States' Officials Dream On as Revenues Vanish

by Mary Jane Freeman

Even before the April 15 tax collections have been tallied, 40 of America's 50 states, and the District of Columbia, have slashed expenditures to balance their budgets before fiscal year's end, June 30. By January, the magnitude of shortfalls ranged from the hundreds of millions to billions of dollars. The National Association of State Budget Officers (NASBO), at the end of March, estimated that the total state budget shortfall for all states had reached $40 billion. The combined blowout of stocks, dot-coms, and manufacturing sectors has obliterated 5-25% of the states' expected revenues from personal income tax (PIT), one of their largest sources.

The shortfalls have meant that budget cutters have no longer been able to spare education, health care, aid to towns and cities, or even, in some cases, public safety. At the end of March the National Conference of State Legislatures' "State Fiscal Update" reported: 17 states had cut K-12 education programs; 29 cut higher education; 22, Medicaid programs; and 16, Temporary Assistance to Needy Families ("welfare").

Twenty-five states have cut their corrections budgets, while 13 laid off or furloughed state workers, and 10 cut revenue sharing with cities and counties. Such cuts, and reduced health-care coverage for employees, ultimately increase costs, as they undermine the health, well-being, and future of the citizens. Despite it all, as year-end revenue tallies trickle in, elected officials still play the blame game and dutifully recite the "recovery is around the corner" mantra, refusing to admit the depth of the depression.

Other balance-the-books accounting tricks used throughout the year have included raiding "rainy day" funds (26 states), raising taxes (7 states), delaying capital improvement projects (13 states), and/or selling off tobacco settlement funds (17 states), to get a one-time quick fix to fill the budget holes that began accumulating as soon as the fiscal year began on July 1, 2001. In many states, since there is no recovery around the corner, these desperate acts mean they will have no cushion to fall back on as the economy nosedives and the revenues vanish. Shortsightedness of this sort will mean even deadlier cuts to services in the next months ahead.

April 15 Brings Bad News

Most states have been on pins-and-needles awaiting the April 15 revenue figures, hoping against hope that they'd get a quick revenue boost. While tallies are incomplete, those few states which have reported their estimates of collections now project even bigger shortfalls. The likelihood of emergency legislative sessions to slash budgets further in these last six weeks of the fiscal year, is high. Depending on how short these revenues come in, states that used accounting tricks and cut to the bone to balance budgets by June 30, will in all probability, be in emergency sessions in Fall election season, scrambling to find funds to keep government services running.

Below is a sampling of the picture:

California: Prior to April collections, state officials plugged a $6-12 billion revenue hole in this FY 2001-02, using every accounting trick possible. On May 14, Gov. Gray Davis released his "May Revision" budget report on the status of the state's finances based, in large part, on April collections. The revised deficit for next FY 2002-03 is now a huge $23.6 billion, and that deludedly assumes that "the state's economic recovery will pick up as the year unfolds." The biggest factor is "the dramatic decline in cash receipts" from PIT—45% lower than April 2001, short of expectations by $2.876 billion, and 33% below forecast. The "May Revision" reports that these declines are "primarily driven by a drop in capital gains as well as lower wage growth due to reduced stock option income." The state's General Revenue Fund became nearly 25% reliant on these bubble-economy revenues in the 1990s, and as of the 2001 tax year, they had already plunged by 60%. Davis proposes to cut next year's budget for program services by 32%, just when depression conditions are causing more citizens to rely on state services.

Georgia: On May 13, Gov. Roy Barnes announced a second round of cuts to state agencies as April tax receipts fell by $78 million, or 7.8% from last year. This was the first time since the 1950s that the state had a full year of negative growth.

Illinois: The $1.2 billion deficit, having already required across-the-board cuts including state employee layoffs, just got bigger. The state's Economic and Fiscal Commission, after tallying April collections, announced that revenues for fiscal 2002 will be down $456 million, resulting in a new $1.35 billion hole—lawmakers had assumed a $900 million *gain* in tax collections when they passed the budget. Gov. George Ryan is holding one-on-one meetings with legislators, who have hit an impasse on dealing with the budget, while 4,000 members of the American Federation of State, County, and Municipal Workers (AFSCME) marched on the statehouse protesting the newly announced 1,800 layoffs, on top of 1,800 already made.

