State Strategies to Manage Budget Shortfalls

Budgets & Revenue Committee
2011 Legislative Summit, San Antonio, Texas
August 9, 2011

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State Measures to Balance FY 2010 - FY 2012 Budgets

- In partnership with the Pew Center on the States, NCSL has tracked the recent actions states have taken to address budget gaps.
- The project is now available in a searchable database, available at: [http://www.ncsl.org/?tabid=20000](http://www.ncsl.org/?tabid=20000)

<table>
<thead>
<tr>
<th>Action</th>
<th>Disposition FY12</th>
<th>FY11</th>
<th>FY10</th>
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<tbody>
<tr>
<td>Higher Education</td>
<td>Enacted</td>
<td></td>
<td>The enacted budget eliminates the California Postsecondary Education Commission to save approximately $2 million. Fees will rise 32% for CSU and UC in-state undergraduates. UC schools will phase in the tuition hike, one in January 2010 and the next Fall 2010. UC schools will also reduce enrollments by 6%.</td>
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<tr>
<td>Higher Education</td>
<td>Enacted</td>
<td>The enacted budget reduces University of California and California State University budgets by $1.4 billion combined.</td>
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<td>Higher Education</td>
<td>Enacted</td>
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<td>The FY 2011 budget cuts $100 million funding to the state’s Cal Grant financial aid program. The cut is offset by $100 million in revenue from the Student Loan Operating Fund, which is comprised of funds from servicing federal student loans.</td>
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Major Components of General Fund Appropriations, FY 2010

- K-12 Education, 35.7%
- Higher Education, 12.1%
- Medicaid, 15.4%
- Corrections, 7.2%
- Other, 29.7%

Source: NASBO 2009 State Expenditure Report
Cuts have been heavily concentrated in Medicaid and other health care services.

FY 2011-FY 2012 cuts to K-12 have been more severe than in FY 2010.

Some states are revising sentencing policy in an attempt to control rising prison costs.

Many states have cut aid to local government.

States are instituting changes to employee benefit plans.

States have relied significantly on rainy day funds and other one-time sources.
Tax Actions Overview

- 2009 findings:
  - States turned to revenue raising measures to help close budget gaps.
  - The net tax increase was $28.6 billion for FY 2010.
  - Trends:
    - Many tax increases were temporary.
    - Many tax increases focused on high-income earners.
    - States began to examine existing tax credits and exemptions.

- 2010 findings:
  - Much smaller net tax increase - $4 billion for FY 2011.
  - Not a lot of activity so no clear trend-to the extent there was a trend it was to broaden the tax base by eliminating some tax breaks.

- 2011 findings:
  - First time in ten years, states cut taxes-$2.5 billion for FY 2012.
  - Net tax cut due to expiring temporary taxes adopted in 2009-without these expirations states would be looking at a net tax increase of $9.0 billion.

Source: "State Tax Actions," various years.
Notable 2011 Tax Increases

- Illinois raised $7.2 billion in new revenue in 2011
  - Generated $6.6 billion by increasing the personal income tax rate from 3% to 5%.

- Connecticut raised revenue by $1.8 billion in 2011
  - Generated more than $893 million by increasing marginal tax rates and phasing out the lowest tax bracket for certain taxpayers.
  - Expanded the sales tax base by eliminating some exemptions and expanding 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 lawmakers did not allow temporary taxes to expire in 2011 as scheduled.

Source: "State Tax Actions," various years.
Other 2011 Tax Increases

- Hawaii and Kansas eliminated some business exemptions.

- Maryland raised health care assessments and the sales tax rate imposed on alcoholic beverages.

- Rhode Island expanded the sales tax base by removing exemptions for certain digital downloads, non-prescription medicine and travel and tour company products.

- Vermont raised health care provider and cigarette taxes.

Source: "State Tax Actions," various years.
K-12 Education Cuts

- In FY 2010, states largely avoided cuts with direct impacts on classroom expenditures.
- FY 2011 & FY 2012 cuts were more likely to impact direct expenditures, including the school funding formula.

