

Public Policy Notes

Southern Early Childhood Association

Your State Budget: What's a Rainy Day Fund?

As many states grappled with closing budget “holes, state legislatures took a look at their “rainy day funds” as one way to fill those gaps.

So what's a rainy day fund?

It's just what it sounds like...a pot of money set-aside to help the state weather tough economic times when revenues decrease and expenses increase. (With any recession, as people lose jobs, the cost of providing services to those people rises in a state.) In FY 2008, forty-seven states maintained “rainy day funds”. Only **Arkansas, Kansas and Montana** lacked a fund.

As the recession has continued, states have tried several strategies to fund budgets

and, for the first time for many states, have looked at cutting K-12 education. Those strategies have included across the board and targeted budget cuts, **depleting reserve or “rainy day funds” to backfill the budget** or imposing new fees and taxes to enhance revenue.

Balances in these funds varied greatly in 2008 and most states have seen those fund balances decrease over the last two years as money was moved from the reserves to support operations. **Most SECA states had rainy day funds that met or exceeded 2.5% of their annual expenditures.** As the recession continued, those levels have decreased

substantially and in this newsletter we'll take a look at how states balanced their FY 2011 budgets (we're currently in that year now) to give you some perspective on what resources may still be available in your state to balance the budgets for FY 2012.

According to the National Conference of State Legislatures, surveys of the states are finding a more optimistic outlook. Although it will be slow going to bring state revenues back up to pre-recession levels, revenues for the first months of FY 2011 are gradually improving.

Source: *State Budget Update: November 2010*, www.ncsl.org

“The ARRA Cliff”

A new term in use in state budget discussions, “the ARRA Cliff” refers to the impending loss of federal funds that were sent to the states through the American Recovery and Reinvestment Act. This stimulus money was used in many states to avoid deeper cuts than actually occurred and, in many cases, backfilled

general operations.

At the same time that states are facing the loss of these funds, they are experiencing expenditure pressures through programs like Medicaid, Temporary Assistance to Needy Families and other “safety net” programs.

“Many legislative fiscal

directors see FY 2012 as possibly the most difficult budget year yet. At a NCSL meeting of legislators and staff in December 2010, participants were asked to dispute this contention. Not a single one did.” Source: *Deep Holes, Few Options*, www.ncsl.org

FY 2012 starts on July 1st for most of us.

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This issue of *Public Policy Notes* focuses on steps that have been taken by SECA states to close budget deficits for the 2011 fiscal year. For most of our states, that fiscal year is about over. The budget information in this newsletter was taken from reports prepared by nationally recognized expert sources:

- [National Conference of State Legislatures](http://www.ncsl.org) www.ncsl.org
- [Center on Budget and Policy Priorities](http://www.cbp.org) www.cbp.org
- [Stateline.org](http://www.stateline.org)

As state legislative sessions have developed, our trend predictions for 2011 have largely surfaced as policymakers tried to determine how to balance state budgets.

If you'd like to take a look at those trends again, go to the Public Policy page of the SECA Website and download Volume 4, Issue 1 of Public Policy Notes.

Balancing the 2011 Budget: Arkansas

Arkansas is one of three states that has no “rainy day fund” and must balance its budget within existing revenues and other funds.

The FY 2011 budget uses \$21 million from the state’s unclaimed property proceeds trust fund to fund education.

Another \$1.3 million from the fund is designated to purchase defibrillators for public schools, the Health Depart-



ment’s electronic record-keeping system and the state Division of Youth Services.

Lawmakers also attempted to utilize \$1.6 million from the Central Services Fund to pay for redistricting costs. (This

fund covers expenses of the constitutional offices, the Supreme Court and other agencies.) This bill was vetoed by the Governor. *Source: Actions and Proposals to Balance FY 2011 Budgets: Tapped Rainy Day Funds or Other Funds,*

www.ncsl.org

The FY 2011 budget (which ends on June 30th) froze most spending levels at FY 2010 levels.

