State Budget Update: July 2009

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William T. Pound, Executive Director

7700 East First Place
Denver, CO 80230
(303) 364-7700

444 North Capitol Street, N.W., Suite 515
Washington, D.C. 20001
(202) 624-5400

www.ncsl.org
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NCSL

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STATE BUDGET UPDATE: JULY 2009

2009 will mark one of the most difficult years in history for state budgets. The fiscal challenges are enormous, widespread and, unfortunately, far from over.

Lawmakers in virtually every state scrambled to keep their fiscal year (FY) 2009 budgets balanced while at the same time struggling to enact new ones for FY 2010. Hemorrhaging revenues drove the massive difficulties they faced. No matter how pessimistic revenue forecasts were, actual collections seemed to come in lower. This happened over and over and over again. Ultimately, states were not just faced with lower revenue growth rates, they confronted year-over-year declines in actual collections.

The worsening revenue situation produced gaping budget holes. Lawmakers closed a cumulative shortfall that reached $113.2 billion for FY 2009. But as bad as that situation was, the circumstances for FY 2010 already are worse. As lawmakers assembled their FY 2010 budgets, they faced a staggering gap of more than $142.6 billion. That is the total shortfall states had to close as they enacted their new budgets. It does not include any new gaps that may open after the fiscal year begins.

The obvious challenges associated with getting new budgets enacted when revenues are plummeting made the budget process more difficult than usual. Budget negotiations stalled in several states causing some to extend their regular sessions or convene special sessions to get their work done. Eight states failed to meet their July 1 budget deadline as legislators and governors became locked in protracted, and often combative, debates. At the time this report was written in mid July, six states still had failed to pass a budget for FY 2010.[1]

If the process was made any easier, credit goes to the federal stimulus funds provided through the American Recovery and Reinvestment Act of 2009 (ARRA). Without that money, state fiscal problems would have been even more severe. The onset of extra federal funds generated challenges of its own, however, as legislators and governors in some states sparred over the acceptance of the money and how to use it.

[1] For an update on state's FY 2010 budget status please visit: http://www.ncsl.org/?tabid=17649

Some might think that state lawmakers are uttering a collective sigh of relief now that most have their new budgets in place, but that is not the case. Dread is more like it. If FY 2010 budgets follow a pattern similar to the ones in the past two years, new gaps will emerge after the fiscal year begins—in fact, some states already are reporting new shortfalls just weeks into the new fiscal year. If that was not enough, lawmakers in many states already see budget gaps looming in FY 2011 and FY 2012.

This report provides information collected from legislative fiscal directors in June and July 2009. It includes information on budget gaps in FY 2009 and FY 2010 for all 50 states and Puerto Rico. Because of delayed budget enactment or lack of a budget altogether, 35 states provided information and are included in other sections of this report (although in some instances, states did not provide complete information). Additional areas covered in this report include estimated growth rates for FY 2010 revenues, the impact of ARRA funds on state spending changes, a summary of actions states took to close FY 2010 budget gaps and forecasts of gaps in FY 2011 and FY 2012.

There are two important notes about this report. First, this information is preliminary and subject to change as states provide additional information. Second, federal stimulus funds provided through ARRA distort many of the numbers. For instance, states may have reported that general fund spending fell from one year to the next, but ARRA funds—outside of the general fund—may have offset all or parts of those reductions. This has been an extremely difficult year to report, compile and analyze state data to provide a comprehensive and comparable look at state budgets.

FY 2009 Budget Gaps

Nearly every state faced budget problems in FY 2009. Even the few states that sidestepped budget gaps saw their revenue situation deteriorate, putting them on alert to the state fiscal problems sweeping the nation.

Persistent revenue shortfalls spawned big budget gaps in FY 2009. Here are the numbers.

- 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, which was closed because of balanced budget requirements, followed the $12.8 billon gap that 19 states and Puerto Rico plugged in FY 2008.
- After the fiscal year began, new budget gaps opened. The $31.8 billion gap that states reported in November 2008 grew to $47.4 billion by January 2009. The amount rose to $62.4 billion by April, and ultimately reached $73 billion before the fiscal year had ended.
- The combination of the pre-budget enactment gap and the amount following the beginning of the fiscal year places the total FY 2009 budget gap at $113.2 billion.
- The size of post-enactment budget gaps (as a percentage of the general fund budget) varied considerably. Based on the highest gaps reported, 21 states and Puerto Rico

faced imbalances equal to or greater than 10 percent of their budgets, with Alaska, Arizona, Nevada and Puerto Rico above 20 percent. Fifteen states had gaps ranging between 5 percent and 9.9 percent. Of the remaining eight states, only Iowa, Nebraska and Oklahoma had gaps below 1 percent.

Table 2 provides more information on FY 2009 budget gaps.

FY 2009 Balances

Year-end balances, which combine general fund closing balances with amounts in rainy day funds, are an important indicator of state fiscal stability. They are shown here as a percentage of general fund spending to provide a comparison across states. Budgets pressures have reduced ending balances for most states. Some states, however, delayed tapping reserves because they foresee even more fiscal difficulties ahead.

- For the 33 states providing this information, nine reported balances above 10 percent of their FY 2009 general fund budgets. Alaska reported the largest ending balance at 164.1 percent, which is largely explained by its massive rainy day fund. The other states with double-digit ending balances also tended to report large rainy day funds. Many of them also had the common feature of economies based in part on natural resources (e.g., Alaska, North Dakota, Texas, Oklahoma, Montana and West Virginia).
- Seven other states reported balances above 5 percent. Another 12 states had balances between 0.5 percent (Kentucky and South Carolina) and 4.4 percent (Virginia).
- Arizona and Arkansas reported zero balances at the end of FY 2009.
- In a departure from recent years, three states reported year-end deficits that still needed to be resolved. These states were Hawaii, South Dakota and Colorado.
- Of the 33 reporting states, 30 saw their balances fall from FY 2008 levels. Twelve states saw declines in excess of 5 percentage points. Idaho reported the biggest year-over-decline, with its balance falling 12 percentage points.
- Three states saw their FY 2009 balances rise from FY 2008 levels. Alaska's rose 36 percentage points. In both Rhode Island and Utah, the gain was less than 1 percentage point.

