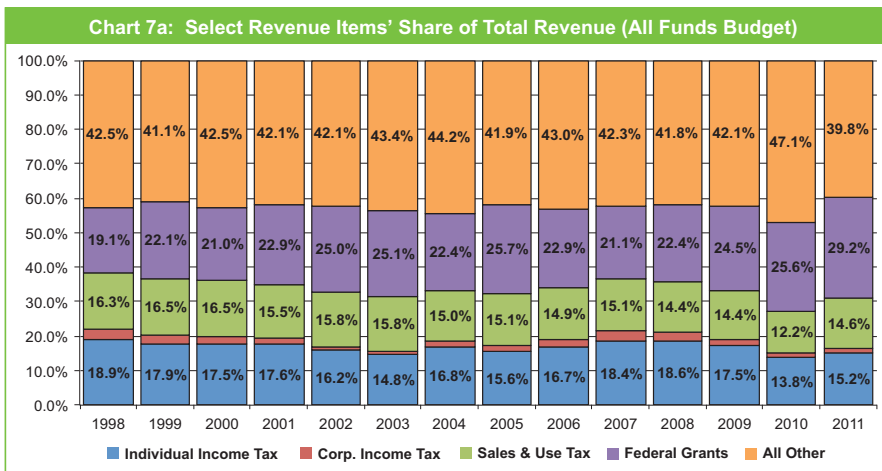
solvency of KPERS). The “Actuarially Required” scenario shows estimates of the outlays required to make KPERS solvent assuming no change in the current structure of the program. The structure is likely to change. The potential change is reflected in two competing proposals (HB 2194 and HB 2333).<sup>7</sup> The average rate of return on investments made by

KPERS has a significant influence on the State’s potential future outlays. Chart 6b illustrates an estimate of potential outlays if the average rate of return on investment is 6% instead of the baseline actuarial assumption of 8%. By 2023, the difference could amount to between \$225 and \$580 million; an investment return of 7% would be about half that estimate. All scenarios are based on legislative changes taking place at the beginning of FY 2013; any change in the timing of such changes would, of course, alter the outcomes.

<sup>7</sup> The forecasts use various data obtained from KPERS, including a report generated by the KPERS actuary, the firm of Cavanaugh Macdonald (who bears no responsibility for the information reported in this guide). See: “Fiscal Impact Report: Senate Substitute for HB 2194 and House Substitute for HB 2333.” Available online at: [http://www.kpers.org/legislation\\_fiscalimpactreport.pdf](http://www.kpers.org/legislation_fiscalimpactreport.pdf)



## Select Sources of Revenue for the All Funds and General Fund Budgets



Charts 7a and 7b illustrate the share of revenue from primary State revenue sources. Federal government grants represent a major source of revenue to the All Funds budget, but none of it flows through to the General Fund budget.

The revenue sources that are appropriately defined as state-level taxes represent only about 40% of the All Funds budget revenues. State-level taxes represent almost 95% of the General Fund budget revenues.

Chart 7b clearly shows the influence of the recession on tax collections. Sales Tax revenues experienced year-over-year declines in 2008, 2009, and 2010. (July of 2010 is when Governor Parkinson’s proposed one percentage point sales tax increase took effect.) Corporate income tax revenue experienced year-over-year declines in each year 2008-2011 (years in which federal law had an influence); individual income tax revenues declined in 2009 and 2010.

## Forecasting the General Fund Budget

Under current conditions, spending on Medicaid and KPERS will significantly increase in coming years. In order to help citizens and legislators decide how to deal with potentially large budget deficits, the balance of this study projects General Fund spending under four spending scenarios and three revenue growth assumptions. Annual projections are shown through FY 2023, which would be the tenth year of full implementation of ObamaCare and as far out as Medicaid spending projections are available.

