In the Supreme Court of Ohio

DirectTV, Inc., and EchoStar Satellite L.L.C.,	:	Case No. 2009-0627
Plaintiffs-Appellants,	:	On Appeal from the Court of Appeals, Tenth Appellate District
v.	:	
Richard Levin, Tax Commissioner of Ohio,	:	Court of Appeals Case No. 08AP-32
Defendant-Appellee.	:	

BRIEF OF *AMICUS CURIAE* NATIONAL GOVERNORS ASSOCIATION IN SUPPORT OF DEFENDANT-APPELLEE RICHARD LEVIN, TAX COMMISSIONER OF OHIO

David Parkhurst* (Pro Hac Vice Pending)
D.C. Bar No. 484117
**Counsel of Record*
National Governors Association
444 North Capitol Street, NW
Suite 267
Washington, DC 20001
Telephone: (202) 624-5328
Facsimile: (202) 624-7814
dparkhurst@NGA.org

Robert J. Krummen (0076996)
Vorys, Sater, Seymour & Pease LLP
52 East Gay Street
Columbus, OH 43215
Telephone: (614) 464-5427
Facsimile: (614) 719-4626
rjkrummen@vorys.com

Attorneys for Amicus Curiae National Governors Association

Richard Cordray (0038034)
Ohio Attorney General

Lawrence Pratt (0021870)
Alan P. Schwepe (0012676)
Julie E. Brigner (0066367)
Damion M. Clifford (0077777)
Barton A. Hubbard (0023141)
Assistant Attorneys General
30 E. Broad Street, 25th Floor
Columbus, OH 43215
Phone: (614) 466-5967
Facsimile: (614) 466-8226

Attorneys for Appellee Richard Levin Tax Commissioner of Ohio

E. Joshua Rosenkranz (Pro Hac Vice)
New York Bar No. 2224889
Counsel of Record
Jeremy N. Kudon (Pro Hac Vice pending)
New York Bar No. 3971363
Orrick Herrington & Sutcliffe LLP
666 Fifth Avenue
New York, NY 10103
Telephone: (212) 506-5000
Facsimile: (212) 506-5151
JRosenkranz@Orrick.com
JKudon@Orrick.com

Peter A. Rosato (0068026)
Calfee, Halter & Griswold LLP
1100 Fifth Third Center
21 East State Street
Columbus, OH 43215
Telephone: (614) 621-1500
Facsimile: (614) 621-0010
PRosato@Calfee.com

Pantelis Michalopoulos (Pro Hac Vice)
District of Columbia Bar No. 453179
Mark F. Horning (Pro Hac Vice)
District of Columbia Bar No. 203323
Steptoe & Johnson LLP
1330 Connecticut Avenue, NW
Washington, DC 20036
Telephone: (202) 429-3000
Facsimile: (202) 429-3902
PMichalopoulos@steptoe.com
MHorning@steptoe.com

Attorneys for Plaintiffs-Appellants

Dean David C. Crago (0011158)
(Counsel of Record)
Professor of Law
Ohio Northern University
525 South Main Street
Ada, Ohio 45810
Phone: (419) 772-2205

John A. Swain (Pro Hac Vice pending)
Professor of Law
James E. Rodgers College of Law
The University of Arizona
1201 E. Speedway Blvd.
Tucson, AZ 85721
john.swain@law.arizona.edu

Attorneys for Amicus Curiae Ohio Cable Television Association

Eric S. Tresh (Pro Hac Vice pending)
Sutherland, Asbill & Brennan LLP
999 Peachtree Street, N.E.
Atlanta, GA 30309-3915
Phone: (404) 853-8579
Facsimile: (404) 853-8806
Eric.tresh@sutherland.com

Walter Hellerstein (Pro Hac Vice pending)
Professor of Law
University of Georgia
School of Law
216 Rusk Hall
Athens, GA 30602
Phone: (706) 542-5175
Facsimile: (706) 542-5556
wallyh@uga.edu

Douglas R. Matthews (0039431)
Michael J. Hendershot (0081842)
Vorys, Sater, Seymour & Pease LLP
52 East Gay Street
Columbus, Ohio 43215
Phone: (614) 464-5460
Facsimile: (614) 719-4843
drmatthews@vorys.com

Attorneys for Amici Curiae Time Warner Cable, Comcast, and Cox Communications

Christopher G. Browning (Pro Hac Vice pending)
North Carolina Solicitor General
North Carolina Department of Justice
114 West Edenton Street
P.O. Box 114
Raleigh, North Carolina 27603

Annina M. Mitchell (Pro Hac Vice pending)
Utah Solicitor General
Utah State Capitol, Suite # 230
P.O. Box 142320
Salt Lake City, UT 84114-2320

Attorneys for Amicus Curiae State of North Carolina

Shirley K. Sicilian (Pro Hac Vice pending)
Sheldon H. Laskin
Multistate Tax Commission
425 N. Capitol Street
Suite 444
Washington, D.C. 20001

Attorneys for Amicus Curiae Multistate Tax Commission

Marcus W. Thrathen (Pro Hac Vice)
Charles F. Marshall (Pro Hac Vice)
Julia C. Ambrose (Pro Hac Vice)
Brooks, Pierce, McClendon, Humphrey & Leonard, LLP
150 Fayetteville Street, Suite 1600
Raleigh, NC 27601

Paul D. Ritter, Jr.
Kegler, Brown, Hill & Ritter, P.A.
Capitol Square, Suite 1800
65 East Sate Street
Columbus, OH 43215

Attorneys for Amicus Curiae National Conference of State Legislatures

Arthur H. Harding (Pro Hac Vice Pending)
District of Columbia Bar No. 963983
Craig A. Gilley (Pro Hac Vice Pending)
District of Columbia Bar No. 448414
Micah M. Caldwell (Pro Hac Vice Pending)
District of Columbia Bar No. 496131
Fleischman and Harding LLP
1255 23rd Street NW, Eighth Floor
Washington, DC 20037
Phone: (202) 939-7900
Facsimile: (202) 745-0916
aharding@fh-law.com
cgilley@fh-law.com
mcaldwell@fh-law.com

Donald J. Mooney, Jr. (0014202)
Ulmer & Berne LLP
600 Vine Street, Suite 2800
Cincinnati, 0H 45202
Phone: (513) 698-5000
Facsimile: (513) 698 -5071
dmooney@ulmer.com

Counsel for Amicus Curiae Institute for Policy Innovation

Douglas R. Cole (0070665)
Erik J. Clark (0078732)
Jones Day
325 John H. McConnell Blvd., Ste. 600
Columbus, Ohio 43215

Counsel for Amicus Curiae Constitutional Law Professors

John A. Hinman
Hinman & Carmichael, LLP
260 California Street, Suite 1001
San Francisco, CA 94111

Attorney for Amicus Curiae Specialty Wine Retailers Association

Jeffrey Pearlman
Public Knowledge
1875 Connecticut Avenue NW, Ste. 650
Washington, D.C., 20009

Attorney for Amicus Curiae Consumer Federation of America, et al.

Mark C. Ellison
Senior Vice President & General Counsel
National Rural Telecommunications Cooperative
2121 Cooperative Way
Herndon, VA 20171

Attorney for Amicus Curiae National Rural Telecommunications Cooperative

Gerhardt A. Gosnell II (0064919)
Donald C. Brey (0021965)
Chester, Willcox & Saxbe, LLP
65 East State Street, Suite 1000
Columbus, Ohio 43215-3413

Attorneys for Amici Curiae Satellite Broadcasting and Communications Association, et al.

Keith C. Nusbaum
Howard R. Rubin
Hannah F. Preston
Sonnenshein Nath & Rosenthal
1301 K. Street, NW
Suite 600, East Tower
Washington, D.C. 20005

Attorneys for Amicus Curiae National Taxpayer's Union

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I. STATEMENT OF AMICUS INTEREST

This amicus curiae brief is submitted in support of the Defendant-Appellee Richard Levin, Tax Commissioner of Ohio. The National Governors Association ("NGA") is the bipartisan organization of the nation's governors. Its members include the governors of all fifty states and five territories. The NGA represents governors in Congress, before federal agencies, and in state and federal appellate courts. The NGA presents the governors' collective voice on issues critical to the successful functioning of the independent executive branches of state governments.

NGA has an interest in this matter because Appellants' position calls into question the ability of all fifty states to raise revenue and promote the general welfare of their citizens. The Commerce Clause protects interstate markets, not individual products within those markets. Rather than a Commerce Clause issue affecting interstate markets, Appellants have brought forth a veiled Equal Protection claim and have asked this Court to invalidate a state taxing provision that does not impede interstate commerce.

As the collective voice of the nation's governors, NGA urges the Court to uphold the decision of the Ohio Court of Appeals and to reject Appellants' theory because it would expand the Commerce Clause far beyond anything imagined by the framers of our United States Constitution, and as a consequence, invade the sovereignty and impair the capability of the States to collect revenue from interstate businesses operating within their borders.

II. THE OHIO SALES TAX ACCORDS WITH FEDERAL AUTHORITY GRANTED UNDER THE TELECOMMUNICATIONS ACT OF 1996

A. The 2003 Ohio Sales Tax Amendment Was Intended to Balance the Financial Obligations Imposed Upon Customers of Subscription Television Service.

Residents in Ohio have two choices for subscription television service ("multichannel video programming distribution" or "MVPD"). They can purchase television service from either satellite television providers ("satellite," "direct broadcast satellite," or "DBS") or from cable television providers. Cable television subscribers must pay franchise fees of approximately five percent (5%) of their monthly subscription charge and additional amounts related to in-kind services provided by cable companies under terms of local franchise agreements. See The Cable Communications Act of 1984, Pub. L. No. 98-549, Title VI, § 622(b), 98 Stat. 2779 (1984), reprinted in 47 U.S.C. § 542(b). However, Ohio customers of satellite television service historically paid no state or local taxes or fees. DBS providers in Ohio (and many other states including, but not limited to, Arizona, California, Delaware, Florida, Indiana, Kentucky, Maine, Massachusetts, Nevada, New York, North Carolina, Tennessee, Texas, Utah and Wisconsin) are not subject to cable franchise fees (or other taxes impose on cable only) and can pass along this savings to DBS customers through lower monthly prices.

In June of 2003, the Ohio General Assembly amended R.C. 5739.01 et seq. to impose a state level sales tax on video programming provided by satellite companies. The 2003 amendments expanded the Ohio state sales tax to include "satellite broadcasting service," defined to mean "the distribution or broadcasting of programming or services by satellite directly to the subscriber's receiving equipment without the use of ground receiving or distribution equipment, except the subscriber's receiving equipment or equipment used in the uplink process to the satellite." R.C. 5739.01(B)(3)(p); R.C. 5739.01(XX). While cable television subscribers continued to pay local franchise fees at rates up to five percent (5%)[1], satellite customers became subject to a 5.5 percent (5.5%)[2] sales tax upon the same tax base.

This Court should ignore any formalistic distinction between a tax and a fee for Commerce Clause purposes in the same manner as such distinction was ignored in Section 602(a) of the Telecommunication Act of 1996. The language of the Act applies the federal preemption to exactions described as either taxes or fees. Subscription television subscribers generally make no differentiation between whether charges on their bill are characterized as "taxes" or "fees" because it does not alter the obligation to pay.

B. The Telecommunications Act of 1996 Preserved State Authority to Tax Direct-to-Home Satellite Service.

The tax treatment enjoyed by satellite providers prior to the 2003 amendments did not occur by happenstance. The satellite industry successfully lobbied Congress in the Telecommunications Act of 1996 (hereinafter the "Act") to preempt local taxes and fees imposed on direct broadcast satellite providers. Telecommunications Act of 1996, Pub. L. No. 104-104, Title VI, § 602, 110 Stat. 56, at **144-45 (1996), reprinted in 47 U.S.C. § 152. Specifically, the Act preempts local taxing authorities from imposing any taxes or fees upon satellite television providers.[3] The late Representative Henry Hyde (R-IL), who chaired the House Judiciary

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[1] The franchise fee may actually be in excess of five percent (5%) because the franchise fee is imposed upon the amount of the franchise fee charged to the customer, a net amount of up to 5.25 percent ((5%) + (5%)(.05)) plus an additional amount for in-kind services required under the franchise agreements.

[2] As originally enacted in 2003, the Ohio sales tax rate was six percent (6%). R.C. 5739.02(A)(1) (2003). On or after July 1, 2005, the state sales tax rate was lowered to 5.5 percent (5.5%). Id.

[3] Pub. L. No. 104-104, § 602(a) ("A provider of direct-to-home satellite service shall be exempt from the collection or remittance, or both, of any tax or fee imposed by any local taxing jurisdiction on direct-to-home satellite service."). The term "direct-to-home satellite service" is

Committee during consideration of the Act, explained that this preemption was necessary because "[t]o permit thousands of local taxing jurisdictions to tax such a national service would create an unnecessary and undue burden on the providers of such [DBS] services." 142 Cong. Rec. H1145-06, *H1158 (Feb. 1, 1996), 1996 WL 39800. Congress feared that requiring the then-fledgling satellite industry to pay taxes directly to thousands of local governments could stifle growth of an industry in its infancy.

Congress, however, left undiminished the inherent authority of the States to impose statewide taxes or fees, such as the Ohio sales tax, upon satellite providers. Section 602(c) of the Act specifically preserved taxing authority over satellite companies to the states –

> (c) PRESERVATION OF STATE AUTHORITY.—This section shall not be construed to prevent taxation of a provider of direct-to-home satellite service by a State or to prevent a local taxing jurisdiction from receiving revenue derived from a tax or fee imposed and collected by a state.

Pub. L. No. 104-104, § 602(c). Chairman Hyde explained that "[t]he power of the States to tax this service is not affected by Section 602. Again, States may, if they wish, share the revenue thus collected with their local municipalities." 142 Cong. Rec. at *H1158. In exempting satellite providers from making direct payment of taxes to local communities nationwide, Congress did not intend to interfere with the States' ability to tax the satellite companies or to distribute the proceeds of such taxes to local governments.

The Ohio sales tax at issue is exactly the type of state tax expressly authorized by Congress within Section 602(c) of the Act. The federal preemption was enacted only to protect the satellite providers from the administrative burden of collecting and remitting local taxes in

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defined to mean "programming transmitted or broadcast by satellite directly to the subscribers' premises without the use of ground receiving or distribution equipment, except at the subscribers' premises or in the uplink process to the satellite." Pub. L. No. 104-104, § 602(b)(1).

thousands of local jurisdictions across the United States. 142 Cong. Rec. at *H1158. Congress could not have anticipated that the very same satellite companies might use the preemption as a shield from paying a state tax levied in the very manner described and pursuant to the States' sovereign authority preserved in Section 602(c) of the Act.

III. THE OHIO SALES TAX DOES NOT DISCRIMINATE AGAINST INTERSTATE COMMERCE

The Ohio sales tax does not discriminate against or burden interstate commerce in violation of the "dormant" or "negative" Commerce Clause. The Constitution expressly authorizes Congress to "regulate Commerce with foreign nations and among the several states." Clause 3, Section 8, Article I, United States Constitution. The negative aspects of the Commerce Clause implicitly limit states' rights to establish economic barriers within the United States in favor of "an area of trade free from interference by the States." *Boston Stock Exch. v. State Tax Commn.* (1977), 429 U.S. 318, 328, 97 S.Ct. 599, 50 L.Ed.2d 514. While the Commerce Clause is a limit on state power, when asked to judge between the national interest in free trade and the interests of states to exercise their legitimate taxing power, the United States Supreme Court's Commerce Clause jurisprudence invokes a "sensitive, case-by-case analysis of purposes and effects." *West Lynn Creamery, Inc. v. Healy* (1994), 512 U.S. 186, 201, 114 S.Ct. 2205, 129 L.Ed.2d 157. "The Commerce Clause does not prohibit all state action designed to give its residents an advantage in the marketplace, but only [discriminatory] action of that description *in connection with * * * interstate commerce.*" *New Energy Co, v. Limbach* (1988), 486 U.S. 269, 278, 108 S.Ct. 1803, 100 L.Ed.2d 302 (emphasis sic).

In the context of tax policy, a state tax provision satisfies the requirements of the Commerce Clause if: (i) the activity taxed has a substantial nexus with the taxing State; (ii) the tax is fairly apportioned to reflect the degree of activity that occurs within the State; (iii) the tax does not discriminate against interstate commerce; and (iv) the tax is fairly related to the services provided by the State. *Complete Auto Transit, Inc. v. Brady* (1977), 430 U.S. 274, 279, 97 S.Ct. 1076, 51 L.Ed.2d 326. Judicial application of this four-prong test, of which non-discrimination is but one element, rests not on the formal language of a particular tax statute but rather its practical effect, signaling judicial deference to legislative authority in economic matters. Id., 430 U.S. at 279.

The independent ability and inherent authority of States to raise revenue is a basic tenet of our system of government. Our system of federalism provides the States wide latitude in determining and developing their own tax systems. *Luther v. Minn. Commr. of Revenue* (Minn. 1999), 588 N.W.2d 502, 508 (citing *State Tax Commn. v. Aldrich* (1942), 316 U.S. 174, 178-79, 62 S.Ct.1008, 86 L.Ed.2d 1358), certiorari denied (1999), 528 U.S. 821, 120 S.Ct. 66, 145 L.Ed.2d 57. Courts exercise their power to declare a statute unconstitutional with extreme caution and only when absolutely necessary. *Luther*, 588 N.W.2d at 508. The use of the dormant Commerce Clause as a sword to cut from the States their power to ensure and enhance tax parity is incompatible with our system of government.

In the absence of congressional action, a State retains the ability to structure its taxing system in any manner that it deems appropriate, so long as its structure does not discriminate against or favor taxpayers based solely on their geographical location. Any different interpretation would be an improper expansion of the Commerce Clause.

While the "fairly apportioned" and "fairly related" prongs from *Complete Auto* do not factor into Appellants' argument, Ohio's imposition of a state sales tax upon satellite providers presents no restriction on interstate commerce and thus no violation of the Commerce Clause for the following two reasons: (1) the Ohio sales tax contains no geographical component; and (2) the imposition of the tax upon the DBS providers imposes no additional burden on interstate commerce than is imposed on in-state commerce.

A. R.C. 5739.01(XX) Contains No Geographical Component and Thus There Can Be No Discrimination Under the Commerce Clause

Appellants allege that the purpose and effect of the imposition of the Ohio sales tax upon satellite providers is protectionist because it confers an unfair competitive advantage to cable operators that provide their service pursuant to franchises from Ohio local governments and a competitive disadvantage to satellite providers that have no such franchises but provide service from out-of-state facilities. (Appellants' brief at 12; Complaint ¶2.) Appellants claim incorrectly that the imposition of the sales tax depends on whether an MVPD provider makes a significant infrastructure investment in the State of Ohio. However, what Appellants fail to recognize and what the Ohio Court of Appeals astutely identified is that the imposition of the Ohio sales tax upon MVPD providers is based solely on *how* television programming is distributed and contains absolutely no component of *where* MVPD providers locate their property used to distribute television programming. (Ohio Court of Appeals Opinion at 15-16.)

When Congress enacted the federal preemption for DBS providers in the Act, it defined "direct-to-home satellite service" to mean "programming transmitted or broadcast by satellite directly to the subscribers' premises without the use of ground receiving or distribution equipment, except at the subscribers' premises or in the uplink process to the satellite." Pub. L. No. 104-104, § 602(b)(1). After several years, states such as Ohio began to amend their tax laws as permitted by the Act, which specifically allows states to impose sales or gross receipts taxes and fees upon satellite providers at the state level with the opportunity to distribute this revenue to localities within the states. In 2003, when the Ohio legislature amended its sales tax provisions to include "satellite broadcasting service," it simply adopted the federal definition of such service, defining it as "the distribution or broadcasting of programming or services by satellite directly to the subscriber's receiving equipment without the use of ground receiving or distribution equipment, except the subscriber's receiving equipment or equipment used in the uplink process to the satellite." R.C. 5739.01(XX).

Appellants mischaracterize the Ohio sales tax by incorrectly arguing that "[w]hether or not a pay TV service is taxed depends on one fact – whether the service 'use[s] ground receiving or distribution equipment' *in Ohio.*'" (Appellants' Brief at 1, 15 (emphasis added).) Seeking to maintain the status quo, the satellite companies misread into the definition of "satellite broadcasting service" a geographical component that simply does not exist. In fact, Appellants have brought similar litigation challenging similar legislation in four other states (Florida, Kentucky, North Carolina and Tennessee) and have currently been rebuffed by every federal and state court outside Ohio that has ruled upon the matter. Not only did the Ohio Court of Appeals find that there was no in-state component within the Ohio sales tax statute at issue, the Court of Appeals of North Carolina and the United States Court of Appeals for the Sixth Circuit also failed to find any geographical or "in-state" component within similar legislation. (See Ohio Court of Appeals Ruling at 14); *DIRECTV, Inc. v. North Carolina* (2006), 178 N.C.App. 659, 632 S.E.2d 543; *DIRECTV, Inc. v. Treesh* (C.A. 6, 2007), 487 F.3d 471, 480, certiorari denied (2008), 128 S.Ct. 1876, 107 L.Ed.2d 746.

The Ohio Court of Appeals correctly dismantled the faulty analogy Appellants constructed between the Ohio statute, which does not include a location-based requirement, and the United States Supreme Court's dormant Commerce Clause jurisprudence that overturned certain discriminatory state tax policies that benefited in-state economic activity while imposing an unequal burden on out-of-state activity.

In *Boston Stock Exchange v. State Tax Commission* (1977), 429 U.S. 318, 97 S.Ct.599, 50 L.Ed.2d 514, New York revised its taxing scheme to lower the tax imposed upon nonresidents who made trades through an exchange *within the State of New York.* In *Westinghouse Electric Corp. v. Tully* (1984), 466 U.S. 388, 104 S.Ct. 1856, 80 L.Ed.2d 388, a New York tax credit only applied to the portion of the company's exports that were shipped *from New York.* Finally, in *Armco Inc. v. Hardesty* (1984), 467 U.S. 638, 104 S.Ct. 2620, 81 L.Ed.2d 540, a tax scheme exempted from tax only property that was manufactured *in West Virginia.*

In all of these cases, the presence of a geographical component within a taxing scheme is clear and, based on such geographical component of the taxing scheme, the United States Supreme Court found that such geographical distinction in the taxing law was economic protectionism and placed a burden upon interstate commerce in that local interests were favored to the detriment of out-of-state competitors. Without any geographical component to the taxing statute at issue here, there simply can be no discrimination under the Commerce Clause, and any ruling to the contrary would be an improper expansion of the Commerce Clause.

B. The Imposition of the Tax Upon the DBS Providers Imposes No Additional Burden on Interstate Commerce.

The Ohio sales tax "does not prohibit the flow of interstate goods, place added costs upon them, or distinguish between in-state and out-of-state companies in the retail market. The absence of any of these factors fully distinguishes this case from those in which a State has been found to have discriminated against interstate commerce." *Exxon Corp. v. Governor of Md.* (1978), 437 U.S. 117, 126, 98 S.Ct. 2207, 57 L.Ed.2d 91; see, e.g., *Hunt v. Washington Apple Advertising Commn.* (1977), 432 U.S. 333, 97 S.Ct. 2434, 53 L.Ed.2d 383; *Dean Milk Co. v. City of Madison* (1951), 340 U.S. 349, 71 S.Ct. 295, 95 L.Ed.2d 329.

Commerce Clause jurisprudence provides that a State may not structure its taxing system in a manner that discriminates against interstate transactions in order to favor local commercial interests over out-of-state businesses. *Bacchus Imports, Inc. v. Dias* (1984), 468 U.S. 263, 272, 104 S.Ct. 3049, 82 L.Ed.2d 200; *Northwestern States Portland Cement Co. v. Minnesota* (1959), 358 U.S. 450, 458, 79 S.Ct. 357, 3 L.Ed.2d 421. Further, a state tax is discriminatory if it taxes "'a transaction or incident more heavily when it crosses state lines than when it occurs entirely within the State.'" *Chem. Waste Mgt., Inc. v. Hunt* (1992), 504 U.S. 334, 342, 112 S.Ct. 2009, 119 L.Ed.2d 121 (quoting *Armco,* 467 U.S. at 642). However, it is also clear that as a prerequisite to any Commerce Clause discrimination, the state tax or regulation must benefit a local business to the disadvantage of an out-of-state business. "It has long been the law that States may not 'build up [their] domestic commerce by means of unequal and oppressive burdens upon the industry and business of other States.'" *Bacchus*, 468 U.S. at 272 (quoting *Guy v. City of Baltimore* (1880), 100 U.S. 434, 443, 25 L.Ed. 743).

Because the Ohio sales tax at issue is based on *how* the MVPD providers distribute their product rather than *where* equipment is located to distribute the satellite programming, there is no disproportionate burden upon interstate commerce, and the tax cannot violate the Commerce Clause. As the Ohio Court of Appeals held, "[t]he tax distinction between satellite and cable providers does not discriminate against interstate commerce as a whole, but places a burden against one form of delivering pay television to consumers, and the burden would fall equally on a satellite provider headquartered in Ohio, having all program, content satellite uplink, account services, and customers in-state." (Ohio Court of Appeals Opinion at 16.) Any distinction between the manner in which satellite providers and cable providers are taxed is simply based on differences in certain aspects of their respective delivery mechanisms and federal preemption of locally imposed or administered taxes and fees under § 602(b) of the Act. Any differential treatment simply does not impose an undue burden upon interstate commerce.

Appellants have positioned themselves as out-of-state businesses with little-to-no physical presence or investment within the State of Ohio. Appellants claim that the sales tax imposed upon them, but not on their cable competitors, is discriminatory because the cable providers have made a more significant investment within the state. Thus, Appellants claim the Ohio sales tax has burdened the almost exclusive "out-of-state" satellite companies without the same burden imposed upon "in-state" cable companies. Such characterization is factually incorrect, ignoring both Appellants' substantial Ohio presence and the interstate nature of the cable industry. For example, Time Warner Cable is headquartered in New York, New York, and operates in 28 states. (Time Warner Cable, Inc., Annual Report (Form 10-K), at I (Feb. 20, 2009).) Comcast is headquartered in Philadelphia, Pennsylvania, and operates in 39 states and the District of Columbia. (Comcast Corporation, Annual Report (Form 10-K), at 3, 24 (Feb. 20, 2009).) Cox Communications is headquartered in Atlanta, Georgia, and operates in 15 states. (See http://ww2.cox.com/aboutus/our- story/headquarters.com (last visited Dec. 10, 2009).)

It is irrefutable that the Appellants have a significant presence in Ohio. The satellite companies operating in Ohio, DIRECTV and EchoStar, have extensive presence within the state such as fiber-optic cable used to transmit local broadcast signals to their local digital broadcast operations centers for satellite uplinking. (June 14, 2004 Affidavit of Virgil Reed. ¶14; Compl. ¶17.) Further, DIRECTV and EchoStar own and use equipment, including antennas, receivers, and related equipment, which is used to receive local programming provided to their customers. (Stip. of Facts ¶3, 4.) Additionally, the satellite companies use a network of locally authorized retailers, employees, and independent contractors to install, repair, and sell satellite television services and equipment. (The DIRECTV Group, Inc., Form 10-K at 9 (Feb. 27, 2009).) Finally, the satellite companies own equipment in Ohio, such as many of the satellite dishes affixed to subscribers' premises and the set-top boxes connected to subscribers' televisions. (Compl. ¶14.) Under existing Commerce Clause jurisprudence, there is no support or precedent for a relative weighing of each actor's respective in-state presence. Under such a flawed analysis, Appellants would have the Court believe that national cable providers are the "local" business while satellite providers are the "out-of-state" business, even in their state of incorporation, commercial domicile, and corporate headquarters. Such an approach is unfounded in Commerce Clause jurisprudence and would represent a significant expansion of the Commerce Clause.

IV. A RULING REVERSING THE OHIO COURT OF APPEAL'S DECISION WOULD HAVE FAR REACHING RAMIFICATIONS FOR ALL STATES

A finding by this Court that the imposition of the Ohio sales tax upon satellite providers unduly burdens interstate commerce would be an improper and unnecessary expansion of the Commerce Clause that could severely jeopardize the ability of State governments to raise revenue and promote the general welfare of their citizens.

Federalism assigns to this Court the responsibility for setting the appropriate bounds of authority, which includes preventing encroachment on the sovereignty of states to control their economic development and tax policies. The Framers placed responsibility for economic and tax matters under the Commerce Clause with the elected legislature, not the appointed judiciary. Clause 3, Section 8, Article I, United States Constitution. Preserving state authority to develop and execute tax policy within the bounds of the Constitution helps revitalize local economies, creates much-needed jobs, and generates revenue that enables states and local governments to provide essential services that support the public health and welfare.

The fiscal condition of states deteriorated dramatically over the last two years because of the depth and length of the recent economic downturn, which many economists argue is the deepest and longest since the Great Depression. (Natl. Governors Assn., *The State Fiscal Situation: The Lost Decade,* Dec. 2009, available at http://www.nga.org/files/pdf/0911fiscallostdecade.pdf (last visited Dec. 10, 2009). States closed budget gaps of $73.1 billion in fiscal year 2009 and $111.8 billion in fiscal year 2010 with a combination of budget cuts and, in this fiscal year alone, nearly $24 billion in tax and fee increases. (Natl. Governors Assn., Natl. Assn. of State Budget Officers, *The Fiscal Survey of the States*, Dec. 2009, at viii, 1 (attached as Appendix A). Even with cuts and tax increases, states are experiencing additional budget shortfalls totaling $14.8 billion for 2010 and at least $21.9 billion for 2011. Id. Given projected revenue shortfalls, however, these shortfalls will increase dramatically over the next several months. Even when recovery for states begins in the 2014–2015 period, states will be faced with a huge "over hang" in needs and will have to accelerate payments into their retiree pension and health care trust funds, as well as fund deferred maintenance and technology and infrastructure investments. (Promises With A Price – Public Sector Retirement Benefits, The Pew Center on the States, §1, at 3 (Dec. 2007) (attached as Appendix B) (States have an outstanding liability of about $2.73 trillion in employee retirement, health, and other benefits coming due over the next several decades, of which more than $731 billion is unfunded.)). States will also have to rebuild contingency or rainy day funds. All of these needs were postponed or deferred during the 2009-2011 periods and will have to be made up toward the end of the next decade.

The Commerce Clause was intended *only* to protect the interstate markets and allow for the free-flow of goods and services between states, not particular firms. *Exxon*, 437 U.S. at 127-

28. The Commerce Clause neither shields particular firms or products from all taxation or regulation, nor mandates equivalency among competing goods, companies, or industries, so long as such taxation and regulation does not impose a disproportionate burden upon interstate commerce. Under the Commerce Clause, the Ohio legislature is free to impose a different tax burden upon the two industries so long as any distinction between like products has no geographical component nor causes any restraint on interstate commerce.[4] Appellants, however, ask this Court to expand the Commerce Clause to protect certain interstate products and firms.

This Court must refuse to do so because it would contradict existing Commerce Clause jurisprudence and § 602(c) of the Act. A tax upon satellite providers is not a burden upon interstate commerce that violates the Constitution. This Court should not use this opportunity to expand the Commerce Clause to restrict the states from taxing and regulating differing technologies and delivery mechanisms employed by interstate companies with significant in-state presence.

V. CONCLUSION

For the foregoing reasons, NGA urges the Court to uphold the decision of the Ohio Court of Appeals.

[4] For instance, a state is free to impose differential taxation on national wireless and wireline telecommunications providers without running afoul of the Commerce Clause.

Respectfully submitted this 14th day of December 2009.

David Parkhurst* (Pro Hac Vice Pending)
D.C. Bar No. 484117
Counsel of Record
National Governors Association
444 North Capitol Street, NW
Suite 267
Washington, DC 20001
Telephone: (202) 624-5328
Facsimile: (202) 624-7814
dparkhurst@NGA.org

Robert J. Krummen (0076996)
Vorys, Sater, Seymour & Pease LLP
52 East Gay Street
Columbus, OH 43215
Telephone: (614) 464-5427
Facsimile: (614) 719-4626
rjkrummen@vorys.com

Attorneys for Amicus Curiae
National Governors Association

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing *Brief of Amicus Curiae National Governors' Association in Support of Defendant-Appellee Richard Levin, Tax Commissioner of Ohio* was served by U.S. mail, with sufficient postage, this 14th day of December, 2009, on the following:

Richard Cordray
Lawrence Pratt
Alan P. Schwepe
Julie E. Brigner
Damion M. Clifford
Barton Hubbard
Ohio Attorney General's Office
Taxation Section
30 East Broad Street, 25th Floor
Columbus, Ohio 43215
Attorneys for Defendant-Appellee

E. Joshua Rosenkranz
Orrick, Herrington &
Sutcliffe LLP
666 Fifth Avenue
New York, NY 10103
Attorneys for Plaintiffs-Appellants

Peter A. Rosato
Calfee, Halter & Griswold LLP
1100 Fifth Third Center
21 East State Street
Columbus, OH 43215
Attorneys for Plaintiffs-Appellants

Pantelis Michalopoulos
Mark F. Horning
Steptoe & Johnson LLP
1330 Connecticut Avenue, NW
Washington, DC 20036
Attorneys for Plaintiffs-Appellants

David C. Crago
Dean & Professor of Law
Ohio Northern University
525 South Main Street
Ada, Ohio 45810
Attorney for Amicus Curiae Ohio Cable Television Association

John A. Swain
Professor of Law
James E. Rodgers College of Law
The University of Arizona
1201 E. Speedway Blvd.
Tuscon, AZ 85721-0176
Attorney for Amicus Curiae Ohio Cable Television Association

Eric S. Tresh
Sutherland, Asbill &
Brennan LLP
999 Peachtree Street, N.E.
Atlanta, GA 30309-3915
Attorney for Amici Curiae Time Warner Cable, Comcast, and Cox Communications

Walter Hellerstein
Professor of Law
University of Georgia
School of Law
216 Rusk Hall
Athens, GA 30602
Attorney for Amici Curiae Time Warner Cable, Comcast, and Cox Communications

Douglas R. Matthews
Michael J. Hendershot
Vorys, Sater, Seymour & Pease LLP
52 East Gay Street
Columbus, Ohio 43215
Attorneys for Amici Curiae Time Warner, Inc, Comcast, and Cox Communications

Christopher G. Browning
North Carolina Solicitor General
North Carolina Department of Justice
114 West Edenton Street
P.O. Box 114
Raleigh, North Carolina 27603
Attorney for Amicus Curiae State of North Carolina

Annina M. Mitchell
Utah Solicitor General
Utah State Capitol, Suite # 230
P.O. Box 142320
Salt Lake City, UT 84114-2320
Attorney for Amicus Curiae State of North Carolina

Shirley K. Sicilian
Sheldon H. Laskin
Multistate Tax Commission
425 N. Capitol Street
Suite 444
Washington, D.C. 20001
Attorneys for Amicus Curiae Multistate Tax Commission

Marcus W. Thrathen
Charles F. Marshall
Julia C. Ambrose
BROOKS, PIERCE, McCLENDON, HUMPHREY & LEONARD, L.L.P.
150 Fayetteville Street, Suite 1600
Raleigh, NC 27601
Attorneys for Amicus Curiae National Conference of State Legislatures

Paul D. Ritter, Jr.
Kegler, Brown, Hill & Ritter, P.A.
Capitol Square, Suite 1800
65 East Sate Street
Columbus, OH 43215
Attorneys for Amicus Curiae National Conference of State Legislatures

Arthur H. Harding
Craig A. Gilley
Micah M. Caldwell
Fleischman And Harding LLP
1255 23rd Street NW, Eighth Floor
Washington, DC 20037
Counsel for Amicus Curiae Institute for Policy Innovation

Donald J. Mooney, Jr.
Ulmer & Berne LLP
600 Vine Street, Suite 2800
Cincinnati, 0H 45202
Counsel for Amicus Curiae Institute for Policy Innovation

Douglas R. Cole
Erik J. Clark
Jones Day
325 John H. McConnell Blvd., Ste. 600
Columbus, OH 43215
Attorneys for Amicus Curiae Constitutional Law Professors

John A. Hinman
Hinman & Carmichael, LLP
260 California Street, Suite 1001
San Francisco, CA 94111
Attorney for Amicus Curiae Specialty Wine Retailers Associations

Jeffrey Pearlman
Public Knowledge
1875 Connecticut Avenue, NW Ste. 650
Washington, DC 20009
Attorney for Amicus Curiae Consumer Federation of America, et al.

Mark C. Ellison
Senior Vice President & General Counsel
National Rural Telecommunications
Cooperative
Herndon, VA 20171
Attorney for Amicus Curiae National Rural Telecommunications Cooperative

Gerhardt A. Gosnell
Donald C. Brey
Chester, Willcox & Saxbe LLP
65 East State Street, Suite 1000
Columbus, OH 43215-3413
Attorneys for Amici Curiae Satellite Broadcasting and Communications Association, et. al.

Keith C. Nusbaum
Howard R. Rubin
Hannah F. Preston
Sonnenshein Nath & Rosenthal
1301 K. Street, NW
Suite 600, East Tower
Washington, D.C. 20005
Attorneys for Amicus Curiae National Taxpayer's Union

Robert J. Krummen
Counsel for Amicus Curiae National Governors Association

APPENDIX A

The Fiscal Survey of States

December 2009

National Governors Association
National Association of State Budget Officers

National Association of State Budget Officers
444 North Capitol Street, NW, Suite 642
Washington, DC 20001-1511
Tel: (202) 624-5382 Fax: (202) 624-7745
www.nasbo.org

Price: $25.00

THE NATIONAL GOVERNORS ASSOCIATION

Founded in 1908, the National Governors Association (NGA) is the instrument through which the nation's Governors collectively influence the development and implementation of national policy and apply creative leadership to state issues. The association's members are the Governors of the fifty states, the Commonwealths of the Northern Mariana Islands and Puerto Rico, and the territories of American Samoa, Guam, and the Virgin Islands.NGA has four standing committees on major issues—Economic Development and Commerce; Education, Early Childhood, and Workforce; Health and Human Services; and Natural Resources. The association serves as a vehicle for sharing knowledge of innovative programs among the states and provides technical assistance and consultant services to Governors on a wide range of management and policy issues.

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Raymond C. Scheppach, Executive Director

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Founded in 1945, NASBO is the instrument through which the states collectively advance stage budget practices. The major functions of the organization consist of research, policy development, education, training, and technical assistance. These are achieved primarily thought NASBO's publications, membership meetings, and training sessions. Association membership is composed of the heads of state finance departments, the states' chief budget officers, and their deputies. All other state budget office staff are associate members. Association membership is organizing into four standing committees-Health, Human Services, and Justice; Financial Management, Systems, and Data Reporting; Tax, Commerce, Physical Resources, and Transportation; and Training, Education, and Human Resources Management. NASBO is an independent professional and education association and is also an affiliate of the National Governors Association.

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George Naughton, Oregon, Chair, Training, Education, and Human Resources Management Committee

Scott D. Pattison, Executive Director

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Ann Franklin, Alabama
Michael Crab, Alaska
Duong Nguyen, Arizona
Josh Joyner, Arkansas
Carol Ritter, California
Monica Flowers, California
Alexis Senger, Colorado
Lisa DuBois, Connecticut
Bert Scoglietti, Delaware
Jeanine M. Pumphrey, Florida
Robert Giacomini, Georgia
Georgina Kawamura, Hawaii
Anita Hamman, Idaho
Taneka Simmons, Illinois
Adam Horst, Indiana
Joel Lunde, Iowa
Elaine Frisbee, Kansas
John Hicks, Kentucky
Ternisa Hutchinson, Louisiana
Tom Cusick, Maine
Amber Teitt, Maryland
Robert Dolan, Massachusetts
Colleen Gossman, Michigan
Nancy Rooney, Minnesota
Gerald Joyner, Mississippi
Marty Drewel, Missouri
Amy Carlson, Montana
Lyn Heaton, Nebraska
Reese Tietje, Nevada
Joe Bouchard, New Hampshire
Gary Brune, New Jersey
Cathy Nonamaker, New Jersey
Danette K. Burch, New Mexico
Christopher Warner, New York
Julie Mitchel, North Carolina
Sheila Peterson, North Dakota
Jeff Newman, Ohio
Shelly Paulk, Oklahoma
Linda Ames, Oregon
Ann Bertolino, Pennsylvania
Daniel Orgel, Rhode Island
Brian Gaines, South Carolina
Jim Terwilliger, South Dakota
Charles Brown, Tennessee
Michael Sparks, Texas
Brandon Bowen, Utah
Otto Trautz, Vermont
Manju Robertson, Virginia
Pam Davidson, Washington
Mike McKown, West Virginia
Tammy Scruggs, West Virginia
Caitlin Morgan Frederick, Wisconsin
Folbert Ware, Jr., Wyoming

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Preface

The Fiscal Survey of States is published twice annually by the National Association of State Budget Officers (NASBO) and the National Governors Association (NGA). The series was started in 1979. The survey presents aggregate and individual data on the states' general fund receipts, expenditures, and balances. Although not the totality of state spending, these funds are used to finance most broad-based state services and are the most important elements in determining the fiscal health of the states. A separate survey that includes total state spending, NASBO's *State Expenditure Report*, also is conducted annually.

The field survey on which this report is based was conducted by NASBO from August through November 2009. The surveys were completed by Governors' state budget officers in all 50 states. This survey also includes Puerto Rico; however, their data is not included in the 50 state totals.

Fiscal 2008 data represent actual figures, fiscal 2009 figures are preliminary actuals, and fiscal 2010 data reflect enacted budgets.

Forty-six states begin their fiscal years in July and end them in June. The exceptions are Alabama and Michigan, with October to September fiscal years; New York, with an April to March fiscal year; and Texas, with a September to August fiscal year. Additionally, 20 states operate on a biennial budget cycle.

NASBO staff member Ben Husch compiled the data and prepared the text for the report. Nelle Sandridge provided typesetting services.

Executive Summary

States are currently facing one of the worst, if not the worst, fiscal periods since the Great Depression. Fiscal conditions significantly deteriorated for states during fiscal 2009, with the trend expected to continue through fiscal 2010 and even into 2011 and 2012. The severe national recession drastically reduced tax revenues from every revenue source during fiscal 2009 and revenue collections are expected to continue their decline in fiscal 2010. As state revenue collections historically lag behind any national economic recovery, state revenues will remain depressed throughout fiscal 2010 and likely be sluggish into fiscal years 2011 and 2012. The "official" economic recession, which began in December 2007 and may have recently ended, has significantly affected state spending, as more than half the states decreased their general fund expenditures in fiscal 2009, and over two-thirds of states enacted fiscal 2010 budgets with general fund spending lower than the previous year.

Fiscal 2009 general fund expenditures declined 3.4 percent compared to fiscal 2008 levels. Likewise, enacted budgets for fiscal 2010 show a 5.4 percent decrease in general fund expenditures. These decreases in general fund expenditures would be the largest declines in the history of the Fiscal Survey of States. Prior to 2009, actual state general fund spending had only declined one other time, in 1983, by 0.7 percent.

The weakening of state fiscal conditions is also reflected in the fact that states will have faced $256 billion in budget gaps between fiscal year 2009 and fiscal year 2011. Of this $256 billion, states solved $73.1 billion in budget gaps during fiscal 2009 and $111.8 billion prior to the enactment of their fiscal 2010 budgets in order to bring them into balance with drastically declining revenues. However, even after solving these gaps, an additional $14.8 billion in budget gaps currently remain in fiscal 2010 and states face at least $21.9 billion in budget gaps for fiscal 2011. In order to help close these gaps, 43 states cut their enacted fiscal 2009 budgets by $31.3 billion and 36 states cut their fiscal 2010 expenditures by $55.7 billion. Additionally, states enacted tax and fee increases of $23.9 billion along with additional increases in other revenue measures of $7.7 billion for fiscal 2010. In contrast, tax and fee increases in fiscal 2009 were $1.5 billion along with $6.6 billion in additional revenue increases.

By providing nearly $135 billion in flexible emergency funding through the *American Recovery and Reinvestment Act of 2009* (ARRA), the federal government has helped states avoid draconian cuts to state services. Through $87 billion in additional Medicaid funding via increased Federal Medical Assistance Percentage (FMAP) rates and $48 billion as part of the State Fiscal Stabilization Fund, states were able to maintain critical funding for education and health and human services. Through fiscal 2010 states will have spent approximately $150 billion in Recovery Act funds. Of this $150 billion, $31.1 billion were funds received as part of the State Fiscal Stabilization Fund. Even with this assistance, states were still forced to cut programs while raising taxes and fees.

This edition of *The Fiscal Survey of States* reflects actual fiscal 2008, preliminary actual fiscal 2009, and enacted fiscal 2010 figures. The data were collected during fall 2009.

State Spending

Findings of this edition of the *Fiscal Survey of States* include the following:

- Forty-three states reduced their enacted budgets in fiscal 2009 by $31.3 billion while 36 states cut their fiscal 2010 expenditures by $55.7 billion. These cuts are in stark contrast to the thirteen states that had to reduce their enacted budgets in fiscal 2008 and the three states that reduced their enacted budgets during 2007. During the last fiscal downturn, the peak years of reductions to enacted budgets occurred in fiscal 2002 and fiscal 2003, well after the national recession had ended and only totaled $14 billion and $12 billion, respectively.

- Twenty-eight states had declines in general fund expenditures in fiscal 2009, while 37 states enacted fiscal 2010 budgets with general fund expenditures below fiscal 2009 levels.

- Six states enacted an increase to their fiscal 2010 cash assistance levels under the Temporary Assistance for Needy Families (TANF) program, while four states enacted a decrease.

State Revenue Actions

Enacted tax and fee changes are expected to result in $23.9 billion in additional revenue for fiscal 2010 budgets. For fiscal 2010, 29 states enacted net increases while nine states enacted net decreases. This amount well exceeds fiscal 2009, when states enacted $1.5 billion in tax and fee increases, as 20 states enacted net decreases while 14 states enacted net increases. The largest enacted increase for fiscal 2010 was in personal income taxes ($10.7 billion), while the largest enacted decrease was in corporate income taxes ($202.2 million).

In fiscal 2009, revenues from all sources which include sales, personal income, corporate income and all other taxes and fees exceeded expectations in three states, were on target in four, and were below expectations in 42 states. In fiscal 2010, five states are exceeding revenue collection estimates, 11 states are on target, while 31 states are below expectations. This is in contrast to fiscal 2008 when 25 states reported that revenue collections exceeded estimates.

Other findings include:

- Fiscal 2009 estimated tax collections of sales, personal income, and corporate income are 7.4 percent lower than actual fiscal 2008 collections. Sales tax collections were 4.7 percent lower and personal income tax collections were 8.2 percent lower. Corporate income tax collections were 16.1 percent lower relative to actual fiscal 2008 collections. Within state budgets, about 40 percent of general fund revenue is from personal income tax, 33 percent is from sales tax, and eight percent is from corporate tax, with the rest from various other sources.

- States are projecting a further decline of 1.4 percent in tax collections for fiscal 2010 relative to fiscal 2009 current year estimates. Compared to fiscal 2009 collections, enacted fiscal 2010 budgets reflect a 0.7 percent increase in sales tax revenue, 2.5 percent decrease in personal income tax revenue, and a 6.3 percent decrease in corporate income tax revenue. However, with 31 states reporting collections below forecasts, the decline in revenues will likely be even greater.

Year-End Balances

Total balances—ending balances and the amounts in budget stabilization "rainy day" funds—are a crucial tool that states heavily rely on during fiscal downturns and budget shortfalls.

- After reaching a peak in fiscal 2006 at $69 billion or 11.5 percent of general fund expenditures, total balances declined in fiscal 2008 to 8.6 percent. The severe deterioration in state fiscal conditions resulted in balance levels falling significantly during fiscal 2009, representing 4.8 percent of expenditures. However, removing Alaska and Texas from these totals reveals that total balance levels for the remaining 48 states equal only 2.7 percent of general fund expenditures in fiscal 2009. Because states recognize that this economic downturn may last into 2012 they are reluctant to deplete balances.

State Expenditure Developments

CHAPTER ONE

Overview

State finances worsened in 2009 and are forecast to decline further during fiscal 2010 and likely into 2011 and possibly 2012. Nearly every state faced tightening fiscal conditions compared to fiscal 2008, when such fiscal difficulties were seen in about half the states. In fiscal 2009, 43 states reduced enacted budgets by $31.3 billion, while 36 states have reduced fiscal 2010 expenditures by $55.7 billion. In comparison, three states cut enacted budgets in fiscal 2007 and 13 states imposed cuts to enacted budgets during fiscal 2008.

At the depth of the previous state fiscal crisis, 37 states in both fiscal 2002 and fiscal 2003 made mid-year budget cuts totaling nearly $14 billion and $12 billion, respectively, more than a year after the end of the national recession. The 2009 and 2010 cuts are further indication of the extent and speed of the fiscal deterioration. The downward trend during 2009 resulted predominantly from a significant slowdown in revenue collections. Based on state fiscal data from previous downturns, the impact on state budgets may lag the downturn in the economy. States are expected to take up to several years after the recession has ended to fully recover and begin expansion.

Due to the drastic decline in revenue collections, 42 states and Puerto Rico reported closing budget gaps during fiscal 2009 totaling $73.1 billion. Thirty-four states reported that they have already closed $111.8 billion in budget gaps for fiscal 2010. However, even after solving these gaps, an additional $14.8 billion in budget gaps currently remains in fiscal 2010 and states face at least $21.9 billion in budget gaps for fiscal 2011.

As a result of declining state fiscal conditions, states were considerably active in addressing budget gaps in fiscal 2009. Two thirds of states relied on targeted cuts, while more than half enacted across-the-board cuts, and half the states used rainy day funds to reduce or eliminate these gaps. Other common strategies included furloughs, layoffs, and reductions in local aid. To eliminate fiscal 2010 budget gaps, nearly two thirds of states have again employed targeted cuts, while nearly half of the states undertook layoffs and 16 states have implemented furloughs. (See Table 1 and Appendix Tables A-5a and A-5b.)

State Spending from All Sources

This report captures only state general fund spending. General fund spending represents the primary component of discretionary expenditures of revenue derived from general sources which has not been earmarked for specific items. According to the most recent edition of NASBO's *State Expenditure Report*, estimated fiscal 2009 spending from all sources (general funds, federal funds, other state funds and bonds) is approximately $1.59 trillion with the general fund representing 41.7 percent of the total. The components of total state spending for estimated fiscal 2009 are: elementary and secondary education, 21.1 percent; Medicaid, 21.0 percent; higher education, 9.8 percent; transportation, 8.2 percent; corrections, 3.3 percent; public assistance, 1.6 percent; and all other expenditures, 35.1 percent.

For estimated fiscal 2009, components of state spending within the general fund are elementary and secondary education, 35.1 percent; Medicaid, 16.2 percent; higher education, 11.1 percent; corrections, 7.2 percent; transportation, 0.7 percent; public assistance, 1.9 percent; and all other expenditures, 27.8 percent.

TABLE 1

Budget Cuts Made During Fiscal 2009 and for Fiscal 2010 Budgets**

State	FY 2009 Size of Cuts ($ in Millions)	Programs or Expenditures Exempted from Cuts	FY 2010 Size of Cuts ($ in Millions)	Programs or Expenditures Exempted from Cuts
Alabama	$ 697.4	Debt Service and Federal Court Decrees	Yes (Unknown)	
Alaska	11.7	24 hour institutions and the University	$1,053.4	
Arizona*	554.0		111.0	
Arkansas	64.9	K-12 Education		
California	10,654.5		20,363.5	
Colorado*	144.0		926.5	
Connecticut	341.4	Municipal Aid	52.8	Municipal Aid and Debt Service
Delaware	247.0	Debt Services	751.0	Debt Services
Florida	887.4			
Georgia	2,262.2		2,596.0	
Hawaii	86.2	Debt service; employees retirement system and health insurance; children and adult mental health; emergency medical services; and correctional facilities	315.4	Debt service; employees retirement system and health insurance
Idaho	241.0		99.7	
Illinois	600.0	K-12 Education	500.0	K-12 Education
Indiana*	529.7	K-12 Education, Student Financial Aid, Medicaid, Corrections, Transportation, Legislative and Judicial Branches	672.2	K-12 Education, Student Financial Aid, Corrections, Transportation
Iowa	108.8		564.4	
Kansas	155.3	HHS caseloads	733.4	Debt Service
Kentucky	163.2	K-12 Primary Funding Formula, Medicaid, Mental Health, Corrections, Student Financial Aid, Parks	273.8	K-12 Primary Funding Formula, Medicaid, Mental Health, Corrections, Student Financial Aid, Parks, Prosecutors, Revenue Department
Louisiana	341.0	Constitutional requirements		
Maine	74.1		232.3	
Maryland	470.9	Mandated K-12 expenditures & debt service	448.0	Mandated K-12 expenditures & debt service
Massachusetts	1,271.0	Non-Executive Branch, Local Aid, Debt Service	2,424.0	Non-Executive Branch, Local Aid, Debt Service

TABLE 1 (continued)

Budget Cuts Made During Fiscal 2009 and for Fiscal 2010 Budgets**

State	*FY 2009 Size of Cuts ($ in Millions)*	*Programs or Expenditures Exempted from Cuts*	*FY 2010 Size of Cuts ($ in Millions)*	*Programs or Expenditures Exempted from Cuts*
Michigan*	438.0	Higher Education funding and scholarships, Medicaid eligibility, children's' services, staff needed to process unemployment benefits and public assistance claims, and veterans' homes	1,832.0	
Minnesota	426.3		2,280.3	Military Affairs
Mississippi	199.9	K-12 Chickasaw Interest, IHL Ayers Settlement, Medicaid services, Family & Children Services, Youth Services, Rehab Services Billy A Settlement, Homestead Exemption, and Debt Service	TBD	
Missouri	430.0	K-12 Education, Medicaid	480.0	K-12 Education, Medicaid
Nebraska*				
Nevada	136.0		182.4	
New Hampshire	81.1			
New Jersey	2,000.0	Debt Service	3,284.0	
New Mexico	282.1		539.1	Public Education/Jobs
New York	413.0		6,047.0	
North Carolina	1,221.0	Debt Service	Yes	Debt Service
Ohio	1,093.0			
Oklahoma			471.7	Finance, Transportation, Rehabilitation Services, Veterans Affairs, and Corrections were exempt from cuts.
Oregon	764.0	Non-general fund programs	988.0	Non-general fund programs
Pennsylvania	$470.4	After budget enactment, the Governor does not have the authority to reduce appropriations to the Attorney General, Auditor General and Treasurer (which are independently elected), the legislature and judiciary	$1,172.8	
Rhode Island	214.0		415.6	

TABLE 1 (continued)

Budget Cuts Made During Fiscal 2009 and for Fiscal 2010 Budgets**

State	*FY 2009 Size of Cuts ($ in Millions)*	*Programs or Expenditures Exempted from Cuts*	*FY 2010 Size of Cuts ($ in Millions)*	*Programs or Expenditures Exempted from Cuts*
South Carolina	1,106.4	Higher Education Scholarships and Tuition Grants; Southern Regional Education Board Professional Scholarship Programs and Fees; Debt Service; Aid to Fire Districts; First Responder Interoperability; National Guard Pension Fund; Compensation of County Registration Board Members & County Election Commissioners	328.3	Higher Education Scholarships and Tuition Grants; Southern Regional Education Board Professional Scholarship Programs and Fees; Debt Service; Aid to Fire ; Districts; First Responder Interoperability; National Guard Pension Fund; Compensation of County Registration Board Members & County Election Commissioners; Commission on Indigent Defense Legal Services Corporation; Clemson University Public Service Activities Boll Weevil Eradication Program; Department of Revenue; Homestead Exemption Fund
South Dakota	0.4			
Tennessee	127.2	K-12 Education – Local school systems support and higher education	808.3	K-12 Education – Local school systems support and higher education
Utah	571.3		318.6	
Vermont	68.0		98.0	Judiciary, higher education, juvenile rehabilitation center, state police, state veterans' home, correction officers, and state hospitals
Virginia	480.3	K-12 Standards of Quality	854.6	
Washington	255.0	K-12 basic education, debt service, retirement contributions	1,335.0	K-12 basic education, debt service, retirement contributions
West Virginia			$184.0	Debt service/ programs closely related to children/classrooms
Wisconsin*	635.0		1,917.7	
Total	**$31,318.1**	–	**$55,655.0**	–

NOTE: *See Notes to Table 1. **Budget cuts for Fiscal 2010 are currently ongoing.

