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CURRENT AND PROJECTED STATE DEFICITS: NCSL, NASBO and CBPP

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The three main organizations that track state fiscal conditions — the National Conference of State Legislatures, the National Association of State Budget Officers and the Center on Budget and Policy Priorities — have found large and growing shortfalls in the vast majority of states. There may be some confusion, however, about the ways in which these deficit estimates differ and whether they are in conflict.[1] The Center has projected that states will face deficits of some $350 billion over the next 30 months, which appears to be very different than the $90 billion to $100 billion deficits being discussed by NCSL and NASBO. The differences, however, can be simply explained by two factors:

- **The freshness of the data**. The Center's estimate reflects the most current data on deficits that each state has released. Two frequently-cited NCSL and NASBO reports reflect data collected in November 2008. The economy has deteriorated substantially since November, and states have revised their revenue estimates downward since then. Estimates of current deficits in an updated survey released by NCSL at the end of January are essentially the same as the Center's January estimates.

- **Projections into FY 2011**. The Center's estimate includes shortfalls that have already been announced *plus* a projection of the additional deficits states will experience through fiscal year 2011; this projection is based on the relationship of revenues to economic conditions. The NCSL and NASBO are reporting solely on deficits states have announced so far for mid-year fiscal year 2009 and for fiscal year 2010. NCSL and NASBO are not attempting to estimate the totality of states' deficits over the course of the expected fiscal crisis, although analysts at both organizations acknowledge that the fiscal crisis is likely to last for several years.

Despite the different timing and scope of the estimates, the three organizations are finding the same thing. Each of these surveys clearly indicates that states are facing a fiscal crisis of historic proportions that will continue for number of years.

[1] Budget shortfall refers to the situation where projected revenues fall short of amount needed to maintain services at current level after accounting for inflation and caseload changes.

Estimates Different but Compatible

States are currently at the mid-point of fiscal year 2009 — which started July 1 in most states — and are in the process of preparing their budgets for the next year. The vast majority of states are finding gaps opening up in their budgets as revenues fall short of the amounts projected at the time the budgets were adopted. These gaps are in addition to the shortfalls of from $40 billion to $50 billion that states closed when adopting their 2009 budgets.

- In surveys conducted in November and released in early December, the three organizations found that three-fourths of the states faced mid-year gaps in their fiscal year 2009 budgets that totaled approximately $31 billion. Since then, both the Center and NCSL have updated their surveys and both the size and number of states facing mid-year gaps in their fiscal 2009 budgets has grown.

Many states have also prepared projections of shortfalls for the upcoming year — fiscal year 2010.

- In their early-December reports, the three surveys found that half the states had prepared estimates of shortfalls for fiscal year 2010, which starts on July 1, 2009 in most states. The size of these projected gaps totaled between $60 billion and $65 billion at that time. Since then, according to the most recent surveys published by the Center and NCSL, most states have prepared estimates and anticipate deficits for fiscal year 2010 totaling from $85 to $90 billion.[2]

It is highly likely that these shortfalls will continue to grow. This recession is more severe — deeper and longer — than the last recession, and thus state fiscal problems are likely to be worse. Unemployment, which peaked after the last recession at 6.3 percent, has already hit 7.2 percent, and many economists expect it to rise to 9 percent or higher, which will reduce state income taxes and increase demand for Medicaid and other services. With consumers' reduced access to home equity loans and other sources of credit, sales taxes are also likely to fall more steeply than they did in the last recession. These factors suggest that state budget gaps will be significantly larger than in the last recession.

- Based on past experience and the depth of this recession, it appears likely that all but a handful of states will face shortfalls in fiscal year 2010 and these deficits will end up totaling about $145 billion.[3] This projection includes both the gaps that states will have to close in their fiscal year 2010 budgets before they are adopted this spring and the shortfalls that are likely to open during the budget year. In the years during and following a severe economic downturn states often use revenue projections and spending estimates that turn out to be too optimistic. In an effort to avoid the need for damaging cuts to state programs, states have a tendency to err on the side of optimism when preparing their initial budgets for the year, and often have to revisit them mid-year to make downward adjustments.[4] The CBPP deficit estimates for fiscal year

[2] This estimate is the total for the states that have prepared estimates of the size of their projected fiscal year 2010 shortfall.

[3] This estimate was made by comparing projections of state baseline spending with projections of revenue. Revenue projections were made based on the relationship between unemployment rates and state revenues

[4] This runs contrary to the usual pattern in times of economic growth when states tend to be conservative in their revenue projections in order to avoid the need for mid-year budget cuts. This pattern was evident in the last downturn

2010 attempt to take this phenomenon into account, while the NCSL and NASBO estimates are counting only the initial deficits states have announced.

- If, as is widely expected, the economy does not begin to significantly recover until the end of calendar year 2009, state deficits are likely to be even larger in state fiscal year 2011 (which begins in July 2010 in most states). Shortfalls for fiscal year 2011 could reach as high as $180 billion.

- Thus the Center estimates that the combined deficits over the next two-and-a-half years — from now until the summer of 2011 — are likely to be in the $350 billion to $370 billion range — some 20 percent of state budgets in total.[5]

These projected budget shortfalls do not account for the effects of major economic recovery legislation. If states receive fiscal aid, these shortfalls would be smaller. In addition, if economic growth is significantly better than projected next year as a result of stimulus efforts, state revenue collections would likely be higher than projected — although it is difficult to know when that effect would first be felt.

following the 2001 recession when states expected revenues to return to high growth considerably sooner than they did. As a result, stares faced significant pre-adoption and mid-year budget gaps in fiscal years 2002 and 2003.

[5] This estimate was made by comparing projections of state baseline spending with projections of revenue. Revenue projections were made based on the relationship between unemployment rates and state revenues.