

Update on State Budget Gaps: FY 2009 & FY 2010



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Fiscal year (FY) 2009 stands out as a year to remember though one that is not likely to be looked upon fondly by state legislatures. Lawmakers were aware of the slowing economy when drafting their FY 2009 budgets, but none could have foreseen a collapse of the magnitude that has stricken state finances.

As NCSL reported in November, faltering revenues have been the biggest culprit of current state fiscal problems. Revenues have fallen below estimate with nearly each subsequent revision so state lawmakers are faced with the unenviable task of resolving the current fiscal year crisis while preparing for another difficult year in FY 2010.

This report examines information from each of the 50 states and Puerto Rico. It is based on data collected from legislative fiscal directors in November 2008 and January 2009. It includes the size of budget gaps in dollars and as a percentage of the general fund budget.

FY 2009 Budget Gaps

With the economy on a downslide, two-thirds of the states already were facing budget gaps nearing \$40 billion while crafting their FY 2009 budgets. Despite closing these initial gaps, states were not done addressing FY 2009 budget problems. New gaps opened after the fiscal year began and the size of these gaps seems to be growing on a daily basis.

In the three months between November 2008 and January 2009, the number of states reporting FY 2009 gaps has risen and the amount of the cumulative gap has grown. Originally pegged at \$31.8 billion, the new total is \$47.4 billion. It reached \$50 billion but has been reduced slightly by recent state actions.

- Thirty-one states and Puerto Rico resolved a cumulative \$40.3 billion shortfall as they were preparing their FY 2009 budgets. This pre-enactment budget gap followed the \$13 billion gap that 19 states and Puerto Rico plugged in FY 2008.
- In November 2008, 38 states and Puerto Rico reported that new gaps had opened. The amount reported in November represented a budget gap of \$31.8 billion. Twelve states did not indicate a FY 2009 gap at the time of the November report.
- The total number of states reporting FY 2009 budget gaps reached 43 and Puerto Rico. By January 2009, three states had resolved their shortfalls.
- Four states that previously did not report FY 2009 gaps did so in January. They are Alaska, Indiana, Michigan and Missouri.
- Since November, budget gaps have grown in 24 states. They remain the same size in 11 states and are lower in Delaware and Vermont.

- Three states—Florida, Iowa and Louisiana—have resolved their imbalances. In Florida, however, December revenues came in \$100 million below estimate, so another FY 2009 gap is possible.
- Seven states have not reported a FY 2009 budget gap. They are Arkansas, Montana, North Dakota, Oklahoma, Texas, West Virginia and Wyoming.

Projected FY 2010 Budget Gaps

New revenue and expenditure forecasts for FY 2010 have been prepared to assist state legislators as they begin their 2009 regular sessions. Updated forecasts have resulted in more states projecting FY 2010 budget gaps. Like the situation in FY 2009, the cumulative total has risen. The estimate in November was \$64.7 billion. It reached \$86.5 billion, but some actions taken for FY 2009 have reduced the projected gap slightly. The unresolved amount stands at \$84.3 billion.

- Of the 34 states projecting FY 2010 gaps, all except for Colorado, North Carolina and Oklahoma expect them to exceed 5 percent of their general fund budgets. In 24 states the gaps are projected to exceed 10 percent of their general fund budgets, with four of these above 20 percent.
- Of the 24 states forecasting double-digit gaps in FY 2010, the largest are in Nevada (37.6 percent) Arizona (28.2 percent), New York (24.3 percent), California (22.3 percent), Louisiana (19.8 percent), Washington (18.5 percent) and Hawaii (18.0 percent).
- Eight states that previously did not report FY 2010 gaps now report them. They are Colorado, Massachusetts, Michigan, Oklahoma, South Dakota, Tennessee, Texas and Utah. Of these states, Oklahoma and Texas are the only ones not reporting a FY 2009 shortfall.
- Sixteen states and Puerto Rico currently are not forecasting FY 2010 budget gaps. Of these, however, eleven states and Puerto Rico note budget problems in FY 2009.
- In 16 states, the projected gap for FY 2010 has risen since November. The forecast is unchanged in eight states and two report lower gaps. The two states with lower gaps—Florida and South Carolina—note that actions taken to resolve FY 2009 budget problems also helped lower the FY 2010 shortfall.

