

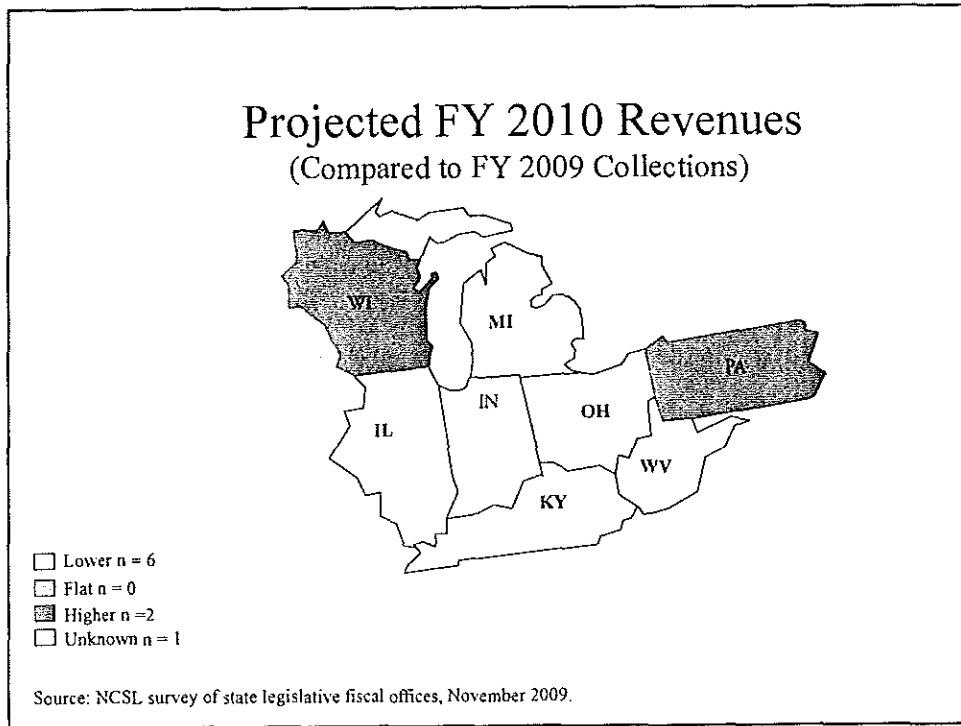
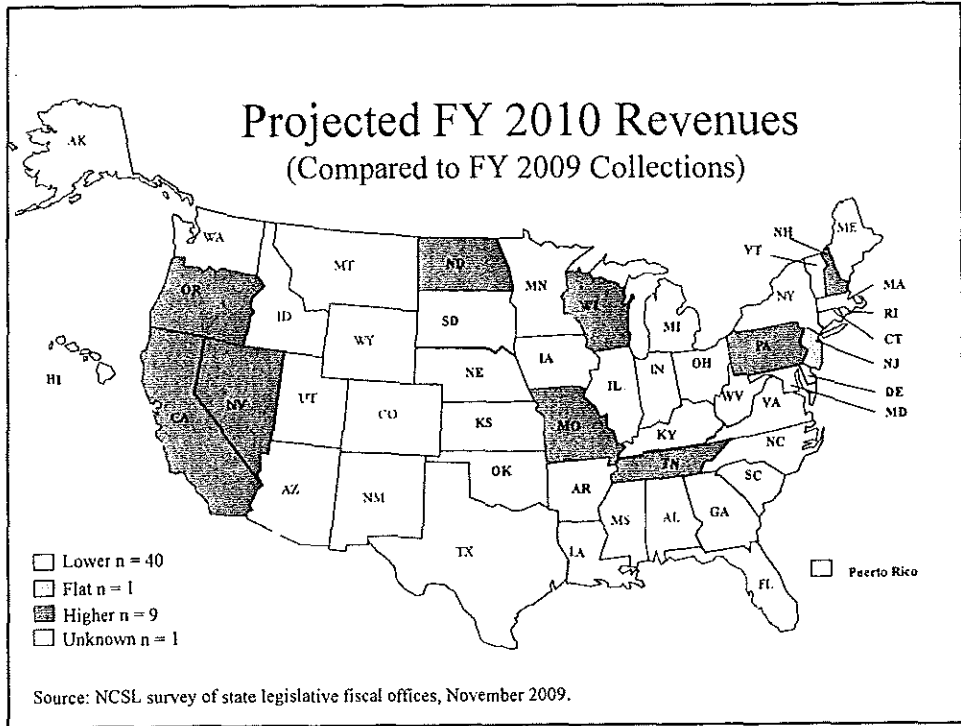
The State Fiscal Situation

