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Solving States' Budget Issues

A recovering national economy is helping stabilize the state revenues for the next fiscal year (FY) 2011. However, with the now dwindling federal stimulus funds and continued slow revenue growth state legislatures will have to come up with innovative new ways to address tough fiscal challenges during their 2011 legislative session. Across the nation, new budget gaps have opened totaling \$26.7 billion this fiscal year, with a cumulative gap of \$82.1 billion estimated for FY 2012.¹ In addition, at least 22 states are already projecting shortfalls totaling \$70 billion for FY 2013.²

For some states, balancing the budget is more problematic than in other state legislatures. Illinois, for instance, is facing a 44.9% shortfall in raised revenue for FY 2011.³ Other states such as Arizona, California, Connecticut, Louisiana, and Nevada are facing some of the largest budget gaps, each in the billions of dollars.⁴

Only a few states have managed to maintain a budget surplus in their state into the 2011 fiscal year. The four states showing a surplus are: Alaska, Arkansas, Montana, and North Dakota.

Alaska's surplus seems to be largely attributed to increased tax revenues due to petroleum sales. The state did also manage to cut energy use by a third for participants in their low-income weatherization programs.⁵

¹ "NCSL Fiscal Brief: Top Fiscal Issues for 2011 Legislative Sessions," National Conference of State Legislatures, accessed February 6, 2011, <http://www.ncsl.org/documents/fiscal/TopFiscalIssues.pdf>.

² "States Continue to Feel Recession's Impact," Elizabeth McNichol, Phil Oliff, Nicholas Johnson, Center on Budget and Policy Priorities, accessed February 8, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=711>.

³ "Budget Basics," State of Illinois, accessed February 4, 2011, <http://www2.illinois.gov/budget/Pages/BudgetBasics.aspx>.

⁴ "An Update on State's Budget Cuts," Nicholas Johnson, Phil Oliff and Erica Williams, Center on Budget and Policy Priorities, accessed February 4, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=1214>.

⁵ "Alaska weatherization cuts energy costs by third," Anchorage Daily News, accessed February 8, 2011, <http://www.adn.com/2011/02/07/1688702/alaska-weatherization-cuts-energy.html#ixzz1DO8Lhr3G>.

Arkansas' revenues exceeded expectations in corporate income and retail sales tax receipts. The governor of Arkansas implemented, "mid-year cuts and some borrowing from the rainy day fund created after the previous year's surplus. However, Arkansas borrowed more than \$300 million from federal government for unemployment insurance."⁶

Montana's budget surplus is attributed to savings of excess revenues from previous years. "Refusing to spend 100% of revenues during periods of economic prosperity helped restrict the growth of government... Fat-trimming programs implemented under Governor Schweitzer include 35% travel reductions, carpools for state employees, \$800,000 biennium savings by extending the state's computer replacement cycle to five years, \$3.4 million renegotiating lease rates for commercial space rented by the state, \$17,000 in savings from the Governor and Lt. Governor taking salary decreases, \$6 million in savings from cancelled building projects, \$18 million in savings from cancelling a new unemployment insurance computer system, and \$4.5 million in savings from cancelling renovations of an unused building on the Montana State hospital campus."⁷

North Dakota's budget success can be pinned to the state's demographics and economy. A small population creates less of an impetus for massive and expensive government programs. North Dakota's economy was also fairly resistant to the national recession. Most tax revenue in the state comes from the sale of commodities, including coal, oil, and agricultural goods. The prices for these goods held strong throughout the recession, and thus North Dakota was less impacted than other states.⁸

State legislators across the country have increasingly been seeking new measures to balance the budget and fund essential services in light of lower tax revenues. The National Conference on State Legislatures (NCLS) has compiled tables of data regarding individual budgeting and revenue measures proposed to tackle issues facing particular states that can be found here:

<http://www.ncsl.org/?tabid=19650>.