Table 1 provides detailed information on FY 2009 budget gaps and Table 2 provides information about FY 2010 budget gaps. For notes on the November survey, please consult "State Budget Update: November 2008."

November 2008 Survey*			January 2009 survey		
State	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget	Comment
Alabama (GF)	\$123.5	6.0%	\$253.2	12.2%	
Alabama (ETF)	N/A	N/A	\$801.0	12.5%	
Alaska	N/A	N/A	\$358.0	4.0%	
Arizona	\$1,235.0	12.3%	\$1,584.2	15.7%	
Arkansas	N/A	N/A	N/A	N/A	
California	\$8,400.0	8.0%	\$14,771.0	14.1%	
Colorado	\$99.7	1.3%	\$604.0	8.0%	
Connecticut	\$391.8	2.3%	\$391.8	2.3%	Connecticut will be issuing a report with revised estimates for FY 2009 through FY 2012 by Feb. 2, 2009.
Delaware	\$128.7	3.6%	\$109.2	3.1%	
Florida	\$2,142.3	8.6%	N/A	N/A	The previously reported FY 2009 budget gap has been resolved; however, December 2008 collections were \$100 million short of estimate. The state still has a positive balance in the working capital fund. But if revenues continue to fall short of estimate, lawmakers may need to cut the current year budget when the regular session convenes in March.
Georgia	\$2,100.0	10.4%	\$2,215.6	11.0%	
Hawaii	\$220.0	3.8%	\$353.3	5.8%	
Idaho	\$27.0	1.0%	\$120.0	4.0%	
Illinois	\$2,300.0	7.6%	\$2,800.0	9.9%	
Indiana	N/A	N/A	\$767.4	5.0%	A decline in revenue forecast projections has the governor proposing cuts of \$767.4 million in this current fiscal year. Indiana is showing a combined operating balance of \$1.275 billion (9.0%) of general fund operating revenues, this is a 5.0% cut in the "as passed appropriations" for FY 2009.
Iowa	\$35.0	0.5%	N/A	N/A	To close the FY 2009 gap Iowa's governor is recommending \$40.0 million in selected cuts that will have to be approved by the General Assembly. Iowa has also implemented a 1.5% across-the-board cut that is supposed to result in another \$90.7 million in cuts. That balanced with a \$47.0 million supplemental need for Medicaid would close the gap for FY 2009.
Kansas	\$136.8	2.1%	\$185.8	2.9%	
Kentucky	\$456.1	5.1%	\$456.1	5.1%	

November 2008 Survey*			January 2009 survey		
State	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget	Comment
Louisiana	\$341.0	3.5%	N/A	N/A	Pursuant to a revenue forecast revision made on Dec. 15, 2008, Louisiana had projected a FY 2009 deficit of \$341.0 million (3.5%). That deficit has been addressed by mid-year budget reductions, use of various excess fund amounts, and financing swaps. The official FY 2009 deficit is back to zero, pending further revenue forecast revisions in subsequent months.
Maine	\$140.3	4.5%	\$140.3	4.5%	
Maryland	\$138.0	0.9%	\$391.0	2.6%	Maryland's General Assembly will receive the governor's FY 2010 budget on Jan. 21, 2009, which will have to balance the FY 2009 and FY 2010 budgets within projected revenues.
Massachusetts	\$1,200.0	4.3%	\$2,400.0	8.5%	
Michigan	N/A	N/A	\$157.7	1.7%	
Minnesota	\$426.0	1.2%	\$426.0	1.2%	Minnesota does not have any changes in the forecast since the last November report. However, revenues for November and December are \$131.1 million below forecast.
Mississippi	\$85.5	1.7%	\$200.0	4.0%	
Missouri	N/A	N/A	\$541.6	6.5%	
Montana	N/A	N/A	N/A	N/A	
Nebraska	\$5.3	0.2%	\$5.3	0.2%	Officially, no change, the next revenue forecast revision will not be made until February. However, it has become obvious from internal forecasts, year-to-date tracking of revenue through December and significant downgrades to the economic outlook that the budget gaps in both years will get worse. The FY 2010 gap remains a planning estimate based on an ongoing current service budget. The budget for FY 2010 will not be enacted until near completion of the 2009 legislative session.
Nevada	\$337.0	10.5%	\$337.0	10.5%	The budget gap for FY 2009 represents the shortfall from July 1, 2008 to the present based on actions taken by the Legislature during special session in June 2008. The budget gap in FY 2009 when using the amounts approved by the 2007 Legislature is a much higher figure.
New Hampshire	\$250.0	10.0%	\$250.0	10.0%	
New Jersey	\$400.0	1.2%	\$2,100.0	6.3%	The governor has identified a \$2.1 billion gap for FY 2009 and has proposed action to eliminate the gap.
New Mexico	\$253.0	4.2%	\$454.2	7.5%	
New York	\$1,475.0	2.6%	\$1,707.0	3.4%	The FY 2010 executive budget presentation (released Dec. 16, 2008) projects a current year gap (FY 2009) of 1,707.0 million (3.4%) and an FY 2010 budget gap of \$13,678.0 million (24.3%) prior to executive budget proposed gap closing measures.
North Carolina	\$1,200.0	5.0%	\$2,000.0	8.3%	