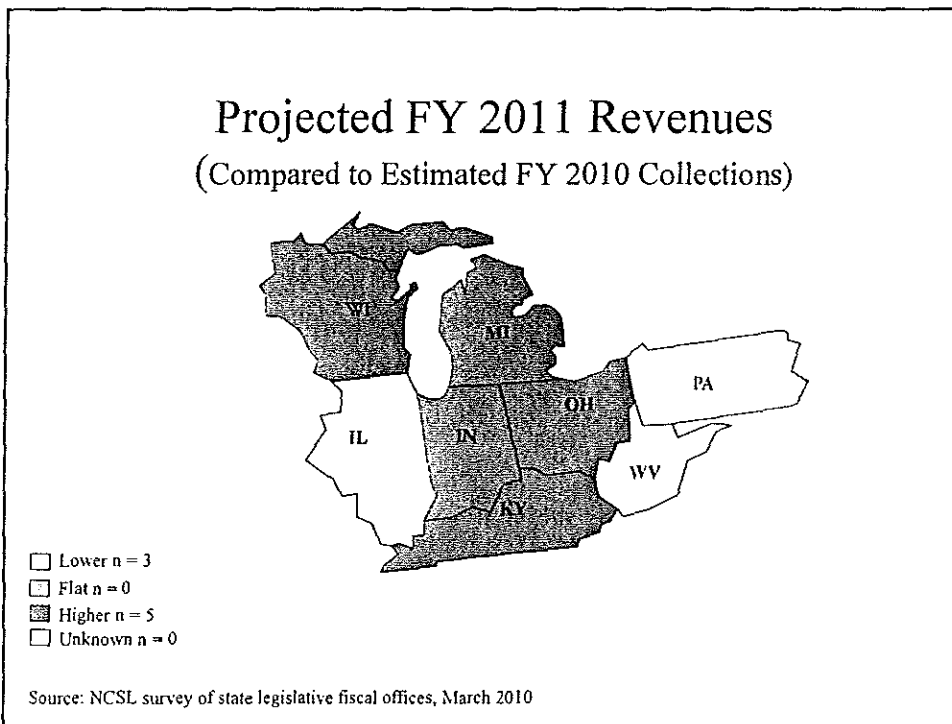
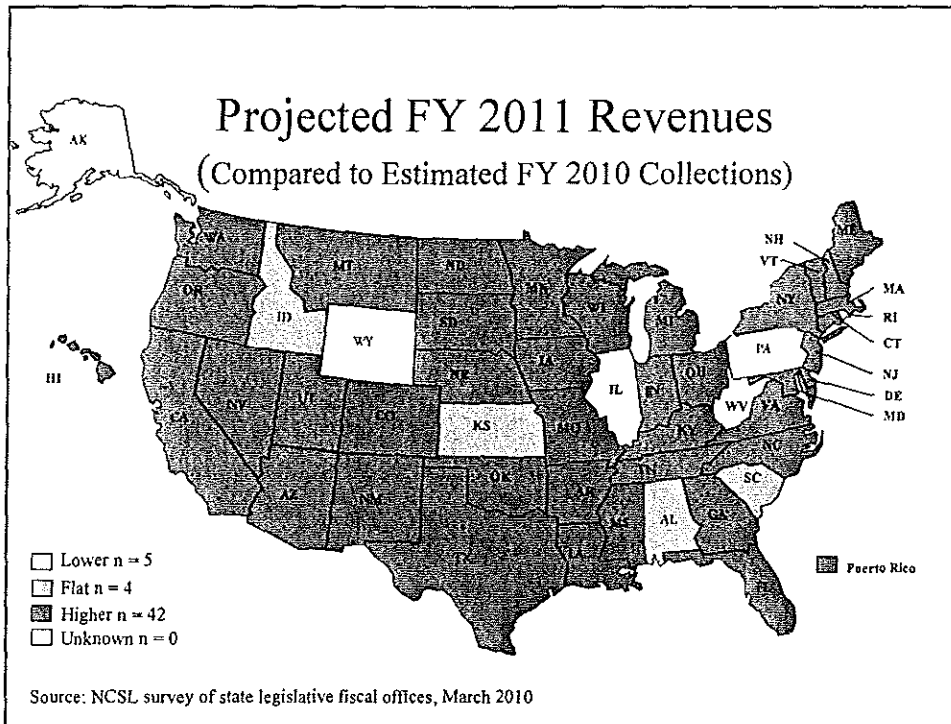
**Presentation to the Ohio Budget Planning and
Management Commission**

