



RESEARCH REPORT

Fiscal Democracy in the States

Data Appendix

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Introduction

This appendix describes the data and methods used to estimate potentially restricted spending in the six study states analyzed in *Fiscal Democracy in the States: How Much Spending is on Autopilot?* (Gordon et al. 2019). Defining and estimating potentially restricted spending at the state level is a complex task that required a careful review of the literature and state financial documents, over a dozen in-depth interviews with key informants, and a meticulous data collection process involving a variety of federal and state data sources. This appendix reviews these steps in detail.

In the next section of this appendix, we describe our data sources for each area of potentially restricted spending, as well as total state spending, in our six study states. We explain any adjustments we made to our data (e.g., adjusting from federal to state fiscal year, or FY), and where possible, identify areas of discrepancy between our data sources and alternative sources of data that we used as a comparison point (where available).

In the Interview Methods section, we provide a list of key informants in each state and describe our interview methods, including our structured interview script.

In the State Supplement section, we provide additional qualitative detail on specific areas of restricted spending in each state. Here we also provide additional sources and background information for each area of potentially restricted spending in our study states, as well as further discussion on items which we were unable to quantify but may impose some indirect fiscal constraint on the states.

Data Documentation

To quantify how much state spending is subject to some level of obligation or restriction, we created an original dataset relying on multiple state sources, including

- Comprehensive Annual Financial Reports (CAFRs);
- governors' proposed budgets (prior-year actual spending); and
- reports and historical data from independent budget analysts, such as Texas's Legislative Budget Board (LBB) and California's Legislative Analyst's Office (LAO).

In some cases, we incorporated additional data from federal sources, such as the Centers for Medicare & Medicaid Services (CMS) and US Census of Governments. All data in the report are for state FYs, with adjustments from federal FYs where necessary.

To gain insights into trends over time, while maximizing access to online information and minimizing discrepancies due to reporting changes, we focused on FY 2000 through 2015. Where possible, we subtracted federal grants and debt service payments from state programmatic spending because our taxonomy considers these items separately.

After gathering preliminary data in each of our study states (California, Florida, Illinois, New York, Texas, and Virginia), we contacted analysts in state controllers' offices, budget divisions, finance departments, and other state agencies to review our sources, numbers, and inferences. Based on their comments, we updated our data and collected information from new sources where appropriate. For example, although we initially collected California state data from CAFRs, we were referred to alternative sources by the LAO and the California Department of Finance (DOF). In the sections that follow, we describe our data sources for each budget category in each state.

BOX 1

Data Challenges: A Note on Accounting Basis

For our estimates of state spending in this appendix, we note the source and its accounting basis, which can affect when assets, liabilities, or changes in net assets are recognized.^a

- **Cash basis** recognizes revenues when cash is received and spending when bills are paid.
- **Accrual basis** recognizes revenues when earned (and reasonably certain to be collected), and recognizes expenses when resources are consumed.

- **Modified accrual** recognizes revenues when measurable and available and expenditures when an entity is legally obligated to pay.

The accounting basis determines year-to-year spending estimates for our total and restricted categories of spending. Where possible, we gathered data reported on the same accounting basis. However, some discrepancies were unavoidable, because spending totals were most often reported on a modified accrual basis while spending restrictions were sometimes only reported on a cash basis.

Such differences introduce timing differences that may yield discrepancies between our total and restricted spending estimates. For example, in 2003, New York delayed a \$1.3 billion school aid payment into 2004 and, in 2010, a \$2.1 billion school aid payment until 2011.^b Because our New York data on formula-driven K–12 education spending are reported on a cash basis, these payments are counted spending in 2004 and 2011, respectively, while total spending data (reported on a modified accrual basis) counts it in the prior year (when the state originally incurred the obligation). Such timing differences are largely unavoidable and evident in Census of Governments data as well (US Census Bureau 2006).

Sources:

^a For further reading see, for example, Mead (2017).

^b Authors' communication with New York State Division of the Budget staff.

Total Expenditures and Revenues

For all states except California, we collected total spending data from state CAFRs. Specifically, we collected “Total Expenditures” from each report’s “Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds” or equivalent statement.

For governmental funds, which include general, special, capital, debt service, and federal funds, CAFRs report data on a modified accrual basis. Governmental funds support the basic activities of government and exclude proprietary and fiduciary funds. Propriety funds include enterprise or business-like activities, while in fiduciary funds the state government manages or holds resources on behalf of others, such as an employee pension fund.

California’s total spending data are from a database of historical spending maintained by the LAO. For total spending in California, we collected “Grand Totals” from “General Fund,” “Special Funds,” “Federal Funds,” and “Bond Funds” for all functions (state operations, capital outlays, local assistance, and unclassified). These data reflect actual spending for the FY reported, on a cash basis, as outlined in the governor’s budget. Data are accessible here:

California: “State of California Expenditures, 1984-85 to 2017-18,” Historical Data, LAO, 2017, <https://lao.ca.gov/policyareas/state-budget/historical-data>.

Florida: “Reports,” Florida Division of Accounting and Auditing, accessed May 14, 2019, <https://www.myfloridacfo.com/Division/AA/Reports/>.

Illinois: “Comprehensive Annual Financial Report (CAFR),” State of Illinois Comptroller, accessed July 1, 2019, <https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/comprehensive-annual-financial-report-cafr/>.

New York: “New York State Finances,” Office of the New York State Comptroller (OSC), accessed May 14, 2019, <https://www.osc.state.ny.us/finance/index.htm>.

Texas: “State of Texas Comprehensive Annual Financial Report (CAFR),” Texas Comptroller of Public Accounts (CPA), accessed May 14, 2019, <https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/>.

Virginia: “Reports,” Virginia Department of Accounts (DOA), accessed July 1, 2019, <https://www.doa.virginia.gov/reports.shtml>.

Medicaid and CHIP

This category includes all spending on Medicaid and the Children’s Health Insurance Program (CHIP).

Data are from the CMS Medicaid Budget and Expenditure System and State CHIP Budget and Expenditure System (MBES/CBES) (FY 1999–2015). Data are accessible here:

All States: “Expenditure Reports From MBES/CBES,” CMS, accessed May 30, 2019. <https://www.medicaid.gov/medicaid/finance/state-expenditure-reporting/expenditure-reports/index.html>.

Since the CMS data are reported by federal FY (October 1 – September 30), we adjusted each state’s reported spending to their respective FYs. For example, Virginia’s state FY 2015 ran from July 1, 2014, to June 30, 2015. We therefore summed three-twelfths of the FY 2014 reported amount and nine-twelfths of the FY 2015 reported amount to obtain Virginia’s state FY 2015 Medicaid and CHIP expenditures.

We explored various state alternatives to CMS data, including CAFRs as well as specific reports such as Florida’s *Long-Range Financial Outlook* and New York’s *Citizen’s Guides*.¹ However, data were not always consistently reported across states, particularly since Medicaid funds may be disbursed across several agencies and are not always broken out into federal and state shares.

In Illinois, some Medicaid provider payments have been deferred to future years. It is unclear how or whether CMS incorporates those liabilities into its Medicaid spending data, because the data are reported on a cash basis. Our Illinois data reviewers confirmed that total expenditures from the state CAFRs include future Medicaid liabilities (because the data are reported on a modified accrual basis). As

a result of this difference in accounting basis, discrepancies may be present between our numerator (i.e., total Medicaid/CHIP spending) and denominator (i.e., total spending) when calculating the share of spending going toward restricted categories. These discrepancies are largely unavoidable (as discussed in box 1) and, while most salient for Illinois, potentially present in all states, with the exception of California, for which all data are reported on a cash basis.

Long-Term Obligations

This category includes state contributions to pension and other postemployment benefit (OPEB) trust funds, as well as total debt service expenditures, including principal retirement (or bond and commercial paper retirement), interest and fiscal charges. We made initial efforts to collect all state pension, OPEB, and debt service data from CAFRs. However, reviewers in some states directed us to alternative data sources better suited to our purposes. The State Supplement section of this appendix lists specific pension systems included in each state's contributions.

California

We requested and received supplemental DOF data on retirement contributions for 2000 through 2020, reported on a cash basis. These data were very similar to "State Retirement and Health Care Contributions" from the "Proposed Budget Summary – All Chapters" or equivalent statement reported annually on the DOF eBudget portal.²

For debt service, we relied on a summary of "G.O. Bond Costs" for years 1977 through 2020, reported on a cash basis by the DOF. These data are very similar to "Debt Service General Obligation Bonds and Commercial Paper" from the "Proposed Budget Detail" or equivalent statement reported annually in the DOF eBudget portal.³ Data are accessible here:

California debt service: "Chart K-1: General Fund G.O. Bond Interest and Redemption Costs," accessed July 1, 2019, http://www.dof.ca.gov/budget/summary_schedules_charts/documents/Jan-2019/CHART-K-1.pdf.

Florida

We collected "Pension Fund Employer Contributions - State" and "Transfers in from State Funds" as reported in the "Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefits Trust Funds" annually in CAFRs. For 2000 and 2001, we collected the same items

from “Statement of Changes in Plan Net Assets – Defined Benefit Pension Plan” due to changes in reporting. See, for example:

2015 Florida pension and OPEB contributions: Florida Department of Financial Services (FLDFS), 2016, “Florida Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2015,” Tallahassee, FL: FLDFS, <https://www.myfloridacfo.com/division/aa/reports/2015CAFR.pdf> (232).

For debt service, we collected “Principal Retirement” and “Interest and Fiscal Charges” under “Debt Service” as reported in the “Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Florida debt service: FLDFS, “Florida Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2015,” (30).

Illinois

We collected “State Contributions” and “Employer Contributions” (where the state was the employer) as reported in the “Combining Statement of Changes in Fiduciary Net Position – Pension (and Other Employee Benefit) Trust Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Illinois pension contributions: State of Illinois Comptroller, 2016, “Comprehensive Annual Financial Report: Illinois Fiscal Year Ended June 30, 2015,” Springfield, IL: State of Illinois Comptroller, <https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/comprehensive-annual-financial-report-cafr/fiscal-year-2015/> (250).

We did not include state contributions to Teacher Health Insurance Security (THIS) and Community College Health Insurance Security (CCHIS) plans because they were not available consistently across time. For 2015, state contributions to THIS and CCHIS funds totaled about \$105 million.

State contributions to the State Universities Retirement System (SURS) and Teacher’s Retirement System were not reported separately in 2000 and 2001 CAFRs. For the Teachers’ Retirement System, we therefore collected this data from their own CAFRs available online, while for SURS, we requested and obtained 2000 and 2001 annual financial reports by mail.

Our data reviewers noted that while most state pension contributions are derived from governmental funds, there are some small contributions from nongovernmental funds like proprietary or fiduciary funds that may also be included here, but not in our measure of total expenditures from governmental funds.

For debt service expenditures, we collected “Principal” and “Interest” under “Debt Service” as reported in the “Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Illinois debt service: State of Illinois Comptroller, “Comprehensive Annual Financial Report: Illinois Fiscal Year Ended June 30, 2015,” (38).

New York

We collected “State Operations: Pension Contributions” and “Debt Service, including payments on financing arrangements” as reported in the “Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)” or equivalent statement annually in CAFRs. See, for example:

2015 New York pension contributions and debt service: OSC, 2015, “Comprehensive Annual Financial Report for Fiscal Year Ended March 31, 2015,” Albany, New York: OSC, <https://www.osc.state.ny.us/finance/finreports/cafr/2015cafr.pdf> (36).

Data on New York state OPEB contributions were unavailable. New York funds OPEBs on a pay-as-you-go basis, and this spending is excluded from our data.⁴ Our New York pension contribution data were comparable to estimates of state contributions found elsewhere in the state CAFR,⁵ as well as data in the New York State and Local Retirement System CAFR.⁶

Texas

We collected “State Contributions” and “Transfer In of Contributions” (where available) as reported in the “Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Texas pension and OPEB contributions: CPA, 2016, “Comprehensive Annual Financial Report 2015 for the State of Texas for the Fiscal Year Ended August 31, 2015,” Austin, TX: CPA, <https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2015/> (238).

For debt service expenditures, we collected “Principal” and “Interest” under “Debt Service” as reported in the “Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Texas debt service: CPA, “Comprehensive Annual Financial Report 2015 for the State of Texas for the Fiscal Year Ended August 31, 2015,” (40).

Virginia

We collected "State Contributions" from the "Required Supplementary Schedule of Employer Contributions: Pension Plans" for the Virginia Retirement System (VRS), State Police Officers' Retirement System (SPORS), the Virginia Law Office Retirement System (VaLORS), and the Judicial Retirement System (JRS), as provided in VRS CAFRs.⁷ See, for example:

2009-2018 Virginia state pension contributions: VRS, 2018, "Comprehensive Annual Financial Report For the Year Ended June 30, 2018," Richmond, VA: VRS, <https://www.varetire.org/pdf/publications/2018-annual-report.pdf> (119).

Virginia is the sole employer for SPORS, VaLORS, and JRS. In addition to the state, teachers and political subdivisions contribute to the VRS. Our analysis includes only state employer contributions to the VRS. Data on state contributions are not reported for years prior to 2006 in the VRS CAFRs. We therefore requested and received those data from VRS staff. Data on state OPEB contributions are unavailable in Virginia prior to 2008,⁸ and as such we excluded them from our analysis in Virginia.

For debt service expenditures, we collected "Principal Retirement" and "Interest and Charges" under "Debt Service" as reported in the "Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds" or equivalent statement annually in CAFRs. See, for example:

2015 Virginia debt service: DOA, 2015, "2015 Comprehensive Annual Financial Report (CAFR)," Richmond, VA: DOA, <https://www.doa.virginia.gov/reports/CAFR/2015/2015CAFR.pdf> (50).

Formula-Driven K–12 Education

This category includes formula-driven state elementary and secondary education spending.

California

We relied on "Final Funding Level" from "Initial and Final Proposition 98 Funding Levels" as reported in the LAO's "A Historical Review of Proposition 98," supplemented with additional data from LAO on the breakdown of "General Fund" and "Local Property Tax" contributions toward meeting the minimum guarantee. Our reported Proposition 98 funding totals reflect spending from the state General Fund only. Publicly available data are accessible here:

California K–14 minimum funding guarantee: LAO, 2017, "A Historical Review of Proposition 98," Sacramento, CA: LAO, <http://lao.ca.gov/Publications/Report/3526> (13).

Florida

We collected data on the Florida Education Finance Program (FEFP) from “Total State Funding” as reported in the “Prekindergarten Through Grade 12 Funding Summary” or equivalent table in the Florida Department of Education’s (FLDOE’s) “FEFP Final Calculations.”⁹ See, for example:

2015 Florida FEFP spending: FLDOE, 2015, “Florida Education Finance Program 2014-15 Final Calculation,” <http://www.fl DOE.org/core/fileparse.php/7507/urlt/1415FEFPFC.pdf> (8).

Data for all years are available here:

Florida FEFP spending: “Florida Education Finance Program (FEFP) Calculations,” FLDOE, accessed July 1, 2019, <http://www.fl DOE.org/finance/fl-edu-finance-program-fefp/fl-edu-finance-program-fefp-calculatio.shtml>.

Our data reviewers noted that the governor’s Education Unit reported different numbers for formula-driven K–12 spending. Specifically, FEFP Final Calculations do not account for actual allocations from the Merit Award Program (MAP). However, differences between these two sources are usually small (less than \$1 million for most FYs in our study period). The exception is FY 2007, when the governor’s numbers show K–12 formula-driven spending as \$77 million less than what we report from the FLDOE data (or 0.8 percent of our FLDOE estimate). This is because the actual MAP amount allocated was less than what was estimated by the FLDOE in its FEFP Final Calculations that year.

Illinois

We collected “General State Aid to School Districts” under the “State Board of Education” agency as annually reported in the Comptroller’s “Executive Summary,” a companion piece to the annual CAFR.¹⁰ See, for example:

2015 Illinois General State Aid: State of Illinois Comptroller, 2016, “Executive Summary,” companion to *Comprehensive Annual Financial Report: Illinois Fiscal Year Ended June 30, 2015*, <https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/executive-summary/fiscal-year-2015/> (16).

We learned from the State of Illinois Comptroller that, starting in FY 2015, the Fund for the Advancement of Education supplements general state aid for K–12 education. We therefore added this amount in that year.

New York

We collected total "State Aid" from the New York State Education Department's (NYSED)'s "Fiscal Profile Reporting System," as compiled from annual financial reports (form ST-3) submitted by school districts each school year.¹¹ We transformed the data presented by school year into state FYs. Data are available here:

New York State School Aid: "The Fiscal Profile Reporting System" NYSED, accessed July 12, 2019, http://www.oms.nysed.gov/faru/Profiles/profiles_cover.html

Initially, we collected the "Grant Total" of "New York State Education Department School Aid" as reported annually in the "Enacted Budget" (compiled by the New York State Division of the Budget, or DOB, for the state's Open Budget web portal).¹² However, it was unclear whether those data reflected actual expenditures or whether they included federal revenue from the American Recovery and Reinvestment Act (which we already account for in federal receipts, and thus do not wish to double count). Therefore, we utilized the NYSED data, though the two sources track closely.

Texas

We collected the "State" amount of the "State and Local Foundation School Program (FSP) Funding and State Share Percentage" or equivalent statement, as reported in the LBB's Fiscal Size-Up reports.¹³ See, for example:

2006 – 2019 Texas FSP: LBB, 2018, "Fiscal Size-up 2018-19 Biennium," submitted to the 85th Texas Legislature, Austin, TX: LBB
http://www.lbb.state.tx.us/Documents/Publications/Fiscal_SizeUp/Fiscal_SizeUp.pdf (208).

We requested and received the state contribution amounts reflected in the figures in the Fiscal Size-Up reports from the LBB. In all, we relied on 2008–09, 2010–11, and 2018–19 biennium reports. Data for all years are available here:

Texas FSP: "Fiscal Size-Up," LBB, accessed June 4, 2019, <http://www.lbb.state.tx.us/FSU.aspx>.

The LBB provided additional detail on state versus local contributions to the FSP. LBB staff also informed us that per capita apportionments from the "Available School Fund" were already included in FSP funds. However, "Technology and Instructional Materials Allotment Transfers" were not included, so we added those transfers, as suggested by the LBB.

Virginia

We collected data on the Virginia Standards of Quality (SOQ). Specifically, we collected the “State Amount” and “State Retail Sales and Use Tax Amount” from the “Sources of Financial Support for Expenditures, Total Expenditures for Operations and Total Per Pupil Expenditures for Operations” or equivalent statement annually in the Superintendent’s Annual Reports.¹⁴ See, for example:

2015 Virginia SOQ: Virginia Department of Education (VDOE), 2015, “Table 15,” in *Superintendent’s Annual Report 2014–2015*, Richmond, VA: VDOE, http://www.doe.virginia.gov/statistics_reports/supts_annual_report/2014_15/table15.pdf.

For 2001, we relied on a preliminary draft of the same data, since we could not locate the final version on the VDOE’s website. Publicly available data are accessible here:

Virginia SOQ: “Superintendent’s Annual Report,” VDOE, accessed June 4, 2019, http://www.doe.virginia.gov/statistics_reports/supts_annual_report/index.shtml.

Initially, we collected “State SOQ Spending by Account” or equivalent statement, as reported in the Virginia Joint Legislative Audit and Review Commission’s (JLARC’s) “State Spending on the K–12 Standards of Quality” reports.¹⁵ However, JLARC produced these reports from only 2004 onwards, and we learned from communications with the Virginia Department of Planning and Budget (DPB) that the VDOE’s Superintendent’s Annual Reports better capture the entirety of formula-driven state-financed K–12 expenditures.

Dedicated Transportation Funds

This category includes major earmarked or dedicated funds for transportation, excluding debt service and federal fund receipts where possible. We use spending from earmarked transportation funds as a proxy for dedicated revenue. However, discrepancies and complications may be present, as funds dedicated in one year may not necessarily be spent in the same year. With regard to transportation, informants largely identified revenue restrictions and dedications as the source of fiscal constraint. However, to maintain our focus on spending and to streamline data collection across our study period, we elected to use spending from these dedicated funds to approximate funding that is off the table and dedicated toward transportation.

California

We collected “Grand Total” of “Transportation” expenditures from the “General Fund,” “Special Funds,” and “Bond Funds” types, excluding General Obligation debt service, and for all functions (state

operations, capital outlays, local assistance, and unclassified) as reported in the LAO Historical Data. See:

California transportation spending: LAO, “State of California Expenditures, 1984–85 to 2017–18.”

Florida

We collected “Total Expenditures” from the “Transportation” fund as reported in the “Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Florida transportation spending: FLDFS, “Florida Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2015,” (31).

We also collected and subtracted “Debt Service: Principal Retirement and Interest and Fiscal Charges” expenditures from this fund; federal revenues into this fund are not reported, and therefore we do not collect or subtract them separately.

Illinois

We collected “Total Expenditures” from the Road Fund, State Construction Account, and Motor Fuel Tax Fund as reported in the “Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Illinois transportation spending: State of Illinois Comptroller, “Comprehensive Annual Financial Report: Illinois Fiscal Year Ended June 30, 2015,” (38).

We also collected and subtracted “Federal Government” revenues as well as “Debt Service: Principal and Interest” expenditures from these funds. Since 2008, the Motor Fuel Tax Fund is listed as a special revenue fund, not a major governmental fund; our data reviewers noted that this was for technical financial reporting purposes.

