

**NCSL STATE
FISCAL
CONDITIONS
2/19/03**

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State Fiscal Conditions

Presentation to the
Alaska Senate Finance Committee
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National Conference of State Legislatures



Background on NCSL

National Conference of State Legislatures

- ◆ Bi-partisan organization founded in 1975
- ◆ Serves all 50 states, territories and commonwealths
- ◆ Offices in Denver and Washington, D.C.



NCSL Is a Valuable Resource

Information from NCSL:

- ◆ Non-biased research, publications, 50-state data, special projects
- ◆ Technical assistance on a wide range of topics
- ◆ Meetings and seminars

Bob Boerner is the NCSL liaison to Alaska



Summary of FY 2003 Budget Gaps

The initial estimated gap for FY 2003 (prior to budget enactment) was \$49.1 billion (10.1%)

At least 42 states reported initial budget gaps going into FY 2003



State Fiscal Update

(February 2003)

State budget gaps have grown nearly 50% since
November

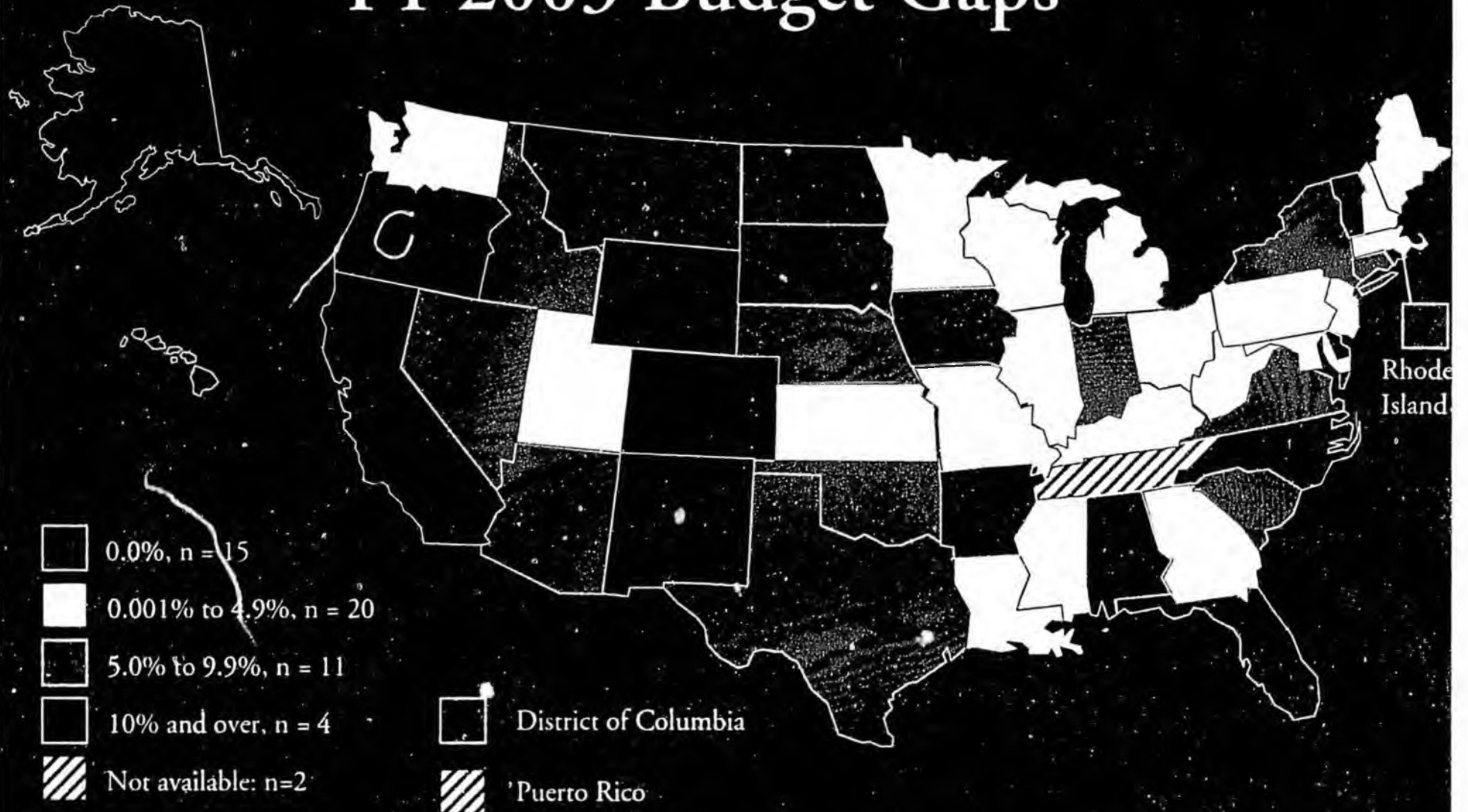
States now face at least a \$25.7 billion (5.2%)
gap in FY 2003