FY 2009 Revenues and Expenditures

With only 33 states providing information on general fund revenue and expenditure growth, it would be premature to provide national figures. However, there are important developments from the 33 reporting states that should be noted:

- FY 2009 general fund revenues fell below FY 2008 collections in virtually every state. Of the 33 states providing information, 31 saw declines. In 21 states the drop was larger than 5 percent, with seven of these reporting declines greater than 10 percent. The largest year-over-year drops occurred in Alaska (-39.6 percent), Arizona

(-18.2 percent), Idaho (-15.1 percent), New Jersey (-12.4 percent) and Alabama (-12.2 percent).

- So far, two states have reported year-over-year revenue increases. They are West Virginia (8 percent) and New York (1.3 percent).
- FY 2009 expenditures fell below FY 2008 spending for the majority of states providing information. Twenty-one states reported year-over-year drops with five in excess of 10 percent. The largest declines were in Utah (-17.3 percent), South Carolina (-16.5 percent) and Arizona (-16.3 percent).
- Eleven states indicated that spending rose above FY 2008 levels. The largest increase was in West Virginia (13.8 percent), which was among the very last states to feel the effects of the national recession.

Initial FY 2010 Budget Gaps

As lawmakers assembled their FY 2010 budgets, they faced ballooning gaps. With each new revenue update, the imbalance grew. Lawmakers were obviously alarmed. They already had taken far-reaching, difficult and often unpopular actions to close massive FY 2009 gaps. Now they were faced with another set of shortfalls. Not only were the gaps enormous, they left virtually no state unscathed.

California deserves special mention because of the sheer size of its gap (in FY 2009 as well) and the moving target that it presents. California's initial budget gap for FY 2010 was $24.8 billion. That gap, along with a $14.8 billion gap for FY 2009, was resolved in a February 2009 budget agreement—except that it wasn't. The resolution included five ballot measures, representing about $5.8 billion of the fix, that failed to get voter support in a May special election. Adding the $5.8 billion unresolved figure to the amount of the gap that was closed ($18.9 billion), plus the newest gap ($14.2 billion) that officials expect because of declining revenues, California's cumulative FY 2010 gap explodes to a whopping $38.9 billion or 35 percent of the general fund budget.

Here are the FY 2010 budget gap figures for the rest of the reporting states (Table 3 provides more information):

- As early as November 2008, 26 states forecasted a FY 2010 budget gap that totaled $64.7 billion. By January 2009, 34 states reported a cumulative gap of $84.3 billion. By March, the total mushroomed to $121.2 billion with 42 states and Puerto Rico providing figures.
- In the last three months of the fiscal year, the total has leaped to $142.6 billion (substantially driven by California). This is the total amount confronting lawmakers as they enacted their new spending plans. This pre-budget enactment figure shatters the total pre- and post-budget enactment gap for FY 2009. Figure 1 illustrates this striking development.

- Based on the highest gaps reported for FY 2010 (before the onset of the fiscal year), 34 states and Puerto Rico faced imbalances greater than 10 percent of their budgets, with 15 of these above 20 percent. Of the remaining 10 states that project gaps, six place them below 5 percent of the budget. It is certain that only Arkansas, North Dakota and Wyoming have side-stepped FY 2010 gaps (so far). A couple of states noted "no response" because they could not provide a specific budget gap amount.
- By virtue of enacting their FY 2010 budgets, most states have closed their gaps. That is obviously not the case for the states that have not finished their FY 2010 budgets yet. Although Arizona and California enacted budgets, both states still face imbalances that must be resolved.

NCSL asked states to indicate the major actions they took to close FY 2010 budget gaps and the relative share of the total that each action represented. The information provided by the 35 reporting states is as follows:

- Twenty-five of the reporting states used federal ARRA funds as part of their solution to close FY 2010 budget gaps. (This is discussed in more detail later in the report.) The states depending most heavily on these funds were Texas (ARRA represented 96.7 percent of the total solution) and Nebraska (88 percent of the total solution).
- Montana and West Virginia stand out for relying 100 percent on budget cuts to erase their budget imbalances. At least 22 other states also cut spending as part of their solution, with the share attributable to this action ranging from 58 percent in Virginia to 4 percent in Mississippi.
- At least 11 states raised taxes to help eliminate budget gaps. In New York, new or higher taxes accounted for 39.3 percent of the total gap-closing fix. More information on state tax and fee actions in 2009 can be found in "State Tax Update: June 2009."
- Fee increases also contributed to the solution. Of the 12 states reporting higher fees so far, Utah's increase accounted for the largest share of any state's solution at 8.5 percent.
- Twelve states used other revenues to help shore up the budget. For instance, Virginia implemented a tax amnesty program, required early remittance of sales taxes from large dealers and capped the land preservation tax credit. Revenues from these actions accounted for about 10 percent of Virginia's budget fix.
- At least eight states tapped their rainy day funds. In Iowa, money from the rainy day fund closed about 15.7 percent of the budget gap.
- A few states tapped other reserves. Alaska used this solution to address 35 percent of its budget problem.
- A handful of states used other one-time solutions to close the FY 2010 budget gap. For instance, Minnesota delayed payments to school districts. This, among other

one-time measures, represented about 41 percent of the state's action to close its gap.

Separately from this survey, NCSL has collected information on state actions to address FY 2010 budget gaps. The compilation, which includes proposals and final actions, covers budget cuts as well as revenue raising actions. The information can be found at: http://www.ncsl.org/?tabid=17255

FY 2010 Balances

The projection for year-end balances at the end of FY 2010 shows a slight improvement over FY 2009, but that situation could easily change as the fiscal year progresses.