State revenues—both the All Funds revenues and the General Fund revenues—have a high statistical correlation with the performance of the state’s private economy (changes in Kansas private sector gross domestic product). The correlation is higher for the All Funds budget (0.97) than it is for the State General Fund budget (0.91). (A coefficient of 1.0 represents perfect co-movement). Despite the high correlation, the average annual growth rate for revenues dedicated to the State General Fund is lower than the average annual growth rate of private sector GDP. From 1998 to 2011, Kansas private sector GDP grew at an average annual rate of 4.1%; while SGF grew at 2.96%. Excluding the recession (which hit Kansas late), 1998-2008, Kansas private-sector GDP grew at an average annual rate of 5.4%; while SGF revenue grew at 3.5%. Since the recession, 2009-2011, Kansas private sector GDP grew at an average annual rate of 4.1%; while SGF revenue grew at 2.6%. (These growth rates are not adjusted for inflation, and neither are the cash flows used in the scenarios below.)

In the budget forecast scenarios that follow, General Fund revenues are assumed to grow at an average annual rate of 2%, 3.5%, and 5%. Based on the recent historical relationship between private-sector GDP growth and SGF revenue growth, and unless the Legislature changes the law related to taxes or other revenue sources, the assumed SGF revenue growth rates can be interpreted as the Kansas private economy growing at average annual rates of approximately: 3.5%, 5.0%, and 6.5%. Historically, since 1980, based on private sector GDP growth rates for overlapping increments of five consecutive years, Kansas has experienced only two periods in which the average annual growth rate exceeded 6%: the early 1980s (following the recession of 1982) and the late 1990s (during the so-called dot-com boom). Throughout the 2000s, when excluding the exceptionally high-growth year of 2008, Kansas never experienced a five-year annual average economic growth rate above 4.5%.

SGF spending is projected under four scenarios with the following assumptions:

- **Baseline:** (1) projected Medicaid spending assuming that ObamaCare does not become binding (Chart 5b Without ObamaCare); (2) something like HB 2194 (passed, but not yet finalized, in the 2011 legislature) becomes binding and KPERS is funded based on the currently assumed 8% rate of return on investments; (3) ‘All Other’ spending grows at its 1998 – 2012 average rate (Dept. of Education +2.68% net of KPERS; Higher Education +2.76%; everything else declines 0.55%)
- **KPERS 6%:** all Baseline assumptions except KPERS is funded based on an assumed 6% rate of return.
- **ObamaCare:** all Baseline assumptions except Medicaid spending is based on full implementation of ObamaCare (Chart 5b With ObamaCare).
- **ObamaCare + KPERS 6%:** Medicaid spending is based on full implementation of ObamaCare (Chart 5b With ObamaCare), KPERS is funded based on an assumed 6% rate of return and ‘All Other’ SGF spending grows as in Baseline.

As shown in Table 2, the only scenario in which 3.5% annual revenue growth produces a cumulative surplus is the Baseline, with no additional costs from ObamaCare or lower earnings assumptions on KPERS. (And even then, there would be deficits if annual revenue growth falls below 3%.) It should also be emphasized that projected costs associated with full implementation of ObamaCare are intended to be conservative.<sup>8</sup>

