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STATE BUDGET TROUBLES WORSENING: 13 STATES FACE NEW SHORTFALLS

Just weeks after more than half of the states closed shortfalls in their 2009 budgets totaling \$48 billion, the budgets in 13 of those states have fallen out of balance again, according to a new report by the Center on Budget and Policy Priorities. In the six of these 13 states that have made specific estimates, the new gaps total \$4.4 billion, or 4 percent of their budgets. These new shortfalls, which reflect the continuing weakness of the economy, highlight the growing need for the federal government to provide fiscal relief to states, as it did in the last downturn.

“If states close large budget gaps by cutting things like health care for low-income families and services for seniors, that won’t just harm some of the very people already struggling as a result of the sour economy, but will also slow the economy further,” said Iris Lav, deputy director of the Center and one of the authors of the report. “Congress can help states avoid such damaging cuts by providing fiscal relief in a timely manner.”

State Budget Problems Worsening: 13 States Face New Shortfalls



The 13 states facing new, mid-year shortfalls for fiscal year 2009 (which began on July 1 in most states) are **Arizona, Connecticut, Florida, Georgia, Illinois, Massachusetts Nevada, New Hampshire, New York, Ohio, South Carolina, Vermont, and Virginia.** Both the size of the shortfalls and the number of states affected will likely increase in coming months if state revenues remain weak. State sales tax revenues have been hurt both by the bursting of the housing bubble (which has reduced sales of products such as appliances and furniture) and by slower consumption of other products, and job losses are reducing state income tax revenues.

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States Already Strapped for Funding

Twenty-nine states moved to close \$48 billion in shortfalls as they adopted their budgets for this fiscal year. (Two of these states, California and Michigan, have yet to adopt final 2009 budgets.) In general, states closed those gaps through some combination of spending cuts, use of reserves, and revenue increases. Spending cuts around the country include:

- At least 13 states have implemented or are considering cuts that will affect low-income children's or families' eligibility for health insurance or reduce their access to health care services.
- At least 13 states are cutting or proposing to cut K-12 and early education; several of them are also reducing access to child care and early education.
- At least 11 states are cutting medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities, or are significantly increasing the cost of these services.

"A number of states are cutting into essential programs and services, including health care," said Liz McNichol, senior fellow at the Center and one of the authors of the report. "This new round of mid-year budget shortfalls means those cuts are likely to deepen and spread to other states."

In addition to potentially placing vulnerable populations at risk, cutting services can worsen a downturn by taking money out of the economy. Similarly, tax increases — states' other main tool for closing budget gaps — can further slow a weak economy (although not as much as budget cuts do).

Timely Fiscal Relief Can Minimize Damaging Service Cuts and Tax Increases

In the recession in the early part of this decade, the federal government provided states with \$20 billion in fiscal relief. That helped states minimize the need for service cuts and tax increases as they struggled to balance their budgets. Yet because Congress did not enact fiscal relief until 2003, many months after states' budget problems began, it was much less effective than it could have been.

"Fiscal relief works best in protecting vulnerable populations and boosting the economy when Congress provides it in a timely manner," Lav said.

Fiscal relief could be delivered to states through an increase in the federal matching rate for state Medicaid costs, through a block grant to states, or — as in the last recession — through a combination of the two.

The Center's report, "State Budget Troubles Worsen," is available at <http://www.cbpp.org/9-8-08sfp.htm>.

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