

# 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)

## II. Innovative Strategies

### 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

## II. Innovative Strategies

### 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)

AL – 16 cents

AR – 21.5 cents

FL – 4 cents

GA – 7.5 cents

KY – 15 cents

LA – 20 cents

MD – 23.5 cents

MS – 18 cents

MO – 17 cents

NC – 24.2 cents

OK – 16 cents

SC – 16 cents

TN – 21.4 cents

TX – 20 cents

VA – 17.5 cents

WV – 20.5 cents

## 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

## II. Innovative Strategies

### 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

## II. Innovative Strategies

### 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

# II. Innovative Strategies

## 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)

# II. Innovative Strategies

## 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

# II. Innovative Strategies

## 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)

# II. Innovative Strategies

## 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

## II. Innovative Strategies

### 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

# II. Innovative Strategies

## 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

# II. Innovative Strategies

## 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 Baldrige Award program for ideas on enhancing efficiency in South Carolina

# II. Innovative Strategies

## 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

# Innovative Strategies:

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