When It Rains It Pours

A Look at the Adequacy of State Rainy Day Funds and Budget Reserves

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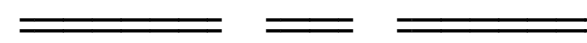

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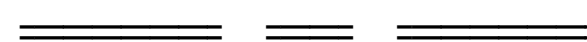

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Executive Summary

Despite reports of large state surpluses, some 40 states do not have enough "savings" in budget reserves and rainy day funds to maintain services if a downturn of approximately the same depth and duration as the recession of the early 1990's were to begin in 2000. As a result, most of these states are not in strong enough financial shape to weather a future recession without cutting government programs and services significantly or enacting substantial tax increases.

State governments have distinctive fiscal structures that pose particular problems during economic recessions. As the economy enters a downturn, falling employment slows growth in state revenues, while rising poverty and unemployment increase the demand for state expenditures. Together, these effects create large budget deficits that disrupt the state budgeting process. Because most states have some form of balanced budget requirement, the economic disruptions often force states to enact large tax increases or spending cuts at a time when their residents are least able to deal with such measures.

The most recent recession began in July 1990. Although that recession was considered relatively mild and officially lasted only nine months at the national level, many states faced fiscal shortfalls beginning in 1989 and continuing into 1992. By the middle of state fiscal year 1991, 30 states faced a cumulative gap of nearly $15 billion between projected revenues and expenditures. As the national economy began to gather strength during state fiscal year 1992, state budget shortfalls persisted; some 35 states that had enacted balanced budgets faced mid-year deficits because revenues

continued to lag behind projections, expenditures were higher than expected, or both. This budget turmoil defined a period that state finance experts call "the fiscal crisis of the states."[1]

States reacted to this crisis by raising taxes and cutting spending. From fiscal year 1989 to fiscal year 1992, states enacted over $27 billion in tax increases. At the same time, they cut or froze spending in many areas, often making dramatic reductions in income assistance and health programs for the poor. In a number of states, these tax and spending measures were adopted after the year's budget had passed, greatly disrupting the provision of state services. In addition, many states augmented deficit-closing tax increases and budget cuts by using budget "gimmicks," such as accelerating tax collections or deferring expenditures, and by shifting costs to local government. Shifts to local governments, in turn, often led to reductions in locally-provided programs and assistance. It was not until fiscal year 1993, when economic recovery spurred growth in their revenues, that states finally began to emerge from this crisis.

The fiscal crisis forced states to adopt these tax hikes, spending cuts and budget gimmicks in spite of the fact that states began the recessionary period with significant surplus balances. At the end of fiscal year 1989, they had nearly $12 billion in year-end general fund balances and "rainy day funds," equivalent to approximately 4.7 percent of their general fund expenditures. This balance was in line with recommendations from the National Conference of State Legislatures and Wall Street analysts that states keep five percent of their budgets on hand in preparation for normal economic contingencies. As large budget shortfalls rapidly depleted state surplus balances, however, it became apparent that the five percent reserve balance was not sufficient to counteract even the relatively mild recession of the early 1990s.

In the years since 1992, most states have reaped the benefits of economic expansion. Strong revenue growth has allowed states to pursue a fiscal agenda of tax cuts, targeted spending increases, and accumulation of surplus funds. Between 1993 and 1997, states cut personal and corporate income taxes and sales taxes by a combined $34 billion. Despite these large tax cuts, they were still able to accumulate balances totaling $34 billion by the end of fiscal year 1998, equivalent to 8.5 percent of their general fund expenditures.

As time goes by and the current economic recovery ages, the economic outlook is increasingly uncertain. Financial woes abroad provide a reminder that another recession is possible and even probable in the next few years. Thus, it is reasonable to ask whether states have done enough over the past six years to prepare for the next

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[1] For example, see: *The Fiscal Crisis of the States*, Steven Gold, ed., Georgetown University Press, Washington, 1995.

State Surplus Balances

This report examines states' fiscal preparedness for future recessions. One measure of that readiness is the amount of surplus funds a state has available to cover potential funding shortfalls. In most states, those surplus balances are held in one of two funds: the general fund or the budget stabilization fund (also known as the "rainy day" fund). During the next recession, a state could fill the gap that is likely to develop between expenditures and revenues by drawing on either of these two types of funds.

In years where a state's revenues exceed its expenditures, the resulting surplus typically accrues first to the general fund. In fiscal year 1998, state general fund revenues exceeded expenditures by more than $6 billion. Approximately $2 billion of that surplus remained in the general fund at the end of the fiscal year.

States deposited the other $4 billion in fiscal 1998 surplus to their "rainy day" funds. These funds are specifically designed to receive excess revenues during good economic times; withdrawals generally are restricted to times of economic and fiscal adversity. In some states, surpluses are automatically diverted to a rainy day fund, while in others the legislature must appropriate the surpluses from the general fund to the stabilization fund. Of the forty-five states that currently have some type of rainy day fund, three-quarters, or 32 states, made deposits to those funds last year.

recession. In light of the severe disruptions states experienced in the early 1990s, which they entered with 4.7 percent of their total budget in reserves, it is important to ask whether the current balances averaging 8.5 percent of expenditures would be enough to cover the potential shortfall next time.

This report projects the gaps between revenues and expenditures each state could face in the next recession, assuming the next downturn is on average the same severity and length as in the early 1990s. It also looks at the amount of reserve funds each state would need to have on hand at the onset of the recession to weather the downturn without raising taxes, substantially reducing spending, or engaging in fiscal gimmickry such as shifting costs to other levels of government. It is true that historically few states have lasted though a downturn of any significant duration without utilizing tax increases, spending cuts, or fiscal gimmicks — and in many states it would be impossible, difficult, or even unwise to accumulate sufficient reserves to avoid all such actions. Nevertheless, this is an area where some reassessment of policies and laws may now be appropriate and necessary. To inform that process, this report provides information on what it would take to finance government through the next recession without the "yo-yo budgeting" — tax increases and budget cuts during recession followed by tax cuts during recovery — that so often in the past has skewed

About the Data

This report is based on an analysis of state general fund revenues and expenditures from 1989 through 1999. The primary sources for this data were *Fiscal Survey of the States*, a semi-annual publication of the National Association of State Budget Officers that provides information on state general fund budgets, and state-level budget and finance agencies. This report also uses information on the effects of legislated changes in state taxes to derive baseline revenue growth rates for the states. Annual issues of the National Conference of State Legislatures' *State Tax Actions* publication provided data on these legislated changes, and numerous state offices provided information on the effects of tax changes that are phasing in over the next few years. More detailed information on sources is given in the footnotes to Table 10.

This report uses data from national sources like NASBO and NCSL to provide consistent measures across states. As a result, the information in this report on revenues, expenditures, and surpluses may differ slightly from budget numbers used in specific states. In particular, states may now be using fiscal year 1998 figures that have been revised based on final accounting since NASBO published its *Fiscal Survey of the States* in December 1998. These differences should not, however, affect the import of the findings materially.

This study reports projections for 48 states — Alaska and Hawaii were excluded from the analysis. More than three-fourths of Alaska's general fund revenues come from taxes on the petroleum industry and oil and gas royalties on state land, insulating it from business cycle fluctuations that influence revenues in other states. Hawaii's economy is more closely coupled to East Asian economics than to the United States economy because of its heavy reliance on tourism revenues. While US economic growth has been strong in recent years, the condition of Hawaii's economy has declined.

budget priorities, interfered with efficient delivery of services, and deprived residents of needed services.

The following are among the key findings of this analysis:

- While a number of states currently have historically large balances in their general funds and designated reserve funds, in most those balances would not be sufficient to cover the revenue shortfall that a near-term recession lasting for a period of three years could cause.

- Revenue and expenditure trends analyzed in this report imply that states would need a combined total of $80 billion in budgetary reserves entering the next recession in order to avoid cutting services or increasing taxes.

- At the end of fiscal year 1998, state balances totaled $34 billion. That is $46 billion less than the $80 billion estimate of state needs. Based on enacted budgets for FY 1999, states plan to draw down approximately $4 billion of their accumulated balances during this fiscal year to pay for tax cuts or spending initiatives that are not supported by current revenues, thereby widening the potential shortfall to $51 billion.

- On average, states would need to more than double their reserves as a percent of expenditures, from 8.5 percent to 18.6 percent, in order to maintain their current level of services during the projected recession without raising taxes.

- Forty states would need much larger reserves than they currently have in order to sustain current levels of state spending during such a recession. In 11 states, available reserves fall short of what would be needed by amounts equivalent to more than 20 percent of fiscal year 1999 expenditures. The states with the large shortfalls are Idaho, Oregon, Texas, West Virginia, Wisconsin, Tennessee, South Dakota, Nevada, Utah, New Hampshire and Georgia. (See Table 1.)

- Only eight states — Delaware, Indiana, Iowa, Maine, Massachusetts, Michigan, Minnesota and North Dakota — appear to have accumulated sufficient reserves at the end of fiscal year 1998 to last through the next recession without either raising taxes or significantly cutting spending.

- In only three states would balances equivalent to five percent of expenditures — the standard often cited by state policymakers for desirable reserve levels — allow the state to avoid fiscal stress in the next recession.

This analysis of revenue and expenditure trends may potentially understate the amount of reserve funds that states will need during the next recession. There are a number of factors that suggest states could face even greater fiscal crises than the analysis projects:

- Because economic recessions generate greater demand for human services, most states would have to *increase* their expenditure growth rates during the next economic downturn in order to maintain current levels of services. During the 1990-92 recession, rising unemployment fueled increases in spending on AFDC, Emergency Assistance, and Medicaid. Without the large tax increases states adopted during the recession, the growth in state expenditures for those services would have consumed all

Table 1
Hypothetical Recession: FY 2001-2003
Reserves As a Percentage of General Fund Expenditures Required to Weather the Next Recession and Difference Between Required Reserves and Available Reserves

Required Reserves	Shortfall in Reserves				
	More than 20%	15% to 20%	10% to 15%	0% to 10%	No Shortfall
More than 25%	Idaho Nevada Oregon South Dakota Tennessee Texas Utah West Virginia Wisconsin		Nebraska		
20% to 25%	Georgia New Hampshire	Connecticut Florida Illinois Kentucky Missouri No. Carolina	Colorado Kansas Ohio	New Mexico Oklahoma	
15% to 20%		Arkansas	Arizona Montana Pennsylvania So. Carolina	Maryland Mississippi Wyoming	Iowa Minnesota
10% to 15%			Alabama	New Jersey New York Rhode Island Vermont Virginia Washington	Delaware Indiana
Less than 10%				California Louisiana	Maine Massachusetts Michigan No. Dakota

of the scant growth in state revenues over that period. While welfare reform has given states more latitude in how they handle recession-induced increases in need for state programs and services, state spending may well have to grow faster than this analysis assumes in order to meet the increased need while also maintaining funding for education, public safety and other government services.

