

State Budget Update

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NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas



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State Fiscal Overview

- **State revenue performance is weak**
- **Budget gaps are growing**
- **Spending cuts are widespread**
- **Budget conditions are fragile**



Revenue Performance Suffers

- **Sales taxes: Falling as purchases decline and consumer confidence plummets**
- **Personal income taxes: Reeling from rising unemployment and stock market declines**
- **Corporate income taxes: Faltering as business profits drop**
- **Severance taxes: Weakening as energy prices drop**

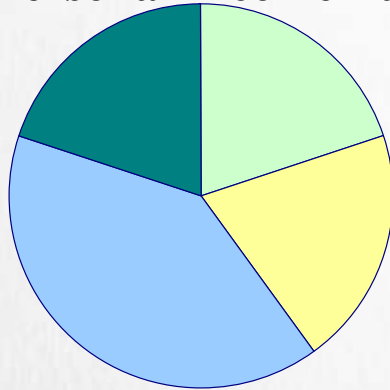
The revenue outlook is bleak.



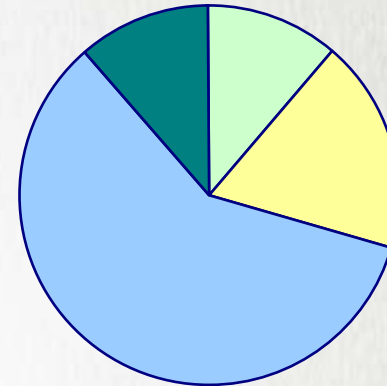
FY 2008 Tax Collections

(Compared with the Latest Estimate)

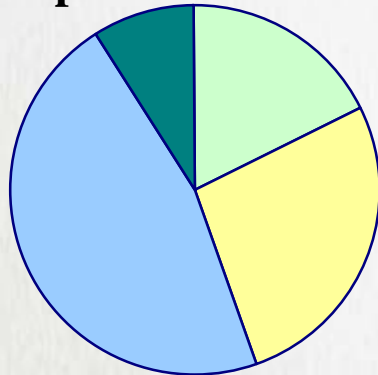
Personal Income Tax



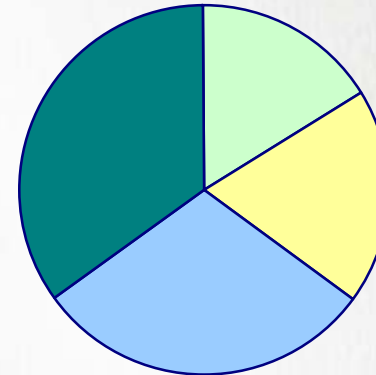
General Sales Tax



Corporate Income Tax



Other Taxes



- Above Estimate
- On Target
- Below Estimate
- Not applicable



How Important are General Sales and Use Taxes?

- They account for 31.5% of state tax revenues
- 9 states derive more than 40% of their tax collections from the general sales and use taxes
- In 7 states, the amount exceeds 50%
- Hawaii ranks 7th, with its general excise tax accounting for 50.2% of state tax collections





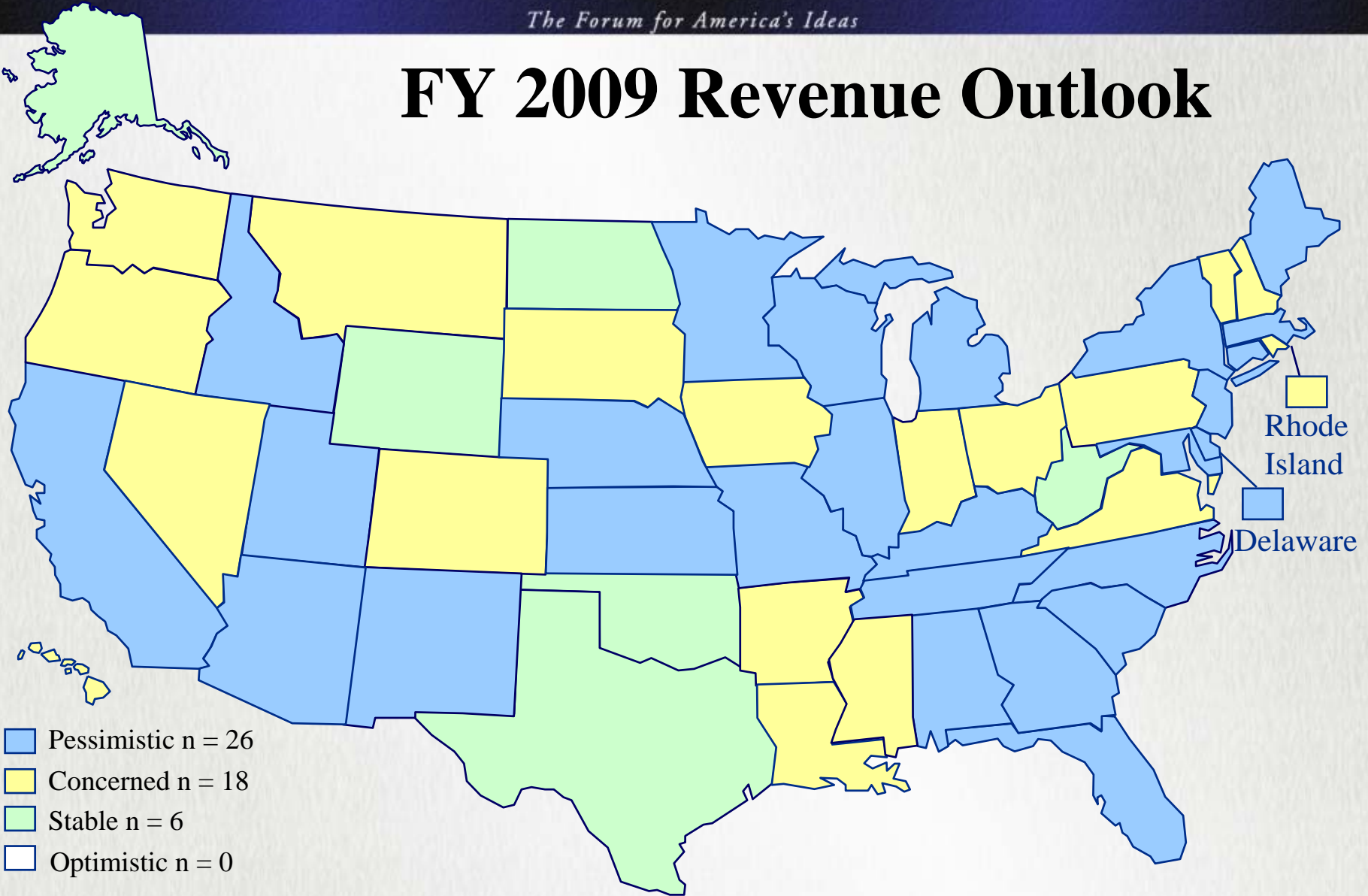
How Important are Personal Income Taxes?