**Todd Haggerty
Fiscal Affairs Program
NCSL**

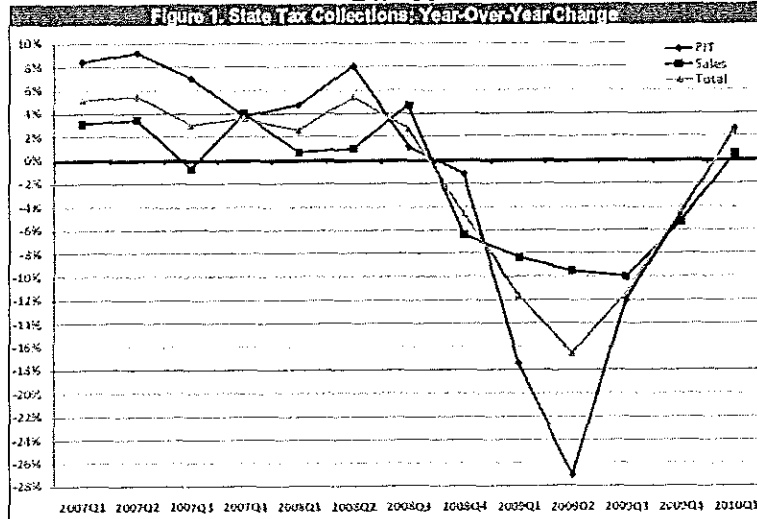
Overview

- Although state revenue challenges continue, the steep drop appears to be subsiding.
- Many states continue to face sizeable budget gaps.
- To date, states have reported a total estimated budget gap of \$531.4 billion (FY 2008 through FY 2013).



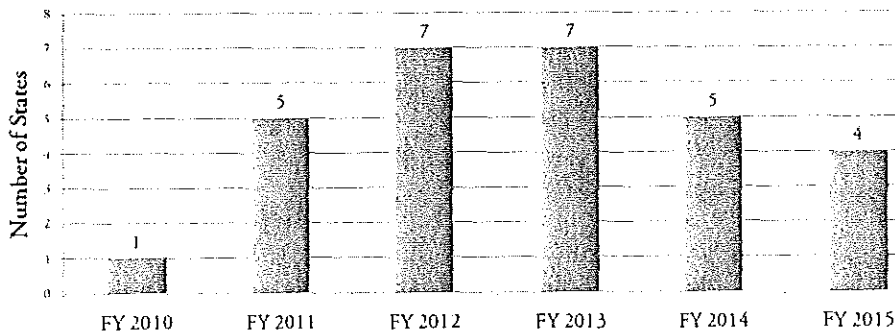


Year-Over-Year Percent Real Change in Major Taxes



Source: The Nelson A. Rockefeller Institute of Government. *State Revenue Report*, June 2010.

Projected Return to Peak Revenue Collections



N/A: North Dakota

Not in the current forecast horizon: 21 states

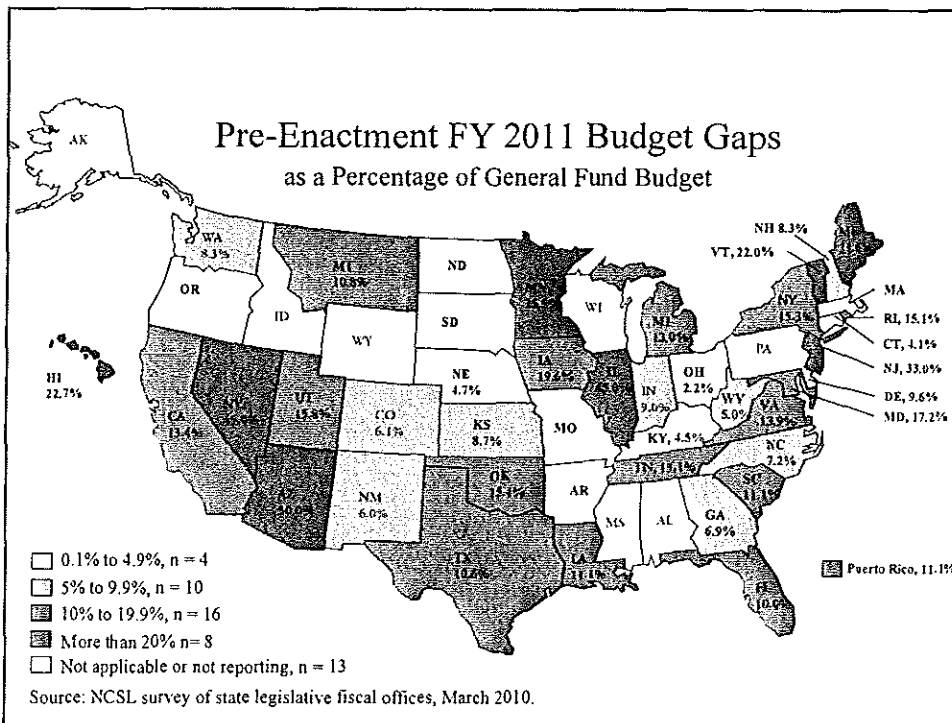
Source: NCSL survey of state legislative fiscal offices, November 2009