Thirty-six states reported gaps

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FY 2003 Budget Gaps



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Revenue Growth Has Not Rebounded

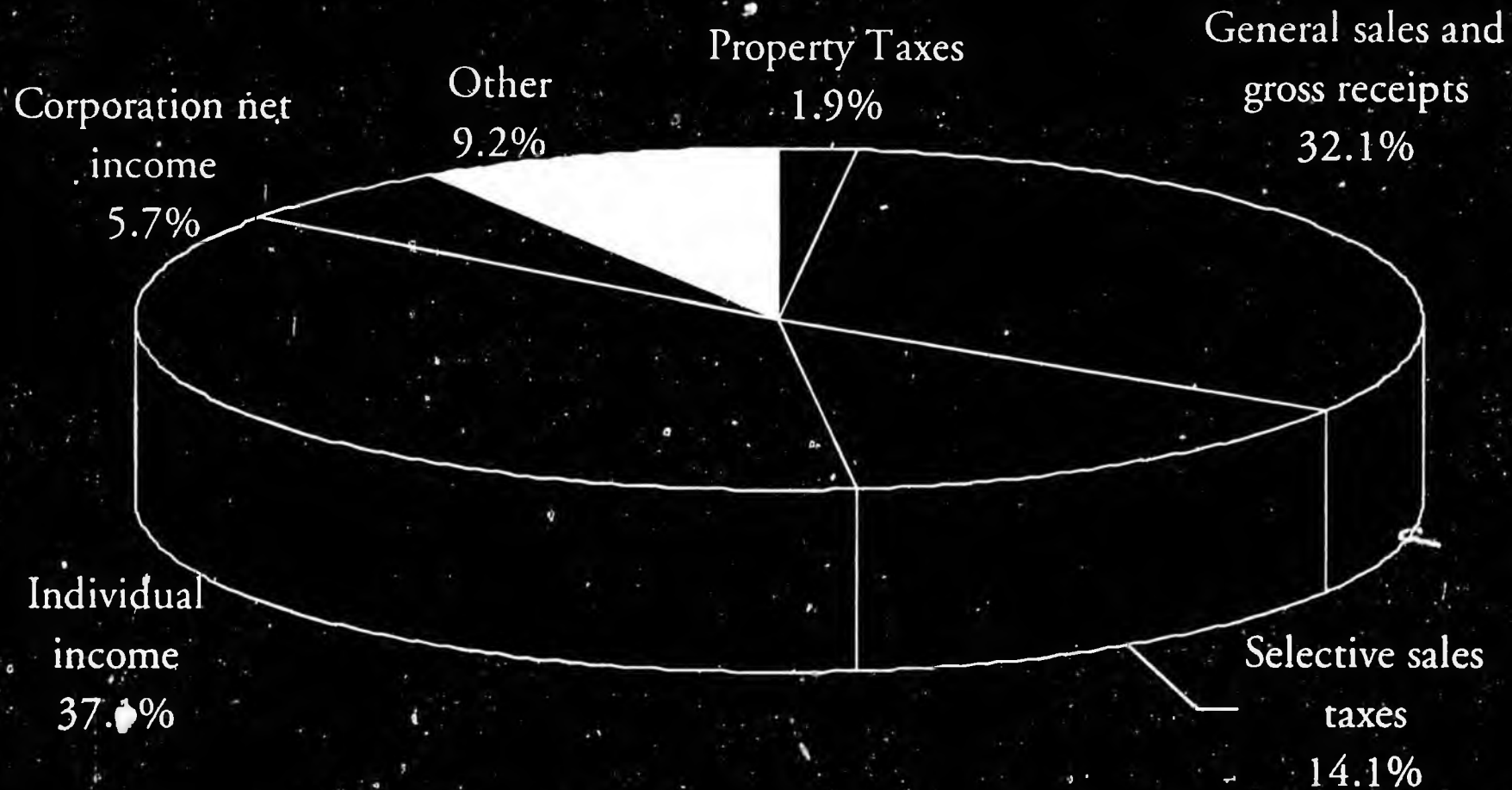
30 states reported that revenues are below projections in FY 2003

In 12 states, collections are failing to meet revised levels

Aggregate state revenue growth was projected to be 2%



FY 2001 State Own-Source Revenue



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Revenue Outlook for the Rest of FY 2003

