

Fiscal Management: Preparing for the Next Budget Shortfall

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Discussion group scenario: Your state is facing a large budget shortfall in the upcoming fiscal year/biennium and your reserves aren't sufficient to fully fill the gap. The chair of the budget committee has asked you to put together an analysis of several options on how to balance the budget. Your group can choose options to discuss from the list below, focusing on these questions:

- Do you think you'd be able to offer an informed analysis of these options? If so, are there particular analytic techniques you would use? If not, what would the obstacles be?
- In thinking about specific options, how would you balance the criteria we discussed? Do some criteria seem more important than others? Are there other criteria we didn't include?
- Does your state have experience using these approaches or similar ones to close budget shortfalls? If so, how well did they work? What were the lessons learned? Do any of these approaches seem like really good or really bad ideas?

Raising revenue

- Offering a tax amnesty
- Authorizing new casinos
- Hiring additional tax auditors to increase collections
- Raising highway tolls
- Legalizing and taxing marijuana
- Raising the personal income tax on high income earners
- Increasing the sales tax rate, but sunsetting the increase in two years
- Applying the sales tax to services that aren't currently taxed

Cutting spending

- Approving across-the-board cuts to each agency
- Reducing Medicaid provider payments
- Furloughing public employees
- Offering buyouts to public employees
- Freezing state hiring
- Cutting funding to colleges and universities
- Reducing aid to local governments
- Closing state parks

Shifts, delays, and other budget management strategies

- Delaying the year's final payment to school districts to the next fiscal year
- Refinancing debt to reduce interest payments
- Securitizing tobacco settlement funds
- Deferring pension payments
- Selling state office buildings, then leasing them back
- Shifting money from a housing trust fund to the general fund
- Delaying road construction and maintenance projects

