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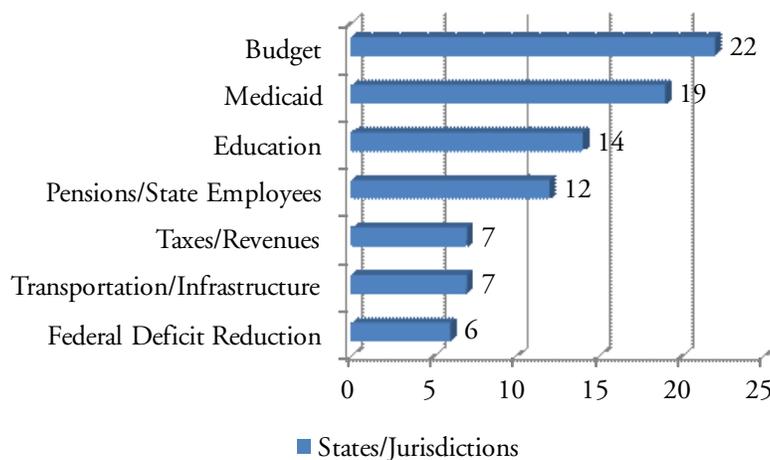
NCSL FISCAL BRIEF: TOP FISCAL ISSUES FOR 2012 LEGISLATIVE SESSIONS

January 31, 2012

State finances in fiscal year (FY) 2012 continue to improve, albeit at a slow pace. Revenue performance has improved, expenditures have stabilized and budget gaps have disappeared—at least in most states, which is a significant departure from past years.¹ Despite these positive developments, the effects of the Great Recession continue to linger. State tax collections remain below pre-recession

levels, high unemployment persists, and uncertainties about the European debt crisis have created turmoil in financial markets and shaken investor confidence. Any significant negative developments could easily stall recent improvements in state fiscal conditions.

Figure 1. Top Fiscal Issues for 2012 Sessions



Source: NCSL survey of state legislative fiscal offices, Fall 2011.

Legislative fiscal directors are keenly attuned to the financial pressures confronting their states, which is why NCSL asked these experts to identify the top three fiscal issues their state legislatures expect to address in the 2012.² With many uncertainties challenging state economic recovery, it is not surprising that the budget—including issues such as structural gaps, spending pressures and budget reductions—is anticipated to top legislative agendas in nearly half the states (see Figure 1). Medicaid,

¹ *State Budget Update: Fall 2011*. <http://www.ncsl.org/default.aspx?TabId=23919>

² Four states—Montana, Nevada, North Dakota and Texas—do not have a regular legislative sessions in 2012. Indiana, New Hampshire and Rhode Island did not provide information for this report.

education, pensions, revenues and transportation also loom large for what is expected to be another demanding year.

Budgets

Fiscal directors in 21 states and Puerto Rico indicated that the budget will be the top fiscal priority in 2012 sessions. Concerns about structural gaps, spending pressures, budget reductions and the absence of one-time funds are expected to capture the most attention.

- California officials report that reducing out-year deficits will be a challenge.
- Maryland continues to face a structural shortfall of \$1 billion. Lawmakers in the past year reduced the deficit by one-half, but further spending or revenue actions are needed.
- Officials in New York report that an FY 2013 budget gap of \$3 billion must be addressed.
- In Oklahoma, approximately 3 percent of the FY 2012 budget consists of one-time funds that will not be available in FY 2013.

Medicaid and Other Health Care Costs

Medicaid and health care costs will be priorities in 19 states. Issues to be addressed include growth in enrollment and use, reduction in the Federal Medical Assistance Percentage (FMAP) and implementation of federal health care reform.

- Officials in Alabama reported that cost increases in Medicaid continue to exceed increases in revenues.
- Health care provider payment reform will be a major issue in Massachusetts.
- Mississippi officials report that replacing one-time funds supporting the Medicaid along with a projected increase in the state share of the Medicaid match will be significant issues in 2012.
- The growing costs of Medicaid, which will likely exceed projected revenue growth, and the impact of health care reform will be top issues in the Virginia legislative session.

