

State Budget Update: November 2004



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STATE BUDGET UPDATE: NOVEMBER 2004

State finances are improving, at least in the near term. The recovery that began last year is stronger and more widespread today. Revenues for the first few months of fiscal year (FY) 2005 are on target or above projections in nearly every state. Budget overruns are less severe than in recent years. Budget gaps are practically non-existent. In short, state finances are stable or improving for most states.

This reprieve from budget problems may be temporary, however. An early glimpse at FY 2006 budget issues reveals that another round of fiscal challenges is developing. Funding pressures from elementary-secondary (K-12) education, Medicaid and other state programs coupled with concerns about structural gaps will make next year's budget deliberations difficult.

This report is based on information collected from legislative fiscal directors in November 2004. It covers the revenue and expenditure situation for the first four months of FY 2005 for most states.¹ It includes information on budget gaps, spending overruns, revenue performance and the top fiscal issues anticipated for 2005 legislative sessions.

FY 2005 Budget Gaps

Since FY 2001, lawmakers have closed an aggregate budget gap exceeding \$235 billion. About \$36 billion of this amount was resolved with the enactment of FY 2005 budgets. Information collected through the first four months of the current fiscal year shows that these budgets are holding stable.

- Only three states report that gaps have opened since the beginning of the fiscal year. This compares with 10 states last year and 31 states two years ago.
- The cumulative budget gap is \$568.1 million, compared to \$2.8 billion last year and \$17.5 billion two years ago.
- The projected FY 2005 gaps are in Michigan (2.2 percent), Nebraska (2.2 percent) and New Hampshire (3.1 percent). Nebraska's gap is relative to the state's statutory minimum reserve requirement (absent that provision, the state would not project a gap).

1. Forty-six states began their fiscal year on July 1. The exceptions are Alabama (begins October 1), Michigan (begins October 1), New York (begins April 1), and Texas (begins September 1).

FY 2005 Spending Overruns

Although about half the states are reporting budget overruns four months into the current fiscal year, the extent and magnitude of these gaps appears less severe than in past years.

- Twenty-three states report spending overruns for some portion of the budget.
- As in past years, Medicaid is the category most commonly over budget. So far in FY 2005, Medicaid spending is exceeding appropriations in 16 states.
- Corrections expenses are over budget in seven states.
- Other programs above budgeted levels include welfare, mental health services, district courts, state parks, employee health insurance and K-12 education.

FY 2005 Revenue Performance

Revenues for the first few months of FY 2005 are performing substantially better than they have in recent years. Some analysts attribute strong growth rates to the low bases on which the increases are occurring. Others note that original forecasts were conservative, so news about collections exceeding estimates are partly explained by these conservative starting points. In any case, revenue recovery is welcome news for state lawmakers.

- General fund revenue collections are above forecasts in 36 states and on target in 10. Last year the numbers were 21 and 13, respectively.
- Only three states—Michigan, New Jersey and Tennessee—report collections below the original forecast, compared with 16 states under forecast at this time last year. In New Jersey, new revenues from recently enacted tax increases are expected to hit state coffers in the spring, so collections are expected to rebound.
- States generally are reporting strong growth in one or more revenue categories. Personal income and sales tax collections, which represent about two-thirds of state tax collections, are above target in nearly every state. Only two states—New Jersey and North Carolina—reported that personal income taxes were below forecast. Seven states reported that sales tax collections were lagging estimates.
- Corporate income taxes also are performing above expectations, in many cases substantially above. Many states are even reporting double-digit growth compared with the forecasts, including Arizona (46.8 percent), Georgia (97.4 percent), Kansas (58.5 percent) and Maine (41.1 percent). Hawaii is seeing collections 106 percent above actual collections last year. Although growth rates are sizeable in many states, nationally, corporate income taxes represent only 5.2 percent of state revenues.
- Many states report that all three major taxes—personal income, sales and corporate income—are exceeding projections. California notes that these three taxes are up a combined \$900 million through October and are projected to be \$2 billion higher than the budgeted estimate by the close of the fiscal year.
- Energy-related taxes are exceeding forecasts in seven states. In Alaska, crude oil prices are running 33 percent above forecast, so the state could realize a sizeable surplus by the end of the fiscal year instead of the shortfall originally projected.

- Because revenue performance is widely exceeding forecasts, 26 states already have revised their FY 2005 revenue estimates. Collections are on target or above the revision in nearly every state.
- Consistent with the overall improvement in revenue performance, states are more optimistic about the revenue outlook for the remainder of the fiscal year than they were one and two years ago.

Outlook as of	November 2002 (FY 2003)	November 2003 (FY 2004)	November 2004 (FY 2005)
Optimistic	2	8	17
Stable	8	24	31
Concerned	29	15	2
Pessimistic	9	2	0

Top Fiscal Issues for 2005 Legislative Sessions

Legislative fiscal directors are keenly attuned to the budget demands and fiscal pressures confronting legislatures. This year's survey asked these fiscal experts to identify the top fiscal issues their states are expected to address in the 2005 legislative sessions.

- Medicaid, health care costs or some other health-related matter is anticipated to top legislative agendas in 30 states. Most concerns focus on Medicaid—reductions in the Federal Medical Assistance Percentage and rapidly rising costs stemming from caseload growth, benefit increases and medical cost inflation. Several states also note that employee health insurance costs will be a key fiscal issue in 2005.
- Twenty-six states expected K-12 education to be a fiscal priority in next year's sessions. Attention will focus on adequate funding levels, court orders, school finance reform, funding pre-kindergarten and class-size reduction and public school facilities.
- Notwithstanding the improvement in state finances, 22 states note that overall budget problems will garner top attention next year. Replacing one-time revenues used in FY 2005 and addressing looming budget gaps in FY 2006 and beyond are expected to capture most attention. Other broad budget discussion will address spending and revenue caps, budget reform and how to fund rapid increases in program growth. On the other side of this coin, Wyoming notes that dealing with its budget surplus will top legislative deliberations.
- Ten states expect tax discussions to dominate legislative attention. The focus will not be tax increases, but reform, relief and tax credits.
- Other commonly cited issues include corrections/public safety (seven states), transportation (five states), and gaming, higher education and human services (four states each).

Table 2. FY 2005 Budget Gaps

State	Budget Gap		Amount (millions)	Percent	Notes
	No	Yes			
Alabama	✓				
Alaska	✓				
Arizona	✓				
Arkansas	✓				
California	✓				
Colorado	✓				
Connecticut	✓				
Delaware	✓				
Florida	✓				
Georgia	✓				
Hawaii	✓				
Idaho	✓				Officials anticipate a large surplus at the end of FY 2005.
Illinois	✓				
Indiana	✓				
Iowa	✓				
Kansas	✓				
Kentucky	✓				
Louisiana	✓				
Maine	✓				A FY 2004 positive revenue variance of \$63 million (2.4%) after setting aside statutory reserves will increase the budgeted ending balance at the close of FY 2005 to \$10.7 million, which may help offset program shortfalls.
Maryland	✓				The Department of Legislative Services currently is projecting a FY 2005 closing balance in excess of \$550 million.
Massachusetts	✓				
Michigan		✓	\$465.0	2.2%	A special consensus revenue estimating conference held in early December lowered general fund and school aid fund revenues for FY 2005. The combined gap for these two funds is \$465 million (2.2%).
Minnesota	✓				A Dec. 1, forecast revision projects a \$495 million balance at the end of FY 2005.
Mississippi	✓				
Missouri	✓				
Montana	✓				