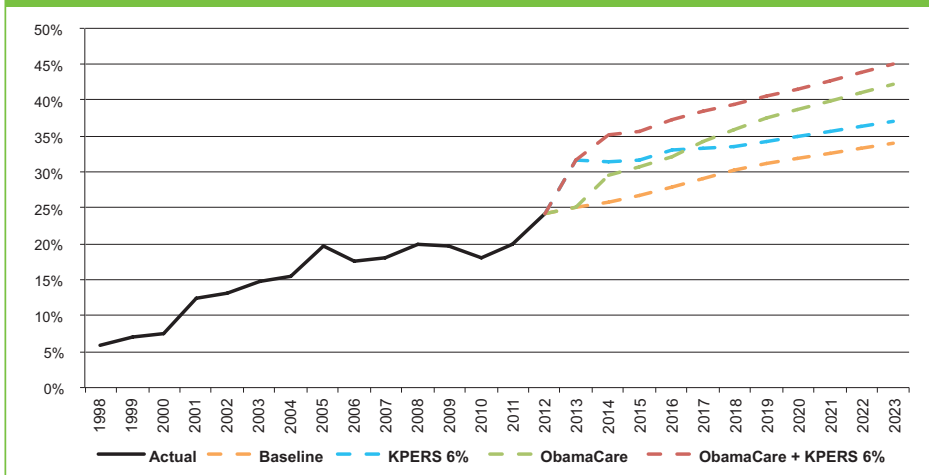
One way of dealing with the deficits identified in Table 2 is to raise taxes. Another option would be to adjust ‘All Other’ spending according to available revenue. Various combinations of tax increases and ‘All Other’ spending adjustments could also be chosen. Chart 8 clearly illustrates how “All Other” General Fund spending will get “squeezed” using the Medicaid and KPERS spending assumptions. “All Other” refers here to total General Fund spending less Medicaid and KPERS. The calculations do not attempt to account for an ending balance, so the implied ending balance in Chart A is zero.

<sup>8</sup> Kansas Policy Institute, “The Effect of Federal Health Care ‘Reform’ on Kansas General Fund Expenditures” by Dr. Jagadeesh Gokhale and Angela Erickson; projected costs make no allowance for higher than historic uptake rates or the real potential for additional enrollees as a result of employers not being able to afford to continue offering health care under ObamaCare.

**Table 2: Projected Budget (Deficits) or Surpluses under Alternate Spending and Revenue Scenarios (\$Millions)**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2013-2023
<b>Baseline</b>												
Revenue +2%	\$124.3	\$48.3	(\$38.9)	(\$141.9)	(\$258.0)	(\$386.3)	(\$516.5)	(\$624.1)	(\$737.2)	(\$856.8)	(\$984.3)	(\$4,371.4)
Revenue +3.5%	218.0	240.8	257.8	264.6	264.1	257.5	255.4	282.4	310.8	339.8	368.4	\$3,059.5
Revenue +5%	311.7	436.1	563.2	689.1	817.4	949.7	1,097.4	1,285.6	1,487.6	1,703.0	1,932.0	\$11,272.9
<b>KPERS 6%</b>												
Revenue +2%	(303.6)	(324.4)	(375.6)	(509.9)	(569.7)	(645.7)	(751.1)	(865.8)	(987.0)	(1,116.2)	(1,257.3)	(\$7,706.2)
Revenue +3.5%	(209.9)	(131.9)	(78.9)	(103.4)	(47.6)	(1.9)	20.7	40.7	60.9	80.4	95.4	(\$275.4)
Revenue +5%	(116.2)	63.4	226.6	321.1	505.7	690.3	862.7	1,043.9	1,237.7	1,443.7	1,659.0	\$7,938.0
<b>ObamaCare</b>												
Revenue +2%	124.3	(203.8)	(316.9)	(448.2)	(647.1)	(826.4)	(1,013.4)	(1,171.7)	(1,341.2)	(1,523.3)	(1,719.8)	\$ (9,087.6)
Revenue +3.5%	218.0	(11.3)	(20.2)	(41.7)	(125.0)	(182.6)	(241.5)	(265.3)	(293.2)	(326.7)	(367.1)	\$ (1,656.7)
Revenue +5%	311.7	184.0	285.2	382.8	428.3	509.6	600.4	738.0	883.5	1,036.6	1,196.5	\$6,556.7
<b>ObamaCare + KPERS 6%</b>												
Revenue +2%	(303.6)	(576.5)	(653.6)	(816.2)	(958.8)	(1,085.8)	(1,248.0)	(1,413.4)	(1,591.1)	(1,782.6)	(1,992.8)	(\$12,422.4)
Revenue +3.5%	(209.9)	(384.0)	(356.9)	(409.7)	(436.7)	(442.0)	(476.2)	(507.0)	(543.1)	(586.0)	(640.1)	(\$4,991.6)
Revenue +5%	(116.2)	(188.7)	(51.5)	14.8	116.6	250.2	365.8	496.3	633.7	777.3	923.5	\$3,221.8