SOURCE: National Association of State Budget Officers.

TABLE 1-A

Fiscal 2009 Program Area Cuts

Region/State	*K-12 Education*	*Higher Education*	*Public Assistance*	*Medicaid*	*Corrections*	*Transportation*	*Personnel*	*Other*
NEW ENGLAND								
Connecticut	x	x	x	x	x	x	x	x
Maine	x	x		x		x	x	x
Massachusetts	x		x		x	x	x	x
New Hampshire							x	
Rhode Island	x	x		x			x	
Vermont		x		x	x		x	
MID-ATLANTIC								
Delaware								
Maryland	x	x	x	x	x		x	x
New Jersey	x	x	x	x	x	x	x	x
New York	x	x	x	x	x	x	x	x
Pennsylvania	x	x			x	x	x	x
GREAT LAKES								
Illinois								
Indiana*		x						x
Michigan			x	x	x	x	x	x
Ohio	x	x	x	x	x	x	x	x
Wisconsin*	x	x		x	x	x		x
PLAINS								
Iowa	x	x	x	x	x		x	x
Kansas	x	x	x		x	x		x
Minnesota	x	x	x	x				
Missouri							x	x
Nebraska								
North Dakota								
South Dakota		x						
SOUTHEAST								
Alabama	x	x						
Arkansas		x	x		x			
Florida	x	x	x	x	x	x	x	x
Georgia	x	x	x	x	x	x	x	x
Kentucky	x	x					x	x
Louisiana*	x	x	x	x	x	x	x	x
Mississippi	x	x		x	x	x		x
North Carolina	x	x	x	x	x	x	x	
South Carolina	x	x	x	x	x	x	x	
Tennessee*								x
Virginia		x	x	x	x	x	x	x
West Virginia								
SOUTHWEST								
Arizona	x	x	x	x	x	x	x	x
New Mexico	x	x		x	x			x
Oklahoma								
Texas								
ROCKY MOUNTAIN								
Colorado*	x	x		x	x		x	x
Idaho							x	
Montana								
Utah								
Wyoming								
FAR WEST								
Alaska								x
California	x	x	x	x	x	x	x	x
Hawaii	x	x		x	x		x	x
Nevada	x	x	x	x	x	x	x	x
Oregon	x	x	x	x	x		x	x
Washington	x	x	x	x	x	x	x	x
TERRITORIES								
Puerto Rico								
Total	**29**	**33**	**22**	**27**	**28**	**21**	**29**	**30**

NOTE: *See notes to Table 1-A.

SOURCE: National Association of State Budget Officers.

TABLE 1-B

Fiscal 2010 Program Area Cuts

Region/State	K-12 Education	Higher Education	Public Assistance	Medicaid	Corrections	Transportation	Personnel	Other
NEW ENGLAND								
Connecticut	x	x	x	x	x	x	x	x
Maine	x	x		x		x	x	x
Massachusetts*	x		x		x	x	x	x
New Hampshire								
Rhode Island	x	x		x			x	
Vermont				x	x		x	
MID-ATLANTIC								
Delaware	x	x			x	x	x	x
Maryland	x	x	x	x	x			x
New Jersey	x	x	x	x	x	x	x	x
New York	x	x	x	x	x	x	x	x
Pennsylvania	x	x			x	x	x	x
GREAT LAKES								
Illinois					x	x	x	x
Indiana		x		x				x
Michigan	x	x	x	x	x	x	x	x
Ohio								
Wisconsin*	x	x	x	x	x	x	x	x
PLAINS								
Iowa	x	x	x	x	x		x	x
Kansas	x	x	x		x	x		x
Minnesota	x	x	x	x	x	x		
Missouri							x	x
Nebraska				x			x	x
North Dakota								
South Dakota								
SOUTHEAST								
Alabama								
Arkansas								
Florida								
Georgia	x	x	x	x	x	x	x	x
Kentucky	x	x					x	x
Louisiana*	x	x	x	x	x	x	x	x
Mississippi								
North Carolina	x	x	x	x	x	x	x	
South Carolina	x	x	x	x	x	x	x	
Tennessee*				x	x		x	x
Virginia	x	x	x	x	x	x	x	x
West Virginia	x	x	x	x	x	x	x	x
SOUTHWEST								
Arizona	x	x	x	x	x	x	x	x
New Mexico*	x	x		x	x	x		x
Oklahoma*	x	x						
Texas								
ROCKY MOUNTAIN								
Colorado*	x	x		x	x		x	x
Idaho							x	
Montana								
Utah	x	x	x	x	x	x	x	x
Wyoming								
FAR WEST								
Alaska						x		
California	x	x	x	x	x	x	x	x
Hawaii	x	x	x	x	x	x	x	x
Nevada								
Oregon	x	x	x	x	x		x	x
Washington	x	x	x	x	x	x	x	x
TERRITORIES								
Puerto Rico			x		x	x	x	
Total	**30**	**30**	**22**	**28**	**29**	**25**	**31**	**30**

NOTE: *See Notes to Table 1-A.

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE 1

Arizona	These are permanent cuts to agencies and do not include other cuts, such as FMAP reductions and K-12 rollover.
Colorado	Reflects $668 million reduced in FY 2009-2010 during the 2009 Session and the remainder was executed by the Governor on August 25, 2009 to bring FY 2009-2010 into balance again, after the 2009 Legislative Session ended. Cuts to K-12 are limited in some years due to Article IX, Section 17 of the Colorado Constitution (Amendment 23).
Indiana	Cuts do not include general fund reductions made possible by the American Recovery and Reinvestment Act (e.g., Medicaid).
Michigan	The Governor proposed a balanced fiscal 2010 budget, including $670 million in spending reductions. Additional spending reductions of $750 million are included in the budgets passed by the legislature and pending the Governor's signature. Once the fiscal 2010 budget is enacted, subsequent spending reductions may be required to meet revenue projections and spending increases for core government functions.
Nebraska	The final appropriations for FY 2010 included a reduction of $137 million in state general fund appropriations for Medicaid. The final appropriations for FY 2010 included a reduction of $4.5 million in state general fund appropriations for Public Assistance. These base adjustments were the result of an analysis of the projected needs of the programs relative to the available baseline appropriation as well as due to the availability of enhanced federal FMAP. These base appropriation reductions should not be viewed as a reduction in eligibility, services or provider reimbursements. The final appropriations for FY 2010 included a reduction of $13.8 million in state general fund appropriations for the state's Homestead Exemption program. This was the result of an analysis of the projected needs of the program relative to the baseline appropriation and was not a reduction in eligibility or level of exemption. The final appropriations for FY 2010 included a reduction of $27.6 million in state general fund appropriations for the Department of Correctional Services. This was the result of the availability of federal ARRA State Fiscal Stabilization Funds.
Wisconsin	The cuts were based on federal fiscal relief, unspecified reductions, and agency-specific cuts, and an across-the-board 1 percent cut. $597 million was filled with federal fiscal relief dollars.

NOTES TO TABLE 1-A

Colorado	Refinancing of K-12 Education general fund with State Education Cash Funds, including $15.7 million for CSAP (testing) and $27.8 million for public school finance in FY 2009-2010 during 2009 Session. No K-12 reductions were proposed by the Governor for the August 25th FY 2009-2010 balancing. Higher education cuts were offset with federal ARRA funds. Transportation does not receive general fund appropriation/expenditure directly.
Indiana	Most state agencies
Louisiana	Exceptions include the Minimum Foundation Program. Medicaid implemented rate reductions effective February 1, 2009 as a result of Executive Order BJ 2008-114.
Tennessee	Budget cuts in FY 2009 include "Forced" lapses (additional reversion).
Wisconsin	$597 million Federal Fiscal Relief – Budget in Brief, Table 2 + $38 million in lapses, Act 2.

NOTES TO TABLE 1-B

Colorado	Higher education cuts were offset with federal ARRA funds. Transportation does not receive general fund appropriation/expenditure directly.
Louisiana	Exceptions include the Minimum Foundation Program. Medicaid implemented rate reduction effective August 1, 2009 due to reduced appropriation levels in Act 10 of 2009 regular legislative session.
Massachusetts	K-12 cannot be unilaterally cut during the fiscal year but can reduce them as we prepare the budget for the next fiscal year.
New Mexico	FY 2010 reductions in K-12 and higher education were restored by Education Stabilization funds.
Oklahoma	Although FY 2010 base cuts were administered to both K-12 and Higher Education, stimulus funding and additional appropriations were provided to restore the cuts.
Tennessee	Budget cuts in FY 2010 apply to nearly every department and agency.
Wisconsin	For FY 2010, it includes 1 percent across-the-board, 5.135 percent across-the-board, Furlough, 2 percent general welfare assistance rollback, agency-specific cuts, lapses, and $206 million in general cuts ($363.2 million + $190.6 million + misc. portion) as well as gaps filled with federal fiscal relief ($981 million).

State General Fund Spending

State general fund spending in enacted fiscal 2010 budgets totals $627.9 billion, or 5.4 percent below fiscal 2009 spending. This spending decrease of 5.4 percent is the worst percentage change in the past 32 years. For fiscal 2009, general fund spending decreased by 3.4 percent, the second worst decline in state spending in the past 32 years. (See Table 2, Figure 1, and Appendix Table A-4.)

Contributing to the significant slowdown in state general fund spending is the decline in tax revenue collections due to the ongoing national recession. State revenues were down 4.0 percent in the last quarter of calendar year 2008, and 11.7 and 16.6 percent in the first two quarters of 2009, respectively, according to the Rockefeller Institute of Government.* The current recession, which started in December 2007, has been described as the longest and most severe recession since the Great Depression in the 1930s. Gross Domestic Product (GDP) growth declined significantly during the first two quarters of 2009 and the unemployment level is currently above 10 percent. Additionally, capital gains and investment income has significantly declined as a result of the financial crisis. This lack of economic expansion along with significant job losses have resulted in decreasing sales, personal income, and corporate income tax collections during fiscal 2009.

In response, 37 states had general fund spending in their fiscal 2010 enacted budgets below fiscal 2009 levels, 11 states enacted general fund expenditure growth between 0 and 4.9 percent, and two states enacted general fund spending growth greater than 10 percent. For fiscal 2009, 28 states had general fund spending below fiscal 2008 levels, while 19 states had general fund spending growth between 0 and 4.9 percent, two states had general fund expenditure growth between five and ten percent, and one state had general fund spending growth greater than 10 percent. Highlighting the rapid decline in state fiscal conditions, six states had general fund expenditure declines in 2008, while 17 states had general fund spending growth below 5 percent, 18 states increased spending between 5 and 10 percent, and 9 states increased general fund expenditures greater than 10 percent. In fiscal 2007, only one state had a general fund expenditure decline. (See Table 3 and Appendix Table A-4.)

TABLE 2

State Nominal and Real Annual Budget Increases, Fiscal 1979 to Fiscal 2010

	General Fund Expenditure Change	
Fiscal Year	*Nominal Increase*	*Real Increase*
2010*	-5.4%	-- %
2009*	-3.4	-2.6
2008*	4.9	-0.6
2007	9.4	4.3
2006	8.7	3.4
2005	6.5	0.2
2004	3.0	-1.0
2003	0.6	-3.6
2002	1.3	-1.4
2001	8.3	4.0
2000	7.2	4.0
1999	7.7	5.2
1998	5.7	3.9
1997	5.0	2.3
1996	4.5	1.6
1995	6.3	3.2
1994	5.0	2.3
1993	3.3	0.6
1992	5.1	1.9
1991	4.5	0.7
1990	6.4	2.1
1989	8.7	4.3
1988	7.0	2.9
1987	6.3	2.6
1986	8.9	3.7
1985	10.2	4.6
1984	8.0	3.3
1983	-0.7	-6.3
1982	6.4	-1.1
1981	16.3	6.1
1980	10.0	-0.6
1979	10.1	1.5
1979-2010 average	**5.6%**	**1.6%**

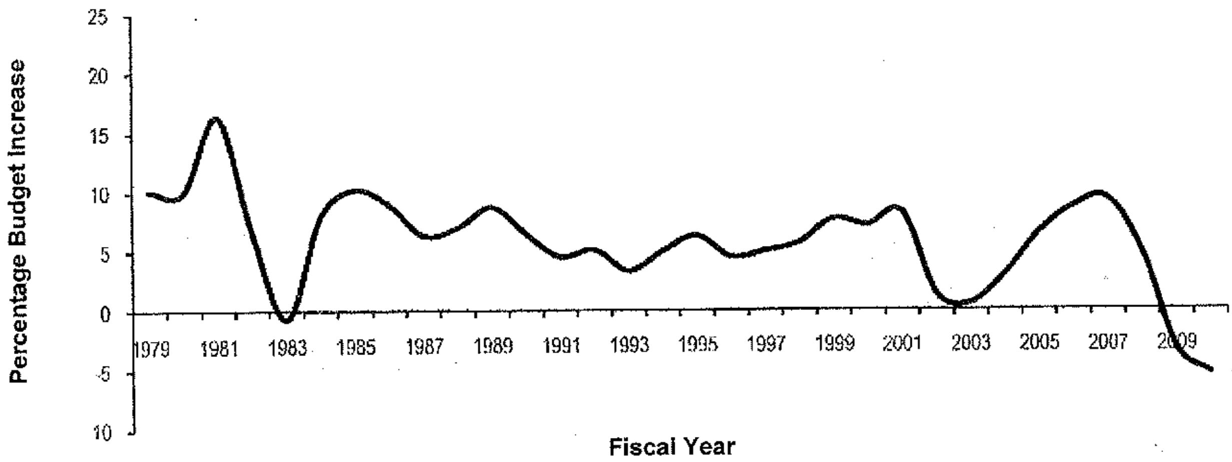
NOTE: *The state and local government implicit price deflator cited by the Bureau of Economic Analysis in November 2009 is used for state expenditures in determining real changes. Fiscal 2009 figures are based on the change from fiscal 2008 actual expenditures to fiscal 2009 preliminary actual. Fiscal 2010 figures are based on the change from fiscal 2009 preliminary actual to fiscal 2010 appropriated.

SOURCE: National Association of State Budget Officers.

*Dadayan, Lucy; Boyd, Donald J. *State Revenue Flash Report.* The Nelson A. Rockefeller Institute of Government, November 23, 2009.

FIGURE 1

Annual Percentage Budget Changes, Fiscal 1979 to Fiscal 2010



SOURCE: National Association of State Budget Officers.

TABLE 3

State General Fund Expenditure Growth, Fiscal 2009 and Fiscal 2010

	Number of States	
Spending Growth	*Fiscal 2009 (Preliminary Actual)*	*Fiscal 2010 (Appropriated)*
Negative growth	28	37
0.0% to 4.9%	19	11
5.0% to 9.9%	2	0
10% or more	1	2

NOTE: Average spending growth for fiscal 2009 (preliminary actual) is -3.4 percent; average spending growth for fiscal 2010 (enacted) is -5.4 percent. See Appendix Table A-4 for state-by-state data.

SOURCE: National Association of State Budget Officers.

State Cash Assistance Under the Temporary Assistance for Needy Families Program

The Temporary Assistance for Needy Families (TANF) program was reauthorized under the *Deficit Reduction Act* in February 2006. The TANF block grant is funded at $16.6 billion each year through 2010. Although the program retains the work participation rates of 50 percent for all families and 90 percent for two-parent families, adjusting the base year for the caseload reduction credit effectively increases the work requirements from the prior levels.

The reauthorized program also includes specific definitions of work, work verification requirements, and penalties if states do not meet the requirements. As a result of these changes, most states have to significantly increase work participation rates. Under the *American Recovery and Reinvestment Act of 2009* (ARRA), however, the workload reduction credit is modified for two years as well as rules governing unspent TANF funds that are carried forth.

Since welfare reform was initially passed in 1996, states have focused on providing supportive services for families to achieve self-sufficiency rather than cash assistance. Since 1996, caseloads have declined significantly. The average monthly number of recipients fell from 12.8 million prior to the enactment of TANF to 4 million by December 2009, a decrease of over two-thirds.

This report has information only on the changes in the cash assistance benefit levels within the program which represents approximately 41 percent of total program costs. For fiscal 2010, 40 states maintained the same cash assistance benefit levels that were in effect in fiscal 2009. Six states enacted increases in cash assistance benefit levels, ranging from 3.0 percent to 14 percent, while four states enacted decreases in cash assistance benefit levels ranging from 3.2 percent to 20 percent. (See Table 4 and Notes to Table 4.)

TABLE 4

Enacted Cost-of-Living Changes for Cash Assistance Benefit Levels Under the Temporary Assistance for Needy Families Block Grant, Fiscal 2010

State	*Percent Change*
Arizona*	-20.0%
California	-4.0
Florida	-3.2
Hawaii	-6.1
Montana	5.0
Nebraska*	--
New York	10.0
Ohio	5.9
Puerto Rico	14.0
South Carolina	4.4
South Dakota	3.0

NOTE: *See Notes to Table 4.

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE 4

Arizona	During FY 2009, TANF was cut by 20 percent. FY 2010 enacted budget did not cut TANF further, but 20 percent cut reflects best status of Arizona.
Nebraska	No increase in the maximum grant an individual may receive has been enacted for FY 2010. Effective July 1, 2009 Nebraska is increasing the maximum "standard of need" for TANF cash assistance from $681 to $710 per month (family of three). This increase is based on a 4.1 percent CPI increase in CY 2007 and 0.1 percent CPI increase in CY 2008.

Medicaid

Medicaid is a means-tested entitlement program financed by the states and the federal government that provides comprehensive and long-term medical care for more than 60 million low-income individuals. Medicaid accounted for approximately 21 percent of total state spending in fiscal 2009, according to NASBO's *State Expenditure Report.*

Medicaid spending for fiscal 2009 is estimated at $335.2 billion, an increase of 7.8 percent over fiscal 2008, according to the *State Expenditure Report.*

This is the largest increase in Medicaid spending in the last several years. While, state funds decreased by 2.2 percent, federal funds increased by 15.9 percent over fiscal 2008 amounts. The large increase in federal funds is attributable to the enactment of the *American Recovery and Reinvestment Act of 2009* (ARRA) which provides a temporary increase in the Federal Medical Assistance Percentage (FMAP) in order to allow states to maintain health care services for low income recipients during the recession.

Medicaid Enrollment. The downturn in the economy is expected to result in significant increases in Medicaid enrollment as it has in previous economic slowdowns. With unemployment forecasted to increase over the next year, above its October 2009 rate of 10.2 percent, Medicaid enrollment is anticipated to rise even further. For example, in fiscal 2002, enrollment increased by 9.5 percent a year following the 2001 recession.

According to an annual survey on state Medicaid budgets by the Kaiser Commission on Medicaid and the Uninsured, Medicaid enrollment increased by an average of 5.4 percent in fiscal 2009, the highest rate in six years. States estimate Medicaid enrollment will grow by 6.6 percent in fiscal 2010, according to the survey.

Medicaid Cost Containment. The weak fiscal conditions of states resulted in numerous actions to control Medicaid spending even with federal relief from ARRA. Twenty-seven states in fiscal 2009 and 28 states in fiscal 2010 made program cuts in Medicaid due to these fiscal difficulties. (See Tables 1-A and 1-B.) Nearly every state implemented at least one plan to control Medicaid spending in fiscal 2009 and fiscal 2010 according to the annual survey on state Medicaid budgets by the Kaiser Commission on Medicaid and the Uninsured. The most common strategy involved reductions to provider reimbursements. Thirty-three states cut or froze provider rates in fiscal 2009 while thirty-nine states are planning to cut or freeze rates for fiscal 2010. As noted by the Kaiser Commission, provider payment rate changes serve as a barometer of state fiscal conditions.

Outlook: National Health Care Reform. As of December 2009, legislation to overhaul the nation's health care system continues to advance in Congress. The most significant fiscal change for states would be the expansion of Medicaid eligibility that is currently part of both the House and Senate legislation. While the federal government would finance the majority of the additional costs for increased Medicaid eligibility, states will still be expected to cover some of the costs. States are concerned that they will struggle to fund their part of the expansion. States are also concerned that the growth in the number of individuals who are currently eligible for Medicaid, but not enrolled, will be much greater than projected, causing permanent fiscal challenges, as states will most likely have to cover the full cost of all new enrollees who are currently eligible for Medicaid.

States also project that they would need to increase Medicaid reimbursement rates in order to maintain adequate network capacity under the health care reform plans. Implementation of health care reform will also require states to undertake additional administrative expenses for implementing the expansion.

Long-Term Health Care Spending. Like Medicaid, total health care spending is projected to increase faster than the economy as a whole. Projections over the next ten years for national health expenditures remain at an average annual rate of about 6.2 percent from fiscal 2008 through fiscal 2018, according to recent estimates by Office of the Actuary in the Centers for Medicare & Medicaid Services. On average, the growth in health care expenditure is estimated to exceed the growth in the overall economy by about 2.1 percent each year. With Medicaid comprising 21 percent of state budgets, these long-term growth rates will continue to strain state budgets.

TABLE 5

Enacted Changes in Aid to Local Governments, Fiscal 2010

Alaska	No change from Revenue Sharing program established in FY 2009. One-third of the fund balance, up to $60.0 million, is paid annually. For FY 2010, $60.0 million of Revenue Sharing payments have been authorized for local governments.
California	The amended 2009 Budget Act suspended funding ($27.8 million general fund) for the Williamson Act Open Space Subventions Program. The funding backfilled property tax revenues cities and counties lose when they enter in to voluntary agreements with the property owners to use their land for the agricultural or open space purposes in exchange for a lower property tax assessment. 1) An additional 26 mandates have been suspended in FY 2009 and 2010. This resulted in approximately $81 million of 51.6 percent of reimbursement payments deferred to future years. 2) The amended 2009 Budget Act borrows 1.935 billion in property tax revenues from cities, counties, and special districts. The monies will be used to backfill state general fund expenditures for health care, corrections, trial court, K-12 school bond expenses, and other state programs. The enabling legislation provides for repayment (with interest) by June 30, 2013, and allows local governments to form a Joint Powers Agency to issue bonds securitized by the state's repayment guarantee. The amended 2009 Budget Act also requires redevelopment agencies to shift $1.7 billion in operating funds to backfill state general fund expenditures for K-12 schools, health care, corrections, trial courts, and other state programs.
Colorado	FY 2008-09 the Local Government Limited Gaming Impact Fund, which provides grants to neighboring communities impacted by gaming activities, was reduced by a total of $1,050,000. S.B.09-279 transferred $7.5 million for them Local Government Severance Tax Fund to balance FY 2009-10. On August 25 the following was enacted to balance FY 2009-10: $7.6 million transfer from the Local Government Severance Tax Fund, $14.1 million transfer from the Local Government Permanent Fund, $2.7 million transfer from the waste tire grant funds, and $5.1 million transfer from the Local Government Limited Gaming Impact Fund. S.B.09-105 Removes limits on counties ability to impose special property tax to generate funds for fighting forest and prairie fires. Previously the tax could not be more than one mill ($1 for every $1,000 of taxable value) or $500,000 per year, whichever was less. Now, as long as the county receives voter approval for the tax, there is no limit to how much it can collect for this purpose. S.B.09-232 – transferred $17 million from the Local Government Permanent Fund to the Local Government Mineral Impact Fund. This money will be made available to mineral development impacted communities in the form of grants. Priority will be given to those communities most directly impacted by federal mineral development and proposals for multi-jurisdictional projects.
Connecticut	During the 2009 legislative session, the Connecticut General Assembly approved appropriations for the fiscal year commencing July 1, 2009 which totaled $2.78 billion for state aid to municipalities. This represents a decrease of 1.8 percent over the total amount municipalities received in the prior fiscal year. During the 2009 legislative session, the Connecticut General Assembly did not enact any significant changes with respect to local governments' financial operations.
Delaware	Eliminated funding for Suburban Streets program, $6.0 million. Suburban Streets program provided state aid for the maintenance of locally maintained roads.
Georgia	The FY 2010 budget eliminated $428 million to fund the Homeowners Tax Relief Grants used to reduce local property taxes.
Kansas	Eliminated a $5.0 million transfer to the Special City County Highway Fund; eliminated a $45.3 million transfer to reduce local property taxes—Business Machinery, & Equipment Slider; eliminated a $13.5 million transfer to reduce local property taxes—Local Ad Valorem Tax Reduction Fund.
Maine	Amount to Local Government Fund for State-Municipal Revenue Sharing reduced from 5.1 to 5 percent. Impact is $16.2 million.
Maryland	In FY 2012, a 1 percent inflationary cap is applied to K-12 funding formulas. Beginning in FY 2010 the state share of the cost for nonpublic placements for special education was reduced from 80 percent to 70 percent. Growth in county public library funding formulas was moderated in FY 2010 – FY 2012. The growth in Community College funding formulas was moderated in FY 2010 and 2011. The Disparity Grant was capped at the FY 2010 level. Funding for local highway grants was reduced by $162 million in FY 2010 and $102 million in FY 2011. The local jail reimbursement program was changed to a grant program and state responsibility for payment of prior obligations was limited. The responsibility for the retirement costs of certain local employees is now a local responsibility at a cost of approximately $3 million.

TABLE 5 (continued)

Massachusetts	The fiscal 2010 budget provides $4.086 billion in state-funded local aid to municipalities. The budget includes state funding for chapter 70 education aid of $3.870 billion and also includes $167 million of federal State Fiscal Stabilization Funds, provided through the American Recovery and Reinvestment Act, for Chapter 70 education aid. The $4.037 billion in state and federal funds for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, and is an increase of $89 million over the fiscal 2009 amount of $3.948 billion. The fiscal 2010 budget also includes $936 million for unrestricted general government aid, which is a new category of local aid, replacing lottery aid and additional assistance. This amount is $377 million lower than the total amount funded through lottery aid and additional assistance in fiscal 2009. The fiscal 2010 budget also includes several provisions designed to increase municipal revenues. The budget repealed the property tax exemption for telecommunication poles and wires. Effective August 1, 2009, the permitted ceiling on hotel taxes imposed by cities and towns will be raised from 4 percent to 6 percent (from 4.5 percent to 6.5 percent in Boston). Cities and towns will also be authorized to impose a local option meals tax of 0.75 percent.
Michigan	The fiscal 2010 budget provides an overall decrease of $100 million—a 9.7 percent reduction from total payments to cities, villages, and townships in fiscal 2009. The individual impact on local units varies from negative 4 percent to negative 11 percent. The fiscal 2010 budget also continues to suspend revenue sharing to counties under tax law changes effective for fiscal 2005 and subsequent fiscal years. Counties expend the equivalent of revenue sharing payments from individual revenue sharing reserve funds established with early collection of county-allocated property taxes. Suspending county revenue sharing payments reduces state spending by over $180 million annually through fiscal 2008. Thereafter, savings decline as county revenue sharing reserve funds are depleted and state payments are resumed. In fiscal 2010, state payments for 20 counties are reduced by $10.2 million, representing a 15.6 percent decrease from the fully-restored payment level. Local government financial operations will be affected by the following changes included the fiscal 2010 budget: mental health services funding reductions, increased payments to private child welfare agencies, and reduced funding for county jail programs.
Minnesota	Governor reduced allotments for counties, cities and towns $99.7 million for FY 2010. This represents at most a 3.31 percent reduction for cities, 1.74 percent for towns and 1.19 percent for counties. Reductions were taken from Local Government aid, County Program aid and Market Value Credits. Other than changes in aid amounts due to allotment reductions listed above, no changes were enacted that affected local governments' financial operations.
Missouri	SB 291 (2009) imposed a requirement on school districts to provide a minimum amount of physical education for students. (The estimated cost for facility construction was $100,000 and an annual cost of $100,000 for additional staffing. Several school districts estimated a need for additional facilities, faculty and physical education programming. This legislation also required districts to provide a Parents' Bill of Rights requiring the State Department of Elementary and Secondary Education to develop a publication information parents of children with individualized education programs about their educational rights under federal and state law. The school districts also anticipated increased costs related to implementing these provisions.
Montana	The normal biennial inflationary increases statutorily authorized were not impacted by the tight budget. A onetime biennial (FY 2010 and FY 2011) increase in state expenditures for infrastructure was significant. $114 million of one-time money was allocated to local government infrastructure. The Recovery Act added several reporting requirements to local governments for the one-time state and federal funds authorized.
Nebraska	State general fund Only: Homestead Exemption Reimbursement Program—$-13.9 million (-18.2 percent) reduction vs. FY 2009 (see notes); Primary K-12 Education Funding Formula—$1.4 million (0.2 percent) increase over FY 2009; General Aid to Municipalities—$0.5 million (4.6 percent) increase over FY 2009. Various minor sales and use tax exemptions affecting local option city sales tax enacted for FY 2010. Dollar impact on cities is expected to be minimal.

TABLE 5 (continued)

New Jersey

Municipal Aid

Increased the Consolidation Fund program by $5 million (167 percent) to $8 million. This discretionary aid program provides financial and technical assistance to encourage consolidation and shared services among local units of government. Reduced combined Consolidated Municipal Property Tax Relief Aid (CMPTRA) and Energy Tax Receipts (ETR) municipal aid by $32.1 million (2 percent) to $1.565 billion. Taken together, CMPTRA and ETR provide the vast majority of State Aid to municipalities. Reduced Special Municipal Aid by $27.9 million (19 percent) to $117.4 million. This discretionary aid program provides assistance to municipalities facing severe fiscal conditions in recovering from fiscal distress and improving management and financial practices. Reduced Trenton Capital City Aid by $0.7 million (2 percent) to $34.9 million. This program provides assistance to the City of Trenton. Reduced Extraordinary Aid by $0.5 million (2 percent) to $24.5 million. This discretionary aid program provides aid to municipalities facing unexpected increases in costs that would otherwise lead to an unacceptably high spike in property taxes.

Other Local Aid

Increased County College Aid by $5.1 million (2 percent) to $226.7 million. This program provides aid to the county college system, including funding for operating aid, fringe benefits, and debt service funding. Reduced Local Transportation Project Aid by $16 million (7 percent) to $208.2 million. This program supports transportation improvements on municipal and county roads. Reduced Aid to County Psychiatric Hospitals by $8.7 million (7 percent) to $115.1 million. This program supports patients in county psychiatric hospitals by reimbursing allowable costs incurred by counties. Reduced Library Aid by $1.4 million (8 percent) to $16.4 million. This program supports operations and improvements at public libraries. Eliminated Enhanced 911 Grants. Previously funded at $12.4 million, the primary purpose of this program is to upgrade existing local 911 call centers. Grants are provided for general operating assistance, equipment, and consolidation studies. Eliminated Smart Future Planning Grants. Previously funded at $2.3 million, this program promotes comprehensive smart growth planning at the local level by providing financial assistance for redevelopment projects that are consistent with smart growth principles.

P.L.2009,c.19
This law provides local governments with the option to reduce their required contributions to the pension system due in April 2009 by 50 percent. A local government is required to adopt a resolution justifying the fiscal necessity of deferring the pension payment. If a local government exercises this option, it will pay back the deferred amount plus interest in level annual payments over 15 years beginning with the payments due in State Fiscal Year 2012.

P.L.2009,c.90
This law authorizes the creation of both State and local Economic Redevelopment and Growth Grant programs. These State or local grants would pledge up to 75 percent of designated incremental tax revenue increases resulting from a redevelopment project toward filling a developer's project financing gap (up to 20 percent of the total project cost). Eligible local government incremental tax revenues include payments in lieu of taxes, lease payments, property taxes, motor vehicle rental taxes, payroll taxes, parking taxes, taxes from the operation of a public facility, and sales taxes dedicated for use within an Urban Enterprise Zone. However, not all local governments are authorized to impose all these types of taxes. The law also authorizes municipalities with populations over 100,000 that host a commercial airport with over 10 regular flights per day to impose an up to 5 percent motor vehicle rental tax to fund redevelopment activities. It also authorizes certain municipalities to impose an up to $2 surcharge on admissions to and an up to $2 surcharge on parking at major places of amusement to fund redevelopment activities.

P.L.2009,c.118
This law establishes a pilot program in Gloucester County to transfer municipal tax assessment functions to the county level through the appointment of a county assessor and deputy county assessors. The transfer would happen over 3 years and would also involve revaluations in all municipalities within the county to create uniformity in assessment. Gloucester County will pay for the revaluation costs (estimated at $8.8 million) over the 3-year transition period but will be reimbursed by the State over the 3 years that follow that. Once the consolidation of tax assessment at the county level is complete, the Gloucester County municipalities will realize a cost savings because they will no longer be responsible for the tax assessment function.

New York

The 2009-10 Enacted State Budget will have an estimated $2.9 billion positive impact on municipalities in local fiscal years ending in 2010—the first full-annual local fiscal year affected by changes in the Enacted Budget. Major program changes include the following:

- Increased Federal funding through the American Recovery and Reinvestment Act of 2009 (ARRA) including: increased funding for School Districts in the 2009-10 school year ($1.9 billion); and increased FMAP funding for New York City and other Counties ($1.3 billion).
- Sales tax collection initiatives are expected to generate $191 million in additional revenue for municipalities in 2010.
- Restoring New York City general and municipal aid funding to fiscal year 2006-2007 level ($82 million).
- In addition, the Enacted Budget continues more than $959 million in fiscal relief for counties and New York City under the state's cap on local Medicaid expenditures and takeover of the Family Health Plus program. Counting this assistance, the total positive fiscal impact on local governments in 2010 is more than $3.8 billion.

TABLE 5 (continued)

New York (cont'd)	■ School districts outside of New York City will benefit from a $600 million increase in school aid and other education funding attributable to ARRA for the 2009-2010 school year. ■ New York City will receive a $1.8 billion net positive increase, including: a $999 million increase in FMAP; $622 million in additional school aid; $120 million in increased revenue from new sales tax collections and modifications to the Personal Income Tax (PIT) and an $82 million increase in general purpose aid over the prior year. These increases are partially offset by approximately $21 million in reductions across a range of local assistance program areas. ■ Cities, towns and villages outside of New York City will realize a $14 million net positive impact, mostly attributable to new sales tax revenues. ■ Counties are expected to experience a $401 million net positive impact, mostly attributable to: $335 million from the FMAP increase; $87 million in additional sales tax revenues; and approximately $19 million in funding reductions across a range of local assistance program areas. In addition, the Enacted Budget continues more than $959 million in fiscal relief for counties and New York City under the state's cap on local Medicaid expenditures and takeover of the Family Health Plus program. Counting this assistance, the total positive fiscal impact on local governments in 2010 is more than $3.8 billion.
Ohio	A temporary reduction in aid provided to local libraries through the public library fund from 2.22 percent to 1.97 percent of total GRF tax revenue. The dollar impact of this is estimated at $41 million in FY 2010.
Oregon	Total state funding for K-12 schools declined by $350 million (5.7 percent) for the 2009-2011 biennium compared to the previous biennium. Another $226 million of ARRA funding was used to prevent further reductions. State support for community colleges was reduced by $50.9 million (10.1 percent). Local community college districts will determine how the funds are expended. Funding for community corrections decreased $2.1 million between 2007-2009 and 2009-2011, or 1.0 percent. Funding for Alcohol & Drug Prevention was reduced $3.0 million; this removes all general funds and represents an overall reduction of 23 percent. Funding for Gambling Addiction, Treatment, and Prevention was reduced $2.0 million, a 15 percent reduction.
Puerto Rico	No significant changes that affect the help given from the state to municipalities in FY 2010. For FY 2010 the state allocated $26 million over the amount stipulated by formula of $335 million to compensate for the loss of revenues resulting from the economic conditions.
Rhode Island	FY 2010 state aid to municipalities of $184.8 million represents a $24.8 million reduction from final FY 2009 funding levels. The largest reduction was the result of the elimination of $25.0 million in general revenue sharing. Enacted FY 2009 funding for this program was over $55.1 million, but was reduced in the supplemental budget to $25.0 million. The other major local aid programs, including the motor vehicle excise tax reimbursement program, distressed communities relief fund, and library aid were all basically level funded from the FY 2009 revised funding levels.
South Carolina	Local Government Fund reduced by $50 million.
Virginia	In FY 2009 and FY 2010 each $50 million in captured savings to local government programs.
Wisconsin	Reduced school aid (general and categorical aids) in FY 2010 by $147 million compared to the FY 2009 level, a 2.7 percent reduction; $49,400 reduction in county probation and parole hold reimbursement, a reduction of 1 percent. $5,900,500 reduction in youth aids, a 6 percent reduction, but backfilled with federal ARRA funding. $250,000 reduction to Clean Sweep funding, a reduction of 25 percent. $811,800 reduction to soil and water resource management funding, a 16 percent reduction. 6 percent reductions to other environmental local assistance funding. Base funding for the Department of Health Services Basic County Allocation will be reduced by roughly 1.4 percent in CY 2010 and 1.0 percent in CY 2011 compared to CY 2009 levels. ($4.1 million over two years) The two year reduction amount, $1.4 million over the two calendar years is due to federal revenue reductions. The budget reduces the Alzheimer's Family Caregiver Support grant ($1.9 million GPR) as counties implement Family Care. Funding for Birth to 3 will also be reduced by 1 percent ($68,800) in each year as a budget savings measure. County Medicaid Income Maintenance programs were reduced $3.4 million in CY 2010 (6.6 percent compared to CY 2009 base levels) and $5.5 million (10.6 percent) in CY 2011. The budget also includes a number of positive funding measures for counties, including continued statewide expansion of Family Care, additional funding for children's long term support services, and expanded funding for community mental health services. Changed state statute to set the allowable school district revenue limit increase at $200 per pupil in FY 2010 (this is approximately a 2.1 percent increase over FY 2009). Without this law change, the revenue limit increase would have been approximately $275 per pupil in FY 2010 (a 2.9 percent increase); For municipalities, modified the expenditure restraint program budget test which will affect eligibility; increased a levy limit of 3 percent for 2009(10) property taxes, which is an increase from the prior 2 percent limit; Permitted local governments to carry forward 2 years of unused levy capacity. The Departments of Health and Children and Families changed the timing of contract payments for the Basic County Allocations (BCA) in both departments to generate one time savings in FY 2010. This change will not further reduce the overall BCA contract for the calendar year, but will mean that counties will receive reimbursement later in the contract period.

State Revenue Developments

CHAPTER TWO

Overview

State revenues in fiscal 2009 continued the decline that began in fiscal 2008. In fiscal 2009, sales, personal income and corporate income tax collections all declined by drastic amounts. Total revenue collections came in below estimates for 42 states, were on target in four states and exceeded projections in three states. (See Table A-7.) Additionally, revenue collections in fiscal 2010 are below estimates in 31 states, on target in 11, and exceeding estimates in five states.

In comparison, fiscal 2008 revenue forecasts exceeded expectations in 25 states, were on target in five states and below expectations in 20 states. Although corporate income taxes were the only major source to show an actual decline in fiscal 2008, the growth rate of both sales and personal income tax collections was noticeably slower than in 2007.

Revenue collections are expected to continue to fall throughout 2010 as personal income taxes, the largest source of tax revenue for many states, continue to decline as the unemployment rate steadily increases. After a low of 4.4 percent in March 2007, the unemployment rate has risen 31 out of the past 34 months. The increase over last year has been even more drastic, rising from 6.6 percent in October 2008 to 10.2 percent in October 2009. Additionally, many analysts do not see unemployment beginning to fall until the middle of 2010.

In reaction to the significant reductions in revenue, states enacted tax and fee changes that are expected to raise $23.9 billion in additional revenue based on enacted FY 2010 budgets. Twenty-nine states enacted net increases while nine states enacted net decreases.

States also enacted $7.7 billion in other revenue measures for fiscal 2010 that enhance general fund revenue but that do not increase taxpayer liability. These measures may rely on enforcement of existing laws, additional audits and compliance efforts, and increasing fines for late filings.

TABLE 6

Enacted State Revenue Changes, Fiscal 1979 to Fiscal 2010

Fiscal Year	*Revenue Change (Billions)*
2010	$23.9
2009	1.5
2008	4.5
2007	-2.1
2006	2.5
2005	3.5
2004	9.6
2003	8.3
2002	0.3
2001	-5.8
2000	-5.2
1999	-7.0
1998	-4.6
1997	-4.1
1996	-3.8
1995	-2.6
1994	3.0
1993	3.0
1992	15.0
1991	10.3
1990	4.9
1989	0.8
1988	6.0
1987	0.6
1986	-1.1
1985	0.9
1984	10.1
1983	3.5
1982	3.8
1981	0.4
1980	-2.0
1979	-2.3

SOURCES: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, 1985-86 edition, page 77, based on data from the Tax Foundation and the National Conference of State Legislatures. Fiscal 1988–2010 data provided by the National Association of State Budget Officers.

TABLE 7

Enacted Fiscal 2010 Revenue Actions By Type of Revenue and Net Increase or Decrease* (Millions)

State	Sales	Personal Income	Corporate Income	Cigarettes/ Tobacco	Motor Fuels	Alcohol	Other Taxes	Fees	Total
Alabama									0.0
Alaska					33.9				33.9
Arizona									0.0
Arkansas	-44.3	-1.1		69.8				1.5	25.9
California	4411.0	4261.0	-330.0					1657.0	9999.0
Colorado								538.9	538.9
Connecticut	-125.1	617.9	110.6	96.5			46.9	61.0	807.8
Delaware		28.3	130.3	16.0			142.1		186.4
Florida	12.3			36.3			12.2	621.6	682.4
Georgia								23.0	23.0
Hawaii		42.8		23.7			38.9		105.4
Idaho									0.0
Illinois									0.0
Indiana	-1.5	-1.7	-27.9						-31.1
Iowa			18.0					16.7	34.7
Kansas			-2.0						-2.0
Kentucky	51.9			106.9					158.8
Louisiana	0.3	-1.0	-3.5						-4.2
Maine	40.7	-32.8		1.6	6.0			1.3	16.8
Maryland							10.5		10.5
Massachusetts	889.7								889.7
Michigan			-68.3						-68.3
Minnesota	0.0	9.0	-2.0				48.8	48.9	104.7
Mississippi				79.8					79.8
Missouri		0.0	-14.6						-14.6
Montana									0.0
Nebraska	-1.3								-1.3
Nevada							257.3	39.1	296.4
New Hampshire				35.2	2.4		58.6	54.3	150.5
New Jersey		1011.0					26.8	20.0	1057.8
New Mexico									0.0
New York	59.8	4145.0	-4.0	26.7		14.0	131.0	1941.4	6313.9
North Carolina	803.0	172.0	23.1	33.2		35.6	-116.3	55.8	1006.4
North Dakota	-4.6	-48.6	-5.0				-5.6		-63.8
Ohio									0.0
Oklahoma									0.0
Oregon		235.8	45.1	1.5			177.0	81.7	541.1
Pennsylvania			-72.7	115.5			200.0		242.8
Rhode Island	2.7	21.8	-14.5	27.5			1.0	27.1	65.6
South Carolina									0.0
South Dakota							1.0	4.6	5.6
Tennessee	13.6		25.8			1.3	137.6		178.3
Texas				67.0			-85.0		-18.0
Utah								79.0	79.0
Vermont	1.0	10.7		5.9		3.2	15.0	0.7	36.5
Virginia									0.0
Washington									0.0
West Virginia		-9.0	-10.6						-19.6
Wisconsin	19.8	278.5		165.0					463.3
Wyoming									0.0
TERRITORIES									
Puerto Rico		76.0	76.0	48.0		11.0	296.0		507.0
Total	**$6,129.0**	**$10,739.6**	**-$202.2**	**$908.1**	**$42.3**	**$54.1**	**$967.8**	**$5,273.6**	**$23,912.3**

NOTE: *See Appendix Table A-11 for details on specific revenue changes.
SOURCE: National Association of State Budget Officers.

Collections in Fiscal 2009

Collections of sales, personal income, and corporate income taxes during fiscal 2009 were 7.4 percent lower than fiscal 2008 collections. Specifically, sales tax collections are 4.7 percent lower and personal income tax collections are 8.2 percent lower than collections in fiscal 2008. Corporate income tax collections are estimated to be 16.1 percent lower relative to actual fiscal 2008 collections. (See Table A-11.)

Projected Collections in Fiscal 2010

Based on enacted FY 2010 budgets, states are projecting a 1.4 percent further decline in tax collections for fiscal 2010 relative to fiscal 2009. Compared to fiscal 2009 collections, sales tax collections are expected to increase by 0.7 percent, while personal income tax collections are forecast to decline by 2.5 percent. Corporate income tax collections are expected to decline an additional 6.3 percent. However, with 31 states reporting collections below forecasts, the decline in revenues will likely be even greater. (See Table A-11.)

Enacted Fiscal 2010 Revenue Changes

Thirty-seven states enacted net tax and fee changes of $23.9 billion. Twenty-nine states enacted net tax and fee increases while nine states enacted net tax and fee decreases. The largest change will occur in personal income taxes ($10.7 billion). Of this $10.7 billion, $4.3 billion and $4.1 billion are accounted for in changes enacted in California and New York, respectively. Other tax and fee increases enacted include increases of $6.1 billion in sales taxes, $5.3 billion in fees, $967.8 million in other taxes, $908.1 million in cigarette and tobacco taxes, $54.1 million in alcohol taxes, and $42.3 million in motor fuels taxes. Corporate income taxes were decreased by $202.2 million.

Sales Taxes. Twelve states enacted sales tax increases while five enacted decreases in their fiscal 2010 budgets. The result is a net revenue increase of $6.1 billion. Much of this change is due to a rate increase in California that would raise $4.4 billion.

Personal Income Taxes. Twelve states enacted personal income tax increases while six enacted decreases for a net change of $10.7 billion. More than half of this change is accounted for in rate increases from California and New York that would increase collections by $4.3 and $4.1 billion, respectively.

Corporate Income Taxes. Six states enacted corporate income tax increases while twelve enacted decreases in their fiscal 2010 budgets for a net decline of $202.2 million.

Cigarette, Tobacco and Alcohol Taxes. Seventeen states enacted cigarette income tax increases for a net change of $908.1 million. Rate increases in Wisconsin propose to raise over $160 million, while an increase in the tax rate of $0.25 per pack in Pennsylvania is forecast to raise $100 million.

Motor Fuel Taxes. Three states enacted motor fuel tax increases for a net change of $42.3 million. The expiration of a rate suspension in Alaska is expected to raise $34 million.

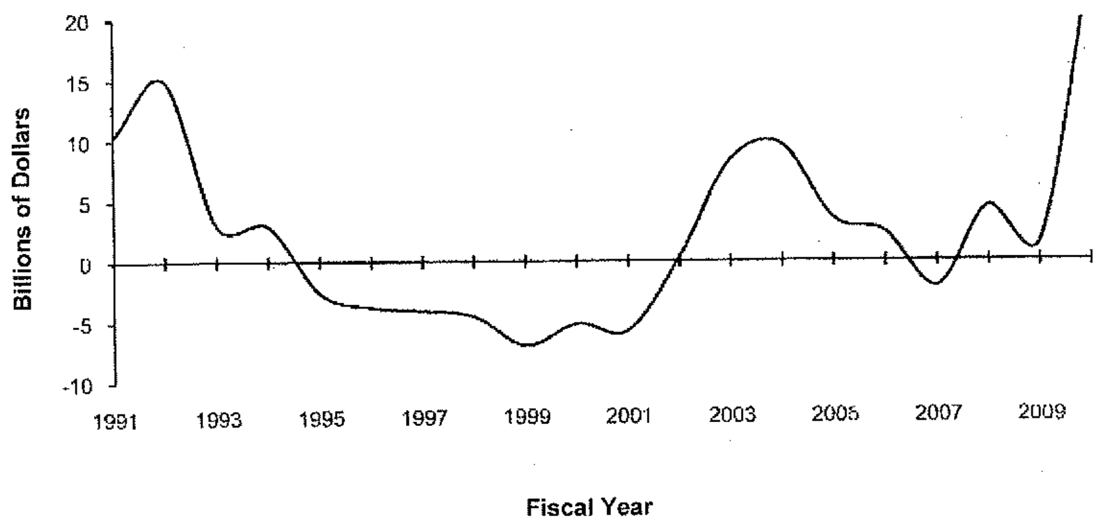
Alcohol Taxes. Four states enacted alcohol tax increases in their fiscal 2010 budgets for a net change of $54.1 million. Increased tax rates are proposed to raise $35.6 million in North Carolina.

Other Taxes. Sixteen states enacted other tax increases while three states enacted decreases in their fiscal 2010 budgets for a net change of $967.8 million. A tax on Health Maintenance Organizations in Tennessee is expected to raise $137 million.

Fees. Nineteen states recommend fee increases in their fiscal 2010 budgets for a net change of $5.3 billion. More than 20 enacted fee changes in New York are expected to raise nearly $2.0 billion.

FIGURE 2

Enacted State Revenue Changes, Fiscal 1991 to Fiscal 2010



SOURCE: National Association of State Budget Officers.

TABLE 8

Enacted Changes to Budgeting and Financial Management Practices

Region and State	
NEW ENGLAND	
Connecticut	Public Act 09-214 requires the Office of Policy and Management (OPM) secretary and the Office of Fiscal Analysis (OFA) director to agree on an issue consensus revenue estimates each year by October 15 and to issue any necessary consensus revisions of those estimates in January and April. The estimates must cover the current biennium and the three following years. If the secretary and the director cannot issue a consensus estimate, they must issue separate ones. In such a case, the comptroller must issue the consensus estimate based on the separate estimates. The comptroller's estimate must equal one of the separate estimates or fall between the two.
Massachusetts	Under the act, the consensus revenue estimates and revised estimates must (1) be the basis for the governor's proposed budget and the revenue statement included in the budget act the legislature passes and (2) be included in the annual fiscal accountability reports submitted to the legislature's fiscal committees each November. If the estimates or revised estimates lead to forecasted deficits or increased deficits exceeding certain levels, the act requires the governor and the legislature's fiscal committees to take specified actions to address the estimates. Major transportation reform was undertaken. The fiscal 2010 budget increases employee contributions for all active employees enrolled with the Group Insurance Commission. Previously, employees hired before June 30, 2003 paid 15 percent of their premiums, while those hired after that date paid 20 percent. The fiscal 2010 budget increases premium contributions by 5 percent for all employees. Accordingly, employees hired before June 30, 2003 will pay 20 percent of their premiums, while those hired after that date will pay 25 percent. The change is expected to save the Commonwealth $45 million in fiscal 2010.
Rhode Island	Pension reform reduced benefits. Director of Administration to assess and review all critical expenditures.
MID-ATLANTIC	
Maryland	SB 264 authorizes the state to collectively bargain for union dues from state employees who are not members of the union. HB 268 directs the state to develop a plan for hiring current and former recipients of public assistance. SB 556 requires the creation of a searchable website that provides information on organizations that receive grants from the State.
New Jersey	Mandatory self-directed furlough for non-uniform personnel.
New York	With respect to cash flow management, the 2009-2010 enacted budget provided authorization for the general fund to borrow resources temporarily from other funds for a period not to exceed four months, and provided that resources are returned to those funds prior to the end of the fiscal year. Prior to the enactment of this authorization, the State was not permitted to close a month with a negative general fund balance.
Pennsylvania	Funding for the Pennsylvania Public Television Network, which has operated as a separate agency, was eliminated. Limited funding remains in the budget of the Office of Administration to fund the technology needs of the network. Also, Scotland School for Veterans Children, which has operated as a state owned and operated school for more than 100 years, was unfunded and closed. Also, operation of the Scranton State School for the Deaf was transferred from the Department of Education to the Western Pennsylvania School for the Deaf.

