States' Revenues Fall As Economy Plummets

by Mary Jane Freeman

June 30, the end of the fiscal year for 46 states, found many states' coffers tens to hundreds of millions of dollars short. Reality has struck. News of corporate profits crashing, unemployment claims soaring, and the markets falling translates into a disaster for state budgets. As *EIR*'s May 4 and June 15, 2001 issues detailed, the convergence of all these shutdown processes is wiping out revenues which states need to fund schools, health care, public safety, and infrastructure.

Already in fiscal year 2000-01, more than one-third of the states (17) reported a fall in expected revenues from sales, corporate, and/or personal income taxes. These tax sources account for 66% of states' General Revenue Funds. A state, on average, spends almost 70% of these revenues on education and health care for its citizens—roughly 48% on education and 21% on health care including Medicaid. According to the National Association of State Budget Officers' (NASBO) June 2001 "Fiscal Survey of States," these revenue shortfalls caused 11 states to cut their FY 2000-01 budgeted spending by a total of $1.6 billion. But NASBO's report was issued prior to June 30, and since then, five more states reported that cuts were required due to shortfalls.

As the real economy began to plummet and these revenues dwindled, by December, many states began to impose hiring freezes and cuts in school and public safety budgets to balance their budgets by June 30. Others relied on raiding their "rainy day" surplus funds, or transferring "ending balances" from one year's end to the next. NASBO reports that these balances between FY 2000 and projected FY 2002 levels will dive by 50%, thus severely reducing states' cushions and threatening their bond ratings. (Balances are measured as a percent of expenditures, and were at 10.1% in FY 2000, 7.2% in FY 2001, and are expected to be 5.9% in FY 2002.)

These ending balances and rainy day surplus funds were largely achieved through taxation on the speculative and/or non-productive economy: the U.S. stock market bubble and the "New Economy." In California, for example, 18% of personal income tax revenues derive from the highly volatile capital gains tax. (NASBO projects that "taxable realized capital gains are projected to plummet by nearly one-third in 2001 and lose . . . ground in 2002.") The delusion that this "gold mine" of revenues would never end, was fool's gold.

Relying on this "gold mine," the ideological obsession by many governors and legislators to cut taxes, took over. Since 1994, with the Gingrich "Contract *on* America" scheme, states have phased in tax cuts. FY 2001-02 state budgets, according to NASBO, include continued tax cuts amounting to a $676.8 million decrease in revenues. Should this fiscal year's tax cuts be adhered to, then the eight consecutive years of such cuts will amount to nearly $34 billion that the state coffers did not get. Moreover, President G.W. Bush's so-called tax relief package repealed the estate ("death") tax, which will also shrink state revenues by $50-100 billion over the next ten years.

As the manufacturing sector collapse accelerates and the stock market and banking system blow, state revenues will plummet further. Specifically, school class sizes will grow; new teachers and policemen won't get hired; and infrastructure repairs or building will cease. The predicaments of the already-existing shortfalls in Florida and South Carolina exemplify the reality.

Will Schools Open This Fall?

Florida's budget plight is indicative, and points to what's to come. President Bush's brother Gov. Jeb Bush has fanatically stuck to the Gingrichite tax cut mania, and the result threatens schools. Florida schools open in mid-August, but as of now, 58 out of 67 counties have *not* finalized teacher contracts due to lack of funds. Vacant teaching positions have been left empty, busing cut down, and class sizes left to grow. Despite a $782 million increase for education in the next budget, these earmarked funds cannot be used for salary increases which are badly needed. Florida teachers' salaries fall more than $5,000 below the national average. Also, school districts face rising costs for health insurance, electricity, and diesel fuel. Other states where teacher and staff hiring and salary freezes exist, are Alabama, Connecticut, Missouri, Oklahoma, and Oregon.

The nation's energy crisis is also taking its toll on schools. "School classroom sacrifices" are being made now "to keep the lights on next Fall," reported the Oregon *Statesman Journal*. The article reports that in Nashville, Tennessee; Hamburg, New York; and Madison, Wisconsin, school districts face up to 70% increases in electricity and gas bills just since January. Their energy budgets evaporated long before the school year's end.

