



Cash-Strapped States Facing Budget Crises, Governors Facing Tough Decisions

Republican, Democratic Govs Vow Spending Cuts, No New Taxes in Order to Balance Budget

By KAREN TRAVERS

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President [Obama is set to release his budget plan](#) for next year today, setting up a showdown with Republicans calling for [drastic spending cuts](#) to bring down the deficit.

Out in the states, though, the rhetoric is less heated and Democrats and Republicans are sounding strikingly similar, with [governors from both parties calling for dramatic budget cuts](#) to tackle massive deficits while pledging to not raise taxes. Twenty-nine new governors were elected last fall and many are facing tough decisions on how to balance their budgets while retaining public services. All told, states face a combined \$125 billion deficit, according to the left-leaning Center on Budget and Policy Priorities.

Almost all the states are required by law to balance their budgets; the federal government is not required to do so.

"The four big things that [governors] spend their money on is education, health care, transportation and public safety. We're seeing pretty big cuts in all of those," said Nicholas Johnson, Director of the State Fiscal Project at the left-leaning Center on Budget and Policy Priorities.

Those cuts are not being well received by Americans. A recent poll by the Pew Research Center found that while Americans are not calling for increased government spending, they have strong opinions when it comes to cutting those services in order to bring down deficits.

Seventy-nine percent said they would not support cuts for funding for K-12 education, 76 percent are opposed to cuts to health care services and 66 percent said no to cuts to public colleges and universities.

California is facing a \$25 billion budget deficit and newly-elected [Gov. Jerry Brown](#) has his critics howling in protest over his call for large cuts in Medicaid and higher education.

"The times call out for vision and for discipline," the Democrat said in his state of the state address last month. "Discipline so that we live within the revenue which the state collects each year, and vision so that we rise above mere party, act as Californians first, and put our trust in the people."

Brown also ordered government agencies to stop purchasing new cars and to get rid of ones that are not "essential" to state business. He has asked state workers to give 48,000 cell phones, a move that could save the state \$20 million.

In New York, Democratic Gov. Andrew Cuomo called his state "functionally bankrupt" and called for cuts to education and Medicaid in order to close a \$10 billion budget deficit.

In Florida, Republican Rick Scott rode the support of the Tea Party movement to victory in last November's gubernatorial race. He's now under pressure to make good on his pledges to close the budget gap and cut taxes.

In the budget outline he released earlier this month, Scott proposed cutting state spending by \$5 billion, with more than \$3 billion cut from education spending. Scott also called for a rollback of corporate income taxes and a reduction in property taxes, adding up to more than \$4 billion in tax cuts over two years.

Arizona Gov. Jan Brewer has taken the unusual step of asking the federal government for a waiver so the state can remove nearly 300,000 adults from its Medicaid rolls in order to cut costs.

Obama's Recovery Act, which went into effect in February 2009, gave nearly \$150 billion in assistance to cash strapped over two years. But that money is set to run out in June.

Cuomo compared the federal stimulus dollars to an addictive substance.

"We inhaled it and injected it into our body," Cuomo said. "And now it is gone."

The combination of still weak tax revenues and the federal stimulus money running out are creating the budget headaches for governors and state legislatures.

State tax revenues are gradually recovering from the economic crisis but most economists and policy experts say they will not fully recover until the nation's employment is at full strength, which could take years.

"At a time when states' own tax revenues are still very depressed, running about 12 percent below pre-recession levels, on top of that states now have to fill in for the funds that have gone away because the federal funds are running out," Johnson said.

Tad DeHaven, a budget analyst for the libertarian Cato Institute, said states get themselves into budget trouble by failing to prepare for rainy days.

"When times are good, the economy is good and when revenues are coming in, they spend it," DeHaven said. "They make promises to the work force that can prove costly in the long term and inevitably we have a downturn, revenues dry up and they plead poverty. But the problem is they don't implement the structural reforms necessary to smooth things out."

DeHaven said "Uncle Sam" ends up filling that void.

"In the long term there's a lot of questions about the federal government's ability to keep doing this, given its own financial problems," he said.

There are also questions about whether the bailout money allowed states to keep workers and services (Democrats) or whether it just let the states put off making the cuts needed to get their budgets in order (Republicans).

Either way, it does not look like any more money is heading out of Washington to state governments.

The House Republican majority has made it quite clear that they are unwilling to give any new federal funding to states -- "bailout" has almost become a dirty word.

"There will be no bailout of the states," said House Majority Leader Eric Cantor, R-Va. "The states can deal with this and have the ability to do so on their own."

"There era of the bailout is over," said Rep Patrick McHenry, R-N.C.

On the Senate side, Minority Leader Mitch McConnell also ruled out any new funding for states.

"There will be no bailouts, I can tell you that," the Kentucky Republican said. "No bailouts."

As an alternative, Congress is considering legislation that would allow states to declare bankruptcy. Currently only cities and some local municipalities can file for federal bankruptcy.

"We're exploring that as a reasonable option," Sen. John Cornyn, R-Texas, said of bankruptcy for states.

The possibility of that passing both the House and Senate is slim, given the Democrats' majority in the Senate. It's also unlikely that any governor would take the bankruptcy option; None have indicated that that is an option they would consider.

ABC News' Matthew Jaffe and John Parkinson contributed to this report.

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