

U.S. states suffer "unbelievable" revenue shortages

By Lisa Lambert Lisa Lambert — FRI OCT 9, 5:59 PM ET

WASHINGTON (Reuters) — The U.S. economy may be creeping toward recovery after the worst slowdown since the Great Depression, but many states see no end in sight to their diving [tax revenues](#).

Tax revenues used to pay teachers and fuel police cars continue to trail even the most pessimistic expectations, despite the cash from the [economic stimulus plan](#) pouring into state coffers.

"It's crazy. It's really just unbelievable," said Scott Pattison, executive director of the National Association of State Budget Officers, and called the states' revenue situations "close to unprecedented."

Most states had been pessimistic in forecasting their tax revenues for the 2010 fiscal year, Pattison said. So far, collections have fallen below even those low targets.

Lower tax revenues could lead to higher taxes or another sharp reduction in services if receipts do not show signs of improvement before year-end, as every state but Vermont is required by law to balance their budgets.

That could mean fewer teachers, early prisoner releases and fewer highway repairs as residents battle soaring unemployment.

States are coming off a terrible first quarter, which for most states began on July 1.

Among the worst cases is Indiana where revenue collections were 8 percent below forecast, or \$254 million lower than expected, leading state budget officials to speculate revenue could fall \$1 billion by the end of the fiscal year.

Iowa cut its fiscal 2010 revenue estimate by 8.4 percent this week. That prompted Governor Chet Cutler on Thursday to order spending reductions of 10 percent across the board.

"The fact is clear. Iowa has not spent too much; rather our revenue has fallen off by significant amounts as the result of the national economic recession," Culver said in a statement.

Last week, Mississippi Governor Haley Barbour said his state's September tax collections were 10 percent less than forecast.

"It is likely that more spending cuts will be necessary in this fiscal year to ensure a balanced state budget," Barbour said.

In California, general fund revenues for the first three months of the fiscal year were \$1.1 billion below estimates in its budget. [State Controller John Chiang](#) said on Friday.

"While there are encouraging signs that California's economy is preparing for a comeback, the recession continues to drag state revenues down," he said in a statement.

But Oregon, which collected about \$10 million below estimates for personal and corporate revenues for those two months, is seeing some hopeful signs.

"It does appear that things are stabilizing somewhat," said Josh Harwood, a senior economist at the Oregon Office of Economic Analysis.

Oregon is no longer seeing an erosion in personal income taxes, which provide the state with 80 percent to 90 percent of its general fund revenues in any year, he said.

For other states revenues are not only coming in below forecast, but have fallen steeply from the year ago period, when revenues were already depressed by the recession -- a sign of further fiscal distress for many states.

Georgia on Friday reported its September revenue fell 16 percent, of \$260 million, worse than the 14.2 percent shortfall for July, August and September from the year-earlier fiscal quarter. The state's net sales tax and use-tax revenue was off by more than 20 percent last month, according to the state revenue department.

A DIM FUTURE

In the second quarter of calendar year 2009, total state revenue was down 18 percent compared with the period in 2008, according to the National Governors Association, which projects revenue will not return to pre-recession levels until 2014 or 2015.

The American Recovery and Reinvestment Act passed in February mitigated some states' financial pain by giving them more money for Medicaid, the health-care program for the poor run by states and partially funded by the federal government. The program can eat up large portions of states' budgets.

The act also created a state fiscal stabilization fund and dedicated money to education.

"If we didn't have that money, we would have been cutting more, which is hard to believe," Pattison said.

States would like the Medicaid boost continued after the stimulus expires next year.

"The states are very, very concerned about that cliff -- they're concerned about when this recovery money stops," Pattison said.

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