

## TOP STORY IIII

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## Governors expect tighter budgets in 2008

By Pamela M. Prah, Stateline.org Staff Writer

Only three states ran into red ink this year, while more than half sailed through with higher-than-expected revenues. States overall are finishing a spending spree, but the best revenue picture in six years may be behind them.

The nation's governors expect the growth in spending next year to be cut in half from this year's dramatic high because of a slowing economy and rising costs, especially for health care.

Only Michigan, Rhode Island and Wisconsin were forced to make mid-year cuts — totaling \$170 million — after their current fiscal 2007 budgets had been approved, according to a [June 5 report](#) from the National Governors Association (NGA) and the National Association of State Budget Officers (NASBO).

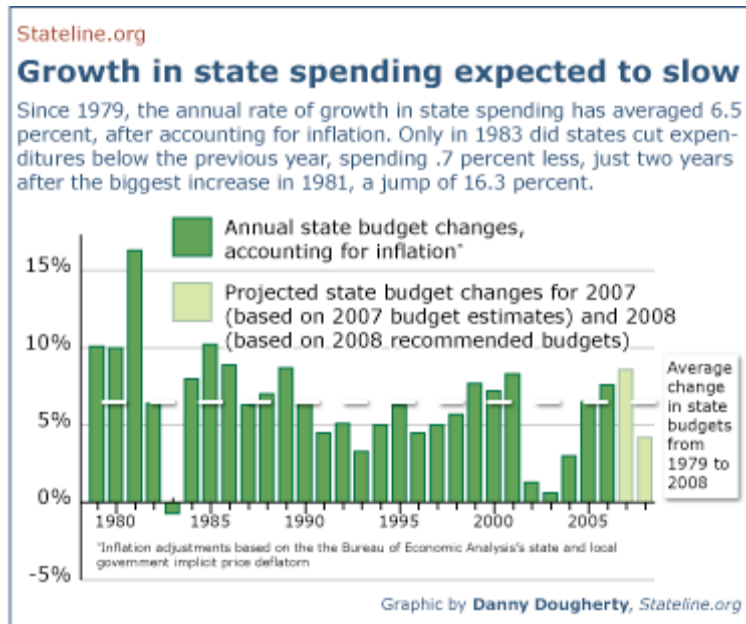
Of that total, \$131 million of the shortfall belonged to Michigan, which many economists say is experiencing a one-state recession. The number is small compared to fiscal 2002, when a record 37 states were forced to go back and slash \$13 billion to keep their budgets in the black. While New Jersey has not made cuts in fiscal 2007, the Garden State's budget has "an assumed lapse" of \$400 million, the report said.

Collectively, states will have spent \$616 billion during the current fiscal year of 2007, which ends June 30 for all but four states. That represents a growth rate of about 2 percentage points above the 29-year historical average increase of 6.5 percent, the report said. The groups expect state spending to grow only 4.2 percent in fiscal 2008, the year many state budget writers are wrestling with now.

The groups' "Fiscal Survey of States" provides an annual snapshot of states' finances. This year's 55-page report features state-by-state data including state spending, revenue and year-end balances for fiscal 2006; preliminary figures for the current fiscal year of 2007 and projected 2008 numbers based on governors' budget proposals.

Last year, states enjoyed their best budget climate in six years, splurging on new projects ranging from a baseball stadium for the Minnesota Twins to a spaceport in New Mexico. States were making up for lost time, spending on projects that languished during a severe economic downturn that began in 2001.

States spent more last year because they collected more tax revenue than expected — especially from corporate income taxes. States collectively received nearly 11 percent more in corporate



Source: The 2007 Fiscal Survey of the States National Association of State Budget Officers

income taxes than originally budgeted for fiscal 2007, followed by increases in personal income taxes (2.4 percent) and sales taxes (0.6 percent). Governors expect revenues will continue to grow, but at a more meager pace, exceeding fiscal 2007 amounts by 3.3 percent.

The governors are worried that a slowdown under way in a handful of states could be a harbinger for 2008. "States finances are strong and stable, but we are beginning to see some cracks," NASBO Executive Director Scott Pattison said in a joint press conference with NGA. Last year every state met or exceeded its revenue projections. This year, 27 states exceeded their original budget projections, 14 states were on target and nine states' revenues were lower than expected: California, Delaware, Florida, Maine, Maryland, Nevada, Oklahoma, Rhode Island and Wyoming.

Another indicator that economists watch for signs of potential trouble is the number of states with hefty surpluses going into the new fiscal year. States in 2006 had the highest-ever levels of surpluses, Pattison said, with year-end balances totaling \$62.1 billion or nearly 11 percent of expenditures. That dipped to \$50.4 billion or 8.2 percent this year, and governors expect the surpluses to dip to just \$39 billion or 6 percent for fiscal 2008.

Governors' own generous – and expensive – proposals this year to reduce the number of Americans without health insurance could jeopardize state budgets if the proposals are approved and the economy goes into a tailspin, said NGA Executive Director Raymond C. Scheppach.

Thirty-four governors this year unveiled proposals with a total price tag of \$18.4 billion to reduce the number of uninsured, according to the report.

The proposals would expand access to health-care insurance for an extra 300 people in Nevada to up to 4.8 million in California, Scheppach said.

Most states assume about half of additional health care spending would be covered by state and federal dollars from Medicaid, the state-federal health care program that covers 62 million low-income Americans, and the State Children's Health Insurance Program (S-CHIP), which provides subsidized health insurance to families who earn too much to qualify for Medicaid.

[Universal health care proposals](#) from California Gov. Arnold Schwarzenegger (R), Illinois Gov. Rod Blagojevich (D), Pennsylvania Gov. Ed Rendell (D) and Wisconsin Gov. Jim Doyle (D) are still pending.

Governors in 23 states proposed tax cuts, including \$3 billion in personal income taxes, for 2008 while 18 others pitched tax increases that would total \$4.5 billion, if enacted. A lion's share of the tax hikes come from just two states: Illinois and Michigan, which are both still debating their budgets. Illinois Gov. Rod Blagojevich (D) has proposed replacing the corporate income tax with a gross receipts tax, which would yield \$2.6 billion. And Michigan Gov. Jennifer Granholm (D) has proposed a new 2 percent excise tax on most services, which would increase revenues by \$1.4 billion.

Among the largest sale tax proposals comes from Pennsylvania Gov. Ed Rendell (D) who is pushing to increase the state sales tax to 7 percent from 6 percent. Twelve governors have proposed to increase cigarette and tobacco taxes, totaling \$1.2 billion in new revenue. The largest increase comes from Wisconsin Gov. Jim Doyle (D) who wants to boost to \$2.02 from 77 cents the tax on a pack of cigarettes.

The governors' concerns with budgets echo those made earlier this year by state lawmakers. The National Conference of State Legislatures reported in April that 41 states figured to end this fiscal year with a total of \$31 billion more than planned. But state lawmakers, like the governors, are expressing concerns that ongoing state revenues would not keep pace with state spending

growth in programs such as Medicaid, leading to deficits in upcoming years.

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