Area of Spending Significantly Over Budget in FY 2010

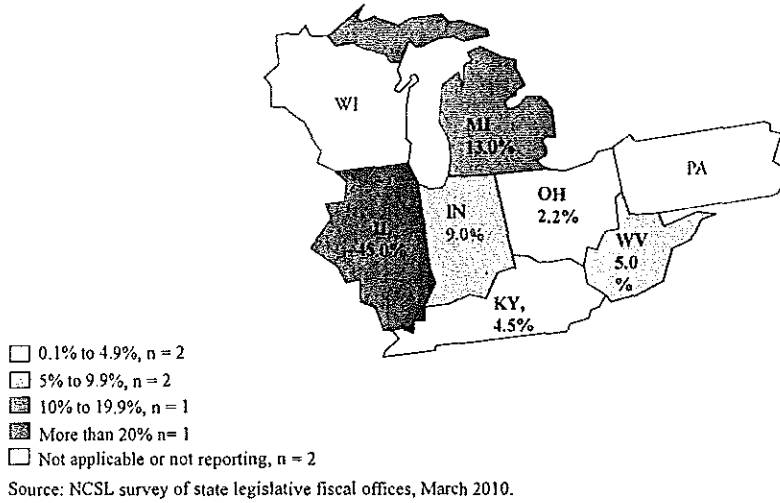
28 states reported spending overruns

- Medicaid: 21 states and PR
- Other social services: CT, KS, MD, MT, NH, OR, NJ, VT, WA
- Prisons/public safety: LA, MD, SC, TX, VT, WA
- K-12 education: LA, MD, WA

Source: NCSL survey of state legislative fiscal offices, March 2010.



Pre-Enactment FY 2011 Budget Gaps as a Percentage of General Fund Budget



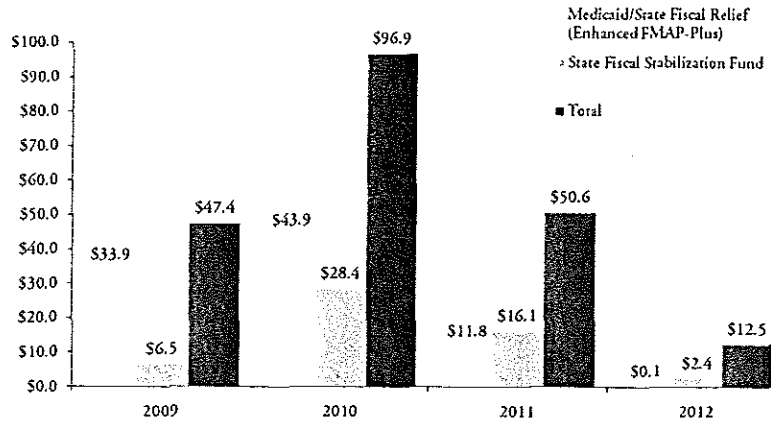
Impact of ARRA Funds on State Budgets

Percentage Point Increase in Spending Attributable to ARRA Funds	Number of States	
	FY 2009	FY 2010
0.1 - 2.9	15	9
3.0 - 5.9	15	9
6.0 - 8.9	3	14
> 9.0	1	6
States Moving from Negative to Positive Spending Change	9	12

