STATE BUDGET UPDATE: SPRING 2014

NATIONAL CONFERENCE of STATE LEGISLATURES

The Forum for America's Ideas

Fiscal Affairs Program
National Conference of State Legislatures
William T. Pound, Executive Director

7700 East First Place
Denver, CO 80230
(303) 364-7700

444 North Capitol Street, N.W., Suite 515
Washington, D.C. 20001
(202) 624-5400

www.ncsl.org

NCSL

The National Conference of State Legislatures is the bipartisan organization that serves the legislators and staffs of the states, commonwealths and territories.

NCSL provides research, technical assistance and opportunities for policymakers to exchange ideas on the most pressing state issues and is an effective and respected advocate for the interests of the states in the American federal system.

NCSL has three objectives:

- To improve the quality and effectiveness of state legislatures.
- To promote policy innovation and communication among state legislatures.
- To ensure state legislatures a strong, cohesive voice in the federal system.

The Conference operates from offices in Denver, Colorado, and Washington, D.C.

Printed on recycled paper

Item #050714PDF
Price: $49.00

Contents

STATE BUDGET UPDATE: SPRING 2014

Entering the final months of fiscal year (FY) 2014, the outlook for state budgets is stable. Revenue performance is positive, and expenditure overruns are relatively modest. Overall, most state officials anticipate a slow and steady improvement in state finances through the remainder of the fiscal year.

There are some exceptions to this general outlook, however, a small number of states report moderate to strong fiscal conditions that are resulting in budget surplus projections. Conversely, a few states find themselves at the other end of the fiscal spectrum, and reported budget difficulties.

This report is based on data collected in the spring of 2014 from legislative fiscal officers in all 50 states, the District of Columbia and Puerto Rico. It includes information on:

- Revenue outlook for the remainder of FY 2014;
- Areas of spending over budget; and
- A summary of state fiscal situations.

Even with the overall positive assessment of state fiscal conditions, lawmakers continue to face numerous budget challenges. Officials are concerned about sluggish revenue growth, rebuilding budget reserves and long-term spending trends—especially for K-12 education and health care. These challenges are playing out in budget negotiations in state capitols across the country, and have led to special legislative sessions in California, Virginia, West Virginia and Wisconsin.[1]

Revenue Outlook for the Remainder of FY 2014

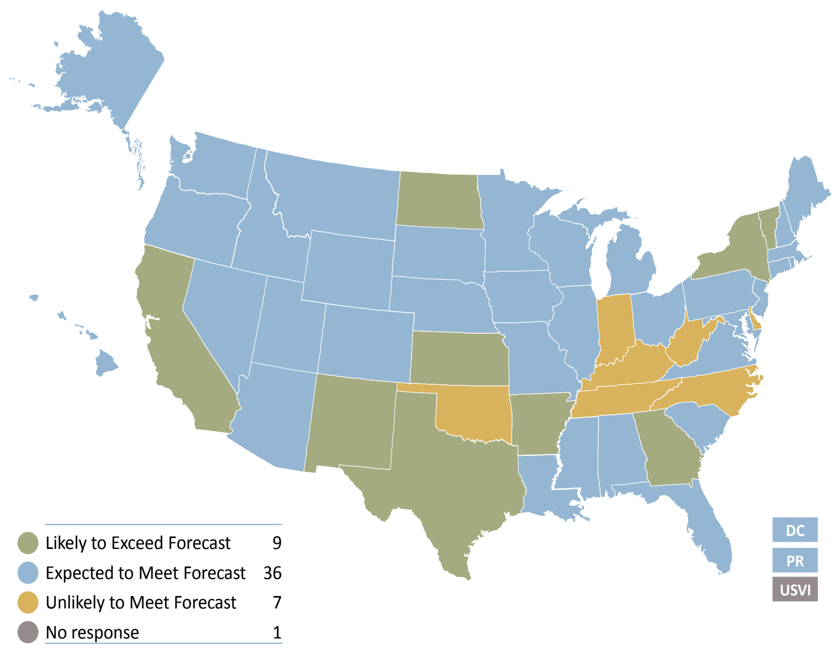
The revenue outlook is positive as most state officials expect revenues to meet, and in some cases exceed, FY 2014 forecasts. At this point, only a handful of states expect to miss their targets, indicating that the modest 1.3 percent revenue growth rate assumed at the adoption of state budgets has been attainable. Also, because it is such an important month for

[1] More information on the status of FY 2015 budgets can be accessed here: http://www.ncsl.org/research/fiscal-policy/fy-2015-budget-status.aspx

personal income taxes, April collections will be a major determining factor in whether or not many states ultimately meet their revenue goals.