For FY 2012, Governor Beebe has proposed a budget that is generally flat with increases for education and corrections. He has also proposed a tax reduction of 1/2 % of the current sales tax on food.

Arkansas operates under a balanced budget requirement and cannot deficit spend. **Arkansas’s fiscal year begins on July 1st.**

Balancing the 2011 Budget: Alabama

In April 2010, the governor declared a 12% proration in the state general fund. (A proration is an across-the-board cut for all state agencies.) Most agencies had been operating at that level since the beginning of the fiscal year.

With the official announcement of the cut, the Governor was able to withdraw up to \$74 million from the rainy day fund to cover any deficits in the re-

mainder of the 2010 fiscal year or FY 2011. *Source: Actions and Proposals to Balance FY 2011 Budgets: Tapped Rainy Day Funds or Other Funds, www.ncsl.org*

“Beginning with the 2012 budget, it is my goal that no budget in my administration will have to be prorated.” Governor Robert Bentley State of the State, 3/ 1/ 2011

On February 28th, Governor Bentley announced another 3% proration in the Education Trust Fund budget.



Alabama’s fiscal year begins on October 1st.

Balancing the 2011 Budget: Florida

The governor vetoed a plan to use \$160 million from the state transportation fund to support the general fund; however, not including the \$160 million veto, the FY 2011 budget pulls approximately \$350 million from various state trust funds to support the general fund. *Source: Actions and Proposals to Balance FY 2011 Budgets: Tapped Rainy Day Funds or Other Funds, www.ncsl.org*



reduced state revenue. This tuition increase, combined with a similar increase in 2009-2010, results in a two-

For the 2010-2011 academic year, Florida’s universities will raise tuition by 15% to cover

year increase of 32%. *Source: Center for Budget and Policy Priorities, www.cbpp.org*

Additionally Florida is facing a gap caused by the failure to extend the enhanced Federal matching aid for Medicaid available through ARRA. Congress has failed to pass that extension. *Source: Center for Budget and Policy Priorities, www.cbpp.org*

Florida’s fiscal year begins on July 1st.

Balancing the 2011 Budget: Kentucky

The 2011 budget includes 3.5% cuts for most state agencies and 4.5% cuts in FY 2012.

The Kentucky House had wanted to cut two instructional days for public elementary and secondary schools but the budget preserves those days. However, the state will pay for only one of those days: local school districts must pay for the second day.

The Department of Parks and Recreation received a budget cut of \$5.9 million from the \$35.8 million received in



FY 2010. To restore some funding, the administration authorized four resort state parks to begin selling alcohol in January. Additionally all parks will be closed two days per week during the winter and streamline operations.

Source: *Actions and Proposals to Balance FY 2011 Budgets*, www.ncsl.org

Kentucky is also in the position of having anticipated the continuation of the

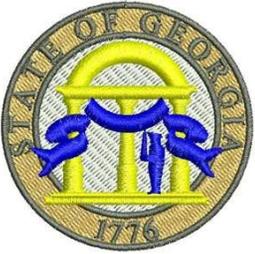
federal subsidies for Medicaid and is facing a budget shortfall because that funding will not be available. Source: *Center for Budget and Policy Priorities*, www.cbpp.org

Another \$24 million was cut by furloughing state employees for six days.

"Faced with crushing shortfalls, we have balanced Kentucky's budget eight times in three years, slashing over a billion dollars in spending", Governor Beshear, *State of the State*, 2/1/2011

Kentucky's fiscal year begins July 1st.

Balancing the 2011 Budget: Georgia



At the beginning of the 2011 fiscal year (July 1, 2010), Georgia took steps to close the budget gap

by proposing the elimination of as many as 284 eligibility workers who help low-income families enroll in the

food stamp, Medicaid and TANF programs.

The state also cut state funding for K-12 education by \$403 million or 5.5%. In response to those cuts, the state's

"I am reducing the revenue estimate on which the (2011) budget is based by over \$27.5 million."

