

# State Policy: The Budget Process

**David Shreve**  
**National Conference of State Legislatures**

**Hispanic Association of Colleges & Universities**  
**April 14, 2008**





# Introduction

- Funding for higher education is highly dependent on health of state budgets and availability of funds
- 7 states have biennial session & biennial budget- AR, KY, MT, NV, ND, or, TX
- 14 have annual session but biennial budget- AZ, CT, HI, IN, ME, MN, NE, NH, NC, OH, VA, WA, WI, WY
- remainder= 29 annual session & budget
- cumulative state gen'l fund for FY 2007= \$640 billion
- most states use July 1 FY; but 4 use other
- NY=April 1; TX=Sept 1; MI & AL =Oct. 1

# State Budgeting



- **Constitutional requirement for balanced budget in 49 states.**
- **Which state is the exception?**

# State Budgeting



- Sources of state revenue?
- sales tax-18%
- excise tax-16%
- personal income tax-18%
- corporate taxes- 15%
- federal revenues-25%

# State Budgeting



- Sources of state revenue?
- 45 States have general sales tax
- 43 states have personal income tax

# State Budgeting



- **Biggest issue for many states is the volatility of consumption taxes- sales & excise accounting for 34% of revenues**
- **Example: Before 9-11, many sales tax dependent states had budget problems. ex: TN, AL, FL**

# State Budgeting



- **K-12 is constitutionally required and near to legislator's hearts, so it is usually the cut of last resort.**
- **Higher ed is also near to their hearts, so it is often protected - for an instant.**



## FISCAL CONDITIONS FY 02-04

<u>FY</u>	<u>Gap</u>	<u>Impact on K-12</u>	<u>Impact on Hi Ed</u>
2002	\$37 b	17 states cut	29 states cut
<u>2003</u>	<u>\$79 b</u>	<u>12 states cut</u>	<u>11 states cut</u>
<b>2004</b>	<b>\$83 b</b>	<b>15 (of 44) states cut</b>	<b>19 (of 44) states cut</b>





# **FISCAL CONDITIONS FY 2002-04**

- **How were shortfall(s) addressed?**
- **Tuition increases**
- **Rainy Day Funds**
- **Other reserves**
- **Borrow from dedicated funds**
- **Tobacco Funds**
- **Enhance revenues**

