CENTER ON BUDGET AND POLICY PRIORITIES

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STATE BUDGET DEFICITS FOR FISCAL YEAR 2004 ARE HUGE AND GROWING

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States are facing budget deficits in the range of $70 billion to $85 billion for state fiscal year 2004, which begins in most states July 1, 2003. The deficits represent between 14.5 percent and 18 percent of all state expenditures.

These new deficits are on top of the $50 billion in deficits that states closed when they enacted their fiscal year 2003 budgets. The new deficits for fiscal year 2004 are also on top of at least $17.5 billion in additional deficits that have opened up in 2003 budgets since those budgets were enacted.[1] As governors prepare their 2004 budgets and legislatures meet in early 2003, states will be faced with closing both the newly emerging gaps for the 2003 budget year and the huge new deficits for 2004.

The current state deficits are deeper than they have been any time in the last half-century. These projected deficits are at least twice as deep, for example, as the deficits states experienced in the early 1990s.[2]

Virtually all states have balanced budget requirements, so they must take actions to close these deficits. This means that states will be forced to use some combination of cuts in programs and revenue increases to close gaps that on average represent at least one dollar out of every eight dollars of expenditures in their budgets. If the deficits are closer to the upper-end $85 billion estimate, states will have to find a way to close gaps that on average equal more than one dollar in every six they spend. Moreover, some states are facing much larger deficits that amount to as much as a quarter or more of their budgets; in these states, even sharp cuts in programs and substantial tax increases may not be sufficient to close the gaps fully.

Given the magnitude of the deficits, state actions are highly likely to cut basic services such as health care and education and/or impose new tax burdens on low- and middle-income families. Such actions already are being taken throughout the country, as states slash health insurance programs, cut deeply into budgets for elementary and secondary education and child care, and force double-digit tuition increases at state colleges and universities.

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[1] These are new fiscal year 2003 deficits reported through mid-November. National Conference of State Legislatures, *State Budget Update: November 2002*. Current estimates of fiscal year 2003 deficits are likely to be higher than the NCSL total.

[2] The deficits in the early 1990s recession peaked at 6.5 percent of revenues in fiscal year 1992.

The federal government can take action to help states avoid these severe cutbacks by providing fiscal relief to states. This would not only protect vital services from being cut and ameliorate the extent to which additional burdens will fall on low- and middle-income families, but also would be one of the most effective steps the federal government could take to stimulate the economy.

The Budget Gaps for Fiscal Year 2004

In some states formal estimates of fiscal year 2004 budget deficits have already been made, often in conjunction with release of the governor's budget. In other states, this will not happen until February or March. Nevertheless, most states have at least working estimates of the gap that must be closed. The Center has compiled these working estimates from a variety of sources for 44 states, including governor's budgets, statements of government officials, information from nonprofit organizations that work on budget issues, and press reports. While these estimates are subject to change, they provide the best available information on the magnitude of the problems states are facing for the upcoming fiscal year. In the 44 states for which some information is available, the anticipated fiscal year 2004 deficits are likely to fall somewhere between $70 billion and $85 billion. (See attached table.) These 44 states account for 96 percent of the general fund spending of all of the states.

State Fiscal Recovery Lags Economic Recovery

It is not unusual for state fiscal conditions to continue to deteriorate in the period after an economic recovery has begun. State fiscal recovery typically lags economic recovery by 12 to 18 months. For example, in the early 1990s, the recession ended in March 1991. Nevertheless, state deficits were larger in fiscal year 1992, when they totaled 6.5 percent of revenues, than in 1991, when they equaled 6.2 percent of revenues. In this recovery, it is unclear when to consider the 12 to 18 month clock as beginning to run, since the plummeting of capital gains income has played a substantial role in the decline in state revenues and the stock market has not yet recovered much.

Estimated State Budget Deficits for FY 2004

State	FY 2004 Budget Deficit (millions of dollars)*	Deficit as Percent of State Budget**	Comment
AL	$500	9.3%	
AK	896	37.8	
AZ	967	15.3	
AR	223	7.0	
CA	18,000 to 26,000	23.4 to 33.8	
CO	900	13.4	
CT	1,500	12.9	
DE	300	12.2	
FL	2,000	10.1	
GA	900	5.8	
HI	N/A		
ID	200	10.1	
IL	3,600	14.8	
IN	850	8.8	
IA	414	9.0	
KS	700	15.7	
KY	360	5.1	
LA	N/A		
ME	375 to 475	14.5 to 18.4	
MD	1,200	11.0	
MA	1,400 to 2,000	6.1 to 8.8	
MI	1,603	17.5	
MN	2,442	18.7	
MS	N/A		
MO	1,000	13.1	
MT	66	4.9	
NE	337 to 449	12.9 to 17.3	$673 for 04-05 biennium
NV	359	19.0	
NH	100	8.6	
NJ	4,000	19.0	
NM	N/A		
NY	10,000 to 12,000	24.3 to 29.1	
NC	2,000	14.6	
ND	N/A		
OH	2,000	9.2	
OK	593	11.8	
OR	950 to 1,267	20.4 to 27.2	$1,900 for biennium
PA	500 to 2,000	2.4 to 9.6	
RI	175 to 250	6.6 to 9.4	
SC	700	13.6	
SD	54	6.4	
TN	500	6.6	
TX	4,000 to 7,800	13.1 to 25.5	
UT	N/A		
VT	28	3.2	
VA	1,116	9.3	
WA	1,000 to 1,334	8.9 to 11.9	Estimated $2 billion for biennium

State	FY 2004 Budget Deficit (millions of dollars)*	Deficit as Percent of State Budget**	Comment
WV	250	8.9	
WI	2,000	17.6	
WY	0		No deficit
DC	100		
Total	**$71,058 to $87,896**	**14.5% to 18.0%**	

* Estimates drawn from a variety of sources, including statements of policymakers, nonprofit budget organizations, and press reports.

**Budget deficits as a percent of FY 2002 budgets, which are the latest final budgets available. Budgets have increased little since FY02.

Notes:

In states with biennial budgets that have not specifically apportioned the deficit between fiscal years 2004 and 2005, the lower estimate assumes that half of the biennial deficit is attributable to FT 04 and the higher estimate assumes that 2/3 of the deficit is attributable to FY 2004. In general, it seems likely that states will assume a reasonable degree of fiscal recovery by fiscal year 2005, and so it is likely that more than half of the biennial deficit would occur in FY 2004. In a few states, totals may include some deficit amounts attributable to the current fiscal year.

The total does not include DC.