Fiscal Survey of the States

March 1988

National Association of State Budget Officers

National Governors' Association

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THE NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS, founded in 1945, is the principal organization for the professional development of its members; for improving the capabilities of staff and information available to state budget offices; and for development of the national fiscal and executive management policies of the National Governors' Association. It is a self-governing affiliate of the National Governors' Association. The National Association of State Budget Officers is composed of the heads of state finance departments, the states' chief budget officers, and their deputies. All other state budget office staff are associate members. Association membership is organized into four standing committees: Education and Human Resources; Financial Management, Systems, and Data Reporting; Commerce, Physical Resources, and Transportation; and Personnel Development.

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PREFACE

The *Fiscal Survey of the States* is published semi-annually by the National Association of State Budget Officers (NASBO) and the National Governors' Association (NGA). The series was started in 1977. The survey presents aggregate and individual data on the states' general fund receipts, expenditures, and balances. While not the totality of state spending, these funds are used to finance most broad-based state services, and are the most important elements in determining the fiscal health of the states. A separate survey that includes all state spending is also conducted annually.

The field survey on which this report was based was conducted by the National Association of State Budget Officers from January through March 1988. The questionnaires were completed by Governors' state budget officers in fifty states.

Fiscal 1987 numbers are actual amounts; fiscal 1988 are estimated amounts; and fiscal 1989, in most cases, reflects the budget proposal as submitted by the Governor. Fiscal 1988 will close for forty-six states on June 30, 1988. New York's fiscal year ends on March 31, 1988. Texas' fiscal year will close August 31, 1988, and Michigan's and Alabama's on September 30, 1988.

The *Fiscal Survey of the States* is the result of a cooperative effort of the National Governors' Association and the National Association of State Budget Officers. Text and data for the report were written and assembled by Karen M. Benker, Larry Dzieza, Karen Farrell, and Judy Matteucci, with additional support provided by Barbara Tymann and Arlene Preston of the National Association of State Budget Officers. Rae Young Bond of the National Governors' Association edited the survey.

EXECUTIVE SUMMARY

After last year's extraordinary number of budget balancing actions, the 1988 legislative sessions appear to be relatively uneventful. Clearly, 1988 is a beneficiary of hard budget decisions made during 1987.

Last year twenty-four states cut their budgets in mid-year; this year only eleven states approved cuts. Last year thirty-four states raised tax levels; this year only fourteen states are considering tax increases. Last year twenty-four states adopted moderate to major reforms of their tax systems. Eighteen states increased the standard deduction, seventeen states raised the personal exemption, thirteen states adopted new tax bracket structures, and twelve states lowered tax rates. These actions was taken primarily to return the $6 billion "windfall" resulting from an expanded tax base back to the taxpayers. By year's end, approximately 80 percent of the windfall had been returned to taxpayers. This year only six states may consider tax reform.

Following these budget-cutting and tax initiatives adopted in 1987, states in 1988 have elected to stay the course on expenditure and revenue policy. With an uncertain economic climate, states are reluctant to initiate major departures from current policy.

Major findings of this survey include:

- States are keeping spending under control. The projected fiscal 1988 spending increase is 6.4 percent, or 2.3 percent after inflation adjustments. Governors are proposing budget increases for fiscal 1989 of 5.9 percent, or 1.4 percent in real terms.

- Revenue growth continues in line with the growth in the economy. Revenues are expected to grow 5.6 percent in fiscal 1988 and 5.8 percent in fiscal 1989.

- No Governor is proposing a tax rate increase in personal income and sales taxes this year. Only fourteen states have proposed (in a few instances, already passed) a tax increase for fiscal 1989, with a net revenue increase of $0.8 billion to $0.9 billion.

- State ending balances continue to be lean. As a percent of expenditures, fiscal 1988 ending balances equal 1.9 percent and fiscal 1989 has a budgeted reserve of 1.5 percent. In dollar terms, the ending balances are $4.4 billion and $3.7 billion, respectively.

Other findings include:

- Thirty-six states now have established budget stabilization funds or rainy day funds, and two additional states may do so this year. Although they are widely endorsed by states, few states have been financially able to place sufficient dollars into these funds. For fiscal 1988, budget stabilization funds contain $2.3 billion, which equals 1.0 percent of expenditures. In fiscal 1989, the funds will be $2.6 billion, still 1.0 percent of expenditures.

- Education is once again a predominant budget issue. It leads the 1989 agenda in thirty-one states. Education is followed by economic development, human resources, tax reform, and fiscal stability issues as the areas most frequently listed as priorities by Governors for the coming year.

- Only eleven states implemented budget reduction plans after the budget was enacted for fiscal 1988. These reductions saved $421 million during fiscal 1988. This compares with the twenty-four states that had budget cuts totaling $3.0 billion in fiscal 1987.
- Sixteen states recommended new and expanded programs to help local governments meet their 1989 budgets. These programs distribute increased aid through a variety of mechanisms. These states are assuming programs traditionally funded by local units of government, compensating localities for property exempted from local taxation, allowing expanded revenue raising capabilities, and expanding local aid programs.
- Tax and expenditure limitations continue to be critical issues in selected states.
- As a result of overall economic conditions, twenty-seven states did not propose any increase in benefit payments for Aid to Families with Dependent Children.
- On a regional basis, the northeastern states continue to enjoy strong economic growth. Midwestern farm states and western energy states appear to have bottomed-out of their regional recessions and are beginning to see a few signs of an improving economy. Southern states are diverse: some states are experiencing robust economic growth, but for others the economic picture is substantially less rosy.

I. STATE EXPENDITURE DEVELOPMENTS

State budgets continue to show only moderate spending increases over prior years. Fiscal 1989 budgets proposed by the nation's Governors show a modest 5.9 percent growth in expenditure levels. This level is down slightly from the estimated 6.4 percent expenditure increase shown in fiscal 1988 budgets and points to continuing efforts to maintain the existing level of services in an economic climate that is decidedly unsettled.

A better indicator of the "maintenance of effort" posture being proposed in fiscal 1989 is real budget growth or the growth in budgets after adjusting for inflation. For fiscal 1989, total proposed growth in state budgets is a negligible 1.4 percent, down from the 2.3 percent growth anticipated from actual fiscal 1987 to the estimated fiscal 1988 expenditures.

States and the federal government are essentially proceeding with continuation budgets that provide for inflation adjustments coupled with marginal program expansion. Despite discussion about reducing the federal deficit, the federal budget continues to rise, although at a slower pace. Federal spending increased 5.5 percent in fiscal 1988, with the President proposing an increase of 5.7 percent for fiscal 1989 as estimated by the Congressional Budget Office (see Table 1). State spending over these three years will be slightly higher; however, states are operating with balanced budgets.

Table 1
COMPARISON OF STATE AND FEDERAL NOMINAL AND REAL ANNUAL BUDGET INCREASES, FISCAL 1979-1989

	State General Fund		*Federal*	
Fiscal Year	*Nominal Increase*	*Real Increase*	*Nominal Increase*	*Real Increase*
1989	5.9% est.	1.4% est.	5.7% est.	1.3% est.
1988	6.4 est.	2.3 est.	5.5 est.	2.8 est.
1987	6.2	2.6	1.4	0.9
1986	8.9	3.7	4.6	3.0
1985	10.2	4.6	11.1	7.5
1984	8.0	3.3	5.3	2.3
1983	-0.7	-6.3	8.4	4.7
1982	6.4	-1.1	10.0	1.5
1981	16.3	6.1	14.8	2.6
1980	10.0	-0.6	17.4	4.6
1979	10.1	1.5	9.8	1.9
1979-89 average	8.0%	1.6%	8.5%	3.0%

NOTE: The state and local government implicit price deflator was used for state expenditures in determining real changes and the federal government implicit price deflator was used for federal expenditures.

For the upcoming fiscal year, four states (Alaska, Louisiana, West Virginia, and Wyoming) are proposing budgets that are lower than the prior year's level in nominal dollars. In real terms that account for inflationary changes, twenty states are proposing fiscal 1989 budgets that are smaller than those in fiscal 1988. However, twenty-two states are proposing nominal budget increases between 5.1 to 10 percent, and six states are proposing increases over 10 percent.

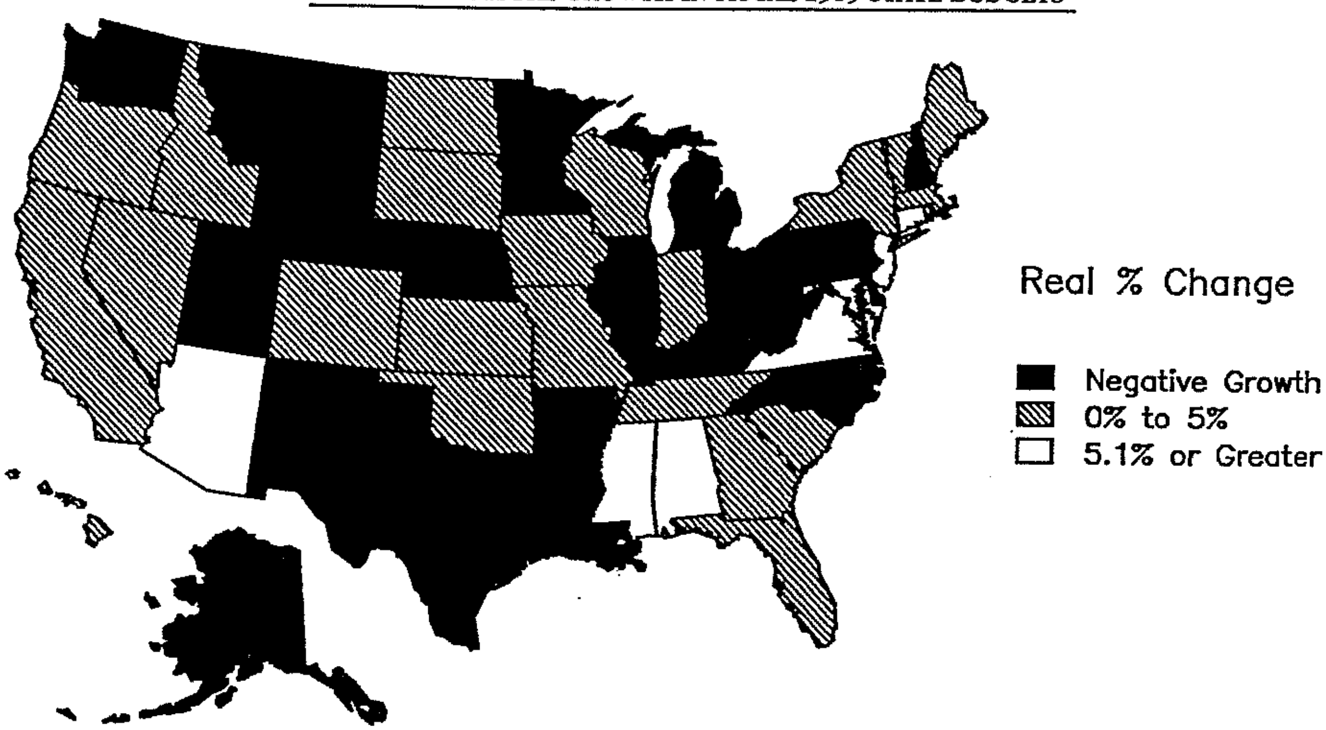
Table 2 summarizes the annual increases in general fund expenditures in both nominal and real terms since fiscal 1987. In addition, Appendix Table A-6 shows the actual, estimated, and proposed expenditures for each state and the change in rates in percentage terms. (See Map 1.)

Table 2
ANNUAL STATE GENERAL FUND EXPENDITURE INCREASES

Budget Growth Rate	*Nominal Change*			*Real Change*		
	Fiscal 87 (Actual)	*Fiscal 88 (Estimated)*	*Fiscal 89 (Proposed)*	*Fiscal 87 (Actual)*	*Fiscal 88 (Estimated)*	*Fiscal 89 (Proposed)*
Less than 0%	6	5	4	17	13	20
0.0-5.0%	17	10	18	22	22	23
5.1-10.0%	22	22	22	10	14	7
Over 10.1%	5	13	6	1	1	0
Average Growth Rate	6.2%	6.4%	5.9%	2.6%	2.3%	1.4%

NOTE: The state and local government implicit price deflator was used to change nominal dollars into real dollars.

Map 1
REAL EXPENDITURE GROWTH IN FISCAL 1989 STATE BUDGETS



Governors' Budget Priorities

Education is once again a predominant budget issue. It heads the 1989 agenda in thirty-one of the states. Four of those states (Idaho, Mississippi, South Dakota, and Tennessee) plan to focus on teacher salaries, while New Mexico and South Carolina list higher education issues as one of their top priorities.

Education is followed by economic development, human resources, tax reform, and fiscal stability issues as the most frequently listed priorities by Governors for the coming year. The human resources programs, while included under one grouping in this survey, are far more diverse than it appears at first glance. Of the fifteen states listing human resources programs as a top priority for the coming year, Alabama, Delaware, and Idaho are focusing on prenatal/infant mortality issues, while Iowa, Maine, and Missouri are looking at welfare reform programs.

Table 3
GOVERNORS' BUDGET PRIORITIES FOR FISCAL 1989
(Three Issues per State)

EDUCATION (31 states)
Alabama, Arkansas, California, Delaware, Hawaii, Idaho (teacher salary equity), Iowa (property tax relief), Kansas, Kentucky, Maine, Maryland (establish school for sciences and mathematics), Minnesota, Mississippi (teacher salaries), Missouri, New Jersey, New Mexico (higher education), New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina (higher education), South Dakota (teacher salaries), Tennessee (teacher salaries), Utah, Vermont (school construction bond), Virginia, Washington, and Wyoming.

ECONOMIC DEVELOPMENT (22 states)
Alabama, Arizona, California, Colorado, Georgia, Hawaii, Kentucky, Maine, Maryland, Minnesota, Missouri, New Jersey, New Mexico, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Utah, Vermont, Virginia, and Wyoming.

HUMAN RESOURCES PROGRAMS (15 states)
Alabama (infant mortality), Arizona, Delaware (health issues for children and pregnant women), Florida, Hawaii, Idaho (prenatal care), Illinois, Iowa (welfare reform), Kentucky, Maine (welfare reform), Massachusetts (health care for the uninsured, homelessness, and day care), Missouri (welfare reform), New York (AIDS and Medicaid eligibility expansion), Tennessee (indigent health care), and Virginia.

TAX REFORM/TAX CHANGES (10 states)
Arkansas, Iowa, Kansas, Louisiana, Maine, Michigan, Minnesota, Oklahoma, West Virginia, and Wisconsin.

FISCAL STABILITY (6 states)
Idaho, Illinois, Kansas, Louisiana, Nevada, and West Virginia.

