



State Fiscal Update – February 2010*

The Great Recession, which began in December 2007, most likely ended sometime in the second half of calendar year 2009. Unlike the national economy, which witnessed significant growth in the fourth quarter of 2009, with GDP growing 5.7 percent, state fiscal conditions have continued to worsen. This is consistent with other recessions in that the biggest impact on states is one, two and even three years after the recession is over.

Recent History

By just about any measure, the last two years have been the most difficult fiscal period for states since the depression.

State Spending – The fall *Fiscal Survey of the States* shows a 3.4 percent decline in general fund spending for fiscal 2009 and a 5.4 percent decline in fiscal 2010 based on enacted budgets. The only other annual decline in state spending in the history of the fiscal survey came in 1983, and it was only 0.7 percent.

State Revenues – The Rockefeller Institute of Government has reported that state tax collections have declined for four consecutive quarters beginning in the third quarter of 2009, with the last three consecutive quarters showing reductions of 10.9, 16.4 and 11.6 percent. These are the largest reductions on record. For fiscal year 2010, states enacted tax and fee changes resulting in an anticipated \$23.9 billion in additional revenue. States also enacted revenue measures that will result in additional revenues of \$7.7 billion for fiscal year 2010. Such “revenue measures” include tax cut deferments, fund transfers into the general fund and tax amnesty programs.

Budget Cuts – Due to the revenue declines, 43 states cut \$31.3 billion in 2009. For fiscal year 2010, even with nearly \$30 billion in new revenue, 36 states have been forced to cut \$55.7 billion, with 30 states having cut both K-12 and higher education, according to the fall *Fiscal Survey of the States*.

State Employment – The Bureau of Labor Statistics recently reported that state government employment fell by 18,000 in January 2010.

*This paper was a joint product of NGA and NASBO.

Medicaid Growth – Medicaid spending for fiscal year 2009 was \$335 billion, which was an increase of 7.8 percent over the previous year. Enrollment increased 5.4 percent in fiscal year 2009 and will grow 6.6 percent in fiscal 2010. Additionally, 3.3 million more people were enrolled in Medicaid in June 2009 compared to the previous year, the largest one-year increase, according to the Kaiser Commission.

The Outlookⁱ

The following information provides a quick snapshot on the fiscal outlook of states as provided by state budget directors. It represents information from all 50 states, although not all states had answers readily available for all questions.

2010 Budget gaps – \$89.8 billion in closed budget gaps; \$18.9 billion in remaining gaps

2011 Budget gaps – \$55.4 billion

2012 Budget gaps – \$61.8 billion (many states have not yet done an estimate for FY 2012)

2010-2012 Combined remaining budget gaps – \$136.1 billion

2010 Revenue projections – 41 states lower than projected; 6 on target; 3 higher than projected

2010 Budget cuts – 19 states cut up to 5 percent and another 24 states made cuts greater than 5 percent

The Bottom Line

State revenues are continuing to deteriorate, as most states are witnessing actual monthly totals lower than their recent forecasts, which have been revised downward. States also face combined remaining budget gaps of \$136.1 billion for FY 2010-2012. This means that states have not bottomed yet because not only has there been no leveling of revenues, but Medicaid has continued to grow rapidly. In January 2010, states eliminated 18,000 jobs, and according to the survey, states will continue to shed jobs this year. Not only will this be a direct drag on the economy, but due to states' balanced budget requirements, they will continue to cut spending and increase taxes, which will also weaken the economy and, thus, its ability to generate private sector jobs. States foresee fiscal year 2011, which starts for most states July 1, 2010, to be the most difficult to date, and few see fiscal year 2012 much better.

ⁱ This outlook is based on an NGA/NASBO survey of states that was completed during the week of February 15, 2010. All fifty states responded to the survey, which was updated February 23, 2010.