




Great Lakes States' Responses to Fiscal Crisis



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National Conference of State Legislatures
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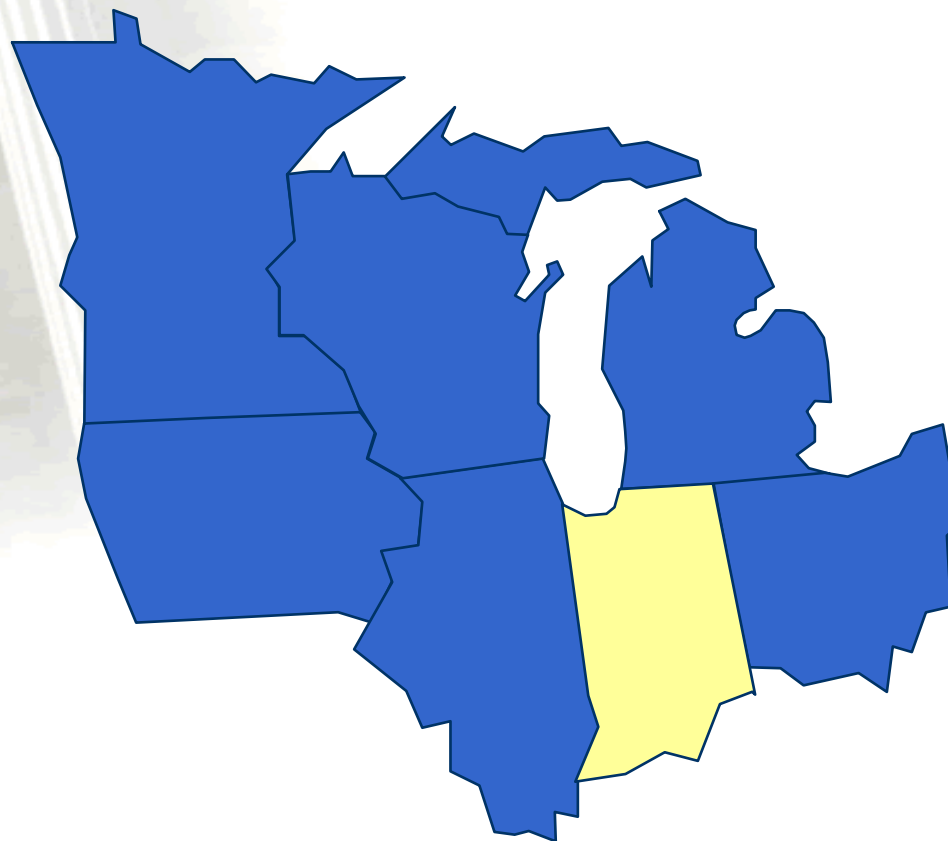
Where States Are



- State revenue performance is weak
- Budget gaps are growing
- Budget cuts are widespread
- Around 25 states have reported FY 2010 budget gaps of 10% or more

FY2010 Budget Gaps

At Beginning of Budget Consideration




- 5% to 9.9%,
- More than 10%



Introductory Notes



- States report budget information differently, so precise comparisons are not possible yet, but states around the Great Lakes all are in difficulties.
 - This report is based on governors' proposals in Indiana, Illinois, Iowa, Michigan, Minnesota and Ohio.
 - The federal stimulus package -- The American Recovery and Reinvestment Act of 2009 or ARRA -- will provide significant assistance to state budgets for some purposes. Not all Great Lakes States have reported on how state own-source spending will be adjusted to take ARRA money into account.
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Illinois



- March revenue forecasts
 - FY 2008: \$29.7 billion
 - FY 2009: \$27.2 billion (-8.4%)
 - FY 2010: \$27.0 billion (-0.1%)
- Continuation budget levels
 - FY 2009: \$31.5 billion
 - FT 2010: \$34.3 billion

Indiana



- January revenue forecasts:
 - FY 2009: \$12.4 billion (-6.7% from original forecast)
 - FY 2010: \$12.6 billion
 - FY 2011: \$13.0 billion (+3.5%)
 - Governor's budget implies that the forecasts are optimistic.