Table 2. FY 2005 Budget Gaps

State	Budget Gap		Amount (millions)	Percent	Notes
	No	Yes			
Nebraska		✓	\$62.1	2.2%	A budget gap is expected relative to Nebraska's statutory minimum ending balance requirement. However, the projected ending balance is positive and does not take into consideration disposition of prior year receipts collected in excess of estimates and how that may be used in the next budget cycle. Under current law such excess collections are automatically transferred to the rainy day fund. If the transfer had not occurred and the receipts retained in the general fund, there would not be a budget gap for the current FY 2005.
Nevada	✓				
New Hampshire		✓	\$41.0	3.1%	
New Jersey	✓				
New Mexico	✓				
New York	✓				
North Carolina	✓				
North Dakota	✓				
Ohio	✓				
Oklahoma	✓				The state will not have an official estimate until mid-December.
Oregon	✓				Oregon budgets on a biennial basis. The most recent forecast for the 2004-2005 biennium does not anticipate a budget gap for the second year of the biennium.
Pennsylvania	✓				
Rhode Island	✓				Officials anticipate a small surplus of \$2 million (0.06%).
South Carolina	✓				
South Dakota	✓				
Tennessee	✓				
Texas	✓				
Utah	✓				
Vermont	✓				
Virginia	✓				
Washington	✓				
West Virginia	✓				
Wisconsin	✓				Re-estimates of FY 2005 revenues and expenditures will be issued in January 2005.
Wyoming	✓				
Total	47	3	\$568.1		

Source: NCSL survey of legislative fiscal offices, November 2004.

State	No	Yes	Notes
Alabama	✓		
Alaska		✓	Fire suppression (\$40 million).
Arizona		✓	Medicaid.
Arkansas	✓		
California		✓	General government and corrections.
Colorado	✓		Potentially health care policy and finance (Medicaid). Officials will not know for certain until Jan. 1, 2005, when the governor submits supplemental requests.
Connecticut		✓	A \$74.7 million increase in expenditures is largely attributable to projected deficiencies totaling \$61.4 million. Of this amount, \$37.3 million in net deficiencies are occurring within the Department of Children and Families (\$13.8 million), the Department of Corrections (\$13.5 million) and the Office of Policy and Management for energy contingency (\$10 million). These numbers represent relatively minor amounts given the size of each agency's budget.
Delaware	✓		
Florida	✓		
Georgia	✓		
Hawaii	✓		None reported, but officials anticipate that emergency appropriation requests will be submitted.
Idaho		✓	Medicaid and corrections.
Illinois	✓		Spending for most core functions remains largely at anticipated levels.
Indiana	✓		
Iowa		✓	Medicaid has an anticipated supplemental need of between \$52 million and \$85 million.
Kansas		✓	Medicaid.
Kentucky	✓		None at this point. There is not an enacted state budget at this time.
Louisiana	✓		
Maine		✓	Several programs in the Department of Health and Human Services (DHHS) have been running over budget. Medicaid and Medicaid administration are \$33 million over budget and child welfare is over budget by \$3.4 million. DHHS is still looking for ways to self-fund these shortfalls. No other significant negative variances have been reported at this time. Given the projected shortfall for the 2006-2007 biennium, most or all of FY 2005 overruns will need to be "self-funded" without a net increase in supplemental appropriations.
Maryland		✓	Spending shortfalls for FY 2005 could approach \$200 million of which approximately \$142 million falls under the areas of Medicaid and Mental Health services. Other large components where shortfalls may occur include foster care because of caseload growth and under attainment of federal funds (\$38 million), payments to local jails for part of the cost of certain short-term sentenced offenders (\$15 million) and a number of smaller miscellaneous programs.
Massachusetts	✓		
Michigan		✓	The FY 2005 budget gap reflects a projected \$67 million supplemental appropriation for Medicaid due to revised caseload estimates.
Minnesota	✓		

Table 3. FY 2005 Spending Overruns			
State	No	Yes	Notes
Mississippi		✓	Medicaid.
Missouri		✓	Medicaid.
Montana		✓	District courts and corrections department.
Nebraska	✓		
Nevada	✓		
New Hampshire		✓	Medicaid and employee health insurance.
New Jersey	✓		
New Mexico	✓		
New York	✓		
North Carolina	✓		
North Dakota		✓	Medicaid and corrections.
Ohio		✓	Property tax relief is \$88.2 million (26.9%) above estimate (likely due to timing issues that should even out by the end of December). Medicaid is \$48.6 million (1.5%) above estimate.
Oklahoma		✓	The Department of Corrections and the Department of Human Services likely will require supplemental appropriations.
Oregon	✓		
Pennsylvania	✓		
Rhode Island		✓	Human Services—welfare and developmentally disabled caseloads have increased.
South Carolina	✓		
South Dakota	✓		
Tennessee	✓		
Texas		✓	Medicaid and K-12 public education.
Utah	✓		
Vermont		✓	Medicaid costs are increasing. The state's mental hospital budget is under pressure because of temporary federal decertification and federal funding decisions affecting institutes of mental disease with more than 16 beds. Corrections is up because of caseload and medical services. The state has caseload pressures in child care, and revenue concerns in the state parks and the fish and wildlife budgets. Officials expect to address these and whatever else comes to light for FY 2005 in the budget adjustment process.
Virginia		✓	Medicaid, by about \$100 million.
Washington		✓	General assistance program.
West Virginia	✓		
Wisconsin		✓	The administration is projecting a funding shortfall for the Medical assistance program by the close of FY 2005.
Wyoming	✓		
Total	27	23	

Source: NCSL survey of legislative fiscal offices, November 2004.

Table 4. FY 2005 General Fund Revenue Collections

State	Original FY 2005 Revenue Estimate*	On Target	Below		Above		Revenue Period Covered		Notes
			Amount (millions)	Percent	Amount (millions)	Percent	Sept. 2004	Oct. 2004	
Alabama	16.2%	✓						✓	The state's fiscal year began Oct. 1, so the state has receipts for only the first month of FY 2005. This information pertains to the state's general fund, not the Education Trust Fund.
Alaska	-12.5%				\$250.0	33%		✓	An official revenue forecast is due in December. Crude oil prices for Alaska North Slope oil are running 33% above projections. Although there isn't an official year-end projection yet, the state could realize a surplus of about \$400 million (a significant change from the spring forecast of a \$376 million deficit).
Arizona	8.3%				\$130.0	6.0%		✓	
Arkansas	3.4%				\$85.5	7.3%		✓	
California	0.6%				\$1,100.0	4.9%		✓	
Colorado	6.2%				\$54.0	0.9%		✓	
Connecticut	3.4%				\$242.0	1.8%		✓	About \$189 million of the \$242 million increase is anticipated from the personal income tax.
Delaware	2.5%	✓						✓	Net general fund collections are on target when adjusted for removal of Medicaid State Institution as a revenue source and simultaneously removing the appropriation in the budget for same.
Florida	2.9%				\$398.4	8.0%		✓	Hurricanes caused a shortfall in sales taxes for September, but overages in other categories more than made up for it.
Georgia	6.1%	✓						✓	
Hawaii	8.6%				\$26.2	2.2%		✓	
Idaho	1.2%				\$33.5	10.1%		✓	Revenues are 10.1% over the same four months last year.
Illinois	0.8%	✓						✓	
Indiana	4.7%				\$99.2	2.9%		✓	The 4.7% original revenue forecast refers to the general fund and the property tax replacement fund.
Iowa	0.6%				\$114.7	9.5%		✓	Collections are above forecast when compared to the revenue estimate made in March 2004.
Kansas	2.2%				\$32.3	2.3%		✓	
Kentucky	(N/A)				\$76.9	(N/R)		✓	The most recent revenue estimate was made in June 2004.