Table 1. FY 2009 Budget Gaps (Post Enactment)					
November 2008 Survey*			January 2009 survey		
State	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget	Comment
North Dakota	N/A	N/A	N/A	N/A	
Ohio	\$1,180.7	6.1%	\$1,180.7	6.1%	
Oklahoma	N/A	N/A	N/A	N/A	Oklahoma finished FY 2008 with a surplus over \$80.0 million. Constitutionally only 95% can be appropriated so Oklahoma does not have a budget shortfall even though collections are below the estimate.
Oregon	\$142.0	1.0%	\$142.0	1.0%	Oregon's next revenue forecast will be released on Feb. 20, 2009. Until then no official numbers for updating budget gaps are available.
Pennsylvania	\$2,000.0	7.0%	\$2,300.0	7.5%	
Puerto Rico	\$800.0	8.4%	\$2,000.0	21.0%	Puerto Rico's gap consists of around \$200.0 million in projected recurrent revenue shortfall, \$1,000.0 million in a non-recurrent revenue shortfall and \$800.0 million in expenditures over budget. On Jan. 8, 2009, the governor declared a fiscal state of emergency after the transition process revealed an accumulated budget deficit of over \$3,000.0 million. The governor issued an executive order that includes an employee hiring freeze, salary freeze, vacant regular government position freeze, elimination of trust positions, no new positions, and reducing operational costs by 10.0% for the remainder of FY 2009. Other measures include government debt service restructuring to increase non-recurrent revenue by \$4,000.0 million to \$5,000.0 million and a \$500 million Puerto Rican economic stimulus package.
Rhode Island	\$350.0	10.4%	\$350.0	10.4%	
South Carolina	\$724.4	10.0%	\$966.0	13.7%	The FY 2009 and FY 2010 budget gap updates are not in addition to the \$724.0 million for FY 2009 and the \$600.0 million for FY 2010, they are cumulative. For FY 2009, the budget gap is being addressed by reducing the Capital Reserve Fund, targeted agency reductions, and 7.0% across-the-board agency reductions.
South Dakota	\$7.0	0.59%	\$52.2	4.4%	The latest estimate is based on the governor's numbers as of Jan. 22, 2009. The Legislature will release its own estimate in late February or early March.
Tennessee	\$800.0	7.0%	\$942.5	10.05%	Tennessee has projected a budget gap for FY 2009 between \$885.0 million and \$1.0 billion (9.3%-10.8%). For the purposes of this table a mid-point estimate has been used.
Texas	N/A	N/A	N/A	N/A	
Utah	\$354.0	6.4%	\$350.0	7.0%	Utah closed the \$354.0 million gap in a special session. Utah now has an additional gap of \$350.0 million.
Vermont	\$88.0	8.0%	\$53.0	4.5%	

Table 1. FY 2009 Budget Gaps (Post Enactment)