N/A or N/R: FY 2009 = 17 states; FY 2010 = 13 states

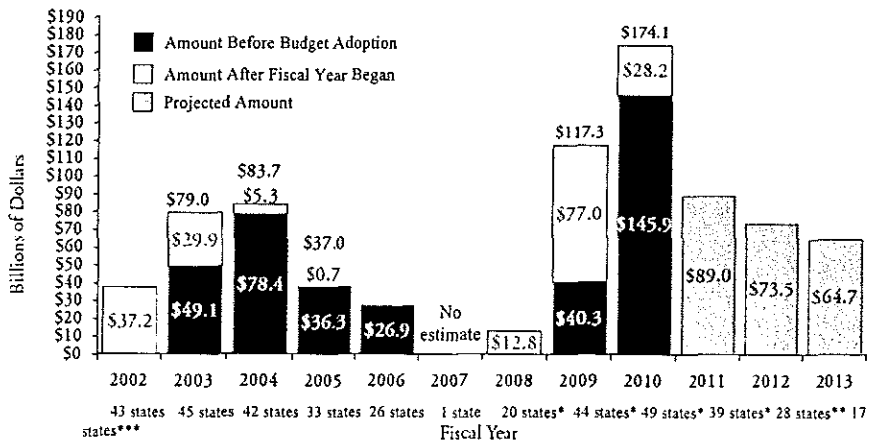
Source: NCSL survey of state legislative fiscal offices, 2009.

Federal Outlays for Major Provisions of ARRA Affecting State and Local Governments (\$ in billions)



Source: Congressional Budget Office

State Budget Gaps FY 2002-FY 2013 (projected)



* Includes Puerto Rico

** 31 states and Puerto Rico forecast FY 2012 gaps. The amount shown for FY 2011 indicates the 28 states that provided gap amounts.

*** 21 states forecast FY 2013 gaps. The amount shown for the FY 2012 indicates the 16 states that provided gap estimates.

Source: NCSL survey of state legislative fiscal offices, various years.

Budget Gap Numbers

Past and Current Recession

Past Recession		Current Recession	
Fiscal Year	Amount (in Billions)	Fiscal Year	Amount (in Billions)
2002	\$37.2	2008	\$12.8
2003	\$79.0	2009	\$117.3
2004	\$83.7	2010	\$174.1*
2005	\$37.0	2011	\$89.0**
2006	\$26.9	2012	\$73.5**
		2013	\$64.7**
Total	\$263.8	Total	\$531.4*

Past Recession: March 2001 to November 2001 (8 months)
 Current Recession: Began December 2007 to Q3 of 2009? (20-21 months)
 Great Depression August 1929 to March 1933 (43 months)
 Gray bar denotes end/projected end of recession
 *Preliminary figure
 ** Projected figure

Source: NCSL survey of state legislative fiscal offices, various years.

Key Concerns Looking Ahead

- Replacing lost ARRA funds
- Feasibility of further budget cuts
- Length of time before revenues bounce back
- Feasibility of raising more revenues
- Unfunded pension liabilities
- New, ongoing and deeper structural budget gaps

Conclusion

- Revenue forecasts are starting to show growth.
- Many forecasts offer little room for error.
- Many states face at least two more years of budget gaps.
- Few states have concrete plans to address the end of ARRA funding.

State Measures to Balance FY 2010 and FY 2011 Budgets

**Luke Martel
Fiscal Affairs Program
NCSL**

State Measures to Balance FY 2010 & FY 2011 Budgets

Categories of Budget Cuts:

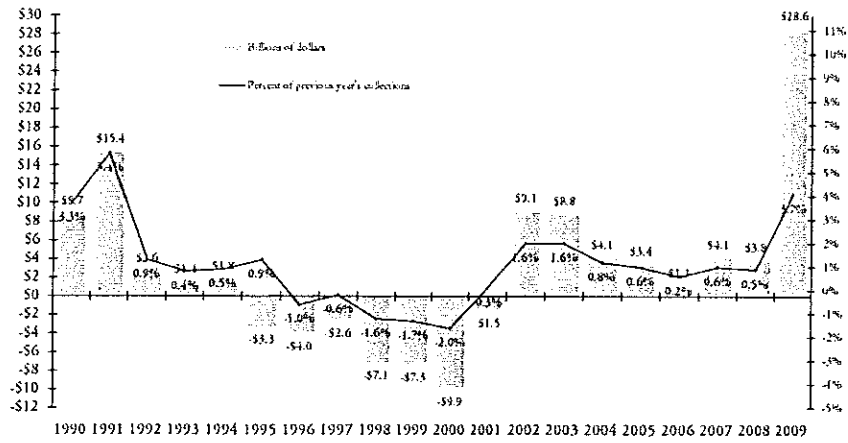
- K-12 Education
- Higher Education
- Local Government
- State Parks
- Criminal Justice/Courts
- Furloughs & Layoffs
- Other State Employee Actions
- Medicaid
- Other Health Care
- Tapped Rainy Day or Other Funds
- Other Actions

