Mounting fiscal crisis of US states and cities

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Despite claims that the "Great Recession" has ended, the fiscal crisis confronting US states and local governments will continue for years to come, according to a number of reports.

State and local governments have seen drastic reductions in tax revenues due to the economic crisis. Unemployed and impoverished workers pay less in income taxes and also purchase less, reducing sales tax receipts. Property and business taxes have also been driven down by the foreclosure and financial crises.

At the same time, the recession has brought demand for social services provided by state and local governments to unprecedented levels. This is especially true for states, which share with the federal government the burden of providing unemployment relief, food stamps, and Medicaid health insurance for low-income households.

But rather than being used as a means of mounting a major relief effort, state and local governments are the front line in the assault on living standards and social programs carried out in the name of "fiscal discipline."

Almost all US states operate under laws requiring that they balance their budgets. Therefore any shortfall in revenue must be met by cuts to services, layoffs, reductions in the pay of state workers, or by imposing "user fees" for services and other regressive forms of taxation targeting the working class. Both Democratic and Republican state politicians have ruled out drastic tax increases on the extremely wealthy and the major finance houses who have enriched themselves before, during and after the financial crisis that they themselves caused.

President Obama's stimulus package, the American Recovery and Reinvestment Act, was not nearly enough to meet the states' budget crises, and was only a tiny fraction of the trillions doled out to the biggest US banks. However, in 2009 the stimulus package did allow a number of states to defer some spending cuts for one or two years. In spite of this, 28 states actually reduced the overall size of their government workforces in 2009.

Stimulus money to the states and local governments will peak in 2010, but much of this has already been earmarked for infrastructure and "green economy" projects. At the end of 2010, stimulus funding will fall off sharply, a moment many analysts refer to as "the cliff." Obama has all but ruled out any further assistance. Last year he used the budget crisis of California, the most populous US state, to send a signal to state and city governments that henceforth the US Treasury and Federal Reserve would be open only to Wall Street.

The drastic cuts looming over the next two years may well make those of 2009 and 2010 seem mild. Kentucky, for example, has already frozen enrollment in its health insurance program that assists low-income families. But the state was spared hundreds of millions in deeper cuts by using up stimulus money and its "rainy day" fund. With these resources largely liquidated, Kentucky will face even larger budget shortfalls over the next two years that will be met through savage cuts to social programs and public education.

It is widely acknowledged, moreover, that the cuts enacted now will never be restored.

An economist with the National Association of Governors, Raymond Scheppach, has said the cuts undertaken now will be part of a "permanent retrenchment" and the revenue shortfalls are only the beginning of what will prove to be a "lost decade."

"It will take years for the states to return to normal," the Pew Center on the States writes, "whatever the new normal will be."

Revenues will not return to pre-crisis levels for years. In New Jersey, tax receipts are not expected to return to their 2008 magnitude for another half decade. Michigan has less revenue this fiscal year than it did in 1997.

The crisis confronting the states has been accentuated by years of "free market" policies designed to benefit the financial elite. A graphic example of this comes from the funding systems used by the states for their workers' retirement pensions. According to a recent survey by the Pew Center on the States, the combined funding deficit for state pension funds—the shortfall between the amount of money they have and the amount they have promised to workers—was $1 trillion in 2008. Meanwhile, a mere 5 percent of the total health care liability for retired state workers and their dependents, an estimated $587 billion, is funded.

This shortfall was calculated before the full onset of the financial crisis and therefore "does not include the market downturn that devastated many funds' investment portfolios," as *Reuters* points out in a recent article.

State governments diverted mandated revenues from workers' retirement funds even before the financial crisis struck. Susan Urahn, director of the Pew Center on the States, called the last ten years a "decade of irresponsibility" in relation to the states obligations to their workers, during which "many states have shortchanged pension plans in

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good times and bad."

As of 2008, only four states—Florida, New York, Washington, and Wisconsin—had fully funded pension funds. Illinois, home state of Barack Obama, confronts the largest proportional shortfall in its pension system, which stands at a staggering $55 billion, with just over half of outstanding obligations funded. California had the largest unfunded pension system outright midway through 2008, at almost $60 billion.

However, the Pew study did not account for the drastic reduction in the California Public Employees' Retirement System (CalPERS) that took place at the end of 2008 when it was revealed that the fund was particularly exposed to a toxic admixture of inflated real estate and other assets. (See: "California pension funds paid millions to former insiders working as middlemen investors".)

As their fiscal situation deteriorates, the states are transmitting the crisis to public schools and colleges, and to cities, towns, and counties, which are already reeling due to sharply declining real estate tax assessments.

Illinois, confronting a nearly $13 billion deficit, has simply ceased making promised payments to state agencies, including the university system. University administrators have responded by ordering furloughs for most university employees. As in California and many other states, drastic tuition increases are in store. (See "Illinois stops payments to university system, mass furloughs result".)

The state's delinquency in payments means that an untold number of local agencies that provide important social services have been forced to scale them back or end them completely. The Vermilion County Health Department, which includes the city of Danville, had not received $800,000 in promised funding as of December 1, 2009. In response, public health administrator Stephen Laker "had to cut programs he had built up over a 39-year career," including maternal and child care programs, *Stateline.org* reported.

"For the last three recession cycles, it's been common for states to reduce financial support for local governments during the recession, and once they come out of it, they restore most of what they've cut," said Michael Pagano, dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago. But, as *Stateline* notes, "This time is different. Now local officials are wondering whether that money will ever come back."

These developments are provoking sharp divisions between state and local governments. Across the US, universities, public school districts and cities have made public appeals demanding promised funding and have taken legal actions against state legislatures. In California, municipalities were able to block the legislature's attempt to cut transportation funding, and in Illinois university administrators recently held a high publicity press conference criticizing state officials for withholding money.

As tensions among federal, state, and local governments mount, press reports from America's states, cities, and towns are indicative of a country that can no longer properly be called "rich."

In Pawtucket, Rhode Island, the mayor is considering scaling back public street lighting to confront the state's decision to cut back on funding to cities and towns. *Stateline* reports, "Raising property taxes is a difficult proposition in Pawtucket, which has one of the highest foreclosure rates in the state. Coat drives and soup kitchens are drawing more people than in any recent year, and municipal workers, who haven't seen a raise in four years, are taking furlough days. The senior center and the library are open fewer hours and youth leagues maintain their own athletic fields."

"Street lighting is something that people take for granted but maybe they shouldn't," said Mayor Jim Doyle. "We might have to start reducing the lighting in some areas of the city."

The state of Michigan has ended its annual State Fair, a carnival and exhibition of agriculture and industry dating back to 1849. It has also scattered its state archives.

Arizona has sold and leased back the office tower in which most of its state offices are located.

And in Colorado Springs, considered to be a rather affluent US city, the *Denver Post* reports: "More than a third of the streetlights in Colorado Springs will go dark... The police helicopters are for sale on the Internet. The city is dumping firefighting jobs, a vice team, burglary investigators, beat cops — dozens of police and fire positions will go unfilled.

"The parks department removed trash cans last week, replacing them with signs urging users to pack out their own litter. Neighbors are encouraged to bring their own lawn mowers to local green spaces, because parks workers will mow them only once every two weeks. If that.

"Water cutbacks mean most parks will be dead, brown turf by July; the flower and fertilizer budget is zero.

"City recreation centers, indoor and outdoor pools, and a handful of museums will close for good March 31 unless they find private funding to stay open. Buses no longer run on evenings and weekends. The city won't pay for any street paving, relying instead on a regional authority that can meet only about 10 percent of the need."

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