New York

We collected “Total Expenditures” from the Dedicated Mass Transportation Trust, Mass Transportation Operating Assistance, and MTA Financial Assistance special revenue funds as reported in the “Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) – Other Governmental Funds – Special Revenue Funds” or equivalent statement annually in CAFRs. Federal revenues and debt service expenditures are not included in these funds. See, for example:

2015 New York transportation spending: OSC, "Comprehensive Annual Financial Report for Fiscal Year Ended March 31, 2015," (140).

Data from 2000, 2001, and 2002 CAFRs did not line up with other years. However, reviewers from the DOB sent us data on the three special revenue funds for those FYs, based on the Comptroller's Annual Reports to the Legislature on State Funds.¹⁶ These reports use the cash basis of accounting. However, values were not materially different from modified accrual numbers in each year.

Texas

We collected "Total Expenditures" from the "State Highway Fund" as reported in the "Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds" or equivalent statement annually in CAFRs. See, for example:

2015 Texas transportation spending: CPA, "Comprehensive Annual Financial Report 2015 for the State of Texas for the Fiscal Year Ended August 31, 2015," (40).

We also collected and subtracted "Federal" revenues as well as "Debt Service: Principal Retirement, Interest, and Other Financing Fees" expenditures from this fund.

Virginia

We collected "Total Expenditures" from the "Commonwealth Transportation" special revenue fund as reported in the "Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds" or equivalent statement annually in CAFRs. See, for example:

2015 Virginia transportation spending: DOA, "Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015," (50).

We also collected and subtracted "Federal Grants and Contracts" revenues, "Debt Service: Principal Retirement and Interest and Charges" expenditures, as well as "Receipts from Cities, Counties, and Towns" from this fund. However, we were unable to locate the local receipts from CAFRs or additional Commonwealth Transportation Fund budget documents for FY 2000 and 2001, and therefore could not subtract for those years.

Correctional Operations

This category includes caseload-driven or inmate-related operational expenditures from correctional institutions. Because of extensive reporting differences across states, we relied on the US Census of Governments Survey of State and Local Government Finance. These data, specifically “Item E022: Total Corrections-Current Operations,” are available from the Urban Institute’s Data Query System, accessible here:

All States: “Data Query System (SLF-DQS),” Urban-Brookings Tax Policy Center, accessed July 1, 2019, <http://sldqs.taxpolicycenter.org>.

According to US Census Bureau documentation (US Census Bureau 2006), this category captures spending on inmate-related services in correctional institutions, as well as parole services, agency administration, and payments to other governments for inmate care. It excludes spending on people residing in forensic mental health care facilities not operated by a correctional agency (for example, facilities operated by a mental health or hospital agency). Original data from the US Census Bureau are available here:

All States: “Annual Survey of State and Local Government Finances: Data,” US Census Bureau, accessed July 1, 2019, <https://www.census.gov/programs-surveys/gov-finances/data.html>.

Budgetary Reserves

This category includes deposits or transfers into state budgetary reserves, such as rainy day funds or budget stabilization funds. These funds are governed by institutional rules that dictate when to set aside surplus revenue for times of unexpected shortfalls, as well as requirements for when withdrawals may take place or be repaid. We do not report disbursements from these funds separately since they may be already accounted for in state general funds.

California

We collected “Transfers to” the state’s Budget Stabilization Account, as per our communications with the LAO. We verified these numbers with the “Enacted Budget Summary – All Chapters” or equivalent statement annually in the DOF’s eBudget portal.¹⁷

Florida

We collected “Additions” from the state’s Budget Stabilization Fund, as per our communications with the FLDFS. We requested this information from the Office of Chief Financial Officer, which sent us data for all Budget Stabilization Fund activity including additions, deductions, and cash balance for FY 2000 through 2018. For FY 2012 onward, we were able to verify the numbers using CAFRs.¹⁸

Illinois

We do not consider Illinois’ Budget Stabilization Fund a source of fiscal constraint in our analysis. Originally, we collected “Budget Stabilization Fund Transfers” (as reported in the State Supplement section of this report) from the “Detailed General Funds Revenue History,” “Appendix B. General Funds Expenditure History,” or equivalent statements in the Three-Year Budget Forecasts.¹⁹ However, the data showed equal deposits and withdrawals from this fund over multiple FYs, presumably due to insufficient revenue growth or general fund needs. Furthermore, our data reviewers noted that for financial reporting purposes, Budget Stabilization Fund activity is reflected within the General Fund.

New York

We collected the cumulative sum of “Transfers from Other Funds” to the “Rainy Day Reserve” and “Tax Stabilization Reserve” as reported in the “Combining Statement of Cash Receipts, Disbursements and Changes in Fund Balances” or equivalent statement annually in the Comptroller’s Annual Report to the Legislature on State Funds Cash Basis of Accounting. See, for example:

2015 New York Rainy Day Reserve and Tax Stabilization Reserve Deposits: OSC, “Comptroller’s Annual Report to the Legislature on State Funds Cash Basis of Accounting,” Albany, NY: OSC, accessed July 1, 2019, <https://www.osc.state.ny.us/finance/cashrpt/annual2015.pdf> (28).

Cash reports for all years are available here:

New York Cash Basis Reports: “Cash Basis Reports,” OSC, April 2019, <https://www.osc.state.ny.us/finance/cbr.htm>.

Texas

We collected the cumulative sum of “Natural Gas Production Related Transfers,” “Oil Production Related Transfers,” “Unencumbered Balances Transfers,” and “Interest and Investment Income,” as well

as “Appropriations” separately as reported in the “The Texas Economic Stabilization Fund” article posted by the CPA. See:

Texas Economic Stabilization Fund Deposits: TJ Costello, David Green, and Patrick Graves, 2016, “The Texas Economic Stabilization Fund,” *Fiscal Notes*, CPA, September, <https://comptroller.texas.gov/economy/fiscal-notes/2016/september/rainy-day.php>.

Virginia

We collected “Deposits” as reported in the “Schedule of Deposits and Withdrawals” in the “Revenue Stabilization Fund: Calculations for the Year Ended June 30, 2016” report posted by the Virginia Auditor of Public Accounts (APA). See:

Virginia Revenue Stabilization Fund Deposits: APA, 2016, “Revenue Stabilization Fund Calculations for the Year Ended June 30, 2016,” Richmond, VA: APA, <http://www.apa.virginia.gov/reports/RSF2016-web.pdf>.

TANF Maintenance-of-Effort

This category includes non-federally financed spending on Temporary Assistance for Needy Families (TANF) and state-based programs serving basic assistance, early care and education, child welfare services, work and training activities, as well as administrative costs used to meet federal maintenance of effort requirements. It excludes transfers, if any, toward the Social Services Block Grant Program and Child Care and Development Fund.

All data come from the US Department of Health and Human Services’ Office of Family Assistance , within the Administration for Children and Families (ACF). Specifically, the Office of Family Assistance Data and Reports portal provides detailed state expenditures (assistance versus non-assistance programs) based on ACF-196 forms. Financial data for 2015 and previous years are available here:

All States: “TANF Financial Data – FY 2015,” Office of Family Assistance, April 23, 2019, <https://www.acf.hhs.gov/ofa/resource/tanf-financial-data-fy-2015>.

For all our six study states, and over time, we collected “Total Expenditures” for the “State MOE in TANF and Separate State Programs” or equivalent item. We initially explored state-specific sources, such as CAFRs and Health and Human Services reports. However, we were not able to locate this information consistently over time and across states.

Other State-Specific and Special Funds

This category includes major special revenue funds identified by our informants and data reviewers as potentially restrictive. It is not an exhaustive compendium of each state’s special funds. For example, Texas classifies a wide array of funds as “General Revenue-Dedicated (GR-D) Accounts,” and the Comptroller is statutorily tasked with reporting their fund balances annually. However, some unappropriated GR-D balances can be used to fund other appropriations, and these funds may not be operationally restrictive year over year. We did not consider these funds as restricted.

California

STATE-LOCAL REALIGNMENT SPENDING

We collected “State/Local Realignment” from the “Special Funds” type, excluding General Obligation debt service, and for the “Local Assistance” function, as reported in the LAO Historical Data. Data are available here:

California state-local realignment funds: LAO, “State of California Expenditures, 1984–85 to 2017–18.”

Florida

VOLUNTARY PREKINDERGARTEN EDUCATION SPENDING

We collected “Enrollment & Funding History” for the “Voluntary Prekindergarten Education Program” (VPK) as reported in the Long-Range Financial Outlooks. See, for example:

Florida VPK Spending: Florida Joint Legislative Budget Commission(JLBC), 2017, “State of Florida Long-Range Financial Outlook Fiscal Years 2018–19 through 2020–21,” Tallahassee, FL: JLBC, http://edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan_Fall-2017_1819-2021.pdf (83).

All numbers are reported as final expenditures from state funds.

Virginia

PERSONAL PROPERTY TAX RELIEF ACT SPENDING

We collected “Car Tax Refund Payable” as mandated under 1998’s Personal Property Tax Relief Act (PPTRA), along with 2004’s established legislative appropriations cap, as reported annually in the CAFRs. See, for example:

2015 Virginia PPTRA Spending: DOA, “Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015,” (146).

For years before 2006, we could not locate these data in state CAFRs. However, we were able to obtain the data from the DPB, which sourced the data from state budget bills.

Federal Receipts

This category includes all federal government grants or funds that a state receives and is obligated to spend in accordance with federal laws and regulations. This is the only restricted area where we chose to collect receipts, rather than spending. This is largely because of how spending is reported in state financial documents. In CAFRs, revenues are accounted for in one portion of the financial statements, while spending is accounted for in another. The spending statements do not detail the sources of revenue for each area of spending, in part because many revenue sources are fungible across different areas of spending.

We consider all federal funds earmarked or dedicated for a specific purpose. Therefore, to streamline the data collection process, we collected total federal receipts for most of our states. This approach also allowed us to efficiently isolate federal receipts going toward specific areas of spending over time, such as transportation, to avoid double counting federal funding in our analysis. However, this approach may introduce complications and discrepancies. Specifically, it is possible for states to dedicate revenue to specific funds or areas of spending without those funds being spent in the same year. Therefore, it is possible that some federal receipts are not immediately spent the year for which we collected those data.

California

We collected “Federal” revenues as reported in the “Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 California Federal Receipts: California State Controller’s Office, “State of California 2015 Comprehensive Annual Financial Report for the Fiscal Year Ended Jun 30, 2015,” Sacramento, CA: SCO, <https://www.sco.ca.gov/Files-ARD-Local/LocRep/cafr15web.pdf> (42).

Initially, we collected “Grand Total” of “Federal Funds” expenditures, excluding General Obligation debt service, and for all functions (state operations, capital outlays, local assistance, and unclassified) as reported in the LAO Historical Data.²⁰ However, for consistency across states, we used the CAFR data in our analysis. Differences between the two sources in our study period do not materially affect study results.

Florida

We were not able to locate this data consistently over time in Florida CAFRs or other state-specific sources. We therefore relied on the US Census of Governments Survey of State and Local Government Finance “Item R032: Total Federal Intergovernmental Revenue” as reported by the Urban Institute’s Data Query System, accessible here:

Florida Federal Receipts: “Data Query System (SLF-DQS), Urban Institute, accessed July 11, 2019, <https://slfdqs.taxpolicycenter.org/index.cfm..>”

According to US Census Bureau documentation (US Census Bureau 2006), this variable includes federal grants and aid, payments-in-lieu-of-taxes on federal property, reimbursements for state activities, and revenue received but later transmitted through the state to local governments. It excludes amounts received by state governments that are distributed to individuals without discretion as to how they are disbursed, and charges for utility services to federal government.

Illinois

We collected revenues from “Federal Government” as reported in the “Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Illinois Federal Receipts: State of Illinois Comptroller, “Comprehensive Annual Financial Report: Illinois Fiscal Year Ended June 30, 2015,” (38).

New York

We collected revenues from “Federal Grants” as reported in the “Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)” or equivalent statement annually in CAFRs. See, for example:

2015 New York Federal Receipts: OSC, “Comprehensive Annual Financial Report for Fiscal Year Ended March 31, 2015,” (36).

Texas

We collected “Federal” revenues as reported in the “Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Texas Federal Receipts: CPA, “Comprehensive Annual Financial Report 2015 for the State of Texas for the Fiscal Year Ended August 31, 2015,” (40).

Virginia

We collected revenues from “Federal Grants and Contracts” as reported in the “Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds” or equivalent statement annually in CAFRs. See, for example:

2015 Virginia Federal Receipts: DOA, “Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015,” (50).

Interview Methods

Key Informant Selection

Between April and September 2017, we conducted 14 interviews with 18 key informants across six study states (table 1). In each of our study states, we sought to confer with at least one respondent currently or formerly from a governor’s budget office, legislative committee staff, an independent fiscal analyst, and an advocacy group. We recruited specific individuals based on suggestions from our research advisory board and from key informants themselves (during interviews), personal contacts, and independent research.

We interviewed between two and four informants in each state, sometimes during the same interview if informants worked in the same office or agency. In half of the states (California, Illinois, and Virginia), we were able to recruit at least one informant with legislative and one with executive agency experience, while in the other half (Florida, New York, and Texas), we obtained more participation from one or the other branch.

As such, our interviews offer a rich, detailed picture of budgeting practices and potentially restricted spending in each of our study states. However, they do not necessarily reflect a representative sample of budget analysts in our study states, nor are our interviewees’ perspectives necessarily generalizable to other states.

The purpose of the interviews was to provide a foundation for data collection and further analysis and to bring a more nuanced and practitioner-oriented experience to bear on a question with little supporting empirical research. We obtained additional verification and citations for our informant claims and used these interviews to inform our main findings, data collection approaches, and conclusions.

TABLE 1
Key Informant Interviews by State

State	Name	Position	Office or Organization	Date
California	Tim Gage	Principal and co-founder	Blue Sky Consulting Group	April 2017
		<i>Previously:</i>		

State	Name	Position	Office or Organization	Date
		Director	California Department of Finance (DOF)	
		Chief Fiscal Advisor	Senate President pro Tempore, CA State Senate	
		Chief Consultant	Ways and Means Committee, CA Assembly	
	Ann Hollingshead ^a	Senior Fiscal & Policy Analyst	California Legislative Analyst's Office (LAO)	April 2017
	Ana Matosantos ^b	Budget and policy consultant	Independent	May 2017
		<i>Previously:</i>		
		Director	DOF	
	Jason Sisney ^c	Chief Deputy Legislative Analyst	LAO	April 2017
Florida	Amy Baker	Coordinator	EDR (Florida Office of Economic and Demographic Research)	Sep 2017
	Gary VanLandingham	Professor	FL State University Askew School of Public Administration and Policy	Aug 2017
		<i>Previously:</i>		
		Director	Office of Program Policy Analysis and Government Accountability, FL State Legislature	
Illinois	Laurence Msall	President	Civic Federation	Aug 2017
		<i>Previously:</i>		
		Senior Advisor	Economic Development, IL Gov. George H. Ryan	
	Ginger Ostro	Executive Director	Advance Illinois	Oct 2017
		<i>Previously:</i>		
		CFO	Chicago Public Schools	
		Director	OMB (Illinois Office of Management and Budget)	
	Heather Steans	Senator	IL State Senate	Sep 2017
		Chair	Appropriations I Committee, IL State Senate	
		Vice Chair	Appropriations II Committee Vice Chair, IL State Senate	
New York	Sandra Beattie	Deputy Director	New York State Division of the Budget (DOB)	April 2017

State	Name	Position	Office or Organization	Date
	Mary Beth Labate	President	Commission on Independent Colleges & Universities in New York	April 2017
		<i>Previously:</i> Budget Director First Deputy Budget Director	DOB	
Texas	Phillip Ashley ^d	Associate Deputy Comptroller for Fiscal Matters	Texas Comptroller of Public Accounts (CPA)	July 2017
	Rob Coleman	Director of Fiscal Management	CPA	July 2017
	John O'Brien	Instructor	University of Texas at Austin	April 2017
		<i>Previously:</i> Director	Texas Legislative Budget Board	
Virginia	Ric Brown ^e	Secretary of Finance	Commonwealth of VA	April 2017
	June Jennings	Deputy Secretary of Finance	Commonwealth of VA	April 2017
	Jim Regimbal	Principal	Fiscal Analytics, Ltd.	Mar 2017
		<i>Previously:</i> Legislative Fiscal Analyst	Finance Committee, VA State Senate	
	Dan Timberlake	Director	Virginia Department of Planning and Budget	April 2017

Notes:

^a We spoke with Ann Hollingshead and Jason Sisney during the same interview.

^b Subsequent to our interview, Ana Matosantos became cabinet secretary for California Governor Gavin Newsom.

^c Subsequent to our interview, Jason Sisney became state budget adviser to California State Assembly Speaker Anthony Rendon and the Assembly Democratic caucus.

^d We spoke with Phillip Ashley and Rob Coleman during the same interview.

^e We spoke with Ric Brown, June Jennings, and Dan Timberlake during the same interview. Subsequent to our interview, Ric Brown retired from his position as Secretary of Finance.

Interview Script

Below is the script that we used when conducting our structured key informant interviews.

Purpose

Before completing the quantitative components of this research project, analysts will conduct information-gathering interviews with key informants in state budget offices. These informational interviews will help analysts identify and understand the programs, policies, and processes that restrict states' budgeting decisions.

These interviews will provide a foundation for understanding the processes driving state budgeting decisions and their historical context. They will help analysts identify key technical provisions restricting budget flexibility. These interviews will also help analysts flesh out an original taxonomy of state budgeting restrictions, which analysts will subsequently seek to operationalize and quantify.

Introduction

INTRODUCE SELF

Hi, I'm [NAME] and this is my colleague [NAME]. We are research analysts with the Urban Institute, and we want to thank you for taking the time to speak with us today.

INTRODUCE URBAN INSTITUTE

The Urban Institute advances evidence-based policymaking through objective research and analysis. Our team works on good governance and budgeting at the state and local level. We aim to provide state policymakers with the resources and research they need to budget effectively.

INTRODUCE PROJECT

Some of our colleagues' work has focused on the effect of mandatory spending (e.g., from entitlement spending) on the federal budget. We are seeking to complete a similar analysis for state budgets. We want to learn more about what kinds of constraints might pre-commit state revenues or spending in a way that is difficult for lawmakers to change and analyze how those are affecting state budgets. Findings will be detailed in a research report, and perhaps other work.

USE OF INTERVIEW CONTENT

We are interviewing budget analysts in six states. (If asked, list: CA, TX, IL, VA, NY, FL). Our interview today will help inform our research process and understanding of the budgeting process in your state. With your permission, we would love to cite this interview content as a source in our research report and acknowledge your time and participation in the acknowledgement component of our paper.

Informed Consent

We're going to go through some of our informed consent procedures. Please feel free to ask questions at any time and affirm that these terms are acceptable. The purpose of this study, once again, is to understand the budgetary constraints that state policymakers face when making budgeting decisions in their state and how these constraints have changed over time. If you choose to participate in this research project:

- You will be asked to participate in a 30- to 60-minute interview over the phone with Urban Institute research staff regarding budgeting policies, practices, and procedures in your state.
- There are no foreseeable risks or benefits to participating in this study.
- Your participation is completely voluntary, and you may choose to withdraw at any time.
- The information provided during the interviews will not be held in confidence and the identity of participants may be made available to outside parties.

If you have any questions you may choose to contact Urban Institute Research Associate Megan Randall, whose contact information we have provided to you via e-mail.

Interviewee Background

What is your title and role?

How long have you been in your current role?

Open Response Interview Questions

Q1. Are there sources of spending that people refer to as being on “auto-pilot,” or possibly “dedicated” funding, “nondiscretionary” spending, or other descriptions that hint they are difficult to change?

These are funding obligations that state lawmakers don't have a ton of flexibility to change from year to year. Do legislators and budget staff have to be aware of any funding requirements, constitutional or statutory, when making allocations?

[Note: offer the following prompts, if slow to respond, or after informant answers question 1; make sure to cover each topic below]

Q1a. Are there any requirements to spend a certain amount on specific categories or programs?

For example, funding for K–12 education, driven by formulas or constitutional requirements? Can you name the specific provision that we should reference? Has the legislature passed any laws that affected caseloads and put pressure on state budgets? Does the state have any intergovernmental funding obligations? That is, does the state have to give a certain amount to local governments for any specific purpose?

Q1b. Institutional Requirements?

For example, rainy day funds or tax and expenditure limitations? Can you name the specific provision that we should reference?

Q1c. Federally Imposed Requirements?

Matching requirements for federal programs? Laws or regulations that amount to a spending mandate, funded or unfunded? Can you name the specific provision that we should reference? How much flexibility would you say your state has to adjust its own spending in response to federal requirements? Can it change some service level or reclassify existing spending to meet certain requirements? If so, roughly to what degree?

Q1d. Court-Imposed Requirements?

Any judicial court decisions that have affected state funding obligations? For example, some states have experienced school finance lawsuits that affect their spending obligations. Can you name the specific court decisions?

Q1e. Political Pressure?

[Note: if appropriate for informant, public employees may not be free to comment on politics, may wish to leave question out]

Any spending items that, while not technically off limits, have strong political support? Or political opposition to cuts? Where does that opposition come from?

Q1f. Pensions and other long-term obligations

Do state employee retirement benefits or other “legacy” obligations play a major role in annual budget discussions?

Q1g. Other process, policies, or programs that restrict budget flexibility that we haven’t talked about?

Can you name the specific policy or provision that we should reference? Can you comment on the effects of XX policy/program?