Optimistic: 2 states

Stable: 11 states

Concerned: 30 states + DC

Pessimistic: 7 states



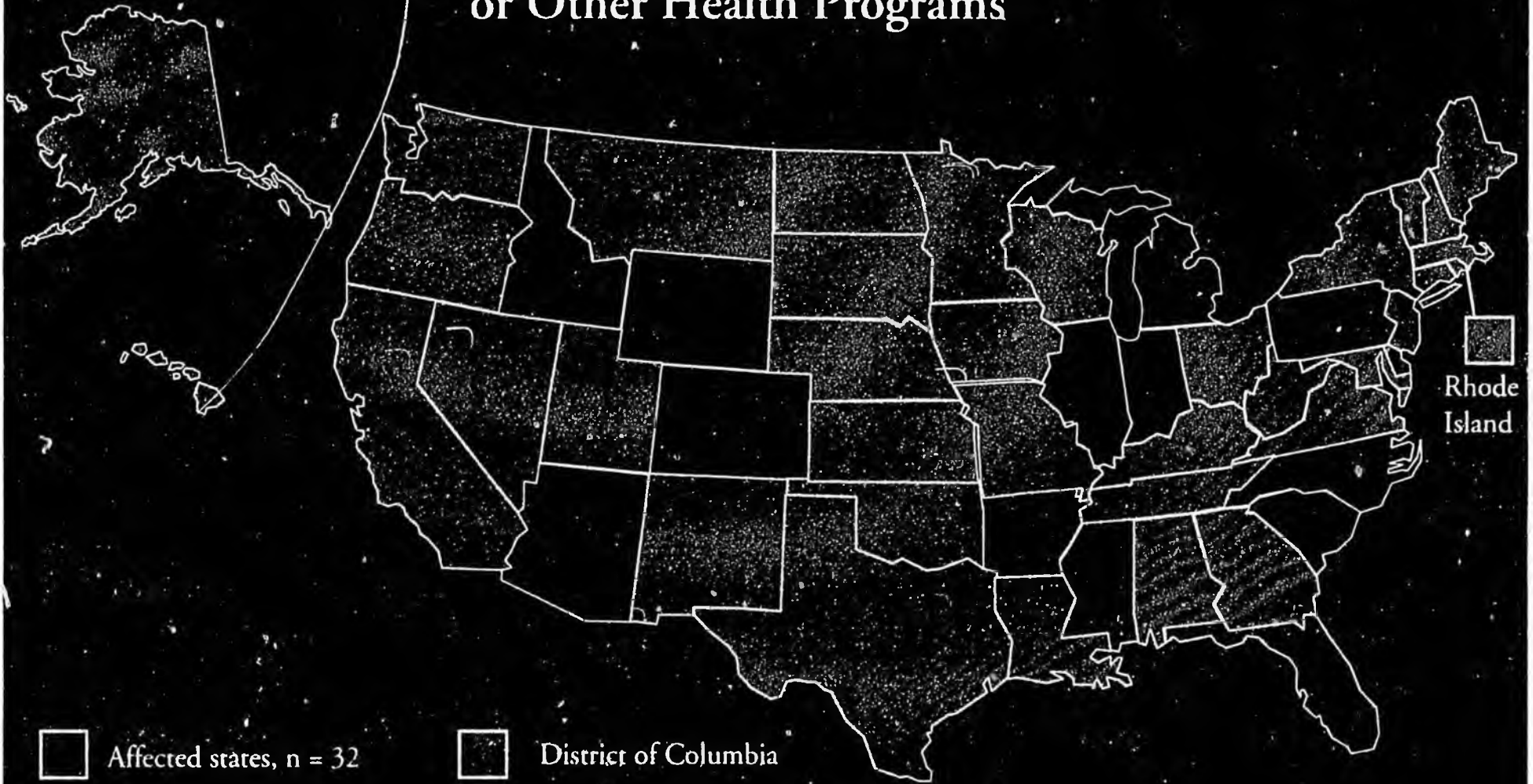
Expenditure Update

37 states report that spending is exceeding budgeted levels

32 states report that Medicaid or other health care programs are over budget



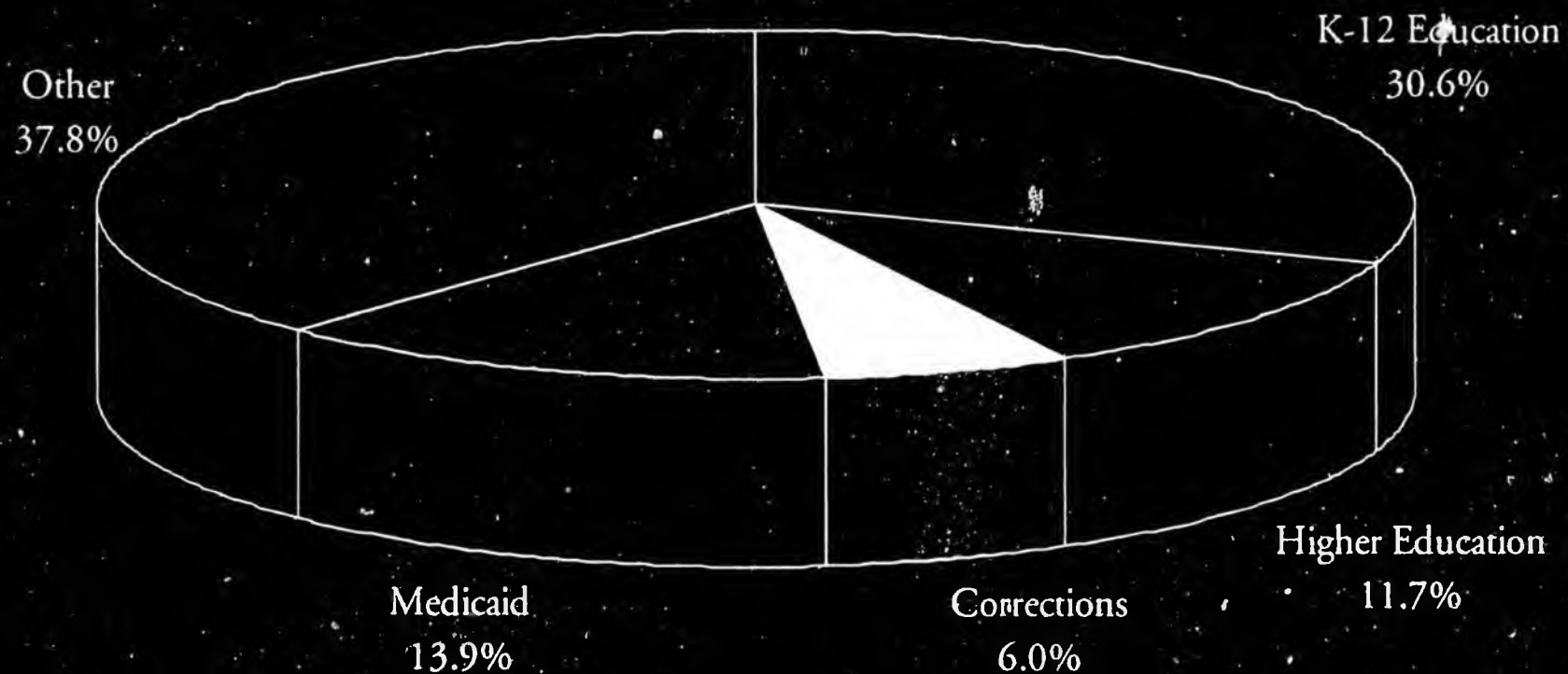
States with Overruns in Medicaid or Other Health Programs



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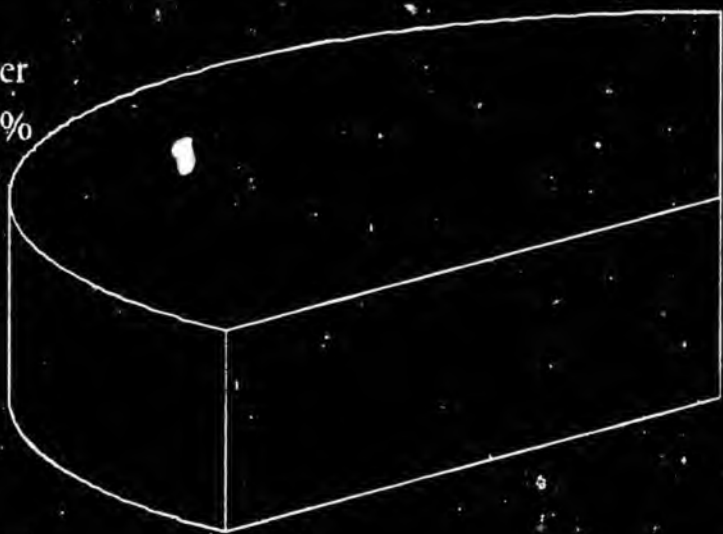


FY 2002 General Fund Spending by Category



All Other

Other
37.8%



What's in "other"?

- ◆ Public assistance
- ◆ Parks and recreation
- ◆ State police
- ◆ Employer contributions to pensions and benefits
- ◆ Information technology
- ◆ Environment
- ◆ Economic development
- ◆ Arts programs



Dealing with Shortfalls in FY 2002 & FY 2003

Imposing budget cuts: 36 & 31 states

Using tobacco settlement funds: 16 & 21 states

Tapping various state funds: 23 & 28 states

Tapping rainy day funds: 23 & 14 states



State Balances Fall

(billions of dollars)

