# EASE THE SQUEEZE

Hard times have legislators looking everywhere for ways to beat back the fiscal crisis.

BY GARRY BOULARD

Abolishing the death penalty.
Taxing prostitution.
Cutting prison sentences.
Taxing marijuana.

What all these ideas have in common is the gap—the yawning budget gap—facing most states this fiscal year and at least next fiscal year as well.

Legislators across the country have pitched myriad ideas to reduce massive budget shortfalls. And the wide range of proposals is no surprise, given the size of the shortfall and the fact that the most obvious solutions already have been tried.

Consider some of these developments.

◆ In New Mexico, Governor Bill Richardson signed a bill in March repealing the death penalty at least partially because of the costs. New Mexico's Supreme Court might spend up to $700,000 in appeal expenses in a typical case.

◆ In Nevada, where lawmakers faced a $2.8 billion revenue shortfall for FY 2009, Senator Bob Coffin proposed a $5 tax on acts of prostitution, which is legal in 10 counties. The bill, which fell one vote short in the Senate Taxation Committee, could have raised up to $2 million a year, Coffin said.

◆ California Assemblyman Tom Ammiano suggested in February that regulating the $14 billion marijuana industry could generate up to $1 billion in revenue a year. He eventually withdrew the bill and announced plans to conduct public hearings.

Most ideas for grappling with budget problems are more mundane. Virginia Senator Ryan McDougle, for example, thought a little extra information might help. He wanted the General Assembly to receive the exact same cost estimates for individual state projects that are usually sent to the governor's office. "Some of us thought that we could probably make better decisions if we had all the facts before us."

McDougle's successful bill has the potential of greatly expanding the General Assembly's ability to monitor state spending. A case in point, he says, is information technology. "At one point we estimated that Virginia had almost $1 billion in various IT projects somewhere in the pipeline, but we never really knew where they were."

It is just one example of legislators trying to find innovative ways to get a handle on massive budget shortfalls and dropping revenues. From four-day work weeks in Utah to cutting sentences and closing prisons in Washington, states are looking for anything that works.

One of the reasons for the creativity, beyond the demand to address immediate budget needs, is the realization that, for many states, things are likely to get worse before they get better. President Obama's economic recovery package provides some $140 billion for states to use to reduce deficits. A recent survey by the National Conference of State Legislatures, however, projects states are facing a budget shortfall of at least $165 billion in FY 2010 and FY 2011. That figure is almost certain to grow, since it is difficult to predict accurately dropping revenues and the cost of increased demand on state services in the midst of a deep recession with spiking unemployment.

"So even if we come out of this recession within a year, the states still are going to be plagued with deficit challenges because they lag behind national economic trends, often by as much as two years," says James Diffley, a director for Global Insight's U.S. Regional Services, which monitors fiscal issues in the states.

Even once the recession ends, unemployment will take a long while to return to pre-recession levels, and that means state revenue from taxes is likely to decrease over the next several years. "If people aren't working, they aren't paying taxes," says Diffley. "It's as simple as that."

Such dynamics make it more likely that states may prove once again to be laboratories of innovation, says Diffley. "Of course, it very much remains to be seen how much they can do," he says. "The unanswered question is will any of the different ideas be big enough to actually close the budget gaps."

### NO MORE BUSINESS AS USUAL

Although some legislators are looking far afield, others would like to see more emphasis on old ideas, such as oversight. In Maine, Representative H. David Cotta wants changes in what he calls "the way we do business here." One of only a handful of legislators who declined to support the state's recent supplemental budget, Cotta said he was registering his opposition to the "simple fact that we don't really follow up on things after we have started a particular program."

"We don't revisit these programs to see if they have met their goals, or if they accomplished what they set out to do and are no longer needed," he says.

Cotta points to the state's Department of Human Services that, he says, overspent its budget by some $65 million and is "continu-

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ally adding new people to its rolls."

"So you have well-meaning people providing services with case loads in excess of 600 per case worker in a system that was designed for 450 per case worker," Cotta says. "And often, once a person is enrolled in the program, it may be two years before anyone revisits the issue of eligibility."

Washington Representative Sherry Appleton thinks the economic downturn is, in some ways, motivating. "We have to at least try new things. Sometimes it takes a crisis, like what we are going through, to really do something."

Appleton has proposed taking a second look at tax exemptions in Washington. "We right now have some $19 billion in both tax exemptions and loopholes that go to business. The Boeing Company gets a huge exemption here, and so do many others."