- They account for 35.4% of state tax revenues
- 17 states derive more than 40% of their tax collections from the PIT
- In 5 states, the amount exceeds 50%
- Hawaii ranks 32nd, with PIT accounting for 30.6% of state tax collections



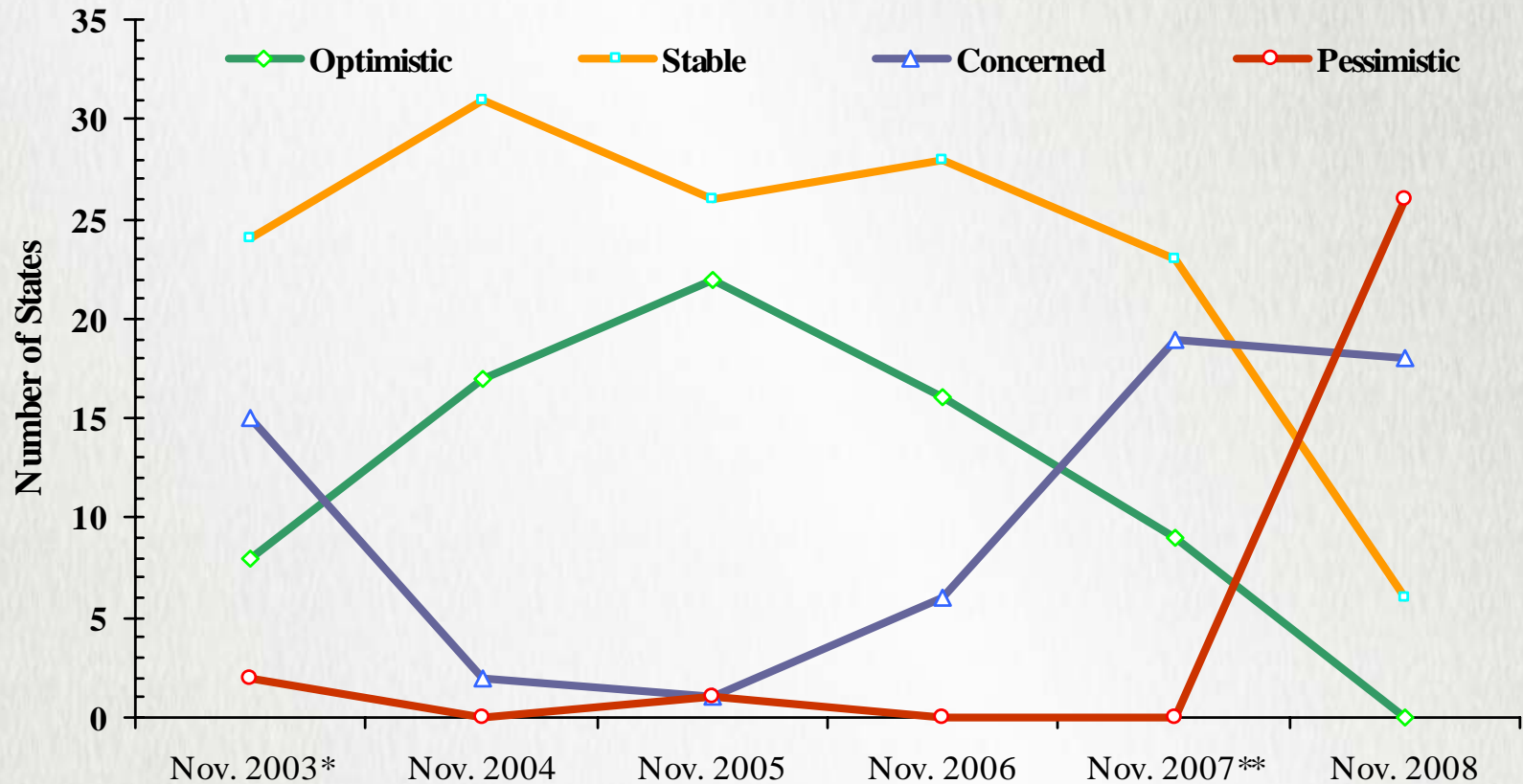


FY 2009 Revenue Outlook





Revenue Outlook for the Remainder of the Fiscal Year (FY 2004-FY 2009)

