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NATIONAL CONFERENCE OF STATE LEGISLATURES WILLIAM T. POUND, EXECUTIVE DIRECTOR

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State Budget & Tax Actions 2002

Preliminary Report: Executive Summary

DENVER —These are the highlights of NCSL's annual survey on recent state budget and tax actions. Four states—California, Kentucky, Massachusetts and North Carolina—had not passed budgets at the time of this report. Budget information is provided for 42 states, including Wisconsin where the budget is awaiting action by the governor. Tax information is provided for 47 states.

General Fiscal Condition of the States: Widespread Deterioration in FY 2002

- State fiscal problems in fiscal year (FY) 2002 were widespread and often severe. In April 2002, 43 states reported budget gaps—the total of lower-than-expected revenues plus spending overruns—with the aggregate amount reaching $27.3 billion. By June 30, the end of FY 2002 for 46 states, the gap had grown to $37.2 billion. Because of state balanced budget requirements, gaps have been or will be resolved by the time states officially close their FY 2002 books.
- Twelve states reported FY 2002 budget gaps in excess of 10 percent of their general fund budgets. The seven states not experiencing gaps were Delaware, Louisiana, Montana, New York, Texas, West Virginia and Wyoming.
- Aggregate state balances fell nearly 42 percent from FY 2001 to FY 2002, declining from $31.5 billion to $18.4 billion for the 42 reporting states. The aggregate balance combines general fund ending balances with rainy day fund balances.
- Balances as a percent of spending dropped. The $18.4 billion represents 5 percent of FY 2002 general fund spending. While this percentage is noteworthy for states, particularly considering the magnitude of their fiscal problems, it is 3.8 percentage points lower than the FY 2001 balance of 8.8 percent. This marks the biggest percentage drop in state balances since FY 1980.
- Thirty-seven states saw their balances decline from FY 2001 to FY 2002, with some declines significant. Five states saw improvement, although it was negligible in two (less than 0.2 percent).
- The number of states with balances above 5 percent has fallen. Of the 42 reporting states, 16 ended FY 2002 with a balance exceeding 5 percent, the level Wall Street analysts recommend. Of these 16

states, four ended with balances exceeding 10 percent. The comparable numbers at the end of FY 2001 were 36 and 14, respectively.

- One state—Connecticut—reported that it ended FY 2002 with a deficit (1.9 percent). Action will be taken in the coming weeks to eliminate it.
- State rainy day fund balances have fallen as states have tapped their funds. The aggregate balance dropped from $16.5 billion at the end of FY 2001 to $10.8 billion at the end of FY 2002. Rainy day funds continue to account for the bulk of total state balances, representing almost 60 percent of total year-end balances at the close of FY 2002.
- For the 42 reporting states, revenues in FY 2002 were 1.2 percent below FY 2001 levels. A staggering 26 states collected less revenue in FY 2002 than they did in the prior year. At the same time, spending grew 1.8 percent.

Closing Budget Gaps in FY 2002

Nearly every state had to take actions to close FY 2002 budget gaps, which reached at least $37.2 billion by the end of the fiscal year. Actions to eliminate the gaps in the 42 reporting states included:

- Implementing targeted or across-the-board budget cuts (29 states)
- Tapping a variety of state funds (20 states)
- Tapping rainy day funds (19 states)
- Using tobacco settlement funds (12 states)

Looking Ahead to FY 2003

Growing budget problems posed significant challenges for states as they deliberated their FY 2003 budgets.

- Based on initial estimates, the aggregate budget gap for FY 2003 was $58.0 billion. California's astonishing $23.7 billion gap accounts for over 40 percent of the total. Thirteen states reported gaps in excess of 10 percent.
- General fund ending balances are expected to decline further from FY 2002 levels. For the 40 states providing FY 2003 budget data, the aggregate balance is expected to decline to 3.7 percent. Twenty-five states expect their balances to fall from FY 2002 levels, four expect no change and 11 expect improvement.
- Two states currently project deficits at the end of FY 2003. Montana's projected deficit is 1.3 percent and Nebraska's is 0.2 percent. Both states are planning to meet in special session to resolve their fiscal difficulties. Only six states expect to end FY 2003 with a balance above 5 percent, with two of these above 10 percent.

Because most states have enacted their FY 2003 budgets, they already have taken action to close their FY 2003 gaps. Actions include the following:

- Cutting spending (26 states)
- Tapping a variety of state funds (23 states)
- Using tobacco settlement funds (16 states)
- Increasing taxes (16 states)

- Tapping rainy day funds (12 states)
- Raising fees (10 states)

Revenue and Spending Projections for FY 2003

- State revenues are projected to grow 3.7 percent above FY 2002 levels in the 40 states providing revenue information. Spending is budgeted to grow 1.6 percent above FY 2002 levels. The aggregate year-end balance is expected to decline to 3.7 percent by the end of FY 2003.
- Medicaid will capture the largest percentage of new spending in FY 2003. With 40 states reporting, Medicaid is budgeted to grow 8.2 percent. This is two to three times higher than the other major categories of state spending: K-12 education (4.8 percent), higher education (1.8 percent) and corrections (3.2 percent).

