State Budgets

According to the Center on Budget and Policy Priorities, for fiscal year 2013, the fiscal year that begins July 1, 2012, 30 states have projected or have addressed shortfalls totaling $49 billion. The $49 billion represents about 0.32% of gross domestic product (GDP).

- This shortfall represents the major disconnect between states’ spending commitments and their revenue expectations
- Budget gaps reflect major administrative inefficiencies within local governments; essentially overspending to perform certain tasks
- The upside is that the states are learning - in recent months have seen stronger-than-expected revenue growth in several states

Overview of State Budget Health

States are still having budget issues, but these gaps are getting smaller and smaller

According to the Rockefeller Institute of Government, at least 45 states saw their revenues increase over the past year. After a very rough four years following the recession, the word “surplus” is finally making a modest comeback in some state capitals.

- 10 states have reported new shortfalls totaling $3.7 billion opening in their budgets for the current year (fiscal year 2012). This is less than the mid-year shortfalls states faced last year (fiscal year 2011), and dramatically lower than in fiscal year 2009 and fiscal year 2010.
- In some states with two-year budget cycles, projected shortfalls for fiscal year 2013 have already been closed through spending cuts and other measures scheduled to take effect in the next fiscal year, but in the majority of states they must be closed through legislative action in the coming months in order to meet balanced-budget requirements.
- Overall, the main theme among most states in trouble is that they are slashing programs and services in order to better balance their budgets
- Whether they slashed K-12 education during the budget crisis, closed state parks or cut doctors’ rates for treating poor patients, many states will start reversing the most painful of their recent cuts in 2012.
- Despite the positive steps states have made, most of them have not caught back up to where they were before the recession
- Now that the Stimulus aid from the American Recovery and Reinvestment Act has stopped, states are preparing budgets accordingly
- Over 30 states have raised taxes to at least some degree, in some cases quite significantly
- California has had to face some very serious spending cuts
  - California cut its appropriations for higher education by $1.5 billion, or 11.8 percent, in 2011-1
  - Faced spending cuts in public services of nearly $1 billion in late 2011 and early 2012
  - Governor Jerry Brown will continue spending cuts in the 2012-13 fiscal year
  - Cuts will include the University of California and California State University Systems, K-12 schools, in-home supportive services – a program for the elderly to avoid going to a nursing home, libraries, public safety services, developmental disability programs, and a host of other public service programs.
- New York is in a similar situation
  - In early 2012, Governor Andrew Cuomo proposed a budget that would significantly cut spending and would close the $3.5 billion budget gap
  - The Governor and state legislators are currently ironing out the details of this budget
- Arizona made some very controversial, but successful moves to close the budget gap
  - Arizona sold office space in the state’s Capitol complex, which helped close the hole in one year’s budget
Arizona actually finished its last fiscal year with a surplus, which was a surprise to state financial forecasters.

Colorado actually had roughly $149 million more than previously projected for next year's budget, therefore they may be able to reduce budget cuts.

**Consequences of Budget Shortfalls**

- According to the Center for Budget and Policy Priorities shortfalls have led to at least 46 states to reduce services for their residents, including some of their most vulnerable families and individuals.
- Cuts may continue for several years.
- Spending cuts are problematic during an economic downturn because they reduce overall demand and can make the downturn deeper.
- Cuts result in the reduction in employees, canceling contracts with vendors, eliminating or lowering payments to businesses and nonprofit organizations that provide direct services, and cut benefit payments to individuals.
- In all of these circumstances, the companies and organizations that would have received government payments have less money to spend on salaries and supplies, and individuals who would have received salaries or benefits have less money for consumption.
- Tax increases also remove demand from the economy by reducing the amount of money people have to spend.
- Twenty-nine states allocated less money to higher education in 2011-12 than they did in 2006-7.

**Opportunities for Economic Development (what are states doing to create revenue)**

According to a Pew Research Center study, the public thinks the best way for states to deal with their budget problems is through a combination of spending cutbacks and increased state taxes.

- About two-thirds (68%) say their state lawmakers should do a combination of cutting major programs and increasing taxes.
- Many states are raising taxes across the board, including raising taxes on lower income families and individuals. Michigan has also scaled back tax credits for low-income workers, while cutting business taxes.
- California’s Governor has proposed to increase the sales tax and raise levies on upper incomes to help raise money for schools and balance the state's budget. The governor hopes this issue will go on the November ballot.
- 64% of Californians surveyed support the tax hikes.
- Politics plays a big part of increasing taxes and fees...especially in such a contentious election year.
- Maryland is in the midst of a battle over raising income taxes and shifting the cost of teacher pensions to the counties.

**How Will This Impact YOU and YOUR BUSINESS?**

**TAXES!** Higher taxes and an increase in fees that pertain to your business and employees.

- Higher medical insurance costs for your employees
- Slower services – there have been talks about the US Postal Service downsizing, thus resulting in slower services

**How to be prepared**

- You need to pay close attention to your finances, budget and balance sheet, every step of the way
- Hire great talent at an affordable rate. Many companies are starting to rehire and they have the upper hand in obtaining high quality, competent employees
- Utilize new software technology – this can save a lot of money
- Maintain the same high quality customer service so you retain clients and customers
- Stay informed! Take time out of your day to read up on the health of the US economy and abroad. This is your best defense against future fiscal woes.