

Revenue Problems Spread to the Northeast

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The major news in state finances in 2001 has been the seemingly sudden slowing in revenue growth. So far, the revenue slowdown has been mild compared to what states faced in the depths of the last recession, but it has been severe enough to lead some states to cut current spending to avoid a deficit in fiscal year 2001, which ends on June 30 in most states. In addition, many states that have not cut current-year spending have reduced their revenue forecasts for the coming year so much from the original framing of the executive budget, usually prepared in December or January, that they have had to cut planned fiscal 2002 spending significantly.

The revenue slowdown hit first in Midwestern and Southeastern states that are heavily dependent on manufacturing, and seemed to be connected with the weakening manufacturing sector of the economy, but it has been spreading to other states as the year progresses. Until very recently, the Northeast had been immune. In the last few weeks, however, Massachusetts announced a revenue shortfall and forecasters in New Jersey significantly lowered their revenue projection for fiscal 2002. Meanwhile, the governor of Pennsylvania has asked the legislature to cut the budget he submitted in February. In addition, New York's budget director announced that final tax returns for 2000 should be healthy, but that withholding tax collections were close to \$75 million behind cash-flow projections. The state comptroller announced, however, that overall collections through May remain sound.

Table 1 lists states that had previously announced revenue problems and those that had cut their current or projected budgets. In states that have biennial forecasts we use biennial numbers, otherwise forecasts are annual. Combined with the recent announcements noted above, there are now 30 states with announced revenue problems this year.

The percentages and ranks given in Table 1 are only rough guides to the relative magnitude of the revenue adjustments and spending cuts made in the various states. They do not denote an exact measure of fiscal distress, or of the actions taken by the states.

Some states – including Alabama, Mississippi, and North Carolina – have made sizable cuts in their fiscal 2001 budget, sometimes with only a few months to go in the budget year. In each of these cases, the state needed to make the cuts to keep the budget in balance. North Carolina's \$470 million spending cut was part of a general budget adjustment of almost \$1 billion in all.

For a few states, we show reductions in the revenue estimates for the current year, fiscal 2001, but not fiscal 2002 – for which states are now passing budgets. In most of these states, budget year revenue estimates are probably also being adjusted downward, even if it has not been announced yet.

Many states have not yet finished work on their fiscal 2002 budgets, so there may still be further spending cuts before enactment. Meanwhile, revenues may continue to languish. We will be watching.

Table 1

<i>States with Revenue Shortfalls in 2001</i>		Effect as percent of FY 2000 Expenditures	Rank
Alabama*	In April, Gov. Siegelman (D) cut FY 2001 budget by \$266M.	5.1%	9
Arizona	In April, enacted FY 2002-03 biennial budget with \$850M less spending than January proposal.	7.1%	3
Arkansas	In March, state forecasters reduced revenue estimates for FY 2002 by \$58M, and Gov. Huckabee (R) cut FY 2001 spending by \$8M.	1.8%	18
California	In May, Gov. Davis (D) cut \$3.17B from original FY 2002 budget proposal. Department of Finance reduced revenue estimates for FY 2002 by \$4.59B.	6.9%	4
Colorado	In March, state forecasters reduced revenue estimates for FY 2002 by \$478M.	8.0%	2
Delaware	Economic and Financial Advisory Council May forecast for FY 2002 was \$84M less than December forecast. Gov. Minner (D) cut FY 2001 budget by \$55M.	2.4%	17
Illinois	In May, legislative forecasters projected \$215M less revenue in FY 2002 than in February executive budget forecast	0.9%	27
Iowa	Legislature passed budget in May with \$173M less in General Fund spending than executive budget proposal.	3.6%	11
Indiana	In April, state forecasters reduced revenue estimates through FY 2003 by \$923M from original executive budget estimates.	5.1%	8
Kentucky	In March, state forecasters reduced revenue estimates for FY 2002 by \$180M.	2.7%	15
Louisiana	In January, the Legislative Auditor projected a \$200M gap in FY 2002 budget	3.4%	13
Maine	In February, the Revenue Forecasting Committee projected a \$295M gap in the FY 2002-03 biennial budget.	6.4%	5
Massachusetts	Collections for first half of May were \$140M less than last year.	0.7%	30
Michigan*	Consensus Revenue Estimating Conference May forecast for FY 2002 was \$518M less than January forecast.	5.3%	7
Minnesota	Finance Department February revenue forecast for FY 2002-2003 biennium was \$594M less than November forecast.	2.6%	16
Mississippi	In January, Gov. Musgrove (D) cut FY 2001 budget by \$134M	3.9%	10
Missouri	In January, the consensus revenue estimate for FY 2001 was reduced \$100M.	1.4%	25

Table 1(continued)

<i>States with Revenue Shortfalls in 2001</i>		Effect as percent of FY 2000 Expenditures	Rank
Nebraska	In April, Economic Forecasting Advisory Board cut FY 2002-2003 forecast by \$82M; May revenue was \$54M below the April forecast.	1.7%	19
Nevada	The Economic Forum's April forecast for FY 2002 was \$47M less than in November.	2.9%	14
New Jersey	Office of Legislative Services forecast FY 2002 revenues will be \$1.2B less than in executive budget, State Treasurer forecast FY 2002 revenues will be \$513M less.	6.2%	6
North Carolina	In February, Gov. Easley (D) cut FY 2001 budget by \$470M	3.4%	12
Ohio	In March, State forecasters reduced revenue estimates for FY 2002 by \$281M	1.5%	23
Oregon	The May revenue forecast for the FY 2002-2003 biennium was reduced \$170M from the December forecast.	1.6%	21
Pennsylvania	In June, Gov. Ridge asked legislature to cut \$267M for his proposed budget.	1.4%	24
South Carolina	In May, the Budget and Control Board cut the FY 2001 budget by \$50M.	1.0%	26
Tennessee	In February, the Finance commissioner projected a revenue shortfall for FY 2001 of \$200M, for FY 2002 of \$600M.	9.1%	1
Utah	In May, state forecasters reduced revenue estimates for FY 2001 by \$23M.	0.7%	29
Virginia	In February, Gov. Gilmore (R) cut \$189M from original FY 2002 budget proposal	1.7%	20
West Virginia	In January, Gov. Wise (D) cut FY 2001 budget by \$24M	0.9%	28
Wisconsin	In May, state forecasters reduced revenue estimates for FY 2002 by 180M.	1.6%	22

All actions taken since beginning of 2001

FY 2000 Expenditures taken from The Fiscal Survey of the States: June 2001 (Washington, DC: National Governors' Association and the National Association of State Budget Officers, 2001)

Fiscal year ends June 30, except as noted

* - Fiscal year ends Sept. 30 in Alabama and Michigan

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