Tax Highlights: States Raise Taxes for First Time in Seven Years

In a significant change from the past seven years of net tax cuts, states raised taxes in 2002. The 2002 tax increase—$6.7 billion with 47 states reporting—is the first time since 1994 that there has been a net state tax increase. So far, this year's increase represents 1.2 percent of 2001 tax collections. This number is likely to increase after the three remaining states report. State tax changes in the past few years are listed below:

- $6.7 billion increase in FY 2002 (1.2 percent)—47 states reporting
- $1.5 billion reduction in 2001 (0.3 percent)
- $9.9 billion reduction in 2000 (2.0 percent)
- $7.3 billion reduction in 1999 (1.7 percent)
- $7.1 billion reduction in 1998 (1.6 percent)
- $2.6 billion reduction in 1997 (0.6 percent)
- $4.0 billion reduction in 1996 (1.0 percent)
- $3.3 billion reduction in 1995 (0.9 percent)

Only one state cut taxes by more than 1 percent of 2001 collections, while 16 states raised taxes by more than 1 percent. Of these 16, five states raised taxes by at least 5 percent. Thirty states took no significant tax actions, with three states not reporting.

State Budget and Tax Actions 2002—Preliminary Report

Introduction

Each summer NCSL's Fiscal Affairs Program surveys members of the National Association of Legislative Fiscal Offices (NALFO) for information on state budget and tax actions that occurred in their most recently completed legislative sessions. This year's survey covers fiscal years (FY) 2002 and 2003. In most states, the budget data provided for FY 2002 are based on estimates; the budget and tax data for FY 2003 are based on projections.

General fund budget information is provided for 42 states, including Wisconsin where the budget is awaiting action by the governor.[1] At the time of this report, budgets had not been adopted in California, Kentucky, Massachusetts and North Carolina. Tax information is provided for 47 states.[2]

General Fiscal Condition of the States

FY 2002 was tumultuous in nearly every state in the nation. The fiscal boom of the late 1990s that had begun to sputter in early 2001 came to a screeching halt by the end of the year. National economic woes, exacerbated by the Sept. 11 terrorist attacks, made their way to the state level. Initially, the problems were on the revenue side of the ledger. But as the fiscal year wore on, an increasing number of states reported spending overruns as well. As 2002 legislative sessions began, most states were trying to close FY 2002 budget gaps while enacting balanced budgets for FY 2003.

But for many states, the fiscal challenges were just beginning. Most were concerned about faltering revenues, especially from personal income tax collections. Forty-one states levy a broad-based personal income tax and, nationally, personal income taxes account for about 36 percent of state tax revenues.

Although preliminary information on withholding and estimated taxes was available before the April 15 tax filing deadline, there was considerable anxiety surrounding the final collection figures, which would be unknown until May or later. The final figures were sobering. Total individual income tax collections in January through April 2002 were 14 percent—or about $14.7 billion—below the level of the prior year. In April alone, when many states receive the bulk of their balance due or final payments, collections fell by 21.3 percent, or $8.6 billion. Thirty-nine states reported that personal income tax collections were below budgeted targets. In 12 states, collections were below budgeted forecasts by more than 10 percent. At the same time, states paid out about $2.5 billion more in refunds through April 2002 than in the same period in 2001.

Personal income tax collections were not the only concern. Other state tax collections were faltering as well, with a number of states noting that sales taxes and corporate income taxes were failing to meet projected levels.

1 The eight states not providing budget information are California, Kentucky, Maine, Massachusetts, New Hampshire, North Carolina, Oregon and Tennessee.

2 The three states not providing tax information are California, North Carolina and Wisconsin.

The adverse effects of the national economic downturn were readily apparent in many state fiscal indicators as noted below:

- State fiscal problems in FY 2002 were widespread and often severe. In April 2002, 43 states reported budget gaps, with the aggregate amount reaching $27.3 billion. By June 30, the end of FY 2002 for 46 states, the gap had grown to $37.2 billion. Because of state balanced budget requirements, gaps have been or will be closed by the time states officially close their FY 2002 books.
- Twelve states reported FY 2002 budget gaps in excess of 10 percent of their general fund budgets. The seven states not experiencing gaps were Delaware, Louisiana, Montana, New York, Texas, West Virginia and Wyoming.
- Aggregate state balances fell nearly 42 percent from FY 2001 to FY 2002, declining from $31.5 billion to $18.4 billion for the 42 reporting states. The aggregate balance combines general fund ending balances with rainy day fund balances.
- Balances as a percent of spending dropped. The $18.4 billion represents 5 percent of FY 2002 general fund spending. While this percentage is noteworthy for states, particularly considering the magnitude of their fiscal problems, it is 3.8 percentage points lower than the FY 2001 balance of 8.8 percent. This is the second time since FY 1992 that the ending balance did not meet or exceed the previous year's balance. It also marks the biggest percentage drop since FY 1980, when balances fell 4.6 percentage points, from 9 percent to 4.4 percent.
- Thirty-seven states saw their balances decline from FY 2001 to FY 2002, with some declines significant. Five states saw improvement, although it was negligible in two (less than 0.2 percent).
- The number of states with balances above 5 percent has fallen. Of the 42 reporting states, 16 ended FY 2002 with a balance exceeding 5 percent, the level Wall Street analysts recommend. Of these 16 states, four ended with balances exceeding 10 percent. The comparable numbers at the end of FY 2001 were 36 and 14, respectively.
- One state—Connecticut—reported that it ended FY 2002 with a deficit (1.9 percent). Action will be taken in the coming weeks to eliminate it.
- State rainy day fund balances have fallen as states have tapped their funds. The aggregate balance dropped from $16.5 billion at the end of FY 2001 to $10.8 billion at the end of FY 2002. Rainy day funds continue to account for the bulk of total state balances, representing almost 60 percent of total year-end balances at the close of FY 2002.

