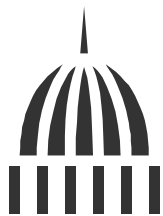


Initial Actions to Close FY 2009 Budget Gaps



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Contents

Contents	ii
Initial Actions to Close FY 2009 Budget Gaps	3
Actions to Close FY 2009 Budget Gaps So Far	3

LIST OF TABLES

Table 1. Actions to Balance the FY 2009 Budget: Across The Board Budget Cuts	5
Table 2. Actions to Balance the FY 2009 Budget: Targeted Program Cuts	8
Table 3. Actions to Balance the FY 2009 Budget: Employee Actions	10
Table 4. Actions to Balance the FY 2009 Budget: Tapped Rainy Day Funds or Other Funds	13
Table 5. Actions to Balance the FY 2009 Budget: Other	16

Initial Actions to Close FY 2009 Budget Gaps

Fiscal Year (FY) 2009 will stand out as a year when state lawmakers had to make tough decisions. Faced with a rapidly declining national economy, states across the nation have dealt and are dealing with a financial crisis of immense stature. Two-thirds of states were already facing a \$40 million budget gap while crafting their FY 2009 budgets, and since closing these initial gaps, they have had to address more budgetary problems. With a majority of states more than halfway through FY 2009 the budget gap facing the states now eclipses \$47.4 million.

As NCSL's report "State Budget Update: November 2008" noted, faltering revenues have been the biggest culprit of current state fiscal problems. With revenues falling below estimate with nearly each subsequent revision, state lawmakers have tried to manage these shortfalls in numerous ways. From across-the-board budget cuts, employee furloughs, and targeted program cuts, states have the unenviable task of maintaining a balanced budget while recognizing that the demand for state services increases during an economic downturn.

State officials, have had to make tough decisions so far in FY 2009, and may have to make even tougher decisions as they begin crafting their FY 2010 budgets. State economies typically lag behind the national economy; lawmakers are already projecting a cumulative budget gap of \$84.3 billion for FY 2010. Even states that have been relatively immune from the economic downturn are starting to feel the ramifications of these historic economic times.

This report examines information from each of the 50 states and Puerto Rico. It is based on data collected from legislative fiscal directors in April 2008, June 2008 and November 2008. It includes actions states have taken or are considering to close the gaps, both during enactment of FY 2009 budgets and since the fiscal year began.

Actions to Close FY 2009 Budget Gaps So Far

Most states have part-time legislatures, so lawmakers were not in regular session when budget gaps started emerging soon after the new fiscal year began (on July 1 for 46 states). That meant that governors typically took the first actions to address budget problems. A few states also met in special session to resolve shortfalls. Here is a summary of state actions or proposals so far to close FY 2009 budget gaps.

- Sixteen states reported that across-the-board cuts have been a part of FY 2009 budget balancing solutions. For Hawaii, New York and Virginia there has been a second round of across-the-board cuts and Maine, Nevada and New Hampshire are considering further reductions. Additionally seven states have proposed cuts across-the-board as a means of reconciling their budget gaps. The size of the cuts in FY 2009 range from \$27.3 million in Idaho to \$1.3 billion in Massachusetts.

