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*Budget woes hit home*

*By Pamela M. Prah, Stateline.org Staff Writer*

“It just doesn’t make sense,” said Watson, who as a caseworker will have to drive mentally ill patients to another facility two hours away if Gov. Ted Strickland’s (D) plan is approved. Watson said the state may save \$9 million by shuttering the hospital, but his Appalachian community would lose a vital employer and families would have to travel hundreds of miles to visit hospitalized loved ones.

But at least Watson would keep his job. In California, teachers’ unions estimate that nearly 14,000 pink slips already have been sent out and more are in the offing as the state grapples with a \$16 billion projected deficit for 2009. Some 3,000 state employees in New Jersey and 1,200 in Rhode Island could find themselves in the unemployment line under proposals to stop the red ink flowing in those states.

Economists and politicians may debate whether the country has technically fallen into a recession, but new figures to be released next week suggest states are at the brink with state tax collections the lowest in nearly five years. **“There’s an eerie similarity to what we saw right before the last recession,” said Robert B. Ward, deputy director of the Nelson Rockefeller Institute of Government, the public policy research arm of the State University of New York. Rockefeller’s numbers show state revenue collections dropped 4 percent overall, after adjusting for inflation, compared to a year ago.**

In any event, the current billion-dollar holes in budgets are real, and filling the gaps could mean painful cuts to programs, not just this year, but for several more, experts say.

Beyond the loss of state jobs in this downturn hitting all but a few energy and farm states, some 7,000 mentally ill and elderly in Maine could be dropped from Medicaid, the state-federal health program that serves 59 million needy, while Medicaid recipients in Vermont may face a higher co-pay.

Arizona is considering eliminating child-care subsidies for 3,200 children in low-income families, and college students in Iowa and Pennsylvania will have to find student loans through private banks as the credit crunch led those two states’ lending agencies to suspend programs.

“It’s bad and going to get worse. We just can’t say how much worse,” said Scott Pattison, executive director of the National Association of State Budget Officers. The question is whether states so far unscathed by the downturn will remain that way, he said.

Oil, gas and coal revenues have helped Alaska, Montana, New Mexico and Wyoming keep their budgets flush while the ethanol boom is bolstering Iowa, Nebraska and South Dakota. The weak U.S. dollar also is a windfall for states that export big-ticket items such as aircraft and agricultural equipment and for drawing international tourists to U.S. destinations, including Minnesota, which has daily, direct flights from Europe to the Mall of America.

But the stalled housing market, rising oil prices, plummeting consumer confidence and creeping unemployment rates have tattered most other state budgets. Consumers and businesses are spending less, so state tax revenues are dipping. And a new bond-market crisis could make it more expensive for states to borrow.

“I’m beginning to think this (downturn) is going to be long and deep,” said Iris J. Lav, deputy director of the Center on Budget and Policy Priorities

(CBPP), a Washington, D.C., group that focuses on programs that affect the poor. By the center's last count, at least 17 states have made or proposed cuts that affect the poor, disabled or elderly, including at least eight that target K-12 education.

Florida is one of those states, slashing more than \$1.5 billion in the last five months, including \$512 million in March from public schools and juvenile justice programs. And the cutting isn't over. The Sunshine State finds itself facing a \$3.7 billion deficit for the next fiscal year, which starts July 1.

"It's awfully hard to feel good about your employer, when they're not looking out for you," said Elva J. McCaig, who for the past eight years has worked as a licensed practical nurse at Santa Rosa Correctional Institution, a medium-security prison in Milton, Fla. She says the prison has seen more than a 62 percent turnover in staff because of poor pay packages.

The official government numbers aren't in yet, but some experts say that Florida, California, Arizona and Nevada — states that enjoyed red-hot housing markets — probably are in a recession now, due

largely to the housing bubble collapse. Florida and Nevada were hit particularly hard, because they do not have state income taxes. Unemployment in all four states has gone up, in some cases by 1 percent.

While 1 percent doesn't sound significant, researchers at the Urban Institute estimated in February that a 1 percent hike in the unemployment rate translates into 2.5 million people nationally losing their employer-sponsored health insurance, Medicaid rolls increasing by 1 million and ultimately a 3 percent to 4 percent decline in state revenues.