Governor Nathan Deal

State of the State, 1/12/2011

Board of Education has exempted school districts from class size requirements. Additionally, funding was cut to higher education and tuition at the four public research universities was increased by 16%. Tuition at community colleges increased by \$50 per semester. Source: *Center for Budget and Policy Priorities*, www.cbpp.org

Georgia's fiscal year begins July 1st.

Balancing the 2011 Budget: Mississippi

Governor Barbour proposed cutting between 8.1% to 10% in all state agency budgets. The legislature voted to restore those proposed cuts and the bill was vetoed by the Governor.

Source: *Actions and Proposals to Balance FY 2011 Budgets*, www.ncsl.org

The Mississippi House approved a bill to use \$79 million from reserves to close the budget gap. Source: *Actions and Proposals to Balance FY 2011 Budgets*

ets: Tapped Rainy Day Funds or Other Funds, www.ncsl.org

Mississippi's Department of Human Services will/has laid off 124 workers, the majority of them (115) from a community-based juvenile justice facility. Source: *Center for Budget and Policy Priorities*, www.cbpp.org

"We've kept our budget balanced by cutting spending and without depleting



all our reserves. If you adopt my budget recommendations for next year, the governor and legislature who follow us will have some \$200 million left in reserves..." Governor Barbour, *State of the State*, 1/11/2011

Mississippi's fiscal year begins July 1st.

Balancing the 2011 Budget: North Carolina

The FY 2011 budget for North Carolina included a contingency plan in the event that the Medicaid enhanced reimbursement was not extended. The plan is a priorities list of actions that first accesses reserve funds, including the state's Disaster Relief Fund, Rainy Day Fund, extra lottery receipts and unused money from the General Fund. After accessing reserves, Medicaid provider rates are cut, the state holds back \$139 in contributions to the state pension plan and a 1% across the board



spending cut (estimated to save \$177 million) is implemented. *Source: Actions and Proposals to Balance FY 2011 Budgets, www.ncsl.org*

The FY 2011 budget shifts \$121.2 million in North Carolina Education Lottery allocations to prevent the elimination of an estimated 1,700 teaching and instructional positions. *Source: Actions and Proposals to Balance FY 2011 Budgets: Tapped Rainy*

Day Funds or Other Funds, www.ncsl.org

During the current legislative session, the elimination of the Smart Start program, a nationally recognized early childhood model program, has been proposed. Advocates are battling to save the program and have scheduled a Children's Advocacy Day at the State Capitol for March 15th. To date, this is the only state where a serious attempt has been made to eliminate the early childhood program funded by the state.

North Carolina's fiscal year begins July 1st.

Balancing the 2011 Budget: Oklahoma

The Governor proposed a 7.5% spending cut. The budget passed by the legislature cuts most agencies (except for education, public safety and health care agencies) by about 7%. *Source: Actions and Proposals to Balance FY 2011 Budgets, www.ncsl.org*

In order to balance the budget, the Legislature used about \$272 million from the state's Rainy Day Fund. It

was noted by the State Treasurer that legislators have about \$600 million in that fund that can be utilized. *Source: Actions and Proposals to Balance FY 2011*

"For too long we've kicked the can down the road. And it's our citizens and our state that have paid the price."

Governor Mary Fallin

State of the State, 2/7/2011

Budgets: Tapped Rainy Day Funds or Other Funds, www.ncsl.org

To raise revenue, Oklahoma is temporarily suspending various business and energy tax credits.



Oklahoma's fiscal year begins July 1st.

Balancing the 2011 Budget: Louisiana

The FY 2011 budget for Louisiana applies budget cuts of \$10 million across state agencies, excluding the Department of Corrections. *Source: Actions and Proposals to Balance FY 2011 Budgets, www.ncsl.org*

Additionally, the budget uses as much as \$2 billion in one-time funds, including money from the state's rainy day fund, tax amnesty proceeds, a state

emergency response fund and other sources. *Source: Actions and Proposals to Balance FY 2011 Budgets: Tapped Rainy Day Funds or Other Funds, www.ncsl.org*

Governor Jindal is scheduled to present his State of the State address on March 20th. On February 23, 2011,



Governor Jindal announced three legislative initiatives for the session that will provide greater flexibility in the state's budget process and help protect critical services including higher education and health care during budget reductions.