TABLE 8 (continued)

GREAT LAKES	
Indiana	Executive branch implemented reviews of key spending categories, including travel, media and advertising, and personnel. Creation of a Strategic Hiring Committee to review all state hires has resulted in a reduction of more than 1,500 full-time employees in eight months. The Travel Committee has reduced expenditures on out-of-state travel by 65 percent since its inception. Inclusion of performance measures in executive branch budget documents for first time in state's history. As-Passed Budget eliminated funding for more than a dozen underperforming programs, and reduced funding for dozens of other programs that have not produced adequate results. Finally, there was the implementation of new statewide financial management and accounting system scheduled for September 2009.
Wisconsin	Reduced school aid (general and categorical aids) in FY 2010 by $147 million compared to the FY 2009 level, a 2.7 percent reduction; $49,400 reduction in county probation and parole hold reimbursement, a reduction of 1 percent. $5,900,500 reduction in youth aids, a 6 percent reduction, but backfilled with federal ARRA funding. $250,000 reduction to Clean Sweep funding, a reduction of 25 percent. $811,800 reduction to soil and water resource management funding, a 16 percent reduction. 6 percent reductions to other environmental local assistance funding. Base funding for the Department of Health Services Basic County Allocation will be reduced by roughly 1.4 percent in CY 2010 and 1.0 percent in CY 2011 compared to CY 2009 levels. ($4.1 million over two years) The two year reduction amount, $1.4 million over the two calendar years is due to federal revenue reductions. The budget reduces the Alzheimer's Family Caregiver Support grant ($1.9 million GPR) as counties implement Family Care. Funding for Birth to 3 will also be reduced by 1 percent ($68,800) in each year as a budget savings measure. County Medicaid Income Maintenance programs were reduced $3.4 million in CY 2010 (6.6 percent compared to CY 2009 base levels) and $5.5 million (10.6 percent) in CY 2011. The budget also includes a number of positive funding measures for counties, including continued statewide expansion of Family Care, additional funding for children's long term support services, and expanded funding for community mental health services. Changed state statute to set the allowable school district revenue limit increase at $200 per pupil in FY2010 (this is approximately a 2.1 percent increase over FY 2009). Without this law change, the revenue limit increase would have been approximately $275 per pupil in FY 2010 (a 2.9 percent increase); For municipalities, modified the expenditure restraint program budget test which will affect eligibility; increased a levy limit of 3 percent for 2009(10) property taxes, which is an increase from the prior 2 percent limit; Permitted local governments to carry forward 2 years of unused levy capacity. The Departments of Health and Children and Families changed the timing of contract payments for the Basic County Allocations (BCA) in both departments to generate one time savings in FY 2010. This change will not further reduce the overall BCA contract for the calendar year, but will mean that counties will receive reimbursement later in the contract period.
PLAINS	
Kansas	Kansas is replacing its central accounting system, which will go live July 1, 2010.
Minnesota	Funding for a new budget information system and for a new accounting and procurement system.
Missouri	The Transform Missouri initiative to develop human capital, enhance transportation/information infrastructure, and to spark scientific and technological growth.
South Dakota	In the Governor's first FY 2010 budget recommendation both a salary policy and health insurance increase for state employees were recommended. In his revised budget these increases were not recommended. The Governor proposed an initial budget for FY 2010 as well as a revised budget after revenue collections deteriorated. The revised budget included proposed cuts from both the Governor and state policy leaders from the original Governor's proposed FY 2010 budget.
SOUTHEAST	
Arkansas	A Constitutional Amendment was adopted by the people to allow annual sessions of the General Assembly and limit appropriation to 1 year instead of biennial appropriations. A Health Care Initiative was established to be funded by an increase in the Cigarette tax (specifics of the tax increase are listed in Table a of question 13). The initiative established new funding to improve health care in the State. Programs include the establishment of the Arkansas Trauma System, additional support to Community Health Centers, the Coordinated School Health Program, and many other vital programs.

TABLE 8 (continued)

ROCKY MOUNTAIN	
Idaho	Implemented a 5 percent cut in personnel costs across all agencies for FY 2010 and FY 2011. It was left up to the agencies to decide how to handle the cuts (layoffs, furloughs, vacancies, etc.).
Wyoming	Made reduction to Standard Budgets to prevent any budget gaps.
SOUTHWEST	
New Mexico	Instituted a hiring freeze and froze all meritorious pay increases. Adjusted the contribution to the retirement plan by increasing the employee contribution by 1.5 percent and decreasing the state contribution by 1.5 percent for a two year period.
FAR WEST	
Alaska	There is now a performance-based budgeting emphasis as well as the development of long-range fiscal planning (10 yr).
Washington	Exempt staff can receive no salary increases during Fiscal Year 2010.
TERRITORIES	
Puerto Rico	Act No. 7 of March 2009 indicates on article 38.02, that all economic benefits are temporarily suspended for two years. For example, labor unions agreements, salary raises, etc. Additionally, revenue projections are more conservative than previous years.

Total Balances

CHAPTER THREE

Following declines in revenue collections during previous economic downturns, states began to set aside additional funds in "rainy day" accounts during times of economic expansion to help stabilize budgets from any decline in tax collections. The effort to maintain adequate balances helps mitigate the disruption to state services during an economic downturn. Additionally, rainy day funds are needed to ensure that budgets can be balanced when revenues do not meet expectations in the latter part of the fiscal year when budget cuts and revenue increases do not have enough time to take effect. Though budget experts' views vary, the informal rule-of-thumb has previously been to build up budget reserve balances to a level that equals at least five percent of total expenditures to provide a relatively adequate fiscal cushion. Even while maintaining adequate balances, states have been forced to cut midyear budgets during both of the last two economic downturns.

Due to strong revenue growth experienced by nearly all states during the middle part of the decade, most states were able to meet or exceed a balance level of five percent. Total balances include both ending balances and the amounts in states' budget stabilization funds; they reflect the funds that states may use to respond to unforeseen circumstances after budget obligations have been met. State officials often try and avoid drawing down balance levels at the beginning of a downturn, and may also be prohibited from draining all rainy day funds immediately.

Prior to the start of both this most recent recession and the recession in the early part of this decade, states had built up fairly significant balance levels. In fiscal 2000, balances reached 10.4 percent of expenditures. However, by 2003 balance levels had fallen to 3.2 percent of expenditures. Balance levels were increased during the economic expansion that took place during the middle part of the decade. By fiscal 2006, balance levels had reached 11.5 percent of expenditures. The reduction in state balance levels began in fiscal 2008, when balance levels fell to 8.6 percent of expenditures. Highlighting the dramatic and significant deterioration in state fiscal conditions, fiscal 2009 balance levels declined to 4.8 percent of expenditures. (See Table 9 and Tables A-1, A-2, A-3, and A-10.)

As total state balance levels experienced major declines during fiscal 2009, they have fallen below the historical average of 5.6 percent of expenditures. Highlighting the seriousness of the current situation is that this decline occurred even in light of the fact that states are often hesitant to make substantial draw downs from their rainy day funds early in the downturn. Although the national recession is believed to have ended sometime in the early part of the third quarter of 2009, state fiscal conditions often do not recover until well after the national economy has begun expanding, and therefore some states may not recover until fiscal 2012.

Although total balance levels representing 4.8 percent of general fund expenditures may seem like a significant cushion, when examining balance levels for fiscal 2009 a bit further, a starker picture emerges. For fiscal 2009, total balance levels were $32 billion. However, balance levels for Texas and Alaska, at $8.9 billion and $6.6 billion respectively, combine to represent 48.5 percent of total balance levels. If you remove these two states from total balance levels, then fiscal 2009 balance levels represent only 2.7 percent of expenditures.

Additionally, the view of falling balance levels is reinforced by Table 10 which shows that in fiscal 2008, 20 states had balance levels above 10 percent, 16 states had balance levels above five percent but below 10 percent, 12 states had balance levels below five percent but above one percent, while two states had balance levels below one percent. In fiscal 2009, these totals declined to 10 states having balance levels above 10 percent, 14 states having balance levels above five percent but below 10 percent, 17 states having balance levels above one percent, but below five percent, and nine states with balance levels below one percent. Based on enacted fiscal 2010 budgets, these totals will decline further with six states having balance levels above five percent but below 10 percent, 22 states having balance levels above one percent but below five percent, and 11 states having balance levels below one percent.

Forty-eight states have budget stabilization funds, which may be budget reserve funds, revenue-shortfall accounts, or cash-flow accounts. About three-fifths of the states have limits on the size of their budget reserve funds, ranging from 3 to 10 percent of appropriations. Ordinarily, funds above those limits remain in a state's ending balances.

TABLE 9

Total Year-End Balances, Fiscal 1979 to Fiscal 2010

Fiscal Year	*Total Balance (Billions)*	*Total Balance (Percentage of Expenditures)*
2010*	$35.9	5.7%
2009*	32.0	4.8
2008	59.1	8.6
2007	65.9	10.1
2006	69.0	11.5
2005	46.6	8.4
2004	27.5	4.6
2003	16.4	3.2
2002	18.3	3.7
2001	44.1	9.1
2000	48.8	10.4
1999	39.3	8.4
1998	35.4	9.2
1997	30.7	7.9
1996	25.1	6.8
1995	20.6	5.8
1994	16.9	5.1
1993	13.0	4.2
1992	5.3	1.8
1991	3.1	1.1
1990	9.4	3.4
1989	12.5	4.8
1988	9.8	4.2
1987	6.7	3.1
1986	7.2	3.5
1985	9.7	5.2
1984	6.4	3.8
1983	2.3	1.5
1982	4.5	2.9
1981	6.5	4.4
1980	11.8	9.0
1979	11.2	8.7
Average	–	**5.5%**

NOTE: *Figures for fiscal 2009 are preliminary actual; figures for fiscal 2010 are based on appropriated data.

SOURCE: National Association of State Budget Officers.

TABLE 10

Total Year-End Balances as a Percentage of Expenditures, Fiscal 2008 to Fiscal 2010

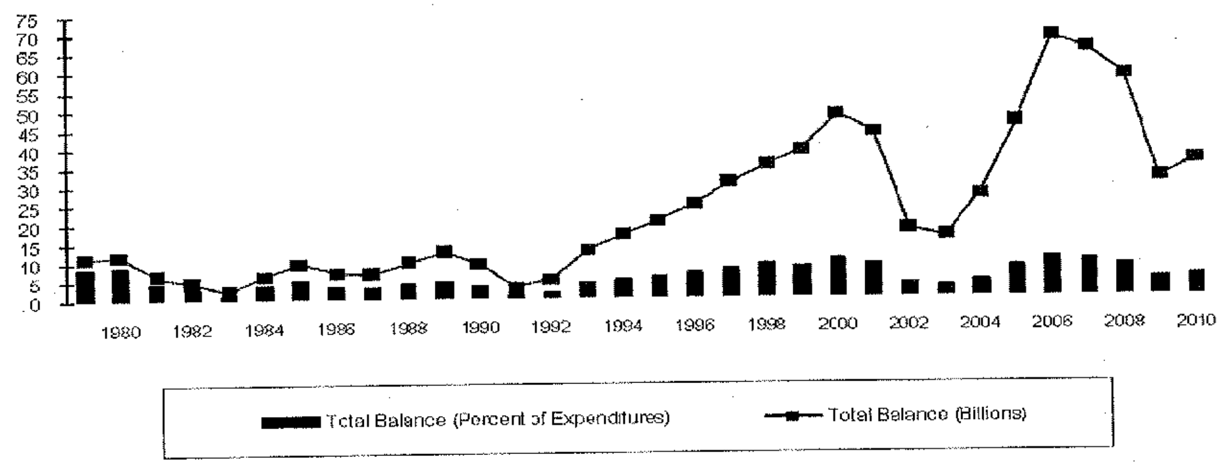
	Number of States		
Percentage	*Fiscal 2008 (Actual)*	*Fiscal 2009 (Preliminary Actual)*	*Fiscal 2010 (Appropriated)*
Less than 1.0%	2	9	11
1.0% to 4.9%	12	17	22
5.0% to 9.9%	16	14	6
10% or more	20	10	11

NOTE: The average for fiscal 2008 (actual) was 8.6 percent; the average for fiscal 2009 (preliminary actual) is 4.9 percent; and the average for fiscal 2010 (appropriated) is 5.8 percent.

SOURCE: National Association of State Budget Officers.

FIGURE 3

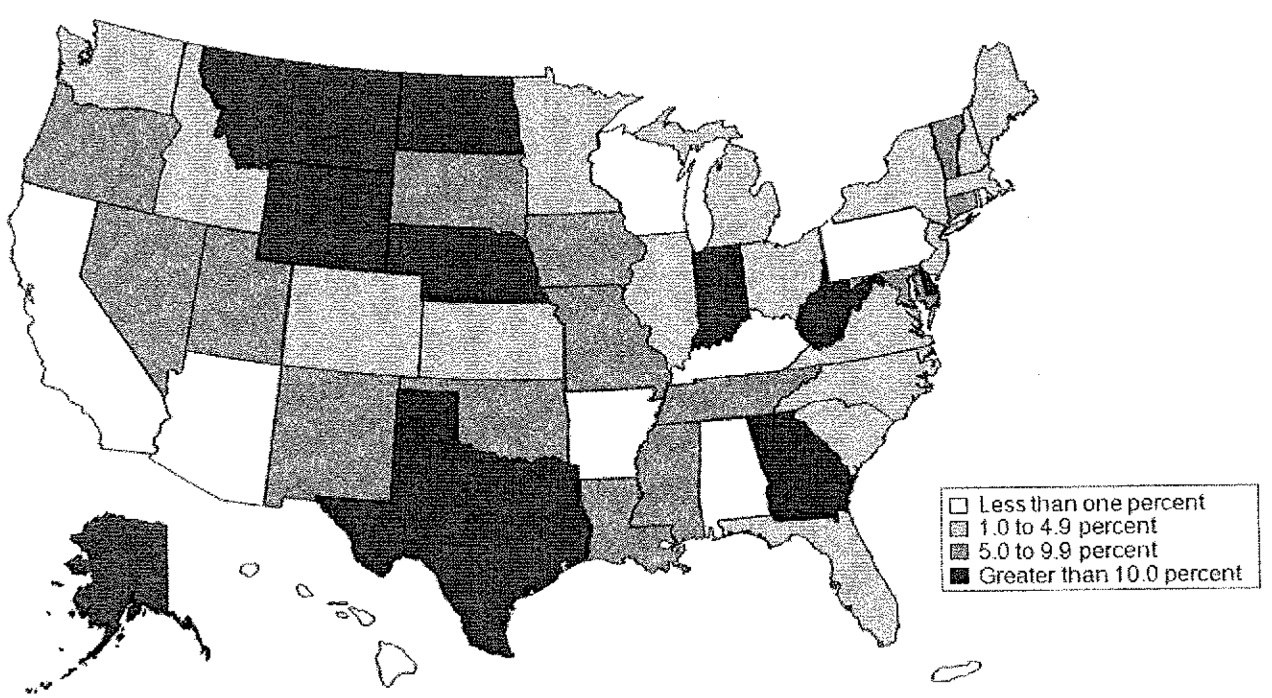
Total Year-End Balances and Total Year-End Balances as a Percentage of Expenditures, Fiscal 1979 to Fiscal 2010



SOURCE: National Association of State Budget Officers.

FIGURE 4

Total Year-End Balances as a Percentage of Expenditures, Fiscal 2009



SOURCE: National Association of State Budget Officers.

Appendix

TABLE A-1

Fiscal 2008 State General Fund, Actual (Millions)

Region/State	Beginning Balance	Revenues	Adjustments	Total Resources	Expenditures	Adjustments	Ending Balance	Budget Stabilization Fund
NEW ENGLAND								
Connecticut	$ 0	$ 16,419	$ 0	$ 16,419	$ 16,319	$ 0	$ 99	$ 1,382
Maine**	36	3,041	54	3,131	3,129	0	1	130
Massachusetts***	2,901	32,360	0	35,261	33,035	0	2,226	2,119
New Hampshire	62	1,484	0	1,546	1,528	0	17	89
Rhode Island**	4	3,429	-69	3,364	3,405	0	-41	103
Vermont**	0	1,200	31	1,230	1,200	30	0	58
MID-ATLANTIC								
Delaware*	591	3,357	0	3,948	3,422	0	526	183
Maryland**	285	13,546	1,096	14,926	14,439	0	487	685
New Jersey ***	2,586	32,738	0	35,324	33,112	908	1,303	735
New York***	3,045	53,094	0	56,139	53,385	0	2,754	1,206
Pennsylvania**	531	26,878	142	27,551	26,968	0	583	742
GREAT LAKES								
Illinois**	642	27,759	1,900	30,301	27,153	3,007	141	276
Indiana**	941	13,051	152	14,144	12,730	364	1,050	363
Michigan**	259	8,168	1,916	10,343	9,885	0	458	2
Ohio	1,433	26,659	0	28,092	26,410	0	1,682	1,012
Wisconsin**	66	13,043	568	13,678	13,526	21	131	0
PLAINS								
Iowa**	0	6,084	0	6,084	5,888	148	48	592
Kansas	935	5,693	0	6,628	6,102	0	527	0
Minnesota***	2,245	16,680	0	18,925	17,005	0	1,920	1,222
Missouri**	753	8,004	153	8,910	8,074	0	836	279
Nebraska**	591	3,501	-260	3,832	3,248	0	584	546
North Dakota**	296	1,246	115	1,657	1,204	0	453	200
South Dakota**	0	1,144	32	1,177	1,176	0	0	107
SOUTHEAST								
Alabama**	515	7,758	476	8,748	8,612	-83	219	248
Arkansas	0	4,353	0	4,353	4,353	0	0	0
Florida	3,434	24,595	0	28,029	27,708	0	321	1,345
Georgia***	2,786	18,728	141	21,655	19,438	0	2,217	1,025
Kentucky**	579	8,779	457	9,816	9,450	280	86	215
Louisiana**	1,015	10,181	130	11,326	9,633	828	866	776
Mississippi	226	4,954	0	5,181	5,145	0	36	365
North Carolina	1,221	19,824	145	21,190	20,521	70	599	787
South Carolina*	1,081	6,392	0	7,473	7,149	0	324	95
Tennessee**	1,006	10,756	210	11,972	10,973	652	348	750
Virginia	326	17,250	0	17,576	17,263	0	313	1,015
West Virginia**	432	3,928	0	4,361	3,757	53	550	581
SOUTHWEST								
Arizona**	390	8,790	859	10,038	10,037	0	1	219
New Mexico***	651	6,114	93	6,858	6,008	115	735	735
Oklahoma**	196	6,575	-35	6,737	6,447	0	290	597
Texas**	7,253	41,669	0	48,922	39,647	2,242	7,034	4,355
ROCKY MOUNTAIN								
Colorado***	267	7,743	-243	7,767	7,440	0	327	284
Idaho**	255	2,910	-131	3,033	2,794	0	240	141
Montana	545	1,957	0	2,502	2,069	0	434	0
Utah**	242	5,213	488	5,943	5,784	159	0	414
Wyoming**	5	1,818	0	1,823	1,813	0	10	296
FAR WEST								
Alaska**	0	9,454	270	9,723	5,463	4,261	0	5,601
California	2,787	102,574	0	105,361	102,986	0	2,376	0
Hawaii**	493	5,245	-1	5,737	5,407	0	330	74
Nevada	138	3,614	0	3,752	3,436	0	316	73
Oregon**	1,437	5,867	-319	6,985	6,980	0	5	622
Washington**	781	14,614	11	15,405	14,616	0	790	303
TERRITORIES								
Puerto Rico**	0	9,227	-824	8,403	9,087	0	-684	0
Total	**$42,262**	**$680,231**	–	**$734,875**	**$687,269**	–	**$34,550**	**$32,943**

NOTES: NA indicates data are not available. *In these states, the ending balance includes the balance in the budget stabilization fund.
**See Notes to Table A-1.

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-1

For all states, unless otherwise noted, transfers into budget stabilization funds are counted as expenditures, and transfers from budget stabilization funds are counted as revenues.

Alabama	Revenue adjustments include release of prior year Debt Service Reserve and Public School and College Authority repayment for Enterprise School. Expenditure adjustments are reversions.
Alaska	Revenue Adjustments include: $250 million Oil & Gas Tax Credits and $19.9 million Reappropriations and Carry Forward. Expenditure Adjustments are deposits to the Constitutional Budget Reserve, the Statutory Budget Reserve, the Community Revenue Sharing Fund, the Marine Highway Stabilization Fund and a Public Education Fund Adjustment.
Arizona	Adjustments to revenues include $560 million Rainy Day fund transfer, $290 million agency fund transfers, and $8.7 million other adjustments.
Colorado	Revenue adjustments include general fund diversion (which are not counted as expenditures) to fund the State's transportation needs, as well as transfers to the State Veterans Trust Fund and the Older Coloradans Cash Fund. The difference between the rainy day fund balance and the ending GF balance is allocated to capital construction and transportation purposes in the following fiscal year.
Georgia	Adjustment is agency surplus returned to Treasury as reported by State Accounting Office.
Hawaii	Incorrect recording of general excise taxes.
Idaho	Transfers included: $19,059,100 to Budget Stabilization Fund; $351,500 to the Public School Permanent Fund for prior year unclaimed property, escheats, and interest amounts inadvertently transferred to the General Fund; $5,300,000 to Disaster Emergency Account; $1,328,000 to Water Resources; $60,000,000 to the Economic Recovery Reserve Fund; $10,000,000 for Opportunity Scholarship Fund; and a $1,500,000 transfer to DEQ to fund the Community Reinvestment pilot program created during the 2006 legislative session without funding; $10,000,000 to the Water Board Revolving Development Fund; $69,300 for Hazardous Substance Emergency Response Fund; $255,000 Agriculture Pest Control Fund; and $21,500,000 to the Fire Suppression Fund.
Illinois	Revenue adjustments include $1,900 million in transfers to General Funds. Expenditure adjustments include $2,735.0 million in transfers out, $467 million for Pension Obligation Bond Debt Service, $3 million in interest payments on general obligation bond short-term borrowing and a $198 million increase in the end of year accounts payable.
Indiana	Revenue Adjustments: Property Tax Reform Revenues; Expenditure Adjustments: Local Option Income Tax Distributions, Reversal of Payment Delays, PTRF Adjust for Abstracts, Property Tax Reform (HEA 1001 - 2008) Appropriations.
Iowa	Expenditure Adjustments include $99.8 million was appropriated from the ending balance of the general fund to the Property Tax Credit fund to pay for property tax credits in FY 2008. $48.3 million of the ending balance was credited to the Senior Living Trust Fund.
Kentucky	Revenue includes $115.1 million in Tobacco Settlement funds. Adjustment for Revenues includes $288.6 million that represents appropriation balances carried over from the prior fiscal year, and $168.4 million from fund transfers into the General Fund. Adjustment to Expenditures represents appropriation balances forwarded to the next fiscal year.
Louisiana	Revenue-Fiscal Year 2007-2008: Carry-forward of mid-year adjustments $114.7 million; Act 208 of 2007 transferred $3 million from the Incentive Fund and $9.9 million from the Higher Education Initiatives Fund; Interim Emergency Board carry-forward of $1.5 million; re-appropriation of Capital Outlay per Act 28 of 2007 $1.2 million. Expenditures-Fiscal Year 2007-2008: Interim Emergency Board carry-forward balance $3.3 million; Carry-forward mid-year adjustments $91.2 million; Capital Outlay carry-forwards $733.6 million
Maine	Revenue and expenditure adjustments reflect legislatively authorized transfers.
Maryland	Revenue adjustments reflect a $14 million reimbursement from the reserve for Heritage Tax Credits, $6 million reimbursement from the reserve for Biotechnology Tax Credits, and transfers of $1,078 million from the State Reserve Fund.
Massachusetts	Includes budgeted fund balances.
Michigan	FY 2008 revenue adjustments include the impact of federal and state law changes ($1,192.1 million); revenue sharing law changes ($589.3 million); sale of properties ($23 million); and other revenue adjustments ($111.6 million).
Minnesota	Ending balance includes budget reserve of $654.9 million, cash flow account of $350 million and appropriations carried forward of $217.2 million.
Missouri	Revenue adjustments: includes on-going transfers from other funds into GR.
Nebraska	Revenue adjustments are transfers between the General Fund and other funds. Per Nebraska law, includes a transfer of $191.4 million to the Cash Reserve Fund (Rainy Day Fund) of the amount the prior year's net General Fund receipts exceeded the official forecast. The Revenue adjustment also includes a $105 million transfer from the General Fund to the Property Tax Credit Cash Fund.
New Jersey	Transfers to other funds and budget vs. GAAP adjustment. In keeping with past practice, and to ensure consistency in survey results over time, the figures above exclude New Jersey's Casino Revenue Fund, Casino Control Fund and Gubernatorial Elections Fund.
New Mexico	All adjustments are transfers between reserve accounts, except for $22.4 million transferred out from Tobacco Settlement Permanent Fund, a reserve account to the Tobacco Settlement Program Fund, a nonreserve account.

NOTES TO TABLE A-1 (continued)

New York	The ending balance includes $1.2 billion in rainy day reserve funds, $1.1 billion reserved for labor settlements and other risks, $340 million in a community projects fund, $122 million reserved for debt reduction and $21 million in a reserve for litigation risks.
North Dakota	Revenue adjustments are a $115 million transfer from the permanent oil tax trust fund to the general fund.
Oklahoma	Revenue adjustments include the Rainy Day Fund deposit of $25 million and the cash flow difference of $9.6 million. No spillover money was appropriated.
Oregon	Oregon budgets on a biennial basis. The constitution requires the state to be balanced at the end of each biennium. Revenues are after $1.1 billion "kicker" refunds were returned to taxpayers. Revenue adjustment is the transfer of revenues to the new Rainy Day Fund.
Pennsylvania	Revenue adjustment reflects $142.1 million in prior year lapses. The year-end transfer to the Rainy Day Fund (25 percent of the ending balance) was suspended for FY 2008.
Puerto Rico	Revenues adjusted due to economic conditions.
Rhode Island	Opening balance includes a free surplus of $0 and reappropriations of $3.6 million from the prior year. Adjustments to revenues represent a transfer to the Budget Stabilization (Rainy Day) Fund of $68.6 million.
South Dakota	Adjustments in Revenues: $6.5 million was from one-time receipts, $25.7 million was transferred from the Property Tax Reduction Fund to cover the budget shortfall, and $0.2 million was obligated cash carried forward from FY 2007. Adjustments in Expenditures: $0.2 million was transferred to the Budget Reserve Fund from the prior year's obligated cash, and $0.2 million was obligated cash to the Budget Reserve Fun
Tennessee	Revenue adjustments include $106 million transfer from debt service fund unexpended appropriations, $284.2 million transfer from statutory and other reserves, -$207.1 million transfer to Rainy Day Fund, and $26.5 million transfer from other dedicated revenue reserves. Expenditure adjustments include $293.0 million transfer to capital outlay projects fund, $15.1 million transfer to Highway Fund, and $343.9 million transfer to reserves for dedicated revenue appropriations.
Texas	Revenue adjustment related to transfer of General Funds to dedicated accounts. Expenditure adjustment related to transfers to the Rainy Day Fund.
Utah	Includes transfers from previous year balance, to/from Rainy Day Fund, and special revenue funds.
Vermont	Revenue adjustments include $16.6 million for direct applications and transfers in, $3.2 million increase in property transfer tax revenue estimate, and $10.9 million from the General Fund Surplus Reserve. Expenditure adjustments include $4.7 million from the Education Fund, $0.3 million Federal "Part D" refund, $3.5 million to Catamount Fund, $0.5 million to Internal Service Funds, $8 million to miscellaneous other funds, $2.6 million to the Budget Stabilization Reserve, $19.9 million to the General Fund Surplus Reserve and other reserves.
Washington	Fund transfers between General Fund and other accounts, and balancing to the final audited ending balance.
West Virginia	Fiscal Year 2008 Beginning balance includes $287.1 million in Reappropriations, Unappropriated Surplus Balance of $106.8 million, and FY 2007 13th month expenditures of $38.2 million. Expenditures include Regular, Surplus and Reappropriated and $38.2 million of 31 day prior year expenditures. Revenue adjustment are from prior year redeposit. Expenditure adjustment represents the amount transferred to the Rainy Day Fund.
Wisconsin	Revenue adjustments include Transfers In General Fund, $242.9 million, Other Revenue, $307.5 million, Tribal Gaming, $18 million. Expenditure Adjustments Include Designation for Continuing Balances, $27.4 million and Unreserved Designated Balance, -$6.8 million.
Wyoming	Wyoming budgets on a biennial basis, to arrive at annual figures assumptions and estimates were required.

TABLE A-2

Fiscal 2009 State General Fund, Preliminary Actual (Millions)

Region/State	*Beginning Balance*	*Revenues*	*Adjustments*	*Resources*	*Expenditures*	*Adjustments*	*Ending Balance*	*Budget Stabilization Fund*
NEW ENGLAND								
Connecticut	$ 0	$ 15,701	$ 179	$ 15,880	$ 16,828	$ 0	-$ 948	$ 1,382
Maine**	1	2,855	244	3,100	3,018	30	52	0
Massachusetts** *	2,406	30,850	0	33,256	32,421	0	835	766
New Hampshire	17	1,474	0	1,491	1,560	-69	0	20
Rhode Island**	-41	3,023	-44	2,938	2,999	0	-61	80
Vermont**	0	1,103	66	1,168	1,146	22	0	60
MID-ATLANTIC								
Delaware*	526	3,148	0	3,674	3,296	0	379	186
Maryland**	487	12,901	1,008	14,396	14,309	0	87	692
New Jersey** *	1,304	28,700	365	30,369	29,612	23	734	0
New York** *	2,754	53,801	0	56,555	54,607	0	1,948	1,206
Pennsylvania**	583	24,305	166	25,054	27,084	0	-2,030	755
GREAT LAKES								
Illinois**	141	27,551	1,593	29,285	29,961	-955	279	276
Indiana**	1,050	13,063	0	14,113	13,019	130	964	365
Michigan**	458	7,224	1,048	8,731	8,520	0	210	2
Ohio**	1,682	26,685	0	28,367	27,632	0	735	0
Wisconsin**	131	12,113	573	12,817	12,744	-17	90	0
PLAINS								
Iowa**	0	5,889	45	5,934	5,934	0	0	519
Kansas	527	5,710	0	6,236	6,164	0	73	0
Minnesota** *	1,920	15,536	0	17,456	16,918	494	538	350
Missouri**	836	7,451	425	8,712	8,454	0	258	273
Nebraska**	584	3,351	-182	3,753	3,329	0	424	578
North Dakota**	453	1,354	0	1,807	1,237	208	362	325
South Dakota**	0	1,141	13	1,154	1,153	0	0	107
SOUTHEAST								
Alabama**	219	6,739	557	7,515	7,465	0	50	0
Arkansas	0	4,435	0	4,435	4,435	0	0	0
Florida	321	23,953	0	24,274	23,973	0	301	274
Georgia** *	2,217	16,767	653	19,638	17,455	0	2,183	240
Kentucky**	86	8,553	625	9,263	9,158	66	40	7
Louisiana**	866	9,386	119	10,370	7,382	912	76	776
Mississippi**	36	4,931	0	4,967	5,178	-218	7	334
North Carolina	599	19,146	0	19,745	19,653	0	92	150
South Carolina*	324	5,544	0	5,869	5,748	0	121	0
Tennessee**	348	9,899	646	10,893	10,802	90	0	587
Virginia	313	15,769	0	16,082	15,943	0	139	575
West Virginia**	550	3,902	27	4,479	3,980	18	481	473
SOUTHWEST								
Arizona**	1	6,966	1,310	8,277	8,775	0	-499	0
New Mexico** *	735	5,846	170	6,750	6,051	218	481	481
Oklahoma**	290	6,147	131	6,567	6,534	0	33	597
Texas**	7,034	38,817	-28	45,823	42,629	1,060	2,134	6,739
ROCKY MOUNTAIN								
Colorado** *	284	6,681	640	7,605	7,456	0	148	148
Idaho** *	240	2,466	15	2,720	2,720	-50	50	102
Montana	434	1,816	0	2,250	1,858	0	392	0
Utah**	0	4,529	487	5,016	4,817	200	0	419
Wyoming**	10	1,825	0	1,835	1,830	0	5	296
FAR WEST								
Alaska**	0	5,858	801	6,659	5,152	1,507	0	6,551
California	2,376	84,098	1,260	87,733	91,547	-435	-3,379	0
Hawaii	330	5,008	0	5,338	5,375	0	-37	60
Nevada	316	3,468	0	3,783	3,570	0	213	1
Oregon	5	5,849	0	5,854	5,843	0	11	338
Washington**	790	13,092	930	14,811	14,617	0	194	24
TERRITORIES								
Puerto Rico**	0	9,488	-728	8,761	9,484	0	-723	0
Total	**$34,539**	**$626,484**	–	**$674,794**	**$663,890**	–	**$8,165**	**$27,111**

NOTES: NA indicates data are not available. *In these states, the ending balance includes the balance in the budget stabilization fund.
**See Notes to Table A-2.

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-2

For all states, unless otherwise noted, transfers into budget stabilization funds are counted as expenditures, and transfers from budget stabilization funds are counted as revenues.

Alabama	Revenue adjustments include one-time revenue, Tobacco Funds transfer, transfer from the ETF Proration Prevention Account and the ETF Rainy Day Fund.
Alaska	Revenue Adjustments include: $787.3 million draw from the Constitutional Budget Reserve and $14 million of Reappropriations and Carry Forward. Expenditure Adjustments include: payment of a one-time Resource Rebate, deposits to the Public Education Fund, the Constitutional Budget Reserve, and the Oil & Gas Tax Credit Fund.
Arizona	Adjustments to revenues include $152 million Rainy Day fund transfer, $709 million agency fund transfers, $103.5 million other transfers, and $344 million proceeds from prior year's lease purchase financing of school buildings.
Colorado	Revenue and revenue adjustments above reflect what was published in the Legislative Council forecast on June 22, 2009, plus additional cash fund transfers to the General Fund to eliminate the budgetary shortfall. These additional transfers were allowable pursuant to the passage of SB 09-279, which authorized the Governor to transfer additional cash funds into the General Fund (for one day only) to ensure that the FY 2008-2009 fiscal year could close without a deficit. Figures above therefore reflect the minimum amount needed to preserve the 2 percent GF reserve requirement at fiscal year end for FY 2008-2009.
Georgia	Revenue adjustments include $187.3 million for Mid Year Adjustment Reserve and $200 million from Revenue Shortfall Reserve. $266 million early return of surplus to Treasury.
Idaho	Transfers included: $5,645,200 to the Permanent Building Fund, $20,000,000 to Water Resources aquifer study $1,000,000 for Health and Welfare Community Health Center Grant; $10,000,000 Opportunity Scholarship Fund; and $1,800,000 for the Water Resource Board Revolving Development Fund. Transfers in include: $920,100 from Geo Thermal royalties; $12,000,000 from the Water Resources aquifer study; $5,000,000 from the Capitol Commission; $2,200,000 from the Attorney General's Office - Consumer Protection; and $11,950,200 from the Permanent Building Fund.
Illinois	Revenue adjustments include $1,593 million in transfers to General Funds. Expenditure adjustments include $2,532 million in transfers out and $467 million for Pension Obligation Bond Debt Service; net "failure of revenue" borrowing proceeds of $976 and a $2,978 million increase in accounts payable.
Indiana	The full impact of Property Tax Reform (HEA 1001-2008) revenues and expenditures have been incorporated into the FY 2009 and FY 2010 figures, as the State of Indiana recently assumed more than $1 billion of expenses from the local level. Expenditure Adjustments: Local Option Income Tax Distributions, Reversal of Payment Delays, PTRF Adjust for Abstracts.
Iowa	Revenue adjustments are for the $45.3 million transfer from the Economic Emergency Fund to the General Fund per Executive Order 18. An additional $56 million was appropriated from the Economic Emergency Fund to pay for disaster related expenses relating to the 2008 flood/storm disaster.
Kentucky	Revenue includes $126.5 million in Tobacco Settlement funds. Adjustment for Revenues includes $280.2 million that represents appropriation balances carried over from the prior fiscal year, and $344.5 million from fund transfers into the General Fund. Adjustment to Expenditures represents appropriation balances forwarded to the next fiscal year.
Louisiana	Revenue – Deficit Reduction Plan transfer of statutory dedications approved by the Joint Legislative Committee on the Budget January 9, 2009, $24.4 million; Fiscal Year 2007-2008 carryforward into Fiscal Year 2008-2009 $92.2 million; Capital Outlay re-appropriation of various prior years balances $2.0 million. - Expenditures - Utilization of prior years surplus for debt service, Capital Outlay and required transfer to the Budget Stabilization Fund $864.7 million; payment of carryforward expenditures $47.7 million.
Maine	Revenue and expenditure adjustments reflect legislatively authorized transfers.
Maryland	Revenue adjustments reflect a $13.2 million reimbursement from the reserve for Heritage Tax Credits, $6 million reimbursement from the reserve for Biotechnology Tax Credits, transfer of $170 million from the State Reserve Fund, transfer of $380.2 million from Accounting Reserves, and transfers of $439 million from other special funds.
Massachusetts	Includes budgeted fund balances.
Michigan	FY 2009 revenue adjustments include the impact of federal and state law changes ($210.9 million); revenue sharing law changes ($538.3 million); deposits from state restricted revenues ($238.4 million; and pending revenue options ($60.6 million).
Minnesota	Ending balance includes cash flow account of $350 million. FY 2009 includes $494.2 in federal stimulus funds that were used to offset general fund spending.
Mississippi	Expenditure adjustment includes $199.9 million for budget cuts, $11.6 million in general fund lapses and reappropriations, and $6.8 million for other adjustments.
Missouri	Revenue Adjustments: includes on-going transfers from other funds into GR and a one-time transfer from federal budget stabilization funds into GR.
Nebraska	Revenue adjustments are transfers between the General Fund and other funds. Per Nebraska law, includes a transfer of $117 million to the Cash Reserve Fund (Rainy Day Fund) of the amount the prior year's net General Fund receipts exceeded the official forecast. The Revenue adjustment also includes a $115 million transfer from the General Fund to the Property Tax Credit Cash Fund.
New Jersey	Transfer from and to other funds. In keeping with past practice, and to ensure consistency in survey results over time, the figures above exclude New Jersey's Casino Revenue Fund, Casino Control Fund and Gubernatorial Elections Fund.

NOTES TO TABLE A-2 (continued)

New Mexico	All adjustments are transfers between reserve accounts, except for $48.6 million transferred out from Tobacco Settlement Permanent Fund, a reserve account to the Tobacco Settlement Program Fund, a nonreserve account.
New York	The ending balance includes $1.2 billion in rainy day reserve funds, $503 million reserved for timing-related changes and other risks, $145 million in a community projects fund, $73 million reserved for debt reduction and $21 million in a reserve for litigation risks.
North Dakota	Expenditure adjustments are $77 million of expenditure authority carried over to the 2009-2011 biennium, obligating an equal amount of the general fund balance. The balance shown is the unobligated balance after subtracting all expenditures and obligations. Also included in the adjustments are a $125 million transfer to the budget stabilization fund and $6 million of other transfers from the general fund.
Ohio	Rainy day fund was required in order to balance the FY 2009 budget.
Oklahoma	Revenue adjustment is the Cash flow difference of $130.5 million. No Rainy Day Fund deposit was made.
Pennsylvania	Revenue adjustment includes a $2.5 million adjustment to the beginning balance and $163.8 million in prior year lapses.
Puerto Rico	Revenues adjusted due to economic conditions
Rhode Island	Opening balance includes a free surplus of $43 million and reappropriations of $1.7 million from the prior year. Adjustments to revenues reflect a net transfer to the Budget Stabilization Fund, consisting of a transfer-in of $66.1 million and an appropriation of $22.0 million from the fund to partially cover the FY 2008 closing shortfall.
South Dakota	Adjustments in Revenues: $12.8 million was from one-time receipts and $0.2 million was obligated cash carried forward from FY 2008. Adjustments in Expenditures: $0.2 million was transferred to the Budget Reserve Fund from the prior year's unobligated cash.
Tennessee	Revenue adjustments include $124.8 million transfer from debt service fund unexpended appropriations, $126.5 million transfer from TennCare reserve, $190.2 million transfer from capital outlay projects fund, $41.2 million transfer from other agency reserves, and $163.5 million transfer from Rainy Day Fund. Expenditure adjustments include $70.5 million transfer to capital outlay projects fund and $19.8 million for dedicated revenue appropriations.
Texas	Expenditure adjustment related to transfers to the Rainy Day Fund.
Utah	Includes transfers from previous year balance, to/from Rainy Day Fund, and special revenue funds.
Vermont	Revenue adjustments include $37.7 million for direct applications and transfers in, $7.7 million other bills revenue, $1.3 million increase in property transfer tax revenue estimate, and $19.1 million from the General Fund Surplus Reserve. Expenditure adjustments include 0.7 million to the Education Fund, $3.7 million from the Tobacco Settlement Fund, $7.3 million to the Next Generation Fund, $1 million from Human Services Caseload Reserve, $3.1 million to Internal Service Funds, $3.9 million from miscellaneous other funds, $2.2 million to the Budget Stabilization Reserve, and $17.2 million to the General Fund Surplus Reserve and other reserves.
Washington	Fund transfers between General Fund and other accounts.
West Virginia	Fiscal Year 2009 Beginning balance includes $409.6 million in Reappropriations, Unappropriated Surplus Balance of $35.3 million, and FY 2008 13th month expenditures of $105.5 million. Expenditures include Regular, Surplus and Reappropriated and $105.5 million of 31 day prior year expenditures. Revenue adjustment are from prior year redeposit and expirations from Civil Contingent Fund for Flood Relief. Expenditure adjustment represents the amount transferred to the Rainy Day Fund.
Wisconsin	Revenue adjustments include Transfers In General Fund, $151.7 million, Other Revenue, $327.6 million, and Tribal Gaming, $93.9 million. Expenditure Adjustments Include Designation for Continuing Balances, $10.6 million and Unreserved Designated Balance, -$27.4 million.
Wyoming	Wyoming budgets on a biennial basis, to arrive at annual figures assumptions and estimates were required.

TABLE A-3

Fiscal 2010 State General Fund, Appropriated (Millions)

Region/State	*Beginning Balance*	*Revenues*	*Adjustments*	*Resources*	*Expenditures*	*Adjustments*	*Ending Balance*	*Budget Stabilization Fund*
NEW ENGLAND								
Connecticut	$ 0	$ 17,375	$ 0	$ 17,375	$ 17,375	$ 0	$ 1	$ 342
Maine**	52	2,865	46	2,963	2,928	25	11	0
Massachusetts** *	941	31,362	0	32,304	31,605	0	699	571
New Hampshire	0	1,563	0	1,563	1,561	0	2	20
Rhode Island**	-61	3,077	-72	2,944	3,000	0	-57	117
Vermont**	0	1,051	34	1,085	1,088	-3	0	57
MID-ATLANTIC								
Delaware** *	373	3,191	0	3,564	3,237	0	327	186
Maryland**	87	12,314	718	13,120	13,349	0	-229	647
New Jersey** *	734	28,351	0	29,085	28,577	7	501	0
New York** *	1,948	54,338	0	56,286	54,908	0	1,378	1,206
Pennsylvania**	-2,030	27,564	0	25,533	25,179	0	354	1
GREAT LAKES								
Illinois**	279	27,078	2,221	29,578	25,133	4,166	279	276
Indiana**	964	12,892	0	13,856	12,890	0	966	371
Michigan**	210	6,895	1,152	8,257	8,081	0	176	2
Ohio	389	25,555	0	25,944	25,770	0	174	0
Wisconsin**	90	12,346	831	13,267	13,341	-545	470	0
PLAINS								
Iowa**	0	5,438	0	5,438	5,768	-519	189	419
Kansas	73	5,536	0	5,608	5,614	0	-5	0
Minnesota** *	538	14,854	0	15,392	15,054	1,610	338	350
Missouri**	258	7,376	189	7,823	7,859	-77	41	260
Nebraska**	424	3,409	-31	3,802	3,381	266	156	465
North Dakota**	362	1,270	295	1,927	1,592	0	335	325
South Dakota**	0	1,130	4	1,134	1,134	0	0	107
SOUTHEAST								
Alabama	50	7,108	0	7,158	7,158	0	0	0
Arkansas	0	4,509	0	4,509	4,509	0	0	0
Florida	301	21,562	0	21,862	21,195	0	667	274
Georgia** *	2,183	16,994	259	19,436	17,253	0	2,183	240
Kentucky**	40	8,408	147	8,595	8,584	11	0	0
Louisiana**	0	8,060	954	9,013	9,011	0	2	854
Mississippi	7	4,899	0	4,906	4,906	0	0	250
North Carolina	92	18,927	0	19,019	19,015	0	4	150
South Carolina*	121	5,778	0	5,899	5,805	0	94	192
Tennessee**	0	10,000	55	10,055	9,997	58	0	532
Virginia	139	15,755	0	15,894	15,844	0	50	584
West Virginia**	481	3,788	0	4,269	3,812	11	446	538
SOUTHWEST								
Arizona**	0	7,117	1,072	8,188	8,772	0	-583	0
New Mexico** *	481	5,111	607	6,199	5,513	690	-4	-5
Oklahoma	33	6,049	0	6,082	5,853	0	229	0
Texas**	2,134	37,532	0	39,665	36,041	741	2,884	8,053
ROCKY MOUNTAIN								
Colorado** *	148	6,766	162	7,076	6,940	0	136	136
Idaho**	50	2,539	-40	2,548	2,507	0	42	77
Montana	392	1,773	0	2,165	1,859	0	306	0
Utah**	0	4,365	200	4,564	4,498	36	30	419
Wyoming**	5	1,825	0	1,830	1,830	0	0	279
FAR WEST								
Alaska**	0	3,211	1,124	4,335	4,335	0	0	6,902
California	-3,379	89,541	0	86,162	84,583	0	1,579	0
Hawaii	-37	4,664	0	4,627	4,602	0	25	57
Nevada	213	3,205	0	3,418	3,250	0	168	1
Oregon**	0	6,490	0	6,490	6,928	0	-438	219
Washington**	194	14,396	418	15,008	14,848	0	160	108
TERRITORIES								
Puerto Rico**	0	7,670	0	7,670	7,670	0	0	0
Total	**$9,279.3**	**$627,198.2**	**–**	**$646,820.0**	**$627,869.7**	**–**	**$14,084.8**	**$25,583.3**

NOTES: NA indicates data are not available. *In these states, the ending balance includes the balance in the budget stabilization fund.
**See Notes to Table A-3

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-3

For all states, unless otherwise noted, transfers into budget stabilization funds are counted as expenditures, and transfers from budget stabilization funds are counted as revenues.

Alaska	Revenue Adjustments include: $12 million Reappropriations and Carry Forward, not capitalizing the Public Education Fund for FY 2011 totaling $1,053.4 million, and a draw of $58.6 million from the Constitutional Budget Reserve.
Arizona	Adjustments to revenues include $236 million agency fund transfers, $735 million State asset sale/lease back and $100 million in prison concession revenues.
Colorado	Represents Governor's Plan for Budget Balancing executed/submitted August 25, 2009. The revenues and revenue adjustments noted above reflect what was published in the Legislative Council Staff Economic forecast on June 22, 2009 (used as the basis for FY 2009-2010 appropriations by the legislature and the Governor). These figures were as adjusted in Column D by the following: (1) Within the LCS Forecast: +$280.8 million transfers to the GF, +$81.9 million Medicaid ARRA and Governor's Discretionary Fund, -$10.9 million for sales taxes to Older Coloradans Fund and other measures; (2) State Controller Preliminary (8/4/09) Closing Estimates of the following: Excess GF at year end beyond reserve of +$269.0 million pursuant to SB 09-279 less reduction of -$458.1 million required payback of SB 09-279 for FY 2008-2009 balancing plus adjustment of +$2.8 million from Gaming; and (3) OSPB Governor's Office initiatives of the following: (a) reduction of -$45.4 million in revenue from $81.9 million Medicaid ARRA and Governor's Discretionary Funds (these are instead used as offsets to the DOC GF expenditures in FY 2009-2010); +$40.6 million proposed new CF transfers to the GF; and +$800,000 procurement card proposal. The ending reserve balance represents the statutory requirement of 2.0 percent of GF appropriations; this sum is 2.0 percent of a lower number because of balancing efforts put forward by the Governor on August 25, 2009.
Delaware	FY 2010 revenues are reported as per enactment of appropriations legislation in July 2009 and are not updated for subsequent revisions by the Delaware Economic and Financial Advisory Council. FY 2010 expenditure does reflect estimate as of September DEFAC
Georgia	Appropriation from Revenue Shortfall Reserve
Idaho	Transfers in included: $30 million from the Budget Stabilization Fund; $10 million from the Permanent Building Fund; $1,680,000 from the Division of Human Resources cash on hand; $1 million from Department of Agriculture; $446,900 from Dept. of Labor – Rural Broadband; $618,500 from the Attorney General – Consumer Protection; transfers $1,172,100 stimulus dollars to the General Fund for Professional-Technical Education, and transfer $2.6 million from the Bond Levy Equalization. Transfer out include $85.1 the Public Education Stabilization Fund.
Illinois	Revenue adjustments include $2,221 million in transfers to General Funds. Expenditure adjustments include $2,321 million in transfers out and $520 million for Pension Obligation Bond Debt Service; $1,045 million in interest payments on general obligation bond short-term borrowing and a $279 million paydown in accounts payable.
Indiana	The full impact of Property Tax Reform (HEA 1001-2008) revenues and expenditures have been incorporated into the FY 2009 and FY 2010 figures, as the State of Indiana recently assumed more than $1 billion of expenses from the local level.
Iowa	Revenue is based upon the Revenue Estimating Conference estimates made on October 7, 2009. Expenditures are adjusted for the statutory appropriation to repay the $45.3 million transfer in FY2009 and the 10 percent across the board reduction of -$564.4 million ordered by Governor Culver in Executive Order 19 issued after the REC meeting which reduced General Fund revenues for FY2010 by $414.1 million. Cash Reserve Fund is reduced by appropriations made for 2008 Flood Disaster related expenses and property tax credits.
Kentucky	Revenue includes $112.3 million in Tobacco Settlement funds. Adjustment for Revenues includes $17.7 million that represents appropriation balances carried over from the prior fiscal year, and $129.2 million from fund transfers into the General Fund. Adjustment to Expenditures represents appropriation balances forwarded to the next fiscal year.
Louisiana	Revenue-Fiscal Year 2009-2010: Act 226 of 2009 transferred $3.9 million from the Incentive Fund, $13.5 million from the Rapid Response Fund, and $75.6 million from the Insure Louisiana Incentive Program Fund; Act 20 of 2009 appropriated 782.3 million of non-recurring revenues for capital outlay projects; Act 122 of 2009 authorized utilization of $86.2 million from the Budget Stabilization Fund; Act 478 of 2009 provides for $8 million in tax credits. Expenditures-Fiscal Year 2009-2010: Interim Emergency Board carry-forward balance $3.3 million; Carry-forward mid-year adjustments $91.2 million; Capital Outlay carry-forwards $733.6 million
Maine	Revenue and expenditure adjustments reflect legislatively authorized transfers.
Maryland	Revenue adjustments reflect a $18.5 million reimbursement from the reserve for Heritage Tax Credits, $6 million reimbursement from the reserve for Biotechnology Tax Credits, transfer of $210 million from the State Reserve Fund, approved transfers of $216.3 million, and proposed transfers of $267.3 million from other special funds.
Massachusetts	Includes budgeted fund balances.
Michigan	FY 2010 revenue adjustments include the impact of federal and state law changes ($55.1 million); revenue sharing law changes ($513.9 million); deposits from state restricted revenue ($527.6 million); and pending revenue options ($55.3 million).
Minnesota	Ending balance includes cash flow account of $350 million. FY 2010 includes $1,610.3 million in federal stimulus funds that were used to offset general fund spending.
Missouri	Revenue Adjustments: includes on-going transfers from other funds into GR Expenditure Adjustments: reflects the amount of expenditure restrictions placed on appropriations.

NOTES TO TABLE A-3 (continued)

Nebraska	Revenue adjustments are transfers between the General Fund and other funds. The Revenue adjustment also includes a $112 million transfer from the General Fund to the Property Tax Credit Cash Fund. Expenditure adjustments are reappropriations ($265.6 million) of the unexpended balance of appropriations allowed by the Legislature to be carried over into FY2010 to offset restrained growth in new appropriations.
New Jersey	Transfer to other funds. In keeping with past practice, and to ensure consistency in survey results over time, the figures above exclude New Jersey's Casino Revenue Fund, Casino Control Fund and Gubernatorial Elections Fund.
New Mexico	All adjustments are transfers between reserve accounts, except for (1) $48.6 million transferred out from Tobacco Settlement Permanent Fund, a reserve account to the Tobacco Settlement Program Fund, a nonreserve account; (2) $15 million transferred from the appropriation account to the College Affordability Fund; and (3) $20 million transferred from the appropriation account to the public school capital outlay fund.
New York	The ending balance includes $1.2 billion in rainy day reserve funds, $78 million in a community projects fund, $73 million reserved for debt reduction and $21 million in a reserve for litigation risks.
North Dakota	Revenue adjustments are a $295 million transfer from the permanent oil tax trust fund to the general fund.
Oregon	Oregon budgets on a biennial basis. The constitution requires the state to be balanced at the end of each biennium. Revenues include recently passed income tax increases. These tax increases could be referred to the voters through the referendum process, resulting in a special January 2010 election.
Pennsylvania	The FY 2010 enacted budget transfers $755 million from the Rainy Day Fund to the General Fund. This amount is included in FY2010 revenues.
Puerto Rico	The General Fund Budget excludes a $2.5 billion Stabilization Fund that will facilitate the orderly implementation of certain expense reduction measures adopted by the government of the Commonwealth pursuant to Act No. 7 of March 9, 2009. The Stabilization Fund will provide (i) $1 billion to finance the cost of transitioning public employees to non-governmental sectors and providing vouchers for re-training, self-employment, relocation and salary subsidy alternatives, and (ii) $1.5 billion to cover payroll and operating expenses that are expected to be reduced through fiscal year 2010, but whose savings will not be realized in such fiscal year. The Stabilization Fund will be funded with proceeds from the bonds issued by the Puerto Rico Sales Tax Financing Corporation.
Rhode Island	Opening balance includes a free surplus of ($61.8) million and reappropriations of $998,144 from the prior year. Adjustments to revenues reflect transfers to the Budget Stabilization Fund.
South Dakota	Adjustments in Revenues: $3.9 million was from one-time receipts.
Tennessee	Revenue adjustments include $55 million transfer from Rainy Day Fund. Expenditure adjustments include $40.1 million transfer to capital outlay projects fund and $17.8 million transfer to dedicated revenue appropriations.
Texas	Expenditure adjustment related to transfers to the Rainy Day Fund.
Utah	Includes transfers from previous year balance, to/from Rainy Day Fund, and special revenue funds.
Vermont	Revenue adjustments include -$0.5 million VEDA debt forgiveness, $15.7 million for direct applications and transfers in, $13.1 other bills revenue, $5.5 million increase in property transfer tax revenue estimate. Expenditure adjustments include $3.3 million to the Next Generation Fund, $1.2 from the Bond Issuance Premium Reserve, $3.1 million from Human Services Caseload Reserve, $0.4 million to Internal Service Funds, $2.7 million from the Budget Stabilization Reserves.
Washington	Fund transfers between General Fund and other accounts.
West Virginia	Fiscal Year 2010 Beginning balance includes $432.6 million in Reappropriations, Unappropriated Surplus Balance of $22.2 million, and FY 2009 13th month expenditures of $26 million. Expenditures include Regular appropriations and $26 million of 31 day prior year expenditures. Ending Balance is the amount that is available for appropriation (From FY 2010 revenue estimate and from surplus {previous year} general revenue) and reappropriations carried forward from FY 2009. Historically some carried forward reappropriation amounts will remain and be reappropriated to the next fiscal year.
Wisconsin	Act 28 Budget Bill. Revenue adjustments include Tribal Gaming, $19.5 million, and Other, $811.8 million. Expenditure Adjustments include estimated lapses, -$592 million, and Compensation Reserve, $47.3 million.
Wyoming	Wyoming budgets on a biennial basis, to arrive at annual figures assumptions and estimates were required.