[Note: if not already mentioned in the interview, inquire about budgetary restrictions outlined in the qualitative state profile (produced by research team for internal discussion prior to interviews)]

Q2. Historically, have there been any big changes in budgeting flexibility? Has your state budget become more or less flexible, or has it stayed the same?

Feel free to share knowledge from your experience/time working in the state, or history that has been shared with you.

Q2a. What specific policies, programs, or provisions were primarily responsible for this change?

Feel free to share knowledge from your experience/time working in the state, or history that has been shared with you.

Q3. Have certain programs been more affected than others by changes in budgeting flexibility?

Do some programs take more funding cuts than others?

Q4. What are the best sources of data on budgeting restraints in your state?

That is, dollars spent on the programs and policies we just discussed. Are there sources of historical spending by program or institutional constraint, for example, that would help us understand how budgeting constraints have changed over time?

Q4a. Does the budget office collect data on restricted funding in your state?

If we wanted to obtain quantitative data, does the budget office or other actor collect and analyze these data?

Q5. Should we speak with anyone else on this topic before proceeding with our analysis?

State Supplement

Drawing on insights and data sources identified by our key informants, we developed a compendium of potentially restrictive budget programs and provisions in each of our study states. We attached annual spending numbers to these programs and provisions where data were available. Where data were unavailable or the link to spending was unclear, we nevertheless sought to describe mechanisms by which these programs or provisions constrain budgeting (table 2).

TABLE 2
Mechanisms Restricting State Spending

Programs or provisions may be subject to more than one mechanism

Mechanism	Description
Constitutional	State constitutional spending commitment or revenue earmark
Statutory	State statutory spending commitment or revenue earmark
Contractual	Legal contractual obligation to, for example, creditors for debt service
Actuarial	Obligation to spend at a rate determined by an external actuary or actuarial board
Formula	Obligation to spend at a formula-designated level, typically set in state statute or constitution and requiring legislative action to modify
Federal	Federal rules governing the use of federal funds or requiring the state to spend from their own resources to draw federal matching dollars
Caseloads <i>Influenced by</i>	Programs where demographic trends, federal eligibility requirements, or state law make it difficult to change how many people participate in or receive the service in the short term
<ul style="list-style-type: none"> ■ Demographics ■ Program eligibility ■ Other current law 	
Inflation	Programs where cost increases are beyond state control, as with new technologies or price inflation in medical care
Political	Programs with strong constituent or interest group support

Source: Authors' analysis based on literature reviews, state reports, and key informant interviews.

In *Fiscal Democracy in the States: How Much Spending is on Autopilot?* (Gordon et al. 2019), we provided a profile of potentially restricted spending in each state. This section provides additional detail and further citations on each restricted spending category in our study states.

In each state, we discuss sources of Medicaid funding, including the level of nonfederal financing that is provided by the state versus by local governments and providers. Nationally, roughly 70 percent of nonfederal Medicaid funding came from state general revenues, while only 16 percent was obtained

from local governments, 10 percent from health care provider–related taxes, and 5 percent from other sources such as tobacco settlement trust funds (GAO 2014).

In addition, most states consider debt service, including principle and interest, a fixed obligation. States are bound by legal contract to pay debt service, and while in theory any state could default on its debt service, this would be met with financial repercussions. Failure to pay debt service impacts state bond ratings, which in turn can limit access to capital or make borrowing more expensive. We discuss details of state debt payment obligations in the state sections below.

For each state, we quantify state maintenance-of-effort (MOE) spending for the federal Temporary Assistance for Needy Families (TANF) program. States are required by the federal government to maintain a prior level of spending (known as the MOE level) in order to receive federal TANF funding. Federal TANF funding and state MOE are highly fungible, however. With TANF, spending satisfies MOE rules as long as it meets one of four program goals: (1) providing assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; (2) promoting job preparation, work, and marriage among needy parents; (3) preventing and reducing the incidence of out-of-wedlock pregnancies; and (4) encouraging the formation and maintenance of two-parent families (e.g., Bitler and Hoynes 2016). Thus, while state MOE payments are loosely restricted to a variety of purposes, states have some latitude on how to spend it, and states often use current spending on tangentially related programs as a substitute for their MOE requirement.

TANF is not the only area of spending that has a state MOE requirement or a match (like Medicaid). Many of our states, for example, receive federal disaster assistance funds, which require a nonfederal match. However, these additional federal programs are numerous, and we were not able to consistently identify or collect data for all such programs in each state over time. Our data include all federal revenues (including disaster relief, Substance Abuse and Mental Health Services Administration grants, or other funds) under the “federal receipts” category but do not include any related state match or maintenance of effort spending. State TANF spending data are consistently available across our states, and as such we were able to include them in our analysis. States also administer benefit administration for Supplemental Security Income and the Supplemental Nutrition Assistance Program. We did not collect data on these latter obligations.

The “federal receipts” category includes all federal receipts apart from Medicaid funds, including some funds from the American Recovery and Reinvestment Act, which are still being expended. Federal receipts are assumed to be restricted and earmarked for specific spending purposes which are numerous and not outlined in this report. Informants noted that federal funds could not be easily

repurposed, although some grant programs, such as TANF block grants, are more flexible than others (e.g., Bitler and Hoynes 2016). In some states, informants noted changes or uncertainty in federal funding can squeeze state budgeting and limit flexibility, particularly if they coincide with state revenue declines; these concerns are also voiced in state financial reports.

We were unable to quantify each source of restricted spending in our study states because a variety of factors indirectly affect state fiscal positions. Moreover, most states maintain a variety of “special” or “dedicated” funds, the flexibility of which are both variable and debatable. For each state, we provide a qualitative discussion of such programs, funds, provisions, discussing examples and cases where available. This qualitative review is illustrative and not exhaustive.

California

Restricted Programs and Provisions

MEDICAID AND CHIP

TABLE 3

Medi-Cal and Healthy Families Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	35% of total spending
	Actuarial	\$87.2 billion (state and federal)
	Federal	\$33.6 billion (state)
	Caseloads	
	Inflation	
	Political	

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst's Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

California's Department of Health Care Services provides medical insurance to qualifying low-income adults and children through its CHIP and Medicaid program, both operated under Medi-Cal.²¹ Prior to 2014, California insured its CHIP-qualifying low-income children through the Healthy Families Program, administered by the Managed Risk Medical Insurance Board. In 2013, however, the state transferred roughly 750,000 children from the Healthy Families Program to Medi-Cal (DHCS 2014), eliminating its separate CHIP program (Prater and Alker 2013).²²

In 2015, the state received a dollar-for-dollar federal funding match on its own-source Medicaid spending and a roughly \$1.90-per-dollar enhanced match on its CHIP spending.²³ In addition to state own-source funding, California has made use of alternative, non-state revenue sources to meet its nonfederal match requirement. In 2012, California’s share of nonfederal matching funds from health care providers and local governments was 41 percent (compared to 26 percent nationally) (GAO 2014).

California has expanded Medicaid coverage to more groups, and up to higher income thresholds, than many other states. In 2013, the state had adopted six out of nine optional eligibility pathways for children, adults, and qualified immigrants,²⁴ and 11 out of 14 pathways for the elderly, disabled, medically needy, and specific diseases or services.²⁵ The state had also adopted 11 out of 12 optional acute services and eight out of nine optional long-term services and supports.²⁶ For example, the state provides full coverage to children regardless of immigration status and optional dental benefits under Denti-Cal.²⁷ Additionally, as a result of the Affordable Care Act expansion, Medi-Cal experienced major enrollment increases after 2014, and the program now covers about one-third of the state’s population (McConville, Warren, and Danielson 2017).²⁸

In the past, California has used provider reimbursement cuts to achieve cost savings. For example, in a February 2008 special legislative session, California reduced most Medi-Cal provider reimbursement rates by 10 percent to help solve a state budget shortfall.²⁹ However, provider groups challenged the legality of these rate reductions, and a federal judge blocked their enforcement,³⁰ although the state ultimately prevailed in court.³¹ Perhaps related to its reimbursement policies, California also had below-average primary care physician acceptance rates for new Medicaid patients as of 2011 (Decker 2012). Moreover, despite its multiple eligibility pathways and optional benefits, California’s spending per enrollee was below national per enrollee Medicaid spending in 2014.³²

DEBT SERVICE

TABLE 4
Principal and Interest

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Constitutional	2% of total spending
	Statutory	\$5.1 billion (state)
	Contractual	

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst’s Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

California statute authorizing bond issuance contains a continuing appropriation from the General Fund for whatever is necessary to pay the principal and interest on the state’s bonds.³³ The state constitution prohibits the state from repealing these statutes until the obligations are paid (State of California 2019, 5). These obligations are only applicable, however, assuming prior payment of public K–12 and higher education funding obligations (State of California 2019). The state has an “Aa3” (positive) rating from Moody’s and an “AA-” (stable) rating from Fitch Ratings and from S&P Global Ratings (California State Treasurer’s Office 2018). Given that the state has never defaulted on its debt, no specific remedies for those circumstances are articulated in the state’s recent bond offering statement (State of California 2019).

PUBLIC EMPLOYEE PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

TABLE 5

CalPERS, CalSTRS, and Other Retiree Health, Pension, and Retirement Benefit Plans

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Constitutional	3% of total spending
	Actuarial	\$8.1 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst’s Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

California has two large state-administered pension systems: the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS).³⁴ In addition, California has the University of California Retirement System, three smaller state-administered systems, and many locally administered systems. The state also provides health care and dental benefits to retired state employees and their spouses and dependents. CalPERS and CalSTRS cover 65 percent of all California state and local employees eligible for public pension benefits (Mehlotra and Murphy 2019).

Like nearly all states, California was compelled to adopt pension reforms after investment losses in the Great Recession substantially increased payments required to amortize unfunded liabilities. Both CalPERS and CalSTRS reduced benefits and increased employee contributions for new hires (Brainard and Brown 2018; CRR 2013).

For CalPERS, these changes came through legislation passed in 2010 and 2012. The latter significantly affected the benefits structure for new hires (for both CalPERS and CalSTRS) and culminated in the California Public Employees’ Pension Reform Act, or Assembly Bill (AB) 340. Although the California Public Employees’ Pension Reform Act did not go as far as some pension reform

advocates would have liked,³⁵ it may provide an opportunity for reform advocates to pursue Supreme Court review of the so-called “California Rule.”³⁶ The California Rule is a series of state court decisions establishing that pensions offered to public employees at the time of their hiring is a vested right.³⁷ In March, 2019, California’s Supreme Court ruled against California state firefighters regarding certain retirement benefits covered under CalSTRS, but did not comment on the overall pension obligations from the California Rule.³⁸

Meanwhile, for CalSTRS, in addition to the aforementioned California Public Employees’ Pension Reform Act changes to benefit structures, AB 1469 (2014) increased required contributions from the state, school districts, community college districts, and employees. The legislation assigned responsibility for \$62 billion of \$76 billion in unfunded liabilities to school districts, reducing state obligations by a similar amount but creating hardships for these local governments (LAO 2017c; Mehlotra and Murphy 2019).³⁹

In December 2016, the CalPERS board voted to reduce its assumed rate of return on investments from 7.5 to 7 percent, to be phased in through FY 2020.⁴⁰ The CalSTRS board took similar action in February 2017 (LAO 2017c). These actions increased estimates of the state’s unfunded pension liability, since a lower rate of return assumes fewer investment revenues available to offset accrued liability, and increased the state’s annual required contributions but will eventually improve the plan standings.

FORMULA-DRIVEN K-14 EDUCATION MINIMUM FUNDING GUARANTEE

TABLE 6

Proposition 98

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Constitutional	20% of total spending
	Formula	\$50 billion (state)
	Caseloads	
	Political	

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst’s Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

The state has modified Proposition 98 several times since its passage in 1988. Proposition 111, passed in 1990, modified the guarantee to allow lower state funding when General Fund revenues were comparatively weak. However, it required the state to accelerate education funding when those revenues improved. Proposition 2, passed in 2014, did not change the guarantee but established the Public School System Stabilization Account, rules for contributing to it, and rules for making withdrawals to keep school funding in line with student enrollment increases and inflation (LAO 2017a).

Increases in local property tax revenue generally reduce the amount of state General Funds required to meet the Proposition 98 funding requirement (LAO 2017e). Of the changes to Proposition 98 formula system since 1988, most have involved shifting local property tax revenue to school and community college districts from other local governments (e.g., as the state did in response to budget challenges of the early 1990s and mid-2000s) (LAO 2017a). However, constitutional amendments approved by the voters, including 2004's Proposition 1A and 2010's Proposition 22, have restricted the state's ability to shift additional local property tax revenues towards school funding.⁴¹

CORRECTIONAL OPERATIONS

TABLE 7

Correctional Operations

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Caseloads Inflation Political	3% of total spending \$8.6 billion (state)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst's Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

The California Department of Corrections and Rehabilitation operates the state's prison and parole system. A number of factors, including court cases, statutory sentencing rules,⁴² and medical inflation in prisoner health care costs, for example, have influenced California's correctional population. In 2011, for example, in *Brown v. Plata*, the US Supreme Court ruled that California's prisons were not providing adequate medical care to inmates. The court ordered the state to reduce its prison population by 34,000 inmates, or 137.5 percent of design capacity, within two years (LAO 2011). As a result of this ruling, California also realigned correctional services and shifted some responsibilities from the state to counties (Lofstrom and Martin 2015).

DEDICATED TRANSPORTATION FUND SPENDING

TABLE 8

Transportation Fund and Other Dedicated Transportation Fund Spending

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Constitutional Statutory	4% of total spending \$9.4 billion (state)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst's Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

California’s Transportation Fund includes motor fuel taxes and other fees dedicated for transportation purposes such as construction, maintenance, and safety programs for highways and passenger rail systems. In 2006 (Proposition 1A) and 2018 (Proposition 69), voters overwhelmingly passed two constitutional legislative referendums that prohibit the legislature from using revenues from state gasoline and diesel sales taxes as well as the Transportation Improvement fees for nontransportation purposes.

Previously, the legislature had suspended a weaker guarantee (Proposition 42) in response to budget difficulties in the early 2000s (FY 2004 and 2005). Proposition 1A expedited the repayment of those funds, with interest. In addition, Proposition 22 (2010) prohibits the legislature from reallocating local transportation funds without an extensive process although these funds are available for cash management purposes (State of California 2019).

LOCAL AID

TABLE 9

State-Local Realignment

Obligation Type	Mechanism	Size (fiscal year 2015)
Local aid	Constitutional Statutory	4% of total spending \$9.3 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst’s Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

California has evaded some budget restraints by shifting costs to local governments. Notably, in 1991 and 2011, the state shifted or “realigned” programmatic and funding responsibility for certain social service and criminal justice programs to counties (LAO 2018b). Realignment was originally intended to benefit both the state and counties, wherein counties would receive additional state revenues and flexibility to administer these programs, though it was born out of the state’s budgetary crises (LAO 2018b). Following the 1991 realignment, however, federal rules and legal decisions required the state and counties to provide services to everyone meeting baseline eligibility criteria, limiting counties’ ability to control costs (LAO 2018b). The state, meanwhile, did not provide additional revenues to meet resultant cost increases (LAO 2018b), despite a constitutional requirement to reimburse local governments for the cost of complying with state mandates.⁴³ Consequently, following the 2011 realignment, Proposition 30 (2012) established constitutional requirements for the state to reimburse local governments for the 2011 state-mandated realignment (LAO 2012). Nominally, annual state-financed special funds transferred to local governments to support 1991’s and 2011’s realignments have grown from \$2.9 billion in 2000 to \$9.3 billion in 2015.

Proposition 1A (2004) are both examples of voter-approved constitutional amendments borne out of challenges to the state-county fiscal relationship. These restrictions continue to bind the state to reimburse local governments for services imposed upon them and prohibit reductions of certain local taxes, though there is some room for flexibility from “realignment” of programs.

BUDGET STABILIZATION FUND DEPOSITS

TABLE 10

Budget Stabilization Account

Obligation Type	Mechanism	Size (fiscal year 2015)
Institutional	Constitutional Formula	1% of total spending \$ 1.6 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst’s Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

Proposition 58 (2004) created the Budget Stabilization Account (BSA) to augment the state’s existing Special Fund for Economic Uncertainties. A continuous appropriation authorizes the state controller to transfer unencumbered General Fund balances to the Special Fund for Economic Uncertainties. Proposition 2, passed in 2014, supersedes Proposition 58, establishing a more stringent formula for contributing to the BSA, although it can be suspended by the governor under emergency circumstances. Proposition 2 also requires the state to set aside “excess” capital gains revenue not required to fund a Proposition 98 guarantee and use these funds to pay down debts and other specified long-term liabilities (LAO 2016d). Proposition 2 also set a BSA maximum of 10 percent of the state General Fund and requires any amounts beyond this maximum be dedicated to building and maintaining infrastructure (LAO 2016d).

STATE TANF MAINTENANCE-OF-EFFORT

TABLE 11

State Maintenance-of-Effort for the Federal Temporary Assistance for Needy Families Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Federal Caseloads	1% of total spending \$3 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst’s Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

OTHER FEDERAL RECEIPTS

TABLE 12

Federal Revenues

Non-Medicaid and Non-Children's Health Insurance Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Federal	Federal	13% of total spending \$32.6 billion (federal)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communication with the California Legislative Analyst's Office (LAO). Total spending includes general, special, bond, and federal funds from LAO historical spending data. See the Data Documentation section for more detail.

Other Dedicated Funding, Indirect, and Revenue-Related Restrictions

OTHER DEDICATED STATE FUNDS

In addition to the programs, provisions, and funds described above, California has hundreds of additional special or otherwise "earmarked" funds (DOF 2018b). Examples include the Greenhouse Gas Reduction Fund, which receives proceeds from the state's Cap-and-Trade Program,⁴⁴ and the Mental Health Services Fund, which receives revenues from an additional 1 percent tax on personal income for those with earnings greater than \$1 million (Proposition 63).⁴⁵

Other special revenue funds that informants highlighted include "voter-imposed" restricted funds, such as the Cigarette and Tobacco Tax Fund (SCO 2015), created after 1988's Proposition 99, which serves various health programs funded by a surtax on cigarette and tobacco products; and the Habitat Conservation Fund, created after 1990's Proposition 117, which serves grants to local entities to protect and develop wildlife and plant trails funded by annual appropriations.⁴⁶

Furthermore, Proposition 2 (2014) requires the state to make constitutionally dictated minimum annual payments to reduce certain state debts. The Proposition 2 definition of debt includes special fund loans to the General Fund (LAO 2016a). Thus, though the state may borrow revenue from some earmarked funds to use for other state purposes, providing it with a source of flexibility, those loans must eventually be repaid with interest. These payment requirements cannot be suspended until FY 2029–30, even during recession periods, and are part of the state's larger plan to repay unfunded retirement liabilities and budgetary borrowing (LAO 2016a).

Because required Proposition 2 debt repayments (i.e., for pensions, special fund loans, retiree health benefits, and Proposition 98 settle-up payments) as well as BSA deposits are already included in

our annual spending estimate for each restricted category, we do not report Proposition 2 obligations separately. According to estimates from the California Legislative Analyst's Office (LAO), Proposition 2 debt payments totaled roughly \$1.8 billion in 2015–16 (LAO 2019). Any Proposition 2–mandated payments on state funds that we have quantified (e.g., transportation funds) would also be included in our estimated spending in any given year. As we elected to exclude other dedicated state funds from our quantitative analysis, any Proposition 2 debt service payments to these other special state funds in a given year are also excluded from our analysis.

OTHER JUDICIAL RESTRICTIONS

California complies with a variety of judicial consent decrees, several of which impose fiscal obligations, (such as those related to its correctional system discussed in Gordon et al. 2019). In another example, the California Franchise Tax Board, responsible for personal and corporate income tax collections, is a defendant in two ongoing cases regarding the constitutionality of a fee imposed on LLCs doing business in the state. Two previous settlements, *Northwest Energetic Services, LLC v. Franchise Tax Board* (2008) and *Ventas Finance I, LLC v. Franchise Tax Board* (2008), estimated that actual and expected refund claims incurred by the state from such a suit might total \$1.4 billion (SCO 2019).⁴⁷

In 2009, the state reached a settlement agreement in an Olmstead-related case, *Capitol People First v. Department of Developmental Services (DDS)*, regarding services for, and unnecessary institutionalization of, individuals with developmental disabilities.⁴⁸ The settlement agreement dictates that California expand DDS funds for case management and community-based living.⁴⁹ The fiscal impacts from these cases are difficult to quantify consistently due to the number of agencies affected, interfund transfers, and timeline of incidence; however, our informants noted these as restricted or inflexible fiscal obligations. The state complies with a variety of *Olmstead*-related cases.⁵⁰

OTHER INSTITUTIONAL RESTRICTIONS

In 1979, voters adopted Proposition 4, which amended the state constitution to include an appropriation limit (also referred to as a “Gann Limit”). The amendment’s objective was to hold per person, inflation-adjusted spending below 1978–79 levels (LAO 2018a). A complex set of calculations called the State Appropriations Limit estimates whether the state will receive revenues in excess of the Gann Limit. If it will, the state must split that surplus between taxpayer rebates and additional Proposition 98 funding toward K–14 education (LAO 2017b). Proposition 111 (1990) changed how the state administers the Gann Limit, such that taxpayer rebates have not been triggered in the past few decades (LAO 2017b).