Louisiana's fiscal year begins July 1st.

Balancing the 2011 Budget: Texas

The Governor, Lieutenant Governor and House Speaker asked state agencies to identify potential savings in response to a planned 5% cut in most state general revenue spending, for the 2010-2011 biennium. They estimated that these cuts will save \$1.2 billion. Exempted areas include those protecting public safety, state psychiatric hospital beds and job training programs.

For the 2012-2013 biennium, agencies have been instructed to produce plans to cut their budgets 10%, on top of the



5% cut in 2010. *Source: Actions and Proposals to Balance FY 2011 Budgets, www.ncsl.org*

The Lieutenant Governor and the Senate Finance Committee chairman have indicated that

the rainy day fund could be used in the 2011-2012 biennium. The fund will have an estimated \$8 billion in funds available for the next budget cycle.

(Texas budgets on a biennial basis.)

Source: Actions and Proposals to Balance FY 2011 Budgets: Tapped Rainy Day

Funds or Other Funds, www.ncsl.org

In his State of the State Address, Governor Perry stated that he had asked state agencies to identify an additional 2.5% cut for FY 2011 (in addition to the previous 5%). *Source: State of the State, 2/8/2011* Current budget discussions are dealing with a projected \$15-\$27 billion budgetary shortfall in FY 2012-2013 and neither legislative chamber's budget includes any funds for updated school textbooks. *Source: Education Week, 3/2/2011*

Texas's fiscal year begins October 1st.

Balancing the 2011 Budget: South Carolina

The Governor of South Carolina vetoed three bills that would have provided funding to specific state agencies. The appropriations were:

- \$1.6 million for the South Carolina State Museum.
- \$1.2 million for the South Carolina Arts Commission.
- \$1.6 million for the South Carolina Forestry Commission.

The South Carolina Legislature overturned the Governor's veto on these three specific appropriations. *Source: Actions and Proposals to Balance FY 2011 Budgets, www.ncsl.org*

"Can't Is Not An Option"

Governor Nikki Haley

State of the State, 1/19/2011



To raise additional revenue, South Carolina is raising the

sales tax on cigarettes from \$0.07 cents per pack to \$0.57 cents per pack.

Source: Center for Budget and Policy Priorities, www.cbpp.org

South Carolina's fiscal year begins July 1st.

Balancing the 2011 Budget: Tennessee

The FY 2011 budget includes about \$185 million of the state's reserve funds. With that transfer of funds, the reserve fund will contain approximately \$600 million. *Source: Actions and Proposals to Balance FY 2011 Budgets: Tapped Rainy Day Funds or Other Funds, www.ncsl.org*

As of March 11th, Governor Haslam, the newly elected Governor of Tennes-

see has not scheduled a State of the State address; however, he has announced a package of 24 bills that are currently working their way through the legislature.

These bills include new restrictions on teacher tenure, the creation of new charter schools statewide and an overhaul of the state's tort system to limit the liability



of business and health professionals in liability lawsuits.

Additionally, the package includes a bill to allow lottery scholarships to be used for summer classes in college.

Tennessee's fiscal year begins July 1st.

Balancing the 2011 Budget: West Virginia

Then Governor Joe Manchin ordered all Executive Branch agencies in December 2009 to trim general revenue spending by 3.4%. The Legislature and Supreme Court agreed to cuts as well. The Governor estimated that these cuts reduced state spending by about \$118 million and the savings from these cuts carried into FY 2011. *Source: Actions and Proposals to Balance FY 2011 Budgets, www.ncsl.org*

Upon the death of Senator Robert



Byrd, Governor Manchin became a candidate for U.S. Senator from West Virginia and assumed that office in 2011.