TABLE A-4

General Fund Nominal Percentage Expenditure Change, Fiscal 2009 and Fiscal 2010*

Region/State	Fiscal 2009	Fiscal 2010
NEW ENGLAND		
Connecticut	3.1%	3.2%
Maine	-3.6	-3.0
Massachusetts	-1.9	-2.5
New Hampshire	2.1	0.1
Rhode Island	-11.9	0.0
Vermont	-4.5	-5.1
MID-ATLANTIC		
Delaware	-3.7	-1.8
Maryland	-0.9	-6.7
New Jersey	-10.6	-3.5
New York	2.3	0.6
Pennsylvania	0.4	-7.0
GREAT LAKES		
Illinois	10.3	-16.1
Indiana	2.3	-1.0
Michigan	-13.8	-5.2
Ohio	4.6	-6.7
Wisconsin	-5.8	4.7
PLAINS		
Iowa	0.8	-2.8
Kansas	1.0	-8.9
Minnesota	-0.5	-11.0
Missouri	4.7	-7.0
Nebraska	2.5	1.6
North Dakota	2.7	28.7
South Dakota	-1.9	-1.7
SOUTHEAST		
Alabama	-13.3	-4.1
Arkansas	1.9	1.7
Florida	-13.5	-11.6
Georgia	-10.2	-1.2
Kentucky	-3.1	-6.3
Louisiana	-2.6	-3.9
Mississippi	0.6	-5.3
North Carolina	-4.2	-3.2
South Carolina	-19.6	1.0
Tennessee	-1.6	-7.5
Virginia	-7.6	-0.6
West Virginia	5.9	-4.2
SOUTHWEST		
Arizona	-12.6	0.0
New Mexico	0.7	-8.9
Oklahoma	1.4	-10.4
Texas	7.5	-15.5
ROCKY MOUNTAIN		
Colorado	0.2	-6.9
Idaho	-2.6	-7.8
Montana	-10.2	0.0
Utah	-16.7	-6.6
Wyoming	0.9	0.0
FAR WEST		
Alaska	-5.7	-15.9
California	-11.1	-7.6
Hawaii	-0.6	-14.4
Nevada	3.9	-9.0
Oregon	-16.3	18.6
Washington	0.0	1.6
TERRITORIES		
Puerto Rico	4.4	-19.1
Average	**-3.4%**	**-5.4%**

NOTE: *Fiscal 2009 reflects changes from fiscal 2008 expenditures (actual) to fiscal 2009 expenditures (preliminary actual). Fiscal 2010 reflects changes from fiscal 2009 expenditures (preliminary actual) to fiscal 2010 expenditures (appropriated).

SOURCE: National Association of State Budget Officers.

TABLE A-5a

Strategies Used to Reduce or Eliminate Budget Gaps, Fiscal 2009

Region/State	User Fees	Higher Education Related Fees	Court Related Fees	Transportation/ Motor Vehicle Related Fees	Business Related Fees	Layoffs	Furloughs	Early Retirement	Salary Reductions	Cuts to State Employee Benefits	Across-the-Board % Cuts	Targeted Cuts	Reduce Loc l Aid	Reorganize Agencies	Privatization	Rainy Day Fund	Lottery Expansion	Gaming/ Gambling Expansion	Other (Specify)
NEW ENGLAND																			
Connecticut							X	X			X	X							
Maine											X		X			X			
Massachusetts	X			X		X	X		X	X	X	X	X	X		X			
New Hampshire*												X				X			X
Rhode Island*		X	X	X			X			X	X	X	X			X			X
Vermont*									X			X		X					X
MID-ATLANTIC																			
Delaware*											X	X							X
Maryland						X	X		X		X	X	X			X			
New Jersey*		X		X			X		X	X	X	X	X			X			
New York*		X									X	X	X						X
Pennsylvania*											X	X							X
GREAT LAKES																			
Illinois	X			X		X					X	X				X			
Indiana*											X	X			X				
Michigan*						X	X				X	X	X						X
Ohio						X		X	X		X	X		X		X	X		
Wisconsin*	X	X	X	X	X	X					X	X	X	X					X
PLAINS																			
Iowa											X	X							
Kansas											X	X	X						
Minnesota*												X	X			X			
Missouri						X					X	X							
Nebraska*																			
North Dakota																			
South Dakota*																			X
SOUTHEAST																			
Alabama											X					X			
Arkansas											X								
Florida			X	X								X				X			
Georgia						X	X				X	X		X		X			X
Kentucky											X	X				X			X
Louisiana						X	X	X			X								
Mississippi											X					X			
North Carolina*									X		X	X	X			X			X
South Carolina						X	X	X	X		X	X	X			X			
Tennessee*																X			X
Virginia	X		X			X	X			X		X	X	X	X	X			
West Virginia*																			
SOUTHWEST																			
Arizona*	X		X	X	X	X	X				X	X	X			X			
New Mexico*											X	X				X			X
Oklahoma																			
Texas*																			
ROCKY MOUNTAIN																			
Colorado*	X					X						X	X			X			
Idaho		X				X	X									X			
Montana*																			
Utah	X					X													
Wyoming																			
FAR WEST																			
Alaska												X				X			
California*		X		X		X	X			X		X		X		X			
Hawaii*											X					X			X
Nevada	X				X	X		X	X	X	X	X	X		X				X
Oregon						X	X		X			X	X			X			
Washington*						X	X	X				X							
TERRITORIES																			
Puerto Rico																X			
Total	8	6	5	8	3	19	15	6	9	6	29	33	17	7	3	26	1	0	16

NOTE: *See Notes to Table A-5a.
SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-5a

Arizona	FY 2010 strategies also include asset sale/lease back.
California	FY 2010 strategies also include borrowing and fund shifts.
Colorado	In FY 2009-2010 the 2 percent of GF spending was of a lower number due to cuts. This lower reserve level was part of the balancing but it is not checked off here since the fund was not "tapped," the perceived point of the question. ARRA FMAP funds were moved into expenditure base to offset GF expenditures at the appropriations level.
Delaware	Across the board and targeted reductions to existing agency appropriations. Use surpluses from special funds and deauthorize capital projects.
Hawaii	Other actions include carry-over balance from prior fiscal year; restrict general funds CIP; restructure debt service; projected furlough savings imposed before the beginning of the fiscal year; and proposed layoff of various positions.
Indiana	Strategies implemented in FY 2010 have been taken proactively to prevent a gap.
Michigan	FY 2010 strategies include employee concessions (specifics to be determined); closure of state-operated facilities, elimination of state support for non-core state functions, elimination of pilot programs and programs targeted to specific geographic areas; reductions in K-12 education and university operations; and increased Federal Medical Assistance Percentage (FMAP) rate.
Minnesota	FY 2010 strategies also include K-12 payment deferrals, administrative actions, and unallotments.
Montana	FY 2010 strategies also include Federal ARRA funds helped to fill some budget holes.
Nebraska	The employee salary increase level ultimately negotiated/approved for most state employees for FY 2010 was equivalent to a 2.9 percent annual increase. The increase in the employer share of the cost of employee health insurance was calculated at 10 percent for the fiscal year. With just a few exceptions, the final appropriations for FY 2010 included adjustments to offset the cost of employee salary and health insurance increases in an effort to provide no or minimal net increase in appropriations. Agencies will address these budget adjustments in different ways. However, given the proportion that employee salary and benefit costs are of total agency budgets it is reasonable to assume there will be some position eliminations. No general inflationary increases were provided which will require further internalizing of costs.
New Hampshire	Executive Orders maintaining a general fund freeze on hiring, out of state travel, and equipment purchases have been continued, as well as a freeze on all centrally managed purchases with a waiver process available for exceptions.
New Jersey	FY 2010 strategies also include a salary freeze that is assumed through FY 2010. The FY 2010 Budget applies a similar cut of $25 million as well as an additional reduction of $40 million for management efficiencies which will affect all departments.
New Mexico	Shifted 1.5 percent of the employer retirement contribution to employees for 2 years (FY 2010 and FY 2011), so net effect is not a cut in benefits received. Transfer of undesignated balances in earmarked state agency accounts to the general fund; a significant portion of the cuts in Medicaid were replaced in both FYs by Tobacco Settlement revenue.
New York	FY 2010 strategies also include Federal Aid (ARRA).
North Carolina	FY 2010 strategies also include ARRA Funds.
Pennsylvania	FY 2010 strategies also include Federal ARRA funds, maintain management salary freeze through FY 2010 and enactment of various one-time revenues and non-broad-based tax increases/ revenue measures.
Rhode Island	Negotiations for FY 2010 furloughs are in progress. Deferred actuarial funding of retiree health benefits and pension reform by restricting minimum age of retirement to 62 with "proportionality" for current employees. Reductions to operating, personnel and contract services of 6.25 percent, 6.25 percent, and 10 percent, respectively. Shift Medicaid expenditures and education aid to federal stimulus (ARRA).
South Dakota	FY 2010 strategies also include use of the State Fiscal Stabilization Fund.
Tennessee	FY 2010 strategies also include tax adjustments; U. S. Economic Recovery Funds; base budget reductions; and additional agency reversion.
Texas	FY 2010 strategies also include use of American Recovery and Reinvestment Act funds.
Vermont	FY 2010 strategies also include retirement incentive, Human Services Caseload Reserve funds, and the American Recovery and Reinvestment Act.
Washington	Salaries were not increased rather than reduced
West Virginia	Backfill education reductions with federal stabilization funds.
Wisconsin	Combined Reporting ($75.6 million), Streamlined sales and use tax ($4.0 million), Tax on Digital Products ($4.2 million), Software Tax ($28.3 million).

TABLE A-5b

Strategies Used to Reduce or Eliminate Budget Gaps, Fiscal 2010

Region/State	User Fees	Higher Education Related Fees	Court Related Fees	Transportation/ Motor Vehicle Related Fees	Business Related Fees	Layoffs	Furloughs	Early Retirement	Salary Reductions	Cuts to State Employee Benefits	Across-the-Board % Cuts	Targeted Cuts	Reduce Local Aid	Reorganize Agencies	Privatization	Rainy Day Fund	Lottery Expansion	Gaming/ Gambling Expansion	Other (Specify)
NEW ENGLAND																			
Connecticut																			
Maine	X			X		X	X	X	X	X	X		X						
Massachusetts																			
New Hampshire*																			X
Rhode Island*		X	X	X			X			X	X	X	X			X			X
Vermont*				X		X						X							X
MID-ATLANTIC																			
Delaware*	X		X		X				X		X	X	X	X			X	X	X
Maryland						X	X		X		X	X	X			X			
New Jersey*				X			X		X	X	X	X	X						
New York*		X		X	X	X			X			X	X						X
Pennsylvania*			X			X						X		X		X		X	X
GREAT LAKES																			
Illinois	X			X		X	X			X	X	X	X	X		X			
Indiana*											X	X		X	X				
Michigan*				X		X				X	X	X	X	X	X				X
Ohio	X			X	X	X		X	X		X		X				X		
Wisconsin*	X	X	X	X	X	X	X				X	X	X	X					X
PLAINS																			
Iowa											X								
Kansas			X								X	X	X						
Minnesota*	X		X		X						X	X	X						X
Missouri						X					X	X							
Nebraska*						X										X			X
North Dakota																			
South Dakota*	X			X	X														X
SOUTHEAST																			
Alabama											X					X			
Arkansas																			
Florida																			
Georgia						X	X				X	X		X		X			X
Kentucky											X	X				X			X
Louisiana						X	X	X			X					X			
Mississippi												X							
North Carolina*																			X
South Carolina							X					X	X	X					
Tennessee*																X			X
Virginia	X		X	X		X	X		X	X		X	X			X			
West Virginia*												X							X
SOUTHWEST																			
Arizona*	X		X	X	X	X					X	X	X		X				X
New Mexico*										X		X							X
Oklahoma												X							
Texas*																			X
ROCKY MOUNTAIN																			
Colorado*	X					X	X		X	X		X	X	X					X
Idaho						X	X							X		X			
Montana*											X	X							X
Utah	X	X		X	X	X				X	X	X	X	X	X				
Wyoming																			
FAR WEST																			
Alaska												X				X			
California*		X		X		X	X			X		X	X	X		X			X
Hawaii*						X	X		X		X					X			X
Nevada	X				X	X		X	X	X	X	X	X					X	
Oregon	X	X	X	X	X	X	X		X			X	X			X			
Washington*		X				X	X	X	X			X				X			
TERRITORIES																			
Puerto Rico				X		X				X				X		X			X
Total	**13**	**7**	**9**	**15**	**10**	**23**	**16**	**5**	**12**	**11**	**23**	**31**	**20**	**12**	**4**	**17**	**2**	**3**	**23**

NOTE: *See Notes to Table A-5b.

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-5b

Arizona	FY 2010 strategies also include asset sale/lease back.
California	FY 2010 strategies also include borrowing and fund shifts.
Colorado	In FY 2009-2010 the 2 percent of GF spending was of a lower number due to cuts. This lower reserve level was part of the balancing but it is not checked off here since the fund was not "tapped," the perceived point of the question. ARRA FMAP funds were moved into expenditure base to offset GF expenditures at the appropriations level.
Delaware	Across the board and targeted reductions to existing agency appropriations. Use surpluses from special funds and deauthorize capital projects.
Hawaii	Other actions include carry-over balance from prior fiscal year; restrict general funds CIP; restructure debt service; projected furlough savings imposed before the beginning of the fiscal year; and proposed layoff of various positions.
Indiana	Strategies implemented in FY 2010 have been taken proactively to prevent a gap.
Michigan	FY 2010 strategies include employee concessions (specifics to be determined); closure of state-operated facilities, elimination of state support for non-core state functions, elimination of pilot programs and programs targeted to specific geographic areas; reductions in K-12 education and university operations; and increased Federal Medical Assistance Percentage (FMAP) rate.
Minnesota	FY 2010 strategies also include K-12 payment deferrals, administrative actions, and unallotments.
Montana	FY 2010 strategies also include Federal ARRA funds helped to fill some budget holes.
Nebraska	The employee salary increase level ultimately negotiated/approved for most state employees for FY 2010 was equivalent to a 2.9 percent annual increase. The increase in the employer share of the cost of employee health insurance was calculated at 10 percent for the fiscal year. With just a few exceptions, the final appropriations for FY 2010 included adjustments to offset the cost of employee salary and health insurance increases in an effort to provide no or minimal net increase in appropriations. Agencies will address these budget adjustments in different ways. However, given the proportion that employee salary and benefit costs are of total agency budgets it is reasonable to assume there will be some position eliminations. No general inflationary increases were provided which will require further internalizing of costs.
New Hampshire	Executive Orders maintaining a general fund freeze on hiring, out of state travel, and equipment purchases have been continued, as well as a freeze on all centrally managed purchases with a waiver process available for exceptions.
New Jersey	FY 2010 strategies also include a salary freeze that is assumed through FY 2010. The FY 2010 Budget applies a similar cut of $25 million as well as an additional reduction of $40 million for management efficiencies which will affect all departments.
New Mexico	Shifted 1.5 percent of the employer retirement contribution to employees for 2 years (FY 2010 and FY 2011), so net effect is not a cut in benefits received. Transfer of undesignated balances in earmarked state agency accounts to the general fund; a significant portion of the cuts in Medicaid were replaced in both FYs by Tobacco Settlement revenue.
New York	FY 2010 strategies also include Federal Aid (ARRA).
North Carolina	FY 2010 strategies also include ARRA Funds.
Pennsylvania	FY 2010 strategies also include Federal ARRA funds, maintain management salary freeze through FY 2010 and enactment of various one-time revenues and non-broad-based tax increases/ revenue measures.
Rhode Island	Negotiations for FY 2010 furloughs are in progress. Deferred actuarial funding of retiree health benefits and pension reform by restricting minimum age of retirement to 62 with "proportionality" for current employees. Reductions to operating. personnel and contract services of 6.25 percent, 6.25 percent, and 10 percent, respectively. Shift Medicaid expenditures and education aid to federal stimulus (ARRA).
South Dakota	FY 2010 strategies also include use of the State Fiscal Stabilization Fund.
Tennessee	FY 2010 strategies also include tax adjustments; U. S. Economic Recovery Funds; base budget reductions; and additional agency reversion.
Texas	FY 2010 strategies also include use of American Recovery and Reinvestment Act funds.
Vermont	FY 2010 strategies also include retirement incentive, Human Services Caseload Reserve funds, and the American Recovery and Reinvestment Act.
Washington	Salaries were not increased rather than reduced.
West Virginia	Backfill education reductions with federal stabilization funds.
Wisconsin	Combined Reporting ($75.6 million), Streamlined sales and use tax ($4.0 million), Tax on Digital Products ($4.2 million), Software Tax ($28.3 million).

TABLE A-6

Number of Filled Full-Time Equivalent Positions in All Funds at the End of Fiscal 2008 to Fiscal 2010**

Region/State	Fiscal 2008	Fiscal 2009	Fiscal 2010	Percent Change, 2008-2009	Percent Change, 2009-2010	Includes Higher Education Faculty	State-Administered Welfare System
NEW ENGLAND							
Connecticut	55,588	55,688	NA	0.18%	NA	X	X
Maine	14,169	14,007	13,895	-1.15%	-0.79%		
Massachusetts	68,959	66,108	66,108	-4.13%	0.00%	X	X
New Hampshire	11,394	11,294	12,169	-0.88%	7.75%		X
Rhode Island*	13,632	12,873	14,078	-5.57%	9.36%	X	X
Vermont	8,383	8,078	7,728	-3.64%	-4.33%		X
MID-ATLANTIC							
Delaware*	31,603	31,693	30,823	0.29%	-2.75%	X	X
Maryland	77,111	76,344	75,803	-0.99%	-0.71%	X	X
New Jersey*	78,335	75,514	NA	-3.60%	NA		
New York	199,800	199,900	190,300	0.05%	-4.80%	X	
Pennsylvania*	83,809	83,887	81,237	0.09%	-3.16%		X
GREAT LAKES							
Illinois	54,617	53,350	55,655	-2.32%	4.32%		X
Indiana	32,157	30,648	30,000	-4.69%	-2.11%		X
Michigan	49,625	49,088	49,500	-1.08%	0.84%		X
Ohio	61,000	59,000	58,000	-3.28%	-1.69%		
Wisconsin*	61,428	61,984	61,935	0.91%	-0.08%	X	
PLAINS							
Iowa	44,519	44,872	46,537	0.79%	3.71%	X	X
Kansas	42,904	43,232	43,023	0.76%	-0.48%	X	X
Minnesota	35,782	34,034	NA	-4.89%	NA		
Missouri	58,944	58,989	58,628	0.08%	-0.61%		X
Nebraska*	17,463	17,833	NA	2.12%	NA		X
North Dakota	7,513	7,586	8,195	0.97%	8.03%	X	X
South Dakota	13,699	13,775	14,466	0.56%	5.01%	X	X
SOUTHEAST							
Alabama	39,736	39,353	39,350	-0.96%	-0.01%		X
Arkansas	31,195	31,658	34,644	1.48%	9.43%		X
Florida*	114,757	114,061	128,131	-0.61%	12.34%		X
Georgia	109,604	103,392	100,643	-5.67%	-2.66%	X	X
Kentucky	33,900	32,100	31,500	-5.31%	-1.87%		
Louisiana	45,205	45,215	43,870	0.02%	-2.97%		X
Mississippi	32,784	32,247	NA	-1.64%	NA		X
North Carolina	NA	NA	NA	NA	NA		
South Carolina	62,927	61,197	61,135	-2.75%	-0.10%	X	X
Tennessee	47,233	44,663	44,700	-5.44%	0.08%		X
Virginia	117,130	114,724	114,601	-2.05%	-0.11%	X	X
West Virginia	35,694	36,358	36,594	1.86%	0.65%	X	X
SOUTHWEST							
Arizona*	51,904	52,420	48,773	0.99%	-6.96%	X	X
New Mexico	24,952	24,723	27,333	-0.92%	10.56%		X
Oklahoma*	38,920	39,417	38,066	1.28%	-3.43%		
Texas	226,127	238,204	237,389	5.34%	-0.34%	X	X
ROCKY							
Colorado*	49,489	50,946	52,430	2.94%	2.91%	X	
Idaho	18,214	18,444	18,470	1.26%	0.14%	X	X
Montana	13,825	13,904	13,543	0.57%	-2.60%		X
Utah	20,619	20,527	20,097	-0.44%	-2.10%		X
Wyoming	7,413	7,158	7,158	-3.44%	0.00%	X	X
FAR WEST							
Alaska	21,192	21,453	21,534	1.23%	0.38%	X	X
California	359,277	363,734	362,714	1.24%	-0.28%	X	X
Hawaii*	45,908	46,535	46,408	1.37%	-0.27%	X	X
Nevada	26,408	25,966	25,389	-1.67%	-2.22%	X	X
Oregon	49,403	49,915	49,839	1.04%	-0.15%	X	X
Washington	111,420	112,521	108,921	0.99%	-3.20%	X	X
TERRITORIES							
Puerto Rico	212,879	213,502	211,469	0.29%	-0.95%	X	X
Total***	**2,637,717**	**2,635,297**	**2,631,311**				

NOTES: NA indicates data are not available.
*See Notes to Table A-6. **Unless otherwise noted, fiscal 2008 reflects actual figures, fiscal 2009 reflects preliminary actuals and fiscal 2010 reflects appropriated figures. ***Totals exclude states that were not able to provide data for all three years.

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-6

Arizona	The reductions did not actually reduce the authorized FTE counts.
Delaware	Includes a legislatively mandated FTE reduction during the course of the fiscal year.
Colorado	Reflects appropriation, not actual.
Florida	The increase in positions is a result of bringing the County Health Units and Office of Disability Determinations back on-line and are accounted for in the General Appropriations Act for Fiscal Year 2009-2010.
Hawaii	Data reflect appropriated permanent positions.
Nebraska	Appropriations bills do not limit authorized FTE to a specific number.
New Jersey	Continued attrition and management efficiencies will reduce the FY 2009 Actual.
Oklahoma	This is the year-to-date average. Employees are not counted within state administered welfare program outside of the TANF program.
Pennsylvania	Figures reflect total authorized positions on a full-time equivalent basis.
Rhode Island	Excludes research positions supported by 3rd party funds.
Wisconsin	PMIS reporting of filled positions for PP13-09 (FY 2009) as reported to the Legislative Audit Bureau and June 16 UW vacancy report. Totally authorized positions for FY 2010 is 69,350.

TABLE A-7

Number of States with Revenues Higher, Lower or on Target with Projections*

	Fiscal 2009	*Fiscal 2010*
Lower	42	31
On Target	4	11
Higher	3	5

NOTE: *Fiscal 2009 reflects whether revenues from all sources came in higher, lower, or on target with projections. Fiscal 2010 reflects whether 2009 collections thus far have been coming in higher, lower, or on target with projections. Not all states reported data for Fiscal 2009 and Fiscal 2010.

SOURCE: National Association of State Budget Officers.

TABLE A-8

Fiscal 2009 Tax Collections Compared with Projections Used in Adopting Fiscal 2009 Budgets (Millions)**

	Sales Tax		Personal Income Tax		Corporate Income Tax		
Region/State	*Original Estimate*	*Current Estimate*	*Original Estimate*	*Current Estimate*	*Original Estimate*	*Current Estimate*	*Revenue Collection****
NEW ENGLAND							
Connecticut	$ 3,748	$ 3,319	$ 7,676	$ 6,386	$ 792	$ 616	L
Maine	983	975	1,282	1,243	149	143	L
Massachusetts	4,286	3,869	12,762	10,584	1,705	1,549	L
New Hampshire	NA	NA	NA	NA	320	250	L
Rhode Island	823	808	971	941	112	104	L
Vermont	229	214	588	530	59	66	L
MID-ATLANTIC							
Delaware	NA	NA	1,038	913	92	134	L
Maryland	4,034	3,611	7,445	6,782	673	582	L
New Jersey*	9,136	*	12,700	*	2,898	*	*
New York	10,914	10,274	38,149	36,840	6,559	5,556	L
Pennsylvania	8,731	8,136	11,489	10,199	2,321	1,980	L
GREAT LAKES							
Illinois	7,297	6,773	10,432	9,223	1,937	1,710	L
Indiana*	6,726	6,153	4,934	4,314	947	839	L
Michigan*	6,645	6,212	7,010	6,058	2,661	2,160	L
Ohio	7,948	7,113	9,201	7,628	522	521	L
Wisconsin	4,479	4,084	7,106	6,223	860	630	T
PLAINS							
Iowa	2,055	2,327	351	3,331	424	417	L
Kansas	1,940	1,925	2,775	2,682	255	240	L
Minnesota	4,601	4,378	7,767	7,012	969	710	L
Missouri	1,937	1,813	5,448	4,876	471	358	L
Nebraska	1,359	1,326	1,750	1,600	215	199	L
North Dakota	537	622	255	375	70	99	H
South Dakota	676	659	NA	NA	NA	NA	L
SOUTHEAST							
Alabama	2,114	1,796	3,245	2,661	481	427	L
Arkansas	2,185	2,081	2,295	2,239	306	334	L
Florida	19,093	16,531	NA	NA	2,223	1,833	L
Georgia	5,594	5,343	8,479	7,815	729	695	L
Kentucky	2,978	2,858	3,473	3,315	513	268	L
Louisiana	2,891	2,841	2,873	2,831	969	881	T
Mississippi	2,019	1,922	1,617	1,475	528	422	L
North Carolina	5,049	4,678	10,895	9,470	1,095	836	L
South Carolina	2,699	2,248	2,970	2,327	249	207	L
Tennessee*	7,019	6,331	262	221	1,664	1,369	L
Virginia	3,226	2,961	10,777	9,697	706	685	L
West Virginia	1,222	1,159	1,585	1,653	315	285	T
SOUTHWEST							
Arizona	4,644	3,756	3,615	2,568	841	592	L
New Mexico	2,404	2,310	1,140	1,015	399	200	L
Oklahoma	1,701	1,647	2,165	2,014	289	266	L
Texas	21,167	21,700	NA	NA	NA	NA	L
ROCKY MOUNTAIN							
Colorado	1,929	1,931	4,239	4,333	331	293	H
Idaho	1,042	1,022	1,223	1,168	157	141	L
Montana	16	15	853	815	157	166	L
Utah	1,821	1,544	2,769	2,323	330	281	T
Wyoming	485	522	NA	NA	NA	NA	H
FAR WEST							
Alaska	NA	NA	NA	NA	$810	$685	L
California	26,813		54,380		11,926		L
Hawaii	2,590	2,418	1,529	1,338	83	54	L
Nevada	1,164		NA	NA	NA	NA	L
Oregon	NA	NA	6,375	5,117	432	244	L
Washington	8,508	7,330	NA	NA	NA	NA	L
TERRITORIES							
Puerto Rico	911	865	2,770	2,614	1,751	1,364	L
Total****	**$182,341**	**$169,534**	**$210,807**	**$192,133**	**$ 35,729**	**$ 30,026**	–

NOTES: NA indicates data are not available because, in most cases, these states do not have that type of tax. *See Notes to Table A-8. **Unless otherwise noted, original estimates reflect the figures used when the fiscal 2009 budget was adopted, and current estimates reflect preliminary actual tax collections. ***Refers to whether preliminary actual fiscal 2009 collections of Sales, Personal Income and Corporate Income Taxes were higher than, lower than, or on target with original estimates. **** Totals include only those states with data for both original and current estimates for fiscal 2009. Key: L=Revenues lower than estimates. H=Revenues higher than estimates. T=Revenues on target.

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-8

Indiana	Sales tax revenues include revenue from the one penny increase in the sales tax rate effective April 1, 2008. The increase was part of the property tax reform plan that shifted over $1 billion of expenses from local units to state government.
Michigan	The fiscal 2010 enacted budget is based on the May 2009 consensus estimates and is net of all enacted tax changes. Tax estimates represent total tax collections. Sales tax collections are for the Michigan sales tax only and do not include collections from Michigan use tax. Michigan does not have a Corporate Income tax; estimates are for the Michigan Business Tax that replaced Michigan's Single Business Tax effective December 2007. The fiscal 2010 revenues appear to be lower than May 2009 consensus revenue estimates; updated fiscal 2010 revenue figures will be released at the next regularly scheduled consensus revenue conference in January 2010.
New Jersey	These numbers are still being developed and researched.
Tennessee	Corporate Income Tax includes excise tax and franchise tax. Sales tax, personal income tax and corporate excise tax are shared with local governments.

TABLE A-9

Comparison of Tax Collections in Fiscal 2008, Fiscal 2009, and Enacted Fiscal 2010 (Millions)**

	Sales Tax			*Personal Income Tax*			*Corporate Income Tax*		
Region/State	*Fiscal 2008*	*Fiscal 2009*	*Fiscal 2010*	*Fiscal 2008*	*Fiscal 2009*	*Fiscal 2010*	*Fiscal 2008*	*Fiscal 2009*	*Fiscal 2010*
NEW ENGLAND									
Connecticut	$ 3,582	$ 3,319	$ 3,167	$ 7,513	$ 6,386	$ 6,631	$ 734	$ 616	$ 722
Maine	1,035	975	995	1,444	1,243	1,445	185	143	145
Massachusetts	4,087	3,869	4,664	12,484	10,584	10,380	1,513	1,549	1,455
New Hampshire	NA	NA	NA	NA	NA	NA	317	250	258
Rhode Island	844	808	815	1,074	941	963	150	104	113
Vermont	226	214	211	622	530	502	75	66	48
MID-ATLANTIC									
Delaware	NA	NA	NA	1,007	913	936	179	134	47
Maryland	3,675	3,611	3,605	6,940	6,782	6,602	552	582	556
New Jersey*	8,916	*	8,579	12,606	*	10,393	3,133	*	2,440
New York	10,592	10,274	10,389	36,564	36,840	37,239	6,018	5,556	5,495
Pennsylvania	8,497	8,136	8,391	10,908	10,199	10,277	2,418	1,980	1,878
GREAT LAKES									
Illinois	7,215	6,773	6,394	10,320	9,223	9,206	1,860	1,710	1,133
Indiana	5,686	6,153	6,132	4,838	4,314	4,289	910	839	800
Michigan	6,773	6,212	6,067	7,226	6,058	5,354	2,466	2,160	2,214
Ohio	7,614	7,113	7,000	9,115	7,628	7,053	753	521	100
Wisconsin*	4,268	4,084	4,089	6,714	6,223	6,231	838	630	717
PLAINS									
Iowa	2,000	2,327	2,398	3,360	3,331	3,311	484	417	394
Kansas	1,958	1,925	1,931	2,897	2,682	2,775	432	240	268
Minnesota	4,571	4,378	4,157	7,759	7,012	7,043	1,020	710	448
Missouri	1,931	1,813	1,861	5,210	4,876	5,122	459	358	410
Nebraska	1,322	1,326	1,344	1,726	1,600	1,675	233	199	170
North Dakota	555	622	598	307	375	321	141	99	120
South Dakota	645	659	659	NA	NA	NA	NA	NA	NA
SOUTHEAST									
Alabama	2,067	1,796	1,959	2,971	2,661	2,883	501	427	347
Arkansas	2,110	2,081	2,139	2,345	2,239	2,189	318	334	324
Florida	18,429	16,531	15,902	NA	NA	NA	2,217	1,833	1,508
Georgia	5,797	5,343	5,213	8,830	7,815	8,338	942	695	543
Kentucky	2,878	2,858	3,067	3,483	3,315	3,630	435	268	506
Louisiana	2,864	2,841	2,614	3,169	2,831	2,557	940	881	517
Mississippi	1,947	1,922	1,924	1,542	1,475	1,535	501	422	379
North Carolina	4,982	4,678	5,374	10,902	9,470	11,386	1,112	836	1,192
South Carolina	2,463	2,248	2,192	2,864	2,327	2,469	269	207	129
Tennessee	6,851	6,331	6,414	292	221	188	1,620	1,369	1,340
Virginia	3,076	2,961	3,157	10,115	9,697	1,034	808	685	724
West Virginia	1,155	1,159	1,194	1,614	1,653	1,617	400	285	235
SOUTHWEST									
Arizona	4,354	3,756	3,800	3,407	2,568	2,577	785	592	597
New Mexico	2,323	2,310	2,428	1,214	1,015	1,237	355	200	273
Oklahoma	1,612	1,647	1,754	2,239	2,014	2,044	279	266	307
Texas	21,604	21,700	21,812	NA	NA	NA	0	NA	NA
ROCKY MOUNTAIN									
Colorado	2,127	1,931	2,031	4,974	4,333	4,281	508	293	285
Idaho	1,142	1,022	1,026	1,430	1,168	1,212	190	141	162
Montana	17	15	17	867	815	841	160	166	116
Utah	1,739	1,544	1,473	2,612	2,323	2,260	416	281	274
Wyoming	505	522	506	NA	NA	NA	NA	NA	NA
FAR WEST									
Alaska	NA	NA	NA	NA	NA	NA	789	685	510
California	26,613		24,612	54,182		45,275	11,849		9,783
Hawaii	2,619	2,418	2,279	1,544	1,338	1,352	85	54	60
Nevada	986		815	NA	NA	NA	NA	NA	NA
Oregon	0	NA	NA	4,973	5,117	5,496	441	244	324
Washington	8,216	7,330	7,551	NA	NA	NA	NA	NA	NA
TERRITORIES									
Puerto Rico	911	865	606	$2,793	2,614	2,614	1,566	1,364	1,541
Total* **	$177,951	$169,534	$170,690	$208,404	$191,220	$186,479	$ 35,803	$ 30,026	$ 28,141

NOTES: NA indicates data are not available because, in most cases, these states do not have that type of tax. *See Notes to Table A-9. **Unless otherwise noted, fiscal 2008 figures reflect actual tax collections, 2009 figures reflect preliminary actual tax collections estimates, and fiscal 2010 figures reflect the estimates used in enacted budgets. ***Totals include only those states with data for all years.

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-9

New Jersey	These numbers are still being developed and researched.
Wisconsin	Preliminary Actuals FY 2009 from FY 2009 AFR Exhibit A-1. FY 2010 estimates from Table 7, 2009 Wisconsin Act 28 2009-11 State Budget Summary Tables and charts.

TABLE A-9a

Percentage Changes Comparison of Tax Collections in Fiscal 2008, Fiscal 2009, and Enacted Fiscal 2010*

	Sales Tax			*Personal Income Tax*			*Corporate Income Tax*		
Region/State	*Fiscal 2008*	*Fiscal 2009*	*Fiscal 2010*	*Fiscal 2008*	*Fiscal 2009*	*Fiscal 2010*	*Fiscal 2008*	*Fiscal 2009*	*Fiscal 2010*
NEW ENGLAND									
Connecticut	2.5%	-7.4%	-4.6%	11.3%	-15.0%	3.8%	-17.6%	-16.1%	17.2%
Maine	1.4%	-5.8%	2.0%	6.6%	-13.9%	16.3%	0.3%	-22.4%	1.1%
Massachusetts	0.5%	-5.3%	20.6%	9.5%	-15.2%	-1.9%	-4.7%	2.4%	-6.0%
New Hampshire	NA	NA	NA	NA	NA	NA	10.4%	-21.1%	3.0%
Rhode Island	-3.3%	-4.3%	0.9%	0.8%	-12.4%	2.4%	1.6%	-30.6%	8.2%
Vermont	1.4%	-5.1%	-1.7%	7.1%	-14.8%	-5.4%	2.5%	-11.3%	-27.2%
MID-ATLANTIC									
Delaware	NA	NA	NA	-0.1%	-9.3%		27.2%	-24.8%	-65.0%
Maryland	7.5%	-1.7%	-0.2%	3.9%	-2.3%	-2.6%	-6.5%	5.5%	-4.6%
New Jersey	3.6%	*	*	7.5%	*	*	-2.3%	*	*
New York	5.4%	-3.0%	1.1%	5.7%	0.8%	1.1%	-7.0%	-7.7%	-1.1%
Pennsylvania	-1.1%	-4.2%	3.1%	6.3%	-6.5%	0.8%	-3.0%	-18.1%	-5.2%
GREAT LAKES									
Illinois	1.1%	-6.1%	-5.6%	9.7%	-10.6%	-0.2%	6.3%	-8.1%	-33.7%
Indiana	5.7%	8.2%	-0.3%	4.8%	-10.8%	-0.6%	-7.9%	-7.8%	-4.6%
Michigan	3.4%	-8.3%	-2.3%	12.2%	-16.2%	-11.6%	35.8%	-12.4%	2.5%
Ohio	2.6%	-6.6%	-1.6%	2.6%	-16.3%	-7.5%	-30.1%	-30.8%	-80.8%
Wisconsin	2.6%	-4.3%	0.1%	2.1%	-7.3%	0.1%	-5.9%	-24.8%	13.8%
PLAINS									
Iowa	4.7%	16.4%	3.0%	8.9%	-0.9%	-0.6%	13.9%	-13.9%	-5.4%
Kansas	-4.6%	-1.7%	0.3%	6.9%	-7.4%	3.5%	-2.3%	-44.4%	11.6%
Minnesota	1.4%	-4.2%	-5.1%	7.3%	-9.6%	0.4%	-12.9%	-30.4%	-37.0%
Missouri	-1.2%	-6.1%	2.6%	5.9%	-6.4%	5.0%	0.2%	-22.0%	14.5%
Nebraska	1.4%	0.3%	1.3%	4.6%	-7.3%	4.7%	9.3%	-14.8%	-14.5%
North Dakota	8.6%	12.1%	-3.9%	-2.5%	22.1%	-14.4%	16.5%	-29.8%	21.2%
South Dakota	6.9%	2.2%	0.1%	NA	NA	NA	NA	NA	NA
SOUTHEAST									
Alabama	-1.0%	-13.1%	9.1%	1.1%	-10.4%	8.3%	10.2%	-14.8%	-18.7%
Arkansas	-3.5%	-1.4%	2.8%	8.1%	-4.5%	-2.2%	-5.9%	5.1%	-3.1%
Florida	-5.2%	-10.3%	-3.8%	NA	NA	NA	-9.3%	-17.3%	-17.8%
Georgia	-2.0%	-7.8%	-2.4%	0.1%	-11.5%	6.7%	-7.6%	-26.2%	-21.9%
Kentucky	2.1%	-0.7%	7.3%	14.5%	-4.8%	9.5%	-56.0%	-38.4%	88.8%
Louisiana	-9.2%	-0.8%	-8.0%	-2.7%	-10.7%	-9.7%	-10.7%	-6.2%	-41.3%
Mississippi	0.9%	-1.3%	0.1%	4.5%	-4.4%	4.1%	3.3%	-15.7%	-10.3%
North Carolina	-0.3%	-6.1%	14.9%	3.8%	-13.1%	20.2%	-23.4%	-24.8%	42.6%
South Carolina	-6.4%	-8.7%	-2.5%	-0.6%	-18.8%	6.1%	2.7%	-22.9%	-37.7%
Tennessee	0.5%	-7.6%	1.3%	17.7%	-24.2%	-15.0%	-8.3%	-15.5%	-2.1%
Virginia	0.9%	-3.7%	6.6%	3.3%	-4.1%	-89.3%	-8.2%	-15.2%	5.7%
West Virginia	11.6%	0.3%	3.0%	14.2%	2.4%	-2.1%	8.6%	-28.9%	-17.4%
SOUTHWEST									
Arizona	-2.3%	-13.7%	1.2%	-8.8%	-24.6%	0.3%	-20.5%	-24.5%	0.8%
New Mexico	0.4%	-0.6%	5.1%	2.8%	-16.4%	21.8%	-22.9%	-43.6%	36.6%
Oklahoma	5.3%	2.2%	6.5%	-4.2%	-10.1%	1.5%	-35.9%	-4.8%	15.7%
Texas	7.0%	0.4%	0.5%	NA	NA	NA	NA	NA	NA
ROCKY MOUNTAIN									
Colorado	-3.8%	-9.2%	5.2%	2.1%	-12.9%	-1.2%	2.0%	-42.4%	-2.5%
Idaho	6.0%	-10.5%	0.4%	2.1%	-18.3%	3.8%	-0.3%	-25.7%	14.9%
Montana	0.9%	-7.1%	7.7%	4.8%	-5.9%	3.1%	-9.7%	3.8%	-30.5%
Utah	-6.4%	-11.2%	-4.6%	1.5%	-11.1%	-2.7%	-2.2%	-32.5%	-2.5%
Wyoming	5.4%	3.4%	-3.1%	NA	NA	NA	NA	NA	NA
FAR WEST									
Alaska	NA	NA	NA	NA	NA	NA	2.2%	-13.1%	-25.5%
California	-3.0%			4.3%			6.2%		
Hawaii	2.4%	-7.7%	-5.7%	-1.0%	-13.4%	1.0%	4.0%	-37.1%	12.1%
Nevada	-1.4%			NA	NA	NA	NA	NA	NA
Oregon	NA	NA	NA	-11.1%	2.9%	7.4%	8.6%	-44.7%	32.9%
Washington	4.1%	-10.8%	3.0%	NA	NA	NA	NA	NA	NA
TERRITORIES									
Puerto Rico	NA	-5.1%	-29.9%	NA	-6.4%	0.0%	NA	-12.9%	13.0%
Total**	**1.2%**	**-4.7%**	**0.7%**	**4.7%**	**-8.2%**	**-2.5%**	**-6.2%**	**-16.1%**	**-6.3%**

NOTES: NA indicates data are not available because, in most cases, these states do not have that type of tax. *Unless otherwise noted, fiscal 2008 figures reflect actual tax collections, 2009 figures reflect preliminary actual tax collections estimates, and fiscal 2010 figures reflect the estimates used in enacted budgets. **Totals include only those states with data for all years.

SOURCE: National Association of State Budget Officers.

TABLE A-10

State Employment Compensation Changes, Fiscal 2010

Region/State	Across-the-Board (percent)	Merit (percent)	Other (percent)	Notes
NEW ENGLAND				
Connecticut	–	2.5	3.3	
Maine	–	–	–	Union members agreed to a 0.0 percent wage increase for FY 2010.
Massachusetts	1.0	–	–	1.0 percent – Unionized employees starting July 1, 2009. Managers do not have a merit pool in FY 2010.
New Hampshire	–	–	–	No changes to employee compensation packages have been negotiated that impacted FY 2010. Step increases are included for employees with average amount of 3.5 percent per year.
Rhode Island	2.5	–	1.7	Other represents historical average growth due to step and longevity increases. Negotiations are underway to provide personnel savings in FY 2010 through pay reduction days.
Vermont	1.8	–	1.7	The 1.8 percent increase is a COLA increase. Also, per the state employee contract, about 56 percent of employees receive annual step increases worth in aggregate 1.7 percent of statewide salary costs.
MID-ATLANTIC				
Delaware	-2.5	–	–	Employees were provided 5 days additional leave as a result of the decrease in salary.
Maryland	–	–	Varied	State Employees will receive salary reductions of approximately 1-4 percent based on their salary level as a result of salary reductions associated with closing State government for 5 days and furloughs of 3-5 days.
New Jersey	–	–	2.0	Most employees did not receive an across-the-board increase. Only a small group (about 200 employees) received a 3.75 percent increase. The ATB increase of 3.5 percent is being deferred until January 2011. Collective bargaining negotiations continue with some labor unions.
New York	3.0	–	–	The State recently reached new labor contracts with most of the State employee labor unions, which run from 2007 through 2011. There are a series of step increases within each pay grade until reaching the maximum salary for the grade. Approximately 33 percent of the workforce is eligible to receive such increase (i.e., employees who have not reached the job rate). As part of the 2009-10 Enacted Budget, Management/Confidential (M/C) employees were withheld their annual salary increase and performance advancement for the 2009-10 fiscal year. This action exempted most M/C employees from being subject to statewide workforce reduction plans. Other compensation changes are driven by personnel transactions, such as reallocations and reclassifications. An additional employee compensation amount is usually pro–rated to agencies with M/C employees, allowing those agencies to give merit awards at their discretion. No M/C employee can receive more than 5 percent of their annual salary in the form of merit awards and the agency allocation cannot be divided equally amongst all M/C employees. The awards are lump sums and are not added to base salary.
Pennsylvania	3.0		2.3	Across-the-board: Non-management employees received a 3 percent increase effective July 1, 2009. Other: Non-management employees will receive a 2.25 percent service increment in January 2010.

TABLE A-10 (continued)

State Employment Compensation Changes, Fiscal 2010

Region/State	Across-the-Board (percent)	Merit (percent)	Other (percent)	Notes
GREAT LAKES				
Indiana	–	–	–	Not yet determined
Illinois	–	–	–	
Michigan	1 percent for most classified employees; contract negotiations with enlisted state police personnel are in progress.	–	–	Some classified employees will receive step increases; pay adjustments for satisfactory performance in the amounts and at intervals provided for in the compensation schedule for the employee's classification level. Other employees may be eligible for promotion to a higher classification grade and pay level. Career employees receive an annual longevity payment following completion of 6 years of continuous full-time service. The amount of the longevity payment varies depending on the number of years of full-time service and is increased in four–year increments.
Ohio	–	–	–	Ohio's package freezes all hourly pay at FY 2009 levels and requires all employees to take 10 unpaid leave days during the year. The net impact of these unpaid leave days is to reduce pay by 3.8 percent.
Wisconsin	–	–	–	
PLAINS				
Iowa	–	Various	–	Merit increases are provided on the employee's annual review date until the maximum of the pay plan is reached, than no additional merit increases are provided. Since many employees are at the maximum of the pay scale, adding the across the board and merit increases together provides a misleading total amount.
Kansas	–	–	2.5–20	As part of a three-year compensation review, those employees in classifications most under market in salary comparisons received between 2.5 percent and 20.0 percent pay increase.
Minnesota	–	–	–	
Missouri	–	–	–	
Nebraska	2.9–4.9	–	–	Across-the-board: Most employees covered by collective bargaining and supervisory/management staff received a 2.9 percent increase effective 7/1/2009; law enforcement employees and related supervisory/management staff received an average 4.9 percent increase effective 7/1/2009; employees covered by the Engineering, Science, and Resources Unit of NAPE/AFSCME received a 4.87 percent increase effective 7/1/2009.
North Dakota	–	–	5.0	$100 per month minimum; salary increases are to be given based on merit and equity and are not to be given across-the-board.
South Dakota	–	–	–	No employee compensation was adopted for FY 2010.

TABLE A-10 (continued)

State Employment Compensation Changes, Fiscal 2010

Region/State	Across-the-Board (percent)	Merit (percent)	Other (percent)	Notes
SOUTHEAST				
Alabama	–	5	–	Annual merit raises have been frozen since January 1, 2009 and are currently projected to resume January 1, 2010.
Arkansas	5.5	up to 12	–	Merit reflect – Exceeds Standards 2.25 percent/ Above Average 1.5 percent/ Satisfactory .75 percent/ Unsatisfactory 0.0 percent and Promotion 10.0 percent. Promotion from Career Service Pay Plan to Executive Pay Plan 12 percent. Across-the-board average from pay plan implementation was 5.5 percent.
Florida	–	–	–	
Georgia	–	–	–	Agencies will have 3 furlough days by the end of calendar year 2009 to reduce payroll costs.
Kentucky	1.0	–	–	
Louisiana	–	4.0	–	
North Carolina	–	–	–	
South Carolina	–	–	–	
Tennessee	–	–	–	
Virginia	–	–	–	Due to budget reductions.
West Virginia	–	–	–	Every eligible employee with a total of three (3) or more years of service as of July 1 of each year receives an annual salary increment equal to $60 times the employee's years of service. The final year of a 3 year pay package ($1,008 ATB for FY 2010) was approved for employees of the Division of Corrections, Division of Juvenile Services and Regional Jail and Correctional Facility Authority.
SOUTHWEST				
Arizona	–	–	–	
Oklahoma	–	–	–	Oklahoma state employees receive a longevity payment based on years of service. Agencies have discretion to grant merit pay, with/OPM approval and within certain guidelines.
New Mexico	–	–	–	Due to declining revenue projections, the state did not appropriate a compensation package for FY 2010.
Texas	3.5	–	–	Limited to state employees associated with Public Safety and Criminal Justice.
ROCKY MOUNTAIN				
Colorado	–	–	–	State Employees did not receive salary survey increases or performance based pay.
Idaho	–	–	–	
Montana	–	–	–	State health insurance contributions increased by 6 percent per year.
Utah	–	–	–	
Wyoming	4.0	–	–	

TABLE A-10 (continued)

State Employment Compensation Changes, Fiscal 2010

Region/State	Across-the-Board (percent)	Merit (percent)	Other (percent)	Notes
FAR WEST				
Alaska	3.0	1.5 – 5.0	**	3 percent COLA, merit increases range from 1.5 percent to 5.0 percent dependent on ratified union contracts. ** Additional contributions for health insurance, risk management, terminal leave, unemployment insurance and life insurance (minimal impact on total salary).
California	–	–	-13.8	1 of 21 bargaining units under contract for 2009-2010. All bargaining units except Highway patrol, are current in negotiation due to expire contracts and will take 3 furlough days each month this year. Highway patrol to receive increases based on salary surveys.
Hawaii	–	–	-5.8	
Nevada	–	–	–	No COLA adjustments were included in the budget and all merit increases have been suspended.
Oregon	–	–	-2.8	The 2.8 percent decline is the effect of seven furlough days in 2009-10 for most employees.
Washington	–	–	–	All salary increases are suspended.
TERRITORIES				
Puerto Rico	–	–	–	All economic benefits are frozen for a period of two years (FY 2010 and 2011).

