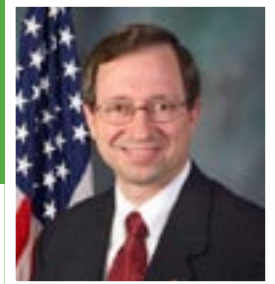




House Finance Committee Backgrounder



Rep. Samuel E. Rohrer
Republican Chairman

Putting State Budget Cuts in Perspective

Introduction

While any cut to government programs can be hard on those who directly benefit from taxpayer-funded services, it is important to keep things in perspective. Pennsylvanians who benefit from taxpayer-funded programs have fared far better than their counterparts in many states across the country.

Global Economic Recession Reduces Revenues

Like most other states, Pennsylvania is suffering from the effects of the global economic recession. The tax revenues that pay for government programs have plummeted in the midst of the recession.

- Job losses have had a negative impact on Personal Income Tax (PIT) revenues.
- Reduced incomes have forced consumers to cut back on purchases, which negatively affects state sales tax revenues.
- Bad economic conditions have also negatively impacted tax collections from corporations.



Most States Face Budget Problems

Pennsylvania is not alone in its budget troubles. In fact:

- “48 states have addressed or still face budget [problems] for fiscal year 2010 totaling \$194 billion or 28 percent of state budgets – the largest gaps on record.”
- 41 states have projected budget problems in fiscal year 2011 totaling \$102 billion or 16 percent of those states’ budgets.
- Total state budget problems for all states in 2010 and 2011 could exceed \$350 billion.

Many states face the same budgetary problems as Pennsylvania. Previous spending levels are simply unsustainable due to the lower revenue levels that have resulted from the global economic recession.

Federal Assistance to States

While federal economic recovery dollars are being directed to the states, the money is addressing only approximately 30 percent to 40 percent of states' 2009 and 2010 budget shortfalls.

Even when federal assistance dollars are taken into account, states will likely face budget problems totaling approximately \$260 billion for fiscal years 2011 and 2012.



Options to Deal with Remaining Budget Problems



States have two options to deal with remaining budget problems left unsolved by the federal assistance funding. They can:

- A) Cut expenses by reducing services, or
- B) Raise taxes on families who are already struggling to make it through the global economic recession.

Most States Cut Expenses

In an effort to bring spending in line with revenues, most states have cut expenses. In fact, at least 43 states plus the District of Columbia have cut state services.

- At least 29 states have cut health care services.
- At least 24 states plus the District of Columbia have cut programs for the elderly and disabled.
- At least 28 states and the District of Columbia cut funding for K-12 schools and other education programs.
- At least 37 states have cut funding for public colleges and universities.
- At least 42 states plus the District of Columbia have cut their workforces.

Governors Propose Aggressive Cuts to Balance Budgets

Some governors have already unveiled their budget proposals for the 2010-2011 fiscal year. As outlined below, governors are calling for aggressive spending cuts to balance state budgets.

- **Cuts in State Workforces**
 - o Alabama's governor is proposing a hiring freeze that will reduce the state workforce by 2,000 workers.
 - o California's governor is proposing a 5 percent to 10 percent cut to state employee salaries.

Examples of Agressive Cuts (Continued)

