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STATES ARE MAKING DEEP BUDGET CUTS IN RESPONSE TO THE FISCAL CRISIS

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States are facing budget deficits of approximately \$100 billion that must be closed over the next several months — \$25 billion in deficits for the current fiscal year and between \$70 and \$85 billion for the fiscal year that begins in June. These deficits are on top of approximately \$50 billion in gaps states closed when their fiscal year 2003 budgets were enacted last year.

State balanced budget requirements mean that states are forced to close these deficits. As a result, states have been cutting budgets for important public programs and services, including education, health care, and public safety. This brief analysis provides examples of the increasingly painful reductions in public services states are enacting in the current fiscal year, as well as a first look at some of the cuts governors are proposing for the upcoming fiscal year. It is not an exhaustive 50- state survey, but rather intended to be indicative of the types of actions states are taking.

Health Care

A large number of people are becoming uninsured as a result of the fiscal crisis. Budget cuts already enacted have eliminated Medicaid coverage for hundreds of thousands people nationwide. If the cuts proposed in governors' budgets in just 22 states for which we have detailed information are enacted, the number of people fully losing their Medicaid health insurance would rise to 1.7 million. These and other cuts in Medicaid, SCHIP, and related programs are detailed in a Center report by Melanie Nathanson and Leighton Ku, *Proposed State Medicaid Cuts Will Jeopardize Health Insurance Coverage for 1.7 Million People: An Update*.

K-12 Education

States often try to avoid mid-year education cuts to minimize disruption to school district budgets. Nevertheless, at least 11 states are implementing or planning mid-year K-12 reductions for the 2002-03 school year. These mid-year reductions are having significant impacts, resulting in teachers and other staff members being laid off, and in reductions in the length of the school year.

- In **Oregon**, more than 50 school districts will shorten the 2002-03 school year by several days to several weeks to save money. In Portland, for instance, the school year will be shortened by 24 days this year.

- In **Oklahoma**, local school districts have been notified that they will receive about 8 percent less state funding for the current school year than they had expected. The state's largest school district, Tulsa, responded in part by increasing class size and replacing substitute teachers with volunteers.
- In **California**, the governor has proposed a \$2.3 billion mid-year cut in state aid to school districts that could result in layoffs or other changes in September. Additional cuts are proposed for the upcoming fiscal year.
- In **Missouri**, the governor announced a mid-year cut of 11 percent in aid to local school districts unless the legislature approves a plan to "securitize" tobacco settlement funds in the next few weeks; school district officials have been quoted as saying they would need to lay teachers off to absorb such cuts.
- Half of the school districts in **Kansas** have cut staffing due to limited funding, according to a survey of school officials there.

A number of states are anticipating additional cuts in aid to public schools for the 2003-04 school year.

- In **Alabama**, where school funding is directly linked to tax revenues, an anticipated \$200 million revenue drop is expected to cost some 2,000 teachers and staff their jobs.
- **Nebraska's** governor proposes cutting aid to schools by \$65 million, a reduction of ten percent compared to the current year.

Higher Education

State colleges and universities in at least six states have instituted unusual mid-year tuition increases this spring. These unanticipated tuition increases have played havoc with the financial arrangements students thought they had in place for the school year.

- In **California**, spring semester tuitions are rising 10 percent to 12 percent. In **Virginia**, tuition at Virginia Tech is up 13 percent and at Virginia Commonwealth University is up 11 percent. **Oregon** universities raised tuition 13 percent for the spring.
- Tuition also has been raised mid-year in **Connecticut, Maryland, and Delaware.**

These tuition increases are in addition to tuition increases enacted in many states that are effective for the entire 2002-03 school year. In 16 states, tuition for the current school year is up more than 10 percent in some or all of their state colleges and universities. The states with greater than 10 percent tuition increases are **Idaho, Indiana, Iowa, Kansas, Kentucky, Massachusetts, Missouri, New York, North Carolina, Ohio, Pennsylvania, South Carolina,**

South Dakota, Texas, Virginia and **Washington**, according to the National Association of State Universities and Land Grant Colleges.

University regents in **Alaska, Connecticut** and **Kentucky** already have approved tuition increases of more than 10 percent for the 2003-04 school year; regents in **New York** have approved a similar increase that would need legislative approval. In **Nevada** the increase will be 7.6 percent. Governors in **California, Florida, Massachusetts, Minnesota, New Jersey, Utah,** and **Wisconsin** are recommending large tuition increases in their 2004 budget submissions; other governors, such as those in **Maryland, Nebraska,** and **Michigan,** are proposing cuts in aid to universities that likely will lead to tuition increases.

In addition, universities in **Connecticut** and **Virginia,** among others, are cutting staff and canceling courses. Virginia's state colleges and universities anticipate employing 1,470 fewer faculty and offering 2,800 fewer courses in the 2003-04 school year than in the current year.

