

Pew Identifies States, Like California, in Fiscal Peril

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Washington, DC - 11/11/2009 - A report released today by the Pew Center on the States shows that some of the same pressures that have pushed California toward economic disaster are wreaking havoc in a number of other states, with potentially damaging consequences for the entire country. Arizona, Florida, Illinois, Michigan, Nevada, New Jersey, Oregon, Rhode Island and Wisconsin join California as the 10 most troubled states, according to Pew's analysis, "[Beyond California: States in Fiscal Peril.](#)"

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These states' budget troubles can have significant repercussions for their residents: higher taxes or fees; layoffs or furloughs of state workers; longer waits for public services; more crowded classrooms; higher college tuition and less support for the poor or unemployed. They also pose challenges for the nation as a whole. Together, the 10 states account for more than one-third of America's population and economic output. And actions taken by state governments to balance their budgets—such as tax increases and drastic spending cuts—can slow down the country's recovery.

"A challenging mix of economic, political and money-management factors have pushed California to the brink of insolvency. But while California often takes the spotlight, other states are facing hardships just as daunting," said Susan Urahn, managing director of the Pew Center on the States. "Decisions these states make as they try to navigate the recession will play a role in how quickly the entire nation recovers."

In the report, Pew's researchers identified factors that have contributed significantly to California's difficulties, then determined the degree to which other states are experiencing the same challenges. These factors are: (1) loss of state revenues; (2) the relative size of budget gaps; (3) increasing joblessness; (4) high foreclosure rates; (5) legal obstacles to balanced budgets—specifically, a supermajority requirement for tax increases or budget bills and (6) poor money-management practices.

Pew scored all 50 states using the best available data as of July 31, 2009. The snapshot captures an important juncture: the first and second quarters of 2009, the pressure point for governors and legislatures in the throes of crafting their budgets for fiscal year 2010 (which began on July 1 in all but four states).

Each of the factors highlighted in Pew's analysis is a warning sign, and collectively they paint a picture of how states are faring in comparison with California. The report is not a comprehensive diagnosis of states' fiscal health, which is also affected by issues such as demographics, debt burden and public pension liabilities. It is an important tool to begin to understand why some states are suffering more acutely from this recession than others.

While the rest of the states share important characteristics with California, they may not be destined to follow in the Golden State's footsteps. Some of these states already have responded aggressively to their budget crisis, although it is too soon to tell whether their actions will put them on solid fiscal footing.

"The 10 states are hardly the only ones at risk in this time of record-setting revenue drops, high unemployment and far-flung fallout from the housing bust and credit crisis. Virtually all states have been stressed by the downturn," Urahn said. "We expect that when state lawmakers next spring turn to crafting their new budgets for 2011, many will confront an even tougher set of challenges. States already have made significant cuts, revenues continue to drop, and stimulus

funds will be running out. "

Key Trends

The report identifies threads that cut across the 10 states and could point to vulnerabilities in others as they try to navigate their way out of the fiscal crisis:

- **Unbalanced economies.** A number of states on the list, including Florida, Michigan, Nevada and Oregon, have struggled in part because their economies have depended so heavily on a particular industry. This reliance on a sector may have paid off in times past, but it put these states at greater risk when the recession hit. States cannot choose their natural resources, of course, but they can budget and manage for additional volatility that can result from dependence on a particular sector. States increasingly are seeking to diversify their economies.
- **Revenues and expenditures out of alignment.** The severity of the recession has resulted in states across the country facing substantial gaps between what they collect in revenue and what they spend. But many of our 10 states, including California, Illinois, Michigan, New Jersey, Rhode Island and Wisconsin, have a history of persistent shortfalls. Aligning revenues and expenditures is a key component of fiscal health.
- **Limited ability to act.** In most of the 10 states, including Arizona, California, Florida, Nevada and Oregon, lawmakers' latitude to respond to the fiscal crisis by raising taxes or cutting spending is limited by their states' constitutions, ballot measures passed by voters, or other statutory or legal impediments to change.
- **Putting off tough decisions.** Several states on the list were unable to muster the political resolve to enact long-term fixes to their fiscal problems. Virtually every state had to make tough decisions this year about where to cut and how to raise additional revenues, including through taxes or fees. But in some states, including California, Illinois and New Jersey, lawmakers punted the responsibility—either by asking their voters or governors to make the call, or by borrowing or using accounting methods to put off the hard choices until later.

States' fiscal situations are widely expected to get worse even if the national economy starts to recover. At the end of 2010, federal stimulus money that helped states meet some of their expenses begins to run out. Plus, states historically have their worst years shortly after a national recession ends, when they are coping with higher Medicaid and other safety-net expenses and when revenues lag because of stubborn unemployment.

The Pew Center on the States is pursuing additional research that will take a closer look at states under fiscal stress and policy options that might be most effective in helping them find their footing. For now, this report shows California is not the only state whose fiscal health hangs in the balance.