Iowa



- February general revenue estimates

- FY 2009: \$6.1 billion (-2.3% from April 2008 estimate not considering FY 2009 revenue adjustments)
- FY 2010: \$6.0 billion (-1.5%)

Michigan



- General Fund continuing revenue
 - FY 2008: \$9,972 million
 - FY 2009: \$9,034 million (- 9.4%)
 - FY 2010: \$8,772 million (- 2.9%)

Minnesota



- November general revenue forecast for 2008-09 biennium
 - Shortfall of \$426 million (since eliminated)
- February general revenue forecast for 2010-2011 biennium
 - Shortfall of \$4.8 billion (13.5%)

Ohio



- General Fund Tax Revenue
 - FY 2007: \$19.5 billion
 - FY 2008: \$19.4 billion (- 0.3%)
 - FY 2009: \$18.0 billion (- 7.1%)
 - FY 2010: \$17.2 billion (- 4.5%)

Governors' General Proposals



- Illinois: unspecified budget cuts of \$500 million; consolidation of programs and unspecified efficiencies for \$390 million more.
- Indiana: 6% to 8% cuts for executive branch agencies. K-12 protected.
- Iowa: average agency budget cuts of 6.5% from reduced FY 2009 level, except for K-12 education (stimulus funds not included in budget)

Governors' General Proposals



- Michigan: Spending from state resources cut 5%. Stimulus money and revenue increases will reduce the overall cut to about 1%. Elimination or consolidation of many small agencies and programs.
- Minnesota: ARRA funds will supplement K-12, higher ed and some Medicaid state funding with federal money. ATB cuts for other state agencies; some targeted cuts for health & social services.

Governors' General Proposals



- Ohio: Proposal to balance the budget depends upon transfers from various funds and ARRA money for FY2010, and for rainy-day funds and ARRA funds for FY 2011.


Refinancing debt and reductions in personnel costs are expected to cut costs by \$370 million to \$400 million in each year of the next biennium.



Budget Proposals



■ Corrections


- Indiana: proposal to increase operations and capital spending because of increased number of offenders.
 - Michigan: proposal to close prisons and parole inmates more expeditiously; add probation/parole staff.
 - Minnesota: move short-term inmates from county to state institutions to protect county budgets.
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Budget Proposals



■ K-12 Education

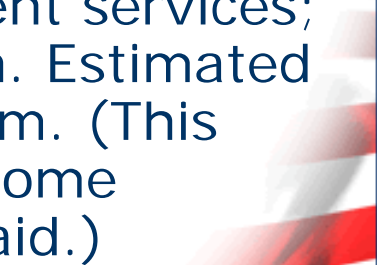
- Illinois: ARRA funds will provide increased funding for K-12 and higher education for FY 2010
 - Indiana: Flat funding for school aid formula, 5% cut in other lines, \$85 million new money to the Teacher Pension Plan
 - Michigan: Reduce foundation funding (\$94 million) and eliminate many small special-purpose programs for a total savings of \$165 million.
 - Minnesota: Replace more than \$400 million in state funding with ARRA funds.
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Budget Proposals



■ Health care


- Indiana: Medicaid appropriation 2% below previous years because the state's federal match increased (before stimulus package).
 - Minnesota: Governor proposes changing the General Assistance Medical Care program to provide more assistance through clinics and discourage emergency room visits; some reduction in out-patient services; and a pilot program in care coordination. Estimated to save \$180 million in the next biennium. (This program provides health care to low-income residents who are not eligible for Medicaid.)
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Budget Proposals



■ Higher Education

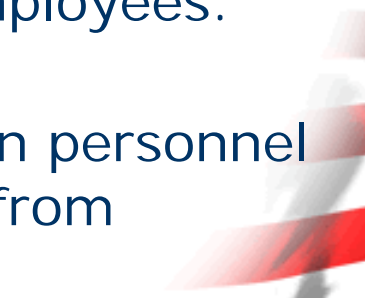
- Indiana: Governor recommended 1% cut from 2008-2009 level, with a 5% increase in need-based student aid.
 - Michigan: Reduce appropriations for colleges & universities by 6.1%, protect community colleges.
 - Minnesota: Governor recommends funding at FY 2008 level with ARRA funds replacing state funding.
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Budget Proposals



■ Public Personnel


- Illinois: Furloughs for state employees and increased employee health insurance contributions. Estimated savings of \$236 million a year (requires employee union concessions).
 - Illinois: New retirement plan for new employees and increased contributions from current employees.
 - Michigan: Budget assumes \$50 million in personnel savings, which will require concessions from employee unions.
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Budget Proposals



- Public Personnel

- Ohio: Pay reductions up to 6% for executive branch staff; state-funding portion of vision, dental and life insurance will be reduced from 100% to 90%. Requires union concessions. Estimated to save \$170 million to \$200 million a year.
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Budget Proposals




- Capital projects

- Iowa: Eliminate funding for a new state office building (\$38 million) in FY 2009.