Table 4. FY 2005 General Fund Revenue Collections

State	Original FY 2005 Revenue Estimate*	On Target	Below		Above		Revenue Period Covered		Notes
			Amount (millions)	Percent	Amount (millions)	Percent	Sept. 2004	Oct. 2004	
Louisiana	1.1%	✓						✓	
Maine	1.2%				\$38.2	5.1%		✓	The personal income tax is running ahead of budget by \$17.8 million (5.8%) for the first four months of FY 2005, but a good portion of this positive year-to-date variance is thought to be a timing issue. The June adjustment to the year-end revenue accrual likely will reduce the positive variance.
Maryland	6.2%				Above	Above		✓	Officials are not tracking FY 2005 monthly revenue attainment vis-à-vis the budgeted revenue estimate. The revenue estimate was revised upward in September and officials are using that new estimate as the basis for comparison with monthly revenues. Since Maryland currently is running ahead of the revised estimate, it is undoubtedly the case that revenue attainment through October is exceeding the budgeted revenue estimate as well, but by how much either in dollar or percent terms is unknown.
Massachusetts	1.6%				\$80.0	1.6%		✓	
Michigan	1.4%		\$150.0	0.8%				✓	The state's fiscal year began Oct. 1. Collections from the major taxes during September and October have fallen considerably below the official May 2004 consensus revenue estimate.
Minnesota	3.4%				\$59.7	0.4%		✓	
Mississippi	3.9%				\$6.9	0.6%		✓	State general fund collections are slightly above the estimate through October, and 7.7% over the prior year collections for the same period.
Missouri	-4.4%	✓						✓	
Montana	-2.9%				\$61.4	4.6%		✓	
Nebraska	2.3%				\$55.7	6.4%		✓	
Nevada	8.7%				Above	Above			In the first four months of FY 2005, gaming revenues have increased 3.7 percent over the same period one year ago. There have only been two months of sales tax collections in FY 2005 which reflect an increase of 16.3 percent compared to the same period one year ago.
New Hampshire	-1.8%				\$22.9	4.2%		✓	
New Jersey	10.8%		(N/R)	1.0%				✓	Revenues are slightly below expectations, but new revenues from major tax increases are expected to hit primarily in the spring of 2005.

Table 4. FY 2005 General Fund Revenue Collections

State	Original FY 2005 Revenue Estimate*	On Target	Below		Above		Revenue Period Covered		Notes
			Amount (millions)	Percent	Amount (millions)	Percent	Sept. 2004	Oct. 2004	
New Mexico	-3.9%				\$2.1	0.2%		✓	The original FY 2005 forecast was negative because significant non-recurring revenues were posted in FY 2004 (due to a move to accrual revenue accounting). The original estimate for FY 2005 recurring revenues was 2.4% growth above FY 2004 collections.
New York	-1.2%				\$526.0	3.1%	✓		
North Carolina	5.9%				\$70.0	1.5%		✓	
North Dakota	-2.1%				\$11.5	6.0%	✓		
Ohio	6.1%	✓						✓	The total general revenue fund is \$6.3 million (0.1%) below estimate, but up 1.9% compared to FY 2004. State-source revenue is \$29.1 million (0.5%) above estimate and up 4.5% compared to FY 2004. Federal grants are \$35.4 million (1.9%) below estimate and down 5.3% compared to FY 2004 (the comparison to FY 2004 is distorted by the \$193 million received in October 2003 under the Jobs & Growth Tax Relief Reconciliation Tax Act of 2003). Tax revenue is \$30.4 million (0.5%) above estimate and up 4.9% compared to FY 2004.
Oklahoma	3.4%				\$164.3	11.3%		✓	
Oregon	8.0%				\$73.0	6.3%	✓		The estimate is adjusted for voters' disapproval of an income tax increase.
Pennsylvania	3.9%				\$166.2	2.4%		✓	About half the overage (\$72 million) is in non-tax revenue.
Rhode Island	4.0%				\$22.9	4.8%		✓	This is based on the Revenue Estimating Conference estimate of November 2004.
South Carolina	2.7%				\$37.0	2.0%	✓		
South Dakota	9.7%	✓						✓	
Tennessee	2.7%		\$54.0	2.3%				✓	
Texas	0.1%	✓							The state's fiscal year began Sept. 1. The budget for FY 2005 was passed in May 2003 (the second year of the two-year budget).
Utah	1.8%				\$23.2	2.6%	✓		

Table 4. FY 2005 General Fund Revenue Collections

State	Original FY 2005 Revenue Estimate*	On Target	Below		Above		Revenue Period Covered		Notes
			Amount (millions)	Percent	Amount (millions)	Percent	Sept. 2004	Oct. 2004	
Vermont	-0.9%				\$14.7	4.7%		✓	This is compared to the revenue forecast set on July 15. The 4.7% is based on the targeted level through October 2004. The July 15 revision resulted in an increase of \$27.4 million over the level used when the budget was adopted.
Virginia	7.4				Above	Above		✓	Collections are performing at 10.5% through October, against a revised 4.5% growth rate for FY 2005 (which reflects the actual performance in FY 2004), and is roughly \$400 million ahead of the end of October last year.
Washington	3.1%				\$10.0	0.3%	✓		
West Virginia	-0.2%				\$94.6	10.0%		✓	
Wisconsin	4.7%								Re-estimates of FY 2005 revenues and initial estimates for the 2006-2007 biennium will be issued in January 2005.
Wyoming	1.0%	✓					✓		

* The original FY 2005 revenue estimate information shown in this table is from a summer 2004 survey of legislative fiscal offices. The figure represents the percentage change in the FY 2005 revenue forecast compared with FY 2004 collections. The official revenue forecast may have changed since the information originally was provided. All other data in this table are from a November survey updating state budget information.

N/A – Kentucky did not enact a budget for FY 2005.

Source: NCSL survey of state legislative fiscal offices, November 2004.

Table 5. Performance of Major Tax Categories

State	Notes
Alabama	Individual income and sales taxes are performing significantly above estimates; however, those taxes are earmarked for the Education Trust Fund. Major taxes in the general fund include the insurance premium tax (its first payment was due Nov. 15 so is not included in October receipts); oil and gas (above estimates); and court fees (below estimates).
Alaska	Crude oil prices for Alaska North Slope oil are running 33% above projections.
Arizona	The sales tax is 9.6% over last year; the personal income tax is 11.7% over last year, and the corporate income tax is 46.8% over last year.
Arkansas	Through October, personal income tax collections are 7.2% above expectations; corporate income tax collections are 20.1% above expectations and refunds are only 72% of expectations; gross receipts taxes are 4.1% above expectations.
California	Personal income, sales, and corporation taxes are up by a combined \$900 million. Specifically, personal income tax is up \$291 million (2.6%), the sales tax is up \$17 million (0.2%), and the corporate income tax is up \$607 million (31%).
Colorado	Through October, sales and use taxes are running \$12 million lower than budgeted, personal income taxes \$42 million above, and corporate income taxes \$24 million above.
Connecticut	The personal income tax is 3.7% above budget plan and all other categories are close to budget plan with the exception of the oil companies tax, which is up \$39.9 million or 44.5% above budget plan due to the 70% increase in crude oil prices since January 2004.
Delaware	All are on target within a variation of less than 1% through the September estimate from June. The realty transfer tax continues to be strong and was increased by 6% in September.
Florida	All major tax categories—sales, corporate, document stamps, insurance premium, intangibles, and estate tax—are performing well. Real estate-related sources—document stamp and the non-recurring intangibles tax—are particularly strong.
Georgia	The personal income tax is up 9.6% for the year (October up 4.9%); the general sales tax is up 8.1% (October up 6.1%); and the corporate income tax is up 97.4%
Hawaii	Through October, personal income taxes have increased \$59.9 million (15.5%) over FY 2004 levels, corporate income taxes have increased \$10.7 million (106%) and general excise taxes have increased \$30.9 million (4.9%). The transient accommodations tax has increased \$6.1 million (10.2%) over FY 2004 levels, but these revenues are designated to counties, debt and operating expenses for the convention center, and a special fund for statewide tourism marketing.
Idaho	The sales tax is increasing 10%, the personal income tax 7.5% and the corporate income tax 22%.
Illinois	Both personal and corporate income taxes have performed at or even slightly better than anticipated thus far. The sales tax also has done pretty well.
Indiana	All three major taxes are performing well with corporate tax collections having the largest percent of collections over estimates.
Iowa	Through September, all major tax categories are performing above expectations, particularly the corporate income tax. "Other" tax receipts are significantly above projections because insurance premium tax rate and due date changes are taking place in FY 2005, which will result in extra revenue in the first eight months of the year and reduced revenue in the last four months of the fiscal year.

