NCSL Anticipates Increased Funding

By Amy Wong

Nashville - The National Conference of State Legislatures (NCSL) has released its *State Budget and Tax Actions 2006: Preliminary Report*.

The survey, which was released Aug. 15 and compiles information on members of the National Association of Legislative Fiscal Offices (NALFO), reflects budget data from 49 states and tax data from 44 states during the fiscal years 2006 and 2007.

Research shows a major surge in revenue, which will either be distributed to various state programs or saved for future use. NCSL Executive Director William Pound said in a press release, "State legislators are taking advantage of today's strong revenue growth. They're using it to fund one-time expenses, and they're shoring up reserves."

The NCSL's annual report shows that educational programs will be the main beneficiary of states' new revenue. Twenty-four states intend to increase funding for K-12 educational programs, and 20 states plan to invest their revenue in higher education programs.

Although education is slated to be the main beneficiary, other state programs will also benefit from this unexpected increase in revenue. Fourteen states will pool funds into Medicaid programs, 14 will pay for one-time capital expenditures, 11 will support corrections, and 10 will increase funding for state transportation systems.

States have also expressed a keen desire to orchestrate a major tax-relief effort. Personal income taxes will be reduced by $600 million, while corporate and business taxes will be reduced by $124 million. Indiana, Kansas, and Maryland will make major cuts in property tax.

All these benefits result directly from 2006's startling revenue hike, which is one of the highest year-end balances in decades. Analysts predicted revenue to increase by 2.7 percent in fiscal year 2006, but were pleasantly surprised when it actually rose by 7.7 percent by year's end. The combined state balance increased from $45.8 billion to $57.1 billion between the 2005 and 2006 fiscal years.

The year-end balances of individual states vary quite a bit, though. When comparing the 2005 and 2006 fiscal years, 28 states had increased year-end balances, 19 states had decreased year end balance, two states had balances that remained steady, and one state had a zero balance. Despite the vast differences in actual revenue, none of the states was in deficit.

Steve Rauschenberger, NCSL president and Illinois senator, observed, "Not only do we have the rebounding economy to thank for this, we also should applaud the diligent work of state legislators across America, who have been smart managers of public money."

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Rauschenberger continued, “State legislators have learned from the budget crisis of the early part of the decade, as we can see by the prudent choices they’re making now.”

Although Rauschenberger commends state legislators for making prudent choices, many analysts are wondering whether these projected expenditures are wise. According to NCSL’s survey results, the 2007 spending budget is expected to increase by 7.6 percent, while revenues are expected to grow by 3 percent.

With high state spending and low revenue growth, analysts speculate that state balances will decrease by 29 percent by the end of 2007. This will definitely have adverse effects on the educational, Medicaid, corrections, and transportations programs during the 2008 fiscal year.

Furthermore, this problem may be aggravated by the federal government’s deficit. As Pound stated, “It would be nice if the federal government would stop undermining their efforts by exporting their own deficit to the states. Each year, states pay tens of billions of dollars in unfunded federal mandates.”