The **New York** budget also proposes a cutback in tuition assistance, despite higher tuition. Under the proposal, one-third of a student's tuition assistance award would be withheld until he or she graduates. This would create problems for low-income students that do not have alternative resources from which tuition payments could be advanced.

Child Care/TANF

A large number of states are cutting child care subsidies for poor and near-poor working families, making it difficult for many parents to remain in the workforce. For example:

- In **Indiana,** 7,000 children are slated to lose child care subsidies because of reductions in funding for fiscal year 2003.
- **Maryland's** governor has proposed reducing funding for child care assistance by \$25 million. This is funding which would have helped pay for child care for 10,000 children in low-income families.
- Cuts in child care funding in **Arizona** are expected to result in a waiting list of more than 17,000 for 2003.
- The proposed budget for **Connecticut** would cut \$40 million from child care assistance programs, causing 30,000 children to lose the help they currently receive.
- **Montana** has been cutting its child care budget throughout the fiscal crisis. As a result, about 500 child care centers in the state closed in 2002, leaving many parents without care.
- In **Ohio,** proposed cuts in child care would eliminate slots for 17,500 low-income children.

- **Massachusetts** has eliminated all funding for employment services for current and former cash recipients. This terminates education, training, job search, and transportation services. The state also eliminated an eviction prevention program, which helped about 8,000 families pay back rent last year.

Courts and Public Safety

At least nine states are considering or implementing cuts in corrections budgets in the current fiscal year, according to the National Conference of State Legislatures; they are **Colorado, Georgia, Michigan, Montana, New Hampshire, New Jersey, Oregon, Utah** and **Virginia**. Other states also are taking actions to reduce the costs of prisons and courts:

- In **Kentucky**, 567 non-violent prisoners were released in December and another 316 were released in mid-January to reduce prison costs.
- Funding for attorneys who provide counsel to low-income people has been cut in **Kansas, Kentucky** and **Oklahoma**.
- Several states, including **Ohio, Oregon** and **Pennsylvania**, plan to close prisons or postpone opening new prisons that already have been constructed.
- **South Carolina** has already shut down two prisons over the last year, but new data show that the number of prisoners has increased during that period, resulting in about 1,600 prisoners sleeping in gymnasiums or living three to a two-person prison cell. Florida's governor has proposed cutting funding for the juvenile justice system 10 percent.

Aid to Localities

One way states can meet their balanced budget requirements is by cutting aid to local governments rather than cutting programs directly funded by the state. Nine states are implementing or considering cuts in local revenue-sharing for the current fiscal year, according to NCSL. Additional such cuts are planned in other states for FY 2004. Reductions in aid to localities usually lead to cuts in services and programs such as social services or public safety that local governments provide. Alternatively, such cuts may lead to local property tax increases. The following are examples of cuts in state aid to local governments.

- Revenue sharing payments to local governments in **Michigan** already have lost about 10 percent of their buying power over the past two years, and the governor is proposing another three percent cut. These reductions are likely to result in cutbacks in services such as police and fire protection, health services, and services to seniors.
- **Nebraska's** governor proposes cutting aid to cities and counties by 10 percent in the upcoming year's budget.

- **Minnesota's** governor is proposing a 22 percent cut in aid to local governments over the next two years, a reduction of \$756 million.
- **California's** governor proposes a reduction in aid and other changes that will cost local governments \$5.1 billion.¹
- **Wisconsin** proposes to cut local aid by 3.9 percent this year, with an additional 6.8 cut to municipalities.
- In **Kansas**, the governor recommends an \$86 million cut in revenue sharing for cities and counties in the 2004 fiscal year. In **Massachusetts**, the governor in January cut aid to cities and towns \$114 million below the amount that had been appropriated for the fiscal year, and is proposing an additional \$232 million reduction below that level in his budget for the upcoming fiscal year. **Maryland** localities would lose \$100 million in transportation funding under the governor's proposal for FY2004.

State Employment

Nationwide, state government employment is declining in areas other than education. State governments employed 20,000 fewer non-education workers in December 2002 than they did in December 2001, according to the latest data from the U.S. Bureau of Labor Statistics.

At least eight states — **California, Colorado, Connecticut, Massachusetts, Oregon, South Carolina, Utah** and **Virginia** — have laid off state workers or are planning to do so in the current or upcoming fiscal year. Other states are using techniques such as early retirement, hiring freezes and attrition to shrink workforces.

Employment in higher education is greater than it was a year ago, in part as a response to continuing increases in higher education enrollment. Recent actions in a number of states, however, suggest that trend may not continue. In **Connecticut**, for instance, the governor ordered some 400 layoffs from state universities as part of an overall firing of 2,800 state workers.

¹ This amount does not include a proposed shift of many California social services programs to the local level; according to the governor, the cost of providing these programs would be financed by several new taxes.