

State
Fiscal
Outlook
for
FY 2002



NATIONAL CONFERENCE
of STATE LEGISLATURES

The Forum for America's Ideas

October
Update

October 31, 2001

Fiscal Affairs Program

October 2001

STATE FISCAL OUTLOOK FOR FY 2002—OCTOBER UPDATE

Significant attention has focused on the national economic slowdown and its effect on state finances. Anecdotal reports have revealed the beginnings of a troubling picture. Now, a recently completed survey conducted by the National Conference of State Legislatures (NCSL) gives a 50-state picture. The news is not good. With only a few exceptions, state fiscal conditions have taken a dramatic downturn. Moreover, as legislative fiscal analysts look ahead, the outlook is bleak.

This report is based on information collected from legislative fiscal directors in mid to late October. It covers the revenue and expenditure situation through the first several months of FY 2002, state plans to address budget shortfalls and the budget outlook for the rest of the fiscal year. Forty-six states began their fiscal year on July 1. The four exceptions are New York (April 1), Texas (Sept. 1) and Alabama and Michigan (Oct. 1). At the time of this report, Massachusetts still had not passed a FY 2002 budget.

These are the highlights from the NCSL survey:

- State revenue growth has slowed dramatically. Forty-four states reported that revenues were below forecasted levels in the opening months of FY 2002.
- Nineteen states report that spending currently is exceeding budgeted levels, with another seven reporting that overspending in some program areas is likely. Medicaid continues to exceed budgeted levels, proving to be an ongoing problem in many states.
- At least 28 states have implemented or are considering budget cuts or holdbacks to address fiscal problems.
- Twenty states may tap reserve funds to balance their FY 2002 budgets. Most states are eyeing their rainy day funds, although a handful may tap tobacco settlement funds.
- Fourteen states have implemented belt-tightening measures that include hiring freezes, cancellations of capital projects and travel restrictions.
- Seven states will convene or have convened in special sessions to address budget problems. Several others are considering special sessions.
- The budget outlook for the rest of FY 2002 is worrisome for most states because fiscal conditions are expected to get worse before they get better.
- Much of the information currently available does not yet include the economic effects of the Sept. 11 terrorist attacks.

FY 2002 Revenue Update: Rapid Deterioration

The warning signs of state fiscal problems began emerging late last year when sales, personal income and corporate income tax collections slowed and failed to meet projected levels. By spring, it was apparent that the revenue bonanza had come to an end. Forecasters took the slowdown into account as they provided lawmakers with revenue estimates for FY 2002 budget deliberations. Most lawmakers took the information to heart: Nationally, FY 2002 revenues were projected to grow 2.3 percent above FY 2001 actual collections, only half as much as the 4.5 actual revenue growth in FY 2001.

It now appears that the modest revenue forecasts made for FY 2002 are unlikely to be met. Forty-four states reported that collections are below projections just months into the new fiscal year.

By late October, most states had personal and corporate income tax collection data for July, August and September. Because of lag times in sales and use tax collections and remittance, sales tax figures were available only for July and August in most states. As a result, they did not include the effects from the Sept. 11 terrorist attacks.

Across the nation, forecasters are reporting declines in most major tax sources, especially the sales and use tax and personal and corporate income taxes. In some states, the drops are significant.

In Arizona, general fund revenue collections were \$86.5 million (5 percent) below estimates for the first quarter. Sales and use tax collections were 6 percent below target and personal income tax revenues were 8 percent below target. Administration and legislative forecasters lowered FY 2002 revenues by \$675 million, a 10.3 percent decrease. In California, first quarter collections were down \$700 million, or 4.6 percent below forecast. In Florida, declining sales tax, estate tax and corporate tax collections caused estimators to reduce the general fund forecast by \$1.3 billion, a 2.6 decline from FY 2001. General fund revenue collections were \$474 million below estimate during the first quarter of FY 2002 in Illinois. Kentucky revised its forecast down by \$467 million (7.5 percent) in October. In Maryland, revenues were \$90 million below projections for the first quarter of the fiscal year and 3.3 percent below revenues for the same quarter last year. Michigan has seen significant declines from various tax sources for several months. FY 2002 revenues now are projected to be 2.5 percent below FY 2001 collections.

Some states are experiencing modest shortfalls. For instance, an Oct. 26 revision in Delaware reduced the FY 2002 forecast by \$12.7 million or 0.5 percent. In Kansas, first quarter collections were 0.9 percent below estimate. In West Virginia, revenues were down 0.5 percent for the first quarter of the fiscal year.

The six states reporting revenues in line with or above projections are Alabama (which only had one month of figures because its fiscal year began on Oct. 1), Louisiana, Montana, Nevada, New Hampshire and Texas. Of these, Louisiana, Montana and Texas continue to benefit from energy-related taxes.

Most states review their revenue forecasts on a regular and predictable schedule. But because of growing concerns over the deteriorating revenue picture, several states recently changed their forecasting schedules. In Michigan, the consensus revenue estimating group convened a rare emergency meeting on Oct. 23 to reduce the state's revenue forecast. Delaware moved up its December forecasting meeting to October. The Vermont Emergency Board moved its January forecasting meeting to Nov. 15 due to the rapidly changing economic situation. Arkansas delayed its first quarter revision until November so that September sales and use tax data could be considered.

One of the biggest uncertainties on the revenue side is the economic effect of the Sept. 11 terrorist attacks. Across the nation, analysts report that the immediate effects are unknown. New Jersey notes that major indices—employment, corporate profits, stock values—were depressed well before the attacks. State officials are considering a revision to the revenue forecast to get an updated appraisal of the post-Sept. 11 economic situation.

State Expenditure Update

Nineteen states reported that expenditures were exceeding budgeted levels in the early months of the fiscal year. To date, the biggest culprit is Medicaid, with 11 states reporting that supplemental appropriations will be needed. In some cases the amounts are small, but these initial estimates could grow as the fiscal year progresses. Additionally, several other states report that while Medicaid is not yet a budget problem, they are keeping a close eye on expenditures in anticipation that they will exceed budgeted amounts.

Other programs exceeding budgeted amounts include health and human services programs in Connecticut and Rhode Island, welfare in Kansas, corrections in Mississippi and Washington and a property tax rebate program in New Jersey.

Addressing Problems in FY 2002 Budgets

The large number of states reporting lower-than-expected revenues is causing concern about FY 2002 budgets and what actions will be needed to keep them in balance. To date, actions to address deficiencies largely have been made by governors because most legislatures are not in session. Typically, governors have some authority to manage budget imbalances when the legislature is not in session. Actions may include across-the-board budget cuts or spending holdbacks (typically limited to a certain percent),

freezes on travel and postponement of capital projects. Many such actions have been taken to date.

Budget Cuts. Budget cuts have been implemented or are under consideration in 28 states. Colorado's governor implemented a 1 percent cut, but exempted K-12 education and Medicaid. Idaho's governor reduced K-12 funding by 1.5 percent, while cutting all other states agencies by 2 percent. Missouri's governor ordered \$150 million in holdbacks, but exempted K-12 education. New Jersey's governor has placed about \$300 million "in reserve," as a possible prelude to a year-end lapse or impoundment. Utah's governor has reduced budgets by \$73 million and has proposed another \$20 million cut.