- States have taken on a broad new set of fiscal obligations during this decade that are likely to heighten the budgetary pressures they experience during an economic slowdown. The transformation of AFDC from an entitlement into the TANF block grant program and the adoption of block grants to fund health insurance for low- and moderate-income children are two examples of the changing nature of the partnership between the federal government and the states, which has vested states with greater financial responsibility for the provision of social services.

- Some states, such as New York, Massachusetts, Michigan, and California, have intentionally limited their spending growth over the past few years in order to finance large tax reductions. Since the projections in this analysis use each state's recent expenditure trend to estimate its future spending needs, the projections for some of these states show spending growth that is below what is necessary to maintain a constant level of services each year. During a recession, however, when the cost of providing government services rises along with unemployment and poverty, these low spending growth trends would become particularly difficult to maintain.

As states consider their budgets for fiscal year 1999, there are important choices to be made about the amount of funds that will be held in reserve and about the disposition of "surplus" funds that are not saved for future contingencies. As always, these choices have implications for the adequacy of current state services and for the distribution of the burden of paying for those services. But at this point in the long-running economic recovery, the choices also have particular significance for a state's fiscal health during the next economic slowdown.

- Many states are considering enacting new tax cuts or accelerating the phase-in of previously enacted tax cuts. These states should consider how the tax reductions would affect the ability of the state to provide current programs and services over the next several years, under both healthy and adverse economic conditions.

- Some 45 states have budget stabilization funds, commonly known as "rainy day funds." (See box on p. 10.) Not all states with stabilization funds have made adequate deposits to them; states could consider using the opportunity of healthy revenues to further shore up their funds. States lacking stabilization funds could consider creating such funds.

- General fund expenditures as a percent of personal income have declined since 1993 in about 20 states. States with substantial declines include Maine, Massachusetts, Michigan, Nevada, New Jersey, New York, North

Projecting Recessionary Deficits: Methodology Used in this Report

This report projects how each state's finances would fare if a recession similar in duration and severity to the recession earlier this decade began in the middle of the year 2000, which is the start of state fiscal year 2001.

This report assumes that the next recession will slow revenue growth for three years, from the end of FY 2000 to the end of FY 2003, analogous to the duration of lagging state revenue growth in the recession of the early 1990s.

Beginning with a balanced budget in FY 2000, each state's annual revenue growth from FY 2000 to FY 2003 is projected to equal 43 percent of the state's annual growth in the period of economic recovery from FY 1993 to FY 1998. Adjustments are made both to historical revenue trends and projected revenue trends to remove the effects of legislated tax changes. The 43 percent figure is based on the experience of states during the last recession; it is the ratio of total state revenue growth during the FY 1989 to FY 1992 period to state revenue growth from FY 1993 to FY 1998.

Each state is assumed to experience the same proportional slowdown. This assumption is made because there is no way to predict the economic sectors, and thus the types of taxes and other revenues, that will be most affected by the next recession. Similarly, there is no way to project the regional pattern of the next recession.

State general fund expenditures from FY 2000 to FY 2003 are projected to continue to grow at their historical annual rate, measured from 1989, the peak of economic growth prior of the last recession, to 1998. Maintaining the average historical expenditure growth rate would in most states allow maintenance of programs and services at their current levels, but would not account for any additional state expenditures necessitated by higher unemployment and poverty during the recession.

The budget reserve necessary at the beginning of the recession is calculated for each state as the cumulative three-year gap between projected expenditures and projected revenues. This is the amount a state would have to have on hand in budget surpluses and "rainy day funds" to weather the hypothetical recession without either raising taxes or cutting spending.

- Dakota, and Washington. Such declines suggest that state services may not be keeping pace with the needs of the population. States with declining expenditure levels could consider devoting some of their surpluses to improving public investments and services.

- Finally, states that used a variety of fiscal gimmicks in the last recession, such as requiring vendors to wait longer periods for payment or delaying tax refunds, could assess whether all those gimmicks have been reversed

during the economic recovery. States that have not reversed fiscal gimmicks from the last recession could use a portion of surpluses to restore more standard fiscal practices. States that changed state-local funding relationships during the last recession could also reassess whether those relationships are still appropriate. These types of actions could leave state and local governments in a more fiscally responsible position and increase their flexibility during a future recession.

I. State Fiscal Crisis in the Early 1990s

In the early part of this decade, states faced bleak fiscal conditions. Although state reserve balances totaled 4.7 percent of expenditures when the recession of the early 1990s began, most states soon found that they were poorly equipped to deal with the magnitude of the crisis created by the national recession. No fewer than 35 states faced a potential budget deficit at one point from 1990 to 1992, and many faced problems throughout the period. States were forced to adopt dire measures to cope with these shortfalls, cutting services while enacting the largest tax hikes ever at the state level.

Beginning of the Crisis

The fiscal decline began as early as 1989 in a handful of Northeastern states, where employment first began to fall. Massachusetts, for example, finished the fiscal year in June 1989 with a $319 million deficit, despite spending down a $672 million surplus balance from the previous fiscal year. Connecticut and New Hampshire suffered similar fates the next year, each ending fiscal year 1990 with a negative balance in their general fund. By that time, continued unemployment in Massachusetts had caused its budget deficit to balloon to nearly $1.3 million.

The fiscal crisis in these states forced governors and legislatures to make painful and disruptive changes to their budgets. In Massachusetts, a large tax package adopted in 1989 was not enough to close the budget gap in 1990. The state was forced to increase taxes yet again, while it cut services across-the-board and issued record amounts of debt. A 1989 increase in Connecticut's sales tax failed to

Table 2
State Year-End Balances, Fiscal Years 1989-1992
(billions of dollars)

Fiscal Year	General Funds	Rainy Day Funds	Total As Percent of Expenditures
1989	$7,727	$4,067	4.7%
1990	$5,380	$3,131	3.1%
1991	$1,260	$2,297	1.2%
1992	$1,525	$2,029	1.2%

Source: National Association of State Budget Officers, *Fiscal Survey of the States*, various years.

bring that state's budget into balance, leading it to cut spending in 1990 before undertaking broad-based tax and spending reform in 1991.

As the national recession began in early 1990, the slowdown that the Northeastern states were experiencing began to spread to states throughout the nation. Table 2 displays the balances in state general funds and rainy day funds from fiscal year 1989 to 1992.[2] It shows that the recession forced states rapidly to drain their reserves in order to fill the gap between rising expenditures and falling revenues. By the end of fiscal year 1991, the combined balances of all the states was reduced to the equivalent of only 1.2 percent of general fund expenditures. These small balances would not even have survived to this point in the economic cycle had states not begun to raise taxes and cut spending during the early stages of the recession.

Record Tax Increases, Large Spending Cuts

The recession hit states the hardest during fiscal year 1991, when rising unemployment caused general fund revenue collections to decline precipitously. In April 1991, the National Conference of State Legislatures reported that 30 states were

[2] The fiscal year in 46 states begins on July 1 and ends on June 30. Fiscal years in Alabama and Michigan begin on October 1 (the same as the federal government), in New York on April 1, and in Texas on September 1. The year designates the calendar year in which the fiscal year ends; hence, fiscal year 1998 in most states began on July 1, 1997 and ended on June 30, 1998.

Table 3
Legislated Changes to State Taxes, 1989-1991

	Legislative Sessions		
	1989	**1990**	**1991**
Net increase in state taxes (billions)	$3.5	$9.2	$14.4
Increase as percent of expenditures	1.3%	3.5%	4.8%
Number of states increasing taxes by 5% or more	6	10	12

Source: Gold, *The Fiscal Crisis of the States.*

facing a combined mid-fiscal year 1991 deficit of $14.7 billion. In order to bring their budgets into balance before the fiscal year ended in June (a process that is required in most states and traditional in some others), governors and legislators were forced to confront difficult choices.

States both approved record tax increases and cut spending sharply. As shown in Table 3, states raised taxes by a record $14.4 billion during the 1991 legislative session.[3] In addition, 29 states made mid-year spending cuts totaling $7.6 billion during the 1991 legislative session.

Despite the large tax increases and spending cuts of 1991, the gap between revenues and expenditures soon reappeared as state economies did not recover as rapidly as anticipated. Consequently, states repeated the budget-cutting exercise in the middle of fiscal year 1992. In order to bring their fiscal year 1992 budgets into balance, states cut expenditures by another $4.5 billion. Table 4 shows that while the 1992 cuts were not as deep as those in 1991, they were more widespread; actions to cut spending were taken in 35 states during the 1992 legislative sessions.

In addition to mid-year, unplanned reductions in spending, most states enacted austere annual or biennial budgets. This resulted in extremely low spending growth across the states. By fiscal year 1992, so many states were holding their spending increases down that total state spending declined by two percent after adjusting for inflation. (See Table 5.) At this point, states were not even meeting the normal costs of maintaining services and programs. Since the need and demand for

[3] The 1991 state legislative session lasted from January 1991 to late spring 1991 in most states. The actions taken in a given legislative session typically affect taxes and spending for the following fiscal year — fiscal year 1992 in this case.

Table 4
Mid-Year Cuts in State Budgets, 1990-92

Fiscal Year	States Making Mid-Year Cuts	Total Amount of Mid-Year Cuts
1990	20	$2.7 billion
1991	29	$7.6 billion
1992	35	$4.5 billion
Source: National Association of State Budget Officers, *Fiscal Survey of the States*, various years.		

state programs and services increases when economic conditions deteriorate, this spending decline reflected a situation in which states were cutting the very programs designed to ameliorate the impact of the recession on the well-being of state residents.

