

A Message from Raymond C. Scheppach, the Executive Director of the:



Saying states face the most dire fiscal situation since World War II, the National Governors Association and the National Association of State Budget Officers released a report that concludes many states have exhausted budget cuts and are drawing down rainy-day funds and that the most difficult decisions still lay ahead.

The associations' biannual report, The Fiscal Survey of States, (<http://www.nga.org/cda/files/NOV2002FISCALSURVEY.pdf>) found that despite significantly curtailing state spending, 37 states were forced to reduce their enacted budgets by about \$12.8 billion in fiscal 2002. About mid-way through the current fiscal year, 23 states plan to reduce their net enacted budgets by more than \$8.3 billion.

"The fiscal crisis is affecting states across the country," said NGA Executive Director Raymond C. Scheppach. "This is a result of a convergence of four major factors that have battered almost every state budget to the point where there just are no easy choices left. The combination of long-run deterioration in state tax systems coupled with an explosion of health care costs are creating an imbalance between revenue and spending. To make matters worse we've had a collapse of capital gains tax revenues added to the overall loss of revenue attributable to slow economic growth."

To plug their budget gaps in fiscal 2002, 26 states used across-the-board cuts and used rainy day funds, 15 states laid off employees, 13 states reorganized programs, and 31 used a variety of other methods, the *Fiscal Survey* found.

Two-thirds of states report spending growth of less than 5 percent in both fiscal 2002 and 2003. An astonishing 16 states experienced negative growth in fiscal 2002.

States' fiscal 2003 year-end balances clearly illustrate the extent of the budget problems. Total state balances are estimated to be only \$14.5 billion or 2.9 percent of expenditures in fiscal 2003. That represents a 70-percent plunge since fiscal 2000, the peak of balances. Balances of 5 percent of expenditures are generally considered by analysts to be healthy.

Dwindling tax collections continue to plague states. In fiscal 2002 sales tax collections were 3.2 percent lower than originally budgeted, personal income tax collections missed states' targets by 12.8 percent, and corporate income taxes were a staggering 21.5 percent lower than projected. Forty-one states collected less revenue in fiscal 2002 than they had planned for in their budgets.

NGA supports legislation to help relieve states' budget pressure. The legislation, originally sponsored by Senators Ben Nelson (D-Nebraska), Susan Collins (R-Maine), and John Rockefeller (D-West Virginia) and passed by the Senate in July, would have provided \$9 billion in fiscal relief to states through a combination of social services block grants and increased federal Medicaid funds. A scaled back \$5 billion provision was included in the Medicare-giveback bill that was negotiated by Senators Charles Grassley (R-Iowa) and Senator Max Baucus (D-Montana) but was never reported out of the Finance Committee.

"The fiscal relief package is an effective means of minimizing Medicaid cuts and would help offset the negative impacts of state budget cuts on the overall economy," Scheppach noted.

It is also critical that the Congress appropriate \$3.5 billion for first responders for homeland security as well as to fund implementation of election reform legislation when the House and Senate return in January.

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