- For the 32 states providing this information, eight expect FY 2010 balances greater than 10 percent of their general fund budgets. Alaska again reported the largest projected ending balance at 171.1 percent. Texas was the second highest at 43.7 percent. Texas has a particularly high balance in its Economic Stabilization Fund (which has a constitutionally required deposit mechanism) and front-loaded federal ARRA funds into the first year of the 2010-11 biennium, which somewhat skews the state's figures.
- Eight other states reported balances above 5 percent. Another 10 states had balances between 0.4 percent (Maine) and 4 percent (Rhode Island and Virginia).
- Arkansas and Kentucky reported zero balances at the end of FY 2010.
- Four states reported year-end deficits that still need to be resolved, three of them also reporting FY 2009 deficits (Hawaii, South Dakota and Colorado). The newest state added to this list, South Carolina, already knows that it will transfer $225 million of the state's share of enhanced FMAP to the general fund, which will erase the deficit.
- Of the 32 reporting states, 22 expect their balances to fall from FY 2009 levels. Three states expect declines in excess of 5 percentage points. North Dakota, which has weathered the recession better than most states, reported the biggest year-over-decline, with its balances projected to fall 18.8 percentage points (but still leaving the year-end closing balance at 31.6 percent of general fund spending).
- Nine states expect their FY 2010 balances to rise above FY 2009 levels. The biggest expected increase is in Texas (22.5 percentage points), but again, front loading ARRA funds into FY 2010, the first year of the 2010-2011 biennium, has a distorting effect.
- For the 32 reporting states, at least 15 see their balances falling for three consecutive years.

FY 2010 Revenue and Appropriations

If FY 2010 budgets follow a pattern similar to the ones in FY 2009 in FY 2008, new gaps will open after the fiscal year begins. This typically occurs because forecasted revenues used to build the budget fail to materialize (or spending exceeds budgeted amounts, but that has not been a significant source of current problems). Several states already have reported revenue shortfalls just weeks into the new fiscal year and more are bracing for write-downs in coming months based on revenue performance in the waning months of FY 2009.

Because revenue shortages have driven the vast majority of state fiscal problems so far, it is important to look at revenue forecasts for FY 2010. Here are the numbers:

- For the 32 states providing this information, 19 expect general fund revenues to drop below FY 2009 collections. So far, the largest declines are reported by Alaska, (-45.3 percent), West Virginia (-11.9 percent) and Utah (-10.8 percent).
- Thirteen states expect FY 2010 revenues to come in higher than FY 2009 collections, although in three of these states the increase is less than 1 percent. The largest expected increases are in Nevada (11.9 percent) where new revenues were approved during the 2009 session and North Dakota (11.3 percent).
- Of the 32 states providing general fund appropriations information, 25 expect spending to fall from FY 2009 levels. As a note of caution, federal ARRA funds may have offset some of the reductions. The biggest drop in general fund appropriations was reported by Alaska (-24.2 percent). Texas also reported a big decline (-21.6 percent) in FY 2010, which is the first year of its 2010-2011 biennium (on a biennial basis, the estimated drop was 1.9 percent). K-12 education would have been the primary area affected by reductions, but ARRA funds stalled that development.
- The largest appropriations increase occurred in North Dakota (24.3 percent) where state officials funded property tax relief and gave sizeable funding boosts to K-12 education (13 percent) and higher education (25.7 percent). State employees also received salary increases ranging from about 5 percent to 7 percent.

The Impact of ARRA Funds on FY 2009 and FY 2010 State Budgets

An important factor affecting state finances in FY 2009 and especially in FY 2010, was the availability of federal stimulus funds provided through the American Recovery and Reinvestment Act. Before the act was approved and initial money was disbursed to states, lawmakers were considering even deeper reductions to program budgets for FY 2010. The federal money has staved off some of those cuts and is expected to help with FY 2011 budgets as well.

In both FY 2009 and FY 2010, the federal stimulus funds prevented state spending from falling even more than it would have without the funds.

- Three state—Alabama, Kentucky and Washington—would have experienced year-over-year spending declines in FY 2009 if not for the ARRA funds. In at least five other states, year-over-year spending still dropped, but by less than it would have otherwise. In Mississippi, for instance, total operating spending fell 0.3 percent, but would have dropped 5.6 percent without the ARRA money. Some states said they did not use federal stimulus funds in their FY 2009 budgets.

- The percentage point difference in total state operating spending with and without ARRA funds varied considerably. Adding ARRA funding into the mix for FY 2009 boosted year-over-year total operating spending by 12.8 percentage points in Alabama (spending would have fallen 4.8 percent but instead rose 8 percent). The range in other states was from 1.2 percentage points in New York to 7 percentage points in Kentucky.
- The impact of ARRA funds in FY 2010 budgets is more evident (especially when considering the percentage point difference in spending, discussed in the next paragraph). Seven states avoided year-over-year spending dips because of the federal stimulus money. In five others, spending still fell, but by a lesser degree.
- Of the 25 states reporting information, 15 indicated that ARRA funding boosted total operating spending by more than 5 percentage points. Once again, Alabama had the highest percentage point difference, this time at 22.7 percentage points (spending would have fallen 15.1 percent but instead rose 7.6 percent). Other notable impacts were reported by North Dakota (15.5 percentage points) and South Carolina (13.8 percentage points).

As previously discussed, ARRA funds were used to help close FY 2010 budget gaps in many states. The relative share of the gap-closing measures was significant in many.

- Twenty-four of the 25 states providing information used federal stimulus funds for more than 20 percent of their gap-closing solution.
- Nine states relied on this money for more than half of the FY 2010 budget fix.
- As already noted, Texas (96.7 percent) and Nebraska (88 percent) made the heaviest use of these funds to close their budget gaps. Other sizeable uses were reported by Kentucky (68.4 percent), South Carolina (64.3 percent), Vermont (62 percent) and New Mexico (61.4 percent).

This is only partial information at this time. When all 50 states provide calculations, the full impact of federal ARRA funds will be more clear.

Projected Budget Gaps in FY 2011 and FY 2012

Nearly two-thirds of the states already project a budget gap in FY 2011. Of the remaining states, many note that it is simply too early to know if a gap will occur, although several indicated that one is likely. The size of these projected gaps raise warning sirens—loud ones. Several states will need to close double-digit budget gaps yet again.