Listed below are some examples from the NCSL report of the innovative solutions state officials have explored to counter budget deficits and revenue shortfalls:

Arizona

- Abandoned vehicle fees were increased to \$500, generating an estimated \$12.1 million in FY 2011.
- Enacted measure requires nonresident taxpayers to prorate their standard deduction. The measure is expected to generate \$22 million in FY 2011.

⁶ "States See Budget Surpluses," State Budget Solutions, accessed February 9, 2011, <http://www.statebudgetsolutions.org/publications/detail/states-see-budget-surpluses>.

⁷ "States See Budget Surpluses," State Budget Solutions, accessed February 9, 2011, <http://www.statebudgetsolutions.org/publications/detail/states-see-budget-surpluses>.

⁸ "States See Budget Surpluses," State Budget Solutions, accessed February 9, 2011, <http://www.statebudgetsolutions.org/publications/detail/states-see-budget-surpluses>.

Nevada

- Senate majority leader proposed closing all state parks.
- Budget passed by the legislature required elimination of 1,900 vacant positions. The governor line-item vetoed this requirement.

California

- Governor proposed moving to a privatization model to save money.
- Governor proposed selling advertising space on electronic highway signs.
- Legislature is considering a proposal to implement digital displays on license plates to generate advertising revenue.

Idaho

- New state employees must now wait 90 days to be eligible for health insurance, up from 30 days. The change is estimated to save about \$5 million.

Maine

- The state held no jury trials the final two weeks of December 2010.

Wisconsin

- In partnership with Minnesota, Wisconsin began offering "Taco Tuesday" at all state correctional institutions. The change decreases costs to \$1.14 per meal, a reduction of 10 cents. The change is expected to save the state \$2 million annually.

Alabama

- Under the FY 2011 education budget, teachers and state workers will pay higher health insurance costs.

Delaware

- FY 2011 budget requires school districts to seek efficiencies for back office functions. Measure is anticipated to save \$20.8 million.

Missouri

- Governor proposed eliminating paid holidays for state employees, which has since been enacted. The Governor also proposed eliminating scholarships to students who go to private universities.

Illinois

- The FY 2011 budget cuts legislators' per diems from \$139 to \$111, as well as reducing General Assembly travel reimbursements from \$0.50 to \$0.39 per mile.

Ohio

- Ohio began selling Powerball tickets, in addition to raising various motor vehicle fines from \$35 to \$50 and establishing a new \$100 fee for people with a suspended license who apply for a special work or education driving permits. The measure is expected to generate \$2.7 million.

New Jersey

- AB 3009 offers sports team vanity license plates at a cost of \$60, and is anticipated to generate \$1 million for the state.

Washington

- House bill introduced with 15 co-sponsors that proposes a temporary one-cent sales tax increase that would decrease when unemployment decreases.⁹

To view the full report from the NCSL on FY 2011 budget/revenue measures by state, visit: <http://www.ncsl.org/?tabid=19650>.

⁹ "State Measures to Balance FY 2011 Budgets," National Conference of State Legislatures, accessed February 6, 2011. <http://www.ncsl.org/?tabid=19650>.

Overall Trends

With serious budget issues in the forefront for the 2011 legislative session, many legislators are facing having to raise taxes and/or cut program budgets. The National Governors Association's report, *Fall 2010 Report: Fiscal Survey of the States*, provides a fiscal update on the conditions of each state. In Figures 1 and 2 below we have used their data to chart the some of the strategies are considering. These figures show the percentage of states implementing each of these budget cuts and revenue raising strategies.¹⁰ Figure 3 shows the proposed area cuts identify the percentages of states trimming funds to specific public programs.¹¹