- Thirty-four states, the District of Columbia and Puerto Rico expect to meet FY 2014 revenue estimates (see figure 1). In some states, revenues are anticipated to meet higher forecasts. In Illinois, for example, revenues are projected to meet a forecast that has been increased by $627 million since the budget was enacted. On the flip side, officials in Maryland expect to meet a forecast that was lowered by $126.7 million.

Figure 1. State Revenue Outlook for the Remainder of FY 2014



- Revenues are likely to exceed projections in nine states. In California, collections were exceeding projections by $965 million (1.6 percent). Lawmakers are considering additional funding for K-12 and community college education and increasing budget reserves. In Arkansas, revenues were $34.9 million higher than forecast and are a factor in the state's estimated FY 2014 surplus of $95 million. In Kansas, higher than expected revenues will be used for K-12 education in response to a state supreme court ruling, which found the state's funding of schools to be unconstitutional.

- Revenues are lower than forecasted in seven states. Delaware, Oklahoma and Tennessee are expected to miss revenue targets primarily because of lower corporate income tax collections. In West Virginia, the lackluster performance of personal income and sales tax collections is the primary reason revenues are $78 million below estimate. In North Carolina, recent tax law changes, not economic conditions, are the reason that collections are likely to miss the target.

Table 1 provides further details on state general fund revenue outlooks for the remainder of the fiscal year.

Areas of Spending Over Budget

FY 2014 spending is over budget in 22 states. In general, the reported overruns are modest. Some examples include:

- Corrections and public safety expenditures are exceeding budgeted levels in 11 states. In Nebraska, corrections is slightly over budget due to spending on inmate health care, food costs and population increases. Oregon indicated that 2013 reform legislation is not achieving targeted caseload reductions.

- Eight states reported overspending on K-12 education, and only one state, Maryland, reported that higher education was exceeding budgeted levels. Officials in Connecticut noted a K-12 education shortfall of $18 million. In Delaware, the K-12 education spending overrun is due to higher than anticipated enrollment.

- Medicaid costs were higher than anticipated in eight states. In Maine, lawmakers already enacted a supplemental budget bill to cover a Medicaid shortfall. In North Carolina, the Medicaid shortfall is expected to be between $69 million and $131 million.

- Other programs over budget include fire suppression in Alaska, flood response and recovery in Colorado, snow removal in Delaware and the Office of the Public Defender in Montana.

Table 2 contains more information on FY 2014 spending overruns.

Summary of the State Fiscal Situation

Most legislative fiscal directors continue to describe their state fiscal situation as "stable," a term that has come to symbolize the post-Great Recession era of slow and steady growth. While state budget conditions have improved from their low point earlier in the decade, officials remain concerned about slow revenue growth and continued spending pressures. A growing number of officials also are concerned about longer-term structural imbalances—where ongoing revenue growth does not keep pace with ongoing expenditure growth. Some states project structural gaps as early as FY 2016. More states see potential problems in FY 2017 and beyond.

Here are examples of state responses describing their current state fiscal situation:

- California officials remarked that the state's budget situation is significantly improved from recent years.
- Officials in Texas noted that revenue collections are trending above forecast, and there have been no unusual demands on the budget.
- In Utah, a steadily growing economy allowed for a 6 percent increase in FY 2015 general and education fund appropriations.

- In Colorado, significant revenue growth is expected in FY 2015, but not enough to fully restore the budget to pre-recession levels.
- Minnesota officials project a $1.2 billion balance at the end of the FY 2014-2015 biennium. Already-enacted legislation has allocated $150 million of this amount to the state's budget reserve fund and $443 million for income and sales tax reductions.
- Delaware officials reported that flat revenue growth, along with Medicaid and education expenses, continue to put pressure on a tight budget situation.
- In Oklahoma, FY 2014 revenues are projected to come in 3 percent to 4 percent below the original estimate, and estimates for FY 2015 indicate a decrease in collections of 2.6 percent.
- Although current year budgets are balanced in Connecticut and Rhode Island, out-year structural shortfalls are expected.
- In Alaska, officials reported that the FY 2014 deficit is about $2.3 billion, with similar deficits projected through FY 2024.

Table 3 provides summary information on the current state fiscal situation.

As state fiscal conditions continue to stabilize, lawmakers are faced with the competing demands of restoring funding to programs, reducing taxes, investing in infrastructure and preparing for the next economic downturn. Improved fiscal conditions in FY 2014 are a welcome change from the budget gaps states faced earlier in the decade and will provide officials the ability to address some of the fiscal challenges confronting them.

NCSL

NATIONAL CONFERENCE OF STATE LEGISLATURES

William T. Pound, Executive Director

Denver Office
7700 East First Place
Denver, CO 80230
(303) 364-7700
(303) 364-7800

Washington Office
444 North Capitol Street, N.W., Suite 515
Washington, DC 20001
(202) 624-5400
(202) 737-1069

www.ncsl.org