



State Budgets Caught in Economic Freefall

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As the U.S. economy heads towards a recession with a \$455 billion deficit, state governments have found themselves swept up in the economic crisis as well.

Over thirty-five states are dealing with budget shortfalls this year totaling \$31.2 billion. As a result, many states have started cutting budgets, with education, public health, correctional services and transportation among the top targets. State agencies have also instituted hiring and salary freezes to reduce their budget deficits.

“It is not a pretty picture, and it warns of worse times ahead” said Scott Pattison, executive director of the National Association of State Budget Officers (NASBO).

According to the Center on Budget and Policy Priorities (CBPP), which tracks state budgets, the last time that state budgets have experienced such major shortfalls was during the 2002-2005 recession period.

The CBPP [projects](#) that California, New York, Georgia, Illinois, Massachusetts, New Jersey, and Ohio will have a 2009 budgetary gap in the low billions. They also project that other states such as Mississippi, Hawaii, Kentucky, Pennsylvania, Virginia and the District of Columbia will start the 2009 fiscal year with a budgetary deficit ranging from \$27 million to \$800 million.

CBPP Deputy Director Iris Lav said that the current economic problems facing state governments aren't due to the usual factors such as low income and sales tax revenues or rising unemployment. Rather, the shortfalls are due to “weak consumer spending, high energy prices, dropping housing values and growing foreclosure rates,” the same issues facing the federal government. Also, some deficit woes are area specific, such as the manufacturing downturn (Ohio, Michigan), hurricane/flood recovery (Texas, Idaho), and the housing implosion (Arizona, California).

States typically look to spending cuts on social services, public safety, and schools as a main way to combat deficits. They also may tap into reserves or rainy day funds, or try to increase revenues by raising taxes and service fees.

In recent years, state governments have experimented with nontraditional ways to save money: changing to a four-day agency work week; releasing non-violent prisoners early to save on incarceration costs; eliminating state aid to small towns to get them to merge with their larger neighbors; consolidating state services; or getting tough on collecting library fines.

Unfortunately, the current economic crisis has not given states much time or wiggle room to come up with inventive budgetary cuts, so many states are looking first to the standard cost-cutting measures. This means cuts in services, layoffs and work furloughs, and possibly higher taxes.

Here's a breakdown of what eleven states and the District of Columbia have proposed to combat their 2008-2009 budget deficit woes:

- Alabama will cut \$200 million from its state agency budget and plans to reduce \$358 million in funding to its public schools, colleges and universities. The state will also withdraw money from its rainy day account; institute hiring freezes and withhold merit pay in order to reduce its \$784 million deficit.
- California issued an executive order that requires state agencies to reduce their payroll by 10 percent and force state employees to take two days off a month without pay. As part of its efforts to decrease the state's \$15 billion deficit it has also slashed \$100 million of funding for several local law enforcement programs. The savings will be directed to the state's General Savings Fund. Gov. Arnold Schwarzenegger has also asked state colleges and universities to reduce costs via layoffs and hiring freezes.
- The District of Columbia plans to make cuts to some city agencies to reduce its \$131 million budget gap. The proposed cuts would primarily affect the police, health and transportation departments.
- Indiana announced that state agencies will have to cut their budgets by an additional three percent. The agencies had been asked to make seven percent in cuts earlier this year. Furthermore, state employees and legislators will not receive pay raises, out-of-state travel will be significantly reduced, and hiring of new state employees will be limited. Gov. Mitch Daniels said that the state's \$763 million deficit gap needs to be closed with cuts and that he has no plans to raise taxes.
- Maryland's almost \$2 billion deficit has led to \$37.9 million in funding cuts to its public colleges and universities and state employees losing between two and five days of salary. State libraries have also seen expected aid in the amount of \$3 million deferred for a couple of years. The state has not ruled out layoffs, which might occur by the end of the fiscal year.
- Michigan's \$292 million deficit will be cut in various ways, mainly by reducing government expenditures such as limiting the number of leased cars, eliminating color copying and cutting back on cellphone use by state employees. There will also be an additional \$100 million in social service cuts.
- Nevada plans to secure a \$150 million line of credit and clear out any state budget accounts that are not needed for ongoing expenses. Its \$1 billion deficit has led Gov. Gibbons, who was elected on a no-tax-increase platform to state that "all options are on the table" which includes a possible tax increase.
- New Jersey's \$1.2 billion deficit has caused it to make over \$600 million in cuts including elimination of its municipal homeland security assistance program, which provided additional aid to its police departments.
- New York plans to reduce its \$15 billion budget deficit through service cuts and taxes. Gov. Patterson has suggested the taxing of music downloads, taxi rides, soda, beer, wine, cigars massages, cable and satellite TV services. He has also proposed a state reduction in school aid and healthcare; state worker layoffs; and eliminating seven state agencies.

- Pennsylvania plans to eliminate its \$1.6 billion deficit with spending cuts, accessing its money reserves, and extending gas-drilling leases in state forests. The budget cuts vary from highway and road improvements to social services. Also, thousands of nonunion state employees will go without a cost-of-living salary increase. Gov. Ed Rendell said that the state will “weather the next year and a half” without a broad-based tax increase or layoffs.
- Virginia is interested in doubling its sales tax on cigarettes, which could bring in an extra \$150 million in state revenue to help reduce its \$2 billion deficit. It has also proposed eliminating its dealer discount program which allowed local retailers to keep a portion of the sales tax. Another proposal is to scale back the amount of credit paid to landholders who have agreed to preserve their land.
- Washington State’s projected \$6 billion deficit has caused it to rethink its plan to curb climate change, which would have added solar panels to a few state prisons and increased energy efficiency in public buildings. The state’s budget cuts will be across-the-board cuts in areas such as human services and education.

Even with all of the state budget cut proposals and/or enactments, the Center on Budget Policy Priorities reports that twenty-eight states have forecasted continued budgetary distress into the 2010 fiscal year. Accordingly, Gov. Rendell of Pennsylvania and rest of the state governors are hoping that the federal government will provide some much needed budgetary assistance via an economic stimulus package.

Though the most expedient method to eliminating budget deficits and raising revenue would be to increase taxes, many states have not gone down this path yet. But if the budgetary crisis for states drags on, you can be sure all options will be on the table.

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