TABLE A-11

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	*Tax Change Description*	*Effective Date*	*Fiscal 2010 Revenue Changes ($ in Millions)*
	SALES TAXES		
Arkansas	Decrease in state sales tax rate applied to food for home consumption from 3 percent to 2 percent.	07-09	-$40.5
	Decrease in state sales tax rate applied to manufacturing electricity and natural gas usage from 4 percent to 3.25 percent.	07-09	-3.8
California	One percent increase in state rate.	04-09	4,411.0
Connecticut	Reduction of the sales tax rate from 6 percent to 5.5 percent, effective 1/1/2010—$129.5 million revenue loss.	01-10	-125.1
Florida	Impact of cigarette tax surcharge.	07-09	12.3
Indiana	Change in sales tax exemption for aircraft; Repeal sales tax exemption for media equipment.	07-09	-1.5
Kentucky	Applied sales tax to sales of packaged liquor.		51.9
Louisiana	Makes permanent an expiring exclusion from state & local sales taxes for purchases/leases of educational materials/equip. by non-public schools. b) Imposes state & local sales taxes to 46 percent of the price of manufactured homes.	a) Effective June 30, 2009 b) Effective June 30, 2009	0.3
Maine	Tax reform.		40.7
Massachusetts	The budget also includes an increase in the sales and use tax rates from 5 percent to 6.25 percent, effective August 1, 2009, which is estimated to produce an additional $759 million in fiscal 2010, of which $275 million is dedicated to transportation. The budget eliminates the sales tax exemption for sales of alcohol, which is estimated to produce $78.8 million in fiscal 2010. The budget also includes a new tax on direct broadcast satellite service, which is estimated to produce $25.9 million in fiscal 2010. The estimate of total state taxes expected to be received in fiscal 2010 resulting from changes in tax law is $889.7 million.	08-09	889.7
Nebraska	Exemption for certain wind energy investments.	08-09	-1.3
New York	Expanded the definition of vendor to preclude sellers from avoiding sales and use tax nexus through entity isolation schemes.	06-09	12.0
	Eliminated certain abusive tax avoidance schemes.	06-09	6.3
	Increased the prepaid sales tax rate on cigarettes.	06-09	2.3
	Imposed sales tax on certain transportation services (i.e. black car and limo).	06-09	34.2
	Amended empire zone provisions.	06-09	5.0
North Carolina	Increase in sales and use tax by one percent.	10-09	803.0
North Dakota	Exemption for expanding or construction telecommunications infrastructure.		-2.4
	Exemption for motor vehicle manufacturers incentives and discounts.		-2.2
Rhode Island	Increase Cigarette excise tax by $1.00 while retaining minimum price markup.	04-09	2.7
Tennessee	Software maintenance contracts and in-house computer software subject to tax. Limited wine shipments into state authorized subject to sales tax.	07-09	13.6
Vermont	Sale and use tax extended to digital downloads.	07-09	1.0
Wisconsin	Requires similar treatment of sales and individual income tax for business entities of parent corporations (disregards).		19.8
Total Revenue Changes—Sales Tax			**$6,129.0**

TABLE A-11 (continued)

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	Tax Change Description	Effective Date	Fiscal 2010 Revenue Changes ($ in Millions)
	PERSONAL INCOME TAXES		
Arkansas	Income tax credit for rehabilitation of historic structures located in Arkansas.	1-Jan-09 thru 31-Dec-15	-$1.1
California	(1) 1/4 percent increase in marginal rates. (2) Reduce dependent exemption credit. (3) Homebuyer credit.	January 2009 & March 2009	4,261.0
Connecticut	Increase Personal Income Tax rate from 5 percent to 6.5 percent for income greater than $500,000 for singles and married filing separately, $800,000 for head of household filers, and $1 million for joint filers—$594 million. Also, delay increase in singles exemption—$23.9 million.	01-09	617.9
Delaware	Increase by one percentage point the personal income tax rate for taxable income in excess of $60,000.	01-10	28.3
Hawaii	Phase-out of personal exemption.	07-09	10.5
	Temporarily increases income tax rates for high income brackets.	05-09	32.3
Indiana	Income tax deduction for solar roof vents/fans.	07-09	-1.7
Louisiana	Exemption from personal income tax the net capital gains from the sale or exchange of an equity interest or substantially all of the assets of a non-publicly traded business in Louisiana. Effective January 1, 2010.	01-10	-1.0
Maine	Tax reform.		-32.8
Missouri	Phases in, over six years, an exemption for military pensions. Will cost $16 million in FY 2011, but nothing in future years, as an existing phase-in of an exemption on all retirement income has a larger effect.	01-10	0.0
Minnesota	Federal conformity provisions.	04-09	10.2
	5-year carry back of 2008 net operating losses.	05-09	-2.9
	50 percent bonus depreciation with 80 percent add back and 5-year recovery.	05-09	1.7
New Jersey	One year tax rate increase to 8 percent for income $400,000 to $500,000.	01-09	83.0
	One year tax rate increase to 10.25 percent for income $500,000 to $1,000,000.	01-09	620.0
	One year tax rate increase to 10.75 percent for income greater than $1,000,000.	01-09	200.0
	One year elimination of property tax deduction for non-seniors with income greater than $250,000 and one year limited property tax deduction up to $5,000 for income levels $150,000 to $250,000.	01-09	100.0
	Income tax on Lottery winnings over $10,000.	01-09	8.0
New York	Limited itemized deduction by only allowing charitable contributions for incomes above $1 million.	01-09	140.0
	Implemented temporary rate increase by raising the top bracket to 8.97 percent for incomes above $500,000.	01-09	3,955.0
	Established non-LLC partnership fee.	01-09	50.0

TABLE A-11 (continued)

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	Tax Change Description	Effective Date	Fiscal 2010 Revenue Changes ($ in Millions)
	PERSONAL INCOME TAXES (continued)		
North Carolina	Income tax surcharge.	01-09	$172.0
North Dakota	Income tax rate reduction.		-45.0
	Credit for renaissance zone investments.		-1.3
	Tax reduction for qualified dividends.		-2.3
Oregon	Marginal rate change.	01-09	235.8
Puerto Rico	Alternative contribution and special contribution (5 percent).		76.0
Rhode Island	Increase weekly unemployment compensation by $25.00.	01-09	-1.8
	Capital Gains taxed as ordinary income.	01-10	23.6
Vermont	Personal income tax rate decrease.	01-09	-21.0
	Decrease in capital gains exclusion.	07-09	31.7
West Virginia	ARRA Federal Adjusted Gross Income Definition Tax Update & CY 2010 AMT repeal.		-9.0
Wisconsin	Creates new tax bracket with a 7.75 percent marginal tax rate for very high income earners ($225 thousand single, $300 thousand married filing jointly; $150 thousand married filing separately); Decrease capital gains exclusion from 60 percent to 30 percent, except retain current 60 percent exclusion for gains on sales of farm assets.		278.5
Total Revenue Changes—Personal Income Taxes			**$10,739.6**
	CORPORATE INCOME TAXES		
California	(1) Jobs credit. (2) Film credits. (3) Single sales apportionment.	January 2009 & January 2011	-$330.0
Connecticut	10 percent surcharge on the Corporate Income Tax for Income Years 2009, 2010, 2011 for firms with over $100 million in gross federal income—$74.1 million. Decouple from the Federal Domestic Production Deduction—$27.5 million. Increase the Preference Tax from $250,000 to $500,000—$9 million.	01-09	110.6
Delaware	Increases certain General Fund business and occupational gross receipts tax rates.	Various	5.6
	Increases various corporate revenues.	Various	124.7
Indiana	Federal revenue code update; Reduction of allowable media production tax credit.	01-09	-27.9
Iowa	Elimination of loss carry back provision.	01-09	18.0
Kansas	Promoting Employment Access Kansas Act (PEAK) allows certain new business to retain 95 percent of withholding taxes on new employees.	07-09	-2.0

TABLE A-11 (continued)

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	*Tax Change Description*	*Effective Date*	*Fiscal 2010 Revenue Changes ($ in Millions)*
	CORPORATE INCOME TAXES (continued)		
Louisiana	Provides two port-related credits: 1) an investor credit: 5 percent per year for 20 years of total capital costs of qualifying port infrastructure projects; 2) a tonnage credit: $5 per ton for all qualifying tonnage moving through Louisiana ports.	07-09	-$3.5
Michigan	Tax base changes & decouple from accelerated depreciation.	01-09	-68.3
Minnesota	50 percent bonus depreciation with 80 percent add back and 5-year recovery.	05-09	3.9
	Federal conformity provisions.	04-09	-5.9
Missouri	Raised exemption level on corporate franchise tax from $1 million of assets to $10 million.	01-10	-14.6
New York	Expand the Low Income Housing Tax Credit Program.	04-09	-4.0
North Carolina	Income tax surcharge.	01-09	23.1
North Dakota	Rate reduction.		-5.0
Oregon	Rate change and corporate minimum increase.	01-09	45.1
Pennsylvania	Change in sales factor and net operating loss carryforward provisions.	01-09	-72.7
Puerto Rico	Special contribution (5 percent).		76.0
Rhode Island	Reduce rate to 7.5 percent from 9.0 percent.	01-10	-14.5
Tennessee	Family-Owned Non-Corporate Entities (FONCE) subject to F&E taxes.	07-09	25.8
West Virginia	ARRA Federal Taxable Income Definition Tax Update.		-10.6
Total Revenue Changes—Corporate Income Taxes			**-$202.2**
	ALCOHOLIC BEVERAGES		
New York	Increase Beer and Wine Tax Rate.	05-09	$14.0
North Carolina	Increase Tax.	09-09	35.6
Puerto Rico	Increase tax.		11
Tennessee	Limited direct wine shipments permitted and subject to alcohol and sales taxes.	07-09	1.3
Vermont	Subject to 6 percent sales tax.		3.2
Total Revenue Changes—Alcoholic Beverages			**$54.1**

TABLE A-11 (continued)

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	*Tax Change Description*	*Effective Date*	*Fiscal 2010 Revenue Changes ($ in Millions)*
	CIGARETTE AND TOBACCO TAXES		
Arkansas	Increase in cigarette tax rate from 59 cents to $1.15 per package of 20 cigarettes. Increase in tax rate for other tobacco products.	03-09	$69.8
Connecticut	Increase Cigarette Tax from $2 to $3 per pack—$94.9 million, as well as an increase in the Other Tobacco Products Tax from 20 percent to 27.5 percent of the wholesale price—$1.6 million.	10-09	96.5
Delaware	45 cents per pack increase.	07-09	16.0
Florida	$1 per pack surcharge.	07-09	36.3
Hawaii	Increases per-cigarette tax starting on effective date.	06-09	22.5
	Increases tobacco tax on tobacco products other than cigarettes.	05-09	1.2
Kentucky	Raised cigarette tax by 30 cents per pack and doubled tax on other tobacco products.		106.9
Maine	Change of tax methodology on smokeless tobacco.		1.6
Mississippi	Increase of $0.24 per pack for manufacturers participating in the tobacco settlement with the State and $0.43 for non-participating manufacturers.	07-09	79.8
New Hampshire	Increase of tobacco tax by $.45 from $1.33 to $1.78	07-09	35.2
New York	Increased the tobacco products tax from 37 percent to 46 percent of the wholesale price.	04-09	10.0
	Increased cigarette and tobacco retail registration fees.	01-09	16.7
North Carolina	Increase tax.	09-09	33.2
Oregon	Increase for moist snuff.	07-09	1.5
	Increase Cigarette excise tax to $3.46 while retaining minimum price markup.	04-09	27.5
Pennsylvania	25 cents per pack increase in the cigarette tax to $1.60 per pack.	11-09	99.9
	Implement tax on little cigars (8 cents per small cigar or $1.60 per pack of 20).	11-09	15.6
Puerto Rico	Increase Tax.		48.0
Texas	Changed the manner in which smokeless tobacco is taxed	9-09	67.0
Vermont	25 cents increase per pack.	07-09	5.9
Wisconsin	Increases cigarette tax rate by $0.75 per pack. Convert the snuff tax to manufacturer's price and increase tax on other tobacco products from 50 percent to 71 percent of manufacturer's price.		165.0
Total Revenue Changes—Cigarette and Tobacco Taxes			**$908.1**

TABLE A-11 (continued)

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	Tax Change Description	Effective Date	Fiscal 2010 Revenue Changes ($ in Millions)
	MOTOR FUEL TAXES		
Alaska	Expiration of 1 yr Tax Suspension.	09-09	$33.9
Maine	Amends Highway Fund gasoline and special fuel taxes.		6.0
New Hampshire	Insurance company and agents fee increase for motor vehicle records by $4 for electronic and $7 for all others from $8 to $12 and $15 respectively.	07-09	2.4
Oregon	A $0.06 gas tax increase, but it is not anticipated to generate any revenue in FY 2010.		0.0
Total Revenue Changes—Motor Fuel Taxes			**$42.3**
	OTHER		
Connecticut	Estate and Gift Tax: Tax now due within 6 months rather than 9 months—$44.0 million. In addition, reduce estate and gift tax rates by 25 percent for a revenue loss of $2.9 million as well as fix the estate tax cliff effective January 1, 2010 for a revenue loss of $2.7 million. Repeal exemption for foreclosure transactions—$8.5 million.	7/2009 and 1/2010	$46.9
Delaware	Adds direct-to-home satellite services to the public utility tax base and increases tax rates on public utilities other than cable television.	07-09	7.1
	Reinstates Delaware's estate tax.	07-09	5.0
Florida	Real estate transfer taxes.	07-09	12.2
Hawaii	Increases conveyance tax on certain properties.	07-09	10.1
	Temporarily increases TAT (Transient Accommodation Tax).	07-09	28.8
Maryland	Reduced the Mined Coal Tax Credit for the Franchise Tax.	06-09	4.5
	Extends authority to operate electronic instant bingo machines and tax winnings.	06-09	7.0
	Certain inheritance tax exemptions relating to domestic partners.	06-09	-1.0
Minnesota	Tax Compliance.	07-09	13.8
	Modify Wisconsin tax reciprocity.	07-09	35.0
Nevada	Various tax changes.		257.3
New Hampshire	Increases in room and meals tax. A new tax on gambling winnings, an increase in the tax on transfer of real property, a change in Business Profits Tax Filing Threshold, and changes to Interest and Dividends Tax.	07-09	58.6
New Jersey	Insurance Premium Tax-one year increase to 5 percent for Surplus Lines Carriers.	01-09	22.0
	Mental Health Hospital County Share: increase from 12.5 percent to 15 percent.	01-10	4.8
New York	Increased the auto rental tax from 5 to 6 percent.	06-09	10.0
	Imposed a auto rental tax of 5 percent in the Metropolitan Commuter Transportation District.	06-09	36.0
	Imposed a tax of 50 cents per ride on taxicab rides in NY City.	12-09	85.0

TABLE A-11 (continued)

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	Tax Change Description	Effective Date	Fiscal 2010 Revenue Changes ($ in Millions)
	OTHER (continued)		
North Carolina	IRC conformity.	01-09	-$116.3
North Dakota	Credit against coal conversion taxes for qualifying facilities.		-3.7
	Reduction in gaming excise taxes.		-1.9
Oregon	Extend and restructure provider tax. None of this revenue goes to the General Fund.	10-09	177.0
Pennsylvania	Implementation of table games in licensed slot machine venues (final legislation not yet enacted at time of survey completion).	Unknown (not yet enacted at time of survey completion)	200.0
Puerto Rico	Property tax and credits moratorium.		296.0
Rhode Island	Increase Health Care Insurers Gross Premiums Rate to 2.00 percent.	01-09	3.8
	Eliminate Exemption from Gross Premium Tax for Medicaid Managed Care Plans.	07-09	9.8
	Eliminate Health Care Provider Assessment for Group Homes.	05-09	-11.1
	Increase Estate tax exemption amount to $1.0 million.	01-10	-1.5
Tennessee	Health maintenance organization (HMO) tax increased from 2.2 percent to 5.5 percent. Privilege tax applied to professional athletes ($1.0 million).	07-09	137.6
Texas	Reduced taxes on approximately 40,000 small businesses by increasing the ceiling for which revenue is exempt from taxation.	1-10	-85.0
South Dakota	Additional Gaming tax of 1 percent on Deadwood casinos.	07-09	1.0
Vermont	Motor fuel transportation infrastructure assessment.	07-09	15.0
Total Revenue Changes—Other Taxes			**$967.8**
	FEES		
Arkansas	Increase in permit fees for alcoholic beverages and related activities.	2010-2011 renewal and permit period	$1.5
California	0.5 percent increase in Vehicle License Fee rate.		1,657.0
Colorado	Allowance for the Division of Insurance to increase fees (included in SB 09-259).	05-09	2.5
	New hospital provider fee created to be used for expanding coverage of medical benefits to low-income families (HB 09-1293).	04-09	336.4
	Fee increase on licensing and registration for vehicles to create a dedicated revenue source for transportation infrastructure (SB 09-208).	03-09	200.0
Connecticut	Increase various fees.	10-09	61.0
Georgia	Super Speeder Fine.		23.0
Florida	Various highway safety and court related fees.	Various	621.6
Iowa	Increase of various judicial fees.	05-09	16.7
Maine	Inland Fisheries & Wildlife license fee increases.		1.3

TABLE A-11 (continued)

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	Tax Change Description	Effective Date	Fiscal 2010 Revenue Changes ($ in Millions)
	FEES (continued)		
Minnesota	Health Department—Vital Records Technology Improvement Fee. Extends the current $2 surcharge on all vital records to ensure system upgrades scheduled to be implemented in 2010 continue, and future costs are recovered.	07-09	$1.2
	Human Services Dept—Increase and restructure State Operated Services collections.	07-09	12.1
	Dept of Natural Resources—mining permits.	07-09	1.2
	Agriculture Dept.—Increase pesticide fees.	07-09	2.6
	Pollution Control Agency—sewage treatment system professionals training and certification fee increase.	07-09	1.2
	Dept of Employment & Economic Development—workforce development fee.	07-09	6.5
	Dept of Public Safety—parking surcharge increase.	07-09	3.0
	Dept of Public Safety—court fee increases.	07-09	11.7
	Dept of Public Safety—criminal and traffic offenders surcharge increase.	07-09	2.6
	Supreme Court—attorney license fee increase.	07-09	1.0
	Enterprise Technology Office—surcharge for electronic licensing system.	07-09	5.8
Nevada			39.1
New Hampshire	Increases to the administrative fees for the Dept. of Environmental Services Revolving loan fund. Increases to Judicial Branch penalty assessments for fines which dedicates a percentage of the increase to Information Technology. An increase in boat registration fees based on length, an increase in the fees charged for motor vehicle vanity license plates, and an increase in the fees charged for motor vehicle registrations.	All fees effective 7/2009 except Boat Fee increase effective 9/2009	54.3
New Jersey	Motor Vehicle fee increase.	01-09	20.0
New York	Increased most registration fees by 25 percent.	09-09	103.7
	Increased license fees by 25 percent.	09-09	37.6
	Imposed a supplemental fee of $25 on most registrations in the Metropolitan Commuter Transportation District.	09-09	181.6
	Imposed a supplemental fee of $25 on licenses in the Metropolitan Commuter Transportation District.	09-09	26.7
	Increased the cost of a license plate from $15 to $25.	04-10	129.0
	Increase Various Agriculture and Markets Fees.	04-09	3.3
	Increase Nuclear Power Plant Fee.	04-09	2.7
	Increase License Termination Fees.	04-09	13.4
	Increase Various ENCON Fees.	04-09	33.0
	Increase Certificate of Need Fees.	04-09	4.0
	Increase Hospital Surcharges.	04-09	126.0
	Increase Covered Lives Assessments.	04-09	240.0

TABLE A-11 (continued)

Enacted Revenue Changes by Type of Revenue, Fiscal 2010

State	*Tax Change Description*	*Effective Date*	*Fiscal 2010 Revenue Changes ($ in Millions)*
	FEES (continued)		
New York (cont'd)	Increase Insurance Assessment for Public Health Programs.	04-09	$399.5
	Increase Various Department of Labor Fees.	04-09	8.2
	Increase Real Property Transfer Fee.	04-09	14.3
	Increase Administrative Parks Fees.	04-09	6.5
	Increase Utility Assessment.	04-09	557.0
	Establish Horse Entrance Fee.	04-09	1.0
	Increase Surcharge on Auto Insurance.	04-09	48.4
	Establish Bad Check Fee.	04-09	1.5
	Establish Tax Preparer Fee.	04-09	4.0
North Carolina	Increase General Government, Justice & Public Safety, and Health Services Regulation fees.	Various effective dates	55.8
Oregon	Various registration, title, and permit fees for vehicles. None of revenue goes to General Fund.	Various	81.7
Rhode Island	Increase Hospital License Fee to 5.237 percent on 2008 Base Year.	07-09	17.4
	DBR Professional License Fees Increased by 20 percent.	07-09	1.6
	Motor Vehicle Fee Increases: Reinstatement Fee for DUI MV Operator's License from $75 to $350; Reinstatement Fee for All Other MV Operator's License from $75 to $150; MV Certificate of Title Fee from $25 to $50.	04-09	6.9
	Add $100 Fee for Expungement of criminal records.	06-09	1.2
South Dakota	Increases in licensing, registration and inspection fees in Dept. of Health; Increases in parole supervision fees in Dept. of Corrections; Increases in coin laundry fees, alcohol brand registration fees and alcohol licensing fees in the Dept. of Revenue; Increases in business registration and licensing fees within the Secretary of State. Increases in licensing and permit fees within the Dept. of Agriculture. Increases in park related fees within the Dept. of Game Fish and Parks. Increases in license and registration fees within the Dept. of Environment and Natural Resources.	07-09	4.6
Utah	Fee Increases for: Notary License and Apostille, Court Civil filing, Franchise License, Commercial, Real Estate, and Securities Code Enforcement, Motor Vehicle Registration, Motor Vehicle Transaction, Temporary Motor Vehicle Permit.	07-09	79.0
Vermont	Various Fees.	07-09	0.7
Total Revenue Changes—Fees			**$5,273.6**

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-11

Colorado	Colorado cannot raise taxes without voter approval. These revenue measures were passed by the General Assembly. A March 17, 2009 Colorado Supreme Court decision on Mesa County Board of County Commissioners vs. State of Colorado found that the elimination of a tax exemption did not constitute a "tax increase" under Article 10, Section 20 of the Colorado Constitution. Therefore, these revenue measures do not constitute a tax increase.
Nebraska	A number of legislative bills were adopted and signed by the Governor which reduced the tax burden on Nebraska citizens and businesses. However, all were small in scope relative to the total state budget and only the item listed involved more than $1 million in revenue.
Wisconsin	State Tax and Fee Modifications Included in 2009 Act 28, LFB, July 8, 2009

TABLE A-12

Enacted Revenue Measures, Fiscal 2010

State	Description	Effective Date	Fiscal 2010 Recommended Changes ($in Millions)
California	Sales – Compliance: Non-retailer use tax registration	07-09	$ 26.0
	Personal Income – Acceleration: (1) Estimated Payments. (2) Increase withholding rate. Compliance: Backup withholding	November 2009 & January 2010	1,982.0
	Corporate Income – Acceleration (Estimated Payments)	01-10	360.0
Colorado	Sales – Eliminate portion of State sales tax vendors retained for administrative costs associated with collection process (SB 09-212 & SB 09-275).	07-09	68.2
	Sales – Increases penalties associated with vendors that are tardy or misrepresent the amount owed in State sales taxes (HB 09-1101).	03-09	1.2
	Personal Income – Revises Colorado tax policy on capital gains (HB 09-1366).	01-10	7.1
	Personal Income – Revises Colorado tax policy on fuel efficient vehicle tax credits (HB 09-1331).	06-09	1.8
	Corporate Income – Tax credit for corporations that create at least 20 new jobs in Colorado that are paid at 110 percent above the regional average wage level (HB 09-1001)	08-09	-2.9
	Corporate Income – Reduces the amount of interest the State will pay for corporate tax filings that are in excess of final tax liability (HB 09-1219).	03-09	2.3
	Cigarette – Eliminate state cigarette sales tax exemption – was $0.84 per pack (HB 09-1342).	07-09	31.0
Connecticut	Sales – Department of Revenue Services Settlement of Outstanding Taxes	09-09	33.5
	Personal Income – Department of Revenue Services Settlement of Outstanding Taxes	09-09	22.5
	Corporate Income – Department of Revenue Services Settlement of Outstanding Taxes	09-09	19.0
Delaware	Other – Increase state share of Lottery and establish sports betting.	Enactment	55.0
	Other – Tax Amnesty		10.0
Florida	Sales – Additional auditors	07-09	4.4
	Other – Trust fund redirects	07-09	155.1
Hawaii	Sales – Changes the filing deadlines for GET.	07-09	40.0
Idaho	Personal – Income tax, internal revenue code, estate and trust change and IRC conformity	07-09	-11.4
	Corporate – Internal Revenue code change	07-09	-3.1
	Cigarette – Bond levy equalization reduce tax distribution; one-time adjustment	07-09	2.6
Indiana	Fees – Change in Quality Assessment Fee distribution for FY 2009-2011 due to ARRA	10-08	19.7

TABLE A-12 (continued)

Enacted Revenue Measures, Fiscal 2010

State	*Description*	*Effective Date*	*Fiscal 2010 Recommended Changes ($in Millions)*
Kansas	Sales – Settlement authority of back taxes	07-09	$2.0
	Sales – Reducing the sales and use tax statute of limitations from three years to one.	07-09	13.7
	Personal Income – Settlement authority of back taxes	07-09	2.0
	Personal Income – Increase in state minimum wage	07-09	2.5
	Personal Income – 10 percent cut to tax credits	07-09	4.0
	Personal Income – Change tax credit statute of limitations.	07-09	2.0
	Corporate Income – Settlement authority of back taxes	07-09	30.0
	Corporate Income – 10 percent cut to tax credits	07-09	5.2
	Corporate Income – Suspend film production tax credit.	07-09	1.0
	Corporate income – Change tax credit statute of limitations.	07-09	2.0
	Other – Settlement authority of back taxes	07-09	1.0
Maine	Sales – Tax enforcement initiatives		5.3
	Personal Income – Mostly tax enforcement initiatives		23.4
	Corporate Income – Adjusts certain tax calculation methods.		10.1
	Alcohol – Expand Agency Liquor Stores.		1.0
	Other – Changes to Tax Reimbursement Programs		35.4
Maryland	Sales – Diverts a portion of revenue from the Chesapeake Bay 2010 Fund to the General Fund.	06-09	13.1
	Personal Income – Provides for an amnesty period to encourage payment of taxes owed.	06-09	1.2
	Motor Fuels – Diverts a portion of revenue from the Chesapeake Bay 2010 Fund to the General Fund.	06-09	8.4
	Fees – Adjusts commission level for lottery sales agents from 5.5 percent to 5.0 percent of ticket sales.	06-09	8.6
Minnesota	Fees – Dept of Labor & Industry – Move to a biennial licensure and registration process and stagger the renewal cycles to save agency operating costs.	07-09	2.7
Nevada	Other – Redirection of existing taxes to the state general fund	07-09	86.4
	Fees		7.1
New Jersey	Corporate Business – Extend 4 percent surcharge that was to expire.	01-09	80.0
	Other – Audit and Enforcement Collections	07-09	40.0

TABLE A-12 (continued)

Enacted Revenue Measures, Fiscal 2010

State	Description	Effective Date	Fiscal 2010 Recommended Changes ($in Millions)
New York	Sales – Initiated a tax compliance program.	04-09	$34.2
	Personal Income – Enacted reciprocal vendor offset fee with the Feds and other states to collect delinquent tax debts.	04-09	2.5
	Personal Income – Reformed Empire Zones program.	04-09	28.0
	Corporate Income – Change filing requirement for overcapitalized captive insurance companies.	01-09	31.0
	Corporate Income – Impose Insurance Premiums Tax for -Profit HMOs.	01-09	131.0
	Corporate Income – Reform the Empire Zones Program.	01-08	39.0
	Corporate Income – Increase Prepayment to 40 percent.	01-10	333.0
	Corporate Income – Underutilized Tax Credits	01-09	2.0
	Fees – Remove Cap on DMV Surcharges.	04-09	6.0
	Fees – Reinstitute Hospital Assessment.	04-09	124.3
	Fees – Reinstitute Home Care Assessment.	04-09	14.2
	Fees – Extend the Covered Lives Assessment.	04-09	5.0
Ohio	Sales – Extend sales and use tax to include managed care plan to replace expiration of a fee on those plans.		138.0
	Personal Income – Tax credit on film production, exempt certain unemployment benefits		-70.0
	Other – Extend insurance tax to replace managed care fee expiration.		25.0
	Fees – Increase multiple fees to non-GRF to offset reduced tax revenue.		53.0
Oklahoma	Sales – $0.2 million Internet Tax Initiative; $0.2 million 3rd party placement of delinquent accounts action	11-1-09; 7-1-09	0.4
	Personal – $5.3 million Internet Tax Initiative; $8.6 million 3rd party placement of delinquent accounts; $23.1 million Employer Withholding Modification	11-1-09; 7-1-09; 11-1-09	37.0
	Corporate – Increased Quality Jobs Incentives.	01-09	-0.3
	Other – Motor Vehicle Tax – Increased penalty for late registration.	07-09	16.4
	Fees – CompSource Market Equalization	01-10	5.3
Pennsylvania	Personal Income – Standardization with federal withholding requirements will provide a one-time revenue increase.	07-09	159.1
	Cigarette – Eliminate transfer of 25 cents per pack of the cigarette tax to the Health Care Provider Retention Account.	07-09	170.9
	Other – Implementation of a tax amnesty program; various taxes will be impacted.	07-09	190.0
	Other – Reduction in various tax credits awarded	07-09	38.3
	Other – Shift 2 percent of slot machine gross terminal revenue from Race Horse Development Fund to General Fund (final legislation not yet enacted at time of survey completion).	07-09	38.9
	Other – Suspend the phase-out of the Capital Stock and Franchise Tax.	01-09	373.9

TABLE A-12 (continued)

Enacted Revenue Measures, Fiscal 2010

State	Description	Effective Date	Fiscal 2010 Recommended Changes ($in Millions)
Pennsylvania (cont'd)	Other – Transfer from Rainy Day Fund to the General Fund	10-09	755.0
	Other – Transfer from Health Care Provider Retention Account to the General Fund	10-09	$708.0
	Other – Transfer from Oil & Gas Lease Fund to the General Fund	10-09	203.0
	Other – Transfer from Tobacco Settlement Endowment Account to the General Fund	10-09	150.0
	Other – Transfer from Medical Care Availability and Reduction of Error Fund to the General Fund	10-09	100.0
	Other – Transfers from various other special funds to the General Fund	10-09	90.5
	Other – Transfer of special fund moving violation surcharges to the General Fund	07-09	44.0
Rhode Island	Motor Fuel – Transfer of $0.01 general revenue share of $0.30 Gas Tax to Department of Transportation	07-09	-4.4
	Other – Reduce Nursing Home Tax Revenue due to Medicaid Reductions in Long-Term Care.	07-09	-1.6
	Other – Extend gaming operations to 24/3 at Twin River and Newport Grand Casinos.	07-09	7.6
	Other – Extend gaming operations to 24/7 at Twin River Casino.	07-09	3.1
	Fees – Reinstituted Hospital Licensing Fee.	06-09	111.4
South Dakota	Cigarette – Prior to FY 2010, some cigarette revenue was appropriated through other fund expenditure authority. For FY 2010, this revenue has been directed to the state general fund.		8.3
Utah	Corporate Income – Sole proprietors pay less	01-09	-8.0
Vermont	Sales – Sales tax holiday for items for personal use	8/22/2009 & 3/6/2010	-1.8
	Other – Estate tax exclusion remains at $2 million.	01-09	3.0
Virginia	Sales – Tax remittance program	06-10	97.8
	Sales – Tax Amnesty	10-09	9.5
	Personal Income – Tax Amnesty	10-09	19.0
	Personal Income – Cap Land Preservation Tax Credit $50 million reduction to refunds	01-10	50.0
	Corporate Income – Captive REIT	01-09	5.0
	Other – Interest from Tax Amnesty	10-09	9.5
Washington	Other – Hiring of additional revenue auditors to collect unpaid taxes.	07-09	16.0

TABLE A-12 (continued)

Enacted Revenue Measures, Fiscal 2010

State	*Description*	*Effective Date*	*Fiscal 2010 Recommended Changes ($in Millions)*
Wisconsin	Sales – Delay sales tax exemption for alternative energy; Expand definition of nexus for sales and use tax purposes.		$2.8
	Personal Income – Adopt the IRC change in the federal Worker, Retiree and Employer Recovery Act that waives the minimum distribution amount for federal tax-deferred retirement accounts for calendar year 2009; Extend the requirement for pass-through entities to make quarterly estimated withholding tax payments to include payments for nonresident individuals.		20.4
	Corporate Income – Eliminate IRC references that provide a deduction for domestic production activities income; Modify throwback sales apportionment formula; Modify the combined group tax credit sharing regarding research credit.		68.8
	Other – Postpone the phase-in of the deductions for certain health insurance premiums and certain medical care insurance premiums; Delay the initial applicability of the deduction for certain child and dependent care expenses, electronic medical records credit and community rehabilitation program tax credit.		40.9
	Fees – Impose a $1,000 limit on the amount a retailer may deduct under the retailer's discount for filing a sale and use tax return with DOR.		5.2
Total			**$7,651.2**

SOURCE: National Association of State Budget Officers.

NOTES TO TABLE A-12

New Jersey	The following legislation enacted in 2008-2009 had a negative effect on state revenues. In each case, that impact was thought to exceed $1 million, however no firm estimate was determined. Net operating loss provision on the Corporation Business Tax (CBT) was extended from 7 to 20 years. The throw out of receipts in determining taxable net income under the CBT was eliminated. The requirement to maintain a regular place of business outside of New Jersey in order to apportion taxable income subject to the CBT was rescinded. The pre-selling corporation lifetime cap of $10 million was raised to $15 million for the High Technology Unused Tax Benefit Tax Transfer Program.

TABLE A-13

Total Balances and Balances as a Percentage of Expenditures, Fiscal 2008 to Fiscal 2010*

	Total Balance ($ in Millions)**			Balances as a Percent of Expenditures		
Region/State	*Fiscal 2008*	*Fiscal 2009*	*Fiscal 2010*	*Fiscal 2008*	*Fiscal 2009*	*Fiscal 2010*
NEW ENGLAND						
Connecticut	$ 1,481	$ 1,382	$ 343	9.1%	8.2%	2.0%
Maine	131	52	11	4.2%	1.7%	0.4%
Massachusetts	2,226	835	699	6.7%	2.6%	2.2%
New Hampshire	106	20	22	6.9%	1.3%	1.4%
Rhode Island	62	19	60	1.8%	0.6%	2.0%
Vermont	58	60	57	4.8%	5.2%	5.2%
MID-ATLANTIC						
Delaware	526	379	327	15.4%	11.5%	10.1%
Maryland	1,172	779	418	8.1%	5.4%	3.1%
New Jersey	1,303	734	501	3.9%	2.5%	1.8%
New York	2,754	1,948	1,378	5.2%	3.6%	2.5%
Pennsylvania	583	-2,030	354	2.2%	-7.5%	1.4%
GREAT LAKES						
Illinois	417	$555	555	1.5%	1.9%	2.2%
Indiana	1,413	1,329	1,337	11.1%	10.2%	10.4%
Michigan	460	213	178	4.7%	2.5%	2.2%
Ohio	2,694	735	174	10.2%	2.7%	0.7%
Wisconsin	131	90	470	1.0%	0.7%	3.5%
PLAINS						
Iowa	641	519	608	10.9%	8.7%	10.5%
Kansas	527	73	-5	8.6%	1.2%	-0.1%
Minnesota	1,920	538	338	11.3%	3.2%	2.2%
Missouri	1,115	530	301	13.8%	6.3%	3.8%
Nebraska	1,130	1,002	621	34.8%	30.1%	18.4%
North Dakota	653	687	660	54.2%	55.5%	41.5%
South Dakota	107	107	107	9.1%	9.3%	9.4%
SOUTHEAST						
Alabama	467	50	0	5.4%	0.7%	0.0%
Arkansas	0	0	0	0.0%	0.0%	0.0%
Florida	1,666	575	941	6.0%	2.4%	4.4%
Georgia	2,217	2,183	2,183	11.4%	12.5%	12.7%
Kentucky	300	47	0	3.2%	0.5%	0.0%
Louisiana	1,641	776	2	17.0%	9.1	0.0%
Mississippi	401	341	250	7.8%	6.6%	5.1%
North Carolina	1,386	242	154	6.8%	1.2%	0.8%
South Carolina	324	121	94	4.5%	2.1%	1.6%
Tennessee	1,098	587	532	10.0%	5.4%	5.3%
Virginia	1,328	714	634	7.7%	4.5%	4.0%
West Virginia	1,132	953	984	30.1%	24.0%	25.8%
SOUTHWEST						
Arizona	220	-499	-583	2.2%	-5.7%	-6.7%
New Mexico	735	481	-4	12.2%	8.0%	-0.1%
Oklahoma	886	630	229	13.7%	9.6%	3.9%
Texas	11,389	8,873	10,937	28.7%	20.8%	30.3%
ROCKY MOUNTAIN						
Colorado	327	148	136	4.4%	2.0%	2.0%
Idaho	380	50	119	13.6%	1.8%	4.7%
Montana	434	392	306	21.0%	21.1%	16.5%
Utah	414	419	449	7.2%	8.7%	10.0%
Wyoming	306	301	279	16.9%	16.4%	15.2%
FAR WEST						
Alaska	5,601	6,551	6,902	102.5%	127.1%	159.2%
California	2,376	-3,379	1,579	2.3%	-3.7%	1.9%
Hawaii	404	23	82	7.5%	0.4%	1.8%
Nevada	388	214	168	11.3%	6.0%	5.2%
Oregon	627	349	-219	9.0%	6.0%	-3.2%
Washington	1,093	218	269	7.5%	1.5%	1.8%
TERRITORIES						
Puerto Rico	-684	-723	0	-7.5%	-7.6%	0.0%
Total**	**$59,148**	**$31,989**	**$35,936**	**8.6%**	**4.8%**	**5.7%**

NOTES: NA indicates data not available. *Fiscal 2008 are actual figures, fiscal 2009 are preliminary actual figures, and fiscal 2010 are appropriated figures. **Total balances include both the ending balance and balances in budget stabilization funds.

SOURCE: National Association of State Budget Officers.

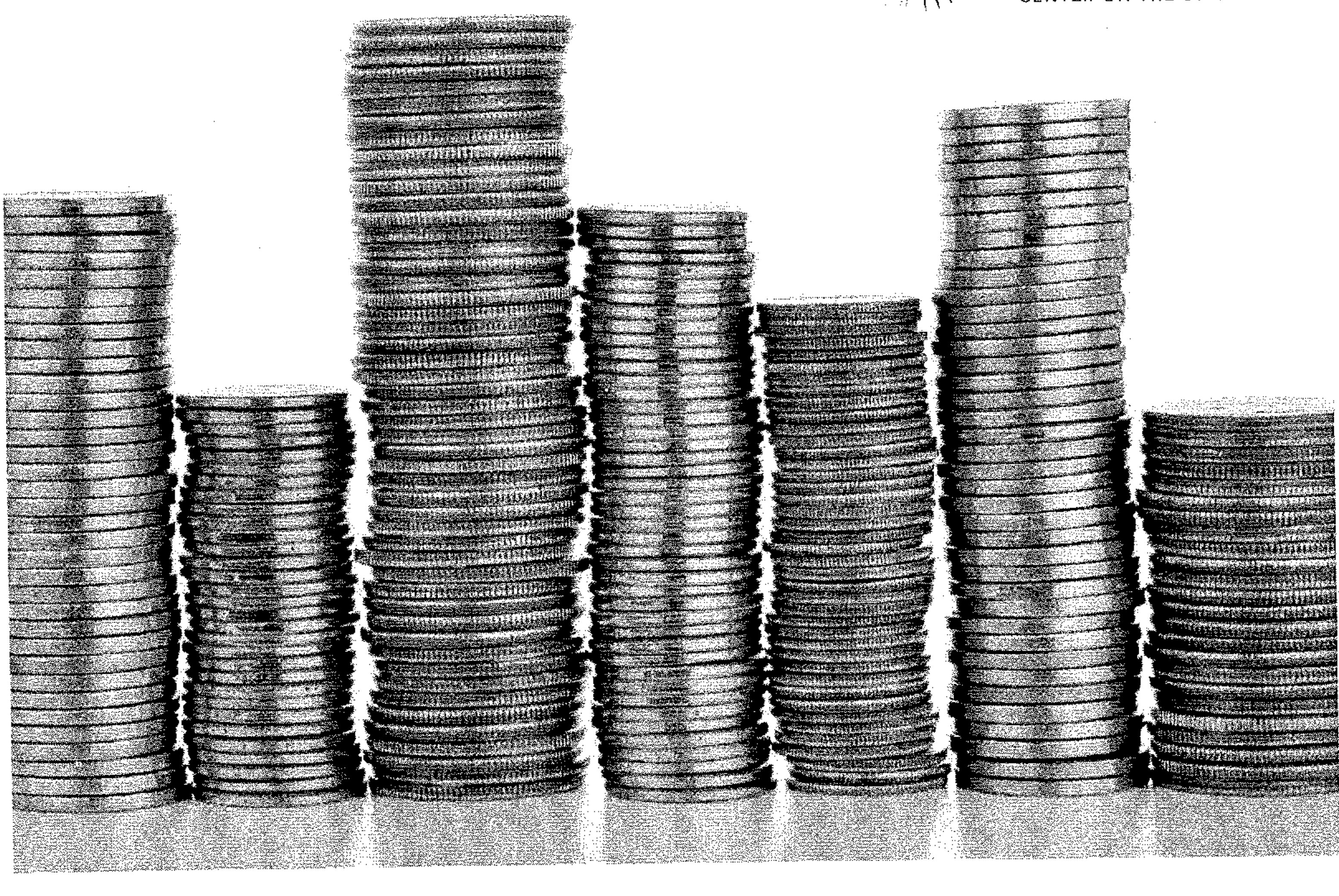
www.nga.org
www.nasbo.org

APPENDIX B

Promises with a Price

Public Sector Retirement Benefits

THE PEW CENTER ON THE STATES



Dear reader:

$2.73 trillion. That is a conservative estimate of what states will spend on pensions, health care and other retirement benefits for their employees over the next 30 years. It is an enormous investment of taxpayer dollars—so the stakes are extraordinarily high. Across the country, state policy leaders are trying to strike the right balance between controlling costs and recruiting and retaining talent in the public sector.

This groundbreaking report, *Promises with a Price*, provides first-of-its-kind data about the long-term costs of public sector benefits. It highlights which states are prepared to pay the significant bill coming due, which are not, and why it matters to state lawmakers and citizens alike.

States' fiscal health depends greatly on policy makers' ability to wisely manage their bills coming due—and The Pew Charitable Trusts' Center on the States (PCS) is tracking their efforts across a range of issues. For instance, last year we published a report on states' efforts to rein in ballooning Medicaid costs while ensuring high-quality health care for citizens in need. This year we issued a 50-state assessment forecasting that, without data-driven policy reforms, many states will see significant growth in their prison populations and corrections spending in the next five years.

Equally important is whether states have the right policies in place to be competitive in a global, 21st-Century economy. In July, PCS and the National Governors Association joined forces to produce a governors' guide on states' research and development funds, aimed at stirring innovation and creating new jobs. In January 2008, PCS and *Governing* magazine will publish a report on whether states' tax structures encourage or impede states' economic vitality.

Finally, in March, our Government Performance Project will release a 50-state report card on how efficiently and effectively states are managing their budgets, employees, information and infrastructure—all critical to ensuring that state policies ultimately deliver the results lawmakers and taxpayers expect.

Researching emerging topics, developing 50-state comparisons, identifying innovative approaches among states to complex problems, and, when the facts are clear, advocating for nonpartisan, pragmatic solutions—these are the signature efforts of PCS.

The Pew Charitable Trusts applies the power of knowledge to solve today's most challenging problems, and PCS, a division of Pew, identifies and advances effective policy approaches to critical issues facing states. We hope all of our work, including this report, helps states make sound, data-driven policy choices on a wide range of issues.

To learn more about Pew and our Center on the States, please visit www.pewcenteronthestates.org.

Sincerely,
Susan Urahn
Managing Director, Pew Center on the States

Acknowledgments

The Pew Charitable Trusts applies the power of knowledge to solve today's most challenging problems. Our Pew Center on the States identifies and advances effective policy approaches to critical issues facing states.

PEW CENTER ON THE STATES

Susan Urahn, managing director

Project Team

Katherine Barrett and Richard Greene, principal authors
Kil Huh
Lori Grange
Emily Cheramie Walz
David Draine
Alyson Freedman
Ann Cloke

Consultants

Tim Maniccia, founder, Policy Innovation LLC
Eric Berman, deputy comptroller, Massachusetts
Walecia Konrad, research and reporting
Mark Wellborn, research and reporting

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- Richard Keevey, director, Policy Research Institute for the Region, Woodrow Wilson School at Princeton University. Keevey previously was director of the New Jersey Office of Management and Budget, as well as state budget director and state comptroller.

- Girard Miller, commentator and consultant on public finance issues. Miller previously was president and chief operating officer of Janus Capital Group and president and CEO of ICMA Retirement Corporation.

- Parry Young, commentator and consultant on public finance issues, with a focus on pension and retiree health care benefits. Young previously was director of Standard & Poor's Ratings Services.

While these experts have screened the report for methodology and accuracy, neither they nor their current or former organizations necessarily endorse its findings or conclusions.

For additional information on Pew and our Center on the States, please visit www.pewcenteronthestates.org.

Section 1:

Executive Summary

FOR MANY AMERICANS, POST-RETIREMENT BENEFITS—principally pensions and health care—for state government employees is an obscure topic. But because of how they can affect state budgets, these benefits have become an issue of critical importance. Research by Pew's Center on the States shows states' retiree pensions and other benefits represent a bill coming due over the next few decades that can be conservatively estimated at $2.73 trillion. That includes about $2.35 trillion for a wide range of employee pensions, including those for teachers, and an additional $381 billion for retiree health care and other non-pension benefits for state employees only, excluding those for teachers and a handful of other groups.

The bill coming due over the next few decades can be conservatively estimated at $2.73 trillion.

To their credit, states have socked away enough to cover about 85 percent of the pension bill. But there is very little put aside for non-pension benefits. All told, states face about $731 billion in unfunded bills coming due. (See Exhibit 1-1.)

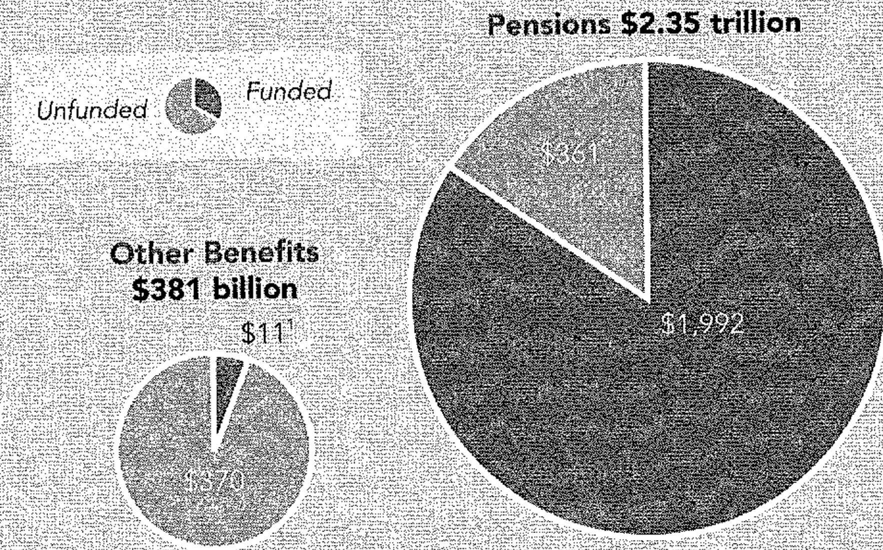
The way in which states provide retirement benefits, and at what levels, to their employees has become the subject of increasingly volatile debate. Several important developments have drawn attention to the issue, including the precipitous drop in public pension funding levels in the early years of the decade and new accounting rules that identify, for the first time, the large obligations that many governments have incurred for retiree health care and other non-pension benefits.

States' liabilities and their ability to cover those costs are affected by a variety of factors, including the strength of their economies, shifts in their populations and their tax capacity. But policy decisions are equally critical. In some states, retiree benefits have been vulnerable to a buy-now, pay-later mentality. In bad budget times, retirement benefits become easy substitutes for salary increases because states can put off the bills. In good times, feelings of legislative largesse can create new retirement benefit policies that have costly long-term price tags.

Today, the need to intelligently control and manage the cost of post-retirement benefits is integral to states' capacity to fund competing needs, such as adequate roads, bridges, water systems and high-quality public education. But at a time when states are competing with the private sector and other nations for the best and the brightest, many fear that reducing benefits could make public sector employment less attractive. "Addressing this issue now is responsible public policy," said Robert N. Campbell III, vice chairman, Deloitte & Touche USA, LLP, which provides financial, human resource and technological services to business and government. "It is in the public interest to

1-1 50-STATE RETIREE BILL: $2.73 TRILLION

The pension bill is much larger than that of other benefits, but it is 85 percent funded; the bill for other benefits is only 3 percent funded (in billions).



1 This number is an estimate of assets for state employees only. According to actuarial valuations, which include cost-sharing plans, the assets total $18 billion.

NOTES: Numbers are the totals of the states' 30-year obligations as calculated in 2006. Other benefit costs only include state employees. The "Other Benefits" number is based on actuarial valuations from the states, which include some cost-sharing plans (i.e., Arizona, North Carolina and Ohio).

SOURCE: Pew Center on the States; Based on States' Comprehensive Annual Financial Report and Actuarial Valuation Data

ensure that qualified, skilled and capable individuals continue to be attracted to careers in public service."

The issues surrounding retirement benefits are highly technical, involving complex calculations and arcane financial terms; in general, the public doesn't pay nearly as much attention to them as they do to education, health care and other topics. This lack of public awareness is part of the reason some states now find themselves in trouble. But the complexity of public sector retirement benefits belies their potential consequences for everyday citizens. Even seemingly modest changes can have significant impacts on public employees, taxpayers and states' fiscal health.

Given the amount of public funds invested, it is more important than ever that states be informed by the best available data, analysis and practices when making decisions about post-retirement benefits.

This report, by the Pew Center on the States (PCS), seeks to provide such information to state policy makers across the country. The report is divided into three sections. This executive summary highlights key findings of the report, describes current forces driving up costs in both pensions and other post-employment benefits (primarily health care), and explains why state budgets will be affected for years to come. The second section focuses on pensions, offering 50-state data illuminating different ways states have handled these obligations and opportunities for states to control future costs. The last section examines other post-employment benefits, providing groundbreaking data on states' liabilities for retiree health care and profiling initial measures some states have taken to manage the issue.

PCS's analysis flows from an intensive review of data compiled and reported by the states—information that is publicly available but not always easily accessed by policy makers. To examine pension funding trends, PCS aggregated all the pension data that were available in states' comprehensive annual financial reports, including plans for teachers, state employees, law enforcement personnel, elected officials, judges and, in some cases, municipal employees whose benefits are administered through state plans. To assess the impact of health care and other non-pension benefits, PCS collected actuarial valuations that have now been completed by most of the states and which calculate long-term costs of retiree health and other benefits that have previously been unknown. In this case, to offer a consistent comparison among states, information was collected for state employees only. Non-pension benefits for teachers will be the topic of a subsequent report. (For a more detailed explanation of our methodology, see page 17.)

Key Findings

Pensions

State of the States:

- From a national perspective, states' pension plans seem to be in reasonable shape. Looking at all pension plans covered in the states' financial reports, there were $2.35 trillion in long-term liabilities at the end of fiscal year 2006, of which $361 billion was unfunded. Data collected by PCS show that, in the aggregate, states' systems were 85 percent funded for fiscal year 2006.

- But the national perspective masks important variations across the states. Twenty states had less than 80 percent of the funds necessary to cover their long-term pension obligations—the level most experts consider to be healthy. Given shifts in funding levels caused by volatility in the stock market and other forces, underfunding could leave states in a very precarious position. And several states, including Connecticut, Illinois, Hawaii, Kentucky and New Hampshire, have experienced particularly troubling drops in their funding ratios.

- While the overall story about states' pension plans seems generally positive, policy makers should be cautious about this news. Past experience indicates that good times may become perilous for the long-term health of pension systems. In the late 1990s and early 2000s, when half the states' pension plans were fully funded, many states reacted by increasing benefits. In the years that followed, funding levels for state pension plans dropped substantially, some by as much as 30 to 40 percentage points.

- In the past 10 years, only about a third of the states have consistently contributed the full annual amount their own actuaries said was necessary. In 2006, 20 states contributed less than 95 percent of the amount their actuaries targeted to meet their annual contribution for pension funding, and 10 states contributed less than 80 percent. States that have consistently fallen short in recent years include Colorado, Illinois, Kansas, Michigan, New Jersey, Oklahoma and Washington.

Promising Approaches:

- States should fully fund their liabilities each and every year. And they should be sure that any new benefits promised are genuinely affordable—once given, pension benefits are very difficult to take away. Both Georgia and Oklahoma require that any proposed benefit increase be accompanied by actuarial calculations of long-term affordability.

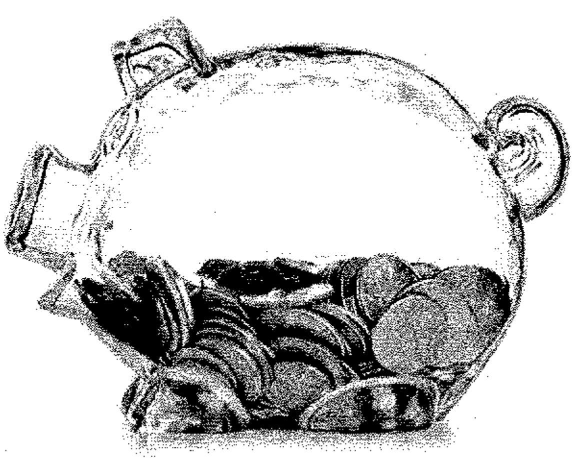
- A number of states are taking additional steps to reduce their long-term costs. At least five states now offer hybrid plans that combine elements of both defined benefit and defined contribution plans. (The former promises recipients a set level of benefits; with the latter, the employer contributes a defined amount to the plan.) According to a September 2007 report by the U.S. Government Accountability Office (GAO),[1] Oregon officials estimate that a new hybrid program adopted by the state in 2003 contributed to $400 million in pension reform savings.

- Some states are closing loopholes within pension systems that allow employees to increase the amount they collect after retirement, such as inflating the number of years counted toward retirement or final salary during the last years of employment.

- Some states are strengthening how they govern their pension systems so the funds will be better managed and less volatile. A number of states also are requiring faster, more accurate financial reporting so that policy makers will have the best and most up-to-date information when making decisions about pension plans.

Other Post-Employment Benefits

In response to a 2004 rule from the Governmental Accounting Standards Board (GASB), most states have now completed their calculations of the long-term cost of the non-pension retiree benefits they offer to their own state employees. Of these benefits, the biggest by far is health care, but benefits can also include such coverage as dental care and life insurance.



State of the States:

- The long-term price tag for retiree health care and other benefits for state employees alone is about $381 billion, according to PCS's analysis. About 97 percent—$370 billion—of that 30-year bill was unfunded at the end of fiscal year 2006. And this is a conservative estimate because it doesn't include obligations for teachers or local government workers.

- When it comes to states' total liabilities for employee retirement, pensions represent a far bigger portion than retiree health care and other non-pension benefits. But states are doing a far better job socking away money to cover pension costs. That means that non-pension liabilities make up a disproportionate share—more than half—of what states haven't yet funded.

- States differ tremendously in the kinds of non-pension benefits they offer to retirees. Half the states account for almost 94 percent of the liabilities—largely the result of decisions that governments have made about how large or small these retirement benefits should be and who should receive them. Per capita costs for other post-employment benefits range from less than $200 in states like North Dakota, South Dakota and Wyoming to more than $5,000 in Delaware, Hawaii and Connecticut.

- At the end of fiscal year 2006, just six states—Arizona, North Dakota, Ohio, Oregon, Utah and Wisconsin—were on track to have fully funded their non-pension obligations during the next 30 years. Of the five largest states—California, Texas, New York, Florida and Illinois—none had put aside money for non-pension benefits. Eleven states face long-term liabilities in excess of $10 billion, led by New York at $50 billion, California at $48 billion, and Connecticut and New Jersey at $22 billion each. (Illinois does not have an official valuation yet, but estimates put its liability at $48 billion.)

Promising Approaches:

- At least 13 states have set up irrevocable trusts to pay for retirement benefits in years to come, ensuring that none of the funds are diverted to other purposes.

- States can cut their long-term costs substantially if they start fully funding their annual required contribution for other post-employment benefits. For example, Massachusetts would face $13.3 billion in long-term costs if it didn't put aside funds for retiree health care and other non-pension benefits. If the state consistently funds its required contribution every year—as it is doing in 2008—the long-term costs will be reduced to $7.6 billion. Why? Because the interest the state is likely to earn when it invests more money over the long term can be applied to paying down the bill.

- Many states owe so much that they may find it cost-prohibitive to fully fund their non-pension liabilities—the median annual contribution required is almost three times what they currently are paying. So a growing number of states are both setting aside some money and restructuring benefits to reduce costs. (In general, states have more flexibility to make changes to retiree health care than to pensions—although this subject is likely to be litigated as governments test their latitude for making changes.)

- States can reduce costs by raising the retirement age, increasing employee and retiree premiums and co-pays, increasing the number of years of employment required for lifetime or fully subsidized benefits, requiring new retirees to pay a percentage of their base salary at retirement for health care costs, and requiring retirees to join a Medicare advantage prescription drug plan.

- Some states also are reducing retiree health costs by promoting wellness programs and other preventive measures, and by managing their benefit plans more cost efficiently—for instance, by joining with localities to bundle their plans under a single administrative umbrella.

- States can, in fact, lower their long-term liabilities. For example, after setting up a trust fund for its other post-employment benefits and adopting several reforms, including increased co-pays and requirements for retirees to join a Medicare advantage prescription drug plan, West Virginia reduced its long-term liability by more than half, from an estimated $7.8 billion at the end of June 2006 to $3.4 billion in April 2007.

Why It Matters

Today it is more important than ever that decision-makers—state policy leaders, boards of trustees, agency and union heads, and others—pay serious attention to decisions about post-employment benefits for public sector employees and that they strike the right balance between managing costs and recruiting and retaining good talent. Five key forces significantly affect post-employment benefits and states' ability to pay for them.