Earl Ray Tomblin ascended to the Governor's office and inherited a state with a balanced budget and no significant deficit looming.

Governor Tomblin was able to propose a cut in the sales tax on food and stated that his intention was to completely remove the tax over the next few

years.

He also noted that, because of reforms enacted in 2006, worker's compensation premiums were down 43.7% in the state of West Virginia.

"The building blocks are in place for unprecedented prosperity and job growth....we should have no illusions: there are structural, political and economic impediments...I come before you, to ask for your help." Governor Tomblin, State of the State, 1/12/2011

West Virginia's fiscal year begins July 1st.

Balancing the 2011 Budget: Virginia

The Virginia budget includes across-the-board and targeted reductions to general fund agencies and programs totaling \$716 million. *Source: Actions and Proposals to Balance FY 2011 Budgets, www.ncsl.org* These cuts include the state's share of an array of school district operating and capital expenses and funding for class-size reduction in kindergarten through third grade. *Source: Center for Budget and Policy Priorities, www.cbpp.org*

ties, *www.cbpp.org*

It also includes \$120 million in budget cuts from aid to local government over the biennium. *Source: Actions and*

Last year, Virginia cut \$4.2 billion from the FY 2011-2012 budget, reducing spending to 2006 levels.

**Governor Bob McDonnell
State of the State, 1/12/2011**

Proposals to Balance FY 2011 Budgets, www.ncsl.org



The 2011 Virginia legislative session has concluded with some victories for children's advocates. See article below

Virginia's fiscal year begins July 1st.

Virginia: Making Children a Priority During the 2011 Session

As reported on March 3, 2011 by *Voices for Virginia's Children*, children were protected during the 2011 session. This session was a difficult one as priorities were set and funding was cut, but some major programs that support children were salvaged.

Some Victories for Children

- A bill was passed to improve outcomes for older foster children and to allow a child placed in foster care to remain in their current

school.

- Funding cuts for the system that administers pooled funding for services for at-risk children were not approved. Governor McDonnell had proposed eliminating services to all non-mandated children.
- Cuts to provider payments for children's health services were reversed.
- Home visiting programs were cut but not as deeply as originally pro-

posed.

- Funds for the Virginia Early Childhood Foundation were restored to continue their support of the network of Smart Beginnings coalitions in Virginia counties.
- A proposal to reduce \$14.5 million in per-pupil funding to the VA Preschool Initiative was defeated.

VAECE, SECA's state affiliate, is a partner in the Voices coalition.

Some State Unemployment Rates Are Falling

According to a report released on March 3, 2011 by the National Conference of State Legislatures, unemployment rates declined in 24 states in January 2011. This was good news for state legislatures, Governors and state budget officers because declining unemployment means two things:

- Rising tax revenues as people go back to work and purchasing rebounds.
- Requests for services from the state's "safety net" programs decrease, easing pressure on state budgets.

In the past year, Texas added the most jobs in the country with almost 254,000 new jobs. North Dakota had the lowest unemployment rate (3.8%) in January 2011.

Rates in SECA states remained high, although some states experienced declines. Rates for January 2011 were:

- Alabama 9.3%
- Arkansas 7.8%
- Florida 11.9%
- Georgia 10.4 %
- Kentucky 10.4%

- Louisiana 7.8%
- Mississippi 10.1%
- North Carolina 9.9%
- Oklahoma 6.6%
- South Carolina 10.5%
- Tennessee 9.5%
- Texas 8.3%
- Virginia 6.5%
- West Virginia 9.6%

Source: *State Unemployment Rates for January 2011, National Conference of State Legislatures, www.ncsl.org*

Everything's Bigger in Texas!

That's a saying that is heard frequently around the South, and unfortunately for Texas, it's all too true right now.

The current budget deficit (\$4.3 billion) in Texas is the largest in the country as a share of the total budget. In 2012, Texas will come in behind only Nevada and Illinois as the state with the third largest anticipated budget deficit (\$27 billion).