Iowa: The budget crisis here is deemed "the nightmare that never ended," as the first April collections tallies caused a seventh revision downward of revenue estimates. Having already made two across-the-board cuts to the existing budget, causing an 8% reduction in the state workforce, the May 8 report of the state's Revenue Estimating Conference states that Iowa still has a revenue shortfall of $219 million this year, and should expect another of $212.5 million for the

California Gov. Gray Davis has gotten the strongest dose of the economic depression, of all governors—a newly estimated state budget deficit of $24 billion, which is still growing with every calculation. California's electricity deregulation nightmare made it worse, but virtually all governors and legislatures face budget collapses.

fiscal year starting July 1. Gov. Tom Vilsack will call a special session of the legislature in late May.

Massachusetts: As of April, legislators thought they had plugged the state's $1.3 billion budget hole, but the drop in April receipts by $200-400 million will require new patchwork before June 30. Acting Gov. Jane Swift and legislators will likely opt for further draining the rainy day fund, already tapped for $1 billion.

Michigan: On an October-September fiscal year, Michigan legislators were hoping April returns would boost revenues so as to prevent cuts. So far the state has used all the abovementioned accounting tricks to fill its $1 billion-plus deficit. On May 9, the House Fiscal Agency reported that tax revenues are down $458 million in the first six months of the fiscal year which, compared to a year ago, is a drop of 13.4%. It also reported that tax revenue in the most recent three months is down 24.6% from 2001.

'One-Way Ride to the Abyss'

Missouri: Exact April revenue figures are not in, but Gov. Bob Holden announced on May 10 that he will furlough 6,000 state workers in June for two days, and cut $83 million in payments to higher education to close the $230 million hole in this year's budget. The legislature rejected his request to use reserve funds, and if they don't change their minds before June 30, these measures wil hit nursing homes, health-care programs, and social services programs, among others.

New Jersey: Democratic Gov. Jim McGreevey took office in January assuming a $2.4 billion budget deficit, and immediately imposed across-the-board cuts to all agencies, laying off hundreds of state workers. McGreevey thought he was creating a $500 million surplus to aid in dealing with next year's expected $5 billion shortfall. But April tax returns, still being tallied, changed the picture. It is now estimated that there will still be a $700 million shortfall this year, requiring $200 million more in cuts or new revenues.

North Carolina: On May 3, Budget Officer David McCoy issued a memo to all state agency department heads, with an analysis of collections through April 30 showing a budget shortfall of at least $1.5 billion—half a billion more than expected. He ordered a hiring freeze, payments of only mandatory obligations of current payroll, utilities, debt service, and required state aid which is defined by statute as compulsory or required for public safety and welfare. For next year's budget, now being debated, $330 million in additional cuts are proposed to public assistance programs, prescription drug assistance to the poor and elderly etc.

Pennsylvania: Gov. Mark Schweiker, expecting a $667 million deficit, got a rude awakening on May 7 when his top budget officer, Robert Bittenbender, made it $1.2 billion, based on lackluster April returns. For now, the state plans to loot its "rainy day" fund to plug the hole.

Tennessee: April's tax collections reveal that the state is experiencing a negative 3.25% rate of growth in revenues. The shortfall for the fiscal year is now estimated at $475 million. Revenues from taxes on stock and bond dividends were down 26.5% over last year. Lawmakers expect to heavily drain reserve funds to get to June 30. Based on a projected revenue growth rate of 1.8% to 2.3% next year, a scant $100-140 million in new tax money for state programs is "expected," while at least $550 million is required.

Utah: The budget picture here is described "as an elevator car on which the cable just snapped and the safety brakes" failed, leaving it "on a one-way ride into the abyss." With April receipts down by $142 million from projections, the cumulative shortfall is now estimated at $411 million, a 10.8% decline which Gov. Mike Leavitt called "the largest one-year revenue drop in [post-World War II] state history." A 2.1% increase in PIT revenues was expected, but they declined by 6.6%, which their 20-year veteran tax commissioner said was due to "last year's plummeting stock market."

Virginia: Gov. Mark Warner's spokeswoman Ellen Qualls claimed that the drop in April tax collections by 11% over last year, and the Governor's order for all agencies to further cut their budgets before June 30, result from the "recession causing a lingering hangover in Virginia." Overall tax receipts have been down 3.6% over last year's.