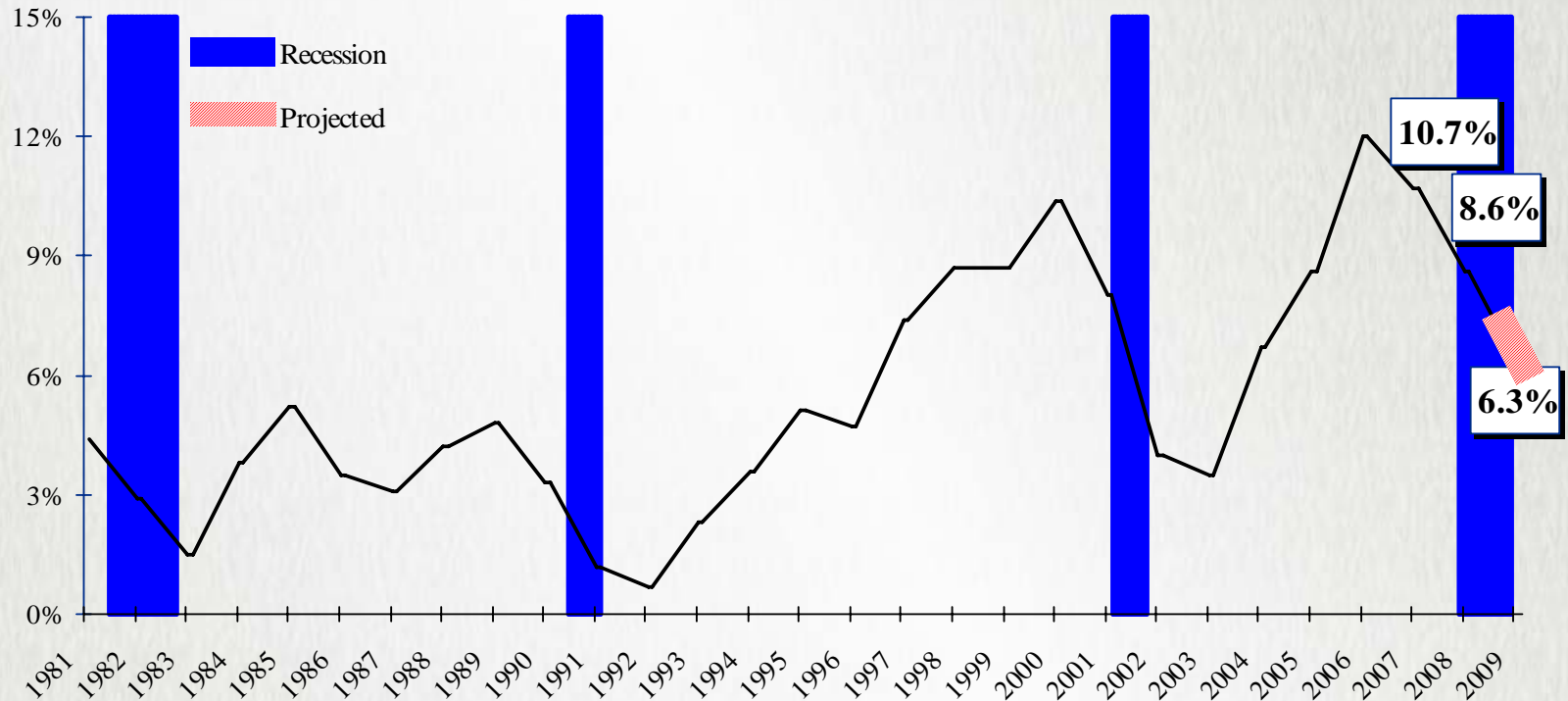


* 49 states reporting

** Includes Puerto Rico



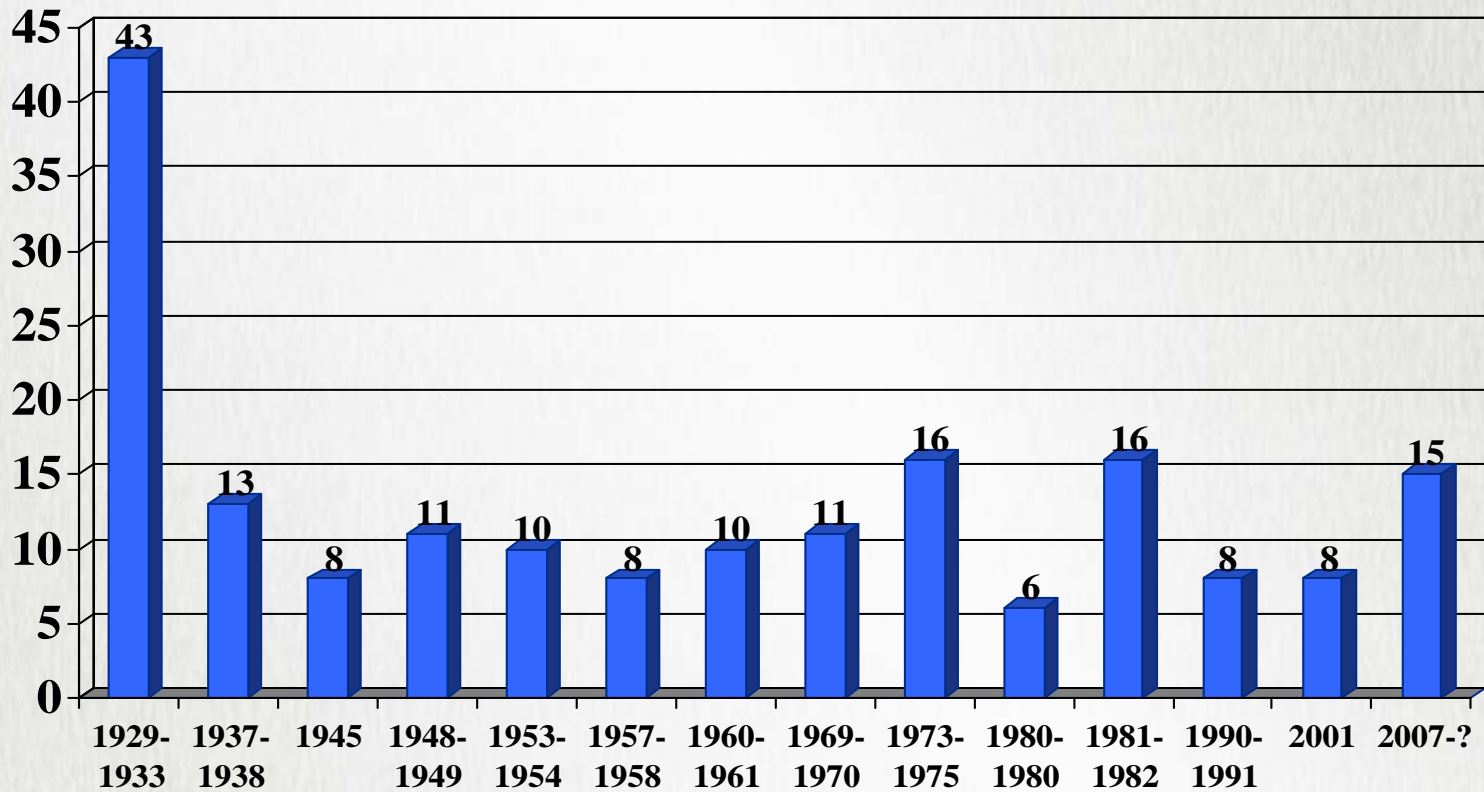
State Year-End Balances as a Percentage of General Fund Spending



49 states reporting for FY 2007–FY 2009.



