

National Conference of State Legislatures

April 19, 2007

State Budgets Post Gains in FY 2007

Revenues eclipse estimates in most states, but sales tax growth slows

WASHINGTON, D.C.— Robust revenue performance and stable spending levels mean states' budgets continue to be strong, although sales and use tax collections are causing some concerns. That's according to a new report by the National Conference of State Legislatures.

State Budget Update: March 2007 includes the results of a national survey, which showed that state legislators in 42 states have unexpected funds to work with as they approach the end of their budgets for fiscal year (FY) 2007 and craft their budgets for FY 2008.

"The current budget situation is giving states an important and much needed window of opportunity to restore and reinvest in state programs," said Texas Senator Leticia Van de Putte, NCSL's president. "More money to work with also means more ability to innovate. Arkansas, for example, will use additional funding to build a new cancer research center. Many states are putting more dollars into higher education. Some states are saving, and still others are providing tax relief."

State legislative fiscal officers attribute this situation to higher-than-expected revenues and stable spending needs. In FY 2007, most states took in more money than officials predicted from personal income and business taxes. Of the 41 states that levy a broad-based personal income tax, 22 reported that collections were above forecasted levels in late February. And in 26 states, corporate income and other business taxes exceeded expectations.

But sales and use taxes did not perform as well. Of the 45 states that levy a statewide sales tax, 11 reported that collections were above forecast. Sixteen reported collections on-target or close-to-target. And 14 states reported collections below-target.

On the other side of the ledger, spending plans have held relatively firm. Although the number of states with spending overruns has increased since NCSL's last state budget update in November, the overages appear modest in most states. And 17 states have avoided budget overruns so far in FY 2007.

Now many lawmakers must decide how best to use unexpected resources. At least a dozen states are considering tax cuts. Alabama is looking at reducing sales and income taxes. Florida, Minnesota, Montana, North Dakota and Texas may provide property tax relief. New Mexico passed an earned income tax credit and North Carolina is considering one. Utah reduced business taxes.

Several states, including Arkansas, Vermont and Virginia, will fund one-time projects. Some states are putting additional dollars into their FY 2007 budgets to resolve overruns or support more programs. Transportation projects and other capital expenditures are

popular targets for extra revenues. Many states will reduce unfunded pension liabilities or will put money into state retiree health care.

At least nine states are stowing portions of their unexpected funds in rainy day or other savings accounts, which may limit how the dollars can be used. These states are Colorado, Connecticut, Georgia, Mississippi, Nebraska, New Hampshire, New Mexico, Oklahoma and Oregon.

Other states, including Arizona, California, Florida and South Dakota, plan to carry extra revenues into FY 2008 to hedge against unforeseen circumstances or slowing revenue growth. Slipping sales and use tax collections in several states are causing concern about future performance.

"Our sales tax collections in March actually went negative, dropping 3 percent from the same period one year before," reported Warren Deschenaux, director of Maryland's Office of Policy Analysis. "We're concerned because sales tax performance was a leading indicator of fiscal problems the last time we went into an economic downturn."

The release of this report comes while state legislators and staff members are meeting in Washington, D.C., to hone their federal lobbying priorities at NCSL's Spring Forum. High on states' wish list is a curb on unfunded federal mandates, which strain state budgets by billions of dollars.

"The strengthening economy has helped states balance their budgets since the recession of the early part of the decade. It has also given some the opportunity to boost rainy day funds, plug holes in programs, consider tax cuts and even explore new ideas," said NCSL Executive Director Bill Pound. "But states face \$31 billion worth of federal unfunded mandates and cost-shifts, which could easily upset budgets that are stable today, particularly in the implementation of the new national driver's license standards required by the Real ID Act."

Local Ballot Initiatives

General Information

Type: There are four types of measures -

Legislative Referendum - This is a measure that has been referred to the ballot by the Legislature. Most often, these are referred laws, constitutional amendments or bond questions. (All 50 states allow legislative referendum.)

Initiative - This is a measure that was placed on the ballot through the citizen petition process. It may either be a new law or a constitutional amendment. Only **24 states** permit the initiative. Some permit both statutory and constitutional initiatives, while others permit only one or the other.

Popular Referendum - This is a measure that was placed on the ballot through the citizen petition process. It is a popular vote on a measure which was passed by the Legislature.

Other - In a few states, measures may make it to the ballot from other sources besides the initiative process and/or the Legislature. For example, in Arizona, the Commission on Salaries for Elective State Officers commonly places a question on the ballot regarding salaries for legislators.