- Of the 30 states and Puerto Rico that foresee a FY 2011 budget gap, 24 states provided preliminary estimates of the size, which already is pegged at a total of $58.5 billion.
- Washington foresees a $3.4 billion gap (22 percent).
- Maine's projected budget gap is $765.2 million (21.6 percent).
- Maryland projects a structural imbalance of $2.3 billion (15.2 percent).
- Officials in Hawaii project a $775.5 million (14.4 percent) deficit, up from $568 million (9.5 percent) previously reported for FY 2011.
- Florida's shortfall is in the $5 billion range.
- Iowa sees a $698.9 million (12.1 percent) gap looming.
- Texas, one of the few states avoiding a FY 2009 gap, expects a $3.3 billion shortfall (7.6 percent) in FY 2011. This is half of the 2010-11 biennial gap of $6.6 billion, and is higher than the original estimate of $6.2 billion.

Some states prepare longer-term, multi-year projections of future revenue and expenditure needs, giving them a early warning of looming problems. Based on projections, some states already see budget gaps as far out as FY 2012 (and beyond in a few instances). Here are the numbers:

- At least 15 states are projecting budget gaps for FY 2012. Nine of these states provided amounts, and the total so far is $21.1 billion.
- Hawaii is looking at a $1.2 billion gap (nearly 21 percent).
- Maryland officials report a projected gap of $1.9 billion (11.4 percent).
- In Minnesota, the rough figure is almost $3.2 billion (18.9 percent).
- New York reports an expected imbalance approaching $8.8 billion (13 percent).

The fiscal challenges facing states in FY 2011 and FY 2012, in particular, stem from three principal concerns:

- Recessions tend to drive up state spending for caseload-driven programs like Medicaid and other safety net programs. How big are these new or extra spending demands, and what added pressures will they impose on state budgets?
- The bulk of federal ARRA funds for state and local governments are expected to be disbursed by the end of this year, nearly $100 billion worth. Half as much money will be available in 2011, nearly $51 billion. What holes will be left in state budgets once the ARRA funds are exhausted?
- State revenue performance has been pummeled by the national recession. When will the recession end and at what point will state revenue performance recover?

Many states say they are looking at a cliff in 2011 because they know ARRA funding will be gone, and they do not expect state revenue performance to rebound strongly enough to make up the difference.

The Foreboding Future

Severe revenue failures are generating a lengthy chain of acute budget gaps. Because the current state fiscal crisis began in FY 2008, many states are looking at a minimum of four to five consecutive years of deep fiscal problems, and maybe more.

Figure 1 gives a longer-term perspective on budget gaps, starting in FY 2001 when the states last dealt with the effects of a national recession. That eight-month recession began in March 2002 (the last part of FY 2002) and ended in November of the same year (about midway through FY 2003 for most states). The worst two years for state budgets were in FY 2003 and FY 2004, with recovery starting to take hold by FY 2005. The total, multi-year gap that states closed was $263.8 billion.

By contrast, the current recession already has lasted 19 months and the cumulative budget gap since it began is $268.6 billion. Adding in the preliminary estimates from those states that foresee gaps in FY 2011 and FY 2012, the total skyrockets to an eye-popping $348.2 billion. It will not end there.

Some noted economists speculate that the economy might hit bottom sometime this year, midway through FY 2010 for most states. That could place budgets for FY 2010 and FY 2011 among the most challenging for lawmakers. But if the recession lingers (as some economists suggest), economic growth is particularly tepid (as some economists warn) or the nation dips into a another recession (as some economists predict), state fiscal problems would obviously last longer.

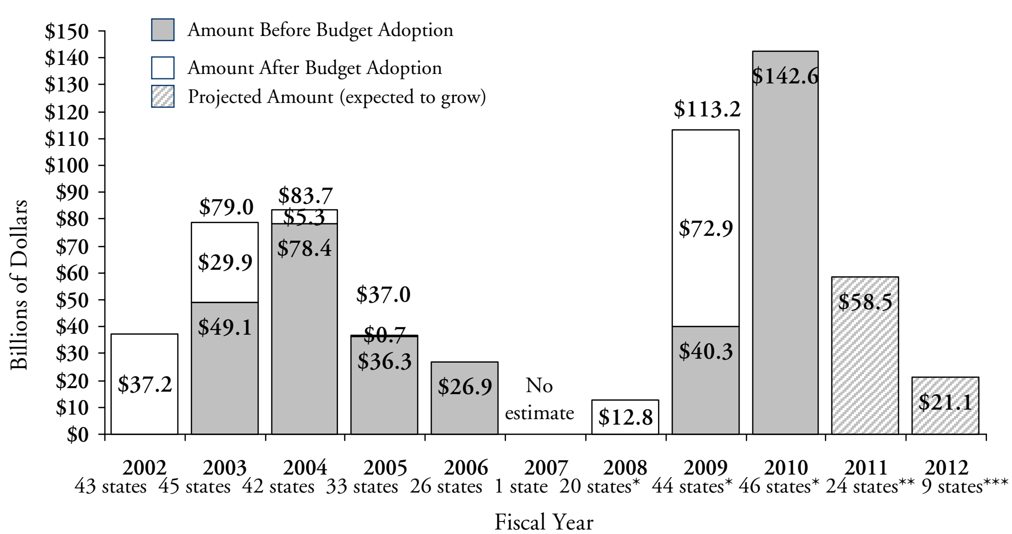
This all underscores an unfortunate fact: Without a doubt, lawmakers' endurance to resolve extraordinary fiscal problems will be tested for years to come.

Table 1. BUDGET GAP NUMBERS BY YEAR			
Past Recession		Current Recession	
Year	Amount (in Billions)	Year	Amount (in Billions)
2002	$37.2	2008	$12.8
2003	$79.0	2009	$113.2
2004	$83.7	2010	$142.6*
2005	$37.0	2011	$58.5**
2006	$26.9	2012	$21.1**
Total	**$263.8**	**Total**	**$348.2***

Past Recession: March 2001 to November 2001 (8 months).
Current Recession: Began December 2007 to present (19 months and counting)
* Preliminary figure (expected to increase)
** Projection (expected to increase)

Source: National Conference of State Legislatures, 2009.

