BEYOND CALIFORNIA: STATES IN FISCAL PERIL

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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 a new report.

In "Beyond California: States in Fiscal Peril," researchers with the Pew Center on the States 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: loss of state revenues; the relative size of budget gaps; increasing joblessness; high foreclosure rates; legal obstacles to balanced budgets -- specifically, a supermajority requirement for tax increases or budget bills and (6) poor money-management practices.

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:

- 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.
- 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.
- 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.
- Several states on the list were unable to muster the political resolve to enact long-term fixes to their fiscal problems.

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, says Pew.

Source: Report, "Beyond California: States in Fiscal Peril," Pew Center on the States, November 11, 2009.

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