Overview

– State budgets are recovering, but they are not recovered:
  – Nationally, year-end balances are stabilizing.
  – Modest tax growth is projected for FY 2012.
  – States face ongoing budget challenges.

– The total state budget gap: $527.2 billion
  (FY 2008-FY 2013 est.).
State Year-End Balances
as a Percentage of General Fund Spending

*45 states reporting for FY 2009
Source: NCSL survey of state legislative fiscal offices, various years
State Year-End Balances
as a Percentage of General Fund Spending

<table>
<thead>
<tr>
<th>Year</th>
<th>Rainy Day Funds</th>
<th>Closing Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>5.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>2011</td>
<td>6.1%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2012</td>
<td>5.7%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Source: NCSL survey of state legislative fiscal offices, July 2011.
Rainy Day Funds in FY 2011

- A few states hold the bulk of rainy day funds:
  - Alaska: $13.7 billion
  - Massachusetts: $1.2 billion
  - New York: $1.2 billion
  - Texas: $5 billion
  - Wyoming: $1 billion

- Together, these states account for 75% of all rainy day funds
Projected FY 2002-2014 Budget Gaps (projected) as a Percentage of General Fund Budget

Source: NCSL survey of state legislative fiscal offices, various years.
FY 2011 General Fund
Spending Most Closely Matches…

N/A = Massachusetts, North Dakota and West Virginia, N/R or unknown = 10 states
* Includes Puerto Rico

Source: NCSL survey of state legislative fiscal offices, March 2011.
Net State Tax Changes by Year of Enactment
1991-2011

* 2011 figures are preliminary and do not include Massachusetts, New Hampshire and Pennsylvania.
Source: NCSL survey of legislative fiscal offices, various years.
Tax Trends in 2011

- Allowed temporary tax increases to expire.
- Focused on reforming/reducing business taxes.
- Continued removing exemptions and credits.
- Raised health care provider assessments.
Expiration of Temporary Taxes

California: Expiration of income, sales and car tax increases ($8 billion).

New York: December expiration of income tax surcharge on high-income taxpayers ($1.7 billion).

North Carolina: Expiration of income and sales tax rate increases ($1.2 billion).

Delaware ($6.9 million) and Maryland ($55 million).

Without the expiration of temporary taxes, there was a net tax increase of $9.0 billion in 2011 (largely accounted for by Illinois and Connecticut).
Reducing Business Taxes

- **Michigan tax reform:**
  - Eliminated the Michigan Business Tax and replaced it with a 6% corporate income tax (with only a small business credit).
  - Imposed income tax on pension and retirement income and eliminated special exemptions and most tax credits.
- **Delaware** cut gross receipts, bank franchise and gas & electric utility taxes.
- **North Dakota** cut the corporate income tax rate.
- **Florida** raised the corporate income tax standard exemption from $5,000 to $25,000.
- **Indiana and Arizona** will phase-in corporate income tax cuts.
Other Tax Cuts

- Ohio resumed a previous rate cut that was suspended in 2010.
- North Dakota cut personal and corporate income tax rates.
- Maine lowered personal income tax rates.
- New York exempted clothing items under $55 until Mar. 31, 2012; after that the exemption amount rises to $110.
- Arkansas and West Virginia lowered the sales tax rate on groceries.
- New Hampshire cut the cigarette tax.
Connecticut expanded the sales tax base to more services including pet grooming, spa services, cosmetic surgery, motor vehicle towing, yoga and non-prescription medicine.

Rhode Island expanded the sales tax base to include non-prescription medicine, digital downloads and travel & tour company products.

California and Texas modified some definitions to capture more sales tax on remote transactions.

Hawaii removed some general excise tax exemptions.