Figure 1. State Budget Gaps FY 2001-FY 2012 (projected)



*Includes Puerto Rico
** 31 states and Puerto Rico forecast FY 2011 gaps. The amount shown for FY 2011 indicates the 24 states that provided gap estimates.
*** 15 states forecast FY 2012 gaps. The amount shown for FY 2012 indicates the nine states that provided gap estimates.
Source: NCSL survey of legislative fiscal offices, various years.

Table 2. FY 2009 Budget Gaps			
State	Estimate (in millions)	Percent of General Fund Budget	Comment
Alabama (GF)	*$269.0*	*13.0%*	
Alabama (ETF)	*$801.0*	*12.5%*	
Alaska	*$1,520.0*	*21.0%*	The supplemental process reduced the deficit to $389 million (before savings).
Arizona	*$2,434.2*	*24.2%*	
Arkansas	*N/A*	*N/A*	No gaps between revenues and expenditures have occurred or have any corrective actions been necessary after budgets were formulated before the beginning of FY 2009.
California	*$19,639.0*	*18.8%*	The cumulative budget gap figure includes $14.8 billion previously resolved as part of the February 2009 budget agreement that addressed the FY 2009 budget shortfall. An additional budget gap of $4.87 billion developed after corrective measures were taken earlier this year.
Colorado	*$1,185.3*	*15.1%*	The final estimate for the FY 2009 budget gap compares general fund expenditures (either budgeted or expected to incur at the beginning of the fiscal year) to current revenue estimates, less corrective measures.
Connecticut	$1,353.2	7.9%	
Delaware	*$236.1*	*6.8%*	The budget gap is assuming "corrective action", which includes aggressive production of reversions. By year end, the reversion estimate was $240 million, which eliminated a possible negative year-end unencumbered balance.
Florida	$3,175.0	12.3%	
Georgia	*$2,926.4*	*14.1%*	
Hawaii	*$638.9*	*11.1%*	This figure includes the effects of the most current revenue projection adopted by the Council on Revenues on May 28, 2009, approximately three weeks after the budget was finalized and when FY 2009 actual tax revenues were known.
Idaho	*$405.3*	*14.8%*	
Illinois	$4,317.0	13.7%	
Indiana	*$972.8*	*7.0%*	
Iowa	*$35.0*	*0.5%*	
Kansas	$185.8	2.9%	
Kentucky	*$456.1*	*5.1%*	
Louisiana	$341.0	3.5%	
Maine	*$269.6*	*8.7%*	The previously reported amount was at the beginning of the 2008-2009 biennium, July 1, 2007. Since then each successive forecast has revised revenue estimates downward. Four revenue revisions since then have lowered general fund revenue by $394.9 million, $269.6 million of that since the beginning of the fiscal year. An additional shortfall based on negative revenue variances in May and June would have added another $40 million to $50 million to that latest estimate.
Maryland	*$1,384.5*	*9.5%*	Figures represent cumulative write downs since July 2008 plus net deficiencies approved in the 2009 session.
Massachusetts	$2,950.0	10.5%	

Table 2. FY 2009 Budget Gaps			
State	Estimate (in millions)	Percent of General Fund Budget	Comment
Michigan	$313.0	3.2%	
Minnesota	*$426.0*	*1.2%*	$426 million was the highest estimate. Now a positive balance is expected at the end of FY 2009 due to federal FMAP funds from the American Reinvestment and Recovery Act.
Mississippi	*$406.5*	*8.0%*	General fund collections through June 30, 2009, were $406.4 million below the *sine die* estimates. There will be adjustments in the next two-month closeout period.
Missouri	$778.5	10.4%	
Montana	*N/A*	*N/A*	No gap was anticipated.
Nebraska	*$5.3*	*0.2%*	
Nevada	*$1,094.0*	*28.1%*	The budget gap for FY 2009 has been calculated differently in previous surveys. The 28.1% figure represents the budget gap from the budget approved by the 2007 Legislature for FY 2009. After the 2007 regular session, two special sessions of the Legislature were required to address general fund revenues not meeting projected levels. The earlier 10.5% budget gap was calculated based on actions taken by the Legislature in special session to address the revenue shortfall. However, the 28.1% budget gap reflects the shortfall that was addressed based on the budget that was initally passed by the 2007 Legislature for FY 2009.
New Hampshire	$250.0	10.0%	
New Jersey	*$4,400.0*	*13.3%*	Executive's estimate in May 2009. It was subsequently revised to $4.3 billion in June 2009.
New Mexico	*$454.2*	*7.5%*	
New York	*$1,707.0*	*3.4%*	
North Carolina	$2,200.0	10.3%	
North Dakota	*N/A*	*N/A*	
Ohio	$1,180.7	6.1%	
Oklahoma	*$6.8*	*0.1%*	Low oil and natural gas prices have been the catalyst for revenue declines in the second half of FY 2009 and have had a direct effect on gross production collections, while adversely impacting income and sales tax performance.
Oregon	$755.0	10.4%	
Pennsylvania	$2,600.0	9.2%	
Puerto Rico	$3,200.0	29.0%	
Rhode Island	*$449.3*	*13.7%*	The final estimate is based on the original FY 2009 enacted amount.
South Carolina	*$1,184.7*	*17.6%*	The previous budget gap included a $983 million estimated revenue shortfall, agency deficits totaling $55 million, and a homestead exemption shortfall of $55 million. The final estimate includes a Bureau of Economic Advisors, reduction of $92 million as of June 11, 2009.
South Dakota	*$71.4*	*6.2%*	
Tennessee	$1,074.0	11.5%	
Texas	*N/A*	*N/A*	2009 supplemental spending needs fit within available 2009 ending balances.