Impacts on Low-Income Residents

The cuts in spending that plagued states in the early 1990s had severe consequences for low-income residents at a time when those residents needed state services most. As states with mid-year budgetary shortfalls looked for immediate savings, they often targeted programs in which funds were expended on a monthly basis.[4] This led a number of states, both mid-year and during the difficult give-and-take at budget time, to adopt spending cuts or freezes in income assistance and health programs that primarily affected the poor:

- Basic benefits for Aid to Families with Dependent Children (AFDC), the primary cash assistance program for poor families with children in the early 1990s, were frozen or reduced in 40 states for fiscal year 1992, and in 44 states for fiscal year 1993. These cuts were particularly drastic in light of the fact that AFDC benefits were already at historically low

[4] In deciding where to cut spending, states had limited choices. It was generally difficult or impossible for states to reduce education spending or capital investment mid-year in ways that would result in immediate savings. Funds for education, for example, may already have been transferred to school districts and contracts for capital spending may already have been signed. Additionally, funds for various other purposes may have been fully expended in the early part of the fiscal year, before the crisis developed. Benefits for needy residents, on the other hand, are paid monthly— so reductions result in immediate savings.

Table 5
Changes in State General Expenditures, FY1990-FY1992

	Number of States		
Inflation-Adjusted Growth	**FY 1990**	**FY 1991**	**FY 1992**
Negative Growth	13	21	29
0.0% to 4.9%	19	11	11
5.0% to 9.9%	10	7	5
10.0% or higher	6	9	3
Total Inflation-Adjusted Growth	2.8%	1.5%	-2.0%

Source: CBPP calculations based on NASBO data.

levels; the purchasing power of the average state's benefits fell 43 percent between 1970 and 1992.

- State General Assistance programs, which supply cash assistance to those individuals not covered by the federal safety net, were the hardest-hit of the low-income programs in 1991 and 1992. Of the 28 states with statewide GA programs, 17 lowered benefits or restricted eligibility in either 1991 or 1992 or both years. More than 450,000 low-income households were affected by the 1991 cuts, and another 120,000 were affected by the 1992 cuts.

- In 1991, 27 states provided cash supplements to the federally-administered Supplementary Security Income (SSI) program for poor elderly individuals and couples. Of these, 26 either cut or froze those benefits in 1991 or 1992. Again, these reductions came at a time when SSI supplementary benefits were historically low — in the typical state, the purchasing power of the supplement for elderly couples fell 60 percent between 1975 and 1992.

Other Strategies Used to Cover Shortfalls

Although the tax increases and budget cuts enacted in the early 1990s were large, they still were not sufficient to close all the gaps between revenues and expenditures that developed during those years. Most states also used fiscal strategies, often known as "gimmicks," to help their budgets achieve balance. A

number of states postponed payments to employees, vendors, or residents and a number of states arranged to collect revenue sooner than they otherwise would have.[5] These types of actions produce one-time fiscal relief. Selling state-owned assets has been another frequently-used fiscal strategy that yields one-time revenue. Borrowing in one year for repayment in the subsequent year is yet another strategy to alleviate a single year shortfall.

In addition, some states transferred responsibility for funding some programs to local governments, a fiscal strategy that can yield either one-time or permanent reductions in state expenditures — depending on how the change is structured. For example, California transferred to right to use certain property tax revenues from local governments — counties, cities, and special districts — to school and community college districts. This allowed California to reduce state aid to schools. Local governments received state aid and new taxing authority to offset just under half of their lost property tax revenues, which left many local governments needing to reduce their own programs and services.

The widespread use of fiscal gimmicks in previous recessions suggests that the entire gap between revenues and expenditures in the next recession will not be closed by tax increases or spending cuts. The availability of these other strategies in the future depends in part on the extent to which gimmicks such as payment delays or revenue accelerations adopted in previous hard times have been subsequently reversed during the period of strong economic growth.

How Much Reserve is Enough?

The large tax increases and spending cuts that states enacted in the early 1990s occurred despite the fact that states had amassed balances totaling nearly $12 billion in 1989, which was 4.7 percent of their expenditures in that year. Although states made withdrawals from their reserve funds and spent the balances in their general funds over the course of the recession, these resources were not nearly enough to cover the large gaps between revenues and expenditures that surfaced from 1990 to 1992. States that thought this level of reserves would provide a sufficient cushion had not adequately planned for the type of shortfalls an economic recession could generate.

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[5] Some states that postponed payments changed dates that public employees were paid, some lengthened the time between receipt of the disbursement of bills and payments to vendors, some delayed payment of tax refunds, and some delayed payments into employee pension funds. Some states that accelerated revenue shortened the lag between the time retailers collect taxes on sales and the time the taxes must be remitted to the state, and required employers to make more frequent deposits of employee income tax withholding.

The insufficient level of reserves states held when the recession hit in the early 1990s may have in part been the product of a rule-of-thumb benchmark for state savings that is of uncertain origin and even more questionable validity. The fiscal downturns that states experienced during the early 1980s had led many of them to establish budget stabilization funds, more commonly known as "rainy day" funds. These funds were designed to receive surplus revenues when a state's finances were healthy, with the intention that the funds could be drawn down when the state's economy began to slump. During the late 1980s, when state economies were performing well, states operated on what were widely interpreted as recommendations from the National Conference of State Legislatures and Wall Street analysts that their rainy day funds contain at least five percent of their annual general fund expenditures. By 1989, twenty-five states had year-end balances equivalent to five percent or more of their general fund expenditures.[6]

There seems to have been some misunderstanding about what the five percent standard was supposed to represent. The five percent recommendation was not intended to serve as a guideline for states preparing for a recession. On the contrary, reserve balances of this size were only estimated to be large enough to carry states through normal economic contingencies. These sorts of contingencies might occur if, for example, a legislative fiscal office made an error in forecasting tax receipts when preparing the budget, or a state had to make unexpected outlays in order to settle a lawsuit. In making its 1983 recommendation, NCSL's Fiscal Affairs and Oversight Committee wrote that reserve funds with the five percent recommended balance were "useful only when the economic weather report is 'overcast with a mild drizzle' rather than 'continued thunderstorms with flooding expected.'"[7] The five percent standard, however, has been widely and inappropriately interpreted as the entire reserve a state needs.

Even though the recession of the early 1990s was considered relatively mild— characterized by the smallest increase in unemployment of any post-war recession— the shortfalls that states experienced during that period were of the "thunderstorm" variety. Because they overwhelmed fund sizes of approximately five percent, it is reasonable to ask how big an umbrella states will need in order to stay dry during the next recession. That is, what size should state reserve balances be for a state to maintain its existing service levels during a similar recession without raising taxes? That is the question which this report attempts to answer.

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[6] As referred to in this paper, a "reserve balance" or "year-end balance" includes both monies in a state's rainy day fund and year-end balances in its general fund.

[7] Barbara A. Yondorf, *A Legislator's Guide to Budget Oversight After the Appropriations Act Has Passed*, National Conference of State Legislatures, 1983.

This report looks to the next recession in light of current fiscal conditions. It finds reserve balances averaging just over 18 percent of general fund budgets are likely to be necessary to weather a future economic downturn.[8]

[8] In 1996, economist Russell Sobel from West Virginia University and economist Randall Holcombe from Florida State University attempted to answer a similar question. Using data from the 1980s and early 1990s, they asked how much money states would have needed to have had on hand before the last recession in order to maintain expenditures through the early 1990s recession without increasing taxes. They concluded that the 1989 budget reserves would have had to amount to approximately 17 percent of general fund budgets. This amount was well above what states had in reserve in FY 1989 — 4.7 percent of their general fund budgets — and far above the five percent that NCSL and Wall Street had recommended as a prudent reserve level for ordinary contingencies.

II. State Fiscal Conditions Since 1993

In the years since the recession, states have made efforts to rebuild their reserves. After six years of sustained economic growth, states are now enjoying large surplus balances. At the end of fiscal year 1998, the 48 states in this study held a total of over $34 billion in general fund and rainy day fund reserves. These holdings were equivalent to about 8.5 percent of their general fund expenditures in FY 1998.[9] Twenty states had balances totaling over 10 percent of their budgets.

Increasingly, states have used special reserve funds (outside of their general funds) to save annual surpluses for economic downturns; withdrawals from these special funds, known as budget stabilization funds or rainy day funds, generally may be made only in times of adverse economic or fiscal conditions. (See box on page 10.) Currently 45 states have some sort of budget stabilization fund.[10] Eight states created budget stabilization funds in this decade, after the recession of the early 1990s. Most of the other state stabilization funds were established in the 1980s, in response to the deep back-to-back recessions in the early part of the decade. At the end of fiscal year 1998, states held nearly $15 billion — more than one-third of their total reported surpluses — in rainy day funds. The balances in rainy day funds have rebounded dramatically

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[9] This 8.5 percent figure may be different than similar statistics reported by NCSL or NASBO because Alaska is excluded from this analysis. Total balances as a percentage of expenditures may look artificially high when Alaska's extraordinary rainy day fund balance of $3.5 billion — 175 percent of its expenditures in 1998 — is included. See box on page viii for further details on the reasons Alaska was excluded from this report.

[10] Of the 48 states in this study, 44 have a budget stabilization fund. Alaska, which is not included in this analysis, also has a stabilization fund.

Rainy Day Funds

Most states have budget stabilization funds, often called rainy day funds. These funds allow states to place surplus revenues in "savings accounts." The stabilization funds generally are structured to restrict withdrawals to specific circumstances such as revenue shortfalls or emergencies.

Forty-five states have established rainy day funds. Only six jurisdictions — Arkansas, the District of Columbia, Hawaii, Illinois, Montana, and Oregon — lack such funds.

Many states currently have limits on the amount of funds that can be accumulated in their budget stabilization funds, and those limits generally are below the size of the reserves this report finds would be necessary to sustain government programs through the next recession without raising taxes. Thirty-two states have capped the size of their budget stabilization funds; most caps range from two percent to 10 percent of prior year expenditures or revenues.