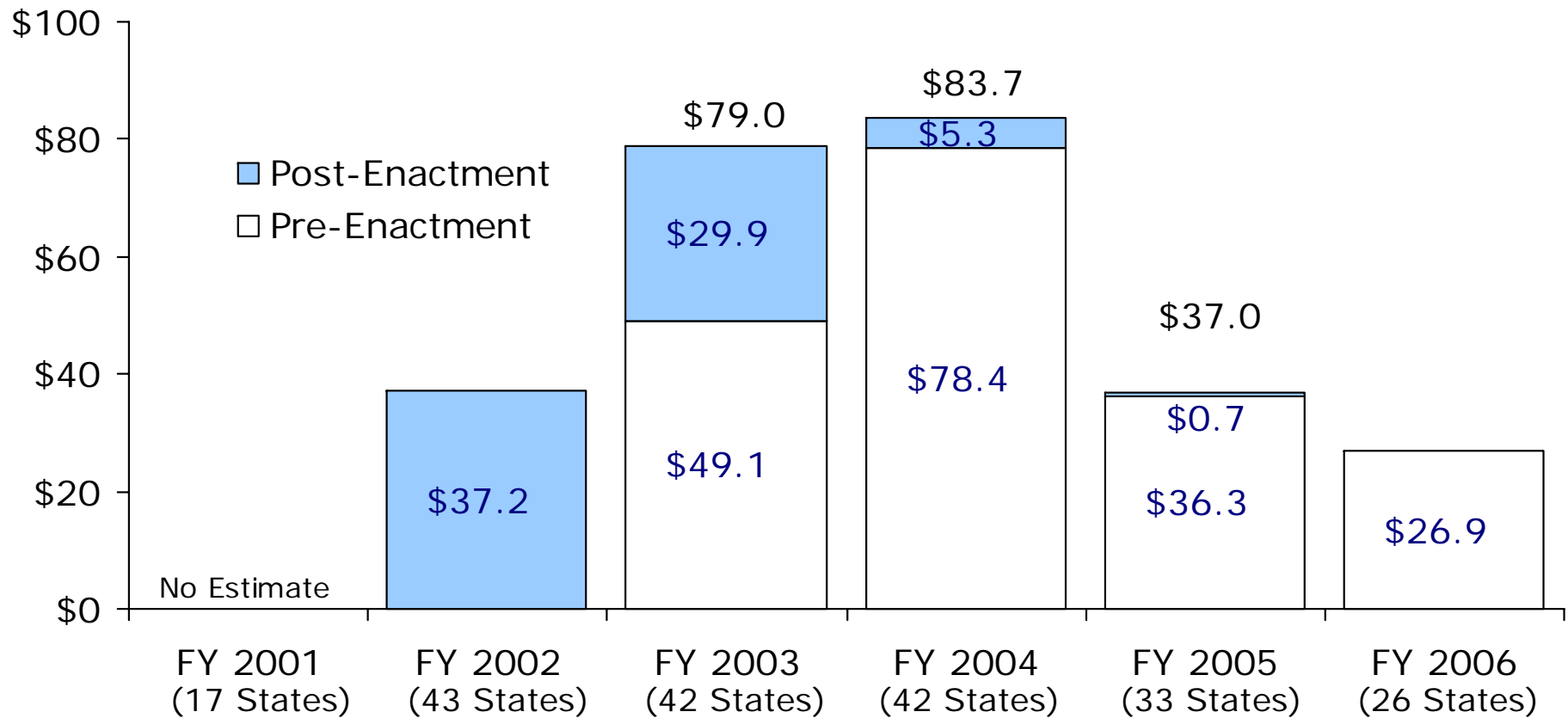


## **CONCLUSIONS**

- **Worst fiscal crisis for states in last 20 years**
- **Much improved 2006 and 2007 year**
- **Some federal actions have exacerbated the problem through unfunded mandates and cost shifting.**
- **Also, states piggy-back on taxes (federal tax cuts impact state revenues)**

# State Budget Gaps Shrink!

(in billions of dollars)





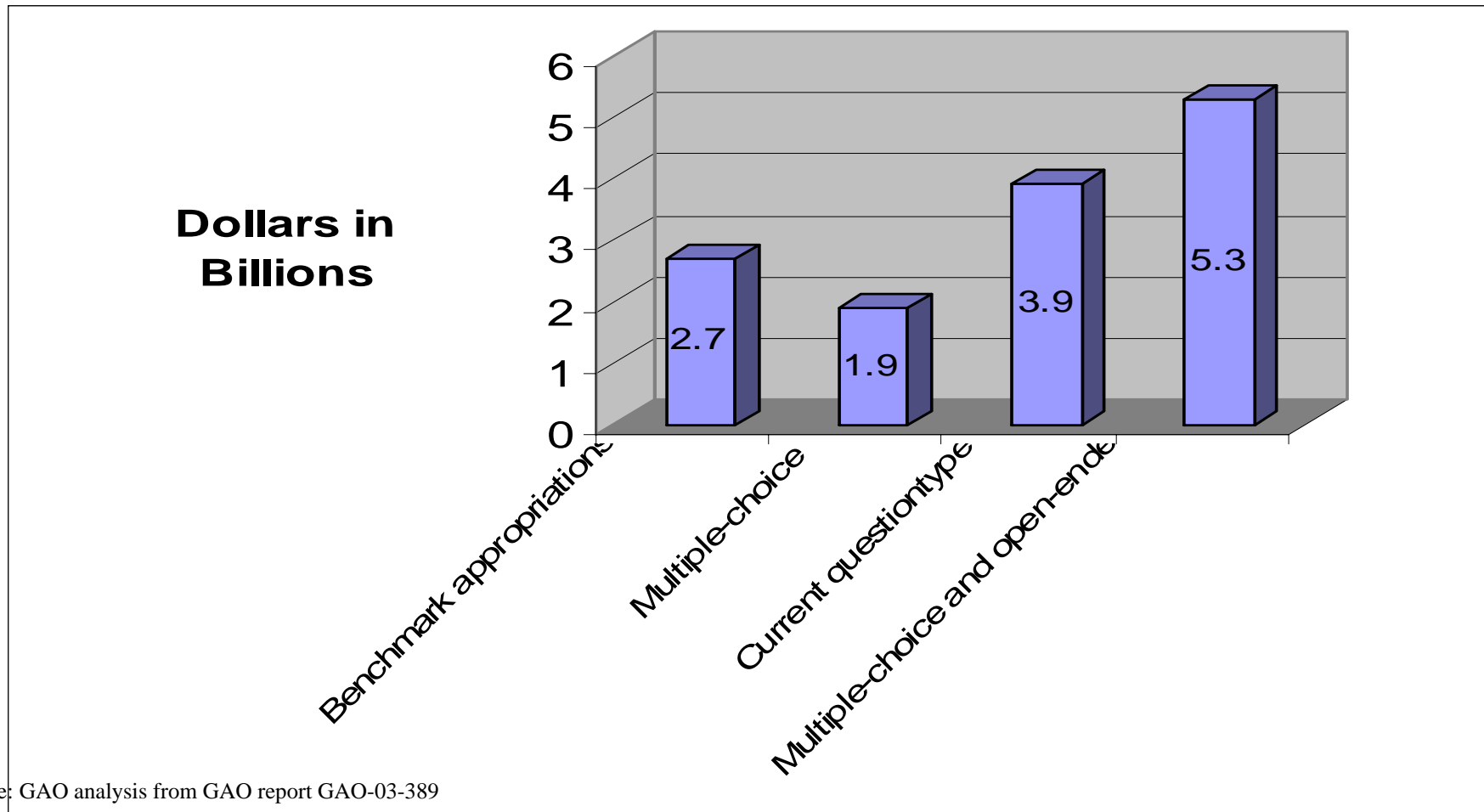
# **COST SHIFTING FROM FEDS – IDEA & NCLB**