Education

Education will be another fiscal priority in 14 states. Discussions will center on adequate funding levels, school finance formulas and increased student enrollment.

- Officials in Idaho expect the legislature to consider resorting to previous education budget cuts.
- How to fund the governor's proposed "Blueprint for Education Reform" will be a major fiscal issue for the Iowa legislature.
- Kansas lawmakers will likely be reviewing the existing school funding formula in the 2012 session.

- In Pennsylvania, state officials may be facing additional education costs if a version of school vouchers is enacted, adding to an already fiscally challenging environment. The state has dramatically reduced K-12 education funding in recent years.

Pensions, Retirement and Other State Employee Issues

Pensions, retirement and other state employee issues topped the list in 11 states and Puerto Rico. Dealing with unfunded liabilities, increasing employee contributions and making significant reforms lie in the year ahead for state lawmakers.

- In Illinois, pension funding continues to hamstring attempts to solve the state's budgetary problems.
- Lawmakers in Louisiana are expected to consider privatizing the state's health insurance programs, increasing employee retirement contributions and reducing benefits.
- South Carolina lawmakers will be reviewing state retirement funding and considering possible increases in employee/employer contribution rates during the 2012 session.
- Lawmakers in West Virginia may revise how they plan to pay down unfunded liabilities due to a decrease in investment earnings.

Other Fiscal Issues

Other top fiscal issues include state taxes and revenues, funding for transportation and other infrastructure projects, uncertainties surrounding federal deficit reduction, and efforts to create jobs.

- In seven states, taxes and revenues are anticipated to be major issues in 2012 sessions. In Missouri, for example, discussions about tax credit reform is likely.
- Seven states indicated that transportation and other infrastructure projects will be addressed in upcoming sessions. In Maryland, a transportation commission is recommending large increases in the gas tax to address unfunded capital needs, and there is also interest in other measures to create jobs by addressing infrastructure needs.
- Federal deficit reduction will be a top issue in six states. Virginia officials indicate that the legislature will likely have to respond to adopted or proposed reductions in federal spending.
- Officials in four states reported that economic development and jobs creation will top legislative agendas in 2012. In South Carolina, officials anticipate a review of corporate tax incentives and legislation to create jobs.
- Other top fiscal issues include corrections and public safety funding (Oregon), state aid to local governments (Massachusetts) and recovery costs of Tropical Storm Irene (Vermont).

Although positive revenue growth has helped ease some pressures on state budgets, lawmakers are addressing significant challenges in 2012 legislative sessions.

Appendix 1. Summary of Top Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Budget	Medicaid/ Health Care	Education	Pensions/ State Employees	Taxes/ Revenue	Transportation/ Infrastructure	Federal Deficit Reduction	Other
Alabama		✓		✓				
Alaska	✓			✓	✓			
Arizona	✓				✓			
Arkansas		✓	✓✓					
California	✓			✓				
Colorado	✓							
Connecticut	✓			✓				✓
Delaware		✓	✓					
Florida								
Georgia			✓	✓✓				
Hawaii		✓	✓				✓	
Idaho		✓	✓✓					
Illinois		✓		✓				✓
Indiana (N/R)								
Iowa		✓	✓					✓
Kansas		✓	✓	✓				
Kentucky	✓							
Louisiana		✓	✓	✓				
Maine	✓	✓				✓		
Maryland	✓					✓	✓	
Massachusetts		✓				✓		✓
Michigan						✓		
Minnesota	✓					✓		✓
Mississippi		✓✓	✓					
Missouri	✓				✓✓			
Montana	<i>No 2012 Regular Legislative Session</i>							
Nebraska	✓	✓					✓	
Nevada	<i>No 2012 Regular Legislative Session</i>							
New Hampshire (N/R)								
New Jersey	✓	✓				✓		