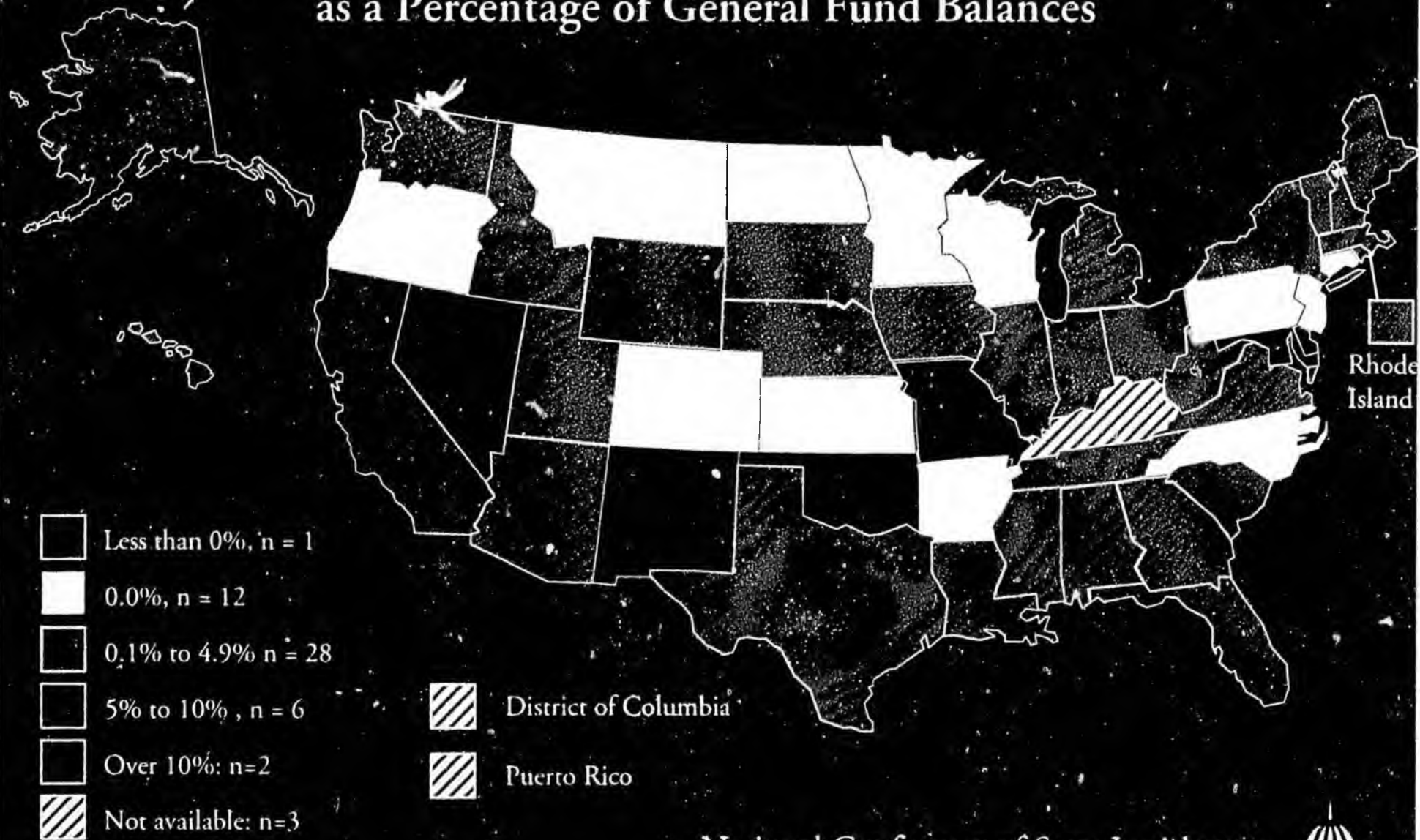


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Rainy Day Fund Balances for FY 2002