Changes in Revenues and Spending in FY 2002

Just as the national economy faltered, so did state revenues. Nationally, FY 2002 revenues were 1.2 percent below collections in FY 2001 for the 42 reporting states.

Twenty-six states reported that FY 2002 revenues were below FY 2001 collections, with eight of these reporting drops in excess of 5 percent. Aside from Alaska's 29 percent decline, where oil-related revenues were well below near record collections in FY 2001, the other states with slippage greater than 5 percent were Idaho (-9.9 percent), Iowa (-8.9 percent), Connecticut (-7.4 percent), Wyoming (-6.8 percent), Georgia (-6.6 percent), Vermont (-5.8 percent) and Utah (-5.7 percent).

Sixteen states reported revenue growth, although in six of these the amount was less than 1 percent above FY 2001 levels. Only two states reported revenue growth above 5 percent: Wisconsin (8.4 percent) and Oklahoma (11.5 percent).

On the spending side, FY 2002 general fund appropriations grew 1.8 percent. Thirteen states reported growth above 5 percent, with Wyoming the highest at 10.1 percent. Seventeen other states reported growth, ranging from 0.1 percent in Missouri to 4.9 percent in West Virginia.

Twelve states reported declines in spending from FY 2001 levels. The largest drops were in Iowa (-5.7 percent) and Michigan (-5.6 percent). Three states reported declines of less than 1 percent: Mississippi (-0.3 percent), Arizona (-0.4 percent) and Illinois (-0.9 percent).

Closing FY 2002 Budget Gaps

For the second consecutive year, a large number of states were forced to close mid-year budget gaps. Many of the initial actions were implemented by governors through their authority to keep the state budget balanced. But it became increasingly apparent that the gaps were growing and needed the attention of state legislatures. Either in special sessions or during their regular sessions, most states addressed their gaps. Very few states turned to tax increases to close FY 2002 gaps. Instead, most states cut spending or tapped other funds to augment the general fund. Actions incluced:

- Implementing targeted or across-the-board budget cuts (29 states). Nineteen states cut funding for higher education, with the expectation that tuition could be raised to offset the reduction. Eighteen states cut corrections spending. Twelve states cut Medicaid, usually through the elimination of optional programs. Although elementary-secondary education often was spared, a dozen states reported K-12 spending reductions. Six states cut local revenue sharing while three cut Temporary Assistance to Needy Families (TANF).
- Tapping a variety of state funds (20 states). A wide range of funds were used to help plug the hole in the state operating budget. Indiana tapped $666 million from state funds, including $200 million from the Build Indiana Fund and $100 million from the Medicaid reserve.
- Tapping rainy day funds (19 states). Withdrawals from rainy day funds were widespread and often significant. Connecticut used $594 million of its funds while New Jersey withdrew $720 million, the total amount of the fund. In Pennsylvania, the legislature could not garner the required two-thirds vote to tap its fund so it was abolished with a simple majority vote, and the fund balance of $1,037.8 million was transferred to the general fund. Legislation (with a $300 million appropriation) was passed creating a new fund for FY 2003.
- Using tobacco settlement funds (12 states). A dozen states also turned to their tobacco settlement funds to help resolve general fund shortfalls. Alabama tapped its funds for $30 million for Medicaid. Missouri used $139.2 million to offset its shortfall. Tennessee depleted its tobacco settlement reserve in FY 2001, so all payments have been counted as recurring revenue since FY 2000.

A wide range of other actions were taken to help close budget gaps. State employees were affected in a number of states, either through employee travel bans or restrictions (11 states), employee hiring freezes (11 states) or layoffs (eight states). Other actions included delaying capital projects (eight states), shifting pay-as-you-go capital projects to debt (five states) and freezing purchases (four states).

Looking Ahead to FY 2003

Just as ending FY 2002 with a balanced budget was a significant challenge for most states, enacting one for FY 2003 also proved difficult for many. As states began looking ahead, it was clear that they were facing additional budget gaps. Based on initial estimates, the aggregate budget gap for FY 2003 was $58.0 billion. California's astonishing $23.7 billion gap accounts for more than 40 percent of the total. Thirteen states reported gaps in excess of 10 percent.

Overall, general fund ending balances are expected to decline further from FY 2002 levels. For the 40 states providing FY 2003 budget data, the aggregate balance is expected to decline to 3.7 percent. Twenty-five states expect their balances to fall from FY 2002 levels, four expect no change and 11 expect improvement.

Two states currently are projecting deficits at the end of FY 2003. Montana's projected deficit is 1.3 percent and Nebraska's is 0.2 percent. Both states are planning to meet in special session to resolve their fiscal difficulties. Only six states expect to end FY 2003 with a balance above 5 percent, with two of these above 10 percent.

Nationally, FY 2003 revenues are projected to grow 3.7 percent above FY 2002 levels in the 40 states providing revenue information. Three states project revenue growth to exceed 10 percent. In Indiana (17.3 percent) and New Jersey (15.1 percent), the jumps are being driven by sizeable tax increases as well as other measures to boost revenues. Nevada's 11 percent projected increase was made when the biennial budget was enacted more than a year ago, so state officials note that it may be too optimistic.