Table 2. FY 2009 Budget Gaps

State	Estimate (in millions)	Percent of General Fund Budget	Comment
Utah	*$875.0*	*15.6%*	The gap was closed by legislative action between September 2008 and May 2009. FY 2009 revenue appears to be on target with the latest estimates.
Vermont	*$74.7*	*6.5%*	The budget gap reflects an April downgrade in the revenue forecast. This gap was closed by the use of enhanced FMAP ARRA funds in FY 2009.
Virginia	*$1,659.7*	*9.8%*	
Washington	*$1,373.0*	*8.0%*	The previously reported gap was fully addressed by legislative actions through April 2009, including leaving approximately $595 million in total reserves for FY 2009. Since the Legislature adjourned, the June 2009 revenue forecast for FY 2009 has been revised downward by an additional $184 million. The final estimate is the previous gap plus the June revenue forecast change.
West Virginia	*N/A*	*N/A*	As of June 22, 2009, the state is approximately $40 million over the estimate for FY 2009.
Wisconsin	$942.0	6.8%	
Wyoming	*N/A*	*N/A*	
United States	**$72,976.0**		

Key:
(N/A) = Not applicable—no FY 2009 gap.

Italics denote June and July 2009 survey data. If a state did not provide updated information, the gap figure from the April 2009 report was used.

GF = General Fund.

ETF = Education Trust Fund.

Source: NCSL survey of state legislative fiscal offices, April, June and July 2009.

Table 3. FY 2010 Budget Gaps

State	Estimate (in millions)	Percent of General Fund Budget	Comment
Alabama (GF)	*N/R*	*N/R*	
Alabama (ETF)	*N/R*	*N/R*	
Alaska	*$1,350.0*	*31.0%*	The gap was corrected by declining to forward funds to K-12 education, effectively drawing $1.05 billion from reserves (giving a surplus of $109 million).
Arizona	*$3,165.1*	*29.7%*	The governor is seeking a 1% sales tax increase. The legislative budget transmitted to the governor did not include that proposal. As a result, the governor vetoed the K-12 budget and vetoed the bills necessary to enact all statutory changes. The Legislature convened in special session and restored K-12 funding. As of this writing, the vetoed statutory changes to balance the budget have not yet been enacted. As a result, the current shortfall estimate is $3.3 billion.
Arkansas	*N/A*	*N/A*	No budget gap has occurred, although $71 million of surplus moneys was used to supplement general revenues when formulating the budget to increase the amount of general revenue available for distribution to state agencies. Further, an additional $40 million has been set aside that could be transferred to supplement general revenue if approved.
California	*$38,945.0*	*35.0%*	The cumulative budget gap figure includes $18.9 billion previously resolved as part of the February 2009 budget agreement. An additional budget gap of $19.9 billion developed after the FY 2010 budget passage earlier this year, including $5.8 billion in failed ballot measures intended to partially resolve the budget shortfall.
Colorado	*$1,493.8*	*19.3%*	Expectations for the cumulative FY 2010 shortfall were increased by $384 million with the release of the June revenue forecast. The previously reported shortfall was not calculated in the same manner as the new figure, and is therefore not directly comparable.
Connecticut	*$4,100.0*	*22.2%*	
Delaware	*$452.0*	*12.9%*	
Florida	$6,000.0	27.0%	
Georgia	*$2,610.3*	*12.3%*	The FY 2010 budget gap may increase by $700 million or more as the year begins; however, no official estimate change or corrective action has been taken to date.
Hawaii	*$1,410.4*	*25.4*	Includes effect of most current revenue projection adopted by the Council on Revenues on May 28, 2009, approximately three weeks after the budget was finalized, and FY 2009 actual tax revenues were known.
Idaho	*$550.0*	*19.6%*	
Illinois	$7,289.0	21.2%	
Indiana	*$568.8*	*4.2%*	
Iowa	*$779.0*	*11.5%*	
Kansas	$1,110.2	17.0%	
Kentucky	*$1,083.8*	*11.5%*	
Louisiana	$2,020.0	19.8%	
Maine	*$640.2*	*18.8%*	The May 1, 2009, revenue revision added $195.6 million to the estimated shortfall. This shortfall will likely increase based on revenue performance in May and June.

Table 3. FY 2010 Budget Gaps

State	Estimate (in millions)	Percent of General Fund Budget	Comment
Maryland	*$1,950.0*	*12.2%*	The previous amount was based on the Department of Legislative Services current services estimate. The final estimate is based on revenue revisions from official December 2008 and March 2009 estimates relative to the FY 2010 allowance minus reversions prior to reductions adopted at the 2009 session.
Massachusetts	$3,002.0	11.2%	
Michigan	$1,200.0	12.3%	
Minnesota	*$2,600.0*	*14.7%*	No changes in the highest point estimate at this time.
Mississippi	*N/A*	*N/A*	The Legislature passed the FY 2010 budget June 30, 2009. There was no official gap considered. At this time there is no projected budget gap for FY 2010.
Missouri	$388.0	5.3%	Assumes 1% decline in FY 2010 collections from FY 2009 actual collections. This is an unofficial estimate, the official estimate is revised in December.
Montana	*$67.1*	*3.6%*	
Nebraska	*$290.0*	*8.6%*	The final highest estimate is roughly one-half of the state's highest projected biennial gap.
Nevada	*$1,235.0*	*31.6%*	
New Hampshire	$12.2	0.8%	
New Jersey	*$8,713.2*	*24.4%*	Executive's estimate, June 2009.
New Mexico	*$293.0*	*4.9%*	
New York	*$17,650.0*	*31.9%*	
North Carolina	*$4,600.0*	*20.8%*	
North Dakota	*N/A*	*N/A*	
Ohio	*$1,290.0*	*4.8%*	The previously reported budget gap of $2 billion was the executive's estimate. The $1.29 billion reflected in this table is the Legislature's final FY 2010 estimate.
Oklahoma	*$612.5*	*8.7%*	Utilization of available cash-flow reserve funds and positive estimated revenue resulting from legislation enacted in the 2009 session (collection enhancements, fine and fee increases) provided an offset from the revenue estimates developed in February 2009.
Oregon	$1,600.0	18.0%	
Pennsylvania	$3,970.0	13.5%	
Puerto Rico	$3,200.0	29.0%	
Rhode Island	*$586.6*	*19.6%*	
South Carolina	*$796.8*	*13.9%*	The final estimate excludes the Board of Economic Advisor's June 11, 2009, revision of $120 million, since this occurred after the budget had been adopted.
South Dakota	*$88.1*	*7.8%*	
Tennessee	$1,035.0	11.0%	
Texas	*$3,300.0*	*7.6%*	The $3.3 billion gap represents 50% of an overall shortfall of $6.6 billion, the gap for the 2010-2011 biennium.