Table 5. Performance of Major Tax Categories

State	Notes
Kansas	Personal income tax revenues are up \$5.2 million (0.8%); general sales tax revenues are down \$9.2 million (1.6%); and corporate income tax revenue is up \$23.7 million (58.5%).
Kentucky	With the exception of property taxes, all taxes show increases above the most recent revenue estimate (June 2004).
Louisiana	General fund tax collections are on target with budgeted projections.
Maine	The personal income tax is running ahead of budget by \$17.8 million (5.8%) for the first four months of FY 2005, but a good portion of this positive year-to-date variance is thought to be a timing issue and the June adjustment to the year-end revenue accrual will likely reduce the positive variance. The sales tax is ahead of budget by \$7.1 million (2.8%). The corporate income tax is well ahead of budget by \$11.5 million (41.1%). The cigarette tax is slightly under budget. The insurance premium tax is ahead of budget by \$1.6 million (29.4%). A smaller revenue source, the real estate transfer tax, is running ahead of budget by \$4.7 million (76.8%). This largely reflects a substantial increase in real estate values, which also has been one of the major reasons for the recent initiatives for property tax relief.
Maryland	The sales tax is growing strongly compared to last year and is running about 1.2% ahead of the estimate. The corporate income tax is over last year's level by 114% but that reflects (to some unknown degree) a law change related to the use of Delaware holding companies. The bill required companies to reflect the new treatment of Delaware holding companies in their tax year 2004 third quarter payment that was due in September. The third quarter payment was up substantially (over 40%) but there is no way to know how much of the increase is due to the law change. Compared to the estimate, corporate income tax receipts are up 26%. The personal income tax is up 36% over last year but this reflects a number of changes in the law the most important of which was changing the withholding due date for most taxpayers from monthly to three business days after the end of the payroll. Because of this change, Maryland has collected roughly an extra month's worth of withholding compared to last year.
Massachusetts	Personal income tax revenues are \$77 million over year-to-date benchmarks. Sales tax revenue is \$6 million below year-to-date benchmarks. Corporate income tax revenue is \$3 million below year-to-date benchmarks.
Michigan	The major weakness appears to be in the sales tax and the single business tax.
Minnesota	Corporate taxes have been above forecast with minor variations in other areas.
Mississippi	Sales tax collections are above the current estimate with other major taxes on target. All taxes (except the use tax) are significantly above the prior year for the period July through October.
Missouri	Officials are seeing positive growth in personal income, corporate income and sales taxes.
Montana	Personal and corporate income taxes, as well as the oil and gas production tax, are the primary sources contributing to the above estimate performance.
Nebraska	The sales tax is \$20.9 million (5.3%) above estimate; the personal income tax is \$19.1 million (5.1%) above; the corporate income tax is \$7.2 million (16.4%) above; and miscellaneous revenue is \$8.5 million (13.7%) above.

Table 5. Performance of Major Tax Categories

State	Notes
Nevada	Gaming percentage fees and sales taxes represent 60 percent of state general fund revenues. In the first four months of FY 2005, gaming revenues have increased 3.7 percent over the same period one year ago. There have been only two months of sales tax collections in FY 2005, which reflect an increase of 16.3 percent compared to the same period one year ago.
New Hampshire	Business taxes are over budget by \$8.9 million (8.8%).
New Jersey	Personal income, sales and corporation taxes combined account for two-thirds of the state's budgeted revenue. These are performing slightly below expectations. A personal income tax rate increase primarily will affect spring collections, complicating current revenue assessments. Other revenues appear to be close to targets overall.
New Mexico	General sales, selective sales and personal income taxes are roughly on track. Corporate income tax receipts through October are much higher than expected as well as energy related taxes and rents and royalties due to high energy prices.
New York	Personal income, sales, and corporate income tax collections are performing above budget estimates. Other taxes, mainly estate taxes, are performing below estimates.
North Carolina	The withholding portion of the income tax is growing at 4.0% rate versus 5.0% forecast. Sales tax growth is 7.6% compared to the 5.7% budget estimate, though the rate of growth is beginning to slow because of high energy prices. Corporate income tax collections are far above the budgeted amount.
North Dakota	Sales, personal income and oil taxes are generating the majority of the additional revenue.
Ohio	The personal income tax is \$50.1 million (2.1%) above estimate and is up 5.8% compared to FY 2004. The nonauto sales tax is \$36.2 million (1.6%) above estimate and is up 11.3% compared to FY 2004. The auto sales tax is \$14.2 million (3.5%) below estimate and is down 8.4% compared to FY 2004 (the comparison to FY 2004 is distorted due to the timing of a base expansion and rate increase in FY 2004). The corporate franchise tax (CFT) is \$22.3 million (41.9%) below estimate and is down 35.4% compared to FY 2004. (Activities under the CFT in the first half of the fiscal year are generally refunds, tax payments due to audit findings, late payments and other tax reconciliations. The timing of refunds and tax reconciliations is unpredictable, so monthly variances in CFT revenues have little meaning in the first half of the fiscal year. Through September, CFT revenue was \$3.3 million above estimate; October revenues came in \$25.6 million under estimate.) The cigarette tax is \$9.8 million (5.8%) below estimate and is down 3.2% compared to FY 2004.
Oklahoma	For the first four months of the fiscal year, the net income tax is over the estimate by \$99.7 million (15.8%) and gross production taxes are over the estimate by \$47.5 million (40.6%). Other revenue sources are coming in closer to the estimate.
Oregon	Personal income tax revenue is on target and corporate income tax is well above forecast.
Pennsylvania	The major tax categories are above estimate through October. The personal income tax is over estimate by \$41.6 million (1.7%); the sales tax is over by \$11.7 million (0.4%); and the corporate net income tax (CNIT) is over by \$56 million (12.5%). Total corporation taxes, which include the capital stock and franchise tax as well as the CNIT, are \$54.3 million (7.2%) above estimate.
Rhode Island	Major tax categories are performing above estimate.

Table 5. Performance of Major Tax Categories

State	Notes
South Carolina	All three major categories are performing above the Appropriation Act estimate by 2% to 3%, which has resulted in the Board of Economic Advisors revising the FY 2005 estimate.
South Dakota	Taxes are \$1.4 million (0.5%) below the estimate.
Tennessee	The sales tax is down \$54 million, franchise and excise taxes are up \$5.9 million and gasoline and motor vehicle registration revenues are down \$3.4 million.
Texas	The general sales tax is slightly above estimate. It is too early to tell regarding other taxes.
Utah	Sales and personal income taxes are performing slightly ahead of expectations after four months into FY 2005. Corporate taxes are performing slightly below expectations at this point.
Vermont	Compared to targets set by the revised July 15 forecast, the personal income tax is \$4.2 million (2.7%) above target, the sales tax is \$5.1 million (7.7%) over target, the meals and room tax is \$1.2 million (3%) over target, the corporate income tax is \$2.9 million (21.8%) over target; and all others are \$1.4 million (3.5%) over target.
Virginia	Personal income, withholding, sales, corporate income and recordation taxes are all performing above forecast.
Washington	Major tax categories are performing on target.
West Virginia	The personal income tax is \$14.2 million above estimate, the general sales tax is \$2.3 million below estimate, the corporate income tax is \$13.5 million above estimate and severance taxes are \$32.6 million above estimate.
Wisconsin	Re-estimates of FY 2005 revenues will be issued in January 2005.
Wyoming	Major tax categories are performing on target with the revised forecast.
Source: NCSL survey of legislative fiscal offices, November 2004.	