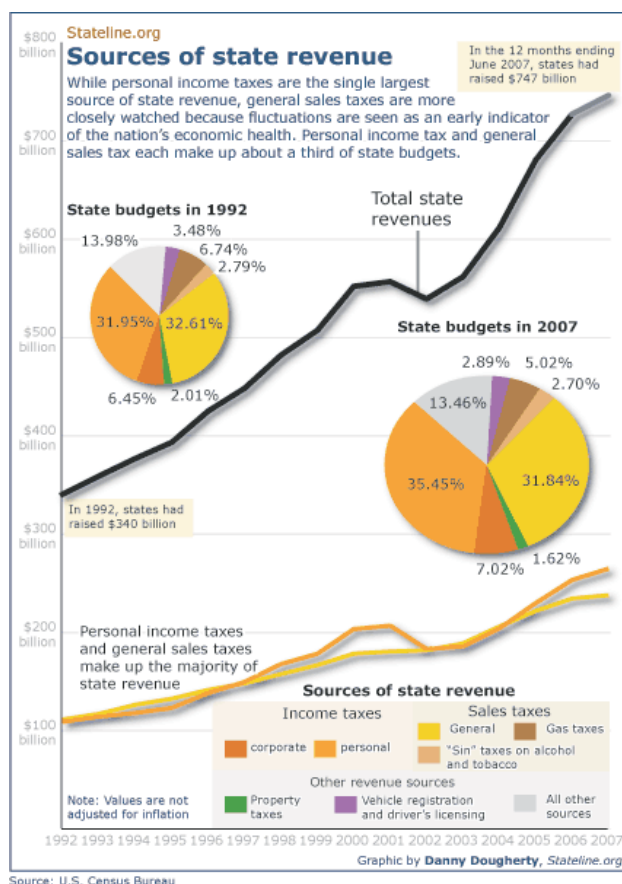
"The state budget picture is pretty gloomy," said Sujit CanagaRetna, a tax and budget expert for the Council of State Governments.

Wall Street isn't helping much either. The recent collapse of Bear Stearns & Co. could mean millions of dollars lost to states that invested in that troubled firm before JPMorgan Chase & Co bought it, with federal backing. Alaska, for example, lost \$3 million when the nearly 44,000 shares of Bear Stearns stock it owned tumbled from \$88.25 a share earlier this year to under \$5, *The Anchorage Daily News* reported. States, like Ohio, that bought shares of both Bear Stearns and JPMorgan, fared better since the increase in JPMorgan stock negated the Bear Stearns freefall.

New York could take a hit in another way from the Bear Stearns buyout. The expected job losses on Wall Street mean less income and sales tax revenue for the state. A booming stock market translates into higher corporate profits and hefty bonuses for investment bankers, with the state getting a cut. In good times, Wall Street can account for up to 20 percent of New York's revenue.

Some budget experts see parallels between today's bleak economy and the 2001 national recession. Then, states had to close \$264 billion in budget gaps over five years, forcing them to dip into their rainy-day funds, cash out their tobacco settlement money and cut back programs such as dental care for poor people and road construction projects.

Today, 22 states have a collective budget shortfall of at least \$37 billion, which is about the same size deficit they had at the start of the 2001 recession, said Lav of the Center on Budget and Policy Priorities. If the current downturn follows the path of previous recessions, 35 to 40 states could face bud-



get cuts in 2009, the National Governors Association recently estimated.

Deficits are a far greater problem for states, because, unlike the federal government, states must make cuts or even raise taxes to balance their budgets.

CanagaRetna said 2001 was different because states were coming off the boom times of the 1990s and didn't have a backlog of unfinished projects as they do now. States are still trying to rein in health care costs and improve their education systems, which together eat up more than 60 percent of state spending. But states also are trying to figure out a way to fix the country's crumbling infrastructure, pegged at \$1.6 trillion, collectively.

Another budget headache for states is the prospect of paying looming health care and pension benefits for retiring state workers. The cost is estimated to total \$2.73 trillion over the next 30 years, and states are \$731 billion short, according to the Pew Center on the States. "States are taking a pummeling when they are already down," CanagaRetna said.

States are considering an array of ideas to balance their ledgers without cutting programs or raising income taxes. Massachusetts and Kentucky both are considering raising the state tax on cigarettes and legalizing casino gambling. New Jersey and Penn-

sylvania are among states eyeing tolls on state roads or privatizing their turnpikes. Illinois and California are looking to raise user fees on parks.

Jonathan Williams, who heads tax and fiscal policy for the American Legislative Exchange Council, a conservative group that lobbies for limited government, applauded states that socked money away in their rainy-day funds, but said it was disturbing that they "play a lot of games" with these funds, dipping into them before a state is hard-hit.

He and other critics blame officials for not anticipating another downturn. "States didn't do a good job preparing for the inevitable," said Pete Sepp, a spokesman for the National Taxpayers Union, which advocates lower taxes. "Sure the inevitable happened sooner than anyone thought," Sepp said, but he criticized states for going "on such a spending spree." State spending grew a robust 9.3 percent in fiscal 2007, far above the 30-year average of 6.4 percent, according to figures from the National Association of State Budget Officers.

"In the last three or four years, states saw strong revenues and never had to make the tough choices," Williams of ALEC said.

*Stateline.org* staff writer Pauline Vu contributed to this report.