Fiscal institutions can also influence revenue collections indirectly. In 1978, voters approved Proposition 13, requiring a supermajority vote in each legislative chamber, as well as the governor's signature, to enact any increases in state taxes.⁵¹ In 2010, voters Proposition 26, which expanded the definition of "tax" to include fees and charges, further limiting the state's ability to raise additional revenues (LAO 2010b). Supermajority requirements for tax increases can have long-term implications for fiscal flexibility, since they can limit a state's ability to raise revenue, and informants noted they were often a source of restriction. Until 2010, California also required a supermajority vote to pass a budget. However, Proposition 25 (2010) replaced this requirement with a simple majority approval (LAO 2010a).

OTHER REVENUE RESTRICTIONS

State business tax incentives can also restrict revenues over the long-term, even if such expenditures may not appear fiscally restrictive on year-over-year basis. For example, in 2009, California began to grant incentives for qualified film and television productions of up to \$100 million per year. In 2014, the legislature expanded the film tax credit program to a maximum of \$330 million per year. Overall, these credits have an estimated net loss effect on the state's General Fund (LAO 2016c).

Similarly, the California Competes tax credit program, established in 2013, offers tax benefits to select businesses in exchange for meeting certain hiring and investment targets. This program is estimated to reduce state revenues by up to \$780 million over 15 years (LAO 2017d). Despite the LAO's recommendations to end the program in 2018, the program was reauthorized in the 2018–19 budget (DOF 2018a).

OTHER INDIRECT RESTRICTIONS

Many other factors also contribute indirectly to state costs and spending pressure. For example, informants in California identified collective bargaining agreements with public employees, first established by the Meyers-Milias-Brown Act of 1968, as one additional area of restriction. Collective bargaining agreements contain essential components of state employee compensation, and the California Legislative Analyst's Office has been tasked with fiscal analyses of all proposed MOUs between public employee unions and the state since 2005.⁵² Though we could not distinguish statewide costs from collective bargaining agreements among our areas of restricted spending in California, our informants noted that such agreements can result in higher state employee salaries and benefits, and thus contribute to costs.

Florida

Restricted Programs and Provisions

MEDICAID AND CHIP

TABLE 13

Florida Medicaid and KidCare

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	30% of total spending
	Actuarial	\$22.3 billion (state and federal)
	Federal	\$8.8 billion (state)
	Caseloads	
	Inflation	
	Political	

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Florida Agency for Health Care Administration provides medical insurance to qualifying low-income adults and children through its Medicaid and KidCare (i.e., CHIP) programs.⁵³

In 2015, the state received a roughly \$1.50 federal funding match for each dollar of own-source Medicaid spending and a roughly \$2.50-to-one enhanced dollar match on its CHIP spending.⁵⁴ In addition to state own-source funding, Florida has made use of alternative, nonstate revenue sources to meet its nonfederal match requirement. In 2012, Florida's share of nonfederal matching funds from health care providers and local governments was 34 percent (compared to 26 percent nationally) (GAO 2014).

Historically, Florida has maintained a spare Medicaid program, offering only the mandatory suite of benefits to required eligibility groups. For example, Florida has not expanded Medicaid eligibility to childless adults under the Affordable Care Act.⁵⁵ In 2013, the state had adopted three out of nine optional eligibility pathways for children, adults, and qualified immigrants,⁵⁶ and 9 out of 14 pathways for the elderly, disabled, medically needy, and specific diseases or services.⁵⁷ The state had also adopted 7 out of 12 optional acute services and eight out of nine optional long-term services and supports.⁵⁸

Florida has roughly completed its transition to managed care in recent years, which requires the state to provide actuarially sound rates for a package of services.⁵⁹ An actuarial firm produces and certifies these rates, which must be “actuarially sound” and approved by the Centers for Medicare and Medicaid Services (Senior 2015). Florida’s spending per enrollee was below national per enrollee Medicaid spending in 2014.⁶⁰

DEBT SERVICE

TABLE 14
Principal and Interest

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Constitutional	3% of total spending
	Contractual	\$2.4 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Florida constitution requires the state to appropriate funds for debt service that is backed by the full faith and credit of the state, and stipulates that all state revenues not otherwise constitutionally dedicated be available to make those payments (State of Florida 2019). The state has a “Aaa” (stable) rating from Moody’s and an “AAA” (stable) ratings from Fitch Ratings and from S&P Global Ratings (DBF 2018).

PUBLIC EMPLOYEE PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

TABLE 15
Florida Retirement System Defined-Benefit Pension Plan and Other Retiree Health, Pension, and Retirement Benefit Plans

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Statutory	2% of total spending \$ 1.6 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The State of Florida contributes to seven different retirement benefit plans, the largest of which is the Florida Retirement System Defined Benefit Pension Plan.⁶¹ Each year, the state commissions a

study and holds a consensus estimating conference on Florida Retirement System Defined Benefit Pension Plan actuarial assumptions, featuring a representative each from the Florida House, Senate, Governor’s Office, and Legislative Office of Economic and Demographic Research.⁶² While the legislature is under no formal requirement to heed the recommendations of the conference or study, Florida has received favorable evaluations in terms of meeting its required pension contributions and maintaining a high ratio of funded to unfunded liability.⁶³

FORMULA-DRIVEN K-12 EDUCATION

TABLE 16

Florida Education Finance Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Formula Caseloads Political	14% of total spending \$10.6 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

In Florida, K-12 education is funded by state general revenues, revenue from the Educational Enhancement Trust Fund (EETF), and local property tax revenues.⁶⁴ It was reported by informants the EETF is, for all practical purposes, restricted to K-12 public education, though it can also technically be used for the community college and the university system.⁶⁵ In 1973, the legislature adopted a funding formula to allocate funds that the state appropriated to school districts, which is now referred to as the Florida Education Finance Program (FEFP) (Florida House of Representatives n.d.). The local share is based on localities’ property tax revenue capacity. The FEFP allocates funding to school districts for K-12 public school operations based on shares of state funds and local funds generated from ad valorem revenues. To ensure equalized funding, the FEFP considers the local property tax base while adjusting state funding to each district based on the district’s ability to generate local ad valorem revenues.

Although the state must constitutionally provide an adequate and uniform system, there is no strict prescription for what constitutes adequacy. While the formula dictates the allocation among school districts and between the state and local governments, the legislature is responsible for defining the “Base Student Allocation” upon which the formula is based. In theory, it defines the Base Student Allocation based on prior-year funding as well as the inputs and cost factors necessary to provide an adequate education. In practice, however, the legislature often “backs into” this number based on the available pot of funds for education (FSBA 2017). The state has had lawsuits regarding its funding for K-

12 education, but none that it has lost. Enrollment growth and the constitutional class-size requirement put pressure on state funding, as does political pressure to keep local property taxes down.

CORRECTIONAL OPERATIONS

TABLE 17

Correctional Operations

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Caseloads Inflation Political	3% of total spending \$2.2 billion (state)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Florida Department of Corrections operates state correctional facilities in Florida. Florida has a high incarceration rate and stringent mandatory sentencing minimums, such as the "three strikes law,"⁶⁶ which have resulted in a long-term growing prison population and growing associated costs, especially for inmate medical care.⁶⁷ The state has flexibility in how it costs out services and compensates labor, but it has little control over either the prison population in the short-term or the cost of medical services, for example. Informants also reported political and constituent resistance to adopting sentencing reform, though in November 2018, voters passed a constitutional amendment that will allow those sentenced under criminal justice laws which are now amended, to be eligible for release.⁶⁸

According to the state's Long-Range Financial Outlook, the Criminal Justice Estimating Conference projected increases in Florida's prison population between 2015 and 2017, following four years of decline (JLBC 2013). The state estimated that construction of new facilities would not be required during that time due to the current surplus of prison beds. Though corrections costs are difficult for the state to control, they were relatively stable in the years leading up to FY 2015.

DEDICATED TRANSPORTATION FUND SPENDING

TABLE 18

State Transportation Trust Fund

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Constitutional Statutory	8% of total spending \$6.3 billion (state)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Transportation funds are among Florida’s major governmental funds. Earmarked revenue sources, such as the state’s motor fuel taxes, motor vehicle license taxes, highway safety fees, as well as other “grants and donations,” including federal aid, help fund current transportation expenditures and capital outlays each year. Additionally, the Florida Department of Transportation (FLDOT) has a statutorily mandated Five-Year Work Program, which prioritizes upcoming transportation system improvements for major construction commitments; this program is not part of our quantitative analysis.⁶⁹ According to the state’s Long-Range Financial Outlooks, the FLDOT work program is considered a “high priority need” (JLBC 2015).

BUDGET STABILIZATION FUND DEPOSITS

TABLE 19
Budget Stabilization Fund

Obligation Type	Mechanism	Size (fiscal year 2015)
Institutional	Constitutional Statutory	0.3% of spending \$210 million (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Budget Stabilization Fund is Florida’s major reserve for emergencies. The fund balance must equal a constitutionally required minimum of at least 5 percent of net revenue collections for the General Revenue Fund during the last completed FY,⁷⁰ and any withdrawals of funds must be restored in five equal annual installments, unless a different repayment schedule is established.⁷¹

The constitutional and statutory requirements for deposits and withdrawals, respectively, impose some degree of fiscal restraint, though the possibility of establishing an alternative repayment schedule provides some level of flexibility. Informants discussed transfers to and from the Budget Stabilization fund as institutional restrictions that the state follows seriously. Most notably, the state last withdrew \$1.1 billion in 2009, which was repaid in five installments of \$215 million between 2012 and 2016; in 2018, the cash balance of the Budget Stabilization Fund was \$1.4 billion, the highest recorded in history.⁷²

VOLUNTARY PREKINDERGARTEN EDUCATION PROGRAM

TABLE 20

Voluntary Prekindergarten Education Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Constitutional	1% of total spending
	Formula	\$380 million (state)
	Caseloads	

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Voluntary Prekindergarten Education Program (VPK) is a free universal preschool program established by the state legislature in 2004 and signed by the governor in 2005 as a constitutional amendment. The program is offered by both public schools or private providers to all eligible Florida resident four-year-old children, though enrollment is voluntary. Funds are appropriated based on formula- or caseload-based estimates of how many students will be served in each region, adjusted for the administrative factors.⁷³

According to the state's Long-Range Financial Outlooks, the VPK program is one of the state's "critical needs," owing to workload and enrollment growth that are built into the program.⁷⁴ Enrollment has grown from 86,983 full-time equivalent pupils in 2006 to 154,271 pupils in 2017 (JLBC 2015). While enrollment has grown, there has been a steady decline in per pupil state funding over time in the VPK program, when adjusting for inflation, though Florida remains one of only three states serving over 70 percent of its four-year-old children through state-funded programs (Bassok et al. 2014).

STATE TANF MAINTENANCE-OF-EFFORT

TABLE 21

State Maintenance-of-Effort for the Federal Temporary Assistance for Needy Families Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	1% of total spending
	Federal	\$440 million (state)
	Caseloads	

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

OTHER FEDERAL RECEIPTS

TABLE 22

Federal Revenues

Non-Medicaid and Non-Children's Health Insurance Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Federal	Federal	16% of total spending \$12.4 billion (federal)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the Florida Legislative Office of Economic and Demographic Research and the Department of Education. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Other Dedicated Funding, Indirect, and Revenue-Related Restrictions

OTHER DEDICATED STATE FUNDS

In addition to the programs, provisions, and funds described above, Florida has a number of trust funds, established pursuant to requirements in the Florida constitution.⁷⁵ Often, trust funds receive an earmarked portion of state revenue meant for specific purposes, such as with the State Transportation Trust Fund (previously discussed). Trust funds automatically terminate after four years, unless otherwise specified in the state constitution.⁷⁶ The constitution specifies nine types of trust funds that are exempt from automatic termination, including the State Transportation Trust Fund, retirement trust fund, and trust funds authorized by the state constitution (such as the Land Acquisition Trust Fund and Educational Enhancement Trust Fund, described below).⁷⁷

The state has occasionally performed trust fund "sweeps," reallocating millions of dollars from trust fund balances to other general fund purposes on a one-off basis.⁷⁸ According to the Long-Range Financial Outlooks, these actions are called "Trust Fund Transfers," by which the General Appropriations Act transfers unobligated trust fund balances to the General Revenue Fund (JLBC 2015). For example, in 2015, trust fund transfers totaled \$282 million (JLBC 2015). We highlight two of Florida's more prominent trust funds below. Thus, while placing revenues in a trust restricts those funds to some degree, the state can exercise some flexibility over dedicated trust fund revenues.

Land Acquisition Trust Fund

Florida created the Land Acquisition Trust Fund (LATF) in 2014 via constitutional amendment (JLBC 2018).⁷⁹ Funds from the LATF may only be expended for water and land conservation and restoration, or to pay the debt service on certain bonds (JLBC 2018). Starting in 2015, for a period of 20 forthcoming

years, the LATF is slated to receive 33 percent of net revenues from the state's document excise tax (i.e., the "doc stamp"). When the state created the LATF, it eliminated state distributions to other environmental trust funds with similar purposes, including but not limited to the Conservation and Recreation Lands Trust Fund and the Water Quality Assurance Trust Fund. According to the state's Revenue Estimating Conference of August 2018, distributions to the LATF will range between \$860 million to \$1.2 billion each year from FY 2019 to FY 2029 (JLBC 2018). The fund is exempt from automatic termination (FLDFS 2018).⁸⁰

Educational Enhancement Trust Fund

Florida created the EETF in 1987 by constitutional amendment.⁸¹ The fund receives revenues from Florida Lottery ticket sales and taxes on slot machine revenues. Spending from the fund is dedicated to K-12 education, state universities, as well as programs like the Bright Futures Scholarships. This trust fund is one of three major revenues sources that feed the FEFP, which in turn allocates funds to K-12 education based on a set of formulas and funding requirements. Distributions to the EETF are estimated based on various ticket sales forecasts and slot machine taxes from active facilities; according to the state's Revenue Estimating Conference of August 2018, distributions will exceed \$2 billion each year between FY 2019 to FY 2024 (JLBC 2018). The fund is exempt from automatic termination (FLDFS 2018).⁸²

OTHER JUDICIAL RESTRICTIONS

The state also allocates funds to certain programs and agencies based on consent decrees, lawsuit settlements, or other court-imposed obligations. According to our informants and the state Comprehensive Annual Financial Reports,⁸³ lawsuits against the state may require significant loss contingencies. However, these are difficult to quantify consistently due to the number of agencies affected, interfund transfers, and timeline of incidence. For example, beginning in 2000, a suite of class action litigation cases has been brought against the Florida Department of Agriculture and Consumer Services and the Florida Commissioner of Agriculture for the destruction of residential citrus trees that were not determined to be infected with citrus canker under the departments' Citrus Canker Eradication Program.⁸⁴ Plaintiffs are primarily homeowners who sued for full compensation pursuant to the taking of their private property and are directed to pursue litigation in their home counties. The payment amount and further appeals in these judgements have therefore varied. Cumulatively, however, claims in these cases exceed \$25 million (FLDFS 2016). Even after the court resolved the dispute in 2010, the Florida governor repeatedly vetoed payments to homeowners, with compensation only finally paid out by the state in 2018.⁸⁵

Another judicial ruling that informants and state documents highlighted was the 1997 settlement between the State of Florida and the “big four” American tobacco companies, wherein the court ordered the companies to make tobacco settlement payments to the state.⁸⁶ This ruling created a new source of state revenue, but those revenues are dedicated to specific purposes intended to offset negative public health effects of tobacco use in the state.

OTHER INSTITUTIONAL RESTRICTIONS

Since 1994, Florida’s constitution has limited state revenue to Florida’s personal income growth rate, with some exceptions.⁸⁷ Additionally, in November 2018, the state approved a constitutional amendment requiring a two-thirds vote (i.e., supermajority) of each chamber of the state legislature to enact new taxes or fees or increase existing ones. Prior to 2018, Florida had imposed a supermajority requirement on corporate income tax increases. Revenue limits, such as these can encourage fiscal discipline and accountability, but they also limit a state’s capacity to raise revenues when necessary or during economic downturns.⁸⁸ In discussing other potential institutional limitations, informants also pointed to the constitutional prohibition on a state income tax,⁸⁹ and a narrow definition of the purposes for which bonds can be issued.

OTHER REVENUE RESTRICTIONS

Economic Development Tax Incentives

Florida offers a variety of business incentive programs, several of which allow the state to offer cash grants to attract firms to the state. Funding for such programs is not necessarily considered restricted in a formal sense, but they nonetheless require the state to put up resources out of its discretionary funds. For example, the Quick Action Closing Fund allows the state to provide cash grants to businesses identified as high-impact and able to bring economic benefits to the state (JLBC 2015). The state has wide discretion to appropriate funds for these programs on a one-off basis through legislative action, however, making them both politically and fiscally controversial.⁹⁰ More recently, in 2017, the state created the Job Growth Grant Fund, which provides grants for public infrastructure projects and workforce training, as well as projects accelerating the rehabilitation of the Herbert Hoover Dike (JLBC 2018).

In addition to direct grant programs, Florida also offers business tax incentives to attract firms in particular industries. For example, the state’s Qualified Target Industry (QTI) Tax Refund program allows firms to receive a refund on a variety of state taxes, including income, sales, property, and several others (Enterprise Florida n.d.). Because the program is designed to offer refunds on taxes paid, it

functions similarly to a direct grant program and receives an appropriation from the legislature each year in anticipation of refund agreements granted to businesses (EDR 2017). In 2016, the QTI was the most widely used economic development program in Florida (DEO and Enterprise Florida 2016).⁹¹

Local Aid

Florida has revenue sharing and grant assistance programs with local governments; for example, the Local Government Half-Cent Sales Tax Program, created in 1982, dictates a sharing of state sales tax receipts to eligible municipalities and county governments, so as to provide relief from ad valorem and utility taxes and help fund local programs (Florida Senate Committee on Finance and Tax 2006). Informants noted recent trends of state shifting certain funding burdens onto local jurisdictions, which in turn raised property taxes. They also noted that local aid (apart from K-12 education) is not considered a major cost driver, and that the state legislature has flexibility with these programs.

Illinois

Restricted Programs and Provisions

MEDICAID AND CHIP

TABLE 23

Illinois Medicaid and All Kids

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	26% of total spending
Judicial	Actuarial	\$18.3 billion (state and federal)
	Federal	\$7.6 billion (state)
	Caseloads	
	Inflation	
	Political	

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the State of Illinois Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Illinois' Department of Healthcare and Family Services provides medical insurance to qualifying low-income adults and children through its Medicaid and All Kids programs.⁹²

In 2015, the state received a roughly dollar-for-dollar federal funding match on its own-source Medicaid spending and a \$1.90-to-one enhanced dollar match on its CHIP spending.⁹³ In addition to

state own-source funding, Illinois has made use of alternative, nonstate revenue sources to meet its non-federal match requirement. In Illinois, the share of nonfederal matching funds from health care providers and local governments was 31 percent (compared to 26 percent nationally) (GAO 2014).

Illinois has elected higher-than-average income eligibility limits for a variety of groups, including low-income children, pregnant women, and adults. Most recently, the state expanded Medicaid eligibility to low-income, childless adults as part of the Affordable Care Act in 2013.⁹⁴ This expansion was largely federally funded.⁹⁵ In 2013, the state had adopted three out of nine optional eligibility pathways for children, adults, and qualified immigrants,⁹⁶ and 7 out of 14 pathways for the elderly, disabled, medically needy, and specific diseases or services.⁹⁷ The state had also adopted 10 out of 12 optional acute services and five out of nine optional long-term services and supports.⁹⁸

However, in other ways the state has kept its program spare, largely by maintaining low spending per beneficiary and reducing provider rates (Smith, Rudowitz, and Snyder 2012). Illinois' spending per enrollee was below national per enrollee Medicaid spending in 2014.⁹⁹ The state has also elected to control costs by reforming service delivery systems. Much of Illinois is in managed care.¹⁰⁰ Additionally, in 2012, the state passed the SMART Act, which was designed to address “the significant deficit in the medical assistance program budget.”¹⁰¹

When the state lacked a budget, it deferred payments to Medicaid providers.¹⁰² Courts, however, eventually required the state to reimburse providers, even in the absence of a budget.¹⁰³ Although the state has elected to cover optional groups like childless adults and undocumented children, many other optional programs have been cut during budget crunches.¹⁰⁴

DEBT SERVICE

TABLE 24
Principal and Interest

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Statutory	6% of total spending
	Contractual	\$4.1 billion (state)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the State of Illinois Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Debt service is on continuing appropriation in Illinois.¹⁰⁵ State law requires a continuing appropriation to the General Obligation Bond Retirement and Interest Fund, which cannot be used for

any purpose other than paying debt service.¹⁰⁶ The Bond Act stipulates that statute requiring debt payment is irrevocable until those payments are made (State of Illinois 2010).¹⁰⁷ In 2015, the state had a “A3” (negative outlook) rating from Moody’s and an “A-” (negative outlook) rating from Fitch Ratings and S&P Global Ratings—the lowest bond rating among the 50 states (Luby 2015). In 2017, Illinois was 1 of 23 states (and our only study state) that did not produce its own debt affordability study (Pew 2017b).

PUBLIC EMPLOYEE PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

TABLE 25

Illinois State Employees’ Retirement System and Other Pension and Retirement Benefit Plans

Obligation Type	Mechanism	Size (fiscal year 2015) ^a
Long-term obligation	Statutory	10% of total spending \$6.9 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communications with the State of Illinois Comptroller. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Notes:

^a Excludes state contributions to other postemployment benefits, for which data were unavailable prior to 2008, and so which we excluded from our analysis in Illinois.