OTHER ISSUES
Employment Stabilization Capital Projects: Alaska
War on Drugs: Arizona
Public Safety: California, Illinois
Housing: Connecticut
Environment: Connecticut, Delaware, New Jersey, Pennsylvania, Rhode Island, and Vermont.
Urban Environment: Florida
School Construction: Georgia
Highways: Colorado, Georgia
Government Reorganization, Streamlining, and Efficiency: Mississippi, New Mexico, Texas, and Washington
Budget Format Reform: Mississippi
Corrections: Colorado, North Carolina, Oregon, Utah
Mass Transit: Maryland
State Employees: Alaska, Oklahoma, South Carolina, Texas
Juvenile Justice: South Carolina
Aid to Local Governments: South Dakota, Wyoming

Biennial Budgets

The March 1988 fiscal survey differentiates, for the first time, between states that use annual budgeting systems and states that use biennial systems (see Appendices A-1 through A-6). This change should provide more equitable comparisons of expenditure data between states with biennial budget systems and states with annual budgets. It also should determine, over time, whether there are differences in budgeting patterns that can be identified and explained.

Twenty-one states use biennial budgeting systems and 80 percent of those states budget each fiscal year separately. Four states (North Dakota, Oregon, Washington, and Wyoming) budget for a two-year period with no distinction between fiscal years. Perhaps more importantly, about half of the states with biennial budgets appropriate capital construction budgets for two years at a time (or for the life of the project), which could tend to distort the year-to-year expenditure comparisons of those states. In addition, these states tend to appropriate other one-time expenditures (for example, Nevada appropriates salary increases, certain human service programs, and forest fire suppression costs for two years at a time, while Virginia makes a biennial appropriation for its revenue reserve and economic contingency funds in the first year of their biennium), which, when compared with expenditure rate changes in states, could lead to a misinterpretation of the comparable growth rates for those states.

Another spending distortion that occurs for biennial states is that Governors and legislatures adopt new spending initiatives for the first year of the budget, and the second year is usually only a continuation budget. Therefore, large budget increases will appear the first year, followed by small increases in the second.

Of the twenty-one states with biennial budgets, all but three states (Kentucky, Virginia, and Wyoming) begin their budget period in odd-numbered years. Accordingly, fiscal 1988 and 1989 budgets for most biennial states were approved and signed into law in 1987. Supplemental appropriations and other adjustments are routinely made during the interim legislative session between budget cycles.

State Workforce Issues

Personnel costs are one of the largest components of a state budget, and changes in the size of the workforce or the salary levels for state employees have a direct impact on state expenditures.

Salaries. Across-the-board salary increases proposed in fiscal 1989 range from a high of 6 percent on an annualized basis, to no increases. The highest increases are provided by Hawaii, New Hampshire, and Tennessee. In Tennessee, the size of the increase will vary with the higher amounts going to lower-paid employees. Seventeen states are proposing across-the-board salary increases in the 3.0 percent - 4.0 percent range, although some of these increases are being phased in later during the fiscal year. In addition, many states provide for merit and step increases. However, eight states propose no across-the-board increases for state employees. These states are Arizona, Arkansas, Louisiana, Mississippi, Missouri, Montana, Utah, and West Virginia.

Three states (Maryland, Mississippi, and Rhode Island) reported that classification or grade restructuring studies were underway. The proposed salary increases plus additional explanations are shown by state in Appendix Table A-7.

Other Compensation Issues. Five states (Colorado, Iowa, Michigan, New Mexico, and Pennsylvania) have implemented early retirement plans since the last fiscal survey was taken, which have resulted in significant budget savings. West Virginia is currently considering a plan. Missouri instituted a plan that allows employees to choose from a variety of benefits resulting in $2.5 million in budget savings, and seven states have implemented workforce reductions through hiring freezes, layoffs, privatization programs, statutory employee caps, or attrition.

Budget Adjustments

Eleven states (Arizona, Colorado, Hawaii, Kentucky, Louisiana, Michigan, Missouri, North Dakota, Washington, West Virginia, and Wyoming) implemented budget reduction plans that saved an estimated $421 million during fiscal 1988. Most budget reductions were selectively imposed, generally exempting entitlement programs and statutorily mandated expenditures. In seven of the eleven states, the action to reduce spending was taken by the Governor. There is a possibility that North Dakota's budget reductions may be reinstituted, depending on the outcome of a June 1988 ballot revenue measure. For comparison purposes, twenty-four states took action last year to cut budgets in mid-year.

Fiscal 1988 cuts are relatively small in size. The largest cut occurred in Kentucky, which reduced expenditures by 2.9 percent to save $94 million. Cuts of less than 1 percent occurred in Michigan, North Dakota, and West Virginia. Table 4 (see following page) summarizes the budget reduction action taken by the states during fiscal 1988.

Other budget adjustments were adopted by Florida, Illinois, Kentucky, Texas, and West Virginia, using a combination of borrowing from internal funds, acquiring short-term cash management notes, or delaying certain payments (tax refund or assistance payments) to meet budgetary goals during the year. Louisiana imposed a selective budget reduction, delayed income tax refunds, and borrowed $700 million from internal state funds during the year to meet its budget needs.

Other Expenditure Issues

The survey also requested information concerning two specific expenditure areas within state budgets.

Aid to Families with Dependent Children (AFDC) Benefit Increases. Only three states (Alaska, California, and Connecticut) provide automatic cost-of-living adjustments to the monthly welfare stipend. All other states must appropriate increases. For fiscal 1989, eighteen states are proposing to raise AFDC benefits ranging from 1 percent to 10 percent. Twenty-seven states did not propose an increase in benefit payments. In addition, Maine is proposing an increase in its standard of need. Table 5 specifies the proposed changes.

Table 4
STATE BUDGET CUTS ADOPTED IN FISCAL 1988
AFTER THE APPROPRIATIONS BILL HAD PASSED

State	*Amount (in mil.)*	*Cut as % of G.F. Expenditures*	*Action Taken By*	*Selective vs. Across the Board*	*Dates Enacted*	*Notes*
AZ	$61	2.4%	Governor	Selective	Pending	Legislature currently reviewing proposal; would exempt entitlement programs and health care program costs.
CO	24	1.1	Governor	Selective	1/88	Legislature may enact additional cuts. Cuts exclude public safety, agriculture, mental health, and developmental disabilities.
HI	34	1.9	Governor	Selective	7/87	Exempted aid to counties, fixed charges, repairs, and maintenance.
KY	94	2.9	Governor	Selective	7/87 1/88	Exempted school district payments.
LA	42	1.0	Governor	Selective	12/87 1/88	
MI	48	0.7	Legislature	ATB	12/87	
MO	70	2.0	Governor	ATB	6/87 11/87	Exempted aid to schools, Medicaid, statutory disbursements, selected higher education, and mental health programs.
ND	3	0.6	Legislature	ATB	10/87	Funds may be reinstated pending the outcome of a June 1988 ballot issue on a tax measure.
WA	18	0.4	Governor	Selective	7/87	Only agencies with directors appointed by the Governor were asked to comply.
WV	8	0.1	Legislature	Selective	2/88	
WY	19	2.5	Legislature	Both	3/87	Cuts are for Fiscal 1987-88 biennium.

Table 5
COST OF LIVING INCREASES FOR AID TO FAMILIES WITH DEPENDENT CHILDREN
FISCAL 1988 AND 1989

State	*Fiscal 1988*	*Proposed 1989*	*State*	*Fiscal 1988*	*Proposed 1989*
Alabama	0.0%	0.0%	Montana	0.0%	N/A
Alaska*	2.0	4.0	Nebraska	0.0	0.0
Arizona	0.0	0.0	Nevada	14.0*	0.0
Arkansas	6.8	Pending	New Hampshire	2.0	0.0
California*	2.6	5.2	New Jersey	5.0	0.0
Colorado	2.9*	N/A	New Mexico	2.0	0.0
Connecticut*	1.9*	3.6	New York	8.0*	0.0
Delaware	0.0	*	North Carolina	12.2	N/A
Florida	4.0*	4.5	North Dakota	4.0	4.0
Georgia	2.5	10.0	Ohio	0.0	4.0*
Hawaii	0.0	0.0	Oklahoma	0.0	10.0
Idaho	0.0	0.0	Oregon	4.0	2.0
Illinois	0.0	0.0	Pennsylvania	5.0*	0.0
Indiana	12.5	Pending	Rhode Island	4.0	4.0
Iowa	0.0	0.0	South Carolina	0.0	0.0
Kansas	1.5	0.0	South Dakota	0.0	0.0
Kentucky	0.0	5.0	Tennessee	2.7	3.0
Louisiana	0.0	0.0	Texas	0.0	0.0
Maine	2.5	10.0*	Utah	0.0	0.0
Maryland	4.0	5.0	Vermont	2.0	3.0
Massachusetts	7.0	5.5	Virginia	0.0	0.0
Michigan	3.0	0.0	Washington	0.0	0.0
Minnesota	0.0	0.0	West Virginia	N/A	0.0
Mississippi	0.0	0.0	Wisconsin	0.0	0.0
Missouri	1.0	1.0	Wyoming	0.0	0.0

NOTES:

Alaska:	Automatic cost of living adjustments tied to the Social Security Administration's COLA.
California:	Automatic cost of living adjustments tied to Consumer Needs Index, December to December.
Colorado:	Increase effective January 1988.
Connecticut:	Automatic cost of living adjustments tied to Consumer Price Index–Urban Wage Earners.
Delaware:	Increase varies depending on size of family.
Florida:	Increase effective January 1988.
Maine:	Increase of 10% in the Standard of Need.
Nevada:	For recipients with housing allowances, the increase is 5.3%.
Ohio:	Increase effective January 1989.
Pennsylvania:	Increase effective January 1988.

Aid to Local Governments. Sixteen states want to add programs to help local governments meet their 1989 budgets. (See Table 6.) These programs distribute increased aid through a variety of mechanisms. These states are assuming programs traditionally funded by local units of government, compensating localities for property exempted from local taxation or removal from the tax rolls, allowing tax increases or relaxing local tax reductions, and expanding local aid programs.

TABLE 6
GOVERNORS' PROPOSALS TO AID LOCAL GOVERNMENT, FISCAL 1989

California
Appropriate $370 million for support of trial courts and $15.3 million for a matching grant program.

Connecticut
Increase payment in lieu of taxes for correctional facilities.

Idaho
Provide local governments with $8.6 million as their share (32.33 percent) of a recommended 5 percent increase in motor fuel tax.

Massachusetts
Appropriate $208.3 million in new needs-based aid to cities and towns.
Assume financial responsibility for county jails (state will be liable for all increases in costs).

Minnesota
Provide for state to take over 100 percent of non-federal share of income maintenance costs.
Appropriate new aid for cities.

Missouri
Adopt Rural Economic Development Challenge Grants.
Reduce two-thirds voter approval requirement for local bond issues.
Propose Missouri Main Street program.

Montana
Enacted a 4 percent accommodation tax beginning in fiscal 1988. Some of these revenues will aid local governments in tourism promotion.

New Hampshire
Provide aid for a homeless program.

New Jersey
Increase aid to local government by $510 million, with the largest increase of $310 million for school districts and $149 million for Medicaid.

Rhode Island
Expand reimbursement of tax-exempt property.
Increase assistance for roads.
Expand educational aid.

South Carolina
The House passed a Local Government Finance Act last session allowing local governments the option to levy a 1 percent sales tax. The proposal is pending in the Senate.

Tennessee
Pay 100 percent of teacher pay raises.

Utah
Assume responsibility for the court system with the fees and fines transferred to the state, which will cover first year expenses; however, future costs will not be covered and state will supplement with state funds.

Vermont
Assist with Lake Champlain water quality and sewage abatement.

Virginia
Increase the state share of elementary-secondary education costs from 50 percent to 52 percent and provide more equalization of state payments based on ability to pay.
Provide an additional $65 million to address unmet needs for community-based mental health, mental retardation, and substance abuse services.
Provide $45 million to establish a new housing program to include housing rehabilitation loans, home purchase assistance, a deferred payment loan plan for new multi-family housing, and programs to shelter the homeless.
Create a program to promote economic development in Southwest Virginia and other distressed communities through the construction of industrial parks.

West Virginia
Grant home rule to local governments.

Wisconsin
Increased school aid to be financed by sales tax base expansion, coupled with changes in school aid formula, restructuring of property tax credits, and limits on local government expenditures and tax levies.

Wyoming
Increase revenues directed to local government: $8 million from cigarette tax increase for fiscal 1989-90 biennium; $7.6 million from out-of-state sales tax distribution; $6 million from severance tax and mineral royalties.

Tax and Expenditure Limitations

Twenty states have statutory provisions or constitutional amendments that limit annual expenditure increases through a formula that determines how much a state is allowed to spend each year. These are called tax and expenditure limitations, or TELs. Spending ceilings are usually determined by such factors as annual increases in the consumer price index, state personal income, or state population.

Tax and expenditure limitations were products of the tax revolt that occurred in the late 1970s. Although the initial fever pitch of tax cutting has decreased considerably, each year new methods to control state and local government spending are proposed. Some of the limitations set ten years ago have now kicked into effect for the first time.

California adopted its limitation in 1979, a year after Proposition 13. The limit was triggered for the first time last year, which led the Governor and legislature to adopt a $1.1 billion tax rebate. Efforts are underway to place two citizen initiatives on the June 1988 ballot that would loosen the constitutional limit. Public sentiment in California appears to be building for higher state spending in education and transportation.

Oregon also reached its expenditure limit last year and temporarily exempted certain appropriations from the limit. The Governor is currently studying the issue. A citizen initiative may materialize to place the spending limit in the state constitution, thereby making it more difficult for the state to exceed the ceiling.

The Governor in Wisconsin has proposed a new limit for both state and local spending. The local limit would freeze property taxes for several years and then later allow increases equal to the consumer price index (CPI). For state government, the limit for the first three years would be tied to the CPI; in subsequent years, growth would be held to changes in the state per capita personal income.

New Jersey was the first state to adopt a tax and expenditure limitation in 1976, but it later expired. There is some interest in the legislature to reenact the limitation this year.

II. STATE REVENUE DEVELOPMENTS

The 1988 legislative sessions promise to be uneventful on the tax front. This is in sharp contrast to 1987, when thirty-two states had to determine whether to keep or return the income tax "windfall" arising from federal tax reform; when twenty-four states made moderate to major reforms of their income tax system; and when thirty-four states raised tax levels. In addition, other states and the business community watched Florida closely in 1987 as it adopted and later repealed a sales tax on services.

After the tremendous amount of change in state tax rates and tax bases in 1987, it is to be expected that the following year's activity will be quiet in comparison.