Nine states expect revenue growth above 5 percent, and in several of these, tax increases contribute to the projected growth rate. In 21 other states, projected growth ranges from less than 1 percent in four states to 4.8 percent in Vermont. Seven states project that FY 2003 revenues will be less than amounts collected in FY 2002. In Louisiana and New Mexico, the amounts are less than 1 percent. The others are Arizona (-2.4 percent), Delaware (-2.5 percent), Wisconsin (-3.2 percent), New York (-4.5 percent) and Alaska (-5.2 percent).

Spending is budgeted to grow 1.6 percent above FY 2002 levels. Fifteen states expect to spend less in FY 2003 than FY 2002, with the largest drop in Colorado (-8.5 percent). In seven states, the decline is less than 1 percent from prior year spending. Washington reports flat appropriations growth. Nine states project spending to grow more than 5 percent, with the biggest appropriations growth in New Jersey (8.7 percent).

Spending Priorities in FY 2003

This report tracks growth for four major categories of spending: elementary-secondary (K-12) education, higher education, corrections and Medicaid. For several consecutive years, appropriations for education outpaced other major categories of state spending. But Medicaid has taken over the top spot for the last two years and will capture the largest percentage of new spending in FY 2003. With 40 states reporting, Medicaid is budgeted to grow 8.2 percent. This is much higher than the other major categories of state spending: K-12 education (4.8 percent), higher education (1.8 percent) and corrections (3.2 percent).

Closing FY 2003 Budget Gaps

Fresh off the heels of the fiscal difficulties in FY 2002 and with expectations that FY 2003 could be just as difficult, nearly every state resorted to another round of actions to enact balanced budgets. Among the measures taken were:

- Cutting spending (26 states). Once again, higher education was a frequent target of budget cuts, being pared by 16 states for FY 2003. Fourteen states cut corrections and 12 cut Medicaid. Eleven states reported cutting K-12 education, with another 11 cutting local revenue sharing. Five states cut TANF.
- Tapping a variety of state funds (23 states). New York tapped a variety of funds to garner $1.1 billion. Pennsylvania used $90 million from the Capital Facilities Fund to reduce general obligation

debt service and transferred $33 million from the Keystone Recreation Park and Conservation Fund to the general fund. South Dakota used $36 million from the Property Tax Reduction Fund. Virginia diverted one-half cent of the sales tax from the transportation fund to the general fund for $317 million.

- Using tobacco settlement funds (16 states). Pennsylvania transferred $198.5 million from the Tobacco Fund to supplant general fund dollars used for medical assistance long-term care. New Jersey securitizated its tobacco settlement money to generate more than $1 billion.
- Increasing taxes (16 states). Unlike FY 2002, more states turned to tax increases in FY 2003. Indiana, New Jersey and Pennsylvania each raised taxes by more than $1 billion. Tennessee's increase was more than $900 million.
- Tapping rainy day funds (12 states). Fewer states tapped their rainy day funds in FY 2003 than in FY 2002. One reason is that many states reduced their balances considerably, or depleted their funds entirely. Also, because some states are trying to maintain their funds at some level, they were reluctant to tap their funds again. But some states made major withdrawals. Alaska tapped its fund for $842 million (following last year's withdrawal of $777 million). Similarly, Ohio tapped its fund for $427.9 million after using $580.6 million last year. Officials now report that the fund is empty.
- Raising fees (10 states). Rhode Island raised $90.8 million from fee increases while Virginia expects to generate $175 million. Vermont raised $10 million from Department of Motor Vehicle fees plus other miscellaneous fees.

Once again, state employees were affected by actions to balance FY 2003 budgets. Actions included employee travel bans or restrictions (nine states), employee hiring freezes (nine states) or layoffs (five states). Other actions included delaying capital projects (nine states), shifting pay-as-you-go capital projects to debt (five states) and gaming expansion (four states).

Although most states have faced back-to-back years of difficult budget decisions, they may not be out of the woods yet. If revenues continue to under perform (as appears to be the case in some states) or if spending outpaces budgeted levels, especially for caseload driven programs like Medicaid, states will be faced with another round of difficult budget decisions. Some states expect to address growing budget concerns soon—Montana and Nebraska will convene in special sessions in the next few weeks. With additional budget problems on the horizon, it is likely that even more states will reconsider their budgets before the fiscal year is over.

Tax Highlights in 2002

In a significant change from the past seven years of net tax cuts, states raised taxes in 2002. The 2002 tax increase—$6.7 billion with 47 states reporting—is the first time since 1994 that there has been a net state tax increase. So far, this year's increase represents 1.2 percent of 2001 tax collections.

Of the 47 states reporting (missing California, North Carolina and Wisconsin), 16 raised taxes by more than 1 percent of 2001 collections. Only Hawaii cut taxes by more than 1 percent. Of the 16 states, Indiana, Kansas, Massachusetts, New Jersey and Tennessee increased taxes by more than 5 percent. Thirty states took no significant tax actions.

All major tax categories show a net increase in 2002. Cigarette and tobacco tax growth of $2.9 billion accounts for the largest share of the total increase. Hikes in sales taxes amounted to $1.1 billion and increases in corporate income taxes to $1.0 billion. Personal income taxes were boosted by $706 million

and health care taxes by $71 million. Alcohol and motor fuel taxes were raised nearly $200 million and increases in other miscellaneous taxes will cost taxpayers $725 million.

