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*Weak economy squeezing more states*  
By Stephen C. Fehr

The budget year that begins July 1 will be one of the bleakest for state governments in the last three decades, according to a [report](#) released Thursday (June 19).

In some ways, the fiscal survey of states by the [National Governors Association](#) and [National Association of State Budget Officers](#) was not surprising. State officials have been saying for months that the drop in revenue caused mostly by the national housing slump and high energy prices would make fiscal 2009 a tough year.

But the survey confirmed the depth of the weakening in state finances. General fund spending, which finances the day-to-day cost of operating government, is projected to rise 1 percent in fiscal 2009,

compared to 6.7 percent in an average year. This is the third-lowest spending increase in the last 31 years, the associations said.

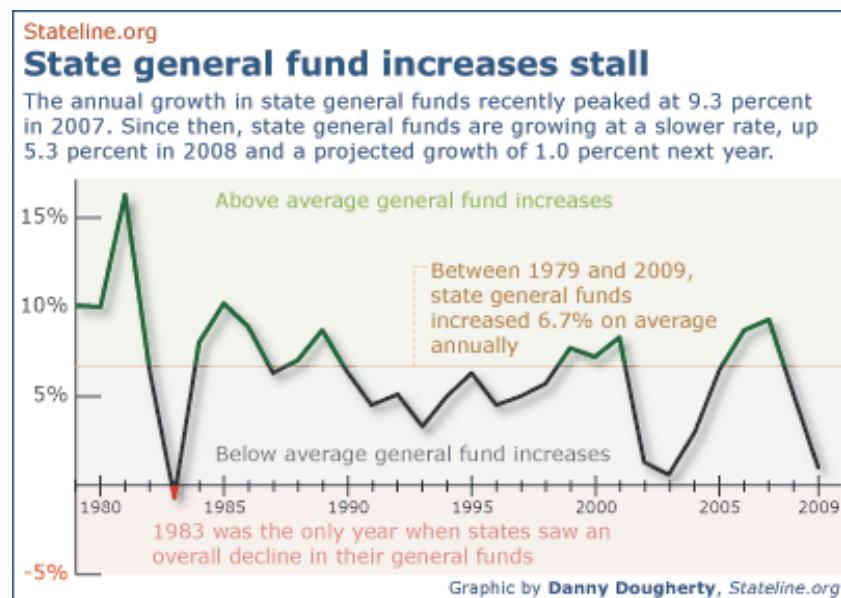
Moreover, 18 states in fiscal 2009, which begins July 1 in all but four states, are predicting negative budget growth, meaning a state spends less in the coming fiscal year than they have spent in the current year. That compares to four states in 2008.

Though state officials began feeling the impact from the national economic downturn in 2008, they are more worried about the next two years. Often it takes states a few years to recover from an economic slowdown because of the lag time in collecting taxes and fees.

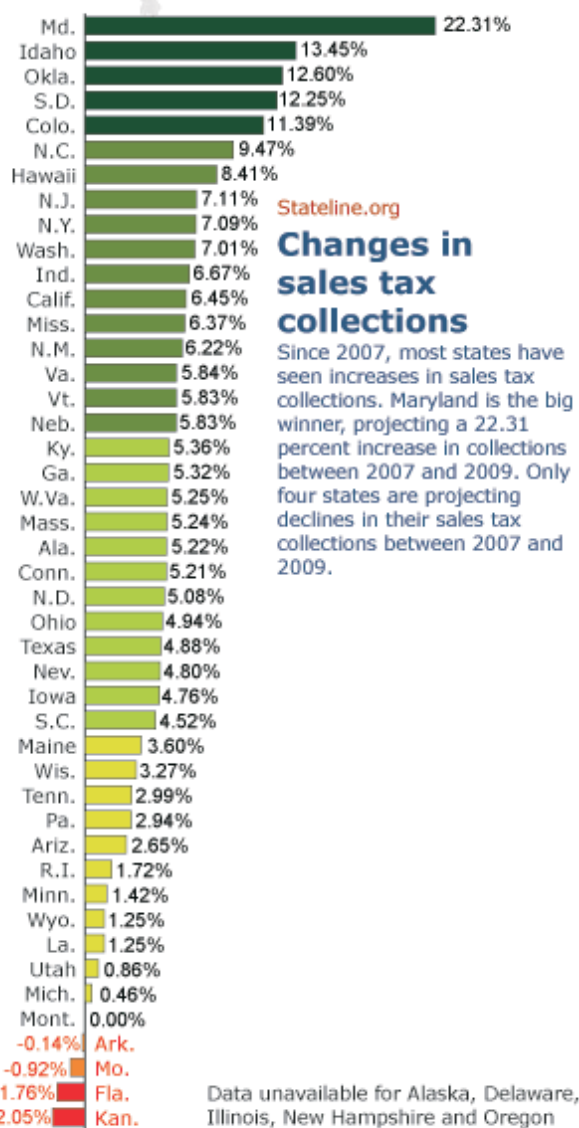
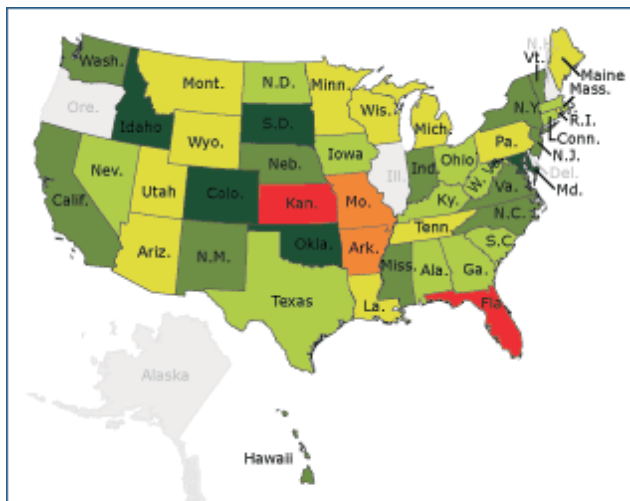
“We’re fearful this is going to be a three to four year struggle for the states,” said Raymond Scheppach, executive director of the National Governor’s Association.