Absent other actions, Michigan lawmakers are facing budget cuts of as much as \$540 million (5.6 percent) for the general fund budget and \$336 million (2.9 percent) in the school fund budget. While analysts expect a variety of measures will be used to address the shortfall, sizeable cuts are expected. One of several legislatures that meets throughout the year, Michigan expects to have a budget plan by Nov. 8.

As governors use their executive authority to reduce spending and as legislatures consider cuts, most have plans to exempt certain programs. K-12 education stands out as the area most likely to be spared. In addition to the states noted above, others hoping to preserve education funding are Florida, Iowa, Kentucky, Maine, Maryland, Missouri and Ohio. This list is likely to grow as more states consider cuts. Other programs that may receive special protection include Medicaid, public safety, criminal justice, programs for the elderly, retirement programs and debt service.

Tapping Reserves. Because revenue growth has been so strong for the past several years, most states have bolstered their budget reserves, especially their rainy day funds. At least 20 states anticipate that rainy day funds or other reserves might be tapped to address budget problems. Such action is most likely in Kentucky, New Jersey, Pennsylvania, South Carolina and Washington. A few states may consider tapping their tobacco settlement funds. Possible candidates include Hawaii, Massachusetts, Ohio and Oregon.

Other Belt-tightening Measures. Fourteen states have implemented or are considering other belt-tightening measures. Most have been enacted via executive order. Examples include hiring freezes or restrictions in California, Illinois, Kansas, Maryland, Nevada, North Carolina, Rhode Island and Virginia. Other states, including Colorado, Maryland, New Jersey and Virginia have delayed or cancelled capital projects. Other actions taken or under consideration include cuts in equipment purchases (Illinois), no pay raises for state employees (Indiana), issuing a certificate of indebtedness to ease cash flow (Kansas), travel restrictions (Illinois and North Carolina), state employee layoffs (South Carolina), closing tax loopholes (Ohio) and delayed disbursements for one-time spending measures (Vermont). At least four states noted that previously enacted tax cuts

that are scheduled to take effect this year are up for reconsideration—although the political pressure to maintain them is intense.

Special Sessions. At least seven states will convene or have convened in special sessions to address budget problems. Connecticut's governor reduced budget allotments by \$20 million early in the fiscal year, a drop in the bucket compared with an estimated \$300 million shortfall. The General Assembly will meet in a special session on Nov. 13 to address the problem. Iowa's governor, limited to across-the-board cuts only, has proposed a 4.3 percent cut, with hopes that some programs will be spared. The legislature will convene in a special session on Nov. 8 to consider restoring some of the cuts, especially for K-12 education, Medicaid, property tax credits and public safety. Other states with special sessions include Alabama, Arizona, Florida, Hawaii and Nebraska. Analysts in Louisiana and Oregon note that special sessions are possible.

State fiscal conditions vary considerably in the current fiscal year, which means that state actions to deal with fiscal problems also will vary. Generally, the states fall into four categories that illustrate the magnitude of their fiscal situation.

Spending overruns and lower-than-expected revenues. With a couple of exceptions, states in this category arguably are in worse fiscal condition than others because they are being hit both on the spending and revenue sides of their budgets. The 16 states in this category are Arizona, Connecticut, Georgia, Hawaii, Kansas, Kentucky, Maryland, Mississippi, New Jersey, New Mexico, North Carolina, Oregon, Rhode Island, Virginia and Washington. Although Massachusetts does not yet have a FY 2002 budget, it is included in this list because first quarter revenues were \$293 million below collections for the same period in FY 2001 and because Medicaid is considered to be under funded in budget proposals currently under consideration. Early estimates place Massachusetts' shortfall at \$1 billion, with the possibility of budget reductions in the \$500 million to \$600 million range.

Spending overruns and revenues on target. Louisiana is the only state in this category. For the first quarter of the fiscal year, spending was \$34 million above budget. Because revenues performed strongly during the past fiscal year and continued strongly into FY 2002, the current overage appears manageable. However, some problems are anticipated in the coming months as oil prices drop.

Spending on target and lower-than-expected revenues. Although spending is on target for these states, many still face serious fiscal situations because the drop in revenues is significant. There are 28 states in this category: Alaska, Arkansas, California, Colorado, Delaware, Florida, Idaho, Illinois, Indiana, Iowa, Maine, Michigan, Minnesota, Missouri, Nebraska, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Utah, Vermont, West Virginia, Wisconsin and Wyoming.

Spending on target and revenues on target. There are no significant issues to report yet in Alabama, Montana, Nevada, New Hampshire and Texas. Of these states, Alabama may be in the most precarious position because revenue for the Education Trust Fund—which comes largely from sales and income taxes—may fall short of estimates.

Budget Outlook for the Rest of FY 2002

To date, the bulk of state fiscal problems stems from the unforeseen and rapid decline in revenues. As more collection figures become available—especially post Sept. 11 data—the revenue picture is expected to get worse. Many states are waiting to see the effects of declining consumer confidence, widespread layoffs and corporate downsizing on state coffers. At the same time, they are keeping a close eye on spending, notably caseload driven programs like Medicaid and welfare. There is growing concern that the economic downturn will lead to more people seeking state assistance.

Only a handful of states are not overly concerned about the budget outlook for the rest of the fiscal year. But even some of these are hedging their bets. Some note that the outlook is “cautiously optimistic” or that “no budget problems are anticipated.” For the overwhelming majority though, the outlook is characterized as “pretty bad,” “bleak,” “challenging and difficult,” or “grim.” Other comments included, “The budget outlook for FY 2002 is quite dire considering the size of the projected shortfall,” and “serious budget problems will continue throughout FY 2002.”

Significant budget pressures are expected to continue for the rest of the fiscal year for most states, jeopardizing spending priorities and goals established in FY 2002 budgets. While some states predict that the actions taken so far should get them through the rest of the fiscal year, others note that additional actions—especially cuts—will be necessary. As the end of the year draws near, most states are likely to wait until 2002 regular sessions to address budget imbalances.

The large number of states struggling with tight budgets is reminiscent of the economic downturn in the early 1990s. Lawmakers again face a daunting challenge: Keeping FY 2002 budgets balanced and enacting budgets for FY 2003 under the harshest fiscal conditions in a decade.