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State/ Jurisdiction	Budget	Medicaid/ Health Care	Education	Pensions/ State Employees	Taxes/ Revenue	Transportation/ Infrastructure	Federal Deficit Reduction	Other
New Mexico		✓	✓		✓			
New York	✓				✓			✓
North Carolina		✓						
North Dakota	<i>No 2012 Regular Legislative Session</i>							
Ohio (N/R)								
Oklahoma	✓			✓	✓			
Oregon	✓		✓					✓
Pennsylvania			✓		✓			✓
Puerto Rico	✓			✓				✓
Rhode Island (N/R)								
South Carolina				✓				✓✓
South Dakota	✓	✓						✓
Tennessee	✓						✓	
Texas	<i>No 2012 Regular Legislative Session</i>							
Utah	✓		✓					✓
Vermont	✓						✓	✓
Virginia		✓					✓	✓
Washington	✓							
West Virginia				✓✓				
Wisconsin		✓						
Wyoming	✓		✓			✓		
Total	22	19	14	12	7	7	6	14

Key: (N/R)= No response. ✓✓= Officials indicated more than one top issue within a specific category.

Source: National Conference of State Legislatures survey of legislative fiscal officers, November 2011.

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
Alabama	Medicaid/ Health Care	Medicaid cost increases continue to exceed that of revenues.	Pensions/ State Employees	Increasing retirement and health insurance costs.		
Alaska	Taxes/ Revenues	The governor has identified petroleum taxation as a top priority.	Pensions/ State Employees	The state subsidy is rapidly rising (unfunded liability of retirement systems).	Budget	Pressure to increase K-12 funding is likely; there is concern regarding the loss of federal funding; and capital spending versus savings could become a bigger issue.
Arizona	Budget	Disposition of one-time balances. Due to the elimination of the FY 2011 shortfall and potentially higher than budgeted revenues.	Taxes/ Revenues	The temporary \$0.01 sales tax expires in FY 2014.		
Arkansas	Medicaid/ Health Care	Medicaid funding.	Education	K-12 education funding.	Education	Higher education funding.
California	Budget	Challenges ahead to reduce forecasted deficits.	Pensions/ State Employees	Unfunded liabilities.		
Colorado	Budget	Although the FY 2012 budget is in balance, a shortfall exists for FY 2013.				
Connecticut	Pensions/ State Employees	It is unclear if the \$700 million in employee concessions built into the budget is achievable.	Budget	Though it is somewhat unclear at this point, if a revenue shortfall develops, past tax increases and their impact on the economy will be areas of focus.	Other (economic development)	In 2011, the Legislature held a special jobs session that bonded \$701 million for various tax credits and bonding programs. A continued focus on these programs is expected.
Delaware	Medicaid/ Health Care	The state budgeted enhanced FMAP funds for FY 2011 rather than FY 2010.	Education	Replacement of \$27 million in federal Education Jobs Act funds.		

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
Florida		The state will likely face another budget deficit when constructing the FY 2013 budget. In light of the difficult economic circumstances, it is difficult to identify the top three fiscal issues that will be addressed. Additional reductions may become necessary, and there will be pressure to maintain funding in education and Medicaid.				
Georgia	Pensions/ State Employees (State Health Benefit Plan)	Prior adjustments reduce the shortfall to \$60 million. Additional changes for FY 2013 will require legislative action.	Education	Higher education enrollment continues to increase significantly. Additionally, these entities did not receive state funds to replace lost ARRA funds in FY 2012, reducing funding per full-time-equivalent (FTE). K-12 enrollment is steady, and the loss of ARRA funding also creates a significant deficit per FTE.	Pensions/ State Employees	Although plans are more sound than most states', FY 2013 will hold a large ticket funding issue (\$161 million infusion needed per actuary report).