- States often look for targeted reductions within certain programs to save money, and that is occurring again. In FY 2009 budgets, 14 states made cuts within K-12 education. Two other states are considering reductions within K-12 budgets while Nevada is proposing additional cuts to K-12 education.
- Eighteen states have made cuts to higher education during FY 2009, with one state still considering cuts. Maryland and New York have made cuts both before and after enactment of their FY 2009 budgets.
- Other program areas that have seen targeted reductions include Medicaid (14 states with four states proposing cuts), corrections (14 states, with four considering reductions) and other programs like Temporary Assistance to Needy Families or state aid to local governments.
- Eleven states have reduced the size of the state workforce and one other state is considering cutbacks. In total, states have reduced the size of their workforce by more than 7,000 positions since the beginning of FY 2009.
- Other cost-saving actions affecting state employees include a hiring freeze (20 states with four in consideration), travel bans (15 states with two states proposing them), a salary freeze (six states with one considering), and early retirement programs (three states).
- In addition to cost-saving measures, states have looked to reserve funds to help close budget gaps. Nine states have tapped their rainy day funds in FY 2009 and five more states are considering them for more than \$6.2 billion collectively. Three more states have either tapped or have proposed tapping their rainy day funds for a second time in FY 2009.
- Officials in 21 states have tapped other state funds in FY 2009, and four states are eyeing them. States have tapped or are considering tapping other funds for a total of \$3.6 billion.
- Other budget-balancing actions include delaying capital projects (11 states, with five considering), shifting pay-as-you-go projects to debt (seven states, with one considering), delaying Other Post Employment Benefit (OPEB) payments, freezing equipment or state motor fleet acquisitions, and establishing tax amnesty programs.

Most states began their 2009 legislative sessions in January. In addition to starting work on their FY 2010 budgets, lawmakers must address the budget problems of the current fiscal year. Consequently, many more gap-closing actions are likely to occur before the books are closed on FY 2009.

Table 1. Actions to Balance the FY 2009 Budget: Across The Board Budget Cuts

State				
	Yes	Amount in Millions	Percent of General Fund Budget	Exemptions and Comments
Alabama				
Alaska	N/A			
Arizona				
Arkansas	N/A			
California	✓			Across-the-board cuts for most state operations with the exception of corrections.
Colorado				
Connecticut				
Delaware	P	\$235.0	7.0%	
Florida				
Georgia	P	\$600.0	10.0%	Preferential treatment for K-12 education and Medicaid.
Hawaii	A: ✓ B: ✓	A: \$45.0 B: \$33.0	A: 2% to 4% B: 4.0%	Hawaii reported across-the-board cuts of \$45.0 million (2%-4%) during enactment of FY 2009 budget. Hawaii has since reported across-the-board cuts of \$33.0 million (4%) which is being applied to "discretionary" spending only.
Idaho	✓	\$27.3	1.0%	Medically indigent, medical education, corrections.
Illinois				
Indiana	N/A			
Iowa				
Kansas	P	\$62.0	3.0%	K-12 education, social service caseload, and debt service.
Kentucky				
Louisiana	N/A			
Maine	A: ✓ B: P	\$150.0	5.0%	During FY 2009 budget enactment Maine reported: if no specific initiatives were provided by agencies, funding was reduced in FY 2009 by a target amount of 3.52%. After enactment Maine has proposed that a curtailment order is pending, exemptions include debt service, teachers retirement programs and certain education programs.
Maryland	✓	\$50.0		
Massachusetts	✓	\$1,300.0	4.6%	Cuts were taken across all of the executive branch agencies, but not all by the same percent. Also, the non-executive branch agencies (constitutional officers, legislature & judiciary) offered voluntary reductions to their appropriations).
Michigan	N/A			
Minnesota				
Mississippi	P	\$42.0	0.8%	
Missouri	N/A			
Montana	N/A			
Nebraska				
Nevada	A: ✓ B: P		7.4%	Prior to enactment Nevada stated there has been a 4.5% across-the-board budget reduction and a 3% to 4% across-the-board reduction is currently underway. In addition, a number of one-shot appropriations approved by the 2007 legislature were not expended and will revert to the general fund. Post-enactment Nevada stated that additional across-the-board reductions may be implemented.