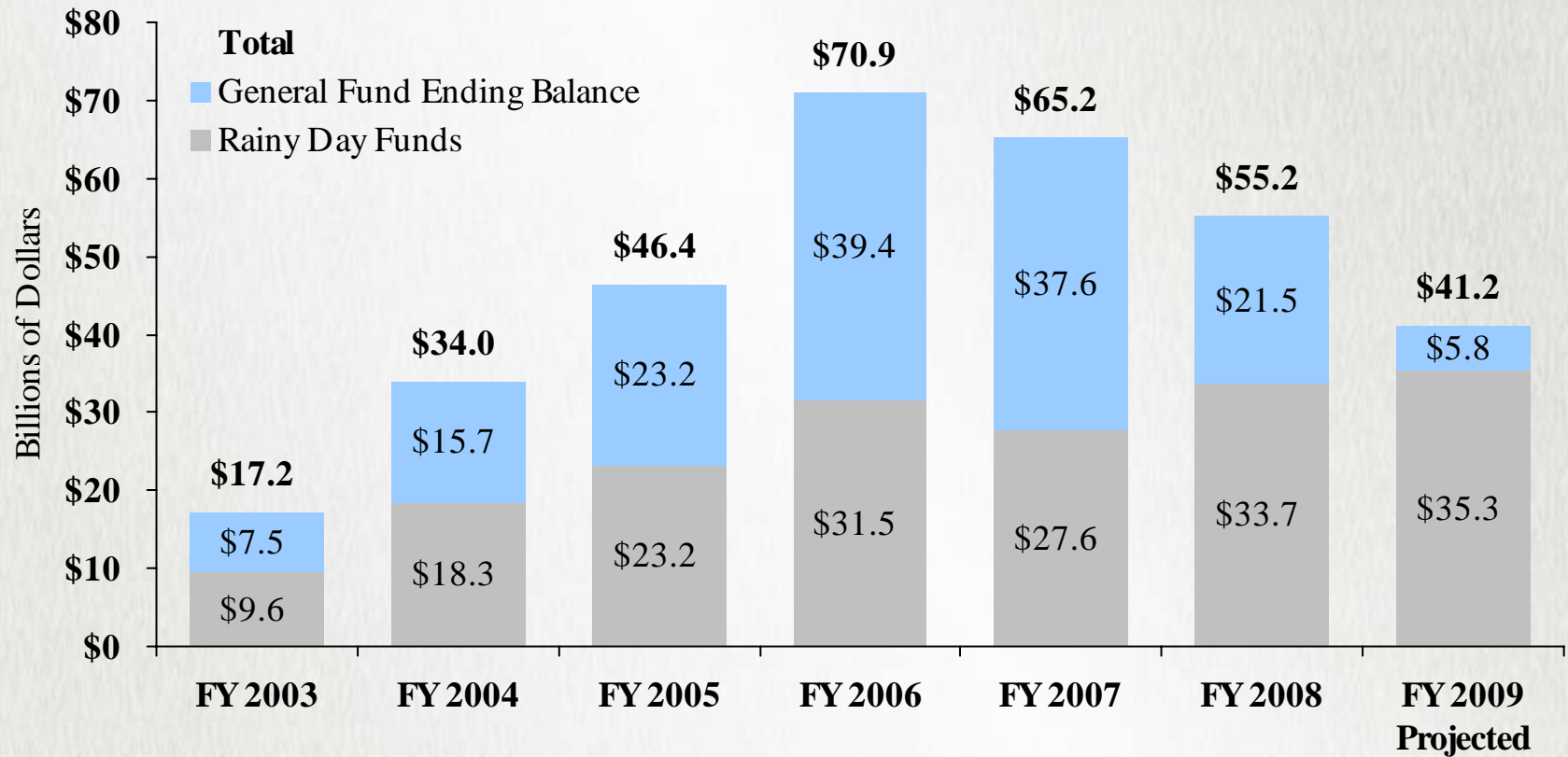
U.S. Business Cycle Downturns 1929-2009: Duration in Months