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
Hawaii	Federal Deficit Reduction	In FY 2009, Hawaii ranked No. 1 in federal expenditures on salaries and wages as a percent of state GDP; No. 2 in federal expenditures as a percent of state GDP; and No. 3 in per capita flow of federal funds to states (No. 1 in direct payments No. 19 in grants). Military related spending in Hawaii was recently pegged, by a RAND Corporation study, at 18.4 percent of 2009 state GDP. Actions being contemplated by the federal government will have a significant impact on the state.	Medicaid/ Health Care (and TANF)	TANF did not receive full funding in the FY 2013 budget. Medicaid spending continues to grow.	Education	School bus transportation contracts have seen exponential growth in recent years.
Idaho	Medicaid/ Health Care	The Legislature has not been supportive of health insurance exchanges with federal incentives. This was a divisive issue last session that will be revisited.	Education	Restoration of budget cuts.	Education (higher education)	Idaho has not funded enrollment growth in colleges, universities, and community colleges since the budget downturn; and officials have not capped enrollment. Higher education will be making a case to fund growth for previous years.
Illinois	Pensions/ State Employees	Pension funding continues to hamstring attempts to solve the state's budgetary problems.	Medicaid/ Health Care	In FY 2012, approximately \$1 billion in Medicaid bills are being pushed into the next year. Payment cycle issues will eventually become critical.	Other (economic development, gaming expansion)	This is a politically contentious issue that has confounded attempts to reach agreement.
Indiana (N/R)						

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
Iowa	Medicaid/ Health Care (mental health reform)	Legislation passed last session calls for a study committee to prepare a plan to redesign Iowa's mental health system. The Legislature will act on that plan in the 2012 session with implementation by July 1, 2013. The current mental health system "sunset" in two years.	Education	The governor proposed a "Blueprint for Education Reform," but no detailed cost estimates are available at this time. Funding the proposal will be a fiscal issue for the legislature.	Other (corrections and public safety funding)	Salary adjustment funding to maintain existing staff in corrections, public safety and courts. Operating costs for new beds recently constructed, or currently under construction. Staff to maintain public safety (correctional) officers, parole/probation officers, and road troopers (DPS).
Kansas	Medicaid/ Health Care	A proposal has been submitted by the governor that will be reviewed by the Legislature in the upcoming session.	Education	A review of the existing school funding formula is anticipated in the upcoming session.	Pensions/ State Employees	An interim committee is working to address the unfunded liabilities.
Kentucky	Budget	The 2012-14 biennial budget is expected to be the primary fiscal issue that will be addressed in the upcoming session.				
Louisiana	Education	Providing school choice (charter schools, vouchers), maintaining minimum foundation funding.	Pensions/ State Employees	Exploring the privatization of the health insurance program, greater employee retirement contributions and possible benefit reductions.	Medicaid/ Health Care	The phase-in of 866,000 Medicaid recipients from fee for service to a managed-care model.
Maine	Budget	The Legislature must approve at least \$25 million in streamlining initiatives from a task force and must address supplemental budget proposals to address a downward revenue revision.	Medicaid/ Health Care	Expenditure growth accelerated in August without sufficient data to fully understand the causes. Assuming the higher weekly payments continue, the Medicaid program will have a shortfall that must be addressed.	Transportation / Infrastructure	With declining highway fund resources, the Legislature must address the growing need for infrastructure maintenance, and improvements from other funding sources.

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
Maryland	Budget	The state continues to face a structural shortfall of approximately \$1 billion. Actions taken over the past year reduced the deficit by one-half, but further spending or revenue actions are needed.	Federal Deficit Reduction	Maryland's workforce is comprised of a large number of employees who work for or are dependent of federal spending. The state also receives a large amount of federal aid through the budget. Pending action by the federal government to address national deficits could have a large impact on the state budget.	Transportation / Infrastructure	A transportation commission is recommending large increases in the gas tax to address unfunded capital needs, and there is also interest in other measures to address state infrastructure needs and to create jobs.
Massachusetts	Medicaid/ Health Care	Health care provider payment reform.	Other	Local aid payments to cities and towns.	Transportation / Infrastructure	Capital spending.
Michigan	Transportation / Infrastructure					
Minnesota	Budget	Any potential deficit for the remainder of the FY 2012-FY 2013 biennium, as well as, a projected deficit of \$1.9 billion for the FY 2014-FY 2015 biennium.	Other (government reform)	How to do more (and more efficiently) with less.	Transportation / Infrastructure	Minnesota traditionally enacts a capital budget in even numbered years. However, a substantial capital budget was enacted in 2011, so some may argue no more bonding is needed in FY 2012.
Mississippi	Education	Full funding of the Mississippi Adequate Education Program.	Medicaid/ Health Care	Replacement of non-recurring funds supporting the Medicaid program during FY 2012 and projected increase in state funds required to meet the increased state share of the Medicaid match.	Medicaid/ Health Care (mental health)	Uncertainty from Justice Department requirements for the state to expand "community services" as opposed to institutional services.
Missouri	Taxes/ Revenues	Tax credit reform.	Taxes/ Revenues	Amnesty program for overdue taxes.	Budget	A \$500 million budget gap for FY 2013.
Montana	<i>No 2012 Regular Legislative Session</i>					