Cash and Debt Management




- Ohio: Refund debt to shift payments into the future; save \$400 million in the biennium.
 - Ohio: Interfund borrowing of \$200 million in FY2010 and \$320 million in FY 2011.
 - Illinois: Governor proposes refunding debt to reduce costs
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Use of Rainy-Day Funds




- Indiana: Governor recommends no use of reserves; House has voted to use \$200 million.
 - Iowa: Will use \$200 million for FY 2010
 - Minnesota: Budget reserve of \$155 million used in FY 2009; cash flow account of \$250 million remains available
 - Ohio: Will use \$948 million for FY 2011
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Revenue Proposals



- Illinois: Governor's proposals totaling \$4.2 billion
 - Personal income tax rate increase: \$3.2 billion
 - Corporate income tax rate increase: \$350 million
 - Other business taxes: \$100 million
 - Drivers' licenses and plates: \$200 million
 - Non-tax revenues: \$350 million
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Revenue Proposals



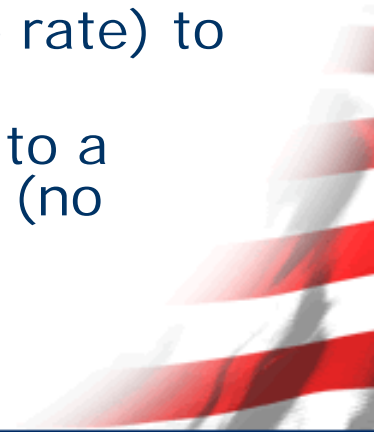
■ Indiana

- Senate hearings on a direct tax on employees to shore up the Unemployment Insurance Trust Fund, now in debt to the federal government by \$470 million.
- Such taxes exist in only three states.



Revenue Proposals




- Michigan: Governor's proposals totaling \$231 million:
 - Sales tax (reducing exemptions): \$53 million
 - Income tax (suspend indexed increase in personal exemption for two years): \$65 million
 - Tobacco and liquor taxes: \$72 million
 - Enforcement, lotteries, other: \$41 million
 - Constitution amendment to allow a graduated personal income tax (instead of a single rate) to finance reductions in business taxes.
 - Motor fuel tax increase, and conversion to a percentage rather than a per-gallon tax (no estimate)
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Revenue Proposals



■ Minnesota

- Senate proposal to repeal the corporate franchise (corporate income) tax, cut the sales tax rate, and add a new tier to the personal income tax to finance the changes, gradually until 2013.
 - Governor has proposed cutting the corporate income tax from 9.8% to 4.8% by 2014; bill has been introduced in the House.
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Revenue Proposals




- Ohio: Governor's proposals:
 - Fees, fines and penalties in many state agencies: \$236 million in the biennium
 - New and increased hospital franchise fees (restructuring Medicaid funding): \$892 million in the biennium
 - Restructured managed care tax: \$417 million



State Stimulus Packages



- Illinois: Governor proposes \$26 billion multi-year capital investment plan, about 50% highways. (Bonds and federal funds).
 - Indiana: No governor's recommendation. House approved \$785 million for higher education construction, opposed by the governor.
 - Iowa: Governor proposes \$750 million three-year plan for infrastructure, about 25% highways (revenue bonds).
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The background of the slide features a faded American flag with stars in the upper left and stripes in the lower right. A large, faint image of a classical building with columns is centered behind the text.

Summary




- Efforts to protect K-12 funding from drastic cuts, which ARRA assists with.
- Planned cuts to higher education in most states, again possibly offset with ARRA funds.
- Need to manage Medicaid caseload and cost growth.
- Stringent reviews of existing programs with efforts to consolidate or eliminate lower-priority expenditures.



Summary




- Efforts to control personnel costs. Illinois governor has proposed fundamental retirement policy change. No other proposals in these states for fundamental changes in public employee retirement or retiree health care programs.
 - Efforts to use reserves carefully, balancing present need against future needs.
 - No borrowing proposed for continuing budgets; some refinance proposals to cut debt repayment costs.
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Summary



- Proposals in IL, MI and OH to increase annual revenues by more than \$1 billion a year.
 - Only minor revenue changes proposed in IA.
 - Only for unemployment compensation fund in IN.
 - Broad support in MN for cutting the corporate income tax, and differing opinions on whether it's necessary to raise compensatory revenue.
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Summary



- Governors' proposals to rebuild infrastructure and create jobs with major spending proposals in IL and IA, and a House proposal in IN.

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