State Balances Fluctuate

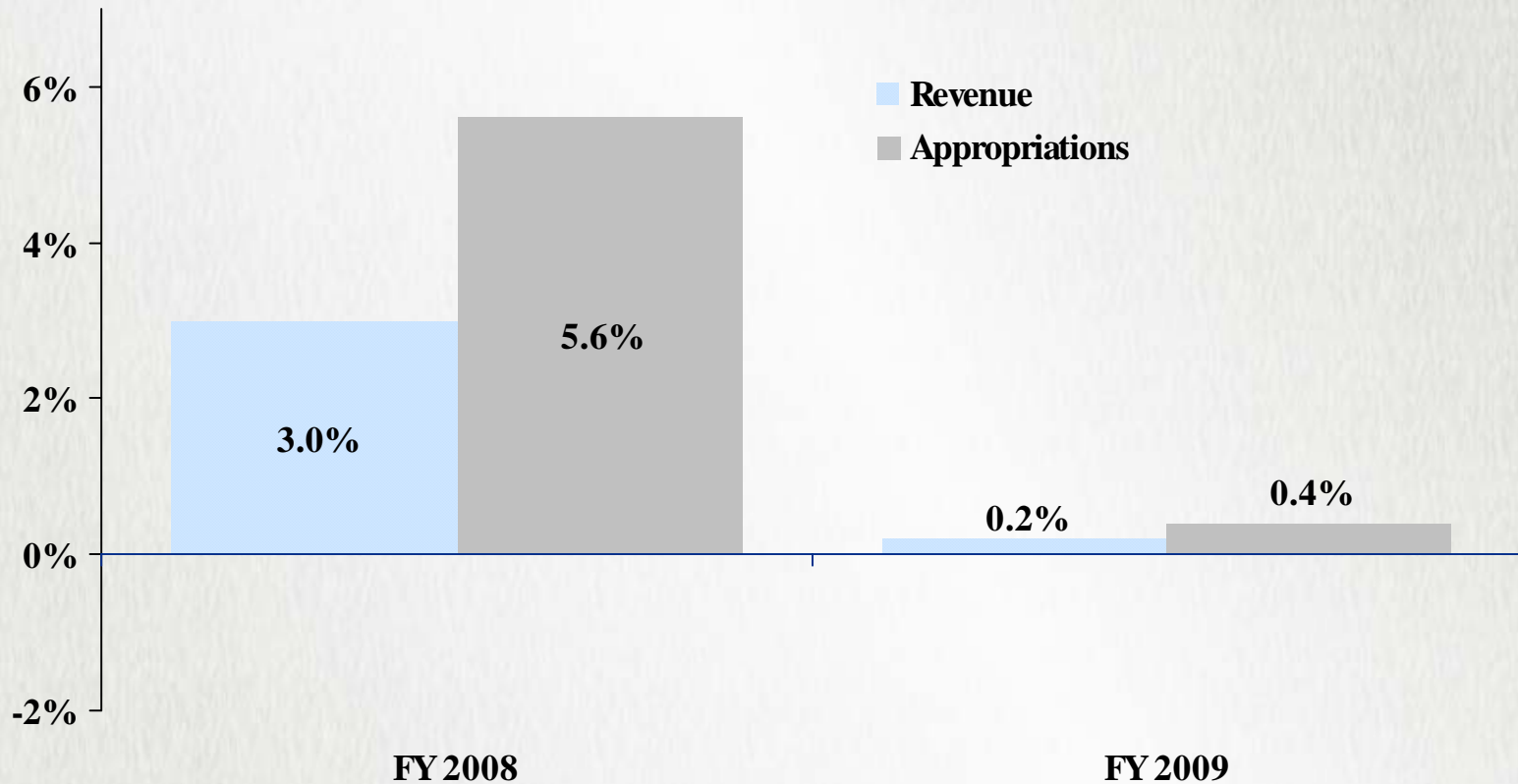
(billions of dollars)