Annual Revenue Growth

As a result of state balanced budget mandates, the growth in revenues and the growth in expenditures closely match. In fiscal 1987, revenue growth was slightly higher than expenditures, with rates of 8.2 percent and 6.2 percent, respectively. For fiscal 1988, revenue growth of 5.6 percent trails slightly behind expenditure growth of 6.4 percent. And for the upcoming year, forecasts show almost identical revenues and expenditure increases of 5.8 percent and 5.9 percent, respectively.

Only three states (Oregon, West Virginia, and Wyoming) are reporting receiving less revenue in fiscal 1988 than the prior year. In Oregon's case, this represents a tax cut; however, for Wyoming it is more of a reflection of an unstable energy economy. Projections for fiscal 1989 indicate five states with lower revenue collections than in fiscal 1988 (Alaska, Louisiana, Minnesota, New Hampshire, and Wyoming). Again, three of these states are highly dependent upon the market price of oil and natural gas.

Outlook for National and State Economies

State revenue growth is a direct reflection of the national economy. As the gross national product (GNP) changes, so do state tax collections. Most economists are forecasting real GNP growth of about 2 percent in 1988, down markedly from the 1987 growth rate of 3.8 percent. Some economists are predicting a recession in the near future as the long-running economic expansion that began in 1983 comes to an end; however, there is no consensus among economists as to what to expect in the upcoming year.

States based their 1989 revenue predictions on a variety of GNP forecasts. The majority, twenty-six states, predicted that real GNP will grow between 2 and 3 percent; three states expected almost no growth; ten states forecasted growth of 1 to 2 percent; and five states chose the optimistic forecast that the GNP would grow 3 percent or more. The only regional trend in this survey response was that six out of eleven southwestern states expect a poor economy in which the GNP grows less than 2 percent.

States were also asked whether their fiscal 1989 revenue/economic forecasts showed state personal income growing faster, slower, or at the same rate as in fiscal 1988. The results are inconclusive, showing states almost evenly divided between the three options. Eighteen states expect personal income to increase faster in the upcoming fiscal year than in fiscal 1988; fourteen states expect slower growth; and fifteen states expect the same level of growth. Once again, regional trends are hard to find; however, eight out of ten southeastern states expect the same or slower state growth, while three out of four southwestern states predict economic improvement.

Revenue Collections for Fiscal 1988

The vast majority of states report that total revenue collections for fiscal 1988 are either on target or above projections used when the budget was adopted. Twenty-four states are above the original revenue forecast and nineteen states are on target, while only seven states expect to end the fiscal year below their forecasts. Appendix Table A-8 shows how each state reported.

Overall, twenty-one states are experiencing higher than expected personal income tax collections. This could be attributed partly to the major overhaul of income tax systems last year and the unknown factor of how taxpayers will alter investment and spending practices as a result of the tax changes. Only seven states show personal income tax collections lower than their budget projections. Numerous states are reporting unusual amounts of capital gains realizations due to federal tax law changes. Major changes in the tax base make it difficult for states to forecast income tax revenues for tax years 1987 and 1988.

As another result of federal tax reform, several states have reported changes in their income tax collections due to altered withholding patterns. Because federal reform required taxpayers to fill out new W-4 forms, state income tax collection patterns have changed. Colorado and Utah reported that taxpayers appear to be voluntarily overwithholding, while Ohio and Oregon are experiencing larger than anticipated payments of quarterly estimated taxes.

On the sales tax side, current projections compared to original estimates are almost evenly divided between the categories of above original estimate, below, or estimates are unchanged. (See Appendix Table A-8 for more details.)

National retail sales, which affect state sales tax collections, were slightly better than expected, especially in light of the October 19 stock market crash and predictions of a poor Christmas retail season. This grim scenario did not materialize, although consumer spending has slowed down significantly from the highs in the early part of the current economic expansion cycle.

Did the stock market crash affect state fiscal policy? Only five states noted that they expect slight modifications in policy for the upcoming year. Florida and Washington adjusted their spending plans in anticipation of reduced revenues. Both of these states have no personal income tax and rely heavily on sales tax revenues. Tennessee will take the stock market crash into consideration when setting the state pension contribution rates for the two years beginning in fiscal 1989. On the other hand, Massachusetts expects a second wave of capital gains realizations at the end of 1987 that may boost revenues. And in a situation unique to New York, forecasters there have incorporated into their revenue estimate projected layoffs and bonus reductions in the financial services industry centered in New York City. However, overall, most states do not expect the current condition of Wall Street to affect state finance.

A Review of State Tax Reform

State income tax reform swept the country last year in response to the federal 1986 Tax Reform Act. As a result, eighteen states increased the standard deduction, seventeen states raised the personal exemption, thirteen states adopted a new tax bracket structure, and twelve states lowered tax rates. These actions were taken primarily to return the $6 billion "windfall" resulting from an expanded tax base back to the taxpayers. By year's end, 78 percent of the windfall, or $4.7 billion, went back to taxpayers and not state treasuries. In addition to the windfall issue, state tax reform made many state tax structures more fair by alleviating the tax burden on the state's lower-income citizens. Over the years, inflation and other economic factors distorted state income tax systems, and reform measures attempted to correct these distortions.

Despite all the tax changes occurring last year, a few states had postponed action and will deal with tax reform this year. In Arizona, Iowa, and Maine, temporary measures were taken to resolve these tax issues. It is likely that Iowa will make the temporary changes permanent in the 1988 legislative session and that Arizona will continue the temporary action for the short term. However, in Maine, a tax study commission is recommending that the state collapse eight tax brackets to only four, decrease the top tax rate from 10 percent to 8 percent, and revert the personal exemption and standard deduction to a tax credit.

Kentucky and Massachusetts did not change their tax systems last year in response to federal tax reform. In Massachusetts, conforming to the new federal tax base was not a priority since the state tax base is substantially different from the federal base. However, this year the proposal to conform where applicable will be considered. It would create a relatively small $67 million revenue gain to the state. As for Kentucky, the state had no legislative session last year and debate has begun in the 1988 session as to whether any changes are necessary.

Kansas is also seriously considering reform. Since the state automatically conforms to the federal base, a $143 million "windfall" accrued to the state last year. In the meantime, the Governor established a tax reform commission to recommend changes to be considered in 1988. As a result, the Governor proposes to return $21 million of the windfall to the taxpayers, while reducing eight tax brackets to two with rates of 4.15 percent and 5.4 percent, increase the standard deduction and personal exemption, and eliminate the deduction for federal taxes.

Alabama is the only other state where a serious tax reform measure is pending this year. However, the Governor is concerned that the issue may detract from his primary agenda item of education reform.

In summary, considerable tax reform was undertaken in last year's legislative session, so just a handful of states are considering the issue in 1988. In the near future, some states may make minor readjustments to their tax systems, but for now the tax reform wave appears to be nearing its end.

Proposed Fiscal 1988 Tax Changes

As evidence that 1988 will be uneventful tax year for states, there are no gubernatorial proposals to increase the tax rate for sales or income taxes at this time. This is highly unusual, since even in quiet years, several states raise one of the two main revenue sources in state finance. Most budget stabilizing action took place last year via budget cutbacks and tax increases. This year is a beneficiary of hard actions taken in 1987.

Another check on government tax increases may be several citizen tax initiatives that are beginning to circulate and may appear on the 1988 ballot. Petitions may soon circulate in California, Colorado, Montana, Oregon, and Utah.

Twelve states have proposed and three states have already adopted tax increases for fiscal 1988, amounting to a modest $800 million to $900 million in new net tax revenues. As compared to last year, thirty-four states raised taxes for a net gain of $6 billion. Most of the activity this year centers on continued broadening of the base of sales and income taxes, and several states are proposing increases in gasoline excise taxes. (See Appendix Table A-9 for individual state tax proposals.) Table 7, on the following page, provides historical information for comparison purposes on the size of state tax changes since fiscal 1964.

Personal Income Taxes. Vermont is one of two states proposing a tax rate decrease, reducing the rate from 25 percent of federal tax liability to 24 percent for the 1988 tax year. Coupled with the adoption of an earned income tax credit, the state will decrease income taxes by $8.5 million. Oklahoma is considering lowering the top rate from 17 percent to 10 percent under one method of tax calculation, and also proposing a new low-income senior citizen exemption, for a total state loss of $4 million. In addition, several states have phased in personal income tax changes that will go into effect this year.

To gain revenue, four states will include more income as taxable to broaden the base. Arizona proposes to eliminate a renters' credit; Michigan's tax base will include lottery winnings and military pay, and will limit the property tax circuitbreaker to be used for additional school funding; New Mexico will permanently repeal certain credit provisions; and Wisconsin will reduce its two-earner credit for married taxpayers.

Business Taxes. Relatively minor tax base changes are being proposed in Arizona, Idaho, Kansas, and Michigan for a revenue gain. Rhode Island is proposing to eliminate the net worth tax for corporations, lowering state tax collections by $2.9 million.

Sales Taxes. South Dakota will allow the sales tax to decrease from 5 percent to 4 percent earlier than originally scheduled. Last year the sales tax was raised to fund an economic development program; once $40 million accrued to the fund, the temporary tax increase was lifted.

Kansas will exempt business machinery and equipment from the sales tax. Arizona and Washington will extend the sales tax base to some new goods; Idaho wants to repeal the automobile trade-in exemption and tax automobile and miscellaneous repair services; and Wisconsin may extend the sales tax to some real estate rentals, consumer utilities during winter months (the state already taxes non-winter utilities), and sewerage and septic services.

Cigarette Taxes. The Iowa legislature has already passed a tax increase on cigarettes, raising the rate from 26 cents per pack to 34 cents. The top rate is scheduled to decrease to 31 cents next year. The Governor originally proposed increasing the tax to 38 cents per pack. Wyoming's Governor submitted a proposal to increase the cigarette tax from 8 cents per pack to 20 cents, and West Virginia is considering a hike from 17 cents per pack to 22 cents.

Motor Fuel Taxes. New Jersey acted in January to raise the motor fuel tax from 8 cents per gallon to 10.5 cents and South Dakota acted in March to increase the tax from 13 cents to 18 cents per gallon. Seven pending proposals include: Idaho, from 14.5 cents per gallon to 19.5 cents; Maine, from 14 cents to 19 cents; Maryland, from 18.5 cents to 22 cents; West Virginia, from 10.5 cents to 15.5 cents; Indiana, gasoline tax from 14 cents to 15 cents; Vermont, gasoline tax from 13 cents to 15 cents and diesel tax from 14 cents to 16 cents; and Iowa, increasing from 16 cents per gallon to 18 cents in 1988 and 20 cents the following year and diesel 18.5 cents per gallon to 20.5 cents in 1988 and 22.5 cents the following year.

Table 7
SOURCES OF INCREASES IN STATE TAX COLLECTIONS, FISCAL 1964-1989

Fiscal Year	*Total Tax Revenue Collection ($ in billions)*	*$ Change in Total Tax Revenue ($ in billions)*	*% Change in Tax Revenue* [1]	*Net Change Resulting From Political Actions* [2] *(in billions)*	*Change Resulting From Economic Factors* [3] *(in billions)*
1989	N/A	N/A	N/A	$0.8 est.	N/A
1988	N/A	N/A	N/A	6.0	N/A
1987	$246.6	$18.5	8.1%	0.6	$17.9
1986	228.1	12.8	5.9	-1.1	13.9
1985	215.3	18.3	9.3	0.9	17.4
1984	197.0	25.6	14.9	10.1	15.5
1983	171.4	8.8	5.4	3.5	5.3
1982	162.7	12.9	8.6	3.8	9.1
1981	149.7	12.7	9.2	0.4	12.3
1980	137.1	12.1	9.8	-2.0	14.1
1979	125.0	11.7	10.3	-2.3	14.0
1978	113.3	12.2	12.0	0.5	11.7
1977	101.1	11.8	13.3	1.0	10.8
1976	89.3	9.1	11.4	1.0	8.1
1975	80.2	5.9	8.0	-0.4	6.3
1974	74.2	6.1	9.0	-0.5	6.6
1973	68.1	8.2	13.7	0.9	7.3
1972	59.9	8.3	16.2	5.0	3.3
1971	51.5	3.6	7.5	.8	2.8
1970	48.0	6.0	14.4	4.0	2.0
1969	41.9	5.5	15.2	1.3	4.2
1968	36.4	4.5	14.1	2.5	2.0
1967	31.9	2.5	8.7	0.5	2.0
1966	29.4	3.3	12.5	1.3	2.0
1965	26.1	1.9	7.8	0.1	1.8
1964	24.2	2.1	9.6	1.0	1.1

NOTES:
1/ Increase in actual tax collections divided by previous year collections.

2/ Political action includes discretionary legislative actions such as adopting or repealing a tax, raising or lowering a tax rate, and changing the tax base. Does not include administrative tax adjustments or changes in tax collection procedures. Generally does include temporary taxes that were made permanent (e.g.: if a state adopted a one-year temporary tax increase in 1982 and then extended it in 1983, and made it permanent in 1984, then the tax increase was counted for three years because it required legislative action to maintain a rate that was scheduled to decrease). If a tax change is phased in over several years, only the first year of the tax change is counted. Figures in this column represent legislative tax changes that resulted from actions passed in the prior legislative session (e.g.: Fiscal 1989 tax changes were passed in the 1988 session); therefore, these figures represent revenue projections presented to legislators when they passed the tax change.

3/ Economic growth (or decline) and inflation's effect on revenue growth.

SOURCE: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1985-86 Edition, p. 77, based on data from the Tax Foundation and the National Conference of State Legislatures. Fiscal 1988 and 1989 data provided by the National Association of State Budget Officers.

Miscellaneous Taxes. Idaho and Michigan propose increases in the insurance premium tax. Iowa and Wyoming are interested in alcohol beverage tax hikes. South Carolina intends to raise its low-level radioactive waste disposal tax; Vermont proposes increases in automobile registration fees and realty transfer tax; and West Virginia wants to raise the soft drink tax. Both Mississippi and Minnesota may consider lottery legislation.

III. YEAR-END GENERAL FUND BALANCES

The size of the aggregate ending balance of state general funds is one way to measure the fiscal health of the states. The size of the ending balance for an individual state can be misleading if looked at in isolation, and it is not always a good comparative measure of long-term fiscal health. However, when looked at in the aggregate, the total provides a good indication of the overall economic fortune of the states.

Since 1985, year-end balances have been declining slightly every year. For fiscal 1987, the actual ending balance is $4.7 billion, which equals 2.1 percent of total expenditures. For fiscal 1988, the estimated figure is $4.4 billion, or 1.9 percent. The Governors' proposed budgets for fiscal 1989 project ending balances totaling $3.7 billion, which is 1.5 percent of total expenditures.

