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*State's budget woes may continue  
Shortfall could shed up to \$585 million next year  
By Theo Emery*

The State Funding Board delivered grim economic forecasts on Thursday indicating that the state could have to cut up to \$384 million in spending this year and shed up to \$585 million from next year's budget.

The board met to approve final revenue estimates that will be central to budget revisions in coming weeks. The board, which provides a range of estimates, said taxes will increase between a low of 0.25 percent and 1 percent this year, and between 1.25 percent and 1.75 percent next year.

State Finance and Administration Commissioner Dave Goetz said that translates into \$315 million to \$384 million in cuts to this year's budget. Next year's budget, which was introduced in January, will have to be reduced between \$468 million and \$585 million.

"A budget gap of that size will require us to look at everything," he said.

The projections are critical to budget planning for Gov. Phil Bredesen's administration and the General Assembly, which will rely on the board's estimates to revise this year's budget as well as next year's.

Bredesen has said that he will deliver budget revisions to the General Assembly on May 12, starting the clock on the whirlwind, end-of-session wrangling over spending that will close out this fiscal year and fund government next year.

The Funding Board struggled to reach agreement on what the projections should be, because of uncertainty about the meaning of sharply declining sales and use taxes.

The board met early Thursday, then adjourned again until late morning to allow staff to continue deliberations. The uncertainty largely revolved around the meaning of April's sales tax figures, which fell precipitously, according to Jim White, executive director of the Fiscal Review Committee, which presented one of three sets of revenue figures to the board on Tuesday.

"We don't know whether the April sales tax decline is an anomaly or the beginning of a serious downward trend," White said.

Earlier this week, projections of April sales and use taxes had been projected to have dropped 5.5 percent compared to last year, but taxes have since trickled in and ended up at just over 4.9 percent, White said.

## Layoffs are possible

**A report from the Rockefeller Institute of Government at the State University of New York showed that Tennessee is hardly alone in seeing sales taxes fall. Twenty-one states have seen first-quarter sales taxes decline compared to last year, and nine of them are in the Southeast, according to the report.**

Bredesen said on Wednesday for the first time that state employees will likely face layoffs because of the budget shortfall, the first time since 1995. Goetz said Thursday that the administration is analyzing where cuts were likely to come.

The state employee association has urged the administration to use its roughly \$750 million rainy day fund to offset the looking budget shortfall and prevent layoffs. Goetz said while reserves will likely be used to balance this year's budget, the rainy day fund should stay off-limits.

"I understand their concerns over their members and over state employees. We are equally con-

cerned, but we also know that we have to make sure the state can operated effectively in two or three years, and not have spent all of its savings,” Goetz said.

Sen. Randy McNally, R-Oak Ridge, said “the numbers are probably as bad as I’ve ever seen” since he was first elected to the General Assembly in 1979.

As chairman of the Senate Finance Committee, McNally will preside over the budget revision process. He said he expected disagreement over where cuts should come from, and said it was unlikely that layoffs could be avoided.

“It won’t be pretty,” he said.