

Minnesota not alone with serious budget problems

By Betsy Sundquist, Staff Writer

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While there's no denying that Minnesota is going to find itself neck-deep in a crisis when legislators start hammering out a 2010-11 budget, sometimes it helps to know that others are in the same boat.

Early projections call for Minnesota to be at least \$940 million in the hole for the next biennium – or 2.7 percent of the current general fund budget of roughly \$35 billion. That's even before inflation, demands for new spending and the ongoing economic downturn are added into the mix, according to estimates by the Minnesota Department of Finance. When those variables are added into the equation, the state's budget gap could approach \$2 billion. That ranks Minnesota as the state with the 19th highest projected budget gap.

But things could be worse.

Consider this: According to estimates compiled by the National Conference of State Legislatures (NCSL), Nevada faces the largest budget gap, percentage-wise, in fiscal 2009: \$790.8 million, which amounts to a whopping 21 percent of the general fund budget for the state.

Arizona is close to Nevada not just geographically, but also fiscally: The state is facing a \$2.05 billion budget gap in fiscal 2009, or 19.3 percent of its general fund budget.

California's projected budget gap for fiscal 2009 is \$15.2 billion, or 15 percent of its general fund budget. Alabama: \$232 million, 12.6 percent of the general fund budget, which is, according to NCSL, the biggest shortfall among all 50 states (plus Puerto Rico) when compared with fiscal 2008 appropriation levels.

Rounding out the top five is Rhode Island, with an estimated \$450 million gap, or 13.6 of the general fund budget.

But things could be better, too.

Nineteen states are projecting no budget gaps at all for fiscal 2009. Eleven more predict gaps of 3 percent or less.

The states expecting the lowest gaps are Connecticut and Hawaii, which predict gaps of 0.2 percent. Connecticut's gap could disappear and even turn into a modest surplus, the NCSL reports, depending on whether certain federal funds get deposited in fiscal 2008 or fiscal 2009.

Overall, budget gaps for all 50 states and Puerto Rico are expected to total more than \$40 billion for fiscal 2009, according to the NCSL's figures.

The NCSL's preliminary report, issued in June, noted that states without anticipated budget gaps were those that have significant portions of their tax bases tied to natural resources or other special economic circumstances.

"Anemic revenues and pressures posed by growing budget gaps set the stage for FY 2009 budget decisions," the report said. "Lawmakers were guarded regarding future revenue performance expectations and extremely cautious with spending plans."

The study found that as a rule, lawmakers – in the midst of an election year – prefer to avoid raising taxes to help close budget gaps. Instead, they have focused on cutting spending and tapping reserves to get through.

Minnesota is specifically mentioned in the report as one of the states that tapped reserve funds, noting that the state used \$500 million, or more than half of the available reserves. Nevada did the same, using \$267 million – virtually all – of its reserve fund. Massachusetts tapped its fund for \$310 million.

The report noted that a "cautious economic outlook" prompted fewer state tax changes than the previous year. Minnesota was one of four states, along with Delaware, Indiana and Maine, that increased taxes by more than 1 percent.

Minnesota is also singled out in the report for increasing its gasoline tax by 5 cents to raise \$123 million, and accelerating some business tax payments to add another \$38 million.

The NCSL report was pessimistic in summing up states' budget woes.

"Persistent problems in various sectors of the economy suggest more fiscal problems are looming," the report said. "During past economic slowdowns, states have resolved budget gaps during enactment of the budget, only to find that new gaps opened after the fiscal year began.

"There is no evidence to suggest that states have turned the corner on lackluster revenue performance, so revenues are expected to be tight. And even though states mostly avoided spending problems in fiscal 2008, it is unclear if fiscal 2009 spending plans will remain stable, especially if programs that grow during economic downturns (like Medicaid) start exceeding their budgeted levels."

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