The report noted that the peak years of the 2001 recession were in fiscal 2002 and 2003, when 37 states slashed spending each of those years even though the national economy had started to recover.

“Fiscal 2009 could prove to be more troublesome than fiscal 2008,” said the report, which was released at a news conference in Washington. The governors and budget officers associations analyze state spending patterns twice a year. In April, the National Conference of State Legislatures released a similarly grim [survey](#) showing 23 states facing budget shortfalls in 2009.



Source: The National Governors Association and National Association of State Budget Officers' "The Fiscal Survey of States," report June 2008



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Graphic by **Danny Dougherty**, Stateline.org

Unlike the federal government, states can't carry deficits from year to year, so state lawmakers must cut spending or raise taxes. Just this week, New Hampshire Gov. John Lynch (D) cut \$30 million from the 2009 budget and said he would continue a hiring and travel freeze instituted in February to balance this year's budget. Connecticut Gov. M. Jodi Rell (R) ordered a spending freeze to save additional money for the current budget year. Both states are confronting deficits in the coming year.

States often dip into reserves to cover shortfalls, but the report said those year-end balances are declining along with revenue. States set aside 11.5 percent of expenditures in fiscal 2006, but the figure is projected to fall to 7.5 percent in 2009, the report said. Budget officials generally try to keep at least 5 percent of total expenditures on hand, so most states still have a cushion.

The states' reserves "are still strong but they are on a downward trend," said Scott Pattison, executive director of the budget officers' association. He predicted that the next fiscal survey in December would probably show states spending down their reserves further.

At the same time states are trimming budgets, the report stressed that they are under pressure to increase spending, especially on programs such as Medicaid, which provides taxpayer-funded health coverage to 59 million poor Americans. Other states are trying to catch up on needs they have long neglected, including employee pension funds and infrastructure.

"Unfortunately when revenue growth declines as a result of a weakened economy, spending pressures for social programs and health care increase," the report said.

Spending on Medicaid, which is the largest part of total state spending, is estimated to go up by 4.4 percent in the governors' recommended budgets for 2009, the report said. Despite the deteriorating picture of state finances, nearly half of the states proposed to increase coverage to the uninsured in their 2009 budgets.

For many states, the report said, revenues began to weaken in fiscal 2008. Revenues from sales, personal income, corporate income and other taxes and fees are below expectations in 20

states in 2009, compared to a year ago when eight states said their collections were less than they had expected. Sales and corporate taxes have taken the largest hit, the report said.

**Another report released Thursday showed that states' revenue growth from gambling has slowed considerably. The report, by the [Rockefeller Institute of Government in New York](#), said revenue growth from gambling dropped by almost half in 2006 and 2007, compared to the**

**previous two years. "State-sponsored gambling now resembles a blue-chip stock, reliably generating large amounts of cash but no longer promising dramatic growth in revenue."**

Not all states are having financial trouble. About a dozen states in oil- and gas-producing or agriculture areas are benefiting from high energy and commodity prices. West Virginia's revenues are up 14 percent this year, for example. Still, Pattison said, most states are monitoring the national economy.