Innovative Strategies:
State Efforts to Stem the Tide of Red Ink

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Two Main Parts

I. Broad National and State Trends

II. Innovative Strategies Adopted by State Policymakers
I. Broad Trends: National

- October 2003 Unemployment 6 percent
- GDP growth in Third Quarter of 2003 = 7.2%
- Impressive Productivity Gains; 5% since 2001
- Manufacturing and Construction Sector Growth
- Rise in Consumer and Business Confidence
I. Broad Trends: National

- Federal Budget Deficits Loom in Upcoming Years
  1992 = $-290.4 Billion  
  1996 = $-107.5 Billion  
  1998 = $69.2 Billion  
  1999 = $125.5 Billion  
  2000 = $125.5 Billion  
  2001 = $127.1 Billion  
  2002 = $-159 Billion  
  2003 = $-374 Billion  
  2004 = $-480 Billion

- In January 2001, CBO predicted a federal budget surplus of $5.6 trillion between 2002 and 2011

- In October 2003, CBO announces cumulative deficits totaling $1.4 trillion over the next four years
I. Broad Trends:

**State**

- States have closed a cumulative budget gap of $200 billion in last three fiscal years (FY 01 through FY 03)

- For the current fiscal year, the cumulative estimate is a shortfall of $25 billion to $40 billion

- Florida, Georgia, North Carolina, Virginia in the South have already announced potentially large gaps
I. Broad Trends: State

In prior years, states solved their gaps by
- Slashing Spending
- Tapping Rainy Day Funds
- Deploying Tobacco Settlement Monies
- Raising Taxes and User Fees
- Hiking Cigarette Taxes
- Cutting Funds to Local Governments
- Racking Up Debt
- Generating Funds via Gaming
II. Innovative Strategies

Decoupling From Federal Tax Code

- Federal tax cuts in 2001, 2003 and 2003 reduced state revenues ($10 billion)
- Phasing out the federal estate tax lowered state revenues ($4 billion)
- Federal bonus depreciation provision reduced state revenue ($14 billion)
- Hence, 37 states have already de-linked the tax codes from the federal tax code
II. Innovative Strategies

Leveraging Technology

- California’s Integrated Non-Filer System (processed more than 160 million records and brought in $182 million)
- Iowa’s Gap Compliance Program (generated $26 million in tax revenues beyond baseline collections)
- Virginia’s e-Va system (savings in excess of $100 million estimated)
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Introducing Tax Amnesty Programs

- In 2002 and 2003, 19 states across the country including Florida, Kentucky, Missouri, Oklahoma, South Carolina, Virginia
- Virginia netted $10 million in amnesty’s first four weeks
- Michigan’s program brought in $30 million in new revenue
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Inventive Transportation Programs

- Georgia could begin accepting proposals for privately financed road and transit projects.
- Minnesota considering a proposal to let solo drivers pay to use the car pool lane on I-394.
- North Carolina’s DOT proposes charging drivers tolls to drive on I-95 through eastern NC (Use $3 billion revenue expected to overhaul the highway).
- California (San Diego and Los Angeles) and Texas (Houston) let solitary drivers pay to use car pool lane.
II. Innovative Strategies

Raising the Gasoline Tax

Gasoline Tax in SLC States (As of July 1, 2003)

<table>
<thead>
<tr>
<th>State</th>
<th>Gas Tax</th>
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<tbody>
<tr>
<td>AL</td>
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<tr>
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</tr>
<tr>
<td>WV</td>
<td>20.5 cents</td>
</tr>
</tbody>
</table>
II. Innovative Strategies

Creative Financing Techniques

- Illinois – unique pension financing plan by increasing state’s GO bond authority
- Mississippi – switching to variable instead of fixed-rate bonds
- Michigan – closing a property tax loophole statewide
- Kansas – Governor authorized to accelerate property tax payments or delay tax refunds
- South Dakota – Accounting for income in the year earned
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Recouping Costs from the Estates

- States seeking to recover some of the money spent on nursing home care by Medicaid from the estates of deceased persons
  - Texas
  - Connecticut
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Inventive Steps to Increase Federal Funds under Medicaid

States continue to maximize their Federal Medical Assistance Percentage (FMAP)

- Use of Upper Payment Limits
- Intergovernmental Transfer Payments
- Nursing Home Provider Tax
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Florida

- Eliminate outmoded trust funds and channel funds to general fund
- Move to activity-based budgeting
- Service level management analysis of state’s IT services
- SUNTAX, the country’s first, truly integrated revenue administration system (over $70 million in previously unidentified collections in first year)
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Arkansas

- Closed offices of the Revenue and Employment Security Department
- Implemented new statewide accounting system
- Merged technical institutes with higher education institutions
- Implemented Performance-Based-Budgeting
- Provided state services via the Internet
- Authorized the use of state bonds for toll roads
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North Carolina

- Eliminated IMPACT, a boot camp in favor of community correction programs (savings - $4 million)
- Closed older prisons (savings - $5 million)
- Disposed of state-owned surplus real property (revenue - $10 million)
- Consolidated employee death and disability benefit reserve funds (savings - $55 million)
- Reduced prison staffing by revising relief formula (savings - $4.3 million)
- Implemented “prior approval” and use of generics in Medicaid prescription drugs (savings - $97 million)
- Replaced general funds appropriations for need-based scholarships in UNC system with funds from Escheats (savings $21 million)
- Accelerated the state’s debt collection practices (anticipated collection of $50 million in new revenue)
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Georgia

- Implemented a process called “redirection”
- Established the Georgia Technology Authority to better harness technology in bringing about efficiencies and cost savings
- Utilized state funds more efficiently to secure matching federal funds
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**Tennessee**

- $23.4 million in potential savings at the Corrections Department with the early release of some state prisoners and requiring others to serve community-based sanctions.

- $12 million in new revenue at the Department of Mental Health by increasing fees that behavioral health organizations pay per patient in the state’s mental health institutions.
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Texas

- Changed the Permanent School Fund to a total return investment strategy (savings $474 million)
- Closed a loophole in the auto sales tax system (savings $176 million)
- Delayed the Foundation School Program payment without impacting services (savings $800 million)
- Shifted the date by which unclaimed wages and property becomes state-owned (revenue $13 million)
- Sunset provision for every state agency, once in 12 years
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South Carolina

- MAP Commission appointed by Governor in June 2003 to streamline government
  - Hundreds of recommendations
  - $225 million in savings identified in first year
  - $300 million in savings thereafter
  - Additional $650 million in savings by eliminating the Teacher and Employee Retention Incentive Program
  - Regularly review Malcolm Baldridge Award program for ideas on enhancing efficiency in South Carolina
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Illinois

- Statewide centralized “buying club” to purchase prescription drugs for seniors and disabled persons ($150 million in annual savings to the state)

- Move to buying prescription drugs for state workers and retirees from Canada ($91 million in annual savings to the state)
Conclusion: Room for Cautious Optimism

- State revenues increased by 9% at the end of the two quarters that ended in September 2003.
- State and local spending increased by only 1% for the same period.
- States will increasingly look to borrowing to meet budget gaps – huge increase from $48 billion in 1992 to $127 billion in 2002.
Thank You

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