



Looking Back on 2010-11 and Looking Ahead to 2011-13

Review of the FY2010-11 Budget

Highlights:

- Raising revenue was “off the table”: little appetite for tax reform in an election year.
- Budget gap of \$1.2 billion closed by cuts, fund transfers, and one-time solutions.
- State lawmakers expected \$1.6 billion in federal aid; the state will get just over \$1.7 billion.
- Biggest cuts to Health & Human Services, followed by Education and Justice & Public Safety.
- Some of last year’s cuts at least partially restored (mental health, AIDS drugs, Health Choice)

A Dire Situation Got Worse

On June 30, 2010, the General Assembly passed the adjusted state budget for fiscal year 2010-2011. The final General Fund budget provides for \$18.96 billion in appropriations, which is almost 16 percent less in state-funded spending than would be needed to maintain services at 2008-2009 levels and more than 3 percent less than originally allocated in the 2009-11 biennium budget.

Including the expected \$1.6 billion in federal aid, the total general fund appropriations in the adjusted 2010-11 budget totaled to \$20.6 billion. Although state lawmakers received less than the expected amount in federal Medicaid assistance (\$343 million versus \$482 million), the state will receive an unexpected \$300 million in additional funds for teachers that must be spent before September 2012.

The budget gap continued to balloon after last year’s cumulative gap of \$4.6 billion; this year policymakers faced an additional shortfall of \$1.2 billion caused by revenues coming in over \$700 million below expectations while enrollment in Medicaid and post-secondary education skyrocketed.

Lawmakers made clear early on that after last year’s temporary tax increases, raising revenue was “off the table”. Thus, policymakers relied almost exclusively on spending cuts, efficiencies, and one-time fixes to address this year’s shortfall. These measures enabled lawmakers to minimize harm to state services in the short-run while postponing tackling the budget crisis to come when temporary taxes expire and federal recovery dollars disappear next year.



Looking Ahead to 2011-13

State policymakers closed the \$9.4 billion 2009-11 biennium budget gap with more than \$2.6 billion in federal aid, about \$2.2 billion in temporary taxes, and about \$4.6 billion in net cuts and fund transfers.

The combination of the slow pace of the expected recovery and the simultaneous expiration of both federal aid and the temporary taxes at the end of this fiscal year is likely to leave state policymakers facing an even more extreme budgetary challenge than they faced at the beginning of 2009.

The Looming Budget Gap

Even after taking the substantial cuts of 2009-11 into account, state policymakers are likely to confront a budget gap of nearly \$6 billion over the course of the next two fiscal years (see chart). Getting services back to pre-recession levels would likely require about \$10 billion in additional revenues over two years: equivalent to increasing taxes across the board by over 25 percent.

The absolute scale of the budget gap is nearly the same as the gap policymakers faced policymakers in 2009-11, but this time the state can expect little additional assistance from the federal government beyond the end of this fiscal year.

Furthermore, the state has already made the “easy” cuts, many of which simply shifted spending to later years, and is also likely to see major unplanned growth in costs to the State Health Plan and State Retirement Systems, each accounting for several hundred million dollars.

The Case for Revenue Reform

The scale and severity of the coming revenue shortfall should clearly demonstrate the need to reform the state’s revenue system as part of a balanced approach to closing the budget cut, including raising enough revenue to support the state’s needs long into the future. Taking a cuts-only approach to closing the 2011-13 budget gap would be truly devastating to the state’s economy and families that are already struggling with the impact of the recession. Raising adequate revenue in the short- and long-term must be part of the solution.

Defining the 2011-13 Budget Gap	
FY 2010-2011 Budget	
FY10-11 Final Adjusted General Fund Budget + Federal Recovery Dollars	\$ 20,613,819,711
FY10-11 Original Continuation Budget	\$ 22,554,891,906
FY 2011-2013 Biennium Budget (estimated)	
FY11-13 New Continuation Budget (2010-11 service levels)	\$ 43,300,000,000
FY11-13 Pre-Recession Continuation Budget (2008-09 service levels)	\$ 47,400,000,000
Preliminary Estimate of FY 2011-2013 Budget Gap	
FY11-13 Budget Gap (2010-11 service levels)	\$ 5,800,000,000
FY11-13 Budget Gap (2008-09 service levels)	\$ 9,900,000,000