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
Nebraska	Medicaid/ Health Care (reform)	Uncertainty over size and timing of costs.	Budget	Assessing the financial outlook in the next biennial cycle. Next biennial budget session is 2013. Are there intermediate steps to be taken in the 2012 session?	Federal Deficit Reduction	Assessing consequences of federal budget actions.
Nevada	<i>No 2012 Regular Legislative Session</i>					
New Hampshire (N/R)						
New Jersey	Budget (structural budget deficit)	Accommodating mandated employer pension payment increases, local school aid growth and other costs.	Transportation/ Infrastructure	The state is concluding the prior transportation capital funding regime.	Medicaid/ Health care	Response to rising costs and federal health care changes.
New Mexico	Education	How to prioritize early childhood education and accountability.	Taxes/ Revenues (tax expenditures)	The consideration of whether the state is experiencing a positive return from providing incentives to attract businesses and.	Medicaid/ Health care	Financing growth in expenses and a growing population.
New York	Budget	Dealing with a \$3 billion estimated budget gap.	Other (economic development)	Crafting strong innovative initiatives that will create growth in jobs and the economy.	Taxes/ Revenues	Cutting taxes to stimulate growth, while dealing with a budget deficit.
North Carolina	Medicaid/ Health care	Medicaid has a projected budget overrun for the current fiscal year that may need to be addressed.				
North Dakota	<i>No 2012 Regular Legislative Session</i>					
Ohio (N/R)						
Oklahoma	Taxes/ Revenues (tax credits)	A two-year moratorium was placed on a long list of income tax credits in 2010 and they all come back on line for FY 2013.	Budget	Approximately 3 percent of the FY 2012 budget was made up of one-time funds that are not available again in FY 2013.	Pensions/ State Employees	Health benefit cost increases.

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
Oregon	Budget	Depending on the next two state revenue forecasts, the February 2012 session could be focused on rebalancing the entire state budget. Currently, the state has a \$254 million general fund projected ending balance, but the forecast issued in September 2011 dropped by \$193 million. If that trend continues into the next two or more forecasts, the state will need to rebalance projected expenditures.	Other (human service program transformation)	The budget adopted for the 2011-13 biennium assumed about \$240 million in budgetary savings from transformation initiatives in the delivery of health and human services. Reports on the progress being made in these transformation initiatives are anticipated to be received during the February 2012 session, which could lead to budget realignments depending on the status of these efforts.	Education (early learning budget)	The governor had proposed a reorganization of programs dealing with early learning activities in his 2011-13 recommended budget. The Legislature directed the Executive Branch to more fully develop plans for this reorganization and to bring back recommendations to the Legislature during the February 2012 session with the possibility of authorizing the reorganization for the second year of the 2011-13 biennium beginning on July 1, 2012.
Pennsylvania	Taxes/ Revenues (natural gas fee/tax)	Many bills have been introduced, and at least one is moving through the committee process as of October 2011.	Education	If a version of school vouchers is enacted, there could be significant additional costs for the state to absorb in a fiscally challenging environment where the state has already experienced dramatic reductions in K-12 education.	Other (transportation and state funding for pension payments)	Although transportation and pension funding are the most pressing cost issues, there is no certainty on whether those issues will be addressed during the 2012 session. In November 2010, Pennsylvania enacted significant pension reform (Act 120), which helped soften a predicted future spike in pension costs; however, the increase in pension costs will still be significant and any additional action during this fiscal year is uncertain.
Puerto Rico	Budget	Meeting programmatic and budget commitments, and having a balanced budget.	Other (reduction of energy costs)	Green energy projects and measurements.	Pensions/ State Employees	Review of economic clauses in some collective bargaining agreements (where possible).
Rhode Island (N/R)						