Table 6. Revised Revenue Estimates for FY 2005

State	Revenue Estimate Revised			Notes
	No	Yes	Date	
Alabama	✓			Officials will revise the FY 2005 estimate for budget hearings that begin in early January.
Alaska	✓			
Arizona	✓			
Arkansas		✓	Nov. 10, 2004	The forecast was revised up by \$118.5 million (3.3%).
California		✓	Nov. 17, 2004	Personal income, sales and corporation taxes are projected to be \$2 billion higher than the estimate made when the budget was enacted last summer. These figures were just revised.
Colorado		✓	September 2004	Collections are \$20 million (0.3%) below the revised forecast.
Connecticut	✓			
Delaware		✓	Sept. 20, 2004	
Florida		✓	Nov. 12, 2004	Collections are on target with the revised forecast.
Georgia	✓			
Hawaii		✓	Sept. 10, 2004	Collections are \$24 million above the revised forecast.
Idaho		✓	September 2004	Revenues are \$28.6 million (10.1%) over the same four months last year versus the 6.2% revised projection.
Illinois	✓			
Indiana	✓			A revised forecast is expected on Dec. 14, 2004.
Iowa		✓	Oct. 11, 2004	Revenues are performing significantly higher than estimates, but because the current growth is believed not to be sustainable throughout the year, the outlook is stable to cautiously optimistic.
Kansas		✓	Nov. 3, 2004	Data aren't yet available comparing actual collections to the revised revenue estimate.
Kentucky	✓			
Louisiana	✓			
Maine		✓	Nov. 19, 2004	Approximately \$70 million was added to the FY 2005 general fund revenue estimate.
Maryland		✓	September 2004	Through October, general fund revenues are over the estimate by \$14 million (0.5%), but this includes underattainment in the personal income tax of \$43 million (3.0%). This under-performance in the income tax is driven entirely by withholding, which has been subject to a number of changes in the law. Because of these changes, there is not a clear idea of what to expect from withholding on a month-to-month basis. The bottom line is that the under-performance in the personal income tax may not be real but simply a function of an inability to predict monthly withholding given the various changes in the law but most especially the change in the due date.
Massachusetts	✓			

Table 6. Revised Revenue Estimates for FY 2005

State	Revenue Estimate Revised			Notes
	No	Yes	Date	
Michigan		✓	Dec. 3, 2004	The revised estimate reduced FY 2005 general fund revenues by \$256.8 million and the school aid fund revenue estimate by \$113.2 million.
Minnesota		✓	Dec. 1, 2004	The forecast for FY 2005 was revised on Dec. 1, and will be revised again in late February 2005, as part of new state budget forecasts. The December revision increased the forecast by \$455 million, with \$362 million of this amount from a projected increase in personal income tax collections.
Mississippi	✓			The FY 2005 general fund estimate may be revised prior to the convening of the Legislature in January.
Missouri	✓			
Montana		✓	Nov. 15, 2004	Collections are on target with the revised forecast.
Nebraska		✓	Oct. 29, 2004	Comparisons of how collections are performing relative to the revised forecast are not yet available. Officials are in the process of conducting an ex-post analysis of monthly amounts.
Nevada		✓	Nov. 2, 2004	Data aren't yet available comparing actual collections to the revised revenue estimate.
New Hampshire	✓			
New Jersey	✓			
New Mexico		✓	October 2004	Overall, collections are on target with the revised forecast.
New York		✓	Nov. 1, 2004	The estimate has just been revised so there is no comparison with current collections.
North Carolina	✓			
North Dakota		✓	August 2004	Collections are \$8.6 million (4.4%) above the revised forecast.
Ohio	✓			
Oklahoma	✓			
Oregon		✓	September 2004	Collections are \$35 million (3.8%) above the revised forecast. The corporate income tax accounts for over half the increase, but only 8% of total revenue.
Pennsylvania	✓			
Rhode Island		✓	November 2004	The revenue forecast was recently revised so collections are on target with the revised forecast.
South Carolina		✓	Nov. 10, 2004	The revenue estimated was increased \$109 million. Collections are on target with the revised forecast.
South Dakota	✓			The forecast will be revised Feb. 1, 2005.
Tennessee	✓			
Texas		✓	April 2004	Collections are on target with the revised forecast.

Table 6. Revised Revenue Estimates for FY 2005				
State	Revenue Estimate Revised			Notes
	No	Yes	Date	
Utah	✓			
Vermont		✓	July 15, 2004	The FY 2005 forecast was revised on July 15, 2004, and will be revised again on Jan. 15, 2005. The July increase was \$27.4 million (3%) over the forecast used when the budget was adopted. Collections to date are \$14.7 million (4.7%) above the revised forecast. The January revision probably will reflect the positive trend indicated so far with collections to date estimated at 2% to 3%. This is compared to the revenue forecast set as of July 15. The 4.7% is calculated based on the targeted level through October 2004.
Virginia	✓			
Washington		✓	September 2004	Collections are on target with the revised forecast.
West Virginia	✓			
Wisconsin	✓			Re-estimates of FY 2005 revenues will be issued in January 2005.
Wyoming		✓	October 2004	Collections are on target with the revised forecast.
Total	24	26		

Table 7. Revenue Outlook for the Remainder of FY 2005				
State	Optimistic	Stable	Concerned	Pessimistic
Alabama		✓		
Alaska	✓			
Arizona	✓			
Arkansas		✓		
California	✓			
Colorado		✓		
Connecticut	✓			
Delaware	✓			
Florida	✓			
Georgia		✓		
Hawaii	✓			
Idaho	✓			
Illinois		✓		
Indiana		✓		
Iowa		✓		
Kansas		✓		
Kentucky	✓			
Louisiana		✓		
Maine	✓			
Maryland		✓		
Massachusetts		✓		
Michigan			✓	
Minnesota		✓		
Mississippi		✓		
Missouri		✓		
Montana	✓			
Nebraska	✓			
Nevada		✓		
New Hampshire		✓		
New Jersey			✓	
New Mexico	✓			
New York		✓		
North Carolina		✓		
North Dakota		✓		
Ohio		✓		
Oklahoma	✓			
Oregon		✓		
Pennsylvania		✓		
Rhode Island		✓		
South Carolina		✓		
South Dakota		✓		
Tennessee		✓		
Texas		✓		
Utah		✓		
Vermont	✓			
Virginia	✓			
Washington		✓		
West Virginia		✓		
Wisconsin		✓		
Wyoming	✓			
Total	17	31	2	0

Source: NCSL survey of legislative fiscal offices, November 2004.