State differ in the extent to which they utilize rainy day funds to reserve balances. In some states, formulas govern the transfer of surplus funds to the stabilization funds; in other states, surplus funds must be specifically appropriated for that use. Because of these wide differences, this report considers together surplus funds that remain on budget and funds in rainy day funds. Appendix Table 3 shows these balances separately for each state.

from their level during the recession; between fiscal year 1992 and fiscal year 1998, states added over $12 billion to these funds.

In addition to monies held aside in budget stabilization funds, states ended fiscal year 1998 with general fund balances of $19.3 billion. In some states, general fund balances are carried forward from year to year and remain available to cushion adverse fiscal conditions. In other states, some or most of the general fund balances available at the end of fiscal year 1998 were designated to be spent during fiscal year 1999 on tax rebates, tax cuts, capital projects, or as part of the general fund budget. Because states make choices about the share of general fund surpluses that will be saved rather than spent, this report counts as "reserves" both stabilization fund balances and general fund balances. Appendix Table 3 shows the two types of reserves separately.

States have been able to accumulate these reserves because the economic recovery has generated strong growth in state revenues. Despite a multitude of tax cuts from 1993 to 1998, states have saved nearly $26 billion in surplus funds. (See Table 6.)

Table 6
Growth in State Reserves, 1992 to 1998
(billions of dollars)

Fiscal Year	Total Reserves	As Percent of Expenditures
1992	$3.6	1.2%
1993	$8.3	2.7%
1994	$13.3	4.2%
1995	$17.5	5.1%
1996	$21.9	6.0%
1997	$27.9	7.2%
1998	$34.2	8.5%

Note: Reserves include general fund and rainy day fund balances.

Source: NASBO, *Fiscal Survey of the States*, various editions.

State savings at this point in the economic recovery could be greater had states not spent major portions of their potential surpluses to finance tax cuts. As shown in Table 7, states have approved a net tax reduction in each year since 1995. Tax cuts have been widespread, occurring in a majority of the states in each of these years.[11]

Table 8 focuses on the changes in the major taxes that comprise general fund revenues — corporate and personal income taxes and sales taxes. The cost of the tax changes in the initial year of enactment is shown, along with estimates of the continuing cost of each year's tax cut in subsequent years.

[11] This is the case despite the fact that only 43 states have legislatures that convene each year; legislatures in the other 7 states meet on a biannual basis.

Table 7
Tax Reductions in the States, 1995-1998

Year enacted	1995	1996	1997	1998
Number of states reducing taxes	28	29	28	30
Cost in initial year of tax cut (billions)	($3.3)	($4.0)	($2.6)	($6.8)
As % of prior fiscal year's collections	(0.9%)	(1.1%)	(0.6%)	(1.5%)
Note: Reductions in all taxes are shown, including motor fuel and other taxes typically earmarked for use outside of a state's general fund.				
Source: NCSL *State Tax Actions*, 1994 through 1998.				

If states had not enacted these cuts, state general fund revenues would have been over $14 billion higher in fiscal year 1998.[12] When the effects of these cuts are considered over the entire recovery period, state general fund revenues from fiscal year 1993 to fiscal year 1998 were reduced by almost $34 billion (the sum of the cost of the legislated changes for each year). In other words, while states "saved" — that is, increased their rainy day fund and general fund balances — $26 billion over this period, they also enacted tax cuts totaling $34 billion. As a result, the accumulated balances of the states would have been approximately $34 billion higher had these tax cuts not been enacted.

Impact of Fiscal Changes During Recovery

The tax cuts enacted during the economic recovery period have had impacts beyond limiting the growth of reserve balances states hold. In some states, large tax cuts may also have affected the provision of state services.[13]

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[12] When a state cuts taxes, its revenues are reduced not only in the fiscal year when the tax cut takes effect, but also in every year thereafter as the tax cut remains in effect. To estimate the revenue impact of a tax cut in years subsequent to enactment, this report assumes the ratio of the cost of legislated changes to general fund revenues remains constant in each year after enactment. For example, the $5,865 million reduction in sales, personal income and corporate income taxes states enacted in FY 1996 represented 1.6 percent of the $369 billion in general fund revenues that year. In FY 1997, it was assumed that these cuts reduced the $388 billion in general fund revenues by 1.6 percent, or by $6,170 million. Table 8 shows the cumulative effect of tax changes. Adjustments were made for tax cuts that took effect in the middle of a fiscal year in order to capture their full-year impact in subsequent years.

[13] One common way to measure the demand for government services is by considering growth in total personal income of a state's residents. Since personal income growth reflects changes in population, inflation and real wage levels in the state, it serves as a reasonable indicator of the increase in cost of

(continued...)

Table 8
Effects of Legislated Changes to Sales, Personal Income and Corporate Income Taxes on General Fund Revenues in the States, FY 1993-FY1998

All figures in millions	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Total General Fund Revenue (millions)	$316,486	$328,194	$348,042	$368,826	$388,027	$411,945
1993 legislated change		$480	$509	$539	$568	$602
1994 legislated change			-$1,867	-$1,978	-$2,081	-$2,210
1995 legislated change				-$5,865	-$6,170	-$6,551
1996 legislated change					-$3,740	-$3,971
1997 legislated change						-$2,863
Total legislated change*		**$480**	**-$1,358**	**-$7,304**	**-$11,423**	**-$14,993**
Total Revenue Net of Legislated Changes	**$316,486**	**$327,714**	**$349,400**	**$376,130**	**$399,450**	**$426,938**

*This report uses the legislated changes to sales, personal income and corporate income taxes in the state as representative of legislated changes to general fund revenues as a whole, because in most states revenues from these three taxes finance a large majority of general fund spending.

Note: The figures for general fund revenues and expenditures shown in this report differ slightly from those reported by NASBO in *Fiscal Survey of the States*. This is because the NASBO revenues and expenditures reflect withdrawals from and deposits to rainy day funds — revenues include withdrawals, and expenditures include deposits. These transfers to and from rainy day funds are excluded from general fund revenues and expenditures for the purposes of this report.

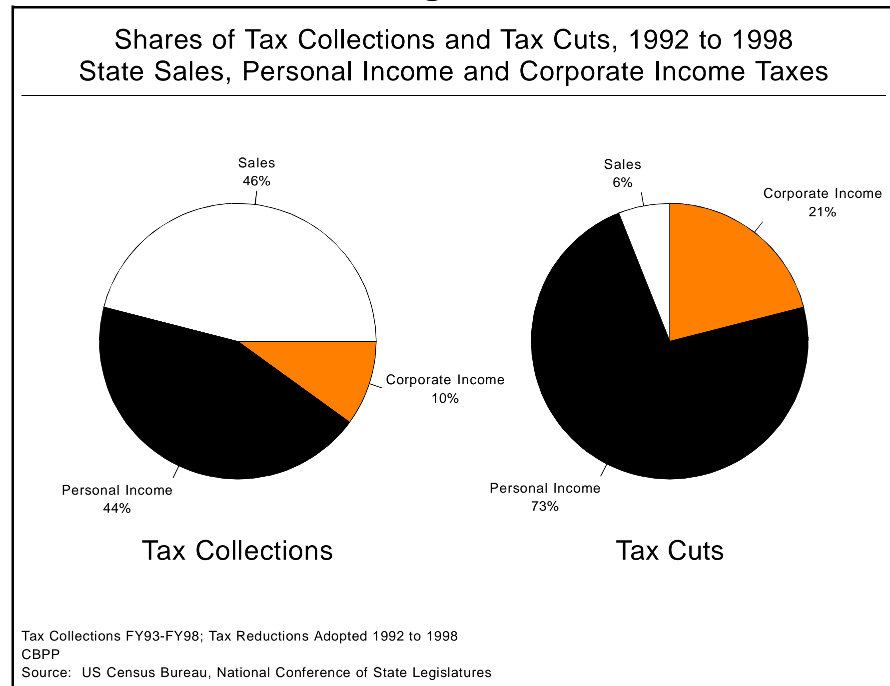
Source: NASBO *Fiscal Survey of the States*, NCSL *State Tax Actions*.

Eight states — Arizona, Iowa, Louisiana, Michigan, New Jersey, New York, Oregon and Pennsylvania — have reduced their general fund revenues by 5 percent or more through tax cuts since 1993.[14] In six of these eight states, expenditures as a percentage of personal income also have dropped substantially. In the six states,

[13] (...continued)
providing the same level of government services from year to year.

[14] This analysis is based on the impact of cuts in the three major state taxes — personal and corporate income taxes and sales taxes. When cuts in all general fund taxes are considered, some additional stares have reduced their general fund revenues by more than 5 percent.

Figure 1



Arizona, Iowa, Michigan, New Jersey, New York, and Pennsylvania, general fund expenditures as a percent of personal income declined from 6.1 percent in FY 1993 to 5.5 percent in FY 1998. Although this may seem like a small change, the impact of the lagging expenditure growth is cumulative. Had these six states provided the same level of services as measured by their residents' personal incomes in FY 1998 as they did in FY 1993, their total general fund expenditures would have been nearly $10 billion higher in FY 1998. This difference represents over 11 percent of actual general fund expenditures for the six states in that year.

It is also important to note that not all state residents have shared equally in the benefit of tax cuts over the economic recovery. The overwhelming majority of state tax cuts since 1992 have been made in the progressive personal income and corporate income taxes. While some of the personal income tax cuts have benefitted lower-income households, the bulk of the foregone revenue has reduced taxes for higher-income residents. By contrast, states have made relatively meager reductions in regressive sales taxes, which take a larger share of income from low- and moderate-income families. Lower-income families generally must spend a larger share of their income on taxable goods than higher-income families, because higher-income families can save a significant portion of their income.