States raised $1.7 billion in non-tax revenues through fees, accelerations and other actions. Thirteen states raised fees, mostly around motor vehicles. A handful of states accelerated tax collection schedules, and six states approved tax amnesty periods.

In addition to state tax and revenue changes reported here, several states took action to conform to or decouple from recent federal tax legislation to protect state tax revenues. State responses to federal tax changes are reported in another NCSL publication, *Recent Federal Tax Legislation and the States,* updated July 2002.

Personal Income Tax. Nine states raised personal income taxes and 11 cut them. Massachusetts had the largest increase at $755 million, primarily the result of actions taken to reduce the personal exemption, freeze the rate and suspend the charitable contributions deduction. Oregon and Oklahoma followed with net increases of $108 million and $101 million respectively. Oregon adopted a measure to phase in a voter-approved tax reduction over two years instead of doing it at once and Oklahoma's income tax rate went up because of an automatic trigger adopted as part of a tax reduction act in 1998. Nebraska also raised income tax rates in all brackets for 2003 only. Indiana will start withholding gaming and lottery winnings and Ohio will start taxing certain types of trusts. Vermont modified its income tax law so that it's based on federal taxable income instead of federal tax liability, which resulted in an $18 million increase. Minnesota reduced its K-12 education tax credit to 75 percent from 100 percent and Connecticut delayed a scheduled increase in the standard deduction.

Of the 11 states that reduced personal income taxes, New York and Michigan led the way with cuts of $173 million and $124 million, respectively. New York continued phasing in previously enacted reductions, including raising the tuition tax credit, raising the standard deduction for married couples, adopting a long term care insurance credit and increasing the earned income tax credit (EITC). Michigan continued reducing its personal income tax rate. Hawaii and Rhode Island also cut income tax rates, Hawaii as part of a phased three-year reduction and Rhode Island as part of a five-year income tax rate reduction plan. Kansas, Maryland and New Jersey also took action to increase the EITC as part of net personal income tax reductions. ***Net increase: $706 million.***

Corporation and Business Taxes. Nine states increased corporate and business taxes while eight states cut them. For the second year in a row New Jersey registered the largest increase at $824 million as part of a business tax reform act that makes various changes to the corporate income tax. Pennsylvania raised business taxes by $172 million by changing the phase-out schedule of the capital stock and franchise tax among other actions. Michigan delayed a scheduled tax rate cut in the single business tax as a result of insufficient reserve funds for a $69 million increase. Alabama raised business taxes by $58 million.

Of the eight states that cut business taxes, Indiana and New York reported the largest reductions. Indiana repealed some corporate taxes and increased the research and development credit for a net reduction of $47 million. However, lawmakers there also eliminated a partial corporate income tax credit for property tax, which will result in a tax increase of $96 million next year. New York reported a cut of $38.8 million, primarily because it continued reducing the business gross receipts tax. Florida, Louisiana, New Mexico, West Virginia, and Washington reported cuts in business taxes. ***Net increase: $1.0 billion.***

Sales and Use Tax. Six states raised sales taxes and nine states reported sales tax cuts. Of the states that raised them, however, most raised them significantly. Indiana, Kansas, Nebraska and Tennessee all raised state sales tax rates. Indiana raised the rate from 5 percent to 6 percent for an increase of $393

million and Kansas raised it from 4.9 percent to 5.3 percent for $156 million. Nebraska raised its sales tax rate by one-half percent for one year only and expects to generate $67 million, while Tennessee raised it from 6 percent to 7 percent (excluding food) for $600 million. Nebraska also expanded the sales tax base to include a number of services that were previously exempt. And voters in Washington will decide in November whether to raise the sales tax on motor vehicles by 1 percent.

Nine states cut sales taxes. Connecticut logged the largest reduction at $103 million, which is due to a one-year suspension of the sales tax on hospital patient care. New York continued reducing the sales tax on the transmission and distribution services of utilities and Hawaii continued changes to the sales tax on business-to-business transactions. Georgia and West Virginia approved new sales tax holidays. ***Net increase: $1.1 billion.***

Health Care Provider Taxes. Only a few states took action around health care provider taxes and fees. Iowa adopted a new fee on intermediate health care facilities and Missouri adopted a temporary pharmacy provider tax with variable rates up to 6 percent. New York approved a new health care provider tax, Rhode Island increased the hospital licensing fee, South Carolina raised the tax on licensed hospitals and Vermont increased the nursing home assessment of the Medicaid provider tax. ***Net increase: $71 million.***

Cigarette and Tobacco Taxes. The biggest increase was reported in the tobacco tax category. Eighteen states raised taxes on cigarettes and tobacco products for a total of $2.9 billion. Connecticut, Hawaii, Illinois, Indiana, Kansas, Louisiana, Massachusetts, Maryland, Michigan, Nebraska, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Tennessee, Utah and Vermont all increased taxes on cigarettes or tobacco products. The increases ranged from 7 cents per pack in Tennessee to 70 cents per pack in New Jersey. Pennsylvania reported the largest revenue increase at $570.5 million. Oregon has a measure on the Sept. 17 ballot to raise the tax on cigarettes from 68 cents per pack to $1.28 per pack. ***Net increase: $2.9 billion.***