The size of ending balances differs among the states. Louisiana and Texas ended 1987 with deficits. These oil-producing states experienced economic shock with the decline in oil prices and production about eighteen months ago. If these states were excluded from aggregate ending balance figures, the fiscal 1987 total would rise to $6 billion. Texas has turned to short-term borrowing to help ease cash-flow problems until new authorized revenues come into the treasury to eliminate the deficit. Louisiana has adopted a four-year plan to erase the deficit using oil and gas bonuses and other windfalls.

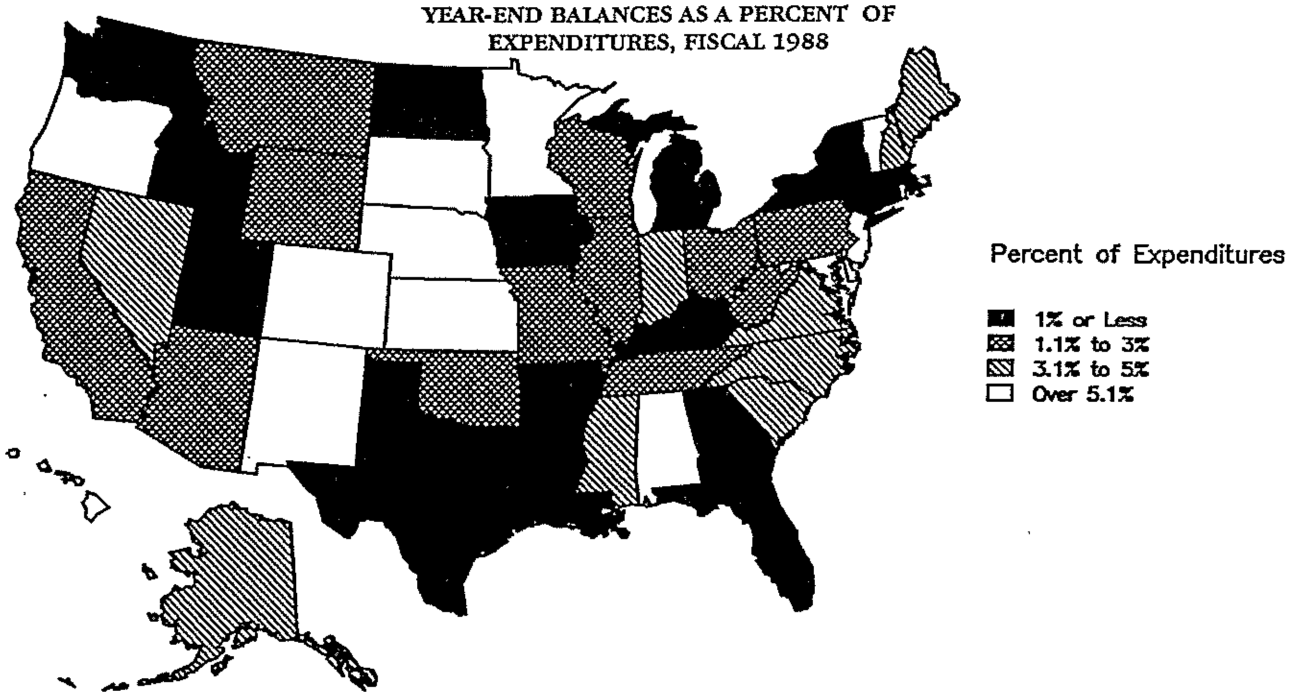
Louisiana, North Dakota, Texas, and Washington also expect deficits in fiscal 1988. The negative balances in North Dakota and Washington are quite small and occur as a result of biennial budgeting where the budget is required to be balanced at the end of the two-year budget period. If the states posting deficits were not included, the aggregate ending balance in fiscal 1988 would increase from $4.4 billion to $6 billion. Louisiana is the only state projecting a deficit in fiscal 1989.

About half of the states are operating with thin margins. Twenty-seven states are projecting fiscal 1988 ending balances of 3 percent or less, increasing to thirty-four states in fiscal 1989 (see Table 8 and Map 2). On the positive side, fourteen states are forecasting ending balances of 5 percent or more in fiscal 1988 and nine states in fiscal 1989.

Table 8
GENERAL FUND YEAR-END BALANCES AS A PERCENTAGE OF EXPENDITURES

	Fiscal 1987 Actual (# of States)	*Fiscal 1988 Estimated (# of States)*	*Fiscal 1989 Proposed (# of States)*
1.0% or less	14	15	25
1.1% - 3.0%	12	12	9
3.1% - 5.0%	9	9	7
Over 5.1%	15	14	9
Average Percentage	2.1	1.9	1.5

Map 2
YEAR-END BALANCES AS A PERCENT OF EXPENDITURES, FISCAL 1988



In fiscal 1988, the combined surpluses of California, Hawaii, and New Jersey make up 55 percent of the estimated aggregate ending balance. California and Hawaii are included in the group for fiscal 1989, along with Massachusetts, representing 53 percent of the aggregate total. Although California maintains a large dollar balance, as a percentage of its own expenditures in fiscal 1988 it represents only 2.9 percent.

Table 9, on the following page, provides the historical background for aggregate state year-end balances since fiscal 1978. The high point in ending balances came in fiscal 1980 when balances equaled 9 percent of expenditures (see Table 9 and Graph 1). The low point occurred in fiscal 1983, during the recession, when balances dipped to 1.3 percent of spending. In fiscal 1985, ending balances were 4.3 percent of expenditures. Since that time, balances have decreased, although as a percentage they have started to stabilize at an average of 1.8 percent for fiscal 1987, 1988, and 1989. Also since 1985, more and more states have been establishing budget stabilization funds. Possibly, funds are being set aside in rainy day funds, instead of being counted as ending balances.

A comparison of ending fund balances projected for 1987 and 1988 in the last three fiscal surveys shows that the actual ending balance or the nearest estimate in each year was slightly higher than the projection. In March 1987, using the Governors' proposed budgets for fiscal 1988 in the aggregate, ending fund balances were projected to be $3.4 billion, while budget stabilization funds were to be $2.2 billion. The September 1987 Fiscal Survey showed that the appropriated figures left a $3.0 billion aggregate ending balance and $2.3 billion budget stabilization fund. The current survey indicates that ending fund balances for fiscal 1988 should total $4.4 billion and budget stabilization funds will be $2.3 billion.

A similar pattern developed for fiscal 1987. The March 1987 survey estimated $1.6 billion for aggregate ending balances. Those estimates were revised in the September 1987 survey, showing estimated ending balances of $3.5 billion. The actual figures reported in the most recent survey indicate ending balances of $4.7 billion. Budget stabilization fund totals found in the three different surveys were $2.0 billion, $1.9 billion and $2.0 billion, respectively. These figures do not represent any significant change.

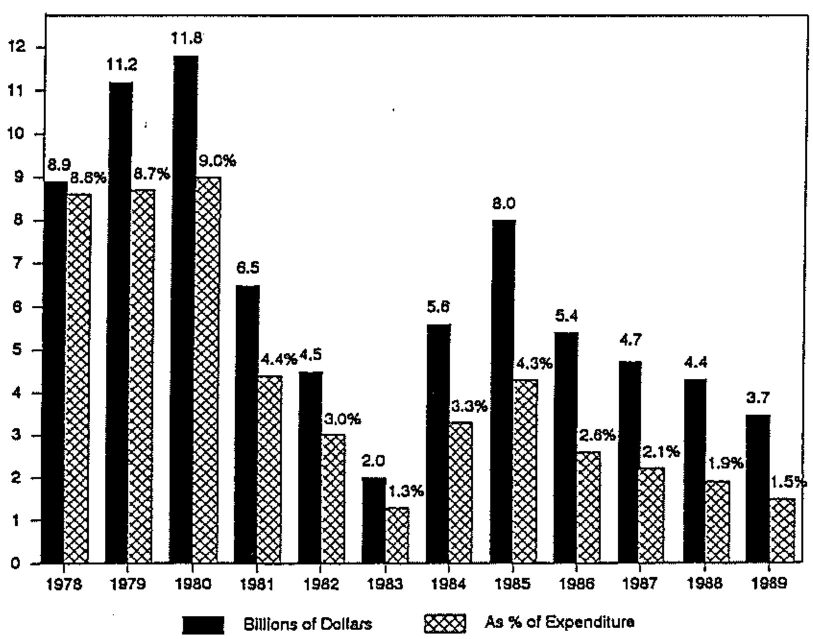
Table 9
SIZE OF GENERAL FUND YEAR-END BALANCES, FISCAL 1978-1989*

Fiscal Year	*Year-End Balances ($ in Billions)*	*Balance as a Percent of Expenditures*
1989 est.	$3.7	1.5%
1988 est.	4.4	1.9
1987	4.7	2.1
1986	5.4	2.6
1985	8.0	4.3
1984	5.6	3.3
1983	2.0	1.3
1982	4.5	3.0
1981	6.5	4.4
1980	11.8	9.0
1979	11.2	8.7
1978	8.9	8.6

* Does not include balances from budget stabilization funds.

Size of General Fund Year-End Balances, Fiscal 1978 to 1989

Graph 1



Several policies can explain the changes in ending balances:

- Revenue estimators tend to be conservative when forecasting state revenues, since it is easier to adjust to higher revenues than lower revenues, which may call for budget cuts, mid-year tax increases, or employee layoffs;
- The direction of the economy has been difficult to predict and its performance has been stronger than originally forecasted, thereby raising revenues; and
- Most states adopted major changes in income tax bases and rates, which have added tremendous uncertainty in revenue forecasting.

Budget Stabilization Funds

In recent years, thirty-six states have adopted budget stabilization or "rainy day" funds to help buffer state finances from the sharp fiscal disruptions routinely caused by the business cycle (see Appendix A-5). Rather than cut budgets and raise taxes during the middle of a fiscal year, states may use these special reserves during an economic emergency. For this process to work, states must accumulate sufficient funds during good economic times in order to prevent cuts in services and tax increases in bad economic times.

Like state ending balances, budget stabilization funds are small. Actual fiscal 1987 figures show stabilization funds of $2.0 billion or 0.9 percent of expenditures. Fiscal 1988 figures show marginal increases, with $2.3 billion appropriated, which equals 1 percent of expenditures. The Governors' proposed fiscal 1989 figures show the funds at $2.6 billion or 1 percent of expenditures. Increases can be due to the rising number of states creating such funds, as well as concern over a possible recession in the next year.

The latest states to adopt such funds are Nevada and Vermont. Despite the popularity of the funds, seven states have created "rainy day" funds but have not yet had the opportunity to fund them. For fiscal 1989, the Governor of New Jersey has proposed to adopt and fund a budget stabilization fund. Discussion on creating a rainy day fund is also underway in Hawaii.

The largest recent draw-down of a stabilization fund has occurred in Alaska, which used $436 million from its fund for the fiscal 1987 budget in order to avert severe budget cuts and tax increases. Wyoming also has relied substantially on its fund to keep its budget balanced. Wyoming had $117 million in reserve in fiscal 1987, but only $19 million by 1989. These two states, which have suffered economically because of the crisis in the oil industry, serve as examples of how useful "rainy day" funds can be in rough times. Other states drawing down their reserves include Connecticut and Iowa. Indiana plans to increase its reserves from $165 million in fiscal 1987 to $224 million in fiscal 1989. Significant increases in funding have also occurred in Florida, from $103 million in 1987 to $142 million by 1989, and in Pennsylvania, from $51 million in 1987 to a projected $109 million in 1989.

Most other state budget stabilization funds remain fairly constant in size. Unfortunately, only six states have reserves of 5 percent or more in fiscal 1988. These states are Connecticut, Delaware, Indiana, Michigan, Nevada, and Wyoming. In 1989, only Connecticut expects its reserves to fall below 5 percent. Clearly, small reserves can help relieve less serious fiscal conditions, but states will still be unprepared for an extended economic downturn.

IV. REGIONAL FISCAL OUTLOOK

Regional economic trends have shown little change over this past year. The Northeast continues to experience a robust economy; the western energy states are beginning to show signs of recovery from the energy slump; and the South is divided almost evenly between fast growing states and states with weaker economies.

States reporting the strongest growth, as measured by recent state personal income figures, include: California, Connecticut, Florida, New Hampshire, and Nevada. Alaska and Wyoming are reporting actual decreases in personal income, both still feeling the effects of the 1986 oil price plunge. Overall, 1988 may be similar to 1987 in many aspects. Economic stability is forecasted in most sectors, although economists have many opinions on this matter.

New England

The New England region continues to lead the country with the lowest 1987 unemployment rate, averaging 3.4 percent, compared with a national rate of 6.2 percent (see Table 10). New Hampshire has the lowest rate at 2.5 percent and Massachusetts follows at 3.2 percent. Once again, personal income growth for this region is strong at 7.2 percent, although it falls behind growth in the far west region. Using this measure, Connecticut leads the region with exceptional growth of 8.2 percent in personal income (third quarter 1986 to third quarter 1987).

Table 10
REGIONAL BUDGET AND ECONOMIC INDICATORS

	*Weighted Unemployment Rate 1987**	*Weighted Annual % Change in Personal Income ***	*Annual % Change in Population*	*FY 88 Ending Balances as % of Expenditures*	*FY 89 Proposed General Fund Budget Growth (%)*	*# of States in Region*
New England	3.4%	7.2%	0.8%	1.2%	9.0%	6
Mideast	4.8	6.1	0.5	3.0	7.2	5
Great Lakes	7.2	4.5	0.4	1.7	3.9	5
Plains	5.5	5.5	0.4	5.5	5.2	7
Southeast	6.5	6.1	1.4	0.1	4.6	12
Southwest	8.0	3.5	0.8	-3.9	3.9	4
Rocky Mountain	7.5	3.5	0.2	3.3	3.7	5
Far West	6.0	8.3	2.2	3.4	7.2	6
U.S. Average (or total)	6.2%	5.9%	1.0%	1.9%	5.9%	50

SOURCE:
* U.S. Department of Labor, Bureau of Labor Statistics, February 19, 1988.
** U.S. Department of Commerce, Bureau of Economic Analysis, January 1988.

Figures based on third quarter of 1986 to third quarter of 1987.

New England has made a strong comeback from the last decade, when it was hit hard by economic downturns in the 1970s. Its economic base is now built on financial, insurance, real estate services, and computer technology. This region's well-known higher education institutions have often been cited as contributing to the economic resurgence.

Proposed spending packages for fiscal 1989 for five of the six New England states are all above the national average. New Hampshire is the exception. Tax changes in this region are minimal. Maine and Vermont are proposing gasoline tax increases; Vermont is considering reducing the personal income tax rate; and Massachusetts will update its income tax to the Federal Internal Revenue Code. No state in this region cut its budget after the appropriations bill was enacted into law for fiscal 1988.

