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*Coast to coast, hard times for the states: N.J.'s budget woes are not unique. Others are tapping reserves, cutting costs, raising taxes.*

*By Adrienne Lu, Inquirer Trenton Bureau*

It may not be much consolation, New Jersey, but at least you're not alone.

When Gov. Corzine announced a relatively austere spending plan last week, he proposed closing three state departments, eliminating 3,000 or more state jobs, and trimming the popular property-tax-rebate program.

The governor's proposal would cut spending from the current year's budget by \$500 million, to about \$33 billion.

"This is 'cold turkey' therapy for our troubled spending addiction," Corzine declared.

But around the country, such cost-cutting measures - and even more drastic ones - are not unusual in this time of economic anxiety.

Whether the nation is in a recession, revenues in many states have fallen below projections. And unlike the federal government, most states are required to balance their budgets from year to year, which means deficits must be addressed, whether by dipping into reserves, cutting spending or increasing taxes.

In California, an estimated shortfall of about \$14.5 billion for next year prompted Gov. Arnold Schwarzenegger to propose slicing most departments' budgets by 10 percent, closing dozens of state parks, and releasing prison inmates early.

In Rhode Island, Gov. Don Carcieri warned recently that the state "is at a tipping point. It is teetering, ready to move dramatically in one direction or another," as the state faces the largest budget deficit

since 1991. Carcieri proposed reducing the state workforce by 1,000 and cutting the budget by \$300 million.

Washington lawmakers are considering a \$10 million increase in the liquor tax to raise cash. And New Jersey, Pennsylvania, and several other states are discussing ways to squeeze more money out of assets such as lotteries and toll roads.

Some states are even reining in spending in the current fiscal year, which for most ends June 30. Kentucky state agencies have been asked to cut spending by 3 percent because the state faces a two-year budget shortfall of \$900 million. Florida lawmakers have called on departments to cut spending by 4 percent.

Nationwide, more than half the 50 states face budget gaps as they try to put together the budgets for the coming fiscal year, said Elizabeth McNichol, a senior fellow at the Center on Budget and Policy Priorities in Washington.

Twenty-one of those states project a combined budget gap of at least \$36 billion, according to a report the center recently released. Of those states, New Jersey projects one of the largest budget shortfalls as a proportion of the general fund.

Among the prime culprits for states' revenue shortfalls: the slumping real estate market and subprime mortgage crisis and high oil prices. Real estate market woes ripple across state economies because they hurt not just property and real estate transfer taxes, but also sales taxes for big-ticket items such as furniture and home improvements.

California, Nevada, Arizona and Florida are among those hardest hit by the real estate slump.

"The thing that troubles me is that it does seem the state problems are a harbinger of bigger problems in the national economy," McNichol said. If the

current economic slump follows the pattern of the last recession, in 2001, she added, states could be looking at a couple years of fiscal hardship.

Arturo Perez, a fiscal analyst at the National Conference of State Legislatures, said that on average, personal income taxes account for just over one-third of states' revenues and sales taxes just under one third. Rising unemployment and a faltering stock market have hurt income taxes in many states.

**According to the Rockefeller Institute of Government at the State University of New York, state tax revenues fell by 0.6 percent in the third quarter of 2007 nationwide after adjusting for inflation and tax-law changes, the first such decline in more than four years.**

**Donald J. Boyd, a senior fellow at the Rockefeller Institute, warned in a recent report that capital gains revenues were also at risk for another sharp drop-off.**

Another potential problem looming for states is the bond-market crisis, which is already making it more expensive for states and municipalities to borrow money for long-term projects.

But not every state is suffering.

Pennsylvania, for example, is in relatively good shape. Gov. Rendell recently proposed increasing spending by 4.2 percent to \$28.3 billion, although he called it "a tight budget year."

"We are not nearly confronted with the overwhelming budgetary problems that challenge many other states," Rendell said.

Some states that depend heavily on natural resources for revenues, including Alaska, New Mexico and Montana, have been helped by the increase in oil prices.

But for most, this is a time to pore over expenses, pruning shears in hand.

## 21 States with Projected Gaps for Fiscal Year 2009

	Shortfall	Percent of Fiscal Year 2008 General Fund
California	\$16.0 billion	15.4
New York	4.7 billion	8.7
New Jersey	3.5 billion	7.6
Florida	2.0 billion	6.5
Ohio	1.9 billion	3.6
Illinois	1.8 billion	6.6
Arizona	1.7 billion	16.2
Massachusetts	1.2 billion	4.2
Virginia	1.2 billion	6.9
Alabama	784 million	9.2
Wisconsin	652 million	4.8
Nevada	565 million	7.8
Maryland	550 million	3.8
Rhode Island	380 million	11.2
Minnesota	373 million	2.2
Iowa	350 million	6
Kentucky	266 million	2.9
South Carolina	160 million	2.4
New Hampshire	150 million	1.6
Oklahoma	114 million	1.6
Maine	57 million	1.8

SOURCES: Center on Budget and Policy Priorities

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