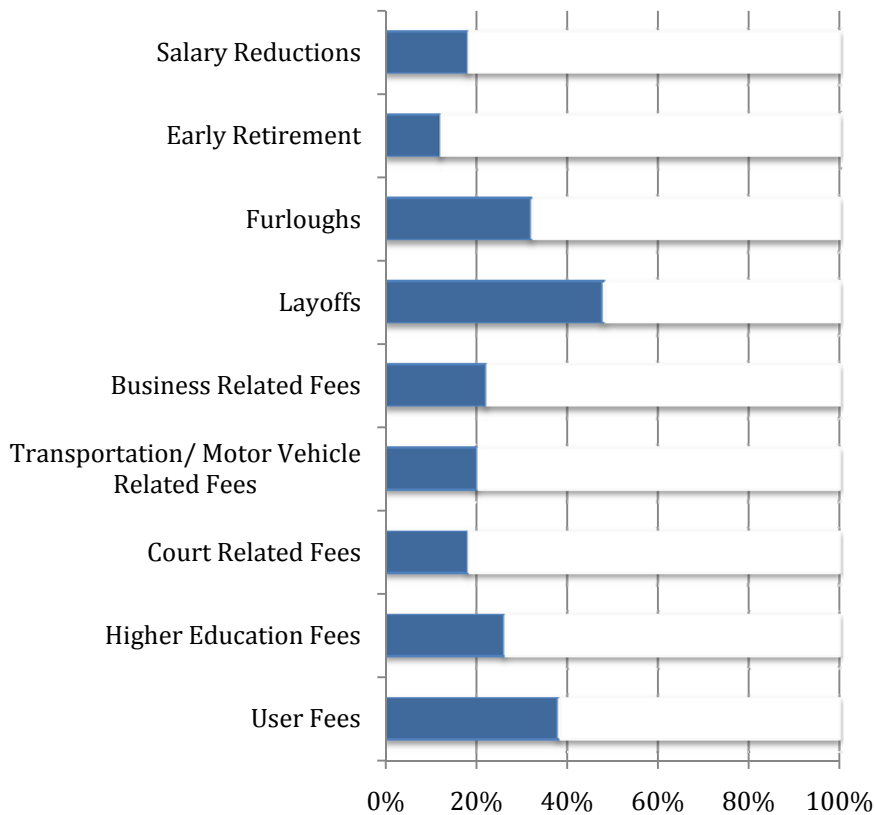


Figure 1: Strategies to Reduce or Eliminate Budget Gaps, Fiscal 2011 (blue bars represent number/percent of states implementing such cuts).

Source: Source: The National Governor's Association, "The Fiscal Survey of States," accessed February 9, 2010, <http://www.nga.org/Files/pdf/FSS1006.PDF>.

¹⁰ "Fall 2010 Fiscal Survey of States," National Governors Association, accessed February 9, 2010, <http://www.nga.org/Files/pdf/FSS1012.PDF>.

¹¹ The National Governor's Association, "The Fiscal Survey of States," accessed February 9, 2010, <http://www.nga.org/Files/pdf/FSS1006.PDF>.