*49 states reporting for FY 2007 – FY 2009.



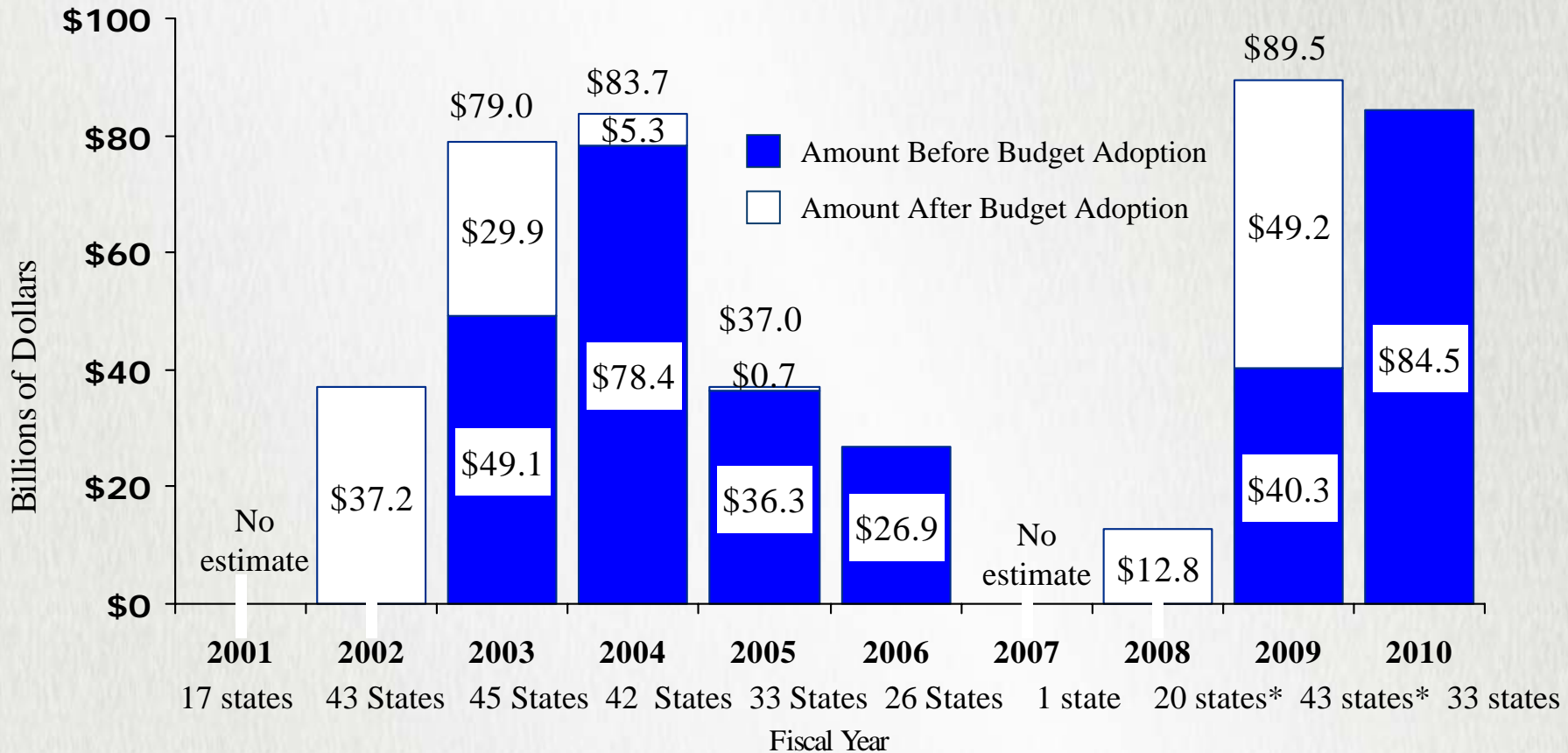
Projected Percentage Changes in Revenue and Appropriations



*49 states reporting.



State Budget Gaps FY 2001-FY 2010 (projected)



Source: NCSL survey of legislative fiscal offices, various years.