1. Pension funding levels are volatile

Pension investment practices have shifted dramatically in the past 30 years. Federal Reserve Board data from June 2007 indicate that 70 percent of state and local pension investments are in equities, broadly defined, up from 62 percent in 2000 and 38 percent in 1990.[2] Because equity investment was a relatively new phenomenon for a lot of states in the 1990s, decision-makers may have ignored the idea that what goes up also comes down.

By 2000, about half the states' pension systems were fully funded, due to strong and sustained stock market growth. Legislatures responded in 1999 and 2000 by shortening vesting periods, increasing the multipliers used in determining benefit amounts, decreasing the age at which employees could receive full retirement benefits and shortening the years of service needed to qualify. New York, New Jersey, Illinois, Pennsylvania, Kentucky, California, Colorado and other states increased benefits.[3] Some also decreased required employer contributions to the plans (see Exhibit A-2 in Appendix A).

But the rosy investment picture of the late 1990s was already starting to wilt in 2000, with the dot.com bust followed by the 9/11 attacks and weakening economy beginning in 2001.

Added benefits increased accrued liabilities while shortfalls in contributions ate into asset growth. In the early years of the decade, as poor investment returns caused funding levels to dip, it became even more difficult for states to make the employer contributions required to keep up. By 2006, only five states—Florida, New York,[4] North Carolina, Oregon and Wisconsin[5]—had pension funding ratios at a 100 percent or greater level. A handful of others—Delaware, Georgia, South Dakota, Tennessee and Utah—were moving close to that point.

This story provides a cautionary tale for policy makers today.

Most states employ a multiyear smoothing process, which evens out gains and losses over time, to calculate the value of their assets. For that reason, pension funding levels have continued to experience the effects of poor returns in fiscal years 2001 and 2002,[6] even though investment returns have done well recently. States have responded to their lowered pension funding levels with caution, enacting relatively few benefit increases in the past several years. States such as Rhode Island, Kansas and Illinois have implemented reforms to try to reduce long-term costs.[7]

But in the next year, there is a chance that pension funding levels will start to rise again, as the bleak returns of the early 2000s are removed from the picture. The big question is whether state leaders will learn the lessons of the past decade or whether they will respond to rising funding levels as many did in the period between 1999 and 2001.

One basic fact significantly affects all retiree benefit equations: While funding levels may rise and fall with the economy, once given, a defined benefit is very difficult to take away.

2. Retiree health care costs are rising dramatically

Retiree health benefits have been offered to public sector employees for decades, but their long-term costs have received relatively little attention. That changed in 2004, when the Governmental Accounting Standards Board (GASB) adopted new standards that ask governments to calculate the long-term actuarial liabilities for non-pension benefits, called "other post-employment benefits" (OPEB), using an approach similar to the one they take for pensions.[8] For the largest governments, including all states, these numbers will be reported for the first time in fiscal year 2008 financial reports.[9]

In some states, the actuarial unfunded liability for non-pension benefits just for state employees is greater than the aggregate unfunded liability for all their pension plans. This is because states have long set aside money for future retirees in their pension systems, but most states have paid for other post-retirement benefits on a pay-as-you-go basis. Each year, as the number of retirees grows and medical costs go up, so does the bill that must be paid out of current revenues.

Exhibit 1-2 shows eight of the 15 states in which the unfunded actuarial accrued liability (UAAL) for retiree health and other post-employment benefits for state employees is greater than the aggregate unfunded actuarial liability for pensions.

1-2 A DOUBLE BILL (THOUSANDS)

States	OPEB UAAL	Pension UAAL	States	OPEB UAAL	Pension UAAL
California	$47,878,000	$46,673,644	Hawaii	$6,791,000	$5,132,028
Connecticut	$21,681,000	$14,914,600	Maryland	$14,543,000	$7,634,087
Delaware	$4,410,000	$207,635	Pennsylvania	$13,501,000	$12,223,300
Georgia	$4,905,000	$2,503,741	Tennessee	$2,305,000	$366,114

NOTE: PCS assembled these data from 2006 Comprehensive Annual Financial Reports for all 50 states, and their respective pension plans. Additional data were obtained from 2006 actuarial valuations of state pension systems and actuarial valuations of other post-employment benefits when available.
SOURCE: Pew Center on the States

3. The gap between private and public sector benefits is expanding

Private sector retiree benefits differ greatly, depending on the size of companies, the level of unionization and the industry.[10] But in general, the private sector never offered the level of benefits that have been traditionally available in the public sector. At its high point in 1980, only about 35 percent of private sector workers had defined benefit pension plans.[11] That number is expected to drop to 13 percent by 2016, according to Dallas Salisbury, chief executive officer of the Employee Benefit Research Institute (EBRI).

As Exhibit 1-3 shows, public sector employees are far more likely to receive retirement benefits—and the gulf between private and public sectors continues to grow. While there are signs that governments are instituting some reforms to scale back benefits, particularly for new employees, the pace of change is dramatically slower than in the business world.

In spring 2007, EBRI and Mercer Human Resource Consulting surveyed private sector defined benefit sponsors and found that more than 35 percent had made changes to their plan in the past two years. About a quarter had closed the plan to new hires, while nearly 13 percent had frozen their plans for all members.[12] About a third of the organizations that had not changed their plans said they intended to do so in the next two years. And 19 percent said they were considering closing the plans to new hires. The vast majority of private sector companies that intend to shift away from defined benefit systems also say they will increase contributions to defined contribution plans.[13]

The same phenomenon has taken place with retiree health benefits. According to the Kaiser Family Foundation, only a third of big companies offer retiree health insurance. The number has been cut in half since 1988.[14] Of those that do offer benefits, they tend to be considerably less generous than those offered by state government. The Citizens Budget Commission in New York took a look at employers that offer retiree health coverage and found that 10 percent pay the full premium, compared with 32 percent in the states.[15]

The gap between public and private sector benefits fuels the political debate, as taxpayers notice that they are contributing to government employee retirement benefits that are increasingly unavailable in the private sector. This disparity—and resulting pension envy among private sector employees—has generated a wide variety of political reactions, with some calling for a reduction in government benefits and others decrying the declining benefits in the private sector and citing the public sector as an example of how long-term employees should be treated. "The larger issue of what working people are entitled to in our society needs to be considered too," wrote Jon Shure, president of the New Jersey Policy Perspective in a commentary in the New Jersey section of the *New York Times* on November 26, 2006. "Is one group getting plush benefits at the expense of the other? Or, rather, is it government's responsibility to set an example for what the private sector should do as well?"

4. The number of retirees increases every year

The number of retirees will continue to grow as the baby boomer generation reaches retirement age—a massive demographic shift that will affect government on all levels and across sectors. The number of Americans over age 65 increased eleven-fold from 1900 to 1997. Steady increases have continued since then, but the growth in the elderly population will accelerate even more with the aging of the baby boom generation, with a projected increase of 80 percent between 2010 and 2030.[16] By 2030, 71 million Americans—one of every five people—will be over 65, according to projections from the Social Security Administration.[17]

Meanwhile, the public sector will face an escalating number of retirements sooner than the private sector because of the older average age of public employees. In Illinois, for example, the state comptroller reports that in fiscal year 2006, 65 percent of public employees were in their 40s and 50s—up from 41 percent in 1986.[18]

As the number of retirees multiplies, the enormous variation in states will become more pronounced. States with large unfunded actuarial liabilities either in health benefits or pensions will face increasingly large annual costs to provide benefits that were promised. California provides a telling example: The Center for Government Analysis reports the $4 billion required to pay for California's annual state and local retiree health costs in 2006 will escalate to $6 billion in 2009, almost $10 billion in 2012 and $27 billon by 2019.[19]

1-3 A PICTURE OF PRIVATE AND PUBLIC RETIREMENT BENEFITS

Compensation/Benefit	Private Sector Employees	Public Sector Employees
Defined benefit plan	20%[1]	90%[2]
Median pension in 2005	$7,692[3]	$17,640[4]
Retiree health benefit of any kind	33%[5]	82%[6]

1 Data from the U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in Private Industry in the United States", (March 2007):7, http://www.bls.gov/ncs/ebs/sp/ebsm0006.pdf
2 Data from Employee Benefit Research Institute, "Fundamentals of Employee Benefit Programs, Part Five: Public Sector," 2005:16.http://www.ebri.org/pdf/publications/books/fundamentals/Fnd05.Prt05.Chp40.pdf
3 Data from Debra Whitman and Patrick Purcell, "Topics in Aging: Income and Poverty Among Older Americans in 2005," Congressional Research Service, September 21, 2006.
4 Ibid.
5 A little more than a fifth of large employers that offer retiree health pay no part of the premium, according to the Citizens Budget Commission in New York. New York's Citizen Budget Commission, "The Case for Redesigning Retirement Benefits for New York's Public Employees," April 29, 2005.
6 The 82 percent figure pertains to state and local governments that have more than 200 employees.
SOURCES: Defined benefit data from BLS/EBRI; median pension data from Congressional Research Service; and Retiree health data from Kaiser Family Foundation.

California's annual state and local retiree health costs of $4 billion in 2006 will escalate to $6 billion in 2009, almost $10 billion in 2012 and $27 billon by 2019.

5. People are living longer

Life expectancy has trended upward for the U.S. population, from 69.7 years in 1960 to a projected 79.2 years in 2015, according to the National Center for Health Statistics. Some of this change stems from a drop in infant mortality, but it also reflects improvements in health care for adults.[20]

Given the financial pressures that result from increased longevity, the Social Security Administration is gradually shifting its retirement age upward, based on birth year. For people born before 1943, full Social Security benefits will kick in at age 65, but the retirement age will escalate. For example, a person born in 1967 or later will have to wait until age 67 to qualify for full Social Security. Some observers predict that when Social Security is next reformed, the retirement age will go up even further.

Many private sector companies that offer retirement benefits conform their retirement ages to those provided by the federal government. But for states and localities, the eligibility age for receiving full benefits has traditionally been much lower. A December 2005 study from Wisconsin's Legislative Services Council noted that only Minnesota had conformed to Social Security's practice of increasing retirement age over time. Of 87 plans studied across the 50 states, 85 allowed retirement with full benefits at age 62 or earlier for individuals with long service, and 57 provided retirement at age 62 or lower with only 10 years or fewer of service. Only two plans stipulated that it was necessary to reach age 65 to receive full benefits.[21]

In addition, some public sector employees (for example, police and corrections officers) who are in hazardous jobs or in jobs that require heightened physical strength or agility are eligible for full retirement benefits at even earlier ages. Offering benefits at an early age greatly affects health care costs because Medicare coverage has not yet kicked in. For this reason, it is generally much more expensive for governments to provide retirement benefits for pre-Medicare retirees.

The Wisconsin report noted that at the end of 2005, states were still moving toward earlier retirement ages; nine plans had reduced normal retirement provisions since 2000 and 10 had reduced the minimum age or years of service required for early retirement. Since 2005, however, some states, presumably preparing for the significant demographic shifts on the horizon, have started to reverse course.[22]

Endnotes

1 United States Government Accountability Office, *State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections and Fiscal Outlook for Funding Future Costs*, report to the Committee on Finance, U.S. Senate (September 2007).

2 Total assets of retirement plan and their allocation are based on Federal Reserve Board. *Flow of Funds Accounts of the United States*, Z1, Release June 7, 2007.

3 A list of pension and retirement legislation for the 50 states for each of the last nine years is available at the National Conference of State Legislatures (NCSL) Web site at http://www.ncsl.org/programs/fiscal/all_pensun.htm.

4 Up through 2006, New York has used a method of accounting for its pension benefits that doesn't yield a funding ratio. The Governmental Accounting Standards Board (GASB) has implemented a new standard that requires governments that use this aggregate cost method to employ the more common entry age normal method to provide funding information. New York officials say their internal calculations, based on an entry age normal approach, indicate that in 2006, their pension funds were more than 100 percent funded.

5 Wisconsin's pension system is funded at 99.57 percent, and rounded up for the purposes of this study.

6 Forty-six states use a fiscal year that starts July 1 and runs through June 30. Fiscal year 2001 refers to the year that ended June 30, 2001.

7 See NCSL Web site, "Pension and Retirement Plan Enactments," http://www.ncsl.org/programs/fiscal/all_pensun.htm.

8 These standards are dubbed GASB 43 and GASB 45. GASB 43 addresses reporting on other post-employment benefit plan assets by a trustee or plan administrator, while GASB 45 addresses accounting and reporting of these benefits by the employers themselves—for example, the state governments. These benefits are dominated by retiree health care, but also may include life insurance, dental, disability or other non-pension benefits.

9 These standards have sparked considerable controversy and a small rebellion in Texas, where Governor Rick Perry signed a bill in spring 2007 that gives the state and local governments the option of accounting for OPEB using standards developed by its own comptroller in place of the GASB standards. The argument against GASB's approach, first articulated in Travis County, was that Texas governments offered retiree benefits on a year-to-year basis, that these benefits were entirely dependent on the current budget situation and that there was no implied promise of future benefits, according to Paul Maco, a partner with the law firm Vinson and Elkins, which was involved in the initial Travis County study of this issue.

10 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2005," *Employee Benefit Research Institute Issue Brief*, no. 299 (November 2006): 8-9.

11 Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2005*, no. 10 (Summer 2006): 60, http://www.pbgc.gov/docs/2005databook.pdf.

12 Jack VanDerhei, "Retirement Income Adequacy After PPA and FAS 158: Part One, Plan Sponsors Reactions," *Employee Benefit Research Institute Issue Brief*, no. 307 (July 2007).

13 Ibid.

14 Henry J. Kaiser Family Foundation and Hewitt, *Retiree Health Benefits Examined: Findings from the Kaiser/Hewitt 2006 Survey on Retiree Health Benefits*, by Amy Atchison et al., (December 2006).

15 Citizens Budget Commission, *Old Assumptions, New Realities: The Truth about Wages and Retirement Benefits for Government Employees*, (2006).

16 Population Resource Center, *The Demographics of Aging in America*, (2004), http://www.prcdc.org/summaries/aging/aging.html.

17 Population Reference Bureau, *The Future of Social Security*, by Christine Himes, (June 2005), http://www.prb.org/Articles/2005/TheFutureofSocialSecurity.aspx.

18 Illinois Comptroller's Office, *State Government Workforce Getting Older, Fiscal Focus* (January-February 2007): 4.

19 California HealthCare Foundation, *Snapshot: Benefits in the Balance: The Uncertain Future of Public Retiree Health Coverage*, (2006): 6.

20 Centers for Disease Control and Prevention and National Center for Health Statistics, *Health, United States*, 2006, (2006): 176.

21 Wisconsin Legislative Council, 2004 Comparative Study of Major Public Employee Retirement Systems, by William Ford, senior staff attorney (December 2005).

22 William Ford, senior staff attorney for the Wisconsin Legislative Council, is currently working on the 2007 version of the Wisconsin report. In collecting the 2006 data, he said he is seeing "markedly fewer states that are reducing their normal retirement date requirements or early retirement ages."

23 (See page 16 of this report.) National Association of State Retirement Administrators, *Public Fund Survey Summary of Findings for FY 2006*, prepared by Keith Brainard, research director (October 2007): 1.

Glossary

ACTUARIAL ACCRUED LIABILITY (AAL) – The total value of pension benefits owed to current and retired employees or dependents based on past years of service.

AMORTIZATION PERIOD – The span of time set to fully pay for actuarial accrued liabilities. To adhere to generally accepted accounting principles (GAAP), governments must use a period of 30 years or less to calculate their net pension or other post-employment benefits obligation and their expense on an annual basis. Some states, which are not in compliance with GAAP, choose longer periods for funding purposes to reduce current contributions.

ANNUAL REQUIRED CONTRIBUTION or ACTUARIALLY REQUIRED CONTRIBUTION (ARC) – The amount of money that actuaries calculate the employer needs to contribute to the plan during the current year for benefits to be fully funded by the end of the amortization period. (This calculation assumes the employer will continue contributing the ARC on a consistent basis.) The ARC is made up of "normal cost" (sometimes referred to as "service cost")—the cost of benefits earned by employees in the current year—and an additional amount that will enable the government to reduce unfunded past service costs to zero by the end of the amortization period.

ASSETS – The amount of money that a pension fund has on hand to fund benefits. The assets (also known as plan assets) build up over time, generally from three sources: employee contributions, employer contributions and investment returns. Plan assets generally are expended to pay pension benefits when due, refund contributions of members who leave the plan before qualifying for benefits and cover the plan's administrative expenses.

ASSUMPTIONS – Estimates made by actuaries about the future behavior of various economic and demographic factors that will impact the amount of pension benefits owed over time. These estimates, of factors such as investment returns, inflation rates and retiree life spans, are used by actuaries to calculate the AAL and the ARC.

DEFINED BENEFIT PLAN – A plan that promises its recipients a set level of benefits, generally for life. In the case of pension benefits, it is based on a "defining" formula that usually includes the number of years served and an employee's salary multiplied by a preset figure (e.g., 30 years x $40,000 x 1.75). In the case of retiree health, the promised benefit is typically the payment of a portion of (or the entire) medical insurance premium. However, it can also be based on a defined formula much like a pension. In this case, a certain monthly income is promised that must be used for health expenses.

DEFINED CONTRIBUTION PLAN – A plan to which the employer, and often the employee, contributes a defined amount (e.g., 8 percent of salary) to an individual account in the employee's name while the employee is in active service, but which does not guarantee any set benefit. The amount available for retirement is based solely on the amount of money that has been saved, along with investment income credited to the employee's account. When these funds are used up by the retiree, the benefit is exhausted.

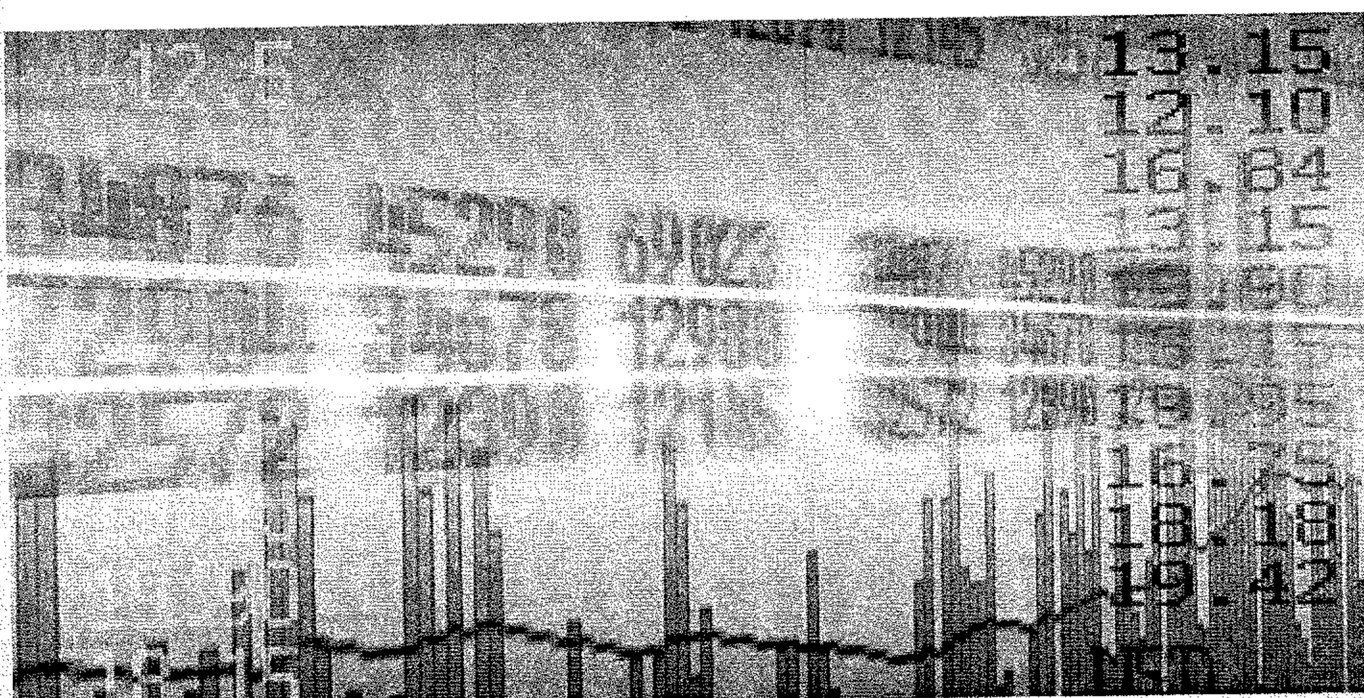
NORMAL COST – The cost of benefits earned by employees in any given year.

OTHER POST-EMPLOYMENT BENEFITS (OPEB) – Benefits other than pension benefits that an employer provides to former employees as a deferred form of compensation for their services. OPEB is defined by GASB as including (1) post-employment health care benefits and (2) other types of post-employment benefits—for example, life insurance—if provided separately from a pension plan.

PAY-AS-YOU-GO – A method of financing pension benefits or OPEB in which the amount contributed by the employers or employees each year is approximately the amount needed to pay the benefits currently due and payable to retirees (or the premiums currently due and payable to provide for health care coverage or other non-pension benefits for retirees for the current period). Under this method, the source of financing for current benefits often is the employer's current collections.

SMOOTHING – To counter the natural volatility of the stock market, the vast majority of states do not measure the funded status of pension benefits using the current market values of plan assets. Instead, most use methods of determining the actuarial value of plan assets that average out the effects of increases or decreases in market values each year over several years (generally four or five). The effect of this approach is to mute the immediate impact during a severe market drop or spike in growth and to spread it out over time.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) – The difference between the actuarial accrued liability and the actuarial value of plan assets on hand. This is the unfunded obligation for past service.



The Basics of Funding

The following principles apply to both pensions and post-employment health care benefits, based on a general consensus of experts in the field:

- The long-term costs of retiree benefits are based on a passel of variables, the future values of which are unknown. Actuaries try to pin down these variables through the use of best or at least reasonable "assumptions" and a professional methodology developed to manage multiple uncertainties. If all the actuaries' projections were correct over time, governments funded benefits earned by employees every year and no new benefits were added, then pensions and retiree health benefits would be fully funded by the end of the amortization period.

- When a state has an unfunded actuarial liability, it is often because over time those "ifs" did not happen. To pay for the unfunded liability, governments add another chunk of money to their annual contribution to spread the unpaid costs over the amortization period, which is usually 30 years. Generally, when funding ratios decline, employer contributions need to increase.

- Overly optimistic assumptions, benefit increases and underfunded contributions all put greater demands on future government payments.

- Inaccurate assumptions also can result in a situation where funding levels rise unexpectedly. This occurred in the late 1990s when most investments earned higher than anticipated returns, which prompted some governments to skip the ARC payment during a so-called funding holiday. However, as the recession in the early half of this decade demonstrated, bad years often follow good ones and the contribution holidays aggravated the impact of market losses.

- In a mature pension plan that is reasonably well funded, most of the total additions to plan assets each year will come from investment returns of assets that have been set aside over decades. In a poorly funded plan (pensions or OPEB), more future money comes from direct state contributions and from the same state coffers that fund education, economic development and health care.

- A poorly funded plan or one that is moving in the wrong direction may also eventually cause trouble for an organization's credit rating. This could increase the cost of borrowing money, which will make it more expensive for governments to pay for infrastructure improvements such as bridges and roads that typically are supported through borrowing.

- Although states aspire to having fully funded pensions, it is important to recognize that "underfunding is a matter of degree," said Keith Brainard, research director for the National Association of State Retirement Administrators (NASRA).[23] The important point is not whether states have reached 98 percent or 101 percent funding; it is the direction in which they are heading and the distance they have to travel to get there.

Methodology

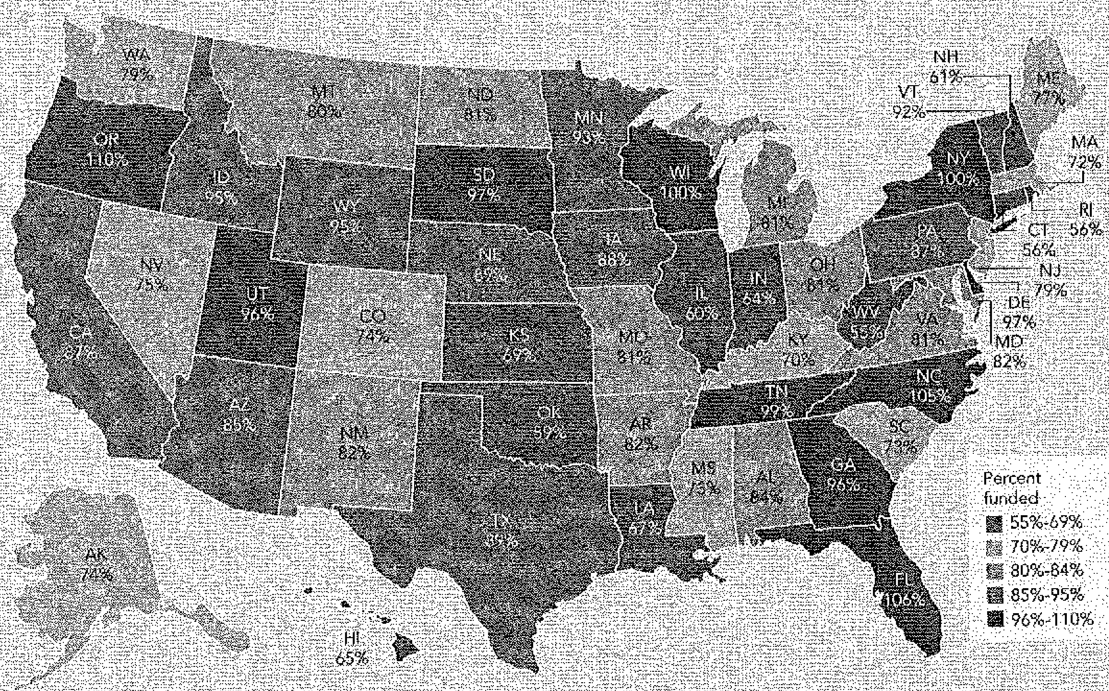
This report is the product of an extensive data collection effort, a review of the literature, a thorough analysis of actuarial studies and evaluations, and interviews with experts and individuals knowledgeable about particular states.

To analyze states' pension systems, PCS examined state annual reports with information over a 10-year time period. Data in the pension section of this report were obtained from State Comprehensive Annual Financial Reports (CAFRs) as well as CAFRs from state pension systems. The numbers aggregate multiple plans in the state pension system and include, in many instances, municipal workers and teachers. PCS did not attempt to disaggregate municipal workers because this could not be accomplished for every state.

To analyze states' other post-employment benefits, PCS reviewed CAFRs and the preliminary actuarial assessments of state non-pension liabilities over the next 30 years. In this case, PCS focused the analysis on state employees alone, in order to achieve a more consistent comparison, because states vary greatly in whether non-pension retiree benefits for teachers are funded at the state or local level. Armed with those preliminary assessments, gathered from a variety of government offices at the state level, PCS assembled a comprehensive and up-to-date compilation of these liabilities, the amounts the states are currently paying for retirement benefits and their funding practices. PCS collected actuarial valuations in spring and summer 2007, continuing through the fall to pursue valuations from states that had not been completed previously. One caveat: Many of these calculations are preliminary and are likely to change as health plans are altered and actuaries re-examine the subject. A handful of states had not finished actuarial valuations by the completion of this report. Where feasible this research was augmented with interviews with actuaries, economists, state controllers, auditors, legislative analysts and other experts in the field.

The expert statements included in this report come directly from interviews conducted by PCS between September 2006 and October 2007, unless otherwise noted. A complete list of resources can be found on PCS's Web site at www.pewcenteronthestates.org.

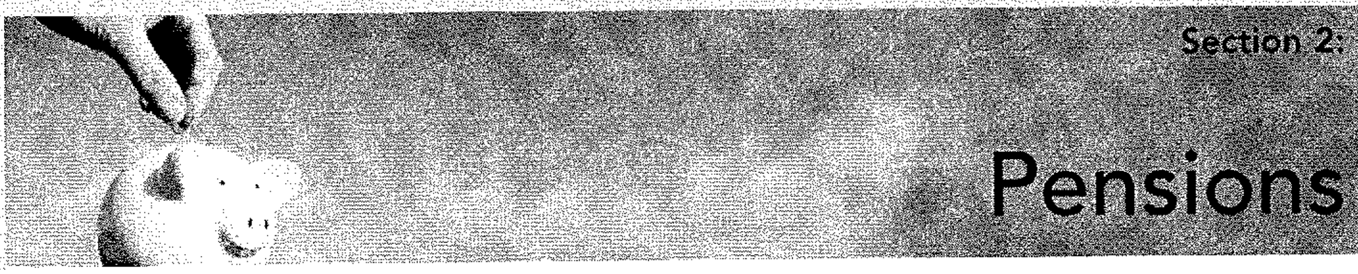
2-1 STATE PENSIONS: FUNDING LEVELS, 2006



Figures are in thousands.

State	Actuarial liability	Unfunded liability	Annual required contribution	Actual payments in 2006
Alabama[1]	$33,961,978	$5,522,322	$684,861	$684,861
Alaska	13,090,657	3,369,759	423,666	259,496
Arizona	34,353,623	5,274,143	640,199	640,199
Arkansas	19,114,280	3,409,290	463,786	500,475
California[1]	355,483,412	46,673,644	6,342,208	6,265,138
Colorado	49,490,604	12,803,562	978,924	609,853
Connecticut	34,190,000	14,914,600	1,031,000	1,031,000
Delaware	6,416,275	207,635	122,914	118,950
Florida	110,977,831	-6,181,784	2,193,928	2,106,171
Georgia	65,994,177	2,503,741	1,117,742	1,117,742
Hawaii	14,661,399	5,132,028	423,446	423,446
Idaho	9,951,100	525,200	244,600	262,800
Illinois	103,073,463	40,732,132	3,085,601	1,025,341
Indiana	28,953,950	10,565,887	947,890	955,620
Iowa	21,651,122	2,507,086	387,542	324,677
Kansas	17,552,000	5,364,000	471,424	298,883
Kentucky	30,659,476	9,303,806	564,361	483,740
Louisiana	33,358,313	10,978,703	1,066,311	1,075,547
Maine	12,357,418	2,826,820	294,888	312,017
Maryland	43,537,681	7,634,087	874,079	716,745
Massachusetts	50,431,974	14,055,201	1,320,178	1,242,751
Michigan	63,268,000	12,155,000	1,564,557	1,292,741
Minnesota	30,787,259	2,111,112	284,372	280,874
Mississippi	25,680,550	6,865,090	537,721	537,580
Missouri	43,856,576	8,426,945	1,048,125	852,530
Montana	$8,584,710	$1,675,759	$157,078	$239,822
Nebraska	7,395,639	832,377	210,977	210,977
Nevada	25,794,627	6,482,437	1,058,892	1,015,757
New Hampshire	6,402,875	2,474,605	170,578	170,578
New Jersey	109,610,983	23,141,602	2,180,913	591,342
New Mexico	22,544,980	4,076,390	484,506	439,274
New York[2]	140,150,000	0	2,782,147	2,782,147
North Carolina	61,827,530	-2,954,470	516,570	516,689
North Dakota	3,673,500	681,600	81,586	54,089
Ohio	139,251,460	26,200,600	2,604,033	2,433,921
Oklahoma	27,839,660	11,468,080	1,053,336	763,719
Oregon	51,254,000	-5,362,000	488,500	492,408
Pennsylvania	91,494,400	12,223,300	1,877,118	652,231
Rhode Island[3]	9,822,437	4,329,104	193,394	193,394
South Carolina[1]	33,712,394	9,134,923	689,400	690,374
South Dakota[4]	5,903,592	197,808	81,620	81,620
Tennessee	28,117,127	366,114	665,879	665,879
Texas	132,087,713	15,140,379	2,315,721	1,944,441
Utah	18,783,454	689,963	535,152	535,152
Vermont	3,195,421	256,358	102,681	78,358
Virginia[1]	51,683,000	9,934,000	988,662	857,660
Washington[1]	29,074,500	5,984,300	1,421,200	396,100
West Virginia	11,774,772	5,330,649	484,234	879,888
Wisconsin	73,735,800	320,500	569,000	569,000
Wyoming	6,215,540	316,168	78,257	117,024

1 2005 data were used to report on the state's liability and unfunded liability, as 2006 data were not available from the state.
2 See n.4, page 13.
3 2005 data were used to report on the state's liability and unfunded liability, as 2006 data were not available from the state. Rhode Island did not have financial reporting on its specific pension plans after 2004 at the time of this report.
4 South Dakota has two plans; 2006 data were only available for its major retirement plan and 2005 figures for its smaller plan were used in the total calculation.
NOTE: States in bold represent pension systems below 80 percent funded.
Actuarial liability is the total value of pension benefits owed to current and retired employees or dependents based on past years of service.
Annual required contribution is the amount of money that actuaries calculate the employer needs to contribute to the plan during the current year for benefits to be fully funded by the end of the amortization period, which is typically 30 years or less.
SOURCE: Pew Center on the States



Saving for the Bill Coming Due

FOR THE SAKE OF SIMPLICITY, it may be tempting for the press and policy makers to paint a one-size-fits-all portrait of state pensions. But each state has its own complicated story to tell. From 2000 to 2006, for example, New Hampshire's pension funds took a tumble, while North Carolina's funding status was nearly unchanged. Kansas[24] set aside only about two-thirds of its annual required pension contribution in 2006, while neighboring Nebraska set aside the full amount.[25] About half the states have troubling unfunded liabilities in some of their pension plans and the other half do not, at least at the moment.

Overall, the national pension "balance sheet" is in relatively decent shape,[26] with 30 state pension systems more than 80 percent funded (Exhibit 2-1). Almost half of those are over 90 percent funded, according to PCS research. However, the remaining 20 states have funding ratios of less than 80 percent, meaning that their proportion of assets to liabilities may create fiscal stress if unaddressed, according to many experts in the field (see Exhibit 2-1—the 20 states are in bold).

20 states have funding ratios of less than 80 percent

All told, states have contributed enough money—about $1.99 trillion—to cover roughly 85 percent of their $2.35 trillion[27] long-term liability for their retirees' pensions over the next 30 years. Still, that leaves them with about $361 billion in unfunded liabilities.

Large underfunded long-term liabilities put future budgets—and taxpayers—at risk. For years, West Virginia has had difficulty putting sufficient money into education or health care because of its need to cover huge pension liabilities the state accrued decades ago, according to Governor Joe Manchin III.[28] And while West Virginia has been aggressive and responsible in overfunding its annual pension contribution over the past decade—the state's system is now 55 percent funded, compared with a 39 percent funding level in 2003—the funding mistakes of the past make catching up extremely difficult (see Appendix Exhibits A-1 and A-2).

States can delay action to deal with an underfunded pension, but only temporarily. The share of the population aged 65 or older will grow to 20 percent in 2030, according to the U.S. Census Bureau. In 1950, the number of workers relative to retirees was 16.5 to 1; today the ratio is 3.3 to 1, and it will move down to 2 to 1 during the next 40 years, according to Census estimates.[29] When a pension system is fully funded, the ratio of workers to retirees matters little, because the money for retirees is already in the bank.[30] But when a plan is underfunded, making the payouts can become extremely burdensome for states.

PCS's research highlights two important rules for states to follow if they are to address their long-term pension obligations cost-effectively. Agreement on these points is nearly universal, and they have been voiced by experts ranging from researchers at rating agencies such as Standard & Poor's and academic institutions such as the University of Pennsylvania, the University of Michigan and Harvard University to retirement administrators in a number of states. Following these sound financial principles allows states to evenly spread out the costs of long-term benefits over time, rather than have low costs now and a substantial—and potentially budget-breaking—cost spike later.[31]

FULL FUNDING. First, it is critical for a state to diligently meet its own yearly goal for funding its long-term pension liability (known in actuarial terms as the actuarial required contribution, or ARC) and to base that goal on accurate assumptions.

Florida's legislature is displaying a high degree of fiscal caution that has presumably helped the state achieve the fully funded status it has held since 1998. The state passed legislation that basically reserved a portion of the pension surplus to serve as a safeguard against unexpected increases in liabilities, providing the state with extra financial security.[32] North Carolina has also had consistently high levels of funding, even when the stock market dropped or the state was under fiscal stress. The state has been disciplined about paying its annual bill and maintaining the financial health of its pension system. Illinois and New Jersey are examples of poor financial decision-making as both states have actively reduced contributions to their plans over the past 10 years, leading to chronic underfunding.

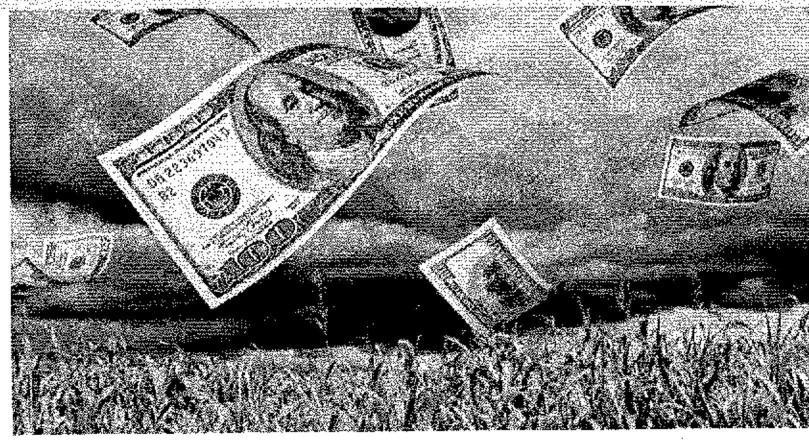
AFFORDABILITY OF NEW BENEFITS. Second, a state must make sure it can afford new promises, as once a benefit increase is made it is extremely difficult to take back. This means the state must carefully consider the long-term impact of benefit changes, including shifts in vesting periods, early retirement programs, cost-of-living adjustments, salary calculation methods, and a host of other factors that affect pension amounts and the states' own long-term fiscal health. States, in general, have become more careful about adding benefits in the last few years and several have enacted legislation that establishes safeguards against benefit increases enacted in haste. A 2007 Hawaii law, for example, bars benefit enhancements between January 2, 2008 and January 2, 2011 if the plan has an unfunded accrued liability. A 2007 Missouri law prevents pension plans in the state from increasing benefits if they are less than 80 percent funded.[33]

Finally, states can take additional steps to reduce their long-term pension obligations. Among other measures, they can close loopholes in pension systems that allow employees to inflate the amount they collect after retirement. They can consider creating hybrid plans that combine elements of defined contribution and defined benefit plans. And they can improve oversight and governance of their system so that decisions are well informed by up-to-date, accurate and reliable data, and to ensure the funds are well managed.

The detailed analysis that follows seeks to help state policy makers and the public answer these critical questions:

- What differences are there among the states in how they manage their pension plans?

- What are the fundamental reasons for these differences?
- What tools can troubled states bring to bear to prevent problems in the future, and what can they do to ameliorate the problems of today?



Pension Funding Levels: The State of Play

Generally, the money to pay for pensions comes from three sources: employees' contributions; employer contributions, and investment returns. Employee contributions, which are required in the vast majority of states, must be paid annually. But in many states, governments—the employers—are able to put off some of their own required payments. These payments include the cost of benefits earned by their employees in any given year, as well as contributions that will help make up for past underfunding and lead to full funding of the plan over the amortization period (typically 30 years). If the government's contribution falls short, the costs for services rendered in that year will be shifted to future taxpayers and the state also will forego the advantage of investment returns on those dollars.

Exhibit 2-1 shows how well, or how poorly, the 50 states are doing at funding their long-term pension obligations, and shows the great variation in the level of funding of states' pension plans. These aggregate figures, which include all pension plans that states listed in their latest comprehensive annual financial reports, give a snapshot of funding status as of June 30, 2006.

According to PCS research, the average funding level in 2006 was 82 percent, a drop from the high point in 2000 when the mean ratio of pension assets to pension liabilities was 97 percent.

Note that the 82 percent average is lower than the 84 percent average funding level reflected in the 2006 Public Fund Survey data compiled by the National Association of State Retirement Administrators. That survey includes the largest public retirement systems in the United States, focusing chiefly on systems for general employees, public school teachers and public safety personnel. PCS's report includes all pension funds covered in the state comprehensive annual financial reports. Teacher and state employee funds dominate in numbers, but the reports also include plans for elected officials and judicial, public safety, corrections and university employees, and, in some cases, municipal plans operated by the state.

What Drives Differences in Funding Levels?

Our analysis shows that states have considerable control in either moderating the bad times through effective planning or diminishing the good times through poor decision-making. The 1990s were a time of growth for pension plans as a healthy economy and a booming stock market enabled swift rises in pension funding levels. In 2000, half of the states were fully funded. But in that year, dot.com problems were already having a negative impact. The 9/11 attack and continuing stock market drop in 2002 devastated the asset levels of many pension plans. Between 2000 and 2002, the average

A Word about Pension Funding Levels

The data in Exhibit 2-1 and Appendix Exhibits A-1 and A-2 are derived from the work of actuaries, who develop a variety of assumptions[34] tailored to the particular situation of individual states. Tiny variations in these assumptions cascade like numerical snowballs into dramatic differences between states. For example, New Hampshire calculated its actuarial accrued liability assuming it would receive a return of 9 percent on the funds it had invested—higher than any other state. If it used the same 7.5 percent assumption used by West Virginia, its unfunded liability would rise considerably.[35]

An important caveat to these exhibits: A major difference among states is the way they smooth out the impact of market changes over time. Currently, only a handful of states, including Idaho, Illinois, Oregon and West Virginia, use a fair market value approach for valuing their largest funds. Because they are looking at the current value, these states respond more dramatically to year-to-year shifts, but their numbers do not retain the impact of bad or good years over time. Otherwise, smoothing periods generally range from four years (for example, in Colorado, Louisiana and Ohio) to as many as 15 years in California. Not surprisingly, states with shorter smoothing periods will currently appear to have better funding levels than those with longer periods, because the down years in the early part of the decade are no longer reflected in their averages. Funding in Louisiana and Colorado has been on an upward trend since 2005, and Ohio started to show upward motion in 2006.

In addition, a few states use the "aggregate cost method" of accounting, which does not provide an unfunded liability amount. Washington and New Hampshire supplied notes in their annual reports that allowed researchers to derive this ratio. New York did not supply notes, but provided its internal calculations to PCS. A new standard from the Governmental Accounting Standards Board, GASB 50, stipulates that states provide unfunded liability calculations by using one of the five permissible actuarial cost methods other than aggregate cost.

A final concept to mention is the treatment of summary statistics. In calculating average funding rates for states in this report, we have simply taken all the state funding levels and taken the mean. However, one can also look at national funding levels by adding up the assets of all 50 states and dividing them by the liabilities of all 50 states. That number also reflects an aggregate picture of pension funding levels. Using this method generates substantially higher aggregate funding levels than simply averaging state funding levels, because the larger states have better funded pension plans than the smaller states.

pension funding level dropped from 97 percent to 89 percent, resulting in an increase of unfunded liabilities of $166 billion. Furthermore, due to smoothing, many states were still feeling the effect of those bleak years up through 2006.

In general, states that are poorly funded have done a combination of three things over time: failed to annually pay their own actuarially required contribution; increased benefits, or made overly optimistic actuarial predictions. States with large underfunded pension plans will be forced to eventually meet those obligations, which will require increases in taxes or reductions in other spending. Thus, the states with unfunded liabilities are the ones that will face increased financial stress in the future to pay for obligations incurred in the past.

Over the long term, states control whether their pension plans will be appropriately funded. But decision-makers may have to grapple with tough choices that stem from previous policy decisions. In general, this is not necessarily an issue of pensions being too generous. States offer pensions and other benefits in part to attract and retain skilled workers despite the lower salaries offered in the public sector.[36] The important consideration is that when states, for whatever reason, decide to incur an expense like employee benefits, they also should have a plan for how to pay for that expense. This is what some states have failed to do.

States have considerable control in either moderating the bad times through effective planning or diminishing the good times through poor decision-making.

A Two-State Comparison

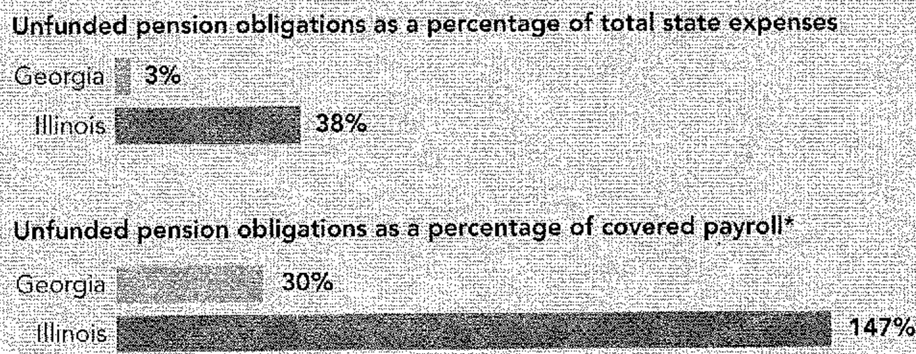
Comparing states is always a tricky business. The details of how pension benefits and costs are calculated vary tremendously. Averages can be misleading, and a huge number of factors, such as the underlying financial assumptions, have an impact on the costs of the system and the benefits received.

But putting aside the kinds of calculations that leave even experts scratching their heads, a very simple comparison of two states, Illinois and Georgia, is illustrative.[37] These two large states—ranked fifth and tenth in total population, respectively—have relatively similarly sized state employee plans but have taken very different approaches to funding their pensions. As a result, in 2006 Georgia's pension fund was 96 percent funded, while the Illinois system was 60 percent funded.

Georgia's unfunded pension obligation, or UAAL, during the next 30 years is 30 percent of covered payroll, whereas the unfunded pension bill for the Illinois plan is 147 percent (Exhibit 2-2). The unfunded liability is 38 percent of 2006 total operating expenditures in Illinois and just 3 percent of total expenses in Georgia. The annual required contribution is 10 percent of payroll for both Illinois and Georgia; however, while Georgia was able to pay the contribution in full, Illinois paid only 33 percent of its required contribution in 2006.

2-2 GEORGIA AND ILLINOIS: COMPARING PENSION APPROACHES

While Georgia is fully funding its pension contributions, Illinois is failing to meet its obligations, leading to a big difference in the health of the two pension systems.



NOTE: Covered payroll includes all employees participating in the state's pension plan.
SOURCE: Pew Center on the States

The problems with the Illinois pension system do not stem from unusual generosity to average employees. In fact, Illinois asks most employees to contribute 4 percent of their salary,[38] while Georgia's employee contribution is 1.25 percent.[39] The average pension in Illinois state government is on the low end compared with other states, according to an analysis by the Illinois Comptroller's office last winter. According to these figures, given a final salary of $45,000 in each place and 30 years of service, the Georgia pension would pay out $28,938 per year and the Illinois pension would be $22,545 annually.[40]

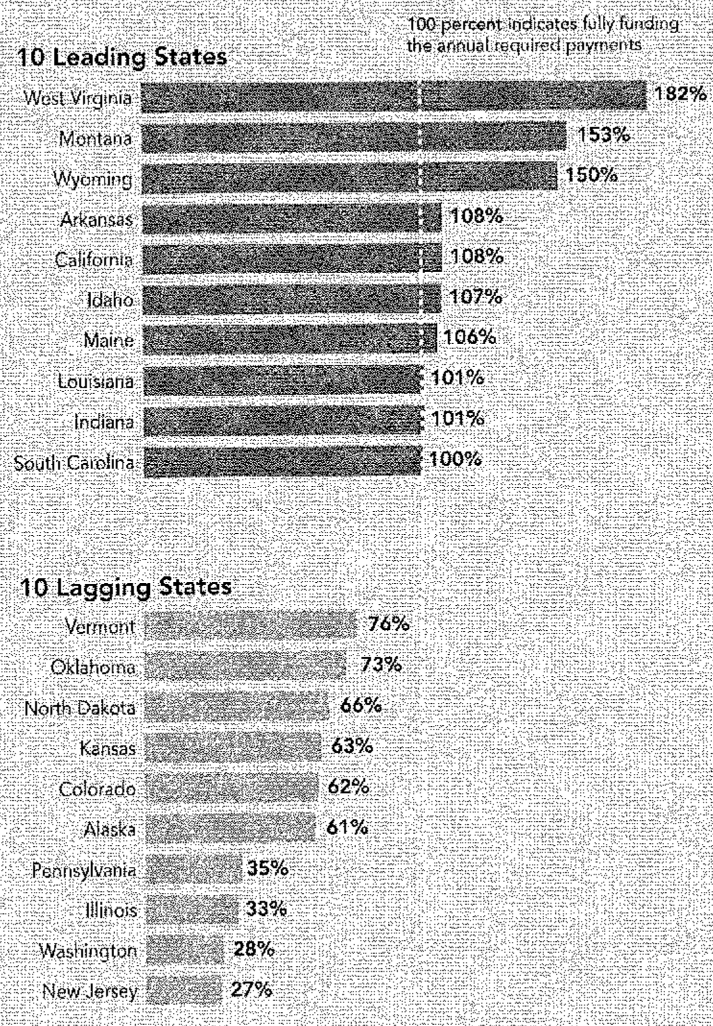
According to a 2007 study by the Illinois Center for Tax and Budget Accountability, "The data make it clear that the state's unfunded pension liability accrued to date was not caused by overly generous benefits, high head counts, excessive costs or even poor investment returns. Instead, the real culprit has been and continues to be the repeated failure of the state to make its full annual employer contribution to the system."[41]

Sound Principles and Promising Practices

Key to achieving a fully funded pension plan is a commitment to pay the actuarial required contributions (ARC) in full each year. The annual pension cost, which is calculated every year, is the amount of funding needed to pay for new liabilities accrued in that year as well as to pay off a portion of the unfunded liabilities accrued in previous years. States that are able to pay the full ARC each year will experience a gradual reduction in unfunded liabilities until they are fully funded, provided that assumptions are accurate over the long term and calculations take into account any additional benefits that have been granted.

Recently, the split between states meeting their funding requirements and those failing to do so is about 50-50. Exhibit 2-3 shows 10 leading states that have more than fully funded their annual pension costs in 2006 and 10 states that failed to contribute what actuaries said they should. This annual pension cost is generated using one of the GASB-approved actuarial funding methods and is designed to distribute costs for worker benefits over the course of the workers' employment.

2-3 PAYING THE ANNUAL PENSION BILL, 2006 – 10 LEADING STATES, 10 LAGGING STATES



SOURCE: Pew Center on the States; Based on States' 2006 Comprehensive Annual Financial Report Data.

A single year of adequate funding, however, does not add up to a properly maintained pension plan.[12]

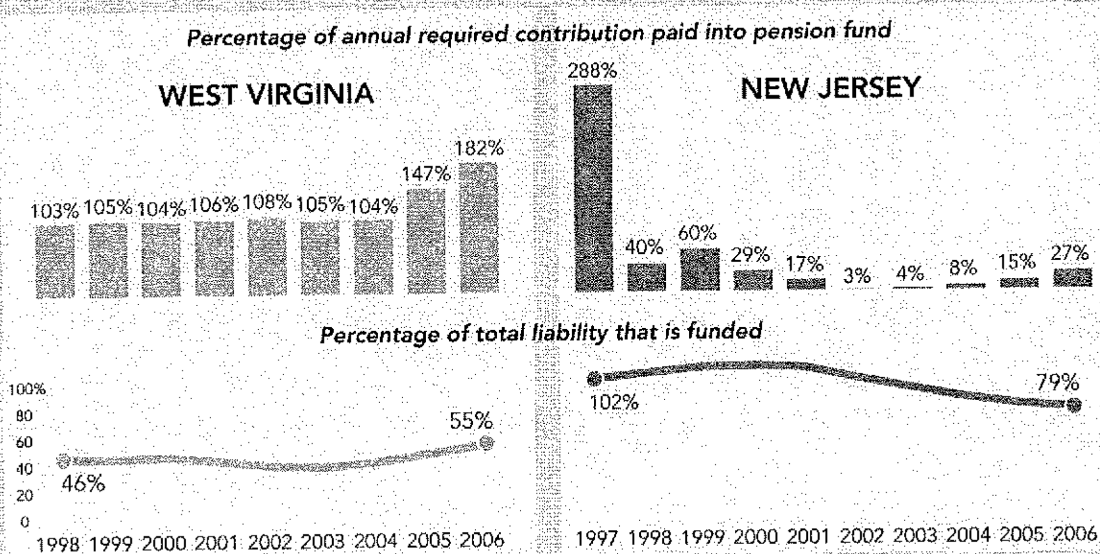
States such as Alabama, Arkansas and North Carolina, which fully fund each year, seem to have established an ethos that mandates this fiscally sensible practice. Others, such as Virginia, Kansas and Massachusetts, have more erratic records.

However, states that fund their required contributions at 100 percent each year—beginning as far back as 1997—could still have a dramatic unfunded liability today. Unfortunately, short-changing plans in decades past can have ripple effects many years later. In addition, if actuarial assumptions missed the mark, even a 100 percent contribution may fail to move the state toward a fully funded position.

Nonetheless, a commitment to pay the ARC year after year is good practice, and it can substantially improve the position of even a poorly funded state like West Virginia. As Exhibit 2-4 demonstrates, West Virginia's performance in paying the annual pension cost over the past decade has improved vastly, and it is starting to pay dividends in addressing the state's unfunded liability. In a short time, from 2003 (its low point) to 2006, the state shrank its unfunded liability by 17 percent and $1.1 billion.

2-4 PAYING THE BILL... OR FALLING BEHIND

West Virginia's pension fund is improving thanks to diligence in making its required annual payments, while years of not paying enough has diminished New Jersey's pension system funding level.



NOTE: 1997 data unavailable for West Virginia.

SOURCE: Pew Center on the States; Based on States' Comprehensive Annual Financial Report Data

Other states, however, have proven unable or unwilling to raise the necessary funds to pay an actuarially sound amount into their pension fund. In New Jersey, for example, leaders skipped some required pension contributions that resulted in an $8 billion shortfall between 1998 and 2003.[43] The low point came in 2002 when the state contributed $16 million out of the $560 million actuarially recommended amount, resulting in only 3 percent of the ARC being put into the pension fund. New Jersey's funded ratio stands at 79 percent in 2006 after being fully funded only four years before. New Jersey is an extreme example but, as Exhibit 2-4 shows, it is highly illustrative of how critical consistent contributions can be to a state's pension system.