State Measures to Balance FY 2010 & FY 2011 Budgets

Categories of Tax Increases:

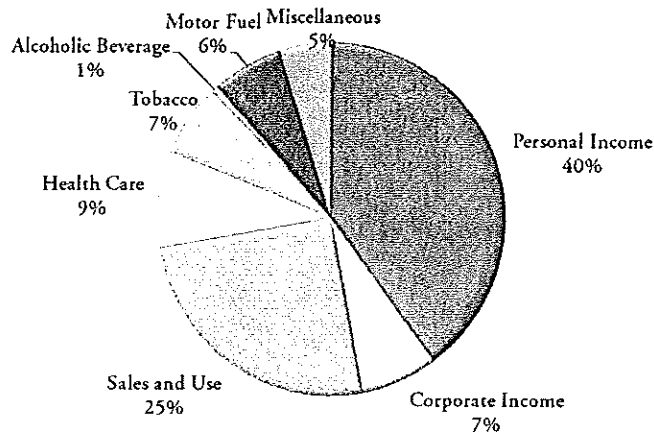
- Gambling
- Motor Fuel and Vehicle Taxes/Fees
- Sales, Corporate Income and Personal Income Taxes
- Selective Taxes
- Other Revenue Actions, Taxes/Fees

Net State Tax Changes by Year of Enactment



Source: NCSL survey of legislative fiscal offices, various years.

Net Tax Changes by Type of Tax (\$28.6 Billion)



Source: National Conference of State Legislatures, 2009.

Tax Trends from FY 2010 Budgets

- States increased broad-based taxes
- Increased taxes on high earners
- Use of temporary tax increases
- Increased user fees

Cuts to K-12 Education

FY 2010

- At least half the states either proposed or enacted cuts to K-12 education.
- States largely avoided cuts with direct impacts on general classroom expenditures.
 - States opted to cut funding for administration, capital expenditures, textbooks, auxiliary programs (afterschool, summer school), and transportation.
- Some exceptions where general classroom expenditures were impacted.

Cuts to K-12 Education

FY 2011

- At least 18 states enacted cuts to K-12 education. (AZ, AR, CO, HI, ID, KY, MO, MT, NE, NV, NJ, NM, NY, RI, OH, OK, WA, TN).
- On average, these cuts are more severe than the previous year's cuts, and they will affect classroom expenditures more directly.

- Eliminated funding for full-day kindergarten, saving an estimated \$218 M (AZ).
- Budget cut by 6.4%, saving an estimated \$260 M (CO).
- Increased class sizes (GA).
- State eliminated funding for one instructional day (KY).
- Governor proposed cutting \$164 M, including a per-pupil reduction of \$59 (MI).
- Budget delays payment of \$2 billion in state payments to districts (MN).
- Transportation funding cut by \$70 M (MO).
- Budget cut by 6.9% (NV).
- Budget cut \$820 M (NJ).

Cuts to Higher Education

FY 2010

- At least 37 states either proposed or enacted cuts to higher education.
- At least 13 states made cuts post-enactment of the budget.
- In some states, tuition increase caps were either increased or suspended.

FY 2011

- At least 15 states enacted cuts to higher education.
- Percentage cuts to higher education tend to be greater than cuts made to the K-12 system.
- Higher education cuts come in face of surging enrollment at many institutions, especially community colleges, due to effects of recession.

Cuts to Local Government and Parks

FY 2010

- Local government (11 states): CO, CT, HI, MD, MA, MI, MN, NH, NJ, NY, RI.
- State parks (12 states): AZ, CA, CO, GA, ID, LA, MO, NE, NV, NY, PA, UT

FY 2011

- Local government (enacted in 8 states): AZ, MD, MA, MN, NJ, NY, RI, VA.
- State parks (enacted in 5 states): AZ, ID, KY, NM, WA.