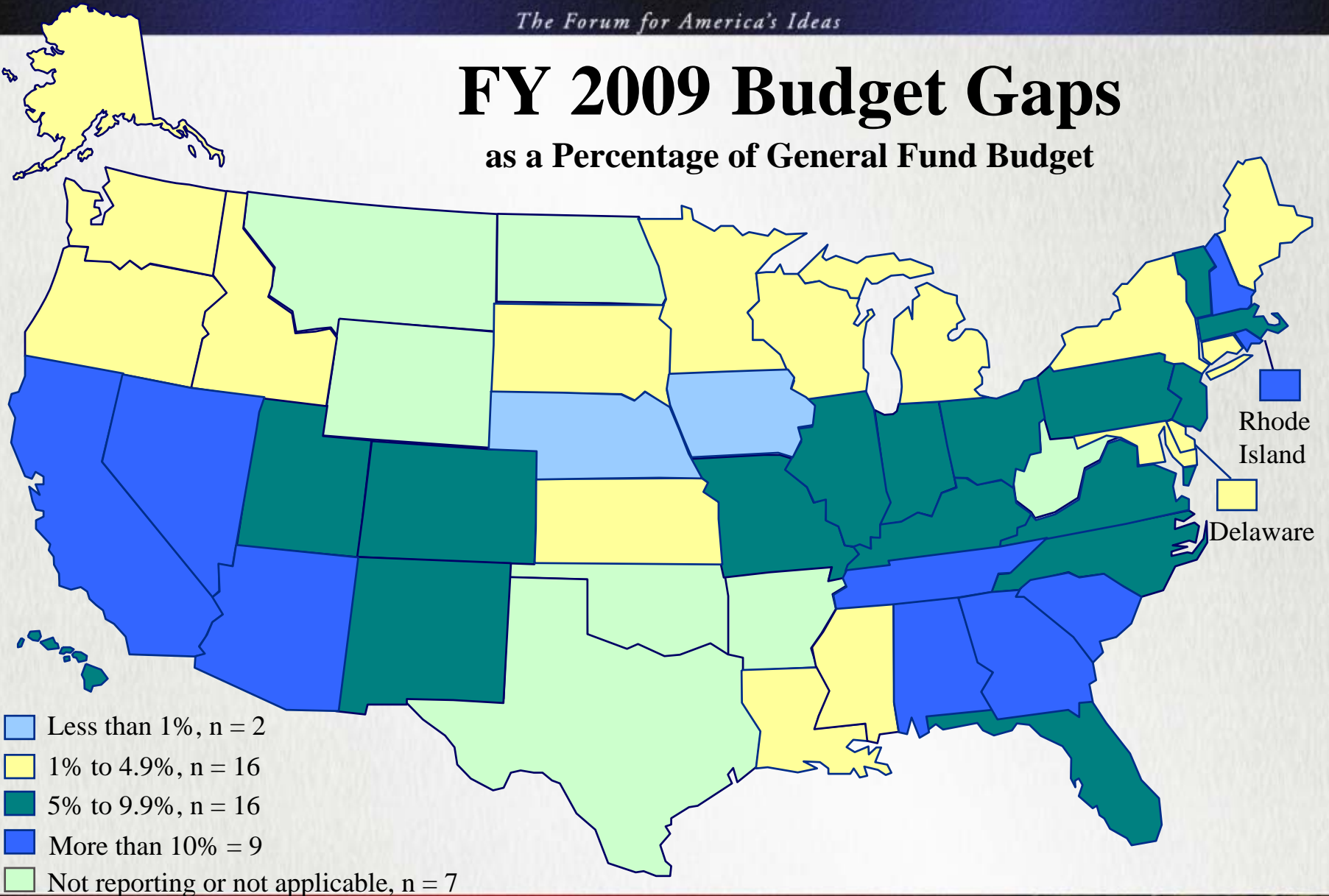
* Includes Puerto Rico





FY 2009 Budget Gaps

as a Percentage of General Fund Budget

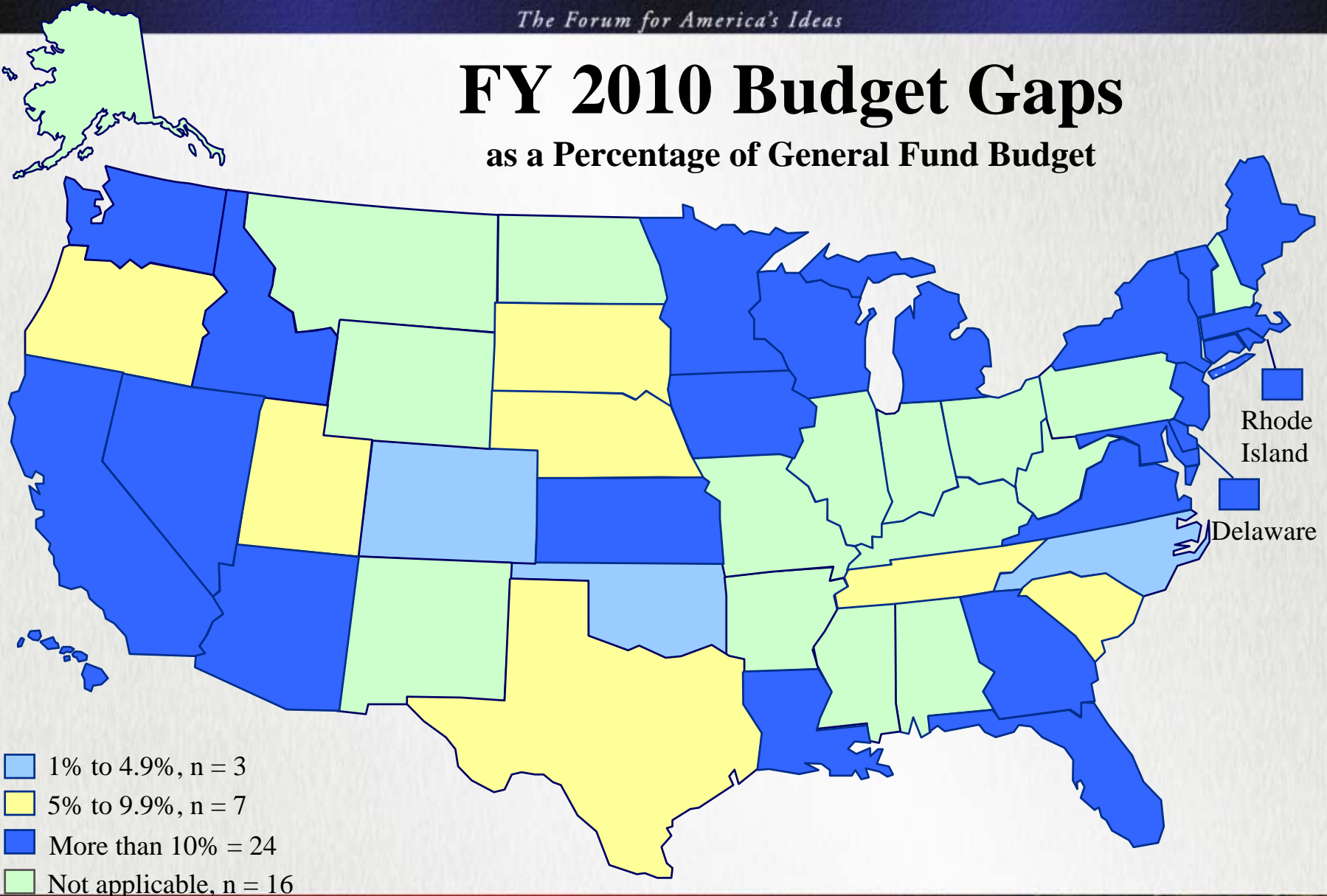


Source: NCSL survey of state legislative fiscal offices, January 2009.



FY 2010 Budget Gaps

as a Percentage of General Fund Budget





Actions to Balance FY 2009 Budgets: Program Cuts

- Across-the-board cuts (20 states, 10 states considering)
 - Delaware (7%)
 - Georgia (10%)
 - Hawaii (2%-4% + 4%)
 - Kansas (3%)
 - Maine (5%)
 - Nevada (7.4% +)
 - Ohio (4.8%)



Actions to Balance FY 2009 Budgets: Program Cuts

- Targeted program cuts (enacted or proposed)
 - Higher education (at least 18 states): Alabama, Arizona, Connecticut (\$47.0 million), Florida (\$113.0 million), Idaho (10%), Virginia (15%)
 - K-12 education (at least 14 states): Florida (\$480 million or \$140 per pupil), Idaho (5.3%), Maryland, New Mexico (\$80 million), New York (3.3%), Virginia (\$400 million), Washington
 - Medicaid (at least 14 states)
 - Corrections (at least 14 states)
 - Local government aid (at least 10 states)



Actions to Balance FY 2009 Budgets: Other Measures

- Salary freeze (at least 6 states): Idaho, Indiana, Washington
- Hiring freeze (at least 20 states): Hawaii, New Jersey, Virginia
- Travel ban (at least 15 states): Delaware, Hawaii, Maine
- Layoffs (at least 11 states): Louisiana and New York
- Furloughs: California and Maryland
- IOU's: California