as a Percentage of General Fund Balances

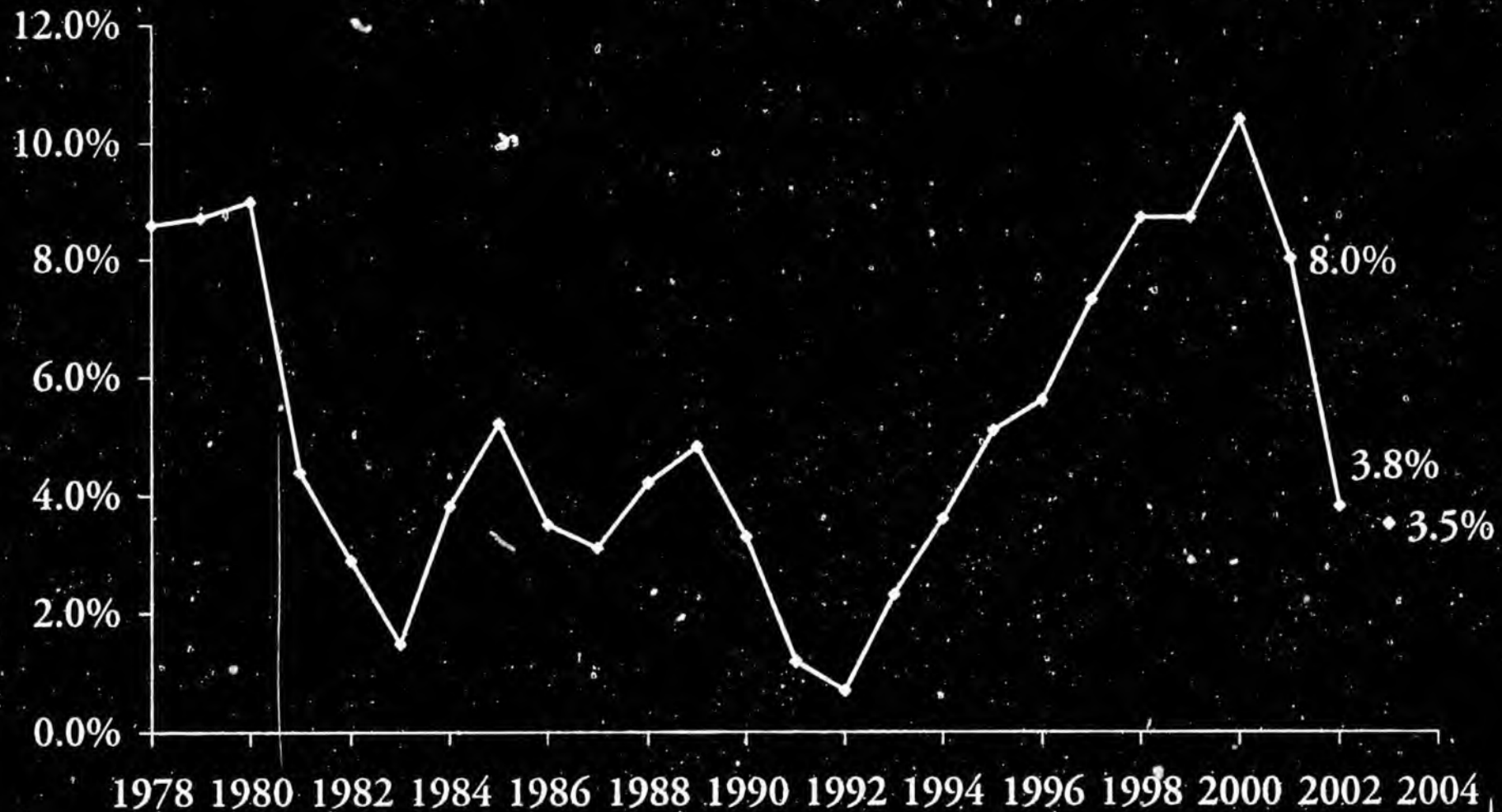


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State Year-End Balances

FY 1978-FY 2003



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Dealing with Shortfalls in FY 2002 & FY 2003

K-12 spending cuts: 17 & 14 states

Higher education spending cuts: 26 & 20 states

Corrections spending cuts: 24 & 17 states

Medicaid spending cuts: 16 & 16 states

TANF spending cuts: 6 & 8 states

Cuts in local revenue sharing: 8 & 12 states



Dealing with Shortfalls in FY 2002 & FY 2003

State employee layoffs: 11 & 9 states

Employee travel bans/restrictions: 19 & 14 states

Employee hiring freeze: 19 & 13 states

Delayed capital projects: 9 & 10 states



Dealing with Shortfalls in FY 2003

Raising taxes by more than 1% (18 states)

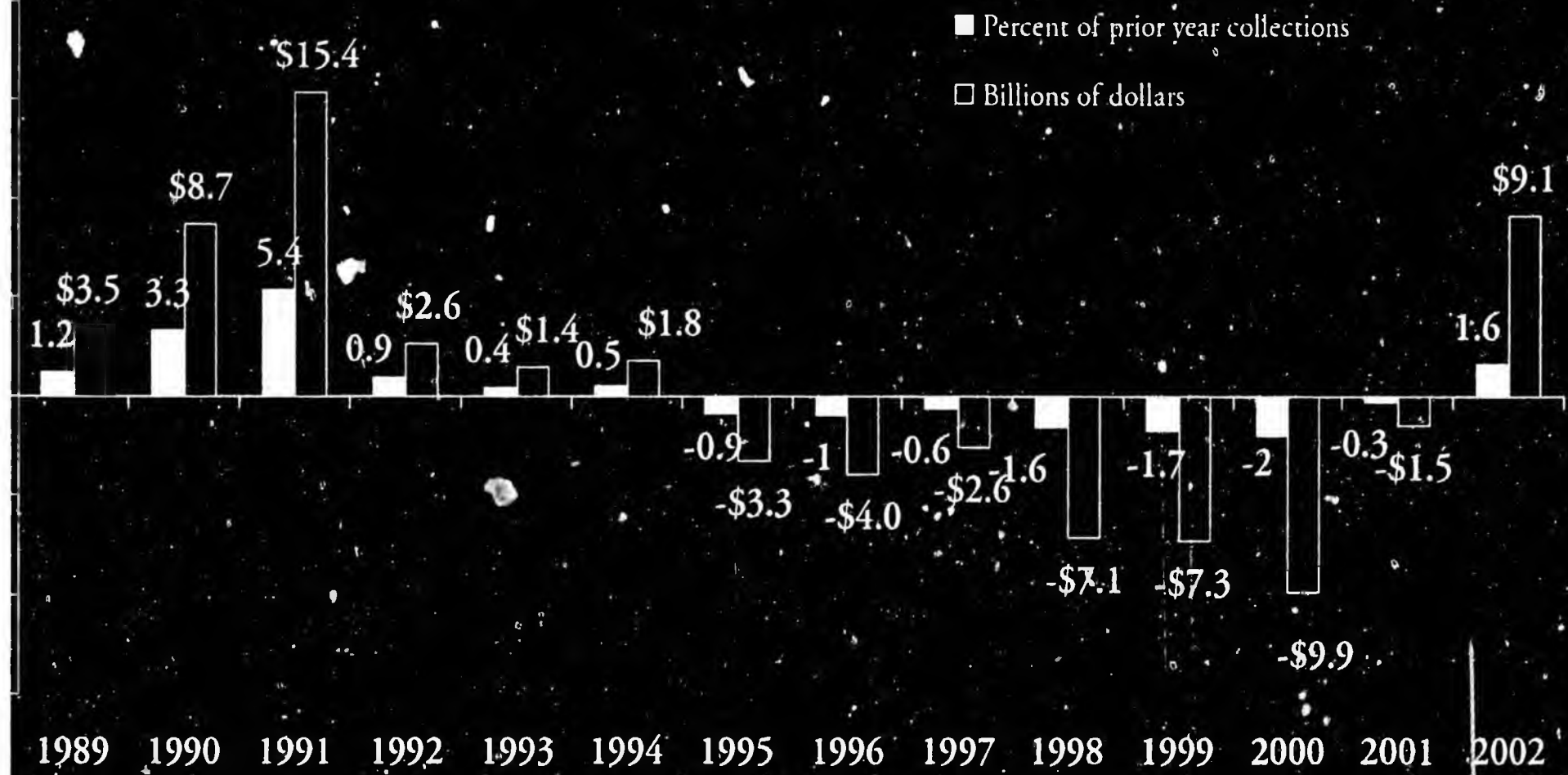
Raising taxes by more than 5% (Indiana, Kansas, Massachusetts, New Jersey and Tennessee)