Table 1. FY 2002 Expenditure Update

State	On Target		Programs Over Budget
	Yes	No	
Alabama	✓		
Alaska	✓		Note: Medicaid supplemental likely
Arizona		✓	Medicaid
Arkansas	✓		
California	✓		
Colorado	✓		Note: Medicaid is a concern
Connecticut		✓	Health and human services
Delaware	✓		
Florida	✓		
Georgia		✓	Medicaid
Hawaii		✓	Security costs; dengue fever outbreak
Idaho		✓	Medicaid
Illinois	✓		Note: Concern over state group insurance and prescription assistance for the elderly
Indiana	✓		
Iowa	✓		Note: Medicaid supplemental likely
Kansas		✓	Welfare
Kentucky		✓	Medicaid
Louisiana		✓	Various programs
Maine	✓		
Maryland		✓	Medicaid
Massachusetts		✓	Medicaid is considered to be under funded in budget proposals currently under consideration (no FY 2002 budget yet)
Michigan		✓	Medicaid will require a modest supplemental
Minnesota	✓		
Mississippi		✓	Medicaid, corrections
Missouri	✓		Note: Medicaid is a concern
Montana	✓		
Nebraska	✓		
Nevada	✓		Note: Medicaid is a concern
New Hampshire	✓		
New Jersey		✓	Property tax rebate program
New Mexico		✓	Medicaid
New York	✓		
North Carolina		✓	Medicaid
North Dakota	✓		Note: Medicaid is a concern
Ohio	✓		Note: Expenditures are below estimate
Oklahoma	✓		
Oregon		✓	Medicaid, other health programs
Pennsylvania	✓		
Rhode Island		✓	Medicaid and other health and human service programs.
South Carolina	✓		
South Dakota	✓		
Tennessee	✓		
Texas	✓		
Utah	✓		
Vermont	✓		
Virginia		✓	Medicaid
Washington		✓	Medicaid, corrections, fire fighting, education, etc.
West Virginia	✓		
Wisconsin	✓		
Wyoming	✓		

Table 1. FY 2002 Expenditure Update			
State	On Target		Programs Over Budget
	Yes	No	
Total	31	19	

Source: National Conference of State Legislatures, Oct. 2001

Table 2. Budget Cuts or Holdbacks to Balance FY 2002 Budgets				
State	No	Yes	Possible	Notes
Alabama	✓			
Alaska	✓			
Arizona			✓	A special session on budget issues will convene in November. All programs will be considered for budget cuts.
Arkansas			✓	If revenues do not meet projections, cuts will be required, but no information yet on what those cuts might be.
California	✓			
Colorado		✓		The governor has asked state agencies to cut 1 percent from their budgets. Exempt agencies include K-12 education and Medicaid.
Connecticut		✓		The governor reduced budget allotments by \$20 million early in the year.
Delaware			✓	
Florida			✓	Legislators are meeting in a special session to debate cuts in the current budget of 5 percent. The governor hopes to exempt spending for K-12 education, criminal justice programs and the elderly.
Georgia			✓	The governor has asked for 2.5 percent cuts from all agencies but some exceptions are likely.
Hawaii			✓	The governor is calling for 5 percent cuts from some agencies.
Idaho		✓		Spending holdbacks—2 percent for state agencies and 1.5 percent for public schools—are in place.
Illinois	✓			
Indiana			✓	The governor has called for 7 percent expenditure cuts and no pay raises for state employees. He also has indicated that he will propose more cuts in November.
Iowa			✓	The governor has proposed a \$200 million reduction in spending in FY 2002. The proposal calls for a 4.3 percent across the board spending cut. During a special session that begins on Nov. 8, the legislature will consider exemptions for K-12 education, Medicaid, property tax credits and public safety.
Kansas			✓	There is some expectation K-12 education and welfare could be exempt.
Kentucky		✓		Mid-year budget cuts will be necessary to balance the budget. Education and Medicaid are expected to be exempt from the cuts.
Louisiana	✓			
Maine		✓		The governor has implemented an executive order to constrain spending. School subsidies, retirement funding and debt service are exempt.
Maryland		✓		The governor has reduced some operating expenses. About half of state programs are exempt including public safety and direct care programs. So far, K-12 education has been preserved.
Massachusetts			✓	Although the state does not have a FY 2002 budget yet, spending reductions of \$500 million to \$600 million are expected.
Michigan		✓		K-12 education may be preserved.
Minnesota	✓			
Mississippi			✓	No budget cuts have been announced but adjustments are likely.
Missouri		✓		The governor's office has ordered \$150 million in holdbacks. Education is protected under this proposal.
Montana	✓			

Table 2. Budget Cuts or Holdbacks to Balance FY 2002 Budgets

State	No	Yes	Possible	Notes
Nebraska			✓	If cuts are considered, exemptions are probable for Medicaid, K-12 education aid and custodial/care facilities.
Nevada	✓			
New Hampshire	✓			
New Jersey			✓	Via executive order, about \$300 million has been placed in "budget reserve," which is a possible prelude to a year-end lapse or impoundment. Programs that would be affected only as a last resort would be municipal and school aid distributions.
New Mexico	✓			
New York	✓			
North Carolina	✓			
North Dakota	✓			
Ohio		✓		The governor announced 6 percent cuts for this year. The governor hopes to exempt mental health and mental retardation. The Department of Education and Ohio SchoolNet also are exempt.
Oklahoma	✓			
Oregon			✓	The governor has called for a 2 percent reduction in spending by agencies.
Pennsylvania			✓	The governor has called for \$200 million in spending cuts. The Community and Economic Development Agency was singled out for significant cuts.
Rhode Island	✓			
South Carolina			✓	The Budgeting Control Board is expected to cut spending by 4.25 percent to bring the FY 2002 budget back into balance.
South Dakota	✓			
Tennessee	✓			Agencies are trying to reduce expenditures to deal with expected declines in revenues.
Texas	✓			
Utah		✓		The governor has reduced budgets by \$73 million and proposes to reduced budgets by another \$20 million.
Vermont		✓		The governor has already ordered an \$8.5 million rescission of general fund spending authority and an additional \$8.5 million is expected.
Virginia	✓			
Washington			✓	
West Virginia	✓			
Wisconsin	✓			
Wyoming	✓			
Total	22	11	17	

Source: National Conference of State Legislatures, Oct. 2001

Table 3. Use of Reserves to Balance FY 2002 Budgets

State	No	Yes	Possible	Notes
Alabama	✓			
Alaska			✓	Typically, \$500 million is drawn from the constitutional budget reserve every year to cover insufficiencies in general funds, and this year will be no different.
Arizona			✓	A special session on budget issues will convene in November. Policymakers are expected to tap into the state's \$300 million rainy day funds.
Arkansas				
California	✓			
Colorado	✓			
Connecticut			✓	
Delaware	✓			
Florida	✓			
Georgia	✓			
Hawaii			✓	There is some consideration of tapping the rainy day fund and the tobacco settlement fund.
Idaho			✓	Tapping the rainy day fund would be done carefully and only for one-time expenditures, not to prop up the overall budget.
Illinois	✓			
Indiana			✓	The current budget already anticipates using reserve funds (rainy day fund, Medicaid reserve fund and tuition reserve fund).
Iowa	✓			
Kansas	✓			
Kentucky		✓		Substantial withdrawals from the rainy day fund (about half the \$240 million available) will be necessary to balance the budget.
Louisiana	✓			
Maine			✓	
Maryland	✓			
Massachusetts			✓	There is some consideration of tapping the tobacco settlement fund.
Michigan			✓	
Minnesota	✓			
Mississippi			✓	While there has been no discussion to tap the rainy day fund, state law allows for the governor to tap up to \$50 million from the fund without legislative approval.
Missouri	✓			
Montana	✓			
Nebraska	✓			
Nevada	✓			
New Hampshire	✓			
New Jersey		✓		The budgeted surplus includes both a rainy day fund and undesignated. Both will be drawn down.
New Mexico	✓			
New York	✓			
North Carolina	✓			
North Dakota	✓			
Ohio			✓	The governor's proposal included tapping the rainy day fund and borrowing \$100 million in tobacco settlement revenues in FY 2002.
Oklahoma	✓			
Oregon			✓	May tap tobacco settlement funds.