Kansas repealed various business-related sales tax exemptions.
Raised Health Care Provider Assessments

- Indiana: $450 million from new 2.7% hospital assessment and a 1.5% increase in the current health facility quality assessment.
- Connecticut: $400 million by imposing a new tax on hospital net revenue and a new resident day user fee for certain facilities.
- Idaho raised both hospital and nursing home assessments.
- Maryland and Oklahoma adopted new hospital assessments.
- Other states that raised these assessments include Colorado, Maine, Nebraska, North Carolina, Ohio, Oregon, Rhode Island, Utah, Vermont, Virginia and West Virginia.
Other Tax Increases in 2011

- Illinois raised the personal income tax rate from 3% to 5% ($6.6 billion, with a total tax increase of $7.2 billion).
- Connecticut raised $1.8 billion
  - Increased marginal tax rates and phased out the lowest tax bracket for certain taxpayers ($893 million).
  - Eliminated some sales tax exemptions and expanded the base to include some services.
  - Extended the corporate income tax surcharge for two years and doubled the rate from 10% to 20%.
  - Raised taxes on health care providers, hotel rooms, rental cars and tobacco products.
- Nevada did not allow temporary taxes to expire in 2011 as scheduled.

Source: "State Tax Actions 2011."
FY 2012 Tax Forecast
Compared to FY 2011 Estimates

State Distribution of Total Tax Growth

- 15 states with tax growth of 5-9.9%
- 26 states with tax growth of 0.1-4.9%
- 6 states with tax growth of ≥10%
- 2 states with tax growth of ≤0%

Source: NCSL survey of state legislative fiscal offices, July 2011.
Projected Return to Peak Revenue Collections

N/A = North Dakota, N/R or unknown = 16 states
* Includes Puerto Rico

Source: NCSL survey of state legislative fiscal offices, July 2011.
FY 2012 State Budget Outlook:
Strengths

- State revenue performance (39 states)
- Budget reserves (AK, IA, ME, NE)
- Strong visitor industry (HI)
- Agricultural economy (SD)
FY 2012 State Budget Outlook: Challenges

- Medicaid funding (14 states)
- Revenue performance (7 states)
- Impact of natural disasters (5 states)
- Strength of economic recovery (5 states)
Challenge:
Strength of Economic Recovery

- "If the state's economy does not continue to recover as forecast, the pressures on the state budget may not be reduced." (CA)
- "Uncertainties in the economy are providing uncertainty to the revenue outlook." (CO)
- "The fragile economy may not be as resilient to mild economic shocks as thought when the forecast was produced in February 2011. "(NC)
FY 2012 State Budget Outlook: Challenges (Cont.)

- Retirement system (5 states)
- Court challenges (4 states)
- Other health care costs (4 states)
- Federal budget (4 states)
- Job growth (3 states)
- TANF/human services (3 states)
FY 2012 State Budget Outlook
Challenges (Cont.)

- K-12 education
- Fuel prices
- Structural budget imbalance
- Use of one-time money
- Debt service
- Lack of reserves
- Transportation
- Higher education enrollment
- Oil production
- Housing market
FY 2012 State Budget Outlook
Challenges (Cont.)

- Employee concessions (CT)
- Ability to achieve budgeted savings:
  - "The FY 2012 budget relies on substantial savings to Medicaid. It is unclear whether or not these assumptions will be borne out." (MA)
  - "One budget challenge will be the realization of projected savings in Medicaid from managed care, generic drugs and provider rate cuts." (NC)
FY 2012 Overall Fiscal Outlook

- Stable (9 states)
- Positive/good (8 states)
- Cautiously optimistic (7 states)
- Improving (7 states)
- Cautious (5 states)
- Mildly concerned (3 states)
- Other: Fair, conservative, structural deficit, pessimistic
Conclusion

- The worst may be behind most states:
  - State revenues are growing
  - State year-end balances are stabilizing
  - The overall fiscal outlook is improving

- A number of significant uncertainties loom:
  - Demands on state budgets
  - The strength and sustainability of economic recovery
  - The impact of federal actions on state budgets
For More Information
www.ncsl.org