Table 1. Actions to Balance the FY 2009 Budget: Across The Board Budget Cuts

State				
	Yes	Amount in Millions	Percent of General Fund Budget	Exemptions and Comments
New Hampshire	A:✓ B: P	\$46.4/ \$37.9	3%	New Hampshire made cuts across-the-board in the amount of \$46.4 million. Since enactment it has been proposed to make another cut of \$37.9 million (3%).
New Jersey				
New Mexico	P		5.0%	Education.
New York	A:✓ B: ✓	A: \$710.0 B: \$182.0	B: 6.0%	Early in FY 2009 New York made cuts across the board for a total of \$710.0 million and has since made an additional \$182.0 (6.0%) in cuts. Exemptions include School aid, welfare, Medicaid, child welfare, youth detention, the Aid and Incentives for Municipalities Program (AIM), aid to community colleges, aid to local governments for mandated programs, special education, and appropriations under \$500,000. Executive is also cash managing a 3.37% and a 7% spending reduction in state operations.
North Carolina	✓	\$542.0	1.5% to 5.0%	Between 1.5% and 5.0% depending on agency program.
North Dakota	N/A			
Ohio	✓	\$198.0	4.8%	Medicaid, disability financial assistance, school foundation funding, state share of instruction (higher education), need-based financial aid, tax relief programs, debt service, Dept. of Rehabilitation and Corrections, Dept. of Youth Services and legislative and judicial agencies.
Oklahoma	N/A			
Oregon	N/A			
Pennsylvania				
Puerto Rico				
Rhode Island				
South Carolina	✓	\$53.2	2.36%	
South Dakota				
Tennessee	✓			
Texas	N/A			
Utah	✓	\$161.0	3.0%	Ongoing cuts were \$251 million (4.5%), but softened with \$90 million in one-time add-backs.
Vermont	P			Education, corrections, public safety.
Virginia	A:✓ B: ✓	A: \$67.5 B: \$279.0	A: 0.4% B: 2.0%	Prior to enactment Virginia reported \$67.5 million across-the-board reductions were split among aid to localities (\$50 million) and state agencies (\$17.5 million). These cuts are in addition to other targeted reductions to state agency budgets and aid to localities. After FY 2009 budget enactment Virginia made an additional \$279.0 (2.0%) with K-12, Medicaid, and correction largely exempted. (Note the across-the-board cuts to agencies range from 5% to 15%, which is the maximum administrative authority granted).
Washington	P	\$135.0	1.0%	Public safety, basic education, revenue collection.
West Virginia	N/A			
Wisconsin	✓	\$124		
Wyoming	N/A			

Table 1. Actions to Balance the FY 2009 Budget: Across The Board Budget Cuts

State				
	Yes	Amount in Millions	Percent of General Fund Budget	Exemptions and Comments
United States	✓=16 P=7			

Key:

(N/A) = Not applicable

(N/R) = No response

A = Pre-enactment of FY 2009 budget

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Note: If a state has multiple entries in any given column only one entry was used in total so as not to double count states. If a state has taken action and is proposing action in the same category the final total reflects only the action taken and does not count the proposed action.

Source: NCSL survey of state legislative fiscal offices, June 2008 and November 2008.

Table 2. Actions to Balance the FY 2009 Budget: Targeted Program Cuts

State	K-12 Education	Higher Education	Medicaid	TANF	Corrections	Local Govt. Aid
Alabama	✓	✓				
Alaska (N/A)						
Arizona						
Arkansas (N/A)						
California			P	P	P	P
Colorado						
Connecticut						
Delaware	✓	✓			✓	✓
Florida	✓	✓	✓	✓	✓	✓
Georgia	P	P	P	P	P	P
Hawaii						
Idaho		✓	P		✓	
Illinois						
Indiana (N/A)						
Iowa						
Kansas						
Kentucky	✓	✓	✓	✓	✓	
Louisiana (N/A)						
Maine	✓	✓	✓		✓	✓
Maryland	✓	✓	✓	✓	✓	✓
Massachusetts						
Michigan (N/A)						
Minnesota		✓	✓			
Mississippi			✓			
Missouri (N/A)						
Montana (N/A)						
Nebraska						
Nevada	A:✓ B:P	A:✓ B:P	P	P	A:✓ B:P	P
New Hampshire	✓	✓	✓		✓	
New Jersey		✓			✓	✓
New Mexico						
New York	P	✓	✓			A:✓ B:P
North Carolina						
North Dakota (N/A)						
Ohio						
Oklahoma (N/A)						