Hawaii was the only state to cut taxes by more than 1%



Net State Tax Changes

By Year of Enactment, 1990-2002



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2002 Net State Tax Changes

(in millions)

Personal income	\$1,605.3
Corporation income	2,315.6
Sales and use	976.5
Health care	338.7
Motor vehicle	136.6
Miscellaneous _____	724.5
Alcoholic beverage	7.0
Cigarette and tobacco	3,018.1
Net Change _____	\$9,122.3

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FY 2004 Budget Projections

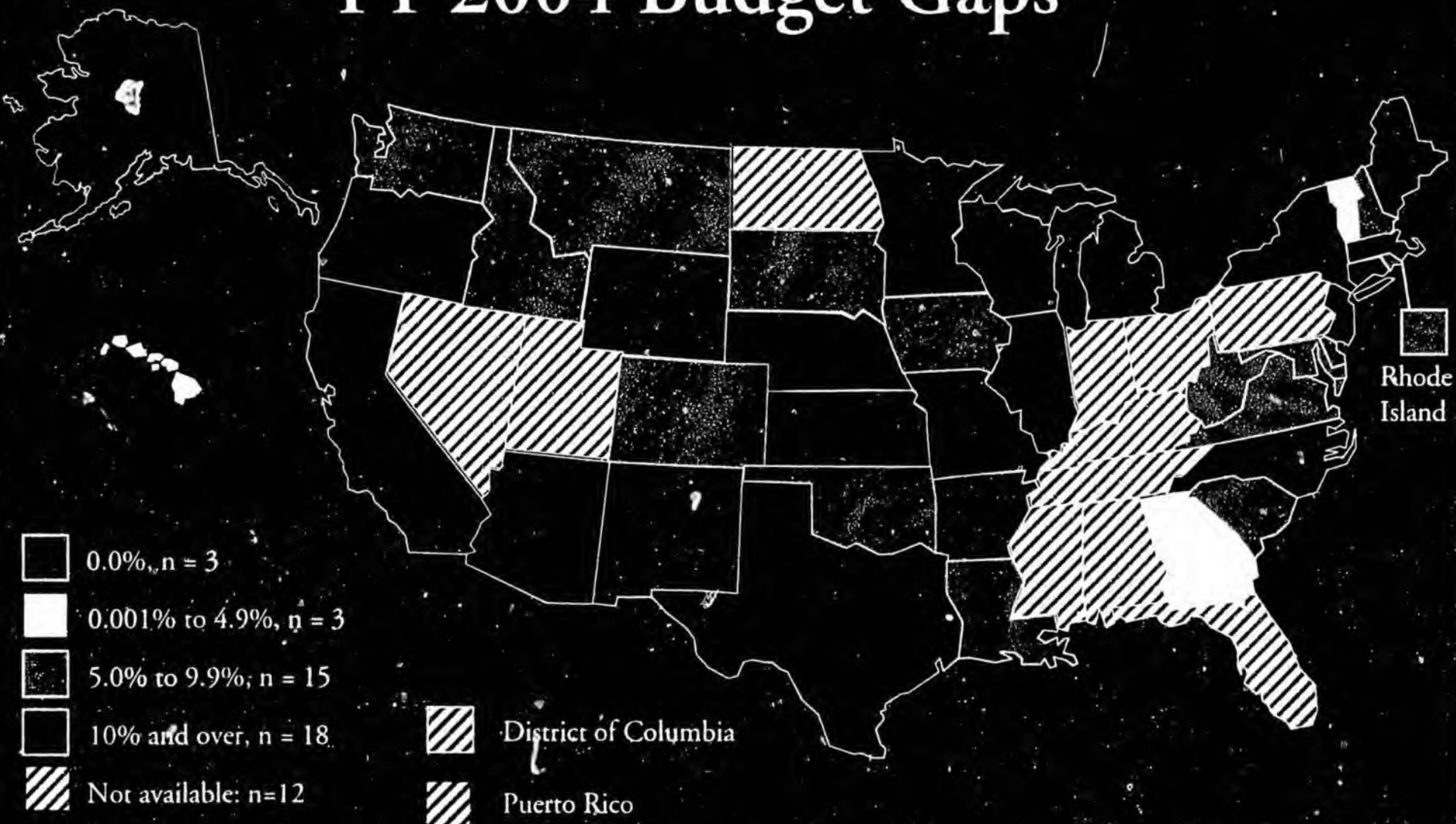
The FY 2004 projected budget gap is \$68.5 billion