Mideast

The mideastern region of the country also shares the strong economy found in New England. Unemployment rates are substantially below average and increases in personal income are slightly above average. Delaware leads the region with the lowest unemployment rate of only 3.2 percent and personal income growth of 6.9 percent.

No budget cuts have been enacted for fiscal 1988 and little is occurring on the tax side of the budget. As for new spending increases for next year's budget, Maryland and New Jersey have the largest increases of 11.6 percent and 11.4 percent, respectively.

Great Lakes

The manufacturing sector of the economy dominates industry in the Great Lakes region. Last year, there was good news for this sector, which registered employment gains, something that had not occurred in recent years. This new strength in manufacturing was attributed to an improved U.S. export picture. Factory utilization also grew markedly this year. Moderate growth in manufacturing is predicted for next year.[1]

However, individual states may fare differently from national averages. Auto plant shutdowns are expected in Michigan and Wisconsin, which will have a negative effect on state finance. Currently, four of the five Great Lakes states have higher than average unemployment rates. The highest is in Michigan at 8.2 percent.

Tax increases are being proposed in Indiana, Michigan, and Wisconsin. In Michigan, the Governor is proposing $250 million in new revenue for school funding.

Michigan cut the fiscal 1988 budget by $48 million in December and the Governor is proposing a 1.1 percent increase for the next budget. Spending increases for fiscal 1989 are also low in and Illinois and Ohio.

Plains

There is good news for agricultural states: the six-year agricultural recession ended in the first half of 1987 and farm income rose sharply.[2]

Although the worst has passed for farm foreclosures, declining farm land value, and the financial instability of farm banks, this sector of the economy still has not gained back the losses incurred during the recession. However, with substantial federal payments to farmers and the painful weeding out of the weakest producers, this sector is beginning to experience a modest improvement.

State finance in the region has also improved from prior years. Although spending programs for next year are still modest, past budget cutting and tax increases will help produce a stable 1988. Only two states, Missouri and North Dakota, have cut fiscal 1988 budgets, and only Iowa is proposing a tax rate increase. Minnesota is considering some minor tax base changes. Minnesota also registers the strongest personal income growth, using the most recent data available, at 7.0 percent.

Southeast

Florida, North Carolina, and Virginia have exceptionally strong increases in state personal income at 7.6 percent, 7.0 percent, and 6.6 percent, respectively. On the other hand, Louisiana, West Virginia, and Mississippi have unusually low growth figures at 1.7 percent, 3.9 percent, and 4.0 percent, respectively. These last three states also have some of the highest unemployment figures in the country, with Louisiana at 12.0 percent, West Virginia at 10.8 percent, and Mississippi with 10.2 percent.

In addition, Louisiana is the only oil-dependent state that still faces a serious budget situation. For fiscal 1988, the state has a $781 million budget deficit totaling more than 20 percent of its general fund expenditures. West Virginia is also faced with fiscal problems, but they are not as severe as Louisiana's. In West Virginia, the Governor has just received authority from the legislature to borrow $35 million from internal funds to keep the general fund in balance. Both Louisiana and West Virginia plan to have smaller budgets for fiscal 1989 than in the current year. Both rely heavily on the energy sector.

Kentucky is experiencing a revenue shortfall and has enacted two budget cuts this year. The newly elected Governor opposes a tax increase for this year, so additional cuts will be required in next year's budget.

Exceptional population growth is occurring in Florida, North Carolina, and Virginia. Florida continues to lure new residents into its borders at an unusually high rate, showing a 2.8 percent increase in population in 1987 -- almost three times higher than the national average.

Southwest and Rocky Mountain

These two regions comprise most of the energy sector and have related economies. Of the nine states in these regions, all of them rely to some degree on oil, natural gas, and coal, although only five of them derive a significant portion of their revenues from severance taxes. Therefore, when the price of oil plummeted to $10 a barrel in the first half of 1986, taking other energy prices down too, it had grave consequences for the energy states.

Fiscal 1987 state severance tax collections were only $4.1 billion, down a staggering 36 percent from the previous year, according to the U.S. Commerce Department's Census Bureau (see Table 11). For comparison purposes, over the same period total state tax collections increased by 8.1 percent.

Severance taxes comprise a large revenue source for energy states, although in the past several years dependence on this source has been shrinking. For example, Texas raised 26 percent of all of its tax revenue from severance taxes in fiscal 1982, but this figure has now dropped to 10.6 percent. Similarly, Montana formerly derived over 28 percent of its taxes from severance taxes, but this figure has diminished to 17 percent. This remarkable shift in funding state government has caused a painful transition period, forcing most energy states to make substantial budget cuts and raise non-energy taxes.

Currently, states forecast a fiscal 1987 oil price of between $15 and $18 per barrel. If the price of oil declines below this level, it can easily push energy states back into a recession despite the fact that they are gradually becoming less reliant on the energy sector.

Table 11
CHANGES IN SEVERANCE TAX COLLECTIONS

State	Severance Tax Collections ($ in Millions)		% Change in Severance Tax from Previous Year	Tax as a % Of Total Tax Collections		Forecasted Price of Oil ($ Per Barrel)	
	FY 1987 P*	FY 1982	FY 1987 P*	FY 1987	FY 1982	FY 1988	FY 1989
Alaska	$667	$1,572	-53.5%	62.0%	61.9%	$15.96	$16.32
Louisiana	455	982	-32.1	13.4	31.4	17.25	16.00
Mississippi						16.50	17.50
Montana	101	149	-22.3	17.0	28.2	15.11	16.90
New Mexico	235	378	-36.0	14.7	30.8	15.00	17.50
North Dakota	90	187	-38.8	15.9	35.1	16.70	17.40
Oklahoma	370	743	-35.2	14.0	27.4	18.00**	18.00**
Texas	1,182	2,379	-23.8	10.6	26.1	17.40	18.00
Wyoming	260	389	-32.8	42.0	51.0	19.05**	15.60**
U.S. Total	$4,123	$7,830	-35.9%	1.7%	4.8%		

NOTES:
* Preliminary
** Oklahoma: Projected as of 11/25/87. Certified figure was $16.50.
Wyoming: Taxable oil: FY 88 = $16.00/bbl and FY 89 = $15.60.

The unemployment rate for the southwest region is 8.0 percent and for the Rocky Mountain region it is 7.5 percent. These are the highest rates found in any region. Personal income growth is also lethargic, with both regions showing a 3.5 percent annual growth rate, the lowest of all regions. Coupled with these poor economic statistics, the Rocky Mountain region has the smallest 1987 population growth, whereas several years ago it was one of the fastest growing regions. In fact, Wyoming's 3.4 percent population decrease was the largest of any state.

As a result of poor economies, three states have cut fiscal 1988 budgets (Arizona, Colorado, and Wyoming) and three states are calling for tax increases (Arizona, Idaho, and Wyoming). Proposed spending increases are meager for Montana, New Mexico, Texas, and Utah. In Wyoming, spending will decrease by 13 percent.

Far West

The California economy is growing at a healthy rate and skews regional statistics in the Far West because it has the region's largest population. California registered the highest growth in state personal income of all other states, an extremely strong 9 percent. In addition, population growth was very strong at 2.5 percent, compared with the national average of 1.0 percent.

The economies of Hawaii and Nevada are also performing well, with personal income growth at 6.7 percent and 7.6 percent, respectively. The economies of Oregon and Washington are growing at about the same rate as the national economy. However, Alaska is still suffering from the oil bust and registers the sharpest drop in the nation in state personal income at a negative 4.4 percent.

No state in this region is proposing a tax increase this year, and two states, Hawaii and Washington, made small budget cutbacks for the current operating year. These actions were taken more as a precautionary measure, rather than of necessity.

ENDNOTES

1. Economic Review, Federal Reserve Bank of Kansas City, "The U.S. Economy in 1987 and 1988," Volume 72, No. 10, December 1987, p.4.

2. Ibid., U.S. Agriculture on the Mend." pp. 28-29.

APPENDIX

The structure of the survey presumes budgeting identities as follows:

1. Beginning Balance + Revenues + Adjustments = Resources
2. Resources - Expenditures - or + Transfers = Ending Balance
3. Ending Balance, Year 1 = Beginning Balance, Year 2

Adjustments to revenues may include such things as reversions, tax refunds settlement from court cases, surplus property sales, changes in tax collections, and changes in fund dedication. Transfers may be positive or negative, depending on whether monies are flowing in or out of the general fund.

Exceptions to this identity result from rounding numbers and from the practice in a few states of making adjustments between the ending balance in one year and the beginning balance in the next. These exceptions have only a minor impact on the overall results of the survey.

Reporting concepts within this structure vary from state to state, as do definitions of what activities are included in the general fund, although all federal funds and trust funds are usually excluded. If federal funds are excluded, general fund spending comprises about 80 percent of total state spending. Thus, the results of the fiscal survey are not strictly appropriate for comparisons among states. They are more appropriate for comparisons over time within the same state.

Table A-1
FISCAL 1987 STATE GENERAL FUND
($ in Millions)
Actual Figures

STATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
STATES WITH ANNUAL BUDGETS								
ALABAMA	9	2,697	(6)	2,699	2,630		70	
ALASKA	(74)	1,753	771	2,450	2,431		20	0
ARIZONA	40	2,422		2,462	2,406		56	
CALIFORNIA	714	32,518	(1,138)	32,095	31,469		626	**
COLORADO	4	.2,098		2,103	2,058		45	**
CONNECTICUT	0	4,742		4,742	4,377	(365)	0	215
DELAWARE	139	962		1,101	931		170	50
GEORGIA	97	5,421		5,518	5,366		152	162
IDAHO	1	632	(15)	618	607	(11)	0	0
ILLINOIS	288	10,332		10,620	10,340	(126)	154	
IOWA	0	2,506	(259)	2,247	2,190	(57)	0	68
KANSAS	20	1,780		1,800	1,727		73	
LOUISIANA	(244)	3,413		3,169	3,804	188	(446)	
MARYLAND	53	4,642		4,695	4,437	(50)	208	50
MASSACHUSETTS	333	10,399	(182)	10,550	10,652	143	41	70
MICHIGAN	153	6,276	8	6,436	6,423		13	347
MISSISSIPPI	52	1,572		1,624	1,508		116	6
MISSOURI	110	3,205		3,315	3,273	8	50	0
NEW JERSEY	521	9,581	(242)	9,860	9,138		722	
NEW MEXICO	124	1,435	30	1,589	1,463	(9)	117	**
NEW YORK	153	24,688		24,841	23,453	(1,219)	169	**
OKLAHOMA	0	2,070	(11)	2,059	2,059		0	0
PENNSYLVANIA	213	9,803	63	10,079	9,681	(50)	348	51
RHODE ISLAND	52	1,187		1,239	1,119	(13)	108	18
SOUTH CAROLINA	67	2,693	(24)	2,736	2,670	24	90	75
SOUTH DAKOTA	31	370		400	367		36	
TENNESSEE	69	2,910	(2)	2,979	2,952	(5)	22	75
UTAH	2	1,302	24	1,328	1,279	(20)	29	20
WEST VIRGINIA	113	1,532		1,644	1,611		33	
STATES WITH BIENNIAL BUDGETS								
ARKANSAS	0	1,671		1,671	1,671		0	
FLORIDA	180	7,581		7,761	7,725		36	103
HAWAII	137	1,890	5	2,032	1,692		339	
INDIANA	39	3,522	3	3,564	3,274	(189)	101	165
KENTUCKY	209	2,875	14	3,097	2,914	(18)	165	**
MAINE	10	1,118	32	1,160	1,045	(55)	60	25
MINNESOTA	370	5,412	28	5,810	5,167	(165)	478	**
MONTANA	16	346	(2)	360	391	41	10	
NEBRASKA	18	886		904	849		55	24
NEVADA	85	536	20	641	576	(38)	27	40
NEW HAMPSHIRE	32	538		570	513	(34)	23	27
NORTH CAROLINA	319	5,392		5,711	5,349		362	
NORTH DAKOTA	109	459		568	544		24	
OHIO	458	10,464	7	10,929	10,540	(163)	226	263
OREGON	132	1,837		1,969	1,745		224	
TEXAS	(241)	11,948	(2,790)	8,917	9,901		(984)	
VERMONT	8	482	2	493	420	(15)	58	8
VIRGINIA	360	4,677	70	5,107	4,656	(313)	138	10
WASHINGTON	102	4,949		5,052	4,878	(165)	9	0
WISCONSIN	237	5,017	105	5,358	5,070	(55)	233	0
WYOMING	106	335		441	395		46	117
TOTAL	5,726	226,876	(3,489)	229,113	221,736	(2,731)	4,652	1,989

** Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-1
FISCAL 1987 STATE GENERAL FUND

*Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes that follow Appendix A-3. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

Louisiana: Rainy day fund is referred to as Deficit Elimination Fund.

Maryland: Rainy day fund does not reflect interest earnings of about $5 million per year.

Oregon: Except for the revenue figures provided, all fiscal year figures are estimates. Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium and 52 percent for the second year.

Texas: The ending balance figures show a deficit or negative balance for fiscal 1987 and 1988. The legislature authorized short-term cash management notes to ease cash flow until new authorized revenues are received.

Virginia: The budget shows appropriations for operating programs on an annual basis and those for capital outlays on a biennial basis. Expenditure figures for each year thus reflect appropriations for operating programs and anticipated expenditures for capital outlays.