Examples:
- Cut $160 million from K-12 education (CO-FY 2012).
- Cut $1.35 billion, about $540 per pupil, from K-12 education (FL-FY 2012).
- Cut $1.27 billion from K-12 education (NY-FY 2012).
- Cut $1 billion from K-12 education (WA-FY 2012)
- Cut funding for full-day kindergarten, saving an estimated $218 million (AZ-FY 2011).
Higher Education Cuts

- Percentage cuts to tend to be greater than cuts made to the K-12 system.
- Increased enrollment has exacerbated the problem.
- Higher education has been a common target for cuts since the recession:
  - Examples:
    - Cut $1.4 billion from UC and CSU systems combined (CA-FY 2012).
    - Cut $70 million (MA-FY 2012).
    - Cut $350 million, about 12% (MN-FY 2012-2013 biennium).
    - Cut $85 million, about 15% (NV-FY 2012).
    - Cut $457 million from CUNY & SUNY systems (NY-FY 2012).
    - Cut $535 million, about 24% (WA-FY 2012).
    - Cut $250 million from University of Wisconsin system (WI-FY 2012).
Medicaid Cuts

Nearly every state has cut Medicaid program budgets over the past three years.

- Reductions have been focused on:
  - Reducing provider payments (at least 2/3 of the states in FY 2010 alone).
  - Imposing pharmacy controls.
  - Eliminating optional benefits.

- Examples:
  - Cut $736 million cut (over biennium) (VA-FY 2011).
    - Includes $367 million in provider rate reductions.
  - Cut $500 million. Savings achieved through enrollment freezes and ending coverage to certain groups (AZ-FY 2012)
  - Cut $1.7 billion - will require federal waivers (CA-FY 2012).
  - Cut $75 million by tightening eligibility requirements (HI-FY 2012).
  - Cut $800 million (MA-FY 2012).
  - Moved some beneficiaries to managed-care systems (FL, IL, NJ).
Other Health Care & Human Svcs. Cuts

- Fewer states cutting this area compared to previous two years, but some states still cutting significant amounts.

- Examples:
  - Cut $400 million from in-home supportive services (CA-FY 2012).
  - Cut $130 million from the state's basic health insurance plan for low-income individuals (WA-FY 2012)
    - Comes after a $225 million cut in FY 2011.
  - Cut $90 million from local mental health agency funding (OH-FY 2010).
  - Cut the Dept. of Human Services budget by $312.6 million (IL-FY 2011).
  - Cut the Dept. of Community Health budget by $204.5 million (GA-FY 2011).
  - Consolidated child abuse intake centers from eight to one (IA-FY 2011).
  - Closed 17 of 33 centers that evaluate children with significant behavioral problems (OK-FY 2011).
Criminal Justice Cuts

- Many states have closed prisons or detention facilities.
- Other cuts have focused on prisoner programs or other expenses.
- Some states are revising sentencing policy in an attempt to control rising prison costs.

Examples:
- Facility closures continue in FY 2012 (CT, NY, NC, VA, WI).
- Enacted sentencing reform law reduces sentences for some non-violent crimes and increases sentences for some violent crimes, saving an estimated $400 million over the next five years (SC-FY 2011).
- Vegetarian enriched meals replaced inmate kosher meals (IN-FY 2011).
- Adopted “Taco Tuesday” at state prisons, saving 10 cents a meal (WI-FY 2011).
Local Government Aid & Parks and Recreation Cuts

- Many states have cut aid to local government.
  - Cut $642 million in aid to local governments (MN-FY 2012 - FY 2013).
    - On top of previous cut of $404.3 million in FY 2011.
  - Cut $630 million in aid to local governments (OH-FY 2012 - FY 2013).

- Many states have cut funding for state parks or other recreation venues.

- States exploring alternative funding sources:
  - Partnerships, sponsorships, and private vendors.
  - Land leases for private camping operators and natural gas drilling

- Examples of parks cuts:
  - All general fund support for the state parks agency eliminated (AZ & WA).
  - 70 of 278 state parks to be closed due to cuts (CA-FY 2012).
Cuts Affecting State Employees

- Many states have imposed furloughs or layoffs to reduce personnel expenses.
- At least half the states have implemented benefits changes including:
  - Pension plan changes.
  - Increased employee contributions for pensions & health insurance.
  - Changes to cost of living adjustments.
- Other common changes affecting state employees include:
  - Hiring freezes
  - Salary freezes
  - Early retirement program
  - Travel bans
- Many of these actions were administratively implemented at the onset of the recession and still remain in effect.
Major Pensions Legislation in 2010-2011

39 States Represented
Other Actions

- **Fund Transfers**
  - Many state have used Rainy Day funds and other funds.

- **Elimination & Consolidation of State Entities**
  - Since 2009, at least 19 states have eliminated or consolidated state entities.
  - In general, these actions have not represented substantial savings for state budgets.
  - CA, NJ, & WA have been the most active in this area.