Table 3. Use of Reserves to Balance FY 2002 Budgets				
State	No	Yes	Possible	Notes
Pennsylvania			✓	There is a strong possibility that the state will tap its rainy day fund.
Rhode Island	✓			
South Carolina		✓		The rainy day fund will be tapped to balance the FY 2002 budget.
South Dakota			✓	
Tennessee			✓	
Texas	✓			
Utah			✓	
Vermont	✓			
Virginia	✓			
Washington		✓		
West Virginia	✓			
Wisconsin	✓			
Wyoming	✓			
Total	29	4	16	
Source: National Conference of State Legislatures, Oct. 2001				

Table 4. Other Measures to Balance FY 2002 Budgets

State	Measures
Alabama	N/A
Alaska	N/A
Arizona	N/A
Arkansas	N/A
California	The governor has ordered a current year hiring and contract freeze that exempts only public safety and K-12 education.
Colorado	The state has cut \$173 million in general fund transfers to highway projects and an additional \$219 million from other capital projects.
Connecticut	N/A
Delaware	N/A
Florida	N/A
Georgia	N/A
Hawaii	N/A
Idaho	N/A
Illinois	The governor has called on agencies to build up reserves from within their FY 2002 budgets. A hiring freeze, restrictions on travel and cuts in equipment purchase are currently in place. Consideration is being given to delaying the opening of some new prisons.
Indiana	The current budget already anticipates using gaming revenue, which is not generally used by the general funds. It also includes payment delays for K-12 tuition support and higher education funding. The governor has called for no pay raises for state employees.
Iowa	N/A
Kansas	Hiring freezes are possible. The state finance council has issued a \$150 million certificate of indebtedness, a cash-flow instrument or internal borrowing tool to keep the general fund in the black. It transfers money from other funds, but these funds must be repaid by the end of the fiscal year.
Kentucky	N/A
Louisiana	N/A
Maine	N/A
Maryland	The governor has directed agencies to freeze hiring. He also has canceled \$65 million in pay-go capital projects.
Massachusetts	N/A
Michigan	N/A
Minnesota	N/A
Mississippi	N/A
Missouri	N/A
Montana	N/A
Nebraska	N/A
Nevada	The governor has instituted a hiring freeze until November.
New Hampshire	N/A
New Jersey	Some capital expenditures already have been scheduled for postponement.
New Mexico	N/A
New York	N/A
North Carolina	The governor has imposed spending restrictions on travel, purchasing and hiring. State budget officials are working with agencies to possibly implement additional restrictive spending measures.
North Dakota	N/A
Ohio	The governor has proposed closing a variety of tax "loopholes" on businesses.
Oklahoma	N/A
Oregon	N/A
Pennsylvania	N/A
Rhode Island	The governor issued a hiring, spending and travel freeze in late October.
South Carolina	Some state employee layoffs are possible.
South Dakota	N/A

Table 4. Other Measures to Balance FY 2002 Budgets

State	Measures
Tennessee	N/A
Texas	N/A
Utah	N/A
Vermont	The governor delayed disbursement of funding for a number of one-time spending measures.
Virginia	The governor took action under the current budget to reduce costs by \$420 million, mostly by freezing capital outlay and leaving agency positions unfilled.
Washington	N/A
West Virginia	N/A
Wisconsin	N/A
Wyoming	N/A
N/A – Not applicable at this time	
Source: National Conference of State Legislatures, Oct. 2001	

State Fiscal Outlook for FY 2002 by State as of Oct. 31, 2001

	Revenue Update	Expenditure Update	Actions to Address Budget Shortfalls	FY 2002 Budget Outlook
Alabama	The fiscal year started Oct. 1, and so far revenue collections for the general fund are on target. A November special session is scheduled to discuss a potential revenue shortfall in the Education Trust Fund. Budget or revenue adjustments will be needed to avoid a pro-ration in FY 2002 (a 6.2 percent pro-ration was instituted in FY 2001).	The fiscal year just started, and so far expenditures are on target.	Expenditures are on target so far. No action is anticipated at this point.	The budget is on target at this point. A November special session is scheduled to discuss a potential revenue shortfall in the Education Trust Fund.
Alaska	Tax collections, which fluctuate with oil prices, are down compared to last year. Oil currently is at \$20 per barrel compared to a high of \$28 per barrel in FY 2001. The state's economy (based on fishing, timber and oil) shows little change in the current economy. Effects on tourism will become more apparent in the spring.	Expenditures are on target, although a \$20 million supplemental appropriation for Medicaid is likely.	Typically, \$500 million is drawn from the constitutional budget reserve every year to cover insufficiencies in general funds, and this year will be no different.	Budget pressures continue.
Arizona	General fund revenue collections were \$85.6 million (5 percent) below target for the first quarter. Sales and use collections were 6 percent below target. Personal income tax revenues were 8 percent below estimates. Corporate income taxes were on target for FY 2002. Administration and legislative forecasters lowered FY 2002 revenues by \$675 million (10.3 percent). Under this forecast, FY 2002 general fund revenues would decline 2 percent from FY 2001.	A \$40 million shortfall is expected in the Medicaid program for FY 2002.	A special session on budget issues will convene in November. Policymakers are expected to tap into the state's \$300 million rainy day fund. With some estimates projecting a \$1.6 billion revenue shortfall for the FY 2002-2003 biennium, all programs will be considered for budget cuts.	The budget outlook for FY 2002 is quite dire considering the size of the projected shortfall. Everything is subject to negotiation as policymakers prepare for a November special session to address budget problems.
Arkansas	General fund revenue collections in the first quarter of FY 2002 are \$7 million less than FY 2001 and \$22.6 million (2.7 percent) short of projections. Corporate income taxes are down 50 percent from the first quarter of the prior year while sales tax revenues only grew by 1 percent. Personal income tax collections were up 4 percent overall but estimated payments fell. The revenue forecast is expected to be revised downward by approximately \$100 million (3 percent) in November. This revision would reduce projected FY 2002 revenue growth to about 1 percent.	No significant expenditure overruns have emerged thus far.	State statute sets the budget cutting process. At the same time the budget is enacted, the legislature determines the share of any budget cuts that each agency must absorb. The governor determines a dollar amount of the overall budget reduction and each agency is responsible for making cuts.	The budget outlook for the remainder of FY 2002 is pretty bad. The legislature will not be able to accomplish many of its goals.
California	First quarter general fund revenue collections were \$700 million (6.4 percent) below forecast. Falling revenue collections are tied to the national economic downturn, the high tech slump and the stock market decline.	Expenditures appear to be on target.	The governor has ordered a current year hiring and contract freeze that exempts only public safety and K-12 education.	There is concern over the growing budget gap in FY 2002.
Colorado	A September revision to the general fund revenue estimate dropped projected revenues by \$185 million for FY 2002. General fund revenue estimate was not available for September, but continued weakness was expected for personal income and sales tax revenues. Final September sales tax receipts data are not expected until early November.	Expenditures are on target. Medicaid spending is being monitored carefully over concerns that it will run over budgeted levels.	The governor has asked state agencies to cut 1 percent from their FY 2002 budgets and another 1 percent from their FY 2003 budget requests. Exempt agencies include K-12 education and Medicaid. The state also has cut \$173 million in general fund transfers to highway projects and an additional \$219 million from other capital projects.	The budget outlook for FY 2002 does not look good. Additional adjustments to spending are likely.
Connecticut	Although final numbers are lagging, sales tax collections are expected to be negative compared to the budgeted estimate. Withholding tax receipts averaged 1 percent growth in the quarter compared to a budgeted estimate of 6 percent. An October revision to FY 2002 general fund revenues projects a drop of \$301 million or 2.5 percent from the budgeted level. The revision was based on flat sales tax performance and falling withholding collections that date back to earlier quarters.	FY 2002 expenditures are slightly above target. The major overruns are in health and human services (about \$40 million to \$50 million).	To help address a projected \$81 million shortfall, the governor reduced budget allotments by \$20 million early in the fiscal year. Since that reduction, the revenue shortfall has grown. The budget stabilization fund might be used.	There is concern about revenues. The governor has called a special session on Nov. 13 to address a shortfall that ranges from \$301 million to \$348 million.
Delaware	Revenues are slightly below estimates and a slowing trend is emerging. An Oct. 26 revenue revision reduced the FY 2002 forecast by \$12.7 million (0.5 percent.) The downward revision might have been larger if not for a large one-time corporate income tax payment. The revision constitutes a new working estimate for the budget rather than a formal resolution, which only occurs once per year.	Expenditures are on target, but are being restrained somewhat due to the revenue slowdown.	Budget cuts are a possibility, but use of reserve funds is not anticipated.	With revenues down appreciably, steps to slow spending will be required. There probably will be very little growth in the budget next year.