Alcoholic Beverages Taxes. Only two states took action on alcoholic beverage taxes. Lawmakers in Alaska increased the alcoholic beverage tax and lawmakers in Tennessee increased the wholesale tax on beer, wine and spirits by 10 percent. ***Net increase: $7 million.***

Motor Fuel and Vehicle Taxes. Lawmakers in five states raised motor fuel taxes, and in Washington an increase is contingent upon voter approval in November. Connecticut increased the tax on diesel fuel by 8 cents per gallon. Indiana and Rhode Island raised motor fuel taxes and Kansas and Maine increased taxes on both diesel fuel and gasoline. ***Net increase: $190 million.***

Other Taxes. Florida postponed the previously approved reduction in the tax on intangible property. Illinois and Indiana raised taxes on riverboat gaming for net increases of $142 million and $252 million, respectively. Connecticut delayed the planned phase-out of the gift tax and the inheritance tax. Alabama raised the mobile telecommunications tax rate from 4 percent to 6 percent and Tennessee increased local business taxes and the professional privilege tax. ***Net increase: $725 million.***

Fees. Thirteen states raised fees in 2002 for a total of $592 million. Most of the fee increases involved motor vehicles and drivers licenses, although some states raised court and filing fees. ***Net increase: $592 million.***

Other Revenues. In addition to tax and fee changes, states approved a number of non-tax revenue actions. For example, Massachusetts, Missouri, New Jersey, New York, Oklahoma and South Carolina approved tax amnesty programs expected to increase tax collections. Six other states accelerated tax

collection schedules for a net increase of $779 million. Michigan accelerated collection of the state education property tax and Mississippi accelerated the payment schedule for certain tax liabilities into the current fiscal year for a net revenue increase. Ohio accelerated the sales tax payment on car leases, New York accelerated collections of electronic fund transfers and Virginia changed the sales and use tax collection schedule. ***Net increase: $1.1 billion.***

Table 1. Estimated Budget Gaps

State	FY 2002 Amount (millions)	FY 2002 Percent of FY 2002 General Fund Budget	FY 2003 Amount (millions)	FY 2003 Percent of FY 2003 General Fund Budget
Alabama General Fund	$17.0	1.4%	$5.0	0.4%
Alabama Education Trust Fund	160.0	3.9	45.0	1.0
Alaska	777.4	32.0	842.7	35.0
Arizona	848.0	13.0	931.3	14.7
Arkansas	154.0	3.0	0.0	0.0
California	7,500.0	9.6	23,700.0	28.0
Colorado	1,069.0	16.0	437.6	7.0
Connecticut	1,210.5	0.1	944.8	0.1
Delaware	0.0	0.0	41.8	1.7
Florida	888.6	4.4	0.0	0.0
Georgia	707.0	4.8	80.0	0.5
Hawaii	157.3	4.5	162.0	4.6
Idaho	221.0	10.8	75.0	3.5
Illinois	1,600.0	6.4	1,000.0	4.0
Indiana (N/R)	1,200.0	12.6*	(N/R)	(N/R)
Iowa	579.8	11.9	492.9	10.7
Kansas	300.4	6.7	704.4	15.8
Kentucky	685.0	9.4	(N/R)	(N/R)
Louisiana	0.0	0.0	0.0	0.0
Maine (N/R)	58.3*	2.3*	(N/R)	(N/R)
Maryland	407.8	4.1	572.6	5.5
Massachusetts	2,300.0	15.0	2,300.0	15.0
Michigan General Fund	493.0	5.0	380.0	4.1
Michigan School Aid Fund (N/R)	250.0	2.2*	(N/R)	(N/R)
Minnesota	600.0	4.5	1,690.0	11.5
Mississippi	264.8	7.3	0.0	0.0
Missouri	520.0	6.5	848.3	10.7
Montana	0.0	0.0	118.0	8.4
Nebraska	221.0 (B)	4.2 (B)	250.0	9.3
Nevada	114.5	6.2	199.0	9.7
New Hampshire	10.8	0.9	(N/R)	(N/R)
New Jersey	3,500.0	14.8	6,000.0	25.6
New Mexico	85.0	2.0	30.0	0.8
New York	0.0	0.0	5,100.0	13.0
North Carolina	1,600.0	11.0	1,700.0	11.0
North Dakota	7.4	0.9	7.6	0.9
Ohio	1,513.1	6.9	1,941.6	8.4
Oklahoma	140.0	3.9	290.0	5.7
Oregon	1,400.0 (B)	13.0 (B)	1,400.0 (B)	13.0 (B)
Pennsylvania	1,268.3	6.2	1,800.0	8.8
Rhode Island	169.5	6.4	300.0	11.2
South Carolina	426.0	8.1	0.0	0.0
South Dakota	19.6	2.3	36.1	4.1
Tennessee	445.0	5.8	800.0	8.2
Texas	0.0	0.0	0.0	0.0
Utah**	394.8	10.9	173.1	4.6
Vermont	67.1	7.4	38.0	4.2
Virginia	1,700.0	14.0	1,200.0	10.0
Washington	300.0	0.0	920.0	0.1
West Virginia	0.0	0.0	0.0	0.0

Table 1. Estimated Budget Gaps

Wisconsin	1,100.0 (B)	5.0 (B)	1,117.3 (B)	5.0 (B)
Wyoming	0.0	0.0	0.0	0.0
Total	**$37,221.0**		**$57,974.1**	

B = biennial amount

(N/R) = No response

* Reflects estimate provided in April 2002

** Gap as a percentage of general and uniform school funds.

Note: Shortfalls amounts reflect what states eliminated or expect to eliminate by the end of FY 2002 and FY 2003.