November 2008 Survey*			January 2009 survey		
State	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget	Comment
Virginia	\$973.6	5.7%	\$1,256.5	7.4%	Virginia's gap reflects a further downward revision in revenues and spending pressures. Mostly Medicaid percentages represent a problem as a percent of the general fund budget.
Washington	\$413.0	2.7%	\$413.0	2.7%	
West Virginia	N/A	N/A	N/A	N/A	
Wisconsin	\$281.0	2.0%	\$528.0	3.8%	
Wyoming	N/A	N/A	N/A	N/A	
United States	\$31,819.7		\$47,414.6		

Key:
(N/A) = Not applicable —no FY 2009 gap.
GF = State general fund
ETF = Education Trust Fund
*= For more information and notes regarding budget gaps reported in November 2008, please see NCSL's *State Budget Update: November 2008*.
Highest post-enactment gap total: \$49,224.0
Source: NCSL survey of state legislative fiscal offices, November 2008 and January 2009.

Table 1. FY 2010 Budget Gaps					
November 2008 Survey*			January 2009 survey		
State	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget	Comment
Alabama (GF)	N/A	N/A	N/A	N/A	Alabama's current estimate for the general fund amount available for expenditure for FY 2010 relative to FY 2009 is \$376.6 million less, which is \$629.8 million less than FY 2009 current level of general fund appropriations.
Alabama (ETF)	N/A	N/A	N/A	N/A	
Alaska	N/A	N/A	N/A	N/A	
Arizona	\$2,600.0	24.2%	\$3,006.5	28.2%	
Arkansas	N/A	N/A	N/A	N/A	
California	\$19,500.0	18.0%	\$24,789.0	22.3%	
Colorado	N/A	N/A	\$343.0	4.6%	
Connecticut	\$2,495.3	13.6%	\$2,495.3	13.6%	Connecticut will be issuing a report with revised estimates for FY 2009 through FY 2012 by Feb. 2, 2009.
Delaware	\$215.0	6.2%	\$452.0	12.9%	
Florida	\$4,650.0	N/R	\$2,500.0	11.2%	
Georgia	\$2,100.0	10.4%	\$2,215.6	11.0%	
Hawaii	\$730.0	12.6%	\$1,057.2	18.0%	
Idaho	\$150.0	5.0%	\$271.8	10.0%	
Illinois	N/A	N/A	N/A	N/A	Illinois reports that any official FY 2010 information will not be available until mid-March.
Indiana	N/A	N/A	N/A	N/A	
Iowa	\$625.0	8.9%	\$779.0	11.5%	
Kansas	\$958.5	14.5%	\$1,110.2	17.0%	
Kentucky	N/A	N/A	N/A	N/A	
Louisiana	\$1,300.0	12.7%	\$2,020.0	19.8%	The official FY 2010 budget deficit is projected at \$2.02 billion (19.8%). This deficit will be addressed by a continuation of as much of the \$341.0 million of FY 2009 reductions as possible combined within the overall executive budget proposal for FY 2010.
Maine	\$411.9	12.2%	\$411.9	12.2%	
Maryland	\$1,226.0	7.7%	\$1,874.0	11.7%	
Massachusetts	N/A	N/A	\$3,000.0	10.7%	
Michigan	N/A	N/A	\$1,200.0	12.3%	
Minnesota	\$2,600.0	14.7%	\$2,600.0	14.7%	
Mississippi	N/A	N/A	N/A	N/A	