Illinois contributes to eight public employee retirement and other postemployment benefit systems, the largest of which are the State Employees’ Retirement System, the Teacher’s Retirement System, and the SURS Defined-Benefit plan.¹⁰⁸ The Teacher’s Retirement System and SURS are multi-employer benefit plans that serve personnel in the public school and university systems, but the state is legally required to contribute to these as a nonemployer contributor (State of Illinois Comptroller 2016).

Current statute (known as the “Statutory Funding Pan,” adopted in 1995) requires the state to automatically fund the pension system each year at certain level, with the goal of amortizing its unfunded liability.¹⁰⁹ Both pension fund contributions and disbursements to retirees are on continuing appropriations and are thus paid whether the Generally Assembly has passed a budget or not.¹¹⁰ In 2012, Illinois established a State Actuary to review the state’s actuarial assumptions and make recommendations, which the pension board is required to review before making final contribution decisions.¹¹¹ While Illinois attempted to ameliorate this large liability by reducing benefits in 2013, the Illinois Supreme Court ruled that the state is obligated to meet its contractual obligation to its retirees.¹¹²

Contributions to state other postemployment benefit (OPEB) funds are more flexible, as the state is not required to fund the plan other than to pay out for services provided to current retirees (State of Illinois Comptroller 2016). OPEB contributions are not included in our quantitative analysis because data for the Teacher’s Retirement System and SURS are unavailable prior to 2008, and State Employees’ Retirement System OPEB benefits are disbursed through an internal fund that is grouped with health insurance and benefits for current employees.

FORMULA-DRIVEN K-12 EDUCATION

TABLE 26
Illinois General State Aid

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Formula Caseloads Political	6% of total spending \$4.4 billion (state)

Sources: Authors’ analysis based on literature review, state reports, key informant interviews, and communications with the State of Illinois Comptroller. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Until FY 2018, Illinois determined aid to local school districts via a statutorily defined formula, called General State Aid (GSA).¹¹³ The General State aid formula distributed funds according to local property wealth within each school district (ISBE 2016).¹¹⁴ Illinois’ newly enacted evidence-based funding model identifies a district’s “adequate funding level” based on the district’s demographics.¹¹⁵ The new model guaranteed that school districts would receive the same level of state funding as in the prior year (called the “base funding minimum”), in addition to any locally raised funds. Any future increases in state school funding would go to the districts with the biggest adequacy gaps.

Despite present formulas and the ongoing pressure to maintain funding, the legislature has still had power to appropriate below the prior-year’s funding threshold. For example, after federal stimulus funds ran out following the Great Recession, the state cut school funding in absolute dollars (Leachman, Masterson, and Wallace 2016). According to Leachman, Masterson, and Wallace (2016), although Illinois cut per student funding during the recession, it was one of only two states that actually made up for prior cuts in the years following the recession. Today, although any cuts would be more equitably disbursed across districts, the state still maintains the option of making cuts.

CORRECTIONAL OPERATIONS

TABLE 27

Correctional Operations

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	2% of total spending
	Caseloads	\$1.4 billion (state)
	Inflation	
	Political	

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the State of Illinois Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Illinois Department of Corrections operates state correctional facilities. In Illinois, informants and media sources reported that cutting prison spending, or trying to reduce prison caseloads, is politically unpopular.¹¹⁶ Although separate from correctional operations spending, it was reported that closing prison facilities (even if underutilized or fiscally inefficient) is unpopular, as well. The state has taken some steps to adopt early release programs, but informants reported that there is little to be done to control prison populations in the short term.¹¹⁷

According to the Illinois Commission on Criminal Justice and Sentencing Reform, the state's rate of imprisonment has increased five times over in the last four decades, and prison facilities are operating at 150 percent of design capacity; altogether, it costs \$22,000 per year to incarcerate a prisoner in Illinois, ranging up to \$37,000 factoring in capital costs and employee benefits (CJSR 2016). However, due to the state's budget and political impasses, the correctional operational expenditures year-to-year have not grown as much as the trend from prior years would predict.

DEDICATED TRANSPORTATION FUND SPENDING

TABLE 28

The Road Fund, State Construction Account, Motor Fuel Tax Fund and Other Dedicated Transportation Funds

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Constitutional	3% of total spending
	Statutory	\$2.2 billion (state)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the State of Illinois Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Illinois' three large governmental funds dedicated to transportation are the Road Fund, State Construction Account, and Motor Fuel Tax Fund. These funds account for much of the state's highway maintenance and construction as well as various other programmatic transportation expenditures from the Illinois Department of Transportation. In 2016, the state passed a legislatively referred constitutional amendment titled "Transportation Taxes and Fees Lockbox," which prohibits lawmakers from using transportation funds for anything other than their stated purpose; informants pointed out that it may be too soon to tell whether this would effectively restrict funds.

Despite three large funds and several smaller special revenue funds like the Downstate Public Transportation Fund, some Illinois Department of Transportation administrators and commentators have claimed that the state's transportation funding needs are not being met adequately.¹¹⁸ Excluding federal and debt payments, state-financed governmental funds towards transportation have fallen or remained roughly constant between 2000 and 2015.¹¹⁹

STATE TANF MAINTENANCE-OF-EFFORT

TABLE 29

State Maintenance-of-Effort for the Federal Temporary Assistance for Needy Families Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Federal Caseloads	1% of total spending \$780 million (state)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the State of Illinois Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

OTHER FEDERAL RECEIPTS

TABLE 30

Federal Revenues

Non-Medicaid and Non-Children's Health Insurance Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Federal	Federal	16% of total spending \$11.2 billion (federal)

Sources: Authors' analysis based on literature review, state reports, key informant interviews, and communications with the State of Illinois Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Other Dedicated Funding, Indirect, and Revenue-Related Restrictions

OTHER DEDICATED STATE FUNDS

In addition to the programs, provisions, and funds described above, and as discussed in Gordon et al. (2019), Illinois (like all study states) has a variety of other state funds that are restricted to varying degrees. In Illinois, each year the state makes “legislatively required transfers out” to “Other State Funds” from the General Fund.¹²⁰ Legislatively required transfers are accounted for separate from the state’s General Fund appropriations and totaled \$2.5 billion in 2015.¹²¹ These funds are, therefore, somewhat precommitted, but can readily be changed with legislative action. Illinois’ aid to local governments is one of the largest sources of legislatively required transfers each year.

Local Aid

Illinois diverts a portion of state income, personal property, and sales tax revenue to local governments. These funds are primarily distributed through the Local Government Tax Fund, Local Government Distributive Fund, and Personal Property Tax Replacement Fund. Revenues dedicated to these three funds totaled \$4.9 billion in 2015.¹²²

Of particular note, the state is legislatively required to transfer a portion of state income tax revenue from the General Fund to the Local Government Distributive Fund each year. The Local Government Distributive Fund is the state’s largest recipient of “legislatively required transfers” (CGFA 2017).¹²³ In 2015, the fund received \$1.3 billion from General Fund transfers (CGFA 2017). These revenues are ultimately distributed to local governments based on their population to use for any general purpose they see fit.¹²⁴ From 1996 and 2010, localities received 10 percent of income tax revenue, but in 2011 the state elected to exclude from revenue-sharing the additional revenues gained from a state tax rate increase.¹²⁵ Thus, while revenue sharing with local governments is often considered an automatic transfer (per legislative requirements), the legislature has the flexibility to modify the share of revenue going to local governments. Funding to the Local Government Distributive Fund is often a hotly debated item, and local governments claim that the funding is needed to offset the cost of unfunded state mandates (e.g., IML 2019).

Budget Stabilization Fund and Pension Stabilization Fund

Although Illinois has a Budget Stabilization Fund, its requirements are effectively nonbinding. Established in 2002, the fund was designed to assist with cash flow deficits as needed. The statutory goal for funding was set at five percent of General Fund revenues in any given year. However, according to our informants and state commentators, funds from this reserve are regularly transferred out or

swept for other state operations. In 2017, the number of days Illinois could run with its reserves was 0.1, compared to a national median of 19.8 (State of Illinois Comptroller 2018). Furthermore, Budget Stabilization Fund transfers net out between General Fund expenditures and revenues for multiple FYs between 2000 and 2015.¹²⁶ Our informants also noted that the state has a Pension Stabilization Fund, a special revenue fund created in 2006 to pay down the state's unfunded pension liabilities.¹²⁷ We were unable to locate sufficient data on this fund to consider it in our quantitative analysis. We do not consider either of these two budgetary reserves as binding for the purposes of our analysis.

OTHER JUDICIAL RESTRICTIONS

Informants reported that the courts have imposed some of Illinois' least flexible spending obligations. Although the state cannot constitutionally pay any entity without appropriation by the legislature and governor, the courts have stepped in to order emergency payments superseding state constitution, particularly during the state's 736-day-long budgetary impasse between 2015 and 2017.¹²⁸ The budget impasse illuminated how court-imposed obligations can affect state spending. Many of these cases are discussed in greater detail in Gordon et al. (2019). For example, county courts issued competing orders regarding the state's obligation to issue state employee paychecks in the absence of a budget.¹²⁹ The state was also ordered to pay down record levels of backlog for state employees' group health insurance payments, issuing bonds to cover these obligations in 2017.¹³⁰ This was followed shortly by a federal court order to pay \$586 million a month to Medicaid providers in order to pay down the existing \$3.1 billion backlog of unpaid bills; this concluded a slew of lawsuits that challenged the state's noncompliance with multiple federal consent decrees since 1992.¹³¹

OTHER INSTITUTIONAL RESTRICTIONS

Illinois has additional constitutional rules that restrain flexibility in year-over-year budgeting. For example, the Illinois constitution establishes that "a tax on or measured by income shall be at a non-graduated rate."¹³² To change this system, the constitution requires a supermajority approval from both state houses to place an amendment on the general election ballot. A supermajority of voters must then approve the amendment.¹³³ This is a high bar to clear, if the state wishes to raise revenues by enacting a progressive tax system. In May 2019, however, the General Assembly approved such an amendment, with the hope of raising revenue to fund the state's unfunded pension liability.¹³⁴ Illinois voters will have the opportunity to approve or reject the amendment in November 2020.

New York

Restricted Programs and Provisions

MEDICAID AND CHIP

TABLE 31

New York Medicaid and Child Health Plus

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	42% of total spending
	Actuarial	\$58.3 billion (state and federal)
	Federal	\$26.9 billion (state)
	Caseloads	
	Inflation	
	Political	

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The New York State Department of Health provides medical insurance to qualifying low-income adults and children through its Medicaid and Child Health Plus (i.e., CHIP) programs.¹³⁵

In 2015, the state received a dollar-for-dollar federal funding match on its own-source Medicaid spending and a roughly \$1.90-to-one enhanced dollar match on its CHIP spending.¹³⁶ In addition to state own-source funding, New York has made use of alternative, nonstate revenue sources to meet its nonfederal match requirement. In New York, the share of nonfederal matching funds from health care providers and local governments was 36 percent (compared to 26 percent nationally) (GAO 2014).

New York has expanded Medicaid coverage to more groups, and up to higher income thresholds, than many other states. In 2013, the state had adopted five out of nine optional eligibility pathways for children, adults, and qualified immigrants,¹³⁷ and 10 out of 14 pathways for the elderly, disabled, medically needy, and specific diseases or services.¹³⁸ The state had also adopted 11 out of 12 optional acute services and seven out of nine optional long-term services and supports.¹³⁹ New York spending per enrollee was below national per enrollee Medicaid spending in 2014.¹⁴⁰

DEBT SERVICE

TABLE 32

Principal and Interest

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Constitutional	4% of total spending
	Contractual	\$5.3 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

In 2017, New York had an "Aa1" rating from Moody's and an "AA+" ratings from Fitch Ratings and from S&P Global Ratings (OSC 2017b). The state constitution requires New York to appropriate the funds necessary for debt service payments (State of New York 2018). If funds are unavailable, the bond holder may pursue its claim in the courts, although enforcement of the payment is limited to funding appropriated by the legislature and legally available for that purpose (State of New York 2018). The state has not defaulted on its debt payment, however, so the state is not able to outline a more specific course of potential action to remedy default in such a circumstance (State of New York 2018).

PUBLIC EMPLOYEE PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

TABLE 33

New York State and Local Employees' Retirement System and Other Pension and Retirement Benefit Plans

Obligation Type	Mechanism	Size (fiscal year 2015) ^a
Long-term obligation	Statutory	1% of total spending
	Actuarial	\$2 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

^a Excludes state contributions to other postemployment benefits, for which data were unavailable and so which we excluded from our analysis for New York.

The New York State and Local Retirement System (NYSLRS) is composed of the State and Local Employees' Retirement System and the State and Local Police and Fire Retirement System; both are cost-sharing, multiple-employer, defined benefit pension plans. New York State and Local Retirement System assets are held in the state's Common Retirement Fund, which also includes assets of the Public Employees' Group Life Insurance Plan. As of FY 2018, the list of participating employers included more than 3,000 counties, school districts, towns, and villages; annual contributions from these local jurisdictions totaled \$3.0 billion, while state contributions totaled \$1.8 billion.¹⁴¹

As the trustee and administrative head of the New York State and Local Retirement System, the OSC adopts actuarially determined rates for participating employers' contributions (NYSLRS 2018). Employer contributions to the New York State and Local Retirement System have varied dramatically in the last few decades in response to financial crises or unstable investment earnings; between 2002 and 2014, total employer contributions increased 609 percent in inflation-adjusted terms, compared to 133 percent nationwide (Johnson, Haaga, and Southgate 2016). Other postemployment benefit contributions are not included in our quantitative analysis because data are unavailable prior to 2008.

FORMULA-DRIVEN K-12 EDUCATION

TABLE 34
State School Aid

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Formula Caseloads Political	16% of total spending \$22.3 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

In New York, schools receive local property tax revenues, State School Aid, and a small amount of federal aid. In recent years, State School Aid has consisted of Foundation School Aid (enacted in 2007), other expense-driven minor aids, and Gap Elimination Adjustment, designed to restore aid cuts imposed during the recession (OSC 2016). During the recession, the state froze the Foundation Aid component of school funding (OSC 2016). The state has not updated its input factors for the Foundation Aid since its adoption in 2008, freezing factors such as regional poverty rates at historical levels (OSC 2016).

CORRECTIONAL OPERATIONS

TABLE 35
Correctional Operations

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Caseloads Inflation Political	2% of total spending \$2.9 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The New York State Department of Corrections and Community Supervision operates state correctional facilities in New York. The state's prison population has declined 35 percent (or approximately 25,600 inmates) between 1999 and 2019 (DOCCS 2019). Since 2011, the state has shuttered 13 correctional facilities, resulting in annual savings of over \$160 million (DOCCS 2019). Informants noted that there are fiscal and political pressures when closing prison facilities, and that closing such facilities often involves a multiyear process. Nominally, state-financed correctional operation expenditures have increased from \$2.0 billion in FY 2000 to \$2.9 billion in FY 2015 but have remained steady in inflation-adjusted terms.¹⁴² Recent reports have highlighted that the state's aging prison population may put fiscal pressure in forthcoming years due to rising health care costs; between 2007 and 2016, the number of inmates aged 50 and over in state facilities increased 46 percent (OSC 2017a). New York also has a mandatory sentencing statute that has been challenged and upheld in the courts.¹⁴³

DEDICATED TRANSPORTATION FUND SPENDING

TABLE 36

Dedicated Mass Transportation Trust Fund, Mass Transportation Operating Assistance, and Metropolitan Transportation Authority Financial Assistance Funds

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	3% of total spending \$4.7 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

New York has three large transportation-related special revenue funds which receive specific revenue sources statutorily-restricted for specific purposes, such as upstate and downstate public transit projects. These funds include the Dedicated Mass Transportation Trust Fund, Mass Transportation Operating Assistance, and Metropolitan Transportation Authority Financial Assistance Fund (OSC 2018b). Their earmarked revenues include portions of the Petroleum Business Tax, corporate tax surcharges, a ¼ percent MTA region sales tax, and a relatively recent and controversial Metropolitan Commuter Transportation Mobility Tax imposed on certain employers and self-employed individuals in the Metropolitan Commuter Transportation District (NYS DTF 2015).¹⁴⁴ Informants did not note the extent to which these dedicated revenues are considered inflexible or restrictive for state budgeting purposes. Nominally, total state-financed expenditures from these special revenue funds

have grown from \$1.5 billion in FY 2000 to almost \$5.0 billion in FY 2018, more than doubling in inflation-adjusted terms.¹⁴⁵

BUDGET STABILIZATION FUND DEPOSITS

TABLE 37

Tax Stabilization Reserve Account and Rainy Day Reserve Account

Obligation Type	Mechanism	Size (fiscal year 2015)
Institutional	Statutory	0.20% of total spending \$320 million (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Tax Stabilization Reserve Account (TSRA) and the Rainy Day Reserve Account (RDRA) are the state's primary budgetary reserves; they were established in State Finance Law statutes in 2007 and 1984, respectively (OSC 2018b). TSRA deposits are mandated from surplus funds up to 0.2 percent of General Fund spending, and meant to finance cash-based operating deficits or provide temporary loans, while RDRA deposits are somewhat discretionary transfers and meant for use during economic downturns. The TSRA may have a maximum balance of 2 percent of current General Fund spending, while the RDRA may have a maximum balance of 5 percent of projected General Fund spending in next FY (DOB 2019b). As of the end of FY 2018, cumulative balances in TSRA and RDRA totaled \$1.8 billion, which constitutes about one-third of the maximum authorized balance and only 2.6 percent of total General Fund spending (OSC 2018a). Furthermore, informants made note of restrictions on withdrawals from these rainy day funds; multiple research reports have highlighted that repayment rules of six years for TSRA and three years for RDRA may deter the state from withdrawing funds when needed, such as during the Great Recession (Pew 2017a; CBC 2011).

STATE TANF MAINTENANCE-OF-EFFORT

TABLE 38

State Maintenance-of-Effort for the Federal Temporary Assistance for Needy Families Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	2% of total spending
	Federal	\$2.9 billion (state)
	Caseloads	

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

OTHER FEDERAL RECEIPTS

TABLE 39

Federal Revenues

Non-Medicaid and Non-Children's Health Insurance Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Federal	Federal	14% of total spending \$20.1 billion (federal)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the New York State Division of the Budget and the Office of the New York State Comptroller. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Other Dedicated Funding, Indirect, and Revenue-Related Restrictions

OTHER DEDICATED STATE FUNDS

In addition to the programs, provisions, and funds described above, New York has a number of other or special funds that receive earmarked revenues. A prominent example is the School Tax Relief Fund (STAR). Since 1997, the program has exempted a portion of eligible homeowners' property value from their local school tax levy and provided state funds to local school districts to offset the cost of the exemption. STAR spending totaled \$2.5 billion in 2018 (OSC 2018b). In 2019, the state closed enrollment for the original STAR exemption and established the STAR credit program for new enrollees.¹⁴⁶ Rather than receiving a property tax exemption, STAR credit enrollees will receive direct checks from the state to offset their school property tax obligation. Thus, while the program is politically popular, and some have expressed concern over recent changes,¹⁴⁷ legislators still exercise their authority to modify the program. Other smaller examples of special funds include the state's Conservation Fund, which was established in 1925 and receives proceeds from sales of hunting and fishing licenses, and the Environmental Protection Fund, which was established in 1993 and receives proceeds from real estate transfer taxes (OSC 2014); revenues to these funds totaled \$45 million and \$56 million in FY 2018, respectively (OSC 2018b).

Local Aid

New York's local assistance spending, beyond school aid and Medicaid grants, consists of programs including, but not limited to, the Aid and Incentives for Municipalities (AIM), Aid to Municipalities with Video Lottery Terminal Facilities (VLT), and Local Government Efficiency grants (LGe). While AIM is the largest of these programs, comparatively smaller programs like VLT and LGe also had disbursements in FY 2018, totaling \$29 million and \$348,000 respectively (DOB 2019b). Another local aid program, the

County-Wide Shared Services Initiative (CWSSI), did not report any state fund disbursements for FY 2018, but is projected to receive \$40 to \$65 million from the state annually from FY 2020 through FY 2023 (DOB 2019b). According to informants, the state encourages localities to reduce New York’s high property tax burden on residents with LGe and CWSSI grants, which incentivizes localities to share services and improve efficiency. Although these programs are a source of fiscal obligation, informants did not specify the extent to which these funds are considered fiscally restrictive.

OTHER JUDICIAL RESTRICTIONS

Informants highlighted several court orders and settlements that have created fiscal obligations for the state. The fiscal impacts of these judicial orders are difficult to quantify year-over-year due to the number of agencies affected, interfund transfers, and timeline of incidence. However, we discuss a few examples below. For example, in 2007, the ACLU of New York filed a class action lawsuit on behalf of indigent defendants in criminal cases.¹⁴⁸ The lawsuit charged the state with failing to provide adequate indigent legal defense funding and resources in five counties. In 2014, before going to trial, the state settled *Hurrell-Harring*, pledging to fund caseload relief in those counties.¹⁴⁹ In another example, following a federal audit, the Centers for Medicare and Medicaid Services (CMS) disallowed New York’s FY 2011–13 Medicaid claims for spending on individuals with disabilities (OSC 2018b). In a resultant settlement agreement, the state agreed to repay CMS a total of \$1.95 billion between FY 2016 and FY 2027 (OSC 2018b; Sykes 2016).

On the other hand, the state has obtained a large sum of flexible funds from “Extraordinary Monetary Settlements” with major financial institutions found in violation of state laws and regulations (DOB 2019a). Even after allocating large portions of these funds to the Dedicated Infrastructure Investment Fund and other capital projects, the balance of these funds is expected to total \$4.2 billion at the close of FY 2019 (DOB 2019a).

