Running on Empty: The State Fiscal Crisis Worsens

National Health Policy Forum
October 18, 2002

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Budget Gaps—Deep and Widespread

- The FY 2002 aggregate budget gap was $37.2 billion
- 29 states reported gaps above 5%, with 13 of these above 10%
Budget Gaps FY 2002
As a Percent of FY 2002 General Fund Budget

- 10% and over, n = 13
- 0.1% to 4.9%, n = 14
- 5.0% to 9.9%, n = 16
- 0.0%, n = 7

Rhode Island

National Conference of State Legislatures
Budget Gaps—Deep and Widespread

- The initial estimated gap for FY 2003 was $49.1 billion

- 27 states reported gaps above 5%, with 13 of these above 10%.
Budget Gaps FY 2003
As a Percent of FY 2003 General Fund Budget

- 0.0%, n = 8
- 0.1% to 4.9%, n = 13
- 5.0% to 9.9%, n = 14
- 10% and over, n = 13
- No response, n=2

Rhode Island
State Year-End Balances
FY 1978-FY 2003

Projected


National Conference of State Legislatures
State Revenue Overview

- Sluggish revenues are the principal cause of state fiscal problems
- Nationally, FY 2002 revenues were 1.4% lower than FY 2001 collections
- 31 states reported year-over-year revenue drops
- On average, revenues are projected to increase 3.7 percent for FY 2003
Dealing with Shortfalls

- Implementing targeted or across-the-board budget cuts (34 states in FY 2002; 30 states in FY 2003)

- Tapping rainy day funds (22 states in FY 2002; 14 states in FY 2003)
Diminishing Reserves
(in billions of dollars)

<table>
<thead>
<tr>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003 estimate</th>
</tr>
</thead>
</table>
| Cash on hand:  
$20.1 | $7.7   | $5.7   |
| Rainy Day Funds:  
$18.6 | $11.9  | $11.3  |

Values are in billions of dollars.
Dealing with Shortfalls (continued)

- Tapping various state funds (22 states in FY 2002; 26 states in FY 2003)
- Using tobacco settlement funds (14 states in FY 2002; 20 states in FY 2003)
- Increasing taxes (16 states in FY 2003)
- Raising fees (10 states in FY 2003)
Net State Tax Changes
By Year of Enactment, 1992-2002

Billions of dollars

Percent of prior year collections

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2002 Net State Tax Changes
As a Percentage of 2001 Tax Collections

- Decreases of 1% or more, n = 1
- No significant changes, n = 31
- Increases of 1% or more, n = 16
- Not available, n = 2

* 48 states reporting as of 22 July 2002
### 2002 Net State Tax Changes By Type of Tax

*(in millions)*

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income</td>
<td>$706.1</td>
</tr>
<tr>
<td>Corporation income</td>
<td>1,043.3</td>
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<tr>
<td>Sales and use</td>
<td>1,053.4</td>
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<tr>
<td>Health care</td>
<td>71.3</td>
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<tr>
<td>Motor vehicle</td>
<td>190.4</td>
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<tr>
<td>Cigarette and tobacco</td>
<td>2,859.9</td>
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<tr>
<td>Alcoholic beverage</td>
<td>7.0</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>724.5</td>
</tr>
</tbody>
</table>

**Net Change** $6,655.9
Longer-Term Fiscal Pressures

- Medicaid costs and other spending needs
- The personal income tax is unlikely to repeat growth levels realized in the late 1990s
- The sales tax is under growing pressure