November 2008 Survey*			January 2009 survey		
State	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget	Comment
Missouri	N/A	N/A	N/A	N/A	
Montana	N/A	N/A	N/A	N/A	
Nebraska	\$274.2	7.3%	\$274.2	7.3%	Officially, no change. The next revenue forecast revision will not be made until February. However, it has become obvious from internal forecasts, year-to-date tracking of revenue through December and significant downgrades to the economic outlook that the budget gaps in both years will get worse. The FY 2010 gap remains a planning estimate based on an ongoing current service budget. The budget for FY 2010 will not be enacted until near completion of the 2009 legislative session.
Nevada	\$750.0		\$1,067.4	37.6%	The FY 2010 budget gap represents continuing FY 2009 services as approved by the 2007 Legislature (before any budget reductions were implemented) in FY 2010 and comparing this figure to the existing revenues that are anticipated in FY 2010. The governor has recommended a number of budget reductions that would reduce appropriations in FY 2010 and FY 2011 below levels approved by the 2007 Legislature for FY 2009. If the levels of services were continued at the level approved by the 2007 Legislature, the budget gap amount and percentage of the general fund is accurate.
New Hampshire	N/A	N/A	N/A	N/A	The governor's office will release its recommended budget by Feb. 15, 2009.
New Jersey	\$2,500.0	7.6%	\$5,000.0	N/R	The governor is estimating about a \$5.0 billion budget gap.
New Mexico	N/A	N/A	N/A	N/A	For FY 2010, there is no budget gap because there have been no appropriations, but the FY 2010 revenue means that the appropriations will be \$293.0 (4.9%) million less than in FY 2009.
New York	\$12,518.0	20.0%	\$13,678.0	24.3%	The FY 2010 executive budget presentation (released Dec. 16, 2008) projects a current year gap (FY 2009) of 1,707.0 million (3.4%) and an FY 2010 budget gap of \$13,678.0 million (24.3%) prior to executive budget proposed gap closing measures.
North Carolina	\$900.0	4.5%	\$900.0	4.5%	
North Dakota	N/A	N/A	N/A	N/A	
Ohio	N/A	N/A	N/A	N/A	The governor is to present his budget around Feb. 2, 2009. At that time the first official look at FY 2010 will be ready.
Oklahoma	N/A	N/A	\$309.0	4.4%	FY 2010 revenues are projected to be \$309.0 million (4.4%) below FY 2009.
Oregon	\$650.0	7.7%	\$650.0	7.7%	Oregon's next revenue forecast will be released on Feb. 20, 2009. Until then no official numbers for updating budget gaps are available.
Pennsylvania	N/A	N/A	N/A	N/A	The governor will present the budget for FY 2010 on Feb. 4, 2009

November 2008 Survey*			January 2009 survey		
State	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget	Comment
Puerto Rico	N/A	N/A	N/A	N/A	Puerto Rico will approve a balanced budget between \$9.0 billion and \$10.0 billion using recurrent and non-recurrent revenues and control of expenditures for FY 2010.
Rhode Island	\$460.0	13.1%	\$460.0	13.1%	
South Carolina	\$600.0	8.3%	\$535.0	9.1%	The FY 2009 and FY 2010 budget gap updates are not in addition to the \$724.0 million for FY 2009 and the \$600.0 million for FY 2010; they are cumulative.
South Dakota	N/A	N/A	\$81.6	6.7%	The latest estimate is based on the governor's numbers as of Jan. 22, 2009. The Legislature will release its own estimate in late February or early March.
Tennessee	N/A	N/A	\$856.0	9.0%	Tennessee has projected a budget gap for FY 2010 between \$712.0 million and \$1.0 billion. (7.5%-10.5%) For the purposes of this table a mid-point estimate has been used.
Texas	N/A	N/A	\$2,100.0	5.1%	Estimate is one-half of the projected FY 2010-2011 biennial budget gap.
Utah	N/A	N/A	\$450.0	9.0%	
Vermont	\$118.0	10.5%	\$218.0	16.5%	Vermont has projected a budget gap for FY 2010 between \$178.0 million and \$258.0 million depending on how they treat their Medicaid shortfall, which is outside the general fund. For the purposes of this table a mid-point estimate has been used.
Virginia	\$1,500.0	8.5%	\$1,958.2	11.2%	Virginia's gap reflects a further downward revision in revenues and spending pressures. Mostly Medicaid percentages represent a problem as a percent of the general fund budget.
Washington	\$2,336.0	14.0%	\$3,177.3	18.50%	
West Virginia	N/A	N/A	N/A	N/A	
Wisconsin	\$2,500.0	17.2%	\$2,500.0	17.2%	
Wyoming	N/A	N/A	N/A	N/A	
United States	\$64,667.9		\$84,340.2		

Key:
(N/A) = Not applicable —no FY 2010 gap.
GF = State general fund
ETF = Education Trust Fund

*= For more information and notes regarding budget gaps reported in November 2008, please see NCSL's *State Budget Update: November 2008*.

Highest FY 2010 pre-enactment gap total: \$84,455.2

Source: NCSL survey of state legislative fiscal offices, November 2008 and January 2009.



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