OTHER INSTITUTIONAL RESTRICTIONS

While New York does not have a binding state revenue limit, in 2011 it adopted a local property tax limit. The state’s “Real Property Tax Levy Limit” (2011) caps local and school district property tax growth to the lesser of either two percent or the rate of inflation.¹⁵⁰ Informants noted that this cap on local revenue capacity can indirectly pressure the state to increase local assistance. The state made the cap permanent in the most recent FY 2020 Enacted Budget (DOB 2019a).¹⁵¹

Additionally, the governor voluntarily adheres to a 2 percent benchmark for annual spending growth in operating funds (DOB 2019a). However, some critics have observed that the state can shift the timing of payments or implement other accounting changes to keep the operating fund budget under the cap year-over-year.¹⁵² During the 2018 New York gubernatorial election, candidates

disagreed on whether the local property tax and informal spending cap prevented the state from adequately funding other services.¹⁵³

OTHER REVENUE RESTRICTIONS

Some informants noted that business tax incentive programs can reduce state revenue and place pressure on other discretionary spending areas. For example, the state’s Film and Commercial Production Credit Program provides tax abatements for qualified film project costs in New York. In 2017, this program reduced personal income and corporate franchises tax revenue by \$682 million (OSC 2018).

OTHER INDIRECT RESTRICTIONS

Informants noted that volatile sources of state revenue, such as stock market-related personal and corporate income taxes, constraint New York’s budget. Ups and downs in the financial sector have contributed to volatility in New York wages, making personal income tax revenues (an important source of state revenue) less predictable (OSC 2018a). The state is projecting a \$2.3 billion shortfall in income tax revenue for FY 2019, which was preceded by a \$500 million dip at the FY 2018. The governor and comptroller have largely blamed the 2017 federal tax changes’ \$10,000 cap on the state and local tax deduction, alleging that it has driven away some of the state’s highest earners to low-tax states.¹⁵⁴

Texas

Restricted Programs and Provisions

MEDICAID AND CHIP

TABLE 40
Texas Medicaid and CHIP

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	36% of total spending
	Actuarial	\$37.2 billion (state and federal)
	Federal	\$15 billion (state)
	Caseloads	
	Inflation	
	Political	

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Texas’s Health and Human Services Commission provides medical insurance to qualifying low-income adults and children through its CHIP and Medicaid program.¹⁵⁵

In 2015, the state received a roughly \$1.40 federal funding match for each dollar of own-source Medicaid spending and a roughly \$2.40-to-one enhanced dollar match on its CHIP spending.¹⁵⁶ In addition to state own-source funding, Texas has made use of alternative, nonstate revenue sources to meet its nonfederal match requirement. In Texas, the share of nonfederal matching funds from health care providers and local governments was 13 percent (compared to 26 percent nationally) (GAO 2014).

Historically, Texas has maintained a spare Medicaid program, offering only the mandatory suite of benefits to required eligibility groups. For example, Texas has not expanded Medicaid eligibility to childless adults under the Affordable Care Act.¹⁵⁷ In 2013, the state had adopted three out of nine optional eligibility pathways for children, adults, and qualified immigrants,¹⁵⁸ and 7 out of 14 pathways for the elderly, disabled, medically needy, and specific diseases or services.¹⁵⁹ The state had also adopted 11 out of 12 optional acute services and eight out of nine optional long-term services and supports.¹⁶⁰ Despite limiting some eligibility pathways and optional benefits, Texas spending per enrollee was above national per enrollee Medicaid spending in 2014.¹⁶¹

DEBT SERVICE

TABLE 41

Principal, Interest, and Other Financing Fees

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Constitutional	1% of spending
	Contractual	\$1.5 (state)

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The state constitution stipulates that, in case the intended or dedicated funds are unavailable to make debt payments on its General Obligation bonds, the state will appropriate the first revenues not otherwise constitutionally dedicated to paying the obligated debt service (State of Texas 2017). In 2015, the state had a “Aaa” (stable) rating from Moody’s and an “AAA” (stable) rating from Fitch Ratings and from S&P Global Ratings (BRB 2015).

PUBLIC EMPLOYEE PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

TABLE 42

Texas Teacher Retirement System Trust, Retired School Employees Group Insurance Trust, and Other Retiree Health, Pension, and Retirement Benefit Plans

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Constitutional	4% of spending \$3.9 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Texas public pension system includes a variety of pension and other postemployment benefit (OPEB) funds, including the Teacher Retirement System, Employees Retirement System, Law Enforcement and Custodial Officer Supplement Retirement Fund, Judicial Retirement System – Plan Two Trust Fund, Retired School Employees Group Insurance Trust (TRS-Care), and the State Retiree Health Plan Trust.

In addition to its state employee pension fund obligations, TRS-Care imposes a large, long-term liability for the state. Established as a cost-sharing, defined benefit OPEB program in 1986, TRS-Care is funded on a pay-as-you-go basis. The state is not an employer in the plan but is still responsible for making contributions. In 2017, the system was at risk of insolvency due to modest revenue growth, rising health care and prescription drug costs, and statutory requirements to provide a basic health plan at no employee cost (LBB 2018). In 2017, the state legislature therefore made broad administrative changes, including eliminating statutory requirements to maintain retiree premiums constant or to provide the basic plan at no cost (LBB 2018). The state also doubled its contributions to TRS-Care, from \$629 million in 2016–17 biennium to \$1.2 billion in 2018–19 biennium (LBB 2018).

FORMULA-DRIVEN K–12 EDUCATION

TABLE 43

Texas Foundation School Program and Available School Fund Textbook and Technology Allotments

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Formula Caseloads Political	18% of spending \$19.2 (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Statutory funding formulas dictate how much the state must contribute toward K–12 education through the Foundation School Program and Available School Fund. However, the state does have flexibility on how to define adequacy and formula requirements. Moreover, the state has shown a willingness and ability to cut during recessions. In 2012–13, after federal stimulus funds ran out, Texas cut \$4 billion from public school formula funding over two years.¹⁶²

The state has faced a number of lawsuits regarding the equity of the school finance system.¹⁶³ The most recent court decision affirmed that the state’s current formulas are constitutional.¹⁶⁴ Prior to 2006, the state was under court order to adjust its formulas to achieve a more equitable distribution of resources across districts.¹⁶⁵ However, this affected the distribution of current resources and not the overall level of state funding.

CORRECTIONAL OPERATIONS

TABLE 44
Correctional Operations

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Caseloads Inflation Political	3% of total spending \$3.6 billion (state)

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

In 2017, the Texas Department of Criminal Justice operated 104 correctional facilities, including state prisons, jails, transfer facilities, and substance abuse facilities (LBB 2018, 344). However, there has been a push by lawmakers in recent years to close prison facilities in light of lower incarceration rates.¹⁶⁶ Nominally, between FY 2000 and 2015, state-financed correctional operation expenditures have increased from \$2.6 billion to \$3.6 billion, remaining fairly steady in inflation-adjusted terms.¹⁶⁷

DEDICATED TRANSPORTATION FUND SPENDING

TABLE 45
State Highway Fund

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Constitutional Statutory	5% of total spending \$5.2 billion (state)

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Texas has several dedicated transportation funds including the State Highway Fund, which receives proceeds from motor fuel taxes, registration fees, and federal reimbursements (LBB 2018). Proposition 1 (approved by voters in 2014) and Proposition 7 (2015) also require some sales and severance tax revenues to be transferred to the State Highway Fund (LBB 2018).

BUDGET STABILIZATION FUND DEPOSITS

TABLE 46
Economic Stabilization Fund

Obligation Type	Mechanism	Size (fiscal year 2015)
Institutional	Constitutional	2% of total spending \$1.7 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Texas's Economic Stabilization Fund (ESF), authorized by the state's Constitution in 1988, had an estimated balance of \$12.5 billion in 2018, making it one of the nation's largest budgetary reserves or rainy day funds.¹⁶⁸ Revenue sources include oil and gas severance taxes and unencumbered General Revenue balances along with the interest and investment income. Until 2015, the ESF received 75 percent of each year's fairly volatile crude oil and natural gas production tax receipts in excess of the 1987 levels, but a 2014 constitutional amendment shifted half of this share into the State Highway Fund temporarily through 2024 (Costello, Green, and Graves 2016).

To make better long-term use of its ample reserve account, Texas recently created the Texas Economic Stabilization Investment Fund, which takes a portion of the ESF balances to invest for higher returns; furthermore, the comptroller has also proposed to create a Texas Legacy Fund, which would use a portion of ESF balances as an investment tool to retire long-term obligations (CPA 2018).

Informants noted that Texas has been very conservative about drawing on the ESF. According to the most recent data from the Texas Comptroller of Public Accounts, the legislature has made 11 biennial appropriations from the fund since its inception, the largest of which was \$3.2 billion in the 2010–11 biennium to cover a budget gap.¹⁶⁹ In the wake of Hurricane Harvey, there were widespread fiscal and political discussions as to whether the state would dip into the burgeoning ESF balances, but Texas Governor Greg Abbott assured sufficient resources are available to Houston without tapping into the state's rainy day fund.¹⁷⁰

STATE TANF MAINTENANCE-OF-EFFORT

TABLE 47

State Maintenance-of-Effort for the Federal Temporary Assistance for Needy Families Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Federal Caseloads	0.4% of total spending \$390 million (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

OTHER FEDERAL RECEIPTS

TABLE 48

Federal Revenues

Non-Medicaid and Non-Children's Health Insurance Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Federal	Federal	14% of total spending \$14.5 billion (federal)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with the Texas Comptroller of Public Accounts and Legislative Budget Board. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Other Dedicated Funding, Indirect, and Revenue-Related Restrictions

OTHER DEDICATED STATE FUNDS

Dedicated General Revenue Accounts

In addition to the programs, provisions, and funds described above, Texas has about 200 General Revenue-Dedicated (GR-D) accounts within the General Revenue fund.¹⁷¹ For example, the Clean Air Account is funded through a share of motor vehicle inspection fees and air pollution control fees that are statutorily dedicated to the Texas Commission on Environmental Quality (LBB 2014). However, if GR-D accounts are left unappropriated, their balances are available for General Revenue appropriation. For example, the Clean Air Account had an end balance of \$200 million and FY 2018–19 estimated revenues of \$217 million; however, it was only appropriated for \$112 million, and therefore its balances

of more than \$300 million were available for certification of General Revenue appropriations, as required by Section 403.0143 of the Texas Government Code (CPA 2017).¹⁷²

Although GR-D accounts may have specific rules to determine necessary revenues and appropriations to fulfill their established purposes, they are not fiscally restrictive operationally year-over-year, since they automatically feed into all other General Revenue appropriations if not fully expended in a given fiscal biennium. Informants noted that there are widespread political discussions about limiting the number of these accounts. Furthermore, the Legislative Budget Board (LBB) has recommended that the legislature better evaluate the use of available dedicated revenues for state government financing and reduce reliance on GR-D accounts for General Revenue certification (LBB 2016, 2019).

Texas has also established several funds to aid local governments. However, informants did not cite these funds as fiscally restrictive. For example, the Large County and Municipal Recreation and Parks GR-D account provides grants to large local jurisdictions for the acquisition or development of indoor public recreation facilities. However, this fund was left unappropriated for 2018–19, and its end balance of \$15 million was used for General Revenues (CPA 2017).

OTHER JUDICIAL RESTRICTIONS

Like many states, Texas must meet spending obligations imposed by court orders, consent decrees, or other court-related settlements. For example, in 2008, the federal Department of Justice found Texas had violated the rights of individuals with intellectual or developmental disabilities living in Texas State Supporters Living Centers (DOJ 2008).¹⁷³ The state reached a settlement agreement with the DOJ, agreeing to a number of facility and service improvements, and was assigned an independent federal monitor to track progress and compliance.¹⁷⁴

OTHER INSTITUTIONAL RESTRICTIONS

The state has three important constitutional spending restrictions that can limit fiscal flexibility to varying degrees (Parks 2016), in addition to its balanced budget requirement:¹⁷⁵

Debt limit

Since 1997, the Texas constitution has limited General Revenue–supported debt service to 5 percent of the average annual unrestricted General Revenue Funds from previous three years.¹⁷⁶

Welfare spending limit

Since 1945, the Texas constitution has limited state funding for assistance grants on behalf of needy dependent children and their caretakers (e.g., Temporary Assistance for Needy Families) to 1 percent of the state budget in any biennium.¹⁷⁷

Appropriation growth limit

Since 1978, the Texas constitution has limited appropriation growth from nondedicated state tax revenues to the estimated growth rate of the state's economy.¹⁷⁸ However, this requirement is not strictly binding since it does not require a vote of the people or a supermajority vote of the legislature to override (Rueben, Randall, and Boddupalli 2018). Informants noted that this limit is rarely binding because Texas's spending does not often approach the cap.¹⁷⁹

OTHER REVENUE RESTRICTIONS

Informants noted that the state has a variety of tax incentive programs that indirectly limit state revenue or other place pressure on the state's budget. For example, the Economic Development Act of 2001 (also referred to as "Chapter 313" for its location in the state tax code) established a property tax abatement program allowing school districts to provide property tax breaks to businesses locating in their district.¹⁸⁰ As of 2016, Chapter 313 agreements were expected to result in more than \$800 million annually in foregone property tax revenues for school districts, although the state bears the burden of this by holding school finance formulas constant and disregarding the value of the abated property in its school finance calculations (Texas Senate Committee on Natural Resources and Economic Development 2016). One study estimated that over 85 percent of projects funded through Chapter 313 would have invested in Texas regardless of the program abatement, suggesting that the state is needlessly expending resources on an ineffective program (Jensen 2017).¹⁸¹ Another example is the Texas Enterprise Fund, an economic development fund administered by the governor, that provides "deal-closing" grants for infrastructure and community development.¹⁸² Since its establishment in FY 2004, a total \$612 million has been granted to more than 150 entities (LBB 2018).¹⁸³

Virginia

Restricted Programs and Provisions

MEDICAID AND CHIP

TABLE 49

Virginia Medicaid, Family Access to Medical Insurance Security (FAMIS), and FAMIS Plus

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	25% of total spending
	Actuarial	\$8.7 billion (state and federal)
	Federal	\$4.1 billion (state)
	Caseloads	
	Inflation	
	Political	

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Virginia's Department of Medical Assistance Services provides medical insurance to qualifying low-income adults and children through its Medicaid, Family Access to Medical Insurance Security (FAMIS), and FAMIS Plus programs (i.e., CHIP).¹⁸⁴

In 2015, the Commonwealth received a dollar-for-dollar federal funding match on its own-source Medicaid spending and a roughly \$1.90-to-one enhanced dollar match on its CHIP spending.¹⁸⁵ Compared to other states, Virginia has made little use of alternative, non-state revenue sources to meet its non-federal match requirement. In 2012, the Commonwealth's share of nonfederal matching funds from health care providers and local governments was roughly one percent (compared to 26 percent nationally) (GAO 2014).

Historically, Virginia has maintained a spare Medicaid program, offering only the mandatory suite of benefits to required eligibility groups. The Commonwealth did not elect to expand Medicaid eligibility to childless adults under the Affordable Care Act until 2018, effective 2019.¹⁸⁶ While this will likely expand enrollment and utilization, the expansion will largely be federally funded. In 2013, the state had adopted three out of nine optional eligibility pathways for children, adults, and qualified immigrants,¹⁸⁷ and 10 out of 14 pathways for the elderly, disabled, medically needy, and specific diseases or services.¹⁸⁸ The state had also adopted seven out of 12 optional acute services and five out of nine optional long-

term services and supports.¹⁸⁹ Despite limiting some eligibility pathways and optional benefits, Virginia spending per enrollee was above national per enrollee Medicaid spending in 2014.¹⁹⁰

DEBT SERVICE

TABLE 50
Principle and Interest

Obligation Type	Mechanism	Size (fiscal year 2015)
Long-term obligation	Contractual	2% of total spending \$720 million (state)

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Virginia does not have a “self-implementing” constitutional mechanism for bond repayment if the General Assembly fails to appropriate the necessary funds, although the state Supreme Court has ruled that the state is liable for those payments.¹⁹¹ In 2015, Virginia had a highly regarded “AAA” bond rating.¹⁹²

PUBLIC EMPLOYEE PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

TABLE 51
Virginia Retirement System and Other Retirement and Other Pension, and Retirement Benefit Plans

Obligation Type	Mechanism	Size (fiscal year 2015) ^a
Long-term obligation	Statutory	2% of total spending \$600 million (state)

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

^a Excludes state contributions to other postemployment benefits, for which data were unavailable prior to 2008, and so which we excluded from our analysis for Virginia.

Virginia’s public employee retirement system consists of the Virginia Retirement System (the largest of the pension systems), the State Police Officers’ Retirement System, the Virginia Law Officers’ Retirement System, and the Judicial Retirement System (VRS 2015). Other postemployment benefit (OPEB) funds include the Group Life Insurance Program, Retiree Health Insurance Credit Program, Virginia Sickness and Disability Program, the Line of Duty Act Program, and the Virginia Local Disability

Program (VRS 2015). OPEB contributions are not included in our quantitative analysis because data are unavailable prior to 2008. Virginia has received generally unfavorable evaluations regarding its required pension contributions and the ratio of funded to unfunded liability.¹⁹³ But informants noted that the state has treated pension contributions as a fixed obligation in recent years.

FORMULA-DRIVEN K-12 EDUCATION

TABLE 52

Virginia Standards of Quality

Obligation Type	Mechanism	Size (fiscal year 2015)
State Programmatic	Constitutional Statutory Formula Caseloads Political	17% of total spending \$6.1 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Virginia Standards of Quality (SOQ) are established in state statute, while the state Board of Education reviews them and prescribes changes every two years.¹⁹⁴ The funding estimate is based largely on a method developed by the Virginia Joint Legislative Audit and Review Commission in the 1980s (Dickey 2013). The first SOQ was established in 1972.¹⁹⁵ The funding method was built in the 1970s and codified into the Code of Virginia in the 1980s, with review and administrative requirements updated in the 2000s (Cave 2016). SOQ payments are treated as "automatic," constitutionally mandated payments (JLARC 2015). However, the state has also made alterations to the formula inputs and taken other indirect cost-containment measures.¹⁹⁶

CORRECTIONAL OPERATIONS

TABLE 53

Correctional Operations

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Caseloads Inflation Political	3% of total spending \$1.2 billion (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

The Virginia Department of Corrections operates the state’s prison system and is responsible for providing care and services, including health care, to inmates in state correctional facilities. Informants noted that the state spending on prisons may be a small part of overall spending, and that the prison population has been declining and the state has closed various prison facilities. In inflation-adjusted terms, state-financed correctional operations expenditures declined or remained stable in the years leading up to FY 2015 ¹⁹⁷

DEDICATED TRANSPORTATION FUND SPENDING

TABLE 54
Commonwealth Transportation Fund

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	11% of total spending \$4 billion (state)

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Virginia’s Commonwealth Transportation Fund (CTF), including the Highway Maintenance Operation Fund and the Transportation Trust Fund subfunds, are dedicated to highway operations, maintenance, construction, and other transportation-related activities. The Transportation Trust Fund also includes dedicated subaccounts for transit and rail, aviation, and ports.

The CTF receives revenue from dedicated sources including motor fuel and gasoline taxes, motor vehicle licenses, motor vehicle sales and use tax, and certain proceeds from the state retail sales and use tax.¹⁹⁸ In addition, the Transportation Trust Fund statutorily receives a portion of nondedicated General Fund balances each year.¹⁹⁹ If the general assembly or governor diverts funds from the Transportation Trust Fund, the funds must be repaid within three years (AASHTO 2016).

Virginia is one of few states that maintains administrative responsibility and control over road maintenance and construction for nearly all primary as well as secondary (county) roads in the state, in accordance with its 1932’s Byrd Road Act. Although originally intended to relieve local financial pressures, this measure has been criticized in recent decades by counties, due to a lack of autonomy over their own development (O’Leary 1998).

PERSONAL PROPERTY TAX RELIEF ACT

TABLE 55

“Car Tax Relief” Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Local Aid	Statutory	3% of total spending
	Political	\$950 million (state)

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

In accordance with 1998’s Personal Property Tax Relief Act, Virginia assumes financial responsibility for a portion of state-mandated reductions in local property tax rates (DOA 2018). The state is statutorily obligated to appropriate a certain amount of funds for localities, which then determine the amount of tax relief they provide to taxpayers with qualifying vehicles in their jurisdictions; this is why the measure is referred to as “car tax relief.”²⁰⁰ Legislation in 2004 modified the state’s financial responsibilities, capping the total amount of reimbursements to localities at \$950 million annually for all tax years 2006 and thereafter.²⁰¹

BUDGET STABILIZATION FUND DEPOSITS

TABLE 56

Revenue Stabilization Fund

Obligation Type	Mechanism	Size (fiscal year 2015)
Institutional	Constitutional	1% of total spending
	Statutory	\$240 million (state)

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

In 1992, Virginia voters ratified an amendment to Article X, Section 8 of the state’s constitution, requiring the general assembly to deposit a portion of the previous year’s certified tax revenues into a Revenue Stabilization Fund (Putney 1999). Statutory language added in 2003 mandates additional deposits in years with greater-than-average revenue growth (Henshaw 2008). The Revenue Stabilization Fund has a constitutionally-mandated maximum balance of 15 percent (increased from 10 percent in 2011) of the state’s average annual tax revenues over the three preceding FYs. Withdrawals

may only occur if General Revenues appropriated exceed revised revenue forecasts to a specified extent, and amounts are capped to one-half of the fund balance (DOA 2018).