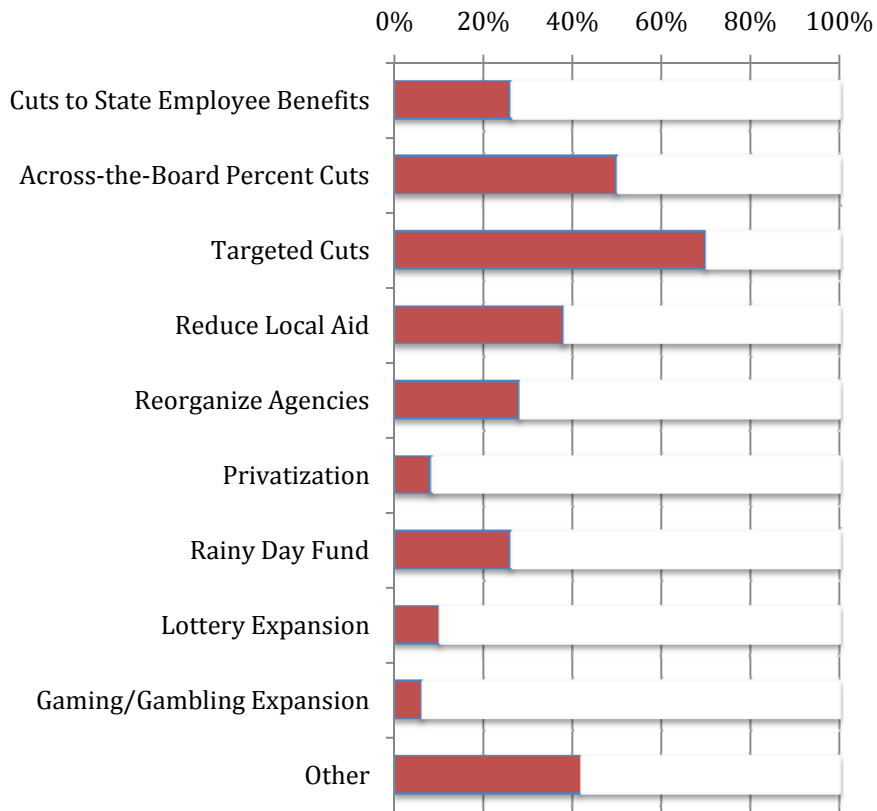


Figure 2: Strategies to Reduce or Eliminate Budget Gaps, Fiscal 2011 (red bars represent number/percent of states implementing such cuts).

Source: The National Governor's Association, "The Fiscal Survey of States," accessed February 9, 2010, <http://www.nga.org/Files/pdf/FSS1006.PDF>.

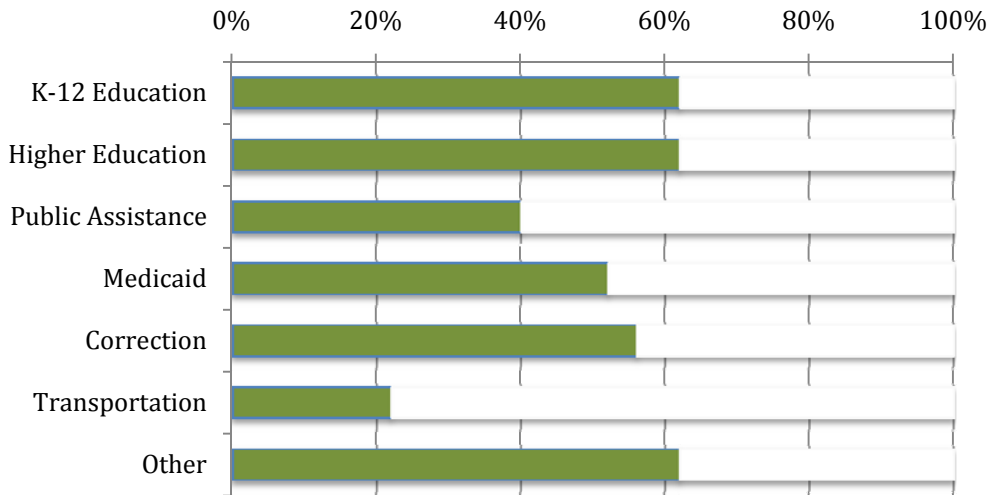


Figure 3: Proposed Program Area Cuts in 2011 (the green bars represent the number/percent of states in which such cuts were proposed).

Source: The National Governor’s Association, “The Fiscal Survey of States,” accessed February 9, 2010, <http://www.nga.org/Files/pdf/FSS1006.PDF>.

Conclusion

- With the federal stimulus funds almost gone, states must find new ways to close their budget gaps.
- Most states are projecting continued budget shortfalls in the coming years for FY 2012 and 2013.
- While most states use the conventional methods of raising taxes and making cuts to close their budget gaps, many are trying other ways to get the desired results.
- Legislators have been looking for innovative ways to close their budget gaps.

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Disclaimer: This report has been compiled by undergraduate students at the University of Vermont under the supervision of Professor Anthony Gierzynski. The material contained in the report does not reflect the official policy of the University of Vermont.