

Study Shows State Deficits Soaring From Recession, Security

FINANCE

EXPERIENCING A recession worse than that of the early 1990s, state budget shortfalls have grown to \$35 billion and could go higher, according to a study released Monday by the National Governors Association and the National Association of State Budget Officers.

The Fiscal Survey of States by the NGA and the Budget Officers group reported an additional \$4 billion to \$5 billion for homeland security is expected to further increase state deficits.

The NGA called on Congress to include in an economic stimulus package a temporary increase in the federal share of Medicaid costs, which would amount to \$5.5 billion to be spent during the current fiscal year.

"This is the only component we're pushing in the stimulus package," NGA Executive Director Raymond Scheppach said, adding that the states are restricted by balanced budget requirements.

Medicaid represents nearly 20 percent of all state spending, Scheppach said. The NGA is seeking a 1.5 percent increase in the federal share of Medicaid spending for all states, plus an additional 1.5 percent for states with higher-than-average unemployment.

The fiscal survey assumes there will be a \$75 billion to \$100 billion stimulus package, meaning the state shortfalls could offset a stimulus package by 50 percent.

"Cutting spending or raising taxes would be an additional drag on the economy and could negate much of the economic stimulus package that comes out of Washington," Scheppach said in a statement.

The report also shows that 36 states have reported shortfalls, and state spending growth significantly decreased, from 8.3 percent in FY01 to 2.8 percent in FY02. This is the smallest increase since 1983. Meanwhile, 16 states cut their budgets in FY01.

Enacted net tax and fee changes will increase FY02 revenues by \$356.1 million, ending seven consecutive years of net tax reductions, the report says. And 21 states have reported lower-than-expected revenues for FY01.

Scheppach said it is likely the shortfalls will grow to \$50 billion, and if that happens, "it will be 10 percent of state revenues, which is an unprecedented level," he said.

Most of the data used in the study are pre-Sept. 11, and since then, "of course, the situation has become much worse," said NASBO Executive Director Scott Pattison.

Before the attacks, the downturn was largely concentrated in industrial states, but the dismal fiscal situation has spread, and now the only states holding up are small, rural, energy-dependent states like Wyoming, Scheppach added.

— BY STEPHANIE CONNER