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
South Carolina	Pensions/ State Employees	Review of state retirement funding and possible increases in employee/employer contribution rates.	Other (restructuring)	Possible restructuring of the Budget and Control Board and certain other agencies.	Other (economic development)	Review of corporate tax incentives/legislation for jobs creation.
South Dakota	Budget	The Dept. of Education and Higher Education will need additional funding from the state general fund to fill the gap once filled with stimulus funds.	Medicaid/ Health Care (FMAP)	Early indications suggest the federal government will be paying less while the state will be required to pay more for Medicaid services.	Other (emergency and disaster funding)	Missouri river flooding, wildfires and pine beetle infestation.
Tennessee	Budget	Additional budget reductions are expected in FY 2013 to maintain a balanced budget.	Federal Deficit Reduction	Potential reductions in federal programs resulting from the Budget Control Act of 2011.		
Texas	<i>No 2012 Regular Legislative Session</i>					
Utah	Budget	Utah used \$52 million (1 percent) in one-time revenues for ongoing costs in FY 2012.	Education	Utah's public education rolls grow each year, costing about \$25 million per 1 percent or so depending upon local revenue and demographics.	Other (healthcare/ retirement)	Medicaid utilization, employee health coverage costs and carry-forward retirement losses will drive requests for funding increases.
Vermont	Other (Tropical Storm Irene)	Assessing the cost and flood damage from Tropical Storm Irene and developing a plan for rebuilding—1,500 state workers, or 20 percent of the state workforce, were displaced. The state mental hospital has been closed. There is unprecedented damage to state and local road and bridge infrastructure. Initial repairs have happened quickly but permanent fixes need to be designed and will be ongoing for some time.	Budget	Closing an FY 2013 projected budget gap of 6 percent. Due to FMAP changes, initial flood costs, make-up for one-time fund use, ongoing expenses, retiree benefit costs, and other factors, the state faces a projected general fund gap of \$74.5 million for FY 2013. Departments were asked to develop spending plans of 4 percent below last year.	Federal Deficit Reduction	The uncertainty of federal funding remains a major concern.

Appendix 2. Top Three Fiscal Issues to Be Addressed in 2012 Legislative Sessions

State/ Jurisdiction	Issue	Comment	Issue	Comment	Issue	Comment
Virginia	Medicaid/ Health Care	Addressing the growing cost of program, which will likely exceed projected revenue growth and the impact of health care reform.	Federal Deficit Reduction	The Legislature will likely have to respond to adopted or proposed reductions in federal spending.	Other (ID services to individuals)	Settlement with the Dept. of Justice over a plan to transition individuals from state training centers to community-based services.
Washington	Budget (rebalance FY 2012 and FY 2013)					
West Virginia	Pensions/ State Employees	Decrease in investment earnings due to the economy. Previous estimates for paying down unfunded liabilities in pensions may have to be revised.	Pensions/ State Employees (employee insurance)	Employer and employee premiums were not increased this fiscal year. Unfunded liabilities in retiree premiums is an issue.		
Wisconsin	Medicaid/ Health Care	Medical assistance funding.				
Wyoming	Budget	Determining the appropriate level of rainy day funding.	Education	Continuation of recalibration of funding model.	Transportation / Infrastructure (locals and highways)	What general funds, if any, to provide for these non-general funded entities.
Key: (N/R)= No response.						
Source: National Conference of State Legislatures survey of legislative fiscal officers, November 2011.						