Figure 1 illustrates how the distribution of tax cuts from 1992 to 1997 was skewed towards reducing progressive taxes. From 1992 to 1997, personal income taxes made up 44 percent of "big three" tax collections, corporate income taxes made up 10 percent, and sales taxes were 46 percent of the total. But while personal and corporate income taxes accounted for 54 percent of total tax collections, fully 94 percent of the reductions in taxes during this period came from these more progressive taxes. Corporate and personal income taxes were reduced by $13 billion as a result of tax cuts. By contrast,

General Fund Revenues and Expenditures

This study focuses primarily on revenue and spending in state general funds. State governments rely on other mechanisms for funding services, such as trust funds for transportation and capital improvement, and funds to receive and distribute lottery revenues. The general fund, however, is a good unit of analysis in state budgeting for several reasons:

- General fund revenues are, for the most part, raised by states themselves. General funds typically exclude revenue sources such as federal grants-in-aid to states that can mask the size of the budget surplus or deficit generated by a state's own fiscal conditions. Consequently, the health of a state's general fund is a good indicator of the state's fiscal health.

- The majority of a state's spending for current operations is financed by the general fund. Examining the general fund can thus give an accurate picture of the level of services that a state government provides.

- The general fund is most often the centerpiece of budget negotiations in state legislatures and governors' offices. General fund revenues, consisting primarily of sales and income taxes, and expenditures, consisting of appropriations for state agency programs and operations, are the core subjects of debate in the state capitals.

- Data on general fund balances, revenues and expenditures is readily available. The National Association of State Budget Officers (NASBO) publishes data on general fund budget twice yearly in its *Fiscal Survey of the States.*

regressive sales taxes were reduced by only $800 million. Although sales taxes represented 46 percent of tax collections they accounted for only six percent of the reductions in the three types of taxes. In short, states have made disproportionate cuts in the taxes that higher-income taxpayers bear, while leaving the taxes that burden lower-income families relatively untouched.

The state tax cuts that have been enacted over the course of the economic recovery have had three important consequences. They have limited the growth of surpluses in general funds and rainy day funds. In some states, they have also led to reductions in the level of services provided, as evidenced by declines in spending as a percentage of state personal income. And, the tax cuts disproportionately benefitted higher-income taxpayers.

As state legislatures consider budgets for fiscal year 2000, it appears that the economy will remain strong and additional tax cuts will be considered in many states.

This analysis suggests a number of questions that could be asked as the decision-making process proceeds. In particular, it could be asked whether the state has accumulated reserve balances sufficient to weather an economic downturn without increasing taxes or making deep spending cuts. And if it has not done so, on what segments of the population are the benefits and costs of policy changes in taxes or expenditures likely to fall, both in the near term and during the next recession? The state-by-state estimates of funds potentially needed in the next recession presented in Chapter 3 can help states think through these important fiscal questions and decisions.

III. The Potential for Shortfalls During the Next Recession

Despite the healthy growth in revenue over the past few years, the modest growth in spending that has accompanied it, and the resulting budget surpluses, most states are ill-prepared to weather an economic recession similar to the one that occurred earlier in this decade. An economic downturn may again force states to enact large tax increases or deep cuts in spending to cover budgetary shortfalls.

Methodology

This report analyzes trends in general fund revenues and expenditures for 48 states, both during the early 1990s recession and in the years since. Using those trends, it projects the cumulative gap between revenues and expenditures in each state that is likely to develop if a recession similar in depth and duration (but not necessarily geographic distribution) were to occur from fiscal year 2001 through fiscal year 2003.

The budget shortfall projected in this report results from the reduced growth in revenue that is typical during a recession. In order to determine the extent to which revenue growth might slow in each state, it is first necessary to assess the "natural" or underlying rate of revenue growth for each state.

The natural or underlying growth rate is the rate at which revenues grow in the absence of changes in tax law. For all of the states together, Table 8 in Chapter II shows that state revenues would have been approximately $427 billion in FY 1998 in the absence of the net tax reductions made between 1993 and 1997. This would have represented an average annual growth of 6.2 percent from FY 1993 revenues of $316 billion. Thus the underlying growth rate in the FY 1993 to FY 1998 period was 6.2 percent a year.

Using a similar methodology, the underlying revenue growth rate during the recession of the early 1990s, from FY 1989 to FY 1992, was 2.6 percent a year. This calculation is shown in Appendix Table 1.

This report uses the underlying growth rate of revenues during the early 1990s compared to the underlying growth rate during the subsequent recovery to project the slowdown in state revenue growth during the next recession.

General fund expenditures for each state are projected by using that state's historical expenditure growth trend. From FY 1999 to FY 2003, the rate of annual spending growth assumed for a given state is equal to that state's average annual spending growth from FY 1989 to FY 1998. Nationwide, that growth rate averaged 5.2 percent over the nine-year period. The projection assumes that expenditures continue growing at this trend growth rate during the next recession. It should be noted, however, that maintaining level spending growth during a recession is likely to require cuts in some programs and services, as increasing unemployment and poverty increase the number of residents who need government programs and services.

These historical trends and ratios become the basis for projected revenues and expenditures in each state during a hypothetical recession that is assumed to begin in 2001 and last until 2003.[15]

- For purposes of this analysis, the next recession is projected to begin in FY 2001. This recession is assumed to reduce revenue growth in each state for a period of three years — from FY 2001 to FY 2003. This three year duration is equivalent to the duration of the early 1990s recession, which reduced state revenue growth from FY 1990 through FY 1992. During this period, the underlying revenue growth rate in each state is projected to equal 43 percent of the state's underlying revenue growth rate from FY 1993 to FY 1998. This 43 percent figure is the average ratio across all states of underlying general fund revenue growth in the FY 1989 to FY 1992 recession period (2.6 percent) to underlying revenue growth in the recovery period (6.2 percent).

- This analysis applies the national average slowdown in revenue growth during the last recession to the revenue trend in each state. Applying the

[15] This study reports projections for 48 states — Alaska and Hawaii were excluded from the analysis. See box on page viii for an explanation of why these states were excluded.

national average slowdown to each state leaves this analysis neutral about the regional and state-specific pattern of a future recession.[16]

- Several states have recently enacted "backloaded" tax cuts, meaning that the cut is phased in over a multi-year period, becoming larger each year. In the projections for Colorado, Illinois, Maryland, Mississippi, Missouri, New York and Rhode Island, the additional revenue loss in future years is subtracted from the general fund revenue projections.[17]

- Since these projections assume that the next recession begins in fiscal year 2001, some assumptions had to be made about revenues and expenditures in FY 1999 and FY 2000. For FY 1999, which in most states ends June 30, 1999 state revenue and expenditure figures were taken from the National Association of State Budget Officers' December 1998 *Fiscal Survey of the States*. These figures reflect appropriations and revenue projections adopted in state budgets during the 1998 legislative sessions. For FY 2000, this report assumes that expenditures will continue growing at their trend rate and that state general fund budgets will be in exact balance; in other words, it assumes revenues in each state will equal expenditures. This procedure was adopted so that the projected recessionary deficit in each state would result solely from the gap between the state's projected revenue growth and its projected expenditure growth from FY 2001 to FY 2003, and not from unusual circumstances in the base year.

- The total amount by which each state's projected expenditures exceed its projected revenues from FY 2001 through FY 2003 is its projected recessionary budget shortfall. This shortfall represents the total amount of reserve funds the state must have at the end of fiscal year 2000 if the

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[16] Alternatively, the analysis could have projected the next recession by mirroring the state-specific revenue slowdowns during the last recession. This would have implied, however, that the regional pattern for the depth and duration of the next recession will be the same as during the last recession. There is no reason to assume that would be the case. The recession of the early 1990s began in the Northeast and was deepest and longest in that region, but the next recession could originate in the Western part of the country as a result of Asian economic weakness or could have any number of other causes and patterns.

[17] In Colorado, tax rebates mandated under the state's Taxpayers' Bill of Rights (TABOR) amendment will significantly reduce revenues in the coming years. Those rebates are treated as backloaded tax cuts in this report's projections for Colorado.

state wants to maintain its projected expenditure growth, and thus its service levels, throughout the recession without increasing taxes.[18]

Results

Each state has to manage its own fiscal situation; a surplus in one state does not offset a deficit in another. Nevertheless, one can get an indication of the magnitude of the potential problem during the next recession by looking at the finances of all states together.

Between FY 1989 and FY 1998, the average annual general fund expenditure growth rate across the 48 states considered in this report was 5.2 percent. (See Appendix Table 2 for calculations.) It is thus reasonable to assume that states collectively would need general fund revenue to continue growing by an average of at least 5.2 percent per year during the next recession in order to maintain service levels. If the next recession is similar in length and duration to the early 1990s recession, however, revenue growth will average only 2.5 percent over a three year period. This revenue growth rate represents the average annual general fund revenue growth rate from the last recession (2.6 percent) adjusted for the effect of backloaded tax cuts in some states that will decrease revenue growth between FY 2000 and FY 2003.

State reserve balances are expected to total $30 billion at the end of fiscal year 1999. During fiscal year 2000, this report assumes that state budgets are in exact balance. Once the hypothetical recession begins in FY 2001, the differential between revenue growth and expenditure growth will lead to large budget shortfalls from FY 2001 to FY 2003. Table 9 shows that at the end of the first year, the states would face a combined $13 billion deficit. An additional deficit of $27 billion would develop in the second year and the first and second year deficits together would exceed and potentially exhaust the reserve balances with which states began the recession.[19] And in the third year of the recession, in the absence of tax increases or spending cuts, the

[18] Note that some portion of this gap might be filled by fiscal shifts and "gimmicks" as described in Chapter I. To the extent such gimmicks are utilized — a variable that could not be projected on a state-by-state basis — the estimates of tax increases or spending cuts required could be overstated. On the other hand, other assumptions in this report tend to understate the required reserve. As noted in the text, no allowance is made for the increased cost of government during a recession that results from heightened poverty and unemployment.

[19] The actual scenario is likely to be much more complicated. During the last recession, some states raised taxes or cut spending even though they had reserve balances available, presumably saving those reserves for an even rainier day.