State Fiscal Outlook for FY 2002 by State as of Oct. 31, 2001

	Revenue Update	Expenditure Update	Actions to Address Budget Shortfalls	FY 2002 Budget Outlook
Florida	Declining sales, estate and corporate income tax collections caused the state to issue a revised revenue forecast for FY 2002 that calls for a drop in general fund revenues of \$1.3 billion or a 2.6 percent decline from FY 2001.	General fund expenditures are on target with budgeted levels.	Legislators are meeting in a special session to debate cuts in the current budget of 5 percent or between \$800 million and \$1.3 billion. The governor hopes to protect spending for K-12 education, criminal justice programs and the elderly. The Senate is considering a repeal of a previously enacted tax cut on intangibles.	Officials are struggling to balance the FY 2002 budget in a special session that began in late October.
Georgia	General fund revenue collections for the first quarter of FY 2002 were 6.3 percent below the same quarter in FY 2001. The budgeted revenue estimate for FY 2002 called for revenues to end \$267 million below FY 2001 actual collections.	Medicaid is over budget and is anticipated to require supplemental appropriations before the end of the fiscal year. An \$830 million surplus carried forward from FY 2001 will help offset spending overruns.	The governor has asked for 2.5 percent cuts from all general fund agencies, but some exceptions are likely.	It is anticipated that the state can handle any budget problems in FY 2002 with current surpluses. Base budget requests for FY 2003 are being revised down 5 percent.
Hawaii	Although collections were largely on target with expected growth rates for July and August, first quarter collections (which include September) are expected to fall below projections. Officials are especially concerned about the significant decline in tourist-related revenues. The revised revenue estimate for FY 2002 (made in early September) is 4.1 percent compared to the budgeted level of 5.1 percent. At the request of the governor, there will be an emergency meeting to revise the state revenue forecast on Nov. 14.	The state is reporting unexpected costs for security and a Dengue fever outbreak.	The Hawaii Legislature is meeting in special session to consider calls by the governor for tax incentives and tax holidays. The governor also is informally calling for 5 percent cuts from some state agencies. There has been some consideration of tapping the rainy-day fund and the tobacco settlement fund.	There is a great deal of concern over the decline in tourism and the related impact on associated businesses. The legislature convened in a special session in late October.
Idaho	Revenues were projected to be 3.2 percent below last year (partially due to tax cuts and a slowing economy), but are instead down 5.5 percent. Tourism-related revenues are expected to be affected, but collection data are not yet available.	Although most expenditures are on target, a supplemental appropriation for Medicaid will be needed. A 15 percent Medicaid increase for FY 2003 is expected. Many factors, including recruitment for the children's health insurance program, are expanding enrollment in various programs.	Spending holdbacks—2 percent for state agencies and 1.5 percent for public schools—are in place. Tapping the rainy day fund would be done carefully, and only for one-time expenditures, not to prop up the overall budget.	The budget outlook for the remainder of FY 2002 is challenging, and it's possible that spending for FY 2003 could be 5 percent lower than the current budget.
Illinois	General fund revenue collections were \$474 million below estimate during the first quarter of FY 2002. Sales tax, personal income tax, corporate income tax and inheritance tax collections were all down in the first quarter. General fund revenue is now anticipated to grow 0.4 percent in FY 2002 (compared with a 3.7 percent original forecast).	General fund expenditures are on target with budgeted levels, but there is concern over some areas of spending including state group insurance and prescription assistance for the elderly.	The governor has called on agencies to build up reserves from within their FY 2002 budgets. A hiring freeze, restrictions on travel and cuts in equipment purchase are currently in place. The goal is to trim the budget by 2 percent, which comes close to covering the revenue shortfall. Consideration is being given to delaying the opening of some new prisons.	The budget outlook is bleak, as the economic situation in the state has moved from "bad" to "worse."

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Indiana	First quarter revenue for the general fund and the property tax replacement fund (which need to be considered together) was down 0.7 percent from the first quarter of last year and is 6.1 percent below the April 2001 forecast. Individual income tax and corporate income tax revenues are down significantly. Revenue revisions are expected for the individual income tax, the corporate income tax and potentially the sales tax.	Expenditures are on target.	The governor has called for 7 percent expenditure cuts and no pay raises for state employees. He also has indicated that he will propose more cuts in November. The current budget already anticipates using reserve funds (rainy day fund, Medicaid reserve fund, tuition reserve fund) and gaming revenue, which is not generally used by the general fund. It also includes payment delays for K-12 tuition support and higher education funding.	There will be more cuts.
Iowa	In the adopted budget for FY 2002, revenues were projected to grow at 3.8 percent. Revenue collections through the first quarter are 1.3 percent below estimate. The revenue estimating conference revised its FY 2002 estimate to 1.9 percent growth. This translates to a \$157.7 million shortfall from the original budgeted estimate.	Expenditures are on target for the original estimate. Medicaid spending is projected to exceed its estimate by \$25 million.	The governor has proposed a \$200 million spending reduction in FY 2002. The proposal calls for a 4.3 percent across-the-board spending cut. During a special session that begins on Nov. 8, the legislature will consider exemptions for K-12 education, Medicaid, property tax credits and public safety.	There is a great possibility that revenue collections will continue to under perform expectations and further spending cuts may be necessary. A special session is scheduled for Nov. 8.
Kansas	Overall, general fund revenue collections in the first quarter are down 0.9 percent or \$8.8 million below the estimate. So far, sales, personal income and corporate income taxes are on or near the estimate. Sales tax receipts don't yet show the impact of Sept. 11 (current figures are up 0.5 percent).	Expenditures mostly are on target, except for the state welfare agency which has a caseload increase. Officials have requested about \$23 million in supplemental funding.	Officials anticipate budget cuts and mid-year administrative actions. Hiring freezes are possible. There is some expectation that K-12 education could be exempt as well as welfare since education already needs supplemental funding. The state finance council has issued a \$150 million certificate of indebtedness, a cash-flow instrument or internal borrowing tool to keep the general fund in the black. It transfers money from other funds, but these funds must be repaid by the end of the fiscal year.	The outlook is dismal. No increases in state employee salaries, regents system, or K-12 education are expected. An agency might do just as well to see flat funding. As yet, there have been no layoffs or shutting of agencies.
Kentucky	Sales and use and personal income taxes—which comprise about 80 percent of general fund—are not meeting budgeted estimates. The general fund revenue forecast was revised down by \$467 million (7.5 percent) in October and further revisions may be required. (Transportation fund revenues were revised down by \$123.3 million.) The new FY 2002 revenue growth estimate is 0.8 percent.	The state share of Medicaid overruns is expected to reach \$85 million.	Mid-year agency budget cuts and substantial withdrawals from the rainy day fund (about half the \$240 million available) will be necessary to balance the budget. K-16 education and Medicaid are expected to be exempt from the cuts. No tax increases or special sessions are anticipated.	The budget will be balanced since shortfalls were caught early.
Louisiana	General fund revenue collections were reported to be over estimate through the first quarter of FY 2002. Revenues performed strongly during the past fiscal year and continued into FY 2002. Some problems are anticipated in the coming months as oil prices drop.	Some supplemental budget requests are expected because spending is \$34 million above estimate.	No budget cuts are anticipated. A debate is anticipated during the upcoming regular session because more than \$600 million in temporary tax extensions are due to expire.	The budget outlook is centered on the current assumption that revenues will grow slower than projected. A special session is possible.