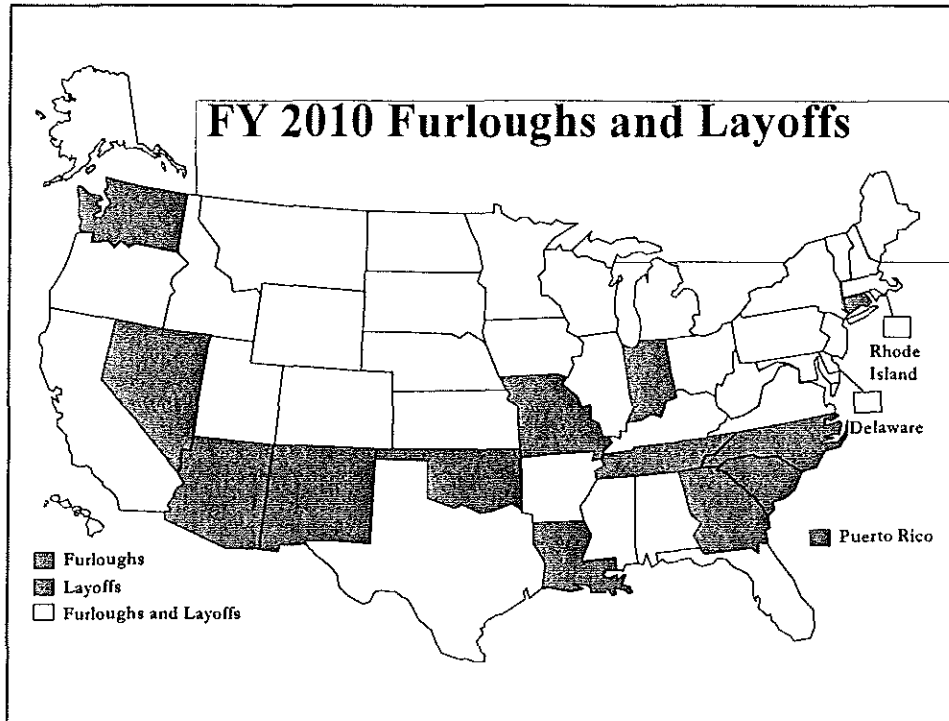
Criminal Justice/Court Cuts

FY 2010

- Closed prisons or detention facilities (9 states).
- Modified sentencing laws or parole eligibility (7 states).
- Privatized prison facilities (AZ).
- Closed state courts one day per month to save \$85.4 million (CA).
- Laid off state court employees (FL laid off 10%).

FY 2011

- Counties must now pay the entire cost of treating and housing sexually violent offenders (AZ).
- Governor had proposed eliminating the Dept. of Juvenile Corrections and requiring counties to pay for housing and treating juveniles. The measure failed, it would have saved \$63 M (AZ).



Furloughs and Layoffs

FY 2010

- Laid off over 5,000 workers and instituted a total of 36 furlough days for various state agencies (CA).
- Reduced workforce by 14% (PR).
- Laid off 1,391 workers and implemented 35 furlough days (IA).

FY 2011

- Six mandatory days off without pay for most employees (AZ).
- Voluntary furlough program - up to 10 days (IL)
 - For each two furlough days employees take, they can take an extra day off around regular holidays.
- Supreme Court employees furloughed up to 30 days (KS)
- 12,500 state employees face 10 furlough days, saving \$50 M (WA).
- Eight furlough days for most state employees (VT).

Other Employee Actions

FY 2010

- Changed pension/retirement programs (7 states).
- Modified medical coverage (9 states).

FY 2011

- Enacted changes to pension/retirement programs (16 states).
- Enacted employee benefits changes: (4 states).
- Budget cuts pay by 2.75% for most state employees (AZ) .

Arizona and Nevada considered adopting a 4 day work week after Utah. Neither measure was enacted.

FY 2010

Hiring Freezes	Salary Freezes	Early Retirement
ID	CO	CT
NJ	HI	LA
NM	ID	NY
PA	IN	VA
WA	LA	
	MO	
	NV	
	NH	
	NJ	
	NM	
	NY	
	OH	
	PA	
	SD	
	TN	
	VT	
	VA	
	WA	

FY 2011

Hiring Freezes	Salary Freezes	Early Retirement
AR	AR	IA
IN	AZ	MI
NM	ND	OH
NC	WA	
WA		

Medicaid Cuts

FY 2010

- Reduced provider payments (33 states).
- Imposed Medicaid pharmacy controls (31 states).
- Cut Medicaid benefits (15 states).
 - Cuts generally made to optional benefits., especially adult dental care.

FY 2011

- Reduced provider payments (9 states).
- Reduced Medicaid benefits (4 states).