Washington is confronted with a budget deficit of at least $9 billion, and Appleton thinks the state might be able to "hold off dramatic cuts to programs like our basic state health plan, drug and alcohol treatment, and general assistance to the unemployed if we were able to pull back even a quarter of the exemptions. That would be nearly $5 billion we don't have now."

It remains to be seen whether suspending such exemptions—Appleton would like to halt them for a two-year period—is equal to a tax increase. If it is, it will require a two-thirds vote in the Legislature and go on the ballot. If it is not, it will need only a simple legislative majority. Either way, says Appleton, "We need to start thinking about our budget issues and how to find more revenue not just for our immediate needs, but for the long-term beyond this recession."

### CUTTING HITS HOME

As of mid-March some 16 states had imposed across-the-board budget cuts, with six of them exempting education. Eleven states had reduced the size of their workforce, cutting 7,000 jobs since the beginning of the year, while another 20 imposed hiring freezes.

But not all legislative action is designed to make big cuts in the budget shortfalls. In Wisconsin, where the deficit was pegged at more than $5.7 billion in early March, a group of lawmakers declined to take a scheduled 5.3 percent pay raise.

They were joined by legislators in Maryland, Massachusetts, Pennsylvania and Virginia, among other states, who refused either current or scheduled pay raises.

"It isn't anything that we have done to draw attention to ourselves," says Wisconsin Representative Bob Ziegelbauer. "For me, it just seemed like the right thing to do, given the situation we are in, both with our state budget as well as the overall economy."

The raises increased the average annual $47,400 salary of most Wisconsin legislators by $2,530 and were approved two years ago by the Legislature's Joint Committee on Employment Relations, which is made up of members from both the House and Senate. "Those raises were decided upon in 2007, and we were in a different economic climate then," says Ziegelbauer.

But while the decision for the more than a dozen Wisconsin lawmakers to decline their raises may have been easy, that hasn't been the case with actually getting the money back to the state. "You can't simply say 'I don't want the money,' and that's the end of it," says Ziegelbauer. "You have to take it and then give it back. It's a cumbersome process."

The lawmakers also have to pay taxes on the raises they are returning.

### THE UNCERTAINTY FACTOR

The range of actions taken or considered by legislators is often incremental because it is very difficult to know exactly what will happen in the next few years.

"States don't know how big their deficits are going to be a year, or even two, from now," says Diffley. "So when they lay off people or cut budgets, they are essentially just trying to buy a little time, delaying the larger issue for a year until the overall national economic picture has improved and they can plan. In that environment it's difficult for anyone to come up with truly innovative solutions."

But it's precisely because of the current environment, says Larry Wolpert, that the states should be willing to approach budget issues in new and different ways.

A former Ohio representative who left office earlier this year because of term limits, Wolpert unsuccessfully proposed legislation to determine if there was duplication and government waste in Ohio's more than 1,300 townships, 939 cites and villages, and more than 600 school districts.

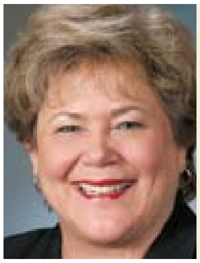
"I never went after this in an anti-government way or to accuse anyone of wrongdoing," says Wolpert. "But I did think that when it came to the fact that state taxes go to these various local units of government, we should look at what they're doing."

Wolpert is now serving on the Ohio Commission on Local Government Reform and Collaboration and is waiting for a report scheduled to be issued later this year by the John Glenn Institute for Public Service and Public Policy that calculates the cost of local government across Ohio.

"You have to think that when you have so many outdated levels of government, there must be a more efficient way to run things," he says. "But the truth is that no one knows. There could be no savings or savings all the way up into the hundreds of millions of dollars. That's why we need an independent study to give us some idea."

Either way, adds Wolpert, "Because our state is in such economic trouble, now is the time to tackle these issues. People are looking for new solutions."

Cotta of Maine agrees: "Bad habits are formed in good times, and good habits are formed in bad times. That has never been more true than it is right now. We, as legislators, are not going to be able to solve all of the budget problems of our states. But I think the contraction in the overall availability of funds should at the very least force us to look at things now that we probably should have looked at before."



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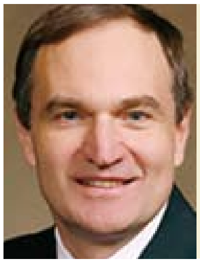

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