- o Hawaii's governor is proposing large cuts to the state workforce, including the layoffs of up to 1,198 employees.
- o Maine's governor has proposed three additional state government furlough days (for a total of 12 furlough days over two years).
- o Virginia's former governor proposed laying off 664 state employees.
- **Cuts in Education Spending**
 - o California's governor is proposing a \$1.5 billion reduction in K-12 education and community college funding.
 - o Arizona's governor is proposing deep cuts to support for early learning by eliminating preschool for 4,328 children and K-3 education support for more than 77,000 students.
 - o Maine's governor is proposing a cut of 3 percent in overall K-12 education spending beyond cuts already enacted.
 - o New York's governor is proposing a \$1.1 billion (5 percent) cut to state education aid.
 - o Mississippi's governor is proposing to cut state aid to K-12 schools by more than 9 percent.
 - o Virginia's former governor proposed a cap on state funding for school support staff such as janitors, administrative assistants and school psychologists.
 - o Washington's governor is proposing the elimination of two education programs, both of which reduce class sizes and one of which provides professional development for teachers.
- **Higher Education Cuts**
 - o California's governor is proposing the elimination of funding to respond to enrollment growth in the state's public universities.
 - o New York's governor is proposing \$143 million in funding cuts for four-year public colleges and cuts to financial aid programs serving students from low- and moderate-income families.
 - o Washington's governor is proposing a reduction in funding for two- and four-year colleges.
- **Various Additional Cuts**
 - o Arizona's governor is proposing to eliminate the state's children's health insurance program (KidsCare), which covers 47,000 children.
 - o California's governor is proposing deep reductions to Medi-Cal (Medicaid) services, including increased co-payments and reduced eligibility for immigrants.
 - o Arizona's governor is proposing to repeal Medicaid coverage for 310,000 childless adults and 3,000 adults with serious mental illnesses.
 - o Maine's governor is proposing 10 percent cuts in payments to certain Medicaid providers (primarily to long-term care providers).
 - o Arizona's governor is proposing to reduce the number of months that low-income families can receive cash assistance, immediately eliminating assistance for 10,000 families.
 - o New York's governor is proposing \$1 billion in cuts to reimbursement for health care providers and other health-related cost-saving measures.



- o Washington's governor is proposing cuts to the state work-study program as well as several smaller financial aid programs that help 11,000 students go to college.
- o Virginia's former governor proposed reduced funding for local sheriffs and police departments.
- o Hawaii's governor is proposing the elimination of the Department of Health's Division of Community Health and Dental Hygiene Services and curtailing the state's Medicaid adult dental services benefits.
- o Mississippi's governor is proposing to cut most agencies' budgets by 12 percent.

Examples of Specific Previous Cuts

While Pennsylvania lawmakers have made tough budgetary decisions in the past and will have to do so again in the near future, other states have enacted significant program cuts that far outweigh anything under consideration in the Keystone State.

• Cuts in Higher Education

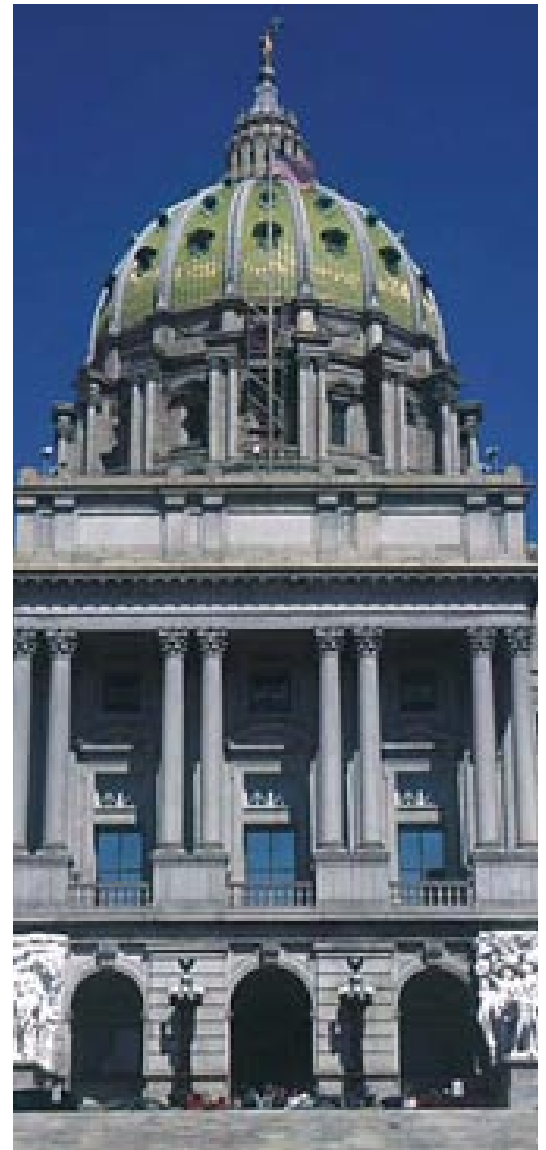
- o "Michigan is reducing financial aid programs by \$135 million (a cut of over 61 percent)..."
- o "Budget cuts reduced state funding for the University of Washington by 26 percent for the current biennium."