**Chart 8: SGF Medicaid and KPERS Spending as a Share of SGF Revenue, with SGF Revenue at Constant 3.5% Growth**



The “Actual” curve in Chart 8 indicates that economic growth helps drive the availability of resources for “All Other” spending. During the years 1997-1999, Kansas experienced an average economic growth rate of 6.9%. From the 2001 recession through 2005, Kansas experienced an average economic growth rate of 3.6%. The most recent recession (December 2007-June 2009) hit Kansas later than other states. In 2008, Kansas experienced an

‘All Other’ spending has been crowded out by KPERS and Medicaid for some time, going from a combined 5.9% of SGF revenue in 1998 to 24.2% in 2012. Even with revenues growing at an average annual rate of 3.5% (the Baseline scenario), KPERS and Medicaid will consume 34% of SGF revenue by 2023. Their combined share of SGF revenue hits 37% under the KPERS 6% scenario and reaches 42.1% under the ObamaCare scenario. Medicaid and KPERS will consume 45.1% of SGF revenue under the ObamaCare + KPERS scenario.

economic growth rate of 8.1%, the third highest rate of the past three decades, and the highest since 1985. From 2005 through 2008, Kansas experienced an average economic growth rate of 5.7%. (The economic growth rates mentioned are not adjusted for inflation, to stay consistent with the scenarios in this report. It is also worth noting again that all potential changes to KPERS are based on legislative changes taking place at the beginning of FY 2013; any change in the timing of such changes would, of course, alter the outcomes.)

## Forecasts of the General Fund Budget:

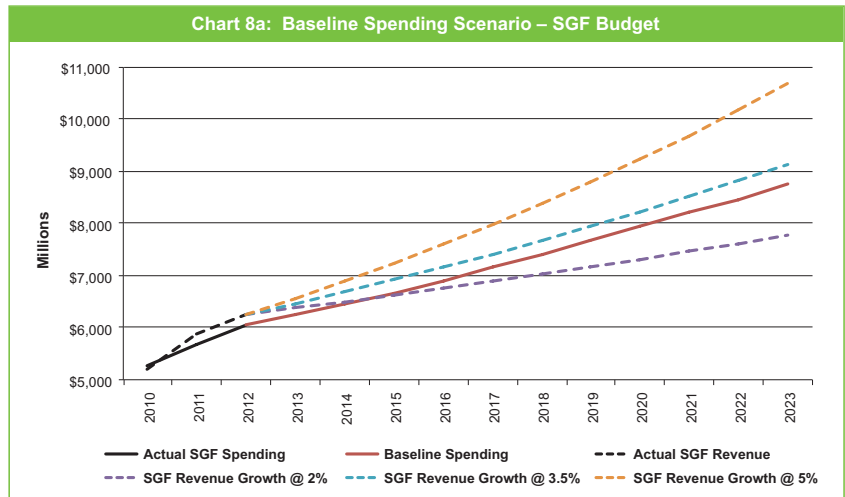
### Baseline Scenario

Spending assumptions:

- Medicaid spending assuming that ObamaCare does not become binding (Chart 5b Without ObamaCare).
- Something like HB 2194 (passed, but not yet finalized, in the 2011 legislature) becomes binding as of July 1, 2012 and KPERS is funded based on the currently assumed 8% rate of return on investments.
- ‘All Other’ spending grows at its 1998 – 2012 average annual rate (Dept. of Education +2.68% net of KPERS; Higher Education +2.76%; everything else declines 0.55%)

As Chart 8a indicates, this Baseline scenario faces structural deficits with the 2% revenue growth assumption but not the 3.5% or 5% revenue growth assumptions. Under the 2% growth scenario, the General Fund budget faces a deficit of \$38.9 million in FY 2013 and grows to \$984.3 million by 2023. Deficits under the 2% revenue growth scenario total \$4.371 billion.

