



States' Budget Crises Will Hurt Millions

Uneasy Economy: Painful Round of State Budget Cuts to Hit Poor, Working Class

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Financially strapped states are looking to take away government health insurance and benefits from millions of Americans already struggling with a souring economy.

An Associated Press review of the budgets in all 50 states reveals coverage would be eliminated for hundreds of thousands of poor children, disabled and the elderly. More than 10 million people would lose dental care, access to specialists, name-brand prescription drugs or other benefits. About 20 million could see their care jeopardized by further cuts to doctors' reimbursements.

Health care is a choice target as governors and legislators confront the worst deficits they've faced in a decade or more, but that's not their only target: They're also considering cuts in aid to schools and universities, shrinking state workforces and even releasing prisoners before their sentences are completed.

Safety-net programs for the elderly, disabled and out-of-work also could be cut, even as the demand for those services is on the rise.

Despite the dire conditions, only a handful of states are seriously considering general tax increases or even modest hikes on the wealthy to close the gaps. Lawmakers say they fear such actions would only further stress the economy.

Instead, states are looking to increase lottery ticket sales, promote Indian gambling or further raise taxes on cigarettes and alcohol. Those taxes disproportionately hit the pocketbooks of the same poor and working-class that would be hurt by the spending cuts, studies show.

Nearly two dozen states are grappling with deep cuts and tax proposals to close shortfalls totaling more than \$34 billion. That includes California, where lawmakers have made emergency cuts and authorized billions in bond sales to halve a deficit once projected at \$16 billion through June 2009. Another dozen states are bracing for falling revenue.

In California alone, lawmakers already have cut more than \$1 billion in payments to physicians caring for 6.5 million people who rely on the state for health care. The move will push untold numbers from doctors' offices to overcrowded clinics and emergency rooms.

Gov. Arnold Schwarzenegger also has proposed cutting dental care for 3 million adults on Medicaid and benefits such as foot checkups for diabetes patients to detect infections that can lead to amputations.

"We're at the edge. If the same economic news continues, we're going to see cuts as deep as in the last recession, or worse," said Cindy Mann, executive director of the Center for Children and Families at Georgetown University.

"The juxtaposition is that every presidential candidate will now tell you that addressing health care coverage is first and foremost on people's minds. But the first line of defense has to be not letting us go backwards."

Unlike the federal government, which can spend more than the revenue it takes in, almost all states are bound by their constitutions to maintain balanced budgets.

Residents of Sun Belt states that had enjoyed a boom in housing construction and rising real estate prices will be particularly hard hit. The same is true for residents in states with significant financial-service industries. Those states face their largest deficits since the recession following 2001. Some are in their worst fiscal shape in decades.

Arizona must cut about \$1.2 billion, or 11 percent of state spending. Florida already has cut \$1 billion and is looking to shave another \$2 billion from its \$70-billion budget.

Wall Street firms, once geysers of tax revenue for New York, are slumping from tight credit and the subprime mortgage crisis — contributing to the state's \$4.1 billion shortfall. Nearly \$1 billion from Medicaid and other health care programs could be cut to help close the gap.

The budget pain is not spread equally from state to state, or even region to region.

Some states — especially Alaska, New Mexico, Wyoming and others rich in oil and gas reserves — are booming. In Wyoming, for example, a state savings fund from tax revenue from energy production will overflow with a projected \$4 billion by 2010.

Farm states, by and large, also are doing well. Growing worldwide demand for grains and an expected ethanol boom have pushed corn and soybean prices to record highs, prompting a buying spree by farmers in South Dakota, Nebraska, Kansas and Iowa.

Still, those states remain susceptible to falling consumer confidence, inflation and other economic pressures if the downturn intensifies, said Arturo Perez, a financial analyst with the National Conference of State Legislatures. But for now, they are relatively safe; they never had a housing boom, so they've been spared the housing bust that has stalled economies elsewhere.

"As one of our analysts in Kansas said, 'The reasons we don't have the hangover now is we missed the party,'" Perez said.