Table 2. Actions to Balance the FY 2009 Budget: Targeted Program Cuts

State	K-12 Education	Higher Education	Medicaid	TANF	Corrections	Local Govt. Aid
Oregon (N/A)						
Pennsylvania	✓	✓			✓	
Puerto Rico						
Rhode Island	✓		✓		✓	✓
South Carolina	✓	✓	✓	✓	✓	✓
South Dakota						
Tennessee	✓	✓				
Texas (N/A)						
Utah	✓	✓	✓	✓	✓	✓
Vermont		✓	✓		P	P
Virginia	✓	✓	✓	✓	✓	✓
Washington						
West Virginia (N/A)						
Wisconsin			✓			
Wyoming (N/A)						
United States	✓=14 P=2	✓=18 P=1	✓=14 P=4	✓=6 P=3	✓=14 P=3	✓=10 P=4

Key:

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Source: NCSL survey of state legislative fiscal offices, June 2008 and November 2008.

Table 3. Actions to Balance the FY 2009 Budget: Employee Actions

State	Layoffs			Travel Ban	Hiring Freeze	Salary Freeze	Early Retirement
	Yes	Number	Comment				
Alabama							
Alaska (N/A)							
Arizona					✓		
Arkansas (N/A)							
California	✓				✓		
Colorado							
Connecticut				✓	✓		
Delaware					✓	✓	
Florida	✓	2,787	2,787 FTE positions were reduced; layoffs are not known.				
Georgia	P		Varies by agency.	✓	✓	✓	
Hawaii				✓	✓		
Idaho				P	P		
Illinois							
Indiana (N/A)							
Iowa							
Kansas					P		
Kentucky							
Louisiana (N/A)							
Maine	✓		About 140 general fund positions were eliminated plus several initiatives were implemented to “manage vacancies.”	✓	✓		
Maryland	✓		841.65 total position were abolished, of which 40 were filled and 801.65 were vacant. The 40 filled positions were abolished effective Oct. 29, 2008, and the employees provided with a lump sum payment equivalent to four weeks of pay and four months of 100 percent State paid health, dental, and prescription drug benefits.		✓		
Massachusetts	✓	1,000		✓	✓		
Michigan (N/A)							
Minnesota							
Mississippi							
Missouri (N/A)							
Montana (N/A)							
Nebraska							
Nevada	✓		The budget reductions to date have resulted in only a handful of layoffs. Additional reductions that may be required could increase this number.		✓		✓
New Hampshire				✓	✓		
New Jersey				✓	✓		✓
New Mexico				P	P	P	

Table 3. Actions to Balance the FY 2009 Budget: Employee Actions

State	Layoffs			Travel Ban	Hiring Freeze	Salary Freeze	Early Retirement
	Yes	Number	Comment				
New York				✓	✓		
North Carolina							
North Dakota (N/A)							
Ohio							
Oklahoma (N/A)							
Oregon (N/A)							
Pennsylvania				✓	✓		
Puerto Rico							
Rhode Island					✓		
South Carolina	✓			✓	✓	✓	✓
South Dakota				✓	✓		
Tennessee	✓	2,700	Tennessee has adopted a reduction in force plan that targets 2,700 positions for buyouts from state service. The initial phase relies on voluntary separation for targeted positions through monetary incentives and could lead to involuntary layoffs after Jan. 1, 2009. The state appropriated \$65 million for the buyout plan.	✓	✓	✓	
Texas (N/A)							
Utah	✓	Fewer than 5					
Vermont	A:✓ B:P	400	400 positions are to be reduced by the end of FY 2009 through attrition not layoffs but some agencies also are reducing staff to meet budget constraints. The attrition plan is intended to save the general fund \$7.6 million in FY 2009.	✓	P	✓	
Virginia	✓	567		✓	✓	✓	
Washington				✓	✓		
West Virginia (N/A)							
Wisconsin							
Wyoming (N/A)							
United States	✓-11 P-1	7,459		✓-15 P-2	✓-20 P-4	✓-6 P-1	✓-3 P-

