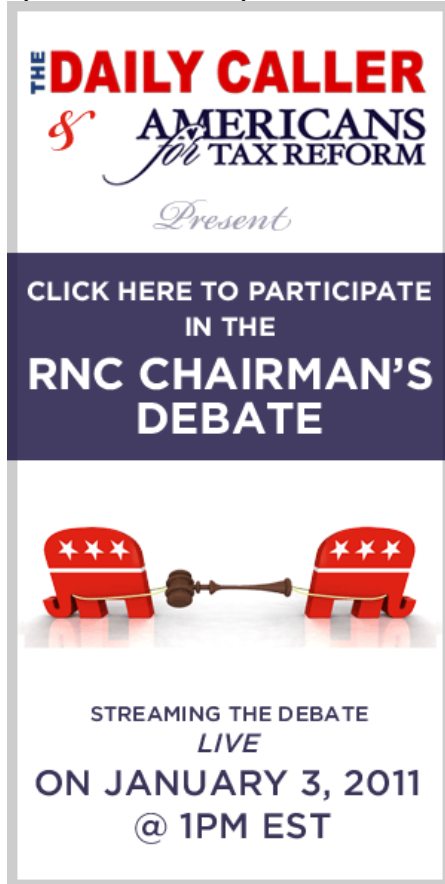


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New budget crises loom for states and municipalities in 2011

By Joe Tauke - The Daily Caller 12:34 AM 12/31/2010



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The budget crises that have nearly paralyzed states such as California and Illinois are likely to get worse — not better, in 2011 — despite the massive cuts that have already been made.

Kept on life support for the past two years by \$160 billion in emergency [funding](#) from the stimulus package, state governments now face the prospect of making ends meet without any help. New Jersey Governor Chris Christie called the situation a “day of reckoning” in a recent interview with “60 Minutes” — and that’s after trimming a full quarter of his state’s budget in one year.

“State and local government employees and other special interests have been allowed to gorge themselves over the years at the expense of [expayers](#),” Tad DeHaven of the CATO Institute told The Daily Caller via e-mail. “Their privileged status has been exposed by the economic downturn ... I think that in the back of the minds of many state and local policymakers, they think they’ll get federal bailout of some sort.”

All signs from Washington, however, indicate that no bailouts will be forthcoming. Not only will the stimulus spigot be turned off, but the two-year Build America [Bonds](#) program is also shutting down, making debt more expensive for states and municipalities. “Hopefully, the end of [Build America Bonds] will inhibit the ability of states to borrow,” said DeHaven. “The states need fewer liabilities, not more.”

DeHaven’s view is not shared by everyone. “The BABs are clearly more efficient and effective than the tax-exempt program they replace, so it’s disappointing that they are expiring,” said Nick Johnson of the Center on Budget and Policy Priorities. “The BABs pay for infrastructure, not operating costs.”

With or without the [bonds](#), Johnson has a pessimistic outlook for state budgets: “The dollar amount of the increased borrowing costs to states pales in comparison to the amount of revenue they’ve lost to the recession ... Most states have made significant reductions in health care, education, services for seniors and people with disabilities, and their workforces. Overall state spending is 6 percent below pre-recession levels. Nonetheless, I agree that for states, fiscal year 2012 (which starts July 1, 2011) will be the worst yet.”

Some states may feel that they're stuck between a rock and a hard place, but many localities are in even worse shape. Detroit, perhaps the poster city for America's economic malaise, is planning to eliminate police patrols, garbage pickup and even active streetlights in 20 percent of its neighborhoods because the money simply isn't there. The city manager of neighboring Hamtramck has said that he'll pursue bankruptcy "until the door is shut, locked, barricaded, bolted." Prichard, Ala., is so desperate to [declare bankruptcy](#) that it's breaking state law in an attempt to do so.

Financial analyst Meredith Whitney has warned that municipalities could default on "hundreds of billions" of dollars in debt this year. Combined with state budget woes, some experts have warned that a debt crisis "contagion" could spread through the U.S. like it has spread through Europe's national governments.

The only sure solution is to make ends meet. While daunting, Christie's prediction for the coming year may also be the most realistic: "We spent too much on everything. We spent money we didn't have. We [borrowed money](#) just crazily. The credit card's maxed out, and it's over. We now have to get to the business of climbing out of the hole."

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