Clearly, the party is over elsewhere.

Under plans approved or working their way through nearly a third of the nation's state legislatures, coverage will be eliminated for hundreds of thousands of poor children, disabled and the elderly, as well as the mentally ill and even pregnant mothers.

In Arizona, primary care funding for community clinics would be cut by a third, or roughly 41,000 patient visits a year. In Hawaii, care for Alzheimer's patients would be cut.

In South Carolina, 70,000 poor children could be denied regular checkups and more than 5,000 would lose meal deliveries as the state considers cutting nearly 5 percent from its current-year budget.

In Ohio, the state's job and family services agency faces cuts. In Rhode Island, one in 10 elderly patients eligible for nursing home care could be pushed to cheaper settings, forced to rely on visiting nurses or family members for care.

State budget officials say they have no choice but to make substantial cuts to health and human services when revenue falls because it is one of the largest areas of state spending.

"We need to cut billions; we can't ignore the big areas where we do our spending," said Mike Genest, state finance director in California, where Schwarzenegger has proposed across-the-board cuts to most state agencies.

The middle class will not be far behind in feeling pain. Schools and public safety programs usually exempt in the first years of a downturn also are on the chopping block. Among other proposals:

—State colleges and universities in at least six states may have to boost fees for more than 4 million students to cover funding cuts. College-bound graduates in Florida and Idaho would lose scholarships.

—K-12 students in Alabama, Arizona and Florida could face more crowded classrooms or other effects of education cuts. Some lawmakers are looking to freeze teachers' pay or halt school construction.

—New Jersey Gov. Jon Corzine — grappling with a \$3.2 billion deficit, or nearly 10 percent of the state's general fund — wants to refinance the state's debts by targeting hundreds of thousands of commuters already hurting from high gas prices. They could pay twice as much for tolls by 2010 and see big increases every few years afterward. The cost of an average trip on the New Jersey Turnpike would rise from \$1.20 to \$5.85 within a decade. Corzine also wants to cut property tax rebates, and aid to localities, hospitals and state colleges and universities. He says New Jersey government must shed 3,000 jobs.

—Maryland, one of only two states to have approved general tax increases in the last year, may have to make cuts because of deteriorating revenue. University funding and money for Chesapeake Bay restoration may be cut.

—Schwarzenegger has proposed closing nearly one in five California state parks. Three other states would reduce park hours.

—Ohio and California may release tens of thousands of prison inmates before they complete their sentences.

At the same time they are considering such cuts, lawmakers are resisting broad tax increases or closing loopholes on businesses and the well-to-do to help cover the gaps.

In California, for example, Republican lawmakers blocked a measure last month to require buyers of luxury yachts, private planes and motor homes to pay state sales tax. Currently, they can avoid it by purchasing and keeping the property out of California for three months. Closing the loophole would have brought an estimated \$21 million to the state.

Alabama lawmakers recently rejected tax increases on companies operating natural gas wells along the state's coast, revenue that would have gone to cover increased Medicaid and prison costs.

Other governors who are trying to buck the trend are finding it hard. Illinois Gov. Rod Blagojevich is proposing to expand health care programs with about \$1 billion in new payroll taxes, but he's facing stiff resistance. And in New York, state Senate Republicans are opposing a plan to generate \$1.9 billion by closing corporate tax loopholes.

To avoid draconian budget cuts, some states are seeking creative solutions. Arizona Gov. Janet Napolitano, a Democrat, has proposed adding automated speeding ticket cameras to state freeways to raise \$90 million.

Diane Rowland, executive director of the nonprofit Kaiser Family Foundation's Commission on Medicaid and the Uninsured, said the current downturn could be particularly painful because there has been very little time since the last downturn for states to restore funding to benefits they cut.

Last time "they took out all the ways to make it more cost-effective," Rowland said. "Now, the only place to cut is at the core."

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Associated Press Writers Seanna Adcox in Columbia, S.C., and Solvej Schou in Los Angeles contributed to this report.

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