Budget Balancing Tactics

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The Rockefeller Institute State Fiscal News: Vol. 3, No. 7
August 2003

With states facing a third consecutive year of budget deficits in fiscal year 2004, lawmakers were forced to look for ways to balance their budgets. Tactics used by the states included a combination of spending cuts, federal fiscal relief, tax and fee increases, and the use of budget reserves. The Fiscal Studies Program of the Rockefeller Institute of Government has collected information from our network of sources for tactics used by various states, and looked at recent surveys of general state fiscal actions.

One of the most notable methods states used to help close the big gaps that they confronted in their fiscal 2004 budgets was fee increases. Table 1 uses data collected by the National Conference of State Legislatures covering 42 states. While fees make up about one-eighth of state revenues, they accounted for about one-fourth of revenue increases in the fiscal 2004 budgets. In addition, fee increases were widespread with 37 of 42 states having some fee increases. The “Other Revenues” number is also of interest since it includes revenue accelerations, which help to balance the fiscal 2004 budget, but decrease revenue available in subsequent years

Table 1
FY 2004 Net State Tax and Revenue Increases
(Billions of Dollars)

Personal Income	$1.8
Corporate Income	$0.5
Sales and Use	$2.8
Tobacco	$0.6
Other Taxes	$1.2
Total Taxes	**$6.9**
Fees	$2.6
Other Revenues	$1.1
Total Revenue	**$10.6**

Source: National Conference of State Legislatures, *State Tax Actions 2003: Preliminary Report*

Connecticut employed a number of tactics to eliminate its $1 billion budget gap. Most unusual among them was a conditional increase in the state's inheritance tax. The tax would be raised on estates of more than $1 million — but only if a person dies between April 1, 2004 and Oct. 1, 2004. The half-year tax increase, which would boost state coffers by an estimated $55 million, would be imposed only if the state fails to receive $250 million in expected funds from the federal government during 2004.

The $20 billion federal fiscal relief proved to be critical in helping states with their budget woes. Half of this money is in the form of increased Medicaid payments, earmarked to assist the states in paying for the recent strong growth in this program's cost. The other half is in general fiscal aid, available for any purpose the states wish. Since the general aid payments are tied to population and not to need, the states with the biggest problems received only a small boost, while states with smaller problems received something of a windfall. For instance, the $1.15 billion that California will receive is only about 3 percent of what was once a $38 billion budget gap. Meanwhile, Wyoming never had a budget gap – due to its reliance on revenues tied to oil and gas – but still received $50 million.

New Jersey is another state that used a variety of fee increases and one-shot, or temporary taxes, to help balance its FY 2004 budget. The state's casinos were particularly targeted by these increases. Taxes on casino net profits increased 25 percent, and a 7.5 percent fee on their net income for three years was instituted. "Comps," or the free drinks, meals, and rooms traditionally offered to preferred customers and untaxed as income or sales, are now taxed at 4.25 percent. The casino has the option of either paying the tax itself or passing the cost onto its customers. Additional fees levied on New Jersey's casinos are in increase in parking fees from $2 to $3, and a $3 surcharge on casino hotel rooms. All of the measures are expected to bring in an additional $90 million to the state's coffers.

California executed what is being called the "Triple Flip." They are selling $10.7 billion in bonds to help balance the fiscal 2004 budget. This will be paid back with one-half cent of the local sales tax that the state will take over, about $2 billion a year. In exchange, the cities and counties are compensated for the loss of sales tax by receiving a greater share of the property tax that previously went to schools. The state then reimburses the schools for the lost property tax.

Michigan will collect property taxes twice a year instead of once, which accelerates about $455 million into fiscal 2004. To soften the blow, they have cut the rate by one mill. Kansas is also accelerating property tax collections, bringing in $163 million more.

In addition to the tobacco tax increases noted in Table 1, many states also used funds from the settlement of the lawsuit against the tobacco companies to help balance their budgets. For instance, in its fiscal 2004 budget, New York is using $4.2 billion from tobacco settlement “securitization,” selling bonds based on future payments. Colorado is using about $160 million from securitization to help balance their fiscal 2004 budget. Minnesota took about $1 billion from a tobacco settlement fund to help balance their general fund.

Table 2 shows some of the spending cuts that states have made to help balance their fiscal 2004 budgets.

Table 2.
Types of State Spending Cuts
FY 2004

	# Of States
Across-the-Board	14
Medicaid	15
Corrections	15
Higher Education	13
K-12 Education	11
States Making Spending Cuts	31 of 42

Source: National Conference of State Legislatures, *State Budget & Tax Actions 2003: Preliminary Report: Executive Summary*.

States have also been tapping their budget reserves to help balance budgets. According to the National Association of State Budget Officers, states had year-end balances of $48.8 billion in fiscal 2000, or 10.4 percent of their annual expenditures. By the end of fiscal 2003, this had declined to $6.4 billion, or 1.3 percent of expenditures.[1] In their adopted fiscal 2004 budget, states are planning to start to rebuild these reserves. Their success at doing that is dependent on their budget not being knocked out of balance again before the end of the fiscal year.

[1] National Governors Association and National Association of State Budget Officers, *The Fiscal Survey of the States, June 2003.*

More information on methods and tactics that states have used to close their budget gaps is available from the Nelson A. Rockefeller Institute of Government's Fiscal Studies Program at the contact numbers and addresses listed below.

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