- Special ed students are about 13% of student population but account for 22% of K-12 expenditures
- Feds provide about 18% of APPE **BUT** federal money is only about 12% of additional expenditure on special education students

# Cost shifting from feds

- Feds promised to pay excess costs, estimated to be 40% above K-12 APPE.
- Feds are only providing 1/2 of promise-\$11 B.
- BUT actual excess cost (95%) is more than twice the federal (40%) estimate.
- States and localities are left holding a \$25 billion/year unfunded mandate for IDEA.

# NCLB COST SHIFTING FROM FEDS-TESTING (1)



# NCLB COST SHIFTING FROM FEDS-TESTING (2)

- a. advance to state of the art testing

**Cumulative costs to states:\$2.6 billion**

- b. stay with what states are currently using

**Cumulative costs to states:\$1.2 billion**

- c. revert to machine scored, bubble tests

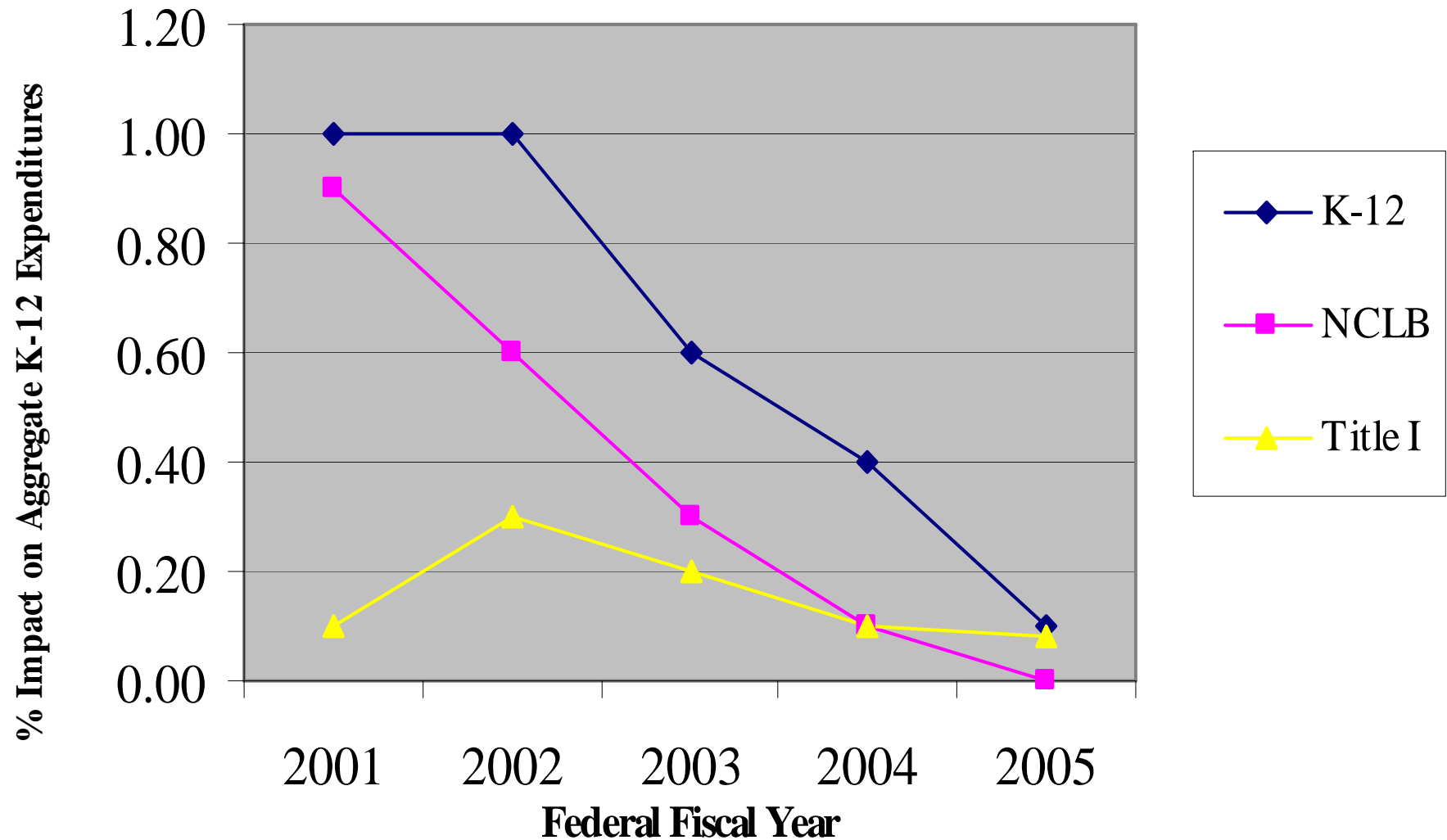
**Cumulative costs to states:-\$800 million**