Note: To arrive at the FY 2002 total estimated budget gap, the calculation includes half of the biennial shortfalls reported in Nebraska and Wisconsin.

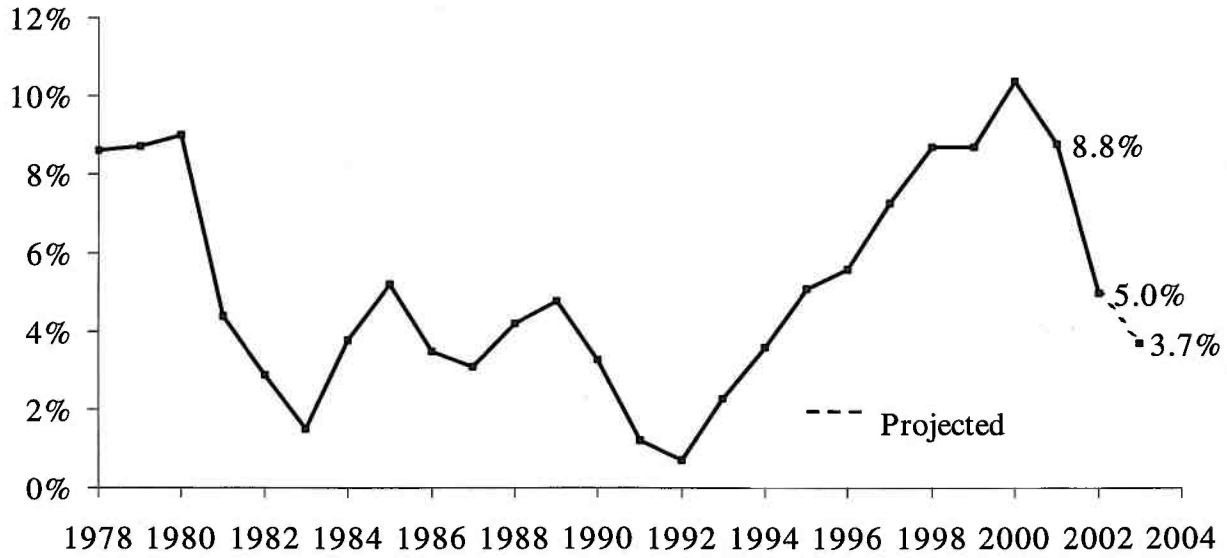
Note: To arrive at the FY 2003 total estimated budget gap, the calculation includes half of the biennial shortfall reported in Wisconsin. Nebraska's number is for FY 2003 only.

Source: NCSL survey of National Association of Legislative Fiscal Offices, June 2002.