Table 3. Actions to Balance the FY 2009 Budget: Employee Actions

State	Layoffs			Travel Ban	Hiring Freeze	Salary Freeze	Early Retirement
	Yes	Number	Comment				
<p>Key: (N/A) = Not applicable (N/R) = No response A = Pre-enactment of FY 2009 budget B = Post-enactment of FY 2009 budget P = Action Proposed ✓ = Action Taken</p> <p>Note: If a state has multiple entries in any given column only one entry was used in total so as not to double count states. If a state has taken action and is proposing action in the same category the final total reflects only the action taken and does not count the proposed action.</p> <p>Source: NCSL survey of state legislative fiscal offices, November 2008.</p>							

Table 4. Actions to Balance the FY 2009 Budget: Tapped Rainy Day Funds or Other Funds

State	Rainy Day Fund			Other Funds		
	Yes	Amount in Millions	Comment	Yes	Amount in Millions	Comment
Alabama				✓	\$107.0	\$107 million in business privilege tax escrow fund (in addition to the \$19 million transfer anticipated to be made from the fund).
Alaska (N/A)						
Arizona						
Arkansas (N/A)						
California	✓	\$1,700.0		✓	\$800.0	\$800 million in the 2008 Budget Act passed in September.
Colorado						
Connecticut						
Delaware				✓	(N/R)	
Florida	✓	\$672.4		✓		Transferred \$468.6 million in non-recurring balances to general revenue and made \$346 million in permanent transfers from trust funds to general revenue.
Georgia				P	\$500.0	
Hawaii						
Idaho	P			P	\$30.0	
Illinois				✓	\$220.0	
Indiana (N/A)						
Iowa				✓	\$191.1	\$191.1 million (of a total of \$837.5 million) in Medicaid expenses funded from non-general fund sources.
Kansas						
Kentucky				✓	\$301.7	
Louisiana (N/A)						
Maine				✓		

Table 4. Actions to Balance the FY 2009 Budget: Tapped Rainy Day Funds or Other Funds

State	Rainy Day Fund			Other Funds		
	Yes	Amount in Millions	Comment	Yes	Amount in Millions	Comment
Maryland	✓	\$125.0		A:✓ B:✓	A: B: \$74.7	A: \$50.0 million from 2009 balances split between the Chesapeake Bay 2010 Fund and the Central Collection Fund; \$100.0 million fund balance for OPEB transferred in FY 2008; \$21 million from special fund balances used to pay for Medicaid expansion and dental provider rate increases in 2009; \$5.1 million transferred from certain housing fund balances; and \$27.6 million in cuts to general fund higher education aid is to be replaced with balances from the higher education investment fund. B: The governor proposes \$74.7 million in one-time fund balance transfers to the general fund during the 2009 session
Massachusetts	A:✓ B:✓	A: \$310.0 B: \$200.0		✓	\$30.0	
Michigan (N/A)						
Minnesota	✓	\$500.0		✓	\$93.0	
Mississippi				✓	\$214.6	
Missouri (N/A)						
Montana (N/A)						
Nebraska						
Nevada	A:✓ B:✓	A: \$267.0 B: \$267.0	\$267 million has been accessed to address the earlier rounds of budget reductions. Since the rainy day fund is depleted, it will not be available to address the current round of budget reductions estimated to total \$300 million.	A:✓ B:✓	A: N/R B: \$59.8	\$59.8 million in other funds were tapped to address budget reductions to date. Additional funds may be tapped in the next round of budget reductions, that are estimated to total \$300 million.
New Hampshire						
New Jersey						
New Mexico						
New York	P			P		
North Carolina	P	\$287.0		✓	\$165.0	
North Dakota (N/A)						
Ohio				P	\$342.0	Up to \$342 million (the Office of Budget and Management reported it could find \$342 million through cash management, a description that includes tapping other funds).