Table A-2
FISCAL 1988 STATE GENERAL FUND
($ in Millions)
Estimated Figures

TATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
TATES WITH ANNUAL BUDGETS								
LABAMA	70	2,849	(6)	2,913	2,765		149	
LASKA	20	2,092	306	2,418	2,323		95	0
RIZONA	56	2,523		2,579	2,545		34	
ALIFORNIA	626	33,678		34,304	33,342		962	**
OLORADO	45	2,174		2,219	2,094		126	**
ONNECTICUT	0	4,998		4,998	4,997	(1)	0	320
ELAWARE	170	998		1,168	1,035		133	53
EORGIA	152	5,782	2	5,936	5,936		0	173
DAHO	0	663		663	661		3	0
LINOIS	154	10,785		10,939	10,554	(185)	200	
OWA	0	2,568	(209)	2,359	2,393	34	0	39
NSAS	73	1,970		2,043	1,897		146	
UISIANA	(446)	3,523		3,077	3,864	6	(781)	30
RYLAND	208	4,940		5,148	4,892	(5)	251	55
SSACHUSETTS	41	11,159	16	11,216	11,614	441	43	74
CHIGAN	13	6,530	27	6,569	6,559		10	374
SSISSIPPI	116	1,616		1,732	1,621	(47)	64	20
SSOURI	50	3,505		3,555	3,524	9	40	0
W JERSEY	722	10,227	137	11,086	10,275		811	
W MEXICO	117	1,528	19	1,664	1,557	4	111	**
W YORK	169	26,534	670	27,373	25,446	(1,742)	185	**
LAHOMA	0	2,353	(20)	2,333	2,234	(33)	66	33
NNSYLVANIA	348	10,282	44	10,674	10,470	(45)	159	80
ODE ISLAND	108	1,248		1,356	1,246	(18)	92	28
UTH CAROLINA	90	2,886	(25)	2,951	2,864	25	111	101
UTH DAKOTA	36	385		421	393		28	
NNESSEE	22	3,134		3,156	3,080	(26)	50	75
AH	29	1,364		1,393	1,380		13	20
ST VIRGINIA	33	1,464	35	1,532	1,509	(6)	17	
ATES WITH BIENNIAL BUDGETS								
KANSAS	0	1,779		1,779	1,779		0	
ORIDA	36	8,645		8,682	8,629	(36)	16	135
AII	339	1,935	9	2,283	1,969		315	
IANA	101	3,964		4,065	3,603	(308)	154	213
TUCKY	165	3,023	37	3,226	3,218		8	**
NE	60	1,152		1,212	1,159	(17)	37	25
NESOTA	478	5,795	26	6,299	5,500	(245)	553	**
TANA	10	373		383	372		11	
RASKA	55	951		1,006	927		79	26
ADA	27	583	4	614	585		28	40
HAMPSHIRE	23	566		589	566	(3)	20	28
TH CAROLINA	362	5,835		6,197	5,978		219	
TH DAKOTA	24	482		506	515		(9)	
O	226	10,663		10,889	10,737	(22)	130	285
GON	224	1,706		1,930	1,792		137	
AS	(984)	12,387	(2,932)	8,471	9,290		(819)	
MONT	58	485	2	545	478	(18)	49	10
GINIA	138	4,946	75	5,159	4,969		191	0
HINGTON	9	5,021		5,030	5,048		(18)	0
CONSIN	233	5,222		5,455	5,308		147	0
MING	46	316		362	426	72	8	40
AL	4,652	239,587	(1,783)	242,457	235,918	(2,166)	4,374	2,277

Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-2
FISCAL 1988 STATE GENERAL FUND

*Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes that follow Appendix A-3. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

Louisiana: Rainy day fund is referred to as Deficit Elimination Fund.

Maryland: Rainy day fund does not reflect interest earnings of about $5 million per year.

North Dakota: The ending balances show a deficit because it is the first year of a biennial budget that has to balance only at the end of the biennium. The state has authority to borrow $40 million from special funds for cash flow financing.

Oklahoma: For revenues, funds are to be recertified and new estimates will also be made in February 1988, which subsequently will affect the ending balance for fiscal 1988. The new estimates will also affect the fiscal 1989 beginning balance, revenues, and expenditures.

Oregon: Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium and 52 percent for the second year. Also note that because of the estimating technique used for expenditures, fiscal year comparisons may be misleading.

Texas: The ending balance figures show a deficit or negative balance for fiscal 1987 and 1988. The legislature authorized short-term cash management notes to ease cash flow until new authorized revenues are received.

Virginia: The budget shows appropriations for operating programs on an annual basis and those for capital outlays on a biennial basis. Expenditure figures for each year thus reflect appropriations for operating programs and anticipated expenditures for capital outlays.

Table A-3
FISCAL 1989 STATE GENERAL FUND
($ in Millions)
Proposed Figures

STATE	BEGINNING BALANCE	REVENUE	ADJUSTMENTS	RESOURCES	EXPENDITURES	TRANSFERS	ENDING BALANCE	BUDGET STAB. FUND
STATES WITH ANNUAL BUDGETS								
ALABAMA	148	2,918	(6)	3,060	3,060		0	
ALASKA	95	1,983	296	2,374	2,296		78	0
ARIZONA	34	2,819		2,853	2,814		40	
CALIFORNIA	962	36,249		37,211	36,101		1,110	**
COLORADO	126	2,244		2,370	2,217	(45)	107	**
CONNECTICUT	0	5,581		5,581	5,581		0	247
DELAWARE	133	1,021	(32)	1,123	1,035		88	55
GEORGIA	0	6,254		6,254	6,254		0	187
IDAHO	3	666	35	703	703		0	0
ILLINOIS	200	11,143		11,343	10,896	(247)	200	
IOWA	0	2,730	(192)	2,538	2,590	53	0	1
KANSAS	146	2,019	(28)	2,137	1,991		146	
LOUISIANA	(781)	3,375		2,594	3,375	50	(731)	20
MARYLAND	251	5,215		5,466	5,449	(5)	12	60
MASSACHUSETTS	43	12,006	404	12,453	12,581	171	43	78
MICHIGAN	10	6,651		6,661	6,628		33	374
MISSISSIPPI	64	1,687	58	1,809	1,821	15	4	20
MISSOURI	40	3,753		3,793	3,763	10	40	2
NEW JERSEY	811	10,948	286	12,045	11,472	(342)	231	342
NEW MEXICO	111	1,543	53	1,706	1,559		147	**
NEW YORK	185	28,394		28,579	26,999	(1,379)	201	**
OKLAHOMA	66	2,419		2,485	2,364		121	33
PENNSYLVANIA	159	10,752	(8)	10,903	10,900		3	109
RHODE ISLAND	92	1,314		1,406	1,367	(19)	20	39
SOUTH CAROLINA	111	3,067	(7)	3,171	3,059	7	119	108
SOUTH DAKOTA	28	387		415	411		5	
TENNESSEE	50	3,299	70	3,419	3,336	(83)	0	100
UTAH	13	1,406		1,419	1,439	20	0	0
WEST VIRGINIA	17	1,464		1,481	1,451	(31)	0	
STATES WITH BIENNIAL BUDGETS								
ARKANSAS	0	1,843		1,843	1,843		0	
FLORIDA	16	9,219		9,236	9,192		43	142
HAWAII	315	2,030	9	2,354	2,142		212	
INDIANA	154	4,183		4,338	3,891	(330)	117	224
KENTUCKY	0	3,278	23	3,301	3,286		15	**
MAINE	37	1,241		1,278	1,236	(31)	11	25
MINNESOTA	553	5,619	27	6,199	5,676	(176)	347	**
MONTANA	11	383		394	387		7	
NEBRASKA	79	970	1	1,050	965		85	28
NEVADA	28	617	4	649	624		24	40
NEW HAMPSHIRE	20	565		586	583	1	2	28
NORTH CAROLINA	220	6,186		6,406	6,135		271	
NORTH DAKOTA	(9)	570		561	544		17	
OHIO	130	10,968		11,098	11,020		78	285
OREGON	137	1,949		2,087	1,942		145	
TEXAS	(819)	13,570	(3,048)	9,703	9,506		197	
VERMONT	49	522	2	572	520	(11)	41	10
VIRGINIA	191	5,301	56	5,548	5,548		0	0
WASHINGTON	(18)	5,236		5,218	5,190		28	0
WISCONSIN	147	5,673		5,820	5,761		59	0
WYOMING	8	313	28	349	370	23	2	19
TOTAL	4,366	253,543	(1,969)	255,942	249,873	(2,349)	3,718	2,576

** Budget Stabilization Fund is included with ending balance.

NOTES TO TABLE A-3
FISCAL 1989 STATE GENERAL FUND

*Figures may not add due to rounding. For explanation of adjustments and transfers, see footnotes that follow Appendix A-3. Transfers going into the general fund are positive numbers and transfers from the general fund are negative numbers.

Louisiana: Rainy day fund is referred to as Deficit Elimination Fund.

Maryland: Rainy day fund does not reflect interest earnings of about $5 million per year.

Oklahoma: For revenues, funds are to be recertified and new estimates will also be made in February 1988, which subsequently will affect the ending balance for fiscal 1988. The new estimates will also affect the fiscal 1989 beginning balance, revenues, and expenditures.

Oregon: Oregon prepares its budget on a biennial basis. For this report, fiscal year expenditures were split using a ratio of 48 percent for the first year of the biennium and 52 percent for the second year. Also note that because of the estimating technique used for expenditures, fiscal year comparisons may be misleading.

Virginia: The budget shows appropriations for operating programs on an annual basis and those for capital outlays on a biennial basis. Thus, expenditure figures for each year reflect appropriations for operating programs and anticipated expenditures for capital outlays. For Virginia's rainy day fund, the balance shows 0, but receipts from the newly enacted lottery will go into this reserve. However, no revenue estimate is currently available. During the first year of the biennium (fiscal 1989), the nominal expenditure growth rate is 11.7 percent, but in the second year (fiscal 1990), the rate is only 3.4 percent and does not include the second year employee compensation package. Also, of the $109 million in capital expenditures budgeted for the biennium, $82.7 million is budgeted in fiscal 1989.

Wyoming: Fiscal 1989 general fund figures represent roughly one-half the biennial budget.

Explanation of Transfers

Florida: In fiscal 1988, transfers shown are between the general revenue fund and the working capital fund. It does not account entirely for the change in the working capital fund balance due to the resources deposited and expenditures made directly from this fund.

Idaho: In fiscal 1987, the transfer represents a delayed final fiscal 1986 payment to public schools.

Illinois: Transfers-out are the statutory percentages of income and sales tax receipts made to other funds and general obligation debt service. Transfers-in include percentage of lottery sales and other reimbursements. The figure shown on the charts is a net figure.

Indiana: For the three fiscal years, all transfers are to the property tax relief fund. Fiscal 1988 also includes a transfer of $38.1 million to the rainy day fund.

Iowa: In all three fiscal years, transfers are between the rainy day fund and the general fund.

Kentucky: In fiscal 1987, there was an increase in the continuing appropriations reserve, as well as a transfer of $20.8 million to the rainy day fund.

Louisiana: In fiscal 1987, transfers are from nineteen funds into the general fund. In fiscal 1988, transfers are from several funds into the general fund. In fiscal 1989, transfers are appropriations from the general fund to the deficit elimination fund.

Maine: Figures shown include increases in operating working capital, a restored contingent account, a transfer to the rainy day fund, and an increase in the tax reserve fund.

Maryland: Monies for each fiscal year were transferred into the rainy day fund.

Massachusetts: For fiscal 1987, transfers are from consolidated transfer receipts ($16.1 million), net fund transfers ($18.8 million), to trans-muni assessments ($4.1 million), transfer to cover over funds ($281 million), and other ($40 million). For fiscal 1988 and 1989, the transfers are only from consolidated transfer receipts ($55.3 million and $22.8 million, respectively) and net fund transfers ($72.5 million and $39.9 million, respectively).

Mississippi: For fiscal 1988, $31.5 million was transferred to the general fund reserve, $0.8 million was transferred to the municipal revolving fund, and $14.8 million was transferred to the stabilization fund. For fiscal 1989, there is a $15 million estimate in reversions to the general fund.

Montana: For fiscal 1987, there was an education trust transfer of $35 million and a residual equity transfer of $6.6 million.

New Hampshire: In fiscal 1987, transfers reflect $26.9 million to the revenue stabilization fund and $7 million to the capital fund. In fiscal 1988, $1.4 million was transferred to the revenue stabilization fund and $7 million to the capital fund. In fiscal 1989, an estimated $1.2 million is to be transferred to the capital fund.

New Jersey: In fiscal 1989, transfers represent the proposed establishment of a rainy day fund.

New Mexico: For transfers in fiscal 1987, $13 million is attributed to the unappropriated surplus; $2.1 million to school support reserve act, and $6 million net to the general fund. In fiscal 1988, $3.8 million is transferred to the general fund from an unappropriated surplus.

New York: The amounts shown are the net of transfers into the general fund. Transfers into the general fund are $161 million, $156 million, and $29 million in fiscal 1987, 1988, and 1989, respectively. Fiscal 1988 also includes a $670 million transfer to the infrastructure trust fund.

Ohio: For fiscal 1987, $55 million was transferred for capital appropriations through June 30, 1988, and a $108 million reserve for the budget stabilization fund.

Oklahoma: In fiscal 1988, there was a transfer to the constitutional reserve fund.

Pennsylvania: In fiscal 1987 and fiscal 1988, $25 million was transferred to the rainy day fund. Also in fiscal 1987, $25 million was transferred to the sunny day fund. In fiscal 1988, $20 million was transferred to this fund. From the surplus in the state workman's insurance fund in fiscal 1989, $25 million will be transferred into both the sunny day and rainy day funds.

Rhode Island: In fiscal 1987, transfers reflect $3.1 million to the general fund and the following transfers from the general fund: $8.4 million to the reserve fund, $4.2 million to asset protection, and $3.2 million for tort claims. In fiscal 1988, transfers from the general fund include $10 million to the reserve fund, $5 million to asset protection and $2.8 million for tort claims. In fiscal 1989, transfers from the general fund include $10.9 million to the reserve fund, and $8.2 million in asset protection.

South Carolina: A general fund reserve is required to maintain 4 percent of the latest completed year general fund revenue in its balance. (Payback methods after reserve has been utilized to prevent year-end deficit may result in the reserve being at less than 4 percent at certain times as in fiscal 1987.)

Tennessee: These figures include net transfers to the capital projects fund, highway fund, debt service fund, and the rainy day reserve in the general fund.

Utah: In fiscal 1989, $20 million is projected to be transferred from budget stabilization fund to fund one-time capital acquisitions.

Vermont: In fiscal 1987, transfers to the general fund include $10.5 million from the special revenue fund. Transfers from the general fund include $14.6 million to the special revenue fund, $8.2 million to the budget stabilization fund and $2.5 million in other transfers. In fiscal 1988, $8.4 million was transferred from the special revenue fund to the general fund while $23.3 million was transferred from the general fund to the special revenue fund, $1.6 million to the budget stabilization fund, and $1.6 million for other transfers. In fiscal 1989, $3.3 million came from the special revenue fund to the general fund. The following was transferred from the general fund: $12.3 million to the special revenue fund, $0.6 million to the budget stabilization fund, and $1.5 million in other transfers.

Virginia: In fiscal 1987, the amount shown is the fund balance reserved for loan and working capital advances and for operating expense and capital outlay reappropriated items.

Washington: In fiscal 1987, the uncommitted general fund state ending balance was transferred to a revenue accrual account at the end of the biennium (used to fund pensions).

Wyoming: In fiscal 1988, there was a transfer to the general fund from the budget reserve account.

NOTES TO APPENDIX TABLES A-1, A-2, AND A-3

Explanation of General Fund Budget Adjustments

Alabama: Funds were taken out of the special educational trust fund up-front to pay for trade school and junior college authority bonds and the administrative cost of the revenue department.