Decisions to skimp on annual contributions have taken a dramatic toll on pension funding levels in other states as well. A few examples:

- ILLINOIS. The decision to cut pension contributions sharply in 1982 and 1983, followed by only moderate increases through 1995, are cited by the Illinois Comptroller as the root of the state's pension problems.[44] Although the state recently passed several long-term reforms to its pension system, the pattern of underfunding actuarially required contributions has not abated. The state used $2 billion from a 2003 pension bond offering to make payments in fiscal years 2003 and 2004 and cut pension payments by $2.3 billion in fiscal years 2006 and 2007, according to the Civic Federation of Chicago. The rationale was that savings to the pension system from the bond sale and funding reforms adopted by the legislature made those payment cuts possible, but longtime observers of the state's troubled pension system were dismayed. "These partial pension holidays are short-sighted and ill-considered," said Civic Federation Vice President Lise Valentine. "You have to examine the pension holidays in the context of the overall budget, where we see expansions of other state programs and discretionary spending at the same time that pension contributions are cut. This demonstrates an unwillingness to fully fund the pension obligations and to pay for the true cost of employee benefits."

- HAWAII. Hawaii's budget director told Pew's Government Performance Project in 2000 that the state, facing enormous budget pressures, had failed to make pension contributions of $44.1 million in 1999 and $155.8 million in 2000. Data from the state's comprehensive annual financial reports show that pension contributions stood at about 83 percent of what actuaries required in 1999. In 2000, actual contributions met only 13 percent of the required amount. The following year, the state held back even further, contributing only about 5 percent. Since that time, Hawaii has solidly funded its pensions. But the three-year hiatus from full funding, coupled with investment losses, took a severe toll on the funding status of the

"These partial pension holidays are short-sighted and ill-considered."

— Civic Federation Vice President Lise Valentine

state employee plan, which dropped from its high of about 94 percent funded in 2000 to 65 percent funded at the close of 2006.

- KENTUCKY. Kentucky also had one of the most dramatic descents in funding levels, from about 111 percent funded in 2000 to about 70 percent funded in 2006. Employer contribution rates for both the Kentucky Employees Retirement System and the State Police Retirement System have fallen short in nine of the past 15 years. According to the Legislative Research Commission, the pattern of reduced contributions continued for the past six straight years, including fiscal year 2007, resulting in "more than $744 million in lost contributions and investment opportunities."[45]

Additional Strategies for Ensuring Sound Pension Plans

Fully funding pension contributions each year requires a great deal of political fortitude and the kind of long-term thinking that is hard to come by, particularly in difficult economic times.

The good news is that there are additional measures states can take to have an impact on their long-term pension liabilities. These measures include:

PLUGGING THE LEAKS: Auditor reports are full of examples of loopholes within pension systems that allow individuals to inflate the amounts they collect after retirement. But states can close the loopholes and stem possible abuses.

EVALUATING THE FISCAL IMPACT OF BENEFIT CHANGES: Even tiny changes in benefits can result in very large long-term liabilities. Some states have started to require that a careful actuarial assessment of long-term costs accompany any proposed pension benefit increase.

CONSIDERING HYBRID PLANS: Despite legislative initiatives in some states to convert state pension plans to defined contribution systems (in which recipients are promised only that a set amount of cash will be put aside for them each year), the defined benefit plan format (in which recipients are promised a specified package upon retirement) remains the dominant and most popular form. Most professionals expect that defined benefit plans will remain the core retirement benefit for many years to come, in most states. But some states have begun experimenting with hybrid plans, which are a mix of defined benefit and contribution plans.

REQUIRING FASTER, MORE ACCURATE FINANCIAL REPORTING: Pension systems are extremely complex and difficult to compare due to the wide variety of choices that actuaries make when determining asset value, calculating actuarial liability, and setting funding and recommended contribution levels. Faster, clearer financial reporting among plans could improve the accuracy of actuarial projections and would provide policy makers and other state officials with the most current data to inform their decisions.

IMPROVING PENSION OVERSIGHT: Although the states have resisted suggestions that the federal government step in to provide more accountability for state and local pension plans, many are starting to improve governance practices and provide greater oversight of their own plans. Commissions that pay attention to pension funding levels, benefits and practices can promote sustained, consistent attention on an issue that tends to float in and out of public awareness with changes in the economy.

Plugging the Leaks

States can pull back on the amount of money that goes out in pension benefits without attacking the general principles of a defined benefit plan or the pension benefits on which the average employee relies. Here are a handful of issues to target, drawn from a PCS review of recent reports from auditors, legislative task forces, independent government watchdog groups, universities, pension systems and special commissions in the 50 states. The examples are representative of problems that have surfaced in multiple states.

FINAL-SALARY INFLATION. In general, the way pension benefits are calculated requires that "final salary" be multiplied by a preset formula based on the number of years employed. In several states and local governments, this practice has resulted in employees hiking up their salaries during the last years of their employment by any method allowed.

This is a particular problem in states such as Kentucky, where overtime pay is allowed to be included in the calculation,[46] and in New Hampshire, where accrued sick leave and vacation time can be used to increase final income.[47]

The fewer the number of years used to determine final salary, the greater the possibility that the figure can be manipulated. For this reason, several states have moved—or are trying to move—from a three-year average to a five-year average. Kansas and North Dakota passed legislation to change to five-year averaging in 2007,[48] and a change in Kentucky is scheduled to go into effect in 2009.[49] New Hampshire considered some reforms to its system in 2007, including changing from a three-year to a five-year average and preventing the use of accrued sick leave and vacation time in salary calculations, but the reforms did not pass.[50]

A related problem occurs when employees change jobs in the last years of their career so that the pension determination is based on a salary that is far from typical of their career. For example, in Iowa, former legislators often move into executive branch positions with salaries that pay two to three times the amount they received as a part-time legislator. "This is a bipartisan ploy that has played out regardless of the party in control of the executive branch for at least the last 20 years," said Randy Bauer, former Iowa budget director.

INFLATING YEARS OF SERVICE. Since the number of years worked is generally part of the formula for determining a pension, another ploy for increasing the payout is to bulk up the number of years counted toward retirement. Until 2007, New Jersey made this easy for employees and elected and appointed officials by allowing pension credit for any year in which a minimum of $1,500 was earned.[51] This allowed people to relatively easily add extra years of service to their pension calculation. In 2006, the New Jersey legislature considered but did not pass a change in the law to increase the threshold to $5,000.[52] In May 2007, Governor Jon Corzine signed a law that abolished the practice for elected and appointed officials.[53] This was one of 41 recommendations by the Joint Legislative Committee on Public Employees Benefits Reform.[54] Prior to this change, individuals had remained active in the state's pension system by earning minimal amounts, sometimes at "no show" jobs.[55]

Sometimes states allow workers to count time served in jobs outside of state government toward the determination of their pension, contributing a percentage of salary as they would on a state job. As long as the rate of payment is appropriate, this may cause little difficulty. But sometimes it's not. In Massachusetts, for example, an employee can add years of service spent in a volunteer job—for example, serving as an unpaid town alderman—to add to his pension benefits. Because volunteer jobs do not pay a salary, the state has set a proxy rate of $2,500 as a base for employee contributions. In these cases, the employee would need to contribute 7 percent of $2,500—$175—for each year of service added. According to a study by Ken Ardon at the Pioneer Institute for Public Policy Research, that payment is a pretty good deal, because it buys about $1,000 in additional lifetime pension benefits for each year purchased.[56]

EARLY RETIREMENT PROGRAMS. Often, early retirement programs allow individuals to retire before the normal retirement age by buying service credits for additional "years." So, for example, if the government has a rule of 80—meaning that a person's age and years of service must add up to that number to qualify for full retirement benefits—a prospective retiree who is 55 and has worked 20 years could buy five additional years to qualify for full benefits immediately.

This practice can work fine if the price of the additional years of service is calculated with careful attention to actuarial needs. But often, in the zeal to cut the workforce through an early retirement program, the details are not well thought out.

That is what happened in the late 1990s and the early 2000s in Colorado. According to information provided to Pew's Government Performance Project (GPP), practices in the late 1990s allowed employees to buy five to 20 years of service at "fire sale prices."[57] Although the program certainly cut the workforce, it added significant costs to the pension system and contributed to the dramatic drop in funding levels from about 105 percent funding in 2000 to about 73 percent funding at the end of fiscal year 2005. "It was not an actuarially sound price," one Colorado finance official told the GPP in 2005. "People got a bargain, and everyone knew they were getting a bargain and that's why everyone was flocking over there to purchase extra years."

States have embarked on far fewer early retirement programs recently, compared with the early part of the decade, according to the Public Fund Survey, *Summary of Findings for FY2006*. As longevity increases and the gap between public and private retirement ages widens, they are looking for ways to add years to the normal retirement age as well. Often changes are targeted just at new employees to avoid legal challenges that may result from shifting the rules on current workers. In Colorado, a rule of 80 was changed to a rule of 85 for anyone joining the workforce after January 1, 2007. In North Dakota, a similar change moved the teachers' plan from a rule of 85 to a rule of 90.[58] In California, an initiative that was filed this year to control pension costs would require the state to conform to the U.S. Social Security age for new civilian employees and age 55 for law enforcement.[59]

ELIGIBILITY FOR ENHANCED RETIREMENT BENEFITS. Some jobs have physical requirements that make it sensible to offer retirement at a younger age. State police and corrections workers often qualify for enhanced benefits due to the difficulty and danger of their jobs. The problem in many states is that over time there tends to be an expansion in the number of people covered in these special plans. In California, for example, a third of the workforce receives public safety pensions compared with one in 20 in the 1960s, according to a Deloitte Research Study published in 2006.[60]

In Illinois, Governor Rod Blagojevich told *Business Week* that one in three state employees receive "hazard rate" pension benefits that were originally intended for state police.[61] It is a matter of states' own public policy to determine which jobs should qualify for these enhanced benefits. The important thing is for policy makers to recognize the financial costs associated with these expansions. In Massachusetts, a blue ribbon panel on the state's public employees' pension classification systems noted that the pension benefits available for "hazardous" jobs had been extended to district attorneys and supervisors at MassPort, a public authority that manages transportation infrastructure in the state.[62]

In its two-year session that concluded in 2006, the Pennsylvania legislature gave "enforcement officer" status to game commission officers, which would have allowed retirement at age 50 instead of 60. This was one of 130 retirement-related bills introduced during this period, many asking for benefit expansions. Governor Edward Rendell vetoed the bill.[63]

POWER WITHOUT ACCOUNTABILITY. When there is a disconnect between those who have the power to increase pension benefits and those who have the responsibility of funding those increases, fiscal responsibility can get lost. Illinois, for example, took note of this problem in 2006 when its legislature capped end-of-career salary hikes at 6 percent for teachers, school administrators and university personnel. Prior to this, there was a fear that school districts and universities "may have been inflating payments to employees in their last years of employment," because the pension costs were carried by the state budget and not their own budgets, according to the Illinois Comptroller.[64]

The new law requires school districts that grant raises of more than 6 percent to fund pension benefit costs associated with those raises. The law also requires employers who grant sick leave "in excess of the member's normal annual sick leave allotment" to fund related pension benefit increases.[65]

Evaluating the Fiscal Impact of Benefit Changes

It is far easier to increase benefits than to take them away. That is why legislatures need to carefully consider the long-term impact of any proposed increases. But when state coffers are full and the benefits appear to have little immediate cost to the state, increases can be difficult to resist. In addition, in states where salaries and benefits are the subject of labor negotiations, retirement benefits, which make workers happy but require fewer current dollars, are offered in place of bigger salary increases.

Although states generally require that fiscal impact statements accompany legislation that is expected to have a financial effect, this is not always done rigorously and benefit increases can sneak through without adequate attention. "Municipal governments and pension fund managers have long complained that legislative pension proposals often feature inadequate or even inaccurate forecasts," according to E.J. McMahon, senior fellow at the Center for Civic Innovation at the Manhattan Institute. In a fiscal memo, he cites a number of examples of benefit increases in New York that have been justified in the legislature based on severely outdated information. For example, a reduction in the

Remember: Promises Come With a Price

Good times may be the most hazardous for pension plans. This is a particularly important point, because many pension plans are likely to show an increase in funding levels in 2007. State investment returns have been very good in the past few years and the majority of states use five-year smoothing periods, which will no longer factor in the bleak investment returns of 2002.

Some pension observers worry that the upturn in funding levels may lead legislators to focus only on the most recent figures and ignore the inevitable pendulum swings of any stock market-related investments. "Good times are dangerous if you raise benefits, because you're adding another commitment that will increase the burden when interest rates fall and your liabilities surge," said Alicia Munnell, director of the Center for Retirement Research at Boston College.[68]

This is particularly true because a pension benefit, once given, is very difficult to take away. The majority of states have some form of constitutional protection for their pensions, according to a September 2007 report by the U.S. Government Accountability Office (GAO).[69] And although state interpretations of constitutions may vary, courts generally have held that pensions belong to employees and benefits cannot be withdrawn or altered in a way that is detrimental or contrary to past agreements.

number of years—from 30 to 25—required to receive benefits passed the legislature in 2005. But the "justification" section of the support memo provided outdated stock market data from the year 2000.[66]

To help ensure that adequate attention is given to long-term consequences of decisions about pension benefits, Oklahoma passed the Actuarial Analysis Act in 2006. Modeled on a similar law in Georgia, the act requires that specific review and oversight actions accompany any legislation that could have a long-term impact on the retirement system. For example, bills with a fiscal impact can only be introduced in the first year of a two-year session and can only be approved in the second year—to make sure that there is no rush to action. If a bill will have an impact on costs, it has to be accompanied by an increase in employer contributions or another appropriation to fully fund the benefits.[67]

"If someone says, 'Let's triple the retirement benefit for any state employee who served in Iraq,' you might do that in the emotion of the moment. This allows you to drop back and study it."

— Tom Hills, chief financial officer of Georgia

Georgia's legislation has been in effect about eight years. It requires the legislature's retirement committee to send for an actuarial study whenever any change to the benefit structure is suggested. Here, too, the requirement for additional study results in a year "cooling off period" between the introduction of a bill and any vote that's taken. "It's had a very salutary effect on us," said Tom Hills, the chief financial officer in Georgia. "If someone says, 'Let's triple the retirement benefit for any state employee who served in Iraq,' you might do that in the emotion of the moment. This allows you to drop back and study it."

Considering Hybrid Plans

In the past 10 years, two states have shifted to defined contribution plans for new employees. In Michigan and Alaska, employees who started work after 1997 and 2006, respectively, are no longer promised a set benefit when they retire. Instead, they have savings plans to which they make annual contributions, which are supplemented by contributions from the state government.

Leaders in other states including California, South Carolina, Massachusetts, Illinois and Virginia have tried to make a similar switch, but have been unsuccessful to date.[70] The controversy surrounding defined contribution plans should not be much of a surprise. Nebraska, for example, moved to a defined contribution plan in 1964. But between 1983 and 1999, state and county workers averaged a 6 percent return on their individual accounts, compared with an 11 percent return for teachers and judges who had a defined benefit plan.[71] Testifying before the House Committee on Pensions and Investments in 2000, Anne Sullivan, director of the Nebraska Public

Employees Retirement System, said, "We have had over 35 years to 'test' this experiment and find generally that our defined contribution plan members retire with lower benefits than their defined benefit plan counterparts."[72]

Employees' preference for defined benefits can also be seen in the states that have offered a primary defined contribution plan as an alternative to a defined benefit plan. (These include Colorado, Florida, Montana, North Dakota, Ohio and South Carolina.) In those states, employees still overwhelmingly pick the defined benefit plan, according to a recent study of state experience by Mark C. Olleman, a consulting actuary and principal at Milliman, Inc.[73]

There are several key differences between defined benefit and defined contribution plans. Some states have found that their annual costs for their defined benefit plans have become burdensome due to past funding decisions, increased longevity among state employees, and in some cases the capacity of both state employees and employers to abuse the system. Cost containment/control is a major benefit of defined contribution plans. The other key difference between the two types of pension systems is risk. In a defined benefit plan the financial risk is borne by the state, while in a defined contribution plan the employee bears the risk. This is of special concern for state employees who are not part of the Social Security system and thus do not have that safety net. As states consider utilizing defined contribution plans, they will need to ensure that adequate funds are available to support retirees either by providing annuities through defined contribution plans or simply heavily encouraging adequate employee contribution rates.

Potentially more promising are hybrid plans, which incorporate parts of both types of plans. At least five states offer hybrid plans, according to the Kentucky Legislative Research Commission.[74] In Ohio and Washington, for example, employees have the option of signing up for a combined plan in which employer contributions fund a lower but guaranteed retirement benefit, while employee contributions are invested separately in a defined contribution plan. Oregon officials estimate that a new hybrid program adopted by the state in 2003 contributed to more than $400 million in pension reform savings.

Washington has further improved individual investment returns on the employee side by giving employees the option of investing in a portfolio that mirrors the investments of the state's defined benefit plan. About 70 percent of defined contribution assets are now invested in this way, according to Olleman.[75]

In 2003, moved at least in part by the evidence cited above, Nebraska offered state employees another choice instead of a defined contribution plan. The so-called "cash balance plan" is a hybrid of a defined benefit plan, in which employees and the state both make annual contributions, according to Phyllis Chambers, director of the Nebraska Public Employees Retirement System. Employees are guaranteed a 5 percent annual rate of return, although successful investments may push the rate even higher.[76]

"We think this plan is working well," Chambers said. "Since 2003, the returns have been good and we have been giving a dividend to employees above the credited rate. For those employees that do not want the volatility of a defined contribution plan, the cash balance is a good option because they know that there will be a minimum return of 5 percent. Also, they don't have to worry about what to invest in because it is done for them."

Requiring Faster, More Accurate Financial Reporting

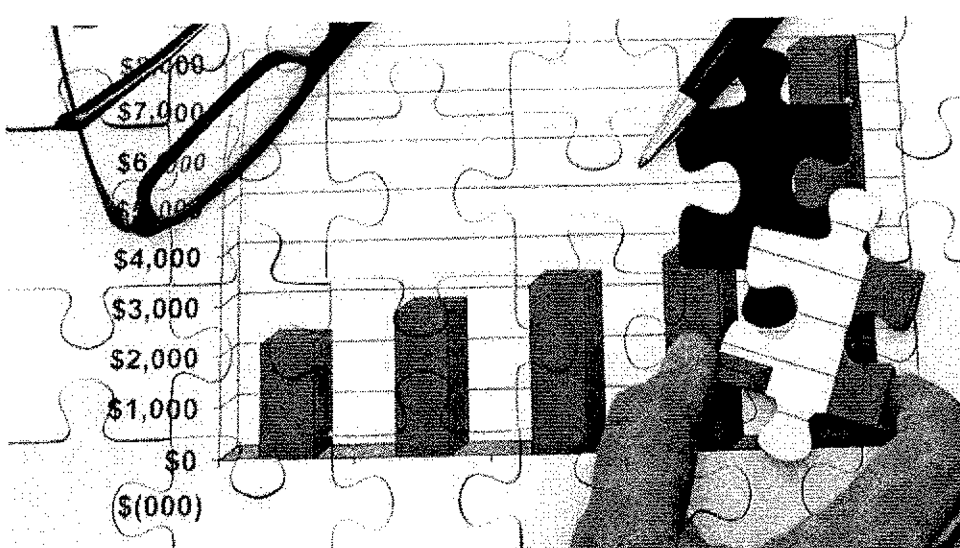
Corporations must disclose timely information about their pension plans to investors and file information with the Securities and Exchange Commission. There are no similar requirements for public pensions. Although many of them do an excellent job of reporting to members and the public, a number of states have significantly late annual financial reports.

In March of each year, Wilshire Associates, an investment consulting and management firm, reports on pension funding status of the largest public pension plans. One of the issues it perennially faces is the delay of financial reports. In March 2007, for instance, 17 out of 125 state pension funds examined had a financial report issued prior to June 30, 2005. Another 61 reports were released prior to June 30, 2006.[77]

Timely financial reporting has obvious benefits in delivering important information to policy makers, managers and citizens. It also may be a sign that other aspects of a system are running effectively. An analysis of a database of public pension plans from 1990 to 2000, at Wharton's Pension Research Council, revealed pension systems with stellar financial reporting practices also had annual investment returns that were 2.1 percent higher than funds with lesser financial reporting practices.[78]

The issue of timeliness also applies to actuarial valuations, which are now required every two years (compared with an annual requirement in the private sector). Jim Rizzo, an actuary with Gabriel Roeder Smith, said many states opt to do actuarial valuations more frequently, but they don't have to. "The numbers you put in a comprehensive annual financial report could be so old and stale that they're not useful to the reader," Rizzo said. "If the year ends September 30, 2007, then that year began on October 1, 2006, and you could be using an actuarial valuation for the year that began in 2004. By the time the Comprehensive Annual Financial Report gets published, it could be three years since the valuation."

The Governmental Accounting Standards Board (GASB) continues to look into ways that accounting and financial reporting for retirement benefits could be improved. In 2007, GASB issued a standard that will provide improved transparency for state and local government pension activities. Among the changes is a requirement for those plans that use the aggregate method in determining actuarial funding requirements to provide funding status information using another method.[79]



In addition, GASB is conducting a research project that will assess the effectiveness of current pension standards in meeting financial statement user needs. Issues that will be addressed include the overall approach to calculate annual pension costs and pension liabilities and detailed issues, including the discount rate, amortization methods and amortization periods, and actuarial cost methods.

The initial research phase of the project will be completed by April 2008. After consulting with its advisory committee, GASB is scheduled to decide whether a pension project should be added to the current technical agenda.

Improving Pension Oversight

One concern voiced by critics of government pension systems is that they are not subject to adequate oversight. This worry, expressed by Senators Charles Grassley and Max Baucus, ranking members of the U.S. Senate Finance Committee, led to the launch of a 15-month exploration of state and local retirement benefits by the GAO in July 2006. The GAO recently released a report on this topic and another is due in the coming months.

The senators expressed their concerns in a letter to David Walker, the Comptroller General of the United States, in which they argued that public pensions are held to a lower level of scrutiny than those in the private sector.[80] Most states, watchful of increased federal regulation, have reacted with alarm to the idea that the GAO study might spark more federal oversight. The National Association of State Retirement Administrators and the National Council on Teacher Retirement responded to the senators with a letter that defended the status and security of state and local funds.[81] This was followed with another letter from 28 national organizations emphasizing the soundness of public funds and the importance of recognizing the difference in the public and private sectors.[82] In fact, when the first GAO report was released, it conveyed a generally positive tone about the health of state and local pension systems.

Whatever happens on the federal level, there are abundant signs that increased oversight by the states is coming. This issue is explored in depth in the October 2007 *Governing* magazine article, "Who's Minding the $3 Trillion Store," which was researched under the auspices of PCS in conjunction with this report.[83] The Civic Federation of Chicago has also done valuable work on the subject of pension governance.[84]

Many states have standing legislative committees devoted to pensions and a number of states also have oversight commissions that keep an eye on pension fund operations. According to the National Conference of State Legislatures, these include:

- Indiana - Pension Management Oversight Commission
- Louisiana - Commission on Public Retirement

- Massachusetts - Public Employee Retirement Administration Commission
- New Jersey - Pension and Health Benefits Review Commission
- Ohio - Retirement Study Council
- Oklahoma - State Pension Commission
- Pennsylvania - Public Employee Retirement Study Commission
- Texas - Pension Review Board
- Washington - Office of the State Actuary; Pension Funding Council; Select Committee on Pension Policy

In early 2007, Texas's Attorney General Greg Abbott also stepped into the action, taking a look at the state's 96 state and local pensions.

Abbott's concerns largely centered on pension governance. He noted that a number of local pension funds were using amortization periods longer than stipulated by GASB,[85] and in a June 2007 speech to the Pension Review Board, he complained of unbalanced board membership, a lack of transparency in financial reporting and poor decisions in setting actuarial assumptions.[86] Abbott said he was particularly concerned about the possibility of conflicts of interest after discovering situations in which investment managers had hired board members after these firms had contracted with the retirement boards on which they sat. "They develop a chummy relationship," he said. "These job offers can be seen as a reward or inducement to shift the board member's allegiance to that particular investment manager."

Abbott says he hopes other attorneys general will also start to look at this issue, working on compliance with the law, while legislatures and boards of trustees focus on reforms needed to improve pension governance systems.

Conclusion

The strategies discussed in this section can help states reduce government pension costs and improve current pension management and future decision-making. However, these strategies will not eliminate the fundamental issue—that some states have liabilities they have not adequately funded. For the states that have fallen behind, there is no easy fix. Achieving an improved position requires the political will and discipline necessary to begin funding their pension plans at actuarially adequate levels. Even states that are currently in a good position in terms of pension funding should heed the lessons in this report to help avoid the poor decision-making that led to the problems other states now face. When states delay action, the problem grows exponentially and the costs of a solution grow right along with it.

Endnotes

24 Kansas established a number of pension reforms in 2007. One new provision requires that employer contributions equal the actuarially required amount (and not be less than employee contributions).

25 See Table A-2 in Appendix A. Information in this report aggregates financial data from all pension funds listed in states' 2006 comprehensive annual financial reports.

26 This PCS conclusion generally tracks with the findings of a September 2007 report by the U.S. Government Accountability Office. See GAO, *State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs*, report to the Committee on Finance, U.S. Senate (GAO-07-1156) (September 2007). The GAO report cites the opinion of "public sector experts, union officials and advocates" that 80 percent is a responsible funding ratio for pension systems. There is some disagreement on this point, however. It is useful to regard funding levels as a snapshot and recognize that they are always changing and are also extremely dependent on the health of the economy, and affected by a wide variety of individual practices relating to how they are calculated. A funding level of 80 percent, following a recession, is very different from a funding level of 80 percent following an economic expansion.

27 The actual total of actuarial assets in state pension funds, as calculated by PCS, is $1.992 trillion.

28 Interview with PCS, December 2006.

29 Sujit M. CanagaRetna, "State Retirement Systems: Recent Trends," (presentation at the Fall Southern Legislative Issues Conference, Savannah, Ga., November 12, 2006).

30 There is no guarantee, of course, that a pension that appears to be fully funded will stay that way. Benefit increases are often retroactive and will add to the actuarial accrued liability. Assumptions are also constantly readjusted as actuaries reexamine past projections and experience.

31 Pre-funding also has the benefit of addressing intergenerational equity issues. The idea behind intergenerational equity is that the taxpayers paying for government employee benefits should have been the ones who received services from those employees; however, if states put off funding their obligations, future generations will be on the hook for past and future bills.

32 An important note, Florida's surplus is not amortized as the GASB expects. The Florida legislature essentially ensured that this set aside would remain for longer than the GASB approved 30-year period. This is an extremely cautious approach, but it illustrates that if a state is serious about being fully funded, it can make certain it stays that way.

33 National Conference of State Legislatures, *Pension and Retirement Plan Enactments in 2007 State Legislatures*, by Ronald K. Snell (October, 2007).

34 See glossary in Section 1.

35 There are many other variations that can cause difficulties in comparing states. The Pew Center on the States Web site provides a state-by-state listing showing how assumptions and amortization periods vary. A resources section provides readers an opportunity to call up financial reports of individual states and check out the assumptions themselves. Even within a state, assumptions may vary from plan to plan.

36 There have been conflicting studies on this point. Public and private sector jobs are difficult to compare because many of the categories of employment tend to be different. The most recent compensation survey of public-sector employees, the *AFT Public Employees 2007 Compensation Survey*, reports that most state employees earn less than their private-sector counterparts, though the median increase in average salaries across the 45 jobs surveyed was 5.7 percent, "the highest increase recorded in the last five years."

37 For this illustration, PCS is using the unfunded liabilities and annual required payment figures from only the respective state employee plans for Georgia and Illinois.

38 As with much pension information, there is considerable variation even within one state. Employees of the Illinois State Employees Retirement System (SERS) pay 8 percent if they are not in Social Security and 4 percent if they are in Social Security, unless they get the "Alternative Formula" for higher-risk jobs. Then they pay 9.5 percent or 6 percent according to information provided by the Civic Federation in Chicago. Employee contribution rates are listed in the financial statements of each of five state pension funds in Illinois. There is also a summary in the Illinois Division of Insurance's biennial reports, http://www.idfpr.com/DOI/Pension/Pension.asp.

39 PCS interview with Tom Hills, chief financial officer, State of Georgia, September 2007.

40 Illinois Comptroller's Office, "Illinois Pension Benefits Lower Than Most States," *Fiscal Focus* (January-February 2007).

41 Illinois Retirement Security Initiative, Center for Tax and Budget Accountability, *The Illinois Public Pension Funding Crisis: Is Moving from the Current Defined Benefit System to a Defined Contribution System an Option That Makes Sense?*, by Jourlande Gabriel and Chrissy A. Mancini (Chicago, 2007), 8.

42 See Table A-2 in Appendix A, which goes back 10 years to show the extent to which each state has kept up with the amount its actuaries believe is necessary to maintain or move toward full funding.

43 New Jersey Legislature, Joint Legislative Committee, *Public Employee Benefits Reform; Final Report, 2006 Special Session* (Trenton, December 1, 2006), 37-38. The $8 billion reflects the UAAL, however, the ARC was shorted by only $3.2 billion over that time period.

44 Illinois Comptroller's Office, "Illinois State Pensions Continue to Put Pressure on State Budget," Fiscal Focus (January-February 2007).

45 Legislative Research Commission, *Issues Confronting the 2007 Kentucky General Assembly; An Update of Informational Bulletin No. 218 (2006)*, Informational Bulletin no. 221 (Frankfort, October 2, 2006). In its other pension systems, Kentucky has done a better job of funding the Annual Required Contribution. For example, the full contribution for the teachers' system has been made in each of the last 10 years. This has contributed to a more positive appearance of ARC funding for the state as a whole. See www.pewcenteronthestates.org for state pension tables.

46 Dan Hassert, "The Public Pension Squeeze," *Kentucky Post*, 14 April 2007.

47 "State Workers Needn't Rush into Retirement," *Concord (New Hampshire) Monitor*, 13 May 2007.

48 National Conference of State Legislatures, *Pension and Retirement Plan Enactments in 2007 State Legislatures*, by Ronald Snell (Washington DC, October 2007). The NCSL provides summary information on legislative changes in retirement benefits for the last nine years at http://www.ncsl.org/programs/fiscal/all_pensun.htm.

49 Hassert, "The Public Pension Squeeze."

50 "State Workers Needn't Rush into Retirement," *Concord Monitor*.

51 Charles Stile, "New Law Will Remove Many From Public Pension System," *(New Jersey) Record*, 11 May 2007.

52 Gregory J. Volpe, "Many Staffers Qualified for Pension Credit," *Cherry Hill (New Jersey) Courier Post*, 29 April 2007.

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85 A handful of state pension plans don't meet the Governmental Accounting Standards Boards guideline that amortization periods should be 30 years or less. This is because they have chosen to spread out payments over a longer period and thereby pay less in any given year. States with 40-year amortization periods at the end of 2006 included Illinois, Kansas, Michigan and Oklahoma. Whatever the length of time, the number of years in an amortization period can have a significant impact on the required contribution. For example, in January 2006, the Nebraska Retirement Systems Committee of the legislature quite candidly examined the merits of changing from a 25-year amortization period to a 30-year amortization period as a way of reducing contribution rates for the Nebraska school pension plan. That change alone, it concluded, would reduce the required contribution from $12.8 million to $6.6 million. A full list of amortization periods used by states is available at the PCS Web site.

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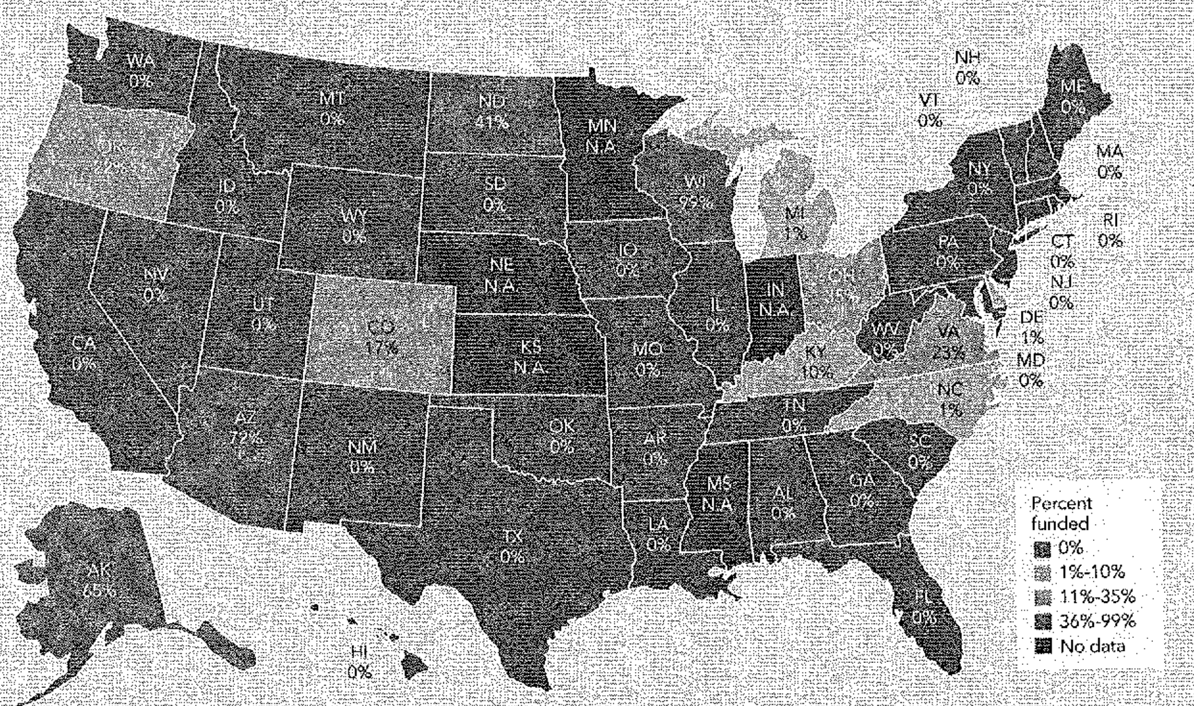
3-1 STATE OTHER POST-EMPLOYMENT BENEFITS: FUNDING LEVELS, 2006



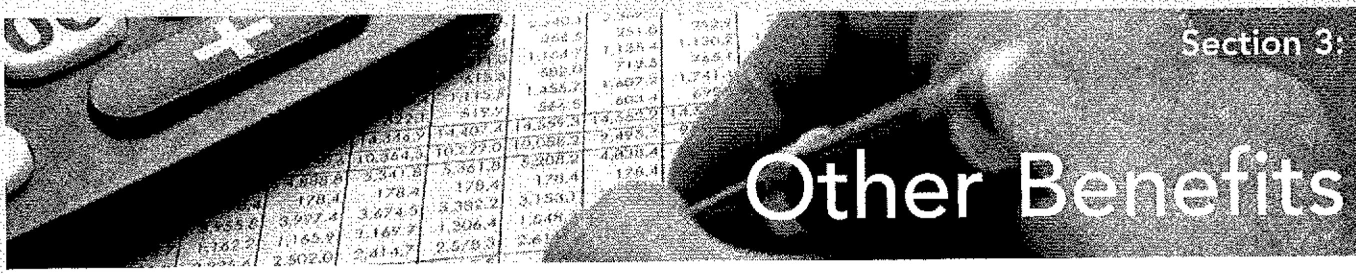
Figures are in thousands.

State	Actuarial liability	Unfunded liability	Annual required contribution	Actual payments in 2006
Alabama	$5,290,000	$5,290,000	$344,000	$76,000
Alaska	3,415,000	1,206,000	152,000	97,000
Arizona[1]	421,300	94,800	93,000	93,000
Arkansas	2,130,000	2,130,000	--	185,000
California	47,878,000	47,878,000	3,593,000	1,363,000
Colorado	1,248,000	1,033,000	71,000	21,000
Connecticut	21,681,000	21,681,000	1,597,000	393,000
Delaware	4,435,000	4,410,000	475,000	136,000
Florida	3,628,000	3,628,000	213,000	57,000
Georgia	4,905,000	4,905,000	368,000	173,000
Hawaii	6,791,000	6,791,000	488,000	141,000
Idaho	486,000	486,000	38,000	2,000
Illinois[2,4]	48,000,000	48,000,000	--	578,000
Iowa	220,000	220,000	23,000	20,000
Kentucky	9,019,000	8,090,000	130,000	66,000
Louisiana	7,344,000	7,344,000	967,000	190,000
Maine	2,297,000	2,297,000	177,000	73,000
Maryland	14,543,000	14,543,000	1,114,000	236,000
Massachusetts	13,287,000	13,287,000	1,062,000	354,000
Michigan	8,028,000	7,968,000	631,404	394,000
Missouri	2,186,000	2,186,000	159,000	78,000
Montana	525,000	525,000	51,000	8,000
Nevada	4,100,000	4,100,000	273,000	41,000
New Hampshire	$2,906,000	$2,906,000	$226,000	$45,500
New Jersey	21,587,000	21,587,000	1,881,000	313,000
New Mexico[3]	4,990,000	4,990,000	467,000	83,000
New York	49,663,000	49,663,000	3,810,000	934,000
North Carolina[1]	11,400,000	11,400,000	2,390,000	230,000
North Dakota	83,000	49,000	6,000	6,000
Ohio[1]	10,784,959	6,500,000	1,597,000	1,597,000
Oklahoma	814,000	814,000	87,000	18,000
Oregon[2]	832,000	645,000	75,000	75,000
Pennsylvania	13,778,000	13,501,000	1,125,000	519,000
Rhode Island	696,000	696,000	53,000	18,000
South Carolina	4,252,000	4,252,000	320,000	122,000
South Dakota	127,000	127,000	--	62,000
Tennessee	2,305,000	2,305,000	156,000	64,000
Texas[2,4]	26,817,000	26,817,000	--	411,000
Utah	749,000	749,000	47,000	47,000
Vermont	552,200	552,200	41,000	15,000
Virginia	3,001,500	2,320,000	311,500	150,000
Washington	3,800,000	3,800,000	314,000	68,000
West Virginia[3]	7,761,000	7,761,000	824,000	133,000
Wisconsin	1,823,000	17,000	52,000	52,000
Wyoming	72,000	72,000	6,000	3,000

1 States with combined state and local systems where PCS was able to estimate the state actuarial liability and unfunded liability of other post-employment benefits. PCS was unable to isolate the annual required contribution and 2006 actual payments for state employees only, and these numbers reflect the combined state and local system. Combined AAL and UAAL figures, respectively, from the actuarial valuations include: Arizona–$1.5 billion, $420 million; North Carolina–$23.9 billion, $23.7 billion; Ohio–$31.6 billion, $20.5 billion.
2 No actuarial valuation exists at this time.
3 Combined state and local systems where isolating the state component of other benefits may not be possible.
4 Actuarial liability and unfunded liability estimates for Illinois and Texas are from the Civic Committee of the Commercial Club of Chicago and Credit Suisse (2007), respectively.

NOTES: States in bold are moving toward fully funding their non-pension obligations. The actuarial accrued liability and unfunded actuarially accrued liability are based on short-term discount rates, which presume no pre-funding of the obligation. The amounts decrease if the annual required contribution is consistently funded each year.
Actuarial liability is the total value of benefits owed to current and retired employees or dependents based on past years of service.
Annual required contribution is the amount of money that actuaries calculate the employer needs to contribute to the plan during the current year for benefits to be fully funded by the end of the amortization period, which is typically 30 years or less.

SOURCE: Pew Center on the States



Rising Costs and Unfunded Obligations

LAST YEAR, THE STATES PAID ABOUT $9.7 BILLION in retiree benefits other than pensions, according to PCS's study of data collected from comprehensive annual financial reports. Health care is by far the most significant of these other post-employment benefits (OPEB), but they also include dental care, life insurance and other promised benefits that provide economic security to retirees. What is most significant, however, is not the amount states are spending on these benefits today. The real impact on states' fiscal health—and on the public sector employees counting on these benefits—comes from the dramatic and unrelenting growth of the annual costs of OPEB.

For many years, the fiscal challenges and complexity of retirement benefits were barely noticed in many states. But new accounting standards, established in 2004 by GASB, are finally bringing the issue front and center.

States and other large governments (those with annual revenues greater than $100 million) will first report on these liabilities in their fiscal year 2008 financial reports, which will generally come out sometime between December 2008 and March 2009. But actuaries for most states have already completed preliminary assessments of the bill that will come due for retirement benefits during the next 30 years. Armed with these and other documents gathered from a number of state governments, PCS has developed a complete and up-to-date compilation of states' long-term liabilities for those benefits.[87] These numbers are likely to be refined over the coming year—but they are reasonably accurate and the best available figures at this time.

According to PCS data, the total actuarial accrued liability for state employees' retiree health care and other post-employment benefits is about $381 billion.[88] About 97 percent—$370 billion—of the obligations for state employees over an amortization period that usually runs about 30 years was unfunded at the end of fiscal year 2006 (see Exhibit 3-1). The $381 billion figure is a conservative number that does not reflect the full extent of the long-term cost, as some states face large bills for teachers as well. Cities, counties and school districts also are totaling up their own liabilities and will continue to do so over the next several years. (Credit Suisse, which published a report on OPEB liabilities last March, estimated the total liability for states and local governments at about $1.5 trillion.[89])

> *"The evolution in states dealing with post-retirement health care costs is calculation, surprise and shock."*
>
> *— Keith Brainard, director of research for the National Association of State Retirement Administrators*

In an ideal world, states would fund retiree health care and other non-pension benefits as they're earned, as they generally do with pensions. This would reduce intergenerational inequity and would also lessen the total amount owed. (This is because a state that puts money aside for the future in a qualified irrevocable trust can earn higher interest rates over time.) But because states generally have not pre-funded retiree health and other non-pension benefits, there's a lot of catching up to do. Moving to full funding is a daunting task, because the annual required contribution is, on average, about three times what states currently pay each year to meet costs for current retirees.

So what are states doing to address current and future obligations to their employees as they try to balance competing pressures to build a strong workforce and control spending? Some are embarking on the pre-funding road and are putting money aside in trust funds. Others are redesigning the benefits themselves, using accrued sick leave to set up retiree health care savings accounts or shifting retirees to Medicare advantage drug prescription programs. Some states are already cutting back in various ways that will whittle down costs—for instance, by elevating retirement ages for new or non-vested employees or by increasing retiree contributions to premiums. At least one state, Illinois, has attempted to buy out some employees by offering a lump sum, as General Motors has done in the private sector.[90]

As the shock of identifying the long-term costs of retiree health care and other non-pension benefits ebbs, many questions remain about how cuts in benefits or other changes may affect employee behavior and the bottom line. States and other governments have embarked on a multiyear process in which they surely will be watching each other to see what works and what does not. This is just the beginning.

How Retiree Health Care Benefits Differ from Pensions

In 2004, after almost 20 years of study on the issue, GASB established new standards of accounting and financial reporting by public entities for other post-employment benefits, amending generally accepted accounting principles related to those transactions. (These same standards have been in place for private sector companies since the early 1990s.) Governments were given a few years to phase in the new standards. For state entities, that meant coming up with an actuarial accrued liability figure for their 2008 annual reports.

For governments and actuaries, developing long-term liability figures for retiree health care and other non-pension benefits can be complicated because several new assumptions must be built into the equation. These new assumptions include the annual rise in health care costs and the number of retirees who will actually take the state up on its offer of benefits (sometimes an employee chooses a spouse's coverage over the state's plan).

The greater uncertainties involved nearly guarantee that the valuations of long-term liabilities will rise and fall, particularly during the next few years, as states and actuaries evaluate plan characteristics, modify some plans to make them affordable, and decide how to manage benefits going forward.

States face a number of other big unknowns. Will the nation's health care financing system change substantially in the next 30 years? How will any changes affect retiree benefits? How far will courts allow governments to go in reducing benefits, as has happened in the private sector? These are just a few of the questions governments will be considering in the coming years.

Highlights From the Data

Exhibit 3-1 provides data for 45 states: 43 states have produced actuarial valuations of their OPEB; the data include estimates for Illinois and Texas. The figures in the exhibit assume that the state is paying for these benefits on a pay-as-you-go basis.[91] The long-term costs drop considerably if states consistently pay their annual required contribution (ARC) and deposit it in a qualified irrevocable trust. The savings come from the higher investment return that results from long-term savings and earnings that build up over time. As of the end of fiscal year 2006:

- Only six states—Arizona, Ohio, Oregon, North Dakota, Utah and Wisconsin—were on track to have fully funded OPEB obligations during the next 30 years. A few other states have moved in that direction since fiscal year 2006.

- Only three states had funded more than 50 percent of their actuarial liability: Wisconsin at 99 percent, Arizona at 72 percent and Alaska at 65 percent.

- Of the five largest states—California, Texas, New York, Florida and Illinois—none had put aside any money for other post-employment benefits.

- Eleven states had estimated liabilities in excess of $10 billion, led by New York with $50 billion, California with $48 billion and New Jersey and Connecticut with $22 billion each. Illinois is also included on this list with $48 billion in liabilities, according to estimates by the Civic Committee of the Commercial Club of Chicago.[92]

- Most of the states with large liabilities relative to their size are located in the East: New Jersey, New York, Connecticut, Maryland, Delaware and New Hampshire.

- Four states had put aside at least $1 billion for future OPEB expenses: Ohio, with $11.1 billion; Alaska, with $2.2 billion; Wisconsin, with $1.8 billion, and Arizona with $1 billion.

The Challenge of Rising Costs

This report does not attempt to evaluate the virtues or flaws of states' decisions to offer larger or smaller benefit packages to their employees. Instead, the analysis focuses on the real world as it exists today—one in which many states will see the price tag on retirement benefits rise significantly well into the future.

New Jersey, for example, paid $200 million—a systemwide total—for the health care costs of its current retirees in fiscal year 2000. By fiscal year 2005, this amount had mushroomed by 355 percent to $911 million. In the years since 2005, and for the foreseeable future, the costs are rising far faster than the rest of the budget. The state's 2007 retiree health costs were $1.2 billion, and the 2008 bill will be 25 percent higher than that. By contrast, state spending generally will rise 7.2 percent from fiscal year 2007 to fiscal year 2008, according to the New Jersey Treasury Department.[96]

States that pay a large portion of retirees' health care costs have generally struggled with rising

Understanding the Numbers

The data used for this report include information from 45 states. The data for 43 states are based on actuarial computations produced by the states themselves. As of mid-October 2007, the remaining seven states had not finished producing actuarial valuations. Five of those—Indiana, Kansas, Minnesota, Mississippi and Nebraska—are likely to show relatively small liabilities because they are among the 10 states where retirees pay their own health insurance premiums. In these states, the governments' cost is limited to an "implicit subsidy," which comes from allowing retirees to participate in the same insurance pool as younger and generally healthier state employees.

Of the states with substantial OPEB obligations, only Illinois and Texas were missing an actuarial valuation. A 2006 report from the Civic Committee of the Commercial Club of Chicago estimated that number at $48 billion for Illinois, a figure that includes state employees only.[93] The Texas legislature passed a law last spring that gave state and local governments a choice of following GASB standards or standards developed by its own comptroller. Governments that chose the latter course of action would still need to include a projection of long-term non-pension costs as supplementary information to the financial statement, but this would not be considered a liability. No publicly available actuarial valuation existed yet for Texas state government when this report went to press. The Legislative Budget Board has estimated the total liability as more than $50 billion after 10 years, including local governments.[94] Credit Suisse has estimated the state portion at $26.8 billion.[95]

In an effort to ensure consistency among the states, PCS has limited its analysis to state employees, with OPEB obligations for teachers and local employees removed whenever possible. As a result, the figures in Exhibit 3-1 may not match with unfunded liability figures that have appeared in local newspapers. For example, New Jersey's most recent actuarial valuation shows a total of $68.8 billion in liabilities. Of this amount, however, $36.5 billion covers school teachers and another $10.8 billion covers municipal and county employees. The portion for state employees is $21.6 billion.

When states were unable to break out the data that applied exclusively to state employees, the inclusion of either teachers' plans or local plans is noted on the table. The source of each figure, and the date of the calculation, can be found on the PCS Web site (www.pewcenteronthestates.org). In some cases, the valuations used were preliminary and states are currently working on updated versions. The actuarial valuations used for this table were supplemented with information from comprehensive annual financial reports. In cases where PCS researchers needed help isolating state data, they contacted state officials.

Even if benefits remain the same, however, it is highly likely that some of the figures shown in Exhibit 3-1 will change significantly in future valuations. Calculating the long-term cost of retiree benefits is new to the states and adjustments in their calculations are not unusual. Maine, for example, had a valuation in 2003 that put its long-term OPEB actuarial liability at $1.2 billion. As of January 2007, it determined the liability to be about $3.2 billion. That amount includes the state's obligations for both retired state employees and retired teachers, according to Frank Johnson, executive director of Maine's employee health and benefits department. (The amount listed in Exhibit 3-1 represents state employees only.)

These calculations require sophisticated actuarial projections that take into account many hard-to-predict variables such as the rate of retirements, the lifespan of retirees, the increase in health costs and the interest earned on money set aside as benefits are earned. Changes in any of the assumptions over time will alter the data.

bills. In Maine, benefit payments were 6.7 percent of payroll for fiscal year 2007, but will rise to at least 11.2 percent of payroll in fiscal year 2016, according to state figures.[97] California's Legislative Analyst's Office pegged growth in retiree health care costs at nearly 11.8 percent between 2007 and 2008. By contrast, other state spending grew less than 1 percent.

In Nevada, pay-as-you-go costs were projected to rise 20 percent from 2008 to 2009, according to information presented to the legislature in January 2007. If the state were to fund its ARC in 2008, the payment would be four times the pay-as-you-go cost.[98]

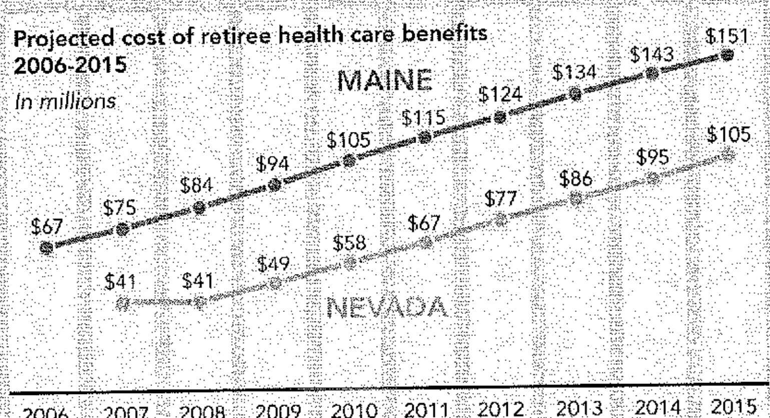
If states persist on the pay-as-you-go path, the bills for retiree benefits other than pensions will continue to grow quickly. Nevada and Maine, two very different states socioeconomically and geographically, are largely in the same boat when it comes to bills coming due for OPEB, as Exhibit 3-2 illustrates. That is why these and other states are thinking hard about what mix of actions to take. Without appropriate attention and planning, these obligations only get bigger and more difficult to manage.

Until recently, most states have permitted their OPEB obligations to grow with little or no consideration for how to pay for them. As noted earlier, our analysis revealed that about 97 percent, or $370 billion, of these 30-year obligations were unfunded at the end of fiscal year 2006. By sharp contrast, all states attempt to set aside large pools of assets to fund long-term pension liabilities, albeit with varying success.

However, a few states, including Utah, Maine and Michigan, have been estimating the costs

3-2 PAYING THE MINIMUM IS NOT ENOUGH

The rising costs of health care benefits for retirees will be felt most acutely by states on the pay-as-you-go* path, as illustrated by Nevada and Maine.



* "Pay-as-you-go" is defined as paying only the amount needed to pay for benefits currently due and payable to retirees. Often this means financing for current benefits comes from current employees' contributions.

NOTE: 2006 data unavailable for Nevada.

SOURCES: Leslie Johnstone, Memorandum to Nevada Joint Ways and Senate Finance Subcommittee, RE: GASB 43 and 45 Supplemental Information, January 24, 2007; Nevada CAFR pp. 69-70.; John Bartel and Steven Glicksman, State of Maine: Retiree Healthcare Plan Actuarial Valuation, January 2007.

"I hope the experience with retiree health makes people realize that we have some pretty significant fiscal challenges over the long term."

— Scott Pattison, executive director of the National Association of State Budget Officers

of their non-pension benefits for some time. Others, such as Alaska, Kentucky and Arizona, have included retiree health care as part of pension funding. As a result, although these states' pension funding levels may have appeared somewhat deflated compared with other states in the past (when few states were paying attention to long-term retiree health care costs), they now have a jump on many other states.[99]

At the end of fiscal year 2006, 13 states had some funding set aside, although most of the amounts were minimal. Ohio stands out in the amount of money socked away: $11.1 billion at the end of fiscal year 2006, a sum that grew to $12.8 billion by the end of fiscal year 2007, according to the Ohio Public Employee Retirement System. But even Ohio's retiree health benefits are only 39 percent funded, up from 35 percent in 2006.

The job is all the tougher because of the many other long-term costs emerging as states' populations and infrastructures age. States face retiree OPEB bills simultaneously with rising pension costs; expanding budgets for prisons; and demands for more money for schools, maintenance backlogs for bridges, roads and water systems and other needs. At the same time, governments are under pressure to keep taxes low.

The underlying problem, said Elizabeth Keating, a professor at Boston College's Carroll School of Management, has been fiscal systems based on an annual cash budget, which does not hold decision-makers responsible for the results of their choices down the road. She and others maintain that governments need to focus attention on the long-term ramifications of their decisions. Meanwhile, state budgets, employees, retirees and taxpayers are likely to face tough times ahead. "I hope the experience with retiree health makes people realize that we have some pretty significant fiscal challenges over the long term," said Scott Pattison, executive director of the National Association of State Budget Officers. "I hope this changes the dynamic in which we make policy decisions over the short term without a realization of the costs that are going to grow over the next five, 10, 15 years and beyond."

How the States Stack Up

PCS's analysis shows how strikingly different the states are from one another. Half the states account for almost 94 percent of the total unfunded OPEB liabilities. "The diversity of the states is far more dramatic on the retiree health issue than many others," said Pattison. "We have some members who see this as almost a crisis and others have no problems."

Much of the difference is directly tied to the decisions that governments have made about how large or small retirement benefits should be and who should receive them. Even neighboring states, which may well be drawing employees from the same group of applicants, have made remarkably different choices about the benefits they provide their retirees. For example, Virginia's unfunded liability is $2.3 billion, while Maryland's is $14.5 billion, according to the states' own disclosures.[100] Maryland offers a more substantial premium subsidy and provides assistance to retirees with fewer years of service.