• Cuts in Health Care Services

- o Rhode Island eliminated health coverage for 1,000 low-income parents.
- o Minnesota is cancelling a health insurance program for 29,500 low-income adults.
- o Nearly 10,000 working parents in Arizona lost health care coverage that they received through KidsCare, the state's CHIP [service], due to a lack of funding for the parental component of the program.
- o "Tennessee has frozen enrollment in CoverKids, the state's CHIP program."
- o "Washington is increasing premiums by an average of 70 percent for a health plan serving low-income residents." The premium increase is expected to cause up to 17,000 enrollees to leave the program.

• Cuts in Programs for the Elderly and Disabled

- o "In Massachusetts, the governor has ordered cuts in programs for elders, including home care, geriatric mental health services, and prescription drug assistance."
- o "New Mexico has cut cash assistance payments for low-income disabled residents by one-third."
- o "Ohio has eliminated virtually all state funding for mental health treatment for individuals who are not eligible for the state's Medicaid program."



Examples of Specific Cuts *(Continued)*

• Cuts in K-12 Education Programs

- o “Due to budget cuts Hawaii teachers must take 17 furlough days during the current school year. Classes will be cancelled on these furlough days, shortening the school year by more than three weeks.”
- o “Michigan cut its [fiscal year] 2010 school aid budget by \$382 million (2.9 percent) from the prior fiscal year, resulting in a \$165 per-pupil spending reduction.”
- o “Mississippi cut its [fiscal year] 2010 funding for K-12 education by nearly 5 percent.”
- o “Massachusetts enacted cuts to Head Start, universal pre-kindergarten programs, and early intervention services to help special-needs children develop appropriately and be ready for school. The state also cut K-12 funding, including spending for mentoring, teacher training, reimbursements for special education residential schools, services for disabled students, and programs for gifted and talented students.”

Fewer States are Raising Taxes

While 43 states are dealing with their budget problems by cutting expenses, only approximately 30 states are enacting tax increases.

Economic Effects of Cutting Expenses versus Raising Taxes

Cutting expenses often will have a less harmful effect on the private economy than raising taxes.

When a state government raises taxes to maintain an existing program or service, it takes money from one constituent (a taxpayer) and provides it to another constituent (the person who benefits from the government program). This drains money out of the private economy. The taxpayer who sees more of his paycheck go toward paying taxes is left with less money to spend in the local economy.

Meanwhile, using that tax dollar to maintain an existing government program or service does nothing to expand the local economy. Rather, it simply maintains previous or existing levels of government spending, adding nothing to overall economic demand.

Dealing with projected state budget problems by raising taxes could drain \$350 billion from the private economy.



Conclusion

Gov. Ed Rendell will deliver his annual budget address to a joint session of the General Assembly in February.

As Pennsylvania begins a new calendar year and looks forward to the new fiscal year that will begin July 1, 2010, residents should keep these concepts in mind:

- Pennsylvania is not alone in its budget problems.
- The global economic recession has compounded those problems.
- Federal assistance to states will not be enough to solve all of their budget problems.
- Nearly all states are cutting expenses in an effort to balance their budgets.
- Many states have adopted much harsher program cuts than those enacted in Pennsylvania.
- Fewer states are raising taxes in an effort to balance their budgets.
- Raising taxes to maintain existing government programs drains dollars from the private economy without expanding economic demand.

These truths should help the Commonwealth as it navigates its way through the difficult economic and budgetary waters ahead.

Sources

Most of the information about the depth of state budget problems and the cuts in expenses that states have enacted were taken from the following two publications developed by the *Center On Budget and Policy Priorities*:

An Update on State Budget Cuts (available online at <http://www.cbpp.org/files/3-13-08sfp.pdf>)

Recession Continues to Batter State Budgets (available online at <http://www.cbpp.org/files/9-8-08sfp.pdf>)