Table 3. FY 2010 Budget Gaps			
State	Estimate (in millions)	Percent of General Fund Budget	Comment
Utah	*$685.0*	*13.5%*	This gap was closed by legislative action between September 2008 and May 2009. Utah has not updated official revenue estimates for FY 2010 since February 2009. However, economic indicators used in FY 2010 revenue estimating have been revised downward. Such revised indicators will be reflected in an October 2009 revenue update for FY 2010.
Vermont	*$281.4*	*25.8%*	
Virginia	*$2,376.5*	*13.6%*	
Washington	*$3,943.0*	*21.5%*	The previously reported figures were when the budget was being developed. The previously reported gap was fully addressed by legislative actions through April 2009, including leaving approximately $739 million in total reserves (including rainy day fund) at the end of FY 2011. Since the legislature adjourned, the June 2009 revenue forecast for FY 2010 was revised downward by $289 million. There are also clear indications that caseloads are trending somewhat higher than was assumed in the enacted budget. The final estimate figure is the previous gap plus the June revenue forecast change.
West Virginia	*$200.0*	*4.5%*	The gap was closed by cutting spending in the FY 2010 budget bill, which was enrolled on May 31, 2009.
Wisconsin	$3,100.0	20.1%	
Wyoming	*N/A*	*N/A*	Revenues projected for FY 2010 are lower than the previous projection, but the downward revision only reduces the amount of flow to a rainy day account set up by the Legislature to hold amounts above appropriations levels.
United States	**$142,633.0**		

Key:
(N/A) = Not applicable—no FY 2010 gap.

(N/R) = No response.

Italics denote June and July 2009 survey. If a state did not provide updated information, the gap figure from the April 2009 report was used.

GF = General Fund.

ETF = Education Trust Fund.

Source: NCSL survey of state legislative fiscal offices, April, June and July 2009.

Table 4. FY 2011 and FY 2012 Budget Gap Projections					
State	FY 2011 Estimate (in millions)	Percent of FY 2011 General Fund Budget	FY 2012 Estimate (in millions)	Percent of FY 2012 General Fund Budget	Comment
Alabama (GF)	*N/A*		*N/A*		Not yet determined.
Alabama (ETF)	*N/A*		*N/A*		Not yet determined.
Alaska	*N/A*		*N/A*		
Arizona	$2,600.0				
Arkansas	*N/A*		*N/A*		No gap is expected, expenditures cannot exceed revenues.
California	$12,400.0				
Colorado	*$873.1*	*11.5%*	*$838.0*	*10.8%*	For FY 2011, this assumes the shortfall of $384.0 (5.3%) in FY 2010 is filled with one-time sources of money and carried-forward to FY 2011. This excludes any increases in expenditures due to caseload or inflationary growth, and likewise, for FY 2012 this assumes the shortfall in FY 2011 is filled with one-time sources of money and carried-forward to FY 2011. This excludes any increases in expenditures due to caseload or inflationary growth.
Connecticut	$4,019.4				
Delaware	*$120.0*	*3.6%*			Assumes a 5% budget growth with loss of about half of ARRA support. FY 2012 is too far off to speculate.
Florida	$5,000.0				
Georgia	*N/A*		*N/A*		FY 2011 revenue estimates from the governor are not yet available. Reductions may be required to deal with the loss of ARRA funds in FY 2012.
Hawaii	*$775.5*	*14.4%*	*$1,226.4*	*20.9%*	Figures reflect projected amounts based on FY 2009 year-end actual tax revenue data. On May 7, 2009, the council on revenues met and revised revenue projections downward from -5% to -9% for FY 2009 and made smaller adjustments to FY 2010 and FY 2011. FY 2009 ended with actual tax revenues coming in at -9.4%. In total, the actual and revised revenue projections resulted in a projected budget gap of $775 million by the end of FY 2011.
Idaho	*Amount Unknown*				
Illinois					
Indiana	*$485.3*	*3.4%*	*N/A*		
Iowa	*$698.9*	*12.1%*	*N/A*		The FY 2011 budget gap is a very preliminary estimate and does not include any estimate for revenue changes as a result of ARRA. It assumes the expenditure of the remaining $204.3 million in ARRA funds. It is too soon to make a projection for FY 2012
Kansas	$568.0				
Kentucky	*N/A*		*N/A*		There's no enacted budget for FY 2011 and FY 2012.
Louisiana	$2,700.0				

Table 4. FY 2011 and FY 2012 Budget Gap Projections					
State	FY 2011 Estimate (in millions)	Percent of FY 2011 General Fund Budget	FY 2012 Estimate (in millions)	Percent of FY 2012 General Fund Budget	Comment
Maine	*$765.2*	*21.6%*	*Amount Unknown*		The FY 2011 budget gap reflects the estimated shortfall comparing "current services" appropriations with revised revenue estimates based on the May 1, 2009, revenue forecast. This shortfall was addressed during the 2009 legislative session. The amounts for FY 2012 have not been estimated yet.
Maryland	*$2,306.0*	*15.2%*	*$1,872.0*	*11.4%*	For FY 2011 cash deficit is based on the Department of Legislative Services' current service forecast. A structural deficit of $2.3 billion is projected for FY 2011, but is offset by an estimated $854 million in federal stimulus funds, plus other fund transfers and balances. The FY 2012 cash deficit is based on the Department of Legislative Services' current service forecast.
Massachusetts					
Michigan					
Minnesota	*$2,277.0*	*12.5%*	*$3,150.0*	*18.9%*	The budget gap number is from the Feb. 2009 forecast. Because the state is on a biennial budget schedule, the 2009 Legislative changes and the governor's unallotment dealt with both FY 2010 and FY 2011. The FY 2012 data are from after the 2009 legislative session and with the governor's unallotment. The number is a rough estimate and will be modified as implications of the unallotment are refined. This amount assumes that payments delayed in FY 2010 and FY 2011 are paid back in FY 2012.
Mississippi	*N/A*		*N/A*		No official gap is projected.
Missouri	*N/A*		*N/A*		There will not be a projection for FY 2011 until December.
Montana	*$53.4*	*2.8%*	*N/A*		
Nebraska	*N/A*		*$234.0*	*5.8%*	Assumes the current forecasts for FY 2009, FY 2010 and FY 2011 are accurate. The FY 2012 budget gap is one-half of the estimated biennial projected gap to June 20, 2009. The estimate is based on long-range revenue forecasts and "current law" expenditure projections.
Nevada	*$1,335.0*	*32.9%*	*N/A*		The FY 2011 budget gap was closed by the 2009 Legislature through a combination of increased tax revenues, redirection of existing tax sources to the state general fund, utilization of federal stimulus funds, and budget reductions. The budget for FY 2012 has not been developed.
New Hampshire					
New Jersey	*$8,000.0*	*27.5%*	*Amount Unknown*		That there will be an FY 2012 structural budget deficit is all but certain. No formal estimate has been prepared; the order of magnitude could be similar to the FY 2011 estimate, depending on actions taken to close the FY 2011 gap.
New Mexico	*N/A*		*N/A*		New revenue estimates in August 2009 may indicate a budget gap.
New York	*$2,166.0*	*3.7%*	*$8,757.0*	*13.0%*	
North Carolina	Amount Unknown				