In general, the largest states have the largest liabilities. Of the 10 states with the highest populations, only Florida stands out as having a relatively small actuarial accrued liability. That is not surprising because Florida's cash subsidy for health insurance is limited, providing a $5

The Other Post-Employment Benefits Menu

All states that offer post-retirement health care benefits to employees do so in different ways. A few of the key differences include:

- The nature of the benefits. While standard major medical coverage tends to receive the most attention, life insurance, dental and vision coverage and other benefits can be included.
- Divisions of contribution. In some states, the government contributes most or all of the monthly premiums for retiree health benefits. In others, the government contribution is capped and employees make up the rest. In still other states, the government pays only the implicit rate subsidy (the cost incurred by allowing retirees, who are generally older and less healthy, to participate in the same plan as active employees).
- Eligibility. In many states, employees become eligible for these benefits based on a combination of age and years of service. For example, an employee turning 55 with 10 years of service to the state may be eligible to continue receiving the same health benefits after retirement. Retiree health plans are frequently tiered so that benefits increase after more years of service.
- Coverage. Some plans cover only employees, while others include spouses and other dependents. States also differ widely in whether or not they provide coverage to early retirees who do not yet qualify for Medicare.
- Basic plan structure. As in the private sector, virtually all OPEB plans fall into one of two categories: defined benefit or defined contribution. Defined benefit plans specify the amount of benefits to be provided to the employees after their employment ends. Defined contribution plans stipulate only the amounts to be contributed by a government employer to a plan member's account, but do not promise a certain amount of benefits employees will receive after their employment ends.
- The number of participating governments. So-called single-employer plans involve only the state government; multiple-employer plans include more than one government, often localities.
- Varieties of multiple-employer plans. When multiple governments pool or share the costs of financing benefits and administering the plan and the assets, the plan is called a cost-sharing multiple-employer plan. In agent multiple-employer plans, states still share the administrative costs and pool investments, but separate actuarial calculations are made for each participating government, and separate accounts are maintained to ensure that each employer's contributions are used only to provide benefits for employees of that government. The goal of these plans is to spread risk and administrative costs while providing centralized expertise.

monthly subsidy toward health insurance coverage for every year of employment up to 30 years. On the other hand, California, North Carolina and Texas often pay retirees' entire premiums, according to the Workplace Economics 2006 State Employee Benefits Survey.[101]

States' liability amounts are determined not only by the size of states' contribution to retirees' insurance premiums, but also by such factors as the number of retirees covered, the vesting period, the type of health plan, and dependent and spousal coverage. (See "The OPEB Menu" for a more thorough description of the most important variables that come into play.)

Retirement age is a particularly pertinent factor. All states' retirees are living longer and so remain beneficiaries for a longer time. Beyond that, the age at which states permit various employees to retire and collect benefits varies greatly. The retirement age is critical because the cost of covering an individual retiree who has not yet become eligible for Medicare can be much greater than the cost of covering a retiree who is Medicare eligible. In New Jersey, for instance, spending for the average pre-Medicare retiree is $573 a month, 189 percent of the cost for a retiree who is covered by Medicare, according to the most recent State Health Benefits Survey from the Segal Company.[102] A study by Alaska's actuary analyzed retiree health care costs and found that 75 percent of the state's OPEB spending came from employees who retired before 65. This information helped convince the Alaska legislature to cut off benefits to pre-Medicare retirees as part of its substantial retirement reforms of 2005.[103]

States Attempt to Move Forward

GASB's role is to establish accounting and financial reporting standards—not to require governments to make any particular policy or management decisions. But on the verge of disclosing their liabilities for retirement benefits, many governments confront the need to take action. "There are two ways to address the issue," said Jason Dickerson, a legislative analyst in California who has been following the topic there and in other states. "You can put money aside to fund benefits or you can change benefits so as to reduce future costs."

A January 2007 Aon Consulting survey of governments of all sizes shows many leaders are still unsure of where to turn.[104] The survey, released in July, showed that fewer than half the governments surveyed had developed a plan of action to handle the new accounting standards. Ninety percent did not know how they would get the money to fund the long-term obligation, although more than half were considering long-term funding options. A third of the respondents were contemplating plan modifications—either revising eligibility requirements, increasing cost sharing, cutting coverage for future employees or moving to a defined contribution approach, which would shift the risk of medical inflation to retirees.

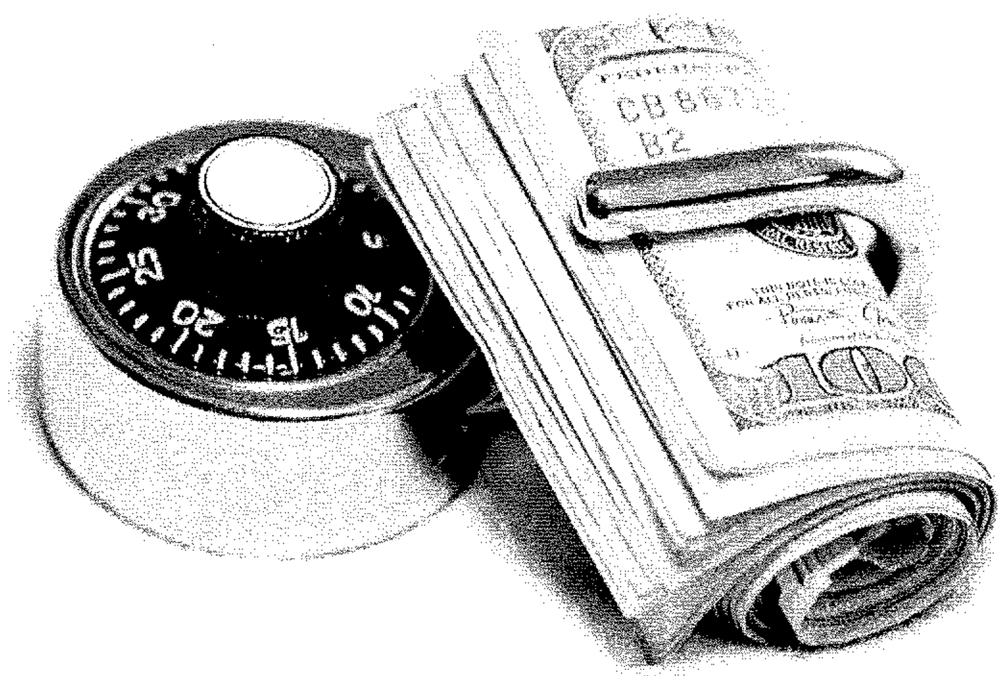
In fact, a hybrid approach seems increasingly likely for a number of states. "Initially, a lot of our clients were looking at this in black and white: pay for it all or reduce all the benefits," said Tim Nimmer, an actuary at Aon, which performed the actuarial valuations for non-pension benefits in eight states. "I'm guessing that almost all of them will land in that gray area of a combination of the two. They're looking for what's politically palatable and what is fiscally palatable."

To see what states are doing at this early stage, PCS analyzed survey responses from Pew's Government Performance Project and legislative data from the National Conference of State Legislatures (NCSL).

Fully Funding the Long-term Obligations

According to NCSL's legislative tracking, at least 13 states in 2007 set up state trust funds or provided enabling legislation for local trust funds. A handful of other states had already taken these actions. These irrevocable trusts require that all the money that goes in is used in a predetermined way—in this case, to pay for retirement benefits in years to come. The stipulation prevents budget raiders from siphoning off these funds for current needs. Ohio (see "States to Watch") has used such a mechanism to hold the funds it has been setting aside for OPEB obligations since 1974. Utah also established an irrevocable trust for its OPEB costs and appropriated the full actuarially required contribution of about $47 million for both fiscal years 2007 and 2008. Alabama, Delaware, Georgia and West Virginia (see "States to Watch") are among the states that have also set up irrevocable trusts.

Some states are considering earmarking revenue streams to fund their long-term liability, such as a portion of lottery proceeds or tobacco settlement dollars, according to the National Association of State Comptrollers, which has set up an OPEB Implementation Network.[105]



Massachusetts passed irrevocable trust legislation for fiscal year 2008 and is fully funding its $1.1 billion anticipated annual required contribution for 2008 with approximately $340 million of general fund dollars and most of its accumulated unspent tobacco settlement receipts. Governor Deval Patrick proposed dedicating up to 90 percent of future tobacco settlement proceeds to at least partially fund OPEB costs in the irrevocable trust. The legislature rejected the proposal, but created a commission to study future funding with a report due in December in time for the fiscal year 2009 budget debate.

Other states may be looking at the option of bonding out their OPEB obligations. One state that selected this option is Wisconsin. In 2003, it issued $600 million in OPEB bonds as part of a larger transaction that also included the issuance of $729 million in pension bonds. The OPEB portion of this transaction was the first time a bond had been used to pay for the actuarial liability for other post-employment benefits at the state level. It has enabled the state to come close to fully funding its fairly modest OPEB obligation.[106]

However, there is an inherent risk in bonding to meet retiree obligations, based on the timing of the transaction. For example, New Jersey implemented a $2.8 billion pension bonding plan in 1997, and it fell victim to bad timing when the market turned sour and the interest paid on the bond exceeded what the state earned on its pension investments. Other governments that sold pension obligation bonds in the late 1990s also lost money in the early part of this decade.

The appeal of irrevocable trusts goes beyond the obvious desire to provide security for retirees and protection for future taxpayers. If states start funding their retiree benefits through this vehicle, their actuaries can actually decrease the total actuarial liability. That's because it is presumed that invested money will earn more interest if it is set aside for the long haul, reducing the long-term cost of benefits. (See "Other Benefits of Full Funding.")

However, government officials wonder what will happen to money that has been "irrevocably" dedicated to retiree health care if the federal government passes some kind of universal health insurance. "A lot of people are resistant to putting that money aside because tax laws aren't clear on their ability to take that money out," said Dickerson of the California Legislative Analyst's Office.

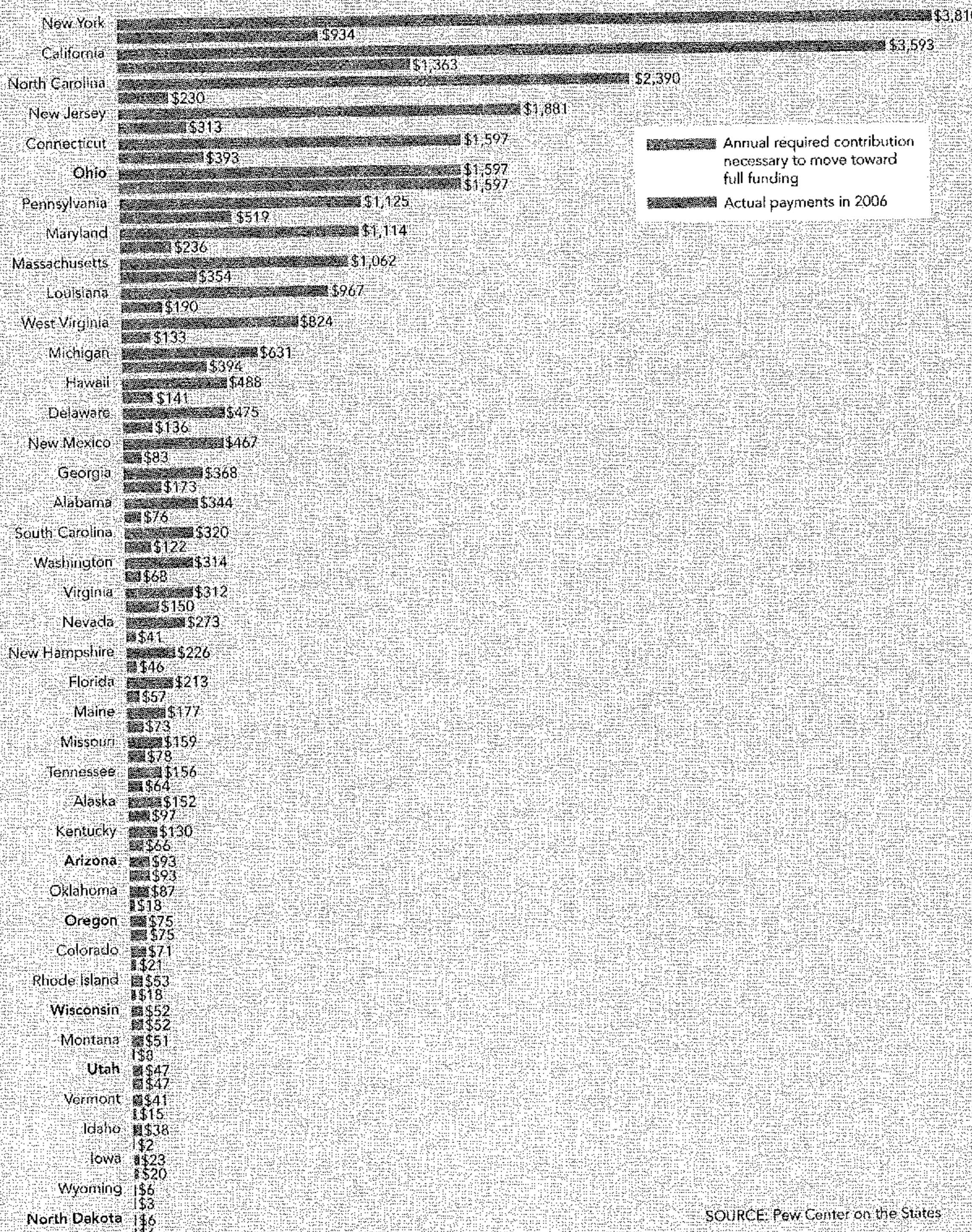
In any case, for most if not all states, the option of fully funding these liabilities in the near future is not feasible because of the dramatic rise in costs. Exhibit 3-3 compares the costs states spent in 2006 with the amount determined by actuarial valuations as necessary to move toward full funding. The states where the red and blue lines are closest have already started moving toward funding these benefits.

In fact, based on data from 40 states with explicit OPEB liabilities, PCS has calculated that the median annual required contribution states would need to move toward full funding of their plans can be almost three times what they are paying right now: $314 million compared with $110 million, respectively.

An effort to begin funding for the future is worth considering for a variety of reasons. However, given the size of their long-term liabilities, many states are going to be supplementing that effort with other steps to reduce the bill coming due.

3-3 FALLING SHORT ON PAYING THE ANNUAL BILL FOR OTHER BENEFITS

Almost all states need to pay more into their retiree health care plans if they want to move toward full funding. States in bold paid their annual required contribution in 2006. Data shown are for the 41 states with available figures. Numbers are in millions.



SOURCE: Pew Center on the States

Other Benefits

3-4 THE BENEFITS OF CONSISTENTLY PAYING THE ANNUAL BILL

State	Expected Return on Pay as You Go	Expected Return if Funded
Alabama	4.00%	6.00%
California	4.50%	7.75%
Massachusetts	4.50%	8.25%
Nevada	3.80%	8.00%
S. Carolina	4.50%	7.25%
West Virginia	4.50%	7.75%

NOTE: If the annual required contribution were funded consistently each year, a higher interest rate could be used and the dollar amounts would be reduced.

SOURCE: Pew Center on the States

Scaling Back on Benefits

In general, states have far more flexibility to make changes to retiree benefits like health care than they do to pensions. But it gets more complicated when it comes to individual states, in part because of how they make their decisions about benefits. One might assume, for instance, that in heavily unionized states, benefits would be determined by labor negotiations. But that's not always true. At the state level in California, for example, retiree health benefits are not a topic open to union negotiation. These decisions are the province of the pension systems' board, according to Dickerson of the California Legislative Analyst's Office. On the other hand, in California's local governments, labor negotiations have already started to have

Other Benefits of Full Funding

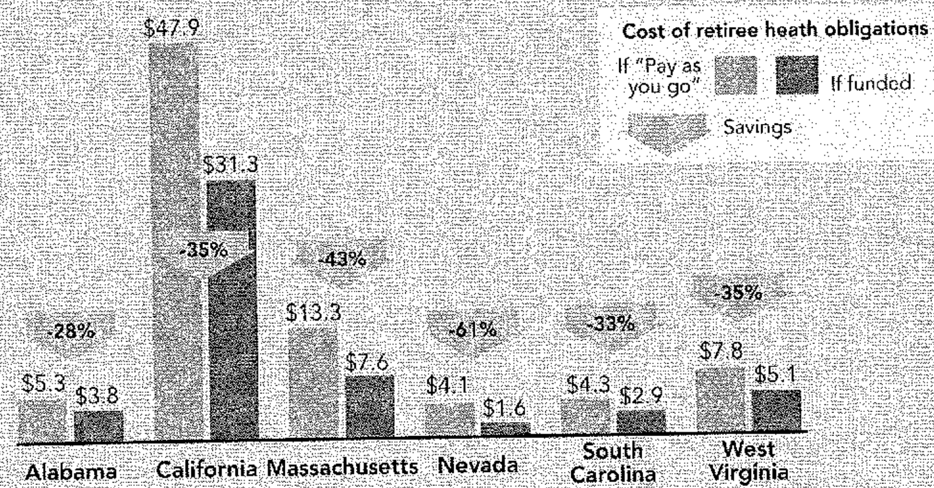
The benefit that comes from putting money in a trust is that it starts to earn interest and, over time, that interest becomes another funding source for the benefits, replacing some of the contribution that would otherwise come from future taxpayers.

In fact, states that move toward full funding of their benefits will see an immediate impact on the actuarial accrued liability because there is an increase in the discount rate that is used to calculate this amount. Exhibits 3-4 and 3-5 highlight a sampling of states, the impact of discount rates when they simply pay the benefits out of current monies, and the impact of the higher discount rate that would be permitted if they establish a qualified trust and begin providing consistent long-term funding. Most states that provide long-term funding likely will provide a portion and not the whole thing, which will enable them to use a discount rate somewhere between the two options shown.

For example, in California, actuaries have calculated the long-term obligation for state employees at $48 billion. One important element in that calculation is the "discount rate"—the interest rate assumption the state is allowed to apply to current assets used to pay future bills. With that bill paid for on a pay-as-you-go basis, the actuaries assume a 4.5 percent interest rate, similar to what the state earns in its short-term cash accounts. But if California were to start putting aside sufficient money each year in a qualified trust, higher interest earnings could be achievable. So the actuaries would use a 7.75 percent interest rate—the same rate used in its pension system—reducing the total amount owed to $31 billion.

3-5 REDUCING COSTS BY CONSISTENTLY PAYING THE ANNUAL BILL

The examples below demonstrate the financial benefits of a qualified trust that is consistently funded. (In billions)



SOURCE: Pew Center on the States

an impact. This has also been the case in the private sector (see "A Harbinger?").

In other states the decisions may fall to the legislature or collective bargaining with unions, and the flexibility to make changes depends on state law and past labor agreements. For example, in 1997 in Connecticut, the administration of then-Governor John Rowland reached a 20-year agreement with the state's labor unions, which prevents any significant changes from being made until 2017. "That's tied our hands," said Nancy Wyman, state comptroller.

A smattering of states have made changes over the last several years—but experts predict that this kind of activity will be ever more common as states move from the head-scratching phase to more clear-cut plans.

This topic is so new that there is little or no evidence that any one of the approaches that states have taken thus far is necessarily superior to others. Here are examples of what's been happening across the country in the last several years:

- In 2005, Pennsylvania started requiring new retirees to pay 1 percent of their annual base salary at the time of retirement for health care costs. In addition, as of July 1, 2008, 20 years of state service will be required for lifetime health benefits in Pennsylvania compared with 15 years in the past.[107]
- In 2006, North Carolina increased the time that new employees need to work to qualify for full subsidization of benefits.[108] (See "States to Watch.")

A Harbinger?

In September, the United Auto Workers union and General Motors reached an agreement that some observers point to as a useful example for the public sector. Faced with a $50 billion actuarial accrued liability for post-retirement benefits and ongoing intense competition from international carmakers, GM and the union agreed to end the company's defined benefit plan for non-pension benefits and shift to a Voluntary Employee Beneficiary Association deal in which the automaker pays an annual amount to a union-run medical benefit plan.

This defined contribution approach removes the risk to GM of dealing with health care inflation. The unions were willing to accept this option, faced with the potential of more drastic cuts in the future or layoffs if the company couldn't afford to pay the benefits promised.[112]

For states in which retiree benefits are the subject of labor negotiations, this topic is highly likely to be a prominent part of future discussions. At the local level, for example, several unions have negotiated changes in benefits or benefit structure over the last year. One theme, particularly in California, has been for a union to protect benefits of current employees while allowing benefits to be diminished for new employees. Unions in Orange County went a step further, negotiating a pay increase for current employees while substantially reducing non-pension benefits for future hires and retirees. It is likely that this case will be litigated, said Dickerson.

- In 2006, Maryland increased co-payments on prescriptions and increased employee and retiree premium payments.[109]

- In 2005, Alaska ended early retiree health coverage for new employees, limiting retiree coverage to those who are 65 and older.[110] (The state also shifted new employees from defined benefit pension plans to defined contribution plans.)

- In 2006, Illinois began offering 15,000 state retirees not covered by Medicare the option of dropping their state-subsidized health insurance in exchange for a $150 monthly payment. Only those who had another source of insurance were eligible. The state pays $834 per month to insure the health of a retiree not covered by Medicare. As of September 30, 2007, 124 employees had accepted this offer, according to Timothy Blair, executive secretary for the State Employees' Retirement System of Illinois.[111]

States to Watch

West Virginia

Having experienced the bitter toll that underfunded pensions take on a state budget, West Virginia was one of the states that moved most rapidly to deal with a $7.8 billion unfunded liability for its other post-employment benefits. Among other things, the state increased retiree co-payments, set up an irrevocable trust for funding and shifted retirees to a Medicare advantage prescription drug plan.

According to Ted Cheatham, executive director of West Virginia Public Employees Insurance, the actions reduced the state's long-term liability by more than half, to $3.4 billion. Part of the savings stems from a reduction in medical cost inflation, with the state shifting from the 8 percent inflation rate it expected in the next few years to a 6 percent inflation rate, based on health care cost growth that mitigated substantially in fiscal year 2007.

The following describes the state's health care benefits for retirees before and after the reforms.

BEFORE. The state required co-payments from active employees but not from retirees. Retirees paid a premium based on years of service and date of hire, but it was considerably discounted from what the state actually spent. Retiree health care costs were covered on a pay-as-you-go basis, with the premiums from active employees providing a $100 million subsidy for retiree costs every year. Supplemental Medicare coverage was provided on a fee for service basis. Meanwhile, the number of retirees was growing at a net rate of 1,000 a year.

AFTER. Co-pays were set for retirees at $10 for primary care, $20 for specialists and $50 for emergency room visits, with retirees expected to pay 20 percent of hospital expenses not covered by Medicare. Out of pocket expenses were capped at $500. All retirees were required to join a Medicare advantage prescription drug plan. These actions reduced per capita costs from $300 per member per month to $121 per member per month. In addition, the West Virginia Retiree Health Benefits Trust Fund was set up. It currently has $39 million with another $63 million deposit expected by year's end. Finally, to relieve some pressure on retirees' wallets, the state reduced premium costs by a flat $22 per Medicare member per month.

A number of retirees are unhappy with the change, but it could have been worse; the state's original proposal in fall 2006 was considerably more expensive for retirees. In adopting the new plan, the state—heavily unionized—worked with a number of labor groups. Although they vary in their level of acceptance, Cheatham said "most are satisfied with where we ended up." At this point, there has not been any litigation regarding the changes. "Had we not made these changes to reduce the liability we would have had to do something more drastic to retiree benefits in the future," said Cheatham.

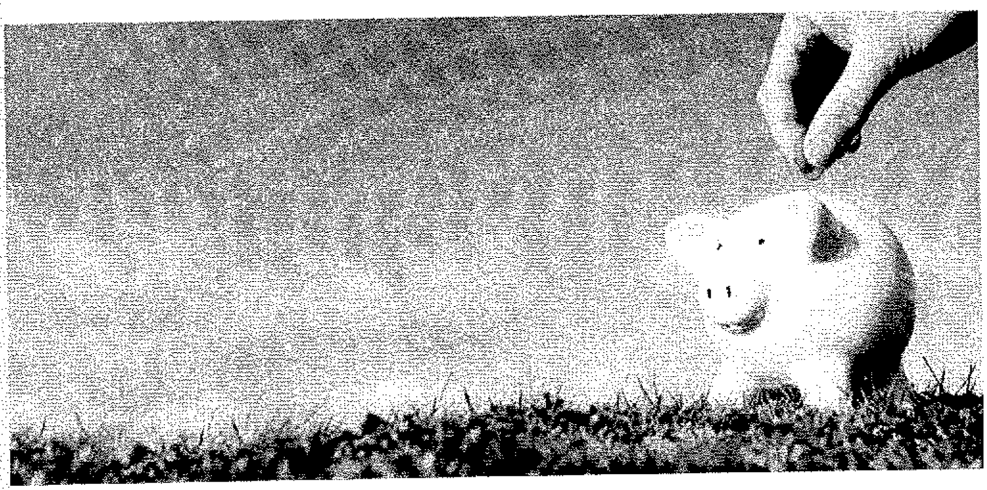
> *"Had we not made these changes to reduce the liability we would have had to do something more drastic to retiree benefits in the future."*
>
> *— Ted Cheatham, executive director of West Virginia Public Employees Insurance*

Cheatham added that by changing to the Medicare drug prescription plan, the state was able to take advantage of federal dollars that directly fund that program. By contrast, if the state had continued to provide its own prescription drug benefits, the subsidy provided by the federal government under Medicare Part D could not be used to reduce the other post-employment benefits liability, according to GASB rules.

Ohio

Only a small number of states have accumulated significant assets to offset their OPEB obligations. Ohio, which had $11.1 billion saved as of fiscal year 2006, has accumulated much more than even the next closest state (Alaska at $2.2 billion).

Ohio began offering health care to its retirees in 1969 and started paying their health insurance premiums in 1974.[113] Managers initiated the first round of restructuring in 1986 by raising eligibility from five years of service to 10. The state introduced wellness programs and choice of plan during the 1990s. And it continued to restructure further by placing a cap on the lifetime benefit an individual retiree can receive as well as increasing deductibles and co-payments and tightening definitions of dependents.



The solvency test measures how long any dedicated funds will last given the expected level and timing of expenditures. Because Ohio has partially funded its OPEB obligation, the solvency test can be used to gauge its progress. In 2005, officials with the Ohio Public Employees Retirement System estimated the solvency period at 17 years. It grew to 18 years in 2006 and is estimated at 27 years for 2007, according to state officials.

Utah

Utah is noteworthy because it has a relatively modest long-term liability of $750 million or $488 million, respectively, for its non-pension benefits, depending on whether the state follows a pay-as-you-go approach or continues to pay the annual required contribution, as it has done in 2007 and 2008. Yet it has taken steps to restructure its benefits as a result of requirements to disclose these obligations.

During its 2005 session, the Utah legislature passed a bill, effective January 1, 2006, allowing retiring employees to receive 25 percent of the value of unused sick leave as a contribution into a 401(k) account.[114] (Those who retired before January 1, 2006, were able to cash out this amount of unused sick leave.) The value of any unused sick leave earned after this date is converted into a health reimbursement account. A prior provision allowing employees to receive health and life insurance coverage for up to five years or until they turned 65 is being phased out.

Employees have not accepted these changes without a fight. Utah was sued by the Utah Public Employees Association on behalf of five anonymous plaintiffs who charged that the legislature had illegally changed the rules of vesting and contributions.[115] The state Supreme Court held that the legislative change was not an unconstitutional taking and that the plaintiffs did not have a property interest in the specific use of unused sick leave.

North Carolina

North Carolina offers other post-employment benefits to retired state employees, its universities and community college faculty and teachers who are members of the Teachers' and State Employees' Retirement System, as well as to other systems covering the judicial and legislative branches of government. The plan is the same as the one covering active employees.

In 2006, the North Carolina legislature overwhelmingly passed a bill that increased OPEB vesting periods from five to 20 years for employees hired after September 30, 2006. Those retiring with fewer than 20 years' service will have to pay between 50 percent and 100 percent of their health insurance premium, depending upon the number of years served.[116]

Because this reform is prospective, the state will not realize any financial benefits until 2011, when its OPEB obligation is likely to be somewhat reduced.[117] Figuring out the impact of the change is highly complex. While it certainly cuts back on the number of individuals who are eligible for full benefits, it will also result in a phenomenon economists call "adverse selection," which occurs when plan members who pay more in premiums than they consume in services exit the plan. Because those retiring with fewer than 20 years of service will now have to pay a significant portion of their premiums, many employees are expected to obtain health insurance from a lower cost provider. This loss of premium payments partially offsets the positive fiscal impact. It also means the resulting pool of plan members will be older and sicker, which could have a similar effect.

The net result of this reform is still anticipated to save money. But states should thoroughly investigate all restructuring options to ensure that the unintended consequences of changes to OPEB plans are not greater than the anticipated benefits.

Innovation in Management

Two factors lead to the large year-to-year increases in retiree health care benefits: the increasing number of retirees and the inflation of medical costs. States' estimates of liabilities vary somewhat depending on their assumptions about these two variables. Pinning down medical inflation is particularly tricky. Analysts in California and elsewhere have expressed concern that assumptions paint a way-too-optimistic portrait of what will happen over time. Still, governments have used a variety of management tools to whittle away at what they're spending on health care. Practices that have proven particularly useful include establishing preferred drug lists, pushing the use of generics rather than brand-name drugs, shifting to managed care, and providing preventive services.

Here are three particularly hot areas of focus for governments to bring down retiree health costs:

Savings through consolidation

States can help their localities and themselves by bundling their plans under a single administrative umbrella. This can have immediate benefit because when risk is spread over a larger population, premiums tend to decline. Also, the so-called "big pencil" approach makes it far easier to bargain effectively with health care providers. Groups of employees can potentially also lower administrative costs as investment costs and overhead decline per member.

Missouri has been resolutely attempting to use consolidation to check health care costs for retirees. As of February 2007, the Missouri Consolidated Health Plan (MCHCP) claimed 104,545 members, or about 24 percent of all government workers in the state.[118] The plan's comprehensive annual financial report points to an extremely moderate increase of 1.7 percent in medical costs from fiscal year 2005 to fiscal year 2006 and an overall increase in operating expenses of only 3.3 percent during that period.[119]

In March 2006, a Missouri Foundation for Health report called on the state to expand eligibility for the plan to include non-governmental entities, seeing an opportunity to provide affordable health care coverage for all citizens using this successful structure. The report stated, "Because MCHCP already provides coverage not just for state employees but also for a variety of municipal employers, it is logical to consider it as a candidate to serve small non-governmental employers as well." [120]

Wellness programs

Many governments are promoting smarter choices for employees and retirees in four categories: health assessments and monitoring; health insurance incentives; healthy work environment initiatives, and physical fitness programs. Governments can use these programs to lower costs and get beneficiaries more involved in managing their care.
Texas offers among the most comprehensive wellness programs. In its plan year ending August 31, 2006, the Texas Blue Connection Preventive Care Intervention program sent nearly 92,000 women over age 40 "birthday cards," encouraging them to be screened for cancer and osteoporosis. Nearly 50,000 men over age 50 were sent similar cards encouraging prostate exams.[121]

Aggressive health care management

California's public employee retirement system recently initiated a purchasers' coalition to work with hospitals to increase the quality of service while managing costs. Called a "Partnership for Change," the program promotes performance measurement and public reporting. It strives to increase competition by negotiating rates with hospitals based on performance and value, while providing reliable data for purchasers to help make decisions. Benchmarking is used to increase transparency.

In summer 2003, the Massachusetts Group Insurance Commission (GIC) embarked on a multiyear effort called the Clinical Performance Improvement Initiative.[122] The initiative, which has become central to the GIC's strategy for health care coverage, seeks to deliver high-quality and cost-efficient health care to the GIC's 289,000 members. Now in its third year of implementation, the initiative relies on a database of over 150 million claim lines supplied by the six health plans currently providing coverage to GIC members. All of the claims are de-identified, which means that personal information is protected. The database is used to make quality and resource efficiency comparisons among physicians. The GIC's health plans use the results of the analysis to rank their doctors and stratify them into different groups or tiers. The health plans use modest co-pay differentials as incentives to encourage members to utilize higher tiered, more cost-efficient providers. This approach also seeks to encourage providers to improve their care delivery so as to "lift all the boats."

Conclusion

As states begin to report on the costs of health care and other non-pension benefits for public sector retirees, the long-term liabilities appearing on their "balance sheets" are likely to generate significant attention. A handful of states have been coping with how to pay for other post-employment benefits for some time, and these examples highlight the benefits of consistent funding, reasoned policy decisions and good management. At this point, most states are just beginning to understand the problem, which is an important first step. The challenge of averting a funding crisis is daunting—but it will get exponentially larger if ignored.

Endnotes

87 Currently 43 states have completed at least preliminary actuarial valuations for their other post-employment benefit liabilities. Although efforts have been made to confine research to state employees, some states are unable to isolate state employee benefits from teacher or local benefits included in cost-sharing plans.

88 The PCS analysis centers on OPEB obligations for state employees, due to the wide range of practices regarding state involvement with other post-employment benefits for teachers or municipal employees.

89 David Zion and Amit Varshney, "You Dropped a Bomb on Me, GASB," Credit Suisse (March 22, 2007). *Credit Suisse* estimated the unfunded liabilities for states at $558 billion, but included calculations for teachers in the total. It estimated the liability for localities at $951 billion to arrive at the $1.5 trillion. For the 16 states for which it had no estimates, Credit Suisse used a formula calculation in which it multiplied the number of employees by $100,000.

90 Michelene Maynard and Jeremy W. Peters, "GM to Offer Buyout Deal to More Than 125,000 Workers," *The New York Times*, 22 March 2006.

91 For definitions of these terms, see the Glossary in Section 1.

92 There was no actuarial valuation for Illinois' other retiree benefits.

93 Civic Committee of the Commercial Club of Chicago, *Facing Facts: A Report of the Civic Committee's Task Force on Illinois State Finance* (Commercial Club of Chicago, December 6, 2006), http://www.civiccommittee.org/initiatives/StateFinance/FacingFacts.pdf.

94 Legislative Budget Board staff, *Texas State Government Effectiveness and Efficiency: Selected Issues and Recommendations*, submitted to the 80th Texas Legislature (Austin, January 2007), 129.

95 Zion and Varshney, "You Dropped a Bomb on Me," 10.

96 New Jersey Legislature, Office of Legislative Services, *Analysis of the New Jersey Budget: Fiscal Year 2007-2008*, (New Jersey: New Jersey Department of the Treasury, 2007).

97 John E. Bartel of Bartel Associates, Inc., and Steven Glicksman of Glicksman Consulting, LLC, "State of Maine, Retiree Healthcare Plan, Actuarial Valuation, June 30, 2006," January 2007.

98 Leslie Johnstone, "Public Employees' Benefits Program" (presentation to the Joint Ways and Means and Senate Finance Subcommittee, Carson City, Nv., January 24, 2007), 37.

99 Alaska is 65 percent funded, Arizona is 72 percent funded and Kentucky is 10 percent funded.

100 These numbers reflect state obligations for state employees only.

101 Workplace Economics, Inc, *2006 State Employee Benefits Survey*. (The premium subsidy for retiree health benefits is very difficult to summarize as there are often multiple plans and tiered benefits depending on years served. The two-page chart on health benefits provided by Workplace Economics in its survey is followed by 13 pages of footnotes.)

102 Segal Group, Inc., *2003 Segal State Health Benefits Survey: Medical Benefits for Employees and Retirees*, (2003). Segal is currently updating this survey, in partnership with the National Association of State Personnel Executives.

103 Rich Saskal, "Despite Squabbles, They're Ahead of the Game on GASB," *Bond Buyer* 355, no. 32350 (March 30, 2006).

104 Aon Consulting, *Navigating the GASB OPEB Standards*, Aon Consulting 2007 GASB OPEB Survey (July 2007).

105 Survey results from the National Association of State Comptrollers OPEB Implementation Network can be found at http://nasact.org/techupdates/techpubs.cfm. The most recent survey was conducted in May 2007.

106 Frank R. Hoadley, "Observations on Pension-Related Liabilities and Disclosure," (Presentation to Milwaukee County Task Force, Milwaukee, Wi., October 4, 2006).

107 Mark Scolforo, "Health Tab for Public Pa. Retirees Nears $34 Billion," *Pittsburg Post-Gazette*, 20 December 2006, http://www.post-gazette.com/pg/06355/747768-85.stm.

108 North Carolina General Assembly, *Fiscal Note to Senate Bill 837*, June 30, 2006. [0]

109 Saskal, "Despite Squabbles."

110 Ibid.

111 Doug Finke, "Few state retirees choosing cash over health insurance. Option for those with other coverage, not eligible for Medicare," State Capitol Bureau, *State Journal Register*, 30 August 2006.[0]

112 Girard Miller, "A Lesson from Detroit, UAW's New VEBA and Your OPEB," *Governing: Governing Management Letter* (October, 2007), http://www.governing.com/articles/10gmillera.htm.

113 Information provided by Richard Baker, Ohio Public Employees Retirement System, December 13, 2006.

114 Utah State Legislature, *Utah House Bill 213: Unused Sick Leave At Retirement Amendments*, sponsored by David Clark (January 2006), http://www.le.state.ut.us/~2005/htmdoc/hbillhtm/HB0213.htm.

115 Supreme Court of the State of Utah, Utah Public Employees Association v. State of Utah, 2006 UT 9 (Salt Lake City, February 2006), http://www.utcourts.gov/opinions/supopin/UPEA021606.pdf.

116 North Carolina General Assembly, *Senate Bill* 837.

117 Ibid.

118 Email from Ron Meyer, Executive Director, Missouri Consolidated Health Plan, received July 16, 2007.

119 Bi-State Development Agency of the Missouri-Illinois Metropolitan District St. Louis, Missouri, Financial Division, *Missouri Consolidated Health Care Plan, 2006; Comprehensive Annual Financial Report*, (Fiscal Year ended June 30, 2006): 20.

120 Missouri Foundation for Health and Urban Institute, *Cover Missouri Project: Report 7: Expanding Coverage Through the Missouri Consolidated Health Care Plan (MCHCP)*, by Elliot Wicks, March 2006: 1-3.

121 Employees Retirement System of Texas, *Controlling Costs and Preventing Fraud in the Texas Employees Group Benefits Program Fiscal Year 2006: The Key to Cost Containment*, by Ann. S. Fuelberg (Austin 2006).

122 This explanation came from Dolores Mitchell, Executive Director of the Massachusetts Group Insurance Commission.

Section 4:

Appendices

Appendix A

A-1 A MOVING PICTURE - HOW STATE PENSION FUNDING LEVELS HAVE CHANGED, 1997-2006

State	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Alabama		84%	90%	93%	97%	101%	103%	102%	101%	111%
Alaska	74%	64%	67%	70%	73%	99%	100%	104%	103%	101%
Arizona	85%	86%	90%	99%	108%	118%	122%	118%	120%	117%
Arkansas	82%	82%	86%	90%	96%	100%	101%	101%	100%	97%
California		87%	86%	84%	96%	106%	116%	118%	114%	105%
Colorado	74%	73%	71%	76%	88%	99%	105%	103%	96%	92%
Connecticut	56%	59%	60%	66%	69%	72%	72%	65%	65%	64%
Delaware	97%	97%	98%	101%	103%	105%	108%	107%	100%	97%
Florida	106%	107%	112%	114%	115%	118%	118%	113%	106%	91%
Georgia	96%	98%	100%	101%	102%	103%	103%	98%	96%	90%
Hawaii	65%	69%	72%	76%	84%	91%	94%	94%		
Idaho	95%	93%	90%	82%	83%	95%	113%	109%	106%	94%
Illinois	60%	60%	64%	49%	54%	63%	75%	73%	72%	70%
Indiana	64%	65%	67%	67%	64%	67%	67%	64%	61%	
Iowa	88%	89%	89%	90%	93%	97%	98%	97%	95%	94%
Kansas	69%	69%	70%	75%	78%	85%	88%	86%	83%	83%
Kentucky	70%	76%	83%	88%	94%	102%	111%	105%	97%	94%
Louisiana	67%	64%	63%	68%	74%	78%	79%	75%	73%	68%
Maine	77%	76%	75%	74%	77%	78%	79%	75%	69%	63%
Maryland	82%	88%	92%	93%	94%	98%	101%	97%	90%	86%
Massachusetts	72%	73%	75%	70%	83%	84%	87%	81%	81%	75%
Michigan	81%	79%	84%	87%	93%	99%	101%	101%	99%	103%
Minnesota	93%	98%	100%	102%	105%	108%	107%	107%	107%	102%
Mississippi	73%	72%	75%	79%	83%	87%	82%	82%	84%	79%
Missouri	81%	81%	80%	81%	93%	96%	100%	98%	96%	95%

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A-1 A MOVING PICTURE - HOW STATE PENSION FUNDING LEVELS HAVE CHANGED, 1997-2006 *CONTINUED*

State	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Montana	80%	78%	80%	91%	91%	103%	103%	83%	83%	79%
Nebraska	89%	88%	89%	92%	96%					
Nevada	75%	76%	79%	81%	82%	84%	85%	82%	78%	76%
New Hampshire	61%	60%	71%	75%	82%	85%	90%	89%	108%	110%
New Jersey	79%	82%	87%	94%	101%	109%	111%	110%	106%	102%
New Mexico	82%	84%	87%	92%	98%	99%	96%	90%	84%	82%
New York[1]	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
North Carolina	105%	106%	106%	106%	109%	110%	108%	104%	99%	99%
North Dakota	81%	82%	86%	91%	97%	103%	108%	97%	99%	100%
Ohio	81%	80%	81%	79%	81%	96%	96%	94%	92%	89%
Oklahoma	59%	60%	60%	66%	65%	66%	68%	65%	64%	58%
Oregon	110%	104%	96%	97%	91%	107%	98%	99%	93%	93%
Pennsylvania	87%	87%	93%	100%	106%	115%	127%	121%	111%	106%
Rhode Island		56%	60%	64%	73%	78%	81%	83%	78%	75%
South Carolina		73%	81%	83%	86%	88%	89%	98%	94%	91%
South Dakota		96%	98%	97%	97%	96%	96%	97%	96%	95%
Tennessee	99%	99%	99%	99%	98%	98%	99%	99%	99%	99%
Texas	89%	88%	93%	95%	97%	121%	107%	104%	105%	100%
Utah	96%	93%	92%	95%	93%	103%	105%	103%	96%	91%
Vermont	92%	95%	94%	94%	94%	92%	92%	91%	90%	86%
Virginia		81%	89%	95%	100%	106%	104%	94%	87%	79%
Washington		79%	85%	88%	93%	98%	102%	96%	88%	81%
West Virginia	55%	49%	43%	39%	40%	44%	47%	46%	46%	
Wisconsin	100%	99%	99%	99%	97%	96%	96%	96%	95%	95%
Wyoming	95%	95%	86%	92%	92%	103%	115%			
US Average	**82%**	**82%**	**83%**	**86%**	**89%**	**95%**	**97%**	**94%**	**92%**	**90%**

1. See n. 4, page 13.
NOTE: Missing cells indicate that data were unavailable.
SOURCE: Pew Center on the States

A-2 PAYING THE ANNUAL BILL - KEEPING UP WITH ANNUAL REQUIRED PAYMENTS, 1997-2006

State	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Alabama	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Alaska	61%	47%	92%	118%	120%	109%	99%	105%	91%	93%
Arizona	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Arkansas	108%	110%	101%	102%	102%	101%	102%	101%	101%	101%
California	108%	110%	101%	102%	102%	101%	102%	101%	101%	101%
Colorado	62%	49%	52%	69%	100%	100%	100%	100%	100%	100%
Connecticut	100%	88%	89%	94%	99%	94%	94%	94%	66%	70%
Delaware	97%	93%	91%	88%	80%	80%	84%	85%	85%	85%
Florida	96%	102%	92%	98%	97%	110%	111%	100%	100%	100%
Georgia	100%	100%	100%	100%	100%	100%	101%	101%	100%	100%
Hawaii	100%	100%	100%	100%	100%	5%	13%	83%		
Idaho	107%	102%	98%	110%	131%	131%	117%	100%	99%	99%
Illinois	33%	44%	111%	67%	78%	80%	114%	98%	96%	74%
Indiana	101%	85%	78%	103%	108%	123%	125%	120%	92%	85%
Iowa	84%	86%	91%	99%	100%	100%	101%	104%	101%	103%
Kansas	63%	69%	69%	79%	80%	78%	77%	77%	74%	72%
Kentucky	86%	93%	94%	100%	104%	101%	101%	101%	104%	99%
Louisiana	101%	101%	93%	97%	102%	107%	105%	107%	103%	100%
Maine	106%	105%	112%	109%	165%	100%	102%	108%	109%	108%
Maryland	82%	83%	89%	92%	100%	100%	100%	100%	100%	100%
Massachusetts	94%	101%	63%	67%	101%	116%	99%	120%	156%	174%
Michigan	83%	78%	65%	78%	89%	126%	111%	99%	123%	109%
Minnesota	99%	115%	114%	148%	172%	156%	162%	152%	137%	131%
Mississippi	100%	100%	100%	100%	101%	101%	100%	100%	100%	115%
Missouri	81%	77%	84%	96%	100%	100%	100%	100%	99%	99%
Montana	153%	91%	94%	99%	100%	130%	129%	101%		
Nebraska	100%	91%	100%	99%	100%	100%				
Nevada	96%	100%	99%	90%	96%	100%	97%	95%	94%	100%
New Hampshire	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
New Jersey	27%	15%	8%	4%	3%	17%	29%	60%	40%	288%
New Mexico	91%	96%	100%	100%	100%	99%	99%	99%	99%	99%
New York	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
North Carolina	100%	100%	100%	100%	100%	82%	100%	100%	100%	100%
North Dakota	66%	67%	81%	97%	101%	101%	101%	100%	100%	100%
Ohio	93%	98%	97%	100%	100%	100%	100%	100%	100%	100%

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A-2 PAYING THE ANNUAL BILL—KEEPING UP WITH ANNUAL REQUIRED PAYMENTS, 1997-2006 *CONTINUED*

State	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Oklahoma	73%	58%	60%	64%	71%	77%	71%	74%	81%	78%
Oregon		101%	100%	100%	97%	95%	95%	97%	100%	100%
Pennsylvania	35%	46%	100%	117%	219%	112%	100%	100%	100%	100%
Rhode Island	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
South Carolina	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
South Dakota	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Tennessee	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Texas	84%	83%	83%	86%	104%	138%	102%	103%	97%	101%
Utah	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Vermont	76%	75%	67%	86%	96%	96%	96%	94%	85%	78%
Virginia	87%	83%	85%	64%	71%	100%	93%	85%	71%	62%
Washington	28%	20%	22%	27%	57%	164%	104%	287%	114%	80%
West Virginia	182%	147%	104%	105%	108%	106%	104%	105%	103%	
Wisconsin	100%	100%	100%	100%	100%	100%	96%	100%	100%	100%
Wyoming	150%	113%	75%	69%	127%	469%	189%			

NOTE: Missing cells indicate that data were unavailable in order to calculate the percent of the annual required contribution funded.

SOURCE: Pew Center on the States

Appendix B

The Stand-Out States

To identify the degree of challenge states face in meeting their non-pension obligations to retirees, PCS turned to means used by GASB, Standard & Poor's and Moody's Investor Services for adjusting comparisons of states. We looked at the 40 states for which actuarial valuations are now available and for which we could isolate the state contribution for state employees only. Exhibits B-1 through B-4 put retiree benefit liabilities in context based on population, personal income and payroll.

For those 40 states, the mean per capita costs of their accrued liabilities is $1,283.[123] Since there's a wide range of benefits offered, the median is $774. Looking at the unfunded liabilities as a percentage of total state personal income, the mean is 3.4 percent and the median is 2.5 percent,[124] and when viewed as a percent of covered payroll, the mean is 191 percent and the median is 135 percent.[125] The following section provides tables showing the states that stand out from the pack. These figures assume that the states are not pre-funding the obligation. Once again, if the ARC is paid consistently over time, the AAL and UAAL drop considerably.

Per capita

Exhibit B-1, which is based on population data from the U.S. Bureau of the Census and the U.S. Department of Commerce, shows the 10 states with the highest per-capita unfunded actuarial accrued liability (UAAL) for their state employees. This indicates the fiscal burden each state's citizens are carrying because of the UAAL, although it does not assess their ability or capacity to pay.

The top three states all have per-capita unfunded accrued liabilities over five times the median, suggesting a relatively heavy burden. Illinois does not appear in Exhibit B-1 because an actuarial valuation was not available. However, as previously noted, the Civic Committee of the Commercial Club of Chicago estimated the liability for state employees at $48 billion. Using this information, PCS estimates Illinois' per capita liability at $3,741, which would make it among the top five states in liabilities per state resident.

B-1 UNFUNDED RETIREE HEALTH BILL PER CAPITA

States	UAAL/Capita	States	UAAL/Capita
Connecticut	$6,186	New Hampshire	$2,210
Hawaii	$5,283	Massachusetts	$2,064
Delaware	$5,167	Kentucky	$1,923
Maryland	$2,590	Alaska	$1,800
New York	$2,572	Median	$774
New Jersey	$2,474	Mean	$1,283

SOURCE: Pew Center on the States; Based on Actuarial Valuations

As a percentage of personal income

Per-capita statistics, however, do not tell the whole story because they do not take into account the differences in wealth or ability to pay. Measures of personal income in the states, as reported by the U.S. Department of Commerce, help get at that factor. Subject to this further level of analysis, the 10 states with the largest liabilities do not change dramatically. But the order shifts a bit. Hawaii climbs to the top, and Kentucky appears as its burden rises when measured by its ability to pay. If Illinois data were included, it would appear in Exhibit B-2—again in the top five—at 9.8 percent.

B-2 UNFUNDED RETIREE HEALTH BILL AS A PART OF PERSONAL INCOME

States	UAAL/Personal Income	States	UAAL/Personal Income
Hawaii	14.6%	New Hampshire	5.6%
Delaware	13.2%	Louisiana	5.5%
Connecticut	12.4%	Maine	5.4%
Kentucky	6.6%	New Jersey	5.3%
New York	6.1%	Median	2.5%
Maryland	5.9%	Mean	3.4%

SOURCE: Pew Center on the States, Based on Actuarial Valuations

As a percentage of payroll

Another measure used to gauge relative burden—and one that GASB will ask states to produce in their financial reporting—involves the size of the obligation compared to the size of the payroll being covered. Covered payroll is a tricky statistic because some states report the covered payroll for the state portion of their retiree benefits while others report only the amount for the entire plan. For purposes of this calculation, PCS has excluded the data for those states reporting the latter. For the 34 states where both UAAL and covered payroll data for the state only were available, the median ratio is 135 percent. The 10 states with the highest ratio are reflected in Exhibit B-3.

B-3 UNFUNDED RETIREE HEALTH BILL AS A PART OF PAYROLL

States	UAAL/Covered Payroll	States	UAAL/Covered Payroll
Connecticut	690%	Louisiana	362%
New York	552%	Maryland	362%
Kentucky	422%	California	347%
Alabama	410%	New Jersey	333%
Hawaii	395%	Median	135%
Maine	377%	Mean	191%

SOURCE: Pew Center on the States, Based on Actuarial Valuations

Note the rise of New York and the appearance of Alabama, Maine and California. Again, if Illinois data were considered, its unfunded liability as a share of payroll would be ranked first at 709 percent. Why did these states rate so high on UAAL/covered payroll? One plausible explanation according to a number of sources, including New York's Citizens Budget Commission, is that employees in some of those states may have received wage increases that were relatively low in exchange for better post-retirement benefits over the years.[126]

States at the Other End of the Spectrum

Until recently, Indiana and Nebraska were the only two states that offer no benefits for retirees over age 65 (although both do have some provisions for retirees who are not yet eligible for Medicare).[127] Oregon also eliminated its coverage for Medicare eligible retirees who were hired on or after August 29, 2003, according to the GAO.[128] Eight additional states—Idaho, Iowa, Kansas, Minnesota, Mississippi, Montana, South Dakota and Wyoming—pay no premiums for retirees, but do allow all eligible retirees to sign on to the state plan.[129] This type of benefit provides an "implicit subsidy," which comes from allowing retirees to participate in the same pool as younger and generally healthier state employees. Because retirees are much older than the average participant in state plans, they are more expensive to cover, bringing up the average costs of the entire plan. In Wyoming, for example, although the retirees pay for benefits themselves, the inclusion of these older men and women in the insured pool increases the costs to the state by some $72 million over a 30-year period.[130]

Exhibit B-4 shows states that have the smallest long-term obligations relative to the state's population and as a share of personal income.[131]

In Kansas, Indiana, Minnesota, Mississippi and Nebraska—five of the seven states where actuarial valuations were unavailable—the unfunded actuarial liabilities are likely small.

B-4 UNFUNDED RETIREE HEALTH BILL PER CAPITA AND AS A SHARE OF PERSONAL INCOME

States	UAAL/Capita	UAAL/Personal Income
Wisconsin[132]	$3	0.0%
Arizona	$15	0.0%
Iowa	$74	0.2%
North Dakota	$77	0.2%
Wyoming	$140	0.3%
Median	$774	2.5%

SOURCE: Pew Center on the States, Based on Actuarial Valuations

Endnotes

123 Of the 43 states that have completed an actuarial valuation, 40 states were used in this calculation. These numbers do not reflect Oregon, New Mexico and West Virginia because their valuations did not disaggregate state only data. PCS was able to calculate the state employee portion of OPEB UAAL for Arizona, North Carolina and Ohio.

124 Similar to the per capita calculations, Oregon, New Mexico and West Virginia were not included because their valuations did not disaggregate state only data.

125 PCS was only able to gather covered payroll for state employees in 37 of the 40 states where we have actuarial valuations and were able to disaggregate state data.

126 New York's Citizen Budget Committee, *The Case for Redesigning Retirement Benefits for New York's Public Employees*, (April 29, 2005).

127 Workplace Economics, Inc, *2006 State Employee Benefits Survey*.

128 United States Government Accountability Office, 2007.

129 Workplace Economics, Inc, *2006 State Employee Benefits Survey*.

130 *Report on the State of Wyoming Retiree Health Insurance Study and GASB 45 Liability* (presented by Buck Consultants to the State of Wyoming Joint Appropriations Committee, November 1, 2005), http://personnel.state.wy.us/EGI/Buck%20Retiree%20Study.pdf.

131 Once again, these figures are only for the 40 states which have actuarial valuations and where state employees could be isolated.

132 Wisconsin took care of its modest unfunded liability for other post-employment benefits by bonding it out. See p. 50 in Section 3, Other Benefits. The $600 million in other post-employment benefit bonds may not take care of the full amount, however, as costs are outpacing projections.

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