Alaska: Fiscal 1987 transfers of $432 million from the budget reserve fund to the general fund; repeals of unneeded capital appropriations; legal settlements; fund transfers to provide additional resources; and operating reversions for fiscal 1987 all total $771.2. Fiscal 1988 adjustments include capital project reversions; transfer of loan fund surpluses to the general fund; Dinkum Sands; and other items. Fiscal 1989 adjustments include the railbelt energy fund balance to be transferred to the general fund; the transfer of loan fund surpluses to the general fund; and other items.

California: These monies reflect a rebate to the taxpayers in fiscal 1987 for overcollection of tax revenues pursuant to Article XIIIB of the California Constitution.

Delaware: In fiscal 1989, there is expected to be a revenue reduction to the transportation fund of $34.3 million and a revenue increase to the hospital board and treatment of $2.6 million.

Hawaii: These monies reflect the prior year's appropriation reversions for all three years.

Idaho: In fiscal 1987, there was a transfer to the permanent building fund. In fiscal 1989, the Governor is proposing to repeal the investment tax credit, resulting in a gain of $15 million; to repeal the sales tax trade-in exemption -- $11.5 million; to apply the sales tax to automobile and miscellaneous repairs -- $15.2 million; and miscellaneous -- $3 million.

Indiana: In fiscal 1987, adjustments resulting from auditors adjustments, accounting errors, and post audits.

Iowa: In fiscal 1987, adjustments include tax refunds of $271.2 million and accrued revenue of $11.9 million. In fiscal 1988, adjustments include tax refunds of $220.1 million and accrued revenue of $16.3 million. In fiscal 1989, adjustments include tax refunds of $219 million and accrued revenue of $26.7 million.

Kansas: Adjustments include monies from proposed tax reform ($21 million from the individual income tax, $7 million from the sales tax) for fiscal 1989.

Kentucky: Adjustments reflect non-revenue receipt transfers from other funds to the General Fund for all three years.

Maine: In fiscal 1987, adjustments reflect reversions from the prior year.

Massachusetts: For all three fiscal years, monies include reversions and balances from continuing accounts, as well as a revenue enforcement initiative in fiscal 1989 of $264 million.

Michigan: In fiscal 1987, adjustments reflect a reserve increase while in fiscal 1988 they reflect a state building authority bonding payback.

Mississippi: For fiscal 1989, the total adjustments proposed includes $18.9 million from the acceleration of premium tax collections; $27 million from changes in 1985 bond refunding program; $3.1 million from decreased diversions; and $8.7 million from transfers of cash balances from miscellaneous special funds.

Montana: For fiscal 1987, there is a $2 million prior year adjustment.

Nebraska: In fiscal 1989, $1.4 million is a transfer from the cash fund to the general fund.

Nevada: For all three fiscal years, the adjustments represent reversions.

New Jersey: Adjustments represent prior year and current year appropriation reversions and direct charges and credits to fund balance. Fiscal 1987 includes a transfer to a reserve fund balance of $285.9 million that represents funds collected from the gross income tax which were considered to be in excess of those normally received. In accordance with the fiscal 1988 appropriations act, these funds would not be made available as resources in fiscal 1988 until the determination of collections in fiscal 1988 was made. Funds are proposed to be unreserved and available as resources in fiscal 1989 based on the current favorable revenue collection pattern.

New Mexico: For the three fiscal years, adjustments include various non-recurring revenues.

New York: In fiscal 1988, the state received a surge in personal income tax collections in the 1986 calendar year, which was unbudgeted in fiscal 1988. Amounts received are required to be transferred to an infrastructure trust fund.

Ohio: In fiscal 1987, adjustments reflect $7 million in excess lottery transfers, which was reserved in fiscal 1986 and also is included as net revenue.

Oklahoma: For fiscal 1987 and 1988, there was an increase in cash-flow funds of $11 million (1987 to 1988) and $20 million (1988 to 1989), respectively.

Pennsylvania: In fiscal 1987, adjustments include: $4 million lost to jobs creation tax credits; $60 million gained from prior year reversions; and $7 million lost due to an increase in disaster assistance. In fiscal 1988, adjustments include: $6 million lost to jobs creation tax credits and $50 million gained from prior year reversions. In fiscal 1989, adjustments reflect $8 million lost to jobs creation tax credits.

South Carolina: For all three fiscal years, available resources are reduced by restrictions on general fund revenue for required payment into the general fund reserve.

South Dakota: In fiscal 1987, the amount reducing resources is a net adjustment for accruals. South Dakota switched from a cash basis accounting system to an accrual basis accounting system in fiscal 1987. This reconciles accounts receivable and accounts payable to a cash basis.

Tennessee: In fiscal 1989, resources increased due to the net effect of accruing sales tax revenues.

Texas: For each fiscal year shown, resources are reduced as a result of allocations to other funds.

Vermont: In fiscal 1987, 1988, and 1989, adjustments reflect reversions in the amount of $2.4 million, $2 million, and $2 million, respectively.

Virginia: Total resources increased due to transfers from the alcoholic beverage control (enterprise) fund and other non-general funds as required by law.

Table A-4
ENDING BALANCES AS A PERCENT OF EXPENDITURES, FISCAL 1987 TO 1989

STATE	GENERAL FUND ENDING BALANCES FISCAL 1987	FISCAL 1988	FISCAL 1989	AS A PERCENT OF EXPENDITURES FISCAL 1987	FISCAL 1988	FISCAL 1989
STATES WITH ANNUAL BUDGETS						
ALABAMA	70	149	0	2.7	5.4	0.0
ALASKA	20	95	78	0.8	4.1	3.4
ARIZONA	56	34	40	2.3	1.3	1.4
CALIFORNIA	626	962	1,110	2.0	2.9	3.1
COLORADO	45	126	107	2.2	6.0	4.8
CONNECTICUT	0	0	0	0.0	0.0	0.0
DELAWARE	170	133	88	18.3	12.9	8.5
GEORGIA	152	0	0	2.8	0.0	0.0
IDAHO	0	3	0	0.0	0.5	0.0
ILLINOIS	154	200	200	1.5	1.9	1.8
IOWA	0	0	0	0.0	0.0	0.0
KANSAS	73	146	146	4.2	7.7	7.3
LOUISIANA	(446)	(781)	(731)	-11.7	-20.2	-21.7
MARYLAND	208	251	12	4.7	5.1	0.2
MASSACHUSETTS	41	43	43	0.4	0.4	0.3
MICHIGAN	13	10	33	0.2	0.2	0.5
MISSISSIPPI	116	64	4	7.7	3.9	0.2
MISSOURI	50	40	40	1.5	1.1	1.1
NEW JERSEY	722	811	231	7.9	7.9	2.0
NEW MEXICO	117	111	147	8.0	7.1	9.4
NEW YORK	169	185	201	0.7	0.7	0.7
OKLAHOMA	0	66	121	0.0	3.0	5.1
PENNSYLVANIA	348	159	3	3.6	1.5	0.0
RHODE ISLAND	108	92	20	9.7	7.4	1.5
SOUTH CAROLINA	90	111	119	3.4	3.9	3.9
SOUTH DAKOTA	36	28	5	9.8	7.1	1.2
TENNESSEE	22	50	0	0.7	1.6	0.0
UTAH	29	13	0	2.3	0.9	0.0
WEST VIRGINIA	33	17	0	2.0	1.1	0.0
STATES WITH BIENNIAL BUDGETS						
ARKANSAS	0	0	0	0.0	0.0	0.0
FLORIDA	36	16	43	0.5	0.2	0.5
HAWAII	339	315	212	20.0	16.0	9.9
INDIANA	101	154	117	3.1	4.3	3.0
KENTUCKY	165	8	15	5.7	0.2	0.5
MAINE	60	37	11	5.7	3.2	0.9
MINNESOTA	478	553	347	9.3	10.1	6.1
MONTANA	10	11	7	2.6	3.0	1.8
NEBRASKA	55	79	85	6.5	8.5	8.8
NEVADA	27	28	24	4.7	4.8	3.8
NEW HAMPSHIRE	23	20	2	4.5	3.5	0.3
NORTH CAROLINA	362	219	271	6.8	3.7	4.4
NORTH DAKOTA	24	(9)	17	4.4	-1.7	3.1
OHIO	226	130	78	2.1	1.2	0.7
OREGON	224	137	145	12.8	7.6	7.5
TEXAS	(984)	(819)	197	-9.9	-8.8	2.1
VERMONT	58	49	41	13.8	10.3	7.9
VIRGINIA	138	191	0	3.0	3.8	0.0
WASHINGTON	9	(18)	28	0.2	-0.4	0.5
WISCONSIN	233	147	59	4.6	2.8	1.0
WYOMING	46	8	2	11.6	1.9	0.5
TOTAL	4,652	4,374	3,718	2.1	1.9	1.5

Table A-5
BUDGET STABILIZATION FUNDS, FISCAL 1987 TO 1989

STATE	STABILIZATION FUND BALANCES			AS A PERCENT OF EXPENDITURES		
	FISCAL 1987	FISCAL 1988	FISCAL 1989	FISCAL 1987	FISCAL 1988	FISCAL 1989
STATES WITH ANNUAL BUDGETS						
ALABAMA						
ALASKA	0	0	0	0.0	0.0	0.0
ARIZONA						
CALIFORNIA	**	**	**			
COLORADO	**	**	**			
CONNECTICUT	215	320	247	4.9	6.4	4.4
DELAWARE	50	53	55	5.4	5.1	5.3
GEORGIA	162	173	187	3.0	2.9	3.0
IDAHO	0	0	0	0.0	0.0	0.0
ILLINOIS						
IOWA	68	39	1	3.1	1.6	0.0
KANSAS						
LOUISIANA		30	20		0.8	0.6
MARYLAND	50	55	60	1.1	1.1	1.1
MASSACHUSETTS	70	74	78	0.7	0.6	0.6
MICHIGAN	347	374	374	5.4	5.7	5.6
MISSISSIPPI	6	20	20	0.4	1.2	1.1
MISSOURI	0	0	2	0.0	0.0	0.1
NEW JERSEY			342			3.0
NEW MEXICO	**	**	**			
NEW YORK	**	**	**			
OKLAHOMA	0	33	33	0.0	1.5	1.4
PENNSYLVANIA	51	80	109	0.5	0.8	1.0
RHODE ISLAND	18	28	39	1.6	2.2	2.9
SOUTH CAROLINA	75	101	108	2.8	3.5	3.5
SOUTH DAKOTA				0.0	0.0	0.0
TENNESSEE	75	75	100	2.5	2.4	3.0
UTAH	20	20	0	1.6	1.4	0.0
WEST VIRGINIA						
STATES WITH BIENNIAL BUDGETS						
ARKANSAS						
FLORIDA	103	135	142	1.3	1.6	1.5
HAWAII						
INDIANA	165	213	224	5.0	5.9	5.8
KENTUCKY	**	**	**			
MAINE	25	25	25	2.4	2.2	2.0
MINNESOTA	**	**	**			
MONTANA						
NEBRASKA	24	26	28	2.8	2.8	2.9
NEVADA	40	40	40	6.9	6.8	6.4
NEW HAMPSHIRE	27	28	28	5.3	4.9	4.8
NORTH CAROLINA						
NORTH DAKOTA						
OHIO	263	285	285	2.5	2.7	2.6
OREGON						
TEXAS						
VERMONT	8	10	10	1.9	2.1	1.9
VIRGINIA	10	0	0	0.2	0.0	0.0
WASHINGTON	0	0	0	0.0	0.0	0.0
WISCONSIN	0	0	0	0.0	0.0	0.0
WYOMING	117	40	19	29.6	9.4	5.1
TOTAL	1,989	2,277	2,576	0.9	1.0	1.0

Table A-6
NOMINAL AND REAL ANNUAL CHANGES IN EXPENDITURES, FISCAL 1987 TO 1989

STATE	--------NOMINAL PERCENTAGE CHANGE-------- FISCAL 1987	FISCAL 1988	FISCAL 1989	----------REAL PERCENTAGE CHANGE------ FISCAL 1987	FISCAL 1988	FISCAL 1989
STATES WITH ANNUAL BUDGETS						
ALABAMA	-5.1	5.1	10.7	-8.3	1.1	5.9
ALASKA	-12.8	-4.4	-1.2	-15.8	-8.1	-5.4
ARIZONA	3.3	5.8	10.6	-0.3	1.7	5.8
CALIFORNIA	9.1	6.0	8.3	5.3	1.9	3.6
COLORADO	3.2	1.7	5.9	-0.4	-2.2	1.3
CONNECTICUT	9.1	14.2	11.7	5.3	9.7	6.9
DELAWARE	0.2	11.2	0.0	-3.2	6.9	-4.3
GEORGIA	6.7	10.6	5.4	3.0	6.3	0.8
IDAHO	4.5	8.9	6.4	0.9	4.7	1.8
ILLINOIS	3.3	2.1	3.2	-0.3	-1.9	-1.2
IOWA	2.1	9.3	8.2	-1.4	5.0	3.6
KANSAS	-0.9	9.8	5.0	-4.3	5.6	0.4
LOUISIANA	-11.8	1.6	-12.7	-14.8	-2.4	-16.4
MARYLAND	6.7	10.3	11.4	3.0	6.0	6.6
MASSACHUSETTS	9.1	9.0	8.3	5.4	4.8	3.7
MICHIGAN	7.6	2.1	1.1	3.9	-1.8	-3.3
MISSISSIPPI	-0.6	7.5	12.3	-4.0	3.3	7.5
MISSOURI	7.1	7.7	6.8	3.4	3.5	2.2
NEW JERSEY	4.7	12.4	11.6	1.1	8.1	6.8
NEW MEXICO	3.5	6.4	0.1	-0.1	2.3	-4.2
NEW YORK	7.8	8.5	6.1	4.1	4.3	1.5
OKLAHOMA	0.9	8.5	5.8	-2.6	4.3	1.3
PENNSYLVANIA	4.2	8.1	4.1	0.6	4.0	-0.4
RHODE ISLAND	6.8	11.3	9.7	3.1	7.0	5.0
SOUTH CAROLINA	3.0	7.3	6.8	-0.5	3.1	2.2
SOUTH DAKOTA	6.1	7.1	4.6	2.4	2.9	0.1
TENNESSEE	13.6	4.3	8.3	9.7	0.3	3.6
UTAH	0.2	7.9	4.3	-3.3	3.7	-0.2
WEST VIRGINIA	0.9	-6.3	-3.8	-2.6	-10.0	-8.0
STATES WITH BIENNIAL BUDGETS						
ARKANSAS	5.3	6.5	3.6	1.7	2.3	-0.9
FLORIDA	12.9	11.7	6.5	9.0	7.4	1.9
HAWAII	5.6	16.4	8.8	2.0	11.9	4.1
INDIANA	4.8	10.0	8.0	1.2	5.8	3.3
KENTUCKY	9.8	10.4	2.1	6.0	6.2	-2.3
MAINE	9.9	10.9	6.6	6.1	6.6	2.0
MINNESOTA	6.4	6.4	3.2	2.8	2.3	-1.2
MONTANA	6.5	-4.9	4.0	2.9	-8.5	-0.4
NEBRASKA	2.3	9.2	4.1	-1.2	5.0	-0.4
NEVADA	21.5	1.6	6.7	17.3	-2.4	2.1
NEW HAMPSHIRE	9.4	10.3	3.0	5.6	6.1	-1.4
NORTH CAROLINA	7.6	11.8	2.6	3.9	7.4	-1.8
NORTH DAKOTA	3.6	-5.3	5.6	0.0	-9.0	1.1
OHIO	10.2	1.9	2.6	6.4	-2.1	-1.8
OREGON	8.8	2.7	8.4	5.0	-1.3	3.7
TEXAS	6.3	-6.2	2.3	2.6	-9.8	-2.1
VERMONT	8.0	13.8	8.8	4.2	9.4	4.1
VIRGINIA	11.8	6.7	11.7	8.0	2.6	6.8
WASHINGTON	7.9	3.5	2.8	4.2	-0.5	-1.6
WISCONSIN	4.1	4.7	8.5	0.5	0.6	3.9
WYOMING	-6.8	7.8	-13.1	-10.1	3.7	-16.9
TOTAL	6.2	6.4	5.9	2.6	2.3	1.4

