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States face tough choices as budget crisis deepens

By Juliet Williams

SACRAMENTO, Calif. (AP) — Gov. Arnold Schwarzenegger is laying off as many as 22,000 state employees. New York's governor is raising the possibility of selling — or more accurately, leasing — the Brooklyn Bridge. Nevada is burning through its rainy-day fund like a gambler on a losing streak. And Maryland is pinning its hopes on slot machines.

With the economy in a slide and the housing market in crisis, states are collectively rolling up tens of billions of dollars in budget deficits in one of the worst financial crunches in the U.S. since the 1970s.

The startlingly rapid drop-off in tax revenue is forcing many states to make some hard decisions: Raise taxes? Cut programs and jobs? Dip into reserves? Borrow money? Lease or sell state assets?

"They're all terrible choices," Nevada Assembly Speaker Barbara Buckley said of the cuts her state made in a special session last month. "I believe we should never have to make these kinds of choices ever again."

Worse, economists say the red ink is only going to get deeper later in the fiscal year when tax returns start coming in.

"The big question is when will states hit the bottom? We don't know," said Arturo Perez, a fiscal analyst with the National Conference of State Legislatures in Colorado.

As of June, more than 30 states faced deficits totaling a projected $40 billion, or more than triple the gap of the previous year, according to the NCSL.

California, which still does not have a budget for the fiscal year that began July 1, is looking at a $15.2 billion deficit, an amount that dwarfs that of all other states. The next highest at the start of the fiscal year was New York's, at $5.2 billion.

California lawmakers are at odds over how to deal with the problem. The Democrats are proposing a combination of spending cuts and $9.7 billion in higher taxes and fees. The Republicans oppose any new taxes but haven't come up with the spending cuts to close the gap.

In addition to eliminating up to 22,000 part-time and temporary jobs Thursday, Schwarzenegger imposed a hiring freeze and ordered that as many as 200,000 state workers receive the federal minimum wage of $6.55 an hour until a budget is passed — a move that is certain to be challenged in court, even though the employees will get their back pay eventually.

"I will not be able to pay my rent, buy food or put gas in my car to transport my children," said Roz Myers, a receptionist for a state agency who protested in front of the Capitol this week over the plan.

Among those facing the loss of their jobs are retired state employees who work under contract, temporary and part-time workers such as those who fill in at the Department of Motor Vehicles, seasonal employees and student assistants.

"Today I am exercising my executive authority to avoid a full-blown crisis and keep our state moving forward," Schwarzenegger said. "This is not an action I take lightly."

Most states so far have avoided the kind of tax increases California is considering. Instead, they have opted to cut state spending, tap their rainy-day funds or launch big — and risky — borrowing programs.

Among the hardest hit are states coping with the fallout from the mortgage crisis: Nevada faced a deficit that was 21 percent of its overall budget, with

Arizona at 19 percent and California at 15 percent. Alabama, Maryland and Rhode Island were close behind, with deficits ranging from 12 percent to 14 percent of their overall spending plans.

New York Gov. David Paterson is summoning lawmakers into an emergency session in mid-August to deal with a "mammoth collapse in revenue," including a 97 percent drop in banking taxes from a year ago. He ordered a hiring freeze and called for a $1.23 billion cut in state spending that could affect such things as colleges and hospitals. He has also proposed leasing state roads, bridges and tunnels as well as the lottery to outside companies.

Nevada Gov. Jim Gibbons has refused to raise taxes and instead signed a budget that withdrew $267 million from the state's rainy-day fund, or most of the reserve. He also slashed agency budgets and delayed construction projects to help cover a $1.2 billion shortfall in the $6.8 billion budget.

Minnesota used nearly half its rainy-day fund this year, or $500 million, and Massachusetts tapped its fund for $310 million.

Arizona legislators narrowly agreed to a spending plan in time to avoid a partial shutdown of state government. The plan closes a $2 billion gap through a combination of spending cuts, borrowing, the taking of money from special-purpose funds, and the deferral of some spending until the next fiscal year.

Maryland voters will be asked in November to legalize slot machines to help generate hundreds of millions of dollars in the next few years. That would be on top of a 1 percent increase in the sales tax, a restructuring of the income tax system and $500 million in cuts.

Similarly, Schwarzenegger has proposed that the state borrow against the next three years of lottery earnings, while several states want to turn some of the installment payments they will receive under the settlement with Big Tobacco into a lump sum they can use now.

Nine states have imposed hiring freezes, according to the NCSL.

Legislators in Tennessee are hoping as many as 2,200 state employees accept voluntary buyout offers by next week, or the state will face layoffs. About 1,600 have accepted the buyout so far, Gov. Phil Bredesen said this week. The state also made cuts to higher education, pre-kindergarten and environmental programs.

A few states have been spared the tough choices this year, mostly those that rely on natural resources for much of their revenue. Rising prices for oil and gas in places like North Dakota and Alaska and booming demand for corn in the Midwest have led to surpluses in some states.

Economists are warning of further revenue losses in the months ahead that could force lawmakers in many states to reopen their budgets and make midyear cuts.

Don Boyd, a public policy researcher with the Rockefeller Institute of Government in New York, said states will face the second wave of lost revenue next year when residents and businesses file tax returns reflecting their heavy losses on the stock market.

"You should expect significant proposals from governors, certainly for spending cuts, probably for more tax increases and certainly for more gimmicks," he said. "And I'm sure you'll see hiring freezes and layoffs."

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