Table 9
Projected Total State Budget Shortfall
During Hypothetical FY 2001-FY 2003 Recession

	FY 1999 (NASBO proj)	FY 2000 (CBPP proj)	FY 2001 (CBPP proj)	FY 2002 (CBPP proj)	FY 2003 (CBPP proj)
Revenue Growth Rate	3.2%	6.0%	2.4%	2.4%	2.6%
Expenditure Growth Rate	6.5%	5.2%	5.2%	5.2%	5.2%
General Fund Revenues	$425	$451	$462	$473	$485
General Fund Expenditures	$429	$451	$475	$500	$525
Surplus/(Deficit)	($4)	$0	($13)	($27)	($40)
Reserve Balance[a]	$30	$30	$17	($10)	($50)

[a] Includes both general and rainy day funds.
Source: CBPP calculations based on NASBO and NCSL data.

gap would expand to $40 billion. In that single year, the gap would equal nearly eight percent of state expenditures.

This projected gap between revenue growth and expenditure growth would create a combined $80 billion budget shortfall in the states between FY 2001 and FY 2003 ($13 billion plus $27 billion plus $41 billion). This implies that in order to maintain their current rates of expenditure growth without raising taxes, states would have to accumulate $80 billion in reserves by the end of FY 2000. Compared to FY 1999 expenditures, states would need over 18 percent of annual expenditures in budget surpluses and rainy day funds to weather the next recession. Reserves of this size are more than *three times* the commonly used five percent standard.

Specific State Requirements

Turning from aggregate numbers to specific states, this analysis finds substantial variation in the level of reserves each state would need to weather the hypothetical next recession without either cutting spending or raising taxes. Six states, Texas, Oregon, Nevada, Idaho, West Virginia and South Dakota are projected to require at the beginning of the recession reserve balances exceeding 30 percent of fiscal year 1999 general fund expenditures. Seventeen other states would require reserve balances between 20 percent and 30 percent of expenditures. At the other end of the spectrum, there are only six states, Maine, North Dakota, Massachusetts, Michigan, Louisiana, and

California, in which reserve balances of less than 10 percent would suffice. The reserves projected to be required by each state are shown in Table 10.

These findings are striking when they are compared to the five percent reserve guideline to which states often refer. As described above, the notion that five percent of expenditures is a sufficient reserve seems to be derived from a National Conference of State Legislatures report in the mid-1980s, and five percent frequently is cited by states as the reserve level Wall Street bond houses view as prudent. Contrary to this widespread view, this analysis finds only three states in which a reserve of five percent of expenditures would be sufficient to fill the gaps between revenues and expenditures that could be expected to develop in the next recession.

State Balances

Table 11 shows the level of reserves states held in general fund balances and rainy day funds at the end of fiscal year 1998. As the fiscal year ended, 20 states had balances exceeding 10 percent of expenditures and only eight states held balances of less than five percent of expenditures. Year-end balances can be misleading, however, because they do not necessarily indicate the extent to which general fund surpluses already have been promised or allocated to financing tax cuts or spending initiatives. In Maryland, for example, the legislature earmarked part of the reserves to pay for the acceleration of a previously enacted tax cut. In Colorado and Oregon, spending limit provisions require surpluses to be rebated to taxpayers.

To account for these differences, Table 11 also shows the level of reserves states have reported they expect to have at the end of fiscal year 1999. These figures are based on the budgets the states enacted for FY 1999 and so include both any anticipated uses of the balances and a mid-year snapshot of any additional surpluses states expect to accumulate during the year. On average, states are expecting their reserve balances to decline from 8.5 percent of spending to 6.9 percent of spending. The number of states with balances exceeding 10 percent of expenditures declines from 20 states at the end of FY 1998 to an estimated 14 states at the end of FY 1999. Instead of the eight states with balances below five percent of expenditures at the end of FY 1998, Table 11 shows that 20 states expect their balances to be that low.[20]

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[20] Actual balances at the end of FY 1999 may be somewhat higher than this mid-year estimate suggests if the economy stays strong, because many states have underestimated revenues in recent years. On the other hand, some states may earmark additional portions of current balances to pay for spending initiatives and tax cuts, which could reduce these estimates.

Table 10
Projected State-By-State Budget Gaps During FY2001-FY2003 Recession

	Average Annual Growth Rates			Budget Gaps	
	Revenues		Expenditures		
	FY93-FY98	FY00-FY03	FY99-FY03	Total	% of FY99 Budget
Texas	6.0%	2.6%	8.6%	$11,425	**42.5%**
Oregon	8.2%	3.5%	8.9%	1,726	**37.9%**
Nevada	5.0%	2.1%	7.6%	576	**37.6%**
Idaho	7.2%	3.1%	8.3%	587	**36.4%**
West Virginia	4.1%	1.7%	6.3%	841	**30.9%**
South Dakota	3.7%	1.5%	6.0%	220	**30.2%**
Tennessee	4.9%	2.1%	6.3%	1,791	**28.5%**
Wisconsin	6.1%	2.6%	6.6%	2,716	**27.0%**
Nebraska	7.6%	3.3%	7.2%	597	**26.9%**
Utah	10.1%	4.3%	8.0%	842	**26.1%**
Florida	6.6%	2.8%	6.5%	4,422	**24.6%**
Kentucky	6.6%	2.8%	6.4%	1,592	**24.3%**
Georgia	8.0%	3.4%	7.0%	3,033	**24.2%**
New Hampshire	3.8%	1.6%	5.3%	229	**24.1%**
Kansas	6.8%	2.9%	6.5%	1,011	**24.1%**
New Mexico	6.8%	2.9%	6.4%	701	**23.5%**
North Carolina	7.6%	3.2%	6.6%	2,891	**23.1%**
Illinois	5.9%	2.3%	5.7%	4,904	**22.9%**
Missouri	8.0%	3.2%	6.4%	1,481	**21.5%**
Ohio	6.4%	2.8%	5.9%	3,924	**21.3%**
Connecticut	6.6%	2.9%	6.0%	2,098	**21.0%**
Oklahoma	6.0%	2.6%	5.7%	943	**21.0%**
Colorado	8.9%	3.8%	4.7%	1,063	**20.1%**
Arizona	9.1%	3.9%	6.8%	1,138	**19.7%**
Pennsylvania	5.0%	2.1%	5.0%	3,405	**19.0%**
Arkansas	7.0%	3.0%	5.8%	561	**18.6%**
Wyoming	5.4%	2.3%	5.1%	90	**18.3%**
South Carolina	5.9%	2.5%	5.3%	875	**18.3%**
Maryland	4.7%	1.3%	3.9%	1,483	**17.6%**
Mississippi	7.0%	2.9%	5.4%	544	**17.5%**
Minnesota	6.0%	2.6%	5.2%	1,958	**17.2%**
Montana	4.3%	1.8%	4.3%	170	**16.4%**
Iowa	7.1%	3.0%	5.5%	737	**16.3%**
Indiana	6.7%	2.9%	5.1%	1,253	**14.9%**
Delaware	9.6%	4.1%	6.3%	332	**14.8%**
New Jersey	4.6%	2.0%	4.1%	2,446	**13.8%**
Alabama	5.1%	2.2%	4.2%	656	**13.6%**
Rhode Island	3.9%	1.2%	3.3%	275	**13.5%**
Vermont	5.3%	2.3%	4.1%	92	**12.1%**
New York	4.9%	0.6%	2.2%	4,392	**11.9%**
Virginia	6.6%	2.8%	4.6%	1,165	**11.9%**
Washington	4.2%	1.8%	3.5%	1,048	**10.8%**
California	6.4%	2.7%	4.2%	5,575	**9.7%**
Louisiana	6.4%	2.8%	4.1%	519	**8.9%**
Massachusetts	5.5%	2.3%	3.3%	1,092	**6.2%**
North Dakota	5.6%	2.4%	3.2%	39	**5.1%**
Michigan	3.5%	1.5%	2.3%	444	**5.1%**
Maine	5.0%	2.2%	2.5%	52	**2.4%**
United States	**6.2%**	**2.5%**	**5.2%**	**$79,954**	**18.6%**

Table 11
Footnotes to Table 10

For most states, the calculations in Table 10 are based on NASBO data, with NCSL data used to adjust revenue trends for enacted tax changes. In a few states, however, data series from state sources were used to overcome problems with the historical data in NASBO or NCSL reports. These states are listed below. State sources generally also were used for estimates of the costs of enacted tax cuts that will take effect in future years. The states in which those adjustments were made also are noted below.

Colorado - General fund revenue and expenditure data from Colorado State Controller's Office. Estimates of TABOR rebates from FY 1999 to FY 2003 based on CBPP calculations and data from Colorado Legislative Council.

Illinois - General fund revenue and expenditure series and estimates of the future cost of income tax reductions from Illinois Office of the Comptroller.

Maryland - Estimated costs of future income tax reductions from Maryland Department of Fiscal Services.

Massachusetts - General fund revenue data FY 1993 to FY 1998 from Massachusetts Office of the State Comptroller. For consistency with NASBO figures, these revenues include general fund, local aid fund and highway fund revenues. Expenditure data FY 1989 to FY 1998 from Massachusetts Office of the State Comptroller.

Mississippi - Estimated costs of future income tax reductions from Mississippi Joint Legislative Budget Committee.

Missouri - Estimated costs of future income tax reductions from Missouri House Ways and Means Committee.

Montana - Because certain funds were consolidated into the general fund in the mid 1990s, general fund revenues and expenditures reported to NASBO double from FY 1994 to FY 1995. To account for this, the general fund expenditure growth trend used to predict future expenditures is equal to the weighted average of general fund expenditure growth from FY 1989 to FY 1994 and FY 1995 to FY 1998. To project future revenues, this report uses Montana's general fund revenue growth from FY 1995 to FY 1998 (as opposed to FY 1993 to FY 1998 in other states).

New York - Estimated costs of future tax reductions from New York Office of the State Comptroller.

Ohio - General fund revenue and expenditure data FY 1989 to FY 1998 from Ohio Legislative Budget Office.

Rhode Island - Estimated costs of future income tax reductions from Rhode Island House Fiscal Office.

Texas - Expenditure trend was calculated using Texas total government expenditures FY 1989 to FY 1998; data from Texas Legislative Budget Board. Revenue trend from FY 1993 to FY 1998 was calculated using Texas total revenues; data from Texas State Comptroller.