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Maine	General fund revenue was under budget by \$33.8 million, a negative 7.2 percent variance. The individual income tax is also beginning to under perform. It had been shoring up general fund revenue until the last two months. The Consensus Economic Forecasting Commission and the Revenue Forecasting Committee will be meeting in November to review the economic forecast and the revenue estimates. The Revenue Forecasting Committee has a Dec. 1 reporting date.	There are no significant expenditure variations at this point.	The governor has implemented an executive order to constrain spending. School subsidies, retirement funding and debt service are exempt. A reserve of \$20.8 million for tax conformity and other revenue shortfalls was set aside at the end of FY 2001. Although there are no proposals pending yet, the rainy day fund with its current balance of \$143.2 million will be looked at to address a portion of the revenue shortfall.	More information will be available after Dec. 1.
Maryland	For the first quarter of the fiscal year, revenues are \$90 million below projections and are 3.3 percent below revenues for the same quarter last year. Lagging sales, personal income and corporate income taxes are driving the decline. The forecast will be unofficially revised on Oct. 30 in preparation for the first meeting of the Spending Affordability Committee.	Expenditures are exceeding budgeted amounts by about \$200 million. Most of the overage is in Medicaid.	The governor has directed agencies to freeze hiring (to save \$41 million) and reduce operating expenses (to save \$21 million). He also has canceled \$65 million in pay-go capital projects (approximately \$700 million had been approved for pay-go projects in FY 2002). About half of state programs are exempt from the cuts including public safety and direct care programs. So far, K-12 education funding has been preserved.	The state has an unresolved fiscal problem in the magnitude of \$300 million to \$400 million that will require additional action. The outlook is grisly.
Massachusetts	General fund revenues were down \$293 million in the first quarter of FY 2002 compared to the same period in FY 2001. Weak revenue performance could result in a \$1 billion shortfall or 6.25 percent for FY 2002.	Medicaid is considered to be under funded in budget proposals currently under consideration. Massachusetts has yet to enact a budget for FY 2002.	Based on what is on the "table" in the House and Senate, the state could be facing a possible \$1 billion shortfall and budget cuts of \$500 million to \$600 million. There is some consideration of tapping the tobacco settlement fund.	A \$579 million surplus from FY 2001 is now in a transitional escrow account and is available for transfer to cover part of the anticipated shortfall in FY 2002.
Michigan	The fiscal year began on Oct. 1. The state has seen significant revenue declines from various tax sources for several months. Based on an Oct. 23 revenue revision, officials now expect FY 2002 revenues to be 2.5 percent below FY 2001 collections (the original forecast put growth at 0.4 percent). General fund revenues for FY 2002 are expected to be down by \$462.5 million and school fund revenues down by \$265.5 million.	Although most expenditures are on target, Medicaid will require a modest supplemental of about \$22 million.	To address the revenue shortfall, it would be necessary to cut the general fund budget by \$540 million (5.6 percent) and the school fund budget by \$336 million (2.9 percent). Lawmakers currently are negotiating a plan to address the shortfall. There is some expectation that the rainy day fund would be used to close the school fund budget gap to preserve K-12 education. The general fund budget gap is expected to be closed through budget cuts. Some lawmakers also are proposing a delay in previously enacted, phased-in tax cuts. A plan is expected by Nov. 8.	The revised forecast made on Oct. 23 is very conservative. Actions to bring spending in line with this new forecast are expected to get the state through the rest of the fiscal year.
Minnesota	Revenues were projected to grow at 3.5 percent in FY 2002. First-quarter collections were down \$99 million (\$2.726 billion instead of the projected \$2.825 billion), primarily due to sluggish personal and corporate income tax revenues. A new forecast will be issued in late November or early December.	The budget currently is under control, although more people may become eligible for human services programs.	No steps are being taken at this time.	The state will continue to have concerns about slowing revenues.

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Mississippi	General fund revenues were under estimate through the first quarter of FY 2001 by \$46 million or 5 percent. Corporate income, sales and personal income tax collections all were below estimate.	Medicaid is reported to have a \$124 million deficit, which is likely to result in supplemental budget requests in January. Adult corrections spending also is experiencing some shortfalls.	No budget cuts have been announced but adjustments are likely. While there has been no discussion to tap the rainy day fund, state law allows for the governor to tap up to \$50 million from the fund without legislative approval.	Officials are very concerned about year-to-date revenue performance.
Missouri	Although revenue was projected to grow at 5.4 percent in FY 2002, first quarter receipts indicate growth of 3.7 percent. Individual income is down by 1 percent and sales and use taxes are off by 2 percent to 2.5 percent. Corporate income taxes are substantially off projections, although they comprise a smaller percentage of total revenue.	Expenditures are on target, although Medicaid is a concern for possible budget overruns.	The governor's office has ordered \$150 million in holdbacks. Education is protected under this proposal. Officials do not anticipate tapping the rainy day fund, and it is politically difficult to do so. The constitution requires a two-thirds majority of the General Assembly to tap into it, plus the state must pay back the fund within three years.	The budget outlook is dim. Fiscal constraint is the key. State agencies must achieve efficiencies. The economy is growing, but not at the rate previously projected.
Montana	Revenue growth is on track at the projected 2 percent rate, and income taxes are still coming in strong.	There are no budget concerns at this time. A supplemental appropriation of \$8 million to cover forest fire costs is needed, which is normal procedure.	Not applicable.	The budget outlook is cautiously optimistic, thanks to income tax collections at the end of FY 2001 that exceeded estimates and provided a revenue carryover into the current fiscal year.
Nebraska	First quarter general fund revenues were below the budgeted level. The October revision to the general fund revenue estimate projects revenues to fall short of the budgeted estimate by \$220 million or 3 percent to 4 percent for the biennium. Reasons for the revision included declining personal income tax and sales tax collections.	Expenditures are on target.	No administrative actions are allowed under current law. A special session convened in late October addressed the revenue shortfall. If cuts are considered, exemptions are probable for Medicaid, K-12 education aid and custodial/care facilities. No further tapping of reserves is expected. Other strategies are likely, but it is too early to tell what they might be.	A special session was convened in late October to address budget problems. Further adjustments are possible in the regular session in 2002.
Nevada	Revenue collections in the first two months of the fiscal year were on target; September figures are not yet available, but are expected to be lower than originally projected.	Although Medicaid pressures may be growing, there are no budget problems right now.	The governor has instituted a hiring freeze until November. No other actions have been taken.	The budget picture for the remainder of the fiscal year is unclear at this time, although October indicators appear somewhat positive.
New Hampshire	State general fund tax collections were on target with budgeted estimates during the first quarter of FY 2002. The state does not have either a general sales tax or personal income tax and is not as sensitive to changes in the national economy as other states.	General fund expenditures are on target with budgeted levels.	Not applicable.	The outlook through the remainder of the fiscal year is cautiously optimistic.