South Carolina highways rank as the second most deadly in the nation, according to a July 16 state Department of Transportation report. An average of three people per day die on its roads; nearly one-third of its primary and interstate roads are in poor to mediocre condition; state motorists spend $500 million per year in vehicle repairs due to poor road conditions; and one out of every four bridges is deficient.

Yet, faced with $500 million shortfall in this past fiscal year, and the continued slowing of the state's economy, the legislature rejected funding increases for the third year in a row. The budget tightening also means layoffs of state workers by Aug. 31.

Roads and bridges are just two of many infrastructure

State governments across the United States are faced with the harsh reality of the financial and economic collapse. The only solution is LaRouche's proposal for a New Bretton Woods to restart production.

responsibilities states share with Federal and local governments Yet, it is infrastructure spending which most frequently gets put off or cut, when states face revenue shortfalls. Here again, schools often suffer. The American Society of Civil Engineers' "2001 Report Card for America's Infrastructure," reveals that 60,000 of America's 86,000 public schools report needing repairs, renovations, or modernization to reach what is consider to be a "good condition."

National Pattern of Shrinkage

Contraction and shortfalls are occurring all over.

• Idaho: June tax receipts were $18-20 million short of expected revenues. Corporate taxes fell 63%, or were $26 million short of the $41 million expected! The plummeting computer chip market and rising unemployment claims impacted revenues.

• Indiana: A $50 million shortfall from income tax collections has prompted Gov. Frank O'Bannon to impose a 7% cut to every line item in every state program under his control. State Police must cut $8 million, resulting in a hiring freeze, a halt on new vehicle purchases, and more in-house maintenance on equipment; home health-care programs for seniors and disabled will be cut; and the State Park Service will cut staff, leave vacancies unfilled, halt equipment purchases, and raise park fees.

• Iowa: A $300 million revenue shortfall required cutting expenditures to the bone for five months. Almost 1,000 state jobs will be eliminated through layoffs, retirement, and unfilled vacancies. The public works department will lose inspectors, causing 1,600 state elevators, escalators, and moving sidewalks to go uninspected; public safety layoffs will reduce state trooper assistance in fires, auto accidents, etc.; and public health programs for substance abuse, maternal health care, and some programs for seniors will be cut.

• Kentucky: After having cut $185 million from the FY 2000-01 budget when revenues fell short, Gov. Paul Patton has now announced that $326 million will have to be shaved from the current FY 2001-02 budget. One definite cut will be a $90 million which was to be used for teacher pay increases and training programs.

• Missouri: A $400 million shortfall in FY 2000-01 required a state hiring and salary freeze, 500 job cuts, and halted the opening of a new prison, as no operating funds exist. The Bush tax package will "devastate the state budget," Missouri House Speaker Jim Kreider (D) said, forcing Missourians to decide whether to fund public education beyond a subsistence level.

• Nebraska: As of June 30, the state found it was $57 million short of expected revenues due to waning sales and income tax collections. It also expects to lose $17 million over the next two years due to Bush's repeal of estate taxes. Overall state revenue grew, but only at a 2.8% rate, which is its lowest since 1986. To cover the gap, the state drew down its reserve funds and Gov. Mike Johanns has issued a memo to all state agencies to halt discretionary spending. He will call a special session of the legislature to cut spending should the economy continue to collapse.

When Lyndon LaRouche replied on March 21, 2001 to Mississippi State Rep. Erik Fleming's question on how state legislators should deal with the impact of the financial crisis, he noted that "a 30% collapse across the board in the real economy" over the next 12 months was "probable." He insisted that the 1933 emergency actions "to redirect the direction of the economy" taken by President Franklin D. Roosevelt, are required. Directed credit must be issued by the Federal government to stimulate the local and state manufacturing, and the agricultural and infrastructural economic base. LaRouche's call to create a New Bretton Woods reorganization of the international economy, and launch an economic recovery should be adopted by state legislatures, now, before the economic blowout forces them to shut down government.