Table 8. Summary of Top Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

Issue	State
Health/Medicaid (30 states)	Alabama, Arkansas, Delaware, Florida, Georgia (two issues), Idaho, Iowa, Kansas, Kentucky (two issues), Louisiana, Maryland, Massachusetts, Mississippi, Missouri, Montana, New Hampshire (two issues), New Mexico, New York, North Dakota, Oklahoma, Oregon, Pennsylvania (two issues), Rhode Island, South Carolina, South Dakota, Texas, Utah, Vermont, West Virginia and Wisconsin.
K-12 Education (26 states)	Alaska, Arkansas, Delaware, Florida, Hawaii, Iowa, Kansas, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, South Carolina, South Dakota, Texas, Utah, West Virginia and Wyoming.
Budget (23 states)	Alabama (two issues), California, Colorado, Connecticut, Indiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, Ohio, Oregon, Pennsylvania, Vermont, Washington, Wisconsin (two issues) and Wyoming.
Taxes (10 states)	Indiana, Kentucky, Maine, Michigan, Nebraska, Nevada (two issues), Ohio, Rhode Island, South Carolina and Texas.
Corrections/Public Safety (Seven states)	Delaware, Georgia, Hawaii, Idaho, Kansas, Montana and North Dakota.
Transportation (Five states)	Hawaii, Minnesota, New Jersey, New York and Utah.
Gaming (Four states)	Illinois, Maryland, North Carolina and West Virginia.
Higher Education (Four states)	Arkansas, Iowa, Utah and Washington.
Human Services (Four states)	Montana, Oklahoma, Rhode Island and West Virginia.
Constitutional Amendments (Three states)	Missouri (Amendment 3 redirects revenues from the sales tax on motor vehicles from general revenue to a highway bond fund). Colorado (Amendment 35 increases the sales tax on tobacco products). Oregon (Ballot Measure 37 requires state and local governments to compensate property owners, or forgo enforcement, when certain land use restrictions reduce property value).
Economic Development (Two states)	Indiana and North Dakota.
Pensions/Retirement (Two states)	Alaska and Illinois.
State Employees (Two states)	Connecticut and Washington.
Other (10 states)	Alaska (community assistance), Colorado (tobacco securitization), Connecticut (federal Medicare pharmacy benefit), Florida (hurricane impacts), Idaho (water rights), Illinois (capital plan), Louisiana (indigent defense), Nebraska (lawsuit settlement costs), Texas (workers' compensation) and Vermont (federal funds).
Note: Arizona and Tennessee did not respond. California identified only one issue. Louisiana, Massachusetts, South Dakota and Wyoming identified two issues. Montana, Texas, Utah and West Virginia identified four issues.	
Source: NCSL survey of legislative fiscal offices, November 2004.	

**Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)**

State	Issue	Notes	Issue	Notes	Issue	Notes
Alabama	Budget	Because state employees are paid every two weeks, there are 27 instead of 26 biweekly paydays in FY 2005. The problem was pushed forward to FY 2006 by moving the payday from the last day of FY 2005 to the first day of FY 2006. The cost to the general fund is \$21.5 million.	Health/ Medicaid	An additional \$127 million is needed from the general fund.	Budget	The state used \$64.2 million of one-time revenues in the FY 2005 budget. That money needs to be replaced in the FY 2006 budget.
Alaska	Pensions/ Retirement	Additional state contributions for retirement costs (including K-12 and higher education) are about \$90 million in each of the next two years. Through FY 2009, annual costs will increase by more than \$300 million (nearly double current costs), and will remain at this level for at least five years.	K-12 Education	In addition to retirement costs, most districts face other pressures (such as inflation) and are projecting deficits. This is on top of the \$82 million increase they received in FY 2005.	Community Assistance	State revenue sharing and municipal assistance programs were eliminated in FY 2004. Several small communities claim they may be forced to unincorporate. Others are projecting deficits, based in part on rising retirement costs.
Arizona	(N/R)		(N/R)		(N/R)	
Arkansas	K-12 Education	Funding adequate public school facilities.	Health/ Medicaid	Projected cost increases for Medicaid.	Higher Education	Funding.
California	Budget	Addressing the structural budget deficit.	(N/R)		(N/R)	

