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*Budget Pain Hits States, With Relief Not in Sight*

By Jennifer Steinhauer

Squeezed by high inflation, dwindling tax revenues and a national economic downturn, states from coast to coast have struggled to close yawning budget gaps while bracing for another difficult fiscal year, which in most states begins Tuesday.

State tax revenues, adjusted for inflation and tax cuts, fell 5.3 percent in the first quarter of 2008 compared with the same time a year ago, according to a report to be released Tuesday; it was the third quarter in a row that total adjusted revenue declined. The first quarter revenues were the weakest among states since early 2003.

Sales tax revenues, the beating heart of many budgets, were essentially flat for the first time in six years. Corporate income taxes declined 5.1 percent from January to March compared with the same period the previous year — the third straight quarterly decline. And 12 states showed a falling off in personal income taxes, though revenue from those taxes rose 4.4 percent nationwide.

**Continued weakness in the national economy dims prospects for states in the near future, according to the authors of the report, by the Nelson A Rockefeller Institute of Government in Albany, which tracks state revenues.**

**“There are signs that the economic weakness is very widespread,” said Don Boyd, a senior fellow at the institute’s fiscal studies program. “Between this past May and three months prior, a lot more states were declining, and we have not caught up with them in the data yet.**

**“Many more states,” Mr. Boyd continued, “are having outright declines in their economies,**

**and that is presumably a harbinger of budget problems.”**

Many state legislatures have been embroiled in pitched budget battles, with education, social services and fees in the crosshairs.

The states with the biggest budget troubles are those where the nation’s mortgage crisis has hit the hardest.

Among them is California, which faces a \$17 billion shortfall. Gov. [Arnold Schwarzenegger](#) wants to borrow against future proceeds from the state’s lottery program to shore up finances. Mr. Schwarzenegger is battling both fellow Republicans, who would like to see more spending cuts, and Democrats, who are seeking to protect education and social services.

In Nevada, where the Legislature is not officially in session, Gov. [Jim Gibbons](#), a Republican, called last week for state agencies to cut their budgets by 4 percent on top of \$914 million in previous cuts in the current two-year budget cycle — all toward closing a \$275 million deficit. Layoffs are also expected.

“Revenues continue to decline,” Mr. Gibbons said in a televised address, adding that for “the first time in at least the past 30 years, the state will take in less revenue this year than it did last year.”

The Arizona Legislature struggled to end its session as lawmakers wrangled over how to pay for capital improvement projects with a \$2.2 billion budget gap that was enormous in proportion to the state’s \$9.9 billion spending plan.

**States in the Southeast also felt a tremendous pinch. Sales tax revenues declined on average 3.8 percent in the region, which had 9 of the 23 states that posted such declines, according to the Rockefeller report.**

For example, Kentucky has endured one of the largest budget problems in its history, and faces a \$900 million budget gap over its next two fiscal years. While the [Medicaid](#), K-to-12 education and corrections programs enjoyed modest increases, the majority of other agencies were forced to cut by 12 percent, said Mary Lassiter, the state's budget director.

**Ms. Lassiter said the state was unable to keep up with expenditures that began during the good times a few years back and, as the Rockefeller report cited for other states, inflation, particularly in gasoline prices, further hampered the budget.**

"The same dollar is not buying as much, especially in the fuel area," she said. "Many of our agencies have large transportation costs."

Tennessee dealt with its woes by offering a voluntary buyout package that it hopes will yield 2,000 fewer state jobs. April was the worst month on record for revenue growth in the state.

Unlike other economic downturns, when states were hurt by faltering corporate and personal income tax revenue, problems this time appear to be led by declines in sales taxes, prompted in large part by the issues with the housing market.

This has been particularly painful for states like Florida and Tennessee that have no personal income tax and rely on people buying things.

"We saw a problem with the sales taxes, and it just got worse," said Lola Potter, a spokeswoman for the Tennessee Department of Finance and Administration. "Most people would agree that consumer confidence was down a bit. If they're not buying, we're not collecting the sales tax."

Other states, like California, have looked to their lotteries for revenue growth or borrowing; some, including New York, raised the tax on cigarettes. Many continued to be constrained by high Medicaid costs, even as they sought to increase access to health insurance.

Acrimony between the governor and the legislature has marked the budget processes in some states. In other places, though, elected officials have hunkered down to undertake the grim task of cutting.

"This was one of the smoothest sessions I have ever been part of," said Ken Pruitt, the president of the Florida Senate, where \$6 billion in cuts were needed to compensate for the hammered housing market. "And a lot of that had to do with the cold hard reality of a tanking economy."