

Red ink overtakes state budgets

Big shortfalls, bleak economy force deep cuts

By Haya El Nasser
USA TODAY

Squeezed by the worst budget crunch in almost a decade, states are scrambling to cut spending, avoid raising taxes and spare education.

It's a tall order for a growing number of states that are taking in less money than they had budgeted. Seven governors have called for emergency legislative sessions halfway through their fiscal years, and several states have dipped into their rainy-day funds.

The bleak economy has been hurting tax revenue for months. As revenue tumbled, the cost of Medicaid and prescription drugs soared. That pinched states even more.

The fiscal picture became bleaker after the terrorist attacks Sept. 11, especially in states such as Florida that rely heavily on tourism. Now governors say they'll need \$4 billion in federal aid next year to help them guard against possible terrorist attacks.

According to a survey being released today, 35 states face a total budget shortfall of more than \$25 billion for this fiscal year — the worst since 1992.

"They're all going to have to cut spending or increase taxes," says Ray Scheppach, executive director of the National Governors' Association, which is releasing the survey with the National Association of State Budget Officers.

Most states are trying desperately to balance their budgets without resorting to tax increases. After years of tax cuts, only a handful of states, including Arizona and Wisconsin, have raised taxes. Most of those have raised taxes on sales and cigarettes, or they have closed corporate tax loopholes.

"Everything's on the table," says Arturo Perez, senior policy specialist with the National Conference of State Legislatures. "And given the size of their shortfall, you would expect everything would be on the table."

The governors' association's latest survey shows that 43 states and the District of Columbia report revenue that falls below forecasts. That means furloughing or laying off state employees, delaying school construction and road repair, and lowering benefits for some Medicaid recipients.

The cuts might not end there. As state legislatures reconvene in January, the big worry will be the fiscal 2003 budget.

Shortfalls in state budgets



Thirty-five states are reporting they expect budget shortfalls next year; some also expect that the shortage will extend into 2004.

The states and amounts they might fall short:

| | | | |
|---------------|--------------------------------|----------------|--|
| Alabama | More than \$78 million | Minnesota | \$600 million to \$1 billion |
| Arizona | \$1.6 billion in 2 years | Mississippi | \$80 million |
| Arkansas | \$19.7 million | Missouri | \$324 million |
| California | \$8 billion to \$14 billion | Nebraska | More than \$57 million |
| Colorado | \$385 million | New Jersey | \$1.9 billion |
| Connecticut | \$300 million | New York | \$3 billion |
| Florida | \$1.3 billion | Ohio | \$1.5 billion |
| Georgia | \$600 million | Oregon | \$208 million |
| Idaho | \$53.7 million | Rhode Island | \$80 million to \$100 million |
| Illinois | \$300 million to \$450 million | South Carolina | \$500 million |
| Indiana | \$450 million to \$600 million | South Dakota | \$11 million this year; \$40 million in 2002 |
| Iowa | \$108 million | Tennessee | \$300 million to \$400 million |
| Kansas | \$90 million | Utah | \$177 million |
| Kentucky | \$500 million to \$700 million | Vermont | \$35 million |
| Maine | \$86 million | Virginia | \$1 billion |
| Maryland | \$124 million | Washington | \$800 million |
| Massachusetts | \$1.35 billion | Wisconsin | \$300 million to \$1.3 billion by 2004 |
| Michigan | \$514 million to \$826 million | | |

Sources: National Association of State Budget Officers; National Governors' Association

By Dave Merrill, USA TODAY

If the economy remains weak, there might be deeper cuts and more talk of raising taxes.

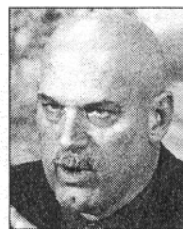
What states are doing:

► Florida's Legislature just ended its second special session this year with a vote to cut \$1 billion from its \$50 billion budget — mostly out of schools, social services and other programs.

School districts face a 2.5% cut in funding, which could mean layoffs or unpaid leaves.

The Department of Juvenile Justice lost 171 probation officer positions, and some prison drug treatment and education programs have been eliminated.

► Arizona is trying to erase a budget deficit of \$1.6 billion over 2 years through deep cuts in social service programs and prisons, and a 6% cut to nearly every state agency except public



Ventura: "Nothing is off the table."

safety and schools. The state also is eliminating the Commission on Indian Affairs, a liaison between tribes and the state.

► New Jersey Gov.-elect Jim McGreevey is considering having the state borrow up to \$2 billion from the state's federal tobacco settlement to help ease an almost \$2 billion shortfall.

► Minnesota Gov. Jesse Ventura has raised the possibility of taxing goods and services that are not taxed now.

Ventura says he will look at cutting spending in all areas before pushing for a tax increase. "Nothing is off the table," he says.

► The Ohio Lottery Commission might be allowed to participate in a multistate lottery that could bring in \$41 million a year. Officials also want to



Huckabee: Budget cuts are better than raising taxes, Arkansas governor says.

borrow from the state's savings account and tobacco settlement money.

► Illinois, which cut \$450 million from its budget, is running out of school construction money for the first time since a state fund was created in 1997. The \$70 million left in the fund will cover the needs this year of only the first seven schools on a 185-school waiting list.

► Arkansas is suspending college scholarship programs that will affect almost 4,000 students. The state is also cutting pay raises for teachers.

Budget cuts are better than raising taxes, Republican Gov. Mike Huckabee says. "I really believe that when you're in a recession, raising taxes is like asking a bleeding hemophiliac to give blood to the Red Cross."

To needle those pushing for a tax increase, Huckabee set up a "Tax Me More" fund last month. Anyone who wants to pay more taxes can "put up or shut up," he says. The fund has raised \$260 so far.

► California, which planned to expand Medicaid coverage for low-income parents, is delaying doing so until July 2003.

"The net result is that more than 100,000 parents are not going to get coverage," says Leighton Ku, senior fellow at the Center on Budget and Policy Priorities in Washington.

► Tennessee, which faces a \$300 million to \$400 million shortfall, is cutting almost \$110 million in state services. That means postponing much-needed repairs to state buildings, says state architect Mike Fitts, and delaying a \$90 million expansion of the Tennessee State Museum in Nashville.

The state also shut down parks, such as the Norris Dam State Park in Anderson County, north of Knoxville.

"It's bleak," Fitts says.

USA Today 12/10/01