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STATE FINANCIAL PROBLEMS

Ten years ago, the state experienced serious financial problems in its key funds *(see **Council Comments No. 933**, September 1, 1982). The problems were caused by overestimating revenues, underestimating spending needs, and adopting one-time accounting changes. The current financial condition of the state, as Yogi Berra said, "is deja vu all over again." (see Table 1.) In 1990-91, 1991-92 and 1992-93:

- There has been an imbalance between revenues from continuing sources and current expenditures, primarily the result of revenues falling below statutory estimates. The statutory revenue estimate satisfies the constitutional requirement that one of the appropriation acts include an itemized statement of estimated revenues. Over the three-year period, it appears that actual revenues will fall $2.2 billion short of the statutory estimates for the general fund-general purpose and school aid budgets.

- This imbalance has been filled, in large measure, by one-time, non-recurring revenue and expenditure adjustments, which have caused the state's cash position to deteriorate. Approximately $1.5 billion in one-time revenues were utilized during the three-year period.

- The 1992-93 budget still needs to be balanced, and looking to 1993-94 there are significant budget issues to be resolved including property tax relief and medicaid funding.

One measure of the financial condition of the key funds is the cash balance of these funds. As the state increases its use of one-time accounting changes, and withdraws funds from the budget stabilization fund, it depletes its cash reserves. Beginning with a small cash surplus in 1989-90, the state's cash position has fallen into monthly average cash deficits of approximately $500 million for the subsequent two fiscal years.

Until action is taken to deal with current budget problems, the state will be faced with inadequate cash to pay its bills. When a similar problem developed in 1982, the state increased the cigarette tax 10 cents per pack and added an income tax levy of 0.25 percent in 1983, as part of an additional 1.75% temporary income tax levy, and earmarked the revenues to eliminate the cash deficit and to comply with generally accepted accounting principles.

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* In this context key funds include the general fund (general purpose), the budget stabilization fund and school aid fund.

Overview

The 1990-91 fiscal year was the beginning of a turbulent period for the budget that is continuing to date. The 1990-91 budget problems were masked until after the November 1990 gubernatorial election, when the extent of the budget problems exploded on state government. Although efforts were undertaken to deal with a huge fall off in state revenues, the 1990-91 fiscal year ended with a $169 million general fund deficit. Budget problems continued to manifest themselves during the 1991-92 fiscal year requiring renewed attention by the Governor and the Legislature to prevent a 1991-92 deficit from occurring. Recent revenue estimates of executive and legislative agencies estimate a zero general fund balance for 1991-92. In addition, the 1992-93 budget that was in balance when enacted, now appears to be in deficit.

A constant theme of the three-year period has been the use of one-time revenues to balance a specific fiscal year budget. Because of the use of onetime revenues, as the state develops its 1993-94 general fund and school aid budgets, the existing program expenditure level will consume most of the revenue growth that occurs as the result of any economic recovery. If the economic recovery is modest, and absent any tax increase, the 1993-94 budget deliberations will be focused on additional attempts to find temporary solutions to budget problems, or major program reductions will have to be undertaken.

The 1993-94 budget problems will be further exacerbated by political pressure to provide property tax relief after the 1992 assessment freeze expires. Also, effective with the 1993-94 fiscal year, there will be a federal prohibition against using private funds for state medicaid matching. For three years, the state has used hospital "contributions" as a match to earn federal medicaid funds. In order to maintain the same total dollar level for medicaid in fiscal 1994, the state would have to appropriate approximately $235 million more than was appropriated in fiscal 1993.

Fiscal Year 1990-91

Because of increased needs in the social service area, the 1990-91 fiscal year general fund-general purpose and school aid budgets would have reached $10.6 billion if there had not been budget reductions. Even if the statutory revenue estimate of $10.1 billion had been realized, there would have been need for a $500 million budget reduction. However, when the financial records were closed for the fiscal year, the general fund was in deficit by $169.4 million, and the school aid fund had a surplus of one million dollars.

Other significant facts include the following:

- Actual 1990-91 statutory revenues were $1 billion below the original statutory estimate.

- One-time revenues totaling $872 million were utilized.

- Expenditure adjustments included $526 million in appropriation reductions, and an executive order reduction of $179 million.

- The average monthly cash deficit was $457 million, and a budget deficit of $168 million occurred.

Table 1

General Fund-General Purpose and School Aid Fund
1990-91, 1991-92 and 1992-93
(in millions)

	1990-91 (act.)	1991-92 (est.)	1992-93 (est.)
General Fund Revenues			
Beginning Balance	($310.3)	($169.4)	$ 0
Prior Year Reserves	128.6		
On Going Statutory Revenue	6,992.0	7,071.7	7,361.6
Budget Stabilization Fund Withdrawal	230.0	167.1	
Property Tax Credit Changes	424.9		54.0
Other Transfers	217.1	69.1	51.3
Inheritance Tax Accrual	59.0		
Accounting Changes-Income Tax Credits			220.0
Total	$7,612.3	$7,197.5	$7,686.9
School Aid Fund Revenue			
Beginning Balance	$15.0	$ 1.0	$ 0
Dedicated Revenue	2,171.0	2,220.3	2,296.1
Total	$2,186.0	$2,221.3	$2,296.1
Total Revenue	$9,798.3	$9,418.8	$9,983.0
General Fund Expenditures			
Expenditures	$7,781.6		
Appropriations		$7,789.7	$8,058.1
Executive Order Reduction		108.4	
Revenue Sharing & School Aid Delays		(345.7)	
Miscellaneous Budget Reductions		(59.9)	
Appropriation Lapses		78.2	50.0
Total	$7,781.6	$7,197.5	$8,008.1
School Aid Fund Expenditures/Appropriations	$2,185.1	$2,221.3	$2,296.1
Total Expenditures/Appropriations	$9,966.7	$9,418.8	$10,304.2
General Fund-School Aid Fund Balance	($168.4)	$0	($321.2)

Source: 1991 Comprehensive Annual Financial Report; Unpublished Department of Treasury data; Senate Fiscal Agency; CRC calculations.

Fiscal Year 1991-92

The financial situation deteriorated as the year progressed, and by the spring of 1902 there was consensus among state leaders that the state faced a $780.7 million general fund deficit. The deficit estimate would have been larger if a number of program adjustments had not been made when the original budget was adopted. The major change was the elimination of the general assistance social services program at an estimated savings of $215 million.

Financial facts of interest include the following:

- The revised statutory revenue estimate for 1991-92 is $900 million below the original statutory estimate.
- One-time revenues totaling $295 million were utilized.
- Expenditure reductions or deferrals in the amount of $514 million were imposed.
- The average monthly cash deficit was $540 million, and the budget is estimated to have a zero balance.

Fiscal Year 1992-93

Although the current fiscal year is only four months old, there are indications that the budget is in serious trouble.

- The revised statutory revenue estimate for 1992-93 is $300 million below the original statutory estimate.
- One-time revenues totaling $325 million were adopted.
- A budget deficit of $321 million is estimated, pending state action to reduce the deficit.