36 states are facing gaps:

- ◆ 33 with gaps >5%
- ◆ 18 of these with gaps >10%



FY 2004 Budget Gaps



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Possible Tax Increases?

25 states have tax proposals under consideration

Sin taxes are the focus of early proposals

- ◆ 14 states with cigarette tax proposals
- ◆ 6 states with alcohol tax proposals



For More Information

www.ncsl.org

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Examples of Budget Balancing: Arizona

Shifted K-12 school construction funding from the general fund to lease-purchase financing

Delayed a K-12 education payment by one month (from the FY 2003 budget to the FY 2004 budget) temporarily saving \$191 million



Examples of Budget Balancing: Connecticut

The Legislature gave the governor an extra \$35 million of extraordinary budget cutting authority to help balance the budget

Transferred resources from quasi-public agencies (\$100 million)

Implemented a tax amnesty program (\$100 million)



Examples of Budget Balancing: Iowa

Reduced Medicaid reimbursement rates by approximately 3%

Tapped \$97.1 million in revenues from non-general fund sources

Shifted \$304.3 million in expenditures traditionally funded from the general fund to non-general fund sources, including \$93.5 million in tobacco receipts to fund programs (Medicaid)



Examples of Budget Balancing: Iowa

Realized \$33.5 million in savings from employee furloughs (departments were allowed discretion on how to implement)

Saved \$6.5 million from implementing a 5-month delay in the state employee cost of living increase negotiated by the unions; Governor requested and unions acceded to avoid layoffs.

Implemented administrative rules to control pharmaceutical costs



Examples of Budget Balancing: Louisiana

Implemented tax amnesty program that earmarked revenues for capital outlay

- Appropriated current year excess revenue into dedicated funds and will appropriate out of the special funds in the next fiscal year (averts a requirement that surplus revenues be limited to debt service, capital outlay and extra retirement payments)



Examples of Budget Balancing: Michigan

Shifted collection date of the 6-mill state education tax (all of which goes to the School Aid Fund) resulting in one-time \$460 million gain for FY 2003



Examples of Budget Balancing: New Jersey

Adopted business tax reform that: closed loopholes, created new alternative minimum assessment, suspended NOL carryforward for two years, accelerated quarterly payments, increased taxable income of investment companies, subjected savings institutions to corporate income tax, raised minimum tax under corporate income tax and reduced the tax rate on small businesses. (\$836 million)



Examples of Budget Balancing: New Jersey

Raised fees, including \$2/day on vehicle rentals

Offered a two-month tax amnesty program

Flat-funded formula school program in FY 2003

Postponed a scheduled increase in the property tax rebate program

Cancelled some inflation adjustments in formula aid distributions

Offered early retirement program for 5,000 employees



Examples of Budget Balancing: Pennsylvania

Transferred \$100 million to the general fund from Underground Storage Tank Indemnification Fund to be repaid over 10 years beginning in FY 2005

Reduced the dormancy period for most unclaimed property from seven to five years (\$197.6 million)

Decreased the reserve for tax refunds (\$32.4 million)



Examples of Budget Balancing: Rhode Island

Gave each department a single line item in the budget (rather than budgeting by division or major programs) after reducing requested amounts for personnel expenditures, and granted flexibility to departments to operate within appropriated levels. Intent is to eliminate the need for supplemental funding.



Examples of Budget Balancing: Utah

Changed disbursements to higher education institutions to six month period resulting in net interest earnings gain of \$500,000

Changed statute that requires a level of funding for capital improvements equal to 1.1% of the insured value of state buildings; was modified to 0.9% in cases of financial need

Sold Utah Technology Finance Corporation to the private sector for \$4 million

