Center on Budget and Policy Priorities

NEWS RELEASE

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NEW FISCAL YEAR BRINGS PAINFUL SPENDING CUTS, CONTINUED BUDGET GAPS IN ALMOST EVERY STATE

Reports Update Severe Impact of Recession on State Finances

The 2010 fiscal year begins for most states July 1. It brings an austere continuation of recession-driven cuts in essential services and poor prospects for improvement through 2011, according to a series of updated reports on state budget conditions issued today by the Center on Budget and Policy Priorities.

The reports include new data on state budgets showing that:

- The total shortfall for fiscal year 2010 — including gaps that have been addressed through budget cuts and other measures, and newly emergent gaps — now totals $166 billion across 48 states. Total gaps through 2011 will exceed $350 billion.
- At least 39 states have made cuts that harm vulnerable residents to help close budget gaps.
- The federal economic recovery act is providing needed relief, reducing the size and extent of cuts and closing roughly 40 percent of state budget shortfalls.
- Twenty five states have raised taxes this year and another 12 are considering doing so, as states increasingly realize that the budget holes are too big to be filled by cuts alone.

"State policymakers face an increasingly challenging battle against an economy that is still getting weaker," said Nicholas Johnson, director of the Center's State Fiscal Project. "There is no letup in sight when it comes to making hard choices."

Worsening Revenue Outlook Already Opening Holes

States have already taken major steps to balance their fiscal year 2010 budgets. But even before those budgets take effect, new evidence shows that many already are out of balance or soon will be. That is because receipts from sales, income, and corporate taxes – states' main sources of revenue — have declined even more than was expected when lawmakers set 2010 budgets just a few weeks ago. Of the roughly two-thirds of states that adopted fiscal year 2010 budgets before last week, 12 reported that shortfalls totaling $23 billion have opened up that will require action during the year to restore balance.

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Forty-eight states faced or still face total budget shortfalls for 2010 of at least $166 billion, according to the new reports.

The following year likely will be no less difficult. At least 29 states have looked ahead to fiscal year 2011 and anticipate shortfalls, based on expected spending and likely revenue. For the 21 that have estimated the size of the gap, the total revenue hole is $38 billion or 8 percent of budgets. The number of states and the dollar amount are likely to grow as more states prepare projections of their spending needs and expected revenue levels continue to deteriorate.

The combined state budget gaps for the fiscal year now concluding as well as 2010 and 2011 are estimated to total more than $350 billion. Fiscal year 2010 begins July 1, 2009 and ends June 30, 2010 in every state except four: New York (April 1-March 30), Texas (September 1-August 31), and Alabama and Michigan (both October 1-September 30).

Service Cuts Threaten Public; Federal Assistance Proves Essential

Families already suffering from the effects of the recession face additional difficulties in many states. At least 39 states already have cut key services that are important to vulnerable residents. Cutbacks have affected health care (21 states); services for the elderly and disabled (23); K-12 schools (24 states); and higher education (32). Some 41 states have made cuts to their workforces, through furloughs, layoffs, cuts in benefits or other steps. These counts exclude still deeper cuts that have been proposed in many of the states still working on their 2010 budgets.

The cutbacks would be even more severe but for federal funds provided through the American Recovery and Renewal Act. Initial evidence from states shows that ARRA assistance is working as intended, lessening to a degree states' need to cut spending even further. States, on average, are using the money to fill about 40 percent of the gap between available funds and what they need to balance their budgets.

Tax Increases Help Reduce the Extent of Spending Cuts

The Center's analysis also shows that, increasingly, states have followed the historic precedent of balancing spending cuts with revenue increases. To date, 25 states have raised revenues in some form and 12 more were considering it as the budget deadline approached. These tax increases are reducing states' need to cut education, health care and other services.

"There is no one solution to a revenue problem this deep," said Jon Shure, deputy director of the State Fiscal Project. "Even with federal assistance and tax increases, many public needs will go unmet. Without them, this would be catastrophic."

The Center's reports are available at http://www.cbpp.org/.

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