Table 4. Actions to Balance the FY 2009 Budget: Tapped Rainy Day Funds or Other Funds

State	Rainy Day Fund			Other Funds		
	Yes	Amount in Millions	Comment	Yes	Amount in Millions	Comment
Oklahoma (N/A)						
Oregon (N/A)						
Pennsylvania				✓	\$145.0	
Puerto Rico						
Rhode Island						
South Carolina	✓	\$133.2		✓	\$30.4	\$30.4 million from the Unemployment Compensation Fund.
South Dakota	A:✓ B:P	A: (N/R) B: \$14.9	The governor proposes increased use of reserves by \$14.9 million.			
Tennessee				✓	(N/R)	
Texas (N/A)						
Utah				✓	\$182.0	
Vermont	P			✓	\$12.0	
Virginia	P	\$400.0		✓		Literary Fund (fines/fees/forfeitures used to support public education) \$51.3 million balance.
Washington				A:✓ B:P	A: N/R B:\$100.0	
West Virginia (N/A)						
Wisconsin						
Wyoming (N/A)	✓	\$1,370.4				
United States	✓ = 9 P = 5	\$6,246.9		✓ = 21 P = 4	\$3,598.3	

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Source: NCSL survey of state legislative fiscal offices, January 2008 and November 2008.

Table 5. Actions to Balance the FY 2009 Budget: Other

State				
	Delayed Capital Projects	Shift PAYGO to Debt	Tax Amnesty	Purchase Freeze
Alabama				
Alaska (N/A)				
Arizona (N/R)				
Arkansas (N/A)				
California	✓	✓	✓	
Colorado	P			
Connecticut				
Delaware	✓	✓		
Florida	✓			
Georgia		✓		✓
Hawaii				
Idaho				
Illinois	P	✓		
Indiana (N/A)				
Iowa		✓*		
Kansas				
Kentucky	✓			
Louisiana				
Maine	✓			✓
Maryland				
Massachusetts				
Michigan				
Minnesota				
Mississippi (N/A)				
Missouri (N/A)				
Montana (N/A)				
Nebraska				
Nevada	✓	✓	✓	
New Hampshire				✓
New Jersey				
New Mexico	P			
New York	P	P		
North Carolina	✓			
North Dakota (N/A)				
Ohio				
Oklahoma (N/A)			✓	
Oregon (N/A)				

Table 5. Actions to Balance the FY 2009 Budget: Other

State				
	Delayed Capital Projects	Shift PAYGO to Debt	Tax Amnesty	Purchase Freeze
Pennsylvania				
Puerto Rico (N/R)				
Rhode Island				
South Carolina	✓			
South Dakota	✓*			✓*
Tennessee	✓			✓
Texas (N/A)				
Utah (N/A)				
Vermont	P			P
Virginia	✓	✓		
Washington				✓
West Virginia (N/A)				
Wisconsin				
Wyoming (N/A)				
United States	✓-11 P-5	✓-7 P-1	✓-3 P-	✓-6 P-1

Note:

Iowa—\$221.6 million in prison expansion bonding will be issued for a new prison (\$131 million) and other prison expansion projects.

South Dakota—Delayed unless essential.

Key:

(N/A) = Not applicable

(N/R) = No response

✓ = Action taken

P = Proposed

Note: If a state has multiple entries in any given column only one entry was used in total so as not to double count states. If a state has taken action and is proposing action in the same category the final total reflects only the action taken and does not count the proposed action.

Source: NCSL survey of state legislative fiscal offices, June 2008 and November 2008.



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