The Texas legislature is grappling with

how to cut spending. Both the Legislature and Governor Perry have ruled out increasing taxes (Texas has no income tax.) and Governor Perry is resisting tapping the rainy day fund to cover the current fiscal year deficit.

"This year, the budget gap is bigger any way you measure it."

Dale Craymer
Texas Taxpayers and Research Association

Current budget proposals include almost \$10 billion less in K-12 spending than is required under current law. These proposals would not only increase class sizes but could cost up to 100,000 school employees their jobs. Health and Human Services is facing \$18 billion in cuts when the loss of federal Medicaid funds are taken into account. Source: *Texas Struggles to Fill a Texas-sized Budget Hole, www.stateline.org, 3/11/2011*

Invest in Florida's Future

As the Florida legislative session unfolds, the state is grappling with significant budget deficits, but the new Florida Governor, Rick Scott, has recognized the value of early childhood education. The Governor's budget restores non-recurring funding (stimulus funds) in order to maintain 2010-2011 funding levels. This would mean an additional \$38 million for Florida Voluntary Pre-K in the next budget cycle.

The Association of Early Learning Coalitions has listed these priorities for the 2011 legislative session.

- Restore general revenue to keep families working—at the very least make NO CUTS. This impacts both Voluntary Pre-K and child care.
- Support local decision making. Florida has an early learning coalition in each county that is gov-



Early Learning Coalitions

erned by a local board.

- Support a high quality Pre-K program. 67% of Florida's 4-year-olds participated in 2009-2010.
- Consolidate administration of programs at the state level.

Source: *Association of Early Learning Coalitions, 2/21/2011*

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Southern Early Childhood Association



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How to Use This Newsletter

If you're interested in advocacy, one of the most effective tools that you can have is access to information. This newsletter is provided as a service to locate and share information that we think will be helpful to you in your work at the state level and to keep you updated on what's happening in public policy.

You'll find information that:

- **Compares your state to other SECA states**—how you're doing, what issues you have in common, what the hot topics are in your states.
- **Brings the national scene to your fingertips** and gives you a perspective on how national events might impact you...You'll also receive information about where to find additional information.

We hope you'll find it helpful. Children need you to be their "voice" in your community and state.

Can You Find Out How Your State Spends Its Money?

With the new policy watchword being "transparency", many states have moved to create web based information sites that track and identify state spending. This move was partially prompted by the American Recovery and Reinvestment Act (ARRA) that required states to report how they were spending the stimulus money. It has gone further in many states with comprehensive websites that make a much broader set of financial statistics available to the general public.

According to U.S. PIRG (Public Interest Research Group), within the U.S., there are seven states that are considered "leading states", twenty-nine states that are "emerging" and eighteen states that are "lagging".

In the SECA states, we have two of the leading states. **Kentucky** and

Texas were both lauded for their attempts to provide comprehensive financial information to the public. Their websites are "searchable" and provide check-book level information on various state expenditures.

The SECA states of **Alabama, Virginia, Mississippi, North Carolina, Oklahoma, Louisiana, Florida, South Carolina** and **Tennessee** were considered "emerging" states. All of these states except Tennessee provided a searchable, check-book level website. Tennessee's site is not searchable.

Arkansas and **West Virginia** were the two SECA states that were considered "lagging" with neither state having an on-line website for state expenditures.

The cost to develop the sites has varied widely.

- **Texas** and **South Carolina** spent \$310,000 building their sites.
- **Kentucky** used existing resources to develop the site and an additional \$150,000 to implement.
- **Louisiana** spent \$1,000,000 to develop their site.
- **Oklahoma** spent \$8,000 plus existing staff time.

Source: *Following the Money: How the 50 States Rate in Providing Online Access to Government Spending Data*, U.S. PIRG, www.uspirg.org, 4/13/2010

As state budget cuts impact state services, these sites could be a valuable resource to citizens and advocates to learn "where the money is going".