Washington - Future expenditures were estimated using the average allowable fiscal growth factor under Initiative 601 from FY 1998 to FY 2001; data from Washington State Office of Financial Management.

United States - Because the revenue and expenditure figures used to derive trends for Texas are approximately double the size of general fund revenues and expenditures reported by NASBO for Texas, the NASBO numbers are used in calculating nationwide totals so as to avoid weighting Texas disproportionately.

Table 11
Level of Reserves in General Fund Balances and Rainy Day Funds

	FY 98 Reserves		FY 99 Reserves (Projected)	
	(millions of $)	Percent of FY98 Budget	(millions of $)	Percent of FY 99 Budget
Minnesota	$3,604	38.59%	$2,721	23.92%
Indiana	1,815	23.08%	1,657	19.66%
Delaware	539	28.49%	402	17.92%
Iowa	880	20.42%	725	16.08%
Wyoming	66	13.04%	78	15.92%
Nevada	228	15.72%	221	14.41%
Texas	3,083	11.55%	3,761	13.98%
New Mexico	248	8.10%	412	13.81%
Michigan	1,113	12.87%	1,144	13.04%
Nebraska	564	30.65%	287	12.95%
Kansas	749	19.70%	524	12.50%
Oklahoma	471	11.21%	523	11.66%
North Dakota	97	13.32%	78	10.25%
Mississippi	381	13.12%	311	10.01%
Washington	825	9.14%	904	9.28%
Oregon	637	15.24%	408	8.95%
Maryland	1,038	13.50%	752	8.90%
Colorado	824	17.44%	421	7.96%
South Carolina	510	10.41%	364	7.59%
Ohio	1,046	5.87%	1,334	7.23%
Arizona	814	15.62%	398	6.89%
Massachusetts	1,173	6.25%	1,173	6.69%
Florida	1,443	8.67%	1,184	6.59%
Illinois	1,202	6.14%	1,200	5.61%
Maine	190	10.26%	119	5.51%
South Dakota	30	4.30%	39	5.35%
Connecticut	812	8.40%	519	5.20%
Vermont	36	4.11%	38	5.03%
New York	638	1.86%	1,669	4.54%
Pennsylvania	919	5.39%	813	4.53%
Kentucky	366	6.32%	288	4.40%
Rhode Island	188	10.03%	89	4.36%
North Carolina	638	5.59%	523	4.18%
New Jersey	1,138	6.88%	700	3.95%
Virginia	647	7.38%	361	3.68%
Tennessee	402	6.80%	227	3.61%
Idaho	72	5.01%	56	3.48%
California	2,227	4.28%	1,950	3.41%
Utah	130	4.29%	99	3.07%
Missouri	395	5.98%	202	2.93%
Georgia	1,052	9.00%	366	2.92%
West Virginia	190	7.47%	68	2.50%
Montana	78	7.59%	25	2.41%
New Hampshire	61	6.64%	22	2.32%
Wisconsin	552	5.69%	193	1.92%
Arkansas	59	2.07%	37	1.23%
Alabama	35	0.75%	29	0.60%
Louisiana	0	0.00%	2	0.03%
United States	**$34,205**	**8.49%**	**$29,416**	**6.85%**

Source: NASBO *Fiscal Survey of the States*, December 1998.

State Shortfalls

Table 12 compares the amounts of reserves states would need to sustain spending through the hypothetical recession with the amounts states expect to have on hand in budget reserves and rainy day funds at the end of fiscal year 1999. Only eight states appear to have enough reserves to cover the projected gaps between revenues and expenditures through a FY 2001 to FY 2003 recession. These states are Delaware, Indiana, Iowa, Maine, Massachusetts, Michigan, Minnesota, and North Dakota.

There are 11 states in which the available reserves fall short of what would be needed by amounts equivalent to more than 20 percent of fiscal year 1999 expenditures. The states with these large shortfalls are Idaho, Oregon, Texas, West Virginia, Wisconsin, Tennessee, South Dakota, Nevada, Utah, New Hampshire and Georgia. Another 16 states would need to build additional reserves of between 10 percent and 20 percent of fiscal year 1999 spending in order to avoid tax increases or spending cuts during the next recession.

Differences Among States

There are a number of reasons for the differences in results across the states.

Many of the states that are shown on Table 10 to need large balances on hand prior to the next recession are states in which expenditure growth rates are higher than in the average state. Most of the states with higher than average expenditure growth also are characterized by higher than average population growth; the expenditure growth is necessary to keep up with demands of a larger population. Texas, Nevada, Oregon, Idaho, Utah, Georgia, North Carolina, and Arizona all are among the states with the most rapid population growth in the nation that also have relatively high expenditure growth trends. When revenue growth slows during the projected recession, these states tend to develop larger than average gaps between available revenues and projected expenditures. Larger reserve balances, in turn, are necessary to fill those gaps.

Other states shown as liable to fiscal stress in the next recession have revenue growth rates in recent years that are below their expenditure growth trend over the past decade. West Virginia, South Dakota, Tennessee, and Wisconsin are among the states in this group. In part, the pattern in these states reflects particularly high expenditure growth in the early part of the decade during the last recession. The high expenditure growth may or may not recur in a future recession.

Table 12
Projected State-by-State Shortfalls During FY 2001 - FY 2003 Recession

	What States Need FY 01-FY 03 (Proj) (millions of $)	What States Have FY 99 (Proj) (millions of $)	Difference	
			Total (millions of $)	Percent of FY 99 Budget
Idaho	$587	$56	$531	**33.0%**
Oregon	1,726	408	1,318	**28.9%**
Texas	11,425	3,761	7,664	**28.5%**
West Virginia	841	68	773	**28.4%**
Wisconsin	2,711	193	2,523	**25.1%**
Tennessee	1,791	227	1,564	**24.9%**
South Dakota	220	39	181	**24.8%**
Nevada	576	221	355	**23.2%**
Utah	842	99	743	**23.0%**
New Hampshire	229	22	207	**21.8%**
Georgia	3,033	366	2,667	**21.3%**
Kentucky	1,592	288	1,304	**19.9%**
North Carolina	2,891	523	2,368	**18.9%**
Missouri	1,481	202	1,279	**18.6%**
Florida	4,422	1,184	3,238	**18.0%**
Arkansas	561	37	524	**17.4%**
Illinois	4,904	1,200	3,704	**17.3%**
Connecticut	2,098	519	1,579	**15.8%**
Pennsylvania	3,405	813	2,592	**14.4%**
Ohio	3,924	1,334	2,590	**14.0%**
Montana	170	25	145	**14.0%**
Nebraska	597	287	310	**14.0%**
Alabama	656	29	627	**13.0%**
Arizona	1,138	398	740	**12.8%**
Colorado	1,063	421	642	**12.1%**
Kansas	1,011	524	487	**11.6%**
South Carolina	875	364	511	**10.6%**
New Jersey	2,446	700	1,746	**9.8%**
New Mexico	701	412	289	**9.7%**
Oklahoma	943	523	420	**9.4%**
Rhode Island	275	89	186	**9.1%**
Louisiana	519	2	517	**8.9%**
Maryland	1,483	752	731	**8.7%**
Virginia	1,165	361	804	**8.2%**
Mississippi	544	311	233	**7.5%**
New York	4,392	1,669	2,723	**7.4%**
Vermont	92	38	54	**7.1%**
California	5,575	1,950	3,625	**6.3%**
Wyoming	90	78	12	**2.4%**
Washington	1,048	904	144	**1.5%**
Iowa	737	725	12	**0.3%**
Massachusetts	1,092	1,173	(81)	**-0.5%**
Maine	52	119	(67)	**-3.1%**
Delaware	332	402	(70)	**-3.1%**
Indiana	1,253	1,657	(404)	**-4.8%**
North Dakota	39	78	(39)	**-5.1%**
Minnesota	1,958	2,721	(763)	**-6.7%**
Michigan	444	1,144	(700)	**-8.0%**
United States	**$79,954**	**$29,416**	**$50,538**	**11.8%**

Still other states have enacted tax cuts that are scheduled to phase in over the next several years. These tax cuts will continue to reduce revenue growth during the FY 2001 to FY 2003 period and will make the gaps between revenues and expenditures even wider than they would be based on economic conditions alone. States in which phasing in or delayed tax cuts that already have been enacted will affect future revenues include Colorado, Illinois, Maryland, Mississippi, Missouri, New York, and Rhode Island.

Projections shown in Table 10 for some states may be overly optimistic. States such as New York, Michigan and Massachusetts have cut taxes repeatedly over the past several years, and as a result have held down expenditure growth to fit within their reduced revenue. This slower trend growth rate is used to project the state's spending during the FY 2001-2003 period, so these states experience smaller shortfalls during the hypothetical recession. But it is unlikely that these states will be able to sustain such low expenditure growth for very long during the recession. An economic slowdown increases the demand for government services in all states, but the increase can be particularly acute in states that already have not been meeting residents' needs.

Finally, fiscal stress is likely to be greatest in states that have not built up and sustained an adequate reserve fund. It has sometimes been argued that the public will not allow states to maintain large reserves because the existence of such reserves would call forth incessant demands for tax cuts or new spending initiatives. That premise was behind the establishment in many states of rainy day funds, which to a greater or lesser degree "lock up" surpluses until such time as they are needed. But the fact that more than a quarter of the states are projecting combined general fund and rainy day fund balances at the end of fiscal year 1999 in excess of 10 percent of annual spending suggests that the importance of adequate balances is beginning to be appreciated.

It probably is the case, however, that few states could amass and hold reserve balances equal to the one-fourth to one-third of expenditures that Table 10 shows would be needed, particularly in the faster growing states. Such an accumulation strategy may indeed be inadvisable if it causes other critical spending needs to go unmet. And some states are prohibited by their laws governing surpluses and rainy day funds from holding sufficient reserves. NCSL reports that 32 of the 45 states with budget stabilization funds have placed a legal cap on the size of their funds, generally ranging from 5 percent to 10 percent of their general fund budget.[21] Nevertheless, such figures serve as a warning about the potential severity of fiscal conditions during the next recession and suggest that some states may want to reexamine their laws and policies in this regard. And they highlight the fact that any actions taken now to cut

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[21] Corina Eckl, *States Broaden the Use of Rainy Day Funds,* NCSL, March 26, 1998.

taxes or to institute ongoing spending initiatives not supported by ongoing revenues could necessitate greater tax increases or deeper spending cuts in the future.