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Colorado	Budget	Constitutional restraints. There is a structural issue pertaining to the Taxpayer Bill of Rights (TABOR), which limits state revenue growth, and Amendment 23, which mandates general fund growth in K-12 education. Because the state is unable to fund the required growth (based on caseload estimates and minimal inflationary increases), the General Assembly will need to address this.	Tobacco Securitization	The governor has submitted a request for FY 2006 that relies on the securitization of tobacco funding streams to balance the budget. The budget requires an additional \$132 million beyond what is available under TABOR. Tobacco securitization would require a bill. A similar request by the governor was defeated in the 2004 session.	Amendment 35	Voters passed a constitutional amendment that increases the sales tax on tobacco products. The funds raised from the increased tax can be used for certain health issues. There is likely to be legislation introduced to implement programs based on this new tax.
Connecticut	Budget	Balancing the budget and the spending cap. Current services expenditure/revenue gaps of \$600 million in FY 2006 and \$700 million in FY 2007 are projected largely because \$500 million in one-time money was used in FY 2005. Current services expenditures for FY 2006 and FY 2007 are projected to exceed the amounts allowed by the spending cap (by approximately as much as the expenditure/revenue gaps indicated).	State Employees	Salary increases. Of the 33 contracts, 16 (covering slightly more than half of state employees) are settled/funded and have agreed to a wage freeze and 17 have not agreed to a wage freeze in any one year. Preliminary estimates indicate that the cost of providing no wage freeze versus providing a one-year wage freeze could reach \$124.5 million cumulatively over the period of FY 2005 through FY 2007.	Federal Medicare Pharmacy Benefit	Integrating this benefit into Medicaid and the Pharmaceutical Assistance Contract to the Elderly program will be an important issue for the state.
Delaware	Corrections/ Public Safety	Correctional officers. There will be a mid-year salary and benefit increase (details unknown).	Health/ Medicaid	Group health insurance. This is always a significant issue.	K-12 Education	Continuing "accountability" and school bus contracting.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Florida	Hurricane Impacts	Continued funding for damage from September hurricanes.	K-12 Education	Funding constitutional mandates for pre-kindergarten and class size reductions.	Health/Medicaid	Medicaid costs.
Georgia	Health/Medicaid	Employee health insurance. The state faces a \$450 million deficit in the employee health insurance program.	Health/Medicaid	Medicaid benefits. The state needs to address a \$80 million deficit to be covered with upper payment limit funds.	Corrections/Public Safety	The state will delay the opening of new prisons and close a private prison.
Hawaii	K-12 Education	Education reform. Continuing efforts to reform the education system and implement a new weighted student formula will require additional resources (especially in the information technology area).	Corrections/Public Safety	Prison overcrowding, aging facilities and the crystal methamphetamine crisis.	Transportation	Traffic congestion, gridlock and mass transit.
Idaho	Health/Medicaid	Medicaid cost containment. The state's growth over 20 years has averaged 15%.	Water Rights	Years of drought have junior water-right holders at risk, with a potentially large impact on the state's agricultural economy if junior holders go under.	Corrections/Public Safety	After two years of flat growth in inmates, the population is experiencing a spike upward.
Illinois	Pensions/Retirement	The state needs approximately \$630 million more for FY 2006 to meet pension funding obligations.	Gaming	Gaming expansion may be in the cards.	Capital Plan	The state still has no capital plan for FY 2005.
Indiana	Budget	The 2006-2007 budget and structural deficit. The current estimate is an \$800 million structural deficit.	Taxes	Property tax issues may be considered in response to tax shifts caused by market value reassessment.	Economic Development	The new governor has initiatives regarding economic incentives to businesses.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Iowa	K-12 Education	Allowable growth set last session was 4% for FY 2006. With general fund revenues projected to increase at 2.2%, this could possibly be an issue.	Health/ Medicaid	Medicaid. In the last several years, a large portion of Medicaid has been funded from sources that are now depleted or no longer available (e.g., Senior Living Trust Fund, intergovernmental transfers). The general fund shortfall for FY 2006 could be as much as \$181.5 million.	Higher Education	The Board of Regents is asking the General Assembly to commit to a \$40 million increase for the three universities for each of the next four years. In exchange, the board has offered to reallocate \$20 million of funds internally for each of the four years. The governor has not yet made a recommendation on this request. Tuition increases may also be an issue.
Kansas	K-12 Education	State officials are awaiting a Supreme Court decision on the school funding formula.	Health/ Medicaid	Increasing Medicaid caseloads and costs.	Corrections/ Public Safety	An increasing inmate population may require capital improvements.
Kentucky	Health/ Medicaid	Medicaid. FY 2005 end-of-year projections are not available. However, a significant shortfall is expected in FY 2006.	Health/ Medicaid	Health insurance. In a recent special session, the General Assembly enacted legislation that improved the health insurance plan for state employees and local school district employees.	Taxes	Tax modernization. The 2004 General Assembly considered a tax modernization proposal submitted by the governor. The House developed an alternate proposal. Both the House and the Senate are expected to consider modernization of the current code.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Louisiana	Health/ Medicaid	One-time money for Medicaid. In FY 2006, approximately \$586 million in one-time funds will need to be replaced with state general funds to maintain FY 2005 service levels.	Indigent Defense	A task force is looking into how Louisiana funds indigent defense. The state has budgeted \$9.7 million for this purpose, with most funding coming from local governments. A task force is trying to determine how much is spent at the local level (estimated at \$22 million). One estimate puts the need for FY 2006 at \$55 million to provide adequate indigent defense.	(N/R)	
Maine	Budget	Biennial budget shortfall. The executive branch just released its general fund appropriations forecast for the 2006-2007 biennium, which shows a shortfall of \$346.2 million (11.4%) in FY 2006 and \$387.2 million (12.2%) in FY 2007.	Taxes	Property tax relief/reform. Voters rejected a property tax cap referendum at the November 2004 election, but the governor and the Legislature will still have other pending citizen initiated bills that will keep this issue a top priority for the coming legislative session.	K-12 Education	A citizen-initiated bill approved by the voters in June 2004 requires the state to fund 55% of K-12 education. Because of the budgetary impact, this requirement is not yet in effect (the legislature has 45 days after convening to address this issue). A law passed during the 2004 session increased the state's share of K-12 education funding, but it will only reach the 55% target after five years. This lower level is the amount currently factored into the 2006-2007 biennial budget shortfall estimate.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Maryland	Budget	Long-term structural imbalance. The state continues to have an ongoing structural imbalance between operating revenues and operating spending, which will exceed \$1 billion by FY 2007 and reach \$1.5 billion. Addressing that deficit through revenue or spending actions will likely be one of the topics of concern in the 2005 session.	Gaming	Introduction of video lottery terminals. Legislation was introduced during the 2003 and 2004 legislative sessions to implement video lottery terminals to help mitigate the state's structural deficit. The legislation failed both years and is likely to be reintroduced in 2005. A corollary to this is alternative revenue actions that might be considered in the context of the governor's position against increases in any major tax.	Health/ Medicaid	Medical Malpractice Fund. There seems to be a consensus that the state wants to provide short-term relief to doctors faced with extraordinary increases in malpractice insurance premiums. However, there is considerable controversy over how it might be paid for.
Massachusetts	K-12 Education	There will be much discussion about the appropriate level of funding for K-12 education, as the state awaits a pending Supreme Judicial Court decision on the subject.	Health/ Medicaid	Health care coverage and cost containment are anticipated to be heavily debated in the upcoming session.	(N/R)	
Michigan	Taxes	Business tax reform. The governor is expected to transmit to the Legislature a proposal to reform business taxes, which the Legislature is expected to review in 2005.	Budget	Reform. The governor and the Senate Republicans have been meeting with Peter Hutchinson about his book "The Price of Government." It appears that there is interest in reforming the state budget process along the lines of what Governor Locke did in Washington. This type of budget reform may be a major focus in 2005.	Budget	Potential budget deficits. The Michigan economy and revenue collections are still lagging below the national averages. The state probably will deal with significant FY 2005 budget deficits when the revenue estimates are revised.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Minnesota	Budget	Adequate revenue/spending. Projections are for a \$700 million deficit in the 2006-2007 biennial budget. The February forecast will determine a new amount. The governor has a "no new taxes" pledge. Finding revenue sources or spending cuts that the governor, House and Senate can agree to will be difficult.	Transportation	Funding for roads and transit is still a major issue.	K-12 Education	The basic funding formula has been held flat for several years and cuts have been made in other programs. Education funding was an issue in a number of House election campaigns.
Mississippi	Budget	The Legislature must deal with the use of nonrecurring funds in the current budget in order to maintain the current level of appropriations.	Health/Medicaid	The Legislature will struggle with continuing Medicaid growth in FY 2006.	K-12 Education	The Legislature will need to prioritize education spending to fund the Adequate Education Program and the next installment of teacher pay increases for FY 2006.
Missouri	Health/Medicaid	Funding Medicaid.	Amendment 3	A new constitutional amendment ends the diversion of taxes dedicated to the Highway and Transportation Department. Currently, half of the money collected as sales taxes on motor vehicles are deposited into general revenue. This amendment redirects that money into a bond fund to be used solely for highways. The amendment also caps the amount that the Department of Revenue can use from the highway fund for the collection of highway taxes. The amount over and above the cap must be recouped from general revenue.	K-12 Education	School districts have filed suit against the state regarding adequacy of K-12 funding.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Montana	K-12 Education	A court decision has declared that the state school system is underfunded and not based on educationally relevant factors.	Corrections/ Public Safety	Prison population growth projections.	Health/ Medicaid Human Services	Caseload increases, the Federal Medical Assistance Percentage (FMAP) rate decrease, developmentally disabled, mental health and child care.
Nebraska	Budget	Closing the projected shortfall for the next biennium. Though general fund receipts are beginning to improve relative to previous years' poor rates of growth, the state is projecting likely dramatic growth in expenditures for entitlement and formula driven costs, pushing the state back into (another) biennial budget imbalance.	Lawsuit Settlement Costs	The state likely will be liable for settlement costs as the result of a lawsuit dealing with a dispute over the site selection of a low-level radioactive waste storage facility. Part of the imbalance noted for FY 2006-2007 relates to this cost. Timing, magnitude and fund source to satisfy the liability will be at issue.	Taxes	Financing tax credits for ethanol production facilities. Incentive credits are accruing to ethanol plants currently in production or anticipated to qualify in the near future. No clear-cut solution has been found as to how these are to be paid for in the long term.
Nevada	Taxes	Property taxes. There has been a substantial increase in assessed valuations in the past few years resulting in a call to cap property taxes. This will be a significant issue during the 2005 session.	Taxes	Technical adjustments to the tax package approved in 2003. In certain instances the taxes approved by the 2003 Legislature have affected individuals or businesses in ways that were not contemplated. Although dramatic changes are not anticipated, several technical adjustments likely will be considered.	Budget	Funding program growth. Nevada is the fastest growing state in the nation which results in the need for added funding to serve growing caseloads in many program areas. A few areas that may receive increased funding attention during the 2005 session include education, human resources (particularly mental health in the Las Vegas area) and corrections due to a recent increase in the prison population.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
New Hampshire	Health/Medicaid	Employee Health Insurance. These costs have increased significantly. The benefits calculation used for budget purposes was increased from 37% to 44% for FY 2006 and FY 2007.	K-12 Education	Education funding will continue to be a fiscal issue that the legislature will need to address.	Health/Medicaid	Medicaid modernization. The Department of Health & Human Services has proposed across-the-board changes to the Medicaid program.
New Jersey	Budget	Structural deficit. The New Jersey Supreme Court has prohibited future use of certain debt financing of annual expenditures, which currently amounts to about \$2 billion in FY 2005. Other obligations (e.g., employee pensions and post retirement medical costs) are building.	Transportation	A new mechanism or funding source will be needed for future transportation capital spending.	K-12 Education	Educational facilities. The \$8.6 billion in state funding for school facilities will be fully committed even before the court-mandated state funding requirements to urban districts are completed. The state needs to find new funding or scale back its promises to other districts.
New Mexico	Budget	Volatile energy revenues. Revenue estimators are cautious in oil and natural gas price assumptions. If energy related revenues are revised upward again, the question is how much to count as recurring versus non-recurring revenues.	K-12 Education	Reform. Public school reforms are being phased in. Costs this year will take nearly half of new state money.	Health/Medicaid	Medicaid. The state FMAP rate increase will cost nearly \$60 million. Normal growth in the program means that Medicaid will need \$90 million to \$100 million.
New York	K-12 Education	Financing education reform. Addressing the Campaign for Fiscal Equity court case.	Transportation	Capital plan. Addressing the state highway and bridge five-year capital plan and MTA capital plan.	Health/Medicaid	Addressing the Health Care Reform Act passed in 1997 and Medicaid reform.
North Carolina	Budget	Structural budget shortfall. Half of the gap is the result of temporary taxes sunseting.	K-12 Education	Funding adequacy. A lower court trial judge is pushing for additional funding with the apparent blessing of the state Supreme Court.	Gaming	Lottery. The governor is expected to aggressively pursue this option. It has been strongly defeated by the Legislature in the past.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
North Dakota	Health/ Medicaid	Medicaid. Addressing a significant FMAP reduction.	Corrections/ Public Safety	Addressing the increasing number of inmates.	Economic Development	The governor is planning to recommend new economic development initiatives.
Ohio	Budget and Health/ Medicaid	Passing a balanced budget. Medicaid cost containment and replacing \$3.7 billion in one-time revenue used in the current budget.	Taxes	Tax reform. Two tax study commissions met during 2002. Reforms based on their recommendations were proposed during 2003–2004, but no reforms have been adopted. Legislators plan to try again during the next General Assembly (2005-2006).	K-12 Education	The state's school funding system has been declared unconstitutional. A task force has been charged with recommending a funding system and identifying appropriate mechanisms for paying for such a system. Action based on the recommendations is expected in the next General Assembly.
Oklahoma	Health/ Medicaid	Medicaid. The state's FMAP is scheduled to be drastically reduced in October 2005 (the state is taking the fourth largest cut in the country). An additional \$65 million in state funds will be required to fill the gap. This is in addition to the regular annualization cost of the program, which is anticipated to be around \$50 million.	K-12 Education	The 2004 Legislature passed a mandatory teacher pay raise that will need to be funded along with increases in teacher health benefits next year. Other initiatives include restoring cuts made in FY 2002 and FY 2003 and funding full-day kindergarten.	Human Services	The Department of Human Services will require a large increase in appropriations next year to avoid reductions in day care, the Developmental Disabilities Services Division and aging services.

Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Oregon	Budget	Budget gap. The state is facing a potential budget gap of between \$800 million and \$1 billion for the 2005-07 biennium to continue current programs.	Health/ Medicaid	Maintaining health plan services. One part of the solution to the projected revenue shortfall may necessitate a reduction of state health care services under the state's federal Medicaid waiver.	Ballot Measure 37	In November 2004, voters passed an initiative requiring state and local governments to compensate property owners, or forgo enforcement, when certain land use restrictions reduce property value. The measure is potentially retroactive in that it applies to all land use restrictions enacted after the date of the current landowners' acquisition or inheritance of the property.
Pennsylvania	Health/ Medicaid	Medical Assistance. Increased costs and utilization continue to plague the program, straining the entire state budget.	Budget	Replacing one-time funds. The FY 2005 budget used more than \$700 million in one-time funds that must be replaced in FY 2006. These funds include federal fiscal relief funds (flexible grants), intergovernmental transfers and Temporary Assistance to Needy Families (TANF) reserves.	Health/ Medicaid	Nursing home assessments. The commonwealth still awaits federal approval to implement assessments on nursing homes (going back to the FY 2004 budget) and on managed care organizations (beginning in the FY 2005 budget). Uncertainty over the assessments could make them an issue in 2005.
Rhode Island	Taxes	Tax competitiveness. Comparing Rhode Island's tax structure to surrounding states.	Human Services	Expanding caseloads and costs for TANF and general public assistance.	Health/ Medicaid	Medical co-pay and Medicaid. Negotiating with state employees to start paying a medical co-pay. Addressing expanding caseloads and costs for Medicaid.

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(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
South Carolina	Taxes	Personal income tax reduction. The governor is proposing to reduce the personal income tax rate from 7% to 4.75% over a six year period.	K-12 Education	The state's Education Funding Act is funded by a formula based on a base student cost. Because of previous years' revenue shortfalls and budget cuts, funding for the base student cost has not kept up with required inflationary increases.	Health/Medicaid	The state health plan and Medicaid. Spending for these two programs, particularly Medicaid, will continue to be on the forefront of budget discussions as the state explores ways to control health care cost increases.
South Dakota	Health/Medicaid	Addressing Medicaid costs and other health care programs.	K-12 Education	Funding issues.	(N/R)	
Tennessee	(N/R)		(N/R)		(N/R)	
Texas	K-12 Education and Taxes	Public school finance. Addressing a possible tax/revenue bill for increased spending; property tax relief.	Workers' Compensation	Reform.	Health/Medicaid	Addressing Medicaid, Medicare and health benefits for state employees and teachers.
Utah	Health/Medicaid	The federal FMAP match rate was reduced, requiring \$11 million in state funds to maintain the status quo, with growth projected at 8%.	Transportation	Highway funding. Additional resources will be required to maintain the status quo on repairs and new construction.	K-12 Education Higher Education	Enrollment growth in public and higher education will require significant funding increases.

**Table 9. Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)**

State	Issue	Notes	Issue	Notes	Issue	Notes
Vermont	Health/ Medicaid	In FY 2005, Medicaid lived off federal relief and internal fund balances. As state officials build the FY 2006 budget, the projected program deficit is \$60 million, which is 28% of the Medicaid fund revenues and 6% of all general fund revenues.	Federal Funds	Uncertainty on federal funding and or anticipated lower levels of federal receipts through formula changes or restructured federal programs is a concern, as well as unfunded mandates.	Budget	Balancing Medicaid and potential federal funding pressures with everything else is the challenge. Projected revenues can fund FY 2006 base growth in the 3% to 3.5% range (but the appetite runs in the 5% to 5.5% range). Growth rates in large human service programs (corrections, mental health, childcare, developmental services, elderly & disabled) run at 5% to 8%. At the same time, pay increases, underlying inflationary pressures and health care increases need to be accommodated. Some one-time funds may be available in the FY 2006 budget, but the concern is that these funds delay fully addressing structural issues of budget growth.
Washington	State Employees	Compensation. The first collective bargaining agreements have been submitted to the Legislature.	Higher Education	Additional enrollment funding is needed to maintain access at current levels.	Budget	The state has a structural budget deficit.
West Virginia	Health/Medicaid Human Services	Addressing issues in the Department of Health and Human Resources.	K-12 Education	Addressing the school building authority deficit and teacher pay raises.	Gaming	Lottery.
Wisconsin	Health/ Medicaid	Medical assistance funding.	Budget	Spending limits. There are legislative initiatives to place limits on state and local government spending.	Budget	Balancing the 2005-07 budget.

Table 9 Top Three Fiscal Issues to be Addressed in 2005 Legislative Sessions
(from the perspective of legislative fiscal directors)

State	Issue	Notes	Issue	Notes	Issue	Notes
Wyoming	Budget	General fund surplus. Some emergency funding will be necessary for the Department of Health, and a necessary new prison needs funding. The rest of the session will be spent debating whether to spend or save the rest of the projected \$606 million surplus.	K-12 Education	The state Superintendent of Public Instruction is asking for a \$10,000 across-the-board raise for all teachers. Cost estimates vary, but it will eat up a considerable amount of the projected \$246 million surplus in the school foundation program account.	(N/R)	
<p>Note: Arizona and Tennessee did not respond. California identified only one issue. Louisiana, Massachusetts, South Dakota and Wyoming identified two issues. Montana, Texas, Utah and West Virginia identified four issues.</p> <p>(N/R) = No response</p> <p>Source: NCSL survey of legislative fiscal offices, November 2004.</p>						



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