# THE NCSL TASK FORCE ON NO CHILD LEFT BEHIND

- Under a conservative estimate of average costs to implement NCLB (2% per year of aggregate state ed budgets) and an expansive evaluation of federal funding increases (2% increase in aggregate K-12 funding, which includes increases in Special Ed), the cost of **complying with NCLB's administrative requirements** is nearly matched by federal approps increases.



# Federal Education Funding Increases (FY 2001 – FY 2005) & Their Impact on Aggregate K-12 Expenditures



Source: U.S. Department of Education Budget Service & the National Center for Education Statistics

# THE NCSL TASK FORCE ON NO CHILD LEFT BEHIND

## What about reaching ‘proficiency’?

- Very little left for remediation, i.e. pre-K, small class size in early years, enrichment, summer programs
- Costs for reaching proficiency are best estimated by using “adequacy” as a proxy.
- Adequacy estimates in past have generally used 70% to 80% proficiency as the basis for estimates. NCLB requires 100% proficiency.
- Meeting proficiency targets will require states to add 20% to 40% to existing K-12 budgets, an amount that could cost states hundreds of billions of dollars.



# State Budget Problems are back!

- States with strong budgets/revenue situation
- Alaska  
Montana  
New Mexico  
North Dakota  
Oklahoma  
Texas  
Utah  
Wyoming
- Strong = Robust revenue performance  
and/or healthy reserves

# State Budget Problems are back!

- States with stable budgets/revenue situation
- Arkansas, Colorado, Connecticut, Georgia  
Hawaii, Idaho, Indiana, Iowa, Kansas,  
Louisiana, Michigan, Mississippi, Missouri  
Nebraska, North Carolina, Oregon,  
Pennsylvania, South Carolina  
South Dakota, Virginia, Washington, West  
Virginia

Stable = No immediate fiscal problems  
foreseen or can be managed with existing  
resources

# State Budget Problems are back!

- States with problem budgets/revenue situation
- Alabama, Delaware, Illinois, Maryland  
Massachusetts, Minnesota  
New Hampshire, New Jersey, New York  
Ohio, Tennessee, Vermont, Wisconsin

Problem = Revenues underperforming and/or  
concerns about stability of spending plans



# State Budget Problems are back!

- States with serious budgets/revenue situation
- Arizona, California, Florida, Kentucky  
Maine, Nevada, Rhode Island
- Common denominator is growth and crash of real estate development!
- Serious = Significant budget gaps reported!



# For More Information

**David Shreve**  
**National Conference of State**  
**Legislatures (NCSL)**  
**444 North Capitol Street,**  
**N.W., Suite 515**  
**Washington, D.C. 20001**

**(202) 624-5400**

**[www.ncsl.org](http://www.ncsl.org)**

**[david.shreve@ncsl.org](mailto:david.shreve@ncsl.org)**



NATIONAL CONFERENCE  
*of* STATE LEGISLATURES

*The Forum for America's Ideas*