If revenues grow at 3.5% or 5% annually, the General Fund budget never faces a deficit under the Baseline scenario.



### KPERS 6% Scenario

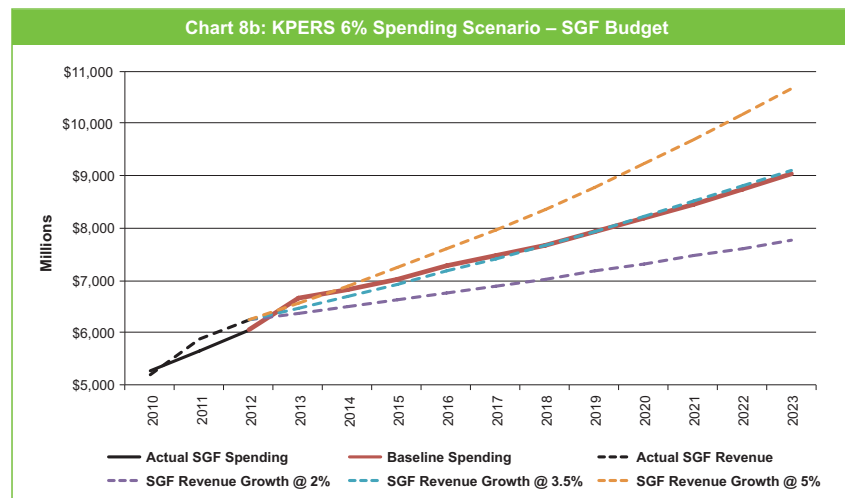
Spending assumptions:

- Medicaid spending assuming that ObamaCare does not become binding (Chart 5b Without ObamaCare).
- Something like HB 2194 (passed, but not yet finalized, in the 2011 legislature) becomes binding as of July 1, 2012 and KPERS is funded based on an assumed 6% rate of return on investments.
- ‘All Other’ spending grows at its 1998 – 2012 average annual rate (Dept. of Education +2.68% net of KPERS; Higher Education +2.76%; everything else declines 0.55%)

As Chart 8b indicates, the KPERS 6% Spending Scenario produces structural deficits each year with annual revenue growth of 2%, growing from \$303.4 million in FY 2013 to \$1.26 billion in FY 2023; over the next eleven years, deficits would total \$7.7 billion.

If revenues grow at 3.5% per year, there are deficits in FY 2013 through FY 2018 but there are surpluses thereafter, resulting in a net \$275 million deficit over the next eleven years.

At 5% annual revenue growth, there is only a deficit of \$116 million in FY 2013 with surpluses in subsequent years.

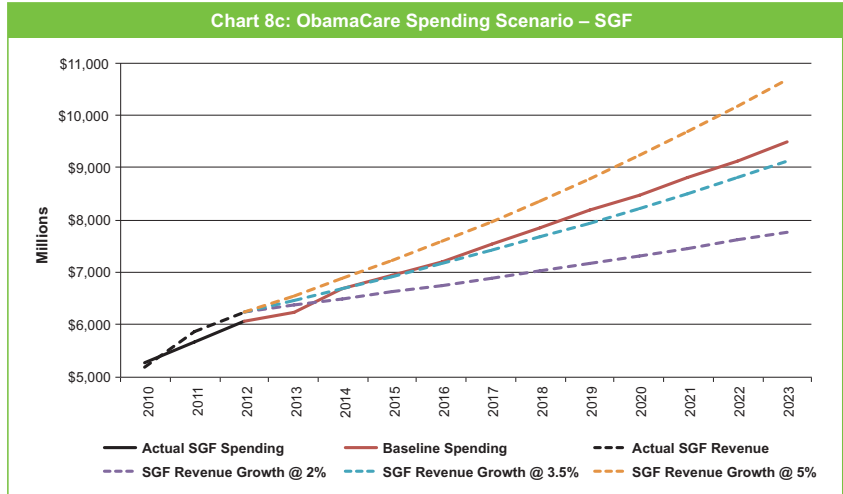


## Forecasts of the General Fund Budget:

### ObamaCare Scenario

Spending assumptions:

- Medicaid spending assuming that ObamaCare does become binding (Chart 5b With ObamaCare).
- Something like HB 2194 (passed, but not yet finalized, in the 2011 legislature) becomes binding as of July 1, 2012 and KPERS is funded based on the currently assumed 8% rate of return on investments.



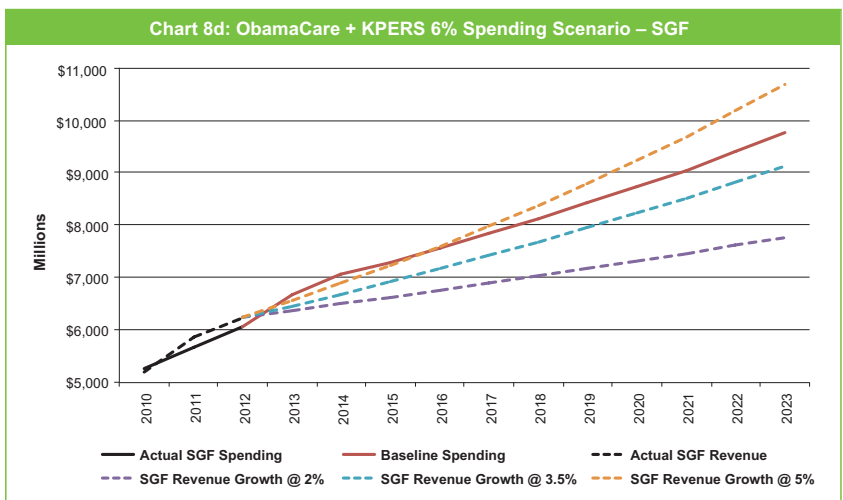
- ‘All Other’ spending grows at its 1998 – 2012 average annual rate (Dept. of Education +2.68% net of KPERS; Higher Education +2.76%; everything else declines 0.55%)

As Chart 8c reveals, the General Fund suffers sustained structural deficits beginning in FY 2014 with both 2% and 3.5% average annual revenue growth under the ObamaCare Scenario, hitting cumulative totals of \$9.1 billion and \$1.66 billion, respectively. Only record-breaking sustained revenue growth avoids large structural deficits under the ObamaCare Scenario.

### ObamaCare + KPERS 6% Scenario

Spending assumptions:

- Medicaid spending assuming that ObamaCare does become binding (Chart 5b With ObamaCare).
- Something like HB 2194 (passed, but not yet finalized, in the 2011 legislature) becomes binding as of July 1, 201 and KPERS is funded based on an assumed 6% rate of return on investments.



- ‘All Other’ spending grows at its 1998 – 2012 average annual rate (Dept. of Education +2.68% net of KPERS; Higher Education +2.76%; everything else declines 0.55%)

Chart 8d shows that not even sustained record-setting revenue growth prevents structural deficits in the next three years under the ObamaCare + KPERS 6% Scenario. Surpluses don’t appear until FY 2016 with 5% annual revenue growth.

With 2% annual revenue growth, the deficits grow each year from \$304 million in FY 2013 to \$2.0 billion in FY 2023, for a cumulative total of \$12.4 billion. With 3.5% annual revenue growth, the deficits grow each year from \$210 million in FY 2013 to \$640 million in FY 2023, for a cumulative total of \$5.0 billion.



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