State Year-End Balances

As a Percentage of General fund Expenditures

FY 1978–FY 2003 projected

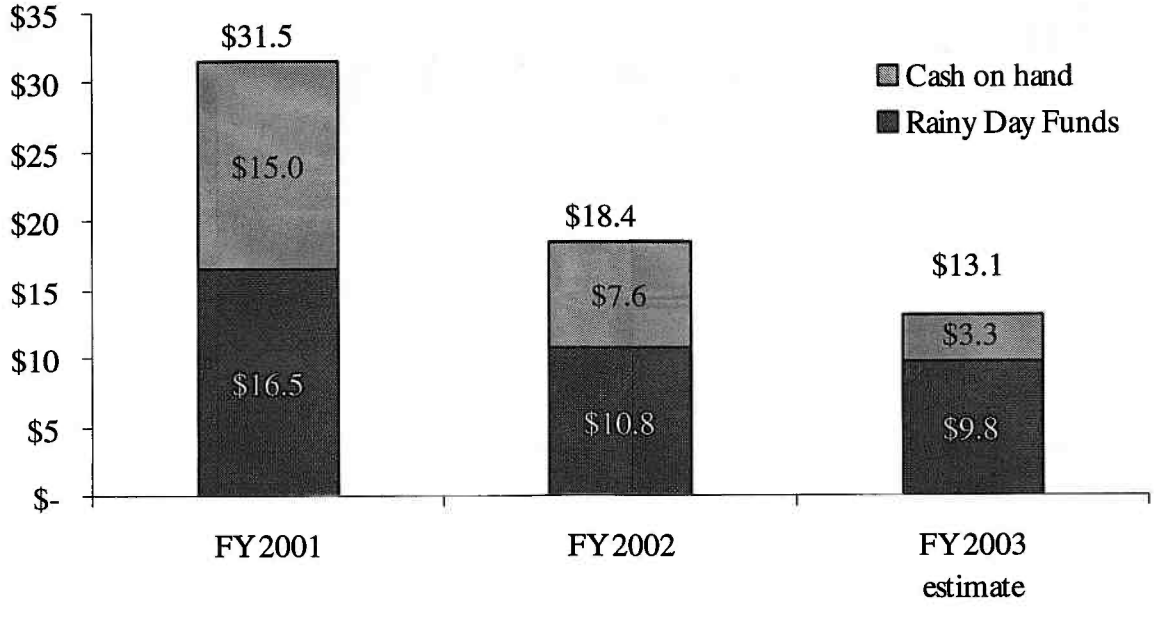


State Year-End Balances: FY 2002
As a Percentage of General Fund Expenditures

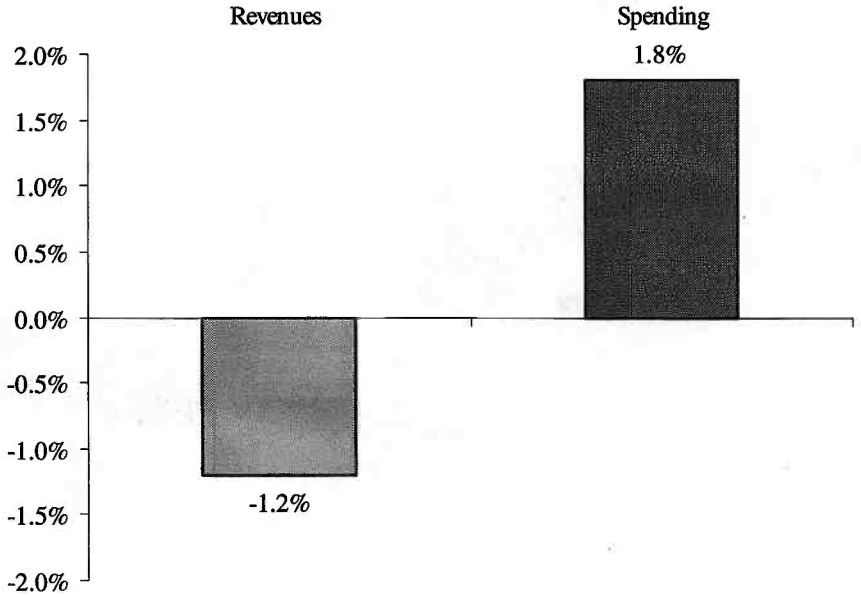
- Less than 0.0%, n = 1
- 0.0% to 4.9%, n = 25
- 5.0% to 9.9%, n = 12
- 10% and over, n = 4
- Not available, n = 8 + District of Columbia and Puerto Rico

* 42 states reporting as of 22 July 2002

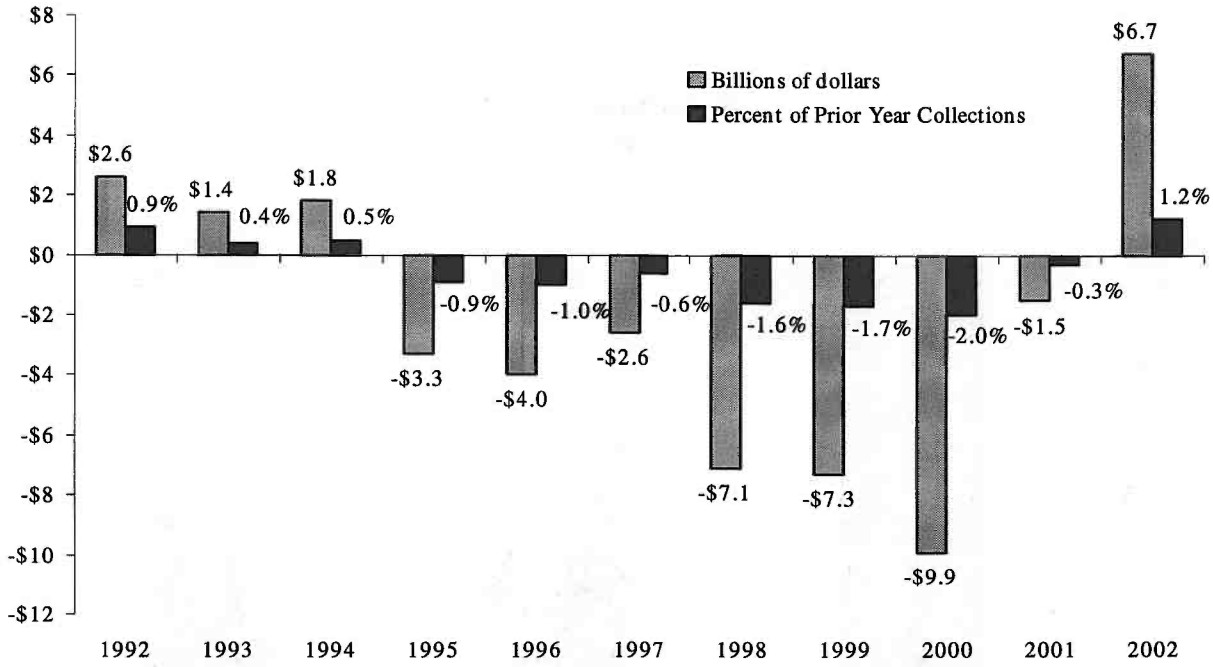
Diminishing Reserves
In billions of Dollars



Projected Percentage Changes in State Revenues and Spending
FY 2001 to FY 2002



Net State Tax Changes
By Year of Enactment, 1992-2002



2002 Net State Tax Changes by Type of Tax
(in millions)

Personal income	$706.1
Corporation income	1,043.3
Sales and use	1,053.4
Health care	71.3
Motor vehicle	190.4
Cigarette and tobacco	2,859.9
Alcoholic beverage	7.0
Miscellaneous	724.5
Net Change	$6,655.9

2002 Net State Revenue Changes
(in millions)

Taxes	$6,655.9
Fees	591.6
Other	1,102.1
Total	$8,349.6