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New Jersey	State revenues from major taxes are 2.8 percent below the first quarter of FY 2001. The personal income tax is down 5 percent and the corporate business tax is down 29.2 percent. Sales taxes (two months only) are up 3.7 percent, against a year-end expectation of 6.2 percent. The immediate effects of the Sept. 11 events are unknown. The official revenue estimate will be revised to take into account recent revenue performance. Usually this would occur when the FY 2003 budget is introduced, in February or March of 2002. The acting state treasurer has indicated that an earlier revision may be announced, in response to an updated appraisal of the post-Sept. 11 environment.	Expenditures are on target, except for a property tax rebate program called New Jersey SAVER, which incurred a \$100 million overrun, necessitating a supplemental appropriation for that amount. The overrun was the result of a successful publicity and advertising campaign to get more eligible people registered for the program, which provides checks to homeowners based on school tax rates in their municipalities.	Via executive order, about \$300 million has been placed in "budget reserve," which is a possible prelude to a year-end lapse or impoundment. It is likely that more stringent actions will be required as the year progresses. Programs that would be affected only as a last resort would be municipal and school aid distributions. The budgeted surplus is \$1.02 billion, of which \$720 million is in a rainy day fund and \$300 million is undesignated. Both will be drawn down. Some capital expenditures already have been scheduled for postponement.	The outlook is difficult and challenging. The state will have a new governor and legislature in January, so decisions on how to address the budget situation will come from a new group of elected officials.
New Mexico	First quarter information is not yet complete but will substantially under perform the budgeted estimate, due to the precipitous fall in natural gas prices. General fund revenues were revised as of Oct. 24. The new growth rate calls for a revenue decline of 1.7 percent as compared to an increase of 1.6 percent, a revision of \$122 million. The current estimate includes substantial nonrecurring revenues. On a recurring basis, the estimate has been revised downward by \$213 million. Estimates for all broad-based taxes were reduced because of economic conditions, and estimates for severance tax collections were reduced substantially due to the decline in energy prices.	There are significant overruns in Medicaid expenditures.	The current budget was well below the budget revenue estimate; money was left "on the table."	Resources are adequate to meet FY 2002 budget needs.
New York	The fiscal year began on April 1. Through the first six months of FY 2002, general fund revenues were below FY 2001 actual levels by \$1 billion. The governor is estimating that FY 2002 revenues could be \$3 billion or 7.5 percent below estimate. Current revenue collections are difficult to monitor because of allowances for late filings for those affected by the terrorist attacks of Sept. 11.	General fund expenditures are on target with budgeted levels.	Supplemental budget expenditures are more likely than budget cuts at this time but the governor has issued no formal announcements. State reserves include \$700 million in the rainy day fund, \$750 million in other reserves and \$3 billion in an unobligated balance.	Officials are already looking past FY 2002 to FY 2003 as the governor is projecting a possible drop in revenues of \$6 billion due to the fallout from the weakened state economy. The state is looking at the prospect of more than 100,000 job losses since early September.
North Carolina	General fund revenue collections were down 3 percent in the first quarter of FY 2002 compared to the same quarter in FY 2001. The budget was based on anticipated general fund revenue growth of 4 percent.	Medicaid spending was over budget in the first months of the fiscal year.	The governor has imposed spending restrictions on travel, purchasing and hiring. State budget officials are working with agencies to possibly implement additional restrictive spending measures.	No response.
North Dakota	Revenue collections through the first quarter are down about 1 percent from forecast, or roughly \$2 million. This largely can be attributed to shortfalls in the area of oil extraction taxes.	Medicaid spending has the greatest potential for overruns.	Spending cuts are not anticipated at this time.	The state will approach the remainder of the fiscal year cautiously. Oil prices are a concern.

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Ohio	Tax receipts are under estimate by 5.3 percent. Non-auto sales tax revenue is under estimate by \$99 million or 7.4 percent. The personal income tax is down by \$102 million or 5.8 percent. The governor's Office of Budget and Management revised the revenue estimate in mid October, lowering the forecast by \$709 million for this year and \$763 for FY 2003, because of general economic conditions.	Year to date, expenditures are \$129.4 million below estimate. The largest area under budget is health care, below by \$42 million.	In mid-October the governor announced 6 percent cuts for this year. The governor hopes to exempt mental health (actually requesting \$28 million more for the agency) and mental retardation. The Department of Education and Ohio SchoolNet also are exempt. The governor also has proposed closing a variety of business tax "loopholes," tapping the state's rainy day fund. In addition, the plan calls for borrowing \$100 million in tobacco settlement revenues in FY 2002.	Fiscal conditions will remain very tight. The current forecast is for a budget short fall of \$600 million. The governor proposes to make up slightly more than a third of this amount by agency budget cuts. The remainder of his proposals –loophole closings and rainy day transfers—will require legislative approval and legislative leaders have not indicated when or how they will act on these proposals.
Oklahoma	General fund revenue collections were 96.8 percent of estimated collections in the first quarter of FY 2002. The state appropriates at 95 percent of estimated revenues so a shortfall has not developed.	General fund expenditures are on target with budgeted estimates.	No budget cuts are anticipated at this time.	Officials hope that revenues drop no further than 5 percent in FY 2002. Revenues in FY 2003 are expected to remain flat or decrease slightly compared with FY 2002 levels.
Oregon	General fund revenues were down 9 percent compared to a September forecast, which had reduced projected revenue growth by 3.2 percent or \$174 million. The new revenue estimate projects a 2.8 percent decline. Personal income and corporate income tax collections were down sharply compared to budgeted levels.	Because of prior outreach efforts, state spending for the health plan and Medicaid are over budget.	The governor has called for a 2 percent reduction in agency spending. Agencies are to have plans for 10 percent spending reductions in place by November in the event that additional reductions are necessary.	The budget outlook is bad and the state is considering tapping its tobacco settlement funds. A special session is possible in 2002; a decision likely will be made after the December revenue forecast.
Pennsylvania	Through September, the revenue shortfall is \$134 million. Personal income taxes were the largest category off target, with corporate income tax receipts significantly behind as well.	Expenditures are on target.	The governor has called for \$200 million in spending cuts. The Community and Economic Development Agency was singled out for significant cuts. Several other agencies must divert funds to budgetary reserves as well. There is a strong possibility that the state will tap its rainy day fund.	The budget forecast is gloomy. Additional spending cuts may be necessary. There is the concern that the state may lag behind the nation if the economy strengthens, as historically has been the case.
Rhode Island	The state implemented a new accounting system, so officials do not know at this time how general fund revenue collections have performed in the first quarter, although there is some expectation that revenues are below projections. In the first week of November, the revenue estimating conference will convene to review the forecast. The major tax likely to be affected is the personal income tax.	Not all quarterly reports are in yet, but several departments are expected to exceed budgeted amounts. These include health and human services departments like Children and Families and Medicaid, and maybe pharmaceutical programs.	The governor issued a hiring, spending, and travel freeze in late October. The state would only tap its rainy day fund if the governor declares a state of emergency or if revenues go below estimate. Because money flows from the rainy day fund to the capital fund, capital projects for the following year would be sacrificed to reimburse the rainy day fund.	The outlook is cautious until more data are available.
South Carolina	Based on weak personal income and corporate income tax collections through the first quarter, a new revenue estimate was issued for FY 2002 calling for 1 percent revenue growth compared to 6.5 percent in the enacted budget. The new estimate reduced projected revenues by \$310 million. September sales tax revenues were still not available.	General fund expenditures are on target with budgeted levels, but the Budgeting Control Board is expected to cut spending by 4.25 percent to bring the FY 2002 budget back into balance.	The rainy day fund will be tapped to balance the FY 2002 budget. Some state employee layoffs are possible. Some agencies reportedly endured cuts of 15 percent earlier this year as the governor made expanding Medicaid and K-12 education top priorities.	The budget outlook is considered gloomy with falling revenues and planned cutbacks.

