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ECONOMY

Frail Economy, Rising Costs Are Pinching States' Budgets

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WASHINGTON -- One day after President Bush snubbed strapped states with a fiscal 2004 budget that offers no aid, a national organization reported a "startling" worsening of their financial condition.

The National Conference of State Legislatures Tuesday said states' current budget gaps have grown to a total of nearly \$26 billion, 50% wider than the total in November, when the conference last surveyed state budget officials. The amount equals just more than 5% of their total appropriations.

THE BUSH BUDGET



¹ See [complete coverage](#)² of the president's budget proposal.

See [elaboration](#)³ on the budget proposal, at the Treasury Department's Web site. You will need Adobe Acrobat Reader software, [available free](#)⁴.

What's more, the shortfall projected for fiscal 2004, the budget year that states are now planning for, is forecast to be at least \$68.5 billion -- and probably will rise significantly since

11 states had no projections. Just three states said they wouldn't have gaps in 2004 -- Arkansas, New Mexico and Wyoming.

"State budgets are under siege," the NCSL concluded. "The faltering national economy, declines in the stock market, contractions in the manufacturing and high-tech sectors, and soaring health costs have combined to undermine the stability of state budgets."

Together with pleas for help from many governors, the NCSL alarm poses a big challenge to Mr. Bush, who as Texas governor knew only good times. On Capitol Hill, Democrats as well as some Republicans are making the states' and local governments' cause a major point of contention with the Bush budget.

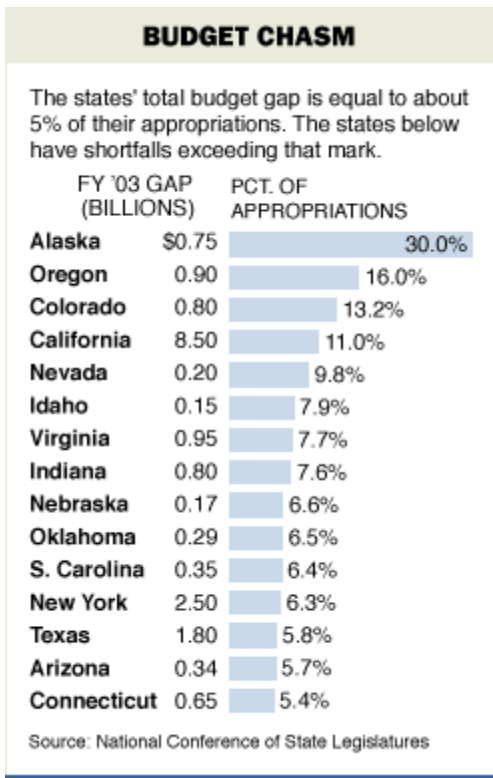
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Moreover, since all states but Vermont are required by law or state constitutions to balance their budgets, their spending cuts and tax increases could offset any fiscal stimulus from Mr. Bush's proposed tax cuts.

Many states have little choice but to take painful steps; most have already exhausted easier steps, such as tapping rainy-day funds or one-time accounting gimmicks. In Massachusetts, for example, Mitt Romney, the new Republican governor, has been forced to propose cuts in education, as well as in the joint state-federal Medicaid health-care program for the poor just to balance the 2003 budget.



The NCSL's survey showed that 36 states are running deficits; Tennessee didn't report, but its officials have had a continuing budget fight in recent years. Of the 13 that reported no budget gap, several have cut spending or raised taxes to make that possible.

Many state officials have pressed the president and Congress for a one-time, multibillion-dollar federal subsidy, perhaps to cover Medicaid costs that have spiraled. Instead, Mr. Bush has proposed some short-term financial breaks and broad policy-making flexibility for Medicaid -- which the states presumably would use to restrict benefits. But those carrots would go only to states that accept lower federal Medicaid payments after seven years, canceling out near-term relief.

The NSCL survey found that for fiscal 2003, which for most states ends June 30, 13 states have cut Medicaid spending, a dozen cut higher-education programs, and nine trimmed elementary and secondary education. Yet revenues continue to come in below previous projections, requiring further action. Medicaid and education are states' biggest costs. At least 24 states have tax increases on the table for their fiscal 2004 budgets.

Though Mr. Bush's party has long decried so-called unfunded federal mandates, state and local governments are complaining that the president's new budget piles them on.

NCSL President Angela Monson, an Oklahoma state senator, Tuesday noted that, despite White House boasts this week of increases for education, those increases don't meet the costs that states will incur for complying with Mr. Bush's No Child Left Behind Act and funding special education. The same holds, officials say, for election reform and homeland-security obligations.

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