In 2017, S&P Global Ratings downgraded the state’s financial outlook to “negative” in part due to concerns about the Revenue Stabilization Fund (DCAC 2017).²⁰² As of June 2018, however, balances had improved, and the governor expressed confidence about further revenue growth due to the 2017 federal tax overhaul (APA 2018).²⁰³ In 2018, the state also created a new statutory and short-term cash reserve (the Revenue Reserve Fund) to mitigate unanticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed subsequent forecasts (DOA 2018). Like the Revenue Stabilization Fund, the Revenue Reserve Fund has caps on annual deposits and maximum balances based on General Revenues (DOA 2018). In 2018, S&P Global Ratings upgraded the state’s financial outlook back to “stable.”²⁰⁴

CHILDREN’S SERVICES ACT

TABLE 57
Children’s Services Act

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory	1% of total spending
Local aid	Formula	\$220 million (state)
	Caseloads	
	Inflation	

Sources: Authors’ analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state’s annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

In 1992, Virginia’s Comprehensive Services Act for At-Risk Youth and Families (also known as the Children’s Services Act) created a collaborative state and local system of services to support eligible troubled and at-risk youth and families (OCS 2019).²⁰⁵ The state is statutorily obligated to appropriate funds to a statewide pool that is then allocated based on population needs and service costs to locally-appointed Community Policy and Management Teams.²⁰⁶ In 2008, the state implemented a set of tiered match rates, determining the respective state and local match rate, in order to reduce unnecessary and high-cost institutional treatment in favor of community-based treatments and to reduce spending growth in the program (OCS 2018).

STATE TANF MAINTENANCE-OF-EFFORT

TABLE 58

State Maintenance of Effort for the Federal Temporary Assistance for Needy Families Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Programmatic	Statutory Federal Caseloads	0.4% of total spending \$140 million (state)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

OTHER FEDERAL RECEIPTS

TABLE 59

Federal Revenues

Non-Medicaid and Non-Children's Health Insurance Program

Obligation Type	Mechanism	Size (fiscal year 2015)
Federal	Federal	15% of total spending \$5.2 billion (federal)

Sources: Authors' analysis based on literature review, financial reports, key informant interviews, and communications with Virginia Joint Legislative Audit and Review Commission and Department of Planning and Budget. Total spending includes total governmental fund spending as reported in the state's annual Comprehensive Annual Financial Report, including general, special, bond, and federal funds. See the Data Documentation section for more detail.

Other Dedicated Funding, Indirect, and Revenue-Related Restrictions

OTHER DEDICATED STATE FUNDS

In addition to the programs, provisions, and funds described above, Virginia has a variety of dedicated funds that receive revenues earmarked for specific purposes. One example is the Water Quality Improvement Fund for the Chesapeake Bay. State statute directs 10 percent of General Revenue (in surplus years) and 10 percent of any unrestricted and uncommitted General Fund balances to the Water Quality Improvement Fund.²⁰⁷

OTHER JUDICIAL RESTRICTIONS

Informants highlighted some fiscal obligations imposed by court orders, consent decrees, or other court-related settlements. Most notably, in 2012, Virginia entered a settlement agreement with the US Department of Justice (DOJ) relating to findings that the state had violated the civil rights of individuals

with intellectual and developmental disabilities by failing to provide services in an integrated setting appropriate to their needs (DBHDS n.d.; DOJ 2011). Under the agreement, the state is expected to provide additional facilities to home and community-based services for individuals with intellectual or developmental disabilities, ensure proper case management with regular meetings for recipients, expand opportunities for integrated and competitive-wage employment, develop a statewide community based crisis system, and conduct quality and risk management assessments (DBHDS n.d.).²⁰⁸ The state spent \$211 million from FY 2012 to FY 2016 to fulfill these obligations, and between \$50 to \$90 million in subsequent FYs (Balak 2018; Darr 2016).²⁰⁹

OTHER INSTITUTIONAL RESTRICTIONS

Since 1994, Virginia constitution has required that expenditures not exceed total revenues on hand or expected within a period of two years and six months.²¹⁰ This means that, though neither the governor nor legislature are required to submit or pass a balanced budget, the state must execute a balanced budget on a cash basis, as deficit carryovers are constitutionally prohibited over biennial periods. Furthermore, per the constitution, the governor is limited to a single consecutive four-year term.²¹¹ Informants noted that this gives the state's General Assembly more leverage in budgeting discussions.

OTHER REVENUE RESTRICTIONS

Informants noted that state business tax incentives can limit state revenue and place indirect pressure on the budget. For example, the state's Data Center Retail Sales and Use Tax Exemption and Motion Picture Production Tax Credit programs together abated \$85 million in taxes for qualifying companies in FY 2018 (DOA 2018). Informants also made note of the state's Age Deduction for taxpayers age 65 and over as an example of tax reductions that can limit the state's revenues and reduce flexibility.

Notes

- ¹ See “Long Range Financial Outlook (3 Year Plan),” Florida Legislative Office of Economic and Demographic Research (EDR), September 14, 2018, <http://edr.state.fl.us/Content/long-range-financial-outlook/index.cfm>; and the “Citizens’ Guides” available at “New York State Finances,” Office of the New York State Comptroller (OSC), accessed June 4, 2019. <https://www.osc.state.ny.us/finance/index.htm>.
- ² See, for example, DOF (2019, 134).
- ³ See, for example, “Governor’s Budget 2014–15 Proposed Budget Detail: 9600 Debt Service GO Bonds & Commercial Paper,” California Department of Finance (DOF), 2014, <http://www.ebudget.ca.gov/2014-15/StateAgencyBudgets/8000/9600/department.html>.
- ⁴ See, for example, “Note 13” in OSC (2015).
- ⁵ See, for example, “Note 12” in OSC (2015). Small discrepancies may be a result of how amortization payments are treated in each estimate. The data we use in our analysis include payments toward balances from prior-year deferrals.
- ⁶ See, for example, the column on “normal” state contributions under “Final Employer Contributions by Employer Type” in NYSLRS (2015).
- ⁷ Subsequently verified with Virginia Retirement System staff.
- ⁸ Governmental Accounting Standards Board (GASB) Statement 45, issued in 2004, required states to adopt more robust accounting practices for other postemployment benefits (OPEBs). Prior to this statement, many state governments only reported OPEB obligations and contributions on a pay-as-you-go basis. GASB 45 required states to report on OPEB obligations in the same way as pension obligations. See “Summary of Statement No. 45,” GASB, accessed July 10, 2019, <https://www.gasb.org/st/summary/gstsm45.html>; and CDIAC (n.d.).
- ⁹ This includes the sum of “net state FEFP”, “lottery and school recognition”, and “class size reduction allocation” in the “FEFP Final Calculation” data files. The Florida Department of Education notes that lottery funding is distributed “under revenue code 3344 for Discretionary Lottery and revenue code 3361 for School Recognition. Not considered FEFP for reporting and funds distribution.”
- ¹⁰ General State Aid is comprised of the “equalization formula grant” and “supplemental low-income grant,” which are both formula-driven and make up a majority of all funds for school districts.
- ¹¹ In New York, we learned that formula-driven state-financed K–12 funds are the largest portion of the “State Aid” data as reported by the New York State Education Department. However, that column also includes state grants, and aid or grants for prekindergarten programs. The data include any and all revenues received by the district from state sources in that particular school year, excluding the School Tax Relief Fund which is reported separately.
- ¹² Data available at “School Aid,” New York State Division of the Budget, OpenBudget.NY.Gov, accessed June 4, 2019, <https://openbudget.ny.gov/schoolAidForm.html>.
- ¹³ Includes the sum of “foundation school program” and “available school fund” spending.
- ¹⁴ Data include the “state amount” and “state retail sales and use tax amount.”
- ¹⁵ See, for example, JLARC (2015, 2).
- ¹⁶ See, for example, “2018 Annual Cash Basis Report on State Funds,” OSC, 2018, https://www.osc.state.ny.us/finance/cbr_annual.htm

- ¹⁷ See, for example, “Governor’s Budget 2014–15: Enacted Budget Summary,” DOF, 2014, <http://www.ebudget.ca.gov/2014-15/Enacted/BudgetSummary/BSS/BSS.html>.
- ¹⁸ See, for example, FLDFS (2016, 67).
- ¹⁹ See, for example, CGFA (2018, 15).
- ²⁰ See “State of California Expenditures, 1984-85 to 2017-18,” Historical Data, LAO, 2017, <https://lao.ca.gov/policyareas/state-budget/historical-data>.
- ²¹ California implemented its Children’s Health Insurance Program (CHIP) through a combination of Medicaid eligibility expansion and a separate program. See “Children’s Health Insurance Program: Plan Activity,” Centers for Medicare and Medicaid Services (CMS), May 1, 2015, <https://www.medicaid.gov/chip/downloads/chip-map.pdf>.
- ²² The Managed Risk Medical Insurance Board was dissolved effective July 1, 2014. See S.B. 857, 2013–2014 Leg., Reg. Sess. (Cal. 2014).
- ²³ See “Enhanced Federal Medical Assistance Percentage (FMAP) for CHIP,” Henry J. Kaiser Family Foundation (KFF), State Health Facts, January 14, 2019, <https://www.kff.org/other/state-indicator/enhanced-federal-matching-rate-chip/>; and “Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier,” KFF, State Health Facts, accessed July 15, 2019, <https://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/>.
- ²⁴ See “Table 1A-1” in MACPAC (2017).
- ²⁵ See “Table 1A-2” in MACPAC (2017).
- ²⁶ See tables 1A-3 and 1A-4 in MACPAC (2017).
- ²⁷ Under SB 75, enacted in June of 2015, “all children under 19 years of age are eligible for full-scope Medi-Cal benefits regardless of immigration status, as long as they meet the income standards.” See S.B. 75, Cal. Leg., Reg. Sess. (Cal. 2015); “SB75 - Medi-Cal for All Children,” California Department of Health Care Services (DHCS), accessed July 11, 2019, <https://www.dhcs.ca.gov/services/medi-cal/eligibility/Pages/SB75Children.aspx>; and DHCS (2015). The state restored full adult dental benefits in its Medicaid program in 2017. See “Restoration of Adult Dental Services,” DHCS, accessed July 11, 2019, https://www.dhcs.ca.gov/services/Pages/Restoration_Adult_Dental.aspx.
- ²⁸ The state also anticipates a scheduled decline in the federal match rate for the expansion population (LAO 2017e).
- ²⁹ See A.B. 5, 2007–2008 Leg., Reg. Sess. (Cal. 2008).
- ³⁰ See *Independent Living Center of Southern Cal. v. Shewry*, No. CV 08-3315 CAS (MANx) (C.D. Cal. Aug. 18, 2008); and Bob Egelko, “Judge Blocks State’s Cut in Medi-Cal Fees,” *SFGate*, August 20, 2008, <https://www.sfgate.com/bayarea/article/Judge-blocks-state-s-cut-in-Medi-Cal-fees-3272500.php>.
- ³¹ The US Supreme Court ultimately vacated a 2012 injunction, issued in response to California’s attempted 2011 rate cuts, remanding the case back to the circuit court. See *Douglas v. Indep. Living Ctr. of S. Cal., Inc.*, 565 U.S. 606 (2012). In 2015, the US Supreme Court issued a decision blocking Medicaid providers from seeking higher payments from states. See *Armstrong v. Exceptional Child Ctr., Inc.*, 135 S. Ct. 1378 (2015); “Provider Payment under Fee for Service,” Medicaid and CHIP Payment and Access Commission, accessed July 15, 2019, <https://www.macpac.gov/subtopic/provider-payment/>; and Huberfeld (2015).
- ³² See “Medicaid Spending Per Enrollee (Full or Partial Benefit),” KFF, State Health Facts, 2019, accessed July 15, 2019, <https://www.kff.org/medicaid/state-indicator/medicaid-spending-per-enrollee>.
- ³³ See “Authorization of Security for the Bonds” in State of California (2019).

- ³⁴ The California Public Employees' Retirement System (CalPERS) administers pension benefits for state employees as well as local employees in 26 counties and more than 1,500 other political subdivisions, including school districts. The CalPERS system includes 10 plans, including 6 defined benefit plans, 3 defined contribution plans, and 1 OPEB plan. See "California," National Association of State Retirement Administrators, accessed July 15, 2019, <https://www.nasra.org/ca>.
- ³⁵ For instance, the Public Employees' Pension Reform Act did not include a "hybrid" defined contribution or 401(k) style investment plan, as sought by Governor Brown. See Ed Mendel, "New Pension-Cut Rulings Begin with Little Change," *Calpensions* (blog), March 11, 2019, <https://calpensions.com/category/california-rule/>.
- ³⁶ See Jonathan J. Cooper, "Cases Could Open Door to Pension Cuts for California Workers," *Mercury News*, December 28, 2017, <https://www.mercurynews.com/2017/12/28/cases-could-open-door-to-pension-cuts-for-california-workers/>.
- ³⁷ See Sasha Volokh, "The 'California Rule' for Public-Employee Pensions: Is It Good Constitutional Law?" *Washington Post*, February 4, 2014, <https://www.washingtonpost.com/news/volokh-conspiracy/wp/2014/02/04/the-california-rule-for-public-employee-pensions-is-it-good-constitutional-law/>.
- ³⁸ See *Cal Fire Local 2881 v. Cal. Pub. Employees' Ret. Sys.*, S239958 (Cal. Mar. 4, 2019); and John Fensterwald, "California Supreme Court Stops Short of Allowing School Districts to Modify Existing Pensions," *EdSource*, March 4, 2019, <https://edsources.org/2019/california-supreme-court-stops-short-of-allowing-school-districts-to-modify-existing-pensions/609428>.
- ³⁹ The California Legislative Analyst's Office (LAO) reported that the districts' share of unfunded liability increased from \$62 to \$67 billion, per the latest actuarial valuation (LAO 2017c).
- ⁴⁰ See Rory Carroll, "CalPERS Votes to Lower Expected Investment Return Rate to 7 Percent by 2020," *Reuters*, December 21, 2016, <https://www.reuters.com/article/us-california-calpers-idUSKBN14A2EE>.
- ⁴¹ For more information about Proposition 1A, see LAO (2004).
- ⁴² See, for example, California's "three strikes law" (Chen 2014; LAO 2005).
- ⁴³ Voters approved Proposition 4 in 1979, requiring the state to reimburse local governments for the cost of providing new programs or higher level of services required by the state (LAO 1979). The state often deferred these payments, however, and in 2004 voters approved Proposition 1A, which applied to non-education mandates and required the state to either reimburse local governments in the annual budget or repeal the mandate in question (LAO 2016b).
- ⁴⁴ See "CCI Funded Programs," California Air Resources Board, accessed July 15, 2019, <https://ww2.arb.ca.gov/our-work/programs/california-climate-investments/cci-funded-programs>.
- ⁴⁵ See "California Mental Health Services Act (MHSA)," Mental Health California, accessed July 15, 2019, <https://www.mentalhealthca.org/faq-1>.
- ⁴⁶ See "Habitat Conservation Fund," California Department of Parks and Recreation, accessed July 15, 2019, https://www.parks.ca.gov/?page_id=21361.
- ⁴⁷ See *N.W. Energetic Serv. v. Ca. Franchise Tax*, 159 Cal. App. 4th 841 (Cal. Ct. App. 2008); and *Ventas Finance I v. Franchise Tax*, 165 Cal. App. 4th 1207 (Cal. Ct. App. 2008).
- ⁴⁸ See *Capitol People First, et al. v. Department of Developmental Service, et al.* 2002-038715 (2009), Class Action [Proposed] Settlement Agreement; and "Case Profile: Capitol People First v. Department of Developmental Services," University of Michigan Law School, Civil Rights Litigation Clearinghouse, accessed June 26, 2019, <https://www.clearinghouse.net/detail.php?id=10979>.

- ⁴⁹ See “Major Lawsuit Settled, Helping 7,000 People with Developmental Disabilities Live in the Community Instead of Institutions,” Disability Rights California, April 27, 2009, https://www.disabilityrightsca.org/system/files/file-attachments/Press_Release-2009-04-24.pdf.
- ⁵⁰ See, for example, the 2004 settlement in *Davis v. California Health and Human Services Agency*, 4:00-cv-02532 (N.D. Cal.). For further reading, see “Cast Profile *Davis v. California HHS*,” University of Michigan Law School, Civil Rights Litigation Clearinghouse, accessed July 24, 2019, <https://www.clearinghouse.net/detail.php?id=11603>; and “Summary of *Davis v. CHHSA Settlement*,” Protection & Advocacy, Inc., November 22, 2004, <https://www.disabilityrightsca.org/system/files/file-attachments/DavisSummaryOfSettlement11-04.pdf>.
- ⁵¹ See Cal. Const. art. XIII, § 3A.
- ⁵² See “MOU Analyses,” LAO, accessed May 30, 2019, <https://lao.ca.gov/stateworkforce/MOUAnalyses>.
- ⁵³ The Florida Department of Children and Families determines Medicaid eligibility. Florida implemented CHIP through a combination of Medicaid eligibility expansion and a separate program. See “Children’s Health Insurance Program: Plan Activity.”
- ⁵⁴ See “Enhanced Federal Medical Assistance Percentage (FMAP) for CHIP;” and “Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier.”
- ⁵⁵ See “Status of State Medicaid Expansion Decisions: Interactive Map,” KFF, State Health Facts, May 13, 2019, <https://www.kff.org/medicaid/issue-brief/status-of-state-medicaid-expansion-decisions-interactive-map/>
- ⁵⁶ See “Table 1A-1” in MACPAC (2017)
- ⁵⁷ See “Table 1A-2” in MACPAC (2017).
- ⁵⁸ See tables 1A-3 and 1A-4 in MACPAC (2017).
- ⁵⁹ The Florida Agency for Health Care Administration (AHCA) has completed its transition to managed care in the past few years, but prior to this had requested several federal waivers. Chapter 2011-134 of the Laws of Florida directed the AHCA to implement a Medicaid managed care program as a statewide and an integrated managed care program for all covered medical assistance services and long-term care services. Full implementation was required by October 2014. See C.S./H.B. 7101, Fl. Leg., Reg. Sess. (Fla. 2011). For the long-term care component, the agency submitted a 1915 (b)/(c) combination waiver request and received federal approval in February of 2013. The agency selected seven managed care plans with contract execution beginning in May of 2013. The long-term care component has been fully implemented statewide. For the statewide managed medical assistance component, the agency submitted an amendment to its 1115 Medicaid Reform Demonstration Waiver, which operated in Baker, Broward, Clay, Duval, and Nassau Counties, beginning in 2006, and received approval from CMS to expand statewide in June of 2013. The waiver was subsequently renewed on July 31, 2014 for a three-year period. The agency has contracted with 20 managed-care plans (including specialty plans) for the managed medical assistance component, began enrollment in May 2014, and completed statewide implementation in August 2014.
- ⁶⁰ See “Medicaid Spending Per Enrollee (Full or Partial Benefit).”
- ⁶¹ Florida’s total pension and other employee benefit trust funds include the Florida Retirement System (FRS) Defined Benefit Pension Plan, Other Defined Contribution Plans, the Deferred Compensation Plan, Life and Other Benefits, the Retiree Health Insurance Subsidy, the Defined Contribution Pension Plan, and the National Guard Supplemental Retirement Benefit. A description of these funds is available in Florida’s 2015 Comprehensive Annual Financial Report (CAFR) (FLDFS 2016).
- ⁶² The requirement for a consensus estimating conference is established in § 216.136(10) of the Florida Statutes, while rules governing the FRS Defined Benefit Pension Plan and actuarial study are established in §§ 121.031-121.0312 of the Florida Statutes. See “Florida Retirement System Actuarial Assumption Conference Principals,”

EDR, January 25, 2019, <http://edr.state.fl.us/content/conferences/principals-frs.cfm>; and Larrabee, Wade, and Hunter (2018).