Table 4. FY 2011 and FY 2012 Budget Gap Projections

State	FY 2011 Estimate (in millions)	Percent of FY 2011 General Fund Budget	FY 2012 Estimate (in millions)	Percent of FY 2012 General Fund Budget	Comment
North Dakota	*N/A*		*N/A*		
Ohio					
Oklahoma	*Amount Unknown*		*Amount Unknown*		While a FY 2011 budget gap is anticipated at present, no detailed estimate has been developed. The limited use of stimulus funds in FY 2010 will likely limit the size of the gap unless energy prices slide below current price and volume baselines. The state could face a budget gap in FY 2012 at least equal to the amount of employed stimulus should any economic recovery result in littler or no growth in major tax collections.
Oregon	$1,500.0				
Pennsylvania	$2,900.0				
Puerto Rico	Amount Unknown				
Rhode Island	*Amount Unknown*		*Amount Unknown*		FY 2012 faced the impact of stimulus elimination.
South Carolina	*Amount Unknown*		*Amount Unknown*		The budget gap estimates for FY 2011 and FY 2012 are not yet available.
South Dakota	*N/A*		*N/A*		Tentative for FY 2011, a responsible forecast for FY 2012 is impossible in this economic environment.
Tennessee	$246.0				
Texas	*$3,300.0*	*7.6%*	*$4,000.0*	*8.0%*	The FY 2011 budget gap is one-half of the expected $6.6 billion deficit for the FY 2010-FY 2011 biennium. For FY 2012, a structural gap of $4 billion to $5 billion a year is expected based on current spending levels (without ARRA) and revenue levels.
Utah	*Amount Unknown*		*N/A*		A budget gap was present for FY 2011 and has been closed. FY 2011 revenues have not yet been estimated. However, the state expects resources to be lower in FY 2011 than FY 2010 largely due to the end of ARRA funds. The Legislature has already identified more than $400 million in cuts that will become effective the first day of FY 2011. Additionally, revenues for FY 2012 have not been estimated.
Vermont	*$67.0*	*6.0%*	*$143.0*	*13.0%*	The FY 2011 budget gap amount assumes a 3.5% growth rate on the FY 2010 general fund base and application of $100 million in ARRA funds. The FY 2012 figures assume a 3.5% growth rate on the FY 2010 and FY 2011 general fund base and no federal ARRA funds.
Virginia	*Amount Unknown*		*Amount Unknown*		Budget gaps in FY 2011 and FY 2012 are anticipated. The revenue forecast and budget development is just beginning.

Table 4. FY 2011 and FY 2012 Budget Gap Projections					
State	FY 2011 Estimate (in millions)	Percent of FY 2011 General Fund Budget	FY 2012 Estimate (in millions)	Percent of FY 2012 General Fund Budget	Comment
Washington	*$3,400.0*	*22.0%*	*N/A*		For FY 2011, the previously reported figure ($3.2 billion) was when the budget was developed. The previously reported gap was fully addressed by legislative actions through April 2009, including leaving approximately $739 million in total reserves (including rainy day fund) at the end of FY 2011. Since the Legislature adjourned, the June 2009 revenue forecast for FY 2011 was revised downward by an additional $205 million. There are also clear indications that caseloads are trending somewhat higher than was assumed in the enacted budget. The Legislature adjourned in April after adopting a balanced budget for FY 2009, FY 2010 and FY 2011 and left approximately $738 million in total reserves at the end of FY 2011. In June, a declining revenue forecast reduced total reserves to approximately $58 million (positive $242 million rainy day and negative $185 million in near-general fund) at the end of FY 11. In addition, there are clear indications that caseloads (particularly medical assistance) are trending somewhat higher than was assumed in the budget. There are no current projections for FY 2012.
West Virginia	*N/A*		*N/A*		Not known as of June 26, 2009.
Wisconsin	*N/A*		*$900.0*	*6.5%*	As enacted, the FY 2011 budget ends with an estimated balance of $275 million. For FY 2012 it is estimated that the first $900 million of revenue growth is already committed to fund current programs.
Wyoming	*N/A*		*N/A*		Budgets proposed for future years cannot exceed projected revenues.
United States	$58,555.8		$21,120.4		

Key:
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(N/R) = No response.

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Italics denote June and July 2009 survey. If a state did not provide updated information, the gap figure from the April 2009 report was used.

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NCSL

NATIONAL CONFERENCE OF STATE LEGISLATURES

William T. Pound, Executive Director

Denver Office
7700 East First Place
Denver, CO 80230
(303) 364-7700
(303) 364-7800

Washington Office
444 North Capitol Street, N.W., Suite 515
Washington, DC 20001
(202) 624-5400
(202) 737-1069

www.ncsl.org