The total number of measures on the ballot for November 2006 is as follows:

76 citizen initiatives

5 popular referenda

121 legislative referenda

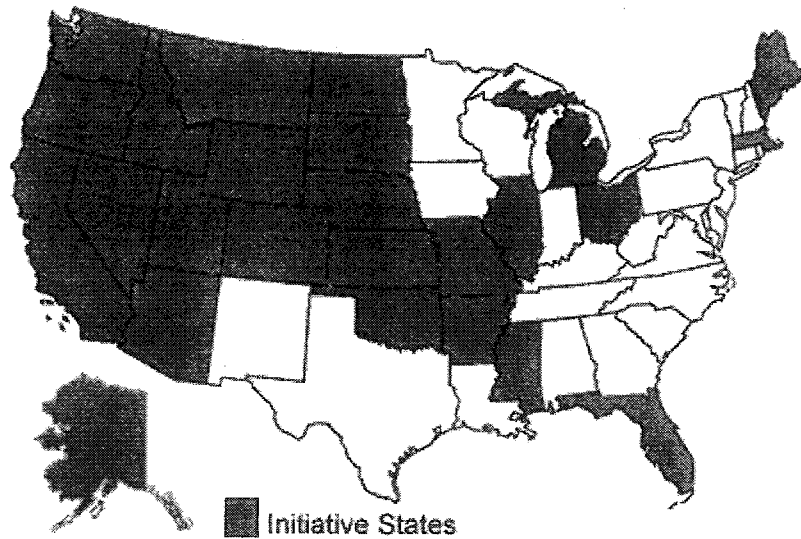
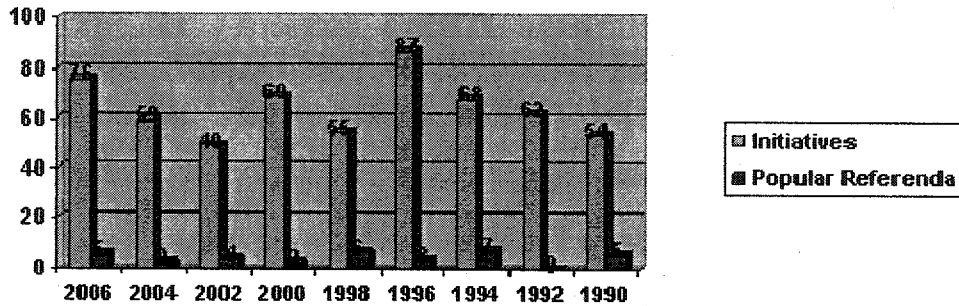
3 other

205 Total

Source: National Conference of State Legislatures

Active Year for Initiatives

This year brings us the second-highest total number of initiatives on the ballot in the last 100 years. So far, a total of 76 initiatives have qualified for the ballot, and five popular referenda (citizen-initiated votes that approve or reject bills passed by the legislature). The high water mark this century was in both 1914 and 1996, when there were a total of 87 initiatives on the November ballot. The total number of initiatives on the November 2006 ballot could grow by a handful if pending court challenges are resolved in favor of initiative proponents, but it will not reach the high of 1996 and 1914.



The Initiative and Referendum States
Updated February 27, 2007

Statutes				Constitution	
State	Initiative	Citizen Petition Referendum	Legislative Referendum	Initiative	Legislative Referendum
Alaska	D*	Yes	No	None	Yes
Arizona	D	Yes	Yes	D	Yes
Arkansas	D	Yes	Yes	D	Yes
California	D	Yes	Yes	D	Yes
Colorado	D	Yes	No	D	Yes
Florida	None	No	No	D	Yes
Idaho	D	Yes	Yes	None	Yes
Illinois	None	No	Yes	D	Yes
Kentucky	None	Yes	Yes	None	Yes
Maine	I	Yes	Yes	None	Yes

Maryland	None	Yes	Yes	None	Yes
Massachusetts	I	Yes	Yes	I	Yes
Michigan	I	Yes	Yes	D	Yes
Mississippi	None	No	No	I	Yes
Missouri	D	Yes	Yes	D	Yes
Montana	D	Yes	Yes	D	Yes
Nebraska	D	Yes	Yes	D	Yes
Nevada	I	Yes	Yes	D	Yes
New Mexico	None	Yes	Yes	None	Yes
North Dakota	D	Yes	Yes	D	Yes
Ohio	I	Yes	Yes	D	Yes
Oklahoma	D	Yes	Yes	D	Yes
Oregon	D	Yes	Yes	D	Yes

South Dakota	D	Yes	Yes	D	Yes
Utah	D & I	Yes	Yes	None	Yes
Washington	D & I	Yes	Yes	None	Yes
Wyoming	D*	Yes	No	None	Yes
US Virgin Is.	I	Yes	Yes	I	Yes

Initiative - a law and/or constitutional amendment introduced by the citizens either to the legislature or directly to the voters.

D - *Direct Initiative*; proposals that qualify go directly on the ballot

I - *Indirect Initiative*; proposals are submitted to the legislature, which has an opportunity to act on the proposed legislation. Depending on the state, the initiative question may go on the ballot if the legislature rejects it, submits a different proposal or takes no action.

D* -- Alaska and Wyoming's initiative processes exhibit characteristics of both the direct and indirect initiative. Instead of requiring that an initiative be submitted to the legislature for action (as in the indirect process), they require only that an initiative cannot be placed on the ballot until after a legislative session has convened and adjourned. The intent is to give the legislature an opportunity to address the issue in the proposed initiative, should it choose to do so. The initiative is not formally submitted to the legislature.

Referendum - a process by which voters may express their judgment on statutes and/or constitutional amendments enacted by the legislature.