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South Dakota	General fund revenue collections through the first quarter were below estimate but an exact amount was unknown at the time of the survey. Without a personal income tax, the state relies on sales taxes for over half of all general fund revenue.	General fund expenditures are on target with budgeted estimates.	No budget cuts are anticipated presently. Tapping the rainy day fund remains a possibility.	The state is moving along without any major budget problems and will likely wait until the regular session in 2002 to address any that could appear by then.
Tennessee	Collections from August and September don't look very good. Sales tax collections are a big problem. The estimate will be revised in December when the revenue estimating board meets.	There are no significant cost overruns and Medicaid is on target. Agencies are trying to reduce expenditures to deal with expected declines in revenues.	The state probably will use the rainy day fund. A special session may be called to consider other actions.	The outlook is gloomy.
Texas	The fiscal year began Sept. 1. General fund revenue collections are reported to be on target but officials cite an inability to determine post-September 11 revenue activity because of tax reporting lags. A clearer picture will develop by late November.	General fund expenditures are on target with budgeted levels.	No budget cuts are being considered at this time.	The present outlook does not anticipate any budget problems.
Utah	Preliminary estimates indicate revenue growth below 1 percent. Most of the decline can be attributed to lack of consumer confidence, combined with higher unemployment numbers for the state. Estimates will be revised, but will not be available until the first week in November.	FY 2002 expenditures are on target. Although no overruns are anticipated, budget cuts are anticipated to meet revised revenue estimates.	The governor has reduced budgets by \$73 million and proposes to reduce budgets by another \$20 million. The governor is proposing to use approximately \$67 million from the rainy day fund. However, this action will require an appropriation by the legislature.	The outlook is uncertain. Officials hope the budget cuts already planned will be sufficient.
Vermont	General fund revenue collections were \$7 million (3.2 percent) below target for the first quarter of FY 2002. An expected \$5.3 million shortfall in sales tax revenue comprised the majority of the deficit. Transportation fund collections were slightly ahead of target. The general fund revenue estimate is expected to be revised downward by approximately \$20 million to \$25 million.	Although expenditures are on target, there are budget-wide spending pressures from programs such as transportation, health and education that must be managed in light of the weak revenue outlook.	The governor has ordered an \$8.5 million rescission of general fund spending authority and an additional \$8.5 million cut is expected. The governor also delayed disbursement of funding for a number of one-time spending measures. When the legislature convenes in January, it will decide whether or not to restore some cuts. Reserve funds are a last resort and are not expected to be used unless the fiscal situation deteriorates further.	The budget outlook for the remainder of FY 2002 is one of managing spending to accommodate expected revenue shortfalls.
Virginia	First quarter revenue growth was down 2.4 percent, due primarily to the national economic slowdown. The original revenue estimate projected growth of 7.5 percent.	Medicaid spending is currently \$115 million over budget, largely driven by prescription drug costs.	The governor took action under the current budget to reduce costs by \$420 million, mostly by freezing capital outlay and leaving agency positions unfilled. Only the General Assembly (which will not meet until January 2002) may tap reserve funds. No proposals to do so have yet surfaced.	Serious budget problems will continue throughout FY 2002.
Washington	Revenue collections have been lower than expected. Revenues were adjusted down \$100 million in September, which did not account for layoffs at Boeing. In the November forecast, it is expected that revenues will be adjusted down between \$600 million and \$1 billion (over the biennium).	There are overruns in Medicaid, corrections, tort liabilities and lawsuits, fire fighting and K-12. The total overrun amount will be about \$300 million. This includes a \$125 million shortfall carryover that was expected to be met by a 2001 bill, but the bill did not pass.	Reserves are dropping quickly as revenues drop. The reserve balance in September was \$450 million but it is expected to be depleted by the November forecast. Budget reductions are possible.	The budget outlook is grim. At this point, the budget problem amounts to about \$1 billion including revenue shortfalls and expenditure overruns.
West Virginia	Revenues as a whole are slightly below target—99.5 percent of estimate through the end of the first quarter of FY 2002. Sales tax collections were \$40 million short but were offset by higher than expected severance tax revenue (mainly from coal mining.)	Expenditures are on target with no significant cost overruns.	No budget cuts are anticipated at this time.	The budget outlook is fine at this time with the state's strong energy sector balancing a slowdown in retail activity.

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Wisconsin	Expectations are that general fund revenues are below estimate but lag times in tax reporting make it difficult to provide an estimate. A revision to the general fund estimate is expected but not until January. State personal income tax collections account for 52 percent of total revenues.	General fund expenditures are on target with budgeted levels.	The governor has not yet issued any calls for cutbacks.	There is a general concern on where the budget may be heading.
Wyoming	Revenues are coming in at a slightly slower pace than projected. The original estimate was \$608.6 million; the revised figure is \$602.5 million. General fund sources revised downward were severance taxes (due to lower natural gas prices) investment income (due to poor market conditions) and inheritance taxes (due to federal tax changes). At the same time, sales and use tax collections are predicted to be about 3 percent higher than originally projected. Overall, revenues are expected to be \$49.6 million below FY 2001 revenues.	Expenditures are on target.	No budget cuts are planned.	The state budgets biennially. The FY 2002 budget is balanced, and as of now no revenue shortfalls or other problems are expected that would affect the budget.

Source: National Conference of State Legislatures, October 2001



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