Other Health Care Cuts

FY 2010

- Cut \$15 million from public health clinics (CO).
- Closed mental health institutions (IA and MD).
- Cut \$190 million from local mental health agency funding (OH).
- Cut \$225 million from the state's basic health insurance plan for the poor; approximately 40,000 people lost coverage (WA).

FY 2011

- Funding to state psychiatric hospitals cut by 8% (ID).
- Mental health facility closure (MO).
- Child abuse intake centers consolidated from 8 to 1 (IA).
- 17 of 33 centers that evaluate children with significant behavioral problems closed (OK).

Tapped Rainy Day or Other Funds

FY 2010

- Tapped rainy day fund (8 states).
- Depleted the entire rainy day fund (CT).
- Made withdrawal from other funds, such as tobacco settlement funds (many states).

FY 2011

- Proposal to tap rainy day funds (10 states).
- Withdrawing from the rainy day fund went to shore up its K-12 and higher education budgets (HI and ID).
- Tapping other funds, such as tobacco settlement funds (11 states).

Other Actions

FY 2010

- Enacted a sale-leaseback provision that will sell certain government buildings including the House and Senate buildings, a state hospital, and the state fairgrounds. The leaseback provision is projected to raise \$735 million (AZ).
- Eliminated the State Consumer Affairs Division, which is projected to save \$2.5 million over two years (NV).

FY 2011

- Ballot initiative pending to privatize state-run liquor stores (WA).

Agency Consolidation:

- SBE dissolved a school district and divided students amongst surrounding districts (AK).
- Multiple boards & commissions merged into 8 small agencies, saving \$40 million (IA).
- Highway Patrol & Water Patrol merged into one agency (MO).

Overall Trends

- Cuts to education.
- Cuts to corrections / closure of prisons.
- Cuts to Medicaid provider reimbursement rates.
- Cuts to state aid to local government.
- Cuts affecting state employees.
- Transfers of special funds to the general fund.
- Enactment of tax amnesty programs.

State Legislative Commissions/Committees on Government Efficiency

Georgia - Senate Budget Task Force

Iowa

- Brand new, SF 2088

Kansas - Government Efficiency & Fiscal Oversight Committee

Michigan - Legislative Commission on Government Efficiency

New Jersey

- Joint Legislative Committee on Consolidation and Shared Services
- The Local Unit Alignment, Reorganization and Consolidation Commission

South Carolina - Joint Committee on Government Accountability and Oversight

Texas - House Select Committee on Government Efficiency and Accountability

Utah - Advisory Commission to Optimize State Government (Executive)

Vermont - Joint Legislative Government Accountability Committee

Securitization of State Assets

- Arizona. SB 1003
 - Requires the Arizona Department of Administration (ADOA) to issue State Lottery Revenue Bonds (Bonds) and enter into lease-purchase agreements of state owned facilities.
- California. Chapter 20, Statutes of 2009
 - Authorizes the DGS to (1) sell 11 state-owned office buildings and (2) lease the buildings back from the new owners through a long-term lease.
- New Hampshire. HB 55
 - Establishes a commission to inventory state assets, enterprises, and resources and to make recommendations as to those that may be monetized by sale or lease, and makes an appropriation to the department of administrative services.

Government Efficiency/Reform Measures

- Iowa. Senate File 2088
 - Concerning state government reorganization and efficiency
 - Data center consolidation
 - IowAccess. The department shall establish IowAccess as a service to the citizens of this state that is the gateway for one-stop electronic access to government information and transactions, whether federal, state, or local.
- New York. Senate Bill 7259 (Pending)
 - Seeks to establish the Empire State Performance Commission, a 15-member executive level commission consisting of the governor, certain agency heads, certain legislators, and appointed citizens.

Performance Budget Legislation in 2010

- California. Senate Bill 1020 (passed Senate June 2010)
 - Requires the Legislature to establish a process for reviewing the performance of all state programs at least once every 10 years, including tax expenditures.
- Colorado. Chapter 340, Laws of 2010 (House Bill 1190)
 - Requires each state agency to present, on an annual basis, the department's strategic plan to the relevant committee of reference of the General Assembly. The presentation is to include a discussion of the department's goals and performance measures.
- New York. Senate Bill 7259 (Pending)
 - Seeks to establish the Empire State Performance Commission, a 15-member executive level commission consisting of the governor, certain agency heads, certain legislators, and appointed citizens.

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For more information