Actions to Balance FY 2009 Budgets

- Tap rainy day funds (at least 9 states): Arizona, Nevada
- Fund sweeps (at least 21 states): Colorado, Nevada, Florida
- Delay capital projects (at least 12 states)
- Shift pay-as-you-go to debt (at least 3 states)
- Purchase freeze (at least 9 states)
- Tax amnesty programs (3 states)



Actions to Balance the Budget: Potential Tax & Fee Increases in 2009

- Tobacco Taxes: Kentucky (\$0.70), Utah, and Virginia
- Alcohol Taxes: California, Massachusetts, and New York
- Soda and Candy Taxes: Massachusetts and New York (18% on non-diet soda)
- Gambling Taxes: Alabama



Actions to Balance the Budget: Potential Tax & Fee Increases in 2009

- Oil and/or Natural Gas Taxes: California and Montana
- Gasoline Taxes: California (\$0.13), Idaho (\$0.02), Illinois, and Oregon
- Vehicle Registration & Violation Changes: Colorado, Florida, Idaho
- Rental Car Taxes: Idaho (6.0%)



Actions to Balance the Budget: Potential Tax & Fee Increases in 2009

- **Sales Taxes:** California (Governor has proposed a 1.5% sales tax rate increase), New York, and Rhode Island (lower rate by 2 cents and expand base to services)
- **Hospital Taxes:** Georgia and Wisconsin
- **Personal Income Tax Surcharge:** California
- **Tax Acceleration:** New Mexico and Nevada
- **Elimination of sales tax exemption on clothing:** New York (<\$100)

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For more information