Additional Considerations

It has been noted several times in this report that recessionary increases in unemployment and poverty are likely to increase the demand for state spending. During the last recession, costs for economically sensitive programs like Medicaid, AFDC and Emergency Assistance grew rapidly. Between fiscal years 1989 and 1993, state expenditures on these programs alone grew by $50 billion.[22] At the same time, the states' abilities to pay for these programs were constrained by sluggish growth in their tax revenues. If states had not enacted any tax increases during this period, total general fund revenues would have grown by only $34 billion.[23]

The implications of these estimates are worth noting. If states had not increased taxes during the last recession, they would have been unable to keep up with the rising costs of these three programs alone; the increase in revenues would have fallen $16 billion short of the increase in expenditures. And, of course, costs for other government programs and services, such as education and public safety, also had to be covered by available revenues.

Changes in the partnership between the federal government and the states since the early 1990s could affect spending pressures during the next recession in two ways. On the one hand, states are no longer obligated to provide cash assistance or emergency assistance payments to families in need. Under the law governing the Temporary Assistance for Needy Families program, for example, a state could cap benefit payments and place families rendered newly needy by the recession on a waiting list. On the other hand, few states are likely to do so. And to the extent states do try to cover rising program costs, some will have to increase state expenditures substantially.

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[22] This total is adjusted for two circumstances affecting Medicaid costs during the 1989-1993 period that are not likely to be repeated in the future. The growth in costs excludes: 1) the effect of the additional federal payments some states leveraged under the disproportionate share hospital provisions 2) the additional costs states incurred by expanding Medicaid coverage to low-income children and pregnant women who were not receiving cash assistance. Source: CBPP calculations based on data from US Census, Kaiser Commission on the Future of Medicaid.

[23] The $34 billion figure is the amount that state revenues grow from FY 1989 to FY 1993 after adjusting for legislated changes based on data from NASBO, NCSL and state revenue offices.

- During the last recession, the primary cash assistance program for poor families with children was AFDC. The costs of this program were split equally between the federal government and the states, regardless of the number of families receiving benefits. In 1996, however, AFDC was replaced by Temporary Aid to Needy Families. The TANF program, instead of funding a constant share of program costs, provides yearly block grants to states for assisting low-income families. Under TANF, if a state exhausts its federal block grant during a particular year, it will be responsible for all further funding for family benefits and services for the remainder of the year. This may occur in a number of states during an economic slowdown, as growing unemployment and poverty increase the number of families eligible for assistance.

  If a state does exhaust its block grant during a particular year, it would not necessarily have to fill the gap with state funds; it could first draw on any federal TANF fund allocations it left unexpended in previous years. The strong economy and falling caseloads have left many states with such unexpended funds that would be available to spend in a future recession. Not all states have such funds, however, and the extent to which such funds would be adequate to cover increased costs would depend on how rapidly caseloads rise in the next recession and the types and amounts of benefits states provide.

- In 1997, the federal government approved legislation that offered states approximately $4.8 billion annually in block grants to provide health care coverage to uninsured children. The legislation gave states the option to extend coverage through the Medicaid program, to create or expand a separate state program that provides coverage for children, or to combine the two approaches. States that have expanded coverage through Medicaid draw matching federal dollars if they exhaust their block grants before the end of the fiscal year. However, many states (23 to date) have applied or been approved to administer a separate state program as at least part of their expansion strategy. If these states are to provide medical benefits to a growing population of eligible, uninsured children during a recession, they will be forced to cover the full cost of those benefits when the federal block grant is exhausted or to deny benefits to newly-eligible children.

States have gladly taken the reins of many programs during the last several years, both new initiatives and those in which the federal government formerly played a larger part. As employment levels have climbed and states have enjoyed annual surpluses, state governments have been more than prepared to shoulder the

responsibility for financing these programs. The surplus TANF funds that some states have accumulated are evidence that conditions have been good for state administration of certain policies. Because their revenues are especially susceptible to economic downturns, however, states are likely to face new fiscal challenges in funding programs for low-income residents during a recession. Unless states take further steps to gather reserve funds in preparation, those challenges will stretch, and in some cases exceed, the abilities of states to support their most vulnerable residents without resorting to large tax hikes or spending cuts.

Appendix Table 1
Effects of Legislated Changes to Sales, Personal Income and Corporate Income Taxes on General Fund Revenues in the United States, FY1989-FY1992

All figures in millions	FY 1989	FY 1990	FY 1991	FY 1992
Total General Fund Revenue (millions)	$259,366	$268,520	$281,467	$300,715
1989 legislated change		$1,338	$1,382	$1,540
1990 legislated change			$6,428	$7,090
1991 legislated change				$11,690
Total legislated change		**$1,338**	**$7,810**	**$20,320**
Total Revenue Net of Legislated Changes	**$259,366**	**$267,182**	**$273,657**	**$280,395**
Net Annual Revenue Growth, FY1989-92	**2.63%**			
Source: CBPP calculations based on data from NASBO, NCSL, state offices.				

Appendix Table 2
State General Fund Expenditures (millions of dollars), FY1989-FY1998

State	Exp FY89	Exp FY98	Annual Growth	State	Exp FY89	Exp FY98	Annual Growth
Alabama	3,211	4,669	4.25%	Nebraska	987	1,840	7.17%
Arizona	2,890	5,210	6.77%	Nevada	750	1,450	7.60%
Arkansas	1,714	2,844	5.79%	New Hampshire	578	918	5.27%
California	35,897	52,023	4.21%	New Jersey	11,550	16,549	4.08%
Colorado*	2,457	4,724	7.53%	New Mexico	1,754	3,061	6.38%
Connecticut	5,743	9,667	5.96%	New York	28,244	34,264	2.17%
Delaware	1,092	1,892	6.30%	North Carolina	6,410	11,414	6.62%
Florida	9,465	16,639	6.47%	North Dakota	547	728	3.23%
Georgia	6,382	11,688	6.95%	Ohio*	10,625	17,822	5.92%
Idaho	701	1,438	8.31%	Oklahoma	2,545	4,200	5.72%
Illinois*	11,909	19,588	5.68%	Oregon	1,948	4,179	8.85%
Indiana	5,017	7,864	5.12%	Pennsylvania	10,970	17,046	5.02%
Iowa	2,668	4,309	5.47%	Rhode Island	1,400	1,874	3.29%
Kansas	2,160	3,802	6.48%	South Carolina	3,092	4,901	5.25%
Kentucky	3,310	5,792	6.41%	South Dakota	411	697	6.04%
Louisiana	4,060	5,838	4.12%	Tennessee	3,408	5,912	6.31%
Maine	1,477	1,852	2.55%	Texas*	20,904	43,982	8.62%
Maryland	5,461	7,688	3.87%	Utah	1,511	3,033	8.05%
Massachusetts*	12,732	18,763	3.31%	Vermont	608	875	4.13%
Michigan	7,035	8,646	2.32%	Virginia	5,830	8,764	4.63%
Minnesota	5,936	9,340	5.17%	Washington*	5,713	9,025	5.21%
Mississippi	1,809	2,904	5.40%	West Virginia	1,463	2,543	6.34%
Missouri	3,791	6,610	6.37%	Wisconsin	5,454	9,694	6.60%
Montana*	384	1,027	4.35%	Wyoming	324	506	5.08%
				United States*	**256,553**	**402,795**	**5.14%**

* See footnotes to Table 10.
Source: NASBO *Fiscal Survey of the States* and state offices.

Appendix Table 3
State General Fund and Rainy Day Fund Balances, FY 1998

	General Fund	Rainy Day Fund	Total	% FY 1998 Expenditures
Minnesota	$2,189	$1,415	$3,604	38.59%
Nebraska	431	133	564	30.65%
Delaware	438	101	539	28.49%
Indiana	1,319	496	1,815	23.08%
Iowa	440	440	880	20.42%
Kansas	749	0	749	19.70%
Colorado	647	177	824	17.44%
Nevada	99	129	228	15.72%
Arizona	523	291	814	15.62%
Oregon	599	38	637	15.24%
Maryland	420	618	1,038	13.50%
North Dakota	80	17	97	13.32%
Mississippi	159	222	381	13.12%
Wyoming	44	22	66	13.04%
Michigan	0	1,113	1,113	12.87%
Texas	3,025	58	3,083	11.55%
Oklahoma	174	297	471	11.21%
South Carolina	380	130	510	10.41%
Maine	98	92	190	10.26%
Rhode Island	128	60	188	10.03%
Washington	525	300	825	9.14%
Georgia	701	351	1,052	9.00%
Florida	401	1,042	1,443	8.67%
Connecticut	313	499	812	8.40%
New Mexico	248	0	248	8.10%
Montana	78	0	78	7.59%
West Virginia	125	65	190	7.47%
Virginia	432	215	647	7.38%
New Jersey	637	501	1,138	6.88%
Tennessee	301	101	402	6.80%
New Hampshire	41	20	61	6.64%
Kentucky	0	366	366	6.32%
Massachusetts	201	972	1,173	6.25%
Illinois	1,202	0	1,202	6.14%
Missouri	267	128	395	5.98%
Ohio	139	907	1,046	5.87%
Wisconsin	552	0	552	5.69%
North Carolina	115	523	638	5.59%
Pennsylvania	265	654	919	5.39%
Idaho	36	36	72	5.01%
South Dakota	0	30	30	4.30%
Utah	42	88	130	4.29%
California	445	1,782	2,227	4.28%
Vermont	0	36	36	4.11%
Arkansas	59	0	59	2.07%
New York	238	400	638	1.86%
Alabama	35	0	35	0.75%
Louisiana	0	0	0	0.00%
United States	**$19,340**	**$14,865**	**$34,205**	**8.49%**

Source: NASBO *Fiscal Survey of the States*, December 1998.

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