Table A-7
PROPOSED STATE EMPLOYMENT COMPENSATION PACKAGE
FISCAL 1989

State and Region	*Across the Board (ATB)*	*Merit*	*Other*	*Notes*
New England				
Connecticut	4.0%		2.5%	"Other" are step rate increases annualized.
Maine	3.0			
Massachusetts	5.0		1.0	"Other" are step increases to those who are eligible.
New Hampshire	6.0			3% on 7/88 and 3% on 1/89
Rhode Island	5.5			Classification study underway.
Vermont	4.5		1.1	
Mideast				
Delaware	3.0		3.0	"Other" used to move some employees to mid point of scale.
Maryland	4.0		.9	"Other" for grade restructuring.
New Jersey	5.0	2.5		Merit increase is 5%, but averages to 2.5%. ATB increase effective 10/88.
New York	N/A			Currently negotiating new contracts for 4/88.
Pennsylvania	4.0			Estimate subject to collective bargaining.
Great Lakes				
Illinois	5.0	6.5	2.0	Step and merit increase to those employees that are eligible.
Indiana	2.0	2.0		Varied merit program was used for 5,800 employees; ranges were 0-8%.
Michigan	3.1-4.1			Range from 10 bargaining and non-represented groups.
Ohio	4.5			Various packages have been negotiated with two main packages of 4% and 5%.
Wisconsin	2.1			
Plains				
Iowa	2.0	1.5		
Kansas	4.0	1.7		
Minnesota	3.03	0.38		
Missouri	0.0	0.5	1.39	"Other" for grade advancements for eligible employees.
Nebraska	4.0		4.0	"Other" for salary adjustment and merit.
North Dakota	2.0		$50	ATB effective 1/89; however, if general fund revenues come in stronger, increase would be retroactive to 7/88.
South Dakota	3.0			
Southeast				
Alabama	Pending	2.5-5.0		"Other" will include longevity pay beginning in 12/87, ranging from $300-$600 per employee.
Arkansas	0.0	2.5		
Florida	3.0	1.5		Senior management and select exempt service would receive 4.5%; however, it is discretionary.
Georgia	2.5	4.2		
Kentucky	2.0			
Louisiana	0.0	1.2		

Table A-7
PROPOSED STATE EMPLOYMENT COMPENSATION PACKAGE
FISCAL 1989 (continued)

State and Region	*Across the Board (ATB)*	*Merit*	*Other*	*Notes*
Southeast (continued)				
Mississippi	0.0		3.29	"Other" represents state employees early retirement plan.
North Carolina	5.0			
South Carolina	2.5	2.5		Proposal for merit pay effective 7/88.
Tennessee	Varies to 6.0			Lower paid employees will receive the highest increase.
Virginia	2.5	2.46		Merit equals 4.56% on proficiency review date covering 60% of workforce.
West Virginia	0.0			Merit step increases given on a case-by-case basis.
Southwest				
Arizona	0.0	1.5	2.5	"Other" is for salary adjustments.
New Mexico	3.0	2.0		ATB to be achieved with vacancy savings.
Oklahoma	2.5	0-5		2.5% performance pay for half of employees and 2.5% exceptional performance pay for up to 10% of employees.
Texas	2.0			Effective 9/88.
Rocky Mountain				
Colorado	0.81	5.0		Merit/anniversary increase provided to eligible employees.
Idaho	4.0			Public school teachers will receive 4% and college faculty 2% for salary equity.
Montana	0.0			Only longevity increases are allowed.
Utah	0.0	2.0		
Wyoming	4.0			
Far West				
California	4.0		1.0	Merit to be absorbed by departments. ATB eff. 1/89. "Other" effective 1/89 except for increased costs of health, dental, and vision, which are effective 7/88.
Nevada	0.0-3.0			Increase dependent on size of General Fund ending balance.
Oregon	3.0	5.0		Approximately half of work force qualifies for merit.
Washington	3.0	2.5		Half of classified employees are eligible for 5% merit.
Alaska	N/A			
Hawaii	6.0			Effective 10/88

Table A-8
FISCAL 1988 TAX COLLECTIONS COMPARED TO
INITIAL PROJECTIONS USED IN FORMULATING BUDGET
($ in millions)

	Personal Income Tax		*Sales Tax*		
State and Region	*Original Estimate*	*Current Estimate*	*Original Estimate*	*Current Estimate*	*Total Revenue Collections*
New England					
Connecticut	$ 358	$ 358	$ 2,075	$ 2,050	T
Maine	416	416	448	448	A
Massachusetts	4,145	4,200	2,042	2,030	T
New Hampshire	N/A	N/A	N/A	N/A	A
Rhode Island	339	362	366	380	A
Vermont	177	181	117	117	A
Mideast					
Delaware	447	432	N/A	N/A	T
Dist. of Col.					
Maryland	2,304	2,348	1,373	1,409	T
New Jersey	2,580	2,610	3,080	3,045	A
New York	13,301	14,216	5,255	5,330	A
Pennsylvania	2,878	2,919	3,837	3,832	A
Great Lakes					
Illinois	3,379	3,478	3,401	3,401	T
Indiana	1,724	1,745	1,889	1,907	B
Michigan	3,093	3,080	2,542	2,431	T
Ohio	3,205	3,205	3,145	3,145	T
Wisconsin	2,309	2,325	1,735	1,715	T
Plains					
Iowa	1,174	1,195	637	645	A
Kansas	773	780	655	667	T
Minnesota	2,190	2,443	1,469	1,639	A
Missouri	1,662	1,625	1,129	1,119	B
Nebraska	340	385	370	380	A
North Dakota	109	109	238	238	T
South Dakota	N/A	N/A	196	201	A
Southeast					
Alabama	960 *	1,029 *	730	745	A
Arkansas	683	721 *	736	771 *	A
Florida	N/A	N/A	5,971	5,889	T
Georgia	2,343	2,343	1,926	1,926	A
Kentucky	1,009	962	1,010	953	B
Louisiana	531	522	1,090	1,115	B
Mississippi	310	330	687	705	A
North Carolina	2,594	2,754	1,531	1,553	A
South Carolina	1,066	1,064	1,003	1,002	T
Tennessee	63	72	2,105	2,109	T
Virginia	2,608	2,685	1,207	1,201	A
West Virginia	421	421	315	315	B
Southwest					
Arizona	902	858	1,296	1,256	B
New Mexico	266	280	557	548	T
Oklahoma	770	778	685	716	T
Texas	N/A	N/A	3,712	5,848 *	A
Rocky Mountain					
Colorado	1,172	1,150	675	659	T
Idaho	343	347	260	253	A
Montana	226	226	N/A	N/A	T
Utah	533	527	618	587	B
Wyoming	N/A	N/A	111	88	T
Far West					
California	13,710	14,100	11,546	11,500	A
Nevada	N/A	N/A	206	213	A
Oregon	1,267	1,333	N/A	N/A	A
Washington	N/A	N/A	2,324	2,352	A
Alaska	N/A	N/A	N/A	N/A	T
Hawaii	525	527	830	910	A

Key: T = Revenue collections on target
A = Revenue collections above original projections
B = Revenue collections below original projections

NOTES TO TABLE A-8

Alabama: Corporate income taxes included.

Arkansas: Increases attributed to income and sales tax changes adopted last year.

Texas: Tax increase included.

Table A-9
PROPOSED FISCAL 1989 TAX CHANGES BY TYPE OF TAX

State	Tax Change Description	Eff. Date	FY 89 Revenue Change ($ in millions)
PERSONAL INCOME TAX			
Arizona	Eliminate renters credit.	1/88	$ 20.0
Kansas	Reform personal income tax by reducing 8 brackets to 2 of 4.15% and 5.4%; increase personal exemption and standard deduction; eliminate federal tax deduction.	1/88	(21.3)
Maine	Reform personal income tax by reducing number of brackets, reducing the top marginal tax rate, and changing personal exemption and standard deduction.		
Massachusetts	Update to federal Internal Revenue Code.		67.0
Michigan	Broaden tax base to include lottery winnings, military pay, and limit property tax circuit breaker.		179
New Mexico	Permanently repeal certain rebate provisions.		
New York	Continued phase-in of income tax reduction.		
Oklahoma	Create low-income senior citizen exemption.		(4.0)
	Technical correction benefiting low-income taxpayers.		
	Lower top tax rate from 17% to 10% under Method II of tax calculations.		
Vermont	Reduce tax rate from 25% of federal tax liability to 24%; adopt earned income credit.	1/88	(8.5)
Wisconsin	Reduce two-earner married credit from 2.5% to 1.5%.	1/88	59.0
SALES TAX			
Arizona	Eliminate selected exemptions.	7/88	50.0
Idaho	Repeal auto trade-in exemption tax.	7/88	11.5
	Tax auto and miscellaneous repair services.	1/89	5.2
Kansas	Exempt business machinery and equipment.	1/88	(7.3)
Minnesota	Tax mail-order sales.	4/88	26.0
South Dakota	Allow sales tax to decrease from 5% to 4% as scheduled.	3/88	(48.0)
Washington	Extend excise tax deferral and credit programs for manufacturing and research and development activities.	7/88	(4.5)
	Extend sales tax to certain prepared foods.	7/88	8.1

Table A-9 *(continued)*
PROPOSED FISCAL 1989 TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 89 Revenue Change ($ in millions)*
Sales Tax *(continued)*			
Wisconsin	Extend sales tax to real estate rentals other than residential and agricultural, utilities during winter months, and sewerage and septic services.	1/89	$ 134.0
BUSINESS TAXES			
Arizona	Create minimum tax. Repeal federal income tax deduction. Conform to federal depletion rates.	1/88	6.2
:daho	Repeal investment tax credit.		15.0
owa	Update corporate income tax to new Internal Revenue Code.		6.0
:ansas	Adopt alternative minimum tax.	1/88	–
lassachusetts	Update to federal Internal Revenue Code.		7.0
lichigan	Eliminate property tax credit for utilities under Single Business Tax.		13.0
'innesota	Adopt some federal conformity items and change definition of foreign source income.		12.4
ew York	Continued phase-in of corporate income tax reform.		
iode Island	Eliminate net worth tax for corporations.	1/90	(2.9)
:GARETTE TAX			
wa	Increase rate from 26 cents a pack to 34 cents; will decrease to 31 cents effective 7/89. (Passed.)	3/88	29.5
	Increase tobacco products tax from 15% to 19%.	3/88	
st Virginia	Increase rate from 17 cents a pack to 22 cents.	7/88	8.5
	Levy a new 17 cent-a-pack tax on smokeless tobacco products.	7/88	3.7
oming	Increase rate from 8 cents a pack to 20 cents.	7/88	12.8
ΊTOR FUEL TAXES			
io	Raise motor fuel tax from 14.5 cents a gallon to 19.5 cents.	7/88	26.5
iana	Increase gasoline tax from 14 cents a gallon to 15 cents; diesel fuel from 8 cents to 10 cents; and special fuels from 15 cents to 16 cents.		
	Increase weight distance tax.		

Table A-9 *(continued)*

PROPOSED FISCAL 1989 TAX CHANGES BY TYPE OF TAX

State	*Tax Change Description*	*Eff. Date*	*FY 89 Revenue Change ($ in millions)*
Motor Fuel Taxes *(continued)*			
Iowa	Increase gasoline and diesel fuel tax 2 cents a gallon in 1988; and 2 cents a gallon in 1989. Gasoline now 16 cents a gallon; diesel 18.5 cents a gallon.	7/88 7/89	
Maine	Raise gasoline and diesel fuel tax from 14 cents a gallon to 19 cents.		$ 35.0
Maryland	Increase motor fuel from 18.5 cents a gallon to 22 cents to offset loss from Motor Carrier Decal Fee (loss of $12 million).	7/88	12.0
New Jersey	Raised tax from 8 cents a gallon to 10.5 cents. (Passed legislature in January.)	7/88	
South Dakota	Increased motor fuel tax from 13 cents a gallon to 18 cents. (Passed legislature.)	4/88	
Vermont	Increase gasoline tax from 13 cents a gallon to 15 cents; diesel fuel from 14 cents a gallon to 16 cents.		
West Virginia	Increase motor fuel tax from 10.5 cents a gallon to 15.5 cents.	7/88	50
MISCELLANEOUS TAXES			
Idaho	Increase insurance premium tax.	7/88	1.8
Iowa	Increase alcohol beverage tax.	3/88	2.2
Michigan	Increase insurance premium tax.		45.0
	Restore bank tax to 1975 tax level.		13.0
Minnesota	Reduce pari-mutuel tax.	4/88	(3.2)
New Mexico	Raised coal severance tax. (Passed legislature.)	7/88	
New York	Improved enforcement of diesel fuel tax collections.	6/88	22.0
North Carolina	Increase merchants' sales tax discount for tax collection.	8/88	(27.0)
South Carolina	Increase low-level radioactive waste disposal tax from $6.00 per cubic foot to $9.81.	7/88	3.2
Vermont	Increase auto registration from $36 to $50.		
	Increase realty transfer tax from 0.5% to 0.75%.		
West Virginia	Increase soft drink tax from 1 cent per 16 ounces to 5 cents.	7/88	34.4
Wyoming	Increase tax on malt beverages.	7/88	3.2