- ⁶³ In 2014, the Urban Institute gave Florida a B for “Making Required Contributions” and “Funding Ratio.” See the state’s breakdown table on “The State of Retirement: Grading America’s Public Pension Plans,” Urban Institute, 2014, <http://apps.urban.org/features/SLEPP/index.html>. In 2016, the Pew Charitable Trusts (Pew) ranked Florida’s funded ratio 13th in the country. See “State Retirement Fiscal Health and Funding Discipline,” Pew, accessed July 11, 2019, <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2018/state-retirement-fiscal-health-and-funding-discipline#/state-profiles/florida?year=2016>. According to Fitch Ratings, states’ median long-term liability (when combining net tax-supported debt and the unfunded pension liability) as a share of personal income is roughly six percent. Florida’s is just three percent, ranking it 10th among the states. See “Does Your State Have A Pension Problem?” *Wall Street Journal*, October 5, 2015, https://graphics.wsj.com/table/Connecticut_102015.
- ⁶⁴ Florida projects modest growth in the revenue sources for the Educational Enhancement Trust Fund (EETF) for fiscal years 2019–20, 2020–21, and 2021–22 (JLBC 2018).
- ⁶⁵ For a list of approved public educational programs and purposes funded by the EETF, see Fla. Stat. § 24.121(5)(a).
- ⁶⁶ See Simone Marsteller, “Revise Florida’s Unfair, Ineffective Mandatory Minimum Sentencing Laws,” *Miami Herald*, January 8, 2018, <https://www.miamiherald.com/opinion/op-ed/article193661729.html>. For further reading, see Chen (2014) as well as Newburn and Nuzzo (2019).
- ⁶⁷ Data on inmate medical care costs were not available consistently over time, and as such we use a broader measure of correctional operations costs.
- ⁶⁸ See C.J. Ciaramella, “Florida Passed A Hugely Important Amendment to Allow Lawmakers to Reduce Criminal Sentences,” *Reason*, November 9, 2018, <https://reason.com/2018/11/09/florida-passed-a-hugely-important-amendm>.
- ⁶⁹ See “Five Year Work Program,” Florida Department of Transportation, accessed July 15, 2019, <https://fdotewp1.dot.state.fl.us/FMSupportApps/WorkProgram/Support/Download.aspx>
- ⁷⁰ See Fla. Const. art. III, § 19(g); and Fla. Stat. § 215.32 (2)(c)(1).
- ⁷¹ See Fla. Stat. § 216.222.
- ⁷² Author’s analysis of Budget Stabilization Fund data obtained from communications with Florida Department of Financial Services (FLDFS).
- ⁷³ See Fla. Stat. §§ 1002.51-1002.79.
- ⁷⁴ See, for example, JLBC (2015).
- ⁷⁵ See Fla. Const. art. III, § 19(f).
- ⁷⁶ See Fla. Const. art. III, § 19(f).
- ⁷⁷ Each year, the FLDFS produces a report detailing information on those trust funds exempt from automatic termination (FLDFS 2018). See also Fla. Const. art, III, § 19(f); and Fla. Stat. § 215.3206.
- ⁷⁸ According to a 2017 news article, “for the 10th year in a row, the governor and legislature are proposing to sweep money from the affordable housing trust funds into the General Fund to spend on other purposes. Since the start of the Great Recession, that has added up to \$1.3 billion.” See Mary Ellen Klas, “Where Did \$1.3 Billion for Affordable Housing Go? Florida Legislature Took It,” *Miami Herald*, April 4, 2017, <https://www.miamiherald.com/news/politics-government/state-politics/article142033109.html>. And according to another article from 2015, “the 2015-16 budget approved by the Legislature in special session swept \$230 million from 22 trust funds, all of which had been established for specific programs or projects.” See “Editorial:

Lawmakers Sweep Trust Funds Clean,” *Herald-Tribune*, September 2, 2015, <https://www.heraldtribune.com/opinion/20150902/editorial-lawmakers-sweep-trust-funds-clean>.

⁷⁹ See Fla. Const. art. X, § 28.

⁸⁰ See Fla. Const. art. III, § 19(f).

⁸¹ See FLDOE (2017) for authorizing language; as well as Fla. Const. art. X, §15(c)(1).

⁸² See Fla. Const. art. III, § 19(f).

⁸³ See, for example, “Note 16” in FLDFS (2016).

⁸⁴ See *In re Citrus Canker Litigation*, Case No. 00-18394 and related cases, as described in “Note 16” of FLDFS (2016).

⁸⁵ For more information on the citrus canker litigation see Centner and Ferreira (2011); David Fleshler, “Broward Homeowners Demand State Pay Them \$20.6 Million for Citrus Trees,” *South Florida Sun Sentinel*, January 24, 2017, <https://www.sun-sentinel.com/local/broward/fl-citrus-canker-money-20170124-story.html>; David Fleshler, “South Florida Households to Split \$42 Million for Trees Destroyed in Citrus Canker Fight,” *South Florida Sun Sentinel*, March 16, 2018, <https://www.sun-sentinel.com/news/florida/fl-reg-citrus-canker-payments-20180316-story.html>; and David Fleshler, “Checks to Go out to South Florida Homeowners in Citrus Canker Cases,” *South Florida Sun Sentinel*, July 25, 2018, <https://www.sun-sentinel.com/news/florida/fl-reg-citrus-canker-checks-20180725-story.html>.

⁸⁶ See *State of Florida v. American Tobacco Co.*, No. 95-1466AH (Fla. 15th Cir. Ct.). For more information on Florida’s tobacco settlement case, see Committee on Regulated Industries (2004); Correia and Davidson (1998); and Barry Meier, “Cigarette Makers Agree to Settle Florida Lawsuit,” *New York Times*, August 26, 1997, <https://www.nytimes.com/1997/08/26/us/cigarette-makers-agree-to-settle-florida-lawsuit.html>.

⁸⁷ See “Revenue Limitation,” EDR, February 13, 2019, <http://edr.state.fl.us/content/revenues/reports/revenue-limitation/index.cfm>.

⁸⁸ See Liz Farmer, “Raising Taxes Could Be Harder Now in Florida,” *Governing*, November 7, 2018, <https://www.governing.com/topics/finance/gov-florida-supermajorities-tax-ballot.html>.

⁸⁹ See Fla. Const. art. VII, § 5.

⁹⁰ See Matt Dixon, “Scott’s Divisive Incentive Fund Attracts Big Deals, and Its Share of Critics,” *Politico*, January 6, 2017, <https://www.politico.com/states/florida/story/2017/01/scotts-divisive-incentive-fund-attracts-big-deals-and-its-share-of-critics-108509>.

⁹¹ See also Dixon, “Scott’s Divisive Incentive Fund Attracts Big Deals, and Its Share of Critics.”

⁹² Illinois implemented CHIP through a combination of Medicaid eligibility expansion and a separate program. See “Children’s Health Insurance Program: Plan Activity.”

⁹³ See “Enhanced Federal Medical Assistance Percentage (FMAP) for CHIP;” and “Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier.”

⁹⁴ See “A Review of Medicaid Expansion in Illinois under the Affordable Care Act,” Civic Federation, January 12, 2017, <https://www.civicfed.org/iifs/blog/review-medicaid-expansion-illinois-under-affordable-care-act>; and “Status of State Medicaid Expansion Decisions: Interactive Map.”

⁹⁵ The federal government paid 100 percent of the cost for the Medicaid expansion population through 2016. After that, the federal government’s portion will gradually decrease, reaching 90 percent by 2020, with Illinois covering the other 10 percent (it will remain at that level after 2020).

⁹⁶ See “Table 1A-1” in MACPAC (2017).

⁹⁷ See “Table 1A-2” in MACPAC (2017).

⁹⁸ See tables 1A-3 and 1A-4 in MACPAC (2017).

⁹⁹ See “Medicaid Spending Per Enrollee (Full or Partial Benefit).”

¹⁰⁰ See “Share of Medicaid Population Covered under Different Delivery Systems,” KFF, State Health Facts, January 14, 2019. <https://www.kff.org/medicaid/state-indicator/share-of-medicaid-population-covered-under-different-delivery-systems>.

¹⁰¹ The act stated, “In order to address the significant spending and liability deficit in the medical assistance program budget of the Department of Healthcare and Family Services, the SMART Act hereby implements changes, improvements, and efficiencies to enhance Medicaid program integrity to prevent client and provider fraud; imposes controls on use of Medicaid services to prevent over-use or waste; expands cost-sharing by clients; redesigns the Medicaid healthcare delivery system; and makes rate adjustments and reductions to update rates or reflect budget realities.” See the Save Medicaid Access and Resources Together (SMART) Act, Ill. Public Act (P.A.) 097-0689 (2012).

¹⁰² See “The Section 25 Exception: How Illinois Defers Medicaid Bills,” Civic Federation, March 1, 2012, <https://www.civicfed.org/iifs/blog/section-25-exception-how-illinois-defers-medicaid-bills>.

¹⁰³ See *Memisovski et al. v. Maram, et al.*, No. 92 C 1982 (N.D. Ill. 2017); and *Beeks et al. v. Bradley et al.*, No. 92 C 4204, (N.D. Ill. 2017).

¹⁰⁴ According to Smith et al. (2010), Illinois reduced provider payments and benefits to contain costs in 2010 and 2011. Adult dental coverage has frequently been vulnerable to cuts, for example. See Daniel Lippman, “States Cut Dental Care for Poor Residents,” *Huffington Post*, October 2, 2012, https://www.huffpost.com/entry/medicaid-dental-cuts_n_1930650.

¹⁰⁵ For a definition of continuing appropriations, see GOMB (2018). For a list of items under continuing appropriation in 2015, see “Exhibit A” in the agreed interim order for *People of the State of Illinois v. Leslie Geissler Munger*, 15 CH 10243 (2015), http://www.illinoisattorneygeneral.gov/pressroom/2015_07/People_v_Munger_Agreed%20Interim%20Order_July7_2015.pdf.

¹⁰⁶ See “State Funding Payments” in State of Illinois (2010).

¹⁰⁷ See also 30 ILCS 330/17.

¹⁰⁸ The State Employees’ Retirement System includes employees of state agencies, the Illinois Toll Highway Authority, and the Illinois Comprehensive Health Insurance Plan. The state also manages the General Assembly Retirement System and Judges’ Retirement System. See a full description of the state’s pension and OPEB funds in “Note 16” in the 2015 Illinois CAFR (State of Illinois Comptroller 2016).

¹⁰⁹ See 2015 “Note 16” in State of Illinois Comptroller (2016). While the CAFR uses the term “actuarial,” the statute does not require the state to fund at an actuarially sound level. The 1995 pension funding statute established a funding requirement, but it was not based on actuarially sound estimates.

¹¹⁰ See 40 ILCS 15/0.1-15/2.

¹¹¹ See Ill. P.A. 97-0694 (2012); Formas et al. (2015); and State of Illinois Office of the Auditor General (2017).

¹¹² See Rick Pearson and Kim Geiger, “Illinois Supreme Court Rules Landmark Pension Law Unconstitutional,” *Chicago Tribune*, May 8, 2015, <https://www.chicagotribune.com/ct-illinois-pension-law-court-ruling-20150508-story.html>.

¹¹³ In 2018, the state implemented the Evidence-Based Funding for Student Success Act, which reformed the state school aid system to consider each district’s individual needs, as well as its local revenue sources, prioritizing districts that are furthest from being fully-funded. See “Historical General State Aid,” Illinois State Board of

Education, accessed April 30, 2019, <https://www.isbe.net/Pages/General-State-Aid.aspx>; and Mary Ann Ahern and Shelby Bremer, "Illinois Senate Passes Education Funding Reform Deal," *NBC Chicago*, August 29, 2017, <http://www.nbcchicago.com/blogs/ward-room/illinois-senate-education-funding-reform-442150953.html>.

¹¹⁴See also See "Historical General State Aid."

¹¹⁵ See "Historical General State Aid;" and Ahern and Bremer, "Illinois Senate Passes Education Funding Reform Deal."

¹¹⁶ See Associated Press, "Quinn Gets Go-Ahead To Close Illinois Prisons," *CBS Chicago*, December 19, 2012, <https://chicago.cbslocal.com/2012/12/19/quinn-gets-go-ahead-to-close-illinois-prisons/>.

¹¹⁷ See "Summit of Hope - Illinois Department of Corrections," Illinois Department of Corrections (IDOC), accessed July 16, 2019, <https://www2.illinois.gov/idoc/communityresources/SummitofHopeRegistration/pages/default.aspx>; "Supplemental Sentence Credit: IDOC Implementing Sentence Credit Program," IDOC, February 22, 2013, <https://www2.illinois.gov/idoc/news/2013/pages/supplementalsentencecredit.aspx>; and "What Is Early Release?" John Howard Association of Illinois, April 26, 2010, <http://www.thejha.org/earlyrelease>.

¹¹⁸ See Sam Dunklau, "For Illinois Roads, Needs Are Growing. Funding Isn't," *NPR Illinois*, July 12, 2018, <https://www.nprillinois.org/post/illinois-roads-needs-are-growing-funding-isnt>.

¹¹⁹ Authors' analysis using available data. See the Data Documentation section of this report for more detail.

¹²⁰ See "Legislatively Required Transfers: Another Use of State General Operating Funds," Civic Federation, April 7, 2011, <https://www.civicfed.org/iifs/blog/legislatively-required-transfers-another-use-state-general-operating-funds>.

¹²¹ See "General Fund Transfers Out by Fund" in CGFA (2017).

¹²² Authors' calculation based on "Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds" in State of Illinois Comptroller (2016).

¹²³ See also "Legislatively Required Transfers: Another Use of State General Operating Funds."

¹²⁴ See 30 ILCS 115/0.1-115/13.1; and "The Illinois Income Tax: A Significant Source of Revenue for Local Governments," Civic Federation, June 19, 2014, <https://www.civicfed.org/iifs/blog/illinois-income-tax-significant-source-revenue-local-governments>.

¹²⁵ See "The Illinois Income Tax: A Significant Source of Revenue for Local Governments;" and Robert Steere, "Illinois Could Save Up to \$1.2B Through Local Revenue-Sharing Adjustments," *Illinois Policy*, January 13, 2015, <https://www.illinoispolicy.org/illinois-could-save-up-to-1-2b-through-local-revenue-sharing-adjustments/>.

¹²⁶ See, for example, the data provided in appendices A and B in CGFA (2018).

¹²⁷ See 30 ILCS 122/20. In some financial reports, this fund is referred to as the "Pension Contribution Fund." The purpose was to pay down unfunded liability faster by contributing more than required when there is an operating budget surplus, but in 2011 the comptroller suggested that the overperformance threshold was hard to meet and therefore would be unlikely to create a significant dent in unfunded liability (State of Illinois Comptroller 2011).

¹²⁸ For a list of items under continuing appropriation, as well as consent decrees that the state was ordered to comply with during the budget impasse, see "Exhibit A" and "Exhibit C" in the agreed interim order for *Munger*.

¹²⁹ See *American Federation of State, County, and Municipal Employees, et al. v. Munger*, 2015, Appellate Court of Illinois Fifth District, http://www.illinoiscourts.gov/r23_orders/AppellateCourt/2015/5thDistrict/5150277_R23.pdf; and Kim Geiger,

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¹³¹ See Karen Pierog and David McKinney, "Judge Orders Illinois to Boost Medicaid Bill Payments." *Reuters*, June 30, 2017, <https://www.reuters.com/article/us-illinois-budget-medicaid/judge-orders-illinois-to-boost-medicaid-bill-payments-idUSKBN19L310>.

¹³² See Ill. Const. art. IX, § 3.

¹³³ See Matt Dietrich, "Rauner Distorts Dems' Message on Illinois Income Tax," *PolitiFact*, December 14, 2017, <https://www.politifact.com/illinois/statements/2017/dec/14/bruce-rauner/rauner-distorts-dems-message-illinois-income-tax/>.

¹³⁴ See Laila Kearney, "Illinois to Ask Residents to Vote on How Income Tax Is Levied on 2020 Ballot," *Reuters*, May 27, 2019, <https://www.reuters.com/article/us-illinois-tax-idUSKCN1SY00T>.

¹³⁵ New York implemented CHIP through a combination of Medicaid eligibility expansion and a separate program. See "Children's Health Insurance Program: Plan Activity."

¹³⁶ See "Enhanced Federal Medical Assistance Percentage (FMAP) for CHIP;" and "Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier."

¹³⁷ See "Table 1A-1" in MACPAC (2017).

¹³⁸ See "Table 1A-2" in MACPAC (2017).

¹³⁹ See tables 1A-3 and 1A-4 in MACPAC (2017).

¹⁴⁰ See "Medicaid Spending Per Enrollee (Full or Partial Benefit)."

¹⁴¹ See "Pension Fund Overview," OSC, accessed June 17, 2019, <https://osc.state.ny.us/pension/snapshot.htm>.

¹⁴² Authors' analysis using U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments (2000–15), accessed via "Data Query System (SLF-DQS)," Urban-Brookings Tax Policy Center, accessed July 2, 2019, <https://sldqs.taxpolicycenter.org>. See Data Documentation section of this report for more detail.

¹⁴³ See N.Y. Penal Law § 70.10. New York's "persistent felony offender" statute is sometimes described as a "three-strikes law." In 2010, New York's mandatory sentencing statute was successfully challenged in court. See *Besser v. Walsh*, 601 F.3d 163 (2d Cir. 2010); and William Glaberson, "N.Y. Repeat Felon Law Is Found Unconstitutional," *New York Times*, March 31, 2010, <https://www.nytimes.com/2010/04/01/nyregion/01offender.html>. In 2011, however, the court upheld the statute's constitutionality in an en banc review. See *Portalatin v. Graham*, 624 F.3d 69 (2d Cir. 2010).

¹⁴⁴ See also "Public Transportation Funding Sources," New York State Department of Transportation, accessed July 16, 2019, <https://www.dot.ny.gov/divisions/policy-and-strategy/public-transportation/funding-sources/STOA>.

¹⁴⁵ Authors' analysis using available data. See the Data Documentation section of this report for more detail.

¹⁴⁶ See N.Y. Real Prop. Tax Law § 425; and "STAR Program," New York State Department of Taxation and Finance, June 14, 2019, <https://www.tax.ny.gov/star/>.

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- ¹⁴⁸ See *Hurrell-Harring v. State of New York*, 81 A.D.3d 69 (N.Y. App. Div. 2011); and “Hurrell-Harring et al. v. State of New York (Challenging New York State’s Failure to Provide Adequate Public Defense Services),” ACLU of New York (NYCLU), accessed July 12, 2019, <https://www.nyclu.org/en/cases/hurrell-harring-et-al-v-state-new-york-challenging-new-york-states-failure-provide-adequate>.
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- ¹⁵² See, for example, David Friedfel, “When 2 Percent Isn’t 2 Percent,” Citizens Budget Commission, May 30, 2017, <https://cbcny.org/research/when-2-percent-isnt-2-percent>.
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- ¹⁵⁶ See “Enhanced Federal Medical Assistance Percentage (FMAP) for CHIP;” and “Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier.”
- ¹⁵⁷ See “Status of State Medicaid Expansion Decisions: Interactive Map.”
- ¹⁵⁸ See “Table 1A-1” in MACPAC (2017).
- ¹⁵⁹ See “Table 1A-2” in MACPAC (2017).
- ¹⁶⁰ See tables 1A-3 and 1A-4 in MACPAC (2017).
- ¹⁶¹ See “Medicaid Spending Per Enrollee (Full or Partial Benefit).”
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- ¹⁷⁵ Also known as the “Pay-as-You-Go” limit, see Tex. Const. art. III, § 49a.
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¹⁸⁶ See “Status of State Medicaid Expansion Decisions: Interactive Map.”

¹⁸⁷ See “Table 1A-1” in MACPAC (2017).

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¹⁹⁴ See “Virginia Standards of Quality,” Virginia Department of Education, accessed June 18, 2019, <http://www.doe.virginia.gov/boe/quality/>.

¹⁹⁵ The Standards of Quality formula was first recommended by the Virginia Board of Education in 1971 and adopted by the General Assembly in 1972 (VDOE 2016).

¹⁹⁶ See “Recent Funding Actions” in VSFC (2012, 15); Lou et al. (2018, 3); and Sean Gorman, “Kitty Boitnott Says Virginia Has Cut \$1.6 Billion from Minimum School Standards,” *PolitiFact Virginia*, February 7, 2012, <https://www.politifact.com/virginia/statements/2012/feb/07/kitty-boitnott/kitty-boitnott-says-virginia-has-cut-16-billion-mi/>.

¹⁹⁷ Authors’ analysis using available data. See the Data Documentation section of this report for more detail.

¹⁹⁸ The Commonwealth Transportation Fund receives funding from highway user taxes, fees, and the federal government. It is comprised of funding from the Highway Maintenance and Operating Fund, which supports

highway maintenance, operations and administration, the Federal Fund, Bonds, the Priority Transportation Fund, two pass-through funds (i.e., the Hampton Roads Transportation Fund and Northern Virginia Transportation Authority Fund), and finally the Transportation Trust Fund. The Transportation Trust Fund revenues are distributed by formula, as defined by the Code of Virginia. More information on funds within can be found in VDOT (2016).

¹⁹⁹ Pursuant to section 2.2-1514 of the Code of Virginia, any unassigned balances in the General Fund are automatically committed for transfer to the Transportation Trust Fund and nonrecurring expenditures.

²⁰⁰ See “Personal Property Tax Relief Act (PPTRA) Summary,” Virginia Department of Motor Vehicles, accessed July 16, 2019, <https://www.dmv.virginia.gov/general/#pptr/summary.asp>.

²⁰¹ See Va. Code § 58.1-3524.

²⁰² See Shelly Sigo, “Tapping Reserves Lands Virginia a Negative Outlook from S&P,” *Bond Buyer*, April 21, 2017, <https://www.bondbuyer.com/news/tapping-reserves-lands-virginia-a-negative-outlook-from-s-p>.

²⁰³ See Michael Martz, “Virginia Revenues up More than \$550 Million for Fiscal Year, Building Reserves,” *Richmond Times-Dispatch*, July 12, 2018, https://www.richmond.com/news/virginia/government-politics/general-assembly/virginia-revenues-up-more-than-million-for-fiscal-year-building/article_f1d09b5b-1c3f-53d9-bc73-d568d1b24400.html.

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²⁰⁶ See Va. Code § 2.2-5211.

²⁰⁷ See Va. Code § 10.1-2128.

²⁰⁸ See *United States v. Commonwealth of Virginia* (2012), 3:12-cv-00059-JAG, Settlement Agreement, https://www.ada.gov/olmstead/documents/virginia_settlement.pdf.

²⁰⁹ See also “*United States v. Commonwealth of Virginia*,” DOJ, August 8, 2016, <https://www.justice.gov/crt/united-states-v-commonwealth-virginia>.

²¹⁰ See Va. Const. art. VIII, § 7; and Va. Const. art. X.

²¹¹ See Va. Const. art. V, § 1.

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